Coalition for Economic Partnerships in the Americas

Coalition for Economic Partnerships in the Americas Statement for the Record
House Committee on Foreign Affairs
Subcommittee on International Development, International Organizations and Global Corporate Social Impact and Subcommittee on the Western Hemisphere, Migration, Civilian Security and International Economic Policy
Hearing "Addressing Root Causes of Migration from Central America through Private Investment: Progress in VP Harris' Call to Action"
Held on June 22, 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, "Addressing Root Causes of Migration from Central America through Private Investment: Progress in VP Harris' Call to Action."

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, the United States 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 through smart trade policies, the United States can create the conditions to 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.

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. 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**.

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)."

Access to 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 right now. To begin making progress, it is imperative that the right policies are put in place to protect the current investment and trade and attract more cut and sew jobs as soon as possible. This will have the two-fold impact of (1) creating the jobs today needed to make a significant dent in the migration crisis and (2) 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 that the industry needs to move a broader diversity of sourcing from Asia. Companies are indeed diversifying out of China – both goods and materials. While some of that production is moving to Central America, 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 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 between the U.S. and Central America 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 good American jobs and sustainably sourced cotton free of forced labor.

A recent study by Dr. Sheng Lu, associate professor of fashion and apparel studies at the University of Delaware, notes that "U.S. apparel sourcing from CAFTA-DR has played a critical role in supporting the region's economic growth and job creation. A million dollars of apparel exports to the U.S. could support about 12,000-14,000 apparel jobs for CAFTA-DR members." Dr. Lu further states that "U.S. apparel sourcing from CAFTA-DR has yet to achieve its full potential" but expanding sourcing could "effectively create more jobs in Central America and solve the root causes of migration." The study proposes four practical policy recommendations:

- improve CAFTA-DR's apparel production capacity and diversify its product offers.
- practically solve the bottleneck of limited textile raw material supply within CAFTA-DR and do NOT worsen the problem.
- encourage more utilization of CAFTA-DR for apparel sourcing.
- leverage expanded apparel sourcing to incentivize more investments in the CAFTA-DR region's production and infrastructure.

China

U.S. apparel companies understand the concern that access to more yarns and fabrics will mean a flood of Chinese inputs into the region that will harm U.S. production. We share this concern and have championed an outcome that will prevent this result. 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 ensure that textile companies advocate for areas where they need to rely upon foreign inputs, similar to the way many textile companies currently support duty reductions or suspensions for 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 that textile and apparel inputs are not infected by forced labor. Given heightened concerns about the use of cotton from the Xinjiang Uyghur Autonomous Region (XUAR), CAFTA-DR provides excellent guardrails to ensure that supply chains, which are increasingly diverse, are free and clear of forced labor.

CEPA Policy Recommendations

Fashion apparel production in the Western Hemisphere cannot be diversified and expanded unless there is access to yarns and fabrics. With only 10% of the world's yarns produced in the Western

Hemisphere, many fashion yarns are in short supply in the region even if they are not recognized as such by the CAFTA-DR short supply list. Modern apparel is made up of 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 should be allowed to 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 in the region. Moreover, the current short supply process is too burdensome and slow to allow sufficient flexibility for modern apparel producers. The current process 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**. We recommend improving the current process to provide the needed flexibilities to modern apparel producers without negatively impacting U.S. jobs.**

Further, the Central America–Dominican Republic Apparel And Textile Council (CECATEC-RD) supports short supply and stated in a press release from August 2021 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.

In addition to modernizing the short supply process to be more responsive to industry needs, **CEPA recommends capitalizing on another flexibility that already exists in CAFTA-DR as well as in other U.S. trade preference programs like Haiti HOPE/HELP – cumulation.** CAFTA-DR allows cumulation for knit fabric used in garments classified under Chapter 62 (See Appendix 4.1-B). 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." 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 textile and apparel products using inputs from China to receive the benefits of the CAFTA-DR agreement.

In addition to allowing access for more yarns and fabrics, **we recommend 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

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sustainably and permanently grow textile and apparel investment for the benefit of U.S. apparel and textile companies.

