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National Security and
International Affairs Division

B-278724

December 3, 1997

The Honorable Ernest F. Hollings
Ranking Minority Member
Committee on Commerce, Science, and Transportation
United States Senate

Subject: U.S. Apparel Imports From Caribbean Basin Countries and Mexico

Dear Senator Hollings:

At your request, we have been conducting a review of trends in U.S. apparel imports from the Caribbean Basin[1] and of labor conditions in its apparel industry. The Caribbean Basin apparel industry gained preferential access to the U.S. market with the Special Access Program in 1986, under the Caribbean Basin Initiative (CBI).[2] CBI countries have wanted parity with the greater preferences provided to Mexico in 1994 under the North American Free Trade Agreement (NAFTA). As agreed with your office, this interim letter provides data on U.S. apparel imports from CBI countries over the last decade, including (1) the trends in the value of apparel imports from CBI and other countries and (2) the rates of growth of apparel imports from CBI countries and Mexico. We will provide a report on labor conditions in the CBI apparel industry at a later date.

BACKGROUND

Caribbean nations' apparel imports into the United States since 1974 have been affected by four programs or accords: (1) the Special Access Program of 1986,

[1]The Caribbean Basin refers, generally, to the countries of the Caribbean and Central America.

[2]CBI was announced in 1982 to promote export-led economic growth and economic diversification in the countries of the Caribbean Basin.

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(2) the Multifiber Arrangement (MFA)[3] of 1974-94, (3) the Special Regime Program (for Mexico) of 1988, and (4) NAFTA in 1994. Before the 1986 Special Access Program, importers had been able to bring in apparel assembled in a foreign country from fabric that had been cut in the United States and only pay duties on the value added in the foreign country. These apparel imports were brought in under the production-sharing provisions of item 807 of the U.S. Tariff Schedule, which is now heading 9802 of the U.S. Harmonized Tariff Schedule (HTS).[4] However, apparel imports to the United States were also subject to quotas administered under the MFA. With the advent of the Special Access Program in 1986, CBI countries gained the benefit of preferential access to the U.S. apparel market, in addition to the existing preferential tariff provision. The Special Access Program allowed for virtually quota-free access to the U.S. market for CBI apparel assembled from U.S.-formed and -cut fabric, thereby benefiting U.S. textile producers. Under this program, CBI countries became eligible to negotiate bilateral agreements with the United States containing favorable quotas, or Guaranteed Access Levels (GALs), for these products. These imports were brought in under item 807A, which is now HTS 9802.00.8015. In 1988, the Special Regime Program provided Mexico with similar preferential market access benefits for apparel assembled from U.S.-formed and -cut fabric. When NAFTA took effect in 1994, this program was superseded by duty-free, quota-free entry for apparel assembled from U.S.-

[3]The MFA was an international arrangement that governed much of the world trade in textiles and apparel from 1974 through 1994. It allowed for the sustained, orderly expansion of textile and apparel trade through negotiated bilateral agreements or, if necessary, unilateral restraints on disruptive imports. On January 1, 1995, MFA was superseded by the World Trade Organization's Agreement on Textiles and Clothing, which provides for a 10-year phaseout of quotas by 2005. Most U.S. apparel import quotas will not be phased out until the final stage in 2005. For more information, see Textile Trade: Operations of the Committee for the Implementation of Textile Agreements (GAO/NSIAD-96-186, Sept. 19, 1996).

[4]Production sharing occurs when certain aspects of an article's manufacture are performed in more than one country. By importing products under the production-sharing provisions of heading 9802, companies are exempted from paying U.S. Customs duties on the value of the U.S.-made components used in making imported products. The U.S. Harmonized Tariff Schedule identifies all items that are imported into the United States, classifying each with an 8-digit numerical code and listing the import tariff that must be paid for each of these items. The United States started participating in the international Harmonized System in 1989. Although known as "9802," the actual tariff number is 9802.00.80. This provision is still available for all importers and can be used by any industry.

formed and -cut fabric.[5] Mexico thereby gained an advantage in competing for market share in relation to the CBI countries in this segment of the apparel industry. CBI countries have desired parity with Mexico in this segment of the apparel industry ever since.

