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## Desarrollo productivo

# **I**llusory competitiveness: the apparel assembly model of the Caribbean Basin

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## **Abstract**

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Exports of apparel represent the principal link of the Caribbean Basin to the international economy. These exports arise from a combination of factors, including low salaries, tax incentives, and preferential access to the North American market designed to assist US apparel firms compete better against Asian imports in their own market. The weakness of this model is that it produces an illusory competitiveness based on artificial advantages, not an authentic competitiveness that improves the productive base of the economy by way of the transfer of modern technologies, the creation of deeper linkages, more specialized training and enterprise development.



## I. Illusory competitiveness: the apparel assembly model in the Caribbean Basin

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The apparel industry (defined as the five groups 842 to 846 of the Standard International Trade Classification, revision 2) has been an important manufacturing activity and a part of the industrialization process for many advanced countries. This activity became less important in those economies as their industrialization processes moved into more technologically sophisticated activities. Even so, many advanced countries are still formidable apparel exporters, as indicated by their world market shares, measured by the TradeCAN software developed by ECLAC.<sup>1</sup> Such countries include Italy (5.1%), the United States (2.7%), Germany (2.6%) and France (2.1%). The apparel industry was an engine of economic growth in the early phases of the advanced countries' industrialization. Also, the share of apparel in world imports increased by 2.4% between 1985 and 2000, reaching about 3.1%, which places it among the fastest-growing industries in international trade. However, it is no longer the industrialized countries that are gaining market share in this industry.

Apparel was and still is a central element of the industrialization process and the export success of many of the more advanced developing countries in Asia, such as Hong Kong (6.1%), Taiwan (4.6%) and the Republic of Korea (2.2%). Several others enjoy significant market shares, as in the unique and impressive case of

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<sup>1</sup> The ECLAC Competitive Analysis of Nations (TradeCAN) software measures international competitiveness in terms of import market shares (at the three-digit and from digit level of the Standard International Trade Classification—SITC, Rev. 2) in the main markets (world, industrialized countries, Western Europe, North America and Latin America, among others). Contact: [rbuitelaar@eclac.cl](mailto:rbuitelaar@eclac.cl).



China (23.8%), as well as Turkey (3.6%), India (2.5%), Bangladesh (2.4%), Indonesia (2.3%) and Thailand (1.8%). Clearly, the apparel industry has been an important stepping stone for enabling those countries to get their industrialization processes rolling and generate solid export streams to the international market. Moreover, the share of developing countries — especially the Asian ones — and of countries with economies in transition in imports of low-technology non-resource-based manufactures, of which apparel represents the largest component, increased from 61.1% to 77.3% of the total between 1985 and 2000. In other words, a number of Asian countries have seized foreign trade opportunities by becoming suppliers to the apparel industry in order to advance their industrialization processes.

The case of the Caribbean Basin exporters is different for two reasons: they export to a single market — North America — and the effect on their industrialization has been much less significant or, in some cases, almost non-existent. In other words, even though they have gained market shares in the North American market, similar to those of the Asian countries, the Caribbean Basin countries have not benefited to the same extent in terms of their productive development.<sup>2</sup>

Table 1 shows the 25 countries that are the main suppliers of apparel to the North American market (the United States and Canada), ranked according to their share of imports in 1985-2000; the list includes five small Caribbean Basin countries. Each of these small countries has a share of more than 1% of North American apparel imports: Honduras (4%), Dominican Republic (4%), El Salvador (2.6%), Guatemala (2.4%) and Costa Rica (1.3%). For all these countries except Costa Rica, apparel accounted for half or more of their total merchandise exports to North America (53% for the Dominican Republic and Guatemala and 78% for Honduras and El Salvador). The apparel industry thus represents their principal export link with the international economy.

Figure 1 shows that there are two main groups of developing—country apparel suppliers for the North American market: the Asian ones and the Latin American ones (Mexico<sup>3</sup> and the Caribbean Basin countries). The two biggest suppliers by far are Mexico and China, both of which have market shares of more than 10%. The advanced Asian suppliers (Hong Kong, the Republic of Korea and Taiwan) are losing market share, while other Asian countries are gaining (Indonesia, India, Philippines, Bangladesh, and Thailand). The main Caribbean Basin suppliers (Honduras, the Dominican Republic, El Salvador, Guatemala and Costa Rica) are increasing their shares. The Caribbean Basin thus represents an area of important, fast-growing apparel suppliers for the North American market which are displacing some of the advanced Asian suppliers but are still in keen competition with other countries in that region.<sup>4</sup>

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<sup>2</sup> Mortimore, M., "Apparel-based industrialization in the Caribbean Basin: A threadbare garment?", *CEPAL Review*, No. 67, April 1999; and Mortimore, M., "When Does Apparel Become a Peril? On the Nature of Industrialization in the Caribbean Basin", in Gereffi, G., D. Spener and J. Bair (eds.), *Free Trade and Uneven Development: the North American Apparel Industry after NAFTA*, Temple University Press, Philadelphia, 2002.

<sup>3</sup> This article does not consider the case of Mexico because it is dealt with elsewhere and is qualitatively different from the case of the Caribbean Basin countries owing to the effect of the free trade agreement with the United States and Canada. See Gereffi, G., D. Spener and J. Bair (eds.), *Free Trade and Uneven Development: the North American Apparel Industry after NAFTA*, Temple University Press, Philadelphia, 2002.

<sup>4</sup> Mortimore, M., "La competitividad internacional: un CANálisis de las experiencias de Asia en desarrollo y América Latina", *Desarrollo productivo* series, N° 40, Santiago, Chile, ECLAC, 1997.

**Table 1**

**The 25 main supplier countries of apparel (SITC 842-846) for the North American market,<sup>a</sup> 1985-2000**  
(Apparel as a percentage of country's total exports)

