Textile Consumer™

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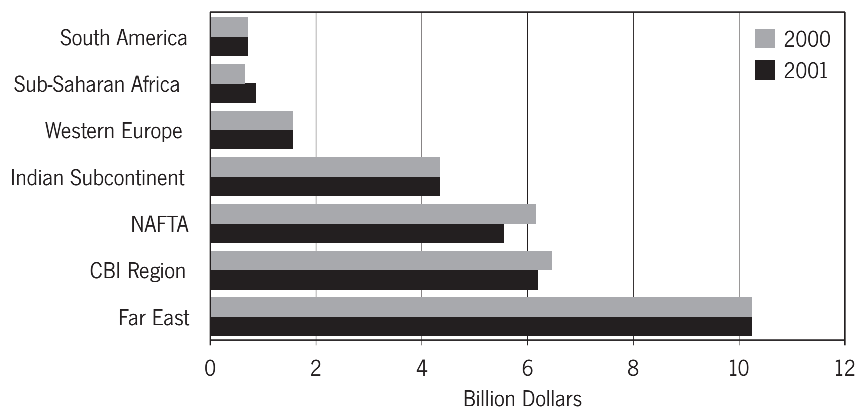
CBI & AGOA a Year Later: Developments and Issues

In October 2000, the Trade and Development Act of 2000 went into effect, granting preferential textile trade benefits to countries of sub-Saharan Africa, in the African Growth and Opportunity Act (AGOA), and the Caribbean Basin, in the Caribbean Basin Trade Partnership Act, more commonly known as the Caribbean Basin Initiative (CBI). This article examines how the CBI and AGOA legislation has affected cotton textile trade in the first full calendar year since its implementation. Trade data are from Werner Infotex.

Global U.S. Cotton Apparel Imports, 2000 & 2001

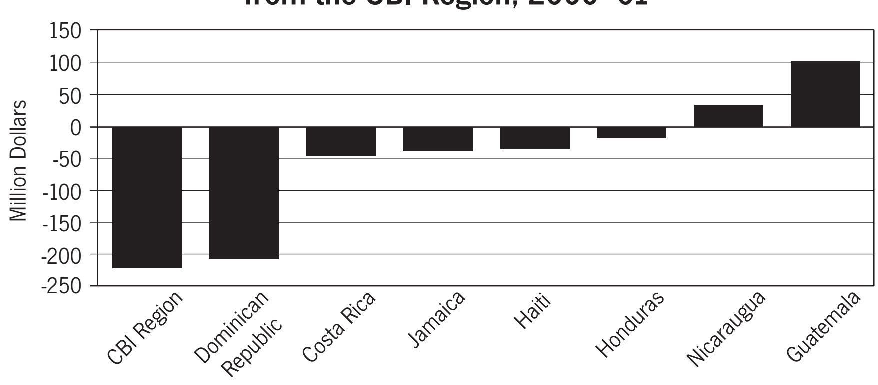


CBI Imports: Untapped Potential

Reflecting the slowdown in the U.S. economy and a decline in retail sales growth during much of 2001, the dollar value of world imports of cotton apparel into the United States slid 1.1% from last year, from $32.0 billion to $31.6 billion, its first annual drop since 1988. Accordingly, many countries around the globe saw cotton apparel shipments to the United States sag from record levels set in 2000. Shipments from the largest U.S. supplier, Mexico, were off 8.5% from 2000, while imports were down 7.2% from Hong Kong and 5.5% from India. The Caribbean Basin felt an unexpected decline, as its U.S. exports fell 3.5%, to $6.2 billion. Many analysts attribute the slowdown in CBI-region imports not only to slower U.S. consumer demand but also to unclear interim rules in place from the U.S. Customs Service and Congress, which have left CBI-region manufacturers unsure about products' eligibility for duty-free access.

