Report from the Trilateral Working Group on Textiles and Apparel to the NAFTA Free Trade Commission

March 7th, 2005

The NAFTA Working Group on Textiles and Apparel (WGTA) presents its report to the NAFTA Free Trade Commission (FTC). According to the mandate received in the Montreal (2003) and San Antonio (2004) meetings of the FTC, the report analyzes the current situation of the textile and apparel industries in North America, as well as the challenges that these industries are facing in light of increasing competition from other countries and the elimination of quantitative restrictions on January 1st, 2005, in accordance with the Agreement on Textiles and Clothing of the World Trade Organization (WTO).

The report describes the policy tools that the three governments have at their disposal in order to face the challenges of the new international environment, and to strengthen opportunities for future competitiveness. Finally, the WGTA includes a set of recommendations for future work in these sectors.

An annex to the report describes the situation that the industries have experienced in the past years, from a dramatic regional growth with the entry into force of NAFTA in 1994 to a more competitive world market in the past three years. It also elaborates on the specific conditions of the industries in each of the three NAFTA Parties.

The WGTA requests further instructions from the FTC regarding the policy recommendations presented in this report, in order to continue working towards fulfilling the mandate established by the NAFTA Trade Ministers.

------------------------------	-------------------------	--------------------------
Mexican Chair	**U.S. Chair**	**Canadian Chair**
Kenneth Smith	David M. Spooner	Catherine McClymont

Report from the Trilateral Working Group on Textiles and Apparel to the NAFTA Free Trade Commission

1. Introduction

An ad hoc NAFTA Textiles and Apparel Working Group was struck as a result of the 2003 North American Free Trade Agreement (NAFTA) Commission's call for work to be done on the steps that could be taken to prepare the North American textiles and apparel industries for an increasingly competitive global market. At the July NAFTA Commission meeting, Ministers called for an intensification of such work, with a report on progress to be presented to Ministers.

The objective of the report is to elaborate on areas where further trilateral work would be beneficial to the goal of strengthening the NAFTA textiles and apparel industries and promoting regional trade in light of the increasing competition from outside NAFTA as well as the elimination of quantitative restrictions.

These sectors are important for the NAFTA countries as evidenced by the fact that combined textile and apparel export trade among the United States, Mexico and Canada increased by 260 percent between 1993 and 2000, to $23.2 billion; nevertheless, combined export trade among the NAFTA partners has trended downward in each subsequent years, falling to $19.9 billion in 2003.

NAFTA textile and apparel trade, as a percentage of total NAFTA trade, grew slightly, from 2.7 percent in 1993 to 3 percent in 2003. Nevertheless, this 0.3 percent growth meant a total increase of 139 percent in intra-NAFTA textile and apparel trade.

World textile and apparel trade reached $395 billion in 2003, accounting for 5.4 percent of total world trade, according to the WTO. Asia accounts for 45 percent of total world textile and apparel exports, whereas North America has a share of 5.2 percent[1].

The WGTA reviewed six potential areas where the governments can develop mechanisms to address the challenges of this new world environment. These areas reviewed were: <u>rules of origin; Tariff Preference Levels (TPL's); common MFN tariffs; cumulation; customs cooperation; and cooperation on matters of agreement compliance to address industry concerns.</u>

[1] World Trade Organization, *International Trade Statistics 2004*, Geneva, Switzerland, 2004.

2. The NAFTA textile and apparel industries

Textiles and apparel were an essential component of the NAFTA negotiations, and a special Annex was devoted to the disciplines that regulate trade in these products. Annex 300-B contains general dispositions, applicable to the three Parties:

- Tariff Elimination;
- Import and Export Prohibitions;
- Restrictions and Consultation Levels;
- Bilateral Emergency Actions (Tariffs and Quantitative Restrictions);
- Special Provisions;
- Review and Revision of Rules of Origin;
- Labelling Requirements; and,
- Trade in Worn Clothing and Other Worn Articles.

