Industry & Trade Summary

Apparel

USITC Publication 3169
March 1999

OFFICE OF INDUSTRIES
U.S. International Trade Commission
Washington, DC 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Lynn M. Bragg, Chairman
Marcia E. Miller, Vice Chairman
Carol T. Crawford
Jennifer A. Hillman
Stephen Koplan
Thelma J. Askey

Robert A. Rogowsky
Director of Operations

Vern Simpson
Director of Industries

This report was prepared principally by

Sundar A. Shetty

Textiles and Apparel Branch
Energy, Chemicals, and Textiles Division

Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

ITC CUSTOMER SATISFACTION SURVEY

Industry and Trade Summary: Apparel

The U.S. International Trade Commission (ITC) is interested in your voluntary comments (burden < 15 minutes) to help us assess the value and quality of our reports, and to assist us in improving future products. Please **return survey by fax (202-205-3161) or by mail** to the ITC.

Your name and title (please print; *responses below not for attribution):* ____________________

Please specify information in this report most useful to you/your organization: ____________________

____

Was any information missing that you consider important? Yes (specify below) No

If yes, please identify missing information and why it would be important or helpful to you: __________

____

Please assess the ***value*** of this ITC report (answer below by circling all that apply): **SA**—Strongly Agree; **A**—Agree; **N**—No Opinion/Not Applicable; **D**—Disagree; **SD**—Strongly Disagree

▶ Report presents new facts, information, and/or data	SA	A	N	D	SD
▶ Staff analysis adds value to facts, information, and/or data	SA	A	N	D	SD
▶ Analysis is unique or ground breaking	SA	A	N	D	SD
▶ Statistical data are useful to me/my organization	SA	A	N	D	SD
▶ Subject matter and analysis are timely	SA	A	N	D	SD
▶ ITC is the only or the preferred source of this information	SA	A	N	D	SD

If not, please identify from what other source the information is available ____________________

Please evaluate the ***quality*** of this report (answer below by circling all that apply): **SA**—Strongly Agree; **A**—Agree; **N**—No Opinion/Not Applicable; **D**—Disagree; **SD**—Strongly Disagree

▶ Written in clear and understandable manner	SA	A	N	D	SD
▶ Report findings or executive summary address key issues	SA	A	N	D	SD
▶ Figures, charts, graphs are helpful to understanding issue	SA	A	N	D	SD
▶ Analysis throughout report answers key questions	SA	A	N	D	SD
▶ Report references variety of primary and secondary sources	SA	A	N	D	SD
▶ Sources are fully documented in text or footnotes	SA	A	N	D	SD

Please provide further comment on any of the above performance measures, as appropriate:

Suggestions for improving this report and/or future reports: ____________________

____

Other topics/issues of interest or concern: ____________________

Please provide your Internet address and update your mailing address below, if applicable:

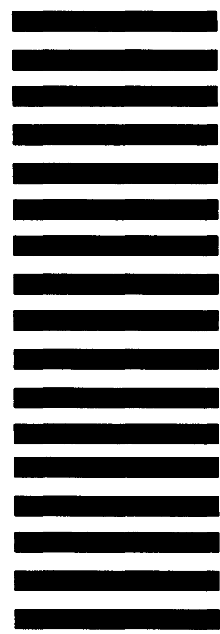
OMB No.: 3117–0188

FOLD

UNITED STATES
INTERNATIONAL TRADE COMMISSION
WASHINGTON, DC 20436

OFFICIAL BUSINESS
PENALTY FOR PRIVATE, USE $300

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES



BUSINESS REPLY MAIL

FIRST CLASS PERMIT NO. 12840 WASHINGTON, DC

POSTAGE WILL BE PAID BY ADDRESSEE

U.S INTERNATIONAL TRADE COMMISSION
500 E STREET, SW.
WASHINGTON, DC 20277–2840

ATTN:
OFFICE OF INDUSTRIES
ITS: APPAREL

PREFACE

In 1991 the United States International Trade Commission initiated its current *Industry and Trade Summary* series of informational reports on the thousands of products imported into and exported from the United States. Each summary addresses a different commodity/industry area and contains information on product uses, U.S. and foreign producers, and customs treatment. Also included is an analysis of the basic factors affecting trends in consumption, production, and trade of the commodity, as well as those bearing on the competitiveness of U.S. industries in domestic and foreign markets.[1]

This report on Apparel covers the period 1993 through 1997. Listed below are the individual summary reports published to date on the energy, chemicals, and textiles sectors.

***USITC publication* number**	***Publication date***	***Title***
Energy and Chemicals:		
2458	November 1991	Soaps, Detergents, and Surface-Active Agents
2509	May 1992	Inorganic Acids
2548	August 1992	Paints, Inks, and Related Items
2578	November 1992	Crude Petroleum
2588	December 1992	Major Primary Olefins
2590	February 1993	Polyethylene Resins in Primary Forms
2598	March 1993	Perfumes, Cosmetics, and Toiletries
2736	February 1994	Antibiotics
2739	February 1994	Pneumatic Tires and Tubes
2741	February 1994	Natural Rubber
2743	February 1994	Saturated Polyesters in Primary Forms
2747	March 1994	Fatty Chemicals
2750	March 1994	Pesticide Products and Formulations
2823	October 1994	Primary Aromatics

[1] The information and analysis provided in this report are for the purpose of this report only. Nothing in this report should be construed to indicate how the Commission would find in an investigation conducted under statutory authority covering the same or similar subject matter.

PREFACE—*Continued*

USITC publication number	*Publication date*	*Title*
Energy and Chemicals--Continued:		
2826	November 1994	Polypropylene Resins in Primary Forms
2845	March 1995	Polyvinyl Chloride Resins in Primary Forms
2846	December 1994	Medicinal Chemicals, except Antibiotics
2866	March 1995	Hose, Belting, and Plastic Pipe
2943	December 1995	Uranium and Nuclear Fuel
2945	January 1996	Coal, Coke, and Related Chemical Products
3014	February 1997	Synthetic Rubber
3021	February 1997	Synthetic Organic Pigments
3081	March 1998	Explosives, Propellant Powders, and Related Items
3082	March 1998	Fertilizers
3093	March 1998	Adhesives, Glues, and Gelatin
3147	December 1998	Refined Petroleum Products
3162	March 1999	Flavor and Fragrance Materials
Textiles and apparel:		
2543	August 1992	Nonwoven Fabrics
2580	December 1992	Gloves
2642	June 1993	Yarn
2695	November 1993	Carpets and Rugs
2702	November 1993	Fur Goods
2703	November 1993	Coated Fabrics
2735	February 1994	Knit Fabric
2841	December 1994	Cordage
2853	January 1995	Apparel
2874	April 1995	Manmade Fibers

ii

CONTENTS

Page

Preface i

Abstract 1

Introduction 3

U.S. Industry Profile 3

Recent trends 6
Competitive strategies 9
Restructuring activities 11
Globalization 11
Quick response programs 13
Government regulations 15

U.S. Market 15

Consumer characteristics and factors affecting demand 15
Consumption 18
Production 18

U.S. Trade 20

U.S. imports 23
Principal suppliers and import levels 25
NAFTA and CBERA countries 25
China 28
Other supplying countries 28
U.S. trade measures 29
Tariffs and quotas 29
Preferential trade programs 30
Rules of origin 31
WTO textile agreement 32
U.S. Government trade-related investigations 33
U.S. exports 34
Principal markets and export levels 34
Foreign trade measures 35

Foreign Industry Profile 36

iii

CONTENTS—*Continued*

Page

Appendix

A. Recent restructuring in the U.S. apparel industry A-1
B. Explanation of tariff and trade agreement terms B-1

Figures

1 Apparel: Factor productivity indexes, 1993-97 8
2. Apparel: Factor shares (factor cost divided by the value of production), 1993 and 1997 8
3. Apparel: Percentage distribution of retail sales, by types of outlets, 1997 17
4. Apparel: U.S. consumption and shares supplied by domestic shipments, 9802 imports, and other imports, 1993 and 1997 20
5. Apparel: Percentage distribution of U.S. imports, by sources, 1993 and 1997 23

Tables

1. Structure of the U.S. apparel industry, 1993-97 5
2. Profitability ratios: Apparel and all manufacturing, 1993-97 7
3. Apparel: Annual sales of major apparel firms, 1993 and 1997 10
4. Apparel: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1993-97 19
5. Apparel: U.S. production, imports, exports, apparent consumption, and import share, by major product types, 1993 and 1997 21
6. Selected apparel products: U.S. producers' shipments and shares supplied by imports under the production-sharing provisions (9802), 1993 and 1997 21
7. Apparel: U.S. exports of domestic merchandise, imports for consumption, and trade balance, by selected countries and country groups, 1993-97 22
8. Apparel: U.S. imports for consumption by major sources, 1993-97 24
9. Apparel: Percentage distribution of U.S. imports, by selected countries or country groups and by selected products, 1993 and 1997 26
10. Apparel: U.S. exports of domestic merchandise, by major markets, 1993-97 35
11. Apparel: World exports, by selected countries and country groups, 1992-97 37
12. Apparel: World imports, by selected countries and country groups, 1992-96 40

iv

ABSTRACT

This report addresses trade and industry conditions for apparel for the period 1993-97.

- The U.S. apparel industry continued to restructure as a result of growing competition in the domestic market. The competitive pressures reflect the large number of suppliers, changing consumer preferences, rising import penetration, and growing buying power of large retailers. Imports now supply just over one-half of the U.S. apparel market and are likely to continue growing as U.S. import quotas are gradually eliminated.

- World apparel trade will become less restricted as a result of the phaseout of quotas under the Uruguay Round Agreement on Textiles and Clothing (ATC), which entered into force as part of the World Trade Organization (WTO) agreements in 1995. The ATC replaced the Multifiber Arrangement system of quotas, and provides for the elimination of quotas over a 10-year transition period ending on January 1, 2005.

- The U.S. apparel industry achieved gains in shipments, profitability, and productivity during 1993-97, but incurred a decline in employment. The number of workers declined by 18 percent to 813,000 workers. The growth in shipments, which averaged less than 1 percent a year during 1993-97, to an estimated $55 billion, resulted mainly from larger shipments of apparel assembled in the Caribbean countries and Mexico from components cut to shape in the United States.

- Several large U.S. apparel firms posted significant sales growth during 1993-97. Factors enabling these firms to gain market share included development of marketable brand names, strategic alliances with major retailers, quick response manufacturing and distribution systems, and a shift to sourcing abroad for some or most of their product mix.

- U.S. apparel producers have expanded their use of assembly operations in the Caribbean countries and Mexico. These countries offer low-cost labor to perform sewing tasks, and their proximity to suppliers and markets in the United States enables U.S. firms to have greater management control over production and to assemble apparel there in a time-sensitive, market-driven manner. The countries also benefit from preferential access to the U.S. market for apparel.

- The U.S. apparel trade deficit widened by $11 billion during 1993-97 to $40 billion, as the growth in imports of $14.6 billion (43 percent), to $48.5 billion, outpaced the gain in exports of $3.6 billion (74 percent), to $8.4 billion. Mexico and the Caribbean countries were the fastest-growing major suppliers of U.S. apparel imports, although Asia remained the largest supplier. Import growth during 1993-97 was 278 percent for Mexico and 91 percent for the Caribbean countries, but just 18 percent for Asia. Asia's share of U.S. apparel imports fell by 12 percentage points during 1993-97, to 58 percent, while the combined share of Mexico (11 percent) and the Caribbean countries (16 percent) rose by 11 percentage points, to 27 percent.

INTRODUCTION

This report covers all apparel, including outerwear, underwear, nightwear, disposable garments, and accessories such as gloves, headwear, hosiery, and neckwear. Apparel is produced mostly of textile materials, which include woven, knit, or nonwoven fabrics made of cotton, other vegetable fibers (e.g., linen), wool, manmade fibers, and silk. Nontextile materials used in the manufacture of apparel include leather, rubber, plastics, and fur.

This report updates the apparel summary that was published in January 1995,[1] and focuses mainly on major developments in the U.S. industry, the U.S. market, U.S. trade, and the foreign industry during 1993-97. The U.S. industry section discusses recent structural changes in the industry and competitive strategies of producers, while the U.S. market section examines consumer characteristics, factors affecting demand, and trends in U.S. consumption and production. The U.S. trade section discusses U.S. import and export trends, U.S. trade measures, and foreign trade measures affecting U.S. exports. Last, the foreign industry section provides a brief overview of the leading world producers and exporters of apparel.

U.S. INDUSTRY PROFILE

The U.S. apparel industry comprises establishments that were classified in the Standard Industrial Classification (SIC) system under SIC 22, Textile Mill Products, and SIC 23, Apparel and Other Finished Products.[2] Firms in SIC 22 are knitting mills that produce knitwear, such as underwear, sweaters, and hosiery, directly from yarn or from fabric knit in the same mill. Firms in SIC 23 make apparel by cutting and sewing purchased materials. The knitting mills and cut-and-sew firms consist of (1) manufacturers, who design, produce, and market apparel; (2) jobbers, who design and market apparel but contract out its production; and (3) contractors, who cut and sew, or otherwise process, materials owned by others.

The U.S. apparel industry comprises about 18,000 establishments, most of them small. Just over 60 percent of the establishments have fewer than 20 workers; only 10 percent employ 100 or more.[3] In general, the small establishments make a few garment styles for niche markets, while the larger firms tend to produce a wider range of goods for different market segments. The apparel industry is located throughout the country, particularly in rural

---

[1] U.S. International Trade Commission, *Industry & Trade Summary: Apparel,* USITC publication 2853, Jan. 1995.

[2] The SIC was replaced by the North American Industry Classification System (NAICS) beginning with 1997 industry data. Apparel is provided under NAICS subsector 315, Apparel Manufacturing. See Executive Office of the President, Office of Management and Budget, *North American Industry Classification System, United States, 1997* (Lanham, MD: Bernan Press, 1998).

[3] Based on 1996 data of the U.S. Bureau of the Census, *County Business Patterns 1996—United States*, Nov. 1998, found at Internet address http://www.census.gov/prod/www/abs/cbptotal.html, retrieved Jan. 5, 1999.

3

communities where it often is a major source of economic activity.[4] A large number of mostly small, fashion-oriented firms are in major metropolitan areas such as New York City and Los Angeles, to be near retail markets and labor pools.

The apparel industry is a highly fragmented sector in which concentration is relatively low overall. Concentration is significant in several major segments, however. In the U.S. jeans market, for example, VF Corp. (Lee, Wrangler, Rustler, and Britannia brands) and Levi Strauss & Co. supplied about one-half of retail sales by quantity in 1995-96.[5] For underwear, Sara Lee Corp. and Fruit of the Loom, Inc., account for slightly more than two-thirds of the U.S. market for men's and boys' underwear and about one-half of the market for women's and girls' underwear.[6] Sara Lee alone supplies one-half of the market for sheer hosiery and one-third of that for brassieres.

Entry barriers in the apparel industry generally are minimal, given the limited capital requirements, ready access to production equipment, and broad availability of raw materials. Moreover, the large and fragmented structure of the U.S. retail sector provides opportunities for new and smaller producers to develop niche markets. However, entry costs can be relatively high in market segments where import penetration is significant and where U.S. apparel firms have forged close working relationships with major retailers and adopted new technologies and flexible manufacturing systems to reduce costs and respond quickly to retailer needs and changing fashions.

The production of most garments remains labor-intensive, largely because of the difficulty in automating most sewing functions. Labor intensity in the U.S. apparel industry, as measured by the ratio of total labor costs to value added, was estimated at 32 percent in 1997, down from 36 percent in 1993 (table 1), but well above the 23-percent mark for all manufacturing in 1997. In addition, production jobs accounted for 82 percent of apparel employment in 1997, compared with about two-thirds for all manufacturing. Apparel production jobs usually require few skills; therefore, firms in the industry generally pay relatively low wages. The average hourly wage for apparel production workers ($8.25) was only 63 percent of that for all manufacturing workers in 1997. Apparel firms in some areas

---

[4] The largest-producing States in terms of 1997 apparel employment (SIC 23) are California (160,200 employees), New York (87,800), Texas (58,400), North Carolina (51,500), and Pennsylvania (41,100). See U.S. Bureau of Labor Statistics, "State and Area Employment, Hours, and Earnings," found at Internet address http://stats.bls.gov/790home.htm, retrieved Dec. 17, 1998.

[5] Levi Strauss Associates Inc. (now Levi Strauss & Co.), "Schedule 13E3/A" (report to the U.S. Securities and Exchange Commission (SEC)), Mar. 13, 1996, found at Internet address http://www.sec.gov/Archives/edgar/data /778977/0000950130-96-000831.txt, retrieved Sept. 18, 1998. According to recent trade reports, Levi Strauss accounted for 14.8 percent of the U.S. jeans market in October 1998 and VF Corp. accounted for 26.1 percent of the jeans market in the fourth quarter of 1998. See *DNR (Daily News Record),* Miles Socha, "Sagging Sales of Flagship Brand Cut Levi's Revenues," Feb. 17, 1999, p. 16, and Thomas Cunningham, "Jeanswear Helps VF Corp. Exceed Wall Street Expectations," Feb. 10, 1999, p. 1.

