Policies and Instruments

INTENDED TO DEEPEN REGIONAL INTEGRATION IN THE NAFTA REGION'S CLOTHING INDUSTRY

CAMARA NACIONAL INDUSTRIA VESTIDO

Enrique Dussel Peters

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INTRODUCTION

The yarn-textile-garment (YTG) chain and specifically the apparel segment are at a turning point: as well as the global financial crisis that continues since 2008, the chain's industrial organization, its inter- and intra-firm relations and its exports to the United States have undergone profound changes since the year 2000. Today this chain is an important socio-economic activity in North America (including Canada, United States and Mexico) in terms of production, employment, technological development and socio-economic cohesion in specific regions, and it has achieved a high level of integration between these three countries. Without a doubt, the North American Free Trade Agreement (NAFTA) has played a defining role since it came into force in 1994; but trends have also been observed since then that have permitted the region's integration with particular characteristics.

It is in this context —one of crisis and profound changes— that this document aims at presenting economic policy proposals to the authorities and decision makers (in the executive, legislative and judicial branches) in Mexico and the United States, as well as to their societies, communication media and the experts. The document begins by describing the conditions of the YTG chain, and particularly the apparel segment, in Mexico in 2009, and includes possible scenarios in the short, medium and long term. It focuses specifically on the competitiveness of its exports to the United States and other areas will be indicated but not examined in detail.

Although it begins with a brief diagnostic and Annexes, the central part of this document highlights proposals directed to the respective counterparts in the public and private sector, as well as to experts and academics and unions and non-governmental organizations (NGOs), depending on the issue.

In view of these objectives, the paper is divided into tour sections. The first section mentions a series of conceptual aspects that are relevant to decision making in several territorial environments. The second section examines the main changes that have taken place in the YTG chain, and specifically in apparel, at a global level and in Mexico. The objective is not to present a detailed analysis, but rather to set the bases needed to understand the challenges faced by Mexican apparel companies and their exports to the United States, now and in the short, medium and long term. The third section establishes the conditions faced by Mexican apparel exports to the United States, highlighting four issues: a) rules of origin, b) Trade Preference Levels (TPLs), c) the short supply program, and d) customs and transportation. The fourth and last section is a recapitulation of the main aspects of the three preceding sections. Each section includes specific proposals directed to the corresponding responsible parties.

The spirit of this document is proactive, constructive and of urgency. The YTG chain and the apparel segment have been important elements in Mexico's social economy and history, and the income of millions of families in Mexico and North America depend on them. There is, however, an aspect of urgency as it is imperative to make decisions in 2009 and the immediate term for the improvement of competitiveness of companies established in Mexico and in order to deepen the integration process of the North American region. Otherwise, we will have missed an opportunity and a relevant historical moment, which can result in social, economic, technological and other repercussions.

Considering the above, proposals are presented in each corresponding chapter.

1. Conceptual Aspects: Glocalization and Systemic Competitiveness

The present "glocalization" process —globalization and localization— may be understood as the result of two apparently opposite socio-economic forces: a centrifugal force that tends to distance global production processes and segment them by territory, this is also known as offshoring or outsourcing; and a centripetal force that concentrates and regroups production processes, also known as clusters that are specialized according to specific processes and products. The maquiladora industry (MI) that has existed since the 80's in Mexico and in the Free Trade Zones of Central America and the Caribbean is a reflection of the centrifugal forces resulting from the transfer of the manufacturing and service segments of the yarn-textile-garment chain of industrialized countries (Dussel Peters 2004). On the other hand, the supply chain cities in China (Gereffi 2006) with their vertically integrated companies in specific segments —men's clothing, ties, socks and jeans among others— reflect the centripetal forces seen in terms of scale, specialization and agglomeration.

At least three conceptual aspects appear to be relevant to understanding the YTG chain in the current "glocalization" process and its challenges in terms of economic politics:

1. **Global commodity chains and their segments.** Among others, the works of Gereffi, Bair and Miguel Korzeniewicz, have highlighted the importance of firm insertion in the global commodity chains and in specific segments. From this point of view, global commodity chains are a result of a group of segments with specific characteristics: in the YTG chain, for example, the research and development and new materials manufacture segments may gain a value added level —such as a certain salary level— far higher than that specialized in assembly of imported parts and components. Using an exclusively macroeconomic perspective —stability of a group of variables— does not allow us to understand the conditions and challenges of the chain, much less of territorial upgrading by segments in specific chains (Rodrik 2006) or to a lesser degree by innovation (Lester and Piore 2004). This subject is critically important in the analysis

of policy proposals linked to the foreign integration according to specificity: in the 10-digit Harmonized System there are around 20,000 products registered in foreign trade at present, whose characteristics differ greatly in terms of the companies, their size, used technology, financing, employment and quality of employment, training requirements, learning and upgrading capacity, trade conditions, etc. If the analysis and proposals do not have disaggregation capacity by product and process levels —woven and knitted products made of cotton or synthetic fibers and their respective accessories and final products— the policy proposals themselves may be trivial and lacking in content or even common sense.

2. **Systemic competitiveness and territorial endogeneity.** Since the 90's, a number of authors have indicated the importance of integrating the micro, meso and macro levels of competitiveness. This means that, in contrast with a perspective that prioritizes macro and microeconomic aspects, this school of thought emphasizes that (systemic) competitiveness must be understood at a micro, meso and macro level; stressing only one of these levels of analysis exclusively leads to insufficient and simplistic understanding and policy proposals. Since then, these authors have highlighted several sides of this vision, with emphasis on the meso-economic level of competitiveness —or of inter-company and institutional relations (Mesopartner 2008; Meyer-Stamer 2005)— as well as on specific chains and their segments, so as not to fall into romanticism (Messner 2002). In addition it is important to mention the specific way in which territories integrate into these global commodity chains and the specific form of systemic competitiveness that they achieve (Dussel Peters 2000, 2008). That is, it is not the firms, but the territories, that represent the socio-economic starting point of the analysis (Bair and Dussel Peters 2006; Vázquez Barquero 2005). From this perspective it is important to include the systemic aspects of competitiveness —far beyond the primitive point of view of micro and macro-economies— as well as "territorial endogeneity": we must begin the analysis from the corresponding territories, the global commodity chain segments to which they are "glocally" integrated, and the conditions and effect, from a perspective of economic policy.[1]

3. **Growing socio-economic participation of Asia, and predominantly China.** In the last two decades, Asia has considerably increased its participation in the product, international trade and foreign direct investment, and especially in the technological upgrading and global innovation network participation in sectors such as autoparts, automotive, electronics and yarn-textile-garment (Ernst 2009; Jenkins and Dussel Peters 2009). This implies that any analysis and proposal (from a "glocal" perspective) must explicitly include the events that have taken place with the counterparts in Asia, and especially in China.

Proposal 1: Today, proposals to improve systemic competitiveness of the productive system require a wide vision with the capacity to learn about the conceptual development of the last decades in several continents and recognizing the importance of the value chains and their segments. Companies and segments that do not have links with other companies or segments lose out on the enormous potential of the above mentioned centripetal forces and tend towards a polarization process. Following a perspective that is only based on "macroeconomic stability" is insufficient and far from the existing conceptual advances, and above all, the diversity and wealth of the economic policies that are applied today, as well as the current global crisis.

Proposal 2: The focus on systemic competitiveness and territorial endogeneity for the case of the YTG chain implies analyzing —and providing answers and proposals for— the conditions and challenges in the short, medium and long term at a microeconomic (or by company), meso-economic (or existing and pending public and private institutions) and macroeconomic levels (including variables such as R&D (Research and Development), financing, exchange rate, growth, etc.). A commitment of this dimension may have positive effects, as opposed to short-term instruments with no evaluation that only have incidence on one of these issues in the best of cases (such as mechanisms for the promotion of small companies, tariff reduction and its short term effects, etc.).

Proposal 3: At present, competitiveness support policies require facing the challenges of "glocalization" —based on the centrifugal and centripetal forces we have mentioned here— and incorporating knowledge of the specific products, processes and segments; otherwise, these policies may prove unnecessary or irrelevant. Using a territorial-sectorial perspective (in this order) is the first step towards generating competitiveness policies, instruments and analysis.

Proposal 4: Today, and in the case of Mexico, competitiveness policies —oriented towards the YTG chain— require an explicit reference to Asia and China in their analysis and instrumentation, given their recent and future dynamism. Asia and China have increasingly become the center for production, trade and technological development, generally and in the YTG chain.

1 The above mentioned are not only important conceptually, they also imply a territorial perspective of competitiveness —either at a municipal and town level or federal entities, countries and groups of these— of socio-economic development in the current globalization process. From this perspective, trade, industrial and corporate policies require analysis from a global and territorial perspective that includes their particular aspects: their integration into chain segments with specific values which determine the socio-economic characteristics depending on the products and processes, the type and size of the companies that affect industrial and corporate specificity; needs of financing, technology, training, R&D, orientation towards domestic or foreign markets, upgrading, etc. The policy proposals, and especially their instruments, must stem from the "glocal" aspect of the social economy.

2. The Global and Mexican Yarn-Textile-Garment Chain: Conditions and Expected Changes

This chapter is a brief diagnostic of the yarn-textile-garment (YTG) chain from a glocal perspective; the first part includes the chain's main trends at a global level, and the second part deals with the case of Mexico. The trends in industrial organization and in specific segments will be examined in both parts, and these trends will be integrated at the level of firms, countries and regions, as well as materials, technologies and other issues that are relevant to the chain.

2.1. The Global YTG Chain

The YTG chain has historically been one of the most complex ones in terms of national trade negotiations, and it is often regulated by way of multiple instruments, especially in industrialized countries. This is the chain that has received the most space and attention in free trade agreements such as NAFTA or the agreement between United States and Central America and the Dominican Republic (DR-CAFTA). Nevertheless, at the beginning of the 21st century, the chain, which is controlled by its buyers and clients, seems to find itself in a more liberal period compared with recent decades, considering the end of the Multifiber Agreement (MFA) in 2005,[2] the strong reduction of measures of public intervention in the chain —in terms of tariff barriers, non-tariff barriers and government subsidy— and the concentration of support instruments in the textile and accessories industry, and to a lesser degree in the clothing industry (Frederick and Gereffi 2009).

Considering the conditions of the YTG chain in Mexico and North America, as well as statements of the companies and the officials interviewed for this project, there are at least eight global factors that must be considered in order to understand the present changes in the YTG chain and those in the short, medium and long term:

a. **Saturation and competition**. The YTG chain, especially apparel, will face growing market saturation in most of its segments; this will result in annual growth rates lower than 1% during 1990-2020, far lower than the two digit dynamism that was seen in previous decades (Canaintex and Werner International 2002). This saturation is also reflected in the increasing competition levels in the United States and the European Union, among others, where the respective imports will be 85% and 90% of consumption in 2010, with a continuing growth trend (Werner International 2007). A general drop has been observed in apparel product expenditure, in contrast with expenditure in electronics and leisure products (OECD 2009).

b. **Full packaging processes and increasing costs for suppliers.** Full packaging processes have changed considerably since they were first implemented. In the 90's full packaging implied higher costs —and responsibilities— in terms of manufacturing and supplier transformation, including services such as the purchase of inputs, machinery, packaging, accessories, etc. Today, full packaging also implies becoming "total solution suppliers"; that is, suppliers find it more and more necessary to include services such as logistics, quality control and testing, transportation, customs and even coordination with the distribution center in the United States, with increasing financing costs and capital intensity.[3] As a result, these companies now have financing and logistics units as well as the purchase or supply administration department, among others. In this way, the client concentrates more and more on the design, marketing and direct sale of the product, quality control and times of the chain, as well as logistics with its suppliers. In contrast, suppliers are increasing their risk and their costs (Dussel Peters 2004; HCTAR 2008) and financing capacity is critical to the integration of a growing number of segments into the YTG chain; not only of products, but regarding services more and more.

c. **Fast fashion and product differentiation.** Since the late 90's at least, a significant market niche has been created in confection by following the principle of presenting and producing fashion and differentiated products in cycles that are becoming ever shorter, differing from commodities and basic and consumption clothing items throughout most of the year. Specialized retailers such as Zara, H&M and Gap obtain designs with fashion show potential and place them in the market immediately, achieving differentiation even from season collections (Tokatli 2008). On the other hand, segments that are specialized in production must not only react in a flexible manner —in some cases with the ability to change processes, products, styles, colors, sizes, materials and so on, sometimes once the production period has begun— but also invest massive expenses in logistics to ensure and be responsible for lean retail and a reduction of retailer inventories.

d. **Growing significance and control of the chain by retailers.** Although the YTG chain has traditionally been controlled by buyers and retailers —retail stores, department stores and brand trading companies among others—

2 Today, as opposed to the period up to 2004 with the AMF in force, a multilateral agreement has been reached to eliminate all types of quotas and only impose tariffs; apart from the bilateral agreements on trade within the YTG chain (such as between the United States and China).