Annex 300-B also establishes three sets of bilateral understandings on TPL's and for Mexico an elimination of Restrictions and Consultation Levels. The rules of origin were generally defined as yarn-forward, but in a few cases they were established as fiber-forward, so as to promote the integration of the production chains in the three countries. In other cases, rules of origin are fabric forward or single transformation, in cases where inputs were not widely available in the region.

NAFTA created a pattern of integrated manufacturing and trade in the textile and apparel sectors in North America. The textile and apparel industries in North America have been clear beneficiaries of the trade liberalization provided by the NAFTA. Trade between Mexico and the U.S. in these sectors has experienced an impressive 255 percent growth since 1993. More importantly, this growth has been in both directions: U.S. exports to Mexico have increased from \$2.3 to \$4.7 billion in that period, while Mexico's exports to the U.S. have increased from \$1.3 billion in 1993 to \$7.9 billion in 2003.

Within three years after NAFTA's implementation, Mexico had become the U.S.' second-largest supplier of textile and apparel goods, with an increase in its share of the U.S. import market from 7 percent in 1995 to 11 percent in 2002. Canada, on the other hand, maintained a level of participation in the U.S. import market of around 4 percent throughout this period. U.S. exports of textiles and apparel to Mexico more than doubled from 1994 to 1998, from \$2 billion to \$4.4 billion, further increasing to \$6.1 billion in 2000. In 2003, U.S. exports to Mexico were \$4.7 billion. U.S. exports to Canada grew from \$2.2 billion in 1994 to \$3.4 billion in 1998, leveled off through 2000, and declined slightly to \$3 billion in 2003.

For Canada, trade has also increased: whereas in 1994 it exported to the U.S. textile and apparel goods worth \$2 billion, that figure increased to \$3.6 billion in 2003. Exports from Canada to Mexico, although starting from a low base, experienced slight growth: \$28 million in 1994 to \$30 million in 2003. On the import figures, Canada has virtually the same amount of imports from the U.S. in 1994 than in 2003: \$2.4 billion and \$2.6 billion, respectively. Canadian imports from Mexico registered a higher increase, from \$123 million in 1994 to \$328 million in 2003. Textile and apparel exports also have increased their share in intra-NAFTA total exports: in 1993, textile and apparel represented only 4 percent of Mexico's exports to the U.S., but it reached 6 percent in 2003; Canada has maintained this figure at around 1.5 percent of its total exports to the U.S. for the 1994 – 2003 period. The U.S. remains the largest supplier of these goods in both Canada (37 percent in 1993 and 33 percent in 2003) and Mexico (roughly 70 percent for the entire period).

The NAFTA rules of origin have generated significant incentives for sourcing in the region, resulting in an 86 percent share of originating goods in total U.S. imports from Canada and Mexico by 2003. Today, $7 billion of Mexico's exports are using fabric and yarn made in the region. Almost half of that fabric, $3.1 billion, is sourced from the U.S.

Producers in the NAFTA countries have undergone an intense adjustment to increased global competition, as a result of liberalization that has occurred under the WTO Agreement on Textiles and Clothing (ATC) and through unilateral trade preference programs. In addition, industries in the NAFTA region are adapting to a new production and trade environment occasioned by changes, over the past decade, in patterns of retailing and consumption in major international markets. To a large extent, industries are facing challenges not only to increase productivity and lower costs but to upgrade services provided to their customers, and to do so in a 'quick-response' environment.

In the view of the government of Mexico, Asian countries in particular, which due to the provisions of NAFTA had to find new ways to compete, implemented a dual strategy which consisted of reducing costs dramatically on basic commodities by taking advantage of their large supply of cheap labor, while also developing the ability to manufacture higher value-added products. Moreover, Asian and other producers began investing heavily in the development of an industrial base in Central America, in order better to compete with Mexico and Canada as suppliers of the U.S. market.

