

United States International Trade Commission

Textiles and Apparel:

Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market

**CLASSIFIED BY: United States Trade Representative,
Letter Dated March 3, 1998**

**DECLASSIFIED BY: Robert B. Zoellick, United States
Trade Representative, Letter Dated January 26, 2004**

Volume I

Investigation No. 332-448
USITC Publication 3671
January 2004



U.S. International Trade Commission

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NOTICE

THIS REPORT IS A PUBLIC VERSION OF THE REPORT SUBMITTED TO THE UNITED STATES TRADE REPRESENTATIVE ON JUNE 30, 2003. ALL CONFIDENTIAL BUSINESS INFORMATION HAS BEEN REMOVED AND REPLACED WITH ASTERISKS ().**

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ABSTRACT

Following receipt of a request from the United States Trade Representative (USTR) on September 16, 2002, the U.S. International Trade Commission instituted investigation No. 332-448, *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market*, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)). As requested by the USTR, the report assesses the textile and apparel industries of certain foreign suppliers to the U.S. market with respect to their competitiveness and other factors pertinent to their adjustment to the final completion of the phaseout of quotas on January 1, 2005, as required by the Uruguay Round Agreement on Textiles and Clothing (ATC). The foreign suppliers are (1) significant ATC suppliers to the U.S. market, (2) Mexico, and (3) other supplying countries with preferential market access.

China is expected to become the “supplier of choice” for most U.S. importers (the large apparel companies and retailers) because of its ability to make almost any type of textile and apparel product at any quality level at a competitive price. However, the extent to which China continues to expand its shipments following quota elimination in 2005 will be tempered by the uncertainty over the use by the United States of the textile-specific safeguard provision contained in China’s WTO protocol of accession. To reduce the risk of sourcing from only one country, U.S. importers also plan to expand trade relationships with other low-cost countries as alternatives to China, particularly with India, which also has a very large manufacturing base for textiles and apparel and a large supply of relatively low-cost skilled labor. One or two other low-cost exporting countries in South Asia--Bangladesh or Pakistan--are expected to emerge as major suppliers for a narrower but still significant range of goods. Some U.S. importers indicated they would also consider CBERA countries, particularly those located in Central America, as a major source of supply if a Central American or hemispheric free-trade agreement is negotiated that allows the use of third-country fabrics. In the ASEAN region, the only countries considered competitive as major alternate suppliers to China or India are Vietnam and, to a lesser extent, Indonesia. However, although both countries have an abundant supply of low-cost labor, Vietnam will not be eligible for quota elimination until it becomes a WTO member, while Indonesia is considered somewhat risky because of its political and social unrest.

Although many countries may see their share of the U.S. market decline, a large number of countries likely will become second-tier suppliers to U.S. apparel companies and retailers in niche goods and services. As U.S. firms strive to balance cost, flexibility, speed, and risk in their sourcing strategies, they will look to the second-tier suppliers to meet those needs not met by the first-tier suppliers. Regardless of the outcome of any regional free-trade agreements, the production of certain goods likely will remain in Mexico and the CBERA region to service U.S. buyers’ quick turnaround or mid-season orders requirements. Turkey and Colombia also are considered capable suppliers for quick turnaround business.

The information and analysis in this report are for the purpose of this report only. Nothing in this report should be construed to indicate how the Commission would find in an investigation conducted under other statutory authority.

List of Selected Acronyms

Agreement on Textiles and Clothing (ATC)
Africa, Caribbean, and Pacific (ACP)
African Growth and Opportunity Act (AGOA)
Andean Community (ANCOM)
Andean Trade Preference Act (ATPA)
Andean Trade Promotion and Drug Eradication Act (ATPDEA)
Association of South East Asian Nations (ASEAN)
ASEAN Free Trade Area (AFTA)
Caribbean Basin Trade Partnership Act (CBTPA)
Caribbean Basin Economic Recovery Act (CBERA)
Caribbean Common Market (CARICOM)
Central American Common Market (CACM)
Common Market for Eastern and Southern Africa (COMESA)
East African Co-operation (EAC)
European Union (EU)
Export processing zones (EPZs)
Export tax equivalents (ETEs)
Foreign direct investment (FDI)
Free-trade zones (FTZs)
Generalized System of Preferences (GSP)
Gross domestic product (GDP)
Guaranteed access levels (GALs)
General Agreement on Tariffs and Trade (GATT)
Harmonized Tariff Schedule of the United States (HTS)
International Textile Manufacturers Federation (ITMF)
International Monetary Fund (IMF)
Latin American Integration Association (LAIA)
Lesser-developed beneficiary countries (LDBC)
Manmade fibers (MMF)
Memorandum of Understanding (MOU)
Metric tons (mt)
Most-favored-nation (MFN)
Multifiber Arrangement (MFA)
Multinational corporations (MNCs)
Newly Industrialized Economies (NIEs)
North American Free-Trade Agreement (NAFTA)
Normal-trade-relations (NTR)
Outward processing arrangements (OPAs)
Quantitative restrictions (QRs)
Qualified industrial zones (QIZs)

List of Selected Acronyms—*continued*

Special economic zones (SEZs)
South Asian Association for Regional Cooperation (SAARC)
South African Customs Union (SACU)
Special Administrative Regions (SARs)
Square meters equivalent (SMEs)
Standard International Trade Classification (SITC)
State-owned enterprises (SOEs)
Sub-Saharan Africa (SSA)
Tariff preference levels (TPLs)
Tariff Schedules of the United States (TSUS)
United States-Central America Free-Trade Agreement (CAFTA) (proposed)
United States International Trade Commission (USITC)
Value added tax (VAT)
World Trade Organization (WTO)

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ITC READER SATISFACTION SURVEY

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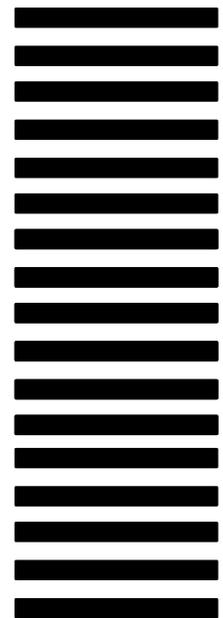
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EXECUTIVE SUMMARY

Following receipt of a request from the United States Trade Representative (USTR) on September 16, 2002, the U.S. International Trade Commission (Commission) instituted investigation No. 332-448, *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market* under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)). As requested by the USTR, the report assesses the textile and apparel industries of certain foreign suppliers to the U.S. market with respect to their competitiveness and other factors pertinent to their adjustment to the final completion of the phaseout of quotas on January 1, 2005, as required by the Uruguay Round Agreement on Textiles and Clothing (ATC). This report assesses the textile and apparel industries of (1) significant ATC suppliers to the U.S. market, (2) Mexico, and (3) other supplying countries with preferential market access. The Commission's analysis also addresses factors such as textile and apparel consumption, production, employment, and prices in major exporting countries, as well as their textile and apparel trade, particularly with industrial country markets. The USTR requested that the Commission provide the information in a confidential report by June 30, 2003.

The Commission assessment highlighting key changes that likely will occur in the global pattern of textile and apparel production and trade following quota elimination in 2005 is presented in the following table. China is expected to become the "supplier of choice" for most U.S. importers (the large apparel companies and retailers) because of its ability to make almost any type of textile and apparel product at any quality level at a competitive price. However, the extent to which China continues to expand its shipments following quota elimination in 2005 will be tempered by the uncertainty over the use by the United States and other importing countries of the textile-specific safeguard provisions contained in China's World Trade Organization (WTO) protocol of accession. To reduce the risk of sourcing from only one country, U.S. importers also plan to expand trade relationships with other low-cost countries as alternatives to China, particularly with India, which also has a very large manufacturing base to produce a wide range of textiles and apparel at competitive prices and a large supply of relatively low-cost skilled labor. Over the long term, exports from China and India could be affected by their strong economic growth, which is likely to increase domestic demand for textiles and apparel, as well as for labor and capital to make these products. One or two other low-cost exporting countries in South Asia—Bangladesh or Pakistan—are expected to emerge as major suppliers for a narrower but still significant range of goods, such as mass-produced basic knit cotton tops and woven cotton shirts and pants (Bangladesh) or men's and boys' cotton apparel (Pakistan). Some firms indicated they also would consider Caribbean Basin Economic Recovery Act (CBERA) beneficiary countries, particularly those located in Central America, as a major source of supply if a Central American or hemispheric free-trade agreement is negotiated that permits the use of regional (e.g., Mexican) fabrics or third-country (e.g., Asian) fabrics. Among the member countries of the Association of South East Asian Nations (ASEAN), the only countries considered competitive as major alternate suppliers to China or India are Vietnam and, to a lesser extent, Indonesia. However, although both countries have an abundant supply of low-cost labor, Vietnam will not be eligible for quota elimination until it becomes a WTO member, while Indonesia is considered somewhat risky because of its political and social unrest.

Although many countries may see their share of the U.S. market decline, there likely will be exceptions to these trends, especially at the firm level, reflecting the importance of longstanding relationships between U.S. apparel companies and retailers and their foreign suppliers, as well as the efficiency, flexibility, and experience of foreign suppliers in producing certain articles. A large number of countries likely will become major “second-tier” suppliers to U.S. apparel companies and retailers for niche goods or services. As U.S. firms seek to balance cost, flexibility, speed, and risk in their sourcing strategies, they likely will look to the second-tier suppliers to meet those needs that are not met by the first-tier suppliers. For example, production of certain goods likely will remain in Mexico and the CBERA region to service U.S. buyers’ quick turnaround or mid-season order requirements, particularly for replenishment of basic items offered in a wide range of different sizes, such as men’s dress shirts and pants. Quick-turn orders also are needed sometimes for fashion goods, when retailers are “chasing” the latest trends, styles or colors. Turkey and Colombia also are considered capable suppliers for quick-turn business. Firms also are looking for low-cost suppliers that have preferential duty access to the U.S. market to help contain costs for articles subject to relatively high duty rates.

Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries		
Region/country	Likely effect of quota removal	Contributing factors
EAST ASIA	<p>Summary: U.S. apparel companies and retailers are likely to expand sourcing from the region and continue close relationships with suppliers in the region, who are major sources of textile and apparel investment worldwide.</p>	<p>Summary: Labor - Sewing skills considered among the best in the world. Inputs - Substantial manufacturing base for raw materials. Transportation - Best shipping times to the U.S. west coast within Asia.</p>
	<p>China: Likely to be supplier of choice for most large U.S. apparel companies and retailers; uncertainty regarding textile-specific safeguards may temper export growth. Over the long term, competitiveness may diminish as strong economic growth leads to greater domestic demand for textiles and apparel, and for the labor and capital to make these goods. Showed tremendous growth in export of goods for which it became eligible for quota-free entry in 2002.</p>	<p>China: Labor - Per-unit labor costs very low due to low wages and high productivity. Inputs - Produces fabrics, trim, packaging, and most other components used to make apparel and made-up textile articles. Products - Considered by industry among the best in making most garments and made-up textile articles at any quality or price level. World's largest producer and exporter of textiles and apparel, notwithstanding tight quotas in major world import markets.</p>
	<p>Hong Kong and Macau: Initially, may continue to be suppliers of some apparel under outward processing arrangements (OPAs) with China because of uncertainty regarding textile-specific safeguards with China. There are no other compelling reasons to source most apparel from these relatively high-cost suppliers.</p>	<p>Hong Kong and Macau: Labor - High-cost suppliers compared with China. Special arrangements - OPAs allow for some of the labor intensive production steps to take place in China, but remain a product of Hong Kong or Macau for trade purposes. Will not be subject to China-specific safeguards after quotas are removed.</p>
	<p>Korea and Taiwan: Likely to continue as major suppliers of fabrics to global industry, including to China. However, U.S. firms are likely to move sourcing of apparel to lower-cost countries, particularly China; may continue to source certain garments from these suppliers (e.g., men's dress shirts, dresses, and other fashion apparel).</p>	<p>Korea and Taiwan: Labor - High per-unit labor costs; high labor productivity. Products - Small, flexible sewing lines advantageous for fashion apparel; highly automated sewing lines for dress shirts; offer full-package services.</p>

Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries		
Region or country	Anticipated effects of quota removal	Key competitive factors
SOUTH ASIA	<p>Summary: U.S. firms will likely expand sourcing from South Asia with the removal of quotas in 2005.</p>	<p>Summary: Inputs - Huge manufacturing base for yarns and fabrics.</p> <p>Competitive position - Most competitive alternative to China as a supplier, but competitiveness of each country varies widely.</p>
	<p>India: Likely to remain a competitive supplier to the United States when quotas are removed in 2005. Considered by many U.S. firms the primary alternative to China.</p> <p>Over the long term, competitiveness may diminish as strong economic growth leads to greater domestic demand for textiles and apparel, and for the labor and capital to make these goods.</p>	<p>India: Labor - Huge, relatively inexpensive, skilled workforce; has design expertise.</p> <p>Inputs - Among the world's largest producers of yarns and fabrics;</p> <p>Products - Wide range of apparel; considered a competitive source for home textiles (e.g., bed linens and towels).</p> <p>Business climate - Personal safety, security of shipments between factories and ports and bureaucratic red tape and infrastructure are issues, with many U.S. firms using agents in lieu of dealing directly with producers.</p>
	<p>Pakistan: Likely to continue as a supplier to the U.S. market. Considered by many U.S. firms as a competitive alternative to China, particularly for men's apparel.</p> <p>May continue to be a global supplier of cotton yarns and fabrics.</p>	<p>Pakistan Labor - Large, relatively inexpensive labor supply.</p> <p>Inputs - Access to local supplies of raw cotton.</p> <p>Business climate - The Government is taking steps to ensure the global competitiveness of the textile and apparel sector; personal safety and security of shipments between factories and ports are issues.</p>
	<p>Bangladesh: The status of Bangladesh as an overall supplier to U.S. market is uncertain. Considered by some U.S. firms to be competitive alternative to China for mass-produced, low-end apparel.</p>	<p>Bangladesh: Labor - Very low wage rates; productivity improving, but lags China; government is working to improve labor standards.</p> <p>Inputs - Relies heavily on imports for woven fabric requirements; becoming increasingly self-sufficient in knit fabrics.</p> <p>Special arrangements - Duty-free access to major world import markets, including the EU, Canada, and Norway.</p> <p>Products - Mass-produced basic garments, including knit cotton tops and woven cotton pants.</p>

Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries		
Region or country	Anticipated effects of quota removal	Key competitive factors
	<p>Sri Lanka: Likely to see its share of U.S. apparel imports fall, but expected to be a niche supplier for specialty or fashion goods, hosiery, and women's intimate apparel such as bras and underwear.</p>	<p>Sri Lanka Labor - Relatively small labor pool; relatively high wage rates. Inputs - Relies heavily on imported yarn and fabric.</p>
ASEAN	<p>Summary: Overall share of U.S. textile and apparel imports is likely to decline as U.S. firms reduce sourcing in all but a few countries.</p>	<p>Summary: Labor - Costs relatively high in all ASEAN countries except Indonesia and non-WTO members Vietnam and Cambodia, which are ineligible for quota liberalization. Transportation - Shipping times to the U.S. west coast average 45 days, compared with 12 to 18 days from China.</p>
	<p>Indonesia: Future status as a supplier to the U.S. market uncertain. Many U.S. firms consider Indonesia to be a competitive supplier, but indicated its political and social unrest may discourage future sourcing.</p>	<p>Indonesia: Labor - Abundant supply of low-cost, skilled labor. Inputs - Huge manufacturing base for raw materials, especially synthetic fibers, yarns, and fabrics. Business Climate - Frequent political and social unrest likely to deter growth in sourcing in the short term.</p>
	<p>Philippines: Share of U.S. apparel imports is likely to decline, as has already occurred in goods for which quotas were eliminated (e.g., babies' apparel).</p>	<p>Philippines: Labor - English-speaking, skilled labor force; high wage rates. Inputs - Relies heavily on imported yarn and fabric. Special arrangements - Foreign-trade zones on former U.S. military bases provide established modern infrastructure. Business Climate - Political and social unrest.</p>
	<p>Thailand: Share of U.S. imports is likely to decline, as has already occurred in goods for which quotas were eliminated (e.g., babies' apparel and luggage); may become a niche supplier of garments having complex construction or detailed sewing requirements.</p>	<p>Thailand: Labor - Highly-skilled workforce; high wages, partly because of a labor shortage. Inputs - Domestic supply of yarns and fabrics. Products - Strong needlework skills and small-scale factories enable intricately designed garments and flexibility in sourcing fashion apparel.</p>

Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries		
Region or country	Anticipated effects of quota removal	Key competitive factors
	<p>Malaysia: Share of U.S. apparel imports is likely to decline significantly.</p>	<p>Malaysia: Labor - Labor shortage; wages second-highest in the region after Singapore.</p> <p>Business climate - Although Government highlights importance of textile and apparel sector, investment is largely directed to other industries.</p>
MEXICO	<p>Share of U.S. apparel imports is likely to decline further, even with NAFTA preferences. May continue to be a niche supply for some basic apparel, particularly for goods needed on short-turnaround basis.</p> <p>Has the potential to expand yarn and fabric exports to other countries in the western hemisphere under a proposed Free Trade Area of the Americas or to Central America if the proposed U.S.-Central America FTA permits the use of Mexican inputs.</p>	<p>Labor - Costs are relatively high; product quality and production reliability problematic; middle management responsible for running the factories is considered weak; product design expertise limited.</p> <p>Inputs - Produces knit and woven fabrics. Cost is reportedly less than that for similar U.S.-produced fabrics, but higher than similar Asian fabrics.</p> <p>Products - Concentrates on mass-producing basic garments, particularly 5-pocket denim jeans, knit tops, and undergarments; limited capability for fashion apparel. Limited ability to offer full-package services.</p> <p>Business climate - Additional overhead costs in providing security for shipments from factories to the U.S. border and complying with paperwork requirements for preferential treatment under NAFTA.</p>
CBERA	<p>Summary: Most U.S. firms indicated they will reduce sourcing from the CBERA countries, especially if the proposed U.S.-Central America FTA does not permit the use of regional (e.g., Mexican) or third-country (e.g., Mexican or Asian) fabrics.</p> <p>However, even without a regional or third-country fabric provision in the proposed U.S.-Central America FTA, the region is likely to continue to mass-produce garments having minimal labor content and make apparel for quick-turn orders.</p>	<p>Summary: Products - Mass-produces basic garments, particularly those with low-labor content and few delicate sewing operations.</p> <p>Inputs - Relies heavily on imported yarn and fabric from the United States, largely reflecting U.S. content rules under the CBTPA to qualify for trade benefits; U.S. and regional fabrics required to qualify for CBTPA preferences cost more than similar fabrics made in Asia.</p> <p>Transportation - Benefits from proximity to U.S. market.</p> <p>Special arrangements - Duty-free access under CBERA.</p>

Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries		
Region or country	Anticipated effects of quota removal	Key competitive factors
	<p>Costa Rica: Share of U.S. apparel imports is likely to decline significantly.</p>	<p>Costa Rica: Labor - Highest labor costs in region; highly educated labor force. Business climate - Government trying to attract other, non-apparel investment.</p>
	<p>Dominican Republic: Share of U.S. apparel imports may decline, but likely to continue to supply apparel for quick-turn orders. Considered among the five most attractive suppliers from the region.</p>	<p>Dominican Republic: Labor - Shifted some assembly operations to Haiti to take advantage of Haiti's lower labor costs. Transportation - Benefits from proximity to U.S. market.</p>
	<p>El Salvador, Guatemala, Honduras, and Nicaragua: Future status as a supplier to the U.S. market uncertain, pending the outcome of regional or hemispheric free trade negotiations. Considered among the five most attractive suppliers from the region.</p>	<p>El Salvador, Guatemala, Honduras, and Nicaragua: Labor - Costs in most countries higher than China and other Asian countries. Inputs - Some regional knit fabric production.</p>
	<p>Haiti and Jamaica: Share of U.S. apparel imports is likely to decline significantly.</p>	<p>Haiti and Jamaica: Labor - Haiti has lowest hourly compensation costs in region. Business climate - Personal safety and security of shipments are issues.</p>
ANDEAN	<p>Summary: Share of U.S. imports likely to decline overall, but may continue to be a niche supplier to the U.S. market.</p>	<p>Summary: Special arrangements - U.S. legislation enacted in August 2002 providing for duty-free treatment of apparel imports from region using regional yarns and fabrics.</p>
	<p>Colombia: Colombia likely to become less cost competitive in the U.S. market with Asian suppliers following quota removal, but could still be competitive for garments in which lead times are critical.</p>	<p>Colombia: Inputs - Domestic supply of knit and woven fabrics. Products - Considered capable supplier of tailored clothing, sportswear, and only country in South and Central America skilled in fashion apparel. Business climate - Personal safety and security of shipments between factories and ports are issues.</p>

Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries		
Region or country	Anticipated effects of quota removal	Key competitive factors
	<p>Peru: May see its overall share of U.S. apparel imports decline, but expected to continue to be a niche supplier of high-end knit shirts.</p>	<p>Peru: Inputs - Domestic supply of high-quality cotton and fine-animal hair. Domestic production of yarns and fabrics. Products - Niche supplier of high quality, cotton knit shirts and related garments.</p>
	<p>Bolivia and Ecuador: Very small suppliers to the U.S. market; could become sources for specialty goods, such as those made of fine hairs from animals indigenous to these countries.</p>	<p>Bolivia and Ecuador: Inputs - Relies heavily on imports of fibers, yarns, fabrics, and findings. Has some supply of specialty animal fibers.</p>
TURKEY	<p>Future status as a supplier to the U.S. market uncertain. Several firms indicated Turkey would be an attractive supplier if it had a free-trade agreement with the United States. A few firms indicated they would continue or increase sourcing from Turkey, even without a free-trade agreement.</p> <p>May continue to be a global supplier of cotton fabrics.</p>	<p>Inputs - Domestic supplies of raw cotton, cotton yarns and fabrics.</p> <p>Special arrangements - Proximity and duty-free access to EU market.</p> <p>Products - Large cotton-based textile and export-oriented apparel industries; fast turnaround and fashion capabilities.</p> <p>Transportation - Shipping times to U.S. market similar to those for East Asia.</p>
EGYPT	<p>Likely to decline in importance as a supplier to the U.S. market, though a few industry sources indicated they will continue to source some products from Egypt following the removal of quotas. U.S. firms indicated Egypt would be an attractive supplier if a free trade agreement were negotiated with the United States.</p>	<p>Inputs - Largely government-owned textile industry characterized by excess employment, outdated technology and relatively low productivity. High raw material costs, owing to government -set minimum prices on cotton. Apparel manufacturers import yarn and fabric.</p> <p>Products - Industry largely cotton-based. Exports large quantities of its acclaimed "Egyptian cotton" in the form of yarns to the U.S. textile industry.</p>

Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries		
Region or country	Anticipated effects of quota removal	Key competitive factors
ISRAEL AND JORDAN	<p>Israel may continue to be a niche supplier for intimate apparel.</p> <p>Jordan may continue to be a niche supplier of apparel articles that are subject to high U.S. duty rates, such as manmade-fiber garments. However, sourcing from Jordan may be affected by the outcome of free-trade negotiations involving countries in the Western Hemisphere. If the proposed U.S.-Central America FTA or FTAA extends unlimited duty-free treatment to U.S. imports of apparel made in the region from third-country fabrics, U.S. firms are likely to shift sourcing to the region from distant sources such as Jordan.</p>	<p>Labor - Production in Israel highly automated and labor costs are high. Relatively low labor costs in Jordan.</p> <p>Special arrangements - Under the FTA with Israel, the United States established a "qualified industrial zone" program with Jordan and Israel that grants duty-free treatment to qualifying textile and apparel articles.</p>
SUB-SAHARAN AFRICA	<p>Summary: Industry sources indicated that this region's overall share of U.S. apparel imports will fall, notwithstanding AGOA preferences.</p> <p>AGOA preferences may spur U.S. firms to source products from the region that are subject to high U.S. duty rates, such as manmade-fiber and wool apparel, particularly if the provision allowing for the use of third-country fabrics is extended beyond 2004. Some sourcing of basic garments made in the region from local fabrics, such as pants and knit tops, may also continue.</p>	<p>Summary: Products - Produces basic, rather than fashion apparel. Most manufacturers do not offer full-package services. Many firms have limited capacity to offer large volumes that may be required by U.S. firms looking to consolidate sourcing following quota removal.</p> <p>Infrastructure - Infrastructure and logistics inferior to those in other regions of the world. Shipping time longer than that from East Asia.</p>
	<p>Kenya: Share of U.S. apparel imports is likely to decline.</p>	<p>Kenya: Business climate - Personal safety an issue for sourcing from country.</p>
	<p>Lesotho: Share of U.S. apparel imports is likely to decline.</p>	<p>Lesotho: Inputs - No domestic yarn or fabric supply. Planned investment in new yarn and knit fabric production capacity.</p>
	<p>Madagascar: Share of U.S. apparel imports is likely to decline.</p>	<p>Madagascar: Business climate - Political unrest in 2001 and 2002 resulted in large disinvestment in the industry. Government is trying to restart the industry, but future prospects are uncertain.</p>

Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries		
Region or country	Anticipated effects of quota removal	Key competitive factors
	<p>Mauritius: Share of U.S. apparel imports is likely to decline.</p>	<p>Mauritius: Labor- High labor costs owing to shortage of labor. Competition for workers from high-tech sectors.</p> <p>Inputs - Shortage of cotton yarn production for knit apparel. Planned investment in new yarn spinning capacity.</p>
	<p>South Africa: Share of U.S. apparel imports is likely to decline.</p>	<p>South Africa: Labor - Relatively high labor costs.</p> <p>Inputs - Domestic supply of yarns and fabrics. Only SSA country producing synthetic filament yarn.</p>

Source: The Commission assessment is based on interviews with representatives of U.S. apparel and textile companies, U.S. retailers, foreign textile and apparel producers and investors, and foreign government officials; a review of the literature; and testimony presented to the Commission at the public hearing and in written statements.

CHAPTER 1: INTRODUCTION

Purpose and Scope

The U.S. International Trade Commission (Commission) instituted this investigation following receipt of a letter from the United States Trade Representative (USTR) on September 16, 2002. The USTR requested that the Commission institute an investigation under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) and prepare a report that assesses the textile and apparel industries of certain foreign suppliers to the U.S. market with respect to their competitiveness and other factors pertinent to their adjustment to the final completion of the phaseout of quotas on January 1, 2005, as required by the Uruguay Round Agreement on Textiles and Clothing (ATC).¹ As requested by the USTR, this report assesses the textile and apparel industries of (1) significant ATC suppliers to the U.S. market, (2) Mexico, and (3) other supplying countries with preferential market access. As requested by the USTR, the Commission's analysis also addresses factors such as textile and apparel consumption, production, employment, and prices in major exporting countries, as well as their textile and apparel trade, particularly with industrial country markets. The USTR requested that the Commission provide the information in a confidential report by June 30, 2003.

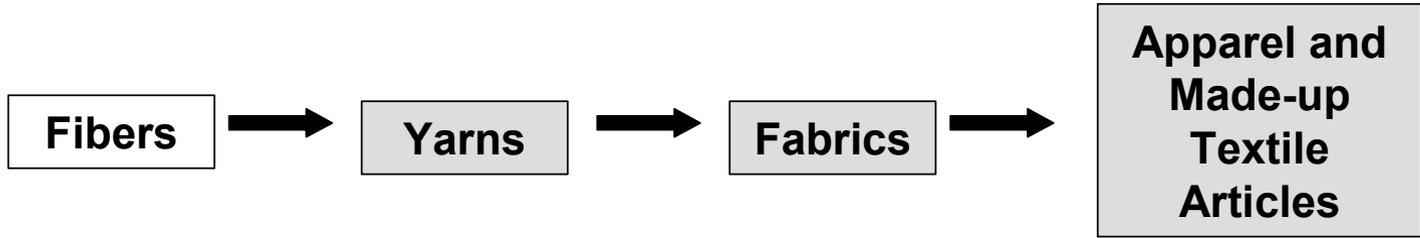
The ATC entered into force with the World Trade Organization (WTO) agreements in 1995 and created special interim rules to govern trade in textiles and apparel among WTO countries for 10 years. The ATC called for the gradual and complete elimination of quotas on textiles and apparel established by the United States and other importing countries under the Multifiber Arrangement (MFA) and predecessor arrangements by January 1, 2005 (information on the ATC and the MFA is presented later in this chapter). In the request letter, the USTR stated that, in anticipation of the completion of the quota phaseout required by the ATC, "it may be that significant changes will occur in the global pattern of production, trade and consumption of these products. It would be most helpful for the Administration to be able to anticipate the nature of these changes as much as possible."

Product and Country Coverage

The study focuses on textile and apparel articles that were subject to the MFA and subsumed into the ATC—namely, articles of cotton, other vegetable fibers (e.g., flax (linen)), wool, manmade fibers, and silk blends. As shown in figure 1-1, the articles represent almost all the output of the textile and apparel supply chain and can be divided into two groups: (1) textile products, which consist of yarns, fabrics, and made-up textile articles (including carpets and carpeting; bed, bath, and kitchen linens; luggage; and other goods) and (2) apparel products, including knitted and not knitted (mainly woven) garments and clothing accessories, gloves,

¹ The USTR letter is in appendix A, and the Commission's notice of investigation, published in the *Federal Register* of Oct. 17, 2002 (67 F.R. 64131), is in appendix B.

Figure 1-1 Major Products of Fiber, Textile, and Apparel Industries



1-2

Agricultural sector (natural)



- Cotton
- Wool and fine animal hair
- Silk
- Ramie

Chemical industry (manmade fibers)



- Synthetic
 - Polyester
 - Nylon
 - Acrylic
- Artificial
 - Rayon
 - Acetate

Spun



- Cotton & manmade fibers
- Wool and fine animal hair

Filament

- Manmade fibers
- Silk

Woven



- Denim
- Printcloth
- Broadcloth
- Sheeting

Knit

Nonwoven

Industrial fabrics

Apparel



- Shirts and blouses
- Trousers and shorts
- Skirts and dresses
- Underwear

Home textiles



- Towels
- Sheets, pillowcases
- Curtains and drapes

Carpets and rugs

Other made-ups



- Luggage
- Tents
- Bags

headwear, and neckwear. In this report, these two product groups are the subject of the discussion of industry conditions and trade trends. For example, data on world textile and apparel trade are presented in terms of Standard International Trade Classification (SITC) 65, textile yarn, fabrics, made-up articles, and related products, and SITC 84, articles of apparel and clothing accessories. Although the MFA generally did not cover basic raw materials such as natural fibers (e.g., cotton and wool), which are the output of the agricultural sector, and manmade fibers (e.g., polyester), the output of the chemical industry, the study examines the relative importance of textile fibers (SITC 26) as major inputs for use in textile production.

The countries for which the USTR requested an assessment of their textile and apparel industries can be divided into two broad groups: (1) significant ATC suppliers to the U.S. market and (2) Mexico and other suppliers receiving U.S. trade preferences for qualifying textile and apparel articles. The countries were selected in consultation with USTR staff; they are listed in table 1-1. The 35 selected countries together represented 80 percent of the total value of U.S. textile and apparel imports in 2002.

Many of these selected countries differ from one another in terms of key social and economic indicators, but many of them are similar with respect to the importance of their textile and apparel industries as a source of employment and export earnings. The selected countries include the two most populous countries in the world—China and India, with more than 1 billion people each—as well as a supplier with a population of less than 1 million, Macau. Also included are four countries designated by the United Nations as “least developed countries” (Bangladesh, Haiti, Lesotho, and Madagascar) and five “newly industrialized” economies (Hong Kong, India, Mexico, Taiwan, and Korea).² Among the selected countries, per capita gross domestic product (GDP, at constant 1995 prices) ranged from less than \$500 in Bangladesh, Haiti, India, Kenya, Madagascar, and Nicaragua to slightly more than \$24,000 in Hong Kong. As shown in figure 1-2, many of the selected countries depend on textiles and apparel for 50 percent or more of their total merchandise exports.

Approach

The report provides a profile of the textile and apparel industries in each of the selected countries covered by the study, and a qualitative assessment of these industries’ competitiveness and other factors pertinent to their adjustment to the completion of the phaseout of textile and apparel quotas in 2005. To the extent practicable, each profile discusses the relative importance of the industries in the country’s economy and examines the industries in terms of their structure; capacity, output, and employment levels; factors of production; investment in new technology; and infrastructure conditions. The profile discusses government domestic and trade policies and programs affecting the industries and recent or pending developments likely to affect the industries’ global competitiveness. The profile examines the country’s textile and apparel trade during the past 5 years, overall and

² United Nations Industrial Development Organization (UNIDO), *International Yearbook of Industrial Statistics 2002* (Vienna), pp. 15-16.

