

# FOCUS

## The US Trade and Development Act 2000

### IMPLICATIONS FOR APPAREL TRADE

by Dr. Sadequl Islam

**T**he Trade and Development Act 2000 of the United States adds new dimensions to trade relations with its trading partners in the Caribbean Basin region and the Sub-Saharan Africa (SSA) region. To see how it benefits or affects also others, it is necessary to examine several aspects of this Act: 1) potential beneficiary countries and eligibility criteria, 2) the nature of trade preferences for apparel, 3) differences between trade preferences of this Act and other trade preferences, 4) implications for non-beneficiary countries such as Bangladesh.

#### Africa Growth and Opportunity Act (AGOA) and the Caribbean Basin Trade Partnership Act (CBTPA)

Title I of the Trade and Development Act, passed on May 18, 2000, describes trade benefits for 48 SSA countries. However, on October 2, President Clinton designated 34 out of 48 countries as eligible for trade benefits. The 14 countries which have not met the eligibility criteria include Sudan, Zimbabwe, Angola, the Democratic Republic of Congo, and Ivory Coast. Eligibility criteria for SSA countries include continual progress toward establishing a market economy, the rule of law, the elimination of trade and investment barriers, reduction of poverty, protection of worker and human rights.

Title II of the Act states trade preferences for the Caribbean Basin region covering 24 beneficiary countries. On October 5, 2000, the U.S. government certified ten countries as eligible to begin shipping qualified apparel to the United States as they have satisfied customs requirements. Country eligibility criteria for the CBTPA region also include protection of intellectual property rights, in addition to the criteria for the SSA region.

#### Common Features

The following trade preferences are common to both regions:

The United States will provide duty and quota free treatment to apparel articles assembled in one or more beneficiary countries from fabrics formed and cut in the United States, from yarns formed in the United States, from yarns wholly formed in the United States, subject to a limit of 250 million square metre equivalents during the 1-year period beginning on October 1, 2000. The limit will increase at an annual compound rate of 16 per cent until September 30, 2004, subject to Congressional reviews after the year 2004. For T-shirts, the quantitative restriction was set at 4.2 million

quota free treatment for handloom products and products made from fabrics (for example, silk, linen, and velvet) which are not produced in commercial quantities in the United States. The Act allows foreign findings, trimmings (for example, sewing thread, buttons, and zippers), and interlinings, up to 25 per cent of the cost of the components of the assembled product.

A safeguard mechanism will enable the United States to reimpose duties if increased imports damage US textile and apparel producers.

#### Special Features for Each Region

Tariff free treatment will be given to apparel articles assembled in one or more SSA countries from yarn originating either in the US or SSA countries. Preferential treatment for these apparel articles however, is subject to quantitative restrictions. During the first year, the limit is set at 1.5 per cent of the aggregate square meter equivalents of total US apparel imports (about 246.5 million square metre equivalents). The quantitative limit will be allowed to increase by equal increments for the succeeding seven years, reaching no higher than 3.5 per cent by October 1, 2007. Normal tariffs would be levied on apparel imports above the limit.

Duty and quota free treatment will be given to apparel articles wholly assembled in "lesser developed" SSA countries (with a per capita GNP of less than \$1500 a year) regardless of the country of origin of the fabric used to make such articles, until September 2004. Currently, 25 countries out of 34 SSA eligible countries belong to the group of "lesser developed" countries. Only six countries such as South Africa, Mauritius, Botswana, Namibia, Gabon, and Seychelles do not belong to this group of beneficiary countries. Note that not all "lesser developed countries" in the SSA region belong to the group of 48 "Least Developed Countries (LDC)". For instance, Kenya belongs to the list of "lesser developed countries" but not to the list of LDCs.

Duty free treatment will be accorded to apparel articles knit to shape (other than socks) in a CBTPA beneficiary country from yarns wholly formed in the United States and knit apparel articles (other than T-shirts) cut and wholly assembled in one or more CBTPA countries from fabric formed in one or more CBTPA countries or the United States from yarns wholly formed in the United States, from yarns wholly formed in the United States, subject to a limit of 250 million square metre equivalents during the 1-year period beginning on October 1, 2000. The limit will increase at an annual compound rate of 16 per cent until September 30, 2004, subject to Congressional reviews after the year 2004. For T-shirts, the quantitative restriction was set at 4.2 million

dozens during the first year, to be increased by 16 per cent a year till September 30, 2000, subject to reviews thereafter. The Act does not specify the mechanism of allocating quotas for these apparel goods from the CBTPA countries. The U.S. appears to prefer a first-come first-served system to the system negotiated by the beneficiary countries themselves.