3 For example, one of the interviewed companies mentioned that the product was delivered from Mexico to warehouses in the United States, including the payment of US tariffs (this service is known as delivery duty paid). In this case, the Mexican company has a warehouse in the United States and receives the client's payment upon the sale of the merchandise and not before.

their control has increased considerably: merely 10 of the main apparel selling companies had a 50% share in total wholesale sales in the United States 2008 (Todaro 2009). Companies such as Wal-Mart, Macy's, JCPenney and Kohl's, among others, have substantially increased their presence and control; this fact is confirmed at an institutional level in the United States by the significance of the Retail Industry Trade Action Coalition. Particularly in the United States, as opposed to Germany and the European Union, commodity retailers and mass retailers such as Wal-Mart, Target and The Limited —among others— impose their multiannual targets regarding prices, earnings, quality, discounts and penalties in case of non-compliance (Lane and Probert 2009), affecting the entire chain.

e. **Times and prices.** Pressure to reduce times and prices has increased considerably in the entire chain, and not just in segments linked to fast fashion: one of the Mexican companies interviewed for the analysis, with over 2,000 employees in 2008 and exporting approximately 25% of its production, used to consider "lead time" (the time taken from the moment contracts are signed to delivery of the first product) of up to 8 months, while today this time is reduced to 6 weeks, or less than 5 weeks' effective time. In this respect it is more important than ever for the manufacturer and the supplier to have local supplies as these short response times will not usually allow weeks' or months' waiting for the imported inputs. As a result, the reduction in lead time and product life cycles implies much greater fluctuations in the price of clothing apparel: aside from the general competition —maquila production of a dozen boxers cost 50% more a few years ago, and is now priced at USD$ 3.15— a delay of a few weeks may imply drastic price drops or even the rejection of a product or its sale below cost.

f. **Increasing importance of local supplies.** As a result of the above trends (full packaging, the close relationship between retailers and suppliers and the increase in supplier responsibilities) local and territorial supplies play a critical role. Facing the need to act in shorter times, geographical and temporal proximity is fundamental to the quick execution of new projects in fast fashion and others. In these segments, time is a factor that has greater significance than cost,[4] as may be observed in the case of Zara, with 80% of its supplies in Europe, and mainly in Spain and Portugal particular (OECD 2009). From the point of view of retailers, the increasing degree of supplier interaction is very important in terms of the above mentioned full packaging services. The Chinese case of organization and industrial upgrading based on supply chain cities is a particularly successful case (Gereffi 2006). Finally, an increase in the supply of higher value added products is expected in the short and medium term in developing countries, even though they may require sophisticated skills in the receiving countries, as well as delivery times and high quality materials and processes (Yanz 2009). Inventory reductions and contracts with shorter terms and smaller quantities are foreseen even in the short term, as well as increasingly sophisticated full packaging process suppliers (who accept increasing risks and costs). In many cases these new trends create a search for suppliers near the final market —in the case of the United States, Mexico and Central America— but other variables can be as important as geographical proximity. Various studies (ITAM 2008; Lane and Probert 2009) indicate that in recent years Mexico has not been able to exploit its geographical proximity because of failure to deliver on time; this is often caused by suppliers of the apparel producers established in Mexico.[5]

g. **New markets and work, ethical and ecological standards.** Without a doubt, present debates on the compliance of the minimum work, ethical and ecological requirements have played a significant role in the YTG chain, especially as a result of pressure from consumers, non-governmental organizations and unions, among others. Since the 90's for example, initiatives such as the Worldwide Responsible Apparel Production (WRAP) achieved changes in at least the large retailers and their corresponding company networks (Dussel Peters 2004); at the same time there has been increasing consciousness in the consumer segment (Adhikari and Yamamoto 2007). The active participation of companies such as Levi Strauss, Adidas, Gap and Wal-Mart in the Maquila Solidarity Network (MSN 2009) reflects the growing concern for negative effects, as well as the market niches that increase due to consumer demand. Given their proximity to the United States, regions such as Mexico and Central America may position themselves with respect to other global markets, but this will depend above all on the consideration of other requirements such as decent work conditions and social and environmental responsibility (Yanz 2009).

h. **Strong competition from and growing participation of Asia and China and the North American crisis.** Asia and specifically China are expected to increase their share in production, international trade and dynamics in

4 According to Werner International (2007), salary differences between Asian and Latin American countries are still enormous in the textile industry; salaries in Bangladesh, Pakistan, Vietnam and China are less than a quarter of what they are in Mexico. From another perspective, and considering the recent effects of Mexico's devaluation and the strengthening of the Yuan in China, AlixPartners (2009) estimates lower manufacture offshoring costs in Mexico than China for 2008.

5 One of the interviewed companies that specializes in western shirts mentioned that one client ended the relationship of several years because the textile supplier in Mexico made deliveries with significant delays, preventing them from complying with the established times.

practically every region of the world. Their share in global international trade is estimated to reach 40% to 45% in a very short time. Furthermore, since 2005 several Chinese companies like Li & Fung have begun a significant acquisition and conversion process with brand-name companies such as KarstadtQuelle in Germany, Rosetti, Van Zeeland and Miles Fashion GmbH, among others. This is important because it implies that there will be a much deeper integration with their main export markets as well as possible limitations of supply to other countries. In addition, China is the only country among the main participants in the YTG chain with massive policies and incentives related to it, as well as an efficient upgrading process, brand creation and company integration in practically all the main segments of the YTG chain.6 On the other hand —and not only because of the financial crisis that began in 2008— the YTG chain in North America (particularly United States), Mexico and Central America and the Caribbean is in deep crisis in terms of employment and weaknesses with companies and suppliers, as well as the lack of sufficient skilled workforce (Werner and Bair 2009; Bair and Dussel Peters 2008). In view of the above, Table 1 indicates that United States will continue its employment decline in the medium term, especially in apparel (causing an estimated 23% drop in employment between 2008 and 2016), and will continue to increase its imports, thus creating massive opportunities for other countries. Therefore, the YTG chain in the United States had half a million jobs in 2008, and it is calculated that it will lose more than 120,000 of these by 2016, especially in apparel.

Table 1
United States: Employment trends in YTG (2000-2016) (thousands)

	1999	2000	2005	2008	2016	2008-2016 Variation
Non-farm total	128,993	131,785	133,703	137,066	153,261	11.8
Manufacturing	17,322	17,263	14,226	13,431	n.a.	--
Textiles and apparel	**1,170**	**1,091**	**645**	**497**	**385**	**-22.6**
Textile mills	397	378	218	151	134	-11.3
Fiber, yarn and threads	84	81	50	37	38	2.4
Fabric mills	204	192	104	65	61	-6.4
Textile and fabric finished mills	110	105	63	48	34	-28.8
Textile product mills	232	230	176	148	141	-4.3
Textile furnishing mills	128	129	96	75	79	4.6
Other textile product mills	104	101	80	72	62	-13.9
Apparel	**541**	**484**	**251**	**198**	**110**	**-44.7**
Apparel knitting mills	76	69	37	26	20	-23.3
Cut and sew apparels	429	380	193	155	77	-50.3
Accessories and other apparel	35	34	21	17	12	-27.1
Leather and allied products	75	69	40	34	n.a.	--
Shoes	35	31	18	16	8	-48.7

Source: Author, based on BLS (2009).

Given the above, it is expected that the mentioned changes will continue until 2015, and that they will be much deeper than those implemented in the last two decades (Technopark Advisors 2007): a significant growth is expected in YTG chain imports to the European Union and above all to United States. In the case of the latter it is expected that Asia and particularly China will increase their participation, and that Mexico and Central America will suffer the greatest losses (Technopark Advisors 2007). Various estimates (Global Insight 2009) indicate that until 2010-2011 growth in the YTG chain will be around -5% or -6% annually.

Proposal 5: If we consider that United States will continue to increase its global supply processes and clothing garment imports, the federal and state authorities of Mexico and the companies and corresponding organisms must make specific efforts to attract investment as well as companies to Mexico. With this objective it is proponed that the Ministry of Economy (SE) and ProMéxico, among others, carry out specialized missions with retailers in the United States.

Proposal 6: Nowadays, competitiveness support programs for the YTG chain must be understood as integral and systemic support with ever stronger efforts in the administrative and logistics departments, even in the case of manufacturing companies. At least in the beginning, support to this chain should concentrate on "total solution supplier" activities. Business organisms such as the National Chamber of the Clothing Industry —with the support of public federal, state and municipal organisms— should concentrate part of its activities and services in specialized courses that face this type of demand as well as the recent chances in full packaging processes.

Proposal 7: In view of the common challenges of the YTG —those that affect all the companies— the concept of "collective efficiency" and support to institutions in the public, private or academic sector are much more important than ever: learning capacity and transfer of technologies are, among other issues, critically important in this respect. Mexico's federal public sector should actively and explicitly support and strengthen the existing business chambers —the "meso-economic" level of competitiveness— with the objective of gaining from the existing experiences with new full packaging processes, fast fashion and forms of retailer organization in Mexico and in the United States.

Proposal 8: A large part of the public —federal, state and municipal— sector policies should concentrate on strengthening the local suppliers. This should involve reduction of times and costs, implementation of new standards, segments and

6 China's National Development and Reform Commission has defined the chain's main policies in force until 2011, emphasizing the three year program aimed to increase the technological level of the textile industry and raise annual production by 10% and exports by 8%, and to promote domestic brands and increase their production by 100% through tax incentives and access to financing during the present crisis (Frederick and Gereffi 2009).

specific logistics and distribution processes, and quality, etc. Without local suppliers, each of these aspects effectively becomes a weakness: the weakest segment of a chain defines the entire chain.

Proposal 9: Considering the dynamics and size of the Chinese economy —and specifically in the YTG chain— each country with interest in the chain must make reference to and an explicit (bi-national) strategy with China in order to diagnose its potential in the glocalization process. Business chambers —especially the CNIV and CANAINTEX (National Chamber of the Textile Industry)— should design an explicit strategy directed towards the Chinese public sector so as to attract Chinese companies in the input segments (textiles and accessories, especially artificial fibers) and in Chinese apparel brands such as Li & Fung. These business chambers should actively participate in the China-Mexico Binational Commission, the China-Mexico High Level Group and negotiations of the China-Mexico Working Group in order to discuss these issues. Mexican representation in China (Beijing, Hong Kong and Shanghai) by way of the embassy and ProMéxico should promote this strategy actively and in the short term.

2.2. The YTG Chain in Mexico

Based on the Input-Output Matrix and the Economic Census (INEGI 2003, 2004) —with information up to 2003— the YTG chain is noted for participating in a 14.2% share of manufacturing employment and 5.1% of the gross value-added of manufacturing and a business structure where micro and small companies have control (CNIV 2009; INEGI 2003, 2004, 2009). Furthermore (see Annex 1):

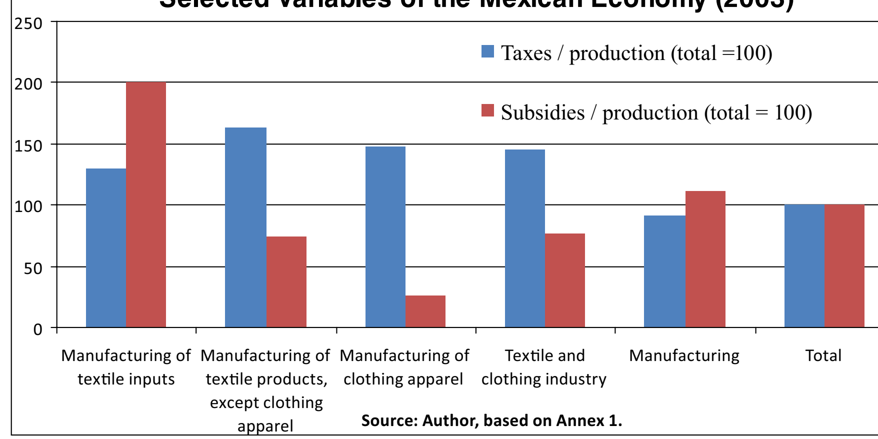
1. As with the rest of the Mexican economy, the YTG chain —understood in dom estic accounting as the sum of textile input manufacturing, and the design and manufacture of clothing apparel— shows marked differences between the segments that make use of the maquiladora industry (MI) and the rest. However, the domestic YTG chain shows imported input/total input levels above those of the rest of manufacturing and the economy: these are 33.1% for the YTG chain and 38.2% for the textile segment. In 2003 foreign trade was 51% of production and 60% of the clothing apparel manufacturing subsector. Despite the high level of integration into the world market, Annex 1 also indicates the main weakness this process presents for the entire economy, manufacturing and the YTG chain: its inordinately high component of net imports (or in other words the lack of domestic value added production). In the case of MI, for example, domestic content was 0.3%, 3.1%, 4.7% and 15.7% for the entire economy, manufacturing, the YTG chain and manufacture of textile inputs, respectively. This distribution is the result of a complex incentive structure linked to temporary imports to be exported (Cárdenas and Dussel Peters 2007).

2. Another issue that is relevant to the YTG chain is the high share of activities linked to the MI in the GDP. The MI participates in a mere 1.5% of the entire economy and 8.5% of manufacturing; but it participates in 23.6% of the YTG chain and 28.2% of clothing apparel manufacture. There are few economic activities that have such a high participation level as the MI.

3. An issue that does not receive enough recognition to date (ITESM 2009) is the fact that the YTG chain stands out for paying taxes —calculated in relation to production— that are significantly higher than those of manufacturing and for the entire economy. In total, the chain paid taxes 45% higher than the entire Mexican economy and taxes for apparel were 63% higher. On the other hand, the entire chain received subsidies —calculated in relation to the entire economy— 23% below the total and 35% below the average for manufacturing. In this regard, textiles received subsidies above the total for manufacturing; while apparel did not receive significant subsidies (see Graph 1).[7]

Graph 1

Selected Variables of the Mexican Economy (2003)



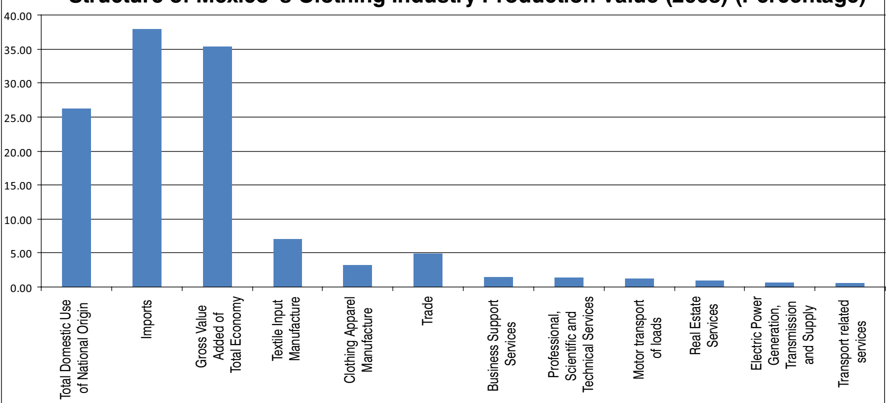
Source: Author, based on Annex 1.

