The Caribbean Clothing Assembly Industry and the Asian Competition

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Abstract

The demise of the Multi-Fiber Agreements eliminated the quota system which had spurred Caribbean garment exports to the United States under Section 9802 of the latter's Harmonized Tariff Code. However, once China joined the World Trade Organization, the Caribbean Basin's clothing assembly industry seems to have suffered a fatal blow. This paper will trace the growth of the Caribbean garment export industry (focusing on the Dominican Republic) in the face of regional trade agreements such as the North American Free Trade Agreement. It will then show how countries like China and India have eclipsed clothing exports to the US.

Introduction

International business in the Caribbean and Central America is strongly linked to the North American market by virtue of geographical proximity and the economic power of the latter. This is true whether we are speaking of transnational export corporations located in the region or local (national) Caribbean and Central American exporters. In the context of the garment or clothing export industry this has meant the development almost from inception of a production sharing strategy wherein the region only benefits from the assembly segment of the North American clothing commodity chain, (Gereffi & Korzeniewicz, 1994). This production sharing arrangement constitutes a division of labor strategy along the lines of the classical ricardian theory of comparative advantage (Mathews, 1995, pp. 16 – 42).

At one time, it seemed that the clothing assembly industry within the Caribbean Basin region used to compete almost exclusively with itself [that is, the competition occurred among countries of the region, including Mexico (Buitelaar, Padilla & Urrutia, 1999)] for shares of the US clothing market through favorable special access clauses in the US tariff structure. This scenario has changed considerably with the demise of the Multi-Fiber Agreements and the accession of China to the

World Trade Organization (The Agreement on Textiles and Clothing, ATC-WTO). The future of this industry remains uncertain despite recent attempts to breathe life into it through the enactment of regional free trade agreements (i.e. Central American Free Trade Area – Dominican Republic, CAFTA-DR).

Evolution of International Clothing Commerce: The Caribbean Basin

The choice of the Dominican Republic as principal focus for this paper arises from two considerations: First of all, times series data on employment and exports is more readily available and reliable in the case of the Dominican Republic than for the countries of Central America. Secondly, the Dominican Republic was one of the earliest countries to experiment successfully with export processing zones (EPZs), through the establishment of the La Romana EPZ in the late sixties, (Abreu, Cocco, Despradel, García Michel & Peguero, 1989, p. 61 - 62). This also gave it somewhat of a head start over rising star producers in Central America that have made significant strides in apparel export assembly output in recent years, (IDB-INTAL, 2007, pp. 27 - 32). Although the export processing industry in Central America traces its origins to the beginning of the decade of the 1970s, it would not witness serious growth until the middle of the decade of the 1980s, when certain modernizing institutional advances at the national and regional levels combined with wider geopolitical and economic factors to center attention on the economic development of the region, (Buitelaar, Padilla & Urrutia, 1999, p. 53 - 57). As author Irma Tirado de Alonso explained:

> "Export Processing Zones (EPZs) has (sic.) emerged as a result of the dual need of developing countries of increasing export earnings and the need of manufacturers in developed countries to reduce their costs of production. The Caribbean, with a demand for foreign exchange earnings, its proximity to the U.S., and cheaper labor costs than in the U.S., has offered an ideal location for U.S. manufactures. The U.S. government, as well, has offered incentives for the evolution of these EPZs."(De Alonso, 1992, p. 9)

Opportunities for market entry through such schemes as Section 807 of the US Tariff Schedule and the Caribbean Basin Economic Recovery Act (CBERA) or Caribbean Basin Initiative (CBI), as it is sometimes called, stimulated the **garment assembly industry**, which has historically been the largest sector by far in the EPZ's not only of the Dominican Republic but of the rest of the region. The Caribbean Basin Initiative is a unilateral preferences program created by the United States under the Caribbean Basin Economic Recovery Act of 1983; it provides duty free entry to US customs territory of a wide range of non-traditional goods produced in beneficiary countries. Together with Section 807, they constituted **preferential access programs** enacted by the United Status for various reasons throughout the latter half of the twentieth century. They became less relevant, however, as the majority of the world edged toward market liberalization and free trade in the new century.

