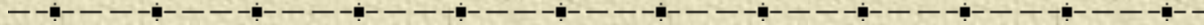


CAFTA-DR: The Case of Cotton and Textiles



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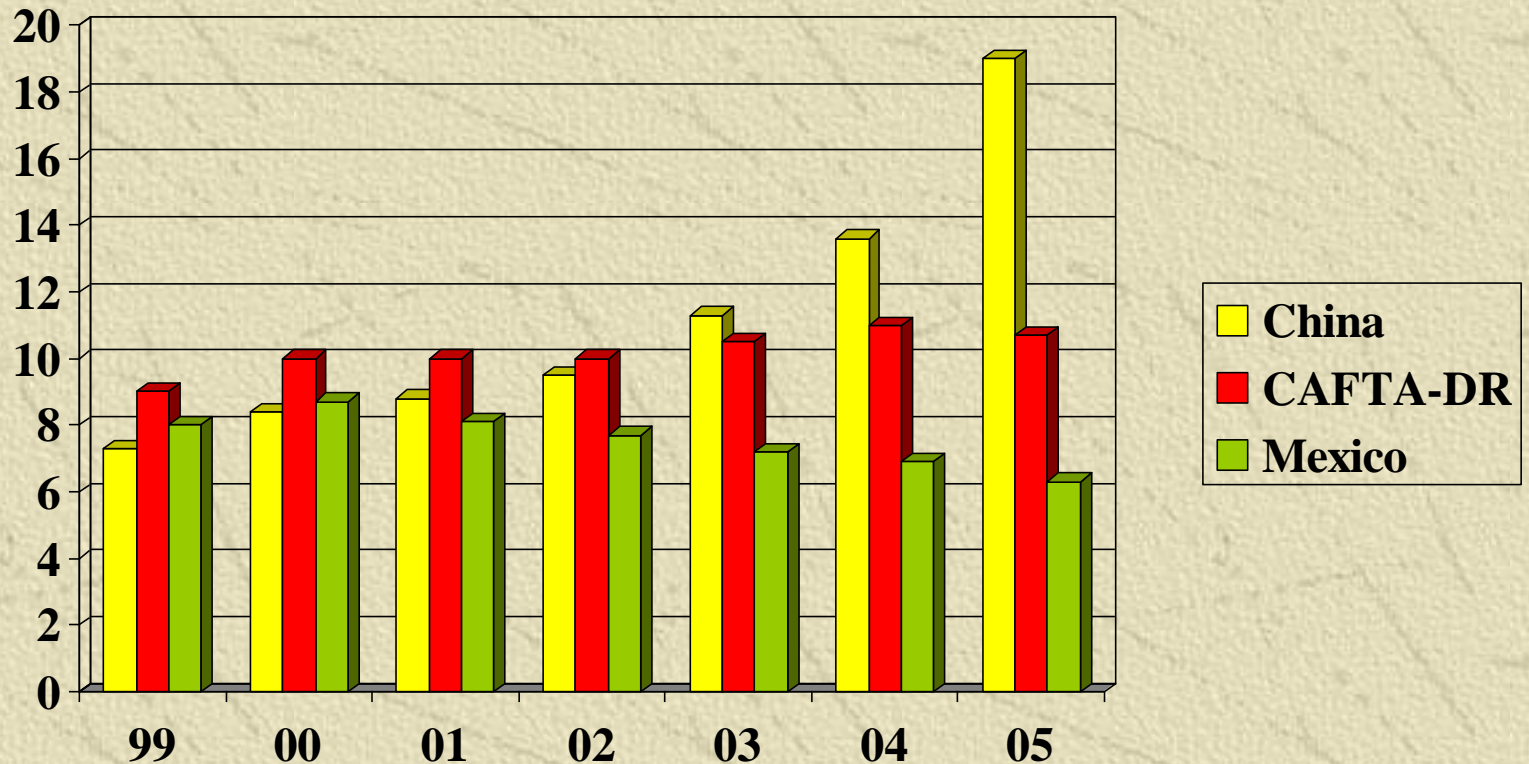
Background

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- US the largest importer of textiles and apparel (24% of world's total)
 - Increasing sourcing from developing countries. CAFTA and Asian countries big suppliers
 - Apparel: the largest US category import from CAFTA: 55% of all (\$ 10 billion)
 - CAFTA buys 1.5% of US cotton fiber