4. From Annex 1 it is also inferred that in the YTG chain payment per employee is 23% lower than the total for the Mexican economy; with a noteworthy exception for the textile industry which has salaries per employee 14% above said value.

7 Taxes calculated according to the Input-Output Matrix include all taxes on goods and services net of subsidies, excluding Value Added Tax, while subsidies represent income without consideration received by the establishment from the different levels of government, in money or in kind, destined to cover general operation or investment expenditures.

5. Graph 2 highlights the clothing industry's production value structure. It is vital to understand that imports are the most important factor, with 38%, followed by the gross value-added and inputs of domestic origin. Furthermore, the sum of the chain's inputs amount to only 10.4% of the total value of production. Textile input manufacture barely participates with a share of 7.1% of the value or apparel production. From this perspective it is easy to understand the reason why devaluation is not necessarily a positive thing for the sector, given the high coefficient of imported inputs.

Graph 2
Structure of Mexico´s Clothing Industry Production Value (2003) (Percentage)



Source: Author, based on information from the INEGI (2003).

Given the high degree of imports in the YTG chain, and especially in apparel, a calculation was made in terms of the effect on employment of increasing the final demand by way of a 10% import substitution for the imports of all 75 activities defined in the Input-Output Matrix. As a result (see Table 2) it is observed that the YTG chain has a very significant effect on employment in Mexico: by increasing final product demand 10% via import substitution, employment in the YTG chain would increase by 17,000 jobs, or 2.7% of the chain's employment. In this scenario, import substitution implemented exclusively in the YTG chain would generate 8.5% of the total of new jobs generated by the entire economy. In all cases, the manufacture of clothing apparel is by far the most significant segment; only 5 activities in the entire economy can generate more employment than the YTG chain. The last column of the same table calculates the effect on employment of increasing final demand (by one million dollars) by way of import substitution. The YTG chain and clothing apparel are even further highlighted here because the latter is the second largest importing activity and would create 8.4 jobs for every additional million of final demand by import substitution.

Table 2
Employment multipliers related with the increase in final demand by way of import substitution (for 2003)

				Employment multiplier for a 10% increase in final demand by way of import substitution					
Place	Code	Description	Employment (2003)	Generated employment	Within the sector	In the rest of the economy	Generated employment (percentage over total)	Employment generated by the same sector (percentage)	Jobs per million pesos of final demand by way of import substitution
		TOTAL	9,516,566	181,948	--	--	100.00	--	--
		YTG Chain	**617,850**	**16,607**	**14,263**	**2,344**	**9.13**	**16.43**	--
1	311	Food industry	695,523	33,282	6,088	152,745	18.29	458.94	5.6
2	333	Equipment and machinery manufacture	103,931	27,493	4,154	15,615	15.11	56.80	2.6
3	334	Manufacture of computer, communications and other electronic equipment, components and accessories	262,861	26,382	3,825	8,152	14.50	30.90	3.4
4	11	Agriculture, stockbreeding and fishing	6,394,984	23,110	2,935	790	12.70	3.42	17.4
5	336	Transport equipment manufacture	512,335	20,994	2,422	16,603	11.54	79.09	2.2
6	**315**	**Clothing apparel manufacture**	**444,020**	**13,630**	**1,021**	**2,333**	**7.49**	**17.12**	8.4
7	339	Other manufacture industries	172,434	11,182	687	2,092	6.15	18.71	5.9
8	335	Manufacture of electric power generation equipment and electric devices and accessories	152,311	8,516	399	4,257	4.68	49.99	3.1
9	325	Chemical industry	203,274	7,221	287	10,021	3.97	138.77	1.4
10	332	Metal product manufacture	282,835	4,361	105	1,401	2.40	32.12	4.1
11	316	Manufacture of leather and leather substitute products except clothing apparel	118,228	2,798	43	1,611	1.54	57.58	4.8
16	314	Confection of textile products, except clothing apparel	69,668	1,542	13	473	0.85	30.65	6.6
21	313	Manufacture of textile inputs	104,162	1,435	11	1,165	0.79	81.23	4.8

Source: Author, based on the INEGI

With the objective of presenting more recent information on the YTG chain, up to mid 2009, Annex 2 presents the main information on production and employment, highlighting the following[8]:

1. Since the 90's, the YTG chain's performance may be generally divided into three stages: a) the stage from 1994 to 2000 which showed a significant growth in the GDP, exports and employment, resulting mainly from rapid integration with the United States and also by way of significant flows of foreign direct investment to the MI; b) 2000 to 2008, which presented a constant drop of GDP, export and employment growth rates, and c) the period from 2008/10 to date, in which these variables have plummeted.[9]

2. The drop in the YTG chain's GDP (in pesos in 2003 and with 1993 estimates) has been dramatic: in 2008 —not including the trends during 2009— the Textiles Division, clothing and leather industry have presented a real product lower than that of 1980 (see Graph 3) and far lower than the poor manufacturing performance there has been since then: in 2008, the real GDP dropped 30% with respect to the year 2000.

8 Several diagnostics show that the YTG chain crisis in Mexico is the result of the chain's lack of competitiveness, growing competition in the United States and from China since it entered the WTO in 2001 and the end of the MFA agreement, 2002-2005, massive illegal imports that represent approximately 60% of internal sales and the coming into force of the DR-CAFTA in 2006 (Cárdenas and Dussel Peters 2007; ITAM 2008).

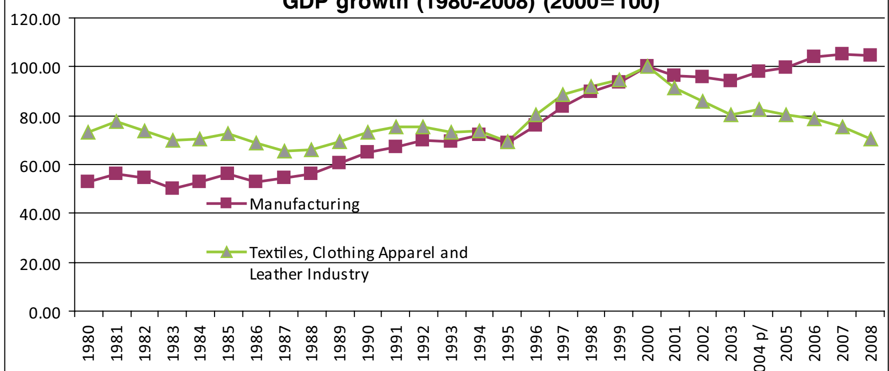
9 The CNIV (2009) estimates that 3,751 companies of this sector closed between April 2008 and April 2009. Up to the first trimester of 2009, the GDP of the clothing industry had been on a decline during 12 consecutive trimesters and the GDP decreased by -10.9% in the first quarter of 2009.

3. Performance in employment has been even more drastic: by 2008, employment had been reduced by 40% with respect to 2000; the trend is similar in each segment of the chain (soft fiber yarns and fabrics, hard fiber yarns and fabrics, other textile industries and clothing apparel) (see Graph 4).

4. The YTG chain is highly concentrated by federal entity in Mexico: the INEGI (2009) indicates that 54% of the YTG chain's GDP was concentrated in merely 4 federal entities (Mexico City, Mexico State, Guanajuato and Puebla) in 2004. That is, there are evident territorial specializations in Mexico (that will not be developed in greater detail in this document) regarding the YTG chain in terms of GDP, employment and foreign trade, among other variables.

Graph 3

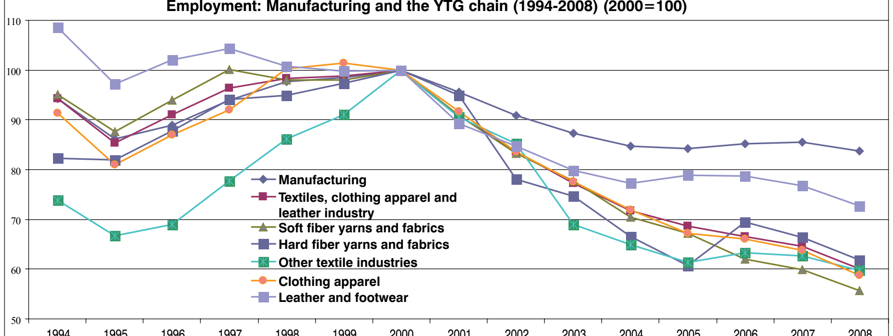
GDP growth (1980-2008) (2000=100)



Source: Author, based on the Monitor de la Manufactura Mexicana (2009).

Graph 4

Employment: Manufacturing and the YTG chain (1994-2008) (2000=100)



Source: Author, based on Annex 2.

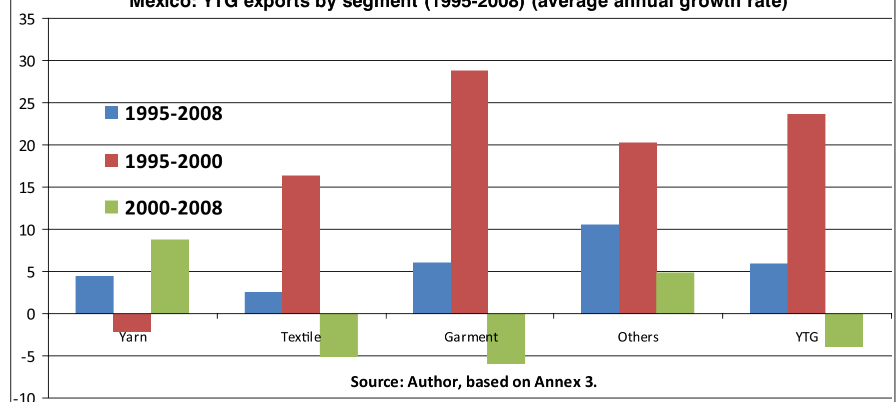
As a result of the above conditions, Mexico's YTG chain is still an important socio-economic activity today in terms of employment: in 2000 it had more than 650,000 jobs, and in 2009 it still generates 289,648 jobs (CNIV 2009; INEGI 2009); this means that more than 350,000 jobs were lost between 2000 and 2009, or 56% of the chain's personnel.

Considering the YTG chain's growing orientation towards foreign trade —and a 60% share for apparel production in 2003— the following is a brief description with an emphasis on total imports and exports, especially to the United States:[10]

1. During 1995-2008, 75.23% of Mexican exports from the YTG chain were in the apparel segment, followed by textiles (11.5%), yarn (5.3%) and other accessories (8%). Graph 5 reflects Mexico's differentiated export dynamics since 2000, with an average annual growth rate (AAGR) of -3.9% and -6% for the entire chain and apparel, respectively. In the 1995-2008 period United States covered 92% and 96% of Mexico's YTG chain and apparel exports, respectively.

Graph 5

Mexico: YTG exports by segment (1995-2008) (average annual growth rate)



Source: Author, based on Annex 3.

2. It also shows Mexico's YTG chain imports for the same period, although the AAGR of total imports during 2000-2008 was only 0.1%. It may also be observed for the period 1995-2008, that on average 55% of imports were from the textile segment and 26.3% were from apparel. In addition, 72% of YTG chain imports were from the United States during 1995-2008. This indicates that Asian coun-

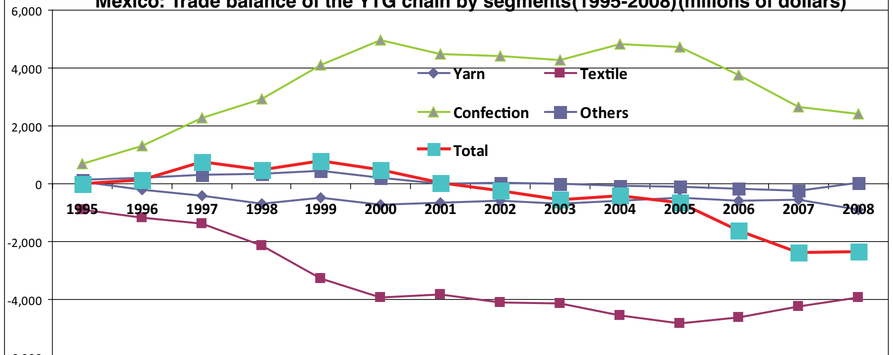
10 The foreign trade analysis was carried out based on the United States International Trade Commission (USITC) with a 10-digit Harmonized System —including 5,480 items— and at the 6-digit level based on the Mexican Trade Information System of ProMéxico.

tries, and especially China, with a 10% share in YTG imports, increased their imports during 1995-2008.

3. As a result of the above trends, Graph 6 shows that the YTG chain's trade balance took a negative turn in 2002 until it reached 2,300 million dollars annually in 2007 and 2008. This performance is the result of a drop in apparel exports from 2000 to 2008 and the increasing import of the chain's inputs (yarn, textile and other accessories).

