Apparel Exports to the United States

A Comparison of Morocco, Jordan, and Egypt

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Executive Summary

In 2004, Morocco ranked 21st among global textile and apparel suppliers and now has privileged market access to the U.S. market through the Free Trade Agreement (FTA) implemented in 2006. After implementing trade arrangements that provide preferential access to the U.S. market, Jordan and Egypt both experienced sharp increases in their exports of apparel but the Morocco FTA has not had the same result. Why? Five factors influenced the rise in apparel exports from Egypt and Jordan to the United States after they implemented qualifying industrial zone (QIZ) schemes and Jordan implemented an FTA: timing of agreement implementation, the agreements' apparel provisions, industry competitiveness, industry market and product orientation, and foreign investment.

The timing and apparel provisions of Jordan's and Egypt's QIZ schemes dovetailed with the influence and then the demise of the longstanding global quota regime that had made integrating new sources into supply chains more important than the competitiveness factors, such as cost and speed to market, that now prevail. The industries in Jordan and Egypt are also oriented to the U.S market while Morocco's is oriented to, and successfully serves, the European market. Labor rates and port handling rates in Morocco are high, and most apparel manufacturing facilities are Moroccan owned. Finally, the apparel provisions of Morocco's FTA, like the provisions of Jordan's FTA, are not as liberal as those in the QIZ schemes; in fact, most U.S. apparel imports from Jordan in 2007 were imported under the QIZ and not the FTA.

Over the long term, Morocco may eventually do as well as Jordan and Egypt in exporting apparel to the United States. In the meantime, to fully tap into the benefits of the FTA with the United States, Morocco could take the following steps:

- ***Promote and produce garments with a comparative advantage.*** Morocco should immediately determine which of its products has a competitive advantage, such as denim apparel or garments made using man-made fibres, and then define and communicate to U.S. buyers the product-level advantages afforded by the FTA.
- ***Research U.S. fabric sources.*** Manufacturers should forge linkages to U.S. yarn or fabric manufacturers. The FTA's rules of origin confer duty-free preferences on goods made with U.S. or Moroccan yarn and fabric, and the third-party fabric provision will expire in 2016.
- ***Build relationships with Asian fabric suppliers.*** Some factories in Morocco have the depth of experience necessary to source fabric from Asia, but most rely heavily on European suppliers, largely due to their focus on that market.
- ***Seek investment partners with U.S. apparel market share.*** Jordan and Egypt have benefited from partnerships with Turkish and Asian investors with U.S market share,

and Morocco could encourage similar partnerships with European companies that already have business linkages to U.S. buyers.

- ***Refine and communicate the Moroccan offer to the U.S. audience.*** Information on the country's most capable manufacturers of textiles, yarns, and finished apparel and accessories should be made readily available on association websites or other channels frequented by U.S. sourcing executives.
- ***Participate in regional shows that attract U.S. buyers, and plan events that attract buyers to Morocco.*** Shows could be in North Africa (such as "Egytex") or in Europe; many high-end buyers use European fabrics extensively.
- ***Continue and expand robust promotion of apparel industry in U.S. market.*** Morocco should continue the aggressive promotion campaign it launched in 2006, especially to counter the influence of other regional players with trade agreements better known to U.S. buyers. Morocco could emulate events such as Jordan's "Meet the Buyer" in New York, taking advantage of support available under USAID's NBO Program, and collaborate with U.S trade associations such as the U.S. Association of Importers of Textiles and Apparel (USA-ITA) to raise awareness among industry executives.

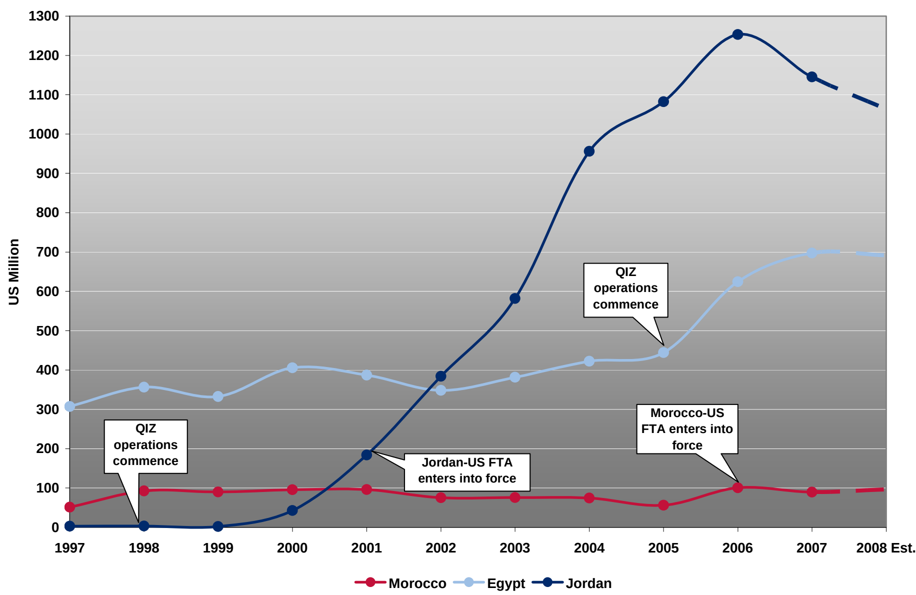
Morocco's FTA with the U.S. provides a significant opportunity to diversify markets and increase apparel exports to the U.S. market. Given Morocco's traditional focus on the EU market, however, it may take some time before it can penetrate the U.S. market as Jordan and Egypt have.

1. Introduction

Under trade development programs with the United States, Jordan, Egypt, and Morocco have increased their penetration of the U.S. market for textiles and apparel, but at very different rates (Figure 1-1). Exports from Jordan's apparel industry to the U.S. market surged after the Qualified Industrial Zone (QIZ) scheme was implemented under an amendment to the US-Israel Free Trade Agreement in 1996 and again after the Jordan-US Free Trade Agreement was implemented in 2001. Between 1998 and 2007 Jordan's apparel exports (i.e., products classified under Chapters 61 and 62 of the Harmonized Tariff Schedules) to the United States grew from $3.3 million to $1.14 billion.[1]

Figure 1-1

Historical U.S. Imports of Apparel Items (HTS Chapters 61,62) from Morocco, Egypt, and Jordan



Egypt has also experienced a surge in apparel exports to the United States since implementing the QIZ scheme in 2005 under the same arrangement as Jordan.[2] Exports of HTS Chapters 61 and 62 items grew from $422 million in 2005 to $697 million in 2007, with all but $20 million of goods originating from QIZs.[3] Morocco's FTA with the United States has had a

[1] U.S. Department of Commerce, Office of Textiles and Apparel.

[2] P.L. 104-234: West Bank and Gaza Strip Free Trade Benefits, amendment to the US-Israel Free Trade Agreement.

[3] U.S. Department of Commerce, Office of Textiles and Apparel.

less dramatic impact despite that country's having a larger and more mature textile and apparel sector relative to those in Jordan and Egypt. Upon the FTA's entry into force in 2006, U.S. imports of Moroccan apparel grew from of $55 million in 2005 to $87 million in 2007.

Performance among the countries varies but there are similarities in the pattern of performance. In the first year of its QIZ scheme, Jordan's export performance was modest because it had few commercial links with the U.S. apparel industry—and in the second year exports actually decreased in value by more than 33 percent (Table 1-1). But after the FTA was implemented in 2001, exports to the United States increased rapidly—rising from $42 million in 2000 to $138 million in 2001—as the FTA provided even more incentive for U.S. companies to source apparel from Jordan. Likewise, Egypt experienced only 5.2 percent growth in apparel exports in the first year of QIZ implementation. Exports to the United States then surged 40 percent in the second year, most likely because the new market access boosted pre-QIZ trade. Similarly, Morocco experienced a surge in the first year, then a decrease of 10 percent in the second year. This decrease was due in part to the exchange rate between Morocco and the United States,[4] but Morocco, like Jordan, had weak commercial linkages to U.S. apparel trade when the FTA was implemented.

Table 1-1

Apparel Exports After QIZ and FTA Implementation

	Year 1		Year 2	
Agreement/Year	US$ millions	%	US$ millions	%
Jordan QIZ (1997)	.4	14.2	-1.1	-33.97
Jordan FTA(2001)	200.5	109.1	197.8	51.46
Egypt QIZ (2005)	22	5.2	180.5	40.63
Morocco FTA (2006)	44.6	79.4	-11.3	-11.22

SOURCE U.S. Department of Commerce, Office of Textiles and Apparel.

Each country's market share of U.S. apparel imports in the quota and post-quota environment is also telling. The 2005 Agreement on Textile and Clothing (ATC) phased out the quota system of the Multifibre Agreement. Under that system apparel sourcing had been driven by the need to secure goods from sources with U.S. import quota. Absent quotas, sourcing is now driven by other factors, such as cost and speed to market, as well as market access. Many countries that had relied on the quota regime have lost market share to more efficient producers, especially Asian producers (Table 1-2). Jordan and Egypt, however, have kept pace with these changes and expanded their share of U.S. apparel imports from 1995-2008, remaining attractive sourcing destinations by capitalizing on duty-free preferences Meanwhile, Morocco's share stagnated, decreased sharply in 2005, rose in 2006, and then decreased again in 2007. The performance of Jordan and Egypt is all the more impressive considering that the cost savings of duty-free preferences are only one criterion in apparel sourcing.[5]

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[4] Interviews with Moroccan apparel firms (2007).

[5] Minor, Peter and Jane O'Dell. 2005. Survey of U.S. Apparel Buyers: Sourcing from Sub-Saharan Africa in the post-Quota Era. Nathan Associates Inc.