Background

- But CAFTA buys 45% of US exports of yarn and fabric. (\$5 billion)
- The Caribbean Basin Trade Partnership Act (CBTA, 2000) already granted US duty-free access to most of CAFTA-DR Apparel
- While 70% of CAFTA apparel is made out of US textiles, Chinese apparel uses 0.1% of US yarn/fabric.
- In 2005 MFA textile/apparel quotas to be eliminated (expanding access to China)

US Apparel Imports (value) by Main Sources



CAFTA-DR Agreement

- ✦ It eliminates 1% applied tariff to US cotton (although WTO bound tariffs range 35-60%)
- ✦ Eliminates CAFTA 18% bound tariff on US textiles.
- ✦ Makes permanent preferential treatment of CBTPA
- ✦ Changes in Rules of Origin: allows NAFTA textiles to be used, and exceptions for some particular products and countries.

Expected Impacts on Textiles/Apparel (ITC)

- ✦ US Exports: + \$ 0.8 billion (15% increase wrt to base scenario) which is 2.5 times the impact on the whole agricultural exports.
- ✦ US Imports: + \$ 3.0 billion (25% increase wrt to base). This represents almost all the increase in merchandise imports from CAFTA countries.
- ✦ CAFTA apparel will increase use of US textiles from 70% to 90%

Challenges

- ✦ Elimination of quotas to Chinese and other Asian apparel imports in 2005 is causing a surge on imports competing with CAFTA production.
- ✦ US legitimate safeguards against those imports can hold only until 2008.
- ✦ Prices are dropping consistently
- ✦ Chinese labor cost advantage:
 - ◆ DR: \$1.87/hour
 - ◆ Guatemala: \$1.85/ hour
 - ◆ Honduras: \$1.29/hour
 - ◆ China: \$0.30-0.60/hour

Advantages of CAFTA over China?

- ✦ Proximity to the US markets
- ✦ Use of US fabrics, yarns
- ✦ Apparel shipments from CAFTA-DR can reach the US markets in 5 to 7 days compared to 12 to 14 days from China.
- ✦ US firms can maintain greater management control over production and designs.
- ✦ Quicker adjustments to demand and turnaround.

U.S. Textile and Apparel Category System

- ✦ **Categories are correlated to 10-digit HTS codes**
- ✦ **3-digit categories are used for quota safeguards**
- ✦ **200 series are of cotton and/or man-made fiber**
 - 300 series are of cotton**
 - 400 series are of wool**
 - 600 series are of man-made fiber**
 - 800 series are of silk blends or non-cotton vegetable fibers**

Knit Shirts and Blouses made of Cotton
Tariff Example

Category 339	WTO (China) Tariff (%)	CBI Tariff (%)
6106.10.0010	19.7	-
6106.90.2510	19.7	0
6106.90.3010	5.6	0
6109.10.0040	4.7	-
6109.10.0045	16.5	-
6109.10.0060	16.5	-
6109.10.0065	16.5	-
6109.10.0070	16.5	-
6110.20.1030	5	-
6110.20.2045	16.5	-
6110.20.2075	16.5	-
6110.90.9070	6	0
6112.11.0040	14.9	-
6114.20.0010	10.8	-
6117.90.9020	14.6	0
	* individually based per item	- same as WTO