Although the worldwide garment and textile trade underwent significant liberalization around the turn of the century, it was regulated for many years through a series of Multi-Fiber Agreements (MFA) negotiated bilaterally between importing and exporting countries. These permitted importing countries to establish entry **quotas** on specific categories of clothing and textiles for the purpose of protecting domestic clothing and textile producers.

With respect to the United States, part of these MFA imports were subject to **tariff** payments on value added outside the US under Section 9802.00.80 of the Harmonized Tariff Schedule (formerly known as Section 807 under the old nomenclature). In other words, under Harmonized Tariff Schedule 9802, firms were exempted from paying U.S. tariff duties and user fees for the value of U.S. origin components contained in goods assembled outside the country and re-imported into the US. Since nearly all of the clothing assembled in the EPZs of the Dominican Republic was (and continues to be) exported to the United States, and a good deal of this entered until recently under Section 9802.00.80 (Mathews, 1995, pp. 77 – 78), it was naturally subject to the payment of customs duties on value added outside the US. At the same time it was subject to a series of **quotas** of which Section 9802.00.8010 (known as Section 807a or 'Super' 807, under the old nomenclature) was the most generous, being practically unlimited.

This 'Super 807' was established in 1986 as a **Preferential Access Program** by the US government for those beneficiary countries of the Caribbean Basin Initiative that also had functioning bilateral textile agreements with the United States. Although a similar program was signed two years later with **Mexico**, it reportedly didn't have the same advantage for that country that Super 807 had with respect to the Caribbean (USITC, February, 1994, p. A-3).

The bilateral agreements under the "Preferential Access Program" (PAP) for Caribbean countries contained two mechanisms: a) regular quotas for clothing made of cloth cut and/or formed outside the United States, and b) Super 807 or Section 807a. According to a 1991 publication of the U.S. Labor Department:

> "Under 807a, apparel imported from the CBI countries assembled from US cut and formed fabric was subject to 'generous' quotas referred to as Guaranteed Access Levels (GALS). These 'quotas' are in practice

> unlimited. ... Apparel assembled from components which are cut and prepared in the US but made of fabric not produced in the US is subject to separate quotas referred to as Designated Consultation Levels (DCLs) and Specific Limits (SL), which are set lower than the GALS. Apparel assembled from foreign made but US cut fabric are still eligible for 807 tariff treatment although they are subject to DCLs and SLs rather than GALs."(Bailey & Eicher, 1991, p. 8 – 9)

Although the United States, through this quota system, clearly favored Super 807 production in the Caribbean, firms from the Far East that located in the region resisted exporting to the US under this regime, preferring instead to fill those quotas corresponding to garments made of non-US cloth. This tendency was confirmed, among others, by North American sources (USITC, February 1994, p. 2-19), which pointed to the fact that Asian firms tended to generate greater value added by carrying out cut, make and trim operations in the region.

If one were to take total employment and dollar exports from the Dominican Republic's EPZs as a rough proxy indicator of the growth of the garment assembly industry under section 807 in the country, TABLE 1 shows an almost 6 fold increase in employment in less than ten years, from the mid-eighties to the year the North American Free Trade Agreement (NAFTA) was enacted. The dollar value of exports shows an even greater nearly 12 fold increase, (see Mathews, 1995, for a more detailed treatment of this period).

Despite the lack of statistical data on the garment assembly trade for most Central American countries, there was a perceptible surge in output during the decade of the nineties following on the heels of the process of liberalization and the introduction of modernizing legislation and regulations pertaining to foreign trade and investment. In particular, the enactment of the Caribbean Basin Initiative (CBI) by the United States spurred the creation of free trade zone regimes throughout Central America. Referring to all free trade zone or 'maquila' exports, the Central American Report # 3 summarizes the decade as follows:

> "In the latter half of the 1990s, maquila exports underwent rapid expansion, taking in textiles and clothing as well as other products such as electronics components and medical equipment… By way of illustration, in 1997-1999, the exports of maquila products from all Central American countries grew by an annual average of 30.9%. By 1999, exports under this regime had reached US$ 9.3 billion, overtaking non-maquila exports (US $ 8 billion) for the first time." (IDB – INTAL, 2007, p. 28)

The North American Free Trade Agreement (NAFTA) ushers in changes

As the turn of the century approached, a sequence of three events of great importance shook the garment assembly industry of the entire Caribbean Basin. The first of these was the combined implementation of NAFTA along with a devaluation of the Mexican Peso (although enacted in 1994, the impact of NAFTA and the devaluation became evident in 1995 and onwards). The NAFTA enabled Mexican apparel to enter the United States duty-free, provided that all its components from the thread forward are manufactured in the United States, Mexico or Canada.