[6] Market share data for Sara Lee and Fruit of the Loom are from Sara Lee Corp., *1998 Annual Report*, pp. 32-35, and Fruit of the Loom, Inc., "Form 10-K/A" (report to the SEC), Aug. 7, 1998, p. 2. Sara Lee's apparel brands include Hanes, Hanes Her Way, Champion, Playtex, Bali, and L'eggs.

of the country reportedly are having difficulty finding semiskilled labor at current wage levels because of higher wages and greater employment opportunities in other industries.[7]

Table 1
Structure of the U.S. apparel industry, 1993-97

Item	1993	1994	1995	1996	1997
Establishments *(number)*	18,281	18,189	18,077	[1]17,800	[1]17,600
Employees *(1,000)*	989	974	936	864	813
Production workers *(1,000)*	829	815	776	708	664
Value of shipments[2] *(million dollars)*:					
Nominal value	53,739	54,991	55,316	54,663	54,990
Constant 1993 value	53,739	54,881	54,877	53,855	53,806
Production index (1992=100)[3]	102.4	106.3	107.1	104.7	102.8
New capital expenditures *(million dollars)*[3]	961	1,091	1,187	964	[1]950
Capacity utilization *(percentage)*[3]	86	85	79	80	[1]80
Multifactor productivity (1992=100)[3]	99.3	99.4	100.3	98.9	[1]100.6
Wages per hour *(dollars)*[3]	7.09	7.34	7.64	7.96	8.25
Labor costs/value added (percentage)[3]	35.8	34.2	33.5	32.5	31.8

[1] USITC staff estimates.
[2] USITC staff adjusted reported shipment data to eliminate double counting of contract receipts reported as shipments by both the contractors and the firm for which the work was done. Such contract receipts account for roughly 13 percent of annual shipments (based on *1992 Census of Manufactures*).
[3] Covers all of SIC 23.

Source: Compiled from official statistics of the U.S. Bureau of the Census, *1996 Annual Survey of Manufactures*, and selected back issues, and *Survey of Plant Capacity: 1996*; U.S. Bureau of Labor Statistics, *Employment and Earnings and Multifactor Productivity in U.S. Manufacturing and in 20 Manufacturing Industries, 1949-1996*, Apr. 1998; and Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release: Industrial Production and Capacity Utilization*, Oct. 16, 1998, and back issues.

As a result of concern about working conditions in the apparel industry, President Clinton in April 1997 announced an agreement among industry, labor, consumer, and human rights officials (the Apparel Industry Partnership) on a voluntary code of conduct intended to uphold workers' rights in the United States and abroad.[8] The Apparel Industry Partnership Agreement contains a workplace code of conduct that includes a guaranteed minimum or prevailing industry wage, a maximum 60-hour work week, and a prohibition against child labor—that is, employment of those under 15 years of age in most countries. Participating firms agree to not only voluntarily adopt the workplace code of conduct, but also require their U.S. and overseas contractors to adopt it. The agreement contains standards for monitoring compliance of firms and their contractors. In November 1998, the Apparel Industry Partnership released a preliminary agreement designed to abolish sweatshop practices in the United States and abroad.[9]

---

[7] Officials of several U.S. apparel producers, interviews by USITC staff, Alabama, Florida, and Georgia, Aug. 4-7, 1998.

[8] Information in the paragraph is from the United States Information Agency, "Transcript: Clinton Lauds New Partnership on Labor Standards" and "Text: White House Fact Sheet on Apparel Code of Conduct," Apr. 14, 1997, and "Text: Clinton Praises Anti-Sweatshop Preliminary Agreement," Nov. 3, 1998, found at Internet address http://pdq2.usia.gov/scripts/cqcgi.exe/@pdqtest1.env, retrieved Jan. 5, 1999.

[9] In September 1998, the American Apparel Manufacturers Association (AAMA), whose members account for 85 percent of all apparel sold at wholesale in the United States, introduced
(continued...)

Recent Trends

The apparel industry's share of U.S. gross domestic product (GDP) remained unchanged at 0.4 percent during most of the 1993-97 period. However, its share of U.S. manufacturing GDP fell from 2.4 percent in 1993 to 2.0 percent in 1996 and 1997. The apparel industry had the highest attrition rate in the U.S. manufacturing sector during 1993-97, although the industry failure rate had declined during the period. Preliminary data for 1997 show that the "failure rate per 10,000 listed concerns" was 136 for the apparel industry, compared with 80 for all manufacturing; however, the attrition rate for the apparel industry was down from 191 in 1993.[10]

The apparel industry achieved gains in shipments, profitability, and productivity during 1993-97, but incurred a decline in employment (tables 1 and 2). These changes partly reflected U.S. producers' investments in new technologies, adoption of flexible manufacturing systems, and growing use of assembly operations in the Caribbean countries and Mexico. Employment in the apparel industry fell by 18 percent during 1993-97 to 813,000 workers, or 4.4 percent of U.S. manufacturing employment in 1997. At its peak in 1970, the apparel industry employed 1.4 million workers, or 7.0 percent of the U.S. manufacturing work force. U.S. producers' apparel shipments grew by an average annual rate of less than 1 percent during the period, to an estimated $55 billion. The growth resulted mainly from larger shipments of garments that were assembled in the Caribbean countries and Mexico from components cut to shape in the United States.

The apparel industry's profitability improved in 1997, following little change during 1994-96, a period marked by sluggish demand for women's apparel and rising raw material prices (cotton and polyester). The industry's return on sales was lower than that for all manufacturing, but its return on assets, invested capital, and stockholders' equity were generally higher. This difference partly reflected the relatively lower capital requirements of the apparel industry.

Total factor—or multifactor—productivity in the U.S. apparel industry is estimated to have risen by 1.3 percent during 1993-97 (figure 1).[11] The estimated increase in labor productivity of 15.5 percent during the period more than offset estimated declines of 3.6 percent in capital productivity (output per unit of capital employed) and 1.8 percent in material productivity. As a result, labor's share of total factor costs fell from 33.6 percent in 1993 to about 32.0 percent in 1997 (figure 2).[12]

---

[9] (...continued)
its "Responsible Apparel Production Program," a plan aimed at improving working conditions in the apparel industry worldwide. Information on the plan is available on AAMA's web site, http://www.AmericanApparel.org/AAMA_Industy_News.html.

[10] The Dun & Bradstreet Corp., "Business Failures by Industry," facsimiles of tables, July 23, 1998, and Nov. 9, 1998.

[11] U.S. Bureau of Labor Statistics (BLS), Office of Productivity and Technology, *Multifactor Productivity in U.S. Manufacturing and in 20 Manufacturing Industries, 1949-1996*, Apr. 1998; data for 1997 are estimated by USITC staff.

[12] In its *Annual Report 1997*, Russell Corp. provides a breakdown of the components of each sales dollar: Labor, 33.0 percent; raw materials, 26.5 percent; utilities, supplies, and services,
(continued...)

Table 2
Profitability ratios:[1] Apparel and all manufacturing, 1993-97

(Percent)

Item	1993	1994	1995	1996	1997
Return on sales:					
Apparel	5.0	5.0	4.8	4.8	6.6
All manufacturing	6.0	7.4	7.6	7.4	7.6
Return on assets:					
Apparel	9.7	9.4	8.0	8.7	12.4
All manufacturing	6.3	8.0	8.3	7.9	8.0
Return on equity:					
Apparel	25.5	23.3	20.2	25.8	35.5
All manufacturing	17.3	21.6	21.6	20.5	20.4
Return on invested capital:[2]					
Apparel	14.9	14.0	11.7	12.6	18.2
All manufacturing	8.3	10.7	11.1	10.6	10.7
Long-term debt/net worth:					
Apparel	59.9	51.1	55.7	84.4	77.1
All manufacturing	62.4	57.9	55.2	53.0	50.3

[1] Calculated on operating income.
[2] Net fixed assets plus net working capital.

Source: U.S. Bureau of the Census, *Quarterly Financial Report for Manufacturing, Mining, and Trade Corporations, Fourth Quarter 1997*, and various back issues.

Capital expenditures on new plants and equipment in the U.S. apparel industry remained fairly stable at about $1.0 billion a year during 1993-97 (table 1), up from an annual average of $752 million during 1988-92. Capital spending generally accounted for less than 2 percent of industry shipments figures 1 & 2 during 1993-97, compared with about 3 to 4 percent for both the textile mill industry and all manufacturing. According to the U.S. Bureau of the Census, capital spending per worker averaged $1,327 in the apparel industry in 1996, compared with $5,451 in the textile mill industry and $11,450 for all manufacturing. The relatively low level of capital spending in the apparel industry largely reflects the fragmented structure of the industry, frequent changes in fashion, difficulty in automating many sewing operations, and concern over import competition.

Foreign direct investment (FDI) in the U.S. apparel industry fluctuated widely during 1993-97, ranging from a high of $1.1 billion in 1995 to a low of $773 million in 1996.[13] In 1997, FDI in the apparel industry totaled almost $1.1 billion, or 0.4 percent of total FDI in U.S. manufacturing. U.S. affiliates of foreign firms accounted for 4.7 percent (41,000 employees) of total U.S. apparel employment in 1996, down from 5.7 percent (57,000) in 1994.[14]

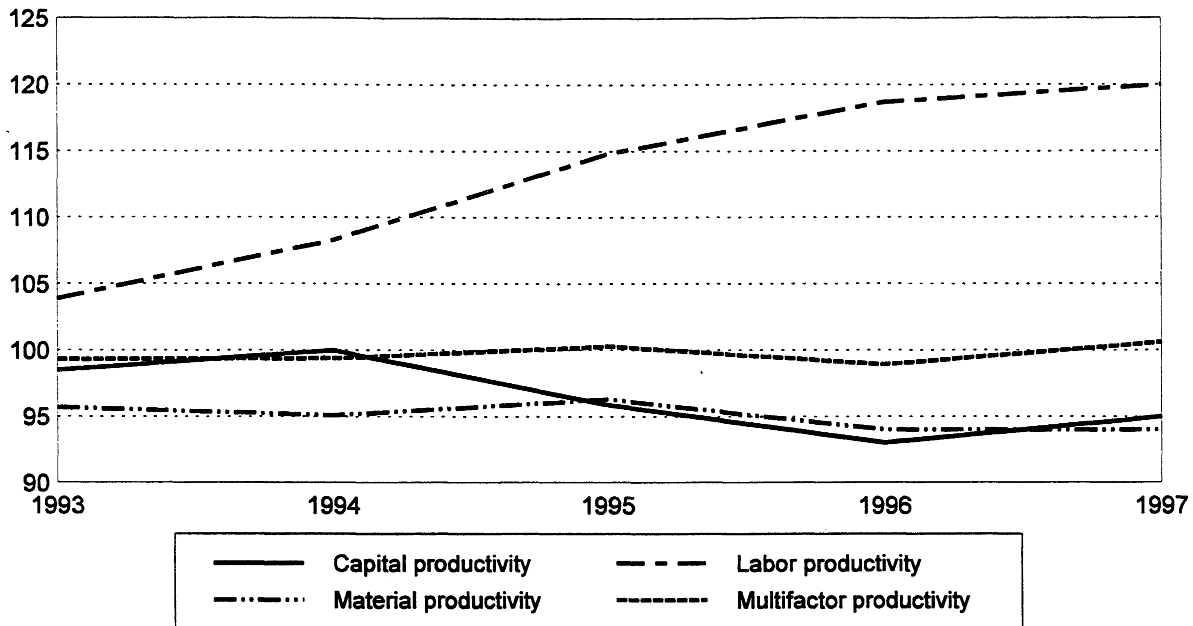
---

[12] (...continued)
24.9 percent; interest and depreciation, 8.0 percent; profits, 4.4 percent; and taxes, 3.2 percent.

[13] U.S. Department of Commerce, Bureau of Economic Analysis (BEA), "Foreign Direct Investment in the United States: Detail for Historical-Cost Position and Related Capital and Income Flows, 1997," *Survey of Current Business*, Sept. 1998, p. 108.

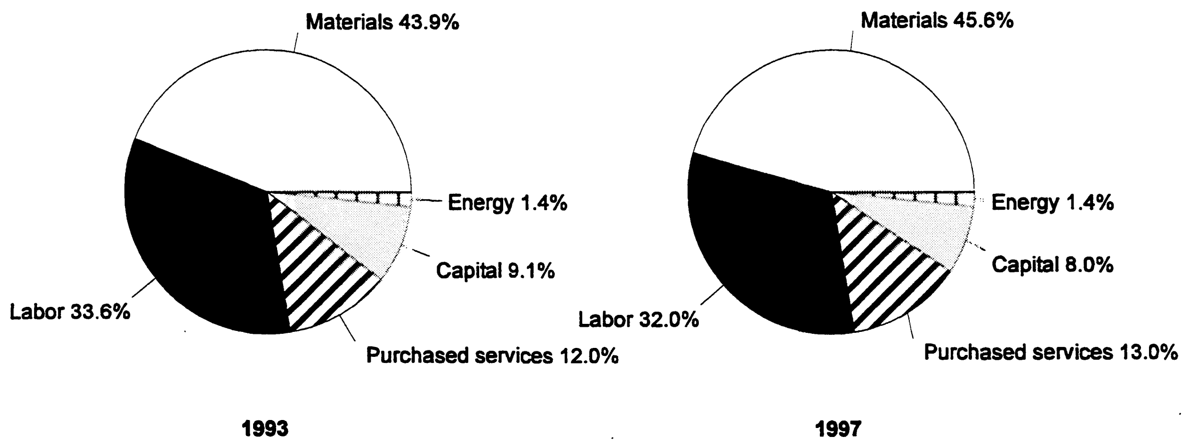
[14] BEA, "Foreign Direct Investment in the United States: New Investment in 1997 and Affiliate Operations in 1996," *Survey of Current Business*, June 1998, p. 51.

Figure 1
Apparel: Factor productivity indexes, 1993-97



Source: U.S. Bureau of Labor Statistics, Office of Productivity and Technology, *Multifactor Productivity in U.S. Manufacturing and in 20 Manufacturing Industries, 1949-1996,* Apr. 1998. Data for 1997 are estimated by USITC staff.

Figure 2
Apparel: Factor shares (factor cost divided by the value of production), 1993 and 1997



Source: U.S. Bureau of Labor Statistics, Office of Productivity and Technology, *Multifactor Productivity in U.S. Manufacturing and in 20 Manufacturing Industries, 1949-1996,* Apr. 1998. Data for 1997 are estimated by USITC staff.

8

Competitive Strategies

The U.S. apparel industry faces intense competitive pressures in the domestic market. These pressures reflect not only the large number of suppliers in the market, but also the confluence of rising import penetration, growing buying power of large retailers, and changing consumer preferences. Imports now supply slightly more than one-half of the domestic apparel market and are likely to continue to grow as U.S. import quotas are gradually eliminated (see "U.S. trade measures" for further information). A growing concentration of retail sales among a few large retailers has enhanced the bargaining power of these retailers in negotiating prices and other contract terms with suppliers.[15] Producer prices for apparel rose by an average of 2 percent during 1993-97, compared with an increase of almost 6 percent for all finished goods.[16] In addition, large retailers have become competitors of apparel producers, performing such functions as product design and arranging for garment production.

Consumer attitudes about shopping have been changing during the 1990s, partly reflecting an aging population, changing lifestyles, and growing demands on the time and financial resources of many households.[17] Consumers have been shopping less than in the past and shifting their purchases from department and specialty stores to discounters that offer a wide array of competitively priced goods.[18] In addition, many consumers have remained highly value-conscious. However, no matter how they perceive value, whether in terms of product quality and selection, fashion timeliness, customer service, shopping convenience, or attractiveness of stores, the price of apparel has been a major influence on the buying process. Apparel prices at the retail level declined by almost 1 percent during 1993-97, compared with an increase of 11 percent for all consumer goods.[19]

To sharpen their competitive edge, many U.S. apparel producers have (1) restructured operations to reduce costs and focus more on marketing, (2) expanded global sourcing,

---

[15] Karen J. Sack, Standard & Poor's, "Consumers Alter Shopping Habits," *Retailing: General* (Industry Surveys series), Feb. 5, 1998. The report states that "[t]he consolidation that has characterized department store retailing over the past two decades continues unabated. The top 10 department store chains now account for almost one-third of U.S. department store sales." Another report states that the 10 largest retailers account for 68 percent of department, chain, discount, and specialty store sales overall. See Philip Black, editor, *The Apparel Strategist*, Sept. 1998, found at Internet address http://www.apparelstrategist.com/form.html, retrieved Jan. 11, 1999.

[16] BLS, "Producer Price Index—Commodities," found at Internet address http://146.142.4.24/cgi-bin/ surveymost, retrieved Jan. 5, 1999.

[17] The Standard & Poor's report states that "[a] fundamental shift in consumers' attitudes toward spending, value, and the attractiveness of traditional retail outlets has taken place in the 1990s. . . . [i]n the 1980s, style was paramount; in the 1990s, value carries the day."

[18] Based on data attributed to Management Horizons (a division of Price Waterhouse) in the Standard & Poor's report, the number of trips that consumers take to the shopping mall in a month has fallen by more than 50 percent since the early 1990s. Another report states that consumers are shopping for apparel for themselves only about 3 hours per month, which is 1.3 hours less each month than in 1995. See Kurt Salmon Associates (KSA), Atlanta, GA, *Consumer Outlook '98*, 1998, p. 1.

[19] BLS, "Consumer Price Index—All Urban Consumers," found at Internet address http://146.142.4.24/ cgi-bin/dsrv, retrieved Dec. 31, 1998.