In reviewing the evolution of the CBI apparel industry over the last decade, we have developed data on trends in apparel imports into the U.S. market from CBI and other countries, as well as rates of growth for apparel imports from CBI countries and Mexico. We provide these data specifically for imports under the production-sharing or 9802 (807) provision, which includes Special Access and Special Regime Program imports[6] of apparel assembled from U.S. formed and cut fabric, and for overall apparel imports[7] into the United States, in order to provide a perspective on the larger import market for apparel.

RESULTS IN BRIEF

The data on trends in apparel imported to the United States under production-sharing provisions from 1987 to 1996 show that, while the performance of individual CBI countries varied, CBI countries combined and Mexico were clearly the dominant source of U.S. imports. However, only Mexico gained in market share over this period. With regard to the overall apparel import market during this period, data show that selected Asian countries (the aggregation of China, Hong Kong, South Korea, and Tawian) continued to dominate U.S. apparel imports. However, these countries have lost market share, while CBI countries and Mexico have gained market share. Since 1994 when NAFTA went into effect, Mexico has experienced faster rates of growth than CBI countries

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[5]In addition, under NAFTA, the United States immediately eliminated quotas and is phasing out tariffs over 10 years on textiles and apparel originating in Mexico. To qualify as "originating goods," goods generally must be produced from yarn made in a NAFTA country ("yarn forward"). NAFTA also provides "tariff preference levels" under which yarn, fabric, and apparel that is made in North America but does not meet the yarn-forward test may be accorded preferential tariff treatment up to agreed annual import levels.

[6]According to Commerce Department officials, in order to avoid additional paperwork, many importers bring in apparel under the regular 9802 (807) category until quotas are filled and only then shift to the Special Access or Special Regime Program subcategory. Therefore, we have not provided a break-out of these import data.

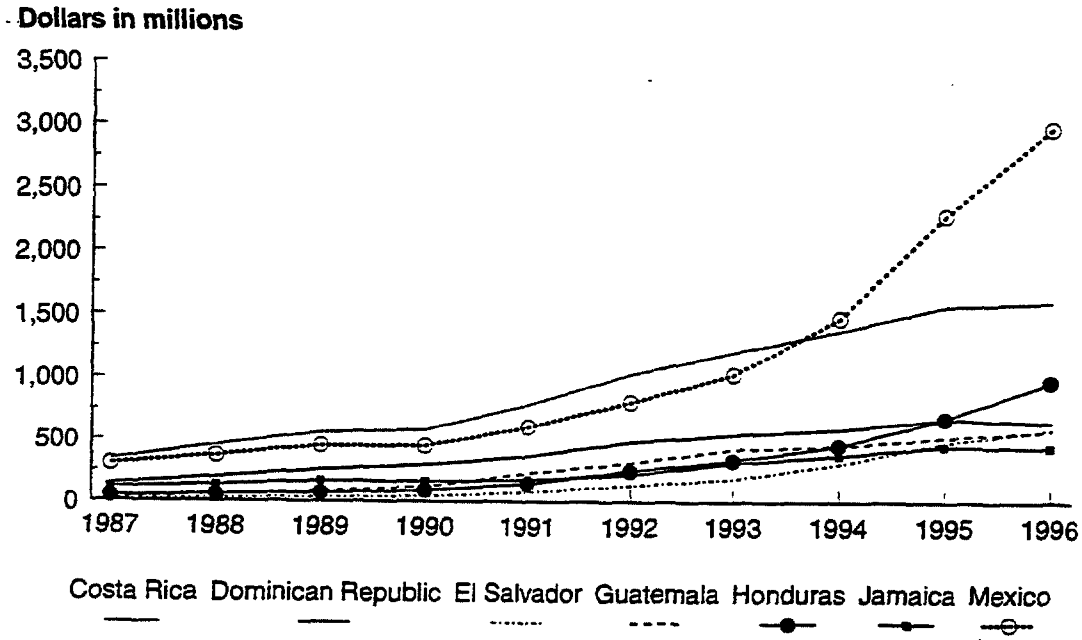
[7]In the context of this letter, "overall apparel imports" refers to all apparel products that were covered under the MFA. Apparel imports under 9802 (807) provisions would be a subset of these overall apparel imports.

for apparel imports under production-sharing provisions and for overall apparel imports to the United States.

