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	**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.	**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.
	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.	**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.
	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.	**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.
	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).	**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.

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Region or country	Anticipated effects of quota removal	Key competitive factors
SOUTH ASIA	**Summary**: U.S. firms will likely expand sourcing from South Asia with the removal of quotas in 2005.	**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.
	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.	**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.
	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.	**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.
	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.	**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.

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	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.	**Sri Lanka** Labor - Relatively small labor pool; relatively high wage rates. Inputs - Relies heavily on imported yarn and fabric.
ASEAN	**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.	**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.
	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.	**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.
	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).	**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.
	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.	**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.

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Region or country	**Anticipated effects of quota removal**	**Key competitive factors**
	Malaysia: Share of U.S. apparel imports is likely to decline significantly.	**Malaysia**: Labor - Labor shortage; wages second-highest in the region after Singapore. Business climate - Although Government highlights importance of textile and apparel sector, investment is largely directed to other industries.
Mexico	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. 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.	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. Inputs - Produces knit and woven fabrics. Cost is reportedly less than that for similar U.S.-produced fabrics, but higher than similar Asian fabrics. 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. 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.
CBERA	**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. 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.	**Summary:** Products - Mass-produces basic garments, particularly those with low-labor content and few delicate sewing operations. 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. Transportation - Benefits from proximity to U.S. market. Special arrangements - Duty-free access under CBERA.

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 Repbulic:** 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.

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	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.	**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.
	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.	**Bolivia and Ecuador:** Inputs - Relies heavily on imports of fibers, yarns, fabrics, and findings. Has some supply of specialty animal fibers.
TURKEY	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. May continue to be a global supplier of cotton fabrics.	Inputs - Domestic supplies of raw cotton, cotton yarns and fabrics. Special arrangements - Proximity and duty-free access to EU market. Products - Large cotton-based textile and export-oriented apparel industries; fast turnaround and fashion capabilities. Transportation - Shipping times to U.S. market similar to those for East Asia.
EGYPT	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.	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. Products - Industry largely cotton-based. Exports large quantities of its acclaimed “Egyptian cotton” in the form of yarns to the U.S. textile industry.

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ISRAEL AND JORDAN	Israel may continue to be a niche supplier for intimate apparel. 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.	Labor - Production in Israel highly automated and labor costs are high. Relatively low labor costs in Jordan. 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.
SUB-SAHARAN AFRICA	**Summary:** Industry sources indicated that this region’s overall share of U.S. apparel imports will fall, notwithstanding AGOA preferences. 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.	**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. Infrastructure - Infrastructure and logistics inferior to those in other regions of the world. Shipping time longer than that from East Asia.
	Kenya: Share of U.S. apparel imports is likely to decline.	**Kenya:** Business climate - Personal safety an issue for sourcing from country.
	Lesotho: Share of U.S. apparel imports is likely to decline.	**Lesotho:** Inputs - No domestic yarn or fabric supply. Planned investment in new yarn and knit fabric production capacity.
	Madagascar: Share of U.S. apparel imports is likely to decline.	**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.

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	Mauritius: Share of U.S. apparel imports is likely to decline.	**Mauritius:** Labor- High labor costs owing to shortage of labor. Competition for workers from high-tech sectors. Inputs - Shortage of cotton yarn production for knit apparel. Planned investment in new yarn spinning capacity.
	South Africa: Share of U.S. apparel imports is likely to decline.	**South Africa:** Labor - Relatively high labor costs. Inputs - Domestic supply of yarns and fabrics. Only SSA country producing synthetic filament yarn.

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.