9

including the use of assembly operations in the Caribbean countries and Mexico, and (3) adopted "quick response" manufacturing, marketing, and distribution systems to respond more quickly to retailer needs and changing fashions. A discussion of these strategies follows. This discussion is supplemented by information on strategies of selected, large apparel producers and marketers, which was obtained primarily from company annual reports and submissions to the U.S. Securities and Exchange Commission (e.g., Form 10-K reports) and which is summarized in tabular form in appendix A. Most of these firms expanded their sales faster than the overall growth in the domestic apparel market during 1993-97 (table 3). Factors enabling the firms to gain market share include development of marketable brand names and concomitant consumer loyalty, formation of strategic alliances with large retailers, investment in "quick response" manufacturing and distribution systems, and a shift to sourcing abroad for some or most of their product mix. Moreover, large firms generally have the capability to commit to large orders from the major retailers, carry more inventory to respond quickly to retailer needs, and source efficiently on a global basis.[20]

Table 3
Apparel: Annual sales of major apparel firms, 1993 and 1997

Firm	1993	1997	Percentage change 1997/93
	Million dollars		
Sara Lee Corp.	6,098	7,482	22.7
Levi Strauss & Co., Inc.	5,893	6,900	17.1
VF Corporation	4,320	5,222	20.9
Liz Claiborne, Inc.	2,204	2,413	9.5
Fruit of the Loom, Inc.	1,884	2,140	13.6
Kellwood Co.	1,203	1,782	48.1
Warnaco Group, Inc.	704	1,436	104.0
Jones Apparel, Inc.	541	1,387	156.3
Phillips-Van Heusen Corp.	1,152	1,350	17.1
Russell Corp.	931	1,228	32.0
Oxford Industries, Inc.	625	775	24.0
Hartmarx Corp.	732	718	-1.9
Tommy Hilfiger Corp.	227	662	191.6
Tultex Corp.	534	651	21.9
Nautica Enterprises, Inc.	193	485	151.3
Oshkosh B'Gosh, Inc.	340	400	17.7
Total above	27,581	35,031	27.0
U.S. market[1]	87,251	95,637	9.6

[1] Value of domestic shipments plus landed duty-paid value of imports adjusted for "9802" imports and exports.

Note.—Fiscal year ends as follows: Fruit of the Loom, Russell, Tultex, VF Corp., Jones Apparel, Liz Claiborne, Oshkosh B'Gosh, and Warnaco, Dec. 31; Oxford, May 31; Phillips-Van Heusen, Jan. 31; Tommy Hilfiger, Mar. 31; Sara Lee, June 30; Hartmarx, Levi Strauss, Nov. 30; Nautica, Feb. 28; and Kellwood, Apr. 30.

Source: Annual Reports and The Value Line Investment Survey, 1998.

[20] Levi Strauss Associates Inc., "Schedule 13E3/A."

10

Restructuring Activities

A number of U.S. apparel producers have been restructuring operations through consolidation of production, divestiture of noncore product lines, mergers, and acquisitions in an effort to reduce costs, gain market share, and widen channels of distribution. Firms have also been restructuring in order to shift their focus from manufacturing-driven to consumer- or marketing-driven operations, and using contractors to make garments to their specifications ("outsourcing"). Among the major restructurings occurring recently is Sara Lee's plan to sell its vertical manufacturing assets. In September 1997, Sara Lee unveiled its program of "de-verticalization" to create a firm that is less vertically integrated, owns fewer fixed assets, and uses knowledge-based skills to develop and market its goods. As part of this program, Sara Lee announced the divestiture of nine textile operations related to its U.S. knit apparel operations, so that it can focus more on product development and marketing.[21] Similarly, Russell Corp. is restructuring its operations to focus on consumer marketing and expand offshore manufacturing; it closed two domestic sewing plants in June 1997 and is expanding operations in the Caribbean countries and Mexico. Levi Strauss closed 12 U.S. facilities during 1998, eliminating 38 percent of its production capacity in North America; it will expand its focus on consumer marketing.

Firms have also acquired or developed new brand names to complement existing product lines and have extended their existing brand names into new product categories. For example, VF Corp. acquired Bestform Group, a leading producer of intimate apparel, to augment offshore sourcing in Asia, and acquired Britannia Sportswear Ltd. from Levi Strauss to expand its presence in the mass merchandise market. In December 1998, Kellwood announced the signing of agreements to acquire Koret of California, Inc., which will broaden its range of moderate price points in women's sportswear, and Fritzi California, which will enable it to tap into the juniors' and girls' sportswear market.

A few firms have integrated forward into retailing to gain more control over their business and to seek sales growth, while others have shed or scaled back their retail operations. Levi Strauss implemented a 5-year plan during the mid-1990s to establish 100 Original Levi's Stores and 45 Dockers Shops in the United States as part of its effort to enhance the image and value of the Levi's and Dockers brands.[22] Oshkosh B'Gosh expanded its retail channels by adding company-owned stores and now operates 119 domestic Oshkosh B'Gosh branded stores, including 111 factory outlet stores. Other firms have scaled back or eliminated their retail operations, such as Hartmarx Corp. and Phillips-Van Heusen Corp.

Globalization

U.S. direct investment abroad in the apparel sector rose continuously from $971 million in 1993 to a preliminary estimate of $1.3 billion, or 0.5 percent of total U.S. direct investment

---

[21] In its *1998 Annual Report*, Sara Lee states that "[t]he combined forces of globalization and technological change require us to move to this new horizontal structure. In many industries, these trends have led to a level of functional specialization that makes vertically integrated companies increasingly vulnerable to new and vigorous competition in today's marketplace."

11

[22] Levi Strauss Associates Inc., "Schedule 13E3/A," p. 27.

abroad for manufacturing, in 1997.[23] A major portion of U.S. apparel foreign investment is in the Caribbean countries and Mexico, where U.S. apparel producers have greatly expanded their use of production-sharing operations during the 1990s to reduce costs.[24] The Caribbean countries and Mexico offer competitively priced labor to perform sewing tasks, and their proximity to suppliers and markets in the United States enables U.S. producers to maintain greater management control over production and assemble apparel there in a time-sensitive, market-driven manner. Moreover, these countries benefit from preferential access to the U.S. market for apparel assembled from U.S. components (see "U.S. imports" for information on the preferential market access). By moving assembly operations to Mexico and the Caribbean countries, U.S. firms are better able to compete in the U.S. market because they can save in labor costs and obtain quicker turnaround than those firms that import from Asia.

Under production-sharing arrangements set up in the Caribbean countries and Mexico, U.S. firms ship garment pieces there for sewing, the most labor-intensive stage of production, and re-import the assembled garments for sale in the domestic market.[25] U.S. firms have achieved a high level of efficiency in assembling apparel in these countries, particularly for garments whose production involves standardized runs, simple tasks, and few styling changes. More recently, U.S. firms have expanded production sharing to garments requiring higher levels of production flexibility and sewing skills in an effort to cut costs.

The growing use of offshore operations in Caribbean countries and Mexico has also spurred sales of U.S. fabrics or, at least, helped offset reduced domestic demand for apparel fabrics. U.S. firms exported $7.2 billion worth of garment parts for assembly in 1997, and almost all of these exports went to the Caribbean countries ($4.1 billion) and Mexico ($2.8 billion). The offshore operations generally use U.S. fabrics to qualify for tariff and quota preferences given to apparel assembled in the region from U.S.-origin fabric pieces. U.S. apparel producers, along with their domestic fabric suppliers, likely will further develop an integrated production base in the Caribbean countries and Mexico to remain competitive in the domestic market. The skill- and capital-intensive operations such as product design, fabric production, marketing, and distribution will likely remain in the United States, while the labor-intensive assembly operations will likely continue to move to the Caribbean countries and Mexico.

---

[23] Data represent the U.S. direct investment position abroad on a historical-cost basis, as published in BEA, *Survey of Current Business*, "U.S. Direct Investment Abroad: Detail for Historical-Cost Position and Related Capital and Income Flows, 1997," Oct. 1998, p. 154, and "U.S. Direct Investment Abroad: Detail for Historical-Cost Position and Related Capital and Income Flows, 1996," Sept. 1997, p. 146.

[24] The AAMA states that labor shortages in some areas of the United States are contributing to the growing use of offshore production by U.S. apparel firms. In a 1995 survey of its members, the AAMA found that nearly one-half of the respondents were "unable to attract an adequate labor supply." See NAFTA testimony of Larry K. Martin, AAMA president, "For The Record - 1997," before the House Committee on Ways and Means, Sept. 11, 1997, found at Internet address http://www.AmericanApparel.org/AAMA_Industry_News.html, retrieved Dec. 18, 1998. For a discussion of tariff advantages for production-sharing imports entering under heading " 9802" of the Harmonized Tariff Schedule of the United States (HTS)), see "U.S. Imports."

[25] The AAMA estimates that 15 new apparel jobs are created in the United States by every 100 jobs created in Caribbean countries and Mexico, in addition to the many other U.S. jobs it maintains in the textile, transportation, and other industries. See NAFTA testimony of Larry K. Martin.

U.S. producers, along with retailers, also import apparel from East Asia, especially goods requiring more sewing and construction, complex operations, and detailed work.[26] East Asia has competitively priced labor and, in some cases, access to less expensive fabrics.[27] Although some U.S. firms have set up plants in East Asia, most of their apparel imports from the region come from Asian-owned plants. An established infrastructure exists in East Asia to provide "full package" imports to U.S. buyers, including product development, fabric sourcing and cutting, garment sewing, quality control, trade financing, and logistics arrangements. One industry source stated that the average cost of full package imports from East Asia is 15 to 25 percent lower than domestic costs and that it is cheaper to import men's slacks from East Asia than it is to source them from the Caribbean countries or Mexico under production-sharing programs.[28] However, imports from East Asia involve longer lead times,[29] market risks, logistical uncertainties, and tied-up capital.

Quick Response Programs

Changing fashions and retailer requirements are creating pressure among apparel suppliers to reduce the "time to market" for their goods. This presents both a challenge and an opportunity for U.S. apparel producers to maximize their inherent advantages of market proximity and efficient response to retailer needs. Although technology has improved productivity in the apparel industry, it has not enabled U.S. apparel producers to compete with low-wage countries on price. The competitive strength of U.S. producers lies in their ability to improve product quality and develop market niches, popular brand names, and quick response to changes in market demand.

An unknown but believed-to-be-growing number of mostly larger U.S. apparel producers have invested in new manufacturing and information technologies and adopted new production methods to reduce costs and improve their ability to respond more quickly to retailer needs and changing fashions.[30] Among the technologies adopted by producers are quick response (QR) systems that use computers to speed the flow of goods, services, and information between segments of the apparel supply chain, linking producers with suppliers and retailers. Apparel producers use electronic data interchange (EDI) technology to exchange information electronically with retailers and raw material suppliers on purchase orders, inventories, and in-transit shipments. In addition, apparel producers with QR and EDI capabilities have the opportunity to gain quicker access to point-of-sale (POS) data on consumer purchases (e.g., garment style, fabric, color, and size), which many retailers collect by scanning merchandise bar codes at the point of sale. With daily or weekly access

[26] Peter Chan, "Special Report: Sourcing - Asia: Down, But Not Out," *Bobbin*, Nov. 1998, p. 33.

[27] Levi Strauss Associates Inc., "Schedule 13E3/A," p. 31.

[28] Official of Oxford Industries, interview by USITC staff, Atlanta, GA, Aug. 5, 1998.

[29] For leading branded women's apparel firms, orders for imports from Asia are placed 35 weeks ahead of delivery, compared with 35 days for "9802" firms doing business with Mexico and the CBERA countries. See Prudential Securities Inc. (New York, NY), "Business Services and Consumer Textiles and Apparel," *Global Equity Research, Future 1998 Shocks*, Mar. 9, 1998.

[30] In an annual survey of U.S. producers and retailers of apparel and other soft goods, conducted in late summer 1997, survey respondents intended to give information technology high priority in their capital spending for 1998. See KSA, "Soft Goods Outlook for 1998."

to the retail sales data, apparel producers can adjust production schedules to meet the needs of their retail partners and direct production into garment lines with strong demand.

A number of mostly large U.S. apparel firms have formed "strategic alliances" with their retail customers in an effort to enhance their competitive position. Facilitated by investments in new technologies, these apparel firms conduct collaborative planning with retailers and provide them with inventory management services and automatic replenishment of inventories when they fall to specified levels. For example, Wal-Mart Stores and Sara Lee are developing a planning, forecasting, and replenishment pilot project to share information about products that are selling best, the items that are to be promoted during special sales events, and products that are to receive greater exposure on the sales floor.[31] Firms are also planning to adopt enterprisewide information systems to optimize production, react promptly to retail sales during key selling seasons, and fine-tune distribution to retail stores.[32] Firms are increasing their use of in-store "shop" presentations to influence the way their products are presented at the retail level; they assist retailers in displaying products in a manner intended to enhance the product's image and promote quality, and present a consistent brand message to the consumer.

A number of U.S. apparel producers are also providing retailers with floor-ready merchandise (FRM).[33] FRM shifts processing of merchandise preparation for stores from the retailer to the apparel supplier, including pricing, UPC bar code tickets, hangers, security tags, and packing. FRM shortens the distribution cycle from apparel supplier to store shelf, increases accuracy in shipments, reduces total distribution costs, and improves in-stock positions. However, FRM entails significant changes to the distribution operations and information systems of both apparel suppliers and retailers. A group of apparel producers, marketers, and retailers have developed voluntary standards for ticket characteristics, information placed on tickets, carton labeling options, flat packing, hanger attachment, packing information placement, and data communications.

Technology-based QR programs require new structural forms of production to make small, recurring lots of various styles. QR techniques necessarily differ from the traditional bundle system, which can lead to inconsistent quality and delays between steps in the production cycle. One flexible system gaining acceptance is modular manufacturing, in which small teams of workers produce an entire garment. Modular manufacturing enables producers to cut production schedules from a monthly to a weekly basis, allowing more flexibility in production and less inventory of finished goods. Because garments are continually moving through the group, the various inventory levels—materials, work-in-process, and finished goods—are kept to a minimum. With greater employee input and coordination throughout the manufacturing cycle, quality is generally more consistent. Production lots tend to be much smaller and so choices in style and fabric can be greater, enabling producers to expand product diversification and differentiation.

---

[31] Sharing of critical sales and forecasting information electronically is expected to foster stronger retailer-supplier relationships and greatly improve in-stock positions of retailers. See Y. Jeanette Hye, "Wal-Mart, Sara Lee Near Completion of CPFR Pilot Project," *DNR* (*Daily News Record*), Apr. 22, 1998, p. 12.

[32] See, for example, VF Corp., *1997 Annual Report*.

[33] Information on FRM in the paragraph is from KSA, "KSA Reprint: Logistics—Floor-Ready Merchandise Is a Win-Win," Mar. 1996, found at Internet address http://www.kurtsalmon.com/KSA_library/libraryindex.html, retrieved Dec. 31, 1998.

Government Regulations

The U.S. Consumer Product Safety Commission (CPSC) amended the flammability standards for children's sleepwear effective January 1997, to allow the use of "snug-fitting" untreated cotton sleepwear and cotton sleepwear for infants 9 months and younger. The CPSC found that many parents were using loose-fitting cotton T-shirts and long underwear as sleepwear, rather than flame-retardant sleepwear. The CPSC found that snug-fitting sleepwear is less likely to come into contact with an ignition source and burn.

In August 1998, the CPSC issued a notice to the trade about factors that it considers in deciding whether to seek civil penalties for violations of the Standard for the Flammability of Clothing Textiles, which applies to all adult and children's apparel other than children's sleepwear, which must meet more stringent flammability standards.[34] The notice was issued in response to more than 20 recalls of flammable apparel since August 1994; it provides information to help producers, importers, distributors, and retailers of fabrics and garments comply with the flammability standards.[35]

U.S. MARKET

Consumer Characteristics and Factors Affecting Demand

U.S. consumer spending on apparel has grown faster than overall consumer spending in recent years. Personal consumption expenditures on apparel grew by an average annual rate of 5.5 percent in real terms (adjusted for inflation) during 1993-97, compared with a 2.8-percent rate for consumer spending overall.[36] As a result, apparel's share of real consumer spending rose by 0.5 percentage point to 5.1 percent in the period.

The growth in consumer apparel spending during 1993-97 partly reflected favorable economic conditions, including a growing economy, rising incomes, a declining unemployment rate, and low inflation. Real disposable personal income rose by 10.2 percent during the period, while the unemployment rate fell from 6.8 to 4.9 percent.[37] As a result, consumers felt more confident about the economy, as evidenced by the Index of Consumer Sentiment, which rose at an average annual rate of 5.7 percent during 1993-97.[38]

---

[34] CPSC, "Policy Statement—Reasonable and Representative Testing to Assure Compliance with the Standard for the Flammability of Clothing Textiles," *Federal Register* (63 F.R. 42697), Aug. 11, 1998, p. 42697.

[35] CPSC official, electronic mail to USITC staff, Dec. 21, 1998.

[36] BEA, *Survey of Current Business*, Aug. 1998, p. 53.

[37] BEA, *Survey of Current Business*, Sept. 1998, pp. D-39 and D-40, and selected back issues.