Table 1-1

Selected textile and apparel suppliers: Population, GDP per capita (constant 1995 dollars), textile and apparel exports, and such exports' share of each supplier's total merchandise exports, 2001

Supplier	Population	GDP per capita	Textile and apparel exports--	
			Total	Share of total merchandise exports
	<i>Million</i>		<i>Million dollars</i>	<i>Percent</i>
Significant ATC suppliers:				
Bangladesh	133.4	\$386	5,527.1	86
China	1,271.9	878	53,276.6	20
Egypt	65.2	1,243	1,128.7	23
Hong Kong	6.9	24,187	10,310.9	52
India	1,033.4	472	¹ 11,730.0	26
Indonesia	213.6	1,012	7,803.3	14
Korea	47.6	13,420	15,238.6	10
Macau4	² 15,244	1,679.6	89
Malaysia	23.8	4,709	3,112.4	4
Pakistan	141.5	521	6,730.0	73
Philippines	77.0	1,185	2,682.1	8
Sri Lanka	19.6	869	2,747.9	61
Taiwan	22.0	³ 17,200	12,288.4	10
Thailand	61.2	2,853	5,492.2	8
Turkey	66.2	2,902	10,601.0	34
Suppliers covered by free-trade agreements:				
Mexico	99.4	3,739	10,085.2	6
Israel	6.4	² 17,067	¹ 1,150.0	¹ 4
Jordan	5.0	1,639	316.2	17
Sub-Saharan Africa:				
Kenya	30.7	325	83.4	5
Lesotho	2.1	558	233.7	94
Madagascar	16.0	255	457.8	44
Mauritius	1.2	4,359	955.3	63
South Africa	43.2	4,068	471.0	2
CBERA countries: ⁴				
Costa Rica	3.9	3,886	838.7	14
Dominican Republic	8.5	2,079	2,439.0	51
El Salvador	6.4	1,752	1,801.5	60
Guatemala	11.7	1,554	1,765.6	37
Haiti	8.1	340	251.8	83
Honduras	6.6	712	2,571.0	63
Jamaica	2.7	2,124	271.8	18
Nicaragua	5.2	⁵ 437	397.2	37

See footnotes at end of table.

Table 1-1--Continued

Selected textile and apparel suppliers: Population, GDP per capita (constant 1995 dollars), textile and apparel exports, and such exports' share of each supplier's total merchandise exports, 2001

Supplier	Population	GDP per capita	Textile and apparel exports--	
			Total	Share of total merchandise exports
	<i>Million</i>		<i>Million dollars</i>	<i>Percent</i>
Andean countries:				
Bolivia	8.5	944	38.6	3
Colombia	43.0	2,281	835.1	7
Ecuador	12.9	1,473	70.4	2
Peru	26.1	2,334	621.4	11

¹ Estimated by the Commission based on the percentage change in world imports from the country from 2000 to 2001.

² Represents GDP per capita for 2000, the latest year for which data are available.

³ U.S. Central Intelligence Agency, *The World Factbook 2002*.

⁴ CBERA countries are beneficiaries under the Caribbean Basin Economic Recovery Act (CBERA).

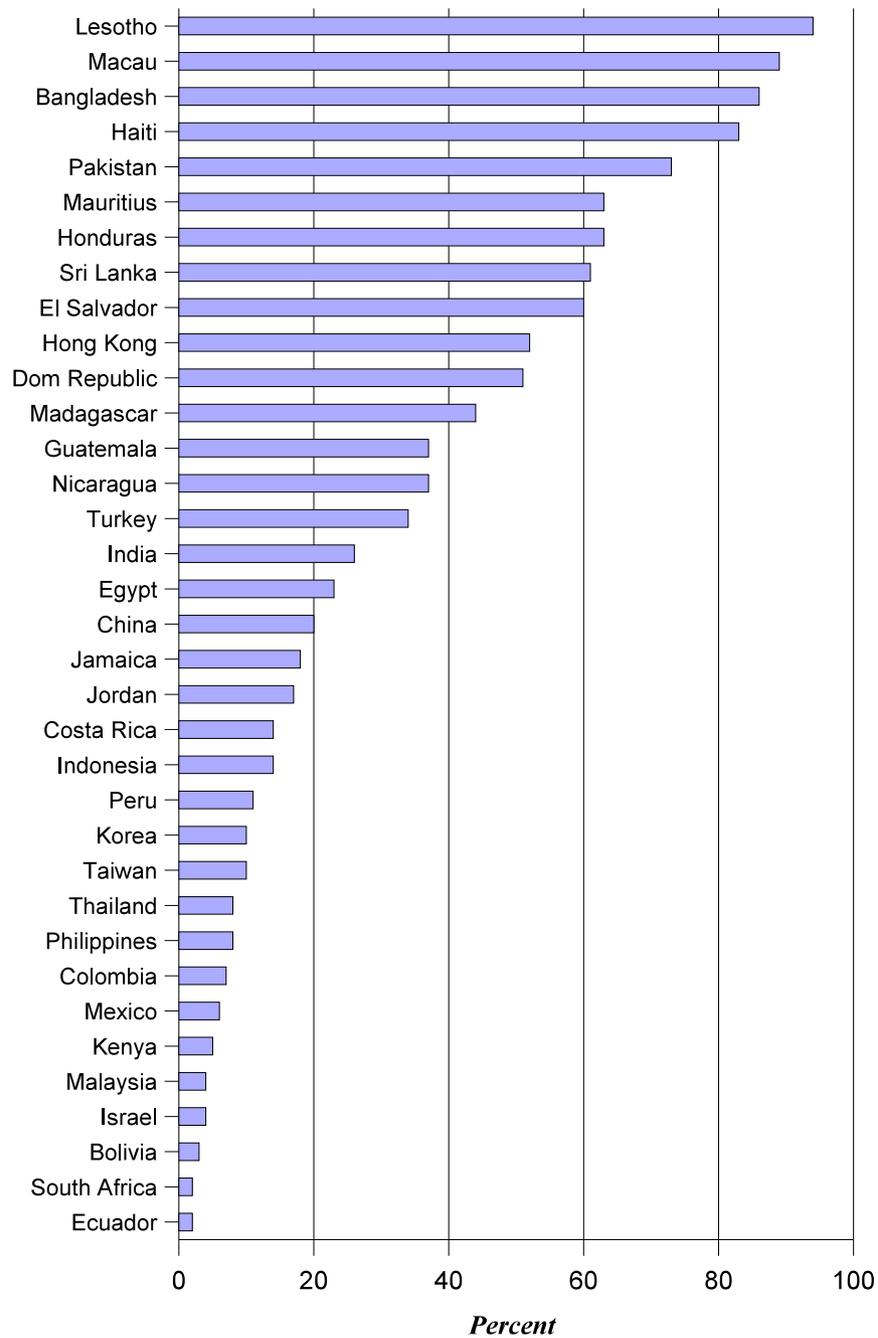
⁵ Represents GDP per capita for 1998, the latest year for which data are available.

Note.--Data shown for textile and apparel exports are based on data reported to the United Nations either by the specified country ("reporter data") or by the specified country's trading partners ("partner data"). Reporter data were used for all "significant ATC suppliers" except Bangladesh, Egypt, and Sri Lanka; all three "suppliers covered by free-trade agreements;" Mauritius and South Africa; and all four Andean countries. Partner data were used for all other countries.

Source: Data on population and GDP per capita compiled from the online *World Development Indicators* database of the World Bank (<https://publications.worldbank.org>), retrieved Mar. 25, 2003, except as noted. Trade data are United Nations data, except as noted.

Figure 1-2

Selected suppliers: Percentage share of total merchandise exports accounted for by textiles and apparel, 2001



Source: Compiled from United Nations data.

by major products and trading partners; it also reviews U.S. imports of textiles and apparel from the country in terms of trends and major products.

Information in this report came from many different sources, including (1) the views of interested parties as presented in testimony to the Commission at the public hearing and in written statements,³ (2) other U.S. Government agencies, including U.S. Department of State telegrams prepared by U.S. Embassies concerning the textile and apparel industries of their respective host countries, (3) foreign governments, (4) international organizations such as the United Nations, the WTO, and the World Bank, (5) domestic and foreign industry and trade organizations, and (6) a review of the literature. Commission staff conducted in-person and telephone interviews with representatives of U.S. textile and apparel producers, importers, and retailers to obtain information on likely changes in their global sourcing strategies in anticipation of complete quota elimination in 2005 and on their views on the competitive strengths and weaknesses of foreign suppliers. Staff conducted fieldwork in Mexico, India, East Asia (China, Hong Kong, Taiwan, and Korea), Central America (Guatemala, Honduras, and El Salvador), and sub-Saharan Africa (South Africa, Mauritius, and Lesotho) to interview representatives of foreign governments, producers, and trade and industry groups in order to obtain information on the state of the textile and apparel industries in their countries and likely changes in the global pattern of textile and apparel production, investment, and trade as a result of quota elimination.⁴

Organization

The rest of this chapter examines the ATC, the U.S. textile and apparel trade agreements program, the world textile and apparel industries, and global trade in these products. Chapter 2 reviews recent literature on factors of competition affecting supply and demand for textiles and apparel, likely changes in global production and trade in such goods in anticipation of complete quota elimination, and the impact of quota elimination on individual countries' textile and apparel industries. Chapter 3 begins with an overview of key factors of competition in the textile and apparel industries, followed by a comparative analysis of the competitive strengths and weaknesses of the textile and apparel industries in the selected countries. Chapter 4 summarizes the views of interested parties as presented in testimony at the public hearing and in written statements (a list of witnesses appearing at the hearing is in appendix C). The profiles of the textile and apparel industries for each of the 35 selected countries are presented in the following appendixes to this report:

³ Appendix C contains a list of witnesses appearing at the hearing held by the Commission on January 22, 2003. Chapter 4 of this report summarizes the views of interested parties as presented in testimony at the hearing and in written statements.

⁴ Appendix D contains a list of persons and their organizations interviewed by Commission staff in connection with the study between September 2002 and June 2003.

Appendix E:	East Asia (China, Hong Kong, Korea, Macau, and Taiwan)
Appendix F:	South Asia (Bangladesh, India, Pakistan, and Sri Lanka)
Appendix G:	ASEAN region (Indonesia, Malaysia, the Philippines, and Thailand)
Appendix H:	Mexico
Appendix I:	Caribbean Basin (Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Nicaragua)
Appendix J:	Andean region (Bolivia, Colombia, Ecuador, and Peru)
Appendix K:	Sub-Saharan Africa (Kenya, Lesotho, Madagascar, Mauritius, and South Africa)
Appendix L:	Egypt, Israel, Jordan, and Turkey

The Uruguay Round Agreement on Textiles and Clothing

The ATC came into force with the WTO agreements in 1995 and created special interim rules to govern trade in textiles and apparel among WTO countries. It provides for the gradual elimination of quotas on textiles and apparel established by the United States, the European Union (EU), Canada, and Norway under the MFA, an arrangement that was negotiated under the General Agreement on Tariffs and Trade 1947 (GATT 1947) and that governed most world trade in textiles and apparel during 1974-94.⁵ The MFA was intended to deal with market disruption in importing countries (developed countries), while allowing exporting countries (developing countries) to expand their world textile and apparel trade. Under the MFA, importing countries negotiated bilateral agreements with exporting countries to set quotas, which are a departure from the GATT in two respects: (1) they were applied on a country-specific basis, in contradiction of the nondiscrimination obligation (all GATT members be treated equally when any trade measures are applied) and (2) they contradict the general principle of reducing or avoiding absolute quantitative limits.

The ATC requires countries to “integrate” textile and apparel articles into GATT 1994 over a 10-year transition period ending on January 1, 2005; that is, the articles must be brought under GATT discipline, subject to the same rules as products of other sectors, and are no longer subjected to a regularized quota regime. As countries integrate textile and apparel articles into the GATT, they are required to eliminate any quotas on such goods and may not establish new quotas on the integrated articles, except as provided under normal GATT rules. The ATC also (1) contains a safeguard mechanism that permits countries to establish transition-period quotas on articles not yet integrated into the GATT, if necessary, to protect their domestic markets from import surges, (2) requires members to reduce trade barriers to textiles and apparel in their home markets, and (3) allows countries to take action against quota circumvention. All WTO countries are subject to ATC disciplines, and only WTO countries are eligible for ATC benefits (countries that are not WTO members are ineligible for quota liberalization).⁶

⁵ Norway eliminated all its remaining MFA quotas in 2001.

⁶ Major foreign suppliers that are not WTO members and, thus, are ineligible for quota liberalization under the ATC are Cambodia, Russia, and Vietnam.

The ATC requires WTO countries to integrate groups of articles representing specified minimum percentages of their respective 1990 textile and apparel import volumes in four stages over the 10-year transition period. As shown in table 1-2, the major importing countries integrated goods totaling 16 percent of their trade on January 1, 1995; another 17 percent on January 1, 1998; and an additional 18 percent on January 1, 2002, for a total of 51 percent. The remaining 49 percent of the trade is to be integrated at the end of the transition period on January 1, 2005. For quotas that were not eliminated in one of the first three stages of integration, the ATC requires importing countries to increase the base annual growth rates applicable to each such quota, which were specified in the bilateral MFA agreements in place in 1994. Under this ATC “growth-on-growth” provision, the major importing countries increased the base growth rates by 16 percent in 1995, by another 25 percent in 1998, and by another 27 percent in 2002.⁷ For small WTO suppliers (countries accounting for 1.2 percent or less of an importing country’s total quotas in 1991), quota growth rates were advanced by one stage--that is, the growth rates were increased by 25 percent in 1995 and by 27 percent in 1998, and again by 27 percent in 2002. Under the ATC, the trade-weighted average annual growth rate for WTO countries’ quotas rose from a pre-ATC rate of 4.9 percent in 1994 to 5.7 percent in 1995, 7.3 percent in 2000, and 9.3 percent in 2002.⁸

Table 1-2
Agreement on Textiles and Clothing: Stages, starting dates, share of trade integrated, and increase in quota growth rates

Stage	Starting date	Share of trade integrated	Increase in quota growth rate ¹
		-----Percent-----	
1 (1995-1997)	January 1, 1995	16	16
2 (1998-2001)	January 1, 1998	17	25
3 (2002-2004)	January 1, 2002	18	27
4	January 1, 2005	49	(2)

¹ The acceleration of quota growth will be advanced by one stage for supplying countries that accounted for 1.2 percent or less of an importing country’s total quotas as of December 31, 1991.

² Not applicable.

Source: Agreement on Textiles and Clothing, Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations.

⁷ The base quota growth rates vary by country and article, but ranged from less than 1 percent to as high as 6 percent or 7 percent. Assuming a 6-percent base rate for a major supplier, the annual quota growth rate would be 6.96 percent (6 multiplied by 1.16) during 1995-97, 8.7 percent during 1998-2001, and 11.05 percent during 2002-04.

⁸ Office of the United States Trade Representative, *2003 Trade Policy Agenda and 2002 Annual Report*, p. 96, and selected back issues.

The ATC provides importing countries considerable flexibility in selecting the articles for GATT integration at each stage. Although it requires them to integrate articles from each of four categories (tops and yarns, fabrics, made-up textile articles, and apparel) at each stage, it does not specify any allocation percentages. Because the products subject to GATT integration under the ATC include not only all of the articles covered by the MFA, but also numerous non-MFA goods (e.g., pure silk goods), the major importing countries chose first to integrate the non-MFA goods or MFA articles that were not under quota and low value-added items, and to defer integration of the most “sensitive” articles until the end of the 10-year transition period.⁹ In a report on the integration process, the WTO stated that only 20 percent of the total trade integrated by the major importing countries during the first three stages represented goods under quota and that most of the articles integrated were relatively low-value-added items such as yarn and fabric, rather than higher value-added apparel products.¹⁰ Under the U.S. integration schedule, none of the articles integrated in the first stage was under quota, and most of the articles integrated in the second and third stages either were not under quota or had low quota usage. The U.S. Statement of Administrative Action accompanying the Uruguay Round implementing legislation stated that the Committee for the Implementation of Textile Agreements (CITA),¹¹ in drawing up the lists of products, was to defer integration of the most sensitive articles until the end of the 10-year transition period.¹² As a result, 67 percent of the total volume of U.S. textile and apparel imports under quota (or 89 percent of apparel imports and 47 percent of textile imports) will not be integrated until 2005.¹³

U.S. Textile and Apparel Trade Program

The United States has quotas on textiles and apparel from 46 countries, which together accounted for 79 percent of the total value of U.S. imports of such goods in 2002. U.S. quotas are being phased out for Mexico under the North American Free-Trade Agreement (NAFTA) and for the other 38 WTO countries under the ATC. Seven countries covered by quotas are not WTO members (Belarus, Cambodia, Laos, Nepal, Russia, Ukraine, and

⁹ Under the U.S. integration schedule, for example, 29 percent of U.S. textile and apparel imports that are subject to GATT integration were either non-MFA goods (e.g., pure silk goods and jute bags) or articles that were not covered by the U.S. quota program (e.g., seat belts, parachutes, and umbrellas). Data of the U.S. Department of Commerce show that U.S. imports of articles covered by the ATC totaled 17.1 billion square meters equivalent (SMEs) in 1990, the base year for determining the volume of trade for GATT integration. U.S. imports of MFA products that year totaled 12.2 billion SMEs.

¹⁰ WTO, Trade Policy Review Body, *Overview of Developments in the International Trading Environment: Annual Report by the Director-General* (WT/TPR/OV/8 – 02-6147), Nov. 15, 2002, pp. 17-18.

¹¹ CITA is an interagency group responsible for administering the U.S. textile and apparel trade agreements program. It is chaired by the U.S. Department of Commerce and made up of representatives from USTR and the U.S. Departments of State, Treasury, and Labor.

¹² U.S. House of Representatives, “Statement of Administrative Action,” *The Uruguay Round Trade Agreements, Texts of Agreements Implementing Bill, Supporting Statements, Message from the President of the United States*, Sept. 27, 1994, House Doc. 103-316, vol. 1, p. 115.

¹³ United States General Accounting Office, *Report to Congressional Requesters: Textile Trade - Operations of the Committee for the Implementation of Textile Agreements* (GAO/NSIAD-96-186), Sept. 1996, p. 3.

Vietnam) and, thus, are ineligible for quota liberalization under the ATC.¹⁴ U.S. textile and apparel imports for 1997-2002 from the 35 selected countries covered by the study are shown in table 1-3.

U.S. imports of textiles and apparel from the world rose 67 percent by quantity and 34 percent by value during 1997-2002 to 38.3 billion square meters equivalent (SMEs) valued at \$72 billion. The higher growth in import volume, compared with import value, largely reflected increased competition in the domestic retail market and the effects of the Asian financial crisis of mid-1997 and early 1998. Weak economic activity in East Asia led to increased efforts to boost exports and earn much-needed foreign exchange. At the same time, the significant currency devaluations in several Asian countries effectively reduced U.S. dollar prices of their goods in the U.S. market. U.S. textile and apparel imports fell for the first time in more than 10 years in 2001, by less than 0.5 percent, reflecting a slowdown in U.S. economic activity that was exacerbated by the terrorist attacks of September 11, 2001. In 2002, imports rebounded considerably, rising by 17 percent over the 2001 level.

Apparel accounted for 45 percent (17.3 billion SMEs) of the quantity but 79 percent (\$57 billion) of the value of total U.S. textile and apparel imports in 2002. The share of the U.S. apparel market accounted for by imports is estimated at approximately 65 to 70 percent for 2001.

The increase in U.S. textile and apparel imports during 1997-2002 came from many countries, led by China, whose shipments grew by 137 percent to almost 5.0 billion SMEs, with most of the growth occurring in 2002, when China's shipments increased by 125 percent. China supplanted Mexico as the largest foreign supplier in 2002, shipping 13 percent of the total import volume, compared with 11.3 percent for Mexico. Imports from Mexico grew by 43 percent during 1997-2002 to 4.3 billion SMEs. Mexico's shipments have grown more slowly in recent years, following rapid growth during the early years of NAFTA; they fell sharply in 2001 and then partially recovered in 2002, rising by 1 percent to 4.3 billion SMEs. Imports from NAFTA signatory Canada rose by 63 percent during 1997-2002 to 3.4 billion SMEs. Other important suppliers that posted significant growth in shipments during 1997-2002 were Pakistan (125 percent, to 2.5 billion SMEs),¹⁵ Korea (149 percent, to 2.0 billion SMEs), and Turkey (171 percent, to 1.1 billion SMEs). The substantial changes in imports from China from 2001 to 2002, along with those from non-WTO countries Cambodia and Vietnam, are discussed below.

¹⁴ Imports of textiles and apparel from non-WTO countries are subject to quotas imposed by the President under section 204 of the Agricultural Act of 1956 (7 U.S.C. 1854), which provides the President with the basic statutory authority to enter into agreements with foreign governments to limit their exports of such items to the United States.

¹⁵ In recognition of the role that Pakistan has played in the war against terrorism, the United States granted Pakistan an increase of 15 percent in the base quota levels for 2002 and special swing (a shift of unused quota from one category to another) of 25 percent for the years 2002-04 for 14 categories of cotton and manmade-fiber apparel. Pakistan was also granted special swing for 2002-04 of 8 percent for cotton trousers, knit shirts, and knit blouses and 25 percent for cotton and manmade-fiber underwear and men's and boys' woven shirts. All of the special swing is in addition to the normal swing provided in the bilateral textile agreement.

Table 1-3
Textiles and apparel: U.S. general imports from selected suppliers, 1997-2002

(1,000 square meters equivalent)

Country	1997	1998	1999	2000	2001	2002
Bangladesh	764,510	865,537	910,519	1,130,770	1,169,041	1,149,765
Bolivia	1,567	2,320	2,351	3,423	3,525	5,349
China	2,094,944	1,943,215	2,035,487	2,217,897	2,210,674	4,963,269
Colombia	100,347	96,070	112,570	117,338	96,518	109,611
Costa Rica	317,441	327,187	370,030	373,371	367,131	377,066
Dominican Republic	863,315	886,406	900,252	858,892	772,755	743,276
Ecuador	14,176	10,307	12,513	16,397	18,004	14,919
Egypt	196,114	247,368	200,977	254,105	282,441	264,762
El Salvador	460,078	524,009	640,934	757,217	767,758	816,789
Guatemala	252,530	301,720	332,990	389,719	425,841	451,900
Haiti	78,228	113,415	127,350	125,011	109,099	109,285
Honduras	735,175	808,461	958,257	1,045,195	1,032,289	1,098,840
Hong Kong	863,355	1,020,897	1,017,557	1,123,250	1,092,272	961,680
India	985,739	1,083,648	1,149,428	1,248,337	1,250,245	1,544,666
Indonesia	855,047	974,751	907,305	1,052,667	1,164,629	1,215,355
Israel	266,001	298,416	359,775	476,367	517,174	533,959
Jamaica	194,424	171,281	148,803	126,331	102,637	85,189
Jordan	1,331	2,610	1,365	20,314	62,667	91,328
Kenya	11,305	10,223	12,573	12,670	18,573	36,514
Korea	817,648	1,044,700	1,222,089	1,311,775	1,383,482	2,032,158
Lesotho	21,312	23,955	25,804	34,366	50,913	84,393
Macau	176,477	226,012	277,674	306,031	293,245	321,796
Madagascar	4,633	5,280	9,247	20,511	37,486	22,165
Malaysia	238,490	263,499	321,503	337,407	288,980	325,592
Mauritius	34,222	37,566	38,950	40,115	41,116	47,064
Mexico	3,041,069	3,559,315	4,142,701	4,746,533	4,289,934	4,335,089
Nicaragua	47,765	56,597	69,381	87,513	97,724	120,441
Pakistan	1,125,845	1,483,357	1,544,766	1,996,768	2,189,346	2,536,917
Peru	45,198	44,597	58,315	70,461	58,281	63,474
Philippines	659,070	795,581	905,265	928,860	915,559	817,380
South Africa	49,959	41,659	45,383	55,181	59,319	74,614
Sri Lanka	479,375	527,636	559,945	655,436	631,465	559,150
Taiwan	1,197,396	1,189,899	1,269,894	1,233,308	1,224,379	1,391,301
Thailand	768,575	997,023	1,117,474	1,318,245	1,308,481	1,315,546
Turkey	394,563	511,904	711,634	866,479	871,097	1,068,270
World	22,894,521	25,944,586	28,614,986	32,864,151	32,809,615	38,284,599

Source: Compiled from official statistics of the U.S. Department of Commerce, which are available on its website at <http://otexa.ita.doc.gov>.

China

Most of the growth in imports from China in 2002 was in product categories that were integrated into the GATT regime by the United States in either 1998 or 2002, but for which China did not become eligible for ATC quota-liberalization benefits until its accession to the WTO on December 11, 2001. Imports of integrated products from China rose from slightly less than 1.0 billion SMEs in 2001 to almost 3.6 billion SMEs in 2002. Most of the increase occurred in made-up textile articles, particularly textile-based luggage; imports of made-up textile articles from China rose from 779 million SMEs in 2001 to 2.6 billion SMEs in 2002. China's shipments of integrated apparel also rose rapidly, from 195 million SMEs to 747 million SMEs. By comparison, imports of Chinese textile and apparel articles that will be integrated in 2005 rose more slowly, from 1.2 billion SMEs in 2001 to almost 1.4 billion SMEs in 2002.

The United States implemented the first three stages of integration for China on January 1, 2002; however, the United States no longer applied quotas on articles that were integrated during the first two stages and that were made in China and exported on or after December 11, 2001.¹⁶ For 2002, the United States increased the size of each quota that was not eliminated in one of the three stages of integration by growth rates specified in the bilateral textile agreement. Effective March 19, 2002, the United States increased the 2002 quotas for China for the application of the growth-on-growth provision, as required by the ATC. China received a quota-growth-rate increase of 27 percent; it also received an additional prorated increase to account for its 21 days of WTO membership in 2001.

In November 1999, the United States signed a market access agreement with China that became part of China's WTO accession package; it obligates the United States to eliminate quotas on imports of Chinese textiles and apparel as of January 1, 2005, the same date as that for other WTO countries. However, the agreement allows the United States to apply selective safeguards (quotas) on imports of textiles and apparel from China for four additional years beyond the termination of textile and apparel quotas for WTO members--that is, from January 1, 2005, through December 31, 2008. The agreement also states that no safeguards established during the 4-year period will remain in effect beyond one year, without reapplication, unless both countries agree.

Cambodia and Vietnam

U.S. imports of textiles and apparel from Cambodia and Vietnam have grown rapidly in recent years. Imports from Cambodia totaled 474 million SMEs (valued at \$1.1 billion) in 2002, up from less than 1 million SMEs (valued at less than \$1 million) in 1995, the year before the country received most-favored-nation (now normal-trade-relations (NTR)) status. The United States and Cambodia negotiated a bilateral textile agreement that provided for the establishment of quotas on Cambodia's shipments of apparel for the 3-year period

¹⁶ Information in paragraph on China is from *Federal Register* notices of the Committee for the Implementation of Textile Agreements, "Announcement of Import Limits for . . . Textile Products Integrated into GATT 1994 in the First, Second, and Third Stage," published Dec. 28, 2001 (66 F.R. 67229), and "Amendment of Import Limits for . . . Textile Products," published Mar. 19, 2002 (67 F.R. 12525).

beginning on January 1, 1999.¹⁷ This quota agreement on apparel, which accounted for almost all U.S. merchandise imports from Cambodia in 2002, was the first bilateral textile agreement in which the United States obtained a commitment from an exporting country to improve labor conditions in its textile and apparel sector. The agreement linked increases in U.S. quotas on Cambodian apparel to Cambodia's compliance with international labor standards. The 1999 agreement was extended for three additional years on December 31, 2001, when the United States and Cambodia signed a memorandum of understanding.¹⁸

The U.S.-Vietnam Bilateral Trade Agreement (BTA) entered into force on December 10, 2001, when the United States and Vietnam exchanged letters of implementation.¹⁹ Under the BTA, Vietnam received conditional NTR status (subject to an annual Jackson-Vanik waiver by the President), meaning that U.S. imports of Vietnamese goods are now subject to much lower rates of duty. For example, the 2003 NTR duty rate on cotton shirts and blouses, a key apparel import from Vietnam, is 19.8 percent ad valorem, compared with a non-NTR rate of 45 percent ad valorem. The BTA spurred imports of apparel from Vietnam, which already exported significant quantities to the EU. U.S. apparel imports from Vietnam grew from 33 million SMEs (\$49 million) in 2001 to 358 million SMEs (\$952 million) in 2002. On April 25, 2003, representatives of the United States and Vietnam initialed a bilateral textile agreement providing for quotas on Vietnam's shipments of textiles and apparel to the United States, beginning on May 1, 2003.²⁰

World Textile and Apparel Industries

The world textile and apparel industries covered by the study encompass almost the entire textile and apparel supply chain, from the processing of raw materials to the production of finished goods. As shown in figure 1-3, the major links in the supply chain are (1) preparing the fibers for spinning, (2) spinning the fibers into yarns, (3) processing the yarns into fabrics or, in some cases, finished goods, and (4) cutting and making the fabrics into finished goods such as apparel and home textiles. Large quantities of home textiles are also made in vertically integrated textile mills that process raw materials into intermediate inputs and produce end-use goods such as towels, sheets, and pillowcases. Another key link in the supply chain is dyeing and finishing, which can add considerable value and help determine the final quality of the goods. Textile articles can be dyed at the fiber, yarn, fabric, or finished product stage. As previously noted, excluded from the supply chain for purposes

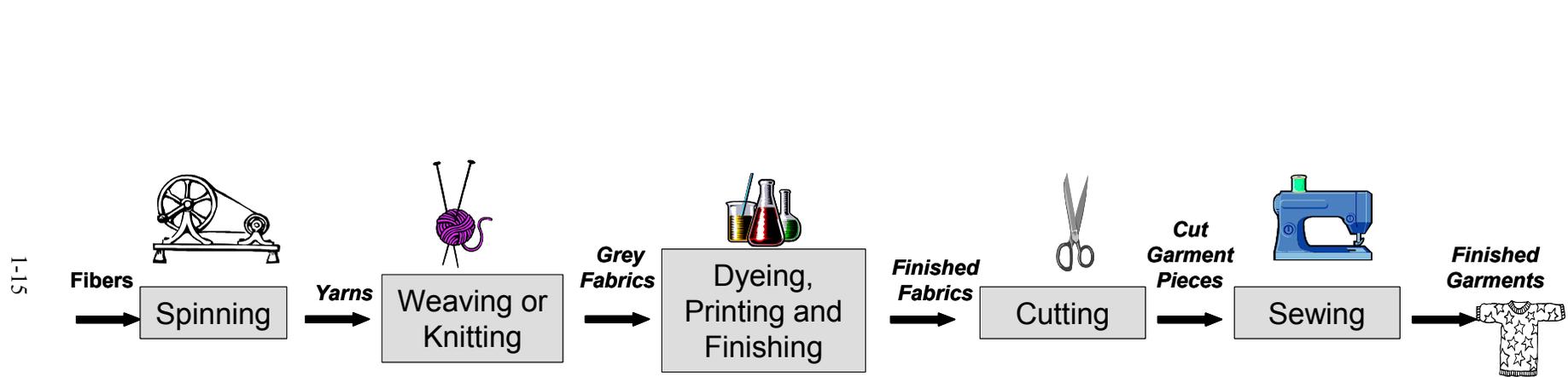
¹⁷ Committee for the Implementation of Textile Agreements, "Establishment of Import Restraint Limits for Certain Cotton, Wool and Man-Made Fiber Textile Products Produced or Manufactured in Cambodia," *Federal Register*, Feb. 8, 1999 (64 F.R. 6050).

¹⁸ Office of the United States Trade Representative, "U.S.-Cambodian Textile Agreement Links Increasing Trade With Improving Workers' Rights," press release 02-03, Jan. 7, 2002, found at <http://www.ustr.gov>.

¹⁹ Office of the United States Trade Representative, "United States and Vietnam Trade Agreement Takes Effect Today," press release 01-110, Dec. 10, 2001.

²⁰ Committee for the Implementation of Textile Agreements, "Establishment of Import Limits for Certain Cotton, Wool, and Man-Made Fiber Textiles and Textile Products Produced or Manufactured in the Socialist Republic of Vietnam," *Federal Register*, May 16, 2003 (68 F.R. 26575), p. 26575.

Figure 1-3
Major Production Steps for the Textile and Apparel Sector



Source: Compiled by the U.S. International Trade Commission.

of this study are producers of natural fibers (the agricultural sector) and manmade fibers (the chemical industry).

The structure of the different links in the supply chain changes significantly from upstream production processes, such as yarn preparation and spinning, to downstream operations, such as cut-sew-and-trim tasks. The processes become less capital- and knowledge-intensive and more labor-intensive, while the scale of operations tends to decline significantly. Moreover, the number of firms increases as one moves downstream, with many of the firms doing assembly being small or medium-sized firms.

The world textile and apparel manufacturing sector has been undergoing significant restructuring and modernization as a result of the introduction of new manufacturing and information technologies and the increasingly keen competition in global markets. A significant portion of productive capacity for textiles and apparel has moved from developed countries to developing countries during the past two decades. Unlike apparel producers in developed countries, which rely heavily on their home markets, producers in many developing countries depend on export markets for growth. This trend has led to a decline of the textile and apparel sector in developed countries, where structural adjustments in response to greater import competition have led to decreases or slower growth in textile and apparel production and, in turn, declines in employment.

The migration of textile and apparel production to areas with lower labor costs began more than three decades ago, when the “Big Three” Asian producers—Hong Kong, Taiwan, and Korea—became major exporters of low-cost apparel. Trade, rather than domestic consumption, had been the driving force behind the rapid growth of the textile and apparel sector in the Big Three. At their peak in the early 1980s, the Big Three supplied almost 30 percent of world apparel exports. In 2001, their share had fallen to 8 percent. The relative decline of the Big Three partly reflected growing competition from a then-new generation of low-cost exporting countries that emerged in the 1970s and early 1980s, led by China, India, Pakistan, Indonesia, the Philippines, Thailand, and other Asian countries. The growing trade restrictions placed on these Asian countries by major importing countries created opportunities for other apparel suppliers to develop their export potential, either for specific or multiple products. Bangladesh, Macau, and Sri Lanka are among the larger exporting countries in this group; it also includes countries in Central Europe and North Africa, where producers in the EU have production-sharing arrangements, and in Latin America, where U.S. producers have similar arrangements.

