

NAFTA'S EFFECT ON U.S. COTTON TEXTILE TRADE: THE FIRST FOUR YEARS

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Abstract

The North American Free Trade Agreement (NAFTA) among the United States, Mexico, and Canada has had a positive effect overall on U.S. agriculture, reinforcing the trend toward greater integration of markets in North America. With the competitiveness of U.S. agriculture enhanced, American consumers have also benefited from wider sources of supply. The purpose of this paper is to examine and present the changes that have occurred in U.S. cotton textile trade since NAFTA's inception in 1994. While NAFTA is one of many factors affecting U.S. textile trade, some interesting observations have developed. Although the complete effects of NAFTA will not be felt until the agreement is fully implemented over the next ten years, the first four years may provide a glimpse of U.S. cotton textile trade during the next decade.

Background

The North American Free Trade Agreement (NAFTA), implemented on January 1, 1994, began liberalizing trade and investment rules among the United States, Canada, and Mexico. The United States pursued NAFTA to secure its relationship with Canada and Mexico, promote economic stability in both countries, and to lock in policy reforms and trade gains achieved since the mid-1980's. NAFTA encompasses the Canada-U.S. Free Trade Agreement (CFTA), which began in 1989, and builds on the "Framework of Principles and Procedures for Consultations Regarding Trade and Investment Relations" between the United States and Mexico, which began in 1987.

While the structural changes resulting from trade liberalization take time to develop, the complete effects of NAFTA will not be felt until the agreement is more fully implemented. Therefore, any early assessment of the impact of NAFTA must recognize that NAFTA is only one of several factors that have influenced North American agricultural markets in the last few years. Trade liberalization with NAFTA and domestic policy reforms in the United States, Canada, and Mexico are part of a broader global trend toward more market-oriented policies. All three countries have recently adopted fundamental domestic agricultural policy reforms, and the effects of these changes are sometimes difficult to separate from the direct effects of NAFTA trade reforms.

For textile products, the United States reduced tariffs and expanded quota-free access for items constructed from yarn and fiber produced by a NAFTA country. Starting in 1998, all duties on textile goods between the United States and Canada that qualify under NAFTA are eliminated. By 1999, over 95 percent of the U.S. duties on Mexico's textile goods that qualify under NAFTA rules of origin will be eliminated, and at the same time, over 90 percent of Mexico's duties on U.S. textile exports that qualify will be eliminated.

Introduction

Since NAFTA began just four years ago, a brief overview of U.S. cotton textile trade provides a better perspective as to where the United States was and is today in the seemingly ever-changing world of textiles. For the purposes of this paper, the word "textiles" comprise a vast array of processed and semi-processed products. These include yarn, thread, fabric, apparel items, and even home furnishings and floor coverings, such as blankets, curtains, and rugs. These items are measured in "raw fiber equivalent" units, which estimate the actual poundage of raw fiber contained in each textile product. This allows meaningful comparisons between and among different fibers and product categories. For a more detailed discussion of the "raw fiber equivalent" concept, see Glade and Lawler.

U.S. cotton textile trade since the 1960's has shown some dramatic changes (Figure 1). In the early 1960's, the quantity of cotton textile imports and exports were very similar. Prior to this period, the United States exported more cotton textiles annually than it imported. Since 1960, however, only one year (1961) provided a net trade surplus in cotton textiles. Despite a rise in cotton textile exports in the 1970's and the subsequent reduction in the trade deficit, exports could not keep pace with imports. In the early 1980's, cotton textile exports fell dramatically as real exchange rates made U.S. products more expensive overseas, while at the same time, imports surged as relatively cheap imported products became available to U.S. consumers. However, cotton textile exports rebounded and have risen for 13 consecutive years in 1997, despite expanding imports, which have increased for the previous 9 years.

Textile Trade After NAFTA

Since NAFTA's inception, the overall volume of cotton textile trade has continued to rise. U.S. cotton textile exports have climbed from about 1 billion pounds in 1993 to an estimated record of 1.8 billion for 1997. This gain translates into an average growth rate of 17 percent annually during the first 4 years of NAFTA, which is identical to the 4 years prior to NAFTA (1990-1993). On the other hand, the growth in cotton textile imports has slowed during this same period despite 1997's dramatic increase. In 1997, U.S. cotton textile imports are estimated at a record 5 billion pounds, compared with nearly 3.6 billion four years earlier. The growth rate during this period equals about 9 percent annually, but is

below the 11 percent average growth per year during the 4 years preceding NAFTA.