TABLE 1, Dominican Republic: EPZ Employment and Exports 1985 - 2010

Year	Employment Numbers	Exports (fob) $mn	Important Events
1985	30.902	215	
1986	51.231	246	Section 807A of U.S. tariff schedule
1987	66.012	332	
1988	83.815	520	
1989	122.946	735	
1990	130.045	839	
1991	135.491	1053	
1992	141.056	1194	
1993	164.296	2511	
1994	176.311	2716	NAFTA enacted
1995	165.571	2907	ATC Quota Phaseout at 16%
1996	164.639	3107	
1997	182.174	3596	
1998	195.193	4100	ATC Quota Phaseout at 33%
1999	189.458	4332	
2000	195.262	4771	Trade and Development Act of 2000
2001	175,078	4482	China admitted to the WTO
2002	170,833	4317	ATC Quota Phaseout at 51%
2003	173.367	4407	
2004	189.853	4685	
2005	154.781	4750	ATC Quota Phaseout at 100%
2006	148.411	4679	
2007	128,002	4525	
2008	124,517	4354	
2009	112,618	3794	
2010*	121,001	4080	

* preliminary figures

Data source: National Council of Export Processing Zones of the Dominican Republic.

The regional garment trade configuration was significantly affected by the elimination of the US customs duty on value added in Mexico for clothing destined to the US market under the **special program** (the Mexican counterpart to ‘Super 807’ in the case of the Caribbean). The advantage that NAFTA bequeathed on Mexico’s garment commodity chain with respect to the US market proved spectacular in terms of increased exports. The surge in Mexican exports, however, was widely believed to have occurred at the expense of the assembly industries of some of the Caribbean Basin countries that had benefited up until then from the previously discussed 807 and (especially) Super 807 production sharing trade, (Mathews, 2005, pp. 413-432).

This inevitably gave rise to the clamor among affected Caribbean Basin garment producers for a NAFTA parity facility which came into being at the turn of the century in the form of the U.S.-Caribbean Trade Partnership Act (CBTPA). The CBTPA expanded the list of duty-free products and offered greater market access opportunities to eligible countries for a period of eight years. Essentially, duty and quota free treatment was provided for apparel made in the Caribbean Basin Initiative beneficiary countries from U.S. fabrics formed from U.S. yarns. Duty and quota-free treatment was also provided for certain knit apparel made in beneficiary countries from fabrics formed in the Caribbean Basin region, provided that U.S. yarns were used in forming the fabric. Despite these and other restrictions, any respite the CBTPA may have provided to Caribbean Basin garment assemblers was short-lived. Looming on the horizon were two other events, the combination of which would prove decisive in diminishing the prospects for a revival in the near term.

The Chinese Competition and the Elimination of Quotas

These two events were the accession of China to the World Trade Organization in 2001 and the final phase-out of the quota system under the Multi-Fibers Agreements, completed in 2005. As far as China is concerned, the country in general does not pose a threat to the Latin American economies since it seeks to import commodities and raw materials while exporting manufactured goods, (Blázquez-Lidoy, Rodríguez & Santiso, 2006, p. 19) (Jenkins, Dussel Peters & Mesquita Moreira, 2007, p. 236) (Arnson, Mohr & Roett, 2008?). This, however, brings it into competition with certain manufacturing and assembly sectors including garments and textiles.

The concern over the likely impact of China on the garment and textile industries of the world in the run-up to its accession to the WTO was shared by various developing and industrialized countries alike, including the US and EU (Walmsley & Hertel, 2000). In fact, it would prove a blow not only to Caribbean clothing assemblers (in particular within the Dominican Republic), but also to those from Mexico with respect to their principal export market, the United States.

