Chapter 17
The Central American Clothing Assembly Industry and the Asian Competition

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ABSTRACT
This chapter examines the export performance of clothing assembly industries in the countries of Central America to the US market. It commences with a brief summary of the history of the growth and limited evolution of the Central American and Caribbean Basin garment export industry in the face of evolving trade liberalization. It then examines how China and other Asian countries have eclipsed the region’s clothing exports to the USA as they made inroads into the latter’s market. It is argued that China’s membership in the World Trade Organization commencing in 2001 and the phasing out of quotas under the Multi-Fiber Agreement in 2005 combined to thwart any expansion that Central American clothing exporters could have achieved in the US market. While US Harmonized Tariff System data for both knitted (HTS 61) and non-knitted (HTS 62) apparel and clothing accessory imports were examined, only the former were presented, as they represent a much more significant share of Central America’s overall garment exports to the USA. US imports from Central America under HTS 61 are shown to have either declined or remained stagnant in value terms and in value market share throughout the period examined. In order to zero in on specific categories that are important within the context of the Central American garment export industry, a selection, disaggregated into four digit HTS subcategories, was made of knitted or crocheted apparel and accessories from the region to ascertain its performance over the first decade of the new century. These data are reviewed in comparison with similar data corresponding to imports from China in order to ascertain the performance of Central American exporters. Finally, the work is also placed within the context of the Free Trade Area of Central America and Dominican Republic (CAFTA-DR) in an attempt to discern its possible medium- to long-term impact, since specific provisions of the trade agreement aim precisely at boosting the region’s garment assembly sector.

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INTRODUCTION

For developing countries, the garment industry has traditionally been an important gateway to industrialization and the increase in manufactured exports. It continues to play important economic roles in the developing world as an important source of foreign exchange, as well as in generating local employment and income. In the particular case of the Caribbean basin region, the industry is heavily influenced by the geographical proximity of the US market coupled with the economic power of the latter (Tirado de Alonso, 1992). It turns out to be the case that through the years the United States has encouraged the countries’ dependence on its market through its trade policies (Hornbeck, 2012).

The initial launch of Caribbean basin garment exports to the US market took place in the mid-1980s with the implementation of what would be a succession of preferential trade agreements and amendments to existing agreements with the USA (Mathews, 2008). The first of these is known as the Caribbean Basin Initiative (CBI), and arose out of geopolitical conflicts in Central America and Caribbean at that time (Dypski, 2002). In the context of the CBI, the Caribbean garment assembly sector grew in response to tariff incentives and quota access exemptions to the US market beginning in 1986 (Tirado de Alonso, 1992).

In 2000, the US agreed to convert the preferential access regime into a duty-free regime for apparel assembled in CBI countries, provided they were sewn with US yarn and the fabric used in the production process was formed in the US from US yarn. This development encouraged some companies to shift cutting operations to the Caribbean basin where previously only toward the sewing process was performed. In addition, this placed the region on an equal footing with the neighboring country of Mexico, which had been granted an advantage as an export platform for the garment assembly industry with the establishment in 1994 of the North American Free Trade Area (USITC, 2003).

Shortly after the arrival of the new millennium, negotiations began for what would be the Free Trade Agreement between Central American countries, the US and the Dominican Republic (CAFTA-DR). It became law in 2004 based on the precedent of prior agreements. It was considered an improvement over previous agreements, as it converted preferential access to the US market into something comprehensive, reciprocal and permanent, among other things. As for the textile and clothing trade, the latter now entered the US market under a “yarn forward” rule-of-origin whereby the yarn production and all operations that comprise the product value chain, from the production of the fabric to the cutting and assembly of garments, were required to be carried out in a CAFTA-DR member-country in order to qualify for duty-free entry into the U.S. market (Hornbeck, 2012). These new rules of origin, while containing certain exemptions, allowed for the use of fabrics originating in Central America, an option that existed under the 2000 agreement but in limited quantities.

THE ELIMINATION OF QUOTAS AND THE ASIAN COMPETITION

During the first five years of the new millennium, two crucial events to the future of the apparel industry worldwide and particularly for garment export industry in the Caribbean basin occurred: China joined the World Trade Organization in 2001, and the last phase of the elimination of quotas under the Multi-Fiber Agreement was finalized in 2005 (Mathews, 2008). This led to significant changes in the global geography of textile and clothing production. The ensuing expansion of competition within the industry impacted negatively not only in the clothing sector in Central America and the Caribbean, but also apparel exporters in Mexico with respect to their shared core market: the US (Gruben, 2007). According to an extensive study by the World Bank, employment in the apparel industry increased between 2004 and 2008 in