While NAFTA alone is not responsible for all of the changes in U.S. cotton textile trade, NAFTA has certainly influenced it. Over the past several years, U.S. cotton textile trade has been shifting, not only in the source or destination of the products but also in the type of products that are traded. Let's first examine briefly the makeup of the cotton textile products that the United States has imported and exported since 1993. First, the products were divided into three categories: apparel; yarn, thread, and fabric (YTF); and other. The "other" category consists of three relatively small product groups: home furnishings, floor coverings, and headgear.

Changes in Products Traded

U.S. cotton textile imports consist largely of apparel items, which is no surprise as these items are labor intensive and can be produced much cheaper outside the United States (Table 1). In 1993, the United States imported the equivalent of 2.2 billion pounds of raw cotton in the form of apparel products, or 63 percent of all cotton textile imports. During that same year, YTF products totaled 1 billion pounds, or 28 percent of all cotton textile imports. Meanwhile, the "other" category accounted for only 300 million pounds, or nine percent of the 1993 total.

During the course of the last four years, however, cotton apparel imports have risen while imports of YTF have declined. Apparel imports rose to nearly 3 billion pounds in 1996, constituting 71 percent of all cotton textile imports. On the other hand, YTF imports have fallen since 1993 and totaled only about 850 million pounds in 1996, or 20 percent of the quantity imported. And data for the first nine months of 1997 suggest that this trend will continue. During January-September 1997, U.S. cotton textile imports had reached 3.7 billion pounds. Apparel imports continued to account for 71 percent of the total, while YTF imports made up 21 percent.

Looking at exports, the changes are not quite as dramatic, but like imports, apparel accounts for the largest share of U.S. cotton textile exports (Table 2). However, this was not the case just a few years ago. Prior to 1992, YTF accounted for the largest share of the total. But, with the continued success of the Caribbean Basin Initiative (CBI), which allows quota-free access for products produced with U.S. fabric, apparel pieces have been increasingly shipped to CBI countries for assembly before returning to the United States as apparel products. In 1993, the United States exported the equivalent of 511 million pounds of raw cotton in apparel items, or 53 percent of all cotton textile exports. YTF exports accounted for 365 million pounds, or 38 percent of the total, while the "other" category totaled only 82 million pounds, nearly 9 percent all cotton textile exports.

Since 1993, the quantity of both cotton apparel and YTF exports has increased, but the percentage of apparel exports has risen slightly from the 1993 level at the expense of both the YTF and "other" categories. In 1996, cotton textile exports of apparel products approached 900 million pounds, or 60 percent of all shipments. At the same time, YTF exports rose to 521 million pounds, but the share of total cotton textile exports declined to 35 percent. And during the first 9 months of 1997, the data indicate that apparel exports accounted for 58 percent of all cotton textile shipments while YTF contributed 36 percent.

Trade With Canada and Mexico

Shifting the focus from the makeup of the product itself to the source or destination of U.S. cotton textiles also provides some interesting changes. Textile trade with Canada and Mexico has risen for a number of years, even before NAFTA was implemented. As a result of the CFTA, U.S. cotton textile trade with Canada has grown steadily, with large surpluses for the United States. The United States is Canada's major textile export market and one of its largest sources for imports. Mexico, on the other hand, began liberalizing its textile industries during the late 1980's, and like the CBI countries, gained quota-free access for apparel and other textile products produced from U.S. fabric. With NAFTA, however, Mexico's access to the U.S. market surpassed that available to CBI countries. During the 1990's, cotton textile trade between the United States and Mexico grew significantly, but since Mexico's peso devaluation in 1995, the trade balance has returned to a deficit for the United States.

Between 1989 and 1993, U.S. cotton textile imports from Canada tripled in quantity to about 60 million pounds (Figure 2). Imports from Mexico during this same period more than doubled to 170 million pounds. Since 1993, U.S. imports from both Canada and Mexico have continued higher. In fact, during the first nine months of 1997, U.S. cotton textile imports from these two countries had already exceeded the quantity imported during the entire 1996 calendar year. U.S. cotton textile imports from Canada in 1997 are nearly double the 1993 level, while imports from Mexico are more than triple the pre-NAFTA level.

Meanwhile, U.S. cotton textile exports to Canada and Mexico have followed a pattern similar to imports (Figure 3). Between 1989 and 1993, U.S. cotton textile exports to Canada more than doubled to 145 million pounds, while shipments to Mexico nearly tripled to 167 million pounds. As with imports, cotton textile exports to these two countries have continued to expand. During January-September 1997, U.S. cotton textile exports to Canada had already exceeded those for 1996, while exports to Mexico were slightly below the 1996 annual total. Since 1993, textile exports to Canada are 24 percent higher, while shipments to Mexico are double the 1993 level.