Overall growth of US textile imports from 1995 to 2006 averaged approximately 9% per annum in nominal dollar terms while clothing imports averaged about 5.5%, (Nordas, 2004, p.17 - 18). While prominent among emerging regional textile exporters to the US were Honduras and Mexico, “Mexico … increased its market share sharply also in the clothing sector, but after catching up with China in 1999, the market share has fallen back somewhat and China had more than regained its 1995 market share by 2002.” (Nordas, 2004, p.18) The impact on Mexico is brought into dramatic perspective by William C. Gruben of the Federal Reserve Bank of Dallas:

> “A fourth to a fifth of Mexico’s million-plus maquiladora workers once produced textiles and apparel, many of them in factories near the U.S. border. Employment peaked at nearly 300,000 workers in early 2001. Since then, widespread layoffs have slashed jobs. By December 2005, they’d fallen to 174,000, a 41 percent drop in five years.” (Gruben, 2007, p. 33)

The other economy that suffered from the Chinese garment competition in the US market was that of the Dominican Republic (see TABLE 1). After having recuperated fully from a nearly 3% drop in employment in 1999, export processing zones of the Dominican Republic suffered just over a 10% decline in employment in 2001. Also, for the first time in the history of the country’s EPZs, the dollar value of EPZ exports would register a decline (by approximately 6% in 2001). The EPZ authorities confirmed that the EPZ industrial sector that was most affected was that of garment assembly, which in 2001 represented 70% of EPZ employment and 50% of total EPZ dollar exports, (NCEPZDR, 2001, p. 2). To make matters worse, the following year brought further (but thankfully lesser) drops in both EPZ export earnings and employment.

The impact that China’s accession to the WTO has had on the North American garment and textile commodity chain must also be considered in the context of the demise of the Multi Fiber Agreements (MFA). In 1995 the Agreement on Textiles and Clothing (ATC), for the integration of the sector into the General Agreement on Tariffs and Trade (GATT), replaced the MFA, commencing a decade long process of quota elimination from the international trade in clothing and textiles. The elimination of quotas took place in four stages with a simultaneous gradual increase in quota limits for those items still subject to constraint. In theory, this was to provide for a smooth transition, thereby enabling clothing and textile producers to adjust to the new competitive pressures. In reality, the transition was fairly abrupt owing to the fact that the most import-sensitive items were phased-out in the final stage on January 1, 2005. Hence,

> "…the United States and other nations were able to prolong the period of protection for product categories where domestic manufacturers held a larger market share until the final stage. Industry analysts, at times, referred to the final quota phase-out on January 1, 2005 as a "cliff," when the quota on the most of the more frequently traded products and the products where existing quotas were typically fully utilized would be lifted. (Martin, 2007, p. CRS 3)

In TABLE 1, we can see the impact of the "cliff" on both employment and exports in the EPZs of the Dominican Republic. After a remarkable recuperation of EPZ employment levels to almost 190,000 in 2004 (an 11% rise from the level of 170,833 to which employment had dropped in 2002 after China was admitted to the WTO), employment plunged just over 18% to 154,781 in 2005. According to EPZ authorities, the garment assembly sector was mostly responsible for this drop, after having lost a total of 40,487 jobs by the end of 2005 (NCEPZDR, 2005, p. 3). Employment dropped an additional 4% in 2006 and nearly 14% in 2007 while dollar exports dropped from $4,750 million in 2005 to $4525 million in 2007. These would drop even further to $3,794 million in 2009 before recovering somewhat, along with employment, in 2010.

US Garment Imports from the Dominican Republic, China, India and Viet Nam compared

Without recourse to complex statistics or other techniques, it is nevertheless possible to engage in informed speculation concerning the likely reasons for the marked decline in Dominican garment exports to the US market by simply contrasting their customs values with those of China and other up-and-coming competitors. Using the Harmonized Tariff System (aggregated to four digits of the HTS code), the **top five** US clothing import categories from the Dominican Republic (based on data for the last year prior to the final phase in the elimination of the quota system) are provided in TABLE 2 and then contrasted with the same import categories for China in TABLE 3.