Graph 6

Mexico: Trade balance of the YTG chain by segments(1995-2008)(millons of dollars)



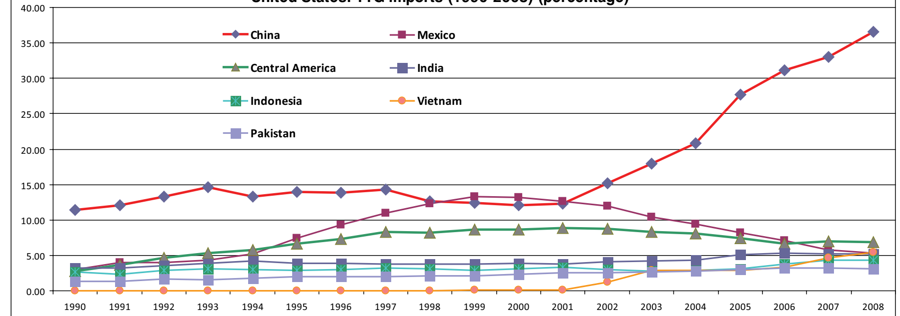
Source: Author, based on Cechimex (2009).

Considering the high concentration of Mexican YTG chain exports to the United States, it is important look at its main market trends during the 1990-2008 period:

1. Graph 7 clearly reflects the fact that Mexican exports (main exporter to the United States during 1999-2001) were displaced by China in 2002 and by Central America in 2007. In 2008, YTG chain exports to the United States dropped by 5,341 million dollars, reaching 10,196 million in 2000; its share in total US imports dropped from 13.22% of total US imports in 2000 to 5.30% in 2008. The share of the apparel segment fell from 14.59% in 1999 to 5.24% in 2008. One of the main causes of this performance is the dynamism of Chinese exports to the United States, which amounted to 36.55% and almost 40% including Hong Kong. Therefore, since 2008, Mexican YTG exports to the United States are behind China, Central America and Vietnam. India, Indonesia and Pakistan are likely to achieve higher levels than Mexico in the short term. Therefore in 2009, one of the main challenges for YTG and apparel exports is to recover the growth rates achieved to the United States in 1994-2000, with an AAGR of 32% and 33% respectively.

Graph 7

United States: YTG imports (1990-2008) (percentage)



Source: Author, based on Cechimex (2009).

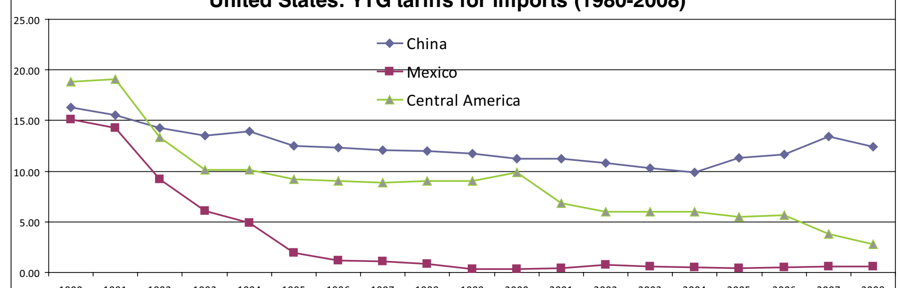
2. In order to understand the above mentioned performance it is important to highlight two points:

   a. The tariff rates that are effectively paid by US imports differ considerably among its main exporters: Graph 8 shows that in 2008 China still paid an average tariff rate 11 times higher than Mexico in the YTG chain, and Central America paid an average tariff rate that was 6.5 times higher. In some products, these effectively paid tariffs may be even higher, and without a doubt, they have a significant effect on the performance of the corresponding products and firms.

   b. Mexico and Central America are the main US input (and export) consumers: during 1990-2008, Mexico and Central America participated in 24% and 15% of total US exports in the YTG chain, especially textiles and accessories; whereas the share of Asian countries was much lower. Table 4 shows in detail that Mexico and Central America are major consumers of the United

Graph 8

United States: YTG tariffs for imports (1980-2008)



Source: Author, based on Cechimex (2009).

States YTG chain, in contrast with the rest of the world and China. This issue, as we will see, is critically important in considering the employment generated by Mexico in the United States.

Table 3
United States: Import / export coefficient of the yarn-textile-garment chain (1990-2008)

	1990	1995	2000	2005	2008	1990-2008
TOTAL	13	13	18	24	35	19
China	55	68	205	234	310	185
Mexico	3	6	8	6	6	7
Central America	10	18	11	9	8	10
Total US imports	13	13	18	24	35	19

Source: Author, based on Cechimex (2009).

Table 4 shows Mexico's strengths in US exports of natural fiber products, especially cotton: the four main export products of 2008 were all cotton, and jean export amounted to nearly 1,000 million dollars more than other Central American and Asian competitors. As with the more aggregated tariffs, Mexico's tariff benefits stand out against those of its competitors in these cases.

In more qualitative terms, several aspects of the industrial organization of Mexico's YTG chain may be underlined:

a. Generally it appears that Mexico and Central America have presented the greatest losses in face of the new challenges created by the implementation of "full packaging" since the late 90's: many Mexican companies have not been able to integrate with the previously mentioned demands in terms of logistics, financing and new services demanded by the clients (Bair and Dussel Peters 2006; Lane and Probert 2009; MSN 2008; USITC 2004). On the other hand, corporate groups such as OMJC (Arroyo and Cárcamo 2008) and the case of Vicky Form and Grupo Industrial Zaga have continued to grow significantly through vertical backward integration; that is, by way of full packaging and by manufacturing a large part of its main inputs, such as fabrics, inputs, elastic, etc.

b. The lack of financing for the Mexican economy —in 2008, financing for the private sector and its companies had dropped 70% with respect to the GDP compared to 1994 (Monitor de la Manufactura Mexicana 2009)— and the constant overvaluation of the exchange rate, which reached around 25% in 2008 and prior to the devaluation, seriously affected the YTG chain and its exports. The issue was mentioned on several occasions during the interviews: as long as these two variables do not present favorable results for the productive sector and the YTG chain, other measures will be secondary.

c. From the 90's up to date one of the main limitations of Mexico's YTG chain has been the lack of suppliers (USITC 2004). There appears to be consensus on the fact that cotton and wool textiles are sufficient in Mexico and Central America, although in several mentioned cases it might not be the case. However, it is certain that synthetic fiber textiles (such as nylon, polyester and others) are nonexistent in some cases and insufficient in others. Other equipment and accessories are not produced sufficiently (in terms of quality, quantity, times and prices) in Mexico and North America.

Table 4
United States: Mexico's five main competitors for the top four yarn-textile-apparel import products. Million dollars and percentage.

	Description	Country	Value of imports	Share	Tariff rate
1	6203424011 Men´s blue denim trousers & breeches cotton NT knit	Mexico	690	39.3	0.1
		China	169	9.6	16.6
		Bangladesh	107	6.1	16.6
		Pakistan	81	4.6	16.6
		Egipto	65	3.7	0.4
		Total	1,754	100	6.2
2	6203424016 Men´s trousers & breeches cotton NT knit	Mexico	307	20.6	0.2
		China	229	15.4	16.6
		Bangladesh	185	12.4	16.6
		Vietnam	79	5.3	16.6
		Domincan Republic	69	4.6	3.5
		Total	1,493	100	10.7
3	6204624011 Women´s blue demin trousers & breeches cotton NT knit	China	449	24.9	16.6
		Mexico	280	15.5	1
		Hong Kong	174	9.7	16.6
		Camboya	107	6	16.6
		Macao	93	5.2	16.6
		Total	1,803	100	10.9
4	6109100040 Women´s T-shirts except underwear of cotton, knit	Mexico	170	24.3	0.3
		Honduras	89	12.7	0.9
		China	51	7.3	16
		Perú	50	7.1	0.4
		Guatemala	45	6.4	5
		Total	700	100	6.6

Source: Author, based on Cechimex (2009).

Proposal 10: Today the apparel segment and the YTG chain in Mexico present low integration levels with the textile segment and high ones with imports. Because of this, urgent measures should be taken to increase the local supply of textiles and production accessories as well as clothing apparel exports, especially given the described global demands and the mentioned critical importance of having local supplies (see Proposal 6). Business chambers, such as CANAINTEX and the CNIV, and state governments must carry out detailed proposals on this subject. In this specific case, it would be worth while to promote the activities of the COMPITE A.C. (Mexico's National Committee for Productivity and Technological Innovation) in the YTG chain and in face of the mentioned challenges.

Proposal 11: At present, Mexico has the highest import/export coefficient in the United States, which indicates that it is the main importer of US inputs (textiles, accessories and others) and presents the highest degree of integration with the United States YTG chain, even higher than Central America. This high level of economic and commercial integration —with effects in employment in the respective countries— is the starting point for the creation of a deeper development strategy by way of NAFTA.

Proposal 12: By considering this sub-section and the previous one, it is clear that Mexico does not have the power to continue competing with Asia in the US market based on cheap workforce; this is because Asian wages will continue to be considerably lower than Mexican wages, not to mention the technological, commercial and agglomerate superiority. It is important therefore to propose a strategy, which includes the public and private sectors, to promote Mexico's experience over several decades in the YTG chain, its geographical proximity and effective capacity to provide "total solution supplies" and integrate new services dynamically. ProMéxico, as a responsible institution for the promotion of investment in foreign trade, should play a leading role in this respect, highlighting the capacity to comply with work, ethical and ecological standards.

Proposal 13: The deepening strategy for the YTG chain between Mexico and United States must go beyond tariffs: in 2009 China paid average tariff rates 11 times higher than Mexico, and notwithstanding, its dynamism has been higher in the 2000-2008 period. Therefore, non-tariff measures are needed to deepen a regional development strategy that will allow YTG export growth rates similar to those of 1994-2000, and above 30% annually.

Proposal 14: The YTG chain is still of critical importance for the Mexican and industrial socio-economy and it requires special consideration in the present anti-crisis measures (Manifiesto Guadalajara 2009); from the point of view of job creation, the YTG chain and especially apparel are the sectors with greatest impact potential in the entire economy. The Ministry of the Economy (SE 2008) prepared a "decalogue" of measures long term measures in this presidential term for the promotion of competitiveness; they are linked to trade facilitation policies, sectorial policies, innovation, internal market and the corresponding actions to be implemented in parallel to territorial instruments. If we consider the sector's importance in terms of employment, product and specific regions, the YTG chain and apparel may be the first chain for which the originally proposed decalogue may be instrumented. The federal public sector —concretely the Ministry of Economics (SE), the Ministry of Finance and Public Credit (SHCP) and the National Council on Science and Technology (CONACYT)— should orchestrate an emergency strategy for the YTG chain, with an agenda for the short, medium and long terms in conjunction with the private sector, academics and experts.

Proposal 15: Without a doubt it is critical to achieve the highest production in apparel, but it is even more important to improve distribution channels, create own brands and incorporate new production techniques.[11] In the case of Mexico there are companies that have managed to export denim products, T-shirts, underwear and women's lingerie, and men's suits (for companies such as J. Crew, Clairborne, Brooks Brothers, Tommy Hilfiger, Dior and Pierre Cardin, among others) continuously and successfully for many years (see Table 3), particularly in wool. ProMéxico and the Ministry of the Economy should explicitly promote the creation of own brands in these two segments, and in this way experience will be gained for brand creation in other segments of the YTG chain.

Proposal 16: Public institutions —both federal and state— and business chambers and their respective companies should have the capacity to implement proposals for products, processes and specific companies. For example, if Mexico is the main exporter of men's jeans, why not implement support instruments in order to achieve the same goal in the case of women's jeans, of which Mexico is the second exporter to United States after China? This market is larger than men's jeans. A specific strategy should consider the fact that Mexico has a significant level of experience and knowledge in the case of men's jeans and that women's fashion is faster to produce and the cycles are shorter than those of men's clothing.

11 As confirmed by several of the interviewed companies, department stores in Mexico represent up to 50% of the final cost of clothing apparel, onerous forms of payment (up to 90 days), offers and discounts on the supplier's payment, etc. Other interviewed companies highlighted the benefits of using a modular form of production for clothing apparel, with enormous advantages regarding the workforce's training and flexibility.

3. Mexico's Exports to United States: Factors for the Improvement of Competitiveness

This chapter will deal with a series of specific aspects that were found to be relevant to the competitiveness of Mexican apparel exports to the United States: rules of origin, TPLs, the short supply program and other issues related with customs and transportation.

3.1. Rules of Origin

With the termination the MFA in 2005 and of the import quotas, in search of eliminating non-tariff barriers, the issue of rules of origin has taken a central role in several trade negotiations, and quite possibly the most important one. There is an ever greater convergence between trade agreements; although, as we will see further on, there are significant differences between specific preferences. The objective of the rules of origin for products or groups of products is to generate territorial incentives, for the countries that enter into the respective agreement, and in general to exclude third countries from these benefits.

In Mexico today (considering that 92% of YTG exports were destined to United States during 1995-2008), the NAFTA rules of origin[12] are fundamental.[13] The context of this regional integration incentive mechanism is based on a YTG chain that still presented strengths in fibers, yarn, various accessories and textiles in the 1990's in The United States specifically, but also in Canada and Mexico. In 2009 however, this context has changed considerable: with the exception of raw material production, the region has weakened in the manufacture of inputs, especially natural fiber yarns and fabrics (Lane and Probert 2009; see chapter 2 and the case of the United States).[14] From this perspective the NAFTA rules of origin, especially in the YTG chain, and in face of the changes made in the existing regional plants and the new chain requirements with a glocal perspective, require modernization and adaptation to 2009 conditions in the short, medium and long term. Otherwise, rules of origin established in a context observed 15 years ago will generate disincentives in the entire chain and in the process of territorial integration.

12 NAFTA establishes the methods used to confer the origin of merchandise in Annex 300B and in chapter IV. Likewise, chapter V —origin certificate, origin verification, anticipated terminations, defense measures, uniform regulations and customs cooperation (articles 501-513)— establishes the customs procedures that regulate the imports and exports of these three countries.

13 NAFTA indicates in Article 402 that the regional content value of goods must not be lower than 60% according to the transaction value method, and 50% according to the net cost method (DOF 1993).