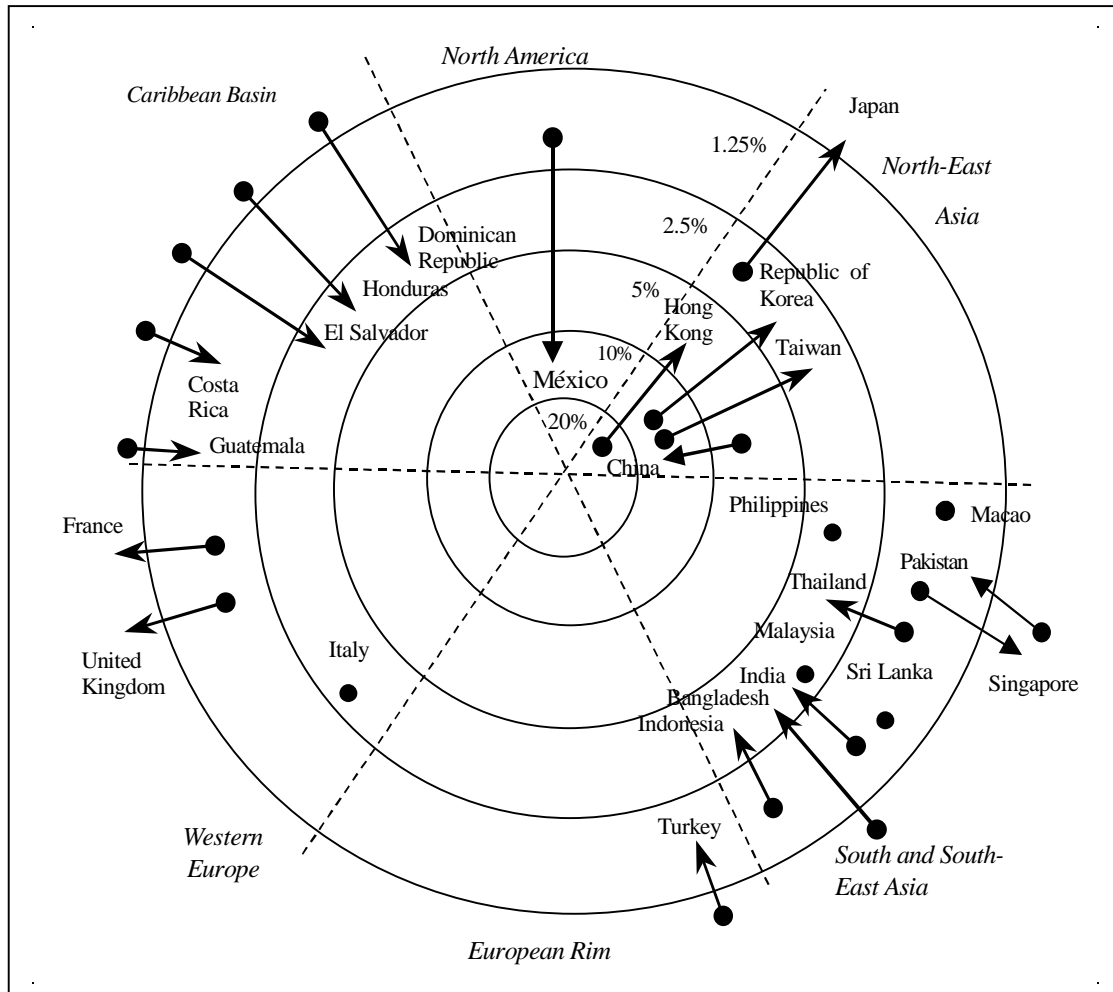
Ranking by market share	Country	1985	2000	% change
1	Mexico	1.3	6.2	371.0
2	China	28.7	6.4	-77.5
3	Hong Kong	36.7	39.4	7.5
4	<i>Honduras</i>	5.7	78.2	1,277.0
5	<i>Dominican Republic</i>	19.9	52.6	164.3
6	South Korea	18.0	5.6	-68.8
7	Indonesia	5.0	18.2	261.9
8	India	14.1	17.8	25.9
9	Taiwan	13.4	4.6	-65.5
10	Philippines	17.2	13.3	-22.8
11	Bangladesh	53.7	79.6	48.2
12	Thailand	15.5	10.6	-31.7
13	<i>El Salvador</i>	2.3	78.6	3,300.2
14	Italy	6.4	5.4	-15.1
15	Sri Lanka	70.0	69.6	-0.6
16	<i>Guatemala</i>	2.3	52.9	2,181.4
17	Macao	54.2	87.5	61.4
18	Turkey	15.4	31.9	106.8
19	Pakistan	25.1	40.3	60.8
20	Malaysia	8.3	3.2	-61.1
21	<i>Costa Rica</i>	16.7	19.7	18.5
22	Cambodia	16.4	97.1	491.2
23	Israel	1.9	3.9	107.3
24	Colombia	2.7	5.6	107.9
25	Egypt	1.6	47.2	2,886.2
Total 25 main countries (average percentage)		13.4	10.5	-21.6

**Source:** Calculated using the 2002 edition of the Competitive Analysis of Nations (TradeCAN) software, United Nations Economic Commission for Latin America and the Caribbean.

<sup>a</sup> North American market = Canada and the United States.

Figure 1

Shifts in the structure of North American (United States and Canadian) apparel imports (SITC codes 842-846) from 1985 to 2000



Source: Calculated using the United Nations-ECLAC TradeCAN software, 2002 edition

The rings indicate the share of total North American Imports by partner country:

1.20%+ 2/10-19.9% 3.5-9.9% 4.2.5-4.9% 5.1.25-2.4%

The total annual average value of North American apparel imports (SITC 842-846) was

US\$ 15.6 billion in 1984-1986 and US\$ 58.2 billion in 1999-2000.

Note: The 1999-2000 position corresponds to the arrow point or ring where the country's name is located; the 1984-1986 position, if different, is indicated by a circle. The arrows indicate the magnitude and direction of change over time.

In the supply of apparel to the world market, there are two predominant realities. On the one hand, the Asian countries, led by the advanced East Asian developing countries, China, the new Asian tigers, India and Bangladesh, have impressive import market shares in all markets.<sup>5</sup> On the other hand, Mexico and the Caribbean Basin have acquired significant and growing shares of the North American market. The Caribbean Basin plays a significant supplier role in the North American market, but is not a major supplier in any other large market. As will be shown below, the manner in which markets are supplied seems to determine, to a large extent, the benefits obtained by the exporting countries in terms of their productive development.<sup>6</sup> In the Caribbean Basin, it is the corporate strategies of North American firms and the mechanisms adopted to help them achieve their particular goals that are the determining factor.

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<sup>5</sup> Mortimore, M., S. Lall and H. Romijn, "The Garment Industry", in UNCTAD (United Nations Conference on Trade and Development), *The Competitiveness Challenge: Transnational corporations and industrial restructuring in developing countries*, Geneva, 2000.

<sup>6</sup> See Mortimore, M., op. cit., April 1999; Audet, D., "Globalisation in the clothing industry", in OECD (Organisation for Economic Co-operation and Development), *Globalisation of Industry: Overview and Sector Reports*, Paris, OECD (1996); ILO (International Labour Organization), *Globalization of the footwear, textiles and clothing industries*, Geneva, 1996; Van Liemt, G. (ed.), *Industry on the Move: Causes and Consequences of International Relocation in the Manufacturing Industry*, Geneva, International Labour Office, 1994.



## II. The North American connection and the Caribbean Basin assembly model

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Gereffi<sup>7</sup> has demonstrated that the nature of the apparel marketing chain has changed considerably over time. Buyer—driven chains have progressively supplanted producer—driven chains; that is to say, companies that buy apparel (usually by contracting out fashion articles of their own design) for sale to their upmarket clientele are increasingly calling the shots in the United States industry compared to companies that produce standard clothing for distribution to retailers. In the United States market, large retail stores (such as Sears, Wal-Mart, J.C. Penney, K-Mart, etc.) and branded marketers (such as Liz Claiborne, Donna Karan, Polo, Tommy Hilfiger, Nike, etc.) have come to possess greater influence over the whole marketing chain.<sup>8</sup> Producer—driven chains are lagging behind and are desperately seeking to reduce their production costs in order to compete more effectively.

