Textile Consumer™

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Early Evidence of CBI Effects on Cotton Textile Trade

In October 2000, the Trade and Development Act of 2000 (TDA 2000) went into effect, granting preferential textile trade benefits to countries of sub-Saharan Africa, Central America, and the Caribbean Basin. The purpose of the bill, passed over a year ago, was to promote U.S. textiles while boosting the economies of the Caribbean Basin and sub-Saharan Africa. This article examines how TDA 2000 has affected textile trade patterns—specifically, cotton textile sourcing decisions—in the Caribbean Basin in the seven months since its implementation.

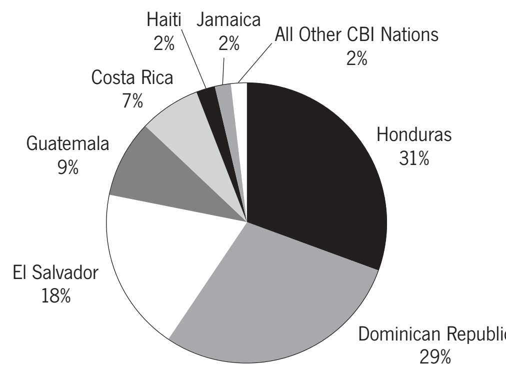
TDA 2000 has two main components, the African Growth and Opportunity Act and the Caribbean Basin Trade and Partnership Act, commonly known as the Caribbean Basin Initiative (CBI). Both provide for duty- and quota-free access to the U.S. market for particular garments produced in each region from U.S. materials. Under the CBI, four main classifications of garments qualify for inclusion:

- Garments cut in the U.S. and assembled in the Caribbean from U.S. fabric and U.S. yarn.
- Garments cut and assembled in the Caribbean from U.S. fabric and U.S. yarn and assembled with U.S. thread.
- Limited quantities (initially 250 million square meter equivalents) of certain garments made from fabrics knitted in the Caribbean from U.S. yarn and garments (excluding socks) knitted to shape in the Caribbean from U.S. yarn.
- A limited quantity of T-shirts (initially 4.2 million dozen) made in the Caribbean from fabric formed in the Caribbean, made from yarns formed in the U.S.

Has the CBI increased the volume of U.S. apparel imports from the Caribbean Basin?

Apparel imports from the CBI region have grown each of the last 10 years; in 2000, they reached $9.5 billion, just over half the value of all goods imported into the U.S. from this region. By April 2001, year-to-date apparel imports from the CBI region were up 6.7% from the same period last year, reaching $3 billion, of which $1.3 billion qualified for duty-free entry under the new legislation. Four of the region's largest suppliers—Honduras, the Dominican Republic, El Salvador, and Guatemala—supplied 88%, or almost $1.2 billion, of the apparel eligible for duty-free entry under the CBI. In particular, Guatemala has enjoyed year-over-year growth in cotton apparel exports to the U.S. of over 28%, or $87 million, and Nicaragua has seen cotton apparel exports rise over 49%, or $35 million.

Share of U.S. Apparel Imports Eligible for CBI Benefits, Jan.–Apr. 2001



Source: Werner Infotex

The import data as of April 2001 suggest that, as the volume of apparel imported from the CBI region has risen faster than in any previous year, the U.S. textile industry has supplied the raw fabric, yarn, and thread for over 40% of the garments shipped back to the U.S. This percentage is expected to increase, ultimately benefiting U.S. mills, as more strategic relationships and joint ventures are formed between U.S. mills and CBI apparel manufacturers to take advantage of the tariff breaks.

Has the volume of U.S. yarn and fabric exports to CBI nations shifted dramatically?

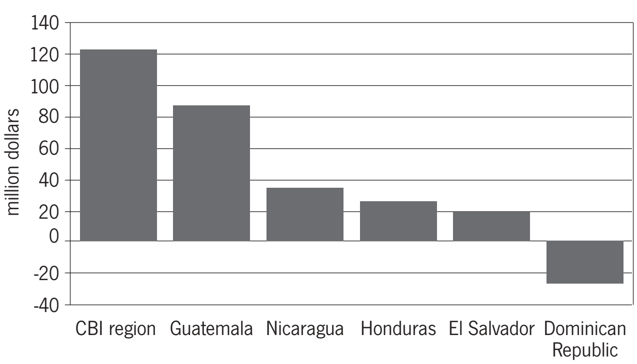
How have U.S. exports of cotton yarn and fabric to the CBI region fared since the CBI was implemented? As of April 2001, year-to-date exports of cotton yarn to the CBI region have jumped 154% from last year, to $34.7 million. For the same four-month period, exports of woven cotton fabric have enjoyed 324% growth, to $136.0 million. These data show strong growth in exports of cotton yarn and fabric to the CBI region since last year, attributable both to lower cotton prices and to the CBI legislation.

From 2000 to 2001, each of the top seven CBI-region markets for U.S. woven cotton fabric—the Dominican Republic, Honduras, Guatemala, El Salvador, Costa Rica, Haiti, and Nicaragua—has increased its purchases for the first four months of the year at least threefold. These countries account for over 98% of the market for U.S. woven cotton fabric in the CBI region. In U.S. exports of cotton fabric to the CBI region, the largest gains have been in the Dominican Republic ($41 million, or 325%), Honduras ($28 million, or 269%), and Guatemala ($20 million, or 561%).