Today, Asia is the world’s largest producer and exporter of textiles and apparel, and it likely will remain so because of its low operating costs, particularly labor costs, and investment in new production equipment during the 10-year period 1992-2001. Firms in the “Big Three” economies, along with the global trading companies in Japan and many, mostly large apparel companies and retailers in the United States and the EU, provided developing countries in Asia and other regions with capital and technical assistance to produce finished goods for export. They also lessened the financial risks inherent in global trade by providing materials, coordinating production, and marketing the finished goods. With the phaseout of textile and apparel quotas under the WTO scheduled to be completed in 2005, producers of textiles and apparel in developed and developing countries are likely to undergo further restructuring and upgrading in an effort to ensure their competitive position in markets both at home and abroad.

World Production

Published data of the United Nations Industrial Development Organization (UNIDO) show that world textile and apparel production continued to move from developed to developing countries during 1990-2000, the latest period for which such data are available. However, the UNIDO data understate the extent of this shift in production because the data exclude China, the world's largest producer and exporter of textiles and apparel whose output grew significantly during the period. According to UNIDO data presented in table 1-4, manufacturing value added (at constant 1990 prices) for textiles during 1990-2000 fell at an average annual rate of 1.5 percent in developed countries but rose 0.9 percent annually in developing countries. As such, the developed-country share of world textile value-added fell during the period from 74.9 percent to 67.4 percent, while the developing-country share rose from 25.1 percent to 32.6 percent. If the data included China, the developing-country share would have been higher.

The UNIDO data show that the increase in the developing-country share of world textile value-added was mainly accounted for by South and East Asia, whose share of the total rose from 13.6 percent in 1990 to 19.4 percent in 2000. A large portion of the decline in the developed-country share was accounted for by Russia and the former Soviet Republics, along with Eastern Europe. Part of the increased share for the EU--from 27.7 percent to 32.3 percent--reflected the inclusion of the eastern part of Germany after 1990 and probably the increased use of outward processing arrangements for apparel made in Eastern Europe and North Africa from EU fabrics. The share of global textile value-added accounted for by North America (the United States and Canada) rose from 14.6 percent in 1990 to 20 percent in 1995, and then fell to 19.1 percent in 2000; the increase between 1990 and 2000 likely reflected expansion of U.S. apparel production-sharing trade with Latin America.

The developed and developing countries also show divergent trends in apparel production. The developed-country share of world apparel value-added fell from 75.3 percent in 1990 to 71.9 percent in 2000, whereas the developing-country share rose from 24.7 percent to 28.1 percent. Today the apparel industry is a key source of output and job growth in many developing countries and provides them much-needed foreign exchange to foster further economic development. The apparel industry also remains a major employer in the developed countries. It is likely that the decline in apparel production in the developed countries was less than the decline in employment, largely reflecting the more widespread adoption of labor-saving equipment in North America and the corollary gain in labor productivity.

Table 1-4**Textiles and apparel: Percentage distribution of world value-added and annual growth of value-added, at constant 1990 prices, by specified products and country groups, 1990, 1995, and 2000¹**

Item and country group	1990	1995	2000	Annual growth of value-added 1990-2000¹
Textiles:				
Industrialized countries, total	74.9	70.2	67.4	² -1.5
European Union ³	27.7	32.1	32.3	(⁴)
North America	14.6	20.0	19.1	(⁴)
Japan	13.2	10.7	8.5	(⁴)
Eastern Europe and former USSR	17.2	4.9	5.2	-9.0
Developing countries, total	25.1	29.8	32.6	0.9
North Africa	1.2	(⁴)	1.3	-0.4
Sub-Saharan Africa	1.0	(⁴)	1.2	0.7
Latin America	5.8	(⁴)	6.7	-0.7
South and East Asia	13.6	(⁴)	19.4	1.8
West Asia and Europe	3.6	(⁴)	4.0	0.7
Apparel:⁵				
Industrialized countries, total	75.3	74.9	71.9	² -2.3
European Union ³	31.2	33.6	31.7	(⁴)
North America	17.6	21.1	20.8	(⁴)
Japan	10.2	11.8	9.3	(⁴)
Eastern Europe and former USSR	13.7	5.3	7.0	-6.7
Developing countries, total	24.7	25.1	28.1	-1.4
North Africa	1.0	(⁴)	1.5	1.3
Sub-Saharan Africa	0.6	(⁴)	0.8	0.8
Latin America	8.5	(⁴)	10.0	-1.0
South and East Asia	10.7	(⁴)	12.3	-1.8
West Asia and Europe	3.9	(⁴)	3.5	2.7

¹ Excludes China, the world's largest producer of textiles and apparel.² Excludes Eastern Europe and former USSR.³ After 1990, data include estimates for the eastern part of Germany.⁴ Not available.⁵ Also includes leather and footwear.Source: United Nations Industrial Development Organization (UNIDO), *International Yearbook of Industrial Statistics 2002* (Vienna), pp. 45, 47, 58, and 59.

World Consumption and Capacity

The size and performance of the world textile industry can be measured in terms of mill consumption of fibers, installed spinning and weaving capacity, and investment in new production equipment. As the information presented below indicates, there has been a shift of world yarn spinning and fabric weaving capacity from developed countries to developing countries in the past two decades. Most of the increase in production capacity has occurred in Asia, particularly China, which along with India, has the largest number of spindles and weaving machines in the world. Growth of spinning and weaving capacity in China and India has been facilitated by strong demand for their exports of downstream textile goods.

Mill Fiber Consumption²¹

World mill fiber consumption rose by 11 percent during 1997-2001 to an estimated 122 million pounds (table 1-5), representing a slowdown in growth from the 15-percent rate in the preceding 4-year period (1994-97). Most of the growth during 1997-2001 was accounted for by Asia, which expanded its mill consumption by 20 percent to 73.1 billion pounds, or 60 percent of the world total in 2001. Mill fiber consumption in China far exceeded that of any other developing country (table 1-5 and figure 1-4). China alone accounted for 29 percent (34.7 billion pounds) of the world total in 2001; its mill consumption rose three times as fast as that for the world during 1997-2001 (39 percent versus 13 percent). Mill consumption in the United States, the second-largest fiber consumer with 15.1 billion pounds in 2001, fell by 14 percent during 1997-2001. Western Europe was the third-largest fiber consumer with 11.9 billion pounds in 2001; its level of mill consumption remained relatively stable during 1997-2001.

Yarn and Fabric Production Capacity

Asia is believed to have the world's largest capacity to spin yarn and weave fabric, and was also the largest buyer of new textile production equipment during 1992-2001.²² As shown in table 1-6 for 2000, Asia accounted for 71 percent of the short-staple spindles, 45 percent of the long-staple spindles, and 27 percent of the open-end (O-E) rotors. China and India have the largest number of short-staple spindles in the world with 46 percent of the 2000 total, followed by Pakistan and Indonesia with 11 percent. These countries' large domestic supply of raw materials has facilitated the development of their large spun yarn segment, as access to competitively priced raw materials has a significant effect on total production costs. Of total world purchases of spinning equipment during 1992-2001, Asia accounted for 71 percent of the short-staple spindles, 53 percent of the long-staple spindles, and 29 percent of the O-E rotors. However, most of the installed spinning capacity in Asia was

²¹ Mill fiber consumption represents production plus imports minus exports of fibers and yarn, and is indicative of the size of the textile industry in a country or region, and the trend in its output.

²² Data in this section were compiled from statistics of the International Textile Manufacturers Federation (ITMF), *International Textile Machinery Shipment Statistics* (Zurich, Switzerland), vols. 22-24, 1999-2001. ITMF members include trade associations in many countries representing producers of textiles and textile machinery.

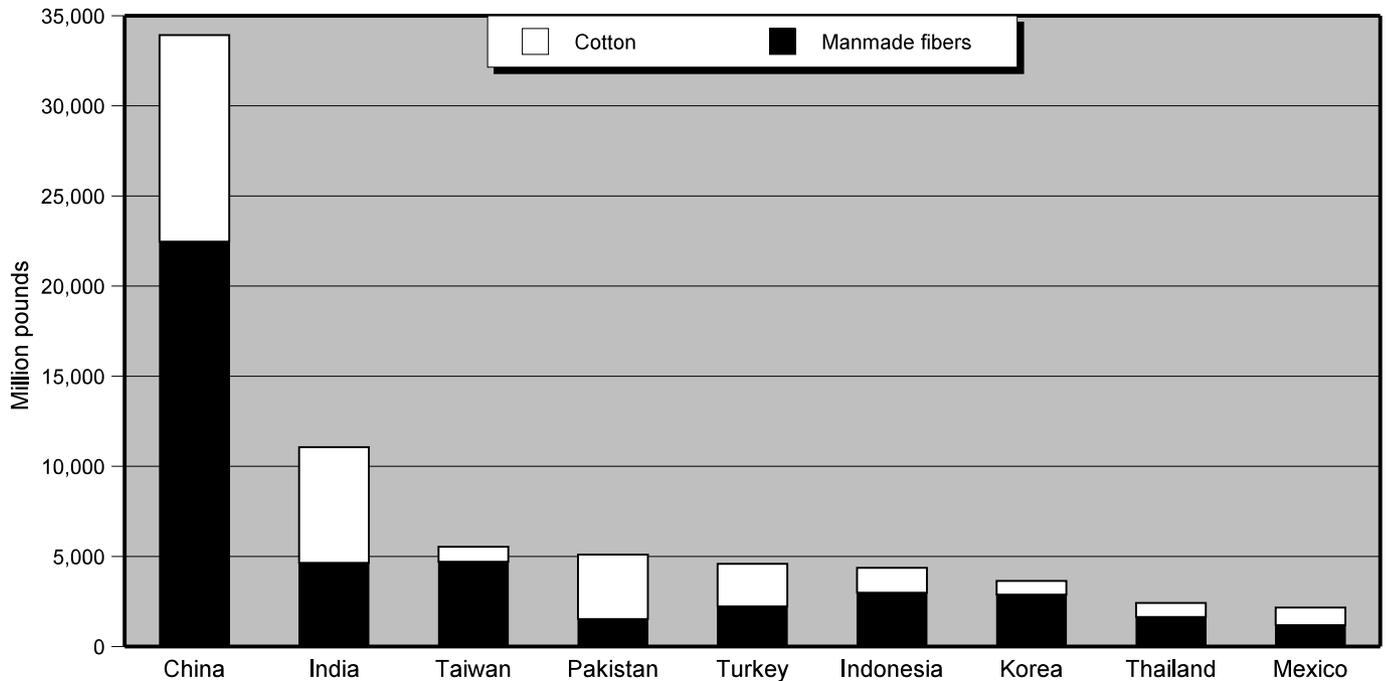
Table 1-5
Global mill fiber consumption, by regions, 1997-2001

Region or country	1997	1998	1999	2000	2001
-----Million pounds-----					
Asia	60,672.3	62,990.3	66,862.1	70,727.2	73,082.4
China	24,947.3	26,515.4	29,010.4	31,800.3	34,691.8
India	9,586.0	10,111.1	10,901.2	11,303.6	11,208.1
North America	18,503.6	18,415.9	18,381.0	18,513.3	15,983.1
Latin America	5,873.5	5,838.6	6,378.0	6,747.9	¹ 6,507.0
Western Europe	11,880.0	12,000.0	11,850.0	12,040.0	¹ 11,850.0
Eastern Europe	3,953.9	3,792.6	3,724.9	3,814.0	¹ 3,750.0
Africa	2,895.6	2,920.1	2,904.4	2,911.3	¹ 3,000.0
Middle East	5,605.9	6,117.0	6,581.0	6,800.5	¹ 6,800.0
Oceania	501.4	563.4	592.4	613.3	¹ 650.0
Total	109,886.2	112,637.9	117,273.8	122,167.5	¹ 121,622.5

¹ Estimated by the Commission.

Source: Compiled from data published by the Fiber Economics Bureau, Inc., in *Fiber Organon*, Nov. 2002, and selected back issues, and Geerdes International, Inc., Richmond, VA, facsimile to USITC staff, Feb. 4, 2003, except as noted.

Figure 1-4
Global mill fiber consumption, by types, 2001



Source: Based on data supplied by Geerdes International, Inc., Richmond, VA, Feb. 4, 2003.

Table 1-6
Spinning equipment: Number of installed spindles and rotors in 2000, and number of new spindles and rotors purchased during 1992-2001, by types and by selected countries

Country	Installed capacity, 2000			Cumulative purchases 1992-2001		
	Spindles		Open-end rotors	Spindles		Open-end rotors
	Short-staple	Long-staple		Short-staple	Long-staple	
World	156,913,000	15,372,000	8,284,700	30,257,491	3,316,120	2,530,091
United States	3,331,000	628,000	860,000	787,236	63,488	529,844
European Union	5,493,500	4,449,000	496,700	1,681,338	686,518	303,653
Canada	305,000	51,000	40,000	67,920	5,984	26,603
Mexico	3,500,000	227,000	100,000	814,328	102,820	96,840
Asia, total ¹	111,904,500	6,881,000	2,230,700	21,481,335	1,756,282	726,389
China	34,435,000	3,600,000	623,800	2,005,480	961,610	208,363
Hong Kong	48,000	24,000	20,100	96,672	12,676	16,739
Korea	1,803,000	676,000	13,700	409,820	90,708	14,384
Taiwan	2,716,000	339,000	85,700	710,872	66,652	33,105
Bangladesh	2,469,000	15,000	55,900	929,376	2,520	25,616
India	37,698,000	990,000	453,100	11,041,023	233,164	162,083
Pakistan	8,567,000	35,000	149,500	1,351,632	0	8,604
Sri Lanka	246,000	0	0	35,616	0	160
Indonesia	8,500,000	103,000	56,000	1,419,912	90,948	19,247
Malaysia	650,000	35,000	6,000	437,614	21,900	5,451
Philippines	950,000	13,000	50,000	160,112	2,032	14,049
Thailand	3,719,000	65,000	58,500	893,324	61,042	41,609
CBERA countries	489,000	3,000	28,600	77,948	5,280	13,745
Andean countries	1,900,000	148,000	54,500	165,536	58,140	20,287
Sub-Saharan Africa	391,000	70,000	20,200	127,864	10,752	14,064
Other:						
Egypt	2,600,000	98,000	41,000	148,936	66,000	1,976
Turkey	5,554,000	743,000	430,400	2,646,076	299,768	402,513
Share of world total accounted for by Asia (percent)	71	45	27	71	53	29

¹ Also includes a number of countries in Oceania, including Australia and New Zealand.

Source: International Textile Manufacturers Federation, *International Textile Machinery Shipment Statistics*, vol. 24/2001.

more than 10 years old. Although developed countries have incorporated faster, labor-saving equipment to remain competitive in the global market, low-labor-cost countries such as China and India have been able to remain competitive, especially in standard products, using relatively old, less-efficient equipment. Moreover, the number of spindles or rotors does not necessarily correlate with an individual country's actual level of production. Through advances in spinning technology, developed countries, such as the United States, have been able to reduce the number of spindles by replacing them with faster, more efficient equipment, such as O-E rotors.

In the weaving segment during 2000, Asia accounted for 39 percent of the shuttleless looms and 75 percent of the shuttlelooms in place for weaving fabrics from yarns spun on the "cotton system," 92 percent of the filament weaving looms, and 37 percent of the wool

weaving looms (table 1-7).²³ Of total world purchases of weaving equipment during 1992-2001, Asia accounted for 68 percent of the shuttleless looms and 97 percent of the shuttle looms. Most of the installed looms in Asia during 2000 were shuttle looms, which represent the older weaving technology and account for most of the looms in use in China and India. Shuttleless looms are the more advanced technology, have much higher levels of productivity and generally produce wider fabrics with fewer defects and at reduced cost, owing to much faster operating speeds and lower power, space, and labor requirements per unit area of fabric.²⁴ China had the greatest number of installed shuttleless looms of any country in Asia in 2000, followed by Indonesia; China was the largest purchaser of shuttleless looms during 1992-2001 and accounted for over one-half of world purchases of new shuttleless looms during 2000-01 (figure 1-5). Russia and the former Soviet Republics, along with Eastern Europe, also had relatively large capacities to weave fabrics, as did the EU and the United States. Most installed looms in the EU and the United States were shuttleless.

Global Trade

Global textile and apparel trade rose by 6 percent during 1997-2000, to \$374 billion, and then fell by 3 percent in 2001, to \$365 billion. The decline in 2001 reflected the downturn in the global economy, which was exacerbated by the terrorist attacks of September 11, 2001. Based on United Nations data, the share of global merchandise trade accounted for by textiles and apparel was 6.2 percent in 2001, representing a slight decline from the 5-year average (1997-2001) of 6.3 percent.

World Imports

World imports of apparel grew by 11 percent during 1997-2001 to \$215 billion (table 1-8). The major world markets for apparel were developed countries, led by the United States and the EU, which together accounted for 55 percent of world apparel imports in 2001. Other leading apparel markets were Japan, Hong Kong, and Canada. U.S. apparel imports rose by 32 percent during 1997-2001 to \$67 billion—almost one-third of the world's total apparel imports—reflecting the continued shift in focus by U.S. apparel companies away from domestic production to foreign sourcing and the marketing of their products. EU apparel

²³ The cotton system refers to a process originally used for spinning cotton fiber into yarn and now also used for making spun yarns of manmade fibers (staple fiber) and blends of cotton and manmade fibers. Filament weaving looms are used for weaving filament yarn (fiber of indefinite length) of manmade fiber or silk.

²⁴ Shuttleless looms generally are much more efficient than shuttle looms; one industry observer assumed that one shuttleless loom equals three shuttle looms for purposes of estimating broadwoven fabric production capacity. See Robin Anson, Managing Editor, "World Capacities and Shipments of Textile Machinery," *Textile Outlook International* (United Kingdom: Textiles Intelligence Ltd.), July 2000, p. 94.

Table 1-7

Weaving equipment: Number of installed looms in 2000 and number of new looms purchased during 1992-2001, by types and by selected countries

Region or country	Installed capacity, 2000				Cumulative purchases, 1992-2001	
	Cotton system		Filament weaving looms	Wool weaving looms	Shuttleless looms	Shuttle looms
	Shuttleless looms	Shuttle looms				
World	635,680	1,424,620	553,810	128,250	461,586	104,602
United States	¹ 51,560	¹ 2,870	(¹)	860	22,883	22
European Union	50,850	9,720	21,190	32,070	57,602	100
Canada	¹ 3,100	0	(1)	350	982	0
Mexico	14,500	35,000	0	1,150	5,992	0
Asia, total ²	247,560	1,072,250	507,740	46,930	313,091	101,146
China	60,930	594,500	196,440	24,000	144,994	67,720
Hong Kong	4,670	370	0	0	6,198	407
Korea	2,200	0	76,340	880	49,541	4,772
Taiwan	20,890	1,220	24,950	620	32,614	8
Bangladesh ³	3,200	4,700	0	0	1,724	1,324
India ⁴	7,500	115,500	1,500	7,300	7,866	10,983
Pakistan ⁵	16,000	7,200	50,000	0	5,044	1,855
Sri Lanka	1,300	11,000	0	0	29	60
Indonesia ⁶	27,000	200,000	34,000	0	18,684	10,258
Malaysia	4,000	1,200	0	0	5,992	15
Philippines	2,500	7,000	0	0	841	95
Thailand	21,000	61,000	50,000	0	7,067	276
CBERA countries	1,490	8,000	0	0	810	0
Andean countries	6,430	17,500	0	0	1,419	1
Sub-Saharan Africa	1,850	2,440	1,420	400	1,480	592
Other countries:						
Egypt	2,600	8,000	0	1,230	2,034	28
Turkey	16,000	30,000	3,000	6,250	17,552	2
Share of world total accounted for by Asia (percent)	39	75	92	37	68	97

¹ Filament weaving looms included with shuttleless looms on the cotton system.

² Also includes a number of countries in Oceania, including Australia and New Zealand.

³ In addition, there were approximately 30,000 powerlooms and 500,000 handlooms in the non-mill sector.

⁴ In addition, in 1996, there were approximately 1.4 million powerlooms in the decentralized sector on the cotton system, of which 3,000 were shuttleless, and 700,000 powerlooms in the non-mill sector for filament.

⁵ In addition, there were approximately 200,000 powerlooms and 80,000 handlooms in the non-mill sector.

⁶ In addition, there were approximately 30,000 handlooms in the non-mill sector.

Source: International Textile Manufacturers Federation, *International Textile Machinery Shipment Statistics*, vol. 24/2001.

Table 1-8
World imports of apparel (SITC 84), by major markets, 1997-2001

Country or region	1997	1998	1999	2000	2001	Change,
						1997 to 2001
-----Million dollars-----						Percent
United States	50,490.4	55,990.6	59,070.2	67,428.5	66,623.7	32
Extra-EU imports ¹	47,511.3	49,729.2	50,246.1	50,843.1	52,331.5	10
Japan	16,750.2	14,736.0	16,417.5	19,744.1	19,225.9	15
Hong Kong	14,916.4	14,219.5	14,697.1	15,935.1	16,028.1	7
Canada	3,025.6	3,278.5	3,286.2	3,677.2	3,907.8	29
Subtotal	132,693.9	137,953.8	143,717.1	157,628.0	158,117.0	19
Total	194,399.9	198,861.5	203,279.0	216,391.9	215,277.6	11

¹ Data represent EU imports from non-EU countries.

Source: Compiled from United Nations data.

imports rose by 10 percent during the period to \$52 billion in 2001, and Japan's imports increased by 15 percent to \$19 billion. Both the EU and Japanese markets were driven by the same competitive factors as those in the United States; high domestic labor costs forcing production of apparel to lower cost supplying countries. Hong Kong's apparel imports rose by 7 percent to \$16 billion, a major portion of which consisted of shipments of partially-assembled garments from China for further processing under outward processing arrangements set up between Hong Kong and China.

World imports of textiles fell by 5 percent overall during 1997-2001 to \$150 billion (table 1-9). The EU and the United States were also the world's largest markets for textiles in 2001, accounting for 11 percent and 10 percent, respectively, of world textile imports that year. EU textile imports declined by 5 percent during 1997-2001 to \$17 billion, while U.S. textile imports increased by 23 percent to \$15 billion. China's textile imports rose by 2 percent during the period to \$13 billion, making it the world's third-largest importer of textiles, reflecting its use of imported fabrics in its growing apparel production. Hong Kong's textile imports declined by 25 percent during this period, to \$12 billion, reflecting an ongoing shift in apparel production from Hong Kong to China.

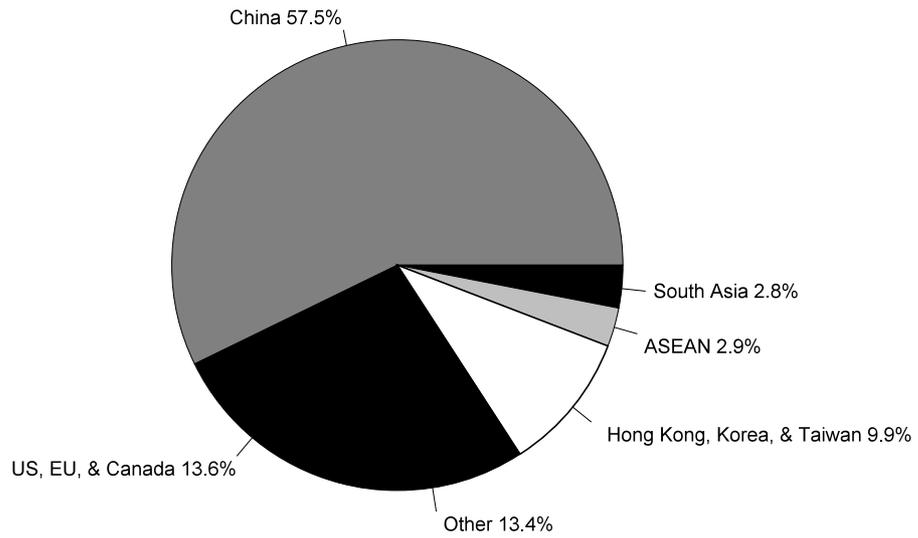
Table 1-9
World imports of textiles (SITC 65), by major markets, 1997-2001¹

Country or region	1997	1998	1999	2000	2001	Change,
						1997 to 2001
-----Million dollars-----						Percent
Extra-EU imports ¹	17,946.0	18,974.9	17,485.3	17,816.0	17,088.1	-5
United States	12,152.0	13,042.9	13,797.8	15,476.9	14,906.1	23
China	12,254.1	11,071.3	11,064.3	12,816.4	12,560.4	2
Hong Kong	16,191.6	13,474.7	12,548.8	13,697.1	12,152.5	-25
Subtotal	58,543.7	56,563.8	54,896.2	59,806.4	56,707.1	-3
Total	157,765.1	155,224.5	146,944.9	158,048.2	149,966.1	-5

¹ Data represent EU imports from non-EU countries.

Source: Compiled from United Nations data.

Figure 1-5
Share of world shipments of new shuttleless looms during 2000-2001



Source: Based on data from the International Textile Manufacturers Federation. *International Textile Machinery Shipment Statistics*, selected issues. Data on shuttleless looms were partly estimated by USITC staff.

World Exports

World exports of apparel rose by 7 percent during 1997-2001 to \$199 billion (table 1-10). China's apparel exports rose by 15 percent during the period to \$36 billion, making it the world's largest apparel exporter with 18 percent of the world total. China supplies a wide variety of apparel, ranging from standard- to medium-quality goods to high-quality apparel. The EU, with apparel exports valued at \$16 billion, was the world's second-largest apparel exporter in 2001, accounting for 8 percent of the world total. EU apparel exports ranged from \$15 billion to \$16 billion during 1997-2001, supplying the world's niche markets with high-quality apparel. Other notable world apparel suppliers such as Hong Kong, Mexico, Turkey, India, and Bangladesh each supplied between 3 and 5 percent of world apparel exports in 2001. Turkey's apparel exports remained relatively stable during 1997-2001, while world apparel exports from Mexico, India, and Bangladesh each rose by approximately 40 percent or more. Mexico's apparel exports grew by 53 percent during 1997-2000 to almost \$9 billion, largely reflecting preferential access to the U.S. market under NAFTA, and then declined by 8 percent in 2001. The significant growth in apparel exports of many countries in Asia; Mexico; the Caribbean Basin region; and Eastern Europe and Northern Africa (which mostly supply the EU market) reflected the low labor costs found in these economies, continuing a trend of apparel production migration from developed countries to these developing areas.

World exports of textiles fell by 8 percent during 1997-2001 to \$144 billion (table 1-11). Much of this decline may be attributed to declining textile exports from Korea and Taiwan, whose exports fell during the period by 18 percent and 23 percent, respectively. Textile companies in both of these economies shifted production of fabrics and other textile products largely to China and other lower cost Asian countries. The EU and China were the largest world exporters of textiles in 2001, accounting for 15 percent and 12 percent, respectively, of total world textile exports. The EU supplies high-quality and specialty yarns, fabrics, and other textile products. China's textile exports increased by 21 percent during 1997-2001 to \$17 billion, as China continued to become an important low-cost source of textiles.

The high growth rates of textile exports, as with apparel exports, from China, Turkey, Mexico, and Eastern Europe reflected the low labor costs found in these economies. The growth in U.S. textile exports may be traced to requirements under U.S. trade preference programs for use of U.S. yarns and fabrics in the offshore assembly of apparel for export to the United States.

Table 1-10
World exports of apparel (SITC 84), by major suppliers, 1997-2001

Country or region	1997	1998	1999	2000	2001	Change,
						1997 to 2001
-----Million dollars-----						Percent
China	31,685.3	29,900.5	29,945.4	35,944.6	36,496.5	15
Extra-EU exports ¹	15,861.2	15,902.0	14,711.5	14,763.8	15,800.6	(²)
Hong Kong	9,323.9	9,663.8	9,569.3	9,932.2	9,261.1	1
Mexico	5,732.8	6,784.0	8,134.0	8,772.4	8,033.3	40
Turkey	6,868.3	7,260.6	6,715.7	6,719.1	6,841.2	(²)
India	4,759.0	5,165.9	5,582.3	6,692.1	6,682.0	40
Bangladesh	3,502.4	3,870.0	4,027.6	5,029.2	5,153.0	47
Subtotal	77,732.9	78,546.8	78,685.8	87,853.4	88,267.7	14
Total	186,026.7	187,404.1	188,798.5	200,408.3	198,527.9	7

¹ Data represent EU exports to non-EU countries.

² Represents a decline of less than 0.5 percent.

Source: Compiled from United Nations data.

Table 1-11
World exports of textiles (SITC 65), by major suppliers, 1997-2001

Country or region	1997	1998	1999	2000	2001	Change,
						1997 to 2001
-----Million dollars-----						Percent
Extra-EU exports ¹	22,782.9	24,077.4	21,548.6	21,745.7	22,062.0	-3
China	13,851.3	12,780.9	13,013.7	16,115.5	16,780.1	21
Korea	13,317.7	11,258.6	11,581.4	12,658.4	10,882.5	-18
United States	8,936.4	8,936.2	9,209.7	10,481.8	10,020.1	12
Taiwan	12,731.9	11,195.2	10,840.4	11,876.5	9,860.8	-23
Japan	6,732.6	5,949.3	6,76.43	6,997.9	6,179.8	-8
India	4,844.0	4,188.9	4,673.6	5,499.1	5,048.0	4
Subtotal	83,196.8	78,296.5	77,443.8	85,374.9	80,833.3	-3
Total	156,767.6	149,776.5	144,611.6	152,426.2	144,340.1	-8

¹ Data represent EU exports to non-EU countries.

Source: Compiled from United Nations data.

CHAPTER 2: REVIEW OF THE LITERATURE¹

The extent of the impact of the removal of the MultiFiber Agreement (MFA) quotas on world textile and apparel trade patterns is likely to depend on a number of factors including the degree of restraint imposed by the quotas. This chapter first reviews analytical studies that have looked at the direct impact of quota elimination on the global pattern of textile and apparel trade and production. Second, it discusses the different competitiveness factors identified in the literature as potentially affecting post-2005 trade patterns.

Impact of Quota Removal

MFA quotas are quantitative restrictions that have a number of characteristics. First, they are applied on a discriminatory basis to some exporting countries but not to others. Second, they are negotiated on a bilateral basis rather than imposed globally and, therefore, differ from country to country in terms of product coverage and degree of restrictiveness. Third, they involve limits on exports, transferring rents (generated by these restraints) from the importing country to the exporting country.²

A large body of literature attempts to predict or to quantify the likely impact of the removal of quantitative restrictions.³ Different approaches have been used to address the issue (table 2-1).⁴ Diao and Somwaru (2001) estimate that over the 25-year period following the ATC implementation, the annual growth of world textile and apparel trade would be more than 5 percent faster than in the absence of the ATC.⁵ According to their simulations, this acceleration translates into about \$20 billion more trade in the short run (upon implementation) and as much as \$200 billion in the long run (25 years). They also predict that, consistent with the trend in the historical data, world apparel trade will increase twice as fast as textile trade in the post-quota world. Similar results are reported by Avisse and

¹ A detailed list of references cited in this chapter appear at the end of this chapter.

² As with other voluntary export restraints (VERs), the quantitative restraints on textiles and apparel are not “voluntary” in that they are imposed by the importing country (e.g., the United States or the EU) pursuant to bilateral agreements with each exporting country. The difference between what the exporter is able to charge in the foreign market and the world market as a result of a VER is referred to as economic rent. For more on this, see USITC (2002, pp. 23-43).

³ This chapter reviews only recent analytical studies. These studies use different types of analytical tools, the characteristics of which are summarized in table 2-1. For references and review of earlier works, see OECD (2003).

⁴ Most of the analytical studies surveyed in this chapter are based on a 1995 or 1997 database. Despite some adjustments, the results contained in those studies are derived primarily by using trade patterns and other information for those years. Trade patterns may be quite different when quotas are actually lifted in 2005.

⁵ That is, if world textile and apparel trade is expected to grow 8 percent annually in the 25 years following 2005, then, the new annual growth rate in the model is about an 8.5 percent average.

Table 2-1
Characteristics of selected analytical studies relating to the ATC

Authors	Database	Model Characteristics	Policy Simulations	General Results
Francois and Spinanger (2001)	GTAP 4 (Base year 1995) Quota prices for Hong Kong for 1998/99	Standard Static GTAP model and parameters	Quota removal plus Uruguay Round trade liberalization in the context of China's WTO accession. (Focus: Hong Kong)	Textile and clothing exports from Asia (especially south Asia) increase substantially. Preferential access to the United States and the EU would be reduced and there would be a shift in demand away from countries like Mexico and Turkey. Sub-Saharan Africa's exports would also drop.
Terra (2001)	GTAP 4 (Base year 1995)	Standard Static GTAP model and parameters	(i) Quota removal and (ii) Quota removal plus tariff reductions (Focus: Latin America)	Developing countries subject to the biggest quantitative restrictions would expand their exports at the expense of the importing developed countries, but also of other developing countries which are less restricted (i.e., Latin American countries). MERCOSUR and Chile would reduce their exports of clothing significantly, and their exports of textiles moderately. Effects would be stronger in (ii) than in (i).
Avisse and Fouquin (2001)	GTAP 4 (Base year 1995)	Standard Static GTAP model and parameters	Quota removal	Output share of Asia increases from 12 percent to 18 percent. China's exports would increase by 87 percent, South and Southeast Asia's would increase by 36 percent. Latin America and NAFTA would lose 39 percent and 27 percent, respectively.
Diao and Somwaru (2001)	GTAP 5 (Base year 1997); 25 year baseline	Counterfactual analysis using an intertemporal version of GTAP	MFA phase-out simulated by improving the efficiency of textile and apparel exports from constrained countries. Other trade barriers on textile and apparel imports are reduced by 30 to 40 percent in all countries. They econometrically estimate that a percent increase in apparel trade shares is associated with a 3.3 percent increase in per capita income.	The annual growth of world textile and apparel trade would be more than 5 percent higher. Market share of developing countries as a whole would increase by 4 percentage points following the ATC. China would gain almost 3 percentage points of the world Textile and apparel market, while other Asian countries would capture more than 2 percent. Non-quota developing countries are predicted to lose about 20 percent of their markets (equal to 2.3 percentage points of world total textile and apparel markets) to the restrained ones.