14 *"The rules of origin for textiles and apparel largely reflect a yarn forward formulation. While this formulation may have worked better in 1993 when the U.S. textile complex was much larger and much more capable of supplying a wide variety of inputs, it is no longer functioning very smoothly ... New FTAs and trade preference programs have suggested alternative approaches that permit greater flexibility"* (AAFA 2004).

The general treatment of the YTG chain rule of origin in NAFTA is "yarn forward", i.e. the fiber must be manufactured in the region —natural fibers such as wool or cotton must be from the region, and artificial fibers must be manufactured in the region (DOF 1993)— even with the growing lack of these raw materials and the fact that they are imported more and more, such as is the case for raw wool, mainly from Australia and New Zealand. Based on this general rule, there are several exceptions, such as: a) "single transformation" or "cut and sew" which permits products to be considered as regional as long as processes such as cutting and sewing are carried out for specific goods like wool, silk and other products only from chapter 56; b) even though the general rule of origin for fabric is yarn forward, there are certain cases such as silk and some metallic yarns that are considered original independently of the yarn's origin; c) the prevailing rule in apparel is also the yarn forward rule, as well as the general rule of a tariff shift or break, i.e. for a product to be considered as regional, its respective fabrics must be regional —additionally, in the case of clothing apparel there is a group of items that may be permissible of tariff shift, i.e. they qualify as original if they manage the shift; d) there are a large number of rules or origin for specific products (sweaters, accessories for various products, etc.) that have significant differences: in the case of sweaters and curtains, for example, the fiber forward rule governs, i.e. artificial fibers must be produced in the region. Lastly, and this will be analyzed in further detail in the following chapter, there are two important exceptions: TPLs (tariff preference levels) that allow for product quotas independently of the origin of the inputs, and the short supply program permits temporary imports independently of their origin when there is a lack of marketable quality inputs and products (CBP 2008).

The issue of rule of origin is highly important in the YTG chain for a number of reasons:

1. The issue came up in interviews: accomplishing the rule of origin, and consequently benefiting —or not— from the tariff agreement, implies whether they will achieve exports to the United States with a profit margin or not. In one case, for example, the tariff for non-regional products was close to 30%, and in another case it was close to 17.5%; the difference between paying this tariff and not paying it throws Mexican exporters off the market. The magnitude of the significance of the rule of origin is critical.

2. One of the important aspects of the NAFTA rules of origin refers to the fact that since they were implemented in 1994 they have been surpassed by a large number of new trade negotiations undersigned by United States. These are concretely:

   a. The DR-CAFTA undersigned by the United States, the countries of Central America and the Dominican Republic, which causes significant changes with respect to the rules of origin, and specifically: i. It allows an "accumulation" process of fabrics from third party countries with which United States has trade agreements, including Mexico; that is, the undersigning countries may include fabrics form third party countries (an issue that is not considered in NAFTA) regardless of the origin of the yarn (as opposed to the "yarn forward" rule in NAFTA) [15], ii. The latter also lifts the prohibition on dyeing and finishing fabrics that may exist in the countries of origin (in contrast with NAFTA), iii. As a result of the above, before and with the signing of the DR-CAFTA, an important investment process has been observed in manufacture of intermediate textile processes such as filament, yarn and fabric, as well as cotton planting, brought about by the DR-CAFTA (Dussel Peters 2004; IFPRI 2008), iv. Due to the incentives offered by the DR-CAFTA, Mexican companies such as Grupo Zaga have started to build plants in Central America in order to benefit from the incentives provided by DR-CAFTA and not NAFTA; v. The DR-CAFTA defines a new set of rules related with the component that determines the apparel's classification —in NAFTA, for example, rules of origin are only applied to the main component of a piece of clothing apparel, while other secondary fabrics may be from third party countries— in the case of pocketing, if tailoring and finishing is performed in the DR-CAFTA region, all six Central American countries obtain specific benefits; vi. According to the minimum rule of origin, the DR-CAFTA stipulates that 10% of the weight of apparel can be made of fabrics and yarn that are not from the region, in comparison with the 7% minimum for NAFTA; vii. The DR-CAFTA significantly widens the amount of regional products under simple transformation: linen, silk and other yarns and fabrics that are generally not produced in United States or Central America, including bras, underwear and pajamas.

b. Several programs established between United States and Haiti since 2006, such as the latest, Haitian Hemisphere Opportunity Through Partnership Encouragement Act, 2008, and in force until 2018, have helped achieve significant advances with respect to NAFTA. Important tariff benefits are established in the above program for several products of the YTG chain, such as tariff free treatment of textile products and clothing apparel entirely assembled in Haiti, accumulation processes with DR-CAFTA products, and above all an Earned Import Allowance Program, which allows Haiti to use one Square Meter Equivalent (SME) of non-regional apparel for every three SME of apparel using fabric from the United States (3*1 Program) (Otexa 2009/a).

15 Accumulation with Mexico and Canada is limited to 100 million and maximum 200 million Square Meters Equivalent (SME) in the case of Mexico, as it is assumed that Mexican customs are of bad quality and permit the massive entry of Chinese products that may become incorporated once more into exports to United States (IFPRI 2008).

c. The Dominican Republic (DR) 2 For 1 Earned Import Allowance (2 * 1 Program) was created in 2008. For certain products, this program allows limitless export benefits to United States of two SME of fabric used for clothing apparel that complies with the DR-CAFTA rules of origin, exporting as counterpart another SME that does not necessarily comply with this rule (Otexa 2009/a).

d. In the context of the DR-CAFTA and with the acceptance of the previously described pocketing, Nicaragua received in exchange the possibility of exporting pants for 1 SME of US clothing apparel, and automatically has the right to export one ME of apparel regardless of the origin of the fabric (under the TPL format) (1*1 Program).

e. Very recently a bill was presented, in June 2009, known as Program 809, which searches to grant three types of tariff preferences to The Philippines, concretely: i. free-tariff treatment of goods assembled in The Philippines; ii. the integration of inputs from third countries without this fact prohibiting the final product from being considered as regional if it complies with the rules of origin; and iii. simple transformation for certain goods assembled in The Philippines, independently of their origin; if they include products such as bras, women's wool clothing apparel, several types of cotton and artificial fabric apparel, among others.

Proposal 17: The dimension of the crisis in United States, Central America and Mexico with regard to Asia and China requires an open process of negotiation and integration between Central America, Mexico and United States. The degree of competition that Central America and Mexico face from Asia, and particularly China, in the US market does not allow the continuation of isolated measures and investments. The Ministry of the Economy, with the support of business chambers, should immediately begin the common initiatives of the YTG chain regarding the United States, including at least the diverse and innovating reforms to the rules of origin made between CAFTA and NAFTA.

Proposal 18: It is not understandable that the rules of origin, as well as many other implementations, have remained practically without modifications in NAFTA since 1994. This has been so in face of considerable changes in the socio-economic conditions of the three countries in the YTG chain, as well as the great diversity of preferences —far beyond NAFTA— that United States has offered third party countries. From this perspective it is indispensable to update, modernize and reform the NAFTA rules of origin for the YTG chain.

Proposal 19: The modernization and updating of the NAFTA rules of origin must include several aspects. Firstly, these must search to deepen the integration process between the three countries and define a development agenda for the short, medium and long term. Secondly, it must permit automatic access to all NAFTA members to the new trade preferences that the three countries have granted to third party countries within the YTG chain. Thirdly, a general agreement must be reached for the YTG chain rule of origin, and it must substitute the present one —yarn forward— with one of "1*1", that is, to export one square meter equivalent to United States that complies with the regional rules of origin, and automatically permit Mexico to export one square meter equivalent regardless of the fabric's origin by way of the TPL (see the next section). As occurs today, the Ministry of the Economy should administrate it.

Proposal 20: The procedures and decision making used in NAFTA institutions to modify rules of origin are extremely inefficient and lengthy. NAFTA must take emergency measures to have an active, dynamic institution with the capacity for change regarding the rule of origin among other issues; one that can effectively promote competitiveness in the YTG chain in face of the changes taking place at the firm level and of global competition. It is proposed that criteria should be included, as in the case of other laws such as the implicit approval criteria in foreign investment in Mexican law, for example; that is, the NAFTA Free Trade Commission must resolve modification requests for rules of origin within a maximum of 45 business days, or the request will automatically be considered approved.[16]

3.2. TPLs

Tariff Preference Levels have been implemented in a group of free trade agreements in order to ease and endure rules of origin of products that would otherwise fail to comply with the rules of origin and derived tariff benefits. The program in itself, given that in many cases it refers to instruments in the short, medium and long term, would appear to be an open contradiction to the regulations of the rules of origin: if certain products do not comply with the rules of origin —especially with the lack of several regional inputs— this issue clearly appears to be an invitation to modify them.

These TPLs are negotiated bilaterally and specific annual measures are usually established —generally in millions of square meter equivalent (SME)— and allow YTG chain products to be cut (or knitted to shape) or sewn or assembled in the region with fabric and yarn from outside the region. According to NAFTA stipulations, since 1994, there are four types of TPL at present: a) TPL1 for clothing apparel made of cotton, artificial and synthetic fibers (45 million SME); b) TPL2 for wool clothing apparel (1.5 million SME); c) TPL3 for manufactured fabric and textile goods that are not cotton or artificial or synthetic fiber clothing apparel (24 million SME) for a period of 10 years; and d) Cotton or synthetic and artificial fiber yarns (1,000 tons). Blue denim apparel, artificial oxford fabric and fiber sweater exports are not permitted under any TPL.

TPL1 is usually exhausted by May and June of the respective years. Today the TPL assignment mechanism is carried out according to the "first come, first served" method; whereas before, TPLs were assigned by way of public bidding: this process begins with an invitation call from the Ministry of the Economy, a procedure needed to obtain the Qualification Certificate, the posting of bonds, then an offer is made, and results of the awarding act are awaited. In contrast, under the "first come, first served" criterion, interested parties request the right to a quota, then the Ministry of the Economy announces a resolution within a maximum term of seven business days and, if it is positive, the corresponding certificate is issued.

Regarding TPLs for the case of Mexico, the following must be highlighted:

1. The TPL amounts assigned to Central American countries in the DR-CAFTA were significantly higher than those for Mexico: Costa Rica received a 500,000 SME TPL and Nicaragua received 100 million SME until 2018. The 1*1 program mode that we have mentioned previously stands out in the case of Nicaragua (see chapter 3.1).

2. Mexico's share in total US TPLs has fallen continually: in 2000, Mexico participated in 18.4% of US imports by way of TPL, and in 2008, this figure was only 5.5%.

3. Based on the interviews it is clear that TPLs have a significant effect on the companies who use them. In various cases, companies explicitly get orders from US clients under TPLs; when these expire, the contract is terminated. In other cases, the Mexican company will search to create an annualized average tariff —considering that they usually expire by mid year or sooner— for products sold with or without TPL and their tariff costs implied in using non-regional fabrics. In reality there is a significant demand —and potential supply in Mexico— that cannot be satisfied because of these legal provision. The result is enormous uncertainty at a company level and with their respective clients who often prefer not to sign such insecure contracts. The underlying issue here is the weak input supply prevailing in North America for the YTG chain.

16 At present the necessary procedures for changes in rules of origin are extremely slow and inefficient: the NAFTA rules of origin group receives business organism proposals from companies or chambers, the group gathers a set of proposals and items, they are discussed, and proposals are sent to the corresponding countries and discussed, and in case of positive results, they are discussed with the respective Senates for approval or rejection. Today there have already been four tracks of changes in the rules of origin, and in several cases —as may be verified by the case of the simple transformation rule of origin proposal for boxers, proposed by a Mexican company— changes may take more than two years.

Table 5
United States: TPLs and their weight in the corresponding selected countries (2007-2009)

	Million dollars			Share		
	2007	Jun-05	Jun-09	2007	2008	Jun-09
Total imports	107,323	103,987	41,888	100.00	100.00	100.00
Imports within the free trade agreement	5,610	6,129	2,510	68.82	77.81	82.76
9910.61 TPL, Cot & MMF Apparel..	96	79	25	0.09	0.08	0.06
9911.99 TPL, Cot & MMF Apparel..	0	0	1	0.00	0.00	0.00
9914.99 TPL, Cot & MMF Apparel..	70	87	40	0.07	0.08	0.10
9915.61.01 TPL, Cot & MMF Apparel of Nicaragua..........................	419	368	173	0.39	0.35	0.41
9915.61.05 Nicaraguan Trousers made from U.S. components................	21	18	15	0.02	0.02	0.04
9999.00 TPL, Cot & MMF Apparel..	656	472	167	0.61	0.45	0.40
9999.00 TPL, Cot & MMF Apparel..	231	190	163	0.22	0.18	0.39
CAFTA						
Total imports	8,152	7,876	3,033	100.00	100.00	100.00
Imports within the free trade agreement	5,610	6,129	2,510	68.82	77.81	82.76
9822.05.01 Article from fabric or yarn not available in commercial qty....	112	189	60	1.37	2.40	1.96
9915.61.01 TPL, Cot & MMF Apparel of Nicaragua..........................	419	368	173	5.14	4.67	5.71
Nicaragua						
Total imports	969	935	409	100.00	100.00	100.00
Imports within the free trade agreement	771	761	342	79.61	81.37	83.53
9822.05.01 Article from fabric or yarn not available in commercial qty....	8	9	1	0.82	0.99	0.24
9822.05.10 Apparel assembled with U.S. thread and fabric.................	0	1	0	0.00	0.11	0.00
9822.05.11 CAFTA-DR cumulation sublimit, cotton/mmf apparel..............	0	2	0	0.00	0.22	0.05
9822.05.13 CAFTA-DR cumulation sublimit, wool apparel	0	0	0	0.00	0.00	0.00
9822.05.25 Handloomed, handmade, or folklore articles....................	0	0	0	0.00	0.01	0.00
9915.61.01 TPL, Cot & MMF Apparel of Nicaragua..........................	419	368	173	43.28	39.37	42.32
Canada						
Total imports	2,881	2,286	878	100.00	100.00	100.00
Imports within the free trade agreement	2,531	1,966	742	87.83	86.01	84.47
9999.00 TPL, Cot & MMF Apparel..	656	472	167	22.78	20.65	18.97
Mexico						
Total imports	6,594	5,830	2,404	100.00	100.00	100.00
Imports within the free trade agreement	5,828	5,135	2,125	88.38	88.08	88.40
9999.00 TPL, Cot & MMF Apparel..	231	190	163	3.51	3.26	6.79

Source: Author, based on the OTEXA (2009).