Table 1-2
Evolution of U.S. Apparel Market Share, 1995-2008 (%)

Country/Rank in 2008	1995	2008 (YTD June)
1. China	10.2	27.5
2. Vietnam	0.0	7.1
3. Indonesia	3.4	6.1
4. Mexico	7.4	6.0
5. India	3.2	5.3
6. Bangladesh	3.1	4.9
7. Honduras	2.7	3.7
8. Cambodia	0.0	3.5
9. Thailand	3.0	2.5
10. El Salvador	1.7	2.3
17. Jordan	**0.0**	**1.4**
22. Egypt	**0.7**	**1.1**
25. Turkey	1.8	0.6
42. Morocco	**0.1**	**0.1**

SOURCE *U.S. Department of Commerce, Office of Textiles and Apparel.*

Still, Morocco was ranked 21st among global apparel suppliers in 2004 and in 2005 it had $2 billion in exports, $55 million of which were to the United States. Since 2006 it has had privileged market access to the U.S. apparel market. The conditions underlying the ability of Egypt and Jordan to capitalize on market access schemes to dramatically increase apparel exports can be instructive for Morocco and in forecasting the future of apparel trade between Morocco and the United States.

The purpose of this study is to determine what has contributed to the rise in apparel exports from Jordan and Egypt and what strategies, tactics, and approaches of the industries in those two countries have application to the industry in Morocco. In Chapter 2, we review trade arrangements affecting apparel exports in general and from the market perspective of U.S. buyers. In Chapter 3, we review the status of the apparel manufacturing industry in Jordan, Egypt, and Morocco, considering first the specific impact of the trade arrangements. Chapter 4 reviews marketing and promotion efforts and Chapter 5 describes specific aspects of the trade arrangements and of the industries in Jordan and Egypt that have led to their success. Chapter 6 presents trends in the industries and offers recommendations for Morocco to fully tap into the benefits possible for the apparel industry under its free trade agreement with the United States.

2. Qualifying Industrial Zones and Free Trade Agreements

The apparel provisions of Jordan's and Egypt's QIZs, the Jordan FTA, and the Morocco FTA stipulate different rules of origin, duty levels, and phase-outs (Table 2-1). Two aspects of the QIZ and the Jordan FTA make them particularly desirable for U.S. sourcing. First, duty-free preferences for qualifying goods are immediate under the QIZ and aggressively phased in for most goods under the Jordan FTA—three of five categories of goods are duty-free within four years of agreement implementation. Second, country of origin provisions allow unlimited use of third-country fabric without any tariff preference levels (TPL). In contrast, the Morocco FTA schedules the first phase-in of duty free status in 2011—five years after agreement implementation—and specifies quantities for non-originating (neither U.S. nor Moroccan origin) fabric.

DUTY FREE TREATMENT

The 1996 QIZ legislation[6] provided immediate duty-free and quota-free treatment for qualifying Jordanian and Egyptian goods. This "one-two" punch was a potent incentive in the era of trade-regulating quotas that drove sourcing strategies and remains significant in the post-quota era. Egypt viewed duty-free treatment for its apparel exports as essential to its competitiveness in the U.S. market in the post-quota environment, and this view was a key factor in the Egyptian government's willingness to set aside political concerns and sign a QIZ protocol with Israel in December 2004.

The Jordan FTA provides five categories of duty phase out for textiles and apparel. Three categories were completed by 2005, and the final major phase-out will be complete by 2010. A significant number of apparel goods are already duty-free under the Jordan FTA.[7] Those goods are not subject to the QIZ requirement for Israeli content, thus making production

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[6] In 1996 the U.S. Congress amended the implementing legislation for the US-Israel FTA to authorize establishment of QIZs. The QIZ legislation empowers the President to grant duty-free status to goods produced in QIZs, an authority later delegated to the U.S. Trade Representative. The legislation defines a QIZ as a zone established by Egypt or Jordan in cooperation with Israel. To qualify for duty-free treatment goods must contain a minimum percentage of Israeli input. (Originally 11.7 percent, the minimum input for the Jordan QIZ was lowered to 8.7 percent in 2004 and for Egypt to 10.5 percent in January 2008.) Goods may also qualify for duty-free treatment if Egypt, Jordan, and Israel each contribute and maintain at least 20 percent of total costs, which may include originating materials, wages and salaries, design, research and development, depreciation of capital investment, and overhead.

[7] Jordan-United States Free Trade Agreement Economic Impact Study. 2006. AMIR Program, p. 20.

under the FTA more attractive for certain goods, as is reflected in the rise of Jordanian goods imported into the United States under the FTA.

Table 2-1
Comparison of Trade Preferences

	QIZs (Jordan and Egypt)	Jordan FTA	Morocco FTA
Implementation date	October 2, 1996 (PL 104-234)	December 17, 2000	January 1, 2006
Duty treatment for apparel and textiles	Duty free for qualifying goods First Jordanian QIZ designated in 1998 First Egyptian QIZ (3 zones) designated in 2004	Five categories of duty phase out[a] A. Duty free Year 2 (2002) B. Duty free Year 4 (2004) C. Duty free Year 5 (2005) D. Duty free Year 10 (2010) E. Duties eliminated per WTO schedule One category of one-time duty elimination: F. 5 apparel and 4 luggage categories retain base rate of duty until duty free in 2010.	Four categories of duty phase out A: Duty free on entry into force D: Duty free Year 6 (2011) F: Duty free Year 9 (2014) H: Duty free Year 10 (2015) Majority of goods fall under D
Value added requirement	35 % May include up to 15 % U.S. Jordan QIZ products require min. 8.9% Israeli content Egypt QIZ products require min.10.6 % Israeli content[b]	35 % May include up to 15 % U.S.	35 % No limit on percentage of other party's goods counted toward 35%
RULES OF ORIGIN			
Use of third-country yarn and fabric	Origin determined per ROO in 19 U.S.C. 3592 permitting unlimited third-country yarn and fabric	ROO provisions correspond to provisions of 19 U.S.C. 3592 permitting unlimited third-country yarn and fabric	"Yarn forward" ROO requiring that yarn production and all operation forward occur in Morocco
Tariff rate quotas	None	Duty free TRQs for 5 Chap. 58 goods through Year 9. Unlimited quantity as of Year 10.	Duty free TRQs for 45 Chap. 61 & 62 goods through Year 5 (Annex 4-B). Over quota receives preferential treatment Unlimited quantity as of Year 6.
Tariff preference levels[c]	None	None	TPL quantities established for non-originating fabric (Chap 51,52,54,55,58 and 60) and apparel (Chap. 61 and 62).
Other preference provisions			Special allowance for use of cotton fibers from listed least-developed sub-Saharan countries meeting processing requirements.

[a] *Four HS lines goods (8-digit level) staged in Category F duty phase out (duty free in Year 10).*

[b] *Jordan QIZ original Israeli minimum requirement of 11.7% value added reduced to 8.9 % in 2004. Egypt QIZ original Israeli minimum requirement of 11.7% value added reduced to 10.6 % in 2007.*

[c] *The Morocco FTA establishes two TPLs allowing a certain quantity of fabric and apparel to enter under preferential tariff rates regardless of the origin of the fiber, yarn, or fabric used to produce the good. Each TPL is unique and goods must meet certain criteria to be eligible for preferential treatment. U.S. Customs and Border Protection, Morocco FTA Textile and Apparel TRQs and TPLs; Commerce Office of Textiles and Apparel, Summary of US-Morocco FTA.*

The timing and coverage of the Morocco FTA provisions seem less advantageous than those of the QIZ scheme. For example, under the QIZ scheme, a larger relative number of tariff lines under HTS Chapters 61 and 62 qualify for immediate duty-free treatment. The majority of Morocco's apparel exports to the United States (HTS Chapters 61 and 62) are in Category D, which will not be duty free until 2011.

For selected goods the Morocco FTA provides duty-free tariff rate quotas (TRQs), but these are underused. In 2007 only two items filled more than 1 percent of the available TRQ (1.25 percent and 2.75 percent). The moderate growth of Morocco's apparel exports since implementation of the FTA suggests that the agreement's market access provisions are more restrictive than those of the QIZs and the Jordan FTA. The Morocco FTA provides significant preferences—duty-free TRQs and third-country fabric TPL allocations—which, within the quota limits, are equal to those provided by QIZs and the Jordan FTA, yet go largely unused by Moroccan firms. Other factors at play in the more robust use by Jordan of U.S. preferential trade arrangements may include the competitive advantages accruing to Jordan from sustained and extensive economic reform.[8]

RULES OF ORIGIN—THIRD COUNTRY YARN AND FABRIC

The other notable difference between the QIZ initiative, the Jordan FTA, and the Morocco FTA are provisions pertaining to use of third-country yarn and fabric. The QIZ legislation—as well as the Jordan FTA—allow apparel producers to make unlimited use of third-country yarn and fabric. When Jordan's first QIZ was designated in 1998, the country had no apparel and textile production facilities so it had to use third-country inputs. And being able to use third-country fabric gives Egypt, an established producer with domestic spinning and weaving capacity, the flexibility necessary to choose the most competitive inputs.

The Morocco FTA establishes quantities of third-country yarn and fabric by TPL. In Years 1 to 4 the TPL is set at 30 million square meters equivalent (SME). This quantity gradually decreases through Year 10. In Year 11 there will be no TPL and all Moroccan apparel will have to meet the "yarn forward" rule, which means that yarn production and all forward operations must occur in Morocco. Morocco's TPL fill rate is low (10.24 percent in 2006 and 8.49 percent in 2007). Similarly, U.S. Customs and Border Protection statistics show that Morocco has not taken advantage of a special allowance for the use of cotton fibers from selected sub-Saharan countries.

COMPARATIVE ADVANTAGES OF AGREEMENTS

A 2005 study of U.S. apparel buyers revealed that buyers' strategies are shaped by a concentrated group of criteria—price, quality, labor conditions, and supplier capability. Using these criteria, buyers analyze trade agreements to determine the market value of an agreement's available benefit, evaluate the potential to work with known and trusted suppliers, and the difficulty of complying with an agreement. [9] In the following paragraphs

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[8] Morocco, Tunisia, Egypt and Jordan After the End of the Multi-Fiber Agreement: Impact, Challenges and Prospects. 2006. World Bank.