This development allowed "full-package" suppliers from developing countries in East Asia (i.e., those that provide the complete

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<sup>7</sup> Gereffi, G. and Korzeniewicz (eds.), *Commodity Chains and Global Capitalism*, London, Praeger, 1994; Gereffi, G., "Global Shifts and Regional Response: Can North America Meet the Full Package Challenge?", *Bobbin*, vol. 39, No. 3, San Francisco, Miller Freeman Inc., 1997; and Gereffi, G., "Outsourcing and Changing Patterns of International Competition in the Apparel Commodity Chain", paper presented at the seminar "Responding to Globalization: societies, groups and individuals", Boulder, Colorado, United States, 4-7 April 2002.

<sup>8</sup> Gereffi and Korzeniewicz, op. cit.; Sturgeon, T., "Modular Production Networks: a New American Model of Industrial Organization", *Industrial and Corporate Change*, Vol. 11, No. 3, February 2002.

article required by the buyers) to play a more important role, cutting the United States clothing manufacturers out of the relationship.<sup>9</sup> This strengthened the position of East Asian domestic companies capable of organizing the complete process, from inputs to assembly to distribution. Such companies, which were able to provide all the organization necessary to convert retailers' or branded marketers' designs into finished products which met the buyers' required volumes on time as well as fulfilling their quality standards, became significant competitive forces in the apparel industry, particularly in women's wear. Moreover, they also provided a strong boost to national industrial development.

The first East Asian "full-package" suppliers – in Taiwan, Hong Kong and the Republic of Korea – did this by establishing their own regional production chains which organized integrated production from textiles through the apparel assembly process to final delivery to the retailers or branded marketers. Li & Fung of Hong Kong is a good example.<sup>10</sup> Some of these suppliers even developed into international competitors of their original clients. This gave a significant boost to the domestic economies of these countries. Although the latter appear to be losing world market share, in fact their apparel companies often export their products from overseas factories that assemble components from the home country of the Asian manufacturers or traders. Accordingly, while their shares in final markets for direct apparel exports decline, their exports of textile inputs to offshore assembly sites (in countries such as China, Thailand, Indonesia, etc.) rise, as they take advantage of the quota system under the GATT Multifibre Arrangement. Thus, in Asia, full-package suppliers in Taiwan, the Republic of Korea and Hong Kong have developed their own networks of assembly operations in other parts of Asia, where full-package suppliers and simple assembly operations for export coexist. The former represents a way of deepening the industrialization process and improving productive development on the basis of genuine competitiveness.

Apparel production in the Caribbean Basin is considerably different and is closer to the second trend observed in Asia (simple assembly of standard articles).<sup>11</sup> The apparel companies operating there tend to be subsidiaries of branded manufacturers (especially for women's underwear) or foreign or national companies that compete for assembly contracts (mainly for men's wear) from the overseas buyers of large United States retailers, and do not provide full-package services. In this case, full-package suppliers have not emerged because principal competitive advantages derive strictly from the location of the final assembly stage in those countries, primarily in order to take advantage of lower wages. The overseas buyers, or the branded manufacturers themselves, handle all the other aspects of the package.

Thus, simplifying somewhat, it is possible to distinguish two different realities in the apparel industry of developing—country suppliers of the North American market. One is the Asian version, in which local firms in advanced developing countries (especially in East Asia) act as full-package suppliers, mostly of women's wear, to large retailers and branded marketers. The other is the Caribbean Basin version, which isolates the assembly process in those countries, mainly for the

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<sup>9</sup> Gereffi, op. cit. (1997).

<sup>10</sup> UNCTAD, *World Investment Report, 2002*, Geneva, 2002.

<sup>11</sup> Even within the "maquila" category there are at least three variants that differ in technological complexity and value added: (1) making-up, finishing and packaging, (2) cutting, making-up, finishing and packaging, (3) cutting, manufacturing and accessories. In the Caribbean Basin the first and second variants are the most common. See Buitelaar, R., R. Padilla and R. Urrutia, "Centroamérica, México y República Dominicana: maquila y transformación productiva", *Cuadernos de la CEPAL*, No. 85, Santiago, July 1999.

supply of women's underwear through subsidiaries of branded manufacturers or of men's wear via foreign or national subcontractors to foreign buyers. The Asian "full-package" manufacturer/trader version stands in stark contrast to what could be called the Caribbean Basin assembly model (or "partial package"), which is based on export processing zones, preferential access to the North American market and low wages. As will be shown below, the outcome of this arrangement is not genuine competitiveness (based on the absorption of technical progress in order to raise productivity and gain sustainable international market shares), but illusory or artificial competitiveness. These differences are very important for determining the local impact in terms of national industrialization and productive development.

The North American connection has been responsible for the huge increase in apparel exports from the Caribbean Basin, which, measured as a percentage of total North American imports from the Caribbean Basin, rose from 5.5% in 1984 to 43% in 2000.<sup>12</sup> The Caribbean Basin countries saw their share of the North American apparel market increase from 6% to 16% between 1990 and 1999.<sup>13</sup> These countries gained ground as apparel suppliers to the United States market, but they did so in a very different way from their East Asian competitors.<sup>14</sup> Their success was due primarily to the new strategies employed by North American apparel firms, which used export processing zones (EPZs), preferential access to the North American market and low wages to reduce production costs in assembly operations located in the Caribbean Basin in order to compete more effectively against Asian imports in their own market.

These Caribbean Basin countries also made use of EPZs to provide incentives to the assembly trade related to the production sharing mechanism under HTS 9802 of the United States tariff code (see below). The term EPZ includes free zones, temporary import systems and drawback systems.<sup>15</sup> EPZs provide total tax exemption for imports of inputs and components and exports of final products, and total or temporary exemption from income, profit and profit remittance taxes. Complementary aspects include the provision of facilities in terms of foreign exchange operations, partial access to the local market and expedited customs procedures. The EPZ facilities and tax exemptions represent the national counterpart to the United States production sharing mechanism intended to provide additional incentives for United States—based apparel firms to make use of assembly operations in the Caribbean Basin.

Second, the Caribbean Basin variant was considered to have preferential access because it relied mainly on the production sharing mechanism of the United States tariff code. This provision allows United States—sourced apparel inputs to be assembled offshore, requiring the payment of tax on re-entry into the United States solely on the value added (mainly wages) outside the country. The Caribbean Basin accounted for 56% of textile and apparel imports into the United States via

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<sup>12</sup> United States-Caribbean Basin Trade Partnership Act of 2000 (<http://www.mac.doc.gov/CBI/Webmain/guide3.htm>); United States International Trade Commission (USITC), "Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1992-95", Washington, D.C., December 1997; USITC, "The Impact of the North American Free Trade Agreement on the U.S. Economy and Industries: A 3 Year Review", USITC investigation, N° 332-381, Washington, D.C., 1997; USITC, "Annual Statistical Report on U.S. Imports of Textiles and Apparel: 1997", Washington, D.C., April 1998; and USITC, "Fourth Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act", Washington, D.C., December 2001.