#### The New Legislation and Other Trade Policy Regimes: A Comparison

It is essential to refer to three existing trade policy regimes of the United States. The first is the so-called "307" or currently under the "9802" programme (these numbers come from the old and new U.S. Tariff Schedules) which allows a reduction of duty whenever US-fabricated components are included in a product which is exported by other countries to the United States. In the context of textiles and apparel, this

(that are formed (knit or woven) in the United States and cut to shape in the United States.

Third, the NAFTA, established in 1994, created a disparity between Mexico, a NAFTA member, and the CBTPA countries. The NAFTA provides quota-free and duty-free access to Mexican apparel goods which satisfy the "triple transformation rule" or the "yarn forward rule," which requires that duty-free and quota-free access to Mexican apparel goods will be given provided these goods are made from fabrics and yarns from the NAFTA countries. The NAFTA trade preferences allow Mexico to perform "non-incident operations" on apparel goods. For apparel goods that do not meet the NAFTA rules of origin, "tariff preference levels (TPLs) have been established which allow low duty rates up to certain levels for a transition period.

Mauritius will be eliminated once these countries have established an effective visa system to prevent illegal transshipment of goods. The total apparel exports from the SSA region to the United States in 1999 amounted to \$584.3 million. The main categories are men's cotton trousers, women's cotton slacks, women's cotton knitted blouses, men's knit shirts, men's knit cotton shirts. The major eligible SSA apparel exporting countries are Mauritius, Lesotho, South Africa, Kenya, Madagascar, and Botswana. Among the SSA countries, Mauritius is the largest exporter of apparel to the United States, while South Africa is the largest producer of textiles.

In 1999, the CBTPA region exported apparel worth \$8 billion dollars to the United States, accounting for 17.3 per cent of U.S. apparel imports. The leading apparel exporting coun-

try to import programmes were:

the Dominican Republic (\$2,337 million), Honduras (\$2,155 million), El Salvador (\$1,328.8 million), Guatemala (\$1,253 million), Costa Rica (\$ 819.3 million) and Jamaica (\$344.6 million). By comparison, apparel exports from Bangladesh to the U.S. in 1999 was \$1,675.7 million, constituting 3.3 per cent of total apparel imports into the United States. For the CBTPA region as a whole cotton apparel constituted about 68.3 per cent of total apparel exports to the US in 1999. For Bangladesh, the corresponding figure was 66.3 per cent. There are some differences however, between the composition of the CBTPA cotton apparel exports and Bangladesh cotton apparel. For the CBTPA countries, the shares of leading items are as follows: cotton underwear (15.9 per cent), cotton knit shirts (13.8 per cent), and men's cotton trousers (12.4 per cent), women's cotton knitted blouses (8.2 per cent), women's cotton slacks (7.2 per cent), and cotton non-knitted shirts (4.4 per cent). For Bangladesh, the shares of the above six categories are: cotton underwear (5.2 per cent), cotton knit shirts (3.9 per cent), men's cotton trousers (10 per cent), women's cotton knitted blouses (1.5 per cent), women's cotton slacks (4.2 per cent), and cotton non-knitted shirts (10.9 per cent). Thus the apparel exports from the CBTPA are dominated by cotton knitted

products and cotton underwear. The major apparel exporting countries of the Caribbean region such as the Dominican Republic, Honduras, Guatemala, Costa Rica, El Salvador, and Jamaica face quotas on "non-qualifying" apparel exports to the United States. A few comparative facts concerning trade barriers facing the CBTPA region and Bangladesh can be presented here. During the January-August 2000 period, Bangladesh exported \$1,001.0 million without receiving any tariff preferences. Only \$5 thousand worth of non-knit apparel was eligible for GSP. The average tariff rate on Bangladeshi non-knit apparel was 15.2 per cent. Import charges (freight, insurance, and other charges) were about 7.5 per cent of the customs value of imports from Bangladesh. The distribution of non-knit apparel exports from the Caribbean region during the January-August period accord-

#### Other Factors Affecting Apparel Trade

The implications of the Trade and Development Act for a country such as Bangladesh need to be examined in the context of other phenomena affecting a globalised industry such as textiles and apparel. Some phenomena will reinforce the benefits for the CBTPA countries; for example, the possibility of a free trade zone in the western hemisphere in the form of the Free Trade Agreement in the Americas (FTAA) by the year 2005 and increased foreign investment in the Caribbean region from the NAFTA countries and Asian countries such as South Korea and Taiwan. Mexico has established free trade agreements with Costa Rica, Honduras, Guatemala, and El Salvador. Mexico has already established free trade agreements with the European Union. These agreements are likely to speed up development of a full-package textile and apparel chain in the region. Several countries in the SSA region have also established free trade agreements.