Regional Shifts in Trade

NAFTA's direct impacts on U.S. cotton textile trade have been smaller than the impacts of pre-NAFTA changes like those in agricultural policy, the peso devaluation, and changes in textile trade with Asia. In addition to gains in textile trade with Canada and Mexico, U.S. cotton textile trade with other North American countries has expanded as well (Table 3). In fact, all North American textile producers have benefited from a slowdown in textile shipments from traditional Asian exporting countries. In 1993, U.S. cotton textile imports from North American countries accounted for only 19 percent of the total, while imports from Asian countries contributed 65 percent. Countries in Europe and South America contributed seven and five percent, respectively.

Since 1993, however, the share of U.S. cotton textile imports coming from North American countries has steadily increased at the expense of all the other regions. During the first 9 months of 1997, data indicate that the North American share of U.S. imports reached 36 percent, while Asian imports as a percentage of the total declined to 52 percent. In addition, the share for countries in Europe and South America slipped to six and two percent, respectively.

Likewise, U.S. cotton textile exports have expanded to North American countries since the start of NAFTA (Table 4). However, unlike Asia's domination in U.S. cotton textile imports prior to 1994, the majority of U.S. cotton textile exports has historically gone to North American countries. In 1993, 65 percent of all U.S. cotton textile exports went to other North American countries, while 15 percent went to Asian countries. In addition, countries in Europe and South America received 14 and 5 percent, respectively, of all U.S. shipments.

Since 1993, both the quantity and share of total U.S. cotton textile shipments have risen dramatically to the North American region. During January-September 1997, data indicate that the North American share of U.S. cotton textile exports reached nearly 80 percent. Shares to Asia and Europe have decreased to eight percent each, while countries in South America accounted for only four percent of U.S. shipments.

Leading Import Origins and Export Destinations

Narrowing the focus further, the leading origins of and destinations for U.S. cotton textiles were examined for 1993 and 1997 (Table 5). In 1993, the top 5 countries accounted for 40 percent of all U.S. cotton textile imports, while the top 10 countries accounted for nearly 58 percent. As noted earlier, Asian countries were the dominant source for these imports. In 1993, China alone, the leading origin of U.S. cotton textile imports, accounted for 13 percent of the total. At the same time, Mexico, ranked sixth in 1993, contributed about five percent of all U.S. cotton textile imports.

As discussed earlier, Mexico's shipments to the United States continued to steadily climb after the implementation of NAFTA. In addition, lower U.S. imports from China, Hong Kong, and other Asian countries came as fiber prices soared overseas while U.S. import quotas slowed some products from China. In 1994, Mexico moved from sixth position to fourth position, accounting for about six percent of U.S. cotton textile imports. And in 1995, Mexico's textile and apparel exports to the United States jumped, allowing Mexico to surpass China and become the leading source for U.S. cotton textile imports, accounting for ten percent of the market.

For 1997, Mexico remains the leading source for U.S. cotton textile imports. During the first 9 months of 1997, Mexico accounted for nearly 16 percent of all cotton textile imports by the United States, with the top 5 countries now contributing 44 percent of the total. The top 10 origins for U.S. cotton textiles account for 63 percent of all textile imports. While the Asian countries combined still comprise the leading sources for U.S. cotton textile imports, they no longer dominate the U.S. market as they did in the past. In fact, data for the nine months of 1997 indicate that Honduras and Canada have replaced two Asian countries as top ten sources for U.S. cotton textile imports. As a result, Asian countries now contribute roughly one-third of U.S. cotton textile imports from the top ten countries, compared with half the total in 1993.

Taking a closer look at the leading export destinations for U.S. cotton textiles finds North American countries accounting for the bulk of U.S. shipments as previously noted (Table 6). In 1993, the top 5 countries accounted for 55 percent of all U.S. cotton textile exports, while the top 10 countries totaled 74 percent. Mexico and Canada alone accounted for nearly one-third of the total cotton textile shipments by the United States in 1993.

After NAFTA's implementation, both the quantity and share of U.S. cotton textile exports to Mexico and Canada have continued their climb. Data for January-September 1997 indicate that Mexico and Canada remain the leading markets for U.S. cotton textile exports, totaling a combined 42 percent. Meanwhile, the top 5 destinations for U.S. cotton textile exports combined for 68 percent of all U.S. shipments. At the same time, the top 10 countries accounted for 83 percent of the total. Unlike the import shifts that occurred in the top ten list between 1993 and 1997, the top three destinations for U.S. textiles remain the same for both time periods. In addition, only one "new" country joined the 1997 list as one of the ten leading destinations. Based on data for January-September 1997, El Salvador has replaced the United Kingdom.