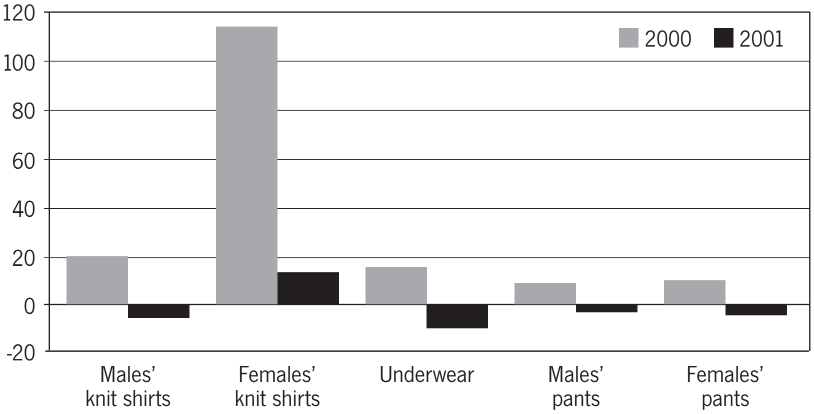
The dollar-volume decline in cotton apparel imports has not been felt evenly throughout the CBI region. The Dominican Republic bore the brunt of the decline, with shipments sliding over $200 million from 2000, while Guatemala realized the largest gain, with shipments rising over $100 million.

Change in U.S. Cotton Apparel Imports from the CBI Region, 2000–01



The decline in the dollar volume of U.S. imports from the CBI region is evident in lower shipments of several primary cotton apparel products. Particularly hard hit were imports of underwear, pants, and men's and boys' knit and woven shirts. These categories accounted for 80% of total cotton apparel imported from the region during the 1990s, but their share declined to 71% in 2001, as imports of females' shirts, hosiery,

Annual Percent Change in Cotton Apparel Product Imports from the CBI Region, 2000 & 2001



and coats surged to record levels. The dollar value of cotton apparel imports from the CBI region climbed throughout the 1990s, with year-over-year growth never dipping below 11%. The largest product categories, males' knit shirts and underwear, enjoyed annual growth of imports into the United States of at least 14% and 10%, respectively, over the decade. But in 2001, as total cotton apparel imports from the CBI region shrank in both dollars and units, the import volume of these primary products declined in step, slipping 5.8% and 10.7%, respectively.

Sourcing for certain key cotton apparel products within the Caribbean Basin clearly has shifted since 2000, perhaps indicating cost-driven switches among suppliers within the region. In the cases of three primary suppliers — Guatemala, Nicaragua, and the Dominican Republic — this theory seems plausible, as prices per square meter equivalent (SME) of the primary cotton products from these nations differed substantially over the last few years. In the Dominican Republic, the average price for all cotton apparel products shipped to the United States rose from $2.50 in 1999 to $2.75 in 2000 to $2.91 in 2001, a 16.4% increase. Meanwhile, total imports of cotton apparel products from the country sank 14.3% from 2000. Conversely, the total SME volume of cotton apparel shipped to the United States from Nicaragua rose 11.4% from 2000, while prices per SME slid 3.7%. A similar trend was evident in Guatemala, where SME exports of women's and girls' cotton knit shirts and blouses to the United States rose 21.7%, while prices declined from $6.71 in 2000 to $6.28 in 2001, a drop of 6.4%. Some analysts view the Dominican Republic as relatively expensive for the region, since tourism and agriculture flourish there, while Nicaragua and Guatemala have stayed competitive as low-cost suppliers.

Percent Change in U.S. Cotton Apparel Imports, 2000–01, by Source (Dollar Basis)

