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Collective Action to Develop New Sourcing Opportunities

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A REPORT OF THE CSIS HUMAN RIGHTS INITIATIVE

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Executive Summary

This report is the fourth in a series that CSIS's Human Rights Initiative (HRI) has produced to identify how businesses, governments, multilateral organizations, nongovernmental organizations (NGOs), and other actors can work together to address forced labor linked to China's Xinjiang Uyghur Autonomous Region (XUAR). This report discusses a path forward to address XUAR-linked forced labor through the diversification of sourcing, with a particular focus on apparel, textile, and footwear supply chains.

The XUAR produces around 20 percent of the world's cotton. This cotton is consumed inside China, where it is spun with imported cotton from other countries to create yarn and then textiles. China is the world's largest producer and exporter of yarn, textiles, and apparel. Commitments and laws aimed at eliminating inputs linked to XUAR forced labor from the supply chain may remain mostly symbolic until: (1) the capacity to trace products back to their source is significantly strengthened; and (2) stakeholders work together to rapidly develop alternative sourcing hubs that provide cost-effective alternatives that abide by labor rights. Mitigating the potential risks of XUAR-linked forced labor requires developing strategies to diversify sourcing outside of China, promoting the development of alternative sourcing hubs, and ensuring that those new hubs incorporate modernized labor and workplace safety protections.

Industry experts state that the development of new sourcing hubs typically requires around 10 years if it occurs organically. Governments must use policy tools and companies must make longer-term commitments to new regions to speed this process, as described in this report.

New sourcing hubs for textiles, apparel, and footwear must be vertically integrated as much as possible within the region or country, both to avoid XUAR inputs and create cost efficiencies. This requires substantial investment in yarn and textile mills, which require expensive equipment and skilled workers and do not provide a return on investment for a number of years. To grow or establish new hubs, a country or region must provide appropriate incentives, such as adequate infrastructure, ample investment, openness to labor rights and environmental protections, and opportunities for worker upskilling. The United States and European Union must set tariffs and develop trade arrangements that encourage the development of country or regional hubs and should use development assistance to improve the infrastructure supporting them. Such hubs also rely on inputs of cotton that are not XUAR-related and ideally originate in the same region. Because of China's dominance in sector-specific infrastructure and capacity today, the currently limited use of traceability technology, and the need to build substantial capacity in alternative countries and regions over the long term, such diversification will take time. However, effective planning and coordination among stakeholders could substantially expedite the process.

Such diversification brings a number of benefits beyond eliminating XUAR-linked forced labor. It can create greater flexibility and resilience to supply chain shocks, a growing priority in the Covid-19 era. It can support reshoring and nearshoring. Implemented thoughtfully, diversification could also assist with the UN Sustainable Development Goals by providing decent work and integrating stronger environmental standards.

This report focuses on the textile, apparel, and footwear supply chains as a case study for addressing the risk of forced labor in supply chains. Given that the XUAR produces early-stage inputs for many supply chains, through items such as agricultural products, minerals, rare-earth metals, polysilicon, and other goods, lessons from this study may be useful to other sectors.

Diversification requires coordination among multiple actors, including governments, companies, international organizations, NGOs, and other country-level stakeholders. Diversification that supports more responsible and resilient supply chains is valuable in its own right, and also may help create pressure to change practices in the XUAR. Because of the challenges that will likely arise, diversification efforts must start now, based on the following learnings:

- Actors must develop a shared vision for responsible, diversified sourcing and deploy multiple tools to achieve this vision. Tools that governments and multilateral organizations can deploy potentially include: trade measures incentivizing market access, development aid (support for infrastructure and assistance with labor laws and enforcement), import bans and sanctions, government procurement, and investment incentives in countries of origin.
- Continued strengthening of trade measures to improve environmental and legal compliance and support integrated supply chains is vital, along with measures so that government procurement finally achieves its promise of rewarding better labor practices, while avoiding XUAR inputs.
- To encourage the growth of alternative hubs, company sourcing strategies must include longer-term commitments to countries or regions to encourage the entry of more capital-intensive tiers of the supply chain. To ensure a growing hub is also responsible, companies must clarify to relevant governments that a commitment to source from the country will hinge on improved labor rights in law and practice, including capacity building for the government to enforce its own laws.
- Actors with economic leverage—governments, international financial institutions, and companies—must help create access for organizations that provide expertise and capacity building on labor rights if these alternative hubs are to adequately respect rights.
- Much stronger supply chain traceability is a necessary enabler of more responsible supply chains that avoid the use of XUAR inputs or other inputs from state-sponsored forced labor.
- Each tool provides an opportunity to integrate human rights and environmental requirements and programming. These considerations must form an integral component when deploying each tool for a more resilient, responsible supply chain to result.
- To achieve greater vertical integration in alternative sourcing hubs, companies must make longer-term commitments to these hubs to encourage the movement to those locations of capital-intensive supply chain tiers, such as spinning and textile production. This can be coordinated with the commitments of governments and other actors to enable responsible and fast-growing hubs.
- Given the range of tools and actors required to achieve this vision, governments must convene inter-agency processes to support a strategy and implementation. Moreover, governments and others can help convene multi-stakeholder fora that define respective roles for companies, governments, multilateral organizations, and civil society.

Forced Labor Risk in Global Supply Chains

Products made in China that rely on low-skilled labor may introduce forced labor risk in global supply chains, due in part to government programs to transfer hundreds of thousands of Muslim minorities into jobs in the highly repressive XUAR.¹ Even with improved traceability, raw materials and components from the XUAR may be difficult to detect within complex supply chains, such as for textiles, apparel, and footwear.² The coerced transfers of Muslim workers to factories outside of the XUAR may also present additional forced labor challenges that extend into other regions of China.³ Though forced labor is a challenge in many countries and supply chains, state-sponsored forced labor is rare and presents unique challenges in: (1) identifying the problem, due to a lack of access to regions and factories; and (2) addressing the problem, due to a lack of access and because Chinese factories will hesitate to act counter to state policies.

Overview of the Textile, Apparel, and Footwear Supply Chains

Textile, apparel, and footwear supply chains may involve numerous middlemen and commodity traders. Some supply chains may be more vertically integrated, with a single company buying cotton and producing yarn, textile, or apparel. In order to evaluate opportunities for developing new sourcing hubs, it is important to understand the differences between the various stages of the textile and apparel supply chain, both in terms of the investment needed and the degree of skilled labor required. The technology and capital required for farming and ginning varies depending on the level of farm mechanization. The final stage of apparel production (“cut-and-sew”) often relies on large amounts of low-skilled labor. In contrast, textile manufacturing is technology and capital intensive and requires significant amounts of electricity to operate advanced machinery. Yarn spinning, for example, may involve proprietary knowledge about incorporating various blends of cotton, and yarn manufacturers have cited trade secrecy as a reason to avoid disclosure of documentation for labor audits.⁴ Indeed, yarn spinning and textile production are far harder to relocate than cut-and-sew factories because of their higher need for capital investment and skilled workers.

These variations across the supply chain present opportunities as well as challenges. For example, strategic investment in textile mills may subsequently promote the development of apparel production factories. On the other hand, it is much more difficult to build textile manufacturing hubs in new areas due to labor, capital, and energy requirements. Doing so also requires convincing existing producers, usually from China, South Korea, or Taiwan, to invest significant funds to open mills in new countries.

Footwear supply chains also rely on inputs of yarn and textiles. However, the later stages of footwear production, particularly athletic footwear, are often highly technical compared to cut-and-sew production. Athletic footwear requires substantial tooling, such as multiple molds for the various layers of the sole. Such molds and materials change frequently to accommodate the latest innovations. The constant changes

in tooling often require reprogramming of machines, which requires skilled labor. Overall, substantial investment is needed to produce molds and synthetic, technical materials. Because of this high degree of investment and the need for an ecosystem that can provide these rapidly evolving inputs, athletic footwear production is highly concentrated in only a few countries, with China, India, Vietnam, and Indonesia accounting for over 75 percent of global production.⁵

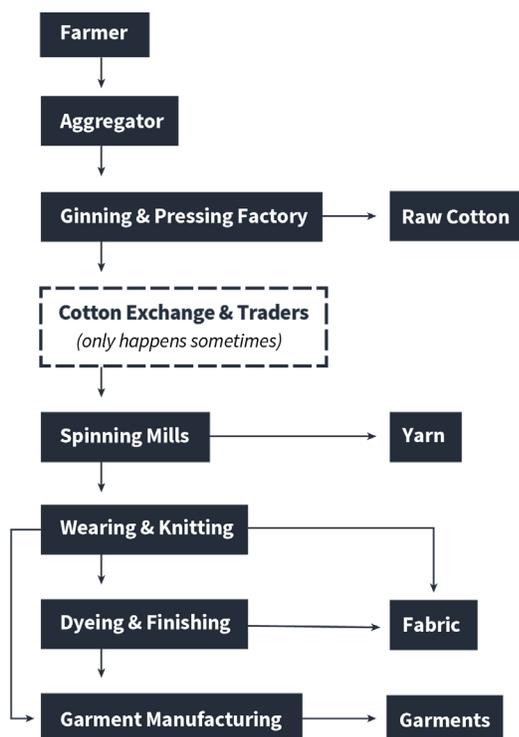
The following table identifies the labor, capital, and energy needs of the different facilities in the apparel/textile supply chain, based on CSIS’s research and interviews. The study team assumed that the yarn and textile facilities are modernized and thus highly automated, as is increasingly the norm.