Impact on the U.S. Cotton Industry

For the 1997 calendar year, the U.S. cotton textile trade deficit is estimated to reach a record 3.2 billion pounds, or

the equivalent of 6.5 million bales of raw cotton. Although a record cotton textile deficit does not sound very positive for the cotton industry, two key points should be considered. First of all, U.S. cotton textile mills do not have the current capacity to spin the additional 6.5 million bales of fiber associated with the deficit. In addition, and perhaps the most important point to remember, the United States is the leading exporter of raw cotton and some of this fiber returns in the form of imported textiles. For example, the United States exports to Mexico nearly all of its raw cotton needs. Some of this fiber is turned into textile products which are then returned to the United States. Also, large quantities of U.S. cotton textile exports are shipped to Mexico, some of which are semi-processed products that are finished in Mexico and then returned as U.S. cotton textile imports.

Over the past several years, NAFTA and other factors have influenced not only the type of cotton textile products traded but also the countries with which the United States trades these products. As a result of the increased trade with North American countries, it is hypothesized that a larger percentage of raw cotton from the United States is now returning in the form of textile imports. To illustrate this point, a "weighted export return ratio" was used for estimating purposes. Previous studies by USDA have calculated this ratio as an estimate of the weighted average proportion of U.S. cotton that is contained in textile and apparel imports from abroad which originated in the United States as raw cotton or textile exports. For more details about this ratio and how it was calculated, please refer to Townsend and Glade.

For this analysis, the weighted export return ratios calculated for the unpublished USDA study covering the 1993 calendar year were used for estimating purposes. The top ten countries that supplied U.S. cotton textile imports in 1993 and 1997 were reexamined to estimate the quantity of U.S. cotton contained in these products. The quantity of U.S. cotton textile imports from each of the ten countries was multiplied by their respective export return ratio to yield the amount of U.S. cotton returned. These quantities were then summed for comparison between 1993 and 1997.

Because of the changes, related to NAFTA or otherwise, that have occurred in U.S. cotton textile trade over the last several years, a much larger share of U.S. raw cotton is now contained in U.S. cotton textile imports. In 1993, nearly 2.1 billion pounds were imported from the 10 leading markets. However, only about 26 percent of this amount was estimated as U.S. cotton returned. On the other hand, the 10 leading sources for U.S. cotton textile imports surpassed 2.3 billion pounds during the first 9 months of 1997, and, based on the export return ratios, suggest that nearly 40 percent of this total was U.S. cotton returned in the form of textile imports. For comparison purposes, the study by Townsend and Glade conducted 15 years ago would suggest that about 31 percent of U.S. cotton textile imports from the top 10 sources in 1982 was U.S. cotton.

Conclusions

NAFTA has provided a framework to better help integrate the markets of North America. Even in the early stages of NAFTA, some positive effects of liberalized trade can be seen, although not always easily quantified. Perhaps a study analyzing the relative impacts of other variables that have affected textile trade would prove beneficial. Though NAFTA has not been the only influencing factor on U.S. cotton textile trade, the agreement has provided increased market access of its members. Since NAFTA's inception, total U.S. cotton textile trade has continued to expand, and in particular, trade with North American markets has flourished. And although the U.S. cotton textile trade deficit is reaching new heights, a larger percentage of U.S. cotton is now contained in these imports, a plus for the U.S. cotton industry. And finally, U.S. cotton textiles will continue to play a prominent role in world trade, especially as the global marketplace becomes more integrated over the next decade.

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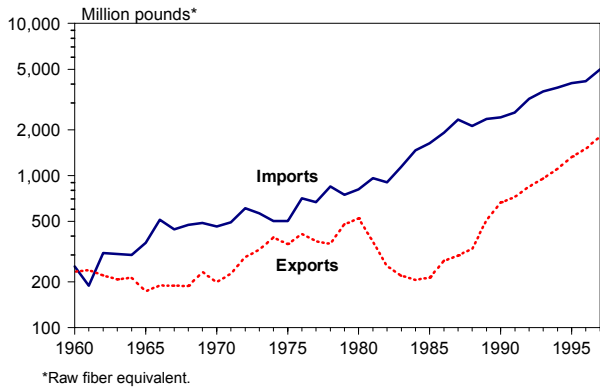


Figure 1. U.S. Cotton Textile Trade.

Table 1. Percentage of U.S. Cotton Textile Imports by Category.

