

## SOURCING JOURNAL

### Why Central America Makes Sense—Even in a Down Market

BY

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A MAP SHOWING CENTRAL AMERICA AND THE DOMINICAN REPUBLIC. GETTY

[Nearshoring](#) and onshoring have become buzzwords in the industry, particularly since the pandemic, when brands and retailers experienced the pitfalls of [sourcing](#) from faraway places. Nowhere else have we seen the benefits of [sourcing closer to consuming markets](#) than in the Western Hemisphere. More so, free trade agreements like the [U.S.-CAFTA-DR](#) have helped to ease sourcing companies into the region as part of a global sourcing strategy.

These days, the market is experiencing a major slowdown. The question is which apparel-producing region will benefit when it turns around. We think it will be [Central America](#)—a destination for \$4 billion of U.S. textile and apparel exports and 81 percent of U.S. spun yarn exports alone. This co-production chain is the solution to the inventory issues facing brands and retailers and elongated, non-transparent supply chains that have created both financial and ethical risks.

Here, we breakdown key themes surrounding the Central America region as a go-to sourcing locale.

### **Central America, the U.S. and Capitalizing on Nearshoring Momentum**

**Patricia Figueroa:** The recent momentum started when the [pandemic](#) hit, and the co-production chain between the region and the U.S. stepped up to the desperate call for personal protective equipment ([PPEs](#)) to address severe shortages in this hemisphere. We went from total shutdown to turning around our factories to make gowns and masks for our population and the United States. This showed the importance of producing close to market, where long-term relationships with U.S. textile producers were maximized for the greater good.

**Kimberley Glas:** Brands and retailers recalibrated their supply chains during the pandemic, looking for diversification from elongated supply chains out of Asia to proximity to the U.S. market. In the past 18 months alone, this vibrant partnership with the region has spawned \$2 billion in investments in both the U.S. and Central America, as brands and retailers continue to look for ways to diversify their supply chains. We are really excited about this trend and poised to meet the opportunity ahead.

### **Pandemic Aftermath: Weighing Investments and Commitments**

**P.F.:** Companies will continue to invest in the Region and diversify production as we continue forging alliances with several brands and retailers highly committed to the region. They usually have a presence in the area; they have committed to building our sourcing capabilities and are willing to invest time and resources to expand and innovate. These types of brands and retailers also consider the many benefits of doing business in the region when comparing the cost of sourcing from other regions.



**K.G.:** The CAFTA region is a leading destination for U.S. textiles, and there's little wonder why: the diversity of products and available capacity to make this vast array of products is enormous. [Nearshoring](#) and onshoring are here to stay and will only grow into the future. Central America came out of the pandemic quicker—with 70 percent growth in apparel exports to the U.S. in 2022 compared with the 2020 Covid downturn year. That trend, compared with the major investments, is a major sign that companies are invested for the long term.



PATRICIA FIGUEROA.

### Capacity and Capability of the CAFTA Region

**P.F.:** The [CAFTA-DR](#) countries are the third largest supplier of apparel to the U.S. We have achieved higher diversification of category or type of product we are producing, and in 2022 the largest [export](#) categories from the region, apart from men's and boy's knit shirts, were men's and boy's trousers and shorts and women's and girl's trousers, slacks, and shorts. Our region also manufactures dresses, cotton coats, baby garments, sportswear, and workout clothes. New investments will further enhance this diversification.

**K.G.:** The U.S. and regional co-production chain offers a diversity of products. This co-production chain has the capabilities and capacity to meet the needs of brands and retailers, and it's all supported by a strong regional base of spinners, knitters, and weavers with installed capacity ready to go. In new yarn capacity installation alone, the region is on track to manufacture more than a billion additional new apparel and

home textile items with sustainability, transparency, diversification, capacity, proficiency and efficiency as core competencies of this critical co-production chain.

## **The Importance of the Yarn-Forward Rule**

**P.F.:** To Central America-Dominican Republic Apparel and Textile Council (CECATEC-RD) members, maintaining the [“yarn-forward”](#) rule of origin is pivotal for our present and future success. It is the backbone of the US-CAFTA-DR textile and apparel supply chain. The investment in recent years has been based on that premise, and there is substantial programmed private investment currently in the pipeline geared towards more verticalization of the supply chain and higher value-added products.

**K.G.:** The “yarn-forward rule” of origin, fully supported by the Biden administration, facilitates trade, investment, and economic development in the United States and the region. It ensures that the agreement’s benefits accrue to the signatory partners by driving massive investment and providing business certainty while providing a leg up against countries like China that continuously use predatory trade practices to undermine our domestic and regional industry.

## **Opportunities in the Western Hemisphere Supply Chain**

**P.F.:** I advise acting now for the near-term opportunities that nearshoring brings us. I also advise engaging with us, the associations, the U.S. Congress, and the U.S. administration in aligning our vision of what we want the Western Hemisphere to look like in the coming years.

**K.G.:** The pandemic created a shift in thinking in boardrooms worldwide. The calculus turned to prioritizing sourcing diversification and leveraging closer proximity to market. People contacted our industry. We heeded the calls. They asked for

solutions, which we offered. In turn, apparel exports more than doubled from the region. We don't want to be your solution for just three to six weeks. We want to be your solution for the next 60 to 100 years and we are here to help.

The CAFTA-DR trade pact has succeeded because it has proven to be a mutually beneficial trade agreement bolstering U.S. and regional textile mills and clothing companies throughout Central America. This free trade agreement is not an abstract government program. It's real, and it's working. And it represents success not only for today but for tomorrow, too. Many companies have already invested in the region and more will in the future as production continues to ramp up and global sourcing diversifies. Now is the time to explore the U.S.-CAFTA-DR textile and apparel production chain.

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