Withdrawal from NAFTA Could Harm U.S. Textile and Apparel Sector, Report Says

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A U.S. withdrawal from NAFTA could have negative impacts on U.S. textile and apparel manufacturers and retailers, according to a recent Congressional Research Service report. The report comes amid negotiations to update NAFTA that have reportedly featured controversial U.S. proposals on textile and apparel issues.

NAFTA has encouraged the integration of textile and apparel production in the U.S., Canada, and Mexico, the report states, with beneficial results. For example, under NAFTA’s yarn-forward rule of origin, textiles and apparel benefit from tariff-free treatment in all three countries if the production of yarn, fabric, and apparel, with some exceptions, is done within North America. As a result, in 2016 the U.S. had a $4.1 billion surplus in yarns and fabrics, with about $6 billion in U.S. exports, and a positive balance of around $720 million in made-up textile products (such as home textiles and furnishings) with Canada and Mexico. In apparel, the U.S. had a $1.4 billion trade surplus with Canada and a $2.7 billion trade deficit with Mexico.

The Trump administration’s goals for textiles and apparel in the NAFTA renegotiation include improving competitive opportunities for U.S. textile and apparel products while taking into account U.S. import sensitivities. Also germane to this sector are several other objectives, such as enhancing customs enforcement to prevent unlawful transshipment of these goods from outside the region and ensuring that requirements for the use of domestic textiles and apparel in U.S. government purchases primarily benefit producers in the U.S. While there is widespread support for the continuation of NAFTA among U.S. textile and apparel producers, the report states, there are significant differences of opinion with respect to certain provisions; e.g., textile manufacturers generally favor eliminating all exceptions to the yarn-forward rule of origin whereas retailers and apparel groups oppose tightening that rule.

President Trump has threatened to withdraw the U.S. from NAFTA if he cannot secure satisfactory terms, but the report finds that such a step could harm the U.S. textile and apparel sector. U.S. exports could face higher tariff rates entering Canada and Mexico and imports from those countries could face tariffs as high as 20 percent for textiles and 32 percent for apparel. The
report highlights the possibility that withdrawal could lead U.S. retailers and apparel brands to source more of their goods from Asia, which could reduce demand for U.S.-made yarns and fabrics within the NAFTA region.

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