[38] The Index of Consumer Sentiment (prepared by the University of Michigan, Survey Research Center, Surveys of Consumers) measures consumers' assessments of their personal 15

(continued...)

Favorable demographics also spurred demand for apparel during 1993-97. Significant growth occurred in the number of households headed by persons in the 35-54 age group, who generally are in their peak earning years and are major apparel consumers. From 1993 to 1997, the number of households headed by that age group rose by 11.1 percent, compared with a 5.6-percent gain in the total number of households. Incomes of households in that age group were 33 percent higher than the overall household average of $37,000 in 1997. Households with annual incomes of more than $60,000 accounted for 40 percent of retail sales volume in 1997, up from 32 percent in 1993.[39] Apparel demand likely will be affected by the anticipated changes in the makeup of the U.S. population, which is projected to grow by 6 percent from 270 million in 1998 to 286 million in 2005.[40] The 45-64 age group is expected to show the greatest population increase—24 percent—of all age groups. With an aging population, the focus of consumers likely will be less on fashion and more on comfort and function, thereby spurring demand for casual clothing.

As noted in the U.S. industry section of this report, the price of apparel has been a major influence on the consumer buying process. This focus on price is evident from the recent downward pressure on retail prices. The Consumer Price Index (CPI) for apparel, after rising by 16 percent during 1988-93, declined by 1.5 percent during 1993-96, before rising by almost 1 percent in 1997.[41] Most of the price decline during 1993-96 was accounted for by women's apparel. Men's apparel pricing fared somewhat better, partly because of "the pricing leverage enjoyed by the big men's wear brands and their rapid growth, and the success of some of the men's specialty chains."[42] The apparel price increase in 1997 partly reflected better retail inventory management and replenishment, more disciplined pricing of brand-named goods, and closer tracking of consumer demand.[43]

Consumers often look for product value in brand names, both manufacturers' national brands and retailers' private labels. The share of the apparel market accounted for by national brands rose from 46.1 percent in 1995 to 48 percent in 1997, and the market share for private label brands grew from 29.5 to 30.1 percent.[44] Retailers' private-label goods (e.g., "Arizona" jeans of the J.C. Penney Co. and "Canyon River Blues" jeans of Sears, Roebuck & Co.) tend to be lower priced alternatives to the nationally branded goods.[45]

The consumer focus on value has benefited the mass-merchant discount retailers, which offer a wide array of basic goods at competitive prices, and the direct mail firms (catalog houses),

---

[38] (...continued)
financial situation, overall economic conditions, and buying attitudes. Facsimile of Surveys of Consumers, Oct. 15, 1998.

[39] Data attributed to the NPD Group Inc., Port Washington, NY, in Standard & Poor's, *Apparel & Footwear*, Industry Surveys Series, Apr. 9, 1998, p. 3.

[40] U.S. Bureau of the Census, *Resident Population of the United States: Estimates, by Age and Sex,* June 25, 1998, and *Mid Series Projections, 2001-2005, by Age and Sex,* Mar. 1996.

[41] BLS, "Consumer Price Index—All Urban Consumers," found at Internet address http://146.142.4.24/ cgi-bin/dsrv, retrieved Dec. 31, 1998.

[42] Philip Black, editor of *The Apparel Strategist*, "1998: The Highs, The Lows & The Uncertainties," *Bobbin*, Dec. 1998, pp. 25-26.

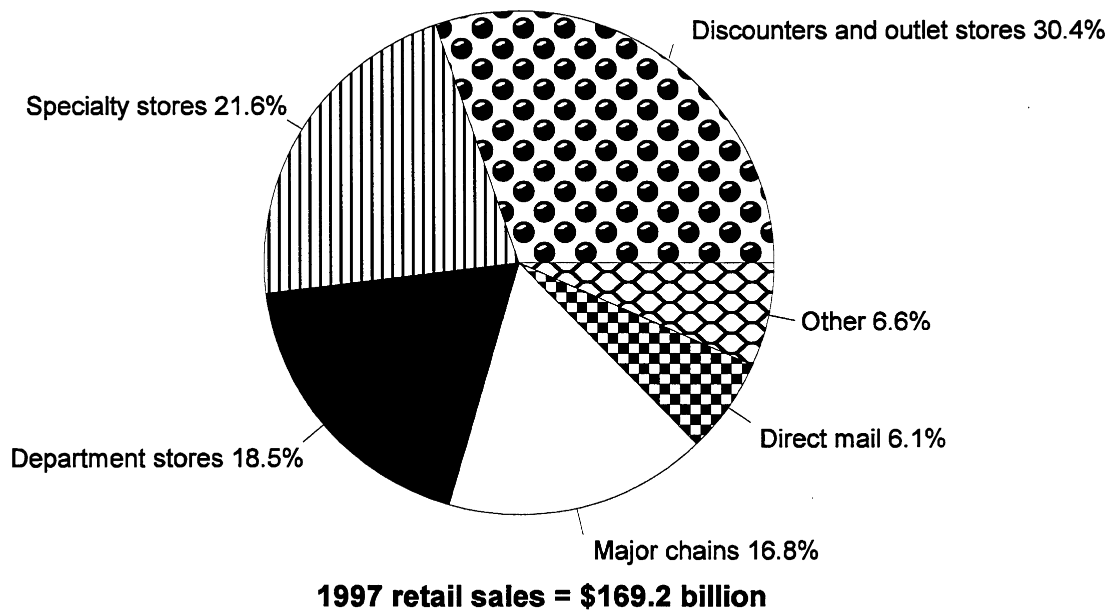
[43] KSA, "Soft Goods Outlook for 1998," *Perspective*, Nov. 1997, p. 2.

[44] NPD Group, Inc., *NPD American Shoppers Panel,* Port Washington, NY, Oct. 7, 1998.

[45] An industry survey showed that 67 percent of the people interviewed stated that the quality of private-label apparel was as good as or better than that of national brands. See KSA, *Consumer Outlook '98*, 1998, p. 14.

which offer shopping convenience. The discount outlet stores accounted for 30 percent of total retail apparel sales in 1997, followed by specialty stores with 22 percent; department stores, 18 percent; major chain stores, 17 percent; and direct mail firms, 6 percent (figure 3). From 1993 to 1997, the market shares of the discount and outlet stores and direct mail firms rose by 1 percentage point each, while the shares of the department and specialty stores fell by 1 percentage point each. Sales of apparel (including footwear) over the Internet, although now small, are expected to grow from $92 million in 1997 to $322 million by 2000.[46]

Figure 3
Apparel: Percentage distribution of retail sales, by types of outlets, 1997



Source: Data attributed to the National Purchase Diary Group, Inc., Port Washington, NY, in an economic newsletter of the American Apparel Manufacturers Association (AAMA), "Sizing Up the U.S. Apparel Market - March 1998," *Apparel Industry Trends* (Arlington, VA), found on AAMA's web site at Internet address http://www.AmericanApparel.org, retrieved Dec. 10, 1998.

[46] Forrester Research Inc., On-line Clothing Industry, http://grace.wharton.upenn.edu/~opim314/projects/ OPIM662_HW5.htm, July 8, 1998.

Consumption

Apparent U.S. consumption of apparel (U.S. producers' shipments minus exports plus the landed duty-paid value of imports) is estimated to have grown at an average annual rate of 3.5 percent during 1993-97, to $103 billion (table 4). The growth in consumption was met by increased imports, whose share of the domestic market rose by 10 percentage points during the period, to 55 percent.

A large part of the growth in U.S. apparel consumption comprised imports of apparel assembled in the Caribbean countries and Mexico from garment pieces cut to shape in the United States and entered under the "9802" tariff provision (see "U.S. imports" for further information on this tariff provision). From 1993 to 1997, U.S. imports of such apparel more than doubled to $12.4 billion (landed duty-paid value) and more than doubled their share of U.S. apparel consumption to just over 12 percent (figure 4). The share of apparel consumption accounted for by other (non-9802) imports rose by 5 percentage points to 44 percent, while the share accounted for by U.S. producers' shipments (minus 9802 import shipments) fell by 11 percentage points to 43 percent.

On a product basis, the major apparel articles sold domestically are shirts and blouses, followed by trousers and shorts (table 5). Import penetration differs widely by product type. It averaged 71 percent for sweaters and 60 percent for shirts and blouses in 1997; both product groups are labor-intensive and involve the assembly of many components. Slightly more than one-half of the total value of U.S. apparel retail sales in 1997 was intended for women, 30 percent for men, and 17 percent for children and infants.[47]

Production

U.S. producers' shipments of apparel rose by an average annual rate of 0.5 percent during 1993-97 to $55 billion (table 4). On the basis of the industrial production index, as compiled by the Board of Governors of the Federal Reserve System, output of apparel and other textile products (SIC 23) rose by 4.6 percent during 1993-95, and then fell by 4 percent during 1995-97 (table 1).

U.S. apparel producers have greatly expanded their use of assembly operations in the Caribbean countries and Mexico. The share of U.S. producers' shipments by quantity accounted for by imports under U.S. production-sharing provisions rose from 22 percent in 1993 to 57 percent in 1997 (table 6).[48] Shirts, blouses, trousers, and underwear showed the greatest growth in U.S. producers' shipments under the production-sharing provisions. The assembly of shirts, blouses, and trousers is labor-intensive, involves standardized runs and few styling changes, and has predictable consumer demand. Although the assembly of underwear involves relatively few steps and the value added is low, considerable financial incentive exists in assembling underwear offshore because of the large quantities involved.

---

[47] AAMA, *Apparel Industry Trends*, Mar. 1998.

[48] U.S. producers' domestic shipments include such garments produced domestically as well as those imported under the production sharing provisions ("9802"), primarily from Mexico, Central America, and the Caribbean countries.

Table 4
Apparel: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1993-97

Year	U.S. shipments[1]	U.S. exports[2]	U.S. imports: Customs value	U.S. imports: Landed duty-paid value	Apparent consumption: Customs value	Apparent consumption: Landed duty-paid value	Ratio of imports to consumption: Customs value	Ratio of imports to consumption: Landed duty-paid value
	Million dollars						*Percent*	
1993	53,739	4,817	33,904	40,522	82,826	89,444	40.9	45.3
1994	54,991	5,468	36,878	43,933	86,401	93,456	42.7	47.0
1995	55,316	6,488	39,665	46,816	88,493	95,644	44.8	48.9
1996	54,663	7,293	41,684	48,763	89,054	96,133	46.8	50.7
1997	54,990	8,394	48,492	56,357	95,088	102,953	51.0	54.7

[1] USITC staff estimated data for 1997 based on data for 1996, the last year for which official statistics are available on a 4-digit SIC basis. USITC staff adjusted the reported shipment data to eliminate double counting of contract receipts reported as shipments by both the contractor and the firm for which the work was done. Such contract receipts account for roughly 13 percent of annual shipments.

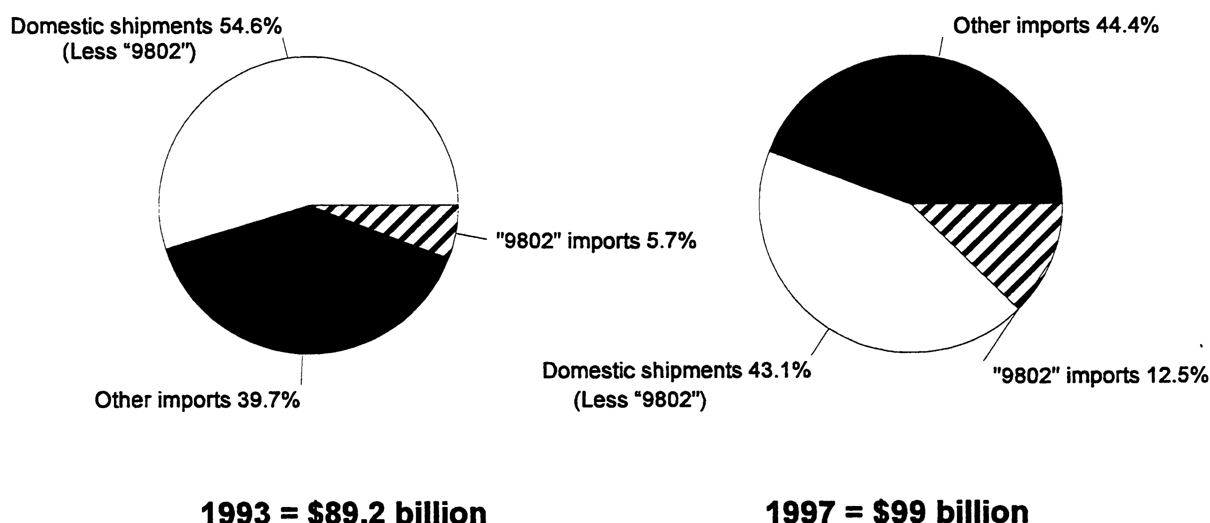
[2] Includes garment parts for assembly abroad and reimportation as completed garments. These parts accounted for an estimated 55 to 60 percent of reported U.S. apparel exports during 1993-97.

Note.—Landed duty-paid value is cost, insurance, and freight (c.i.f.) plus calculated duties paid. This value is shown in addition to customs value as it more closely approximates the comparable value of shipments of domestically made apparel, providing a more realistic basis for calculating import penetration levels.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

19

Figure 4
Apparel: U.S. consumption and shares supplied by domestic shipments, 9802 imports, and other imports, 1993 and 1997



1993 = $89.2 billion **1997 = $99 billion**

Note.—Consumption figures (landed duty-paid value of imports plus value of U.S. producers'shipments) are adjusted for 9802 imports that are reported in both U.S. producers' shipments and imports; therefore, differ from those shown in table 4.

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. TRADE

U.S. two-way trade in apparel of textile and nontextile materials increased considerably during 1993-97, rising by $18 billion to almost $57 billion. The growth was accompanied by a significant increase in the U.S. apparel trade deficit, which widened by $11 billion during the period to $40 billion (table 7). The widening of the trade deficit resulted from a significant increase in U.S. imports, which outpaced the large gain in U.S. exports. Imports grew by $14.6 billion (43 percent) to $48.5 billion and exports rose by $3.6 billion (74 percent) to $8.4 billion.

The growth in U.S. two-way apparel trade occurred primarily with countries benefiting from preferential trade agreements with the United States, namely NAFTA partners Mexico and Canada, and the beneficiary countries under the Caribbean Basin Economic Recovery Act (CBERA). U.S. apparel trade with the CBERA countries and Mexico, which together accounted for 52 percent of the import increase and 87 percent of the export gain during 1993-97, mainly involves U.S. exports of cut garment pieces for assembly and U.S. imports of the finished garments. U.S. apparel trade with Canada, which accounted for 5 percent of the import increase and 7 percent of the export gain during 1993-97, has grown significantly since implementation of the United States-Canada Free-Trade Agreement (CFTA) in 1989. This growth continued under NAFTA, starting in 1994 when the CFTA was suspended and its duty phaseout schedules were incorporated into NAFTA.

Table 5
Apparel: U.S. production, imports, exports, apparent consumption, and import share, by major product types, 1993 and 1997

Item	Production	Imports	Exports	Apparent consumption	Import share
	Million dollars				*Percent*
Shirts & blouses:					
1993	11,329	10,042	854	20,517	48.9
1997	11,373	14,416	1,657	24,132	59.7
Men's & boys' trousers:					
1993	7,488	2,797	975	9,310	30.0
1997	7,793	4,933	1,364	11,362	43.4
Women's & girls' trousers:					
1993	5,143	3,354	325	8,172	41.0
1997	5,570	5,097	637	10,030	50.8
Men's & boys' suits & sport coats:					
1993	1,860	664	125	2,399	27.7
1997	1,524	1,054	126	2,452	43.0
Men's & boys' coats & jackets:					
1993	1,274	1,563	102	2,735	57.1
1997	1,664	2,230	131	3,763	59.3
Dresses:					
1993	4,633	1,082	105	5,610	19.3
1997	4,341	1,636	148	5,829	28.1
Women's & girls' suits, skirts & jackets:					
1993	4,082	3,244	283	7,043	46.1
1997	3,359	4,144	311	7,192	57.6
Robes, nightwear & underwear:					
1993	3,916	1,909	512	5,313	35.9
1997	3,619	3,597	978	6,238	57.7
Sweaters:					
1993	894	1,961	32	2,823	69.5
1997	933	2,239	34	3,138	71.4
Foundation garments:					
1993	1,588	639	316	1,911	33.4
1997	1,946	968	507	2,407	40.2
Hosiery:					
1993	4,691	231	206	4,716	4.9
1997	5,200	566	352	5,414	10.5
Infants' apparel:					
1993	723	811	74	1,460	55.5
1997	720	1,231	163	1,788	68.8

Source: Compiled from official statistics of the U.S. Department of Commerce, Bureau of the Census.

Table 6
Selected apparel products: U.S. producers' shipments and shares supplied by imports under the production-sharing provisions (9802), 1993 and 1997

Item	Shipments		Share of shipments consisting of 9802 imports	
	1993	1997	1993	1997
	1,000 dozen		*Percent*	
Shirts & blouses[1]	159,415	156,218	10.6	48.8
Trousers & shorts	93,976	94,061	26.8	52.2
Coats, jackets, including suit-type	9,773	9,147	23.8	37.0
Foundation garments	26,185	30,057	76.2	61.2
Underwear	169,402	172,078	24.8	72.8
Nightwear (including robes)	13,224	7,671	26.6	76.4
Dresses	14,781	14,892	6.1	20.1
Infants' apparel	13,259	13,252	28.9	71.7
Other	27,170	23,344	9.5	23.4
All apparel[2]	527,185	520,720	22.2	56.9

[1] USITC estimate based on data from the U.S. Bureau of the Census and the American Apparel Manufacturers Association.
[2] Except apparel of leather, fur, and leather accessories.

