

NAFTA: A Clear Success for U.S. and Mexican Textile and Cotton Trade

By Katherine Cook

NAFTA (the North American Free Trade Agreement) eliminated barriers for textile and cotton trade between Mexico and the United States. Ten years on, NAFTA has proven a great success for textile manufacturers on both sides of the border and for U.S. cotton producers.

Benefits for U.S. and Mexican Textile Industries

Since 1994, when NAFTA was first enacted, the textile industries in Mexico gained open access to the U.S. market, stimulating exports to the United States. The value of Mexican cotton textile and apparel exports to the United States increased from \$3 billion in 1995 to \$8.4 billion in 2002, with a record high of \$9.4 billion in 2000. At the same time, Mexico's share of the U.S. cotton textile market rose from 8 percent in 1995 to 13 percent in 2002.

U.S. companies have benefited as well. NAFTA increased exports of U.S. yarn and cotton to Mexico in two ways. First, it eliminated import duties on U.S. yarn and cotton to Mexico. Second, to benefit from the reduced tariffs, NAFTA required Mexican textile manufacturers to use U.S. cotton and yarn for any U.S.-bound textile exports. As a result, all cotton textiles entering the United States from NAFTA countries contain U.S. cotton, while the same cannot be said of textile imports from other countries. U.S. exports of fabrics and yarn to Mexico increased from \$1.1 billion to over \$3 billion between



calendar years 1995 and 2002.

The preferential treatment of U.S. yarn and fabric has been important to the struggling U.S. textile industry, which has suffered setbacks under low-priced imports from countries like Vietnam and China. It is likely that the cotton industry will look for similar requirements in future U.S. free trade agreements.

NAFTA's Benefits for U.S. Cotton

As NAFTA has fostered the growth of Mexico's textile industry, U.S. cotton exports to Mexico have seen a dramatic increase since 1994. In the 1994/95 marketing year (August-July), the United States exported a mere 580,000 bales of cotton to Mexico (1 bale=480 pounds), but by 2002/03, U.S. cotton exports to Mexico reached a record 2.3 million bales. NAFTA reduced the tariff on raw cotton exports to Mexico from 10 percent in 1994 to 5 percent in 1999. The tariff was phased out in January 2003. Preferential access for U.S. cotton in the Mexican mar-

ket along with favorable rules of origin for textile product imports under the agreement have been key in supporting overall consumption of U.S. fiber.

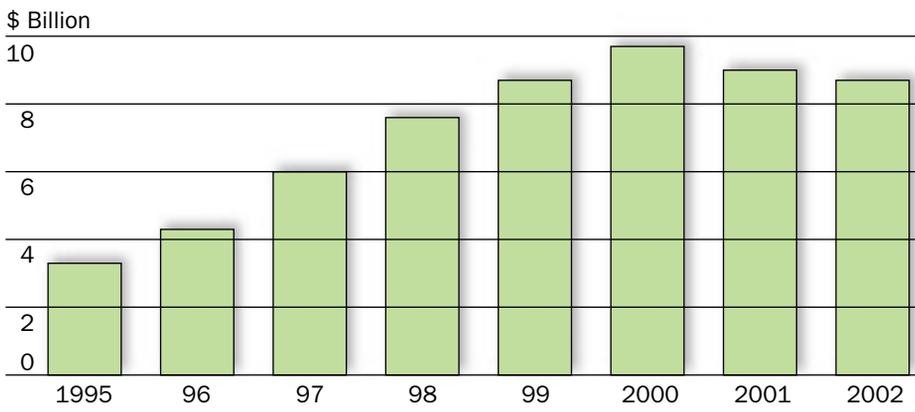
NAFTA's Future

While NAFTA's past performance in promoting textile and cotton trade has been impressive, there are challenges to its continued success. One challenge is increasing U.S. textile imports from China. Between 1997 and 2002, U.S. imports of cotton textiles and apparel from China increased from \$7.2 billion to \$9.8 billion, representing a 17-percent rise in market share.