<sup>13</sup> Dussel, E., "Un análisis de la competitividad de las exportaciones de prendas de vestir de Centroamérica utilizando los programas y la metodología CAN y MAGIC", Estudios y Perspectivas series, ECLAC, Mexico City, July 2001.

<sup>14</sup> Chacon, F., "Comercio internacional de los textiles y el vestido: reestructuración global de las fuentes de oferta de EE.UU. durante la década de los noventa", Integración y Comercio, Year 4, No. 11, IDB-INTAL, Buenos Aires, 2000; and chapter IV of ECLAC (Economic Commission for Latin America and the Caribbean), *Foreign Investment in Latin America and the Caribbean, 1999 Report*, Santiago, Chile, 2000.

<sup>15</sup> Buitelaar, Padilla and Urrutia, op. cit.



this mechanism. In contrast to exports from the Asian countries, in 1996 a substantial proportion of all Caribbean Basin exports to the United States took advantage of this mechanism: Dominican Republic (58.7%), Costa Rica (35.4%), Honduras (54.6%), Guatemala (34.2%), El Salvador (62.1%) and Jamaica (53.6%). In this sense, apparel from the Caribbean Basin has had preferential access to the United States.<sup>16</sup>

The third element of the original Caribbean Basin variant of apparel exports to the United States market was based on relatively low labour costs. For example, after the massive devaluation of the local currency in the Dominican Republic in 1985, relative wage costs there declined from the equivalent of 12% of those in the United States to a little over 5%. At the same time, employment in the EPZs grew from less than 30,000 to about 200,000 people in 2000 and exports shot up from US\$ 215 million to US\$ 4.655 billion.<sup>17</sup> The lower wage rates (measured in dollars) resulting from the huge devaluation in 1985 (itself related to the external debt crisis) explain more than any other single factor why the EPZs developed so quickly. In 1990, hourly wages in the apparel sector in the Caribbean Basin countries were very low compared to those in the United States (US\$ 6.56): US\$ 0.67 in the Dominican Republic, US\$ 0.69 in El Salvador and US\$ 0.45 in Guatemala. This strongly encouraged North American firms to locate the assembly of North American components in the Caribbean Basin.

These three advantages prompted North American apparel firms to locate their assembly operations in the Caribbean Basin in order to reduce production costs and compete more effectively in their own market.<sup>18</sup> From the standpoint of productive development, however, these advantages for the North American firms have entailed certain disadvantages for the host countries of the assembly operations.<sup>19</sup>

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<sup>16</sup> United States International Trade Commission, op. cit. (1998).

<sup>17</sup> Mathews, D., "Can the Dominican Republic's Export Processing Zones Survive NAFTA?", in Gereffi, Spener and Bair, op. cit. (2002).

<sup>18</sup> Mortimore, Michael, "Corporate Strategies for FDI in the Context of Latin America's New Model", *World Development*, vol. 28, No. 9, September 2000.

<sup>19</sup> Mortimore, M., S. Vergara and J. Katz, "La competitividad internacional y el desarrollo nacional: implicancias para la política de inversión extranjera directa en América Latina", *Desarrollo productivo* series, No. 107, Santiago, Chile, ECLAC, August 2001.

### III. Disadvantages of the Caribbean Basin assembly model

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Each of the components of the Caribbean Basin system of EPZs for apparel exports to the United States exhibits severe deficiencies in terms of its capacity to help those small countries to industrialize and move forward with their productive development. First and foremost, preferential access represents a direct challenge to the national industrialization process. The very nature of the production sharing mechanism (HTS 9802) penalizes practically all value added outside the United States. This limits its use to activities in which low wages are important (and compensate for the United States duty on value added) and in which local physical inputs are neither needed nor desired by the buyer or manufacturer.<sup>20</sup> In view of the keen competition to attract assembly operations, it is extremely difficult for the national government of the assembly country to implement policies that effectively promote greater local integration of the industry, such as higher-level training of the workforce – which would eventually command higher wages for more skilled and complex work – or the incorporation of local suppliers of inputs (thread and buttons, let alone major inputs such as cloth or cutting operations). Thus, the production sharing mechanism tends to truncate the industrialization process itself, making use only of the assembly operation in the Caribbean Basin, to the detriment of any integrated national industrialization process in the assembly country.

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<sup>20</sup> Buitelaar, R. and R. Padilla, “Maquila, Economic Reform and Corporate Strategies”, *World Development*, vol. 28, No. 9, September 2000.

There are also deficiencies in respect of the EPZ mechanism, which is the local counterpart to the HTS 9802 mechanism. The intense interest of Caribbean Basin countries in developing new exports in the context of the debt crisis of the 1980s and the structural decline of natural resource exports led them to enter into an incentive war to attract a high level of foreign direct investment (FDI).<sup>21</sup> The level of incentives granted as a result of this competition was such that huge assembly operations accounting for 40% or more of these countries' total exports to the United States provided virtually no fiscal income for the local government. Moreover, as a result of competitive pressures, incentives which were intended to be temporary (8-12 years) became renewable, and, in practice, endless. Thus, in the heat of competition to attract FDI to local EPZs, many governments gave away as incentives virtually all of the potential fiscal income that could be derived from such activities. These lost resources could have been used to consolidate the local industrialization process or to promote other exports or improve the systemic competitiveness of the national economy through investments in infrastructure (ports, airports, roads), basic services (electricity, water) and other services (telecommunications, financial services, etc.). Rather than representing a starting point for many industries, as in the case of some of the advanced East Asian developing countries,<sup>22</sup> the EPZs became an end in themselves that eventually came to limit and distort the nascent industrialization process in many of these Latin American countries.

Another problem associated with preferential access is that some assembly countries came to be preferred over others. For example, the implementation of the North American Free Trade Agreement (NAFTA) in 1994 effectively gave advantages to Mexico that the Caribbean countries did not possess.<sup>23</sup> Mexico enjoyed a six-point tariff rate advantage in the United States, was no longer subject to import quotas on many apparel items and, most notably, could count Mexican inputs as part of the requisite NAFTA content, which gave it a huge advantage over the Caribbean Basin countries. For that reason, since the inception of NAFTA the apparel assemblers of the Caribbean Basin have been lobbying the United States Congress for "NAFTA parity" for their apparel exports. Thus, not all assemblers have the same degree of preference. The entry into force of the United States—Caribbean Basin Trade Partnership Act of 2000 solved the problem of parity with regard to tariffs and quotas – in exchange for additional adjustments of national policy – but offered nothing comparable to rules of origin that favoured local inputs (beyond 350 million square metre equivalents of "regional fabric" up to the year 2008), and it is feared that – unlike Mexico's free trade agreement with Canada and the United States – the free trade agreement being negotiated between Central America and the United States may incorporate the same restrictions inherent in the production sharing mechanism.<sup>24</sup>

The low-wage element of the Caribbean Basin variant of apparel exports to the United States has also demonstrated very significant deficiencies. More than 15 years after the massive national currency devaluation of the 1980s, labour costs (including social and fringe benefits) in the apparel industry of the Caribbean Basin countries have been rising steadily (measured in dollars). As a result, many of their apparel assembly operations are being priced out of the North American

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<sup>21</sup> Mortimore, M. and W. Peres, "Policy competition for foreign direct investment in the Caribbean Basin: Costa Rica, the Dominican Republic and Jamaica", paper submitted under the OECD Development Centre Research Project on Policy Competition and FDI, Paris, OECD, February 1997.