Liberalisation of trade in textiles and apparel during the third stage of the Agreement on Textiles and Clothing (ATC) negotiated under the auspices of the World Trade Organization by January 1, 2002, and the final stage by January 1, 2005, is likely to erode somewhat the special advantage of the CBTPA and SSA regions. The European Union will eliminate 37 bilateral quotas (56 if China is included) involving 62 categories of textiles and clothing during the third phase of liberalisation by January 2002. The notable categories of apparel are men's undergarments and night-dresses, women's night-dresses, and woven fabrics of artificial fibres. Quota elimination for apparel by the United States in January 2002 involves such items as gloves, bathrobes, jackets and overcoats, and men's and women's dresses made of silk. Furthermore, if China soon becomes a member of the World Trade Organization, competition in apparel exports will intensify further.

#### Concluding Remarks

The main objective of the Trade and Development Act is to promote trade between the United States and the countries in the SSA and CBTPA regions. The new legislation is expected to benefit (a) US textile companies by increasing U.S. exports of yarns and fabrics to CBTPA and SSA regions, especially in the former region, and (b) also US firms assembling apparel of U.S. components in the CBTPA countries. Accordingly, the legislation is expected to increase further what is called "outward-processing trade (OPT) between the United States and the beneficiary countries. Major beneficiaries of the legislation are likely to be US

producers of underwear, foundation garments, and outerwear T-shirts, which had already made major investments in the CBTPA region. Foreign investment from other countries such as South Korea and Taiwan is also likely to increase in the beneficiary countries. Proximity to the US markets coupled with preferential trade arrangements under the new legislation are likely to transform the CBTPA region into an integral part of a "quick response" and "full-package" textile and apparel chain in the western hemisphere. Preferential trade arrangements can dramatically affect sources of imports. For instance, while Asia's share of US apparel imports declined from 84 per cent in 1980 to 40 per cent in 1999, the share of Mexico and CBTPA countries increased from 9 per cent in 1980 to about 33 per cent in 1999. In undergarments and outerwear T-shirts, the share of Asia declined from 36 per cent in 1993 to 23 per cent in 1999, while the share of Mexico and CBTPA countries rose from 52 per cent in 1993 to 66 per cent in 1999. US imports of these garments from Mexico have increased by 585 per cent during the same period.

The new legislation is likely to cause some trade diversion toward the beneficiary regions, especially the CBTPA region, away from Asian countries including Bangladesh, involving not only knit apparel (underwear, foundation garments, and outerwear T-shirts) but also eventually other categories of apparel such as apparel made of man-made fibres. However, the extent of trade diversion will be constrained by stringent rules of origin for qualifying apparel goods.

It is unlikely that Bangladesh will obtain major trade concessions in the form of elimination of quotas and tariffs for apparel exports to the United States. However, Bangladesh and other LDCs should continue to lobby for elimination of quotas and tariffs for all LDCs at the multilateral level. The European Union already has called for support for its "Everything But Arms (EBA) proposal which would remove all trade barriers for LDCs. The wage rates in the CBTPA region are more than four times that in Bangladesh. However, labour costs alone do not determine competitiveness in apparel exports, as a recent study by the International Labour Organization 'Labour Practices in the Footwear, Leather, Textiles and Clothing Industries, October 2000' confirms. In the age of globalization and trade liberalization, in order to enhance or maintain its competitive position Bangladesh must improve the levels of productivity and quality in apparel, upgrade its infrastructure to attract foreign investment in textiles, and be prepared to face challenges generated by special trade regimes of major countries and trade blocs.

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programme implies that fabrics (which need not be U.S. made) cut to shape in the USA and exported to other countries where garments are assembled and exported back to the United States are not subject to duties. Duty is applicable only on the value added abroad and any non-US components. The duty reduction is dependent upon only assembly operations and 'incident operations' abroad. Additional operations such as stone washing and embroidering a pocket will result in disqualification for tariff reductions. Only \$15.2 million worth of apparel and made-up textile goods from Bangladesh were eligible for duty reductions under this programme in 1999. The U.S. components constituted only about 5.3 per cent of the total value. By contrast, during the same year, apparel and made-up goods worth \$6.97 billion from the countries under the Caribbean Basin Economic Recovery Act (CBERA) were exported under this programme.