Source: U.S. Department of Commerce, Bureau of the Census, *Current Industrial Reports: Apparel Summary for 1997 (MQ23A),* Aug. 14, 1998, and back issues, except as noted.

21

Table 7
Apparel: U.S. exports of domestic merchandise, imports for consumption, and trade balance, by selected countries and country groups, 1993-97[1]

(Million dollars)

Item	1993	1994	1995	1996	1997
U.S. exports of domestic merchandise:					
China	7	8	9	9	8
Hong Kong	41	41	49	49	54
Korea	10	16	35	48	43
Taiwan	9	15	18	17	20
Mexico	849	1,159	1,370	1,699	2,205
Dominican Republic	657	744	798	865	1,078
Honduras	219	293	402	622	799
Philippines	22	22	12	13	10
Indonesia	4	4	5	2	3
India	1	([2])	1	1	1
All other	2,998	3,166	3,789	3,970	4,173
Total	4,817	5,468	6,488	7,293	8,394
EU-15	495	464	518	562	546
ASEAN	51	63	56	65	58
CBERA	1,822	2,068	2,520	2,927	3,576
U.S. imports for consumption:					
China	6,187	6,338	5,895	6,340	7,450
Hong Kong	4,019	4,393	4,342	3,998	4,028
Korea	2,538	2,245	1,842	1,533	1,665
Taiwan	2,332	2,269	2,157	2,066	2,166
Mexico	1,415	1,889	2,876	3,850	5,350
Dominican Republic	1,443	1,600	1,753	1,773	2,234
Honduras	510	650	934	1,241	1,688
Philippines	1,361	1,457	1,633	1,569	1,650
Indonesia	1,113	1,182	1,359	1,505	1,789
India	1,079	1,309	1,263	1,350	1,508
All other	11,907	13,546	15,611	16,459	18,964
Total	33,904	36,878	39,665	41,684	48,492
EU-15	1,488	1,685	1,894	2,122	2,235
ASEAN	4,930	5,196	5,837	5,956	6,518
CBERA	4,015	4,538	5,487	6,077	7,664
U.S. trade balance:					
China	(6,180)	(6,330)	(5,886)	(6,331)	(7,442)
Hong Kong	(3,978)	(4,352)	(4,293)	(3,951)	(3,974)
Korea	(2,528)	(2,229)	(1,807)	(1,485)	(1,622)
Taiwan	(2,323)	(2,254)	(2,139)	(2,049)	(2,146)
Mexico	(566)	(730)	(1,506)	(2,151)	(3,145)
Dominican Republic	(786)	(856)	(955)	(908)	(1,156)
Honduras	(291)	(357)	(532)	(619)	(889)
Philippines	(1,339)	(1,435)	(1,621)	(1,556)	(1,640)
Indonesia	(1,109)	(1.178)	(1,354)	(1,503)	(1,786)
India	(1,078)	(1,309)	(1,262)	(1,349)	(1,507)
All other	(8,909)	(10,380)	(11,822)	(12,489)	(14,791)
Total	(29,087)	(31,410)	(33,177)	(34,391)	(40,098)
EU-15	(993)	(1,220)	(1,376)	(1,559)	(1,690)
ASEAN	(4,879)	(5,133)	(5,781)	(5,891)	(6,460)
CBERA	(2,193)	(2,470)	(2,967)	(3,150)	(4,088)

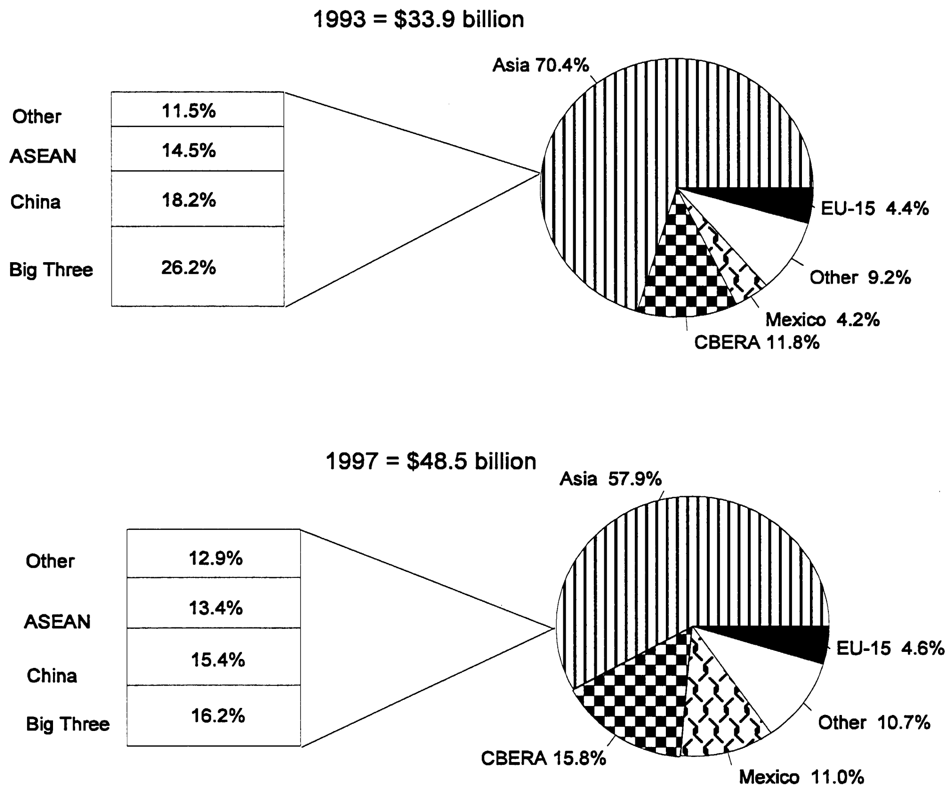
[1] Import values are based on customs values; export values are based on f.a.s. value, U.S. port of export.
[2] Less than $500,000.

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. Imports

Mexico and the CBERA countries were the fastest-growing major suppliers of U.S. apparel imports during 1993-97, although Asia remained the largest supplier (figure 5). Import growth was 278 percent for Mexico and 91 percent for the CBERA countries, but just 18 percent for Asia. As a result, while Asia's share of U.S. apparel imports fell by 12 percentage points during 1993-97, to 58 percent, the combined share of Mexico (11 percent) and the CBERA countries (16 percent) rose by 11 percentage points, to 27 percent. Mexico moved ahead of Hong Kong, Korea, Taiwan, and the Dominican Republic to become the second-largest single supplier of apparel imports ($5.3 billion in 1997), trailing only China ($7.4 billion), which accounted for 15 percent of U.S. apparel imports (table 8).

Figure 5
Apparel: Percentage distribution of U.S. imports, by sources, 1993 and 1997



Note.—Big Three includes Hong Kong, Taiwan, and Korea.
Source: Compiled from official statistics of the U.S. Department of Commerce.

23

Table 8
Apparel: U.S. imports for consumption by major sources, 1993-97

(Million dollars)

Source	1993	1994	1995	1996	1997
China	6,187	6,338	5,895	6,340	7,450
Big Three	8,889	8,907	8,341	7,597	7,859
Hong Kong	4,019	4,393	4,342	3,998	4,028
Korea	2,538	2,245	1,842	1,533	1,665
Taiwan	2,332	2,269	2,157	2,066	2,166
ASEAN	4,930	5,196	5,837	5,956	6,518
Brunei	23	25	35	46	53
Indonesia	1,113	1,182	1,359	1,505	1,789
Malaysia	973	1,051	1,198	1,242	1,244
Philippines	1,361	1,457	1,633	1,569	1,650
Singapore	517	472	424	327	290
Thailand	943	1,006	1,172	1,243	1,466
Vietnam	0	3	16	23	26
Caribbean Basin	4,015	4,538	5,487	6,077	7,664
Costa Rica	653	685	756	706	851
Dominican Republic	1,443	1,600	1,753	1,773	2,234
Guatemala	552	600	691	809	976
Honduras	510	650	934	1,241	1,688
Jamaica	388	454	531	505	471
All other	469	549	822	1,043	1,444
Mexico	1,415	1,889	2,876	3,850	5,350
South Asia	3,174	3,679	4,005	4,264	4,981
Bangladesh	740	885	1,072	1,125	1,442
India	1,079	1,309	1,263	1,350	1,508
Nepal	79	106	81	89	85
Pakistan	442	508	620	641	705
Sri Lanka	834	871	970	1,059	1,242
European Union	1,488	1,685	1,894	2,122	2,235
Italy	852	988	1,167	1,388	1,481
All other	636	697	727	734	754
Canada	562	715	891	1,086	1,344
Japan	127	109	93	89	96
Total above	30,787	33,056	35,319	37,381	43,497
All other	3,117	3,822	4,346	4,303	4,995
World	33,904	36,878	39,665	41,684	48,492

Note.—Because of rounding, figures may not add to the totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Principal Suppliers and Import Levels

NAFTA and CBERA countries

Production-sharing garments accounted for 84 percent of U.S. apparel imports from the CBERA countries ($6.4 billion) and 79 percent of those from Mexico ($4.2 billion) in 1997. Such imports from the CBERA countries can be entered under heading 9802.00.80 of the Harmonized Tariff Schedule of the United States (HTS); prior to 1989, these goods were covered by item 807.00 of the former Tariff Schedules of the United States (TSUS). The tariff heading provides a duty exemption for U.S. garment parts, and other U.S. components, that are returned to the United States in the form of finished goods. In figure 5 general, the duty under this heading is assessed only on the value added abroad, primarily labor. The fabric for making the apparel components can be of either U.S. or foreign origin as long as the fabric is cut to shape in the United States and exported ready for assembly. Under a 1986 "special access program" created within the framework of the former TSUS item 807.00, and commonly known as "807A," garments assembled in participating CBERA countries from fabrics wholly made and cut in the United States are granted, in addition to the reduced duties, virtually unlimited access to the U.S. market. Rather than being assessed against regular quotas, 807A imports from the six participating CBERA countries enter under preferential quotas known as "guaranteed access levels" (GALs).[49]

For Mexico, HTS heading 9802.00.90 was created to implement certain U.S. obligations required by NAFTA, which entered into force on January 1, 1994. Under this tariff provision, imports of apparel and other textile articles from Mexico that are assembled from fabrics wholly made and cut in the United States (807A-type goods) can enter completely free of duty and quota. The tariff provision replaced an 807A-type "special regime" that had been in effect for Mexican apparel for the 5 years prior to 1994.

The CBERA countries and Mexico mainly compete with one another for apparel assembly work from U.S. firms. These countries were the largest suppliers in several major import categories in 1997 (table 9). They accounted for at least one-half of the total value of U.S. apparel imports of men's and boys' trousers and shorts; robes, nightwear, and underwear; and foundation garments, mainly brassieres. In addition, they accounted for 70 percent of hosiery imports.

Competition between the CBERA countries and Mexico has changed since the implementation of NAFTA in 1994. NAFTA tariff preferences have contributed to the faster growth in U.S. apparel imports from Mexico than from the CBERA countries. Whereas 807A-type apparel imports from Mexico enter free of duty and quota, similar CBERA goods enter under preferential quotas but are still subject to duty on the value added

---

[49] The United States currently has GALs and regular quotas with the six largest CBERA suppliers—namely, the Dominican Republic, Honduras, El Salvador, Guatemala, Costa Rica, and Jamaica. Similar 807A-type "special access limits" (SALs) were created for Colombia in 1995, covering cotton and manmade-fiber underwear and women's wool suits. The SALs, which were largely unused, expired on December 31, 1997.

Table 9
Apparel: Percentage distribution of U.S. imports, by selected countries or country groups and by selected products, 1993 and 1997

Item/year	Total imports	Big Three[1]	China	ASEAN	Mexico	CBERA
	Million dollars	*Percent*				
Shirts and blouses:						
1993	10,042	27.9	17.4	15.0	2.1	9.5
1997	14,416	19.1	11.9	13.0	9.8	15.0
Men's and boys' trousers and shorts:						
1993	2,797	15.3	10.7	12.7	12.0	28.7
1997	4,933	9.3	7.5	10.3	23.8	27.7
Women's and girls' trousers and shorts:						
1993	3,354	29.4	10.4	12.7	5.7	14.7
1997	5,097	18.9	10.5	10.1	20.0	15.1
Men's and boys' suits and sport coats:						
1993	664	13.0	8.0	4.9	2.9	15.1
1997	1,054	3.4	4.5	3.4	9.0	16.9
Men's and boys' coats and jackets:						
1993	1,563	36.9	18.4	18.3	0.9	2.4
1997	2,230	25.0	20.9	19.8	1.9	3.7
Dresses:						
1993	1,082	26.3	27.7	15.4	1.9	4.6
1997	1,636	13.5	20.9	18.3	7.4	7.5
Women's and girls' suits, coats, and jackets:						
1993	3,244	27.3	17.3	12.4	1.7	11.0
1997	4,144	15.5	20.5	12.3	3.6	11.7
Robes, nightwear, and underwear:						
1993	1,909	18.7	15.2	8.5	5.5	28.7
1997	3,597	8.8	9.3	6.6	10.4	39.9
Sweaters:						
1993	1,961	30.6	44.9	9.8	0.2	1.1
1997	2,239	34.3	29.0	13.3	1.0	0.2
Foundation garments:						
1993	639	4.2	7.2	19.1	16.6	45.8
1997	968	2.6	8.3	9.8	23.1	44.3
All other:						
1993	6,649	27.9	20.7	19.3	5.5	5.3
1997	8,178	13.6	25.2	20.7	9.5	7.6
Total apparel:						
1993	33,904	26.2	18.2	14.5	4.2	11.8
1997	48,492	16.2	15.4	13.4	11.0	15.8

[1] Includes Hong Kong, Korea, and Taiwan.

Source: Compiled from official statistics of the U.S. Department of Commerce.

offshore.[50] The competitive balance between Mexico and CBERA countries was also affected by the 50-percent devaluation of the Mexican peso during December 1994-January 1995, which effectively reduced dollar prices of Mexican goods in the U.S. market.

The long-term outlook for U.S. apparel production-sharing trade with CBERA countries is somewhat clouded by the uncertain prospects for approval of NAFTA parity legislation for the region and by U.S. WTO commitments. Legislation introduced in the 105th Congress—H.R. 2644, the United States-Caribbean Trade Partnership Act—would have provided NAFTA-like treatment to qualifying apparel and all other goods exempted from duty-free entry under the CBERA. However, the bill was voted down by the House of Representatives in November 1997. Moreover, the ongoing phaseout of U.S. import quotas under the WTO textile agreement will likely gradually erode the preferences that CBERA countries now have under the GALs. As such, U.S. producers may gradually shift some of their assembly operations in CBERA countries to Mexico or source the garments from the Far East where there is little use of U.S. fabrics in apparel production. Such a shift in output to the Far East would likely hurt the U.S. textile mill industry because the CBERA countries as a group are its largest export market for textiles, either as cut garment parts, yarns, or fabrics.

U.S. apparel imports from Canada rose by 139 percent during 1993-97 to $1.3 billion, making Canada the 14th-largest source overall and the second-largest developed-country supplier after Italy ($1.5 billion). The ongoing growth in U.S. imports of men's and boys' wool suits from Canada has raised concern among U.S. producers of tailored clothing and wool fabrics. Canada's shipments of such suits rose by 92 percent during 1993-97 to $146 million, and they are up by slightly more than sixfold since 1989, when the CFTA went into effect. The majority of the Canadian suits are made from foreign—mainly Asian or European—fabrics, but the suits still qualify for NAFTA tariff preferences under a tariff preference level (TPL) for wool apparel.[51] Canada filled almost all of the wool apparel TPL in 1997, with the suits accounting for 62 percent of the TPL imports. Legislation introduced in September 1997 to provide relief for U.S. producers of tailored wool apparel from increased imports of such goods from Canada (H.R. 2432) did not come up for a vote before adjournment of the 105th Congress in October 1998.

U.S. and Canadian producers of tailored clothing often use fine wool fabrics from Asia and Europe in the manufacture of such products. The Canadian tariff for such fabrics is less than half the U.S. tariff (31.7 percent ad valorem in 1998). Legislation introduced in the 105th Congress to reduce or eliminate U.S. tariffs on fine wool fabrics for use in the manufacture of tailored clothing (H.R. 4358) did not come up for a vote before adjournment of the Congress in October 1998. The bill would have eliminated U.S. tariffs on the highest grade of wool fabrics and reduced U.S. tariffs for other fine wool fabrics to 20.2 percent ad

---

[50] For every $10 in f.o.b. value, a typical CBERA garment entered under HTS heading 9802.00.80 contains $6.40 in duty-free U.S. parts and $3.60 in dutiable, foreign value-added. Applying the 1997 trade-weighted average duty on apparel of 15.5 percent to the foreign value-added yields an average duty of $0.56, or an ad valorem equivalent of 5.6 percent.