At the same time, several characteristics of industries in the NAFTA region can help to strengthen their position in the future, in an even more competitive environment. NAFTA industries produce a large variety of products, and enjoy a substantial degree of vertical integration. In addition, NAFTA industries benefit from access to regional supplies of raw materials, a well developed infrastructure, and proximity to major markets. These factors are frequently identified as important to post-ATC competitiveness, particularly when combined with NAFTA trade preferences

The WGTA noted that the NAFTA textile and apparel industries underwent a period of impressive growth, generated production and economic activity but are now facing new challenges that require innovative public policy approaches. The following is a brief description of the most pressing issues that this sector is facing in the new international environment:

1. **Competition has increased, both by countries that gained access similar to the NAFTA Parties (e.g., the Caribbean Basin) and countries that, as multilateral quotas are being removed, are dramatically increasing their exports through an effective use of their comparative advantages (China, India, etc.) and this trend will certainly be intensified with the completion of the ATC. Industries in the region also have concerns about unfair trade practices proliferating in the sectors, particularly after quotas are removed.**

2. **To some extent, the diminished availability of certain yarns and other inputs within the region has made compliance with the rules of origin**

more difficult for some products, which has led to an increased interest in the industries in the three countries to request adjustments to the rules of origin under the procedures set out in the NAFTA.

3. **While the overwhelming majority of NAFTA trade is originating under the terms of the Agreement, TPL's have shown a high degree of utilization in every year of their operation, for both Canada and Mexico, providing an important relief for the industries in both countries: TPL's for apparel have been used fully since 1999.**

4. **Mexico and the U.S. have experienced a dramatic increase in industry complaints of transhipment and smuggling of textile and apparel products entering the North American region, primarily from Asia. This has resulted in increasing pressure from the industries in these countries to take enforcement and trade remedy actions to deal with the concerns. The Mexican industry has estimated that close to 40 percent of all textile and apparel goods in Mexico entered the country illegally. Mexican authorities have conducted raids that have seized a considerable amount of smuggled textile and apparel goods.**

3. Policy options for the NAFTA Parties for the textile and apparel industries

3.1. Rules of Origin

The WGTA noted that provisional agreement on six modifications to the NAFTA textile and apparel rules of origin had been reached, either on a trilateral or bilateral basis, which reflect changing conditions of availability of supplies of particular fiber, yarn, or fabric inputs in the region. The WGTA intends to move forward to finalize these changes to the NAFTA rules of origin as quickly as possible, subject to domestic implementing procedures and requirements.

The WGTA recommends consulting with the NAFTA industries to determine the appropriateness of undertaking a broader review of the rules of origin applicable to textile and apparel products, based on the provisions of Section 7(3) of Annex 300-B. The purpose of this Section is to determine whether the rules take into account greater global competition in the sectors, the completion of the integration process required by the ATC and rules in effect in other regional economic agreements.

3.2. Cumulation

The WGTA noted that the purpose of provisions permitting cumulation of inputs introduced in the pending U.S. – Central American – Dominican Republic Free Trade Agreement was to promote greater regional integration of the textile and apparel industries in the Central American region. Such integration is key to regional competitiveness. The WGTA agreed that if cumulation is to be pursued further in NAFTA, it must be on a reciprocal and enforceable basis.

The WGTA recommends continuing to work to identify the technical details that are necessary to implement cumulation, and to analyze what would be needed to pursue cumulation in a broader exercise.

3.3. Common MFN Tariffs

The WGTA discussed whether an effort to eliminate MFN tariff disparities between the NAFTA Parties would benefit the industries, reduce illegal circumvention and facilitate regional integration.

The WGTA discussed several technical impediments to establishing a complete common external tariff schedule, but noted that the Doha Round of negotiations offers an opportunity to work in such a direction if it is desirable.

The WGTA proposes to do further research on the effect of such common schedules on other industries in other regions and to continue discussions as appropriate.

3.4. Tariff Preference Levels

Mexico and Canada indicated their interest in expanding access to the U.S. market under the Tariff Preference Levels (TPLs) established in the NAFTA. The United States noted that, since NAFTA, TPL access to the U.S. market had generally become more restrictive and time limited, rather than more liberal.