<sup>22</sup> ESCAP (Economic and Social Commission for Asia and the Pacific), *Transnational Corporations and Technology Transfer in Export Processing Zones and Science Parks*, New York, 1994.

<sup>23</sup> Gitli, E. and R. Arce, "Los desbalances de los países de la Cuenca del Caribe frente al TLCAN: la industria de confecciones", *Integración y Comercio*, Year 4, No. 11, IDB-INTAL, May-August 2000; Gereffi, G. and J. Bair, "U.S. Companies Eye NAFTA's Prize", *Bobbin*, vol. 39, N° 7, San Francisco, Miller Freeman Inc., 1998; Dussel, op. cit., 2001; and Gereffi, G., "The Transformation of the American Apparel Industry: Is NAFTA a curse or a blessing?", *Desarrollo productivo* series, No. 84, ECLAC, Santiago, Chile, 2000.

<sup>24</sup> See El Caribe, "Las negociaciones en el área agrícola pintan muy difíciles: pocas ventajas para los textileros en los acuerdos con EE.UU.", <http://www.elcaribe.do>, Santo Domingo, Dominican Republic, 23 November 2002.

market without showing any real signs of industrial upgrading or specialization in higher-value output. Table 2 presents labour cost data for 40 apparel producers in 1990-1998, ranked from highest (Germany, Switzerland, Italy and Japan had hourly labour costs of more than US\$ 13 in 2000, but these rates had fallen significantly between 1995 and 1998) to lowest (seven Asian countries, including China, and one African country had hourly labour costs of under US\$ 0.44 that same year). The Caribbean Basin countries are generally in the middle of the pack (ranging from positions 13 to 25). Between 1995 and 1998, hourly labour costs held steady in all the Caribbean Basin countries except Costa Rica, where they rose from US\$ 2.23 to US\$ 2.52. That is, labour costs in the Caribbean Basin are increasing in relative terms and are now substantially higher than in many of the assemblers of standard apparel in Asia. Even within the Caribbean Basin, there is a considerable difference between the highest and lowest labour costs, found in Costa Rica and Guatemala, respectively. The threat from China is apparent, especially in view of the opening of the North American market in accordance with the requirements of the World Trade Organization (WTO) Agreement on Textiles and Clothing. The temptation for the Caribbean Basin countries to improve their competitiveness using measures such as artificial devaluation, wage control and cutbacks in social benefits is undoubtedly great.<sup>25</sup> However, this would only deepen a form of competitiveness that is artificial, spurious or illusory.

The identification of disadvantages associated with the Caribbean Basin assembly model does not mean that assembly activities have had no significant positive effects. Obviously, the countries have reaped benefits such as a phenomenal improvement in international competitiveness, increased exports, greater inflows of foreign exchange and many new jobs. The problem is that this competitiveness is not genuine – and is therefore not sustainable – because it is based not on technical progress but on advantages that are essentially artificial. Many evaluations of national experiences, based on surveys of the companies themselves, have pointed to the same conclusion: that there are significant shortcomings related to the lack of technology transfer, weak production linkages, the dearth of specialized training and limited business development.<sup>26</sup> Unlike the experiences of some Asian countries with full-package services, the Caribbean Basin assembly model does not do enough to promote integrated industrialization and productive development. Although *maquila* plays a leading role in manufacturing production, representing 20% of the total,<sup>27</sup> its growth rate is clearly losing momentum, and the elimination of fiscal incentives (required by the WTO Agreement on Subsidies and Countervailing Measures) and the opening of the North American market (required by the WTO Agreement on Textiles and Clothing) will pose formidable challenges for the Caribbean Basin countries.

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<sup>25</sup> Mortimore, M. and W. Peres, "Corporate competitiveness in Latin America and the Caribbean", *CEPAL Review*, No. 74, Santiago, Chile, August 2001.

<sup>26</sup> Mortimore, M., H. Duthoo and J.A. Guerrero, "Informe sobre la competitividad internacional de las zonas francas en la República Dominicana", *Desarrollo productivo* series, N° 22, Santiago, Chile, ECLAC, August 1995; Mortimore, M. and R. Zamora, "La competitividad internacional de la industria de prendas de vestir en Costa Rica", *Desarrollo productivo* series, N° 46, Santiago, Chile, ECLAC, 1998; Vicens, L., M. Mortimore and Eddy Martínez, "La competitividad internacional de la industria de prendas de vestir de la República Dominicana", *Desarrollo productivo* series, No. 45, Santiago, Chile, 1993; Reyes, F. and A. Domínguez, "Las zonas francas industriales en la República Dominicana: su impacto económico y social", Working paper N° 73, Santo Domingo, Banco Central de la República Dominicana/ILO, 1993; Buitelaar, Padilla and Urrutia, op. cit.; Gitli and Arce, op. cit.; and Wilmore, L., "Export Processing in the Caribbean: Lessons from Four Case Studies", Working paper N° 42, Santiago, Chile, ECLAC, 1996.

<sup>27</sup> ECLAC, "El sector manufacturero en el istmo centroamericano", Mexico City., LC/MEX/L.501, 5 December 2001.