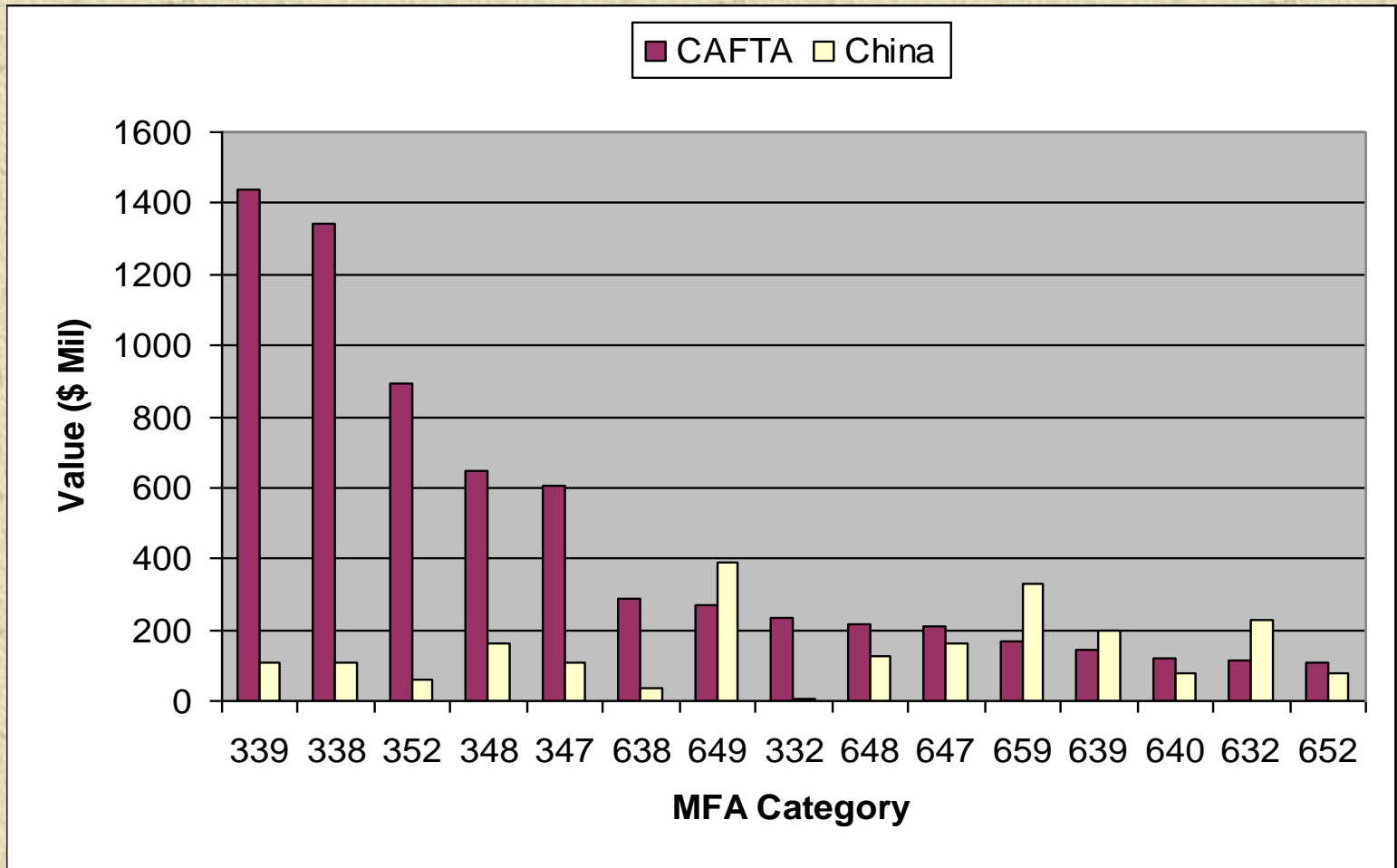
Source: U.S. International Trade Commission, Office of the U.S. Trade Representative

Chinese Quotas Filled

MFA Category	2004 % filled	2005 % filled
339	92.8	100
338	92.8	100
352	94.1	100
348	83.9	100
347	83.9	100
638	94.3	100
649	100	55.6
332	5.5	95.8
648	89.2	100
647	89.7	100
659	87.2	no current quota
639	94.3	100
640	95	100
632	no quota set	95.8
652	90.7	100