TABLE 2: Customs Value by Country Name and Customs Value for Dominican Republic

U.S. Imports for Consumption

Annual Data

Dom. Rep.	HTS No.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	% Change 2009-10
		In 1,000,000 Dollars											
	6109	194	154	170	172	193	208	216	111	111	101	139	37.70%
	6203	823	813	822	801	693	583	468	316	181	129	121	-6.30%
	6212	168	157	172	140	178	163	177	120	95	68	79	16.30%
	6107	143	170	221	248	206	203	119	99	103	76	27	-65.30%
	6204	347	295	215	166	138	92	61	28	16	10	11	4.30%
Total		**1,674**	**1,589**	**1,600**	**1,527**	**1,407**	**1,250**	**1,041**	**674**	**506**	**384**	**376**	**-2.20%**

Sources: Data on this site have been compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission.

By far the most important category for the Dominican Republic in terms of current dollar values has historically been HTS **6203**, which includes men's or boy's suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, among other items, exclusive of swimwear. From a figure of $823 million, registered in the year 2000, imports from the Dominican Republic had dropped 78% in value by 2008. In 2008, alone, the value of HTS **6203** imports dropped 42.7% with respect to the previous year's figure. By 2010, it was surpassed for the first time by HTS **6109** imports from the D.R., made up of T-shirts, tank tops and similar garments. US imports under HTS **6204**, which includes women's or girls suits, ensembles, suit-type jackets, dresses, skirts, divided skirts, trousers and other non-swimwear items have declined steadily throughout the decade, suffering a spectacular overall decline in value of 95% from 2000 to 2008. In the latter year, the value of imports from the Dominican Republic under HTS **6204** dropped by 44%. USHTS **6212** imports from the DR, which are made up of brassieres, girdles, corsets and similar articles and parts thereof, showed fluctuating values throughout the period, rising and falling on almost an alternate year by year basis, while HTS **6109**, noted above, appeared to be on a steady upswing after declining just over 20% in 2001 over the previous year. HTS **6109** imports from the DR maintained a steady value in 2008 after declining 48% in value in 2007 over the previous year. The final HTS **6107** group, which includes men's or boy's underpants, briefs, nightshirts, pajamas, bathrobes and similar articles, showed increasing import values up until 2003, before plunging to new lows after 2005. A slight recuperation in value, registered for 2008 was quickly overtaken by plunging figures in 2009 and 2010. These declining trends for Dominican garment exports to the US are in sharp contrast to the upward trends evident in Chinese exports for the same product categories (TABLE 3).

Although the final stage of the MFA quota phase-out was completed by January 1, 2005, US clothing and textile manufacturers cite a notable “surge” in Chinese exports which allegedly took place, along with the closure of some 50 US factories, during a period from 2002 to 2003 (http://www.nationaltextile.org/news/2003_06_11.pdf). While the current dollar value of US imports of brassieres, girdles, corsets and similar articles from China (HTS **6212**) registered a notable 136% increase in 2002 over 2001 according to TABLE 3, the most notable increases for the remaining four groups of garments took place in 2005: 59% for HTS **6204** (women’s or girls suits, ensembles, suit-type jackets, dresses, skirts, divided skirts, trousers and other non-swimwear items); 68% for HTS **6203** (men’s or boy’s suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, and other items, exclusive of swimwear); 193% for HTS **6109** (T-shirts, tank tops and similar garments) and 271% for HTS **6107** (men’s or boy’s underpants, briefs, nightshirts, pajamas, bathrobes and similar articles).

TABLE 3: Customs Value by Country Name and Customs Value for China

U.S. Imports for Consumption

Annual Data

China	HTS No.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	% Change 2009-10
		In 1,000,000 Dollars											
	6204	1,337	1,380	1,425	1,799	2,360	3,747	4,348	4,701	4,562	4,497	5,055	12.40%
	6203	431	367	356	459	602	1,014	1,118	1,343	1,323	1,492	1,756	17.70%
	6212	139	125	295	429	446	547	697	735	840	831	1,049	26.20%
	6109	47	56	60	56	76	223	184	265	283	453	634	40.00%
	6107	11	21	21	29	31	115	156	231	257	262	315	20.20%
Total		**1,964**	**1,949**	**2,156**	**2,771**	**3,515**	**5,646**	**6,503**	**7,275**	**7,265**	**7,535**	**8,809**	**16.90%**

Sources: Data on this site have been compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission.