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

Sincerely,

Beth Hughes

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

Encl. – Data Charts

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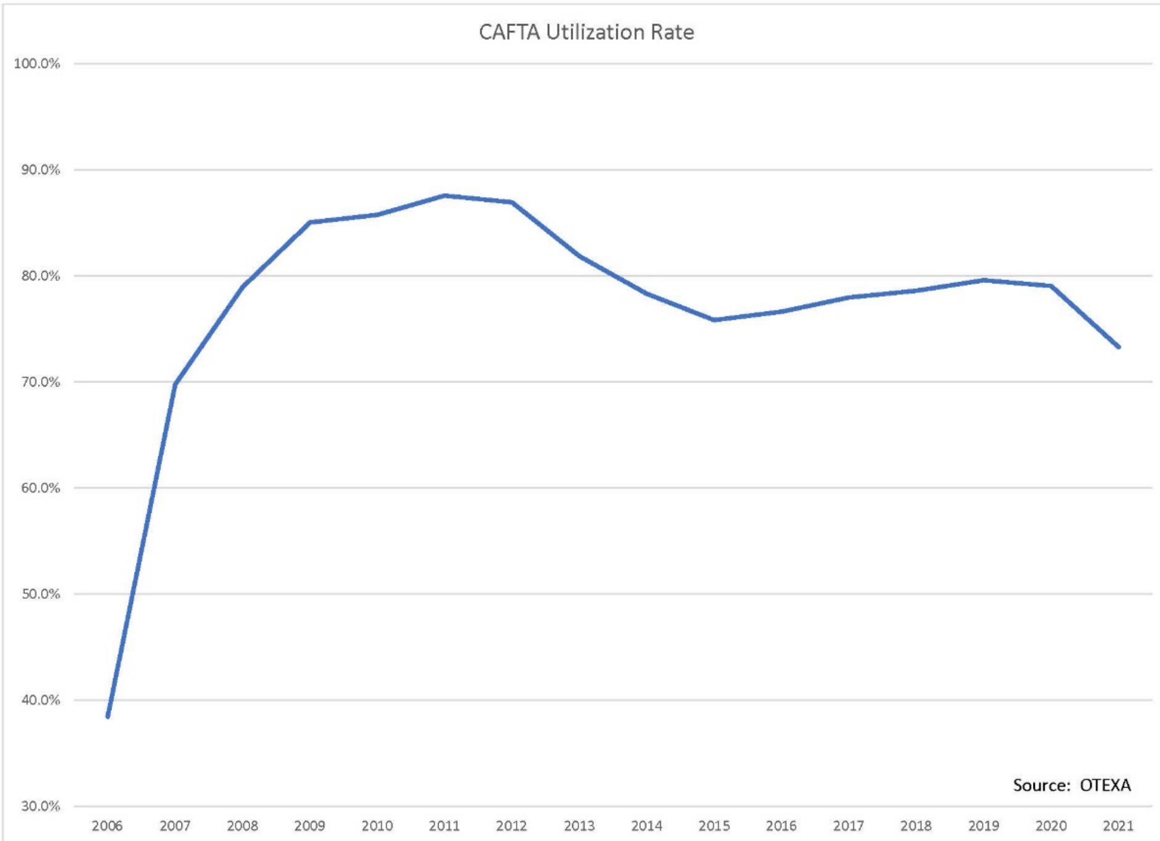

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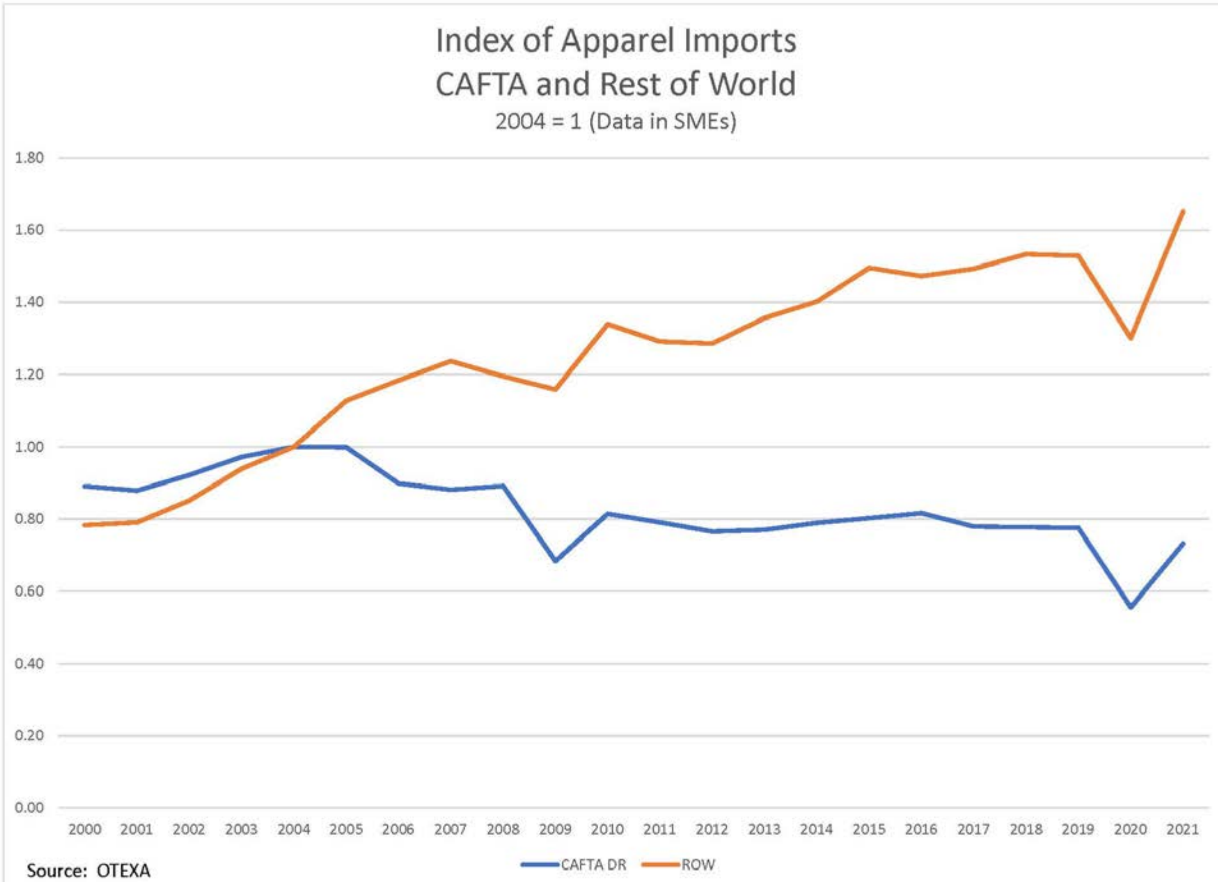

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