APPAREL IMPORT DATA

Figure 1 shows the value of apparel imports under production-sharing or 9802 (807) provisions for the six Caribbean Basin countries that, as of 1996, had negotiated GALs under the Special Access Program with the United States. The countries that negotiated GALs were Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica. The data cover 1987 through 1996, the years that the Special Access Program has been in effect. (Since it was late 1986 before the GALs were negotiated, 1987 is the first full year of data for the program.) The figure shows that the individual performance of CBI countries varied during this period. For example, the value of these imports rose from $336 million to $1.6 billion for the Dominican Republic, consistently the leading CBI apparel shipper, and from $113 million to $437 million for Jamaica, which moved from third to last place among the six CBI countries with GALs. The value of these imports from Mexico increased from $301 million in 1987 to $1.5 billion in 1994, and then doubled to $3 billion in 1996.

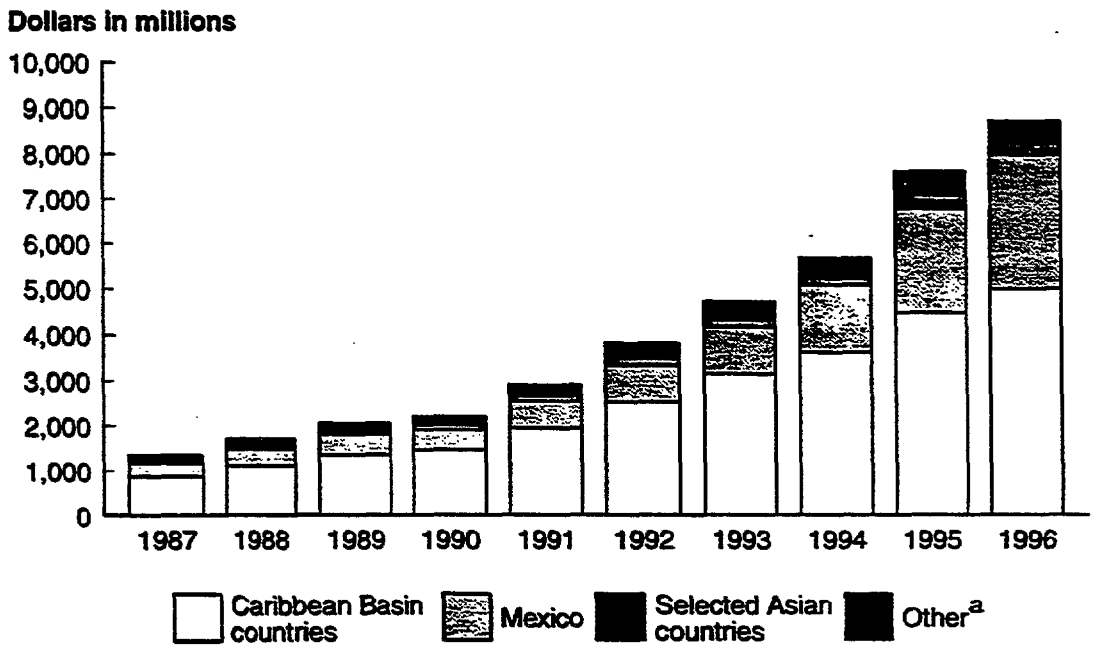
Figure 1: Value of U.S. Apparel Imports Under Production-sharing Provisions From Six CBI Countries and Mexico, 1987-96



Source: Major Shippers Report for 9802 (807) Imports, U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA) (Washington, D.C.: Dec. 1989-May 1997).

