The Apparel Industry in the Dominican Republic after the MFA: Report and Recommendations of an FLA Mission

Jennifer Bair
Yale University
Structure

1. Textile and Apparel Industry in Global Context

2. Overview of the Dominican Apparel Industry

3. Key Factors Affecting Competitiveness

4. Recommendations and Proposals
FLA Mission
Santo Domingo and Santiago
May 6-16, 2007

- **Objective:** Assess situation of Dominican apparel sector and evaluate possible responses

- **Members of Mission:**
  Antonio Baliarda, CONNOR Consulting, Barcelona, Spain
  Franklin Chavarría, FLA Regional Manager for the Americas
  Jennifer Bair, Assistant Professor of Sociology, Yale Univ.

- **Meetings with Stakeholders Representatives and Organizations:**
  Government, Industry, Labor, NGOs

- **Plant Visits and Factory Tours:** Textile mill and apparel factories in 5 different zona francas
1.1 Textile and Apparel Industry in Global Context

• Phase – out of MFA/ATC

• Likely implications: four “Cs”
  1. Consolidation of Industry
  2. Contraction of Supply Base
  3. Capabilities become more important

• Regional/ Preferential free trade agreements
  NAFTA, CBI, CBTPA, CAFTA, HOPE
### 1.2 Shifts in Global Garment Trade

**U.S. Apparel Imports from Leading Suppliers, 1996-2006**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominican Republic</td>
<td>1.773</td>
<td>2.358</td>
<td>2.443</td>
<td>2.177</td>
<td>2.064</td>
<td>1.553</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.849</td>
<td>6.811</td>
<td>8.73</td>
<td>7.732</td>
<td>6.948</td>
<td>5.529</td>
</tr>
<tr>
<td>Honduras</td>
<td>1.241</td>
<td>1.905</td>
<td>2.416</td>
<td>2.503</td>
<td>2.745</td>
<td>2.518</td>
</tr>
</tbody>
</table>

In US$ billions.

Apparel defined as SITC 84, U.S. Imports for consumption, customs value.

Source: United States International Trade Commission
1.3 Exports from China surge, Latin America’s market share declines
1.4 Manufacturers Under Pressure: Most countries see decline in unit price

Unit Price of Apparel Exports to the U.S Market, 1995-2005

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1997</th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
<th>% change 95-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.74</td>
<td>3.77</td>
<td>3.60</td>
<td>3.51</td>
<td>3.20</td>
<td>3.12</td>
<td>-16.8%</td>
</tr>
<tr>
<td>China</td>
<td>4.08</td>
<td>4.74</td>
<td>4.80</td>
<td>4.71</td>
<td>3.17</td>
<td>2.57</td>
<td>-37.0%</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.31</td>
<td>3.25</td>
<td>3.27</td>
<td>3.10</td>
<td>3.49</td>
<td>3.57</td>
<td>7.9%</td>
</tr>
<tr>
<td>Dom Rep</td>
<td>2.74</td>
<td>2.78</td>
<td>2.73</td>
<td>2.99</td>
<td>2.83</td>
<td>2.58</td>
<td>-5.8%</td>
</tr>
</tbody>
</table>

^Dollar value of apparel imports divided by square meters equivalent of apparel imports

Source: Value and volume import data from the Office of Textiles and Apparel Major Shippers Report;

Available at http://otexa.ita.doc.gov/msrpoint.htm
## 2.1 The Dominican Apparel Industry

### Selected Indicators, 1997-2006

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of apparel (EPZ) factories</td>
<td>272</td>
<td>277</td>
<td>262</td>
<td>269</td>
<td>226</td>
<td>NA</td>
</tr>
<tr>
<td>No. of apparel (EPZ) workers</td>
<td>132,120</td>
<td>125,783</td>
<td>121,895</td>
<td>119,101</td>
<td>91,481</td>
<td>NA</td>
</tr>
<tr>
<td>Exports (current US$)(^a)</td>
<td>2.23</td>
<td>2.36</td>
<td>2.29</td>
<td>2.13</td>
<td>1.85</td>
<td>1.55</td>
</tr>
<tr>
<td>Exports (constant 1995 US$)(^a)</td>
<td>2.11</td>
<td>2.16</td>
<td>1.99</td>
<td>1.80</td>
<td>1.49</td>
<td>1.18</td>
</tr>
<tr>
<td>Rank among leading suppliers</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>
2.2 Current challenges for the “isla de los Dockers”?

- **Impact of MFA Phase-Out Large**
  Ex.: First quarter of 2005, Chinese exports of cotton trousers increased 1,000%

- In 2003, 92% of DR apparel exports in quota-constrained categories

- Heavy reliance on EPZ/CBI assembly model
3.1 Critical Factors Affecting Competitiveness: 3 Levels

- **Regulatory Shifts**
  - Global: Quota phase-out and China’s entrance to WTO
  - Regional:
    - CAFTA: 1. Yarn forward rules of origin; 2. Lack of clarity regarding cumulation provisions for NAFTA countries; Nicaraguan TPLs
    - Haitian Hemispheric Opportunity through Partnership Encouragement Act: more flexible rules of origin

- **Country Level Factors**
  - Exchange Rate
  - Electricity
  - Transport
  - Labor
  - Lack of Textile Base

- **Company Level Factors**
  - Export profile: Product and client
  - Organization of Production: Problems with implementing modular mfr.
3.2 Electricity Sector

- 81% of all firms interviewed by World Bank in 2005 cited high cost and low reliability of electricity as “major” or “severe” obstacle, and fully half listed it as number one problem. In May 2005, price reached 19.3 US cents/kWh.

**Industrial Electricity Tariffs, 2003**

Source: World Bank 2004
3.3 Transport

Average Customs Dispatch Time, 2005

Source: World Bank
3.4 Labor Costs

- Dominican Republic is lower middle-income country with relatively high local cost of living

- Labor costs represent 1/3 of production phase of apparel assembly (i.e. not including raw materials cost, pre and post-production)

- Electricity and Overhead (including rent) comprise other 2/3

- Labor Costs compared to other countries (avg. hourly wage in mfr, 2002):
  - Mexico $1.88
  - Costa Rica $1.76
  - Dominican Republic $1.65
  - Guatemala $1.19
  - El Salvador $1.06
  - Thailand $0.73
  - Pakistan $0.27
4.1 Recommendations to Strengthen the Industry: “Con El Esfuerzo de Todos”

1. Diagnose Problem: Focus on secular changes, not just short-term pressures

2. Dialogue with Relevant Stakeholders


4. Decisive Action to Implement It
4.2 From Destination to Road Map

- What is competitive advantage of the Dominican Republic: Why DR?
- Proximity to Market: Shift to Flexible Modular, Full Package Manufacturing
- Caveats:
  Lynda’s point: There are no guarantees this will improve situation for workers.
  Necessary, not sufficient condition for success.
4.2 From Destination to Road Map

- What is competitive advantage of the Dominican Republic: Why DR?

- Proximity to Market: Shift to Flexible Modular, Full Package Manufacturing

- Caveats:
  Lynda’s point: There are no guarantees this will improve situation for workers. Necessary, not sufficient condition for success.
4.3 Proposals for Action

- Government
- Private Sector
- Labor/Unions
- Joint Public/Private Sector Collaboration
¡Gracias!