Labor, Capital, and Energy Needs in the Apparel Supply Chain

Type of Facility	Labor Required	Labor Skill	Capital Required	Energy Needs
Farming/Ginning	Low-High	Low	Medium-High	Low-High
Textile Manufacturing	Low	High	High (40-100+ million USD)	High
Yarn Production	Low	Low-High	High	High
Fabric Production	Low	Low-High	High	High
Apparel Production	High	Low	Low	Lower

Note: Interview #7 provided an estimate of 60–100 million USD for establishing a new textile mill. Estimates vary considerably depending on size of facility. For example, a new textile factory in Mozambique reportedly cost around 40 million USD. On the high end, the Hawassa Industrial Park in Ethiopia cost more than 250 million USD in total.

Source: “Mozambique seeks US\$40 million for Marracuene’s textile factory, former Riopelle,” Club of Mozambique, November 12, 2019, <https://clubofmozambique.com/news/africa-investment-forum-mozambique-seeks-us40-million-for-marracuenes-textile-factory-former-riopelle-146762/>; CSIS HRI research and interviews.



The diagram to the left depicts a simplified apparel and textile supply chain. The footwear sector would look similar in the earlier stages of the supply chain.

Source: WWF-India, Cotton Market and Sustainability in India (New Delhi: 2012), http://awsassets.wwfindia.org/downloads/cotton_market_and_sustainability_in_india.pdf; and CSIS HRI analysis.

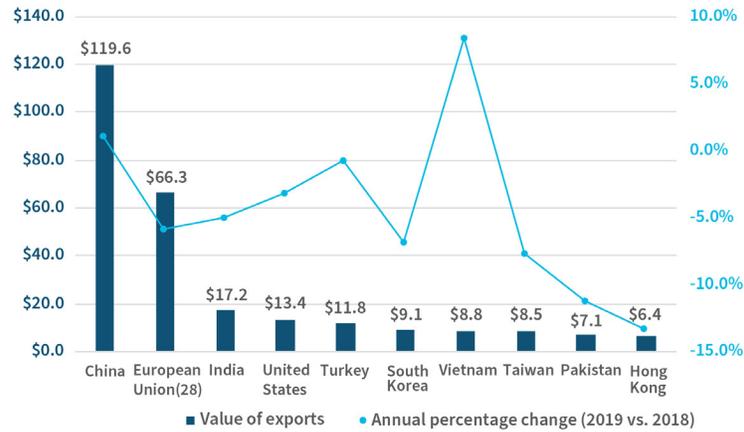
Global Trends in Textile, Apparel, and Footwear Sourcing

The China Factor

China plays the predominant role in global apparel, textile, and footwear supply chains. China is a vital actor in almost all aspects of the value chain, including cotton farming, yarn spinning, textile and fabric manufacturing, and garment “cut-and-sew.” In addition to its own production, China exports yarn, fabric, and garments to neighboring countries such as Bangladesh, Vietnam, Cambodia, and Indonesia.⁶ China has established itself as a dominant player due to its combination of scale, diversity, technical capacity, and vertical integration. In 2019, China exported four times as much as Bangladesh, the second-largest exporter, by dollar value. Further upstream in the supply chain, the value of China’s textile exports is almost seven times the value of exports from the next largest textile manufacturer.⁷

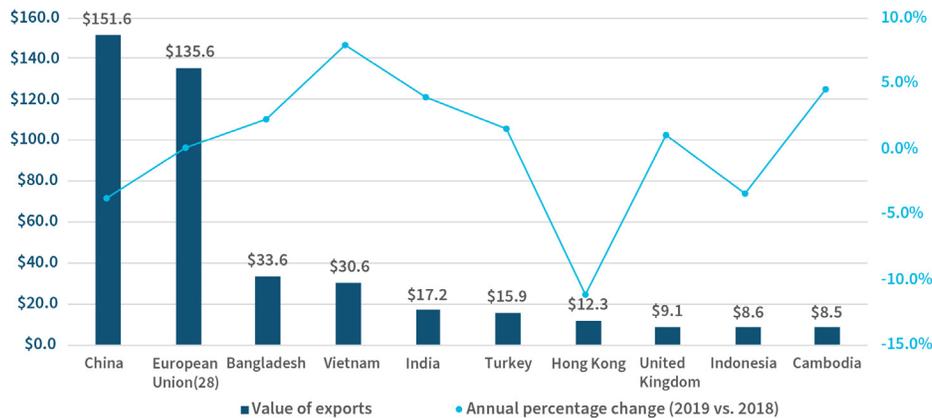
Similar vertical capacity at the scale of China’s production does not currently exist in a single country or region. To understand China’s current dominance over the apparel and textile industry, it is helpful to consider the rise of Chinese apparel and textile exports. The 10-year phaseout of the Multifiber Arrangement (MFA)—a multilateral agreement from 1974 to 1994 that regulated textile and clothing trade under quotas—led to a surge in apparel exports from China as quotas were phased out over time.⁸ In 2005, the first year in which quotas were fully phased out, exports of cotton trousers from China to the United States increased by over 1,000 percent.⁹ China’s dramatic increase in apparel market share displaced textile and apparel production in virtually all countries, and especially in developing regions such as sub-Saharan Africa.¹⁰ Other Asian countries, including Bangladesh, Cambodia, India, and Vietnam, have also increased apparel exports in the post-MFA period, often reliant on Chinese inputs.¹¹ However, of these countries, only India is a cotton producer, allowing it to produce yarn and textiles. Other countries have only made small inroads in yarn and textile production, where China

Global Top 10 Exporters of Textiles 2019 (Billion USD and Annual Percentage Change)



Source: Sheng Lu, “WTO Reports World Textiles and Apparel Trade in 2019,” FASH455 Global Apparel & Textile Trade and Sourcing, August 3, 2020, <https://shenglufashion.com/2020/08/03/wto-reports-world-textiles-and-apparel-trade-in-2019/> (citing World Trade Organization data); and Sheng Lu, personal communication, January 14, 2021.

Global Top 10 Exporters of Clothing 2019 (Billion USD and Annual Percentage Change)

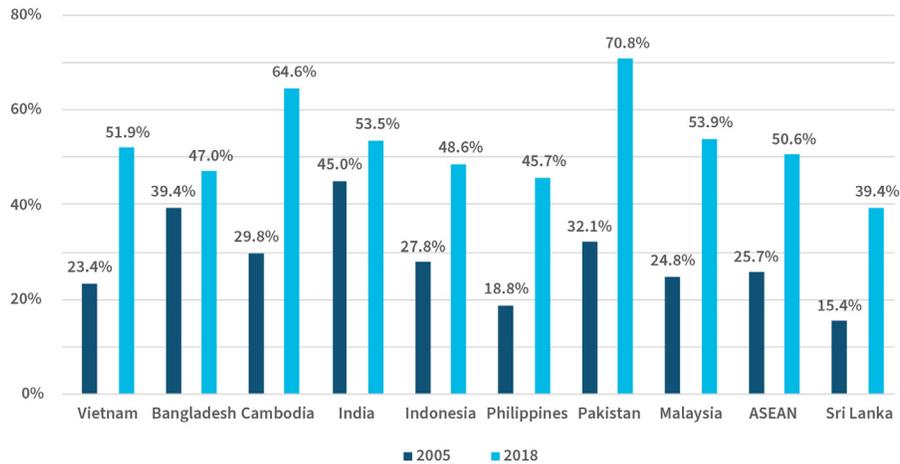


Source: Sheng Lu, “WTO Reports World Textiles and Apparel Trade in 2019,” FASH455 Global Apparel & Textile Trade and Sourcing, August 3, 2020, <https://shenglufashion.com/2020/08/03/wto-reports-world-textiles-and-apparel-trade-in-2019/> (citing World Trade Organization data); and Sheng Lu, personal communication, January 14, 2021.

remains extremely dominant. In recent years, China has also transitioned to become an even more dominant player in the textile industry, strengthening its role as the critical textile supplier in Asia.¹²