[51] The TPLs (formerly tariff rate quotas (TRQs) under the CFTA) were developed primarily to alleviate short supply problems in Canada, especially as they relate to manufacturers' inputs.

valorem, which is the same duty rate as that for finished wool suits from most countries in 1998.[52]

China

China remained the leading source of apparel imports, with shipments rising by 20 percent during 1993-97 to $7.4 billion. However, China's share of U.S. apparel imports fell from 18 percent in 1993 to 15 percent in 1997. Tight U.S. quotas limited import growth for China. The textile and apparel agreement with China for the years 1994-96 provided for no quota growth in the first year and for 1-percent annual growth, on an overall trade-weighted basis, in the following 2 years. Many of the largest apparel items imported from China, such as cotton knit shirts and blouses and cotton trousers, were subject to individual quotas with even lower annual growth rates, ranging from 0.2 percent to 0.5 percent. In addition, the United States signed a silk agreement with China in 1994 that brought Chinese silk goods under quota for the first time.

In February 1997, the United States concluded new agreements with China on textile and apparel trade. One agreement extended U.S. quotas on Chinese nonsilk goods for 4 years through the year 2000. This agreement reduced quotas for products in which China had repeatedly violated quotas by transshipping through third countries, strengthened enforcement terms against illegal transshipments, and, similar to the 1994 agreement, allowed the United States to "triple charge" quotas for repeated violations of the agreement.[53] Another agreement extended U.S. quotas on Chinese silk goods for 1 more year to December 31, 1997, when they were allowed to expire. The United States agreed to China's request to eliminate visa requirements for silk goods effective January 1, 1999.[54]

Other Supplying Countries

U.S. apparel imports from the traditional "Big Three" Asian suppliers—Hong Kong, Taiwan, and Korea—continued to decline during 1993-97, by 12 percent to $7.9 billion

---

[52] A bill (S. 218) introduced by Senator Moynihan in the 106th Congress on January 19, 1999, if enacted, would eliminate U.S. tariffs on the highest grade of wool fabrics ("super 90's" and higher grades) and reduce U.S. tariffs for other fine wool fabrics ("super 70's and super 80's") to 19.8 percent ad valorem in 1999, which is the same duty rate as that for wool suits from most countries in 1999.

[53] In May 1998, the Committee for the Implementation of Textile Agreements (CITA), an interagency group that administers the U.S. textile trade agreements program, announced that triple charges would be assessed against certain of China's quotas for illegal transshipments. For further information, see CITA, "New Transshipment Charges for Certain Cotton and Man-Made Fiber Textile Products Produced or Manufactured in the People's Republic of China," *Federal Register* (63 F.R. 25202), May 7, 1998, p. 25202.

[54] The United States requires visas for textile and apparel imports from many countries. Issued by the quota regulatory authority of the country in which the goods originate, a visa is a stamp on a paper document that certifies the origin of the goods, specifies the product type and quantity, and authorizes the shipment. The U.S. Customs Service, which is implementing electronic visas, uses the information to charge imports against quotas and to help eliminate unlawful transshipments.

(table 8). The Big Three's share of U.S. apparel imports fell by 10 percentage points to 16 percent; the Big Three had supplied at least 40 percent of these imports during the 1980s. Faced with rising operating costs, labor shortages, competition from lower cost countries, and U.S. import quotas, firms in the Big Three economies moved production of basic garments for export to lower cost areas, such as China and the Association of South East Asian Nations (ASEAN), which includes Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and the three newest members—Vietnam, which joined in 1995, and Laos and Myanmar (Burma), which joined in July 1997.[55]

U.S. apparel imports from the ASEAN countries grew by 32 percent during 1993-97 to $6.5 billion. Many ASEAN economies have recently experienced a decline in economic activity and a devaluation of their currency. The currency devaluation is likely to lead to lower export prices, which, in turn, could spur U.S. demand for apparel from the region. However, U.S. quotas will likely limit the growth in such imports from the region. Significant growth occurred in U.S. apparel imports from countries in South Asia (Bangladesh, India, Nepal, Pakistan, and Sri Lanka), which rank among the lowest cost producers in Asia. Imports from these countries grew by 57 percent during 1993-97.

U.S. Trade Measures

Tariffs and Quotas

The principal U.S. trade measures affecting apparel are import tariffs and quotas. As a result of agreements that were reached in the Uruguay Round of multilateral trade negotiations and that entered into force as part of the World Trade Organization (WTO) agreements on January 1, 1995, the United States agreed to reduce textile sector tariffs and phase out quotas over a 10-year period. In recognition of the quota phaseout, the United States agreed to reduce tariffs on textile-based apparel in stages by a trade-weighted average of 9 percent, or by 1.8 percentage points, to a final average level of 17.5 percent ad valorem, compared with a 34-percent tariff cut for all manufactured goods.

Apparel is classified for tariff purposes under about 600 subheadings of the HTS.[56] Most of these subheadings cover apparel of textile materials, such as cotton, wool, and manmade fibers. Imports of apparel of nontextile materials, such as leather and fur, account for less than 10 percent of total U.S. apparel imports. The trade-weighted U.S. rate of duty for all apparel averaged 15.5 percent ad valorem in 1997.

The United States currently has import quotas on textiles and apparel from 47 countries, of which 37 are WTO members and therefore entitled to quota liberalization benefits under the WTO textile agreement (discussed below). For Mexico, a WTO member, the only quotas now in place cover "non-originating" goods (e.g., goods made from Asian or European

---

[55] The trade data presented in this report for the ASEAN countries exclude Laos and Myanmar. The ASEAN is holding consultations with Cambodia to make that country the 10th, and final, ASEAN member. For further information, see the ASEAN web site at http://www.aseansec.org.

29

[56] See appendix B for an explanation of tariff and trade agreement terms.

fabrics that do not qualify under NAFTA's rules of preference) and they will be phased out under NAFTA as of January 1, 2004. Imports of apparel covered by quota from non-WTO countries, led by China and Taiwan, are subject to quota under section 204 of the Agricultural Act of 1956. As part of a series of textile-related agreements reached with China in February 1997, the United States agreed that should China become a member of the WTO, it would immediately receive the same benefits on the same schedule accorded other WTO textile-exporting countries under the ATC, such as the phaseout of quotas discussed below.[57] However, under the terms of the agreement with China, imports of textiles and apparel from China would be subject to the application of a selective safeguard clause for 4 years beyond the termination of all other textile quotas for WTO countries on January 1, 2005.

Preferential Trade Programs

The United States grants preferential market access to apparel imports from Canada, Mexico, and Israel. NAFTA entered into force on January 1, 1994, and provides for the elimination of duties on trade among the United States, Canada, and Mexico in "originating" goods.[58] As of January 1, 1998, U.S. imports of all originating apparel from Canada can enter free of duty. For Mexico, U.S. tariffs for most originating apparel will be phased out by January 1, 1999, and the remainder in 2003. The United States eliminated import quotas for originating apparel from Mexico upon NAFTA's implementation, and will phase out quotas for nonoriginating goods from Mexico by January 1, 2004.[59] The United States did not and does not apply quotas to apparel imports from Canada.

As a general rule, NAFTA preferential tariffs do not apply to imports of non-originating goods, which are subject to normal trade relations or general tariffs. However, NAFTA contains an exception to this rule that permits some U.S. imports of non-originating apparel from Canada and Mexico to qualify for preferential tariffs up to specified annual quantity levels under TPLs. The United States has TPLs under NAFTA for imports of cotton or manmade-fiber apparel and for wool apparel from Canada and Mexico, and a TPL for apparel imports from Mexico under the 9802 tariff provision. In September 1998, the United States extended duty-free benefits to imports from Mexico of suits and suit-type coats assembled from U.S.-formed and -cut fabric but containing certain foreign-made interlinings.[60]

---

[57] U.S. Department of State telegram, "Textiles/China: Exchange of Notes," message reference No. 040894, Washington, DC, Mar. 5, 1997.

[58] NAFTA preferences apply to goods that "originate" in the United States, Canada, and Mexico—that is, the goods meet the NAFTA rules of origin and are eligible for preferences upon importer claims for the preference. Most apparel articles are subject to a "yarn forward" origin rule, whereby all manufacturing steps including yarn formation must take place in North America.

[59] Although nonoriginating goods from Mexico (e.g., most garments cut and sewn in Mexico from fabric made in Asia) generally are not eligible for NAFTA tariff preferences, the goods must still meet the rules of origin for textile articles under section 334 of the Uruguay Round Agreements Act to qualify as a product of Mexico and, thereby, be exempt from U.S. import quotas.

[60] President, Proclamation 7125 of September 18, 1998, "To Modify Certain Provisions of the Special Textile and Apparel Regime Implemented Under the North American Free Trade 30
(continued...)

Israel is the only country outside North America with which the United States has a free-trade agreement. Under the 1985 United States-Israel Free-Trade Area Agreement, the two countries phased out all tariffs and quotas on bilateral trade in apparel and other industrial goods over a 10-year period. Israel supplied less than 1 percent of U.S. apparel imports ($287 million) in 1997.

The United States also grants duty-free treatment to apparel and other goods made in the West Bank, the Gaza Strip, and "qualifying industrial zones" (QIZs) in Israel and Egypt or Israel and Jordan.[61] Following implementation of an agreement signed by Israel and Jordan in November 1997 to establish a QIZ in Irbid, Jordan, the United States Trade Representative designated the Irbid industrial park as the first QIZ from which goods can now enter the United States free of duty, effective March 13, 1998.[62] Among the goods likely to be exported from the QIZ to the United States are garments, which already are a major source of economic activity in the zone. U.S. apparel imports from Jordan totaled $3 million in 1997.

Most textiles and apparel articles are excluded from duty-free treatment under the GSP, the CBERA, and the Andean Trade Preference Act (ATPA). Garments entered under these programs account for less than 5 percent of U.S. apparel imports annually and consist mostly of nontextile apparel.

Rules of Origin

As required by section 334 of the Uruguay Round Agreements Act, the United States implemented new rules of origin for textiles and apparel on July 1, 1996. The rules affect country-of-origin determinations for U.S. imports of such goods that are subject to manufacturing and processing operations in, or contain components from, more than one country. The U.S. industry had sought the rules change on the basis that foreign suppliers were dividing their production operations among various countries as a means of avoiding U.S. import quotas.[63] Under the section 334 rules, the country of origin for apparel assembled in one country from parts cut to shape in another country generally would be the country where assembly occurs, rather than the country where the cutting took place, as was

[60] (...continued)
Agreement," *Federal Register* (63 F.R. 50737), Sept. 22, 1998, p. 50737. NAFTA rules of origin governing duty-free apparel imports from Mexico under HTS heading 9802.00.90 stipulate that all fabric components, including interlinings, must be of fabric wholly made and cut in the United States. Due to a loss of domestic supply of certain interlinings used in the tailored clothing, imports of such goods containing foreign interlinings no longer qualified for NAFTA duty-free entry. The Presidential proclamation temporarily extends duty-free entry to the suits and suit-type coats.

[61] For more information on QIZs, see USITC, "Textiles and Apparel: New U.S. Trade Program Likely to Spur Imports from Israel and Jordan," *Industry Trade and Technology Review*, USITC publication 3099, Mar. 1998.

[62] Office of the United States Trade Representative, "United States-Israel Free Trade Area Implementation Act Designation of Qualifying Industrial Zone," *Federal Register* (63 F.R. 12572), Mar. 13, 1998, p. 12572.

[63] U.S. House of Representatives, Committee on Ways and Means, *Overview and Compilation of U.S. Trade Statutes*, 105th Cong., 1st sess. (Washington, DC: U.S. Government Printing Office, June 25, 1997), WMCP: 105-4, p. 121.

31

the usual outcome under the previous rules. For "flat goods" such as scarves and handkerchiefs made from only one piece of fabric, the origin is the country where the fabric is produced, rather than the country where the fabric is cut to size, hemmed, and otherwise sewn, as was previously the case.

In May 1997, the European Union (EU) filed a request with the WTO for formal consultations with the United States, stating that the new rules adversely affected its exports to the U.S. market of silk scarves, among other textile articles. In the past European producers had unrestricted access to the U.S. market for silk scarves made from Chinese fabric, because the scarves were printed or dyed in the EU and were the product of the EU country. However, the current rules stipulate that EU exports of such silk scarves are the product of China rather than Italy, even though about 80 percent of the total processing cost of the silk scarves originated in the EU.[64] In addition, EU firms claimed the change in the country-of-origin label would eliminate the prestige and reduce the sales of the European silk goods in the U.S. market.[65] The United States agreed to create an exemption from the marking requirements for imported silk scarves (HTS subheading 6214.10.10),[66] thus allowing silk scarves to be imported with modified appellations.[67] No action was taken on the bill (H.R. 4526) that would have addressed the origin issue for the silk goods before adjournment of the 105th Congress in October 1998.[68]

WTO Textile Agreement

World trade in textiles and apparel had been largely governed by the terms of the 1974 Multifiber Arrangement (MFA), and predecessor arrangements, which permitted the use of quotas without compensation, contrary to the general prohibition against their use under the General Agreement on Tariffs and Trade (GATT). On January 1, 1995, the Agreement on Textiles and Clothing (ATC) entered into force as part of the World Trade Organization (WTO) agreements and replaced the MFA. The ATC provides for the elimination of the quotas and the complete integration of textiles and apparel into the WTO regime—that is, subject to WTO disciplines and the same rules as trade in other sectors—over a 10-year transition period ending on January 1, 2005.[69] All WTO countries are subject to ATC disciplines, and only WTO countries are eligible for ATC benefits.

---

[64] U.S. Department of State telegram No. 146388, "Textiles/Rules of Origin: Agreement with the EU," Washington, DC, Aug. 5, 1997.

[65] Ibid.

[66] On February 26, 1998, Congressman Matsui introduced H.R. 3294, "To Modify the Marking of Certain Silk Products and Containers." The bill was referred to the House Committee on Ways and Means. No action was taken on the bill before the adjournment of the 105th Congress in October 1998.

[67] The appellations can include "Designed in Italy," "Dyed and Printed in Italy," "Cut and Sewn in Italy," "Fashioned in Italy," "Crafted in Italy," "Created in Italy," and "Gucci of Italy."

[68] The miscellaneous trade bill (H.R. 326 and S. 262) introduced in the 106th Congress on January 20, 1999, includes a provision to amend the country of origin marking rules for certain silk products. The bill, which is identical to H.R. 4526, was brought about by a settlement between the United States and the EU on the rules of origin for textiles and apparel. Separately, the EU has renewed its origin rule complaint before the WTO, claiming that this legislation fails to fully comply with the negotiated settlement.

[69] WTO members with MFA quotas are the United States, the EU, Canada, and Norway.

The ATC provides for the elimination of the quotas through two mechanisms: product integration, including quota removal, and acceleration of growth rates for quotas still in effect during the transition period. As required by the ATC, WTO countries integrated 16 percent of their textile and apparel trade into the WTO regime on January 1, 1995, and another 17 percent on January 1, 1998 (based on 1990 import volume). The ATC requires the countries to integrate another 18 percent of the trade in 2002 and the remainder on January 1, 2005. As products are integrated into the WTO regime, they become subject to normal WTO rules. Product integration is expected to have long-term implications for the U.S. apparel industry but limited near-term effects because most import-sensitive goods covered by the ATC will remain under quota throughout the transition period.

The acceleration of quota growth rates under the ATC is likely to affect U.S. import levels sooner than product integration. Bilateral agreements established under the MFA had specified the percentage rates by which the quotas could grow annually. As such, quota growth rates vary by country and product and can more closely control import levels. For products still under quota during the transition period, the ATC required importing countries to increase the quota growth rates for major supplying countries by 16 percent on January 1, 1995, and by an additional 25 percent on January 1, 1998. The growth rates are to be increased by another 27 percent in 2002. For small suppliers (i.e., countries accounting for 1.2 percent or less of an importing country's total quotas in 1991), quota growth rates were advanced by one stage—that is, they were increased by 25 percent in 1995 and by 27 percent in 1998.

The ATC also allows WTO countries during the transition period to set new quotas on imports of goods that have yet to be integrated into the WTO regime by applying a "transitional safeguard" when imports cause or threaten serious damage to a domestic industry. These quotas may remain in place for up to 3 years or until the item is integrated into the WTO regime. The United States has initiated more ATC safeguard actions than any other country, initiating 28 actions in 1995, but only 9 during 1996-98. Most of the safeguard actions involved apparel.

U.S. Government Trade-Related Investigations[70]

In connection with legislation introduced in the 104th Congress on Sub-Saharan Africa, the House Committee on Ways and Means in January 1997 requested that the U.S. International Trade Commission conduct a factfinding investigation under Section 332 of the Tariff Act of 1930 concerning the likely impact of providing quota-free and duty-free entry to textiles and apparel from Sub-Saharan Africa. In its report to the Committee, the Commission estimated that allowing duty-free and quota-free entry for apparel from Sub-Saharan Africa would result in a decrease in U.S. domestic shipments of apparel of about 0.1 percent.[71]

[70] The U.S. International Trade Commission did not conduct any investigations under U.S. antidumping or countervailing duty laws on apparel during 1993-97.

[71] U.S. International Trade Commission, *Likely Impact of Providing Quota-Free and Duty-Free Entry to Textiles and Apparel From Sub-Saharan Africa* (investigation No. 332-379), USITC publication 3056, Sept. 1997.