Table 2

## Labour costs in the apparel industry, 1990-1998

Ranking	Country	Hourly cost <sup>1</sup> (dollars)			Annual growth 1990-1998 (%)
		1990	1995	1998	
1	Germany	7.23	20.35	18.04	18.7
2	Switzerland	14.19	22.42	17.58	3.0
3	Italy	12.50	13.68	13.60	1.1
4	Japan	6.34	20.95	13.55	14.2
5	United States	6.56	9.62	10.12	6.8
6	Spain	7.08	7.78	6.79	-0.5
7	Greece	4.33	7.19	6.55	6.4
8	Hong Kong	3.05	4.32	5.20	8.8
9	Taiwan	3.41	5.18	4.68	4.7
10	Portugal	2.30	3.85	3.70	7.6
11	Poland	0.50	1.42	2.77	56.8
12	South Korea	2.46	3.29	2.69	1.2
13	<i>Costa Rica</i>	<i>1.09</i>	<i>2.23</i>	<i>2.52</i>	<i>16.4</i>
14	Hungary	0.92	1.68	2.12	16.3
15	Czech Republic	0.67	1.55	1.85	-4.2
16	Turkey	1.07	1.52	1.84	4.5
17	México	0.92	1.61	1.51	8.0
18	<i>Dominican Rep.</i>	<i>0.67</i>	<i>1.52</i>	<i>1.48</i>	<i>15.1</i>
19	South Africa	1.07	1.58	1.39	3.7
20	Morocco	0.92	1.22	1.36	6.0
21	<i>El Salvador</i>	<i>0.69</i>	<i>1.43</i>	<i>1.35</i>	<i>12.0</i>
22	Malaysia	0.56	1.59	1.30	16.5
23	<i>Guatemala</i>	<i>0.45</i>	<i>1.30</i>	<i>1.28</i>	<i>23.1</i>
24	Mauritius	--	1.28	1.03	--

(conclusion Table 2)

Ranking	Country	Hourly cost <sup>1</sup> (dollars)			Annual growth 1990-1998 (%)
		1990	1995	1998	
25	<i>Honduras</i>	--	--	<i>0.91</i>	--
26	Thailand	0.63	1.11	0.78	3.0
27	Philippines	0.46	0.72	0.76	8.2
28	Nigeria	0.20	0.24	0.69	30.6
29	Egypt	0.34	0.51	0.68	12.5
30	Sri Lanka	0.24	0.41	0.44	10.4
31	China	0.26	0.25	0.43	8.2
32	India	0.33	0.29	0.39	2.3
33	Kenya	0.47	0.34	0.34	-3.5
34	Bangladesh	--	0.20	0.30	--
35	Pakistan	0.24	0.29	0.26	1.0
36	Vietnam	--	0.29	0.22	--
37	Indonesia	0.16	0.33	0.16	0.0

Source: Werner International Inc., "Hourly Labour Costs in the Apparel Industry" (1998).

<sup>1</sup> Cost includes social and fringe benefits.

## IV. Three variants in the Caribbean Basin

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The cases of Honduras, the Dominican Republic and Costa Rica illustrate three variants of the Caribbean Basin assembly model. Tables 3 to 5 provide relevant data on the competitiveness of these countries in the North American market. Table 3 contains information on Honduras, which was relatively late in adopting the Caribbean Basin assembly model and succeeded in displacing other competitors in the subregion on the basis of lower wages. This country managed to increase its share of the North American market from 0.09% to 0.22% between 1990 and 2000. Its success was entirely due to non-resource-based; mainly low technology manufactures, which jumped from 0.05% in 1985 to 1.06% in 2000. This entailed a shift in its merchandise export structure. Whereas in 1985, 90% of the value of its exports had come from natural resources or natural resource-based manufactures, by 2000 over 80% came from non-resource-based, almost exclusively low technology manufactures. Over 90% of its exports are concentrated in 10 main product groups; the first five places are taken by wearing apparel, which represents 78.2% of the total. Honduras is gaining market share in eight of those 10 groups, including the five categories of wearing apparel, which are also dynamic products in external trade. In other words, Honduras has become the prototype of a country that has achieved apparent success using the Caribbean Basin apparel assembly model.

Table 4 illustrates the case of the Dominican Republic, which is losing ground in terms of the Caribbean Basin apparel assembly

model. This country's share of total imports in that market had risen significantly (from 0.26% to 0.38% between 1985 and 1995, before falling to 0.32% in 2000). That improvement was centred on non-resource-based manufactures, whose share rose from 0.16% to 0.43% before the trend was reversed, dropping to 0.39% in 2000. Over the period 1985-2000 the structure of Dominican merchandise exports to that market was transformed from natural resource-based (47.7% of total exports in 1985) to non-resource-based manufactures (86% of the total in 2000). Low technology, non-resource-based manufactures became the mainstay of the Dominican export basket, accounting for two thirds (67.6%) of all exports to the North American market in 2000. More than three-quarters (77.8%) of Dominican exports were concentrated in just 10 product groups in 2000. The country increased its share in nine of those 10 groups, and eight of the products were among the most dynamic items in the North American market. Half of these principal export items pertain to the apparel industry, and their share increased from 17.6% of total exports in 1985 to 50.7% in 2000. Without doubt, the apparel industry is by far the principal link between the North American and Dominican markets. Unfortunately, its robust growth has not been reflected in the country's industrialization process or productive development. At present, flagging apparel exports are not being replaced with new exports. Since the Dominican Republic's international competitiveness was not based on the absorption of technical progress, it did not impart sustainable momentum to the industrialization process or productive development.

Table 5 presents information on Costa Rica, which has implemented productive development policies with the specific aim of avoiding problems such as those in the Dominican Republic. Costa Rica also improved its share in the North American import market (from 0.15% to 0.29% over the period 1985-2000). This improvement was centred on non-resource-based manufactures (which increased from 0.06% to 0.16%). One interesting development was that the growth in low-technology non-resource-based manufactures jumped from 0.19% in 1985 to 0.57% in 1995 before deteriorating and dropping back to 0.43% in 2000. Fortunately, high-technology non-resource-based manufactures surged from 0.02% in 1995 to 0.44% in 2000 as a result of the opening of an Intel microprocessor plant in the country. Costa Rica's merchandise export structure therefore underwent two fundamental changes: from a structure based on natural resources (72.5% of total exports in 1985) to one in which manufactures came to represent the larger part (68.1% in 2000), and from low-technology to high-technology manufactures. The 10 main export products account for three-quarters of total exports. In 2000, however, only 18% pertained to the apparel industry, while the electronics industry (SITC codes 759 and 776) contributed 32.8%. Costa Rica thus has three export bases for the North American market. It avoided the problem experienced in the Dominican Republic by means of an active policy of diversifying its exports in order not to fall into the "race to the bottom". Electronics exports still take place under the Caribbean Basin assembly model, but the situation with regard to access to the North American market is better (there are no quotas) and a national policy has been put in place to create a cluster of interrelated activities that could help to enhance the country's productive development.