Table 2-1--Continued
Characteristics of selected analytical studies relating to the ATC

Authors	Database	Model Characteristics	Policy Simulations	General Results
Matoo, Roy, and Subramanian (2002)	Data collected by the authors.	Partial Equilibrium. ETEs derived from Kathuria and Bharadwaj (2000). Leontief production. Export elasticities from 1 to 5.	Interaction between the ATC and the AGOA rules of origin for Mauritius and Madagascar	Under the current AGOA system, the apparel exports of Mauritius and Madagascar would be about 26 percent and 19 percent lower, respectively, following 2005. If AGOA's rules of origin requirement is eliminated, the decline in Mauritius's exports would be only 18 percent, and Madagascar's exports could increase.
Lankes (2002)	GTAP 5 (Base Year 1997)	Standard Static GTAP model and parameters	Quota removal	Total export revenue loss attributed to the MFA quotas estimated to be \$22 billion for developing countries and \$33 billion for the world as a whole.

Source: Compiled by Commission Staff.

Fouquin (2001), who find that, as a result of the ATC, the global trade in textiles and apparel would be about 10 percent and 14 percent higher, respectively.

Although the elimination of MFA quotas is predicted to result in an increase in global trade, the impact is likely to differ among countries and regions. For each country, quota elimination represents both an opportunity and a threat: an opportunity because markets will no longer be restricted and a threat because other suppliers will no longer be restrained and major markets will be open to intense competition.⁶ For instance, Lankes (2002) argued that the ATC may lead to a reallocation of production to the detriment of developing-country exporters that have been “effectively protected” from more competitive suppliers by the quota system.⁷

The degree of restrictiveness of a quota can then serve as a useful, albeit imprecise, yardstick in broadly predicting the likely impact of its removal.⁸ Being able to determine which countries are quota-constrained and which are not is useful in understanding how particular countries will fare following quota elimination. In the existing literature, the degree of restrictiveness of an MFA quota is often measured in terms of its “export tax equivalent” (ETE): MFA quotas are administered by the exporting countries and impose a cost on exporting firms that is exactly analogous to an export tax.⁹ In order to export, a firm in a

⁶ See Kathuria and Bhardwaj (1998).

⁷ At the same time, he also estimates the total export revenue loss attributed to the MFA quotas to be \$22 billion for developing countries and \$33 billion for the world as a whole.

⁸ See, for example, Nathan Associates, Inc (2002).

⁹ Kathuria, Martin, and Bhardwaj (2001). See also, USITC (2002).

quota-constrained country has to obtain or purchase a quota (or an export license). The more restrictive a quotas is, the higher this tax will be.¹⁰

ETEs are obviously zero for non-restrained products or countries. Flanagan (2003) pointed out that, although as many as 73 countries are included in the quota system, some do not fully utilize their quotas. Elimination of an unfilled or non-binding quota has little effect on a country's ability to export because it could have continued to export to the quota limit in any case.¹¹

Many estimates of ETEs exist, and they vary for different countries and timeframes. Francois and Spinanger (2001) estimate that Hong Kong clothing exporters face an implicit export tax of up to 10 percent for goods intended for the U.S. market and 5 percent for the European Union (EU) market.¹² Kathuria and Bhradwaj (1998) report that in 1996, Indian exporters to the United States paid an ETE of 39 percent (cotton based) and 16 percent (synthetics), versus 17 percent (cotton based) and 23 percent (synthetics) in the EU market. In USITC (2002, table 3-3), the import-weighted ETEs for U.S. imports were estimated to be about 21 percent for apparel, and those for nonapparel textile categories were around 1 percent.

In general, the literature reveals that Asian countries are relatively more constrained than other regions. Flanagan (2003) categorizes countries into groups depending on how "quota-constrained" they are in terms of the number of product categories where quotas seriously limit demand. In the group of "Countries seriously held back, almost across the board, by quota today" are Bangladesh, China, Hong Kong, India, Indonesia, Pakistan, Philippines, Korea, Sri Lanka, and Thailand. At the other end of the spectrum, countries such as Nepal, Oman, Qatar, and United Arab Emirates (UAE) are categorized as "Countries whose quotas have been a valuable tool, now threatened." According to Flanagan, China, India and Indonesia have shown the most consistent and widespread near-saturation of quotas for yarn, fabric, and garments.

Many analysts predict that the market shares of quota-constrained suppliers will increase markedly following 2005.¹³ Terra (2001) predicts that apparel production of the restrained exporters, as a whole, will increase by almost 20 percent, and their textile production will increase by almost 6 percent (table 2-2). Meanwhile, Terra estimates that the market shares of non-quota-constrained suppliers (e.g., Mexico as well as African and CBI countries) will shrink, predicting a fall in the exports of Latin American countries, which will be displaced

¹⁰ If these restraints are binding, the prices of these products are expected to rise in the importing country. Exporters who have licenses to export are able to capture economic rents by increasing the export prices of their products. An increase in the restrictiveness of a quota will raise the price for the good, which then makes the quota license more valuable and the export tax equivalent higher. See USITC (2002) for more on this.

¹¹ Nathan Associates (2002). Many studies have defined a binding quota on the basis of quota utilization, where utilization is measured by the ratio of actual imports to quota allotment. Utilization can be difficult to measure and quotas might be binding despite relatively low utilization rates, for reasons such as inefficient administration of quotas. See USITC (2002, p. 32) and Trella (1998).

¹² They also report that the ETE for Hong Kong textile exporters is 1 percent.

¹³ See, for example, Nathan Associates (2002).

Table 2-2
Textiles and apparel: Likely impact of removing the MFA quotas on production and trade¹

(Percent change)

Region	Production		Trade	
	Textiles	Apparel	Textiles	Apparel
Importers:				
United States and Canada	-2.6	-8.6	-1.3	-8.1
EU	-0.9	-3.7	-0.7	-6.1
Exporters:				
Restrained exporters	5.6	19.6	4.4	32.0
Argentina	0	0	0.3	-6.8
Brazil	0	-0.1	0.4	-13.7
Chile	-0.4	-0.6	-4.3	-17.9
Mexico	-5.5	-20.9	-1.6	-64.0
Uruguay	1.2	-0.9	2.3	-5.4
Other Latin America	-16	-35.8	-0.4	-92.1
Rest of the World	-0.2	-0.5	1.7	-10.4

¹ Based on 1995 data.

Source: Terra (2001).

by the big exporters subject to restrictions. MERCOSUR and Chile are predicted to reduce their exports of clothing significantly and their exports of textiles moderately.

Avisse and Fouquin (2001) estimate that Asian apparel exports will rise by 54 percent and their share of the world market will increase to 60 percent (table 2-3) from 40 percent in 1995 (the base year). Chinese apparel exports, in particular, will rise by 87 percent, and their share of world apparel exports will rise by more than 10 percentage points. Both South Asia's and Southeast Asia's apparel exports also will experience substantial gains, increasing by 36 percent, combined. On the other hand, Latin American apparel exports are predicted to decrease by 39 percent. Asian countries will also experience some increases in textile exports: China's exports will increase by 9 percent and South Asia's by 22 percent. Avisse and Fouquin estimate that Chinese production will rise by 70 percent, and that of other Asian countries, by 26 percent. Within a broadly unchanged level of global output, Asia's share will rise from 12 percent to 18 percent.¹⁴ North American production of apparel will decline by 19 percent and European production will drop by 11 percent in the estimates.

Diao and Somwaru (2001) provide similar estimates. According to their dynamic model, world market share of developing countries as a whole will increase by 4 percentage points following the ATC. China gains almost 3 percentage points of the world textile and apparel market, and other Asian countries will capture more than 2 percentage points (table 2-4). Current non-quota holding developing countries are predicted to lose about 20 percent of their markets (equivalent to 2.3 percentage points of total world textile and apparel markets)

¹⁴ Avisse and Fouquin also predict that the rise in Chinese apparel output will increase the production of textiles in Asian newly industrialized economies (NIEs) and to a lesser extent Japan, which together supply around 80 percent of Chinese textile imports.

Table 2-3
Apparel: Likely impact of removing the MFA quotas on apparel exports¹

Region	Percent change
NAFTA	-27
Latin America (exclude Mexico)	-39
EU	-19
Mediterranean Basin and CEECs	-5
Asian NICs	18
China	87
South and South-East Asia	36
World	14

¹ Based on 1995 data.

Source: Avisse and Fouquin (2001).

Table 2-4
Textiles and apparel: Simulated shares of world total exports for selected countries/regions

(Percent)					
Region	2005	2010	2015	2020	2025
Developing countries	59.57	60.2	61.32	62.41	63.49
China	19.69	20.50	21.24	21.91	22.52
India	4.40	4.43	4.57	4.72	4.88
Other Asia	13.00	13.68	14.18	14.70	15.22
Middle East	5.03	5.22	5.39	5.57	5.76
Eastern Europe	6.50	6.02	5.80	5.59	5.38
Mexico and Caribbean	6.09	5.51	5.32	5.14	4.96
Industrial countries	40.43	39.80	38.68	37.59	36.51
North America	6.61	6.31	6.13	5.95	5.77
European Union	14.39	13.91	13.48	13.06	12.65

Source: Diao and Somwaru (2001)

to the restrained ones. Nathan Associates (2002, p. 12) contends that this trend is already well under way, citing as an example the fact that, between the first quarters of 2001 and 2002, China's market share increased by 5 percentage points while other suppliers' market share declined.

In addition to the costs of quotas themselves, the nature or the quality of the quota administration system can also restrict an individual country's exports, and lead to quota "underfill." Whalley (1999) points out that many developing countries have built costly domestic administrative structures around the internal allocation of MFA quotas.¹⁵ Krishna and Tan (1998) present empirical evidence that the costs of the export license system within the restrained countries are significant and that both the license cost and hidden

¹⁵ See also Yang (1999).

administrative costs are added to the price of the product prior to its entering the foreign market.¹⁶ These extra inefficiency costs will be eliminated when the quotas are removed and will be likely to intensify the estimated effects of the ATC.¹⁷

Determinants of Trade Patterns in the Absence of Quotas

The MFA has, at least partly, led to the spread of apparel industries across a wide range of countries around the world.¹⁸ Over time, as quotas have become more restrictive in one country, investment has flowed to initially unconstrained countries which, in turn, became restrained causing investment to flow again elsewhere. For instance, constraints on Korean exports have generated investment flows to ASEAN nations (Thailand, Philippines, Malaysia, and Indonesia), while quotas on Indian exports have led to investment flows to countries like Nepal. The MFA was considered an opportunity for those latter countries to get foreign investment and to start up an apparel industry. It has been argued that the end of the MFA could lead to a consolidation to larger, established, low-cost exporters.¹⁹

Similarly, Birnbaum (2001) and Tait (2002) assert that without quotas, customers will no longer need to divide their orders among several countries, but will concentrate in those countries where they can operate best. Someya, Shunnar, and Srinivasan (2002) contend that the exporting success of some Middle Eastern countries (e.g., United Arab Emirates) in recent years is mainly attributable to the presence of Far-Eastern (quota-restrained) foreign investors that are using those countries as export platforms. They predict that the textile and apparel exports from these countries will be subject to substantial risk, as the post-quota world will offer little justification for continued export from the Middle East, given that they offer neither the geographic closeness of the Mediterranean to the EU market nor the low costs of Asian exporters. Similarly, Kheir-El-Din and Abdel-Fattah (2000) argue that Bahrain will lose its attractiveness to fabric producers because it has neither low-cost raw materials nor low wage costs.²⁰ Dowlah (1999) warns that with the removal of quota restrictions, investors might find it economically advantageous to withdraw their production

¹⁶ See also Trela (1998), who argues, for instance, that not permitting trade in licenses provides protection for existing firms against more efficient producers and that past performance criteria for allocating quota volumes can result in firms producing at suboptimal scale.

¹⁷ See, for example, Verma (2002) and Kathuria and Bhardwaj (1998).

¹⁸ Trela (1998) and Whalley (1999).

¹⁹ See, for instance, Trela (1998) and Whalley (1999). Whalley (1999) points to China and other Asian countries as potential gainers, and notes that China already accounts for 60 percent of developing country exports.

²⁰ They note that in general the prospects for exporters of textiles and apparel in Gulf Cooperation Council (GCC) countries are not encouraging. With no preferential agreements either with the EU or the United States, these countries are vulnerable to loss of market share, particularly in the apparel sector, which requires low-cost labor. In the manmade-fiber fabrics, however, they may continue to enjoy advantages because of domestic petroleum-based industries that supply critical inputs.

facilities from Bangladesh and export directly from their home countries.²¹ Whalley (1999) asserts that from that point of view, the prospects for smaller country suppliers in a post-MFA world would seem rather bleak to some observers. However, Whalley (1999) also presents another point of view, arguing that “the threat of becoming entangled with MFA restraints has restrained the growth of textile and apparel exports from Africa. As latecomers to the MFA, these countries would receive only small MFA quotas; and the argument is that the removal of the MFA opens up new growth opportunities for them in manufactured exports.”

A number of factors have been identified in the literature as likely to be important in determining the new patterns of trade, and affecting location and sourcing decisions in the quota-free world. Factors that could give countries competitive advantages in terms of supplying textiles and clothing are discussed below.

Business Climate and Infrastructure

Tait (2002) asserts that purchasers are likely to concentrate on four or five politically and financially stable countries. Factors that are considered important include: respect of basic human ethics such as minimum wages; absence of child or forced labor; and good working conditions. In addition, Birnbaum (2002b) argues that current and future sourcing decisions depend in great part on which countries offer the best facilities and greatest logistical advantages. Tait (2002) also stresses the importance of infrastructure that supports the buying process (e.g., good telecommunications, ease of import and export documentation and procedures, international logistics companies, quality controllers, and test centers).

Proximity to Markets

Proximity to the export market, or the ability to quickly respond to changes in market conditions is considered to be an important determinant of the pattern of trade.²² Tait (2002) asserts that in the post-2005 world, buyers will choose suppliers in terms of reliable delivery and lead times. Birnbaum (2001) notes that since U.S. buyers are increasingly demanding “quick response” services, distant factories will find it harder to satisfy customer requirements. In particular, he reports that shipping time from Sri Lanka, Bangladesh, and India to the United States averages 28 days, compared to 2 days from Mexico or Canada.

Tait (2002) reports that Romania, the Czech Republic, and Hungary are all within 1 or 2 days by road freight to the EU (all relatively low cost) and, therefore, would likely be suppliers to European firms. Hyvarinen (2001) argues that the post-MFA outlook for Morocco and Tunisia is good due to their proximity to the EU markets. In particular, he points out that as a fabric exporter, Tunisia will probably preserve its EU market share because of the Euro-

²¹ However, pointing to Bangladesh’s past performance (such as high quota utilization rates), he concludes that it has been quite successful in exploiting the MFA regime by achieving considerable marketability and consumer acceptance in the sophisticated markets in the United States and the EU. A formidable factor that will continue to help the Bangladesh clothing industry is the existence of cheap labor, which helps it to compete successfully in low-cost, high-quality products.

²² Hummels (2001) estimates that each day of increased ocean transit time between two countries reduces the probability of trade by as much as 1.5 percent. He also reports that an ocean voyage of 20 days is equivalent to a 16 percent tariff.

Med agreement, under which European yarn is shipped to Tunisia for processing into fabrics and garments.²³ Kheir-El-Din and Abdel-Fattah (2000) make a similar argument, saying that Middle Eastern and North African apparel producers around the Mediterranean will be able to enjoy market shares in fast-moving, high-value items, helped in large measure by the logistical advantage of being close to the European market. The ongoing Euro-Med partnership agreements will further consolidate this advantage because of outward processing opportunities offered under the agreements. However, Someya, Shunnar, and Srinivasan (2002) suggest that the market proximity enjoyed by Mediterranean countries could be eroded quickly by decreasing communication and transport costs.

Market Access

In general, suppliers that are not constrained by quotas and/or benefit from preferential trade agreements have an advantage over quota-constrained, as well as other non-constrained, suppliers. The market position of U.S.-preferred suppliers (e.g., those shipping under NAFTA, AGOA, and CBERA) is highly dependent on quotas, constraining Asian and Chinese exporters.²⁴ The same is true for preferred suppliers to the EU, which are shielded from Asian suppliers by the MFA quotas. Birnbaun (2001) notes that, even without quotas, U.S. import duties assessed on garment imports from nonpreferred suppliers still average 18 percent, which would constitute an advantage for preferred suppliers. Hyvarinen (2001), on the other hand, argues that, although preferential access to European and U.S. markets will not be completely removed (since preferential tariffs will remain), it would be somewhat diluted with the 2005 elimination of MFA quotas and the extension of such privileges to a larger group of countries.

Francois and Spinanger (2001) argue that the “protective shield” will disappear gradually as quotas are phased out, and preferred supplying groups will probably see dramatic increases in competition from Chinese and other Asian exporters. They assert that preferential access to North America (by Mexico) and Europe (by Turkey and Eastern European countries) will be reduced considerably when quotas are eliminated (and as tariffs are reduced) for competing exporters, and there will be a shift in demand away from these countries to other suppliers (e.g., Asian countries). They predict that Mexico stands to be the largest loser among exporting countries (table 2-5).²⁵ Turkey, as well as the Eastern European countries, could also experience losses for this reason.

In the context of AGOA, Matoo, Roy, and Subramanian (2002) argue that African countries will be exposed to competition from other developing countries and that apparel exports may drop by as much as 30 percent after the dismantling of the MFA quotas. However, they assert that the actual impact will depend on the structure of the AGOA rules of origin. Using

²³ Kheir-El-Din and Abdel-Fattah (2000) note, however, that keen competition in fabrics is to be expected from Thailand and Malaysia, which have regularly exceeded their quotas to the EU.

²⁴ Nathan Associates (2002).

²⁵ Terra (2001) also predicts that Mexican apparel exports would drop by as much as 64 percent post-2005.

Table 2-5
Textiles and apparel: Likely impact of the Uruguay Round Agreement on quantity exported¹

(Percent change)

Country	Textiles exports	Apparel exports
Australia/New Zealand	-2.94	-7.89
Japan	5.67	-0.46
Korea	6.66	-14.08
Indonesia	14.33	31.72
Malaysia	5.84	5.92
Philippines	11.5	3.03
Singapore	5.79	-22.02
Thailand	20.01	36.01
Vietnam	-1.53	1.91
China	6.67	26.97
Hong Kong	6.25	8.87
Taiwan	8.57	1.23
India	9.89	108.69
Sri Lanka	17.19	50.34
Rest of South Asia	33.63	76.65
Canada	-4.97	-21.59
United States	-1.85	10.75
Mexico	-6.32	-33.71
Latin America	3.19	-15.48
West Europe	-3.62	-11.23
Central and Eastern Europe	-2.02	-12.94
Turkey	3.24	-10.7
Africa and Middle East	-2.82	-18.89
Rest of the World	-0.2	-17.39

¹ Based on 1995 data.

Source: Francois and Spinanger (2001, Table 6 - scenario urg).

a simple partial equilibrium model, they show that, under the current AGOA rules of origin, the quota removal will decrease Africa's apparel exports by over 30 percent. However, if AGOA were to provide unrestricted access, the negative impact could be nearly fully offset. As examples, they show that, under the current AGOA system, the apparel exports of Mauritius and Madagascar will decrease by about 26 percent and 19 percent, respectively. But if AGOA is modified to eliminate the rules of origin requirement, the decline in Mauritius's exports would be only 18 percent, and Madagascar's exports could actually be higher than they are currently, despite the elimination of the MFA.

Labor and Management

While the MFA has led to some of the spread of textiles and apparel activities across a wide range of countries around the world, some analysts have noted that the emergence of new suppliers might have been simply part of a natural evolution of the comparative advantage

from high-cost to low-cost suppliers.²⁶ For instance, Yang (1999) points out that Japan lost its comparative advantage in labor-intensive textiles and apparel in the 1970s and that over the last two decades, the Newly Industrialized Economies (NIEs) of Hong Kong, Korea, Singapore, and Taiwan have also rapidly shifted away from these products, while China and other low-wage economies have emerged as major suppliers.²⁷ He even contends that in the past few years China itself has shown signs of export diversification (at the expense of textiles and apparel).²⁸

Gereffi (2003) argues that the East Asian NIEs illustrate the process of industrial upgrading among developing countries. Because of domestic labor shortages, high wages, high land prices, and, external constraints (tariffs and quotas), they have moved smoothly and rapidly through the manufacturing stages from assembly to original brand-name manufacturing. As they began to move production offshore, they devised ways to coordinate and control their sourcing networks, and focused on the more profitable design and marketing segments within the apparel commodity chain. In this new international division of labor, skill-intensive activities were retained in East Asia, and labor-intensive activities were relocated. Whether the removal of the quotas will reverse these shifts is unclear.

Trela (1998) argues that the principal reason for upgrading is that, when faced with volume restrictions on their exports, producers can expand their sales value by moving up-market into higher quality lines within quota categories. For example, despite (or because of) the MFA quotas, Hong Kong succeeded in establishing a reputation for quality fabrics and fashion sophistication.

Raw-Material Inputs

The availability of local or regional raw material greatly improves a country's ability to respond to orders with shorter lead times. As purchasers consolidate and rationalize their sources, the degree of vertical integration in countries or firms becomes an important competitiveness factor. For instance, Dowlah (1999) identifies inefficient upstream sectors as a major obstacle for future growth in the Bangladesh clothing industry.²⁹

Spinager (1999) notes that the MFA kept major European producers of high-quality textile inputs from establishing large spinning and fabric manufacturing facilities in countries with high productivity and low labor costs, such as those in Asia. Indeed, European companies were not certain that, given the existence of quotas, such facilities would be able to produce at adequate capacity levels. Once quotas are eliminated, it is quite possible that these producers will invest in this part of the world.

²⁶ See, e.g., Gereffi (2002). He explains the recent trade shifts by arguing that the most labor-intensive segments of the apparel commodity chain are being located in countries with the lowest wages.

²⁷ Yang argues that the declining share of the NIEs in the global apparel market is due to the high labor intensity. As real wages increase and labor skills upgrade, they lose most of their comparative advantage in apparel (while maintaining it in textiles).

²⁸ Yang stresses, however, that China still needs strong growth of labor-intensive industries to absorb its massive labor surplus in rural areas and unemployment in urban areas.

²⁹ Dowlah also argues that survival in the quota-free world would depend on the diversification of the exported product mix to include high-value and high-fashion products, in which Bangladesh has not yet been successful.

Phasing out the MFA may be expected to have a favorable impact on fiber production by increasing the long-term demand for, and hence the price of, textile fibers. Lankes (2002) and the IMF/World Bank (2002) suggest that MFA quotas and tariffs reduce the demand for fiber crops. They report that the full liberalization of world trade in textile and clothing will boost cotton exports by 9 percent in sub-Saharan Africa (about US\$132 million). Kheir-El-Din and Abdel-Fattah (2000) argue that as cotton producers and yarn exporters, Egypt and Syria stand to gain after 2005. They contend that the MFA phase-out is likely to have two distinct effects: an output effect arising from increases in the volume of textile and apparel output and, hence, fiber input, and a substitution effect resulting from elimination of the distortions between fibers created by the MFA. For cotton producers, the substitution effect may be relatively large, since it has been reported that the MFA has imposed an implicit tax of about 20 percent on cotton products relative to manmade-fiber products. These effects may be of particular importance for major cotton producers such as Egypt and Syria.

Level of Service Provided and Reliability of Supplier

According to Birnbaum (2002b), today's sourcing decisions are increasingly based on which factories can best meet customers' ever-increasing requirements. He notes that buyers go to China because Chinese factories give the customers what they want, from patternmaking to final stock garment shipment.³⁰ Tait (2002) has argued that the level of service required by buyers is evolving and that a "full package from design to delivery of the finished product, inclusive of fabric and trim sourcing, right down to the delivery of store-ready items to individual shops" is now in demand. As an example, she cites India, where apparel parks of factories, housing the whole value and supply chain, are being established to help improve the industry's competitiveness.

Domestic Demand

The growth in domestic demand in Asian countries, particularly in China, might lessen the dramatic changes in trade patterns after 2005. Flanagan (2003) argues that rich countries' wealth (and therefore the people's ability to buy clothes) is not growing as quickly as the world's middle-income countries – especially in the world's two most populous countries (China and India). He argues that faster economic growth would be accompanied by even faster growth in apparel purchases and apparel importing. As an illustration, he points out that in 2001, China's retail sales of apparel grew twice as fast as its economy.³¹

³⁰ Birnbaum (2002).

³¹ In the past 10 years, China's economy in real terms has grown 142 percent (over five times as fast as that of the United States) and India's has grown 77 percent (over three times as fast).

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CHAPTER 3: COMPARATIVE ASSESSMENT OF THE COMPETITIVENESS OF THE TEXTILE AND APPAREL SECTOR IN SELECTED COUNTRIES

This chapter is divided into two parts: (1) a discussion of the analytical framework used in the study to assess the competitiveness of the textile and apparel industries of the selected countries, which are listed in table 1-1 of chapter 1 of this report; and (2) a comparative assessment of the competitive strengths and weaknesses of these countries' textile and apparel industries.

To better understand the key factors underpinning a country's competitiveness in textiles and apparel, Commission staff conducted interviews in the United States and abroad with buying managers of major U.S. importers of apparel and home textiles--namely, the large apparel and home textile companies and retailers--regarding their current sourcing strategies, likely changes to their sourcing strategies following quota elimination in 2005, and reasons for the expected changes. Staff also conducted interviews with representatives of East Asian firms that produce or purchase textiles and apparel worldwide and that are major sources of investment in the production of such goods in many countries covered by the study; representatives of textile and apparel producers in India, which is considered by many U.S. apparel companies and retailers as the major low-cost alternative to China as a source for apparel and home textiles; and representatives of textile and apparel producers in sub-Saharan Africa, Mexico, and Central America.¹ The analytical framework and competitive assessment presented in this chapter are also based on information obtained from a wide range of sources, including a review of the literature (discussed in chapter 2 of this report) and testimony presented to the Commission at the hearing and in written statements (a summary of the views of interested parties is presented in chapter 4).

Several caveats should be noted about the Commission assessment. First, as requested by USTR, the Commission analysis focuses on likely changes in trade and production among certain developing-country suppliers, and does not consider likely changes in trade and production among developed-country suppliers, particularly the United States and the

¹ In interviews with USITC staff, representatives of both U.S. and foreign firms stressed that the information provided was "confidential business information" and that they did not want their own names or their firm names connected to specific information in the USITC report to USTR because of the "sensitive economic and political nature" of the information. A list of U.S. and foreign firms interviewed by USITC staff appears in appendix D.

European Union (EU), or the impact of such changes on global production and trade patterns. Second, the assessment focuses primarily on likely changes in sourcing strategies of U.S. apparel companies and retailers, and not the likely effects of the elimination of EU quotas. Third, the assessment looks primarily at static, rather than dynamic, effects of quota removal on the competitiveness of the textile and apparel sector in selected countries.² In particular, the study does not fully consider the possible long-term effects of economic growth in key developing-country markets, particularly China and India, and how it might affect global trade patterns.

In the long term, continued economic growth in Asian countries, particularly China and India, may spur their domestic demand for goods, including textiles and apparel, and lessen their propensity to export.³ Economic growth in China and India likely will lead to rising incomes and an increase in domestic consumption of textiles and apparel, which might provide opportunities for other exporting countries to expand sales. As wages and domestic demand for textiles and apparel increase, the possibility exists that China and India could become less cost competitive in the production of textiles and especially apparel, compared with other low-cost producers. Although it is difficult to predict when such a development might occur, some analysts have noted that the shift to new suppliers might simply be part of a natural evolution of the comparative advantage from high-cost to low-cost suppliers.⁴ During the past three decades, for example, Japan and then the newly industrialized economies (NIEs) of East Asia (Hong Kong, Korea, Singapore, and Taiwan) have lost their comparative advantage in labor-intensive apparel production and have been shifting from these products into other sectors, while China and other low-wage economies have emerged as major suppliers.⁵

² As requested by the USTR, this study provides a qualitative assessment of the relative competitiveness of the textile and apparel sectors in selected countries. For a quantitative assessment of the likely effects of the removal U.S. textile and apparel quotas, see U.S. International Trade Commission, *The Economic Effects of Significant U.S. Import Restraints* (inv. No. 332-325), USITC Pub. 3519, June 2002.

³ In the past 10 years, real economic growth in China was 142 percent (more than five times as fast as that of the United States) and India's was 77 percent (more than three times as fast as that of United States).

⁴ See, for example, Gary Gereffi, "The International Competitiveness of Asian Economies in the Apparel Commodity Chain," Asian Development Bank, ERD Working Paper Series No. 5, Feb. 2002.

⁵ The relative decline of the NIEs in the global apparel market has been attributed to the sector's high labor intensity. As real wages increase and labor skills upgrade, they lose most of their comparative advantage in apparel (while maintaining it in textiles). Rapid growth in other sectors may also be enough to divert resources (both labor and investment flows) away from the apparel sector.

Analytical Framework

During the past two decades, the availability and cost of quotas have influenced sourcing strategies of U.S. apparel companies and retailers, and investment and production strategies of Asian producers and trading companies. Many of the U.S. firms stated that quota availability and cost largely explain why they import apparel from as many as 50 or more countries, especially for heavily traded items such as tops and pants. The cost of quotas can be quite high and thus serve as deterrent to sourcing. For example, in 2002, the estimated export tax equivalent on the quota for Chinese knit cotton shirts was about 27 percent ad valorem and for cotton trousers it was 64 percent ad valorem.⁶ With the elimination of quotas and related quota costs, other factors will grow in importance in the sourcing decisions of U.S. apparel companies and retailers; it is likely that some countries will have the capability to meet these factors but many others will not. U.S. apparel companies and retailers plan to consolidate their post-quota sourcing among many fewer countries as part of their strategy “to reduce the merchandise cost structure, reduce the timeline to get product into the stores, and increase the flexibility of their supply chains.”⁷

The analytical framework used in this study to assess the competitiveness of selected countries’ textile and apparel industries comprises factors that affect sourcing strategies of U.S. apparel companies and retailers. As shown in figure 3-1, the factors include a country’s business climate, infrastructure conditions, proximity and preferential access to major world markets, availability of low-cost skilled workers and effective management, access to a reliable supply of competitively priced raw materials, and the level of supplier service and reliability. Although the relative importance of each factor can vary by firm, depending on its corporate philosophy, import volume and product mix, risk tolerance, and existing supplier relationships, the key criteria likely to affect sourcing decisions in a post-quota world are cost and availability of labor; cost, quality and availability of raw materials (including fabric, trim, and findings); and the efficiency and flexibility of suppliers to meet changing fashions and retailer demands. The competitive factors are discussed below.

Business Climate

An assessment of a country’s business climate is an important element of evaluating the risk of doing business there. According to the American Apparel & Footwear Association (AAFA), numerous factors enter into this assessment, including compliance with human

⁶ See discussion on China in appendix E of this report for additional information on export tax equivalents of quotas on U.S. apparel imports from China.

⁷ Peter McGrath, Senior Vice President and Director, JCPenney Product Development & Sourcing, and Chairman, Board of Directors, USA-ITA, transcript of public hearing, pp. 62-63.

**Figure 3-1
Textiles and Apparel: Factors of Competitiveness**

Business climate

- Political stability
- Safety of personnel
- Security of production and shipping
- Transparent and predictable legal, commercial, and regulatory system
- Minimal administrative burden and corruption
- Compliance with internationally recognized health and labor standards
- Subsidies and tax credits
- Free trade zones
- Real exchange rates
- Market demand and economic growth

Infrastructure and proximity to markets

- Roads, ports, rail, and airports for moving goods into and out of the country
- Shipping and other transportation times and costs
- Proximity to major markets
- Access to reliable sources of energy, water, and telecommunications

Market access

- Preferential access in major markets

Labor and management

- Availability of workers and competition for workers from other sectors
- Compensation rates
- Labor skills and productivity
- Availability of qualified managers, including middle management

Raw-material inputs

- Access to quality and cost-competitive domestic or regional yarn and fabric production
- Tariffs on imports of raw materials
- Rules of origin for trade preferences
- Cost and availability of capital to invest in new machinery and purchase raw materials

Level of service provided and reliability of supplier

- Reputation for quality and on-time delivery
- Existing business networks (supply chain linkages, relationship with customers)
- Level of service provided (e.g., full-package versus assembly)
- Flexibility and variety in styles or products and lot sizes offered
- Lead time and flexibility to respond to quick turnaround orders

rights requirements in the country and ensuring the security of shipments from the factory through the country's infrastructure.⁸ Some firms cited the lack of internationally recognized labor standards as a reason for not sourcing from certain countries. For example, many firms said they would not source apparel from Myanmar (Burma) because of human rights concerns. Several firms cited security as a reason for not sourcing garments from a country at all, while some firms said they would use buying agents to source from a country where there was a safety concern, rather than set up their own office there.

AAFA stated that firms also examine factors affecting the movement of inputs into, and final goods out of, a country, including compliance with applicable local and U.S. customs requirements; the level of U.S. customs enforcement activities related to that country; transparency in the foreign country's political system; and transparency and predictability in the foreign country's commercial, regulatory, and legal system. U.S. firms can incur significant costs to ensure that a foreign supplier complies with local laws and regulations, U.S. import regulations, and policies of the individual U.S. firms. Further, the lack of transparency in laws and regulations can lead to disruptions in sources of supply and shipments of goods. These overhead costs are among the reasons U.S. apparel companies and retailers are planning to consolidate sources of supply following quota elimination and strengthen strategic relationships with their suppliers.