Legislation introduced in the 105th Congress—H.R. 1432, the African Growth and Opportunity Act—would have provided for increased access to U.S. markets for textiles and apparel from 48 eligible countries of Sub-Saharan Africa, which accounted for less than 1 percent of U.S. apparel imports in 1997. The bill would have eliminated existing U.S. import quotas on textiles and apparel from countries of Sub-Saharan Africa (Mauritius and Kenya are the only countries in the region currently subject to such quotas) and would have authorized the President to grant duty-free treatment under the Generalized System of Preferences (GSP) to textile and apparel imports from countries of Sub-Saharan Africa. In March 1998, the House of Representatives passed H.R. 1432 by a vote of 233 to 186. The companion bill in the Senate, S. 778, did not come up for a vote before the adjournment of the 105th Congress in October 1998.

In October 1996, the United States Trade Representative (USTR) initiated an investigation on Argentina's imposition of (1) specific duties on apparel, footwear, and textiles; (2) a discriminatory statistical tax; and (3) a burdensome labeling requirement on apparel and textiles.[72] The United States also requested formal WTO consultations. Through consultations, the parties resolved their differences on the labeling requirement. In a report circulated in November 1997, a WTO dispute settlement panel found that the specific duties on apparel and textiles violated Argentina's tariff bindings under GATT article II and that the statistical tax violated GATT article VIII. That decision was upheld in March 1998, when the Appellate Body of the WTO ruled that Argentina's specific duties and 3-percent statistical tax violated WTO rules and Argentina's Uruguay Round commitments.[73] Expecting that Argentina will conform its specific duties and statistical tax to meet its obligations under the GATT 1994, the USTR terminated its investigation.[74]

U.S. Exports

Principal Markets and Export Levels

U.S. apparel exports rose by 74 percent during 1993-97 to $8.4 billion (table 10). The export growth resulted mainly from larger shipments to CBERA countries (up 96 percent) and Mexico (160 percent). It is believed that most U.S. apparel exports to these countries, which accounted for nearly 70 percent of the total in 1997, consisted of apparel parts for assembly and eventual export to the United States as completed garments.

---

[72] USTR, "WTO Panel Rules in Favor of United States in Challenge to Argentina's Specific Duties and Tax on Imports," press release 97-99, Nov. 25, 1997, found at Internet address http://www.ustr.gov.

[73] USTR, "WTO Appellate Body Upholds Win for United States in Challenge to Argentina's Specific Duties and Tax on Imports, " press release 98-35, Mar. 27, 1998, found at Internet address http://www.ustr.gov.

34

[74] USTR, *Federal Register* (63 F.R. 25539), May 8, 1998, p. 25539.

Table 10
Apparel: U.S. exports of domestic merchandise, by major markets, 1993-97

(Million dollars)

Market	1993	1994	1995	1996	1997
Mexico	849	1,159	1,370	1,699	2,205
Dominican Republic	656	744	798	865	1,078
Honduras	219	293	402	622	799
Japan	745	776	948	952	693
Canada	379	435	504	508	627
Costa Rica	320	349	398	432	524
El Salvador	83	136	217	262	392
Jamaica	247	270	383	369	323
Guatemala	177	193	209	243	274
Colombia	94	141	152	127	151
United Kingdom	76	79	84	116	143
Belgium	107	108	112	122	100
Haiti	53	18	45	56	91
France	70	56	57	49	80
Germany	93	83	94	104	74
All other	649	628	715	767	840
Total	4,817	5,468	6,488	7,293	8,394

Note.—Exports include cut parts sent abroad for assembly and subsequent return as finished garments.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Basic clothing such as fleecewear, jeans, and T-shirts manufactured in the United States are popular in Europe and Asia.[75] Many brand-name basic products are currently being built into major international franchises. For fashion merchandise, however, the market penetration could be limited since tastes in fashion apparel differ from one country to the next.

Japan and Canada are the major markets for U.S. exports of finished apparel, accounting for a combined 15 percent of total U.S. apparel exports in 1997. Such exports to Canada, which benefit from preferential market access under NAFTA, rose by 65 percent during 1993-97. U.S. apparel exports to Japan fell by 27 percent in 1997, following a 26-percent gain during 1993-96. An economic slowdown in Japan is believed to have contributed to the 1997 decline.

Foreign Trade Measures

U.S. exporters of finished apparel compete on a global basis with developing-country exporters that supply the U.S. market. In general, competitive factors such as production costs and marketing capability are believed to have affected U.S. export levels more than foreign trade barriers. U.S. exports of apparel are subject to average tariffs ranging from 5.3 to 14 percent ad valorem in the EU, 11.2 to 16.8 percent in Japan, and 13 percent in Korea. In the Uruguay Round of multilateral trade negotiations, the table 10 EU agreed to reduce apparel tariffs by about 12 percent (or 2 percentage points) and Japan, by 34 percent (4.5 percentage points).

[75] Levi Strauss Associates Inc., "Schedule 13E3/A," p. 55.

The ATC required WTO countries to reduce trade barriers on apparel in their home markets. It called on countries to cut tariffs and bind rates in their respective tariff schedules, reduce or eliminate nontariff barriers, and facilitate customs, administrative, and licensing procedures. In addition, the United States sought market access commitments from WTO members that are significant exporters of apparel to the United States. While developing countries such as Egypt, India, Pakistan, the Philippines, Thailand, and Turkey have either already reduced their tariffs or have committed to do so for U.S. apparel exports, numerous nontariff barriers still persist in these countries that present significant obstacles to U.S. exports.

Moreover, the United States concluded a Memorandum of Understanding (MOU) with China, a non-WTO country and potentially the largest market in the world, whereby "[f]or the first time, the United States obtained significant market opening commitments from China for export of U.S.-manufactured apparel and textile products."[76] Although China's vast market and economic expansion in recent years have provided U.S. firms with opportunities for export growth,[77] China's high tariff rates and nontariff barriers have impeded market entry. China agreed to cut tariffs on U.S. exports of textiles and apparel, as well as many other products, over a 2 to 4 year period, and to bind the tariffs at the lower rates. On October 1, 1997, China reduced the simple average tariff level for apparel and textiles from the United States and most other countries to 27 percent.[78]

FOREIGN INDUSTRY PROFILE

China is the world's largest apparel exporter, having been a major beneficiary of the shift in apparel trade from the traditional "Big Three" Asian suppliers—Hong Kong, Korea, and Taiwan, which were the world's largest apparel exporters during the 1970s and 1980s. From 1992 to 1996, China's apparel exports grew by 50 percent to $25 billion (table 11) and its share of the world total rose from 12.8 to 16.2 percent. China's apparel exports in 1997 reportedly rose by 27 percent to $31.8 billion.[79] The largest markets for Chinese apparel exports in 1996 were Japan ($7.9 billion), the United States ($6.6 billion), and the EU ($6.1 billion).[80]

---

[76] U.S. Department of State telegram No. 040894, "Textiles/China: Exchange of Notes," Washington, DC, Mar. 5, 1997.

[77] Based on estimates attributed to the China National Textile Council, by the year 2000, China's overall domestic demand for textile articles will reach 6.5 million tons, fiber consumption per capita will rise by 9 percent over the 1995 level to 5 kilograms, and retail apparel sales will rise by 88 percent over the 1996 level. See U.S. Department of Commerce at Internet address http://www.stat-usa.gov/BENinqprogs2/web...public/market/3601.

[78] U.S. Department of State telegram No. 034878, "China/Tariffs: Another Round of Tariff Cuts (and Possible Increases) to be Implemented on October 1, 1997," prepared by U.S. Embassy, Beijing, Sept. 22, 1997.

[79] "Chinese Textile Industry and Trade, Entry Into New Phase," *JTN Monthly*, June 1998, pp. 19-25.

[80] Data for the United States and the EU are from WTO, "Background Statistical Information with Respect to Trade in Textiles and Clothing," G/L/184, Sept. 30, 1997; data for Japan are from
(continued...)

Table 11
Apparel: World exports, by selected countries and country groups, 1992-97

Country/group	1992	1993	1994	1995	1996	1997	1992	1996
	Exports						World share	
	Million dollars						Percent	
United States	4,093	4,808	5,464	6,481	7,285	8,388	3.1	4.7
Canada	528	662	825	1,016	1,238	1,487	0.4	0.8
Japan	638	642	582	530	498	472	0.5	0.3
European Union (15)	45,146	38,782	41,891	47,716	50,612	([1])	34.5	32.7
Extra-EU exports	14,016	10,480	12,370	14,494	16,030	([1])	10.7	10.4
Intra-EU exports	31,130	28,302	29,521	33,222	34,582	([1])	23.8	22.3
South America	1,268	1,305	1,381	1,383	1,153	([1])	1.0	0.7
Central American and CBERA	3,701	4,422	4,961	6,043	6,448	([1])	2.8	4.2
Mexico	967	1,185	1,701	2,731	3,737	5,636	0.7	2.4
Big Three	20,853	19,181	18,555	17,748	16,407	([1])	15.9	10.6
Hong Kong[2]	9,969	9,289	9,457	9,540	8,979	9,329	7.6	5.8
Korea	6,770	6,166	5,653	4,957	4,221	([1])	5.2	2.7
Taiwan	4,114	3,727	3,445	3,251	3,207	3,428	3.1	2.1
China	16,704	18,441	23,731	24,049	25,034	31,803	12.8	16.2
ASEAN	11,626	12,107	12,497	13,398	13,753	([1])	8.9	8.9
Indonesia	3,164	3,502	3,206	3,376	3,591	2,904	2.4	2.3
Malaysia	1,877	1,953	2,071	2,266	2,376	([1])	1.4	1.5
Philippines	819	835	897	1,064	2,389	([1])	0.6	1.5
Singapore	1,810	1,549	1,526	1,464	1,400	1,550	1.4	0.9
Thailand	3,767	4,179	4,505	5,006	([1])	([1])	2.9	[3]3.3
All other	189	0	288	220	([1])	([1])	0.1	([1])
South Asia	7,729	8,734	9,795	11,063	11,696	([1])	5.9	7.6
India[4]	3,463	3,930	4,459	4,934	4,922	([1])	2.6	3.2
Bangladesh[4]	1,503	1,681	2,036	2,622	2,862	([1])	1.1	1.9
Pakistan	1,443	1,558	1,578	1,611	1,872	1,804	1.1	1.2
Sri Lanka[4]	1,224	1,449	1,576	1,781	1,916	([1])	0.9	1.2
Nepal[4]	96	116	146	115	124	([1])	0.1	0.1
Turkey	4,179	4,339	4,582	6,119	6,067	6,697	3.2	3.9
All other	13,521	11,791	10,987	13,945	10,661	([1])	10.3	6.9
World[2]	130,953	126,367	136,952	152,222	154,589	([1])	100.0	100.0

[1] Not available.
[2] Re-exports from Hong Kong are excluded as they comprise mostly products from China which are included in China's exports.
[3] 1995 export share.
[4] Country exports as derived from available importer data.

Note.—Because of rounding, figures may not add to the totals shown.

Source: Compiled from United Nations data for Standard International Trade Classification (SITC) division 84, articles of apparel and clothing accessories (Revision 3).

[80] (...continued)
L'Observatoire Europeen du Textile et de L'Habillement (OETH), "Country Profile—PR China: Foreign Trade in Textiles and Clothing," *Quarterly Bulletin: Textiles and Clothing*, vol. VI - No. 3/1997 (Brussels: OETH, Sept. 1997), p. 87.

Apparel exports by the Big Three Asian suppliers (excluding Hong Kong's re-exports, which are mostly from China) declined by 21 percent during 1992-96 to $16.4 billion. Their share of world apparel exports fell by 5.3 percentage points during the period to 10.6 percent. The major market for Big Three apparel exports in 1996 was the United States, which accounted for 46 percent of the total. To remain competitive, apparel firms in the Big Three economies have moved production of apparel for export to China and other lower cost areas, such as the ASEAN countries, and have set up factories in Western Europe, the United States, and Canada to bypass quota restrictions and gain better access to these markets. Firms in the Big Three economies have also set up operations in CBERA countries and Mexico to produce apparel for export to the United States.

Hong Kong has been a major beneficiary of China's expanding apparel industry.[81] From the 1980s to the early 1990s, Hong Kong-based apparel producers began subcontracting production to state-owned factories in southeastern China. This outward-processing arrangement eventually turned into a relocation of Hong Kong's apparel industry as a result of China's low-cost labor force. By 1995, Hong Kong firms operated more than 20,000 factories and employed an estimated 5 million workers in the Pearl River Delta alone. Hong Kong has also become a regional sourcing hub for apparel; its apparel industry provides such services as product development, material sourcing, quality control, merchandising, trade financing, and logistics arrangements.

World apparel exports by ASEAN countries rose by 18 percent during 1992-96 to $13.8 billion, and their share of the world total remained relatively unchanged during the period at 8.9 percent. The major markets for ASEAN apparel exports in 1996 were the United States (43 percent), the EU (29 percent), and Japan (13 percent). The Asian financial crisis and the accompanying currency devaluations of several ASEAN countries are likely to lead to lower prices for goods from ASEAN countries, thereby spurring foreign demand in major ASEAN export markets. However, quotas in these markets will likely limit the rate of growth in ASEAN apparel shipments.

Apparel exports of countries in South Asia—India, Bangladesh, Pakistan, Sri Lanka and Nepal—posted a 51-percent gain during 1992-96 to $11.7 billion, and their share of the world total rose by 1.7 percentage points to 7.3 percent. The major markets for their apparel exports in 1996 were the United States (44 percent), Germany (15 percent), and the United Kingdom (11 percent). In the South Asian countries, the apparel sector, along with the textile sector, is the largest source of foreign exchange earnings, accounting for more than one-third of each country's net export earnings in recent years. Labor costs in these countries are among the lowest of the world's major producing and exporting countries.

The EU apparel sector comprises some 56,300 firms, with more than 80 percent of them having fewer than 20 employees. EU apparel production declined by an annual average of 3.3 percent in real terms during 1993-97 to $71.7 billion.[82] EU apparel employment declined by an annual average of 4.4 percent during 1993-97 to about 1 million workers. Italy and the United Kingdom each accounted for 21 percent of EU apparel employment, followed by Portugal (14 percent), France and Spain (12 percent each) and Germany (11

---

[81] Information in the paragraph is from Peter Chan, "Special Report: Sourcing - Asia: Down, But Not Out - An Insider's Perspective," *Bobbin*, Nov. 1998, pp. 33-38.

[82] ECU=$1.136 (period average).

percent).[83] Investment in the EU apparel sector is relatively small, totaling $1.4 billion in 1997, compared with $6.3 billion in the EU textile sector.[84] Outward processing trade (OPT)[85] with the countries of Central and Eastern Europe and the Mediterranean rim more than doubled in value during 1990-97. In 1997, OPT imports accounted for 17 percent of the total value of EU apparel imports. Germany accounted for 58 percent of EU OPT apparel imports in 1997, followed by Italy (11 percent). EU apparel exports (including intra-EU trade) rose by 12 percent during 1992-96 to $50.6 billion. Italy was the leading EU exporter, accounting for 32 percent of EU apparel exports, followed by Germany (15 percent), France (11 percent), and the United Kingdom (10 percent). About 68 percent, or $35 billion, of EU apparel exports were intra-EU shipments, mainly to Germany, France, and the United Kingdom. The principal non-EU export markets were Switzerland and Japan (about 5 percent each) and the United States (4 percent).

In Mexico, several U.S. textile mills have announced plans to establish or further expand textile operations which, in turn, are expected to spur the growth of "full-package" shipments of apparel from Mexico to the United States. Mexico's textile industry is developing its capability to produce fabrics for use in the manufacture of garments for export to the United States, largely reflecting U.S. and other foreign investment and joint ventures with U.S. firms.[86] For example, Burlington Industries is spending $200 million to build three thread and fabric plants in Morelos that will begin production by the end of 1999; DuPont Mexico is investing $300 million in various projects, including a joint venture with Grupo Alfa, Nylon de Mexico;[87] and Guilford Mills is investing $100 million to set up an integrated textile plant (knitting, dyeing, finishing, and printing garments) in the Mexican Gulf Coast city of Tampica/Altamiro.[88] Cone Mills has launched a joint venture with Mexico's largest textile producer, Compania Industrial de Parras, to produce denim for use in the manufacture of jeans in Mexico for export to the United States.

The major world markets for apparel are the developed countries, led by the EU, the United States, and Japan, which together accounted for 85 percent of total reported world imports of apparel in 1996 (table 12). The United States accounted for 27 percent of world apparel imports in 1996, down slightly from 28 percent in 1993. The EU share of world apparel imports declined to just under 46 percent in 1996, from 48 percent in 1993. Japan's share of the world total rose by 2 percentage points during the period, to 12 percent.

---

[83] OETH, *The EU Textile and Clothing Sector: 1998* (Brussels), May 1998, p. 31.

[84] Ibid, p. 33.

[85] The trade consists mainly of exporting fabric to proximate low-cost labor countries to be made into finished garments for re-import into the EU, with EU tariffs (where they apply) levied on the value-added only. See OETH, "Outward Processing Trade," *The EU Textile and Clothing Sector: 1998*, pp. 49-52.