Regardless of the timing of the surge in the current dollar value of Chinese garment exports to the United States, what TABLES 2 & 3 place in stark evidence is the fact that during the first eight years of this century, China overtook (in value) all of the chief garment export groups of the Dominican Republic with respect to the US market. The trend of increasing Chinese imports and decreasing Caribbean Basin (and Mexican) imports seems bound to continue, according to at least one econometric study with projections up to the year 2014 (MacDonald, Pan, Somwaru &Tuan, 2004, p. 25) .

Any chance of recuperating its former position in the US market is put further in doubt if the data for the Dominican Republic is compared with that of up-and-coming garment exporters such as India and, in particular, Vietnam. An assessment for the year 2007, carried out by the US International Trade Commission appears a harbinger of a stark future for the industry. According to the USITC, the year "…was characterized by a shift in U.S. textile and apparel imports from Central American and South American countries toward lower-priced Asian suppliers – primarily China, but also Indonesia, Bangladesh, Vietnam, and Cambodia." (USITC, 2008, p. 2 – 20)

TABLE 4: Customs Value by Country Name and Customs Value for INDIA and VIETNAM

U.S. Imports for Consumption

Annual Data

Country	HTS No.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	% Change 2009-10
		In 1,000,000 Dollars											
India	6204	371	326	344	376	411	712	715	661	616	589	568	-3.60%
.	6109	32	34	47	43	52	107	170	190	205	169	212	25.10%
.	6203	80	112	118	121	168	236	279	317	301	224	211	-5.70%
.	6107	13	9	18	39	54	77	84	100	132	106	138	30.30%
.	6212	8	13	14	21	27	44	47	44	33	32	40	24.10%
Subtotal - India		503	494	541	600	713	1,176	1,295	1,312	1,287	1,120	1,168	4.30%
Vietnam	6204	4	5	134	456	460	571	660	823	922	824	913	10.80%
.	6203	5	1	89	302	217	259	341	381	431	421	476	13.10%
.	6109	0	0	18	66	56	44	72	133	225	225	271	20.70%
.	6107	0	0	5	7	3	3	3	6	21	63	128	102.00%
.	6212	1	0	0	0	1	3	7	6	9	9	12	41.40%
Subtotal Vietnam		9	6	247	832	737	881	1,083	1,349	1,609	1,541	1,800	16.80%
Total		**512**	**500**	**788**	**1,431**	**1,449**	**2,056**	**2,378**	**2,661**	**2,896**	**2,661**	**2,968**	**11.50%**

Sources: Data on this site have been compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission.

With regard to the important HTS **6203** category (men's or boy's suits, ensembles, suit-type jackets, blazers, trousers, among other items) for the Dominican Republic, India's exports caught up in value to that of the DR in 2007 and managed to surpass it in 2008 despite a registered drop in both, probably due to the recession. It should be noted that the value of Vietnam's HTS 6203 category surpassed both India's and the Dominican Republic's for both years, and actually registered an increment for 2008 despite the recession. Exports to the US of women's or girls suits, ensembles, jackets, and dresses, included under HTS 6204, have also been on the rise in Vietnam, although values seem to have peaked for India in 2006. Both countries' figures, however, serve as a stark contrast to the DR's declining export values under the category. Categories HTS 6109 and HTS 6107 have shown consistent increases from India over the years (except for a temporary dip in 2009), surpassing the values of DR exports in 2007 and 2008. Vietnam has also recently surpassed the Dominican Republic in its HTS 6109 category exports to the United States.

Possible Mitigating Factors

Some developments might hold out hope of dampening or even ameliorating this negative trend. The recently enacted Dominican Republic and Central American Free Trade Area (CAFTA-DR) has provisions that can serve to bolster regional garment assembly exports to the US. According to the US International Trade Commission, CAFTA-DR will stimulate a "moderate increase in US imports of textiles, apparel and footwear" from the region because it builds on and makes permanent certain benefits that had been achieved under the U.S.-Caribbean Trade Partnership Act (CBTPA).(USITC, 2004, p. 33) For example, U.S. firms are able to send mostly uncut fabrics to the CAFTA-DR region for cutting and sewing instead of performing the cutting function in the United States in order to qualify for HTS (Harmonized Tariff Schedule) Section 9802.00.80 trade preferences on the finished garments, as discussed previously.