4. The above mentioned uncertainty reaches its peak if we understand that TPLs permit certification per invoice —and an order can have up to 90 or more invoices— and that the certificate is not valid until it reaches US customs. This means that it is not until then that it may be defined whether the delivery has effective right of TPL or if these have run out.

5. TPLs in Mexico have an important quantitative weight: Table 5 reflects the potential and contradiction of TPLs in Mexico. Until June 2009, —and if we consider that 100% of all TPLs, and especially TPL1, had been reached by this date— TPLs participated in a 6.79% share of Mexico's YTG chain exports. However, by annualizing the data for 2007 and 2008, Mexico's share in TPLs was around 3.5% of the total. In other countries, such as Nicaragua for example, TPLs represent more than 40% of YTG exports to United States.

Proposal 21: TPLs at the 4-digit level of the Harmonized Tariff System should have a validity of three years at most, but it should be multiannual in order to permit company planning. After 3 years, the rule of origin for the respective product should automatically be modified. Likewise, TPL assignment by company should be carried out by the Ministry of the Economy and should also be multiannual with the aim of allowing for medium term contracts with clients.

Proposal 22: TPL levels assigned to Mexico should be revised in detail, considering that exports to the United States have a high demand and that TPLs usually expire in the last part of the first semester of the corresponding years. The Ministry of the Economy should start negotiations to increase TPLs by 100%, especially TPL1.

Proposal 23: Broadening TPL1 and TPL2 textile categories to include all artificial and synthetic fibers is suggested, especially in TPL1. Several business chambers —among which we may highlight the CNIV—, have also requested broadening TPL2 to include a group of items linked to wool clothing.

Proposal 24: In recent years, Canada has only used a small part of their TPLs, from the 80 and 5.1 million annual SME for TPL1 and TPL2 respectively. There is significant consent in Mexico to find a point of negotiation with the Canadian authorities for permission to use these quotas. The Ministry of the Economy should begin the necessary steps for this immediately.

Proposal 25: A large part of the productive system casts its YTG chain exports towards the United States. However, since the Mexico-Japan Agreement entered into force, there are TPLs with Japan for 200 million dollars (for clothing apparel made with fabrics from any origin), which are not used. Business organisms and the Ministry of the Economy must arrange the timely announcement of these programs in order to ensure the correct use of these quotas.

Proposal 26: Several firms and business chambers today accept that the present assignment mechanism —first come, first served— shows progress with respect to the previous public biddings. However, there is general inconformity due to the fact that assignment does not allow prioritizing according to any criteria such as value added, technological level, etc. This means that in many cases TPLs are used to export commodities. It is suggested that business chambers and the Ministry of the Economy organize a brief seminar aimed at intensifying the best alternative methods to TPL assignment.

3.3. Short Supply

The short supply program is an additional instrument to help bear the restrictions defined by the rules of origin and to allow the United States to import any type of product of the YTG chain according to regional preference when there is no regional production of adequate and commercial amounts of the required regional inputs (OTEXA 2009/b). The CITA (Committee for the Implementation of Textile Agreements) is in charge of issuing and ruling the short supply cases in NAFTA, and it has a maximum period of 30 days to issue comments on the proposal. Usually if it is accepted, a modification is made in the NAFTA rules of origin, and this process can take between 2 and 3 years.[17]

Other countries that the United States has signed free trade agreements with, such as DR-CAFTA for example, also have short supply lists. In the case of the DR-CAFTA, however, a decision process proposed by one of the parties regarding the use of materials obtained and produced outside the region takes only around 45 days (OTEXA 2009/a). As a result, this list is much broader and more flexible than the NAFTA list.

It is important to mention that up to 2009, Mexico has not made significant exports within the short supply program.[18] Until 2009, NAFTA received requests to extend the short supply list for 21 items, and 6 cases of 15 products were approved; in the case of the DR-CAFTA, 47 out of 51 requests were approved for more than 120 products (OTEXA 2009).

The short supply program has received numerous criticisms in which it is generally recognized as a relatively agile instrument —at least compared with the existing ones— in the search to confront the problems of effective supply in the corresponding regions. Yet, groups of textile businessmen (NTA 2007) highlight the increasing participation of specialized consulting firms (and not direct buyers and sellers) and the exclusion of affected parties from decision-making. On the other hand, as a result of the interviews with the companies established in Mexico, it was observed in several instances that the short supply instrument requires products, processes in specific times, quality and quantities that usually prevent the companies from participating and that in many cases it concerns intra-company decisions; that is, company "x" has plants in several locations and has the capacity to define short supply products that only its own plants —benefited by tariffs— in the DR-CAFTA can produce.

Proposal 27: NAFTA, and especially the CITA, require much more agile and efficient institutional mechanisms in order to respond to the conditions and changes of the YTG chain in North America. Specifically, the CITA should have the capacity to carry out automatic short supply adjustments after at most three years following changes made in the rule of origin and within a period of 30 days maximum. If the CITA does not respond within this period, and under implicit approval, the request will automatically be considered authorized.

Proposal 28: Along with the CITA, NAFTA and ASPAN (Alliance for the Security and Prosperity of North America) support institutions and the North American Competitiveness Council (NACC) should implement much more agile mechanisms in order to update the short supply lists in accordance with the needs of the public and private sectors, in order to permit the deepening of the North American integration process. This updating process should be automatic in the case of the DR-CAFTA and other free trade agreements between Mexico and United States ("mirror changes": when new products were included in the short supply program in the DR-CAFTA, these should be automatically included in NAFTA lists.

3.4. Customs and Transportation

Customs logistics expenses present user costs that affect company competitiveness, diluting the benefits of preferential access (BM 2007; WEF 2009). Export transportation costs are significantly higher than the tariff cost even in Mexico (Dussel Peters 2008/b). From a comparative international perspective, the Logistics Performance Index (LPI) of the World Bank (2007) reflects an aggregate performance for Mexico below other Asian and Central American competitors, namely China, Chile and Panama, among others (see Table 6). Apart from its mediocre global performance, Mexico presents poor comparative international performance in logistics competence and in the cost of domestic logistics, with 57th and 101st place respectively, the worst of the measured items. The same document suggests that it is not transportation costs, port fees and handling fees, nor bonds or broker fees or side payments, but the quality of internal services (the efficiency of the dispatch process carried out by customs and other border organisms) that tend to elevate the final cost of merchandise.

17 At present, if a company established in Mexico wishes to include a YTG chain product in the short supply list, it must inform the Ministry of the Economy (SE) so that two parallel procedures may then begin. In Mexico the SE issues a public notification by way of the Official Diary of the Federation (DOF), and if there is no controversy a proposal ensues from the SE to the Senate, bringing about its discussion in the Senate; then the President orders its publication in the DOF and finally a decree is enacted making the modification valid. At the same time, in the United States the CITA makes a proposal and requests comments, an investigation is then carried out in the ITC (International Trade Commission) and a proposal is made to the US Senate, who will debate on the proposal, and, before its definitive modification, the USTR (United States Trade Representative) negotiates on the issue between the corresponding parties (such as Mexico in this case). The process may take anywhere from 2 to 3 years.

18 One of the most well known cases of inclusion to short supply list was that of boxers. This company, a supplier of a US company that supplied Wal-Mart and others, obtained fabrics from china and cut and tailored them in Mexico paying Most Favored Nation (MFN) tariffs; that is, without complying with the origin requirements. With the entry of the DR-CAFTA in 2006, which permitted a "simple transformation" rule of origin, the Mexican company was displaced by its Central American competitors and thus requested the inclusion of boxers on the short supply list, supported by procedures carried out by its client in United States and its own in Mexico. This lobbying made it possible for the product to be included on the short supply list two years later; however, these efforts were fruitless because the US client decided to transfer these activities to China. Nevertheless, the product was successfully included on the short supply list. In the company's view, the tariff benefit —considering that non-regional clothing items are charged 6% in this specific case— was far lower than the cost of the growing overvaluation of the Mexican peso.

Today, one of the main problems of the YTG chain with regard to foreign trade is the rise in customs costs, which reflect the higher price between the value on the invoice and the value in customs, where increasing prices cause a considerable increase that is seen in the commercial value and the consumer value.

But the loss in Mexico's YTG chain company competitiveness is not just a result of the accumulation of procedures for export to the United States; it is also explained by the costs needed for merchandise to cross over. We must consider that total transit time from the point of departure to the destination point takes three days (considering a case such as Mexico City-Nuevo Laredo-Laredo-New York); in this respect, it is important to mention that that if the red light (border customs revision) appears at shipment revision, one more day must be added to the delivery time. Freight costs vary greatly depending on whether it is a consolidated or direct delivery[19]. When calculating logistics costs exclusively, freight represents 70% and customs 30% (see Table 6).

Table 6: Logistics Performance Index (LPI) (2008)

Place		LPI	Customs	Infrastructure	International deliveries	Logistics competence	International shipment follow-up	Domestic logistics cost	Timely arrival
1	Singapore	4.19	3.9	4.27	4.04	4.21	4.25	2.7	4.53
2	Holland	4.18	3.99	4.29	4.05	4.25	4.14	2.65	4.38
3	Germany	4.1	3.88	4.19	3.91	4.21	4.12	2.34	4.33
4	Sweden	4.08	3.85	4.11	3.9	4.06	4.15	2.44	4.43
5	Austria	4.06	3.83	4.06	3.97	4.13	3.97	2.24	4.44
8	Hong Kong	4	3.84	4.06	3.78	3.99	4.06	2.66	4.33
9	United Kingdom	3.99	3.74	4.05	3.85	4.02	4.1	2.21	4.25
10	Canada	3.92	3.82	3.95	3.78	3.85	3.98	2.84	4.19
14	United States	3.84	3.52	4.07	3.58	3.85	4.01	2.2	4.11
30	China	3.32	2.99	3.2	3.31	3.4	3.37	2.97	3.68
32	Chile	3.25	3.32	3.06	3.21	3.19	3.17	2.68	3.55
45	Argentina	2.98	2.65	2.81	2.97	3	3	2.84	3.5
53	Vietnam	2.89	2.89	2.5	3	2.8	2.9	3.3	3.22
54	Panama	2.89	2.68	2.79	2.8	2.73	2.93	3.21	3.43
55	Bulgaria	2.87	2.47	2.47	2.79	2.86	3.14	2.91	3.56
56	Mexico	2.87	2.5	2.68	2.91	2.8	2.96	2.79	3.4

Source: Author, based on BM (2007).

19 Consolidated freight is when a producer does not fill a closed container and has to share the load with different suppliers, with deliveries to different destinations, a fact that implies longer delivery times.

Table 7

EXPORT CASE FOR LOGISTICS COST CALCULATION
Product description: Men's T-shirt
Tariff item: 6109.10.01, 100% cotton
Incoterm Expense Report: Door to Door
Transportation company: Ragar
Departure customs: Nuevo Laredo
Origin: Mexico City
Destination: New York
Delivery: 53 foot box
Mexico City — Nuevo Laredo transit: 1 day

MEXICO CHARGES	Ragar	CRST	STI	Load and freight services
MEX — Nuevo Laredo freight	700.00	715.00	650.00	700.00
Diesel charge	0.00			0.00
Crossing	105.00	105.00	105.00	105.00
Customs dispatch:				
Cotton tax	.009831 Cents x kilo			
Pre-validation	16.00	16.00	16.00	16.00
Customs dispatch	95.00	95.00	95.00	95.00
Entry	65.00	65.00	65.00	65.00
Surety	150.00	150.00	150.00	150.00
Total	1,131.00	1,131.00	1,081.00	1,131.00
UNITED STATES CHARGES				
Laredo — N.Y. freight	2,850.00	2,713.62	3,500.00	3,350.00
Diesel charge	500.00	630.63		
Bridges (if delivery is to the Manhattan area)		300.00	350.00	
Total	3,350.00	3,644.25	3,850.00	3,350.00
Total fee, USD	**4,481.00**	**4,775.25**	**4,931.00**	**4,481.00**
Laredo — N.Y. transit.	3-4 days	3 days	3 days	4 days

The following customs costs must be considered for export operations:

- Crossing ($150 USD)
- Pre-validation ($16.00 USD)
- Customs Dispatch ($95.00 USD)
- Entry ($65.00 USD)

Considering that 83% of Mexican exports to the United States enter by land (Dussel Peters 2008/b); it is also important to evaluate the investment that the company must make for merchandise to cross the border as the high transaction costs for waiting time at the US border has an impact on the final price. The average waiting time for transportation across Mexico's northern border is 2 hours and 30 minutes (Del Castillo 2009; see Table 7) as long as the transport company complies with the procedures and documentation required from the corresponding producer-exporter firm.

In its study on border trade, the World Bank (2007) determined the procedures required for import and/or export of standardized loads of goods; from the time of the contract preparation until the final delivery of goods, considering the time needed to complete the process. In Mexico, five customs documents are needed in total for imports/exports. The time needed to complete the necessary procedures is 17 days for exports and 23 days for imports; the cost associated to the required procedures is $1,472 dollars for exports and $2,700 dollars for imports. This is the point at which the YTG chain companies have the most problems carrying out transactions with United States, as operations in foreign trade must comply with approximately 30 different procedures for one single customs transaction, without considering those previously completed at the SHCP, SE, the Ministry of Foreign Affairs (SRE) and Mexican Institute for Intellectual Property (IMPI) and others (another 27 procedures), and without considering tax and social security (IMSS) procedures that must also be completed (see Annex 3).