[86] Thirty of Mexico's 31 States each have at least 1 textile plant and 13 new textile maquiladora plants authorized by the Mexican government in March 1998. See U.S. Department of State telegram No. 1356, "NAFTA: 2001 - The Tijuana Perspective," prepared by the U.S. Embassy, Tijuana, Dec. 22, 1997, and "Mexico Approves 48 Maquiladora Programs," *The Journal of Commerce, Web Edition,* May 14, 1998, found at Internet address http://www.joc.com/database/getDocument.cgi?docnum=0&maxDoc=1.

[87] "Mexico Update," *Twin Plant News*, Mar. 1998, p. 8.

[88] "U.S. Investors Outline Plans to Expand Mexican Operations," *Journal of Commerce Online,* Mar.11, 1998, found at Internet http://www.joc.com/database/getDocument.cgi?docNum=8&maxDoc=20; and *DNR (Daily News Record)*, Guilford to Spend $100 million to Expand Mexican Operations, Mar.18, 1998, p. 13.

Table 12
Apparel: World imports, by selected countries and country groups, 1992-96

Country/group	1992	1993	1994	1995	1996	Import share— 1992	Import share— 1996
	Million dollars					*Percent*	
United States	32,951	35,605	38,643	41,367	43,317	25.1	26.9
Canada	2,433	2,510	2,518	2,689	2,544	1.9	1.6
Japan	11,191	12,588	15,265	18,758	19,672	8.5	12.2
European Union (15)	69,599	60,496	63,489	70,005	73,219	53.1	45.5
Intra-EU imports	27,790	23,851	24,784	28,503	29,537	21.2	18.4
Extra-EU imports[1]	41,809	36,645	38,705	41,502	43,682	31.9	27.2
Australia	885	987	1,134	1,262	1,411	0.7	0.9
Norway	1,375	1,198	1,292	1,419	1,381	1.0	0.9
Switzerland	3,563	3,326	3,469	3,821	3,731	2.7	2.3
China	439	552	622	969	1,044	0.3	0.6
Korea	270	360	694	1,073	1,507	0.2	0.9
All other	8,469	8,948	9,901	12,042	13,015	6.5	8.1
Total[2]	131,175	126,570	137,027	153,405	160,841	100.0	100.0

[1]Data for extra-EU imports were derived by subtracting intra-EU apparel imports, as published by the WTO, from total EU apparel imports, as compiled by the United Nations.
[2] Excludes re-exports from Hong Kong.

Source: Compiled from unpublished United Nations data for SITC 84, articles of apparel and clothing accessories (Revision 3), and published data from the World Trade Organization, "Background Statistical Information with Respect to Trade in Textiles and Clothing," Sept. 30, 1997.

APPENDIX A
RECENT RESTRUCTURING IN THE U.S. APPAREL INDUSTRY

RECENT RESTRUCTURING IN THE U.S. APPAREL INDUSTRY

Firm and products	Foreign activity	Recent restructuring activity
Levi Strauss & Co., Inc. **San Francisco, CA** Products include jeans, dress pants, and casual sportswear under Levi's, Dockers, and Slates brands.	European and Asia/Pacific divisions accounted for $2.3 billion or one-third of company's global sales.	In 1998, closed 12 of its 32 U.S. plants, involving 7,385 employees, and 4 of its 12 European plants, involving 1,461 employees, to eliminate excess capacity. As a result, eliminated 38 percent of its production capacity in North America. Will focus its efforts on consumer marketing. Announced plans to close 10 U.S. plants and one Canadian plant in 1999 involving 5,900 employees or 30 percent of total workforce.
Fruit of the Loom, Inc. **Chicago, IL** Products include underwear and casual apparel under Fruit of the Loom, BVD, Gitano, Munsingwear, and Wilson brands.	Expected to have 95 percent of its sewing performed in Mexico and Caribbean Basin countries by end of 1998. Firm's 14 company-owned offshore plants accounted for 35 percent of its offshore sewing; planned to increase this portion to 50 percent in 1998.	Since 1995, has closed 9 U.S. sewing plants, employing more than 7,000 workers, and moved most sewing operations to Mexico and Caribbean Basin countries in an effort to reduce costs. Also has consolidated its Gitano and licensed sportswear operations and discontinued use of the Salem brand.
Sara Lee Corp., Chicago, IL Products include underwear, intimate apparel, hosiery, and athletic and casual apparel under the Hanes, Hanes Her Way, Playtex, Bali, and L'eggs brands and Champion brands.	In 1997, foreign operations accounted for 42 percent of apparel sales and 47 percent of profits.	In September 1997, unveiled a "de-verticalization" plan to become less vertically integrated, own fewer fixed assets, and use knowledge-based skills to develop and market its goods. Subsequently announced the divestiture of nine textile operations related to its U.S. knit apparel business, so that it can focus more on product development and marketing.
VF Corp., Greensboro, NC Products include Wrangler, Lee, Rustler, Riders, and Britannia jeans; Vanity Fair intimate apparel; Nutmeg knitwear; and Healthtex playwear.	Offshore sourcing projected to account for 50 percent of sales by the end of 1998. Plans to move 80 percent of its sewing operations offshore in the future.	Since late 1996, has consolidated its operations into five consumer-focused marketing group: Jeanswear, Intimate Apparel, Knitwear, Playwear, and International; acquired Bestform Group, a leading producer of intimate apparel to augment offshore sourcing in Asia; and acquired Britannia Sportswear Ltd. from Levi Strauss to increase presence in mass merchandise market.
Oxford Industries, Inc. **Atlanta, GA** Products include men's tailored clothing under Oscar de la Renta, Robert Stock, Nautica, and Geoffrey Beene brands; J.C. Penney Stafford suits; Eddie Bauer slacks; L.L. Bean men's slacks and shirts; and Tommy Hilfiger dress and golf shirts.	Sources in 37 countries. In 1998, about 80 percent of its products were sourced offshore, including those from its own facilities in Mexico, the Dominican Republic, Costa Rica, Honduras (under 9802), and the Philippines.	Plans to reduce costs through increased global sourcing; invest in new and expanded production facilities in Latin America and Asia; and expand operations through additional acquisitions and start-up opportunities.

A-2

Kellwood Co., St. Louis, MO Products include women's branded and private label apparel, such as Kathie Lee, Sag Harbor, Cricket Lane, Harve Benard, and Nautica dress shirts.	Sources 74 percent of its products through a global sourcing network; operates 33 production facilities worldwide. Owns two plants in the Dominican Republic, two plants in Honduras, one plant in El Salvador and one plant in Canada. Plans to increase offshore sourcing to 90 percent of its apparel sales in next 5 years.	Plans to expand its branded label products, broaden its customer base, increase its distribution channels, and further develop its global product sourcing capability. In December 1998, announced the signing of agreements to acquire Fritzi California, which will enable Kellwood to tap into the juniors' and girls' sportswear market, and Koret of California, Inc., which will broaden its range of moderate price points in women's sportswear.
Russell Corp., Alexander City, AL Products include sportswear under the Russell Athletic, Jerzees, and Cross Creek labels, and athletic uniforms.	Offshore sourcing accounts for 20 percent of its apparel sales; plans to expand offshore sourcing to 50 percent of sales during the next 5 years. Currently, over 40 percent of its sewing operations take place outside the U.S. and plans to increase this percentage.	Unveiled a plan in July 1998 to restructure operations over a 3-year period so as to improve its global competitiveness; expected to result in an after-tax charge of $100 to $125 million. Actions under consideration include closing about 25 of its 90 plants worldwide, expanding foreign production, consolidating the licensed products business, and reorganizing the corporate structure. Anticipates eliminating about 4,000 positions. Enhanced consumer market efforts will be a priority.
Salant Corp., New York, NY Products include men's apparel under such brands as Perry Ellis, Manhattan, and John Henry; private labels such as Canyon River Blues for Sears; and licensed children's sleepwear, underwear, and sportswear.	Sources 88 percent of its apparel production offshore: 47 percent in Mexico, 18 percent in Guatemala, and 12 percent in the Dominican Republic. Company-operated facilities accounted for 37 percent of its offshore sourcing in 1997.	In December 1998, filed voluntary petition for relief under chapter 11 of the United States Code. Under its chapter 11 restructuring plan, Salant intends to focus solely on its Perry Ellis men's apparel business. In February 1999, Salant announced that it reached an agreement to terminate its license to manufacture and distribute Joe Boxer children's sportswear. In 1997, Salant discontinued its Thomson pant business and Made in the Shade division, and closed its non-Perry Ellis Stores.
Tropical Sportswear International Corp., Tampa, FL Products include Farah and Savane slacks and private label men's slacks and shirts.	All products are assembled offshore, mainly in the Dominican Republic, Mexico, and Costa Rica.	In 1998, bought Savane International Corp. (formerly known as Farah Inc.), a producer of men's trousers and shorts bearing national brands such as Savane, Farah, and John Henry. Intends to pursue acquisitions as part of its business strategy; plans to expand Caribbean operations if NAFTA parity is granted to U.S. apparel imports from CBERA countries.
Warnaco Group Inc., New York, NY Products include women's intimate apparel and men's underwear under its own brand names, such as Warner's, Olga, Calvin Klein (underwear and intimate apparel), Lejaby, Bodyslimmers, and Van Raalte; holds exclusive licenses for White Stag and Speedo trademarks.	Has subsidiaries and manufacturing facilities in North and South America, the Caribbean countries, and Asia. Operations in Mexico and the Caribbean countries are primarily production-sharing arrangements.	Acquired the worldwide trademarks, rights, and business of Calvin Klein's men's underwear in 1994 and Calvin Klein's women's intimate apparel in 1995. In 1996, acquired GJM, Lejaby, and Bodyslimmers, designed to increase the worldwide distribution of company's intimate apparel and sleepwear, including Calvin Klein brand. In 1997, acquired Designer Holdings Ltd., holder of a 40-year extendable license from Calvin Klein for jeanswear and jeans-related sportswear collections under the Calvin Klein label. Expanded retail outlet stores to provide a channel for disposing of excess and irregular inventory and limit exposure to off-price retailers.

A-3

Hartmarx Corp., Chicago, IL Products include men's tailored clothing (e.g., suits) under Hart Schaffner & Marx and Hickey-Freeman labels. Also owns such labels as Palm Beach and Sansabelt and holds exclusive license for such labels as Burberrys.	Offshore sourcing accounts for a small, but growing portion of its production. Almost all of its men's and women's sportswear is sourced offshore, utilizing independent contractors.	In 1996, acquired Plaid Clothing Group, Inc., a producer of men's tailored clothing, which provided Hartmarx the licensing rights to manufacture and market men's tailored clothing under the Burberrys, Claiborne, and Evan-Picone brands, as well as ownership of the Palm Beach, Brannoch, and other trade names. In 1995, acquired a slack production facility in Mexico and a coat and slack production factory in Costa Rica to reduce costs.
Oshkosh B'Gosh, Inc., Oshkosh, WI Products include children's apparel under the Oshkosh, Oshkosh B'Gosh, Baby B'Gosh, Genuine Girl, and Genuine Blues labels.	Sourced 53 percent of its products from third-party contractors (domestic and foreign) in 1997. Also sources apparel sewn in its leased plant in Honduras under a production-sharing arrangement.	Plans to close under-performing units, eliminate excess capacity, and expand offshore sourcing to improve cost structure. Discontinued Genuine Kid brand, closed less profitable European operations and entered into licensing agreement for European market, and expanded its retail channels by adding additional company-owned stores. Operates 119 domestic Oshkosh B'Gosh branded stores, including 111 factory outlet stores.
Phillips-Van Heusen Corp., New York, NY Products include shirts and sportswear under the Van Heusen, Izod, Bass, Gant, and Geoffrey Beene labels.	Sources most of its dress shirts and substantially all of its sportswear from independent manufacturers in the Far East, Middle East, and Caribbean areas. Markets its own brands globally; however, only Gant has achieved widespread brand recognition.	Acquired Izod and Gant brands in 1995. In 1997, announced plan to accelerate the execution of its strategy to build its brands. Included in plan were the closing of about 150 outlet stores, repositioning the Gant brand in the United States to be consistent with its successful positioning in Europe and Asia, exiting the sweater manufacturing business, and restructuring warehousing and distribution facilities.
Liz Claiborne, Inc., New York, NY Products include apparel and accessories under its portfolio of brands and trademarks.	Designs and markets apparel; does not own manufacturing facilities. A substantial portion of the firm's sales consists of goods produced in about 30 countries, mainly in the Far East, the Caribbean, and Central America.	Under licensing arrangements, licensees produce goods for Liz Claiborne under its trademarks in accordance with designs furnished by the company. Entered into a license agreement in 1998 with an affiliate of Donna Karan International, Inc., to design, produce, market and sell men's and women's sportswear, jeanswear, and activewear under the DKNY JEANS and DKNY ACTIVE labels. Also launched a line of women's apparel under the JH COLLECTIBLES label. Operates 113 stores in the United States which carry only company products.

Source: Compiled from company annual reports and press releases, company submissions to the U.S. Securities and Exchange Commission, Prudential Securities reports, articles from trade journals, and interviews with company officials by USITC staff during fieldwork conducted in August 1998.

A-4

APPENDIX B
EXPLANATION OF TARIFF AND TRADE AGREEMENT TERMS

TARIFF AND TRADE AGREEMENT TERMS

In the ***Harmonized Tariff Schedule of the United States*** (HTS), chapters 1 through 97 cover all goods in trade and incorporate in the tariff nomenclature the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description. Subordinate 8-digit product subdivisions, either enacted by Congress or proclaimed by the President, allow more narrowly applicable duty rates; 10-digit administrative statistical reporting numbers provide data of national interest. Chapters 98 and 99 contain special U.S. classifications and temporary rate provisions, respectively. The HTS replaced the *Tariff Schedules of the United States* (TSUS) effective January 1, 1989.

Duty rates in the ***general*** subcolumn of HTS column 1 are most-favored-nation (now referred to as normal trade relations) rates, many of which have been eliminated or are being reduced as concessions resulting from the Uruguay Round of Multilateral Trade Negotiations. Column 1-general duty rates apply to all countries except those listed in HTS general note 3(b) (Afghanistan, Cuba, Laos, North Korea, and Vietnam), which are subject to the statutory rates set forth in ***column 2***. Specified goods from designated general-rate countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the ***special*** subcolumn of HTS rate of duty column 1 or in the general notes. If eligibility for special tariff rates is not claimed or established, goods are dutiable at column 1-general rates. The HTS does not enumerate those countries as to which a total or partial embargo has been declared.

The ***Generalized System of Preferences*** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 for 10 years and extended several times thereafter, applies to merchandise imported on or after January 1, 1976 and before the close of June 30, 1999. Indicated by the symbol "A", "A*", or "A+" in the special subcolumn, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 4 to the HTS.

The ***Caribbean Basin Economic Recovery Act*** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984. Indicated by the symbol "E" or "E*" in the special subcolumn, the CBERA provides duty-free entry to eligible articles, and reduced-duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 7 to the HTS.

B-2

Free rates of duty in the special subcolumn followed by the symbol "IL" are applicable to products of Israel under the ***United States-Israel Free Trade Area Implementation Act*** of 1985 (IFTA), as provided in general note 8 to the HTS.

Preferential nonreciprocal duty-free or reduced-duty treatment in the special subcolumn followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the ***Andean Trade Preference Act*** (ATPA), enacted as title II of Public Law 102-182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 11 to the HTS.

Preferential free rates of duty in the special subcolumn followed by the symbol "CA" are applicable to eligible goods of Canada, and rates followed by the symbol "MX" are applicable to eligible goods of Mexico, under the ***North American Free Trade Agreement***, as provided in general note 12 to the HTS and implemented effective January 1, 1994 by Presidential Proclamation 6641 of December 15, 1993. Goods must originate in the NAFTA region under rules set forth in general note 12(t) and meet other requirements of the note and applicable regulations.

Other special tariff treatment applies to particular ***products of insular possessions*** (general note 3(a)(iv)), ***products of the West Bank and Gaza Strip*** (general note 3(a)(v)), goods covered by the ***Automotive Products Trade Act*** (APTA) (general note 5) and the ***Agreement on Trade in Civil Aircraft*** (ATCA) (general note 6), ***articles imported from freely associated states*** (general note 10), ***pharmaceutical products*** (general note 13), and ***intermediate chemicals for dyes*** (general note 14).

The ***General Agreement on Tariffs and Trade 1994*** (GATT 1994), pursuant to the Agreement Establishing the World Trade Organization, is based upon the earlier GATT 1947 (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) as the primary multilateral system of disciplines and principles governing international trade. Signatories' obligations under both the 1994 and 1947 agreements focus upon most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, dispute settlement, and other measures. The results of the Uruguay Round of multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX. Pursuant to the **Agreement on Textiles and Clothing** (ATC) of the GATT 1994, member countries are phasing out restrictions on imports under the prior "Arrangement Regarding International Trade in Textiles" (known as the **Multifiber Arrangement** (MFA)). Under the MFA, which was a departure from GATT 1947 provisions, importing and exporting countries negotiated bilateral agreements limiting textile and apparel shipments, and importing countries could take unilateral action in the absence or violation of an agreement. Quantitative limits had been established on imported textiles and apparel of cotton, other vegetable fibers, wool, man-made fibers or silk blends in an effort to prevent or limit market disruption in the importing countries. The ATC establishes notification and safeguard procedures, along with other rules concerning the customs treatment of textile and apparel shipments, and calls for the eventual complete integration of this sector into the GATT 1994 over a ten-year period, or by Jan. 1, 2005.