On the other hand, a variety of factors, including U.S.-China trade tensions, have led to decreases in apparel imports from China.¹³ A survey of 25 U.S. apparel executives reported that sourcing orders were moved from China to other Asian countries as a result of Section 301 tariffs on

China's Market Shares in Leading Textile Import Markets in Asia (by value)



Source: Sheng Lu, “WTO Reports World Textiles and Apparel Trade in 2019,” FASH455 Global Apparel & Textile Trade and Sourcing, August 3, 2020, <https://shenglufashion.com/2020/08/03/wto-reports-world-textiles-and-apparel-trade-in-2019/> (citing World Trade Organization data); and Sheng Lu, personal communication, January 14, 2021.

apparel.¹⁴ Long-term trends will also accelerate the movement of cut-and-sew facilities out of China. As China continues to transition toward high-technology and skill-intensive industries, it is expected that the relative importance of the apparel industry within the Chinese economy will decrease. Finally, global macroeconomic trends predict higher labor costs and a shrinking workforce in China.¹⁵

Domestic demand is also increasing in China, with a meaningful portion of textile and apparel sales going to the internal market in 2018.¹⁶ However, frequently cited data regarding Chinese consumption in the textile and apparel sector is potentially misleading. For example, the U.S. Department of Agriculture (USDA) recently cited Chinese sources stating that 88 percent of China’s textiles and apparel are consumed internally,¹⁷ but this statistic ignores the fact that those textiles consumed internally are often eventually exported in final products.¹⁸ Earlier USDA analysis cited Food and Agriculture Organization (FAO) data that in 2010 nearly 50 percent of China’s textiles were exported.¹⁹ Based on Chinese government data, one industry expert estimates that in 2017, between 43-67 percent of China’s textiles and apparel were eventually exported, suggesting that China’s internal consumption is significant but that the sector still depends heavily on exports.²⁰

The response of Chinese firms to abuses in Xinjiang is likely to vary. Some firms will produce only for the domestic market or may develop a split approach, with some “clean” factories or lines providing goods purportedly free of XUAR inputs for the global market and others incorporating XUAR inputs for sale to China’s rapidly growing consumer base.

These trends indicate that China’s role and influence in the apparel industry may decrease over time absent any kind of strategy to diversify apparel sourcing. This is particularly true for tiers of the supply chain such as cut-and-sew that rely on low-skilled labor. But it is not the case that China’s role and

influence in the textile industry is likely to decrease naturally soon. In the next few years, China may further develop its current role as a critical textile and fabric supplier to Southeast Asia and other garment producing countries. And because of the technology and capital-intensive nature of the textile industry, which serves as a chokepoint for the supply chain, Chinese mills may have substantial leverage in influencing factory locations and sourcing strategies.

Focus on Environmental Sustainability

Within the apparel industry, there has also been an increased focus on sustainability, transparency, and social issues.²¹ This includes developing products with sustainable or recycled raw materials.

The production of organic cotton grew by 56 percent in the 2017–2018 harvest year compared to the previous harvest year.²² There is also incredible room for growth, with current organic cotton making up only 0.7 percent of total cotton production. Organic cotton production is typically fully traceable through the supply chain, which helps companies understand their supply chains and address labor and environmental challenges in them but can impact cost. Organic cotton is most often grown by small-scale farmers, not the large farms in the XUAR. Over time, organic cotton production—and thus traceability—will likely grow, but this is unlikely to be a short-term solution to avoiding XUAR cotton inputs.

In addition to raw materials, several initiatives have started to rethink the entire textile system by designing a new textile economy based on circular economy principles.²³ It is estimated that the apparel industry produces over 53 million tons of fiber every year—73 percent of which ends up in landfills or incinerators.²⁴ Less than 1 percent of the fiber produced is recycled, representing an economic loss of about 100 billion USD worth of materials each year.²⁵ Proposals to redirect potential textile waste into the creation of new clothing (so-called “worn wear”) may reduce the reliance on cotton farming and, as a result, the importance of the XUAR as a key cotton and yarn producer over the coming years. Some fibers such as polyester are currently cheaper and easier to recycle than cotton.²⁶ However, HRI’s interviews suggest that it will take years for the technology to develop sufficiently for recycled materials to dominate, making this a longer-term solution.

Covid-19 Disruption

The Covid-19 pandemic has significantly disrupted the apparel and textile industry.²⁷ U.S. imports from China fell precipitously due to the impact of Covid-19 on the Chinese textile and apparel industry. However, China’s economy re-opened quickly and regained its prior market share.²⁸ Countries of the Association of Southeast Asian Nations (ASEAN) filled in the temporary gap, with Vietnam and Bangladesh increasing their market share of apparel imports to the United States.²⁹ Notably, both these jurisdictions still typically source substantial volumes of yarn and textile inputs from China.

Despite growing exports volumes to the United States, apparel manufacturers have been hurt by an overall fall in prices and increased order cancellations. In Vietnam, more than 80 percent of leather and footwear businesses and more than 50 percent of textile businesses reported order cancellations in 2020.³⁰ Garment workers have also been heavily impacted by the pandemic, with up to 16 million jobs lost in Asia.³¹ In India, garment workers have faced a 57 percent average wage reduction. Around the world, it is estimated that garment workers are owed 3–5 billion USD in wages for just

March, April, and May of 2020.³² Protests by garment workers over unpaid wages have been met with violent crackdowns in several countries.

Covid-19 struck as U.S.-China trade relationships substantially deteriorated. Distrust, tariff wars, import bans, and unpredictable policymaking by both countries have placed new strains on companies sourcing from China. The Chinese Communist Party (CCP) has started to exert influence in multinational companies with renewed vigor, further complicating sourcing.³³ These tensions, combined with the pandemic, may present an opportunity to revisit sourcing decisions. This is a moment in which apparel companies may be reconsidering existing suppliers and may seek to develop future sourcing locations with an increased emphasis on sustainability and labor rights. For all these reasons, global apparel, textile, and footwear sourcing is arguably at an inflection point that creates an opportunity to build something new and better.

The Case for Sourcing Diversification

Trade tensions have accelerated the shift out of China, and apparel brands have begun to source from more countries. Concerns about forced labor in the XUAR may have underscored the urgency of such efforts. Even as brands diversify their sourcing, at least some seek to work with fewer vendors, instead developing strong relationships with existing supply chain partners so that they understand and have better oversight of their supply chains.³⁴ Diversifying sourcing locations may provide greater flexibility and resilience to supply chain shocks. Companies may attempt to maintain a different balance of countries in order to meet different market needs. Sourcing from certain countries rather than others may reduce the risk of and potential exposure to forced labor. More generally, diversifying sourcing locations and developing new sourcing hubs may be complementary to the UN Sustainable Development Goals by spurring economic development. In addition to sustainability goals, companies may, over time, receive significant cost benefits from developing new vertically integrated sourcing hubs if they are at sufficient scale to create efficiencies.

One potential drawback to diversifying sourcing is that traceability and transparency may be more difficult with a more complex supply chain. HRI has released a brief outlining current tracing technologies and techniques.³⁵ These technologies may be combined with traditional methods such as in-person audits at work sites. Meaningfully addressing government-sponsored forced labor in supply chains will hinge on improved traceability.

Added to the challenge of diversifying sourcing is the need to incorporate labor and environmental protections within a new sourcing location. In some key jurisdictions, labor and environmental protections are very weak, affecting cotton production as well as the various stages of the supply chain.³⁶ For example, forced labor is a significant issue in some of the top apparel-producing countries, and garment workers continue to work in unsafe environments.

When considering new sourcing destinations, there is an opportunity to start from the “ground-up” with regards to worker safety, environmental sustainability, and labor protection. If the effort is to grow the capacity of existing sourcing destinations, embedding stronger labor and environmental protections will be vital and require development assistance and technical capacity building for government and NGOs to support enforcement.

Tools to Develop Sourcing Hubs

Governments, companies, and other actors can deploy a variety of mechanisms for encouraging the development of new vertically integrated apparel supply chains or enabling the growth of existing ones. These tools can be deployed simultaneously and may be mutually reinforcing. Tools may take a variety of forms, ranging from legislation to technical assistance for economic development. In broad terms, the range of possible options that governments can deploy can be divided into the following overlapping categories: trade policy to increase market access, developmental assistance (including Aid-for-Trade), government procurement, investment incentives in the manufacturing country or region, and sanctions or import bans.

In addition to these options, governments can play important convening roles among businesses, investors, national governments, and other relevant stakeholders. For example, the annual African Growth and Opportunity Act (AGOA) forum can provide an opportunity to host high-level meetings between U.S. government officials and officials from certain African countries that show promise for becoming hubs for the apparel and textile sector.

