



## **CEPA Submits Statement for the Record Following House Homeland Security Subcommittee Hearing on Private Sector Investment in the Northern Triangle**

**WASHINGTON, D.C., (March 4, 2022)** -- The [Coalition for Economic Partnerships in the Americas](#) (CEPA), a group of major American companies and manufacturers dedicated to promoting regional trade and job growth, yesterday submitted a statement for the record following the House Homeland Security Subcommittee’s hearing on a “Call to Action: Private Sector Investment in the Northern Triangle and its Impact on Homeland Security.”

“We are grateful to the Subcommittee for holding this important hearing on the impacts of private sector investment in Central America and we appreciate the decision to draw upon expert knowledge. We would like to provide the Committee with a broad perspective by sharing further thoughts and additional industry views,” **said CEPA spokesperson Beth Hughes**. “We believe now is the time to bring all stakeholders to the table to discuss creative solutions that protect current and planned U.S. textile investments while also creating conditions to sustainably and permanently grow textile and apparel investment for the benefit of U.S. apparel and textile companies.”

The full text of the letter may be found below.

### **Coalition for Economic Partnerships in the Americas Statement for the Record House Committee on Homeland Security Subcommittee on Oversight, Management, and Accountability Hearing on Call to Action: Private Sector Investment in the Northern Triangle and its Impact on Homeland Security Held on February 17, 2022**

On behalf of the members of the Coalition for Economic Partnerships in the Americas (CEPA), we appreciate this opportunity to submit a statement for the record for the Subcommittee’s hearing on the “Call to Action: Private Sector Investment in the Northern Triangle and its Impact on Homeland Security.”

CEPA brings together companies, trade associations, think tanks, and other stakeholders with a decades long track record of creating thousands of jobs in the Americas through investment and trade. We are a coalition of major American companies and manufacturers focused on the

humanitarian, security, and economic crisis in the Americas, ready to dedicate resources, experience, and expertise to create enduring humanitarian, worker-centric, and sustainable solutions that work for the United States and Central America.

Through smart trade policies, we can promote billions of dollars of new investment in the region's most promising industries and create sustainable civil societies where opportunity can flourish. By encouraging further investment in textile and apparel manufacturing within the Western Hemisphere, we can provide communities in Central America with more jobs, higher wages, sustainable growth and long-term stability. This will ease the pressures on its citizens to migrate out of the Central America - all while protecting existing manufacturing and trade flows, and the jobs they support.

We were delighted to see that the Committee drew upon the expert perspective presented by Mr. Warlick. We applaud Parkdale's long-standing commitment to the region, most recently exemplified by the recent announcement to build a new facility in Honduras. Building on his rich comments, we'd like to share further thoughts to bring in additional industry views, so the Committee has a fuller perspective.

### **Job Growth**

A recent economic study, [Close Knit: Migration and Apparel Production in Central America](#), conducted by Raymond Robertson at the Mosbacher Institute for Trade, Economics, and Public Policy at Texas A&M University found the United States can address the root causes of instability in Central America by creating jobs, reducing poverty, and contributing to economic growth through international trade. Specifically, the study found:

- Both the dollar value and the share of apparel imports from Central America into the United States has declined while both the dollar value and share of apparel imports from China and Vietnam has dramatically increased since CAFTA-DR went into force.
- Apparel imports from Central America are highly concentrated in low value-add apparel products that do not use technologically advanced yarns and fabrics.
- Increasing the diversity of apparel inputs that may be incorporated into finished goods and receive CAFTA-DR duty-free treatment through modernizing the rules of origin could support economic growth in Central America.
- Apparel is a significant share of Central American countries' exports to the U.S., and, therefore, improving the region's position in the apparel value chain could have significant economic effects for those countries.