[9] Minor, *et al*. Survey of U.S. Apparel Buyers.

we apply these criteria to the QIZ scheme, the Jordan FTA, and the Morocco FTA to provide a market perspective on these agreements.

QIZ Program

Market Value of Benefit

Upon the effective date of the QIZ program—1998 for Jordan—qualifying goods were duty- and quota-free instantly. At that time, about the only duty-free apparel entering the United States was qualified as Israeli (35 percent value added/substantial transformation) under the US-Israel FTA, and that applied to all textile made-ups, luggage, and other products in the sector. Even apparel qualifying under the North American Free Trade Agreement (NAFTA) was rarely duty free; the agreement was implemented in 1994 and most textiles and apparel products had a 10-year phase-in. Of possibly greater importance was that QIZ-produced goods were exempt from quotas, which restrained exports from every other producer country until 2005.

Known and Trusted Supplier

As the QIZ benefits became known, buyers sought agents to manage production in Jordan on their behalf. Regional buying agents, such as Shira Trading,[10] with offices in New York and Israel and a client base among U.S. importers, coordinated orders and production for the QIZ, assuring the buyers that they were still working with a known (trusted) supplier.

Compliance Difficulty

The rules of origin to qualify for duty-free treatment are among the simplest, and readily understood by both manufacturers and buyers. Goods that meet a 35 percent value-added requirement and have a specified percentage (8.9 percent) of Israeli content qualify. In addition, press reports state that 20 major Israeli textile producers moved into the Jordan QIZ in the first year after authorization, simplifying integrated production.[11] There are no restrictions on the use of third-country fabric, as long as the value-added requirements are met. There are no restrictions on the quantities of qualifying apparel in the form of TPL provisions. U.S. Customs regulations include a “presumption” that the importer has knowledge of the facts of eligibility of the products for duty benefits, and can provide supporting documentation in the form of evidence of value-added, actual production, and shipping on demand. There is no paper requirement at the time of entry.

Summary

The QIZ provision is extremely liberal; the 35 percent value-added requirement can be met in a number of ways, as can the Israeli value-added requirement, allowing the buyer maximum flexibility in selecting materials. The same benefits of QIZ production carried forward to Egypt with its larger capacity.

[10] Apparel Industry in Israel. Infomat Market Report. August 2006

[11] Ibid.

Jordan FTA

Market Value of Benefit

The US-Jordan FTA was effective in 2002; quotas were still in place on textiles and apparel, but virtually all production from Jordan entered the United States duty free and quota free through QIZ programs. Moreover, the majority of the Jordanian industry included foreign investment in the industrial zones. To date few textiles and apparel products enter the United States free of duty under provisions of the FTA.

The FTA maintains the 35 percent value-added requirement of the QIZ scheme, but not the Israeli content requirement. It is still possible to use third-party fabrics and inputs as long as they are substantially transformed, which for apparel can be accomplished by cutting and sewing a garment. (Textile manufactured products must be wholly assembled in Jordan.) This is an attractive opportunity to expand product range beyond those with acceptable Israeli inputs.

Duty-free treatment for most products was phased in over a period of 10 years, with the first apparel products qualifying for full duty-free treatment after only a few years. The exceptions, such as a small group of embroidery products classified in Chapter 58, HTSUS, would appeal to a limited market. As seen in phased duty benefit agreements beginning with NAFTA, a drop of 1 to 5 percentage points in the rate does not generally drive a significant gain in the market. When duty rates reach approximately half there is usually visible movement, especially in higher duty rate products. In apparel, these are primarily manmade fiber apparel products.

Since the elimination of quotas in 2005, exports of textiles and apparel from Jordan to the United States have declined, suggesting that escaping quotas was an important incentive in market growth; from an aggregate quantity of 298 mm square meter equivalents (SME) in calendar year ending June 2006, to 251 mm for the same period in 2007, and in the first six months of 2008, a further decline of more than 7 percent.[12] However, manmade fiber apparel, generally subjected to duty rates as high as 30 percent, has continued to grow in importance.

Known and Trusted Supplier

When the FTA was implemented in 2002, U.S. buyers had had four years of experience sourcing in Jordan. The opportunities presented by the QIZs had international partners aligning with Jordanian production well before the FTA was in effect.

Difficulty of Compliance

The rules of origin are based on simple processing standards. Cutting and sewing, or knitting to shape, fabric finishing (two processes), and similar treatment are sufficient to confer origin as long as the value-added requirement of 35 percent is met. Since labor cost generally exceeds 35 percent of the FOB value of most simple apparel articles, made-ups, including apparel, luggage, and many household articles (excluding simple linens with limited construction required), would qualify for benefits. Moreover, the importer is “deemed to

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[12] U.S. Department of Commerce, Office of Textiles and Apparel.

certify" that the goods qualify in making the claim at the time of entry. No additional information is required unless requested by U.S. Customs and Border Protection.

Summary

The Jordan FTA provisions are quite liberal, allowing the use of third-party fabrics in most products with eligibility established by routine production. From 2002-2004 duty benefits were minimal as duties on most key apparel products (e.g., cotton knits) were phased out over 10 years, but by 2005 the benefits were more attractive. Manmade fiber apparel products represented a significant growth area in the years following quota elimination when the duty reductions were reaching approximately half of the non-preferential rate and manmade fiber shirts and blouses carried normal duty rates of about 30 percent. A 15 percent savings in the duty rate phased-in is a greater incentive than duty-free treatment of a garment with a usual rate of 10 percent.

Morocco FTA

Market Value of Benefit

When the Morocco-US FTA was implemented in 2006, U.S. buyers had adapted to trade in an environment without quota (even with the imposition of safeguards on China) and were fully committed to rationalizing supply chains to take advantage of regional production unimpeded by artificial quantitative limits on trade. Moreover, the United States had entered into even more free trade agreements and preference programs. Agreements relevant to textiles were in place with parties to the Andean Trade Preference Act (ATPA), Caribbean Basin Trade Preference Act (CBTPA), Singapore FTA, and the African Growth and Opportunity Act (AGOA), among others.

The benefit of duty-free treatment is withheld from most textile and apparel products under the Morocco FTA until 2011-2015, except for some products eligible for duty-free entry under tariff rate quotas. The TRQs include some of the more important trade items in the apparel categories and represent a significant opportunity if other competitive factors, such as price and transportation cost, are equal.

The agreement includes a "visible linings rule" that is more restrictive than the basic origin rule. A lining that is visible (inside a jacket or skirt, for example, but not inside a sleeve) must be of fabric "formed from yarn and finished" in Morocco or the United States. Using other fabric disqualifies a garment from eligibility as an originating good under the agreement. It is difficult to interpret the impact of this rule because trade statistics based on HTS number or category reveal only the characteristics of the component on which classification is based, that is, the garment's outer shell. However, given Morocco's reputation as a skilled producer, exporting complicated garments such as lined jackets and blouses might be attractive except for this provision.

There is also a special derogation for the use of cotton from sub-Saharan countries, intended to encourage trade among the parties. Assuming that the quality needed is available from the southern African region, this represents an opportunity over time. However, establishing the supply chain links can be expected to take time and at present SSA is a net importer of cotton.

These provisions would make Morocco an asset to its current market, and can be expected to draw a certain amount of attention and interest in development possibilities but most would be seen as a reason to approach and explore the market. Given the sourcing alternatives available, the FTA benefits encourage the development of long-term trade programs rather than an immediate transfer of orders.

Known and Trusted Supplier

Morocco has a long history of exporting to Europe but little experience with U.S. buyers. However, a growing number of sourcing agents and other “strategic partners” identify sourcing in Morocco as part of their service package. Buyers who have not used the region might take time to develop local relationships, but those who have been active in the Mediterranean (including Turkey, Israel/Jordan, Egypt, and the EU) already have contacts in the area. Morocco’s history with the EU contributes to the perception of it as a niche supplier that can produce high value goods that meet complex production requirements. In addition, EU labor standards and compliance requirements pre-dated the rise of social compliance programs in the United States and Morocco still employs many nationals in its industry, reducing concerns about negative publicity.

Compliance Difficulty

The number of conditional duty benefit provisions (TRQs, TPLs) is less attractive than the Jordan FTA or the QIZ program benefits, but as producers establish relationships and become familiar with requirements buyers will be attracted, especially for higher duty rate products. In other ways, the rules of origin are simple but rigid: yarn forward agreements offer the least favorable environment for most buyers. They impose limits on product design and low-cost sourcing, require proof of where yarn was spun, and require another level of administration and oversight.

Summary

The Morocco FTA offers some attractive benefits, but in the post-quota environment rife with trade benefit programs buyers are slow to move production into new regions.

3. Status of Apparel Industries in Jordan, Egypt, and Morocco

QIZ PROGRAM IMPACT

The purpose of developing a QIZ in Jordan was to (1) promote joint commercial activity and economic cooperation between Jordan and Israel and thereby help "normalize" relations between the two countries; (2) create jobs and attract foreign direct investment; and (3) give certain sectors of the economy free access to the U.S. market.[13] The liberal market access provisions of the QIZ legislation and the US-Jordan FTA "have played a major role in the growth of a significant apparel manufacturing base in Jordan."[14]

The most direct impact of the QIZ program can be seen in sector growth and the subsequent surge in exports of apparel to the United States. Most of those exports continue to enter the United States under the QIZ program, though exports entering under the FTA rose from $12 million to $212 million between 2004 and 2007, reflecting the increasing effect of FTA duty phase out (Table 3-1). Between March 1998 and June 2001, 11 QIZs were designated and 6 are still active. The sector created 53,380 jobs under the QIZ and FTA agreements, and a training programs were organized to raise workers' productivity and skill levels.[15]

Egypt's mature apparel and textile industry has not experienced the explosive growth of the nascent Jordanian industries, but QIZs have boosted apparel exports to the United States. Since the QIZ arrangement went into effect, Egypt's share of the U.S. apparel market increased from 0.6 percent to 1.0 percent, and in certain product categories (e.g., men's and boys' clothing) its share now exceeds 1.0 percent. Egyptian firms already exporting to the United States happened to be located in the first three QIZs designated in December 2004 and they quickly took advantage of QIZ preferences.