Companies can also play a critical role in the creation of new hubs or the expansion of existing ones, as outlined below. In the best-case scenario, key governments and companies would be aligned in their efforts to achieve impact. Such hubs would ideally be vertically integrated, with the various levels of the supply chain present in one country or region to create time and cost efficiencies. Vertically integrated hubs with sufficient road and port infrastructure would allow apparel companies to be able to move products to market quickly.³⁷ Hubs would respect environmental and labor standards while also enabling and encouraging worker productivity. Finally, under such best-case scenarios, the costs of production, transport, and compliance would be competitive with China and other manufacturing locations that rely heavily on Chinese cotton and textile inputs.

HRI’s research indicates that developing such hubs, if it happens at all, may take years.³⁸ China’s vertical integration developed over a timeline of about 30 years. Because of China’s outsized influence and vertical integration, it is generally assumed that no single country or region is able to fully replace China’s role in the many layers of the textile and apparel industry, at least in the near term. Without a concerted, coordinated effort, even if brands start to pull their supply chains out of China, this could take more than 10 years. Combining the tools outlined below through a multi-stakeholder effort could help expedite the process. It is possible, for example, to build a textile factory in just a few years. But the process of developing a new, integrated sourcing hub at scale may involve intensive infrastructure upgrades. Coordinated action among governments, companies, and other relevant stakeholders is thus necessary if this is to happen quickly.

Trade Policy to Increase Market Access

Trade policy can play a crucial role in shaping the existing landscape of apparel sourcing. Together, the United States, European Union, Japan, and United Kingdom make up over 70 percent of global apparel and clothing imports, with just the United States and European Union accounting for 60 percent of global apparel and clothing imports.³⁹ The significant market position that these countries occupy can serve as a driver for developing apparel production hubs in new locations. The European Union imports more than 40 percent of global apparel imports, compared to the United States’ 16.8 percent, as depicted in the following table. However, the United States and the European Union take in similar volumes of Chinese textiles and clothing, importing 17 percent and 15 percent of Chinese apparel exports, respectively.⁴⁰ This suggests that the United States is proportionately more dependent on China for apparel imports, while the European Union has a more diversified supply base.

Importers of Apparel Globally

Importer	USD Value	Percent of Global Imports
European Union	93,998,652,924	40.5
United States	39,025,563,584	16.8
Japan	13,861,243,554	6.0
United Kingdom	12,601,198,444	5.4

Source: CSIS HRI analysis based on “Apparel and Clothing Accessories; Not Knitted or Crocheted,” Observatory of Economic Complexity, 2018, <https://oec.world/en/profile/hs92/apparel-and-clothing-accessories-not-knitted-or-crocheted>, with additional calculations performed using OEC data.

Notably, to develop vertically integrated supply chains, those incentives would ideally target not only apparel production but also yarn, textile, and cotton production, where relevant. Through preferences built into trade policy, governments can encourage the development of certain industries. Preferential trade agreements such as the United States’ AGOA or the European Union’s Everything But Arms (EBA) provide duty-free access to major markets.⁴¹

Unilateral trade preference schemes such as the European Union’s Generalised Scheme of Preferences (GSP) and GSP+ include explicit human rights conditionality, encouraging countries to make legislative and institutional changes in exchange for customs duty reductions.⁴² An outline of major preferential market access programs is shown below, although it is not specific to textiles, apparel, and footwear.

Relevant Trade Preference Programs and Trade Agreements

Country/Region	Program	Benefits	Benefiting Country
European Union	GSP	Partial or full removal of customs duties on two-thirds of tariff lines	15 countries (includes India, Indonesia, Kenya)
European Union	GSP+	0% tariff incentive for sustainable development and good governance	8 countries (includes Pakistan, Philippines)
European Union	EBA	Duty-free, quota-free	48 LDCs
European Union	EVFTA	Duty-free, apparel is phased-in	Vietnam
United States	GSP	Duty-free (but excludes most footwear and apparel imports)	GSP-eligible countries (includes Bangladesh, Cambodia)
United States	AGOA	Duty-free	AGOA-eligible African countries
United States	USMCA	Duty-free	Canada, Mexico
United States	CAFTA	Duty-free	Central American countries

Source: CSIS HRI research.

The U.S. GSP system is up for renewal by Congress,⁴³ and the European Union held public consultations regarding its GSP system in 2020 to prepare for the current regulation’s expiration in 2023.⁴⁴ There is an opportunity to consider further how it can be used to support labor rights in benefiting countries, and the European Union has an opportunity to improve enforcement of the human rights provisions in its GSP regime.

Also, as the United States seeks to diminish the use of XUAR inputs in the apparel and textile supply chain, the expansion of GSP benefits to footwear and apparel imports could assist in this process, although it would be important to consider impacts on U.S. textile producers. In particular, access to GSP benefits could be premised on governments taking certain actions to block cotton and textile inputs linked to government-sponsored forced labor from entry. Even if there is not appetite for providing GSP benefits to apparel and footwear broadly, they could apply to the sector in instances where governments have put in place robust safeguards against XUAR cotton and textile inputs.

The majority of U.S. free trade agreements (FTAs) covering apparel products include a “yarn-forward” provision, where the yarn used to form the fabric must originate in a country covered by the FTA

for reduced tariffs to apply.⁴⁵ This is intended to help develop more vertical integration and more high-skilled steps in the supply chain. Some industry representatives note that the paperwork involved in meeting yarn-forward requirements is so burdensome that the costs can exceed the resulting reduction in tariffs. This has reportedly meant that yarn-forward provisions have not had their intended impact because they are too burdensome to pursue. For example, the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) has yarn-forward provisions that apply at a regional level and yet has failed to create significant regional integration as intended. This is reportedly due in part to the costs involved in meeting the yarn-forward provisions and the need to import textiles from Asia, which increases costs and eliminates the speed to market that Central America theoretically should provide.⁴⁶

AGOA, a U.S. preference program that was enacted by Congress in 2000, is unique in that it allows for fabric to be from non-African countries (known as the third-country fabric provision). Because the average U.S. applied tariff on apparel is 11.6 percent (compared to an average applied tariff of 3.4 percent for all products), AGOA is especially beneficial for apparel importers.⁴⁷ Despite these benefits, utilization of the quota for apparel exports under AGOA remains low. One explanation is that African countries are limited in their ability to produce textile products in-country and have to rely on imports, which increases the overall cost for products. In fact, some research has shown that a large portion of AGOA exports were actually Chinese exports that were trans-shipped through Africa to bypass U.S. quotas and benefit from duty-free treatment.⁴⁸ AGOA led to some growth of cut-and-sew factories in Africa and is evidence that FTAs can increase the competitiveness of certain countries and regions. However, agreement-specific rules of origin for inputs could provide greater incentives for encouraging regional integration of the textile and apparel supply chain. For example, a renewed AGOA could include fabric-forward provisions that come into effect over time to enable the growth of an indigenous industry.

As an example, the new EU-Vietnam FTA (EVFTA) will likely increase apparel sourcing from Vietnam.⁴⁹ But because the EVFTA uses fabric-forward rules of origin, apparel products must use fabrics produced in Vietnam, the European Union, South Korea, or ASEAN countries that have an EU FTA to benefit from preferential access.⁵⁰ This will likely provide incentives for Vietnam to reduce its dependence on Chinese textiles.

The yarn-forward approach could be modified to achieve its goal of fostering regional vertical capacity and integration. In countries where the local textile industry barely exists, it may be overly restrictive to require yarn or fabric to be manufactured in the exporting country. However, one possible strategy is to implement a staged approach, where there may be a transition period before a more restrictive rule of origin goes into effect.⁵¹ This could be coupled with both company and government assistance to the government where new capacity is being promoted. This support would focus on developing yarn and fabric production that would be in place by the time the fabric-forward rule goes into effect. Governments and companies could also discuss how to reduce the compliance burden of being yarn- or fabric-forward in a digital age.

Regional trade agreements can increase integration within the textile and apparel industry and lead to changes in the current production landscape. The recent Regional Comprehensive Economic Partnership (RCEP), an FTA between ASEAN countries and Australia, China, Japan, South Korea, and New Zealand signed in November 2020, is likely to increase apparel integration in the Southeast Asian

region.⁵² Research suggests that the RCEP will increase reliance on China and RCEP partner countries. ASEAN countries, which have limited capacity for producing their own textiles, already source about 46.5 percent of their textiles from China.⁵³ Dependence on Chinese inputs is likely to further increase when tariffs are eliminated. Regional FTAs such as the RCEP will enhance the competitiveness of Asian apparel exporters by establishing a more regionally integrated textile and apparel supply chain over time. Regional FTAs focused on Asia may hasten China's transition from an apparel exporter to a textile supplier.