Infrastructure and Proximity to Market

A country's infrastructure affects a firm's ability to produce goods and move them into and out of the country in a timely manner. Access to ports having frequent shipping traffic to and from the United States can make even geographically distant locations competitive from a shipping standpoint. Shipping times largely depend on the frequency of shipping from a port and the volume of business conducted. According to U.S. retailers, shipping times to the west coast of the United States generally average from 12 to 18 days from Taiwan, Hong Kong, and China, but as much as 45 days from some member countries of the Association of South East Asian Nations (ASEAN). The geographic proximity to a market can also be an advantage for goods needed on short notice. Shipping from the Caribbean Basin Economic Recovery Act (CBERA) countries to the United States can take as little as 2 to 7 days.

A country's telecommunications infrastructure has become very important for U.S. apparel companies and retailers in communicating with suppliers and handling supply chain logistics as they seek to reduce lead times and increase control over all elements of the supply chain. In addition, a reliable source of electricity is essential for all segments of the industry, as is access to reliable supplies of water for dyeing and finishing yarns, fabrics, and certain garments requiring special finishes, such as denim jeans.

⁸ Kevin M. Burke, President and CEO, AAFA, written submission to the Commission, Jan. 22, 2003.

Market Access

U.S. apparel companies and retailers indicated that the major benefit of U.S. trade preferences is the absence of quota restrictions, with duty-free access a secondary benefit. The firms claimed that the extent to which duty-free access is a competitive advantage depends on the rules of origin and the accompanying customs regulations to implement the trade preferences. According to the firms, preferential trade agreements permitting the use of third-country fabrics (e.g., the African Growth and Opportunity Act (AGOA), the U.S.-Israel Free Trade Agreement, and the qualified industrial zone (QIZ) program with Jordan) are more beneficial than agreements requiring U.S. content (e.g., the Caribbean Basin Trade Partnership Act (CBTPA)), because they allow for the use of less expensive Asian fabrics and for greater flexibility in the choice of fabrics. The U.S. firms stated that the benefit of trade preferences is diminished considerably or eliminated by U.S.-content rules because U.S. fabrics reportedly cost as much as 20 to 40 percent more than Asian fabrics. In addition, two large U.S. apparel companies claimed that it is more difficult to work with U.S. mills in the development of new products; one company said that U.S. mills' minimum lot sizes are too large. The allowance for the use of regional inputs was considered of some benefit, to the extent that regional fabrics are available in the quantities and styles required. ***

Other disincentives to sourcing apparel from CBTPA and the North American Free Trade Agreement (NAFTA) beneficiary countries are paperwork requirements and related compliance costs. Some U.S. apparel firms noted that the cost of complying with regulations under the CBTPA and NAFTA offset a large portion of the program benefits. A firm estimated that the paperwork associated with complying with CBTPA and NAFTA regulations adds 3 percent to 5 percent to the cost of the goods.

Labor and Management

U.S. apparel companies and retailers stated that a country will need to have an abundance of skilled, inexpensive, productive labor to remain competitive in a post-quota world. The cost and availability of a trained or trainable workforce will be critical. Low wage rates alone are not a good indicator of labor costs, as rates of productivity, which contribute to the cost of labor, vary among countries. Table 3-1 shows the hourly compensation rates of selected countries for spinning and weaving, and apparel operations. According to the U.S. firms, although wage rates are higher in China than in such countries as Bangladesh, India, and Vietnam, productivity is considered much higher in China, making its overall labor cost lower. Sewing skills of workers, along with factory setup, influence the type of product that U.S. importers would consider sourcing from a particular country or factory. For example, sewing skills are particularly important in the production of fashion items, for which styles change frequently. In general, sewing skills are considered to be very good in Asia, particularly in China, Hong Kong, Korea, Taiwan, and Thailand. U.S. apparel companies and retailers often import apparel from East Asia that requires more sewing and construction, complex operations, and detailed work.

Another important competitive factor is the effectiveness of middle management, which has the day-to-day responsibility for maintaining the reliability of product quality and supply

Table 3-1
Textiles and apparel: Hourly compensation¹ for selected countries, 2002

Region or country	Textile industry	Apparel industry
	-----U.S. dollars-----	
East Asia:		
China	² \$0.41 ³ \$0.69	\$0.68 ⁴ \$0.88
Hong Kong	6.15	(⁵)
Korea	5.73	(⁵)
Taiwan	7.15	(⁵)
South Asia:		
Bangladesh	0.25	0.39
India	0.57	0.38
Pakistan	0.34	0.41
Sri Lanka	0.40	0.48
ASEAN countries:		
Indonesia	0.50	0.27
Malaysia	1.16	1.41
Philippines	(⁵)	0.76
Thailand	1.24	0.91
Mexico	2.30	2.45
CBERA countries:		
Costa Rica	(⁵)	2.70
Dominican Republic	(⁵)	1.65
El Salvador	(⁵)	1.58
Guatemala	(⁵)	1.49
Haiti	(⁵)	0.49
Honduras	(⁵)	1.48
Nicaragua	(⁵)	0.92
Sub-Saharan Africa:		
Kenya	0.62	0.38
Madagascar	(⁵)	0.33
Mauritius	1.33	1.25
South Africa	2.17	1.38
Andean countries:		
Colombia	1.82	0.98
Peru	1.63	(⁵)
Other countries:		
Egypt	1.01	0.77
Israel	8.17	(⁵)
Jordan	(⁵)	0.81
Turkey	2.13	(⁵)

¹ Includes wages and fringe benefits.

² Represents hourly compensation for China, other than in coastal areas.

³ Represents hourly compensation for coastal China.

⁴ Reflects labor compensation for factories in China producing moderate to better apparel.

⁵ Not available.

Source: Data for the textile industries compiled from Werner International Management Consultants, "Spinning and Weaving Labor Cost Comparisons 2002," Reston, VA; and data for the apparel industries compiled from Jassin-O'Rourke Group, "Global Competitiveness Report: Selling to Full Package Providers" (New York, NY), Nov. 2002.

and ensuring the flexibility to change orders as needed. Many importers contended that middle management is very good in many factories in China and other East Asian countries, but problematic in many factories in Mexico. In fact, weak middle management was cited as a major reason why U.S. importers have had problems sourcing from Mexico.

Raw-Material Inputs

The availability of cost-competitive, quality fabrics and trim in a country or region is expected to grow in importance in determining sourcing strategies for apparel in a post-quota world. Fabric availability affects lead times not only for production of goods for delivery, but also for production of samples prior to order placement. The availability of fabric, trim, and findings (e.g., zippers and buttons) is considered one of the many advantages of sourcing from China, because almost all the raw materials needed to make a garment are produced there.

If fabrics are not available locally, then shipping times and other logistics (such as customs issues) can affect lead times and costs. Shipping times and the frequency of shipping are important factors in determining the availability of fabrics in cases in which local fabrics are not available in the quantities or styles required. The Philippines, for example, does not have a local supply of export-quality fabrics, but several U.S. companies said they are able to obtain such fabrics in about 2 days from Taiwan for cut-and-sew operations in the Philippines. Preferential trade agreements that require use of certain yarns and fabrics in order to qualify for the trade preferences can deter sourcing if the yarns or fabrics are not available at the price, quality, or quantity needed.

Level of Service Provided and Reliability of Supplier

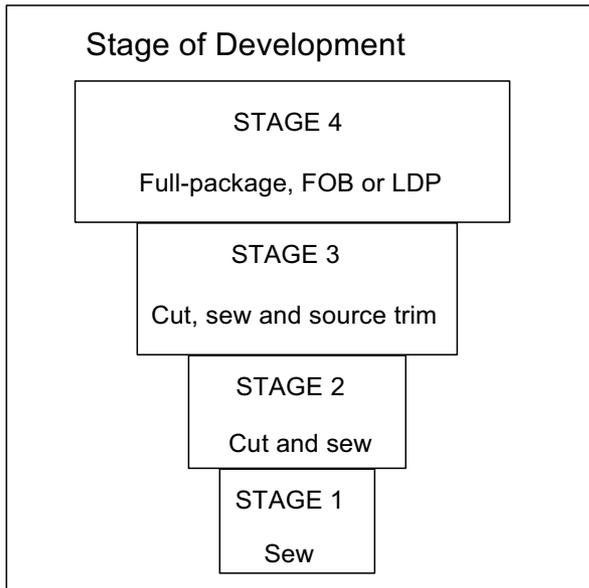
The enormous buying power of major U.S. retailers has challenged existing supplier-buyer relationships and compelled suppliers to be more responsive to retailer demands, as it tends to reduce the flexibility of suppliers in scheduling production and negotiating prices and other contract terms. As U.S. retailers consolidate their sourcing among fewer suppliers in a post-quota world, they are likely to use suppliers that offer not only competitively priced goods but also faster, more flexible service. With retailers reducing stocks and pushing inventory costs back up the supply chain, suppliers will need to be able to respond more quickly and efficiently to retailer demands for smaller, more frequent orders.

U.S. apparel companies and retailers said they prefer to source from foreign suppliers that can provide “full package” services. An established infrastructure exists in East Asia to provide such services to U.S. buyers, including product development, fabric sourcing and cutting, garment sewing, packaging, quality control, trade financing, and logistics arrangements. Retailers said they generally supply their own designs, but some suggested they are open to ideas from their suppliers and even solicit design and trend information. A certain skill level and knowledge base are required to translate a garment design into production patterns, which must be adapted to specific body types in the target markets. Another service sometimes supplied by manufacturers is point-of-sale replenishment, where the manufacturer ships store-ready products to the retailers on the basis of point-of-sale data at the retail level (see box 3-1 for information on the stages of development in apparel production).

**Box 3-1
Stages of Development in Apparel Manufacturing**

The figure below shows the different levels of service offered by manufacturers or vendors. At the first stage, the manufacturer sews the cut garment pieces as a contract service. This stage was common in the development of new offshore assembly operations in the Caribbean or Mexico in which fabric was cut into garment parts in the United States and sewn together offshore.¹

The next level of garment industry development is cutting and sewing. At this stage, the factory still generally operates as contractor, and does not procure the raw materials needed to produce the garments. The production patterns are also provided by the apparel company. At the next stage, manufacturers will take the next step and source trim, particularly for basic products, for which the trim is standard, such as white buttons for a men's dress shirt.



At the final stage, a manufacturer becomes a full-package supplier, responsible for many aspects of the garment production from purchasing the fabric and trim, patternmaking, to full production and packaging, ready for retail sale.

The level of service for full-package producers can vary. Even though the manufacturer will purchase the fabric and trim, the retailer or apparel company importing the garments will often choose the actual fabrics, and the mill to produce the fabrics. The retailers and apparel companies then issue a letter of credit against which the apparel manufacturer issues a letter of credit to purchase the raw materials. Sometimes the full-package supplier will select the fabric and fabric suppliers, or suggest alternative suppliers that are able to meet the fabric specifications given by the customer. Full-package suppliers must be financially solvent in order to obtain financing for the purchase of raw materials.

Generally the large importers purchase the products on a free-on-board (FOB) basis, taking responsibility for shipping and duty charges, because they can negotiate better shipping rates than smaller overseas apparel suppliers. However, some companies will purchase part of their product on a landed-duty-paid basis, allowing the foreign manufacturer to take care of shipping and payment of duties.

¹ Prior to legislation implementing NAFTA and the CBTPA, garments were required to be assembled from fabric formed and cut in the United States in order to qualify for preferential quota access and reduced duty treatment under the production sharing arrangements.

² For example, 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.

Country and Regional Assessment

The rest of this chapter provides a comparative assessment of the competitiveness of the textile and apparel sector in the selected countries, which are grouped by region.⁹ In order to anticipate the possible implications of quota removal in 2005, it is useful to examine the changes in trade that have occurred for certain textile and apparel products that have been integrated into the General Agreement on Tariffs and Trade (GATT) and for which quotas have been removed for WTO members (table 3-2). For every product, the total volume of U.S. imports increased from 2001 to 2002, and China significantly increased its share of the U.S. import market for these products. For example, China's share of the U.S. import market for babies' apparel rose from 3 percent in 2001 to 27 percent in 2002, while that for robes (and dressing gowns) increased from 5 percent to 25 percent.

It is also helpful to examine the extent to which imports of textiles and apparel from the selected countries are concentrated in product categories that are highly constrained by quota for a large number of U.S. suppliers. Following quota elimination in 2005, countries whose shipments are concentrated in such product categories, likely will face significantly greater competition in the U.S. market than those countries whose shipments are diversified across a broader spectrum of products. As shown in table 3-3, U.S. textile and apparel imports from countries that benefit from preferential market access—particularly the CBERA countries, sub-Saharan African countries, Jordan, and, to a lesser extent, the Andean countries—are concentrated in a narrow range of highly import-sensitive product categories. By contrast, these same product categories make up only a small share of U.S. textile and apparel imports from China, India, and Pakistan, largely because all or a large share of the imports of such goods from these Asian countries are subject to binding quotas.

Table 3-4 summarizes the Commission assessment of key changes that are likely to occur in the global pattern of textile and apparel production and trade following quota elimination in 2005. Chief among the major beneficiaries will be China, which is expected to become the “supplier of choice” for most U.S. importers because of its ability to make almost any type of textile and apparel product at any quality level at competitive prices. China has proven its ability to compete in other developed country markets, particularly Australia and Japan, for which it accounted for 69 percent (2002) and 77 percent (2001) of their apparel import markets, respectively.¹⁰ However, the extent to which China continues to expand its shipments to the United States and the EU following quota elimination in 2005 may be tempered by uncertainty over the use by the United States and other importing countries of the textile-specific safeguard provisions contained in China's protocol of accession to the World Trade Organization (WTO). In addition, as noted above, long-term economic growth in China may increase its domestic demand for textiles and apparel, as well as for labor and capital from competing sectors of the economy, possibly reducing the cost competitiveness of China vis-a-vis other developing country suppliers.

⁹ The assessment is based on the detailed information presented in the individual profiles of each country's textile and apparel industries in appendixes E through L of this report. The information used in preparing this assessment came from many sources, as noted in the beginning of this chapter.

¹⁰ Based on United Nations data.

Table 3-2

Selected textile and apparel products integrated into the GATT: U.S. imports, total and by selected countries, 2002, percentage change in imports from 2001 to 2002, and share of total U.S. imports, 2001 and 2002

Product and source	U.S.	Change in	Share of U.S. imports	
	imports, 2002	imports 2001 to 2002	2001	2002
	<i>1,000 units</i>		<i>Percent</i>	
Babies' garments (category 239 in kilograms):				
World	109,446	10	100	100
China	29,941	826	3	27
Thailand	16,250	-7	17	15
CBERA	10,560	-14	12	10
Philippines	7,252	-17	9	7
Indonesia	5,716	-12	6	5
Bangladesh	5,518	-18	7	5
Mexico	4,514	-21	6	4
Hong Kong	4,299	-70.6	11	3
Brassieres (categories 349 and 649 in dozens):				
World	44,641	21	100	100
CBERA	13,297	15	31	30
China	10,580	232	9	24
Honduras	4,666	38	9	10
Mexico	4,322	-21	15	10
Indonesia	3,927	16	9	9
Thailand	3,536	10	9	8
Dominican Republic	3,662	-1	10	8
Costa Rica	2,286	2	6	5
Robes (categories 350 and 650 in dozens):				
World	8,538	28	100	100
China	2,172	540	5	25
CBERA	1,172	25	14	14
Turkey	1,072	20	13	13
Pakistan	826	15	11	10
Bangladesh	346	-6	6	4
Mexico	415	-14	7	5
Indonesia	208	5	3	2
Philippines	184	-36	4	2
Hong Kong	109	-57	4	1
Luggage and flat goods (category 670 in kilograms):				
World	276,735	39	100	100
China	181,812	536	14	66
Thailand	28,970	-43	25	10
Philippines	18,556	-49	18	7
Indonesia	12,876	-34	10	5

Table 3-2--Continued

Selected textile and apparel products integrated into the GATT: U.S. imports, total and by selected countries, 2002, percentage change in imports from 2001 to 2002, and share of total U.S. imports, 2001 and 2002

Product and source	U.S. imports, 2002	Change in imports 2001 to 2002	Share of U.S. imports from the world--	
	1,000 units	-----Percent-----	2001	2002
Luggage and flat goods (category 670 in kilograms):--Continued				
Sri Lanka	10,570	-44	10	4
Vietnam	4,987	6,850	0	2
Taiwan	4,612	-72	8	2
Mexico	2,138	-52	2	1
Korea	2,053	-72	4	1
Knit fabrics (category 222 in kilograms):				
World	140,616	33	100	100
Canada	54,310	-6	55	39
Korea	33,199	212	10	24
Taiwan	21,619	120	9	15
China	7,011	21,976	0	5
Mexico	7,773	10	7	6
Thailand	2,102	-29	3	1
Hong Kong	1,729	-65	5	1

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 3-3

U.S. imports of selected apparel articles in highly constrained quota categories,¹ their share of total textile and apparel imports, and share subject to binding quotas, by selected countries and regions, 2002

Country or region	U.S. imports of selected apparel articles--		
	Total	Share of total textile and apparel imports in highly constrained categories	Share subject to binding quota
	<i>Million SMEs</i>	<i>Percent</i>	
Bangladesh	356.8	32	100
China	252.2	5	100
Egypt	97.8	37	0
Hong Kong	440.7	46	81
India	136.4	9	90
Indonesia	207.7	17	88
Israel	94.4	18	0
Jordan	62.5	69	0
Korea	124.6	6	98
Macau	204.1	64	51
Malaysia	88.0	27	51
Mexico	1,406.0	33	0
Pakistan	131.9	5	73
Philippines	235.1	29	100
Sri Lanka	130.1	23	90
Taiwan	223.8	16	23
Thailand	193.4	15	67
Turkey	215.2	20	96
Andean countries	104.5	54	0
CBERA countries	2,967.4	78	0
Sub-Saharan Africa	223.4	73	0

¹ The highly constrained quota categories are cotton and manmade-fiber knit tops (categories 338/339 and 638/639), pants and shorts (347/348 and 647/648), nightwear (351 and 651), and underwear (352 and 652). These categories, which accounted for 53 percent of total U.S. apparel imports in 2002, have a large number of supplying countries subject to binding quotas (individual country quotas with a "fill rate" of 90 percent or more in 2002).

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 3-4
Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries

Region/country	Likely effect of quota removal	Contributing factors
EAST ASIA	<p>Summary: U.S. apparel companies and retailers are likely to expand sourcing from the region and continue close relationships with suppliers in the region, who are major sources of textile and apparel investment worldwide.</p>	<p>Summary: Labor - Sewing skills considered among the best in the world. Inputs - Substantial manufacturing base for raw materials. Transportation - Best shipping times to the U.S. west coast within Asia.</p>
	<p>China: Likely to be supplier of choice for most large U.S. apparel companies and retailers; uncertainty regarding textile-specific safeguards may temper export growth. Over the long term, competitiveness may diminish as strong economic growth leads to greater domestic demand for textiles and apparel, and for the labor and capital to make these goods. Showed tremendous growth in export of goods for which it became eligible for quota-free entry in 2002.</p>	<p>China: Labor - Per-unit labor costs very low due to low wages and high productivity. Inputs - Produces fabrics, trim, packaging, and most other components used to make apparel and made-up textile articles. Products - Considered by industry among the best in making most garments and made-up textile articles at any quality or price level. World's largest producer and exporter of textiles and apparel, notwithstanding tight quotas in major world import markets.</p>
	<p>Hong Kong and Macau: Initially, may continue to be suppliers of some apparel under outward processing arrangements (OPAs) with China because of uncertainty regarding textile-specific safeguards with China. There are no other compelling reasons to source most apparel from these relatively high-cost suppliers.</p>	<p>Hong Kong and Macau: Labor - High-cost suppliers compared with China. Special arrangements - OPAs allow for some of the labor intensive production steps to take place in China, but remain a product of Hong Kong or Macau for trade purposes. Will not be subject to China-specific safeguards after quotas are removed.</p>
	<p>Korea and Taiwan: Likely to continue as major suppliers of fabrics to global industry, including to China. However, U.S. firms are likely to move sourcing of apparel to lower-cost countries, particularly China; may continue to source certain garments from these suppliers (e.g., men's dress shirts, dresses, and other fashion apparel).</p>	<p>Korea and Taiwan: Labor - High per-unit labor costs; high labor productivity. Products - Small, flexible sewing lines advantageous for fashion apparel; highly automated sewing lines for dress shirts; offer full-package services.</p>

Table 3-4--Continued
Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries

Region or country	Anticipated effects of quota removal	Key competitive factors
SOUTH ASIA	<p>Summary: U.S. firms will likely expand sourcing from South Asia with the removal of quotas in 2005.</p>	<p>Summary: Inputs - Huge manufacturing base for yarns and fabrics. Competitive position - Most competitive alternative to China as a supplier, but competitiveness of each country varies widely.</p>
	<p>India: Likely to remain a competitive supplier to the United States when quotas are removed in 2005. Considered by many U.S. firms the primary alternative to China. Over the long term, competitiveness may diminish as strong economic growth leads to greater domestic demand for textiles and apparel, and for the labor and capital to make these goods.</p>	<p>India: Labor - Huge, relatively inexpensive, skilled workforce; has design expertise. Inputs - Among the world's largest producers of yarns and fabrics; Products - Wide range of apparel; considered a competitive source for home textiles (e.g., bed linens and towels). Business climate - Personal safety, security of shipments between factories and ports and bureaucratic red tape and infrastructure are issues, with many U.S. firms using agents in lieu of dealing directly with producers.</p>
	<p>Pakistan: Likely to continue as a supplier to the U.S. market. Considered by many U.S. firms as a competitive alternative to China, particularly for men's apparel. May continue to be a global supplier of cotton yarns and fabrics.</p>	<p>Pakistan Labor - Large, relatively inexpensive labor supply. Inputs - Access to local supplies of raw cotton. Business climate - The Government is taking steps to ensure the global competitiveness of the textile and apparel sector; personal safety and security of shipments between factories and ports are issues.</p>
	<p>Bangladesh: The status of Bangladesh as an overall supplier to U.S. market is uncertain. Considered by some U.S. firms to be competitive alternative to China for mass-produced, low-end apparel.</p>	<p>Bangladesh: Labor - Very low wage rates; productivity improving, but lags China; government is working to improve labor standards. Inputs - Relies heavily on imports for woven fabric requirements; becoming increasingly self-sufficient in knit fabrics. Special arrangements - Duty-free access to major world import markets, including the EU, Canada, and Norway. Products - Mass-produced basic garments, including knit cotton tops and woven cotton pants.</p>

Table 3-4--Continued
Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries

Region or country	Anticipated effects of quota removal	Key competitive factors
	<p>Sri Lanka: Likely to see its share of U.S. apparel imports fall, but expected to be a niche supplier for specialty or fashion goods, hosiery, and women's intimate apparel such as bras and underwear.</p>	<p>Sri Lanka Labor - Relatively small labor pool; relatively high wage rates. Inputs - Relies heavily on imported yarn and fabric.</p>
<p>ASEAN</p>	<p>Summary: Overall share of U.S. textile and apparel imports is likely to decline as U.S. firms reduce sourcing in all but a few countries.</p>	<p>Summary: Labor - Costs relatively high in all ASEAN countries except Indonesia and non-WTO members Vietnam and Cambodia, which are ineligible for quota liberalization. Transportation - Shipping times to the U.S. west coast average 45 days, compared with 12 to 18 days from China.</p>
	<p>Indonesia: Future status as a supplier to the U.S. market uncertain. Many U.S. firms consider Indonesia to be a competitive supplier, but indicated its political and social unrest may discourage future sourcing.</p>	<p>Indonesia: Labor - Abundant supply of low-cost, skilled labor. Inputs - Huge manufacturing base for raw materials, especially synthetic fibers, yarns, and fabrics. Business Climate - Frequent political and social unrest likely to deter growth in sourcing in the short term.</p>
	<p>Philippines: Share of U.S. apparel imports is likely to decline, as has already occurred in goods for which quotas were eliminated (e.g., babies' apparel).</p>	<p>Philippines: Labor - English-speaking, skilled labor force; high wage rates. Inputs - Relies heavily on imported yarn and fabric. Special arrangements - Foreign-trade zones on former U.S. military bases provide established modern infrastructure. Business Climate - Political and social unrest.</p>
	<p>Thailand: Share of U.S. imports is likely to decline, as has already occurred in goods for which quotas were eliminated (e.g., babies' apparel and luggage); may become a niche supplier of garments having complex construction or detailed sewing requirements.</p>	<p>Thailand: Labor - Highly-skilled workforce; high wages, partly because of a labor shortage. Inputs - Domestic supply of yarns and fabrics. Products - Strong needlework skills and small-scale factories enable intricately designed garments and flexibility in sourcing fashion apparel.</p>

Table 3-4--Continued
Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries

Region or country	Anticipated effects of quota removal	Key competitive factors
	<p>Malaysia: Share of U.S. apparel imports is likely to decline significantly.</p>	<p>Malaysia: Labor - Labor shortage; wages second-highest in the region after Singapore.</p> <p>Business climate - Although Government highlights importance of textile and apparel sector, investment is largely directed to other industries.</p>
<p>MEXICO</p>	<p>Share of U.S. apparel imports is likely to decline further, even with NAFTA preferences. May continue to be a niche supply for some basic apparel, particularly for goods needed on short-turnaround basis.</p> <p>Has the potential to expand yarn and fabric exports to other countries in the western hemisphere under a proposed Free Trade Area of the Americas or to Central America if the proposed U.S.-Central America FTA permits the use of Mexican inputs.</p>	<p>Labor - Costs are relatively high; product quality and production reliability problematic; middle management responsible for running the factories is considered weak; product design expertise limited.</p> <p>Inputs - Produces knit and woven fabrics. Cost is reportedly less than that for similar U.S.-produced fabrics, but higher than similar Asian fabrics.</p> <p>Products - Concentrates on mass-producing basic garments, particularly 5-pocket denim jeans, knit tops, and undergarments; limited capability for fashion apparel. Limited ability to offer full-package services.</p> <p>Business climate - Additional overhead costs in providing security for shipments from factories to the U.S. border and complying with paperwork requirements for preferential treatment under NAFTA.</p>
<p>CBERA</p>	<p>Summary: Most U.S. firms indicated they will reduce sourcing from the CBERA countries, especially if the proposed U.S.-Central America FTA does not permit the use of regional (e.g., Mexican) or third-country (e.g., Mexican or Asian) fabrics.</p> <p>However, even without a regional or third-country fabric provision in the proposed U.S.-Central America FTA, the region is likely to continue to mass-produce garments having minimal labor content and make apparel for quick-turn orders.</p>	<p>Summary: Products - Mass-produces basic garments, particularly those with low-labor content and few delicate sewing operations.</p> <p>Inputs - Relies heavily on imported yarn and fabric from the United States, largely reflecting U.S. content rules under the CBTPA to qualify for trade benefits; U.S. and regional fabrics required to qualify for CBTPA preferences cost more than similar fabrics made in Asia.</p> <p>Transportation - Benefits from proximity to U.S. market.</p> <p>Special arrangements - Duty-free access under CBERA.</p>

Table 3-4--Continued Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries		
Region or country	Anticipated effects of quota removal	Key competitive factors
	Costa Rica: Share of U.S. apparel imports is likely to decline significantly.	Costa Rica: Labor - Highest labor costs in region; highly educated labor force. Business climate - Government trying to attract other, non-apparel investment.
	Dominican Republic: Share of U.S. apparel imports may decline, but likely to continue to supply apparel for quick-turn orders. Considered among the five most attractive suppliers from the region.	Dominican Republic: Labor - Shifted some assembly operations to Haiti to take advantage of Haiti's lower labor costs. Transportation - Benefits from proximity to U.S. market.
	El Salvador, Guatemala, Honduras, and Nicaragua: Future status as a supplier to the U.S. market uncertain, pending the outcome of regional or hemispheric free trade negotiations. Considered among the five most attractive suppliers from the region.	El Salvador, Guatemala, Honduras, and Nicaragua: Labor - Costs in most countries higher than China and other Asian countries. Inputs - Some regional knit fabric production.
	Haiti and Jamaica: Share of U.S. apparel imports is likely to decline significantly.	Haiti and Jamaica: Labor - Haiti has lowest hourly compensation costs in region. Business climate - Personal safety and security of shipments are issues.
ANDEAN	Summary: Share of U.S. imports likely to decline overall, but may continue to be a niche supplier to the U.S. market.	Summary: Special arrangements - U.S. legislation enacted in August 2002 providing for duty-free treatment of apparel imports from region using regional yarns and fabrics.
	Colombia: Colombia likely to become less cost competitive in the U.S. market with Asian suppliers following quota removal, but could still be competitive for garments in which lead times are critical.	Colombia: Inputs - Domestic supply of knit and woven fabrics. Products - Considered capable supplier of tailored clothing, sportswear, and only country in South and Central America skilled in fashion apparel. Business climate - Personal safety and security of shipments between factories and ports are issues.

Table 3-4--Continued
Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries

Region or country	Anticipated effects of quota removal	Key competitive factors
	<p>Peru: May see its overall share of U.S. apparel imports decline, but expected to continue to be a niche supplier of high-end knit shirts.</p>	<p>Peru: Inputs - Domestic supply of high-quality cotton and fine-animal hair. Domestic production of yarns and fabrics. Products - Niche supplier of high quality, cotton knit shirts and related garments.</p>
	<p>Bolivia and Ecuador: Very small suppliers to the U.S. market; could become sources for specialty goods, such as those made of fine hairs from animals indigenous to these countries.</p>	<p>Bolivia and Ecuador: Inputs - Relies heavily on imports of fibers, yarns, fabrics, and findings. Has some supply of specialty animal fibers.</p>
TURKEY	<p>Future status as a supplier to the U.S. market uncertain. Several firms indicated Turkey would be an attractive supplier if it had a free-trade agreement with the United States. A few firms indicated they would continue or increase sourcing from Turkey, even without a free-trade agreement.</p> <p>May continue to be a global supplier of cotton fabrics.</p>	<p>Inputs - Domestic supplies of raw cotton, cotton yarns and fabrics.</p> <p>Special arrangements - Proximity and duty-free access to EU market.</p> <p>Products - Large cotton-based textile and export-oriented apparel industries; fast turnaround and fashion capabilities.</p> <p>Transportation - Shipping times to U.S. market similar to those for East Asia.</p>
EGYPT	<p>Likely to decline in importance as a supplier to the U.S. market, though a few industry sources indicated they will continue to source some products from Egypt following the removal of quotas. U.S. firms indicated Egypt would be an attractive supplier if a free trade agreement were negotiated with the United States.</p>	<p>Inputs - Largely government-owned textile industry characterized by excess employment, outdated technology and relatively low productivity. High raw material costs, owing to government -set minimum prices on cotton. Apparel manufacturers import yarn and fabric.</p> <p>Products - Industry largely cotton-based. Exports large quantities of its acclaimed "Egyptian cotton" in the form of yarns to the U.S. textile industry.</p>

Table 3-4--Continued
Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries

Region or country	Anticipated effects of quota removal	Key competitive factors
ISRAEL AND JORDAN	<p>Israel may continue to be a niche supplier for intimate apparel.</p> <p>Jordan may continue to be a niche supplier of apparel articles that are subject to high U.S. duty rates, such as manmade-fiber garments. However, sourcing from Jordan may be affected by the outcome of free-trade negotiations involving countries in the Western Hemisphere. If the proposed U.S.-Central America FTA or FTAA extends unlimited duty-free treatment to U.S. imports of apparel made in the region from third-country fabrics, U.S. firms are likely to shift sourcing to the region from distant sources such as Jordan.</p>	<p>Labor - Production in Israel highly automated and labor costs are high. Relatively low labor costs in Jordan.</p> <p>Special arrangements - Under the FTA with Israel, the United States established a "qualified industrial zone" program with Jordan and Israel that grants duty-free treatment to qualifying textile and apparel articles.</p>
SUB-SAHARAN AFRICA	<p>Summary: Industry sources indicated that this region's overall share of U.S. apparel imports will fall, notwithstanding AGOA preferences.</p> <p>AGOA preferences may spur U.S. firms to source products from the region that are subject to high U.S. duty rates, such as manmade-fiber and wool apparel, particularly if the provision allowing for the use of third-country fabrics is extended beyond 2004. Some sourcing of basic garments made in the region from local fabrics, such as pants and knit tops, may also continue.</p>	<p>Summary: Products - Produces basic, rather than fashion apparel. Most manufacturers do not offer full-package services. Many firms have limited capacity to offer large volumes that may be required by U.S. firms looking to consolidate sourcing following quota removal.</p> <p>Infrastructure - Infrastructure and logistics inferior to those in other regions of the world. Shipping time longer than that from East Asia.</p>
	<p>Kenya: Share of U.S. apparel imports is likely to decline.</p>	<p>Kenya: Business climate - Personal safety an issue for sourcing from country.</p>
	<p>Lesotho: Share of U.S. apparel imports is likely to decline.</p>	<p>Lesotho: Inputs - No domestic yarn or fabric supply. Planned investment in new yarn and knit fabric production capacity.</p>
	<p>Madagascar: Share of U.S. apparel imports is likely to decline.</p>	<p>Madagascar: Business climate - Political unrest in 2001 and 2002 resulted in large disinvestment in the industry. Government is trying to restart the industry, but future prospects are uncertain.</p>

Table 3-4--Continued
Summary of anticipated effects of quota elimination in 2005 and key competitive factors, by selected regions and countries

Region or country	Anticipated effects of quota removal	Key competitive factors
	<p>Mauritius: Share of U.S. apparel imports is likely to decline.</p>	<p>Mauritius: Labor- High labor costs owing to shortage of labor. Competition for workers from high-tech sectors.</p> <p>Inputs - Shortage of cotton yarn production for knit apparel. Planned investment in new yarn spinning capacity.</p>
	<p>South Africa: Share of U.S. apparel imports is likely to decline.</p>	<p>South Africa: Labor - Relatively high labor costs.</p> <p>Inputs - Domestic supply of yarns and fabrics. Only SSA country producing synthetic filament yarn.</p>

Source: The Commission assessment is based on interviews with representatives of U.S. apparel and textile companies, U.S. retailers, foreign textile and apparel producers and investors, and foreign government officials; a review of the literature; and testimony presented to the Commission at the public hearing and in written statements.