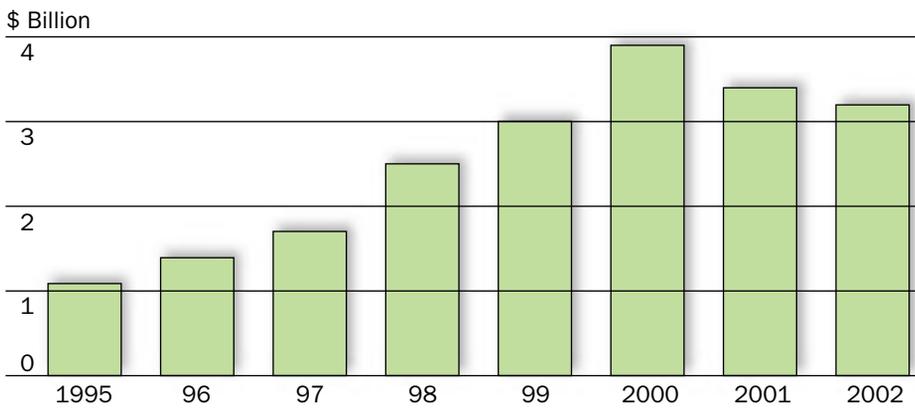
Another challenge is the final phase-out of textile quotas on Jan. 1, 2005 under the Uruguay Round agreement of the General Agreement on Tariffs and Trade, now the World Trade Organization. The elimination of quotas could potentially erode Mexico's share of the U.S. market, as competing countries can increase their textile exports to the United States. However, while losing the advantage of

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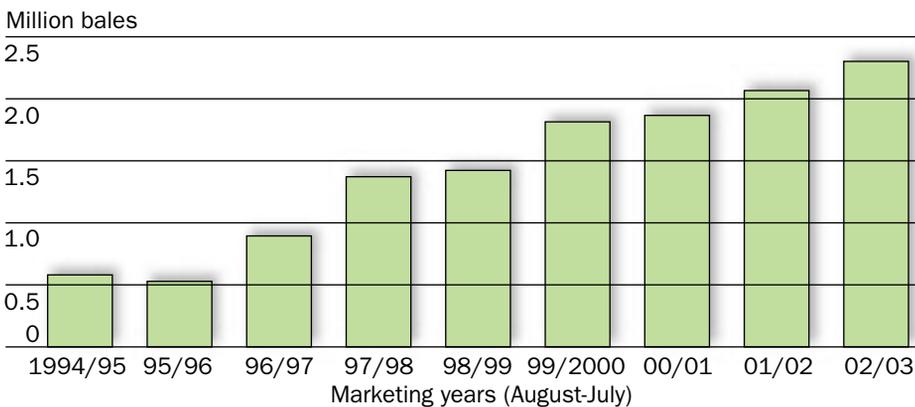
Under NAFTA, Mexican Textile Exports to the United States Have Climbed



U.S. Cotton Yarn and Fabric Exports to Mexico Have Made Impressive Gains



U.S. Cotton Exports to Mexico Have Surged



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quota-limited competition, Mexico will maintain a tariff advantage which allows 100 percent of all textile and apparel exports to enter the United States duty-free.

NAFTA's Success

Before NAFTA, both countries faced significant trade barriers in exporting to each other. NAFTA's elimination of these barriers for textile exports to the United States allowed Mexico to claim increasing shares of the U.S. market. At the same time, the United States was able to nearly quadruple its cotton exports to Mexico, claiming almost 100 percent of the Mexican cotton import market as Mexico's textile industry demand surged. U.S. cotton yarn exports also saw a dramatic rise as a result of NAFTA, with the total value of exports almost tripling between 1995 and 2002.

Without NAFTA, the exponential growth of U.S. cotton and cotton yarn exports to Mexico would likely have never materialized. The increases in textile and cotton trade between the United States and Mexico following NAFTA are a textbook example of the benefits of free trade. ■

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