The top four CBI-region markets for U.S. cotton yarn—Honduras, El Salvador, Guatemala, and the Dominican Republic—have increased their purchases for the four-month period by a combined 181%. These countries account for over 98% of the region's market for U.S. cotton yarn. Cotton yarn exports have increased most to Honduras ($8.6 million, or 100%), El Salvador ($8.4 million, or 503%), and Guatemala ($4.7 million, or 1,291%).

The CBI clearly has increased demand and expanded the market for U.S. cotton fabric and yarn exports to the CBI region. If these growth rates are maintained throughout 2001, CBI-region imports of cotton fabric and yarn from U.S. mills will reach a record high. U.S. cotton fabric exports to the CBI region are predicted to reach $400 million, 132% more than ever before shipped to the region in a year. Additionally, Cotton Incorporated projects that U.S. cotton yarn exports to the region will reach $104 million, 65% above the record set in 2000.

Dollar Growth of Cotton Apparel Imports from the CBI Region, Jan.–Apr. 2000 vs. Jan.–Apr. 2001



Source: Werner Infotex

Has trade with the CBI region been hindered?

Although TDA 2000 was signed into law on May 18, 2000, and became effective on October 1, 2000, several issues hindered immediate action by CBI nations and U.S. mills.

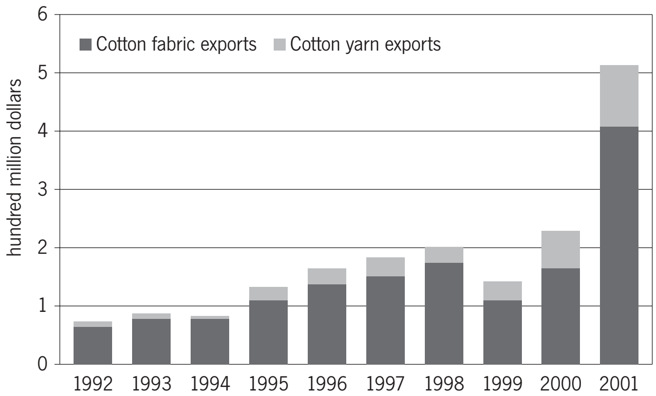
First, location within the CBI region does not guarantee inclusion in the program. Each nation must apply for admission and pass a U.S. qualification review dealing with such issues as workers' rights, elimination of child labor, enforcement of the prohibition on transshipment, and implementation of intellectual property rights and an effective visa system. Of the 24 CBI nations, 12—Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, and Trinidad & Tobago—have been deemed eligible under the apparel provisions of the CBI.

Second, many observers find issues in the legislation to be vague and unclear, and several questions have arisen. For example, on October 1, 2000, could Caribbean countries inundate U.S. ports with shipments, or were they to be uniformly spread over the year? How were the quotas of T-shirts and knit-to-shape garments to be allocated among nations—according to sewing and assembly capacity or to each nation's previous year's share of exports from the CBI region? The CBI was written in part to boost the economies of Caribbean countries devastated by hurricanes, particularly along the Yucatan peninsula. Should these countries benefit relatively more than less-affected countries? The resulting confusion and hesitation has tempered any immediate jump in U.S. textile trade with the CBI region.

Third, the final rules had not been determined when the law went into effect. The U.S. administration was slow in implementing regulations and determining nations' eligibility. The U.S. Customs Service did not publish the interim regulations in the *Federal Register* until after the law went into effect, hindering U.S. mills and Caribbean cut-and-sew operations in proceeding with strategic alliances, as they could not anticipate duty rates for product orders.

Fourth, many observers feel that the time between implementation of the CBI and the quota phase-

Cotton Fabric & Yarn Exports to the CBI Region



Source: Werner Infotex

out in 2005 is too short. Under the Agreement on Textiles and Clothing, WTO member nations will gradually phase out quotas on textile and clothing imports, removing all remaining quotas by January 1, 2005. Many feel that, in contrast to the 11-year head start enjoyed by NAFTA, the time available after implementation of the CBI is too short to allow U.S. mills time to establish operations or relationships in the Caribbean before the quota phase-out.

Fifth, the new legislation is not integrated with NAFTA. For example, under the CBI, apparel assembled in the CBI region from U.S. fabric made with Mexican yarn does not qualify for duty-free entry into the U.S. Also, qualifying garments cannot be cut in Mexico and assembled in the CBI region with U.S. yarn, fabric, and thread. This issue is key, as many U.S. mills either have joint operations in Mexico, to take advantage of the lower labor costs, or have formed strategic alliances with Mexican mills since implementation of NAFTA. Allowing the CBI nations to use NAFTA fabric or yarn could ultimately result in bypassing of the U.S. textile industry, counter to the aim of the CBI. However, by not incorporating the CBI into NAFTA, Congress limited the strategic options available to U.S. mills.