To reduce the risk of sourcing from only one country, U.S. importers also plan to expand trade relationships with other low-cost countries as alternatives to China, particularly with India, which also, like China, has a very large manufacturing base to produce a wide range of textile and apparel goods at competitive prices and a large supply of relatively low-cost, skilled labor. One or two other low-cost exporting countries in South Asia—Bangladesh or Pakistan—are expected to emerge as major suppliers of a narrower but still significant range of goods, such as mass-produced basic knit cotton tops and woven cotton shirts and pants (Bangladesh) or men’s and boys’ cotton apparel (Pakistan). Some firms indicated they also would consider CBERA countries, particularly those located in Central America, as a major source of supply if a Central American or western hemisphere free-trade agreement is negotiated that permits the use of regional (e.g., Mexican) fabrics or third-country (e.g., Asian) fabrics. In the ASEAN region, the only countries considered competitive as major alternate suppliers to China or India are Vietnam and, to a lesser extent, Indonesia. Although both countries have an abundant supply of low-cost labor, Vietnam will not be eligible for quota elimination until it becomes a WTO member, while Indonesia is considered somewhat risky because of its political and social unrest.

There are likely to be exceptions to the overall trends, especially at the firm level, reflecting the importance of longstanding relationships that U.S. apparel companies and retailers have with foreign suppliers, and the efficiency, flexibility, and experience of foreign suppliers in producing certain articles. In addition, although many countries are likely to see their share of the U.S. market decline, a large number of them may become major “second-tier” suppliers to U.S. apparel companies and retailers for niche goods or services. As U.S. firms seek to balance cost, flexibility, speed, and risk in their sourcing strategies, they likely will look to the second-tier suppliers to meet the needs that are not met by the first-tier suppliers. For example, Mexico, currently a major supplier to some U.S. companies, is expected to decline in importance; however, it may still remain a significant supplier of some basic garments, particularly 5-pocket denim jeans, for which it is considered cost competitive. Regardless of the outcome of regional free-trade negotiations, the production of certain goods is likely to remain in the CBERA region and Mexico to service U.S. buyers’ quick turnaround or mid-season order requirements. For quick-turn business, CBERA countries and Mexico primarily are used for replenishment of basics, particularly garments offered in a wide range of sizes, such as men’s dress shirts and pants. Quick-turn orders sometimes also are needed for fashion goods, when retailers are “chasing” the latest trends, styles, or colors. Turkey is considered a capable supplier for quick-turn business. Industry sources believe that Colombia has the potential to become a source for quick-turn apparel once it resolves concerns about personal safety and the security of merchandise shipped into and out of the country. Firms also are looking for low-cost suppliers that have preferential access to the U.S. market to help contain costs for articles subject to relatively high duty rates.

China

China is the world’s largest producer and exporter of textiles and apparel and it has invested in more spinning and weaving equipment than any other country during the last 5 years. Moreover, China’s huge supply of inexpensive labor and skilled sewers, coupled with access to indigenous raw materials, has enabled the Chinese textile and apparel industries to remain highly price competitive and attract foreign direct investment (FDI) in facilities and technologies. The industries also are considered to have efficient management and the technical know-how to produce virtually any textile or apparel article. For U.S. retailers,

buying more from China will also allow them to take advantage of the existing infrastructure and logistics they have in place there for buying and shipping non-textile products (e.g., housewares and toys), in addition to textiles and apparel.¹¹ Trade data reveal that China's share of the U.S. market has increased markedly in products for which quota restrictions have already been removed (table 3-2). Several retailers indicated that they have shifted sourcing of these products to China from such countries as the Philippines, Thailand, and Malaysia.

However, most firms indicated that the uncertainty of whether or not safeguard actions could be placed on U.S. imports from China likely will temper the amount of sourcing that firms dedicate to China, at least in the early years following quota elimination. To reduce the risk of sourcing from only one country, U.S. importers also plan to expand trade relationships with other low-cost countries as alternatives to China, particularly with India, which also has a very large manufacturing base to produce a wide range of textiles and apparel at competitive prices.

Prices are expected to decline following quota elimination. Several U.S. firms estimated that prices might fall by as much as *** percent; another said China likely will be the price leader in a post-quota world that other countries will need to match or beat. U.S. importers are concerned that the decline in prices, combined with stiff competition among supplying countries, could result in antidumping actions, particularly against China and possibly against India; however, it is not clear who in the U.S. apparel sector might initiate such actions.

Business Climate, Infrastructure, and Proximity and Access to Markets

U.S. apparel companies and retailers reportedly are finding China to be a much more business friendly place from which to source textiles and apparel as a result of changes China has made as part of joining the WTO. U.S. firms increasingly work directly with manufacturers in China rather than through buying agents, as was the common practice in the past. Industry sources described much of the Chinese industry as very business savvy and capable of meeting the needs of western buyers.

U.S. imports of most textile and apparel articles from China are highly constrained by quotas. In November 1999, the United States signed a market-access agreement with China that became part of China's WTO accession package and obligated the United States and other major import markets, such as the EU, to eliminate quotas on imports of Chinese textile and apparel as of January 1, 2005, the same date as that for other WTO members. However, the agreement allows for the United States and other importing countries to apply selective safeguards (quotas) on imports of textiles and apparel from China for 4 additional years beyond the termination of the textile and apparel quotas for WTO members—that is, from January 1, 2005 to December 31, 2008. The agreement also states that no textile-specific safeguards established during the 4-year period will remain in effect beyond 1 year without reapplication, unless both countries agree.

¹¹ Retailers indicated they are able to negotiate better shipping rates with large volume loads. In addition, retailers will generally establish a buying office in countries with which they do a lot of business.

U.S. industry representatives noted that China, unlike India, its major competitor, is investing heavily in infrastructure throughout the country, including a major highway system linking western China with the more developed eastern part of the country. In terms of location, industry sources indicate that shipping times from China to the West Coast of the United States are relatively fast, particularly compared with many of the ASEAN countries or India. China is also investing in deep water port facilities that will further shorten shipping times.

Labor and Management

China has a very large pool of inexpensive skilled labor, and its management is considered very effective and relatively low cost. In the apparel sector, the workers are considered to have very good sewing skills. In fact, several U.S. importers said there is no garment that they would not make in China. China currently has high-level specialists that can be hired at low cost, which saves a firm from sending its own specialist to oversee production. One trading company representative asserted that it has even hired Chinese supervisors in its overseas (non-China) facilities.

China's abundant supply of labor helps keep wages relatively low. Those low wages, which are especially important for the labor-intensive garment industry, have led many companies to move or to plan to move at least some of their production to China in order to take advantage of abundant cheap and productive labor. Some retailers noted that because of rapid economic development, labor costs have started to rise in Chinese textile and apparel factories, especially in the eastern and coastal special economic zones (SEZs). However, even though China does not have the lowest wages in the region, it is considered competitive in terms of per unit costs.

Raw-Material Inputs

Many industry representatives in Hong Kong, Korea, and Taiwan reported in effect, that "China has everything" and, thus, will be in a good position to compete. China has a competitive local supply of raw materials, including fibers, yarns, fabrics, and trim. Although China is currently importing cotton, as its domestic supply is insufficient to meet domestic demand, it has abundant supplies of other natural fibers such as ramie, silk, and angora rabbit hair, and the government is encouraging the production of these fibers.

China is the world's largest producer of manmade fibers, even though it still imports some fibers. China's shift in development policy toward a market-friendly approach has led to upgraded technology in manmade fiber production, as well as for the production of yarns and fabrics. Numerous firms interviewed by Commission staff believe that China is in the process of becoming a competitive fabric supplier, and in 1 or 2 years, China will catch up to Taiwan and Korea in the manmade-fiber sector.

Some inefficiency has been noted in Chinese state-owned enterprises (SOEs), especially in the cotton textile industries. However, there has been major restructuring and market-oriented policies have led to diversified ownership as well as product diversification. Although the SOEs still experience lower productivity rates than private firms and foreign-invested enterprises, they account for less than a quarter of the total gross output value of Chinese textile and apparel production.

According to a number of companies, the Chinese dyeing and printing sector lags behind the rest of the world in terms of equipment, technology, expertise, product innovation, variety, and research and development. For these reasons, some Chinese grey fabric is exported to Hong Kong or Korea for finishing before being reimported for manufacture in the Chinese apparel sector.

Level of Service Provided and Reliability of Supplier

According to industry representatives interviewed by Commission staff, one of China's advantages is that it can make virtually all types of textile and apparel products, from basics to fashion. At the lower end of the retail market, one firm is expecting the bulk of its commodity (or basic) business (which is very price sensitive) to go to China. At the higher end, another firm asserts that Chinese factories are very flexible and good at producing fashion garments. One firm indicated that China is likely to capture most of its fashion business. One trading firm indicated that it makes sense to make China its manufacturing center because so much of what the firm sells is already being made there.

Currently, most Chinese apparel exports are manufactured in response to orders received, often with samples and materials supplied by clients. China has few internationally recognized brand names and few experienced apparel designers.

Other East Asia (Hong Kong, Macau, Korea, and Taiwan)

The industries in Hong Kong and Macau are largely platforms for outward processing arrangements (OPAs) with China, whereby a certain amount of sewing takes place in Hong Kong or Macau to confer origin for trade purposes, while the remainder of the sewing and packaging takes place across the border in China, where labor costs are much lower. In table 3-2, U.S. imports from Hong Kong show a substantial decline for several products that were integrated into the GATT regime and became quota free in 2002. However, discussions with U.S. retailers and apparel suppliers indicate that at least some of this sourcing may stay in Macau and especially Hong Kong, until there is a better sense as to whether safeguards will be placed on U.S. imports from China.

Korea and Taiwan are major world suppliers of fabrics, benefiting from their large manmade fiber industries. Both countries have large spinning and weaving sectors, and despite rising labor costs, it is generally believed that they will remain competitive in the relatively capital-intensive production of synthetic fibers and fabrics. According to some retailers, the best yarns for knit-to-shape garments are made in Korea and Taiwan. Industry sources stated that apparel manufacturers worldwide likely will continue to use Taiwan and Korean fabrics.

A number of U.S. retailers noted that wage rates in Korea and Taiwan are relatively high, and that following quota elimination in 2005, they will be too high for producing most labor-intensive garments. Also, rapid development in high tech sectors means that traditional sectors like textiles and apparel have more difficulty attracting skilled labor. Taiwan has had to recruit some workers from other countries to help offset the chronic labor shortage. Although these economies have high labor costs compared with China's, their workers are considered highly skilled in making dress shirts, production of which is relatively automated compared with that of other garments. Industry officials indicated that some of this production may remain in these countries. Many firms believe that East Asian workers offer

much better sewing skills than those in Latin America or sub-Saharan Africa. Korea and Taiwan are also known for having excellent plant managers. These labor and management skills, along with the relatively small, flexible production lines, favor the production of fashion garments. Industry sources indicated that they likely will continue to source some dresses, which require highly skilled sewers and flexible production lines.

South Asia (Bangladesh, India, Pakistan, and Sri Lanka)

U.S. apparel companies and retailers generally indicated that they will expand their sourcing in South Asia after quota removal in 2005. However, sourcing decisions will vary significantly among the four countries in the region, in line with each country's competitive strengths in textiles and apparel. Industry sources cited a plentiful supply of low cost labor as a primary reason for sourcing in all four countries.

India is regarded as a major alternative source to China once quotas are removed for apparel and made-up textile products. Retailers and apparel suppliers acknowledged that India is likely to remain competitive after quota removal because of its large, relatively low-cost labor force, a large domestic supply of fabrics, and the industry's ability to manufacture a wide range of products. Retailers described Indian firms as innovative, particularly in design functions. Poor infrastructure and an inefficient bureaucracy were cited as concerns, but not as factors that will necessarily determine investment and sourcing decisions. Pakistan provides a more limited range of products than India, but is considered a competitive supplier of cotton goods, particularly men's apparel, home textile products, and fabrics.

U.S. firms presented a mixed picture when discussing the future of textile and apparel production in Bangladesh and Sri Lanka. Some buyers are confident that both countries will continue to manufacture large volumes of low-end apparel for Western markets once quotas are removed; others believe that sourcing will decline in Bangladesh and Sri Lanka if local producers are unable to provide full-service packaging and local inputs, such as fabric and trim. Several firms indicated that Sri Lanka will probably continue to be competitive in the production of intimate apparel, even if the country loses business in some other segments of its apparel industry.

Business Climate, Infrastructure, and Proximity and Access to Markets

The governments of the South Asian countries are taking steps to enhance the competitiveness of their textile and apparel sectors. Most of these efforts focus on encouraging new investment in the private sector, eliminating certain trade barriers to expand exports, and promoting industry quality standards. Nevertheless, a number of firms expressed difficulties in working in India and indicated that the lack of transparency in legal requirements and complicated paperwork increase producer costs and often necessitate the use of a broker rather than dealing directly with the manufacturers, particularly when many small manufacturers are involved. U.S. retailers noted that India's bureaucratic red tape required to move inputs and produce goods in a timely matter has also affected the time-to-market process for Indian-made goods.

Some industry sources considered Pakistan's business climate more difficult than India's. Some U.S. retailers indicated that they refuse to purchase from private mills in Pakistan not funded by World Bank loans for fear that financing has come from drug-money profits. ***.

Industry sources also expressed concern about the personal safety of their staff when examining factories and testing products prior to shipment. To encourage sales, some Pakistani firms are setting up showrooms in Dubai and other sites in the region.

Firms had mixed views on the ease of doing business in Bangladesh and Sri Lanka. One U.S. firm indicated that it thought manufacturers in Bangladesh had a more western approach to business than those in Pakistan, while another indicated that it is more difficult to work in Bangladesh than in India. In response to industry concerns regarding child labor, Bangladesh reportedly is working to get its factories certified for international labor standards. Some industry sources had concerns about working in Sri Lanka, in part because of its recent history of civil unrest. However, others described Sri Lanka as having a favorable business environment, including a functioning rule of law, corporate executives educated in the United States and the United Kingdom, and the use of English as the language of business.

South Asian countries face many challenges in upgrading infrastructure to enhance the competitiveness of their textile and apparel sector. U.S. firms indicated that India has poor infrastructure, including no deep-water ports and an antiquated railroad network. Bangladesh's poor physical infrastructure is reportedly less of a concern to business because most apparel production is in Dhaka or port regions, both easily accessible to the sea. However, communication networks in Bangladesh are described as substandard, and infrastructure is characterized by poor roads, port congestion, and frequent power outages.¹² Industry sources also described Sri Lanka as having poor infrastructure, in part because of the damage inflicted during the long period of civil unrest. Shipping times from South Asia reportedly are significantly longer than those from East Asia. One industry source said it takes about 45 to 60 days to ship from India to the east coast of the United States.

South Asian governments are beginning to focus on increased market access for their textile and apparel products both inside and outside the region to spur economic growth. In the aftermath of the September 11 terrorist attacks, Pakistan obtained additional quota access to the U.S. market for certain apparel and expanded trade preferences and market access from the EU. Sri Lanka obtained and currently enjoys quota-free and reduced-duty access to the EU and reduced-duty access to India, as well as duty-free access to large Asian markets as a member of the South Asian Association for Regional Cooperation.¹³ Bangladesh also benefits from duty-free and quota-free treatment in the EU and trade preferences extended by Canada and Norway.

Labor and Management

The textile and apparel sector is believed to be the largest source of manufacturing jobs in South Asia. Labor costs for textile and apparel production in the region are among the lowest in the world. However, South Asia's relatively low labor costs are partially offset by lower

¹² The World Bank estimated that Bangladesh loses about \$1 billion annually because of power outages and unreliability of power supply. See U.S. Department of Energy, Energy Information Agency, *Country Analysis Brief: Bangladesh*, Feb. 2002, p. 2.

¹³ In return for EU market access, Sri Lanka reduced duties to 5 percent for yarns and fibers and 10 percent for textile items from the EU. Certain articles are subject to a double-checking system of export and import licensing.

productivity levels. U.S. retailers interviewed by Commission staff indicate that productivity rates in India, Pakistan, and Bangladesh are about 20 to 25 percent below those in China.

India has a very large pool of skilled and unskilled workers employed on a 48-hour, 6-day work week. Indian firms reportedly also have well-educated management and technicians. Bangladesh suffers from low literacy levels, frequent labor unrest, and outdated technology. In general, the quality of management in Bangladesh's factories is considered poor, though one industry source indicated that some factories there have very good managers. Sri Lanka reportedly has low industrial labor productivity resulting from relatively high employee absenteeism and turnover, and strict labor standards lead to a shorter workday than that for India and Bangladesh. Nevertheless, one U.S. firm stated that Sri Lanka benefits from well-educated middle managers.

Raw-Material Inputs

India ranks among the world's largest producers of cotton, cotton yarn, and manmade fibers and filament yarns; it also has a large domestic fabric supply. However, with the exception of yarn spinning, an area of competitive strength for Indian firms, India's textile industry is highly fragmented. The weaving, dyeing, finishing, and processing segments are considered the weakest links. The textile and apparel sector in Bangladesh relies heavily on imports for its production inputs, including fibers, yarns, fabrics, and findings. The sector is cotton based, with most of the cotton fiber coming from India and the United States. Cotton fiber imports are expected to rise from their current levels through 2005, reflecting the addition of new spinning capacity, increased demand for cotton yarn, and the substitution of lower priced cotton for polyester fibers. In 2002, Bangladesh's textile industry reportedly had the capability to supply about 70 percent of its apparel industry's yarn needs for knitwear production (e.g., T-shirts) and 20 percent of its woven fabric needs for production of casual apparel such as shirts and pants.

The availability of domestic cotton in Pakistan has been an important factor in the development of its cotton textile sector: it is the world's fourth-largest producer of cotton after China, the United States, and India.¹⁴ In addition, Pakistani companies have begun purchasing more high-quality cotton to create better cotton yarns and fabrics.¹⁵ Pakistan has the third-largest installed capacity for spun yarn in the world, after China and India. U.S. retailers believe that Pakistani firms will remain competitive in unfinished cotton fabrics owing to large installed capacity, continued investments, and consistent quality.

Level of Service Provided and Reliability of Supplier

The size and quality of Indian textile production has made Indian suppliers a major source for both woven and knit products. Several industry sources noted that India produces good-quality home textiles and maintains a full range of knit and woven apparel. Indian firms are considered innovative with designs, and are capable of manufacturing a multitude of different styles. With its large supply of relatively low-cost labor, India is known for its

¹⁴ U.S. Department of Agriculture, FAS, *Cotton: World Markets and Trade*, Dec. 2002, table 1.

¹⁵ "Pakistan Shifts to Quality Cotton Textiles," *World Textile News*, June 4, 2001, found at <http://www.emergingtextiles.com>, retrieved June 8, 2001.

capability to provide relatively labor-intensive embellishments to apparel and home textile products, such as hand embroidery.

Pakistan provides a more limited range of products than India but is considered a competitive supplier for such cotton goods as men's apparel, bed linens, and fabrics. Pakistan is generally considered a competitive producer of knit tops. Bangladesh is considered a competitive low-cost supplier for large quantities of basic apparel items, including knit and woven shirts. Sri Lanka has developed a reputation as a niche supplier of intimate apparel. In addition, one U.S. firm described Sri Lankan firms as market savvy, and competitive in garment finishing and product development.

Association of South East Asian Nations (ASEAN Countries)¹⁶

A number of U.S. apparel companies and retailers expressed concern about the competitive position of most ASEAN countries following quota elimination in 2005. For example, although Indonesia has a huge textile and apparel infrastructure, from raw materials to finished goods, it faces political and social instability. Some firms contended that Thailand is likely to remain competitive in a post-quota world, because of its sophisticated textile industry; however, other firms claimed that Thailand may decline in importance because its costs are relatively high and its product quality is not high enough to compensate. Malaysia is considered an even higher cost supplier, and given its focus on more advanced manufacturing sectors, it is likely to see its share of the U.S. and global textile and apparel market diminish in a post-quota world. A number of firms interviewed claimed that the recent rapid growth in Vietnam's apparel shipments to the United States largely reflected its low labor costs and absence of quotas. However, the United States and Vietnam recently reached a bilateral agreement that establishes quotas on U.S. imports of apparel from Vietnam; because Vietnam is not a WTO member, those quotas will not be lifted in 2005.¹⁷

¹⁶ Includes Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam. In this report, the focus is on Indonesia, Malaysia, Philippines, and Thailand.

¹⁷ Committee for the Implementation of Textile Agreements, "Establishment of Import Limits for Certain Cotton, Wool, and Man-Made Fiber Textiles and Textile Products Produced or Manufactured in the Socialist Republic of Vietnam," *Federal Register*, May 16, 2003 (68 F.R. 26575).

Business Climate, Infrastructure, and Proximity and Access to Markets

A number of political and policy issues have been identified as increasing costs or exacerbating uncertainty regarding supply in some ASEAN countries. Many firms have raised concerns about political and social instability in Indonesia; for example, the concentration of wealth in the country's Chinese population has been cited as triggering social and racial tensions there. Similarly, FDI has declined significantly owing to concerns about the judicial system's ability to protect an investor's capital. In the Philippines, domestic security concerns are an issue. Some firms have complained that corruption in some countries, including Cambodia, has led to substantial cost increases.

The geographical location of some ASEAN countries was presented as a disadvantage. For instance, according to an industry source, shipping times from ASEAN countries to the west coast of the United States average 45 days. Cargo shipping from Indonesia to the United States reportedly takes about 55 days (with a transit in Singapore), while shipping from the Philippines can take as little as 20 days (through Taiwan). One firm has indicated that it takes 2 days to ship from Vietnam to Taiwan, and from there 12 days to the U.S. west coast.

Labor and Management

Industry representatives generally did not consider the ASEAN countries, particularly Thailand, the Philippines, and Malaysia, to be very competitive in terms of labor costs or labor abundance. According to one industry source, manufacturing costs in the Philippines are 11 cents per minute, compared with 5 cents per minute in China. In Malaysia, local labor is scarce and expensive, prompting some firms to bring in foreign workers (from Indonesia and Pakistan), a costly approach. Thailand faces a similar problem and has relatively high labor rates. The relatively high cost of labor has caused more than one firm to move production of babies' garments from Malaysia and Thailand to China following quota elimination for China in 2002.

Some ASEAN countries do have low labor costs. According to many retailers and apparel suppliers, Indonesia has a large labor force and much lower costs than the Philippines and Thailand. Similarly, although Vietnamese workers are not necessarily as productive as workers in China, their costs are low enough that Vietnam is considered by a number of companies to be competitive.

Skill levels and productivity vary greatly among ASEAN countries. According to one retailer, Cambodia is 40 percent less productive than China (manufacturing productivity) and yet their manufacturing costs are similar (5 cents per minute). The existence of an English-speaking, skilled and semiskilled workforce is considered an advantage for the Philippines. Thailand has skilled sewers and small production lines that favor the production of fashion apparel and embellished garments.

Raw-Material Inputs

ASEAN countries have ready access to raw materials in the region. However, ASEAN countries having a fabric industry are believed to be more competitive than those without one. For instance, the Philippines is at a disadvantage because it has no locally produced raw materials, and thus lead times are longer when sourcing from the country (though one

industry source indicated that fabric can be shipped from Taiwan to the Philippines in as little as 2 days). Customs delays for importing fabrics into the Philippines, combined with high port and shipping costs, can greatly extend lead times and total costs.

Lead times are shorter in Thailand than in the Philippines because of the availability of locally produced materials, reflecting the vertically integrated structure of the textile and apparel sector in Thailand. A retailer asserted that it would consider Thailand second to China in a post-quota world, simply because it has a competitive textile industry. On the other hand, Thailand's strong reliance on imported high-quality raw materials has been considered a competitive weakness. Malaysia and Indonesia also have vertically integrated textile and apparel sectors through all phases of production ranging from yarn to apparel. Indonesia is known for its quality fabrics and is said to be competitive in both cotton and polyester goods.

Level of Service Provided and Reliability of Supplier

The quality of production in Thailand and the Philippines is considered good, but the cost is relatively high compared with that in China. Thailand, in particular, is considered a capable supplier of fashion garments. U.S. apparel companies and retailers noted that they produce high-volume basic tops and bottoms with few style changes in Cambodia and Vietnam, but it is difficult to produce high-end or fashion goods in either of these countries.

Mexico

U.S. apparel companies and retailers interviewed by Commission staff indicated that they have reduced or eliminated their sourcing in Mexico, or plan to reduce their sourcing when quotas are removed, because of a number of factors that make Mexico less competitive than other suppliers. Industry sources cited rising labor costs, inconsistent quality, and problems with the reliability of production as major reasons for moving sourcing, along with concerns for the security of shipments during transit. Most products being sewed in Mexico are basics, particularly 5-pocket denim jeans and knit shirts. Industry sources expressed concern that their Mexican suppliers were not able to diversify into fashion denim jeans. Industry sources also pointed to the limited availability of full-package services as an impediment to doing business in Mexico.

Business Climate, Infrastructure, and Proximity and Access to Markets

Proximity and preferential access to the U.S. market are Mexico's major competitive advantages as a source of supply for apparel and textile products. Companies indicated that the duty-free and quota-free preferences are what originally attracted U.S. companies to Mexico for sourcing purposes, but that Mexico has lost some of its competitive advantage and the administrative burdens of doing business in Mexico have not improved. U.S. firms also indicated that they must devote considerable resources to dealing with U.S. Customs and administrative matters when importing from Mexico, adding to the total cost of the product.

The time required to ship goods to the United States from Mexico's interior, where a substantial amount of Mexico's textiles and apparel are now made, is sometimes longer than

the shipping time from the Caribbean because goods move by truck.¹⁸ Security issues, particularly as they relate to truck hijackings and container security (to prevent problems with drug smuggling) are issues many firms listed as disincentives to sourcing from Mexico. According to Mexican industry sources, up to 5 percent of the cost of apparel from Mexico can be attributed to shipments being stolen or security measures taken to prevent such theft.¹⁹ An Asian apparel supplier that has invested in Mexico indicated that Mexico is a difficult country in which to produce garments, but proximity to the U.S. market has made such production worthwhile.

Labor and Management

The cost of labor in Mexico is higher than that for most of the Caribbean countries, and much higher than that for China or India. U.S. firms indicated that labor productivity or efficiency is much lower in Mexico than in Asia. Several firms listed rising labor costs, which are partly associated with the appreciation of the Mexican peso, as one of the reasons they are shifting production out of Mexico to other regions, including to Central America and Africa. According to one retailer, Mexican factories do not have effective middle management—the decisionmaking power rests at the top, so it can be difficult to communicate with the factory if the top manager is away. Another concern expressed by an Asian apparel supplier is high absenteeism among Mexican workers.

Raw-Material Inputs

Mexico has a domestic textile industry producing both knitted and woven fabrics. However, Mexican fabrics tend to be priced higher than fabric from Asia, but lower than fabric from the United States.²⁰ Mexico specializes in basic fabrics,²¹ and is reportedly the world's third-largest producer of denim.²² However, according to the Mexican Apparel Chamber, fashion trends are moving toward the production of more fashion garments, using fabrics that the Mexican industry does not produce. While Mexico is considered competitive in the production of denim and certain wool fabrics, it is not considered competitive in the production of many other fabrics, particularly manmade-fiber fabrics. Under the NAFTA, the United States has tariff preference levels (TPLs) with Mexico that permit a certain volume of U.S. apparel imports from Mexico to consist of non-NAFTA fabrics. Mexico has fully utilized these TPLs over the last 5 years.

¹⁸ Some apparel is still made in the border region between the United States and Mexico, which reportedly has much faster transport times, and new apparel production is increasingly moving into the Yucatan Peninsula region, from which apparel is generally transported by ship.

¹⁹ Representative of the Textile Industry Chamber, Mexico City, interview by USITC staff, Feb. 10, 2003.

²⁰ Representatives of the Fiber Articles and Synthetics Section of the National Association of the Chemicals Industry, Mexico City, interview by USITC staff, Feb. 10, 2003, and representative of the Textile and Apparel Industry Association, Guatemala City, interview by USITC staff, Feb. 26, 2003.

²¹ Representative of the Apparel Chamber in Mexico, Mexico City, interview by USITC staff, Feb. 10, 2003.

²² Representatives of the Fiber Articles and Synthetics Section of the National Association of the Chemicals Industry, Mexico City, interview by USITC staff, Feb. 10, 2003.

Level of Service Provided and Reliability of Supplier

Companies interviewed by the Commission said that most of the Mexican factories are able to handle production of only basic, commodity goods that they can produce in large volumes. One company interviewed by Commission staff indicated it pulled some of its business out of Mexico because of a lack of flexibility on the part of manufacturers to switch production to more fashion-oriented jeans that are currently in style. Only a few large apparel firms in Mexico are vertically integrated. Most of the Mexican firms continue to focus on basic apparel assembly rather than providing the full-package service requested by U.S. importers.

CBERA Region

According to U.S. apparel companies and retailers, the major competitive advantages of sourcing apparel from the CBERA region are its quota-free access and proximity to the U.S. market, which makes shipping to the U.S. market faster and relatively less expensive than it is from Asia. U.S. apparel imports from CBERA countries are concentrated in product categories for which imports from lower cost Asian suppliers are highly constrained by quotas. The CBERA region mostly supplies high-volume commodity garments that have reasonably predictable consumer demand, particularly basic knit shirts, pants, underwear, and nightwear. The production of these basic goods involves large and standardized runs, relatively simple sewing operations, and few styling changes, which together help offset the higher cost of labor in the region vis-a-vis Asia.

Several large U.S. apparel suppliers indicated that the CBERA countries have been an integral part of their sourcing strategy; however, most industry sources indicated that the benefits of the CBTPA preferences are becoming less attractive as production costs in the region increase vis a vis those in Asia, particularly when combined with the higher costs of using U.S. yarns and fabrics. Most U.S. apparel companies and retailers indicated that their decisions regarding sourcing from the CBERA region in 2005 will depend on the outcome of negotiations on the proposed U.S.- Central American Free Trade Agreement (CAFTA) and/or Free Trade Area of the Americas (FTAA), and what type of provisions are put in place regarding the use of non-U.S. fabrics. Among the CBERA countries considered most promising for sourcing are Honduras, Guatemala, the Dominican Republic, El Salvador, and Nicaragua. High costs in Costa Rica reportedly have priced the country out of the market for many U.S. importers, and the Government of Costa Rica is now trying to attract other, nonapparel investment to the country to utilize its highly educated labor force.

Business Climate, Infrastructure, and Proximity and Access to Markets

Importers reported shipping times from Central America to the United States ranging from 2 to 7 days, depending on the country from which they ship and the port of entry. One U.S. firm said it sources large quantities of apparel from the region because the short lead times allow it to adjust orders according to market demand.

U.S. firms indicated that they have developed strategic relationships with their suppliers in the CBERA region, and many import garments under the CBTPA provisions using either

U.S. or regional fabrics.²³ In 2002, 79 percent of the value of U.S. apparel imports from CBTPA-eligible countries entered under preferential duty provisions, though the shares for individual countries varied considerably. For example, 85 percent of imports from Honduras qualified for preferential access in 2002, while only 32 percent from Nicaragua and 49 percent from Guatemala qualified. Nevertheless, industry sources indicated that CBTPA requirements are complex and add an additional layer of administrative burden, which in turn adds to the cost of the product. According to industry sources, the CBTPA yarn and fabric provisions also limit firms' flexibility in their supply chains. A number of firms indicated that they have already reduced apparel sourcing from the region or are in the process of doing so because of cost considerations and other disruptions to supply resulting from CBTPA regulations.

U.S. industry sources cited safety and security concerns in doing business in Jamaica and Haiti. Drug smuggling in Jamaica, Haiti, and Guatemala was also cited as a concern.

Labor and Management

Labor costs in CBERA countries are lower than those in Mexico, but higher than those in most apparel exporting countries in Asia. As such, U.S. apparel imports from CBERA countries are concentrated in products having low labor content, particularly basic knit tops, pants, shorts, underwear, and nightwear. A large U.S. retailer indicated that it has found labor productivity in CBERA countries to be about 50 percent of that in China. Labor costs reportedly have been increasing in El Salvador and especially in Guatemala, making them less competitive from a cost perspective. Some Dominican Republic firms have reportedly shifted some assembly operations to Haiti, which has lower labor costs.

U.S. apparel companies and retailers indicated that they generally do not source fashion apparel from the CBERA region or garments that require many delicate sewing operations. One large U.S. apparel supplier indicated that most factories in the region do not have skill sets, management, or production lines to handle fashion goods or complex sewing operations. This supplier also indicated that middle management is one of the biggest challenges of working in the region.

²³ See the "overview" in appendix I (CBERA countries) for information on CBTPA preferences.