Figure 2 shows imports under production-sharing provisions to the United States from all CBI countries, Mexico, the aggregation of the four major Asian apparel shippers (China, Hong Kong, South Korea, and Taiwan), and the rest of the world. Again, the data cover the duration of the Special Access Program, 1987 through 1996. These data indicate that during this period the CBI countries and Mexico dominated apparel imports under production-sharing provisions. Imports from CBI countries went from $864 million to $5 billion (from 64 percent to 57 percent of the total), while imports from Mexico went from $301 million to $3 billion (increasing from 22 percent to 34 percent of the total).

Figure 2: Value of U.S. Apparel Imports Under Production-sharing Provisions From CBI Countries, Mexico, Selected Asian Countries, and the Rest of the World, 1987-96

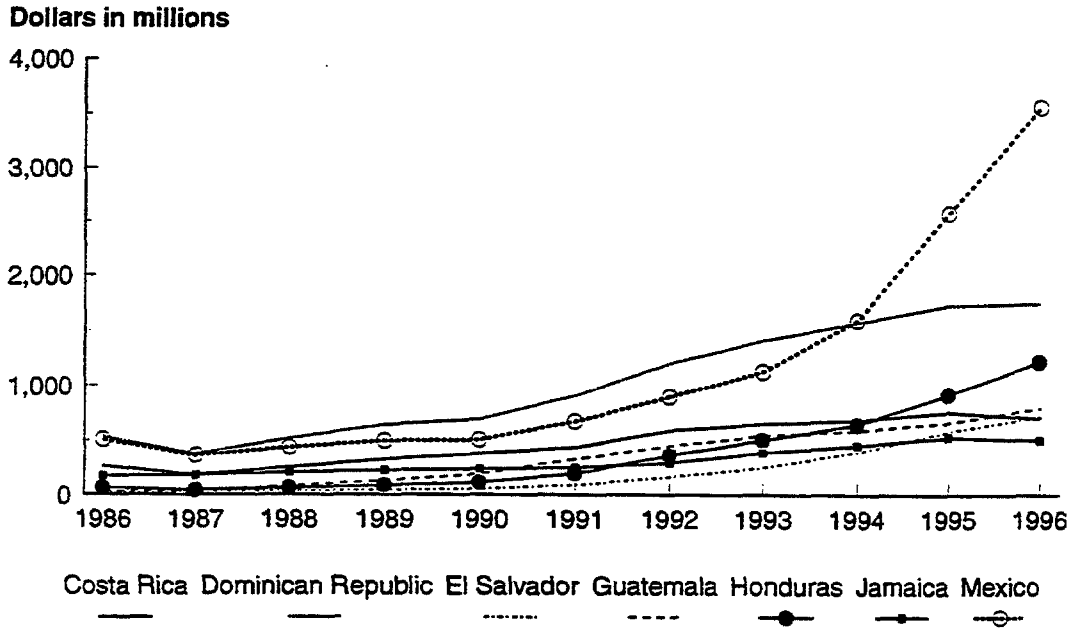


[a]"Other" includes the rest of the world.

Source: Major Shippers Report for 9802 (807) Imports.

The perspective shifts in figure 3 from imports to the United States under production-sharing provisions to the market for overall apparel imports. Figure 3 shows the value of overall apparel imports from the six Caribbean Basin countries with GALs and Mexico from 1986 through 1996. The figure indicates that the trends for CBI countries and Mexico in overall apparel imports were similar to the trends seen in the production-sharing market segment. It shows that, for example, the value of overall imports rose from $535 million to $1.75 billion for the Dominican Republic, again consistently the leading CBI apparel shipper, and from $170 million to $505 million for Jamaica, which again went from third to last among the six CBI countries. Overall apparel imports from Mexico grew from $508 million to $3.56 billion during those years.