Year	Apparel	YTF 1/	Other 2/
1993	63	28	9
1994	67	24	9
1995	69	22	9
1996	71	20	9
Jan-Sep 1997	71	21	8

1/ Yarn, Thread, and Fabric.

2/ Home Furnishings, Floor Coverings, and Headgear.

Table 2. Percentage of U.S. Cotton Textile Exports by Category.

Year	Apparel	YTF 1/	Other 2/
1993	53	38	9
1994	55	38	7
1995	57	37	6
1996	60	35	6
Jan-Sep 1997	58	36	5

1/ Yarn, Thread, and Fabric.

2/ Home Furnishings, Floor Coverings, and Headgear.

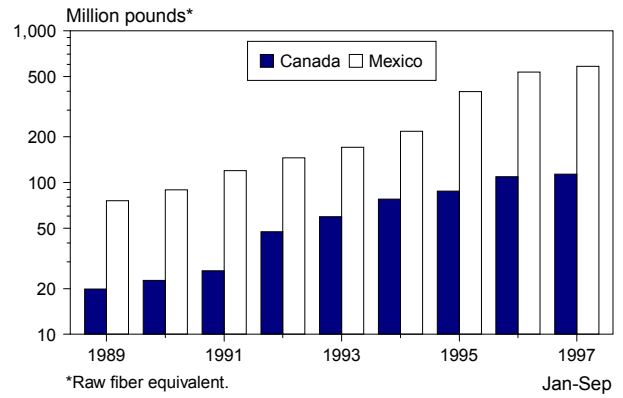


Figure 2. U.S. Cotton Textile Imports from Canada and Mexico.

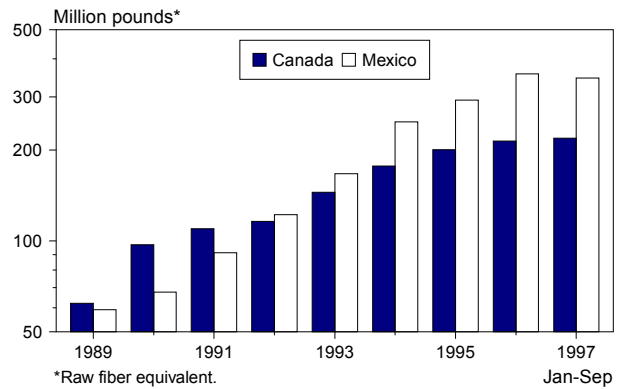


Figure 3. U.S. Cotton Textile Exports to Canada and Mexico.

Table 3. Percentage of U.S. Cotton Textile Imports by Region.

Region	1993		Jan-Sep 1997
N. America	19.1		36.4
Asia	65.1		52.4
Europe	7.3		6.1
S. America	4.5		1.9
Other 1/	4.1		3.2

1/ Includes Africa, Australia, and Oceania.

Table 4. Percentage of U.S. Cotton Textile Exports by Region.

Region	1993		Jan-Sep 1997
N. America	64.5		79.5
Asia	14.6		7.8
Europe	13.9		7.7
S. America	4.9		3.7
Other 1/	2.2		1.4

1/ Includes Africa, Australia, and Oceania.

Table 5. Percentage of U.S. Textile Imports from the Major Markets.

Market	1993		Market	Jan-Sep 1997
Top 5 Countries	40.3		Top 5 Countries	44.0
Top 10 Countries	57.6		Top 10 Countries	63.0
China	13.0		Mexico	15.6
Hong Kong	9.6		China	8.6
India	7.1		India	7.4
Pakistan	5.4		Pakistan	6.4
Taiwan	5.2		Hong Kong	6.0
Mexico	4.8		Honduras	5.0
Dom. Republic	3.5		Dom. Republic	3.8
Indonesia	3.3		Bangladesh	3.7
Thailand	3.0		Indonesia	3.5
S. Korea	2.7		Canada	3.0

Table 6. Percentage of U.S. Textile Exports to the Major Markets.

Market	1993		Market	Jan-Sep 1997
Top 5 Countries	55.0		Top 5 Countries	67.9
Top 10 Countries	74.1		Top 10 Countries	83.0
Mexico	17.4		Mexico	25.9
Canada	15.1		Canada	16.4
Dom. Republic	9.8		Dom. Republic	10.4
Costa Rica	6.4		Honduras	9.9
Japan	6.3		Costa Rica	5.3
Jamaica	4.9		Jamaica	3.9
Honduras	4.5		El Salvador	3.2
Belgium	3.6		Japan	3.2
United Kingdom	3.2		Guatemala	2.8
Guatemala	2.9		Belgium	2.0