Raw-Material Inputs

Most fabrics used in apparel production in the CBTPA countries are imported from either the United States, Mexico, or Asia. The Caribbean countries do not produce woven fabrics (except for some limited amounts believed to be for local consumption). The region does have a small knit fabric industry whose development was facilitated by the regional fabric provision under the CBTPA. Honduras has several integrated knit apparel facilities that produce fabric as well as finished garments, and in 2002, it was the largest supplier of regional knit fabric for U.S. apparel imports from the region qualifying for CBTPA benefits under the regional fabric provision. Nevertheless, U.S. imports of apparel using regional fabrics accounted for no more than 5 percent of total apparel imports from the region in 2002. In the same year, the TPL for goods using regional fabrics was fully utilized for T-shirts, but the TPL for other knit apparel, which accounted for most of the regional fabric provision, had a utilization rate of 51 percent.²⁴ A U.S. firm interviewed by Commission staff indicated that regional fabrics meet only one-half of its sourcing needs from the region.

One firm indicated that it rarely uses U.S. fabric in clothing produced in the region, except for some manmade-fiber products that have higher duty rates than cotton products. Several retailers and apparel suppliers indicated that they use some regional knit fabrics and forgo the preferential duty treatment under the CBTPA for the remainder, because U.S. fabrics cost 20 to 40 percent more than Asian fabrics. According to one retailer, apparel suppliers that sell under branded labels can charge a premium for their product and so can afford to pay more for their raw materials and are more likely to use U.S. fabrics than retailers sourcing for private label programs. Commission staff interviews with certain U.S. branded apparel suppliers indicated that they use U.S. fabric in their production in the region.

Level of Service Provided and Reliability of Supplier

According to companies interviewed by Commission staff, CBERA apparel factories generally are set up specifically to produce basic garments in long and standardized 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 redesign of production lines to accommodate the shorter, flexible runs. Moreover, while CBERA firms recognize the growing importance of offering full-package services to U.S. apparel companies and retailers, few currently offer it.²⁵ Among the firms offering full-package production in the region are some of the Asian investors that have links back to their parent companies in Korea or Taiwan. In the Dominican Republic, at least some apparel firms in the free zones reportedly offer full-package services. Honduras also has some companies capable of offering full-package

²⁴ TPL data were compiled from data of the U.S. Department of Commerce, Office of Textiles and Apparel, found at http://otexa.ita.doc.gov/agoa-cbtpa/agoa-cbtpa_2002.htm, retrieved Apr. 8, 2003.

²⁵ 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.

production. Korean and Taiwanese producers have established spinning and knitting facilities in Honduras to supply apparel manufacturers in Central America.²⁶

Andean Countries

The Andean countries (Bolivia, Colombia, Ecuador, and Peru) are a small source of U.S. imports of textiles and apparel, which became eligible for duty-free treatment for the first time with the enactment of the Andean Trade Promotion and Drug Eradication Act (ATPDEA, Division D of the Trade Act of 2002). Peru and Colombia, which account for most of U.S. textile and apparel imports from the Andean region, produce high-quality apparel products, such as combed cotton knit tops (Peru) and tailored clothing, fashion apparel, and jeans (Colombia). Both countries are considered cost competitive by some importers, in large part because quotas increase the cost of sourcing garments from certain lower cost producing countries. The allowance for regional yarns and fabrics in the ATPDEA is considered a factor that will help the region to compete with other suppliers, though some firms question whether the region will be able to be cost competitive once the quotas are removed. Some suppliers thought Peru may be able to compete in the supply of high-end knit shirts, and Colombia might be a good source for retailers and apparel suppliers looking to do quick-turn business, for which they might be willing to pay a premium.

Business Climate, Infrastructure, and Proximity and Access to Markets

During the past decade, the Andean countries have implemented numerous government incentives (substantial reduction of tariffs, the elimination of most import-license requirements, and simplified import and export procedures) to open their economies and attract foreign investment. Under the ATPDEA, qualifying textile and apparel articles have duty-free and quota-free access to the U.S. market. The trade preferences are limited to apparel made of U.S. fabric and to specified quantities of apparel made from regional fabrics (see the “overview” in appendix J, Andean countries, for information on the trade preferences).

Colombia has ports on both its coasts, but transportation inside the country can be difficult. One industry source noted that Colombia has a well-developed airfreight industry for its flower sector that could be used to transport fashion items that are needed on a quick-turn basis. However, one apparel supplier pointed out that it is difficult to ship fashion garments on hangers by air. Safety and security for both personnel and shipments are always a concern for importers. ***. Peru has problems with its infrastructure, which was severely damaged during the disruptive weather patterns of El Nino in 1997-98. In addition, its shipping and transportation costs reportedly are higher than those of its regional competitors.

²⁶ Representative of textile producer, San Pedro Sula, Honduras, interview by USITC staff, Feb. 21, 2003.

Labor and Management

Colombia has an ample supply of highly skilled textile and apparel workers. Peru reportedly has an abundant labor force, but a shortage of skilled workers. From a cost perspective, one firm indicated its apparel vendor in Colombia is able to match China's prices. However, it indicated that once the quotas are removed (and the associated quota costs), its Colombia supplier may not be price competitive with China. Another firm indicated that Colombia is slightly more expensive than the Central American countries, but the Colombian workers have excellent needlework skills.

Raw-Material Inputs

Both Colombia and Peru have a local supply of fabrics for their domestic apparel industries. Peru's fabric capabilities are concentrated in knit fabric production, particularly cotton; it has developed a reputation for its ability to make high-quality cotton knit fabrics using long-staple cotton. One U.S. industry source said Peru also is competitive in polyester knit fabrics. Colombia's textile industry has vertically integrated firms that make a wide variety of cotton, manmade-fiber, and wool woven fabrics, as well as knit fabrics for use by its apparel sector.

Level of Service Provided and Reliability of Supplier

Colombia is an established supplier of tailored goods, jeans, and other sportswear. It is also recognized as a viable, though perhaps more expensive, alternative to Asian suppliers for fashion items, particularly for quick-turn items. By contrast, Peru supplies both knit and woven products to the U.S. market; it is known for its high-quality pima cotton knit tops. In an interview with Commission staff, a representative of the Peruvian government indicated that the high-end knit shirts will likely be the niche in which its industry will be most equipped to compete once quotas are removed, but he expressed some concern about the rest of the industry, including that which produces less expensive cotton T-shirts.²⁷

Turkey and Egypt

Several U.S. retailers and apparel suppliers indicated that Turkey and Egypt would be more attractive suppliers from a cost standpoint if they had free-trade agreements with the United States. A few firms indicated that in the absence of a free-trade agreement they are likely to continue or increase their purchases of apparel from Turkey; other companies indicated that it probably would not be a significant supplier for them. However, Turkey is a member of the EU Customs Union and may continue to be a source of supply to that market, which accounted for nearly two-thirds of the value of Turkey's textile and apparel exports in 2001. Similarly, most U.S. firms indicated Egypt would decline in importance as a supplier to the U.S. market. However, at least one large retailer indicated that Egypt is likely to do well in a post-quota environment, and another large retailer stated that it will likely continue to source some products from Egypt because of its good relationship with the manufacturer and the fact that the products they purchase are competitive with other suppliers from a cost and quality standpoint.

²⁷ Counselor, Embassy of Peru, interview by USITC staff, Washington, DC, Jan. 8, 2003.

A few retailers indicated that they are likely continue to source from Turkey after 2005. The Turkish workforce is flexible and highly skilled, even though labor costs are relatively high compared with those in China and India. Turkey also has an integrated and diversified textile and apparel sector, active in every segment of the supply chain, particularly cotton manufacturing. One retailer thinks that Turkey is and will remain competitive in cotton fabrics after 2005. According to industry sources, the Turkish industry is also skilled in making tailored clothing and has a good reputation for manufacturing apparel on a fast turnaround basis. However, another industry source indicated that the quality of apparel manufactured in Turkey is somewhat lower than that of similar goods from Hong Kong and China, and somewhat higher in price. Turkey caters mainly to the EU market, whose customers reportedly are demanding from the delivery standpoint, but are not as concerned with quality. According to industry sources, shipping time from Turkey to the United States is comparable with that from East Asia, at about 14 days.

Egypt has a relatively abundant labor supply, but its labor costs are higher than that for China. Egypt also has a well-established textile industry based on its production of high-quality cotton. However, owing to price floors set by the Government of Egypt, Egyptian cotton is relatively expensive, forcing downstream producers to import yarns and fabrics. According to some producers, imported inputs generally face high tariffs, but some firms are participating in a duty drawback program for exported final products. The textile sector in Egypt is largely under public-sector ownership and is characterized by excess employment, outdated technology, and relatively low productivity.

Israel and Jordan

Industry sources expressed uncertainty over the future of sourcing garments in Israel and Jordan. On the one hand, Israel and Jordan have preferential access—with advantageous rules of origin under free-trade agreements—to major import markets. On the other hand, U.S. apparel companies and retailers expressed concern about political instability and security matters in the region, which have greatly affected reliability of supply and inhibited the ability of firms to make long-term sourcing decisions and FDI in the region. Generally, U.S. firms indicated that any sourcing from Jordan is likely to be in apparel items that would normally be subject to high rates of duty, such as synthetic fleece tops and wool apparel. Given its high labor costs, the Israeli apparel sector tends to concentrate on the niche and high-end market segments. One firm told Commission staff that Israel is likely to remain competitive in those segments following 2005.

Both Israel and Jordan have free-trade agreements with the United States. In addition, their textile and apparel sectors have been significantly affected by the 1998 U.S. legislation on qualified industrial zones (QIZs), which allows U.S. imports of qualifying goods made in designated QIZs to enter free of duty and quota. For example, several firms reported that they buy synthetic fleece garments that are made in QIZs in Jordan from Asian fabrics, using the required minimum amount of content from Israel and enter the goods free of duty and quota into the United States (thereby avoiding payment of about 30 percent normal trade relations tariff rate). Shipping times from the region to the United States are also considered advantageous, with average shipping times from Israel (and Jordan via Israel) of about 2 weeks, which is better than that from many Asian countries.

Although Jordan and Israel are linked in terms of the QIZ program, they differ in terms of their cost competitiveness. Jordan has low manufacturing costs because of low wages, no income taxes, and inexpensive rents and electricity. Israel has high labor costs, which have pushed domestic firms to move production to more cost-competitive countries. Israel has a highly educated and trained workforce and it has been noted that high production costs in Israel are partially offset by the use of advanced technology and high product quality. The Israeli industry is highly automated, which keeps it competitive, and has a strong reputation for good service and fast turnaround.

The apparel industry in Jordan consists largely of assembly operations; lack of access to water prevents the development of a textile industry there. However, it has the advantage of being close to major regional fabric suppliers, including Egypt, Turkey, Israel, and Pakistan.

Sub-Saharan Africa

According to industry sources, sub-Saharan Africa (SSA) is not a particularly low-cost area for production of textiles and apparel, given the labor costs, low productivity, long lead times, and high cost of other inputs compared with those in Asia. Most companies located their production in SSA because of quotas on other suppliers. These quotas, combined with duty-free, quota-free access to the EU and, since October 2000, to the U.S. market, has led to increasing exports of mainly apparel items from SSA. Most companies interviewed indicated that because of the importance of quotas, it will be difficult for SSA to compete in a quota-free world. They indicated that EU and AGOA preferences will not be enough to keep the industry competitive except in the area of manmade-fiber and wool apparel, where SSA is competitive and U.S. duties are high. A number of SSA companies reported they are already losing sales in the EU market to countries such as Bangladesh, even with EU quotas in place. Most SSA firms view vertical integration as the means of survival in a quota-free world.

Business Climate, Infrastructure, and Proximity and Access to Markets

The political and business environment in the major SSA countries producing textiles and apparel is generally considered safe and secure. However, U.S. retailers have indicated that they will not send staff to countries where terrorism may be an issue, and this may affect countries such as Kenya. A benefit of AGOA is that the beneficiary SSA countries have had increased technical assistance and contact with U.S. Government agencies and companies. SSA countries exporting to the United States under AGOA have had to improve customs procedures and transparency, including adoption of procedures to prevent unlawful transshipments and the use of counterfeit documents. Many companies operating in the region believe that these changes have improved the business environment for textile and apparel exports.²⁸ A setback in SSA's attempts to improve the business environment in textiles and apparel occurred in Madagascar in 2002, when many foreign-owned textile and apparel companies pulled out of the country because of political unrest and refusal by the

²⁸ Indeed, one representative of a major company in South Africa noted that one of the big benefits of the AGOA was the technical assistance provided by the U.S. Customs Service in improving customs procedures in that country, particularly regarding the issue of under invoicing. Representative of textile/apparel company, interview by USITC staff in Durban, South Africa, Feb. 27, 2003.

Government of Madagascar to remit value-added taxes owed to businesses. Although the current government is attempting to restart the industry, to the extent that SSA countries experience the types of political problems, SSA will be at a disadvantage to other countries.

The United States and the EU provide preferential market access to qualifying textile and apparel articles from eligible SSA countries. Under the Cotonou Agreement, the EU grants duty-free and quota-free access to textile and apparel imports from African, Caribbean, and Pacific (ACP) countries, excluding South Africa,²⁹ subject to the use of ACP fabric with a double transformation rule.³⁰ In January 2000, the EU negotiated the EU-South Africa Trade, Development and Cooperation Agreement (TDCA) with South Africa under which the EU agreed to phase down its duties on textiles and apparel from South Africa over 6 years, while South Africa will phase down its tariffs on EU textiles and apparel to 50 percent of the MFN rate over 8 years.³¹ The United States extends duty-free and quota-free access to apparel from eligible SSA countries, including South Africa, under AGOA, which is described in more detail in appendix K of this report.

Companies in SSA indicated that both U.S. incentives under AGOA and the restrictiveness of U.S. quotas on imports of textiles and apparel from non-SSA suppliers have provided a significant impetus for expanded exports to the United States. However, most companies pointed out that the quotas on non-SSA suppliers were the most important policies making it economical to locate textile and apparel production in SSA and to export. Many companies indicated that retailers were increasing their purchases of apparel from SSA under AGOA because they do not have to pay duty, but without quotas on non-SSA suppliers, the absence of duties likely would not retain SSA's competitiveness, except in cases where U.S. duties are relatively high.

The importance of the U.S. market to SSA was stressed by a number of companies. These representatives noted that growth in EU imports of textiles and apparel from non-SSA suppliers, particularly Bangladesh, under the Everything But Arms initiative has made it difficult to compete in the EU market. The companies noted that the implementation of AGOA in 2000 served to provide a new outlet for SSA apparel exports at about the time export sales to the EU were starting to slump.

SSA has a number of disadvantages in terms of logistics and infrastructure. Buyers and companies in Mauritius cited the long shipping time to the U.S. market as a significant disadvantage. For example, one buyer in Mauritius noted that it can take up to 43 days to ship apparel to the U.S. market, (which travels via Durban and Capetown, South Africa). Long shipping times affect not only transportation to the final market, but also the time required to complete an order, because many inputs, including fabrics and yarns, have to be imported.

²⁹ Although South Africa acceded to the Lome Convention as an ACP country, it was denied the trade preference benefits in favor of an FTA with the EU.

³⁰ Under the double transformation rule of the Cotonou Agreement, the fabric must be made in an ACP beneficiary country, and the fabric must be transformed into a new product, such as a shirt. Musa A. Rubin, "Effect of AGOA/Cotonou Agreements on the Garment and Textile Industries in Southern Africa," prepared for IPM meeting, Maputo, Mozambique, Nov. 5, 2002.

³¹ Textile Federation, *South African Textile Statistics & Economic Review 2001/2002* (Bruma, South Africa), p. 4.

Shipping is shorter in terms of time, and more frequent in occurrence, from southern Africa, about 21-30 days. Shipping times were not cited as a particular disadvantage by companies operating in South Africa, although one company in Lesotho noted that it was starting to lose orders for basic trousers to Mexico, which has much shorter shipping times. Longer lead times mean that SSA products will be largely confined to “basics” that do not depend on quick changes in fashion. These are also the types of products that can be produced in China, India, Bangladesh and other Asian countries very competitively.

Other logistical problems also confront SSA. For example, one integrated manufacturing firm indicated that the entire cost base in Mauritius is high; buildings, electricity, fabrics, and labor are cheaper in China. The same firm noted that although wages were cheaper in Madagascar, other costs were more expensive, including electricity and transportation. In Lesotho, utility costs, including water and electricity, are higher than in competitor countries,³² and outages occur. One company operating in Mozambique indicated that operating a textile factory in that country would be extremely difficult owing to a lack of electricity and constant outages.

Labor and Management

With the exception of Mauritius, SSA has abundant labor for production of textiles and apparel. In SSA countries other than Mauritius and South Africa, factory ownership and most of the management are controlled by foreign interests, largely from Asia. Mauritius is labor constrained for expansion of textiles and apparel. It is reported that workers in Mauritius increasingly prefer to obtain jobs in high tech areas and that it is difficult to retain workers in the textiles and apparel industries. Approximately one-third of the workforce in textiles and apparel in Mauritius is foreign workers, largely from Asia.

Wages for textile and apparel workers in SSA are highest in South Africa and Mauritius, and tend to be much lower in other SSA countries. Workers in South Africa are highly unionized, resulting in the highest average wages for workers in this sector in SSA. Most companies interviewed indicated that workforce skill levels and labor productivity on average are lower in SSA than in Asia. For example, productivity in making basic trousers in Lesotho is estimated at 70 percent of that in Taiwan, and the rate falls to 50 percent or less if the style of the trouser is changed.³³ Most companies interviewed noted that SSA countries will have difficulty competing with Asia in global markets following quota elimination in 2005 either because their wages are high (South Africa and Mauritius) or because their low productivity, combined with the cost of other raw materials, offsets their low wages (for example, Lesotho, Madagascar, and Swaziland).

Raw-Material Inputs

Companies interviewed in SSA noted that the competitiveness of the region’s apparel industry is undermined by the limited availability and high cost of regional inputs, compared with countries such as China and India. Although SSA has an important textile fiber base for the development of textile and apparel industries, many of the countries that produce fibers

³² Department of Industry, *Proposed Incentives for the Manufacturing Sector in Lesotho*, Oct. 2002.

³³ Representative of large apparel company, interview by USITC staff, Lesotho, Mar. 7, 2003.

have lacked the manufacturing investments required to use these fibers (mainly cotton and wool) locally. To improve utilization of SSA cotton within the region, a number of SSA countries are participating in the Cotton Pipeline Project, whose purpose is to assist cotton production, increase the number of ginning mills, and improve the distribution of SSA cotton so as to expand textile and apparel industries within SSA.³⁴

SSA is a higher cost producer of cotton yarn and fabrics than China and India. As noted in Appendix K, U.S. imports of apparel made from third-country fabrics amounted to 75 percent of AGOA apparel imports in 2002. This reflects the high cost of U.S. fabrics in SSA, as well as the limited availability and relatively high cost of SSA yarns and fabrics. For example, one company estimated that the cost of a standard cotton chino fabric imported into Lesotho from China was 58 cents per square yard, compared with \$1.57 per square yard for an identical fabric produced in South Africa. Some of this cost differential may be due to the appreciation of the rand against the U.S. dollar in 2002.³⁵

In addition to cost differentials, concerns have been expressed about the small variety of fabrics that can be produced in SSA, compared with Asia. This is considered an important disadvantage for the region, as buyers and fashion dictate the type of fabrics used. In particular, SSA has a deficit in the production of knitwear fabric. Mauritius, an important SSA fabric producer, has a deficit in the production of cotton yarn for knitwear,³⁶ and Lesotho, a major exporter of knit shirts, does not produce yarn or fabric. Both countries have planned investments coming on line in the future, but these industries will take time to get into full-time operation. AGOA preferences have enabled SSA to become more competitive in manmade-fiber apparel due to the relatively high duties on such apparel. However, South Africa is the only country in SSA producing synthetic filament yarn, as this industry is highly capital intensive.

Another important disadvantage, particularly in Mauritius, is the lack of ability of SSA countries to produce the volume of apparel that can be produced in China and India. Many companies in SSA expressed concern that as buyers reduce the number of countries from which they source following the phaseout of the quotas, SSA will be left out as buyers work to eliminate sourcing costs by purchasing from larger suppliers.³⁷ The volume disadvantage was particularly cited in the context of the U.S. market, as the EU market generally demands smaller quantities on a flow basis.

Level of Service Provided and Reliability of Supplier

Companies operating in SSA recognize that to be competitive they need to become vertically integrated and to offer full service packages. Some companies in Mauritius and South Africa

³⁴ Representative of the Department of Trade and Industry, interview by USITC staff, South Africa, Feb. 27, 2003.

³⁵ A representative of an integrated textile/apparel company in South Africa indicated that until the appreciation of the rand against the dollar, South African-produced denim was competitive with denim imported into Lesotho. In 2002, the rand appreciated 40 percent against the dollar.

³⁶ A number of planned investment is expected to come on line in the second quarter of 2003.

³⁷ For example, one large apparel company indicated that it has already begun to narrow its list of suppliers and that it does not like to account for more than 20-25 percent of a supplier's capacity.

produce high-value added products, such as fully fashioned sweaters in cotton, cashmere, lambswool, and various blends, and apparel from wool and manmade fibers. It is highly likely that these countries will be competitive in these high-value products in the future. However, most SSA exports are in basic products that will be vulnerable to lower cost Asian production once the quotas are phased out.

A number of investments are underway in SSA countries to increase the number of vertically integrated companies and to upgrade service packages, but these types of investments take time. Most companies cited vertical integration as a way to compete in a quota-free world because it will cut lead times, assure fabric availability, and give a company more control and flexibility over its output. There is recognition in Mauritius that due to the challenges the industry will face in a quota-free world, its industry may be better placed as a regional SSA center for textile and apparel services than as a producer of goods.³⁸

³⁸ Joint Economic Council, *The Economic Transition of Mauritius: Report of the JEC Task Force*, Feb. 2001, and appendix K of the Commission report.

CHAPTER 4: POSITION OF INTERESTED PARTIES

This chapter summarizes the views of interested parties submitted to the Commission in connection with the investigation, either at the hearing or in written statements.¹ The order in which the summaries of submissions are shown is as follows: (1) the views of officials of the Governments of Bolivia, Ecuador, Guatemala, Honduras, Indonesia, Kenya, Korea, Mauritius, Nicaragua, Peru, and Sri Lanka; and (2) the views of the American Apparel and Footwear Association, the American Textile Manufacturers Institute, the American Textile Trade Action Coalition, the Consumers for World Trade, the International Mass Retail Association, the Textile and Apparel Manufacturing Association of Israel, and the United States Association of Importers of Textiles and Apparel.

Bolivia²

The Embassy of Bolivia states that the elimination of quotas in 2005 will change the competitive environment in the international textiles and apparel sector significantly. Countries such as China that engage in mass production will gain a competitive advantage in international trade in these products. The Embassy recommends establishing a system to enable Bolivia's textile and apparel entrepreneurs to take full advantage of current business opportunities with developed markets such as the United States. The Embassy acknowledges that the duty-free benefits granted under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) will allow Bolivia to develop a more proactive export strategy for its textile and apparel sector and, thereby, boost employment, attract foreign investment, and increase economic growth.

The Embassy of Bolivia provides statistics that show a significant decline in the country's cotton production, largely caused by falling international cotton prices. The Embassy reports that Bolivia has only three thread producers and that Bolivia imports 75 percent to 80 percent of its thread from Peru. The Embassy also states that Bolivia's apparel exports were fairly steady during 1996-2000, and that its apparel industry is important to Bolivia's economy because it creates employment. Apparel employment accounts for 10 percent of Bolivia's total manufacturing employment. The Embassy's submission also discusses and provides data concerning family-run operations that raise alpacas and llamas. Export data provided by the Embassy for 2000-2002 confirm that the United States is Bolivia's leading export market for its textile and apparel products.

¹ See appendix C for a list of witnesses appearing at the public hearing held by the Commission in connection with this investigation on Jan. 22, 2003.

² Ambassador Jaime Aparicio Otero, Embassy of Bolivia, Washington, DC, written submission to the Commission, Feb. 21, 2003.

Ecuador³

The Embassy of Ecuador's submission prepared by the Industrial Textile Association of Ecuador (AITE) states that Ecuador's textile industry is one of the country's oldest and most labor intensive industries. Currently, Ecuador's textile and apparel sector accounts for 25,000 direct jobs (sewing and cutting) and 100,000 indirect jobs (sourcing, shipping, handling). Textile production accounts for 19 percent of manufacturing GDP. Embassy notes that, during the past decade, Ecuador's textile industry has diversified its export product mix to increase its competitiveness in the global marketplace. Apparel producers in Ecuador have begun to offer high quality goods at competitive prices in order to gain access to the more quality-conscious markets. Embassy reports that in 2001, the textile and apparel sector invested \$24 million to improve its productivity and competitiveness in domestic and international markets.

The AITE is optimistic about the benefits that the ATPDEA will generate for Ecuador's textile and apparel sector. Exports can be expected to increase by 70 percent from the current level by 2006. The AITE notes, however, that Ecuador's textile and apparel sector recently went through a crisis, reportedly caused by contraband and underpricing of imported goods. Illegal sales of apparel in the domestic market jeopardize the strength of the domestic sector as an important source of employment. Other challenges include competition from Brazil and Asian countries. Ecuador's adoption of the U.S. dollar as its currency made domestically produced goods less competitive in the domestic and international markets as other nations devalued their currencies. Ecuador also experienced rising electricity costs and rising interest rates. AITE hopes that the Ecuadorian government will implement policies to promote domestic manufacturing and increase its competitiveness in the domestic and international markets.

Guatemala⁴

On February 5, 2003, the Executive Office of Textiles and Apparel Quotas, the national entity assigned by the Guatemalan Ministry of the Economy to administer and allocate apparel quotas, filed a statement on behalf of the Apparel and Textile Industry of Guatemala, Vestex, in connection with this investigation. Vestex represents 38 textile manufacturers, 234 apparel manufacturers, and 260 suppliers of accessories and services in Guatemala.

The Executive Office and Vestex maintain that the textile and apparel sector in Guatemala will remain competitive in 2005 and beyond, following the elimination of U.S. quotas on textile and apparel products. They argue that sector manufacturers in Central American countries, especially Guatemala, benefit from a high level of integration with members of the U.S. textile, apparel, and retail industries. The competitive advantage is partially due to

³ Industrial Textile Association of Ecuador (AITE), submitted by Carlos Jativa, Charge D'Affaires, Embassy of Ecuador, Washington, DC, Feb. 4, 2003.

⁴ Guatemalan Ministry of the Economy, Executive Office of Textiles and Apparel Quotas, written submission to the Commission, Feb. 5, 2003.

the unilateral preference programs offered by the United States, particularly the duty-free and quota-free treatment for garments made from U.S. yarns and fabrics (under the CBTPA).

Guatemala's central location, ability to provide quick deliveries, and excellent port facilities give Guatemala a competitive advantage and provide an important benefit to the Central American region. Guatemala's apparel industry believes that its use of assembly operations using U.S. yarns and fabrics, as well as its full-package manufacturing operations, provide both the versatility and the expertise to allow Guatemala to maintain its position as a major source of apparel to the U.S. market.

The statement covers Guatemala's interests in the evolving negotiations for a Central American Free Trade Agreement (CAFTA). The outcome of the CAFTA negotiations will have a direct impact on the competitiveness of the textile and apparel sector in Guatemala. The Executive Office and Vestex shared several goals for the negotiations, including expanded trade for textiles and apparel; enhanced competitiveness for the region through expanded rules of origin, specifically the use of inputs from the region, CBI and NAFTA countries; provisions allowing dyeing, finishing, and printing of fabrics in the region; and an integrated customs compliance procedure and security program, similar to the one used by the U.S. Customs Service for goods from Asia and Europe.

The industry believes that its future rests on the negotiation of both CAFTA and the Free Trade Area of the Americas (FTAA) agreement. It argues that these agreements 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 Guatemala's textile and apparel sector.

Honduras⁵

The Embassy of Honduras' submission states that Honduras is the third-largest exporter of apparel to the United States after Mexico and China. Textile and apparel exports from Honduras to the United States totaled \$2.3 billion in 2001-2002, with apparel exports accounting for virtually all of these exports. The Embassy states that the CBI and the CBTPA are largely responsible for the growth in this industry. However, initially the CBTPA resulted in a loss of 15,000 jobs in the maquila sector. The Embassy speculates that the passage of the enhanced CBTPA in 2002 seems to have reversed that trend. Employment in Honduras' apparel industry is expected to be 120,000 employees in 2003; 130,000 in 2004; and 143,000 workers in 2005.

The Embassy states that removal of U.S. textile and apparel quotas on January 1, 2005, is "a watershed period of potential dislocation for Honduras and other Central American and CBI countries." Any change could be "dramatic and detrimentally impact the current economies of the Central American and CBI countries, including Honduras." The

⁵ Ambassador Mario M. Canahuati, Embassy of the Republic of Honduras, Washington, DC, written submission to the Commission, Feb. 4, 2003.

negotiations between the Central American countries and the United States for a free trade agreement (CAFTA) are expected to impact Honduras' competitiveness in the global apparel market significantly, post January 1, 2005. The Embassy states that because the United States intends to model CAFTA after the U.S.-Chile free trade agreement it could be damaging to Honduras and Central America, especially after U.S. quotas are removed on apparel products on December 31, 2004. The Embassy advocates that Honduras and Central America should be integrated through the CAFTA negotiations with Mexico, Canada, CBI, and eventually the Andean regions. Honduras is concerned about the potential for market dislocation if the dyeing and finishing prohibitions under CBTPA are carried over to the CAFTA.

The Embassy states that trade policy concessions made by the United States to the Central American countries, including Honduras, are likely to have major beneficial ramifications for the United States. After passage of CBTPA, U.S. yarn exports to Honduras doubled from 2001 to 2002. For 2001, 58 percent of all U.S. cotton yarns that were exported to the CBI region were exported to Honduras. The U.S. industry is tied closely to Honduras and other CBI countries, as demonstrated by the share of U.S. inputs in the CBI region's exports - 68 percent of all CBI exports consist of U.S. inputs. Another example of U.S. ties to the region is in the area of investment. In Honduras, 40 percent of total investment is from the United States.

The Embassy urges the Commission to recommend to USTR that the final CAFTA textile and apparel provisions: (1) allow for development of a seamless textile and apparel sector; (2) establish flexible rules of origin to allow use of fabrics produced in NAFTA, Central America, CBI, and the Andean countries; (3) allow woven fabrics produced in the region to be eligible for preferential treatment; (4) integrate and simplify the customs compliance and security programs for Central America; (5) allow dyeing, finishing, and printing of all fabrics to occur in the region; (6) allow access for woven fabrics; and (7) allow for commercially reasonable use of the short supply provisions.

Kenya⁶

According to the Embassy of Kenya, Kenya's liberalization measures in the 1990s led to the closure of many companies in Kenya's textile and apparel sector and substantial unemployment. The Embassy states that sector imports mainly from developed countries were priced lower than Kenyan sector products, or "dumped" into Kenya's market.

The Embassy states that AGOA has enabled Kenya to redevelop its textile and apparel sector. AGOA's implementation created jobs, introduced new technologies, increased exports to the United States, and created foreign investment in the apparel industry. All of these benefits are expected to disappear with the elimination of quotas in 2005. The quota elimination will expose Kenya to competition with the world's leading textile and apparel manufacturers, such as China. The implementation of AGOA did not allow enough time for

⁶ Ms. Lina Ochine, Commercial Attaché of the Kenyan Embassy, Washington, DC, written submission to the Commission, Jan. 24, 2003.

Kenya's textile and apparel sector to become competitive with such countries. However, the Government of Kenya is currently attempting to prepare for such competition.

The Government of Kenya is creating a friendly foreign investment environment to attract investment and new technology. To revive its cotton and textile sector, the Government of Kenya has encouraged research development, such as improving cotton seeds and upgrading ginning technology. Kenya is supporting regional integration through bilateral and multilateral trade relationships such as COMESA and EAC, which should facilitate regional exports of apparel. The Government of Kenya is also planning to remove remaining impediments at Kenya's ports and to upgrade its transportation and telecommunication systems. In addition, Kenya is attempting to diversify its economy.

Korea⁷

The Embassy of the Republic of Korea submitted a set of statistics concerning the Korean textile industry. These data reported on the importance of the textile industry to the overall Korean economy as a share of industrial production, of value-added output, and of employment.

Data on international trade show the increasing relative importance of textile and apparel imports versus these exports to the Korean economy. The text suggested that Korea will become a net textile-importing country, the same as the United States. In response to the suggestion that Korea benefited excessively from currency devaluation, data show that Korea's share of the U.S. textile and apparel market has decreased over time as the shares of Canada, Mexico, and Honduras increased.

Mauritius

Ministry of Industry and International Trade⁸

The Secretary of the Ministry of Industry and International Trade of Mauritius states that the removal of quotas is an important issue for Mauritius as textiles and apparel are its main exports and that, along with other developing countries, economic progress has depended on investment attracted by quota benefits.

Without the quota system, Mauritius would not have attained its current market shares in the United States and Europe. A quota-free system would benefit large, low-cost producers such as India, Indonesia, Pakistan, Malaysia, and Thailand. Due to the substantial cost of imported raw material and production input costs, Mauritius "would find it difficult to

⁷ Mr. Shinhak Moon, Commercial Attaché of the Republic of Korea Embassy, Washington, DC, written submission to the Commission, Jan. 21, 2003.

⁸ Written statement submitted to the Commission, on behalf of the Permanent Secretary, Ministry of Industry and International Trade, Mauritius, Feb. 20, 2003.

compete in the open market when quotas would disappear.” China would likely acquire 50 percent of the world market.