The WGTA proposes to continue to discuss TPL access, at the initiative of Mexico or Canada, in conjunction with affected domestic industries.

Mexico believes that the discussions in this topic should be aimed at analyzing whether TPLs could be expanded, and if so, what conditions should be taken into account and what instances (e.g., the private sector or other government agencies) should be consulted. Mexico reiterated its interest in this topic, and further suggested that the Ministers should instruct the WGTA what course of action should be pursued.

3.5. Customs Cooperation

The WGTA agreed that customs cooperation for enforcement purposes was a high priority, from both the standpoint of NAFTA Parties and industries in the region. The WGTA reaffirms that its first preference is to come to agreement on common procedures for customs verifications of third party origin claims and claims of eligibility under Tariff Preference Levels and proposes to intensify its efforts to this goal.

The WGTA proposes to establish a Textile Enforcement Subgroup to identify and establish immediate trilateral measures to strengthen and improve enforcement cooperation.

3.6. Cooperation on Matters of Agreement Compliance to Address Industry Concerns

The WGTA proposes to collaborate on matters of common concern, to share information, and to identify opportunities to work together within the existing structure of WTO Committees and fora to address third party agreement compliance matters. The WGTA also reaffirmed its desire to promote dialogue among the industries in the region on trade barriers and trade practices, where such matters relate to compliance with international trade agreements, and reiterated its invitation to the industries to provide information to NAFTA Parties in this respect.

The WGTA recommends continuing to work with the Committee on Standards Related Measures, to finalize as soon as possible a trilateral arrangement on the use of harmonized care symbols for textile and apparel goods, in order to affirm the uniform acceptance of care instruction symbols by the NAFTA countries, so as to facilitate trade in the region and promote further integration of the sectors.

Annex I: Description of the textile and apparel industries in North America

The following sections elaborate on the specific conditions of the textile and apparel industries in each of the three NAFTA Parties.

Current conditions of the industry in the NAFTA region: U.S.

The textile and apparel industries in the U.S. produce a wide range of products, including yarn, fabric, apparel, and a variety of home furnishings and industrial products. The combined value of shipments by the U.S. industry increased by 9 percent between 1993 and 1997, to $157.9 billion, however shipments have trended downward in each subsequent year, falling to $129.2 billion in 2003. Exports rose by 51 percent between 1993 and 2003, increasing from $10.3 billion in 1993 to $15.9 billion in 2003. Total imports increased from $36.1 billion in 1993 to $77.4 billion in 2003.

There has been a substantial job loss in the U.S. textile and apparel industries, a trend that has been ongoing for almost thirty years, a development related to the effects of productivity improvements, international competition, and other factors. Between 1973, the peak year for textile and apparel employment, and 2003, the number of employees in the U.S. textile and apparel industries declined from 2,447,900 to 752,800, a loss of almost 1.7 million workers. Between 1993 and 2003 textile and apparel industry employment fell by 52 percent, from 1,568,500 employees to 752,800 employees, for a job loss of 815,700 workers. Wages for production workers in the textile industry increased by 32 percent between 1993 and 2003, and wages for production workers in the apparel industry were up by about 43 percent over the period. However wages in the textile and apparel industries are low relative to all manufacturing.

In spite of the substantial job losses, the U.S. textile and apparel industries remain technologically advanced vis-à-vis many of their foreign competitors. The ability of the industries to retain some degree of competitiveness is partly attributed to increased productivity resulting from advances in technology and design capabilities. The textile industry invests upwards of $2 billion a year to maintain modern manufacturing facilities. Textile production is very capital intensive, and up-to-date technology is essential to meet the increasingly rigorous demand for high quality products. The adoption of new manufacturing technologies, such as shuttle-less looms and open-end (rotor) spinning, which operate at higher speeds and reduced noise levels, have enabled U.S. fabric and yarn producers to increase their output and lower their labor costs.