Without a doubt improvement is needed in logistics performance, and this depends on governmental and institutional management. In order to achieve enhanced supply chain performance it is necessary to combine individual reforms such as customs modernization, with improvement in all aspects of the distribution chain. This is why improved coordination of border procedures, improved telecommunications, information technology, physical infrastructure and the supply and operation of competitive private services, such as highway transportation, customs broker services and customs storage.

Table 8
US-Mexico border: direct transportation costs

City	Average waiting time	Buses per year	Annual cost (thousands of $US)	Daily cost ($US)
Tijuana	3	745,974	139,870	466,234
Ciudad Juárez	2.2.	773,265	106,324	354,413
Nuevo Laredo	2.9	1,526,623	276,701	922,335
Nogales	1.1	2,888,164	19,812	66,038
Total		3,334,026	542,707	1,809,020

Source: Author, based on Castillo (2009).

In addition to obstacles regarding customs facilitation and the fall in logistics competitiveness, the YTG chain suffers greatly due to unfair competition resulting from piracy (the illegal sale of mainly non-originating clothing items), smuggling (introducing foreign merchandise without passing through customs) and "technical" smuggling (introducing merchandise by way of false statement of origin, undervaluation, incorrect tariff classification or misuse of the IMMEX (Manufacturing, Maquiladora and Export Service Industry Program), as well as to evade tax or compensatory quota payments; causing losses of around 50% for the companies. Another illegal practice that harms the YTG chain's competitiveness is the recurring illegal transshipment of merchandise (also considered as technical smuggling) coming mainly from Asian countries and invoiced and labeled in the United States in order to enjoy the preferential tariffs agreed in NAFTA; US customs authorities have not created a program yet to fight against this merchandise entering its territory (Morales Troncos 2009). In this regard, certificate of origin forgery is difficult to detect as an investigation must be carried out in the exporting country, and the General Customs Administration in Mexico does not have the necessary infrastructure to carry out this investigation *in situ*. Today approximately 58% of the national textile and apparel market is supplied by way of illegal activities such as those described above, and the legally established companies in Mexico supplies 20%.

As a result of various interviews with companies specialized in apparel, it is observed that a group of apparently legal companies of this segment have managed to increase their illegal imports through transshipments from the United States. It is critically important to the sector in Mexico and the United States that the US authorities comply with their customs and regional integration duties.

Proposal 29: Although NAFTA has managed to eliminate practically all the tariff barriers, there are still many non-tariff barriers. It is essential that customs become a facilitating factor for commercial exchange and that the customs procedures —that as discussed previously are excessive— become faster and more simplified.

Proposal 30: Mexican customs should make a significant effort to eliminate the massive illegal imports of diverse kinds that have deeply affected the YTG chain and have resulted in a loss of the domestic market. The responsible authorities should commit themselves to eliminating illegal imports in the YTG chain, and especially fabrics, within a maximum period of two years. The executive branch, together with business chambers, should sign an agreement to this end.

Proposal 31: A series of activities are proposed to be carried out between customs and the National Chamber of the Clothing Industry (CNIV), which emphasize the participation of business in the detection of illegal fabric, textile and clothing imports, the formation of specialized observers in specific customs offices where this merchandise is entered by, as well as the expansion of YTG chain exporting companies (the same treatment as used in the autoparts-automobile chain, electronics chain and others) and, finally, preferential treatment to YTG chain companies that have existed for at least 10 years and have not incurred in any tax penalty in the last three years. This would generate incentives for the compliance of tax load and provide preferential treatment from the Ministry of the Economy, customs and the SHCP.

Proposal 32: It is proposed that a three-part group —with members from Canada, United States and Mexico— carries out a mission in the United States and its main exporters, including Long Beach, California. The intention here is to considerably reduce illegal imports and transshipments in the United States in order to preserve employment in Mexico and achieve an effective integration process in the region.

4. Additional Proposals for the YTG Chain

Given the deep global crisis and the present economies of North America, in 2009 the improvement and deepening of the integration process between Canada, Mexico and the United States is more relevant than ever. After 15 years since its signing, and having achieved important effects in all three countries, NAFTA without a doubt requires updating and modernizing, at least to include benefits that these three countries have granted other countries. In 2009 it also makes sense to prepare an agenda for regional development —regarding the NAFTA region— and competitiveness. If we consider that the three member countries of NAFTA have been facing great problems for years in their respective manufacturing sectors: the three countries lost more than 6.3 million jobs in manufacturing between 2000 and 2009. The objective of this new North American integration agenda is to deepen the socio-economic process that began in 1994 and resume the integration dynamics that were achieved during 1994-2000.

In the context of a new spirit of improvement of the region's competitiveness, ASPAN and the North American Competitiveness Council (NACC) must comply with their respective functions and deepen the degree of integration.

The updating, modernization and reform to the rules of origin and in general for the YTG chain seems imminent and will manifest the capacity of political, social and economics leaders in Canada, United States and Mexico to search for the effective improvement and deepening of the integration process between these three countries. As this document has demonstrated in detail, the YTG chain's conditions have changed considerably since the rules of origin were prepared in the first half of the 90's: production of supplies —fabric and textile accessories— has been reduced, especially in the case of synthetic fibers such as polyester and rayon; while wool and cotton products still have a significant strength in the region. From this perspective, the rules of origin are a "straight jacket" for clothing producers, and it generates a growing disincentive to regional production: a) by using North American inputs, the high prices —and low quality in other cases— makes products non-competitive; and, b) incentives are generated to use Asian inputs —either by TPLs, short supply or other legal or illegal forms— due to the enormous difference in prices.

Therefore the search, given these conditions, is not to eliminate the possibility of providing incentives for regional input producers. On the contrary: one of the main proposals —the promotion of a "1*1" program (one item of clothing that complies with the rules of origin and one assigned automatically as TPL) for the entire YTG chain in NAFTA— searches precisely to generate incentives and security in the chain, considering also that Mexico is one of the largest consumers of US supplies from the YTG chain (House of Representatives 2005).[20]

The second general issue refers to the need to simplify, improve and deepen the mechanisms of the “accumulation rule” between DR-CAFTA and NAFTA; for the time being, the textile companies that are established in the NAFTA region can only incorporate inputs from DR-CAFTA, and it is critically important that the region’s textile companies may accumulate value added by way of other countries that have trade agreements with the United States. Once more, this is aimed at improving incentives for textile companies established in North America.

Third, there appears to be great flexibility and disposition on the part of US authorities for negotiations on the rules of origin, as may be seen in the differentiated treatment present in DR-CAFTA, AGOA (African Growth Opportunity Act) and several negotiations with Haiti, among others. To achieve the proposed changes to the NAFTA rules of origin, for example, will require processes of rapprochement and negotiation between diverse private and public institutions, mass media and civil society groups in the three countries. Therefore, it is important from this very moment onward to achieve a closer approach of diverse institutions in order to attain an effective and efficient process of change in North America based on the proposals presented in this document. To this end, this approach should begin immediately including the following:

1. Business chambers such as CANAINTEX (National Chamber of the Textile Industry) in Mexico, and the NTA (National Textile Association), NTCO (National Council of Textile Organizations), AMTCA (American Manufacturing Trade Action) and USIFI (United States Industrial Fabrics Institute), among others.

2. Relevant members of the Senate and House of Representatives in United States and Mexico.

3. The Mexican embassy in United States.

4. The United States embassy in Mexico.

5. USTR (United States Trade Representative).

6. Unions and non-governmental organizations such as the Maquila Solidarity Network, among others. The degree of the present crisis has brought closer the differing views of chambers that were apparently antagonistic up until now.

7. The executive, legislative and judicial branches of government in Mexico, including the SE and the SHCP, among others.

Proposal 33: In view of enabling an effective deepening process of North American integration, it is proposed that the three counties immediately begin an “agenda of competitiveness and development”, using the existing crisis as an incentive. The YTG chain may be the first sector to capture this new development agenda, with emphasis in manufacturing. NAFTA institutions should immediately begin to modify and modernize the NAFTA rules of origin and apply the “simple transformation” rule for products that may have been used by TPLs over more than three years in North America and DR-CAFTA, in addition to the products that would have been on the short list supply more than three years. The above mentioned criteria would manifest the fact that the production of inputs for these products is not carried out in the times and prices required in North America and the DR-CAFTA region.

Proposal 34: Business organisms and the public sector in Mexico must rapidly reach an agreement regarding whether it is convenient —from an economic and political perspective, among others— to search to update and deepen NAFTA and make changes to the rules of origin in the NAFTA and DR-CAFTA regions. Although on first glance Mexico and the member countries of DR-CAFTA are competitors, both groups of countries are significantly inferior —in terms of production, trade and investment— to Asian countries and their exports to United States. The CNIV and CANAINTEX may carry out a series of events in order to deliver a proposal to the Mexican public sector as well as Central America and the United States.

20 In open criticism of the inadequacy of the NAFTA rules of origin for the YTG chain and the yarn forward approach, Senator McDermott said: *“China’s share has tripled in the last few years in the United States, but as you can see, the apparel rules and the so-called FTAs are grossly onerous and inadequate … The fact of the matter really is that the yarn-forward rule is nothing but an old world approach for protectionism, and it is time it has got to go … I would think that the tariff preference that we provide for our free trade partners would give them an advantage over China. We have tried to do that in the African Growth Opportunity Act and others. We have tried, but it is pretty clear that these rules are really not working very well.”* (House of Representatives 2005:37-38).

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ANNEX 1

Indicators in the structure of the textile and clothing industries, manufacturing and the entire economy for 2003

(thousand pesos at basic 2003 prices)

Variables	Textile input manufacturing 313	Manufacturing of textile products, except clothing apparel 314	Clothing apparel manufacturing 315	Textile and clothing industries (313+314+315)	Manufacturing	Total
On the side of production						
Total inputs / total production						
Total economy	68.5	68.4	64.1	65.8	67.9	42.0
Maquiladora industry	81.0	81.4	78.5	79.2	86.6	86.5
Internal economy	65.4	60.5	51.3	57.2	63.2	38.8
Domestic inputs / total inputs						
Total economy	56.2	44.3	40.8	45.4	61.8	72.9
Maquiladora industry	37.6	12.4	19.3	21.0	11.9	12.0
Internal economy	61.8	70.1	70.1	66.9	79.3	82.8
Imported inputs / total inputs						
Total economy	43.8	55.7	59.2	54.6	38.2	27.1
Maquiladora industry	62.4	87.6	80.7	79.0	88.1	88.0
Internal economy	38.2	29.9	29.9	33.1	20.7	17.2
Taxes on goods and services / total production						
Total economy	0.4	0.6	0.5	0.5	0.3	0.3
Maquiladora industry	The MI does not pay taxes on goods and services					
Internal economy	0.6	0.9	1.0	0.8	0.4	0.4
Subsidies on goods and services / total production						
Total economy	0.1	0.0	0.0	0.0	0.1	0.0
Maquiladora industry	The MI does not receive subsidies for goods and services					
Internal economy	0.1	0.1	0.0	0.1	0.1	0.0
Gross value-added (GVA) / total production						
Total economy	31.2	31.1	35.4	33.8	31.8	57.7
Maquiladora industry	19.0	18.6	21.5	20.8	13.4	13.5
Internal economy	34.2	38.6	47.8	42.0	36.5	60.9
GVA structure by economy type						
Total economy	100	100	100	100	100	100
Maquiladora industry	12.0	22.4	28.6	24.0	8.6	1.6
Internal economy	88.0	77.6	71.4	76.0	91.4	98.4
Gross domestic product (GDP) / total production						
Total economy	31.5	31.6	35.9	34.2	32.1	60.9
Maquiladora industry	19.0	18.6	21.5	20.8	13.4	13.5
Internal economy	34.6	39.5	48.7	42.8	36.8	64.3
GDP structure by economy type						
Total economy	100	100	100	100	100	100
Maquiladora industry	11.8	22.1	28.2	23.6	8.5	1.5
Internal economy	88.2	77.9	71.8	76.4	91.5	98.5
On the side of demand						
Intermediate imported origin demand / total imports (intermediate and final						
Total economy	94.7	68.8	52.2	77.9	71.4	69.7
Maquiladora industry	100	100	100	100	100	100
Internal economy	86.7	39.0	0.9	49.3	56.1	55.8
Final demand imports / total imports (intermediate and final demand)						
Total economy	5.3	31.2	47.8	22.1	28.6	30.3
Maquiladora industry	The MI does not import final demand goods					
Internal economy	13.3	61.0	99.1	50.7	43.9	44.2
Internal final demand, imported origin / Total internal final demand						
Total economy	18.2	37.7	30.1	28.1	17.1	7.6
Maquiladora industry	The MI does not import final demand goods					
Internal economy	18.2	37.7	30.1	28.1	17.1	7.6
Internal final demand, domestic origin / Total internal final demand						
Total economy	81.8	62.3	69.9	71.9	82.9	92.4
Maquiladora industry	The MI does not import final demand goods					
Internal economy	81.8	62.3	69.9	71.9	82.9	92.4
Internal economy exports / total exports	39.5	23.0	20.9	24.2	38.0	56.3
MI exports / total exports	60.5	77.0	79.1	75.8	62.0	43.7
Domestic content of MI exports	15.7	2.2	3.1	4.7	3.1	10.3
Total remuneration (thousands of current prices) / Total employed population	58.64	36.09	35.94	39.79	69.73	51.59