Finally, many observers feel that not enough time has passed since implementation of the CBI for apparel production sourcing patterns to have experienced major shifts. With ample time, U.S. and Caribbean manufacturers will be able to digest the legislation, research new vendors and markets, initiate new relations, transfer production operations, secure funding and letters of credit, and commence production. Strategic alliances that were not initiated or in place before the law went into effect have yet to fully develop and take full advantage of the new opportunities afforded by the CBI.

Going Forward

As discussed above, certain countries in the CBI region have seen their exports of cotton apparel destined for the U.S. market grow appreciably since implementation of TDA 2000. Of course, not all cotton apparel imported from the CBI region qualifies for benefits under the new legislation, as the garments' fabric, yarn, or thread must originate from the U.S. Going forward, the decisive issue for U.S. mills is not necessarily increased volume of total imports from the CBI region, but rather growth in the share of imports that qualify for duty-free access to the U.S. market, implying growth in U.S. fabric and yarn exports to the CBI region.

Although TDA 2000 has been in effect only a few months, expansion of U.S. cotton yarn and fabric exports to the Caribbean already is evident. As the legislation is so new, several U.S. mills have yet to take full advantage of the opportunities it affords. For the future, many analysts anticipate stronger demand for U.S. raw materials from the region, as CBI nations increase their sewing and assembly capacities and begin to erode the share of U.S. cotton apparel imports from elsewhere, particularly Asia.

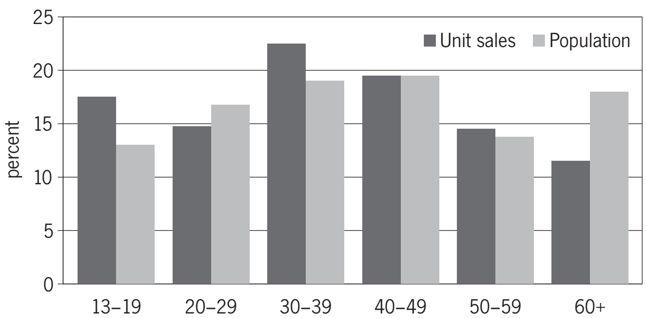
Ultimately, will the CBI have been implemented in time for U.S. mills to take advantage of its provisions before the wave of quota-free imports from WTO member nations hits in 2005? Understandably, it is expected that some projected CBI-region market share gained through this legislation will be lost back to Asia in 2005, when the U.S. will no longer be able to limit import volumes. However, the CBI region will continue to enjoy an advantage over Asia on several fronts. The Caribbean will continue to benefit from its proximity to U.S. mills, allowing quicker turnaround times and lower shipping overhead. The CBI region also will be able to capitalize on not having to pay an average 17% tariff on qualifying apparel, which other regions still will have to pay. The challenge before the U.S. is to capitalize on the opportunity that the CBI affords to gain a sourcing foothold in the region, establish operations and relationships with local manufacturers, and establish a sustainable market advantage before quota restrictions are lifted in 2005. ■

Sales of Men's Denim Jeans

The popularity of denim jeans for men remains high in almost every age group—most male respondents to Cotton Incorporated's Lifestyle Monitor™ rank denim jeans as their first choice for casual wear and say they would rather wear denim jeans than casual slacks. According to consumer data from STS Market Research, of Cambridge, MA, jeans outsold slacks in the first quarter of 2001, accounting for an estimated 43.5% of unit sales of men's bottomswear (jeans, slacks, and shorts), while slacks accounted for about a third (34.3%) of unit sales.

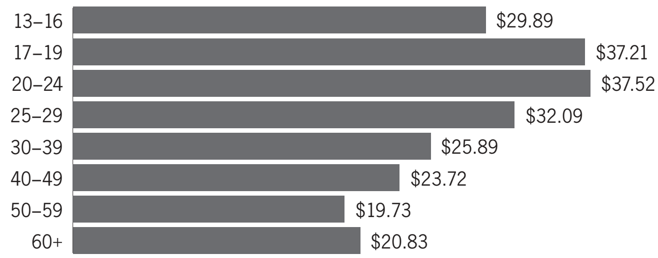
Of men's denim jeans purchased in the first quarter of 2001, 22.5% were for males aged 30 to 39. Per-capita purchases of denim jeans for 20- to 29-year-olds appear to have lagged behind those for teens and 30-somethings. In this age group, as men complete their education, career dressing moves to the forefront. Per-capita jeans purchases for men 60 and over trailed those for all other age groups.

Unit Sales of Men's Denim Jeans by Age of Wearer vs. Population Age Distribution, Jan.–Mar. 2001



Source: STS Market Research

Average Price Paid for Men's Denim Jeans by Age of Wearer, Jan.–Mar. 2001



Source: STS Market Research

The average price paid for denim jeans for males 13 and over was $26.66 in the first quarter. Denim jeans for the age groups 17 to 19 and 20 to 24 sold for an average of $37. For 25- to 29-year-olds, the price averaged $32, nearly $2 below last year's average for that age group. Jeans purchased for men 30 or older averaged $26 or less. For the first quarter, cotton's share of men's denim jeans was 98.4%. Its share was highest (99.9%) for teens and lowest (92.9%) for men over 60. ■

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