Regional FTAs that support a nascent textile and apparel industry have yet to be seen in Africa. For example, apparel producers in Ethiopia must pay duties to import cotton lint from nearby countries such as Tanzania.⁵⁴ Establishing a regional FTA in Africa may further bolster the competitiveness of apparel produced in the region. A seamless extension of AGOA beyond 2025 might also provide a signal to investors that the region is worth investing in. Such an extension should be for a sufficient time period to encourage investment in yarn and textiles, which anecdotally typically produces a return on investment after seven or more years. The AGOA extension could include additional incentives for apparel producers to source their textiles and yarn within the region while reducing the highly burdensome paper trail that current yarn-forward provisions require.

Another possibility is to encourage a degree of reshoring in the sector using trade law. For example, goods containing U.S. cotton or textiles that were then exported and transformed into a final product could have lower tariffs applied to account for the U.S.-made portion of the product.⁵⁵ Current U.S. law only provides such tariff benefits if the United States input is not transformed, making it inapplicable to cotton or textiles.⁵⁶

Labor protections built into trade agreements can also improve labor standards and promote sustainability if done thoughtfully.⁵⁷ For example, labor provisions were included as part of the U.S.-Cambodia Trade Agreement (UCTA) in a unique way.⁵⁸ The UCTA included protections for labor by incentivizing improvements in working conditions via increases in export quotas.⁵⁹ Due to the small number of exporting factories, the specific sites were able to be monitored by government representatives, export association representatives, and worker organizations. The Better Factories Cambodia (BFC) program, a factory-monitoring program that began with the International Labour Organization (ILO), was involved in achieving improvements in working conditions and has been studied as a "best practice" in the regulation of labor standards.⁶⁰ This program has expanded to 557 factories covering over 600,000 workers in Cambodia.⁶¹

The European Union's New Generation Agreements are FTAs signed after 2009 that all include chapters on sustainable development that push countries to commit to respecting international conventions on labor standards and environmental protection. In the negotiations leading to the implementation of the EVFTA, for example, the European Union succeeded in convincing Vietnam to ratify ILO standards certifying the right to form independent labor unions and obliging the country to cease all forms of forced labor.⁶² The European Union is party to nine such agreements and is modernizing its FTAs with Mexico and Chile to include sustainable development clauses. Another recent model that may promote better labor practices is the United States-Mexico-Canada Agreement (USMCA), which includes stronger provisions for labor and environmental protection, particularly regarding enforcement.⁶³ Unilateral trade preference schemes can also incentivize compliance with labor and environmental standards. To benefit from the European

Union's GSP+ scheme, for example, countries have to ratify 27 international human rights, labor rights, sustainable development, and good governance conventions and comply with monitoring requirements.⁶⁴ But prior labor obligations have faced enforcement challenges, including limited coverage (e.g., weaker protections for collective bargaining rights); lengthy, expensive, and resource-intensive dispute resolution processes that were seldom used; and conflicting definitions for enforceable labor rights.⁶⁵

Because of these barriers, enforcement of the labor provisions in FTAs is poor—among U.S. FTAs, only one case has been processed through the dispute resolution system.⁶⁶ In 2018, the European Union sought, for the first time in history, consultations with partner state South Korea over its failure to respect labor standard provisions in their FTA.⁶⁷

The USMCA's novel, facility-specific "Rapid Response Mechanism" allows parties to request an expedited review (taking months rather than years) of alleged violations of domestic labor laws, including collective bargaining and freedom of association, by an independent panel.⁶⁸ If specific factories fail to remedy violations, the United States or Mexico can revoke preferential tariff treatment for those factories or impose import bans in extreme cases. It is too early to evaluate the effectiveness of the USMCA's labor provisions, but it is possible that the USMCA will represent a dramatic improvement for labor rights compared to previous FTAs because of the focus on enforcement. Any future trade preferences or FTAs should seek to include similar provisions, particularly regarding enforceability.

The negotiation of a trade agreement can also serve as the impetus for an inter-agency process that can create a broader framework to address labor and environmental concerns. This can further support any labor and environmental requirements in the FTA. For example, an FTA can be accompanied by development aid to support the implementation of the agreement in certain sectors, along with funding for capacity building for government regulators and inspectors, and for relevant civil society organizations.

In addition to human rights concerns, improving the enforceability of labor provisions in FTAs may further strategic economic and development goals. In particular, China's disregard for labor conditions in Africa, including Chinese firms violating international labor standards, may harm its international reputation and soft-power agenda.⁶⁹ By presenting an alternative option—one that focuses on labor rights and good jobs for local workers—governments can enhance their international reputations and improve their long-term image and relationships while providing decent work. The United States, European Union, and other governments can assist countries that are willing to make these commitments by providing capacity building and other support to build a better apparel, textile, and footwear sector.

Longer time frames are vital if a goal of a trade regime is to support the development of a vertically integrated textile, apparel, or footwear sector. As noted above, the middle tiers of this supply chain require substantial capital investment, and it takes approximately seven years for a return on investment. The critical middle tiers of the sector are less likely to relocate unless they have confidence that the sector will enjoy predictable benefits for a longer length of time, increasing the probability that the sector will flourish long enough for them to recoup their investments. Strong labor and environmental enforcement mechanisms could alleviate concerns that a country offered trade benefits will backslide without consequences over that longer time frame.

Development and Infrastructure Aid

Assistance with Infrastructure

For developing countries, poor infrastructure limits the development of the textile and apparel supply chain. For example, reliable electricity, decent roads, good ports, and other infrastructure are vital to attract needed private sector investment. Yarn and textile mills in particular require substantial investment in equipment and expertise, which companies will not make in a context with inadequate infrastructure. Regulatory costs, which include border compliance and documentation expenses, also add to the total cost associated with exporting from a developing country. Improving transport times and reducing regulatory burdens will likely have major impacts on the competitiveness of a region’s textile and apparel industry, particularly given the sector’s emphasis on a short timeframe for products to move from factory to store. Several such indicators are summarized in the chart below, including border clearance times and costs, dwell time at ports, and shipping time to various export markets.⁷⁰

Regulatory Costs of Sourcing Regions and Transit Times to the United States

Region	Overall Score (Out of 100)	Days to Clear Border	Regulatory Costs to Export (USD)	Days to Reach United States (Transport)
East Asia & Pacific	71.6	4.7	490.50	25-35
Europe & Central Asia	87.3	1.7	237.60	16-41
Latin America & Caribbean	69.1	3.8	616.60	5-15
Middle East & North Africa	61.8	4.9	682.50	20-50
South Asia	65.3	5.3	468.50	42-56
Sub-Saharan Africa	53.6	7.0	775.60	25-49

Note: Regulatory costs exclude tariffs and transport costs.

Sources: CSIS HRI analysis based on interviews; “Trading across Borders,” World Bank, 2019, <https://www.doingbusiness.org/en/data/exploretopics/trading-across-borders>; and USAID, Strengthening the Cotton, Textile and Apparel Value Chain in East Africa (Washington, DC: USAID, August 2014), <http://repository.businessinsightz.org/bitstream/handle/20.500.12018/2933/Strengthening%20the%20Cotton%2c%20Textile%20and%20apparel%20value%20chain%20in%20East%20Africa.pdf?sequence=1&isAllowed=y>. Estimates of transport times calculated using commonly used ports in the region. “Distances & Times,” SeaRates, Accessed August 27, 2020, <https://www.searates.com/services/distances-time/>.

Programs funded through development aid, including initiatives such as the U.S. Agency for International Development’s (USAID) Power Africa and the European Union’s Aid for Trade strategy, can support crucial infrastructure necessary to promote investment and development.⁷¹ Additional support may come in the form of financing for major infrastructure projects through agencies such as the U.S. International Development Finance Corporation (IDFC, formerly OPIC) and the European Union’s Africa Investment Platform (AIP). Specific interventions can promote the development of the textile sector and support integration between the textile and apparel tiers of the supply chain. USAID, for example, engages in market facilitation and access programming. These efforts can have the dual

advantage of capturing additional value through vertical integration of the supply chain and fulfilling rules of origin requirements for preferential market access.⁷² Development assistance can also provide opportunities to work directly with national governments and regional institutions.⁷³

International financial institutions also have a role to play. The World Bank provides large loans to governments that can target the growth of particular sectors. As discussed below, the World Bank can condition such loans on the government's willingness to reform its labor laws and practices. The International Finance Corporation (IFC)—the private lending arm of the World Bank Group—could leverage investments in the private sector in developing countries toward diversification ends. Potentially relevant programs include IFC advisory services to governments and business on attracting private capital;⁷⁴ equity investments in private companies, which amounted to about 1 billion USD in 2019;⁷⁵ and loans for projects or to companies, accounting for over 7 billion USD in global IFC commitments in 2019.⁷⁶ Both equity or loans could, in theory, fund new production sites—particularly at capital- and investment-intensive stages of the textile process—in locations where the industry is still nascent. The IFC's Environmental and Social Performance Standards prohibit clients from employing forced or child labor and require them to identify, monitor, and remedy forced labor in primary supply chains. If such violations cannot be remedied immediately, the clients must shift a project's primary supply chain to suppliers demonstrating they do not employ forced labor.⁷⁷ How effectively these stipulations or the IFC Performance Standards more generally are enforced is debated.⁷⁸ The IFC also has some capacity to assist sustainability efforts in the sector, and under the Vietnam Improvement Program has enabled apparel and textile factories to save 30 million USD in water and energy costs annually.⁷⁹