The second is a special apparel access programme, known as the "807A" programme created in 1986 for the Caribbean Basin, the Andean countries, and Mexico. This programme provides not only duty reductions as in regular "807" programme but also allows a guaranteed access 'levelled GALS,' provided new conditions are met. The programme covers apparel articles assembled in beneficiary countries from fabrics

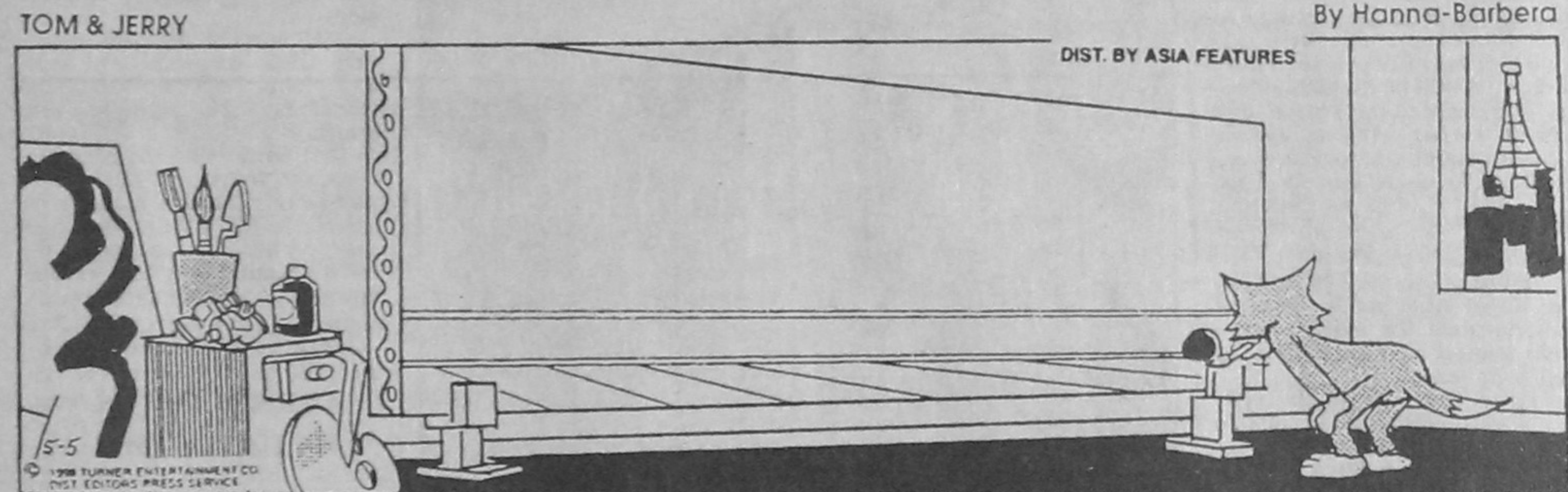
tries to the U.S. market in 1999 were the Dominican Republic (\$2,337 million), Honduras (\$2,155 million), El Salvador (\$1,328.8 million), Guatemala (\$1,253 million), Costa Rica (\$ 819.3 million) and Jamaica (\$344.6 million). By comparison, apparel exports from Bangladesh to the U.S. in 1999 was \$1,675.7 million, constituting 3.3 per cent of total apparel imports into the United States. For the CBTPA region as a whole cotton apparel constituted about 68.3 per cent of total apparel exports to the US in 1999. For Bangladesh, the corresponding figure was 66.3 per cent. There are some differences however, between the composition of the CBTPA cotton apparel exports and Bangladesh cotton apparel. For the CBTPA countries, the shares of leading items are as follows: cotton underwear (15.9 per cent), cotton knit shirts (13.8 per cent), and men's cotton trousers (12.4 per cent), women's cotton knitted blouses (8.2 per cent), women's cotton slacks (7.2 per cent), and cotton non-knitted shirts (4.4 per cent). For Bangladesh, the shares of the above six categories are: cotton underwear (5.2 per cent), cotton knit shirts (3.9 per cent), men's cotton trousers (10 per cent), women's cotton knitted blouses (1.5 per cent), women's cotton slacks (4.2 per cent), and cotton non-knitted shirts (10.9 per cent). Thus the apparel exports from the CBTPA are dominated by cotton knitted

#### Major Apparel Exporting Countries in the SSA and CBTPA Regions

Currently, the following countries from the SSA region face quota restrictions for apparel exports to the United States: Kenya, Mauritius, and Lesotho. Existing quotas for Kenya and

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