The apparel industry has retained the more skilled, higher paying jobs such as computer-aided design (CAD) and computer-aided manufacturing (CAM), marketing, and product development. Lower-skilled apparel production jobs have moved offshore, in support of production sharing operations in Mexico and the Caribbean Basin, as well as to countries with lower labor costs.

Advances in productivity have to some degree allowed U.S. textile and apparel manufacturers to maintain output through automation and technological improvements while requiring fewer workers. However, the industries continue to face increased pressures to compete with low-cost and increasing levels of imports.

To sharpen their competitive edge, U.S. textile mills are slowly moving away from staple fabrics for the apparel industry and moving toward niche products and diversification into home furnishing and industrial textile products (such as fabrics for automotive end uses, including tire cord, fire retardant fabric and geotextiles). This shift can be seen in the changing pattern of textile industry shipments. Between 1993 and 2003, the value of textile mill shipments, such as yarn, woven fabric, and knit fabric, fell by 29 percent (compound annual rate of decline of 3 percent), and their share of the total value of U.S. textile industry shipments fell from 68 percent in 1993 to 52 percent in 2003. Conversely, the value of textile product mill shipments, such as home furnishings, industrial textile products, and carpets and rugs, increased by 41 percent over the period (compound annual rate of growth of 3 percent), and their share of total value of U.S. textile industry shipments grew from 32 percent in 1993 to 48 percent in 2003.

Technical fibres for sportswear and active-wear have experienced tremendous growth. Other profitable growth opportunities in non-apparel fabric markets include automotive, medical, and fire safety. One indicator of the importance of textiles produced for home furnishing and industrial uses is the amount of fibres consumed in the production of such products. The share of total fibres consumed in U.S. home furnishings production, including carpets and rugs, was 42 percent in 2002 (the latest available data), up from 38 percent in 1993; the share for industrial uses was 26 percent (up from 21 percent in 1993); and apparel, 32 percent, down from 41 percent in 1993.

In general, the U.S. apparel industry is a competitive and fragmented sector that mostly comprises small establishments. In response to increasing import competition, changing consumer preferences, and increasing share of sales to a few large retailers, the industry has undergone substantial restructuring in the past decade. The strong bargaining power of these retailers tends to reduce the flexibility of producers in negotiating prices and delivery dates, and enables retailers to minimize inventory levels and push inventory costs back up the supply chain. In response, U.S. apparel producers are increasing their focus on core products, reducing vertical integration to shed overhead costs, outsourcing more processes in the production chain domestically and offshore, and merging with other apparel companies to consolidate resources and capture greater market share. Many smaller firms that are labor intensive and lack the financial resources, brand names, or operating efficiencies to compete have gone out of business.

The competitive pressures from retailers and foreign suppliers have prompted many U.S. apparel firms to invest in new technology and improve production and marketing processes in an effort to maximize their inherent advantage to market proximity. These firms now operate quick response (QR) systems to speed the flow of goods, services, and information between segments of the industry, linking them electronically with textile suppliers and retailers. Although upgrades in technology have revolutionized the apparel industry's supply chain management, production of most garments remains labor intensive, largely because of the difficulty in automating most sewing functions.

Investment

Since NAFTA went into effect, U.S. investment in the Canadian and Mexican textile and apparel industries has increased by 66 percent, from a combined amount of $376 million in 1993 to $626 million in 2002. Many U.S. apparel companies had begun using Mexico as an assembly base prior to the entry into force of NAFTA. The NAFTA's strict yarn forward rules of origin for most textiles and apparel mean that only those products that are made of fabrics knit and woven in North America from North American yarn qualify for preferential NAFTA tariff and quota treatment. Several U.S. textile and apparel companies participate in production sharing operations in Mexico to reduce costs and provide a quick turnaround. Some of these operations are vertically integrated, producing thread and yarn from raw materials, weaving fabric, processing the fabric, cutting, and sewing the apparel or made-up (home furnishing) item. Production sharing under NAFTA has been beneficial to U.S. fibre, yarn, and fabric producers and has encouraged a shift in consumption towards NAFTA-made textiles and apparel with U.S. components