COMMERCIAL LINKAGES THROUGH QIZs AND FTAs

When the QIZ scheme was implemented Jordan's textile sector was very basic, yet rules of origin requirements mandated a minimum of 8.9 percent Israeli content in garments. Jordan had to develop backward linkages to input suppliers, and Israeli suppliers recognized the investment opportunities provided by the QIZ program. Linkages between Jordan and Israel

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[13]Imad H. EL-Anis. 2007. The Textiles and Clothing Sector in Jordan. *Middle East and North African Affairs Review*, March-April.

[14] Labor Administration and Compliance in Jordan: A Multi-Stakeholder Collaboration. The Ministry of Labour of the Hashemite Kingdom of Jordan, February 2008.

[15] Invest Jordan: Textiles & Garment Sector. Jordan Investment Board 2005.

Table 3-1

U.S. Imports of Jordan, Egypt, and Morocco HS 61 and HS 62 Goods by HTS Number and Special Import Program (US$ millions)

HTS Number	Import Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
JORDAN											
61	GSP	0	0	0	0	0	0	0	0	0	0
	QIZ	0	0	10	110	265	380	641	688	765	757
	Jordan FTA	0	0	0	0	1	3	6	24	35	37
	No program	1	0	7	10	9	9	15	8	12	10
Subtotal		1	0	16	119	275	393	662	721	812	803
62	GSP	0	0	0	0	0	0	0	0	0	0
	QIZ	0	0	13	56	103	183	285	255	256	165
	Jordan FTA	0	0	0	0	3	4	7	102	173	175
	No program	2	2	13	9	2	2	2	4	10	2
Subtotal		2	2	26	65	109	189	294	362	440	341
EGYPT											
61	GSP	0	0	0	0	0	0	0	0	0	0
	QIZ	0	0	0	0	0	0	0	105	251	285
	No program	168	142	156	138	131	143	169	71	17	12
Subtotal		168	142	156	138	131	143	169	176	269	296
62	GSP	0	0	0	0	0	0	0	0	0	0
	QIZ	0	0	0	0	0	0	0	134	339	393
	No program	187	190	250	249	217	238	252	133	17	8
Subtotal		187	190	250	249	217	238	252	268	356	401
MOROCCO											
61	Morocco FTA	0	0	0	0	0	0	0	0	10	8
	No program	25	20	16	22	23	27	27	19	21	16
Subtotal		25	20	16	22	23	27	27	19	32	25
62	Morocco FTA	0	0	0	0	0	0	0	0	33	32
	No program	68	70	79	74	52	49	47	37	36	33
Subtotal		68	70	79	74	52	49	47	37	69	65

Notes HTS number 61—Articles of apparel and clothing accessories, knitted or crocheted; HTS number 62—Articles of apparel and clothing accessories, not knitted or crocheted.

SOURCE USITC.

became stronger as Israeli manufacturers relocated all or part of their production to Jordan—primarily to the zone in the north part of Jordan near the Israeli border—after signing the QIZ agreement.[16] Jordan also developed linkages to Asian fabric suppliers. In 2004 it imported

[16] Dana Bayyat, CEO, JGATE, September 2008.

more than $1 billion in raw materials for export and local consumption; 64 percent of those imports were fabric and more than 85 percent of the fabric came from producers in the Far East.[17] Linkages to Asian fabric suppliers grew for two reasons. First, U.S. apparel buyers placed orders in Jordan under the cut, make, trim (CMT) model, usually requiring factories to use “nominated” suppliers selected by the buyers to meet their worldwide need for inputs of a given quality and specification. Second, the factories had immediate linkages to input suppliers through existing commercial relationships of with Asian investors.

The degree of interaction between Egyptian and Israeli suppliers varies widely. Some companies have extensive commercial linkages with Israeli businesses, while others have little idea how to expand their sourcing options in Israel. Several sourcing companies have been established in Egypt to promote contacts, but there appears to be little interaction and virtually no organized commercial contact between or among professional associations of the two countries.[18] In contrast, linkages between Egyptian and Turkish companies have strengthened considerably with implementation of the QIZ and signing of the Egypt-Turkey FTA. While Turkey was already a significant importer of Egyptian cotton, as labor costs have increased in Turkey much of the industry has looked to manufacture in Egypt, attracted by its lower relative labor rate and U.S. market access (discussed under Investment Structure).

PRIMARY MARKETS AND BUSINESS MODELS

The U.S. and EU markets are the main destinations for apparel exports from Jordan, Egypt, and Morocco (Figure 3-1). Nearly all of Jordan’s exports (92.3 percent) go to the United States and nearly all of Morocco’s (92.5 percent) go to the EU. Egypt’s go mainly to the United States (53.3 percent) but the EU is also an important destination. Jordan’s industry grew significantly with implementation of the QIZ and that growth was driven by the desire to serve the U.S. market. Meanwhile, Egypt and Morocco had well developed export markets before the QIZ and FTA were implemented so those agreements have not affected their export destinations significantly.

The U.S. and EU markets have vastly different business models and those models favor certain types of producers. The U.S. market typically demands large orders (50-100-150,000 pieces) to service the high number of branded and chain stores that sell apparel in major U.S. cities. U.S. apparel sourcing is extremely sensitive to factors, such as inventory management and lead times, that put a heavy burden on suppliers. Garments sold to the United States tend to be basic and thus easy to manufacture. U.S. price points, however, are low because Asian manufacturers offer steep competition in basic garments. Under such conditions, large factories that can achieve economies of scale are desirable, and U.S. sourcing patterns increasingly require “full package” production.[19] In contrast, European buyers tend to offer small orders (8-10,000 pieces) that are easier to service. The garments ordered also tend to be more fashion-oriented and thus command higher prices. European buyers are perceived as being more flexible on both price and delivery.

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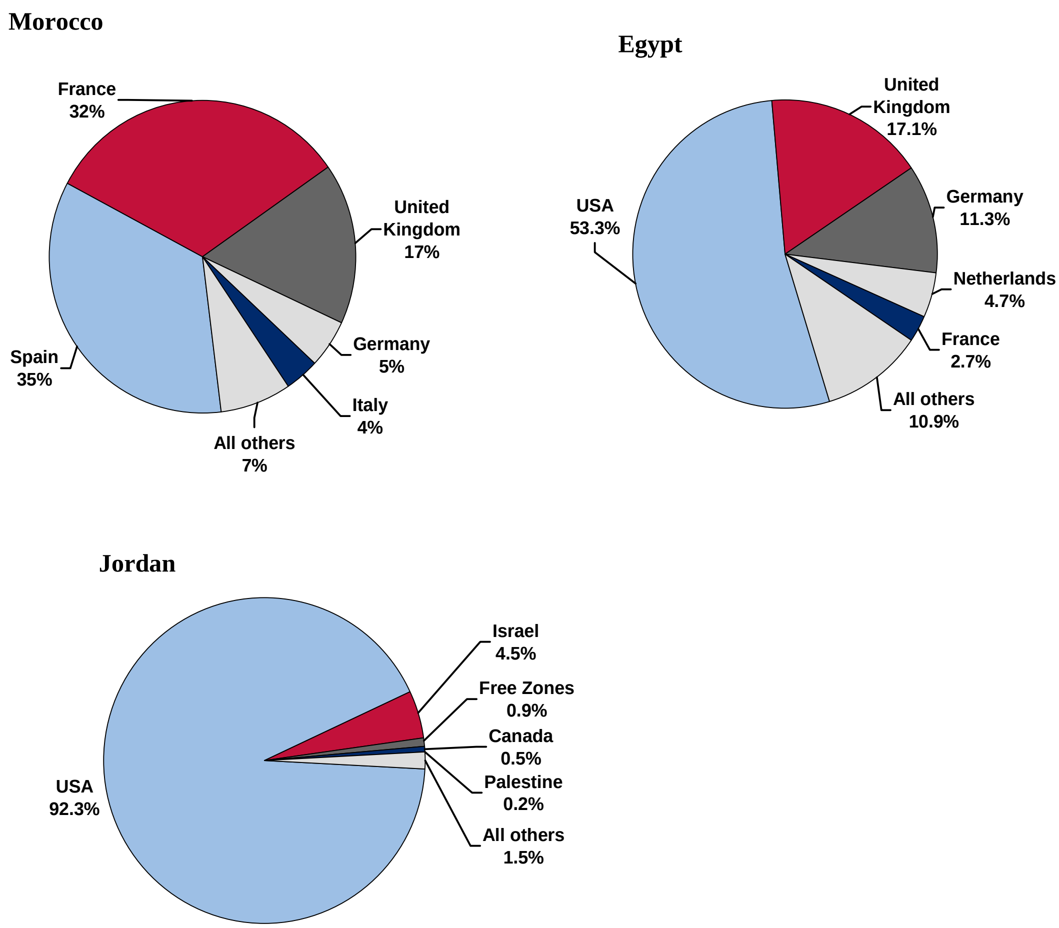
[17] Ibid.

[18] Lynn Salinger, economist with AIRD, September 2008.

[19] Full package producers take full responsibility for the order process. Under the quota regime firms in developing countries sold labor for assembly processes (cut, make, and trim or CMT). As they mature, they can raise their prices and add value by sourcing materials and managing orders.