Source: INEGI, input-output matrix, 2003. http://www.inegi.org.mx/est/contenidos/espanol/proyectos/scnm/mip03/default.asp?s=est&c=14040
INEGI, Economic Census 2004, http://www.inegi.org.mx/est/contenidos/espanol/proyectos/censos/ce1999/saic/default.asp?modelo=SCIAN&censo=2004&s=est&c=11734

Notes: n.d. not available; internal economy = economy without the Maquiladora Industry (MI); total economy = internal economy plus MI economy; VGA + taxes net of subsidies = GDP; domestic content of MI exports = intermediate consumption of MI goods and services of the internal economy plus GDP added to this industry

ANNEX 2

Annual indicators for the entire economy, manufacture and clothing industry in Mexico 1994-2008

Source /	Code	Description	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1995-2000	2000-2004	2000-end	2003-end	2005-end
			Annual														Annual average				
			Production in basic values																		
SCNM 1993 - CMAP		Economy	-5.6	6.5	7.9	6.3	5.1	8.1	-0.9	1.3	1.4	5.1					6.8	1.7			
		Manufacturing	-1.8	12.6	10.8	9.5	6.9	10.6	-3.7	0.9	-0.3	6.5					10.1	0.8			
		Division II: Textiles, clothing apparel and leather industry	-3.8	17.6	11.4	6.9	6.9	8.3	-6.9	-2.9	-6.3	1.0					10.2	-3.8			
	24	Soft fiber yarns and fabrics	1.9	14.9	9.2	-2.3	-1.3	-0.6	-7.6	-5.7	-8.3	2.3					3.8	-4.9			
	25	Hard fiber yarns and fabrics	7.6	6.4	2.6	4.8	-2.3	13.6	-9.0	-5.1	-2.7	3.6					4.9	-3.4			
	26	Other textile industries	-10.9	21.5	15.5	12.2	14.2	22.3	-11.0	5.7	-6.9	0.9					17.1	-3.0			
	27	Clothing apparel	-0.4	20.2	12.1	10.8	8.4	8.3	-3.6	-7.0	-5.6	1.0					11.9	-3.8			
	28	Leather and footwear	-9.8	12.0	8.0	1.7	3.0	-4.4	-8.4	-1.6	-5.2	-0.6					3.9	-4.0			
SCNM 2003 - NAICS	11-79	Economy									--	4.9	3.8	6.1						4.9	
	31-33	Manufacturing									--	5.8	4.9	7.7						6.1	
		Textile and clothing industries a/									--	1.5	-4.4	-1.5						-1.5	
	313	Textile input manufacture									--	0.8	-4.9	-1.8						-2.0	
	314	Confection of textile products, except clothing apparel									--	11.2	0.7	3.3						5.0	
	315	Clothing apparel manufacture									--	0.4	-5.0	-2.2						-2.3	
			Goods exports																		
SCNM 1993 - CMAP		Economy	39.0	18.4	8.1	5.7	8.2	10.4	0.4	0.9	3.7	9.2					10.1	3.5			
		Manufacturing	48.5	20.8	8.5	6.7	10.9	12.0	-0.2	1.7	2.3	10.2					11.7	3.4			
		Division II: Textiles, clothing apparel and leather industry	93.3	26.3	17.2	7.4	8.7	9.9	-10.6	1.6	-6.2	8.5					13.7	-2.0			
			Index of the physical volume of manufacture production																		
SCNM 1993 - CMAP		Manufacturing	-4.9	10.8	9.9	7.4	4.2	6.9	-3.8	-0.7	-1.3	4.0	1.4	4.7	1.0		7.8	-0.5	0.7		
		Division II: Textiles, clothing apparel and leather industry	-6.3	15.7	10.5	3.9	3.1	5.4	-8.6	-5.9	-6.7	2.8	-3.0	-1.5	-4.5		7.6	-4.7	-4.0		
	24	Soft fiber yarns and fabrics	-1.0	15.7	8.7	-2.0	-1.3	-0.7	-9.4	-5.8	-8.3	0.5	-6.7	1.0	-7.9		3.9	-5.8	-5.3		
	25	Hard fiber yarns and fabrics	5.9	4.4	0.1	4.1	-1.9	10.8	-9.6	-6.5	-4.1	3.6	-2.5	2.6	-1.1		3.4	-4.3	-2.6		
	26	Other textile industries	-8.2	18.4	20.1	11.0	4.3	15.5	-9.4	-1.3	-8.5	5.7	0.8	-3.4	-2.2		13.7	-3.6	-2.8		
	27	Clothing apparel	-6.2	16.8	8.1	4.5	5.8	4.9	-7.3	-9.9	-6.1	2.6	-7.4	-3.6	-5.3		7.9	-5.3	-5.4		
	28	Leather and footwear	-11.5	11.7	7.4	-0.5	1.0	-3.0	-9.4	-2.9	-3.4	0.8	5.8	3.6	-3.9		3.2	-3.8	-1.5		
		Maquiladora Industry - Manufacturing	11.6	19.9	13.8	11.4	12.3	13.8	-9.7	-10.3	1.5	7.6	3.4	3.2			14.2	-3.0	-0.8		
		Maquiladora Industry - Division II: Textiles, clothing apparel and leather industry	22.2	34.1	27.0	18.2	15.1	16.7	-7.9	-14.0	-4.5	-0.8	-6.2	-11.8			22.0	-6.9	-6.6		
			Index of the physical volume of manufacture production by sub-sector																		
SCNM 2003 - NAICS	11-79	Economy																			
	31-33	Manufacturing									--	3.9	3.6	5.9	2.6	-0.4				3.1	
		Textile and clothing industries a/									--	3.4	-3.2	1.7	-2.3	-8.3				-1.8	
	313	Textile input manufacture									--	3.7	-5.5	1.1	-2.9	-9.5				-2.8	
	314	Confection of textile products, except clothing apparel									--	6.5	-0.1	5.4	0.2	-9.0				0.5	
	315	Clothing apparel manufacture									--	0.0	-4.0	-1.8	-4.8	-6.2				-3.4	
			Total employed population																		
EIM - CMAP		Manufacturing	-8.7	3.2	5.6	4.1	0.9	1.5	-4.4	-5.0	-3.9	-2.9	-0.7	1.3	0.4	-2.1	3.0	-4.0	-2.2	-0.8	
		Division II: Textiles, clothing apparel and leather industry	-9.5	6.6	5.9	2.0	0.6	1.2	-9.1	-8.0	-7.6	-7.3	-4.2	-3.1	-3.0	-6.8	3.2	-8.0	-6.2	-4.9	
	24	Soft fiber yarns and fabrics	-7.9	7.2	6.7	-2.1	-0.1	2.1	-9.2	-8.4	-6.7	-9.2	-4.7	-7.8	-3.3	-7.1	2.7	-8.4	-7.1	-7.3	
	25	Hard fiber yarns and fabrics	-0.4	7.0	7.2	0.8	2.6	2.7	-5.1	-17.7	-4.4	-10.8	-8.8	14.3	-4.5	-6.8	4.1	-9.7	-5.8	-2.4	
	26	Other textile industries	-9.8	3.5	12.6	10.9	5.6	9.9	-9.5	-5.8	-19.0	-5.9	-5.6	3.3	-0.9	-4.8	8.4	-10.2	-6.2	-2.9	
	27	Clothing apparel	-11.3	7.4	5.8	9.0	1.1	-1.4	-8.3	-8.9	-7.1	-7.3	-6.7	-1.6	-3.5	-7.9	4.3	-7.9	-6.4	-5.2	
	28	Leather and footwear	-10.5	5.0	2.4	-3.5	-0.9	0.2	-10.7	-5.1	-5.9	-3.1	2.1	-0.3	-2.4	-5.4	0.6	-6.2	-3.9	-0.5	
EIMA - NAICS	11-79	Economy																			
	31-33	Manufacturing											--	2.0	0.2	-2.4					-0.1
		Textile and clothing industries a/											--	-2.8	-4.2	-8.5					-5.2
	313	Textile input manufacture											--	-3.3	-4.6	-9.7					-5.9
	314	Confection of textile products, except clothing apparel											--	-0.5	-2.7	-9.0					-4.2
	315	Clothing apparel manufacture											--	-2.9	-4.2	-7.5					-4.9
EIA - NAICS	11-79	Economy																			
	31-33	Manufacturing									--	0.6	0.4	0.8	-0.6					0.6	
		Textile and clothing industries a/									--	-2.4	-2.2	-3.9	-4.1					-2.9	
	313	Textile input manufacture									--	-3.7	-2.6	-4.8	-4.4					-3.7	
	314	Confection of textile products, except clothing apparel									--	1.3	-2.6	-1.0	-3.4					-0.8	
	315	Clothing apparel manufacture									--	-2.3	-1.8	-3.9	-4.0					-2.7	
SCNM 1993 - CMAP		Economy	-2.9	3.4	3.8	4.4	2.4	2.1	-0.6	-0.9	0.5	1.5					3.2	0.1			
		Manufacturing	-5.3	6.9	8.8	5.8	3.7	4.8	-5.0	-6.7	-2.9	-0.7					6.0	-3.9			
		Division II: Textiles, clothing apparel and leather industry	-3.1	13.7	13.2	6.0	7.2	6.2	-7.0	-11.4	-6.7	-5.0					9.2	-7.6			
	24	Soft fiber yarns and fabrics	-2.5	8.3	8.6	-3.7	-1.2	1.2	-5.6	-10.2	-4.4	-2.8					2.5	-5.8			
	25	Hard fiber yarns and fabrics	-1.2	7.1	12.4	4.9	-2.1	2.2	-10.3	-15.1	-7.3	-7.4					4.8	-10.1			
	26	Other textile industries	-7.4	13.9	15.4	12.9	6.7	10.5	-5.8	-5.8	-7.7	-4.6					11.9	-6.0			
	27	Clothing apparel	0.7	18.5	16.6	9.6	11.7	7.3	-6.9	-14.0	-7.2	-6.0					12.7	-8.5			
	28	Leather and footwear	-9.9	6.4	4.9	-3.1	0.2	1.3	-10.0	-7.6	-5.9	-3.6					1.9	-6.8			

Source: INEGI, Banco de Información Económica. Accessed on Tuesday 14th and Thursday 16th of July, 2009

Notes: "Blank" boxes indicate that given the consulted source there is no available information. EIM = Monthly Industrial Survey; EIMA = Monthly Extended Industrial Survey; EIA = Annual Industrial Survey; SCNM = Mexican National Accounting System; CMAP = Mexican Classification of Productive Activities (according to their Spanish acronyms); NAICS = North American Industry Classification System.

a/ The "textile and clothing industry" is calculated as the sum of monetary data and in persons and average, for the indexes of sub-sectors 313, 314 and 315.

ANNEX 3

Requirements that must be fulfilled by the company importing/exporting YTG chain merchandise in order to clear customs:

1.1 Federal Taxpayer Registration (RFC)

1.2 Registration on the Registry of Importers

1.3 Import Permit

1.4 Commercial invoice

1.5 Bill of landing, air waybill or transportation document

1.6 Packaging list

1.7 Letter of appointment of customs broker

1.8 Insurance

1.9 Declaration of value and calculation sheet

1.10 Documents proving compliance with regulations and non-tariff restrictions.

- 1.10.1 Import permits or authorization
- 1.10.2 Official Mexican Standards
- 1.10.3 Certificate of origin

Also, several procedures must have been carried out at the Ministry of the Economy, depending on the situation of the company:

1. Registration of persons authorized to carry out procedures at the Ministry of the Economy
2. Certificates and questionnaires required to prove the origin of merchandise
3. Statistical annex required to obtain certificates of origin
4. Certificate of origin
5. Procedure for NOM compliance
6. Business information system
7. Program for High Export Companies
8. Program for Foreign Trade Companies
9. Program for the promotion of the manufacture, maquiladora and export services industry
10. Sectorial promotion program

In addition, for a supplier (producer) to have the authority to import YTG chain merchandise from the United States or Canada, the following is required:

A To be registered at the Treasury Department (RFC)

B Register at the Registry of Importers and Exporters[21]

C To have a bank account in US Dollars

It is important to mention that for customs clearance on the Mexican side, it is required to present the following documentation:

1. US or Canadian Tax Invoice (which must include the address of the Mexican client), at 0% rate (without taxes), indicating the final destination in Mexican territory (this is for definitive exports and/or imports).
2. Commercial Invoice
3. Single Country Declaration (Textile Declaration)
4. Certificate of Origin (NAFTA)
5. Letter of appointment of customs broker (in contrast with exports, in the case of imports the only thing that must be added is this letter of appointment, which acts as proxy delivered by the buyer to the customs broker in order to be autho-

21 This procedure has been relatively simplified; it used to take 6 to 8 months to clear the Registration of Exporters permit (at the Treasury Department), and now it is carried out in a maximum of 2 months.

rized to carry out the procedures required for merchandise customs clearance). This letter must be signed by the legal representative and directed to the customs administrator.[22]

6. Import/export permit. (this is probably the most important procedure for the company in this chain, as obtaining a definitive import permit (A1), or in its case a virtual permit (V1), serves as fiscal support for each and every import and export operation, and once the customs declaration has been completed, the number of import and export operations are listed in order to justify the 0% rate benefit).

7. Bond (at the importer's (client's) account; it refers to the power granted to its customs broker to enter (import) said shipment). It may be paid annually or per event and only applies to the entry of merchandise to US territory.

22 It is important to mention that the body of the letter of appointment must specify whether the imported product is raw material, the commercial reason for the product's import (for sale to the general public or for production processes), make reference to the invoice number, invoice date and import permit of the operation and the address where the production process will be carried out.

National Chamber of the Clothing Industry

National Autonomous University of Mexico

Faculty of Economics

Center for Chinese-Mexican Studies