Targeted government funding has also been provided for improving the cotton industry in developing countries.⁸⁰ In many countries, cotton agriculture is characterized by low yield rates and inefficient farming practices. Cotton yields in sub-Saharan Africa are about 370 kilograms per hectare, compared to a global average of 800 kilograms per hectare.⁸¹ From seed quality to irrigation, targeted development aid can improve productivity in cotton farming. International organizations such as the World Trade Organization and the World Bank have helped to develop financing programs to support cotton growing and processing. An example of such a program is a pilot crop insurance initiative in Burkina Faso that is funded by the World Bank's Société Financière Internationale (SFI).⁸²

NGOs have also contributed to developing the cotton, textile, and apparel industries. For example, the Tony Blair Institute is working with several national governments to build an integrated apparel supply chain in West Africa, although the success of the project will rely on not only national government commitment but also companies that are willing to invest. It is also possible to engage the private sector by co-funding certain development assistance projects or by providing better access to finance through development banks.⁸³

In the European Union, there has been growing interest in recent years in encouraging the private sector to mobilize investments in tandem with development aid. European leaders have pushed for greater private sector investment in Africa, in part to shore up domestic support for aid among voters and businesses, as well as in hopes that investment may create jobs to slow migration flows.⁸⁴ In 2017, the European Union launched the European Fund for Sustainable Development (EFSD), a financial instrument that uses public funding as a guarantee to attract public and private investment in developing countries, in a process known as "blending."⁸⁵ The EFSD Guarantee Fund will underwrite

loans, guarantees, and “any other form of funding or credit enhancement” to governments or private companies investing in development projects in Africa. Local small and medium-sized enterprises (SMEs) may also seek support under the fund, provided that their projects meet a set of public-interest criteria. Importantly, the EFSD Guarantee Fund will insure companies from commercial risks in addition to political ones, which other initiatives such as the World Bank’s Multilateral Investment Guarantee Agency will not do.⁸⁶ From 2017 to 2020, the EFSD allocated €4.64 billion in public funds to leverage over €47 billion (over 57 billion USD) in public and private investment for development.⁸⁷

While the EFSD was focused on sub-Saharan Africa from 2017 to 2020, it is expected to expand to other countries in Asia and Latin America beginning in 2021.⁸⁸ One example of a blending project in Asia that has helped to build capacity in the textile sector is a project led by the French Development Bank (AFD) and implemented by the Central Bank of Bangladesh to finance safety retrofits and environmental upgrades in Bangladesh’s garment sector. The initiative helped garment factories access funds for safety and environmental upgrades while providing technical support.⁸⁹

Integrating Labor Standards and Workers’ Rights

Development aid must be aimed at improving labor practices at the same time that the sector expands in a given country. The U.S. Department of Labor, the ILO, national governments, and other international organizations could be integrated into efforts to grow the cotton, textile, and apparel sectors in a manner that respects labor and human rights. Such assistance can:

- Assist with labor law reform;
- Strengthen the capacity of labor inspectorates if there is genuine political will to improve;
- Help stand up multi-stakeholder labor monitoring programs in factories or fields;
- Provide capacity building to local worker and human rights organizations; and
- Increase supplier capacity to integrate labor rights into management systems and worker relations.

Such programming should be holistic to create real change in labor conditions on the ground. It should address not only forced and child labor but other labor rights, including the right to freedom of association. Freedom of association is a vital enabler of other rights. It permits workers to organize so they can push governments and companies to implement labor laws, including the prohibition on forced labor, which might otherwise only exist on paper. Efforts to support labor rights must be embedded in development assistance programming, requiring coordination across government agencies.

Additionally, development aid could assist with creating the skilled workforce needed for certain stages of the supply chain. In particular, yarn and textile production is often highly mechanized and requires workers with computer and other more advanced skills. Organizations such as the ILO often not only provide technical advice, monitoring, and capacity building for labor rights, but also assist with skills training to create a more resilient workforce.

Actors with economic leverage—governments, international financial institutions, and companies—must help create access for organizations that provide expertise and capacity building on labor rights if these alternative hubs are to respect rights. It is easier to build labor rights into a supply chain at an early stage, rather than try to change a system after the fact. If left on their own, labor and human rights-focused organizations may not have the necessary access to and influence with host governments or companies to build labor rights into the supply chain as needed. Governments

can make trade preferences contingent on the government working with the ILO or national labor agencies such as the U.S. Department of Labor (DOL) on labor law reform and capacity building to support workers' rights for the governments, workers, and local civil society. In a historical example, the 1999 trade agreement between Cambodia and the United States permitted greater access to the U.S. market if Cambodian factories improved working conditions, applying both Cambodian labor law and international labor standards. One dimension of this agreement was factories submitting to surprise inspections by ILO monitors.⁹⁰ This grew into the flagship ILO-IFC Better Work program that has expanded to many other countries.⁹¹ Similarly, the World Bank can require that governments agree to programs such as the ILO-IFC Better Work program or a broader suite of reforms as a condition of loans.

Companies can also use their leverage to convince suppliers and occasionally even governments to agree to improved labor reforms and practices, and to engage with organizations that can provide the deep expertise needed to effect real change. Company leverage with a supplier can vary depending on the percentage of the supplier's output they purchase. Even when individual company leverage is low, companies can jointly pressure a supplier to strengthen its management systems, including its approach to labor rights. Companies can also work individually or collectively to influence the openness of governments to labor reform, although this is typically more challenging. In one instance, a large company pulled sourcing out of a country because its status on a key governance index had fallen below a level that the company's policies deemed permissible. The company's departure caused the government, which provides little space for civil society or labor unions, to agree to accept ILO assistance in making certain, vital labor rights reforms.⁹²

Building up a vertically integrated supply chain takes long-term commitments to a country or region to attract needed investment. Similarly, making meaningful improvements to labor rights across a sector in a given country requires a holistic approach and takes time. As stakeholders work together to identify promising countries for diversification and make long-term commitments to them in the range of 7 to 10 years, donors must also make financial commitments of similar duration to building up labor rights in those contexts.

Import Bans and Sanctions

Beyond diversification incentives, sanctions and import bans on XUAR-produced goods could serve as a hardline approach to drive movement to alternative sourcing hubs. Closing off the XUAR has begun to force companies to develop production capacity in new regions. Some such measures already exist in the United States, with the goal of preventing the import of goods produced with forced labor from a region where responsible production is nearly impossible to verify. U.S. Customs and Border Protection (CBP) first issued an order enabling the seizure of goods imported into the United States that were produced by the Xinjiang Production and Construction Corps (XPCC). The XPCC is a significant cotton producer in Xinjiang and active at other levels of the textile and apparel supply chain. On January 13, 2021, CBP issued a withhold release order (WRO) enabling the seizure of products containing cotton and tomatoes from Xinjiang due to concerns about forced labor. Bipartisan legislation pending since 2020 in the U.S. Congress pushes to restrict imports, following calls by the Congressional-Executive Commission on China to implement "a comprehensive import ban on all goods produced, wholly or in part" in the XUAR. The bill would allow only XUAR goods with strong evidence of being produced with no forced labor into the country.⁹³ Concerns raised by civil society organizations in the United

Kingdom have begun to create similar pressure. Documents submitted by advocates to Her Majesty's Revenue and Customs (HMRC) include arguments that cotton imports from the XUAR violate existing UK laws, including prohibitions established in the nineteenth century on the import of prison-made goods.⁹⁴ On January 12, 2021, the Canadian government announced plans to act on Xinjiang human rights abuses, including via a ban on goods produced with forced labor, and the United Kingdom promised similar action.⁹⁵ In the European Union, the European People's Party, the largest political group in the European Parliament, also called for a more specific ban on products made in XUAR internment camps.⁹⁶ Despite these efforts, legislative responses beyond the proposed U.S. bill have yet to be seen.