Figure 3-1

Top Five Apparel Export Destinations for Morocco, Jordan, and Egypt



INVESTMENT STRUCTURE

Jordan's apparel sector is dominated by foreign investment—Asian 40 percent, Indian 22 percent, and U.S. 3 percent—with Jordanian investment making up 17 percent.[20] To facilitate investment in the textile sector, the Jordan Investment Board manages a one-stop shop for registration. Investment in the sector increased from $693 million in 2003 to $1.06 billion in 2004.[21]

Egypt's textile industry today is predominantly Egyptian-owned, although several Turkish and Indian textile companies have reportedly been established in Egypt. Though exact figures are unavailable, Turkish, Indian, Gulf state, and other investors are all said to be interested in establishing new manufacturing capacity in Egypt. Turkish investment is being courted in particular because of Turkey's well-established industrial base, the rising cost of doing textile-related business in Turkey, and Egypt's FTA with Turkey. The Ministry of Trade and Industry's QIZ Unit has created a unit specifically to facilitate Turkish investment into the

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[20] Jordan Investment Board. Textile Industry Document, 2005.

[21] Ibid.

QIZs. Egypt did experience a marked increase in FDI into the sector leading up to implementation of the QIZ—from $15 million in 2000 to $225 million in 2004.[22]

Morocco's apparel sector is primarily Moroccan-owned, though foreign investment sector is on the rise. In 2007, 19 foreign investment projects benefited from the Hassan II Funds investment program in Morocco. The Hassan II Funds program provides investment incentives to foreign investors in all sectors. The value of these investments is estimated at 844 million dhs and will create 3,776 jobs in the textile industry.[23] Morocco has several entities facilitating foreign investment, including Regional Investment Centers in each major industrial area.

INDUSTRIAL STRUCTURE

Jordan's apparel industry is overwhelmingly organized to serve the U.S. market. In 2004, the industry had 776 registered companies. Industry development has largely been through foreign firms that faced quota restriction on exports to the United States, including firms from South Asia and the Far East, Pakistan, India, Korea, Sri Lanka, China, and Taiwan. Some of these countries had lower relative costs than Jordan but sought quota- and duty-free preferences through the QIZ. Apparel from Jordan is exported through the port at Aqaba and through the port at Haifa in Israel, which has a higher frequency of vessels serving the United States

Egypt's apparel factories are concentrated in export processing or industrial zones that provide good access to energy and land, other industrial infrastructure, investment incentives, and simplified trade procedures. These zones are heavily concentrated in Greater Cairo (61 percent) and Alexandria (24 percent).[24] An important characteristic of the Egyptian textile/apparel industry is vertical integration. Thirty-one large public entities account for 100 percent of spinning, 70 percent of weaving, 40 percent of knitting, and 30 percent of the garment manufacturing industry.

Morocco's apparel industry includes large and small factories in three primary industrial zones (Casablanca, Rabat/Sale and Tangiers). More than 1,600 companies operate in the sector and there are vertically integrated companies with spinning and weaving capacity. The sector employs more than 200,000 workers.

PRODUCTION ORGANIZATION

Jordan's apparel industry is weighted heavily (70 percent[25]) toward full package production, with the rest being CMT for outside companies, including companies in Israel. Subcontracting for local companies also exists. Currently, 97 factories are concentrated

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[22] UNCTAD.

[23] Rapport Economique2007. AMITH.

[24] Cotton Importer Update. 2007. Special Report: News from Egypt, Morocco & Turkey.

[25] Dana Bayyat, CEO JGATE, September 2008.

heavily in manufacturing both woven and knits.[26] Companies are also producing accessories and fabric.

Egypt’s textile industry is vertically integrated, starting from raw materials up to finished products of apparel and home textiles. The industry uses local cotton fibers and imported fibers (e.g., polyester, viscose, wool). Raw material production includes cotton, silk, wool, linen, and manmade fibers such as polyester, viscose, acrylic, and polypropylene. Fabric production includes fine Egyptian cotton fabrics, shirting, fabrics for trousers/shorts worsted suiting, denim, fleece, jersey, flat/woolen knits, technical fabrics, and more. Apparel includes active sportswear, outerwear, foundation garments, suits, socks, and infant wear. Production of made-ups includes a wide variety of bed, bath, and table linens, as well as kitchen accessories.[27]

Most Egyptian garment companies are said to produce as CMT shops. Egypt’s most accomplished textile and apparel companies provide fashion, product development, global sourcing, and merchandising services for buyers. Some have invested in information technologies to offer to customized product design and online order tracking.[28] Leading export manufacturers are using the latest technologies in all phases of production: pattern making, spreading, cutting, sewing, and packaging. They also use the technical innovations such as electronic data interchange, supply chain management, and product data management. In 2007, 223 Egyptian companies exported apparel to the United States.[29]

Moroccan textile and apparel firms largely follow a co-contracting or subcontracting (CMT) model influenced by the dynamics of apparel sourcing in its primary market, the EU. Co-contracting is a production model between CMT and full-package. In co-contracting, the supplier may be responsible for fabric suggestions or design additions but the buyer still handles fabric purchases, a significant supplier service and financial risk. EU apparel sourcing increasingly places more responsibility on the manufacturer, thus the move in Morocco from subcontracting (purely CMT) to co-contracting. In 2007, 54 percent of EU sourcing was to factories under the co-contracting method while 27 percent was under the traditional subcontracting model.[30]

Each country’s top five export product categories make up more than 40 percent of the total value of their apparel exports, and four of the top five products exported by Jordan and three of the top five exported by Egypt are knits. Knit garments tend to be less structured and so cost less and take less skill to produce. This is especially true for HTS numbers 6109, but the 6105 and 6106 categories include many simple, low-cost garments as well. Economies of scale are critical to managing costs, and Egypt’s vertically integrated industry is an advantage in producing such items.

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[26] Ibid.

[27] Egyptian Textile Industry Overview, Egytex 2006 website, http://www.egytex.com/2006/ETIO1_exhibitor.htm.

[28] Lynn Salinger, economist with AIRD, September 2008.

[29] Ibid.

[30] Rapport Economique 2007. AMITH.

Table 3-2

Top Five Apparel Export Categories, HTS 4-digit

Rank	Morocco	Jordan	Egypt
1	6204 Women's suits, jackets, dresses skirts etc. &shorts, trousers	6114 Garments, knitted or crocheted, nes(often sweaters, in the commercial sense, but barred from classification there by tariff interpretation rules)	6203 Men's suits, jackets, trousers etc & shorts
2	6203 Men's suits, jackets, trousers etc & shorts	6204 Women's suits, jackets, dresses skirts etc. & shorts, trousers	6204 Women's suits, jackets, dresses skirts etc. & shorts, trousers
3	6109 T-shirts, singlets and other vests, knitted or crocheted	6106 Women's blouses & shirts, knitted or crocheted	6109 T-shirts, singlets and other vests, knitted or crocheted
4	6211 Track suits, ski suits and swimwear; other garments	6110 Jerseys, pullovers, cardigans, etc, knitted or crocheted	6110 Jerseys, pullovers, cardigans, etc, knitted or crocheted
5	6206 Women's blouses & shirts	6105 Men's shirts, knitted or crocheted	6105 Men's shirts, knitted or crocheted

SOURCE *International Trade Centre, TradeMap, Year 2006.*

INPUT SOURCING

Under the QIZ arrangements Jordan and Egypt must include 8.9 percent and 10.5 percent Israeli content in garments, respectively. This requirement can normally be satisfied by procuring greige fabrics, interlining, pocketing, thread and trims, packaging materials (i.e. cartons, poly bags), and chemical dyes. Israeli products purchased by Egyptian garment companies as required by the QIZ protocol are only 20-30 percent more expensive than world prices, according to the Egyptian Readymade Garments Export Council.[31]

Egypt is using Turkish fabric as Turkish companies have shifted manufacturing to Egypt to supply their U.S. customers under the QIZ scheme. In addition, U.S. companies require that suppliers use “nominated suppliers”[32] for inputs, so Egypt is also importing fabric from Asia.

Input sourcing in Jordan is considered efficient and well developed.[33] Fabric and accessory inputs are imported from Asian suppliers, such as China and India. When the orders are for the EU market, Turkey also is a significant supplier as well as EU firms. Inputs are purchased from Israel to satisfy the 8 percent requirement of the QIZ agreement.

Ninety-five percent of Morocco’s textile inputs originate in Europe.[34] Because of its strong focus on the EU market, strong production ties to the EU, and restrictive rules of origin in its

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31 Emergingtextiles.com, 11/21/2006

32 “Nominated suppliers” are selected by the buyer and appointed to supply an input in a certain garment. The buyer will direct the manufacturer to source specific inputs from suppliers. For example, a buyer will design a garment with a specific fabric, from a specific fabric mill, and the manufacturer will be required to purchase and use that fabric in the production.

33 Dana Bayyat, CEO JGATE, September 2008.

34 AMITH website www.amith.org ma

Association Agreement with the EU, Morocco imports about 90 percent of its fabrics from the EU.[35] In 2007, more than 50 percent of textiles were fabric and the largest supplier was Spain (23 percent), which has been the main export destination for Moroccan apparel since 2006. Italy is the second largest fabric supplier (21 percent), followed by France (12.5 percent) and Turkey (9.3 percent).[36] With implementation of the Turkey-Morocco FTA, fabric imports from Turkey are expected to increase.

While the EU textile industries produce first-class textiles and yarns, these products are more expensive than Asian fabric and directly affect Moroccan manufacturers' ability to attract U.S. sourcing, especially under the dominant full-package model and the U.S. requirement to source fabrics directly.

How raw materials are imported is also key for U.S. buyers as the import regime affects the FOB price and lead time. Jordan does not apply duty to inputs such as fabrics and accessories. But Egypt applies high duties to protect domestic industry. While a duty drawback scheme for exporters is in place, the administrative burden erodes competitiveness. Morocco also has a duty drawback scheme for inputs. To satisfy FTA requirements under the third-country fabric provision, Moroccan companies must apply for quota to import fabric through the government.

Supplying garments to the U.S. market under a full package model relies on efficient fabric sourcing and linkages to fabric suppliers far beyond Europe and Turkey.