Global Trends in Textiles and Apparel Trade

As the industry faces shrinking domestic markets for its yarn and fabric, the use of these inputs in apparel assembled in Mexico and the Caribbean Basin countries has advanced U.S. yarn and fabric exports and has helped somewhat to offset weakness in domestic demand for apparel fabrics. U.S. exports of yarn and fabric to the NAFTA partner countries and the Caribbean Basin increased by 204 percent between 1993 and 2003, from $2.1 billion in 1993 to $6.4 billion in 2003. Because NAFTA and the CBI encourage production sharing in the textile and apparel sector, Mexican and Caribbean plants purchase large quantities of U.S. components, allowing U.S. companies to increase exports, enhance efficiencies, and maintain jobs in the United States. While employment has certainly declined in the last few years, without U.S. textile and apparel trade preference programs and the use of U.S. components, textile employment losses would have been even more substantial.

The United States is second largest importer of textile products globally, representing 24 percent[2] of total world imports in 2002 (the EU being the largest importer, with a 37 percent[3] share). On a value basis, China is the largest supplier of textiles and apparel to the U.S., representing 15 percent of total U.S. textile and apparel imports in 2003. Mexico is the second largest supplier of textiles and apparel to the U.S., representing about 10 percent of U.S. imports in 2003.

The global textile and apparel marketplace will change profoundly in little more than a year with the dismantling of the textile and apparel quota system on January 1, 2005 under the terms of the WTO Agreement on Textiles and Clothing (ATC), when textile and apparel producing and importing countries will face increased competition. Since the implementation of the ATC on January 1, 1995, the U.S. and other textile importing countries have undergone intense structural adjustment. Global market trends are increasingly being determined by the transition to a quota-free textile trade environment.

Current conditions of the industry in the NAFTA region: Canada[4]

Total Canadian textile and apparel imports were valued at $11.4 billion in 2003, a decrease from $11.9 billion in 2002. Of these imports, $4.4 billion were from NAFTA countries – $3.9 billion from the U.S. and $470 million from Mexico. Textile imports totaled $5.8 billion in 2003, a decrease of more than half a billion dollars from the year before. Apparel imports totaled $5.6 billion in 2003, a slight increase over 2002. The U.S. is the largest supplier of textiles to the Canadian market, while China is by far the biggest supplier of apparel.

Canadian domestic textile and apparel exports were valued at $5.5 billion in 2003, down from $6.1 billion in 2002. Of these, $4.95 billion were destined for NAFTA countries – $4.9 billion to the U.S. and $43 million to Mexico. Textile exports decreased from $3.5 billion in 2002 to $3.2 billion in 2003. Apparel exports totaled $2.3 billion in 2003, a decrease of almost $0.3 billion from 2002. The U.S. is overwhelmingly the primary destination for both Canadian textile and apparel exports.

---

[2] International Trade Statistics 2002, WTO, October 2002.
[3] Ibid. Excludes intra-EU imports. The intra-EU share is 18 percent of the world total.
[4] For this section, all figures quoted are in Canadian dollars.

In 2002, the Canadian textile industry consisted of 1,522 establishments. Due to the combination of increased international competition and recession, the number of textile workers decreased from 48,550 in 1990 to 40,457 in 1992. However, by 2002, employment increased to 46,667. The industry has managed this turn-around over the past 10 years through increasing exports to the U.S. market and making substantial changes to focus on higher value-added activity, productivity improvements and cost-competitive capital investments.

Over 90 percent of textile firms operating in Canada are privately owned, and there are few Canadian-owned multinational textile companies. The Canadian textile industry is highly automated and capital intensive. It makes and processes fibres, yarns, fabrics and a variety of household, consumer and industrial textile products that are used in a wide array of applications, including the production of apparel.

Due to historical reasons, many textile facilities are located outside major urban centres, predominantly in small towns in Quebec and Ontario. As a result, the economic contribution of the industry is of particular importance to a number of smaller, rural communities where a textile company often serves as the primary source of manufacturing employment.