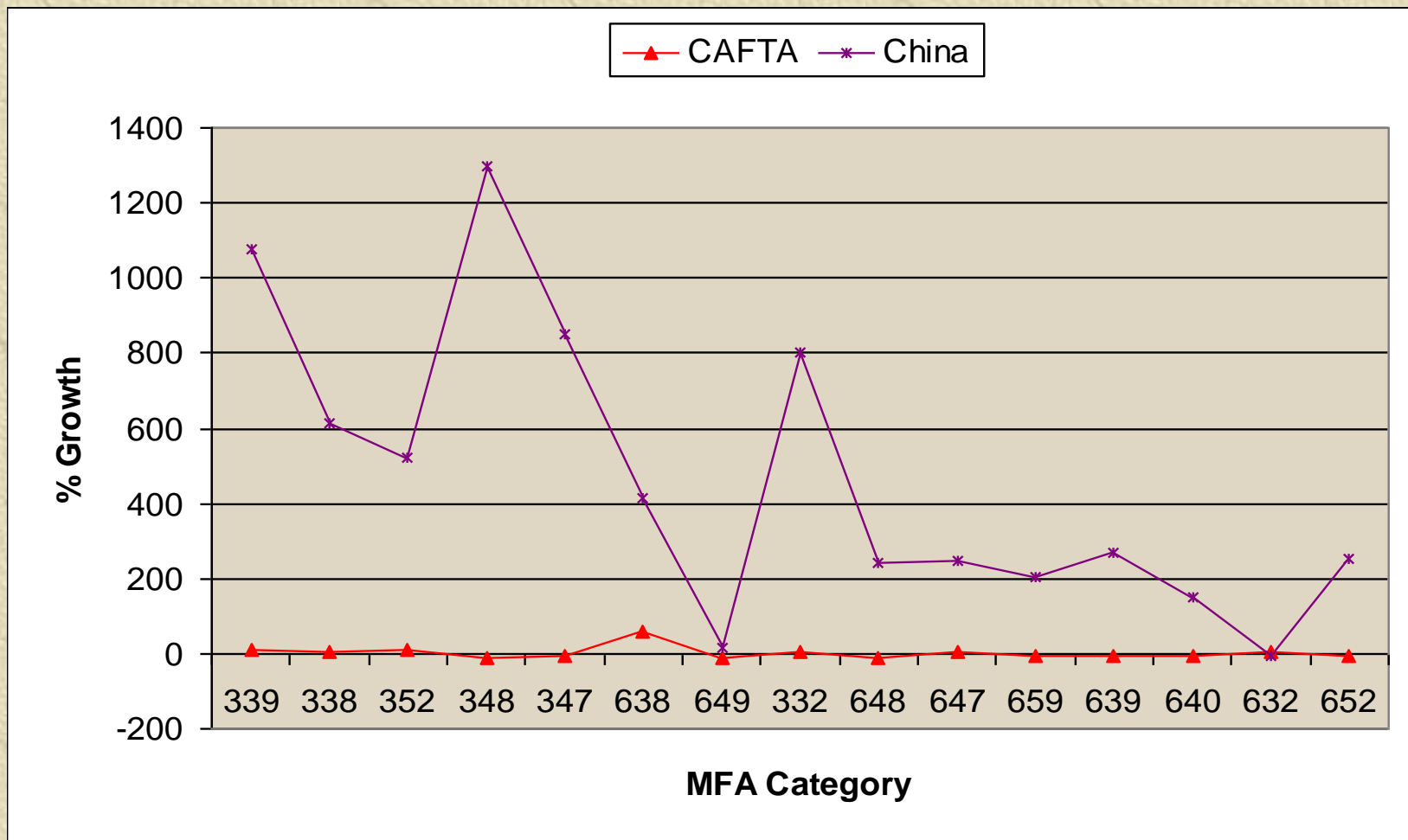
Source: U.S. Customs and Border Protection

2004 Dollar Value of U.S. Imports by Commodity



Source: International Trade Administration - Office of Textiles and Apparel

Growth Comparison of Top Valued US Apparel Import Categories 2005



Source: International Trade Administration - Office of Textiles and Apparel

Conclusions

CAFTA import categories at stake:

348 - cotton slacks

347 - cotton trousers

649 - and cotton and man-made fiber brassieres and other
body supporting garments

648 - man-made fiber slacks

- ✦ CAFTA is losing market share to all of these categories
→ China is experiencing exorbitant growth of up to 1297%
- ✦ These four categories alone account for 24.59% of all CAFTA textile and clothing exports to the U.S.

Conclusions

Competitive categories:

638 - men's man-made fiber knit shirts

- ✦ CAFTA managed to grow 58 % since 2004
- ✦ Kept an 18.65% share of the U.S. market
- ✦ worth \$326 million

632 - hosiery

- ✦ exports grew 6.4%
- ✦ market share was 20 % in 2004
- ✦ worth \$113 million

Beyond 2008

- ✦ China may overtake the bulk of CAFTA's cotton made apparel exports to the US

Summary

- ✦ Apparel: the most valuable import category from CAFTA-DR area
- ✦ CAFTA imports 40% of US yarn/fabrics
- ✦ Textile/apparel sector with highest expected impact
- ✦ Elimination of MFA quotas (China) may diminish apparel imports from CAFTA beyond 2008.
- ✦ Important repercussions on US textile industry's cotton use