FACTOR COSTS

Many external and internal factors determine the competitiveness of a textile and apparel industry. Given the large volume demands of U.S. apparel sourcing programs, factor costs directly affect competitiveness. Wages, for example, are a critical factor for pricing output from CMT operations, representing about 30 percent of the FOB price input.[37] Several other factor costs determine the relative competitiveness of Jordan, Egypt, and Morocco in supplying the U.S. market (Table 3-3).

Table 3-3
Factor Costs in Textile-Apparel Industry

Factor	Morocco	Jordan	Egypt
Labor cost per hour for T-H worker[a]	2.62	.65	1.02
Energy cost (cents/Kwh)	n/a	5.0[b]	3.5
Water cost (cents/cubic meter)[c]	20	n/a	10
Building costs ($/m3)	n/a	200	180

[a] *Primary Textiles Labor Cost Comparisons. Werner International 2007.*
[b] *Jordan Investment Board, Textile Industry, 2005.*
[c] *Morocco, Tunisia, Egypt and Jordan after the End of the Multifibre Agreement. World Bank, 2006.*

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[35] Ibid.

[36] Rapport Economique 2007. AMITH.

[37] Morocco, Tunisia, Egypt and Jordan after the End of the Multifibre Agreement. World Bank. 2006.

The disparity in labor costs suggests a distinct advantage for Egypt and Jordan over Morocco, especially when compared with Asian labor rates, which among major producers fall between $.28 (Bangladesh) and $.85 (Coastal China).[38] Initially, Jordan had a very low labor rate because a special program allowed companies to use foreign guest workers. From 2005 to 2007, the rate increased by more than 30 percent and some industry executives attribute at least part of the decline in exports from 2006 to 2007 to that rising rate.[39]

A number of logistics factors indirectly affect apparel prices and competitiveness. Transportation, infrastructure, and management affect the ability of manufacturers to meet deadlines, minimize delays, and manage warehousing functions. Table 3-4 compares the logistics factors among the three countries.

Table 3-4

Logistics Factors Affecting Export of Apparel

Factor	Morocco	Jordan	Egypt
Cost per 20' FCL to New York ($/metric ton)	113[a]	n/a	n/a
Import procedures time (days)[b]	19	22	18
Number of documents to process import	11	7	7
Port and terminal handling charges ($/20' TCU)	350	110	185
Sailing time to US East Coast	21	30 (Aqaba)/17 (Haifa)[c]	10

[a] *Average cost between Casablanca-NY ($94) and Tangiers-NY ($120)*

[b] *Import procedures source is Doing Business, World Bank, 2007.*

[c] *Approximately 50-60 percent of Jordan QIZ exports are shipped through Haifa port in Israel due to shorter sailing time and higher vessel frequency, however costs are higher by about 40%. ", Tunisia, Egypt and Jordan after the End of the Multifibre Agreement" The World Bank, 2006*

Sailing time to the United States from Jordan is estimated at 28 days although it depends from which port the goods are shipped. In stark contrast, Egypt's sailing time to the U.S. East Coast is reported to be 10 days[40] and Morocco 21 days. The new Tangier-Med port in Morocco is expected to eventually have direct service to the U.S. East Coast of 7-8 days transit time. These relatively short transit times are extremely important when comparing suppliers in the Middle East North Africa (MENA) region to suppliers in Asia and Central America. Lead times are becoming as important as price as the U.S. market shifts from a traditional two-season retailing mode to six or even seven seasons.[41] Documents required and port handling charges indicators from Egypt and Jordan compare favorably to China and India, whereas Morocco's figures are not as competitive.

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[38] Ibid.

[39] Confirmed in interviews with Dana Bayyat, CEO of JGATE and Barbara Ende, textile specialist for Sycamore Marketing Group.

[40] Cotton Importer Update. 2007.

[41] Presentation on U.S. apparel market by Barbara Fowkes, textile consultant, July 2007.

PERCEPTIONS OF US BUYERS

Sourcing is so important in the U.S. apparel industry that it is a regular topic of "buying missions" and "sourcing seminars" at trade shows for U.S. sourcing executives. The industry's perceptions of Egypt and Morocco can be gleaned from a recent report by Cotton Incorporated, a private research and marketing company (www.cottoninc.com). After examining factories in Morocco, Egypt, and Turkey, a team of U.S. sourcing executives analyzed the potential for U.S. importers.[42] They noted significantly different opportunities for imports of apparel from Egypt and Morocco and determined that "the duty-free QIZ benefit and the country's low cost of labor make Egypt an excellent opportunity for U.S. companies looking to source" but that "it would be extremely important to impress upon vendors their informational requirements prior to production and maintain a vigilant presence throughout the production process." In contrast, the team found Morocco "an unlikely destination for large scale garment manufacturing. … but well suited to provide fashion products for specialty and niche retailers" and that "if denim manufacturing continues to grow, it can certainly be a supplier with duty-free benefits offsetting price issues."[43]

Buyers and manufacturers recognize Egypt's advantageous relationship with Turkish manufacturers, who have longstanding linkages to global value chains (e.g., Gap Inc.). U.S. buyers tend to be more comfortable working in English in Egypt rather than trying to develop supplier relationships in the francophone Maghreb. Though they are drawn to Egypt by the QIZ arrangement, they are also influenced by the lower landed prices for Asian exports. For example, even inclusive of the duties that must be paid at the U.S. port for Bangladeshi sourced product the landed price is still lower than the price for Egyptian exports. Buyers do, however, appreciate that Egypt's sail time to the United States is significantly less than the sail time from Asia.[44]

INDUSTRY SUPPORT

The textile and apparel industries of Egypt, Morocco, and Jordan receive significant support from government, the private sector, donors, and industry associations. Egypt's Ministry of Trade and Industry established a special unit to support the QIZ arrangement, represent Egypt in the joint committee that oversees implementation, approve companies for QIZ eligibility, audit companies' compliance with regulations, and promote the arrangement among Egyptian and foreign companies. The American Chamber of Commerce in Egypt has also supported bilateral trade. Under the Association Agreement signed with Egypt, the EU and its members offer technical assistance to promote Egypt's textile and apparel industry. Other donors, such as Germany's GTZ, are working on textiles and garments in the SME sector.[45]

In Morocco, the U.S. Agency for International Development, the EU, and bilateral European donors, including GTZ, all provide significant support to the textile and apparel sector. UNIDO has programs supporting the textile industry. The Office de la Formation Professionnelle et de la Promotion du Travail (OFPPT) and the Agence Nationale pour la

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[42] Cotton Importer Update. 2007.

[43] Ibid.

[44] Lynn Salinger, economist with AIRD, September 2008.

[45] www.smepromotionegypt.info/index html

promotion de la Petite et Moyenne Entreprises (ANPME) both collaborate with textile trade association AMITH in offering sector training. AMITH also maintains strategic partnerships with European textile industry organizations, such as the Cite Euromediterraneenne de la Mode.

Industry associations in all three countries work with government, donors, and private sector interests to advance the textile and apparel sector. Their activities supporting apparel trade with the United States are summarized in Table 3-5.

Table 3-5
Association Activities Supporting Apparel Trade with the United States

Organization	Activity	Tools	Support From
JORDAN			
JGATE (2004)	Export capacity building, coordination and partnerships, promotion, skill development, Buyer and agent networking	Media, missions, meetings, training	USAID/IESC Jordan-US Business Partnership
AmCham	Business development, how-to-do business training, networking	Meetings, publications, events	Private sector
JEDCO (2003) (not industry spec)	Gen export development; trade missions, buyer meets, studies	Trade shows, marketing reps	Government
Govt of Jordan/ Industrial Dev Dir	Government coordination & support for private sector	Press releases and interviews, general	
EGYPT			
AmCham	Articles, trade missions	web, meets	Private sector
US Egypt Business Council	Information, brochures/guides, contact lists	Web, events	USAID, US Commercial Service
Egypt Textile Development Assn	Marketing and business assistance	Web, meets, policy guidance	Private sector
Govt of Egypt	Promotion, support for FDI, investment, trade facilitation	Promotion, improve business environment	USAID GTZ
MOROCCO			
NBO (2006)	Training and marketing support (product adaptation as well as buyer contact) focused on US market	Training, trade show support, publications	USAID
AMITH	Full service trade association	Media, missions, meetings, training	Private sector
AmCham	Reports, articles	Website	Private sector
Govt Morocco	Investment promotion	Subsidies (02)	
Govt Morocco	Training/skills dev	TVET	EPPTO,Amith

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4. Marketing and Promotion

Jordan, Egypt, and Morocco are all engaged in market development activities that support preferential market access acquired through trade agreements with the United States. These activities reflect the different circumstances facing each country at the time the agreements were implemented. In this section we discuss activities used to stimulate export sales, primarily of apparel, in conjunction with U.S. trade agreements and preference programs.

PROMOTION ORGANIZATIONS AND PARTNERS

Each country's government has supported development of the textile and apparel industry by improving conditions for business, trade, and foreign direct investment. In-country industry associations, American chambers of commerce, and U.S. marketing programs have promoted trade agreements in press releases and interviews, provided industry members the training necessary to understand the agreements and preferences, organized and led trade delegations to meet U.S. buyers and companies, and facilitated industry participation in trade shows.

JGATE, a Jordanian industry association founded in 2004, has contributed to the industry's growth, though apparel exports had been growing and even surging since QIZ implementation in 1998. Egypt had a strong sector well before its QIZ program began in 2005, the year quotas expired. The US-Egypt Business Council, USAID, and other donors have all supported trade facilitation, trade environment reform, and trade promotion. Morocco began receiving assistance with trade promotion as soon as its FTA went into effect and its trade associations were firmly established long before the FTA; however, its lack of experience in the U.S. market has made promotion challenging.

MEDIA COVERAGE

Press coverage of the industry, trade preference programs, and free trade agreements is a key form of promotion and of entry into the U.S. market. Such coverage is found in government publications, trade press articles and interviews, and studies and analyses. U.S. government websites report on agreement contents and status and make mention of trade opportunities, but do not showcase or feature specific products or opportunities. Likewise, economic analyses of the industrial base for textiles and apparel production, value chain studies, and other academic products are not marketing tools per se but are referred to by large U.S. companies considering sourcing options. National strategies for vertical integration, regional cooperation and linkages, and foreign investment incentives influence international buyers and are usually covered in studies not the trade press.