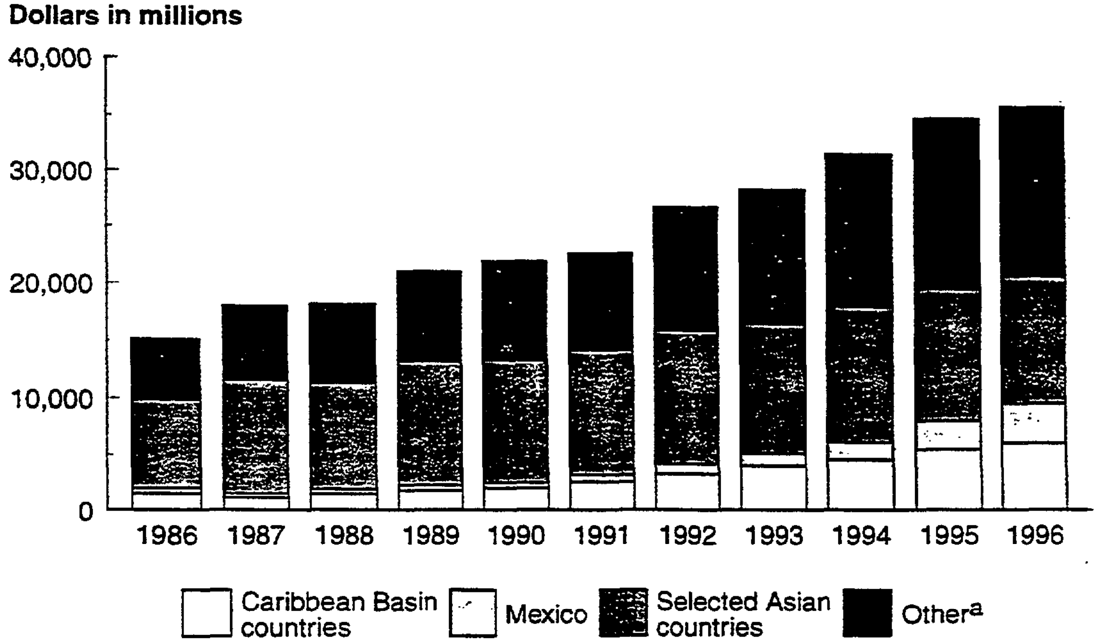
Figure 3: Value of Overall Apparel Imports to the United States From Six CBI Countries and Mexico, 1986-96



Source: Major Shippers Report, U.S. Department of Commerce, OTEXA (Washington, D.C.: Oct. 1997).

Figure 4 shows the value of overall apparel imports to the United States for all CBI countries, Mexico, the four Asian countries, and the rest of the world between 1986 and 1996. These data indicate that during this period overall apparel imports to the United States were consistently dominated by the selected Asian countries. The selected Asian countries' imports went from $7.9 billion to $11 billion; however, their market share dropped from 52 percent to 30 percent of the total. Meanwhile, CBI countries' imports increased from $1.5 billion to $6 billion (from 10 percent to 17 percent of the total) and Mexico went from $508 million to $3.56 billion (from 3 percent to 10 percent of the total).

Figure 4: Value of Overall Apparel Imports to the United States From CBI Countries, Mexico, Selected Asian Countries, and the Rest of the World, 1986-96



[a]"Other" includes the rest of the world.

Source: Major Shippers Report.

Finally, tables 1 and 2 provide data on the rates of growth of apparel imports to the United States from the six CBI countries with GALs, from all CBI countries combined, and from Mexico. Table 1 shows growth rates for imports under production-sharing or 9802 (807) provisions, and table 2 shows growth rates for overall imports. The data cover the years 1987 through 1996. The tables show that for both apparel imports under production-sharing provisions and overall apparel, imports to the United States from Mexico have been growing much faster than the CBI countries combined since 1994.