There were approximately 2,788 apparel establishments in Canada in 2002, the vast majority of which are Canadian-owned and operated. Most apparel establishments are located in major cities, notably Montreal, Toronto, Vancouver and Winnipeg.

Like the textile industry, the Canadian apparel industry suffered a 19 percent decrease in employment due to increased international competition and the recession of the early nineties, falling to 83,787 workers in 1992 from 103,998 workers in 1990. However, employment reached 94,622 in 2002, mainly because of increasing shipments, which mainly occurred in the second half of the 1990s largely due to rising exports to the U.S.

While Canada has a number of large and highly sophisticated apparel manufacturing companies, small firms predominate throughout the industry. Approximately three-quarters of firms have fewer than 50 employees and account for one-third of all industry shipments.

The industry is also diverse with respect to the nature of the manufacturing activity it includes. On the one hand, the industry includes world-class, high-value activity in product design and innovation, labelling, marketing and branding, as well as “just-in-time” logistics and distribution into an increasingly consolidated North American marketplace. On the other hand, unlike many other developed countries where the low-wage and low-skilled cutting and sewing tasks have been outsourced to nearby low-wage countries, 86 percent of the Canadian apparel industry’s labour force is employed in cutting-and-sewing operations.

Based on 1996 Census data, new immigrant workers represent more than 40 percent of the apparel industry’s total workforce. The industry also provides an important source of employment for women, who account for 94 percent of sewing machine operators, 89 percent of sewers and cutters and 75 percent of other production jobs, as well as workers with comparatively low levels of education.

Current conditions of the industry in the NAFTA region: México

In 2003 the textile and apparel industries contributed 6.5 percent of industrial GDP, employing 620 thousand workers in 14,500 companies. Before the NAFTA, the industries enjoyed high levels of protection from outside competition, whether in the form of duties, import permits and prohibition of imports (as in the case of cotton).

One of the main objectives for Mexico during the NAFTA negotiations was to abolish all quantitative restrictions and gradually phase out and eliminates tariffs; this brought considerable benefits for the industries during the first years of enforcement of NAFTA.

Evolution of the textile and apparel industries in Mexico

(Percentage change)

	1994-2000		2001-2003	
	Textile	Apparel	Textile	Apparel
PRODUCTION	77.4%	40.6%	-19.8%	-27.9%
EXPORTS	147%	713%	-16.1%	-14.5%
JOBS	28%	119%	-11.3%	-13.4
No. COMPANIES	6.7%	19.2%	-11.3%	-14.7%

It is possible to affirm that between 1994 and 2000 the sectors experienced a dramatic growth, but since that year, the textile and apparel industries have suffered through a period of stagnation.

Between 1993 and 2000, production of textiles grew 77.4 percent, driven by a 147 percent export growth. Over 40 thousand jobs were created during this time. Similarly, the apparel industry grew 41 percent during the first seven years of NAFTA. Exports jumped 713 percent, an annual average growth of 36 percent. The total number of people employed in the apparel industry doubled, as 366 thousand new jobs were added. The number of companies established in this sector also grew considerably. In total, 2,500 new companies were created, of which 2,300 were in the apparel sector.

Since the entry into force of NAFTA in 1994, and up to the end of 2001, foreign direct investment (FDI) in the industry reached $1.7 billion, which did not come exclusively from U.S. companies, but also from Asia and Europe. These investments allowed Mexico to fully take advantage of the preferential access that NAFTA provided to the U.S. and Canadian markets.

For the period between 2001 and 2003, however, the textile and apparel industries in Mexico were hit hard by a recession in the U.S. and the growing competition from other countries. Textile production fell 20 percent and apparel production fell by 28 percent. Moreover, exports could no longer provide the necessary relief to these industries: in both sectors exports fell (16 and 15 percent, respectively) and Mexico experienced a substantial loss of jobs in the textile and apparel sectors. Furthermore, Mexico was displaced as the U.S.' largest supplier of textiles, and its market share fell by over 3 percentage points by the end of 2003.