In addition, the study cited other research supporting the fact that retail-supported apparel production increases economic opportunity and creates good jobs for would-be migrants. The World Bank report [Stitches to Riches? Apparel Employment, Trade, and Economic Development in South Asia](#) notes that "the apparel industry contributes to the social, economic, and policy realms of developing countries" and "increases female labor-force participation." Mr. Robertson cites another World Bank report, [Globalization, Wages, and the Quality of Jobs](#), noting that "apparel workers earn more in apparel than they would earn in their most likely domestic alternatives (domestic service and agriculture)."

We take issue with the Werner International report referenced by Mr. Warlick that shows a decline in jobs if U.S. apparel companies were able to produce more fashion garments rather than basics in the region. We question the methodology and multiplier used in the Werner International report. In contrast, Mr. Robertson estimates that **at least a hundred thousand**

**more jobs will be created in the region if there were access to more yarns and fibers to increase apparel production.**

Access to these new yarns and fabrics will incentivize more cut and sew production in the region. This will serve as a long-term demand signal to the U.S. textile industry and lead to new investments in yarns, fabrics, and apparel that simply do not exist in the hemisphere. To really move the needle, we need to attract more cut and sew jobs as soon as possible. This will have the two-fold impact of (a) creating the jobs today needed to make a significant dent in the migration crisis and (b) creating a demand signal that will stimulate even more textile investment (in both the U.S. and the region) that will support more trade tomorrow (accounting for the lag in textile investments to come online).

### **CAFTA-DR Trade**

It is through trade, specifically incentivizing the utilization of the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) in apparel, where we will see progress. Sadly, as it has been for the past 20 years, CAFTA-DR is currently not structured as a magnet to attract the kind of textile and apparel investment we need to move a broader diversity of sourcing from Asia. Companies are indeed diversifying out of China – both goods and materials. While some of that is moving to CAFTA-DR, it may be only temporary, and the vast majority is still bypassing the region and will continue to do so because the terms of trade are simply not structured to support the industry of 2022 or the future.

According to data released by the Office of Textiles and Apparel (OTEXA) (enclosed as charts in this statement), the utilization rate of CAFTA-DR for apparel sourcing fell to a new low of only 73.7% in 2021. A record number of U.S. apparel imports (26.3%) from CAFTA-DR member countries did not claim duty free benefits most notably due to an insufficient supply of qualifying yarns and fabrics. It is important to note that U.S. yarn and fabric exports to CAFTA-DR continues to lag behind U.S. yarn and fabric exports to the rest of the world. There is no question that CAFTA-DR continues to be a strong market for U.S. yarn and fabric exports (about 20% go there), but the fact of the matter is growth in apparel from other parts of the world continues to be stronger. In 2021, about 64% of the new growth over the previous year came from the rest of the world.

The current trade consists heavily in basic cotton tee shirts, socks, and underwear. In fact, about 80% of the trade is concentrated in only 25 tariff lines. CEPA is committed to protecting the current trade in these items and partnering with the U.S. cotton industry. At the USDA's Agricultural Outlook Forum in February 2022, Chief Economist Seth Meyer presented data showing U.S. cotton planted area is rising with historically strong cotton prices. The U.S. cotton industry is an important partner providing sustainably sourced cotton free of forced labor.

### **China**

In his testimony, Mr. Warlick noted that if U.S. apparel companies had access to more yarns and fabrics it will mean a flood of Chinese inputs that will harm U.S. production. We share this concern, which is why we have championed an outcome that will prevent that. First, we have urged that a go forward process with respect to CAFTA-DR include ALL stakeholders to make sure any changes insulate current trade and investment flows. This will also make sure that textile companies are able to advocate for areas where they need to rely upon foreign inputs, similarly to the way many textile companies currently support duty-free Chinese inputs under the Miscellaneous Tariff Bill (MTB) in a manner that does not harm U.S. production. Second, we are actively trying to drive more trade under the CAFTA-DR umbrella so they will be subject to

CAFTA-DR's strong customs provisions. This enforcement tool is vital to provide added visibility for CBP to make sure inputs are not infected by forced labor along with the Uyghur Forced Labor Prevention Act signed into law late last year. CAFTA-DR provides excellent guardrails to ensure that supply chains, which are increasingly diversifying away from China, are free and clear of forced labor and cotton from China's Xinjiang region, but those guardrails will be useless unless the status quo is changed to attract trade to this region.