Table 1: Rates of Growth of Apparel Imports to the United States Under Production-sharing Provisions From CBI Countries and Mexico, 1987-96

Numbers in percent

Year	Costa Rica	Dominican Republic	El Salvador	Guatemala	Honduras	Jamaica	CBI total	Mexico
1988	40.2	35.2	47.8	62.2	36.2	17.5	**28.4**	23.0
1989	30.5	22.6	37.7	61.2	23.2	22.5	**22.1**	21.5
1990	15.9	4.4	27.1	47.6	29.8	-2.6	**8.3**	-0.2
1991	24.0	34.4	83.3	92.9	62.3	9.1	**32.8**	34.4
1992	32.2	31.2	70.9	38.1	72.2	26.0	**29.8**	33.4
1993	12.9	17.4	41.8	35.6	35.3	44.3	**24.9**	27.9
1994	8.0	13.4	63.9	6.0	35.2	18.2	**14.6**	42.8
1995	14.1	14.0	57.2	15.9	50.1	20.8	**24.3**	55.3
1996	-3.5	2.4	23.2	11.1	43.7	-2.5	**11.2**	30.0

Notes:

1. Data for each year reflect the growth from the previous year. Thus, the growth rate in 1988 is based on the level of apparel imports in 1987.

2. Data for 1996 are initial data and are subject to revision.

Source: Derived from Major Shippers Report for 9802 (807) Imports.

Table 2: Rates of Growth of Overall Apparel Imports to the United States From CBI Countries and Mexico, 1987-96

Numbers in percent

Year	Costa Rica	Dominican Republic	El Salvador	Guatemala	Honduras	Jamaica	**CBI total**	Mexico
1988	38.2	37.8	54.9	95.5	44.8	13.7	**29.5**	20.2
1989	29.9	23.8	18.7	66.7	39.2	9.5	**22.0**	14.2
1990	16.7	8.1	28.1	47.6	30.1	4.2	**12.5**	1.6
1991	15.0	31.1	66.0	73.0	73.3	6.8	**27.8**	32.5
1992	34.3	32.1	83.7	36.8	86.7	16.4	**30.8**	33.8
1993	10.8	17.2	51.5	21.0	38.7	32.8	**22.2**	25.1
1994	4.9	11.5	58.4	08.3	27.4	16.8	**13.3**	41.4
1995	10.5	10.1	46.3	15.4	42.5	16.9	**21.0**	61.0
1996	-7.0	1.3	23.9	16.7	32.8	-4.8	**10.6**	38.8

Notes:

1. Data for each year reflect the growth from the previous year. Thus, the growth rate in 1988 is based on the level of apparel imports in 1987.

2: Data for 1996 are initial data and are subject to revision.

Source: Derived from Major Shippers Report.

SCOPE AND METHODOLOGY

In preparing this information, we interviewed officials of OTEXA in the International Trade Administration of the Commerce Department, and of the U.S. International Trade Commission. We compiled the data for apparel imports under production-sharing or 9802 (807) provisions from 9 years of the Major Shippers Report for 9802 (807) Imports, from December 1989 through May 1997, which we obtained from OTEXA. We extracted the data for overall apparel imports from a special report generated for us by OTEXA from the Major Shippers Report data base (data as of April 1997), which provided us an 11-year summary of apparel imports covering 1986 through 1996. We did not verify the accuracy of these data, which are official statistics of the Department of Commerce. Department of Commerce officials who are familiar with the data base and related apparel import issues reviewed a draft of this letter for completeness and technical accuracy. Technical corrections were incorporated where appropriate.

The information in this letter was developed, as part of our ongoing work, from June through October 1997 in accordance with generally accepted government auditing standards.

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We are providing copies of this letter to other interested congressional committees and the Secretary of Commerce. We will make copies available to other interested parties upon request.

The information in this letter was developed under the direction of JayEtta Z. Hecker, Associate Director. If you or your staff have any questions concerning this letter, please contact Ms. Hecker at (202) 512-8984. Other major contributors to this letter were John Hutton, Leyla Kazaz, and Sherlie Svestka.

Sincerely yours,

Benjamin F. Nelson

Benjamin F. Nelson
Director, International Relations and
Trade Issues

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