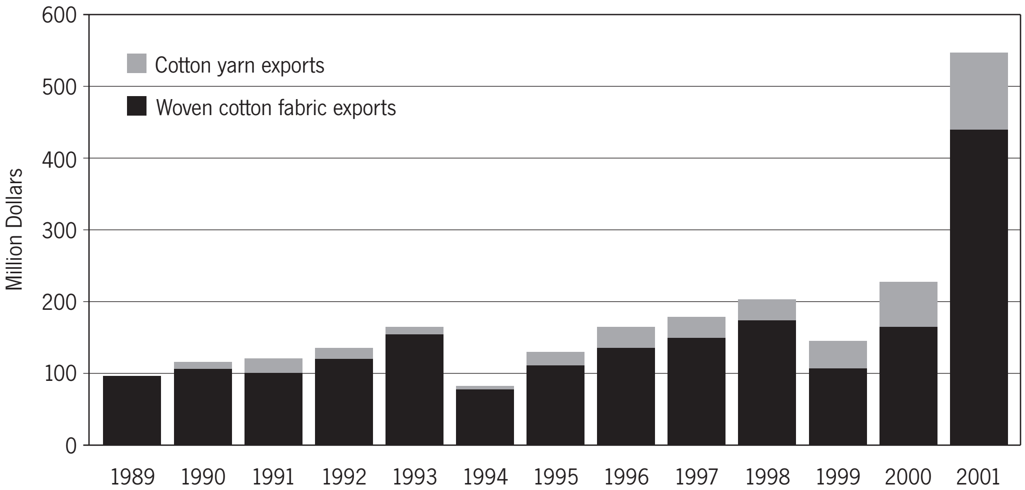
	Guatemala	Nicaragua	Dominican Republic
All products	10.6	11.4	-14.3
Females' knit shirts/blouses	21.7	18.8	-14.8
Males' knit shirts	8.1	-10.2	-25.7
Males' pants/shorts	34.2	14.4	-5.2
Females' pants/shorts	-11.3	13.9	-19.9
Hosiery	142.6	N/A	-35.9

U.S. Exports to the CBI Region Soar

U.S. cotton yarn and fabric exports to the CBI region posted impressive sales throughout 2001, climbing to record levels. During the 1990s, woven cotton fabric exports rose by a lackluster $59 million, to $165 million, while cotton yarn exports rose by a similarly unimpressive $51 million. Yet during the first full calendar year after the new legislation was implemented, woven cotton fabric sales to the CBI region ballooned 167%, to over $441 million. The CBI region's share of U.S. sales abroad climbed from a low of 9.6% just two years ago to over 29% in 2001. Similarly, U.S. exports of cotton yarn to the CBI region surged 66% in 2001, to a record $104 million. The region's share of total U.S. cotton yarn exports jumped from 13.1% two years ago to over 39% in 2001, as more CBI-region manufacturers began to take advantage of the quota- and duty-free treatment of apparel constructed with U.S.-made materials.

Looking forward, Congress is expected to announce several clarifications to the CBI legislation, in hopes of spurring trade with the region. The origination of dyeing, finishing, and printing processes for knit and woven products and equitable allocation of T-shirt quotas among CBI countries are examples of issues hindering suppliers from taking full advantage of benefits under the legislation. The challenge

U.S. Cotton Fabric & Yarn Exports to the CBI Region, 1989–2001



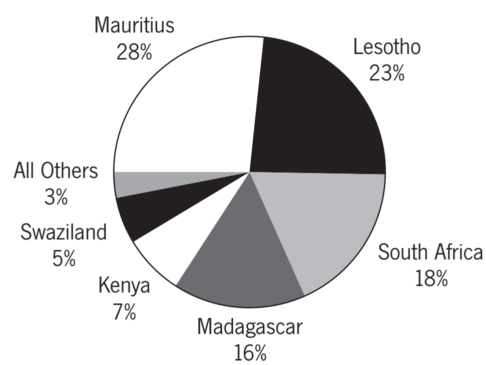
before the United States remains to capitalize on the opportunity that the CBI affords to gain a sourcing foothold in the region, establish operations and relationships with local manufacturers, and establish a sustainable market advantage before quota restrictions are lifted for World Trade Organization members in 2005.

AGOA Imports Climb

U.S. cotton textile and apparel trade with sub-Saharan Africa diverged from U.S. textile trade trends in other parts of the world, climbing to record levels in 2001. U.S. cotton apparel imports from sub-Saharan Africa jumped $176 million (26.9%) in 2001, to a record $833 million, as the region's share of total U.S. cotton apparel imports reached a record 2.6%. Of the 35 nations eligible for inclusion under AGOA guidelines, only 16 so far have qualified for textile benefits: Botswana, Cameroon, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Uganda, and Zambia. All of these except Mauritius, Namibia, and South Africa qualify for "lesser-developed country" (LDC) benefits, which allow duty-free shipment of apparel to the United States regardless of where the fabric was produced. The six largest suppliers accounted for over 93% of U.S. cotton apparel imports from the region during the 1990s, and they saw their share rise to 97% in 2001 after taking advantage of the benefits of the AGOA legislation.