All three countries have received good coverage in press releases from the Office of the U.S. Trade Representative and from official sources in their own countries. Jordan's QIZ program, unique at the time, was intensely covered in the trade press shortly after authorization.

Interview subjects and press releases highlighted the duty-free and quota-free status of qualifying goods, the minimal content requirements for eligibility, cooperation with Israel, investment opportunities, production capabilities in the QIZs, and growth expected under the program. In 2005, the Jordan FTA attracted a great deal of trade press coverage and a “one-stop” website—sponsored by USAID and Tijara, a private-public sector partnership—covered all aspects of the agreement.

Trade press coverage of the initial stages of Egypt’s QIZ program was not as intense, although the same official content appeared. The trade press focused on the scale of Egypt’s garment industry; the flexibility of the QIZ program in allowing the use of foreign inputs, as opposed to the restrictive content requirements; Egypt’s competitive wages and energy costs; the potential for foreign investment, especially from Turkey; and the successful Israel-Jordan QIZ program. A number of economic and political studies have analyzed the competitiveness of the industry in Egypt, particularly its potential for vertical integration and as a market for lower cost Chinese and sub-Saharan cotton. The result is the impression of a producer with undeveloped potential and an imaginative approach to structuring the industry.

Before 2005, the trade press rarely covered Morocco although Morocco was included in some regional studies, generally in conjunction with production for the EU market. Beginning in 2005 information on the FTA appears, most often in official press releases. Other coverage referenced Moroccan participation in the MAGIC apparel trade show and the new focus on the U.S. market.

TRADE MISSIONS AND TRADE SHOWS

All three countries have supported trade missions and participation in U.S. trade shows, international shows, and trade conferences.[46] The U.S. Association of Importers of Textiles and Apparel (USA-ITA), based in New York, has confirmed that each country has organized trade missions and notes that Jordan has been the most consistent in doing so, perhaps because its QIZ program is the oldest preference program among the three countries. Egypt and Morocco have also scheduled meetings with U.S. buyers through USA-ITA. These meetings usually attract up to 20 companies, although timing may limit the numbers and the seniority of participants. At the meetings buyers are introduced to industry representatives and are informed about exporters’ capabilities. Meetings may generate interest, but orders can only be generated if and when factories follow-up on their new U.S. contacts.

All three countries’ trade associations and export development authorities have sponsored participation in U.S. trade shows. At the February 2006 MAGIC trade show in Las Vegas, Jordan presented a one-hour program on the capabilities and advantages of its apparel industry, promoting the QIZs and the new FTA with the United States. One of the speakers was the chief sourcing officer of a major U.S. apparel buyer, which made this effort at national promotion especially credible. Morocco received extensive attention for its effective presentation at the February 2007 MAGIC show. Egypt also participates in MAGIC and other U.S. trade shows annually, and its own Egytex, an annual show now in its eighth year,

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[46] Regional and international shows are helpful, but in-country shows allow buyers to visit production facilities, often an essential step before they commit orders to a new supplier.

showcases the local industry, reinforces a positive perception of flexible options and foreign investment, and attracts international exhibitors and buyers.

Table 4-1
Examples of Trade Promotion

Date	Show	Location	Sponsor
JORDAN			
02/2006	MAGIC	Las Vegas	JGATE, government-organized. Sponsors: CyberCity, Jordan Investment Board, Jordan Industrial Estates Corporation (JIEC), Al-Mushatta Qualifying Industrial Zone, Al Tajamouat Industrial City
06/07	Investment Mission	China	JGATE, Government
07/07	‘Meet the Buyers”	New York	JGATE/USAID
EGYPT			
Annual (10 yrs)	Egytex	Cairo	Industry (ETDA)
07/06	ITCE 10 (10th event, 25% growth over prior year, QIZ credited)	Egypt	ACG-ITF
2005	International Leather & Textile Fair	Cairo	Defile Crejin and Turkish RDF Fair
03/06	Door Knock Trade Mission	Washington DC	American Chamber of Commerce
Annual	MAGIC	Las Vegas	Industry
08/08	Floorex		
MOROCCO			
08/05	Market visit early 2005	New York	AMITH/USAID
Annual	Maroc Sourcing	Casablanca	AMITH
02/06-02/07	MAGIC Sourcing	Las Vegas	AMITH/USAID

CONCLUSION

The marketing programs of Jordan, Egypt, and Morocco use the same tools to reach potential buyers. Though basic information on the value of trade benefit programs is readily available, press coverage reflects changes in trade that have occurred between 1998, when the Jordan QIZ program was authorized, and 2005, when benefits were authorized for Egypt and Morocco. According to one industry specialist U.S. press coverage of the Morocco FTA does not compare with that of Jordan or Egypt. Press coverage may have been influenced by political factors, such as the novelty of an FTA between the United States and Arab states, but the pending US-Peru FTA has been more widely covered in the trade press than the Morocco FTA.[47] How the marketing campaigns have affected buyers’ attitudes and interest in sourcing in Morocco is not known, and their affect on hard trade numbers will not show up for some time as it may take two to three years for buyers to develop a new source.[48]

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[47] Barbara Ende, Sycamore Marketing Group, September 2008.

[48] Minor, *et al*. Survey of U.S. Apparel Buyers.

5. Success Factors in US-Jordan and US-Egypt Apparel Trade

The rise in apparel exports from Jordan and Egypt to the United States after implementation of the QIZ and FTA can be attributed to five factors: agreement timing, agreement apparel provisions, industry competitiveness, market and product orientation, and foreign investors.

TIMING OF AGREEMENTS

The MFA quota regime was influencing U.S. apparel sourcing when Jordan implemented its QIZ scheme and its FTA with the United States. Countries with quota available and with preferential market access were attractive, and major producers, especially Asian producers, sought foreign partnership and investment with them to keep producing for U.S. clients despite filling quota capacity from their own domestic factories. Thus, Jordan, though a relatively new player, was very attractive given the favorable apparel provisions of the QIZ and FTA. Many foreign-owned apparel factories were established in Jordan in direct response to the QIZ and FTA. In 1998, the only other U.S. preference programs with provisions for apparel imports were the U.S.-Israel FTA and NAFTA. Even then, qualifying products were not necessarily duty-free but had duties phased out. By the time the Jordan FTA was implemented, textile-relevant agreements were in place through the Andean Trade Preference Act (ATPA), Caribbean Basin Trade Preference Act (CBTPA), and the African Growth and Opportunity Act (AGOA). Still, the apparel provisions negotiated in the QIZ and Jordan FTA were superior to any others.

When Egypt’s QIZ was implemented in 2005, the expiry of the MFA was shaking up the trade and market shares in the United States shifted from country to country. Egypt was among the few who expanded market share as duty-free preferences through the QIZ attracted importers developing new sourcing strategies as a result of quota elimination. By the time the Morocco FTA was implemented in 2006, however, many U.S. companies had consolidated their suppliers. The FTA was signed in 2004, but implementation was delayed; during that time, unfortunately, some U.S. executives simply lost interest.[49]

APPAREL PROVISIONS

The treatment of apparel goods under the QIZ were exceptional at the time of implementation and remain attractive today as evidenced by the majority of U.S. apparel imports from Jordan

[49] Author interview of former staff of Morocco Fast Track Trade program.

coming through the QIZ and not the FTA scheme. The QIZ provision remains extremely liberal; the 35 percent value-added requirement is easily met (the labor cost on a garment generally exceeds 35 percent of FOB value) as is the 8.9 percent Israeli content requirement.

The Jordan FTA maintains the 35 percent value-added requirement but does not impose the Israeli content rule. Under the FTA it is still possible to use the third-party fabric provisions which provided buyers that were already working in Jordan under the QIZ program the opportunity to expand their production range in Jordan. Some buyers sourcing from Jordan already had four years of experience by the time the FTA went into effect. While duties on some key apparel products are phased out over 10 years, by 2005 (expiry of the MFA) significant duty relief was in place for many important products.

INDUSTRY COMPETITIVENESS

Several factors were working in Jordan’s favor upon implementation of the QIZ and FTA. Its labor rate allowed manufacturers to keep production costs competitive with Asian supply and the preferred market access and lack of quotas appealed to apparel importers. In addition, factories kept fabric costs low by importing fabric from Israel, which reduced transaction costs, or by importing it from Asia with zero duties applied (in contrast to cumbersome duty-drawback schemes).

Egypt also has relatively low labor rates, good access to raw material (although Egyptian cotton fabric is more expensive than Asian fabric) and relatively cheap electricity. Its duty drawback scheme for imports of garment inputs introduces administrative requirements, but its linkages to Turkish fabric mills means it has an efficient fabric source nearby.

Finally, logistics factors for Egypt and Jordan compare favorably with other major exporters to the United States, notably in that processing of documents and transit times are comparable or better than those of China and India.

In contrast, Morocco’s labor rates are significantly higher than rates in Egypt or Jordan and port handling charges (reported from 2006) are more than double per container.

MARKET AND PRODUCT ORIENTATION

As noted, Jordan’s industry was nascent at the time of the QIZ and largely built up to supply the U.S. market. The resulting investment in Jordan’s apparel sector meant Jordan was poised to increase exports upon implementation of the FTA and to maintain U.S. market share when quotas ended in 2005; the commercial linkages were in place and the products supplied to the U.S. market were competitive and well defined with clear duty-free advantages. Likewise, Egypt also had commercial linkages with the United States before it acquired preferred access to the U.S. market and thus was primed to increase exports of apparel under the QIZ.