**Table 3**  
**Honduras: international competitiveness**  
**in North American imports, 1985-2000**  
**(Percentages)**

			1985	1990	1995	2000
<b>I. Market share</b>			<b>0.11</b>	<b>0.09</b>	<b>0.17</b>	<b>0.22</b>
Natural resources 1/			0.52	0.42	0.40	0.21
Manufactures based on natural resources 2/			0.10	0.06	0.07	0.06
Manufactures not based on natural resources 3/			0.02	0.04	0.16	0.25
- Low technology 4/			0.05	0.15	0.66	1.06
- Mid-level technology 5/			0.00	0.00	0.00	0.02
- High technology 6/			0.00	0.00	0.00	0.00
Other 7/			0.03	0.03	0.04	0.09
<b>II. Export structure</b>			<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Natural resources 1/			76.2	62.2	27.4	10.6
Manufactures based on natural resources 2/			14.0	9.0	4.8	3.5
Manufactures not based on natural resources 3/			8.6	27.4	66.7	83.9
- Low technology 4/			7.7	27.2	65.8	81.4
- Mid-level technology 5/			0.8	0.1	0.8	2.3
- High technology 6/			0.1	0.1	0.1	0.2
Other 7/			1.0	1.3	1.1	2.0
<b>III. 10 main exports by contribution</b>	<b>a/</b>	<b>b/</b>	<b>76.2</b>	<b>79.7</b>	<b>88.2</b>	<b>91.2</b>
846 Undergarments, knitted or crocheted	*	+	1.4	8.3	23.2	39.4
(conclusion Table 3)						
			<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>
845 Outer garments and other articles, knitted or crocheted	*	+	0.0	1.7	13.8	19.1
842 Outer garments, men's and boys', of textile fabrics	*	+	0.4	5.5	8.7	7.1
844 Undergarments of textile fabrics (not knitted or croch.)	*	+	1.5	4.1	8.9	6.6
843 Outer garments, women's, girls' and infants', of tex fabrics	*	+	2.3	3.2	6.7	6.0
036 Crustaceans and molluscs, whether in shell or not		-	11.1	12.0	6.4	3.9
057 Fruit and nuts (not including oil nuts), fresh or dried		-	43.1	36.4	15.1	3.2
071 Coffee and coffee substitutes		+	14.6	6.9	3.1	2.6
122 Tobacco, manufactured		+	1.8	1.6	1.7	1.7
773 Equipment for distributing electricity	*	+	0.0	0.0	0.6	1.6

**Source:** ECLAC, on the basis of the TradeCAN software, 2002 edition.

Groups of goods based on the Standard International Trade Classification (SITC), Revision 2.

1/ Contains 45 simply processed commodities, including concentrates.

2/ Contains 65 items: 35 agricultural/forestry groups and 30 others (mostly metals other than steel, plus petroleum products, cement, glass, etc.).

3/ Contains 120 groups that represent the sum of 4/ + 5/ + 6/.

4/ Contains 44 items: 20 groups in the textiles and wearing apparel cluster, plus 24 others (paper products, glass and steel, jewellery).

5/ Contains 58 items: 5 groups in the motor vehicle industry, 22 in the processing industry and 31 in the engineering industry.

6/ Contains 18 items: 11 groups in the electronics cluster plus 7 others (pharmaceuticals, turbines, aeroplanes, and instruments).

7/ Contains 9 unclassified groups (mostly from section 9).

a/ Groups that are among (\*) the 50 most dynamic in North American imports, 1985-2000.

b/ Groups in which Honduras gained (+) or lost (-) market share in North American imports, 1985-2000.



Table 4  
**Dominican Republic: international competitiveness  
in North American imports, 1985-2000**  
(Percentages)

			1985	1990	1995	2000
<b>I. Market share</b>			<b>0.26</b>	<b>0.31</b>	<b>0.38</b>	<b>0.32</b>
Natural resources 1/			0.39	0.25	0.21	0.08
Manufactures based on natural resources 2/			0.39	0.24	0.25	0.22
Manufactures not based on natural resources 3/			0.16	0.32	0.43	0.39
- Low technology 4/			0.54	1.02	1.46	1.31
- Mid-level technology 5/			0.04	0.12	0.15	0.15
- High technology 6/			0.03	0.03	0.05	0.05
Other 7/			0.77	0.47	0.33	0.20
<b>II. Export structure</b>			<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Natural resources 1/			24.8	11.3	6.5	2.8
Manufactures based on natural resources 2/			22.9	10.7	7.9	7.9
Manufactures not based on natural resources 3/			39.2	71.3	81.9	86
- Low technology 4/			32.9	56.7	65.8	67.6
- Mid-level technology 5/			5.1	12.8	13.5	15.2
- High technology 6/			1.2	1.8	2.6	3.2
Other 7/			13.1	6.6	3.7	3.2
<b>III. 10 main exports by contribution</b>	<b>a/</b>	<b>b/</b>	<b>29.6</b>	<b>59.9</b>	<b>70.5</b>	<b>77.8</b>
842 Outer garments, men's and boys', of textile fabrics	*	+	5.4	13.4	16.5	18.5
(conclusion Table 4)						
			<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>
846 Undergarments, knitted or crocheted	*	+	5.6	8.1	12.6	15.4
843 Outer garments, women's, girls' and infants', of textile fabrics	*	+	5.7	10.2	10.6	9.2
872 Medical instruments and appliances	*	+	0.0	4.3	7.0	7.9
845 Outer garments and other articles, knitted or crocheted	*	+	0.9	4.7	5.7	7.6
772 Electrical appar. for making / breaking electrical circuits	*	+	1.3	3.9	4.2	5.4
122 Tobacco, manufactured		+	1.8	1.3	1.9	4.2
897 Jewellery, goldsmiths' and silversmiths' wares, etc.	*	+	3.7	4.8	3.5	3.7
612 Manufactures of leather or of composition leather		+	3.4	6.3	6.1	3.4
931 Special transactions not classified according to kind	*	-	1.8	2.9	2.4	2.5

**Source:** ECLAC, on the basis of the TradeCAN software, 2002 edition.

Groups of goods based on the Standard International Trade Classification (SITC), Revision 2.

1/ Contains 45 simply processed commodities, including concentrates.

2/ Contains 65 items: 35 agricultural/forestry groups and 30 others (mostly metals other than steel, plus petroleum products, cement, glass, etc.).

3/ Contains 120 groups that represent the sum of 4/ + 5/ + 6/.

4/ Contains 44 items: 20 groups in the textiles and wearing apparel cluster, plus 24 others (paper products, glass and steel, jewellery).

5/ Contains 58 items: 5 groups in the motor vehicle industry, 22 in the processing industry and 31 in the engineering industry.

6/ Contains 18 items: 11 groups in the electronics cluster plus 7 others (pharmaceuticals, turbines, aeroplanes, and instruments).

7/ Contains 9 unclassified groups (mostly from section 9).

a/ Groups that are among (\*) the 50 most dynamic in North American imports, 1985-2000.

b/ Groups in which the Dominican Republic gained (+) or lost (-) market share in North American imports, 1985-2000.