Furthermore, under a recently announced "cumulation" provision of CAFTA-DR, Mexican textiles were reportedly eligible to be used as inputs beginning August 15, 2008, in Central American and Dominican garment assembly firms:

> "Cumulation basically allows Mexican textile factories to ship up to 100 million square meters of woven fabric a year, free of duty, to the Dominican Republic, Guatemala, Honduras, El Salvador and Nicaragua to make garments exported to the United States that are duty- and quota-free. (…) As part of that 100 million square meters, Mexico can ship up to 20 million square meters of denim and 45 million square meters of cotton and man-made bottom-weight fabrics. The annual 100 million-square-meters cap can increase each year, depending on demand."(http://www.apparelnews.net/news/international/Mexico-to-Start-Increasing-Fabric-Exports-to-Central-America)

There has also been speculation about high fuel costs and rising wages making China less competitive as an export platform to the US market in comparison to more proximate locations like Mexico, (http://www.reuters.com/article/GlobalRealEstate08/idUSN2437840720080624)

. Nevertheless, these developments seem to be benefiting China's Asian neighbors like Vietnam instead, (Bradsher, 2008). Hence, any attempt to speculate on the possible impact of the recently approved Caribbean Free Trade Area (CAFTA-DR), must take into consideration a series of other perhaps even more influential factors before reaching what can only remain a tentative conclusion concerning the Dominican Republic's and the wider region's future in the garment assembly business.

Conclusion

Garment assembly, among other assembly industries, has been an important economic activity for a number of Caribbean Basin countries, and in particular for the Dominican Republic, for several decades. Even in the face of recent declines, as documented in this article, exports from the Dominican Republic's export processing zones accounted for 63% of total exports in 2007, of which garment assembly represented 30%, (NCEPZDR, 2007, p. 3). Almost 37% of foreign exchange earnings generated locally that year owed to activity in the sector, (NCEPZDR, 2007, p. 3).

This article demonstrates that the Caribbean garment assembly sector in general and the Dominican garment sector in particular has survived and prospered to a certain degree during the latter part of the last century and the beginning of the current one, due to a series of preferential access programs promoted by the United States commencing with the Caribbean Basin Initiative. This preferential access later evolved with the aid of Section 807 (later 9802) of the US Tariff Schedule and the US – Caribbean Trade Partnership Act of 2000, which effectively integrated the Caribbean sector within the US garment commodity chain. The North American Free Trade Area, implemented in 1994, affected Caribbean exports momentarily within the US market, although they propelled Mexican garment maquiladora exports significantly to it.

The demise of the Multi-Fiber Agreements (MFAs) on January 1, 2005, however, meant the elimination of the quota system that had conditioned Caribbean clothing exports up until that moment under Section 9802 of the US Tariff Schedule. This event did not mean that Caribbean and Mexican garment exports to the US market would continue increasing uninterruptedly. Precisely the opposite was the case, as the information provided in this article gives testimony to. The quota system actually was responsible for keeping more competitive Far Eastern exports at bay in the US market. The integration of China into the World Trade Organization in December, 2001, seems to have dealt a mortal blow to the garment assembly industry of the region once the MFA's expired. The ultimate impact of Far Eastern garment exports to the US market, including those of up and coming exporters such as India and Viet Nam, on Caribbean Basin garment exporters will depend on the effectiveness of the recently approved Central American and Dominican Republic Free Trade Area (CAFTA-DR)

Nevertheless, the region's garment assembly export sector's future remains uncertain. Even as Chinese wages rise, there is evidence that other neighboring Asian exporters are increasing their output. To confront this challenge, it is necessary for the Caribbean garment/textile sector to increase value added where possible, abandoning strict specialization in mere assembly in favor of a more integrated commodity chain. A diversification of export markets along with incursions into design and marketing are warranted. US preferential trade programs discussed here have allowed for only limited incursions into fabric production, cutting and even full package production. Producers should take advantage of these opportunities as well as explore new less restrictive market outlets if they wish to survive the Asian onslaught

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Biography

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