### **CEPA Policy Recommendations**

New fashion apparel production cannot be built in the Western Hemisphere unless there is access to yarns and fabrics. With only 10% of the world's yarns produced in the Western Hemisphere, the reality in the market is that there are many fashion yarns that are in short supply in practice even if they are not recognized as such by the CAFTA-DR short supply list. Modern apparel is made up of potentially thousands of fabrics, yarns, and fibers and only a tiny fraction of those are produced in the U.S. Fibers, yarns, and fabrics determined not to be available in commercial quantities in a timely manner may be sourced from outside the CAFTA-DR countries for use in apparel products and imported to the U.S. duty free. For example, U.S. apparel companies need heathered yarns, textured yarns, fine count yarns, sustainable yarns, and printed woven fabrics to increase apparel production in Central America. Despite a few promises of new investments, there have not been commitments by textile companies to produce these much-needed yarns and fabrics. Moreover, the current short supply process is too burdensome and slow to allow sufficient flexibility for modern apparel producers and could be relaxed with no impact on U.S. jobs. It has become tainted due to the blocked submission of valid petitions and by certain textile producers failing to provide the product at a commercially available price, quality, volume, and time frame.

While Mr. Warlick correctly points out that the Central America–Dominican Republic Apparel And Textile Council (CECATEC-RD) supports the yarn forward rule in a [press release](#) from August 2021, he neglects to mention that CECATEC-RD also stated in that same press release that the short supply mechanism is an important provision and “would be open to review this mechanism to ensure it stays transparent, efficient and responsive to the needs of the supply chain.” In fact, short supply and other flexibilities were specifically included in CAFTA-DR in recognition that the yarn forward provisions alone would be too rigid to support trade.

Another CEPA policy recommendation – cumulation – centers on another flexibility that already exists in CAFTA-DR as well as in other U.S. trade preference programs like Haiti HOPE/HELP. In his article from January 2021, [Central America: Promoting Prosperity with Targeted U.S. Trade Policy](#), Matthew Rooney of the George W. Bush Institute argues in favor of linking CAFTA-DR with the U.S. Mexico-Canada Agreement (USMCA) to “allow a company manufacturing in Mexico to source components in Central America that would count toward the threshold for duty-free access to the United States under USMCA.” In fact, as noted above, CAFTA-DR does allow cumulation for knit fabric used in garments classified under Chapter 62 (See [Appendix 4.1-B](#)). CEPA supports linking all U.S. trade agreements, Trade and Investment Framework Agreements, and trade preference programs together, which would create a virtuous web among U.S. trading partners without allowing inputs from China.

In addition to allowing access for more yarns and fabrics, reducing nontariff barriers and harmonizing export and import processes in Central America is key to promoting regional trade, investment, and job growth in the region. CEPA supports the [report](#) of the Commercial Customs Operations Advisory Committee (COAC) Rapid Response Subcommittee Northern Triangle Working Group which provides “recommendations on reducing the nontariff trade barriers and

improving customs processes in the Northern Triangle region of Central America, comprised of Guatemala, El Salvador, and Honduras, for the purpose of reducing migration driven by economic push factors.”

CEPA has called on the Biden Administration to bring all stakeholders to the table to discuss creative solutions that protects current and planned U.S. textile investments while also creating conditions to sustainably and permanently grow textile and apparel investment for the benefit of U.S. apparel and textile companies. We're hopeful our request will be prioritized and scheduled in the next few weeks.

Thank you for your attention to this important issue. CEPA looks forward to working with the subcommittee to foster CAFTA-DR and ensure it fulfills its purpose for investors, workers, and communities.

Sincerely,

A handwritten signature in black ink that reads "Beth Hughes". The signature is written in a cursive, flowing style.

Beth Hughes  
Vice President, Trade and Customs Policy  
American Apparel & Footwear Association  
On behalf of CEPA