In addition to being oriented to the U.S. market, the industries of Jordan and Egypt were suited to the production of high-volume, low-cost knit apparel (see Table 3-2). The Jordan QIZ scheme provided Israeli producers of knit apparel an advantage in lower labor and other factor costs while using Israeli fabric, which was easy to transport to Jordan. The vertical integration of the industry in Egypt assured buyers of short lead times and maximum time to make fashion decisions and color choices. In sum, the ability of both countries to competitively supply knit apparel with duty-free market access, against the heavy volume demands and price sensitivity of U.S. import programs, made them attractive to buyers.

Morocco's successful concentration on the EU apparel market will continue to be a priority for the industry, so it is unlikely that it will sustain surges in exports to the United States similar to those of Jordan and Egypt. Exogenous factors, such as the exchange rate between Morocco and the United States in 2006/2007, have also made pursuing the U.S. market at the possible expense of existing business with Europe unattractive.

FOREIGN INVESTMENT

With preferred U.S. market access, Jordan became an attractive destination for foreign suppliers. FDI in the sector increased from $693 million in 2003 to $1.06 billion in 2004. The importance of foreign investment in developing Jordan's apparel exports cannot be underestimated. Before 1997 the sector was small and domestically oriented. Most Jordanian manufacturers in the mid-1990s were not competitive either internationally or domestically and were grossly inadequate to make full use of the QIZ project. Industry development relied heavily on the comparative advantages inherent in the Jordanian economy[50] and foreign investment. Foreign investors with U.S. customer bases and the ability to train the workforce and organize factories to serve the U.S. market have played a significant role in Jordan's export success. American and Asian investment is responsible for more than 65 percent of QIZ ownership.

FDI in Egypt's textiles and apparel sector rose from $12 million in 2000 to $225 million in 2004. Turkish investment is very important. Egypt signed an FTA with Turkey in December 2005, which suggests that Turkish companies were primed to consider Egypt a production platform from as early as 2004, if not earlier. Turkish companies are partnering with Egyptian companies to develop industrial zones in Egypt that will be eligible for the QIZ program.[51]

CONCLUSION

Over the long term, Morocco may eventually do as well as Jordan and Egypt in exporting apparel to the United States. Jordan and Egypt, however, have benefited greatly from the timing and apparel provisions of their QIZ schemes, which dovetailed with the influence and then the demise of the longstanding global quota regime. That regime had made integrating new sources into supply chains important; without the regime, competitiveness factors prevail. The industries in Jordan and Egypt are also oriented to the U.S market while Morocco's is oriented, and successfully so, toward the European market. Finally, the apparel provisions of Morocco's FTA, like the provisions of the Jordan FTA, are not as liberal as those in the QIZ schemes; in 2007 most U.S. apparel imports from Jordan were imported under the QIZ and not the FTA.

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[50] El-Anis, Imad. 2007. Growth of MENA Industries: The Textiles & Clothing Sectors in Jordan. *Middle East and North Africa Review*, March-April.

[51] American Chamber of Commerce-Egypt: www.amcham.org.eg/publications/businessmonthly/february%2007/indepth(turkishinvestorstoarriveinclusters).asp

6. Industry Trends and Recommendations

Not all foreign suppliers will be able to increase their apparel exports to the United States indefinitely because U.S. buyers are consolidating their sourcing programs now that quotas have been eliminated. They will be alert to new opportunities, but the sheer cost of operating in many locations is no longer necessary or justifiable. Adding a new producer in an established region is simple, but developing a new supplier in a new region can take two to three years and the advantage of doing so must be compelling.[52]

In addition, growth in demand for garments may decline with a general economic slowdown. In fact, U.S. apparel imports declined 4 percent in June 2008 versus June 2007 (Table 6-1). While exports from the traditional powerhouses of China and Turkey declined, Morocco registered an impressive 15.6 percent increase. Jordan and Egypt also experienced decreases. Jordan's 15.3 percent decrease was likely due to a 30 percent rise in its labor costs since September 2005.

Jordan recognizes that the QIZ and FTA offer compelling incentives to export in product categories that bear the highest tariff rates. It is therefore shifting into high-end niche products to take advantage of savings on items for which duties can go as high as 37 percent. JGATE is working on programs to recruit and train Jordanians in the sector and attract more investors to invest in the supporting industries such as accessories and other inputs. In 2007 a delegation of Jordanian public and private sector officials traveled to China to promote investment opportunities in the sector.

Egypt is also turning to investment, notably from Turkey. Investors are helping to build in the industrial zones, Egyptian companies are hiring Turkish apparel professionals, and The Gap—which relied heavily on Turkey for many years—is said to be shifting a chunk of its sourcing to Egyptian manufacturers, sometimes nominating Turkish fabric suppliers to the manufacturers. Several major apparel retailers have located sourcing offices in Cairo, including Federated (Macy's), Warnaco (Calvin Klein, Chaps), Target, and a local sourcing company that is an agent for Walmart, K-mart, Levi's and Liz Claiborne. [53]

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[52] Minor, *et al*. Survey of U.S. Apparel Buyers.

[53] Lynn Salinger, economist with AIRD, September 2008.

Table 6-1

Year to Date Apparel Imports by Country, June 2008 vs. June 2007

	June 2008 Vs. June 2007 (%)
World	-4.0
China	-6.0
Vietnam	+25.1
Indonesia	+0.8
Mexico	-11.6
India	-2.0
Bangladesh	+6.7
Honduras	+3.0
Cambodia	+2.1
Thailand	-1.8
El Salvador	+8.1
Jordan	-15.3
Egypt	-1.6
Turkey	-29.5
Morocco	+15.6

SOURCE U.S. Department of Commerce, Office of Textiles and Apparel.

Morocco's apparel industry is shifting manufacturers away from the subcontracting production model and to filling the niche for "fast fashion"—small production runs of fashionable garments produced under short lead times. The U.S. demand for fast fashion is clear but the short lead times favor suppliers in Central and Latin America.

The following recommendations are intended to help the Moroccan textile and apparel industry maximize the benefits of the free trade agreement with the United States.

1. Promote and Produce Garments with a Comparative Advantage. QIZ and FTA provisions that provide duty-free preferences for certain types of garments sparked U.S. demand for apparel from Jordan and Egypt. Considering the proliferation of bilateral agreements the U.S. has implemented and is negotiating, Morocco should immediately determine which of its products has a competitive advantage. For example, the FTA provides immediate duty-free or phased-in tariff relief for goods with some of the highest duty rates, such as in those manufactured with manmade fabrics with rates as high as 30 percent. Meanwhile, Morocco has demonstrated an advantage in manufacturing denim products for the U.S. market because it can use local fabric and excellent washing facilities. The advantages afforded by the FTA at the product level must be defined and communicated to U.S. industry.

2. Research U.S. Fabric Sources. Manufacturers should forge linkages to U.S. yarn or fabric manufacturers. The FTA's rules of origin confer duty-free preferences on goods made with U.S. or Moroccan yarn and fabric, and the third-party fabric provision will expire in 2016.

3. Build Relationships with Asian Fabric Suppliers. Egypt and Jordan integrated sourcing of less expensive Asian fabrics to supply the U.S. market, first working with buyers' nominated suppliers then doing their own sourcing consistent with the full-package model demanded by

U.S. buyers. Some factories in Morocco have the depth of experience necessary to source fabric from Asia, but most rely heavily on European suppliers, largely due to their focus on that market.

4. Seek Investment Partners with U.S. Apparel Market Share. Apparel exports and sector competitiveness in Egypt and Jordan seem to have benefited from preferential access to the U.S. market and foreign investment, especially from Turkey and Asia. Jordan promotes apparel manufacturing opportunities among counterparts in China, and conducted a major trade mission there in 2007. Morocco should encourage similar arrangements with suppliers seeking to exploit advantages in the Morocco-U.S. FTA, especially European companies that already have business linkages to U.S. buyers.

5. Refine and Communicate Moroccan Offer to U.S. Audience. U.S. sourcing executives do not recognize the relevance of the Moroccan offer and/or perceive it as better suited to Europe. Information on the country's most capable manufacturers of textiles, yarns, and finished apparel and accessories is not readily available through association websites or other channels.

6. Participate in Regional Trade Shows That Attract U.S. buyers, and Plan Events That Attract Buyers to Morocco. Shows could be in North Africa (such as "Egytex") or in Europe; many high-end buyers use European fabrics extensively. Events that bring U.S. buyers to Morocco could be extremely useful in demonstrating the sectors skill and opportunities.

7. Continue and Expand Robust Promotion of Apparel Industry in U.S. Market. So far, Morocco's communication and industry outreach campaign have not resulted in the level of media coverage of the QIZ programs and the Jordan FTA. Morocco should continue the aggressive promotion campaign it launched in 2006, especially to counter the influence of other regional players with trade agreements (Central America, Peru) better known to U.S. sourcing personnel. Morocco could emulate events such as Jordan's "Meet the Buyer" in New York, taking advantage of donor support available, and collaborate with U.S trade associations such as the USA-ITA to raise awareness among industry executives.

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Appendix. Persons Interviewed and Websites Consulted

Persons interviewed for this analysis were

- Dana Bayyat, CEO of the Jordan Garments, Accessories, & Textiles Exporters' Association (JGATE)
- Barbara Ende, Apparel Specialist with Sycamore Marketing Group
- Barbara Fowkes, Apparel Specialist, DPGN
- Kamil Mandanat of the International Executive Service Corp (IESC)
- Jane O'Dell, textile specialist with Nathan Associates Inc.
- Lynn Salinger, Economist with AIRD

The following websites were consulted:

- American Chambers of Commerce (Egypt, Jordan and Morocco)
- Jordan Garment Accessories and Textiles Exports Association (JGATE)—www.jgate.org.jo
- Jordan Enterprise Development Corporation (JEDCO)—www.jedco.gov.jo
- Jordan Investment Board (JIB)—www.jordaninvest.com
- Moroccan Association of Textile Industry & Clothing (AMITH)—www.amith.org.ma
- Egytex—www.egytex.com
- International African-Arabian Exhibition for Textile, Embroidery and Sewing Machinery & Accessories (ITCE)—www.itcecairo.com/
- MAGIC—www.magiconline.com