In addition to import bans, sanctions and enforcement of existing legislation provide additional tools to discourage sourcing from high-risk regions and drive diversification. Most recently, in a more targeted effort to crack down on forced labor in the XUAR, the United States has sanctioned companies supporting XUAR-linked human rights abuses, the XPCC, and other related officials.⁹⁷ Expansion of these efforts could deter investment with targeted parties in the region while punishing purveyors of abuses. Sanctions on individuals or companies using forced labor could be carried out through Global Magnitsky legislation and could signal that a region has insufficient labor standards and is unsafe for future development.⁹⁸

The 2016 closure of loopholes in the U.S. Tariff Act of 1930 provides the CBP with new powers to issue WROs to seize and destroy imported goods produced with forced labor.⁹⁹ Continued enforcement would help discourage sourcing from high-risk regions such as the XUAR, as companies would have to take additional measures to ensure they are able to prove that their products are produced responsibly and avoid the risk of losing shipments due to WROs. Given that the CBP is slimly staffed to enforce the Tariff Act, enforcement is inconsistent and tends to most greatly affect the behavior of larger, well-known brands. Without a broader effort to proactively develop new sourcing hubs, it is not clear that CBP enforcement can create the sourcing transformation that is needed to meaningfully address XUAR-linked forced labor. However, beyond the risk of enforcement, some have argued that additional WROs against XUAR-sourced products have another value: they help provide a legal basis for multinational company efforts to avoid using XUAR-produced materials and seek alternative sources so that their actions do not seem political or optional to their Chinese suppliers.¹⁰⁰

It is notable that these examples are all U.S.-led initiatives, although calls for sanctions and other punitive measures against the XUAR's forced labor regime have increased internationally, particularly in the United Kingdom and European Union. Currently, sanctions in the European Union can be imposed by the European Commission to restrict the trade of certain goods based on their country of origin ("country-specific measures") or harmful nature ("issue-specific measures"), but such restrictions must be adopted by unanimous decision from its member states, which may be politically challenging. New Magnitsky-style sanctions regimes expand the EU sanctions tool kit. In December 2020, the European Union approved the Action Plan on Human Rights and Democracy, a new mechanism similar to the U.S. Magnitsky Act that empowers the bloc to target individuals involved in serious human rights violations and abuses worldwide.¹⁰¹ The United Kingdom announced a similar sanctions regime in July 2020. Magnitsky-style sanctions regimes in the United States, Canada, United Kingdom, and European Union would present a fairly formidable financial blockade to human rights violators if deployed, elevating their potential deterrent power.

Regardless of the mechanism used, however, challenges to traceability will continue to make both compliance and enforcement difficult. Companies face difficulties in determining the origin of the inputs in their products, such as raw cotton and yarn. Recent U.S. sanctions against the XPCC have already seen companies scrambling to establish provenance for their cotton.¹⁰² Given these challenges, a graduated approach is worth considering. Such policies could include bans that prohibit imports of finished goods from the XUAR at the start but that would explicitly expand over time to require the exclusion of other inputs that are produced in the region, such as textiles and yarn. This approach could give companies enough time to both develop traceability systems and support production capacity in alternative sourcing regions, while also hopefully prompting change within China and the XUAR before the deadlines to avoid such an outcome.

The downside of punitive measures is that they may alienate targeted parties and make future engagement difficult. Some China experts argue that public, aggressive tactics may cause China to entrench its position. Such actions would also drastically reduce any opportunity for foreign governments and companies to advocate from within China for an end to forced labor in the XUAR. Whether progress will result from such quiet engagement is, however, unclear. Companies, for example, are hesitant to engage the Chinese government or suppliers on such a sensitive issue due to fear of government retaliation, which could close off Chinese markets and cut off suppliers, and due to fear of a consumer backlash. These concerns diminish yet another possible point of leverage on XUAR-based actors.¹⁰³

Government Procurement

Government procurement is also a potential method to encourage greater diversification of the textile and apparel supply chain. Federal, state, and local governments purchase large amounts of apparel—the U.S. Department of Defense (DOD) alone purchased nearly 2.5 billion USD worth of apparel, textile, and footwear in 2019. Public procurement expenditures as a proportion of GDP are even larger in the European Union than in the United States, accounting for 13.4 percent of GDP in 2018.¹⁰⁴ But the United States leads the way globally in the number of de jure localization requirements, accounting for almost three-quarters of public procurement interventions worldwide.¹⁰⁵ Two laws, known as the Berry and Kissell Amendments, require the DOD and some agencies of the U.S. Department of Homeland Security (DHS) to purchase only domestic products.¹⁰⁶ The Berry Amendment, which mandates a much higher level of domestic content than older laws such as the Buy American Act (which mainly regulates the final product and not inputs), requires certain items to be 100 percent domestic in origin. Exceptions to the Berry Amendment include products unavailable from American manufacturers at satisfactory quality and sufficient quantity, products intended for resale at military retail stores, and purchases under 250,000 USD.¹⁰⁷

With very limited success, the U.S. government has tried to use procurement power to achieve social goals, including a 2012 executive order to ensure that “taxpayer dollars do not contribute to trafficking in persons.”¹⁰⁸ A recent report from New York University’s Stern Center for Business and Human Rights provides a set of recommendations on how the U.S. government could leverage its buying power to further improve rights protections for workers. The recommendations focus on electronics, minerals, apparel, and food, including agriculture, seafood, and meat. Recommendations include: (1) creating a binding code of conduct that is included in high-risk procurement contracts with all prime contractors and subcontractors; (2) building a human rights risk assessment into the

solicitation stage of all federal procurement and rewarding compliance in high-risk procurement award decisions; (3) relying on external monitors to assess rights protection and remediation; and (4) imposing additional requirements on contractors engaged in high-risk contracts.¹⁰⁹ In the short-term, certain changes to existing laws could also increase the impact of the law, namely: 1) strengthening the definition of forced labor in the Foreign Acquisition Regulation (FAR) so that it is consistent with U.S. trade agreements and the 1930 Tariff Act; and 2) applying the FAR provisions on human trafficking and forced labor to commercially available, off-the-shelf items (COTS), which the FAR presently excludes.¹¹⁰ Reforms, and particularly oversight, are vital for U.S. procurement requirements regarding forced labor to achieve their intended impact.

The public procurement of textiles in the European Union is an area with significant untapped potential. Approximately 10.5 billion USD was spent on public-sector textile and workwear procurement across Europe in 2015.¹¹¹ Public procurement is guided by voluntary criteria such as the Green Public Procurement (GPP) guidelines and the 2011 Buying Social guide, which details social considerations in public procurement, including decent work, compliance with social and labor rights, ethical trade, and respect for human rights. The European Union also has legally binding public procurement directives, notably including the 2014 public procurement reforms, which mandated that public purchasers reject any bid that comes at an abnormally low price because manufacturers are violating EU or international social, environmental, and labor laws.¹¹² Researchers have argued that the 2014 EU procurement directive reforms can be leveraged to facilitate the monitoring of human rights and labor standards of contractors and subcontractors across borders.¹¹³ But implementation of the 2014 directives by member states has been slow, leading the European Commission to enforce the directives via formal legal requests and at least one referral of member states to the Court of Justice of the European Union (CJEU) for noncompliance.¹¹⁴ According to a review of GPP implementation in EU member states, sustainable textile procurement in EU member states generally remains below 20 percent, lagging behind many other product groups.¹¹⁵ But there is growing interest in using sustainability criteria for public procurement: the German federal government, for example, set a target for 50 percent of its publicly procured garments to be sustainable by 2020, and the Dutch government requires that contractual suppliers make certain efforts toward improving labor conditions.

Despite these goals, improving purchasing practices remains difficult due to layers of contractors with limited oversight by the government.¹¹⁶ Moreover, those responsible for making key procurement decisions typically lack expertise or focus on labor rights issues, so these issues are not prioritized in practice.¹¹⁷ Labor audits of foreign factories that manufacture apparel for U.S. military retail stores have found poor working conditions, forced overtime, and child labor.¹¹⁸

Because of the difficulty associated with tracing product inputs and the contract bidding process, government procurement may not be an immediately effective tool for encouraging the development of new integrated textile and apparel production hubs around the world, at least until governments more effectively enforce their responsible procurement requirements.¹¹⁹ However, government procurement practices may present opportunities to encourage reshoring of strategic textile and apparel industries. This can be done through a variety of policy mechanisms, including revisions to trade policy. For example, the USMCA closed a previous loophole that allowed the U.S. Transportation Security Administration's procurement to meet American-made requirements under Kissell by sourcing from Mexico.¹²⁰ More generally, "Buy American" laws such as the Berry Amendment may be vital for maintaining the viability of the U.S. textile and apparel industry,

with manufacturers in the United States transitioning to high-end, niche, and military markets due to competitive pressure from apparel imports.¹²¹ A survey of 571 U.S.-based textile and apparel manufacturers reported 12 to 31 percent of output was for Berry-related DOD purchasing (12 percent of textiles, 20 percent of textile products, and 31 percent of apparel).¹²² U.S. firms have the capacity to produce more; 63 percent of U.S. firms reported an ability to raise production from current levels to 100 percent capacity utilization in less than three months.¹²³ However, government procurement even in the United States may also face certain social and labor challenges, including the use of federal prison labor for Berry-related apparel manufacturing.¹²⁴

Investment Incentives in the Country of Origin

Host governments can also incentivize the creation of new factories and sectors, which is vital to attract the longer-term and significant investment needed for textile production.