Mauritius’ current market share has been a result of the integration process, which has reserved the most sensitive items until the end. Industry survival will depend on improving competitiveness, by moving toward services and by increasing technology-intensive and upmarket production. The Government of Mauritius is facilitating this process, but support from international institutions and the United States in improving competitiveness and technology transfer is vital.

Embassy of Mauritius⁹

The Embassy of Mauritius states that the textile and apparel industry has “been the motor of economic development” in Mauritius, transforming 25 percent unemployment to full employment. The textile and apparel sector is an important sector of the economy, accounting for 90,000 jobs and 25 percent of GDP. It is the largest employer and main foreign-exchange earner.

Mauritius currently exports 65 percent of its products to the EU and 20 percent to the United States. Current difficulties include high transport costs, long lead-time requirements, and increasing labor costs. Mauritius has invested in other sub-Saharan African countries, such as Madagascar and Mozambique, for the production of basic garments, contributing to the continued economic development of these countries.

Mauritius and other sub-Saharan African countries face three major threats: “(1) The end of the phase-out of the Multi Fiber Agreement on January 1, 2005; (2) the continued opening of the EU and U.S. markets to duty-free entry of apparel and textile exports from countries under FTAs; and (3) the threat of a complete phase out of the US and EU tariffs by the year 2015.” The Embassy also noted that--

1. When quotas are removed, Mauritius and other infant African textile and apparel industries will compete directly with long-established, vertically-integrated industries with access to large pools of low-cost labor (such as China, India, and Bangladesh).
2. The relative benefit of preferences diminishes as more countries receive the same access, especially as Mauritius does not qualify for the less developed status.
3. Small and infant industries in Africa are requesting at least 10 years to develop their industries to compete with long-established countries with huge export capacities.

Small industries, such as the one in Mauritius, are inhibited by distance, lack of marketing, and capacity constraints. Mauritius has tried to combat these constraints by moving up

⁹ Ambassador Dr. Usha Jeetah, Embassy of Mauritius, Washington, DC, written submission to the Commission, Mar. 6, 2003.

market in its products and by moving upstream to spinning and weaving through training and technology investments. The end of the MFA will impact the economic and social development of the country negatively.

Nicaragua¹⁰

The Embassy of Nicaragua points out the major strides made by its free-trade zone regime in general, and the textile and apparel sector in particular, during 1990-2003. Sector exports increased from \$3 million to \$322 million during 1991-2002, and direct and indirect jobs increased from 900 and 2,700, respectively, to 50,000 and 150,000, respectively, during 1990-2003. The Embassy attributes the rapid growth in Nicaragua's textile and apparel sector in large part to the country's good business climate, civil security, developing industries, and zero quota. The Embassy notes, however, that the quota-free advantage was lost when the CBTPA was enacted, as the CBTPA extended quota-free status to other countries in the region. However, the CBTPA had not, to date, negatively impacted the growth in Nicaragua's textile and apparel sector, which has continued to expand more rapidly than Nicaragua's principal regional competitors over the last two years.

Nevertheless, when the Uruguay Round ATC is fully implemented, the Embassy contends that Nicaragua and other countries in the region will face a major threat from China with its lower production and transportation costs (to the U.S. west coast). The Embassy contends that the United States has not demanded that China improve its labor conditions despite concerns for the condition of workers in China that have been expressed by human rights organizations, the Labor Department, and international labor organizations. The Embassy notes that the United States has demanded improved labor conditions from Nicaragua and other countries in the region.

The Embassy concludes by indicating that the political and military problems of the 1980s have resulted in Nicaragua having no textile industry and the least developed apparel industry in the region. It suggests that the current status of Nicaragua's apparel industry justifies the granting of deferential treatment and suggests that this treatment take the form of extended export subsidies of the kind outlined in WTO annex 7 for countries with per capita GDP of less than \$1,000. The Embassy also indicates that Nicaragua should be given "reasonable" time to establish new investments in the textile and apparel sector and to develop its industries to a competitive level.

¹⁰ Ambassador Carlos J. Ulvert, Embassy of the Republic of Nicaragua, Washington, DC, written submission to the Commission, Jan. 30, 2003.

Peru¹¹

The Embassy of Peru states that the Peruvian government and the private sector have worked together, particularly during the past four years, to strengthen the competitiveness of the country's textile and apparel sector. The sector should benefit from the renewal and enhancement of the Andean Trade and Preference Act (ATPA), now known as the Andean Trade Promotion and Drug Eradication Act (ATPDEA). The submission notes that to further enhance its access into the U.S. market, Peru has been investing in technology and creating strategic alliances to work efficiently with U.S. clients. Peruvian textile and apparel firms must also offer quick response and on-time deliveries and promote high-quality, fashionable Peruvian brands. Such efforts will also enable Peruvian exporters of textiles and apparel to compete more effectively after quotas are eliminated by the ATC on January 1, 2005.

The Embassy notes that the ATPDEA will encourage more foreign direct investment in Peru, and consequently, the Peruvian government has been proactive in providing comprehensive information about Peru's economy and labor regulations to potential investors. Efforts are also underway to encourage large Peruvian exporters to subcontract with small and mid-sized textile and apparel firms to maximize the sector's involvement in export opportunities. The Embassy states that, as part of its efforts to support free trade as a tool to promote economic development, the Peruvian Government has reduced tariffs from 7 percent to 4 percent on more than 1,000 tariff items and is supporting initiatives to establish a U.S.-Peru Free Trade Agreement that will consolidate preferences granted under the ATPDEA and give potential investors more time to take advantage of them.

Indonesia¹²

The Embassy of Indonesia states that the United States has been Indonesia's leading market for textiles and apparel, accounting for 27 percent of total exports of these products in 2001. Textiles and apparel accounted for 18 percent of Indonesia's non-oil and gas revenue in 2001 and employed upwards of 1.2 million workers with additional workers in the supporting industries.

The Embassy states that Indonesia is aware of the importance of preparing for trade in a quota-free environment; however, the 1997 financial crisis slowed the sector's response to the upcoming elimination of quotas. The Indonesian Department of Industry and Trade states that the development of the textiles and apparel sector has been hindered by the lack of progress in supporting industries, such as those supplying raw materials, coloring substances, and replacement parts for machinery; the lack of marketable designs; out-of-date equipment which inhibits increasing production efficiency; high rates of interest for bank credit and difficulty in opening lines of credit; and high prices for raw materials and energy.

¹¹ Ambassador Roberto Danino, Embassy of Peru, Washington, DC, written submission to the Commission, Feb. 3, 2003.

¹² Ambassador Soemadi D.M. Brotodiningrat, Embassy of the Republic of Indonesia, Washington, DC, written submission to the Commission, Feb. 4, 2003.

The government has adopted certain strategies aimed at preparing the sector for the elimination of quotas. Among these strategies are the move toward producing higher value-added, high-fashion products; attracting foreign investment; developing nontraditional markets; improving the use of the nation's natural resources (the chemical industry) in the production of synthetic fibers; improving labor policy; simplifying regulations and procedures for doing business; and providing better security and stability.

Sri Lanka¹³

The Embassy of Sri Lanka's submission provides an in-depth summary of the Sri Lankan apparel industry covering industry structure; exports to the United States, the European Union (EU), and Canada; labor; vertical integration; and the competitiveness of the Sri Lankan textile and apparel sector. The Embassy states that Sri Lanka has the most liberalized economy in South Asia and is in compliance with international trade and labor rules.

The Embassy emphasizes that the apparel industry represents the strongest manufacturing industry in Sri Lanka in 2001 in terms of its contribution to industrial production (45 percent), foreign exchange earnings (51 percent), and employment (about 340,000 workers). According to Embassy, a few large manufacturers account for most of Sri Lanka's apparel industry. These large enterprises have a higher percentage of unskilled workers, technicians, and supervisors than the small- and medium-sized firms.

The Embassy notes that the United States, a large and homogenous market, is Sri Lanka's main export market. Within the U.S. market, Sri Lanka's enterprises concentrate on manufacturing for discount and department stores. The heterogenous EU is Sri Lanka's second-largest export market, with most exports going to the United Kingdom, the Benelux countries, and Germany. According to Embassy, Canada is not an important market for Sri Lanka, as it has four apparel manufacturing centers of its own. The Embassy notes that the growing number of preferential trading arrangements that other countries have with the United States and the EU have hindered Sri Lanka's access to its main markets. EU quotas have been replaced by a bilateral trade agreement between Sri Lanka and the EU, signed in 2001. Apparel exports to the EU declined by 7 percent in 2001.

According to the Embassy, Sri Lanka's labor costs are lower than those of the more developed Asian countries, but higher than those of some South Asian competitors. Sri Lankan manufacturers need to update their technology, improve vertical integration, reduce lead times, and enhance productivity to remain competitive. The Embassy states that the manufacturing base of Sri Lanka is expected to shrink considerably by 2005, if the Government and industry do not make a concerted effort to prepare the apparel industry for quota removal. The Government of Sri Lanka is attempting to address these issues through developing technology, implementing a utility cost reduction program, securing strong business contacts in major markets, reforming labor laws, improving infrastructure, and exploring the possibility of preferential trade arrangements with importing countries. The

¹³ Ambassador Devinda R. Subasinghe, Embassy of Sri Lanka, Washington, DC, written submission to the Commission, Feb. 3, 2003.

industry is reportedly working on improving marketing skills, increasing productivity, reducing manufacturing costs, introducing training courses in design and product development, investing in information technology, and reducing lead times.

The Embassy states that the negative impact of integration into the GATT system may threaten the democratic institutions of Sri Lanka, which has faced two Marxist rebellions and a separatist war during the past three decades. The Embassy is requesting U.S. technological assistance and an extension of GSP to apparel products assembled in Sri Lanka and to other sectors into which Sri Lanka plans to diversify (including footwear, rubber products, jewelry, and electronic products).

Trade Organizations

American Apparel and Footwear Association¹⁴

American Apparel and Footwear Association (AAFA), the national trade association of the apparel and nonrubber footwear industries, states that elimination of quotas will create many challenges for U.S. apparel companies and their suppliers in foreign countries. AAFA recognizes that price is a critical factor in the textile and apparel sector. As a result, costs associated with factors such as proximity to markets, compliance with customs requirements, transportation, labor-force training, cost of inputs, the countries social and political considerations, and logistics play a significant role in the competitiveness of textile and apparel manufacturers.

According to AAFA, the Caribbean is an important area to AAFA members and possesses many advantages, such as the proximity to the U.S. market, a well-trained workforce, and an established infrastructure. However, the CBTPA has not met the expectations of AAFA and its members, as restrictive rules such as the short supply provision and burdensome documentation requirements hinder the effectiveness of the agreement.

AAFA states that Central American countries have taken steps to remain competitive by moving toward a “full package” product, and by addressing social responsibility, customs, and security issues. Finally, AAFA hopes that the outcome of the CAFTA negotiations will further benefit the region.

American Textile Manufacturers Institute¹⁵

American Textile Manufacturers Institute (ATMI), a national association of the domestic textile mill products industry, states that if quotas are eliminated U.S. imports of textiles and apparel will be dominated by China, Vietnam, India, and Pakistan, at the expense of countries which have been suppliers to the U.S. market for over 20 years. Further, tariffs are

¹⁴ Kevin Burke, President and CEO, American Apparel and Footwear Association, Arlington, VA, written submission to the Commission, Jan. 22, 2003.

¹⁵ Carlos Moore, Senior Vice President, American Textile Manufacturers Institute, Washington, DC, written submission to the Commission, Jan. 22, 2003, and Jerry Rowland, testimony before the Commission, Jan. 22, 2003.

necessary to counter the advantages the Chinese Government provides to the textiles and apparel sector.

According to ATMI, China has an advantage due to its unlimited supply of low-cost labor and its ability to supply raw materials to the textile and apparel sector. In addition, the Government allows an undervalued currency that provides Chinese textiles and apparel goods a 30 percent to 40 percent price advantage in the U.S. market; does not enforce textile designs and copyrights regulations; subsidizes exports by allowing a “rebate” of its value added tax on exports; and does not adequately address predatory pricing or dumping by the sector.

According to ATMI, the only other countries that will be able to compete with China after 2004 are those with which the United States has free trade agreements or those to which the United States has extended preferential trade programs such as AGOA, CBTPA, and ATPA. In order for the United States to compete, the United States needs to:

1. Utilize available safeguard provisions to put limits on disruptive imports from China.
2. Pressure China to abandon its fixed currency.
3. Take measures to prevent Chinese transshipping and duty evasion.

American Textile Trade Action Coalition¹⁶

The American Textile Trade Action Coalition (ATTAC), a coalition consisting of U.S. textile manufacturers and the Union of Needletrade, Industry and Textile Employees, states that full elimination of quotas would result in a surge in imports from countries with weak labor and environmental laws, low taxes, and low-cost labor, and displacement of U.S. suppliers in Central America, South America, and Africa.

According to ATTAC, as a result of the Uruguay Round Agreement, which initiated the phaseout of U.S. textile quotas, 723,000 U.S. textile and apparel jobs have been lost and more than 200 companies have closed. ATTAC believes that this situation will worsen as a result of total quota phase-out in 2005.

In order to maintain the presence of small, developing countries in the U.S. market and to prevent loss of U.S. textile and apparel jobs, ATTAC suggests that the United States establish a China safeguard mechanism to allow for textile quotas in categories disrupted by imports post 2005; that bilateral textile agreements limit the access of non-WTO suppliers, and that the United States extend textile and apparel quotas on large WTO suppliers beyond 2005 as part of the Doha Round.

¹⁶ Augustine Tantillo, Washington Coordinator, American Textile Trade Action Coalition, Washington, DC, written submission to the Commission, Feb. 3, 2003.

Consumers for World Trade¹⁷

Consumers for World Trade (CWT), a non-profit public interest organization, supports the phaseout of the ATC and encourages the U.S. Government to refrain from implementing any new barriers to textiles and apparel trade. According to CWT, quotas have driven up prices for American consumers and have failed to protect the U.S. textile and apparel industry.

According to CWT, the U.S. textile industry's assertion, that all business will flow to China after 2005, fails to consider other factors influencing competitiveness and sourcing decisions, such as geography, access to skilled labor, infrastructure, preferential access to the U.S. market, and labor and security standards. Further, there is a risk associated with limiting all of one's exposure to a single source, particularly China, where the possibility of special textile safeguard measures and threat of anti-dumping measures will discourage importers from relying too heavily on sources in China after 2004.

International Mass Retail Association¹⁸

The International Mass Retail Association (IMRA), an alliance of retailers and their product and service suppliers, states that arguments that, in the absence of quotas, low-cost suppliers such as China will dominate the textiles and apparel market, do not take into account that price is not the only basis for sourcing and consuming patterns. According to IMRA, the elimination of quotas will likely result in a more secure supply chain with fewer suppliers.

According to IMRA, in order to develop a sourcing strategy, retailers and suppliers consider the following six non-price characteristics, excluding price, when determining where to source merchandise: customer choice, proximity to the end market, quality workmanship, relationships between purchasers and suppliers, reliability, and volume to meet customer demand.

IMRA suggests that, once quotas are phased out, the benefits that regional trading partners through NAFTA, CBI, or CBTPA receive will be lessened. Therefore, these agreements should be expanded to provide more flexibility in input selection and rule of origin construction.

IMRA further suggests that special access programs which provide for fewer limits on rules of origin and input selection be applied to regions such as Central Asia, Sub-Saharan Africa, and South America to prevent the elimination of these areas as major or long-term sources for apparel.

¹⁷ Pamela Slater, Consumers for World Trade, Washington, DC, written submission to the Commission, Feb. 4, 2003.

¹⁸ Sandra Kennedy, President, International Mass Retail Association, Arlington, VA, written submission to the Commission, Feb. 4, 2003.

Textile and Apparel Manufacturing Association of Israel¹⁹

The Textile and Apparel Manufacturing Association of Israel (TAMA), an association representing 140 textile and clothing manufacturers in Israel, is concerned that the quota removals on January 1, 2005, could lead to the collapse of the Israeli textile industry and requests that quota removal be postponed for several years.

According to TAMA, imports from low-income countries have hurt Israel. Over 20,000 workers have been laid off and many small business have closed. TAMA states that the textile industry in Israel cannot compete against non-market economies on a fair competitive basis and removal of import quotas will reward countries which pay monthly salaries of \$80 or less.

United States Association of Importers of Textiles and Apparel²⁰

The United States Association of Importers of Textiles and Apparel (USA-ITA), an association of manufacturers, distributors, retailers, importers and related service providers, states that the quota system has distorted trade and, as a result, there will be consolidation in the industry after 2004. According to USA-ITA, factors such as costs, logistics, infrastructure, supply chain management, social and government stability, human rights, plant efficiency, reliability and relationships, and vertical integration capabilities will influence sourcing decisions after 2005. Based upon these factors, existing major suppliers to the U.S. market and the preferential trading partners will continue to supply the U.S. market even after the transition to a quota-free environment.

According to USA-ITA, the CBTPA and ATPA countries will continue to be important to U.S. importers and retailers after 2004 because of their close proximity, shortened production cycles, duty savings, and lower transportation costs. However, rules of origin which require higher priced U.S.-made inputs undermine the value of duty savings.

According to USA-ITA, some supplying countries with preferential access to the U.S. market are not likely to fare as well after 2004, largely because of restrictive rules of origin that limit duty-free benefits. For example, a decline in exports to the United States will likely occur for AGOA countries currently allowed to use “third country” fabrics and yarns, a benefit that will expire at the end of 2004.

USA-ITA states that China will inevitably gain market share as a result of the elimination of quotas. However, most U.S. importers and retailers will maintain business relationships with long-time trusted suppliers, particularly those suppliers that are vertically integrated. Also, suppliers of niche products that are less price sensitive are likely to compete more effectively with large cost-competitive suppliers, such as China.

¹⁹ Ramzi Gabby, Chairman, Textile and Apparel Manufacturing Association of Israel, Tel-Aviv, written submission to the Commission, Jan. 30, 2003.

²⁰ Laura Jones, Executive Director, United States Association of Importers of Textiles and Apparel (USA-ITA), New York, NY, written submission to the Commission, Jan. 30, 2003, and Peter McGrath, Chairman, Board of Directors, USA-ITA, and Senior Vice President and Director, JC Penney Product Development and Sourcing, testimony before the Commission, Jan. 22, 2003.

APPENDIX A
REQUEST LETTER FROM THE UNITED
STATES TRADE REPRESENTATIVE

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

Chair rec'd 9/17/02
✓ 1 - Secretary
2 - ER

SEP 16 2002

02 SEP 17 12:10
OFC OF THE PRESIDENT
US TRADE REPRESENTATIVE
COMMITTEE

2269

The Honorable Deanna Tanner Okun
Chairman
United States International Trade Commission
500 E Street, SW
Washington, DC 20436

Dear Chairman Okun:

As you are aware, the Uruguay Round Agreement on Textiles and Clothing (ATC), which entered into force with the WTO agreements in 1995, created special interim rules to govern trade in textiles and apparel among WTO Members for 10 years. The ATC calls for the gradual and complete elimination of import quotas on textiles and apparel established by the United States and other importing countries under the Multifiber Arrangement and predecessor arrangements by January 1, 2005. As we anticipate the final completion of the quota phase-out required by the ATC, it may be that significant changes will occur in the global pattern of production, trade and consumption of these products. It would be most helpful for the Administration to be able to anticipate the nature of these changes as much as possible.

Therefore, under authority delegated by the President, I request that the United States International Trade Commission (Commission) initiate an investigation under section 332(g) of the Tariff Act of 1930, as amended (19 U.S.C. 1332(g)), and provide a report that assesses the textile and apparel industries of the countries, described below, that are currently suppliers to the U.S. market with respect to their competitiveness and other factors pertinent to their adjustment to ATC completion. These countries should include: (a) significant ATC suppliers to the U.S. market, (b) Mexico, and (c) other supplying countries with preferential access to the U.S. market. To the extent practicable, your analysis should discuss factors such as textile and apparel consumption, production, employment, and prices in major textile and apparel exporting countries, as well as their textile and apparel trade, particularly with industrial country markets.

I request that the Commission provide its report in this matter by June 30, 2003. In accordance with USTR policy on implementing Executive Order 12958, I direct you to mark or identify as "confidential," for a period of 10 years, such portions of the Commission's report and its working papers that deal with the requested information on the relative competitiveness of the textile and apparel industries in the selected foreign countries. Consistent with the Executive Order, this information is being classified on the basis that it concerns economic matters relating to the national security. USTR also considers the Commission's report to be an inter-agency memorandum that will contain predecisional advice and be subject to the deliberative process

* Original to fax rec'd 9-16-02

The Honorable Deanna Tanner Okun
Page 2

privilege. I also request that you submit an outline of the report as soon as possible to enable USTR officials to provide you with further guidance on the extent and duration to which portions of the report require classification. Based on this outline, a USTR official with original classification authority will provide you with written instructions.

Thank you for your cooperation in this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bob", written in dark ink.

Robert B. Zoellick

APPENDIX B

FEDERAL REGISTER NOTICE

FEIS evaluates the Proposed Plan Amendments and three alternatives. The FEIS also includes public comments on the Draft Environmental Impact Statement (DEIS) and BLM's response to those comments.

DATES: The protest shall be in writing and shall be filed with the Director. The protest shall be filed within 30 days of the date the Environmental Protection Agency published the notice of receipt of the final EIS containing the plan or amendment in the **Federal Register**. For an amendment not requiring the preparation of an EIS, the protest shall be filed within 30 days of the publication of the notice of its effective date. The BLM will issue a press release citing the actual date for closure of the protest period when determined, including publication on the BLM California's Internet site. Instructions for filing protests are contained in the Coachella Valley Plan cover sheet just inside the front cover, and are included below under "Supplementary Information."

ADDRESSES: Mailing address for filing a protest:

Regular mail—U.S. Department of the Interior, Director, Bureau of Land Management (210), Attn: Brenda Williams, P.O. Box 66538, Washington, DC 20035.

Overnight mail—U.S. Department of the Interior, Director, Bureau of Land Management (210), Attn: Brenda Williams, Telephone (202) 452-5045, 1620 "L" Street NW, Rm. 1075, Washington, DC 20036.

FOR FURTHER INFORMATION CONTACT: Jim Foote at (760) 251-4836 or jfoote@ca.blm.gov. Copies of the Coachella Valley Plan are being mailed to those who received the DEIS or provided comments on the DEIS. The document is available for review via the Internet at <http://www.ca.blm.gov/palmsprings> and is also available in hard copy at the following addresses and telephone numbers:

BLM, 690 West Garnet Ave., P.O. Box 581260, North Palm Springs, CA 92258; (760) 251-4800.

BLM, 6221 Box Springs Blvd., Riverside, CA 92507; (909) 697-5200.

SUPPLEMENTARY INFORMATION: Following are the instructions from *Title 43 Code of Federal Regulations 1610.5-2* for filing protests:

(a) Any person who participates in the planning process and has an interest that is or may be adversely affected by the approval or amendment of a resource management plan may protest such approval or amendment. A protest may raise only those issues that were

submitted for the record during the planning process.

(1) The protest shall be in writing and shall be filed with the Director. The protest shall be filed within 30 days of the date the Environmental Protection Agency published the notice of receipt of the final EIS containing the plan or amendment in the **Federal Register**. For an amendment not requiring the preparation of an EIS, the protest shall be filed within 30 days of the publication of the notice of its effective date.

(2) The protest shall contain:

(i) The name, mailing address, telephone number and interest of the person filing the protest;

(ii) A statement of the issue or issues being protested;

(iii) A statement of the part or parts of the plan or amendment being protested;

(iv) A copy of all documents addressing the issue or issues that were submitted during the planning process by the protesting party or an indication of the date the issue or issues were discussed for the record; and

(v) A concise statement explaining why the State Director's decision is believed to be wrong.

(3) The Director shall promptly render a decision on the protest. The decision shall be in writing and shall set forth the reasons for the decision. The decision shall be sent to the protesting party by certified mail, return receipt requested.

(b) The decision of the Director shall be the final decision for the Department of the Interior.

Dated: September 13, 2002.

James G. Kenna,

Field Manager.

[FR Doc. 02-26390 Filed 10-16-02; 8:45 am]

BILLING CODE 4310-40-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-448]

Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market

AGENCY: United States International Trade Commission.

ACTION: Institution of investigation, scheduling of public hearing, and request for public comments.

EFFECTIVE DATE: October 10, 2002.

SUMMARY: Following receipt of a request from the United States Trade Representative (USTR) on September 16, 2002, the Commission instituted investigation No. 332-448, Textiles and

Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) for the purpose of assessing the textile and apparel industries of certain foreign suppliers with respect to their competitiveness and other factors pertinent to their adjustment to the final completion of the phaseout of quotas required by the Uruguay Round Agreement on Textiles and Clothing (ATC) on January 1, 2005.

FOR FURTHER INFORMATION CONTACT: For general information, contact Robert W. Wallace (202-205-3458; wallace@usitc.gov) or Kimberlie Freund (202-708-5402; kfreund@usitc.gov) of the Office of Industries. For information on legal aspects, contact William Gearhart of the Office of the General Counsel (202-205-3091; wgearhart@usitc.gov). Hearing impaired individuals may obtain information on this matter by contacting the Commission's TDD terminal on 202-205-1810. Persons with mobility impairments who will need access to the Commission should contact the Office of the Secretary at 202-205-2000. General information about the Commission can be found on its Internet server at <http://www.usitc.gov>. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS-ON-LINE) at <http://dockets.usitc.gov/eol/public/>.

Background: As requested by the USTR, the Commission will assess the textile and apparel industries of certain countries that are currently suppliers to the U.S. market with respect to their competitiveness and other factors pertinent to their adjustment to ATC completion. These countries include: (a) significant ATC suppliers to the U.S. market, (b) Mexico, and (c) other supplying countries with preferential access to the U.S. market. In the letter, the USTR requested that, to the extent practicable, the Commission's analysis should discuss factors such as textile and apparel consumption, production, employment, and prices in major textile and apparel exporting countries, as well as their textile and apparel trade, particularly with industrial country markets. The USTR requested that the Commission provide the information in a confidential report by June 30, 2003. In consultation with USTR staff, countries identified as significant ATC suppliers to the U.S. market for purposes of this investigation are Bangladesh, China, Egypt, Hong Kong, India, Indonesia, Korea, Malaysia, Macao, Pakistan, the Philippines, Sri Lanka, Taiwan, Thailand, and Turkey.

Countries identified as "other supplying countries with preferential access to the U.S. market" are Israel, Jordan, and certain designated beneficiary countries under the African Growth and Opportunity Act, the Andean Trade Promotion and Drug Eradication Act, and the United States-Caribbean Basin Trade Partnership Act. In the request letter, the USTR referred to the ATC, which entered into force with the WTO agreements in 1995 and created special interim rules to govern trade in textiles and apparel among World Trade Organization Members for 10 years. The ATC called for the gradual and complete elimination of import quotas on textiles and apparel established by the United States and other importing countries under the Multifiber Arrangement and predecessor arrangements by January 1, 2005. Also in the request letter, USTR stated that, in anticipation of the final completion of the quota phaseout required by the ATC, "it may be that significant changes will occur in the global pattern of production, trade and consumption of these products. It would be most helpful for the Administration to be able to anticipate the nature of these changes as much as possible."

Public Hearing: A public hearing in connection with the investigation will be held at the U.S. International Trade Commission Building, 500 E Street SW, Washington, DC, beginning at 9:30 a.m. on January 22, 2003. All persons shall have the right to appear, by counsel or in person, to present information and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 500 E Street SW, Washington, DC 20436, no later than 5:15 p.m., January 6, 2003. Any prehearing briefs (original and 14 copies) should be filed no later than 5:15 p.m., January 8, 2003; the deadline for filing post-hearing briefs or statements is 5:15 p.m., February 4, 2003. In the event that, as of the close of business on January 6, 2003, no witnesses are scheduled to appear at the hearing, the hearing will be canceled. Any person interested in attending the hearing as an observer or non-participant may call the Secretary to the Commission (202-205-1806) after January 6, 2003, for information concerning whether the hearing will be held.

Written Submissions: In lieu of or in addition to participating in the hearing, interested parties are invited to submit written statements (original and 14 copies) concerning the matters to be addressed by the Commission in its report on this investigation. Commercial or financial information that a submitter

desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available in the Office of the Secretary to the Commission for inspection by interested parties. The Commission may include such confidential business information in the report it sends to the USTR. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted to the Commission at the earliest practical date and should be received no later than the close of business on February 4, 2003.

All submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street SW., Washington, DC 20436. The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means.

List of Subjects: Textiles, apparel, quotas, and imports.

By order of the Commission.

Issued: October 10, 2002.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 02-26356 Filed 10-16-02; 8:45 am]

BILLING CODE 7020-02-P

DEPARTMENT OF JUSTICE

[AAG/A Order No. 289-2002]

Privacy Act of 1974; System of Records

Pursuant to the provisions of the Privacy Act of 1974 (5 U.S.C. 552a), the Immigration and Naturalization Service (INS), Department of Justice, proposes to modify the following system of records—previously published November 4, 1997 (62 FR 58734):

Computer Linked Application Information Management System (CLAIMS 3 and 4) Justice/INS-013

INS proposes to modify the following sections of the notice: System Location—by providing the web address for locating INS field office addresses; Categories of Individuals—to adequately describe the individuals at issue within the system; Categories of Records in the System—describing three other database systems that are either components or extractions of CLAIMS; Purpose—

adding an additional purpose for maintaining this system of records; Retrieval—adding another means for retrieval of the data; Retention and Disposal—updating the schedule to include its current description; System Manager—an internal reorganization switched authority for the system to a new program office; and Records Access Procedures—the text has been updated. Also, three routine uses (B), (F), and (G) are being edited and three routine uses (H), (I), and (J) have been added. Finally, other minor corrections and edits have also been made.

In accordance with 5 U.S.C. 552a (e)(4) and (11), the public is given a 30-day period in which to comment on the proposed routine uses. The Office of Management and Budget (OMB), which has oversight responsibility under the Act, requires a 40-day period in which to conclude its review of the system.

Therefore, please submit any comment by November 18, 2002. The public, OMB, and the Congress are invited to submit any comments to Mary Cahill, Management Analyst, Management and Planning Staff, Justice Management Division of Justice, Washington, DC 20530 (Room 1400, National Place Building).

In accordance with 5 U.S.C. 552a the Department has provided a report to OMB and the Congress.

Dated: October 4, 2002.

Robert F. Diegelman,

Acting Assistant Attorney General for Administration.

JUSTICE/INS-013

SYSTEM NAME:

Computer Linked Application Information Management System (CLAIMS 3 and 4).

SYSTEM LOCATION:

The Department of Justice (DOJ) Data Processing Center with data access by Immigration and Naturalization Service (INS) users from Headquarters, Regional and District offices, Service Centers, and sub-offices as detailed in JUSTICE/INS-999, last published in the **Federal Register** on April 13, 1999 (64 FR 18052), and on the Internet at the INS Web page, at <http://www.INS.gov>.

CATEGORIES OF INDIVIDUALS COVERED BY THE SYSTEM:

Individuals who have filed applications or petitions for benefits under the Immigration and Nationality Act, as amended, and/or who have submitted fee payments with such applications or petitions; and individuals who have paid fees for access to records under the Freedom of Information/Privacy Acts (FOIA/PA).

APPENDIX C
CALENDAR OF PUBLIC HEARING

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject: Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market

Inv. No.: 332-448

Date and Time: January 22, 2003 - 9:30 a.m.

Sessions were held in connection with this investigation in the Main Hearing Room, (Room 101), 500 E Street, S.W., Washington, DC.

ORGANIZATION AND WITNESS:

PANEL 1

Sandler, Travis & Rosenberg, P.A.
Washington, DC
on behalf of

Dominican Association of Free Zones
Dominican Council of Export Free Zones

The Honorable Judith Marcano, Minister-Counselor,
Embassy of the Dominican Republic

Virgilio Mota, Trade Advisor, Sandler, Travis & Rosenberg,
P.A.; Former Executive Director, Dominican Council
of Export Free Zones; and Former Commercial
Counselor, Embassy of the Dominican Republic

Chandri Navarro-Bowman) – OF COUNSEL

ORGANIZATION AND WITNESS:
PANEL 2

American Textile Manufacturers Institute
Washington, DC

Carlos Moore, Senior Vice President, American
Textile Manufacturers Institute

Jerry D. Rowland, Chief Executive Officer,
National Textiles LLC

American Apparel & Footwear Association
Arlington, VA

Kevin M. Burke, President and CEO, American
Apparel & Footwear Association

Stephen Lamar, Senior Vice President, American
Apparel & Footwear Association

United States Association of Importers of Textiles and Apparel (USA-ITA)
Washington, DC

Peter McGrath, Senior Vice President and Director,
JCPenney Product Development & Sourcing, and
Chairman, Board of Directors, USA-ITA

Julia K. Hughes, Vice President, International
Trade and Government Relations, USA-ITA

Brenda A. Jacobs) – OF COUNSEL

- END -

APPENDIX D
INTERVIEWS BY COMMISSION STAFF

INTERVIEWS BY COMMISSION STAFF

INTERVIEWS IN THE UNITED STATES

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INTERVIEWS IN HONG KONG

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INTERVIEWS IN CHINA

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INTERVIEWS IN TAIPAI, TAIWAN

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INTERVIEWS IN KOREA

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INTERVIEWS IN EL SALVADOR

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INTERVIEWS IN GUATEMALA CITY, GUATEMALA

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INTERVIEWS IN HONDURAS

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INTERVIEWS IN MEXICO

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INTERVIEWS IN INDIA

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INTERVIEWS IN MASERU, LESOTHO

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INTERVIEWS IN MAURITIUS

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INTERVIEWS IN SOUTH AFRICA

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