**Table 5**  
**Costa Rica: international competitiveness**  
**in North American imports, 1985-2000**  
**(Percentages)**

			1985	1990	1995	2000
<b>I. Market share</b>			<b>0.15</b>	<b>0.19</b>	<b>0.23</b>	<b>0.29</b>
Natural resources 1/			0.60	0.64	0.75	0.64
Manufactures based on natural resources 2/			0.08	0.07	0.11	0.11
Manufactures not based on natural resources 3/			0.06	0.13	0.17	0.27
- Low technology 4/			0.19	0.46	0.57	0.43
- Mid-level technology 5/			0.02	0.03	0.05	0.08
- High technology 6/			0.02	0.02	0.02	0.44
Other 7/			0.03	0.07	0.12	0.16
<b>II. Export structure</b>			<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Natural resources 1/			65.1	46.5	38.5	24.4
Manufactures based on natural resources 2/			7.4	4.8	5.6	4.7
Manufactures not based on natural resources 3/			26.7	47.1	53.5	68.1
- Low technology 4/			20.2	40.6	43.3	25.0
- Mid-level technology 5/			5.3	5.1	7.9	8.6
- High technology 6/			1.2	1.4	2.3	34.5
Other 7/			0.9	1.6	2.4	2.8
<b>III. 10 main exports by contribution</b>	<b>a/</b>	<b>b/</b>	<b>62.2</b>	<b>64.4</b>	<b>62.6</b>	<b>75.9</b>
759 Parts, n.e.s. of machines falling within heading 751 or 752	*	+	0.2	0.0	0.2	29.0

(conclusion Table 5)

			1985	1990	1995	2000
057 Fruit and nuts (not including oil nuts), fresh or dried		+	33.9	27.2	24.1	15.5
846 Undergarments, knitted or crocheted	*	+	5.0	9.8	12.1	8.1
842 Outer garments, men's and boys', of textile fabrics		+	3.7	9.6	10.9	5.7
776 Cathode lamps, electronic valves and tubes	*	+	0.3	0.1	0.1	3.8
071 Coffee and coffee substitutes		+	12.4	6.0	4.1	3.6
872 Medical instruments and appliances	*	+	0.0	0.5	1.9	3.4
931 Special transactions and commodities not classified according to kind	*	+	0.8	1.3	1.7	2.6
845 Outer garments and other articles, knitted or crocheted	*	+	0.5	3.1	4.0	2.3
843 Outer garments, women's, girls' and infants', of textile fabrics		-	5.4	6.8	3.5	1.9

**Source:** ECLAC, on the basis of the TradeCAN software, 2002 edition.

Groups of goods based on the Standard International Trade Classification (SITC), Revision 2.

1/ Contains 45 simply processed commodities, including concentrates.

2/ Contains 65 items: 35 agricultural/forestry groups and 30 others (mostly metals other than steel, plus petroleum products, cement, glass, etc.).

3/ Contains 120 groups that represent the sum of 4/ + 5/ + 6/.

4/ Contains 44 items: 20 groups in the textiles and wearing apparel cluster, plus 24 others (paper products, glass and steel, jewellery).

5/ Contains 58 items: 5 groups in the motor vehicle industry, 22 in the processing industry and 31 in the engineering industry.

6/ Contains 18 items: 11 groups in the electronics cluster plus 7 others (pharmaceuticals, turbines, aeroplanes, and instruments).

7/ Contains 9 unclassified groups (mostly from section 9).

a/ Groups that are among (\*) the 50 most dynamic in North American imports, 1985-2000.

b/ Groups in which Costa Rica gained (+) or lost (-) market share in North American imports, 1985-2000.



## V. Conclusions

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If one were to prepare a kind of scorecard on the apparel industry's capacity to propel the process of industrialization and productive development in the Caribbean Basin countries, some interesting conclusions could be drawn about this experience. First, in terms of intensifying the industrialization process, reliance on the production sharing mechanism (HTS 9802) does indeed truncate the national industrialization process in respect of apparel. Only the assembly stage is located in the Caribbean Basin and, aside from labour, no significant local inputs are incorporated into the final products. Moreover, the tax incentives for the export processing zones so limit the fiscal income received by the State from this central export activity that it cannot be said to provide resources for other urgent activities, such as stimulating the national industrialization process, promoting new exports and improving the systemic competitiveness of the economy as a whole through the development of infrastructure and basic services, and indeed the training of human resources to perform more sophisticated and better-paid tasks.

Second, as regards gaining genuine competitiveness, it is abundantly clear that these apparel exports are not linked to the national economy in any integral way. These exports are "competitive" only in the United States market, and are not competitive in other markets. One might ask: Does the apparel industry create leading domestic companies that evolve into major players in international markets, as did the "full-package" suppliers in Asia?

On the contrary, the opposite occurred when the opening-up of the national economies gave rise to competition from imports that destroyed most of the integrated operations of domestic firms built on import substitution—based industrialization. Since these firms do not possess a Caribbean Basin network of assembly operations, they grow or decline in keeping with demand from the North American market. Even their ability to compete for buyers' contracts is severely limited by the size and characteristics of the local economy, let alone their ability to manufacture (rather than assemble) apparel. They have a hard time surviving because their operations are not integrated.

It is clear, then, that the assembly model of the apparel industry in the Caribbean Basin does not contribute significantly to productive development. It is based on a mechanism designed exclusively to make United States apparel firms more competitive in their own market. What is needed is a mechanism that explicitly and consciously aims at strengthening the long-term growth of the host economy, and especially at achieving a sustained rise in per capita income. The current model truncates national industrialization instead of deepening it. Also, instead of producing exports that represent the international extension of the industrialization process, it limits the local activity to the simple assembly of foreign components. Such assembly activities were a starting point for the industrial activities of some Asian countries, but those countries had industrial policies that promoted integrated activities. Lastly, instead of giving birth to domestic companies, which evolve into global competitors, the assembly model threatens their very existence.

Dire consequences are foreseen for those apparel exporters that do not possess a local industrialization process when the Multifibre Arrangement comes to an end in 2005 under the terms of the Agreement on Textiles and Clothing of the Uruguay Round of GATT, for that is when the quotas placed on apparel by the United States and other countries are to be terminated. Caribbean Basin apparel assemblers will have a hard time competing in the United States (and other markets) against the integrated apparel producers of East Asia. The latter produce textiles and apparel at scales of production far beyond the reach of the truncated Caribbean Basin operations. Lacking a competitive local or subregional industrialization process to sustain apparel exports, the Caribbean Basins operations will probably collapse in the face of the Asian steamroller. In the few years remaining before that happens, the Caribbean Basin apparel industry must attempt to improve its situation.

In the little time that is left, the Central America governments must continue to insist on NAFTA parity in the North American market under the free trade agreement they are negotiating with the United States, so that national or subregional local inputs can count as CAFTA (Central American Free Trade Agreement) inputs and thereby promote some degree of industrial integration. Also, they and the Caribbean governments should insist on increasing, as much as possible, the square metre equivalents of regional fabric allowed under the trade agreement concluded with the United States in 2000.<sup>28</sup> They must also look for opportunities to associate themselves in some way with the full-package suppliers that have appeared in Mexico as a consequence of NAFTA. Lastly, they must learn from the East Asian experience with a view to becoming full-package suppliers themselves. Above all, the Caribbean Basin countries' development policies should be guided by the aim of achieving genuine, not illusory, competitiveness.

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<sup>28</sup> United States-Caribbean Basin Trade Partnership Act of 2000 (<http://www.mac.doc.gov/CBI/Webmain/guide3.htm>).

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