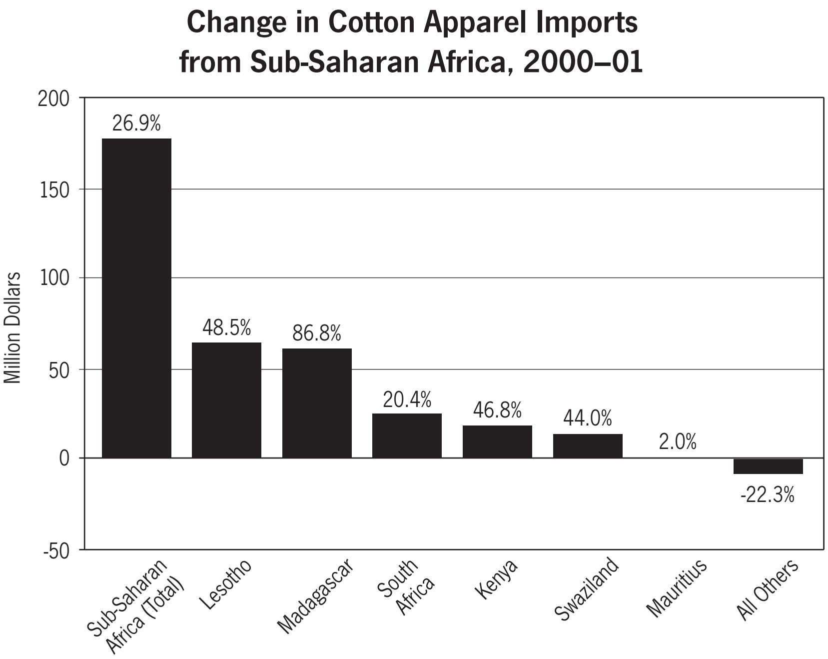
The growth in shipments from sub-Saharan Africa was not limited to a particular nation or product, as five of the six largest suppliers in the region increased their cotton apparel shipments to the United States by double-digit rates from 2000, to reach record levels. At the same time, the largest product categories experienced impressive growth in the U.S. market. As with the product mix from the CBI region, the distribution of cotton apparel shipped from sub-Saharan Africa is skewed to a few dominant products, including bottomswear and knit shirts for both sexes, which accounted for 85% of the cotton apparel imported from the region in 2001. Combined, U.S. imports of these products from sub-Saharan Africa expanded 34.8% from last year, to reach record levels.

Primary Suppliers of Cotton Apparel to the U.S. from Sub-Saharan Africa in 2001
(Dollar Basis)



Growth in U.S. Exports to Sub-Saharan Africa

As cotton apparel imports from sub-Saharan Africa surged in 2001, so did U.S. cotton fabric and yarn exports to the region. While the region's share of total U.S. cotton fabric and yarn exports is less than 0.5%, both categories showed impressive growth in 2001. Cotton yarn exports grew 50.3%, to the highest level since 1992, while cotton fabric exports grew 46.4%, to $5.5 million. This growth is impres-



sive, considering that 13 of the 16 nations qualify for LDC status (and thus enjoy duty-free shipment to the United States even of apparel made from non-U.S. fabric). Many analysts believe that U.S. cotton yarn and fabric exports to the region may continue to see strong growth, even before additional non-LDC nations qualify for the textile and apparel export benefits provided under the AGOA.

Factors That May Affect Cotton Textile Trade in the Future

In the bill signed into law in October 2000, several issues were left unclear and unresolved. In particular, the legislation states that garments "wholly formed" in the CBI region containing U.S. components can qualify for quota- and duty-free access to the U.S. market. However, the legislation is not clear on whether the value-added processes of dyeing and finishing apparel are included under this definition. New legislation to clarify Congress's intent and promulgate the final rules is expected in 2002, and several members of Congress have come out firmly opposed to the inclusion of dyeing and finishing processes in the definition of "wholly formed." After clarifying language is announced, CBI-region manufacturers and U.S. importers may be better able to determine product eligibility for duty-free access. Increasing cotton trade with the Caribbean Basin and sub-Saharan Africa could provide a much-needed boost for U.S. cotton textile mills, as well as a boon to these regions' burgeoning economies.

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