Incentives can include focusing on the development of appropriate infrastructure, such as ports, roads, and energy. This infrastructure can also benefit local businesses and communities if that goal is integrated into design, as it should be.

Some of these incentives are financial. In one example, special economic zones known as Export Processing Zones (EPZs) in Kenya provide a range of financial benefits for investors, including:

- A 10-year corporate income tax holiday and a 25 percent tax rate for a further 10 years;
- A 10-year withholding tax holiday on dividends and other remittances to non-resident parties;
- Perpetual exemption from Value Added Tax (VAT) and customs import duty on inputs;
- Perpetual exemption from payments of stamp duty on legal instruments; and
- A 100 percent investment deduction on new investment in EPZ buildings and machinery, applicable over 20 years.¹²⁵

While the EPZ model may attract investors, it needs significant reform to ensure it does not have the effect of eroding the benefits the host society should enjoy. For example, there is an assumption that attracting foreign companies will increase both jobs and government revenues, with knock-on benefits to healthcare, education, and legal systems. However, benefits such as overly long tax holidays can mean that the government does not receive meaningful additional new revenues, even as it needs to increase its capacity to regulate the new businesses, ensure their compliance with laws, and often build and service infrastructure to support the EPZ. Benefits to business that significantly erode government revenue also can impede improvements to health and education systems. It is also important that such EPZs do not also provide “incentives” such as lower environmental and labor standards, as has often been the case historically. This would damage the opportunity to set up new sourcing hubs that meet consumer expectations and thus are attractive to major brands. There is an opportunity for governments to create a new type of EPZ that attracts investment and advances labor and environmental standards—all while helping brands achieve their sustainability goals.

National governments can also strategically encourage investment and vertical integration through tax benefits associated with investments in buildings and machinery.

Additionally, they can support training schools that create a skilled workforce for levels of the supply chain that require more skill. This can help increase capacity and scale in a particular region. Because investors may not know about the particular benefits that a country offers, it is also important for national governments to be proactive in attracting potential investors and demonstrate they have a vision and plan for the growth of that industry.

Company Sourcing Strategies

Apparel companies, potentially in partnership with government or other organizations, can help incentivize sourcing from a particular region. This can be challenging because the apparel market is fragmented, with no single brand or retailer owning more than 2 to 3 percent of the total market.¹²⁶ Appropriate collective action, which may involve brands working together or with other actors, is thus needed to achieve long-term changes in sourcing practices. “Lead firms” can champion a particular region and work with other apparel companies to provide the investment necessary for a factory. Long-term brand commitments to a region are especially vital to encourage capital-intensive yarn spinners and textile mills to move to a new region or expand.

In addition to traditional commercial incentives, companies should consider labor and environmental standards and whether the government is enforcing them or would choose to do so with expanded capacity. Lax labor and environmental standards create not only reputational and legal risks for companies operating in such environments but also lead to substantial costs that are difficult to quantify, in terms of senior leadership time and other staffing costs, budgets for law firms and public relations firms, funding for social and labor compliance programs, and so forth.

When companies are supporting the development of new projects and factories, they should consider other human rights and impacts on local communities, such as land rights, the need for decent housing for workers, and migration to the area and resulting strains on community resources. If identified early, these issues can often be managed through collaboration between companies, government, and non-governmental organizations.

Ethiopia provides one example of apparel companies establishing a fully vertically integrated supply chain in collaboration with private sector partners and the national government of Ethiopia.

CASE STUDY: HAWASSA INDUSTRIAL PARK (ETHIOPIA)

PVH, the second-largest apparel company in the world, worked with suppliers and investors to develop factories in Ethiopia’s Hawassa Industrial Park.¹²⁷ Due to rising costs and disregard for worker rights and safety in Asia, PVH looked for a new location for apparel production. Africa was a natural option due to preferential export tariffs to the European Union and the United States. In addition to export access, PVH considered a variety of factors, including government stability, land and port accessibility, cost of energy, and labor availability, in creating a shortlist of six African countries. A key factor was the overall commitment of the Ethiopian government to the textile and garment industry, which included proactive measures such as establishing an Ethiopian Textile Industry Development Institute to develop a skilled manufacturing workforce.¹²⁸ Government officials were transparent, communicative, and provided favorable incentives. Just as important, the government of Ethiopia worked with PVH to develop a shared vision and a trusted partnership for industrialization. PVH convinced textile manufacturers to set up new facilities in the park. The industrial park was

constructed in less than a year and exported its first clothing item less than 20 months after. In developing a state-of-the-art manufacturing hub in East Africa, PVH and other apparel companies demonstrated that a fully vertically integrated supply chain was a feasible near-term goal. Foreign direct investment (FDI) served as a catalyst for the apparel industry in Ethiopia and may have positive spillover effects to other manufacturing sectors.

In Ethiopia, there remain challenges related to governance and worker protection.¹²⁹ Other potential new sourcing locations around the world are likely to also present labor rights challenges. But these considerations do not suggest that investment in new sourcing locations is undesirable or counterproductive. When labor abuses are not state-sponsored, it is far more feasible to identify and address them. There are strong reasons to incorporate safeguards and protections for workers within a strategy to develop production hubs in new regions. For example, research has provided evidence that higher wages for garment workers increase productivity and overall profit.¹³⁰ Both companies and other governments can help incentivize better laws and improved enforcement as long as this is a fundamental requirement of the effort from the beginning that is non-negotiable.

Notably, Chinese textile firms were important investors in Hawassa and in other efforts to develop new vertical capacity outside of China. Some have expressed a willingness to adhere to brands' expectations of avoiding XUAR-related inputs, and this may be politically safer for them to do outside of China.¹³¹ The likely involvement of Chinese textile firms in vertically integrated supply chains outside of China further underscores the urgent need for effective traceability of apparel supply chains if commitments or requirements to avoid XUAR inputs are to be implemented.¹³²

Promising Regions

This section identifies regions and countries that show the greatest promise for developing or expanding a vertically integrated supply chain for the apparel, textiles, and footwear sectors.

Notably, most of the countries below have poor or extremely poor labor practices. In particular, Bangladesh, Turkey, and Honduras were named as three of the worst countries for working people by the International Trade Union Confederation (ITUC) in 2020.¹³³ However, most of the countries below, including the United States, are ranked very poorly by the ITUC, at a “4” (systematic violations of rights) or a “5” (no guarantee of rights). Countries in Africa rank slightly better on average. Further discussion regarding which governments have a genuine willingness to reform and improve, particularly if incentivized, would help define the best opportunities to support supply chains that are more likely to respect labor laws and provide decent work.

Asia

Asian countries outside of China are the most likely to be able to quickly scale up their production of yarn and textiles and provide alternative, mostly vertically integrated sourcing opportunities. Several already produce yarn and textiles, albeit in limited volumes. Manufacturers in this region often have the ability to offer more technical products, including not only textiles but athletic footwear that require sophisticated equipment. Apparel companies are often familiar with the region and may have strong relationships with suppliers based in South and Southeast Asia.

Moreover, sourcing from Asia is attractive because it is home to fast-growing consumer markets in India and China. In essence, Asian countries provide nearshoring opportunities for what many global brands consider to be important consumer markets of the future.

However, sourcing from the region presents potential challenges, especially if a goal is to eliminate inputs linked to XUAR forced labor from the supply chain. East Asia has no cotton, although it is unlikely to import much cotton from China at the moment, since China uses its cotton internally. These countries are likely, however, to turn to China for yarn and textiles unless and until their own capacity to produce these materials is scaled up. If companies engage with their suppliers regarding avoiding XUAR-linked inputs and develop the ability to test these products' origins using modern technologies, as outlined in CSIS's traceability report, this concern could be addressed. Indeed, some yarn and textile manufacturers from neighboring countries are already shifting production to Vietnam as a means to address brand concerns about forced labor. Labor practices in the region are often poor, but that is true for most of the potential sourcing hubs and would require focus.

India, for example, is the world's largest cotton producer and also produces textiles, yarn, and apparel. Currently, Vietnam and Bangladesh are among the top sourcing countries outside of China, but both countries still rely significantly upon China for fabric and textile imports. Vietnam and Indonesia, along with China, are among the few countries capable of producing athletic footwear.¹³⁴

Vietnam: In the near-term, it is likely that Vietnamese yarn, textile, and footwear production will be one of the biggest beneficiaries if brands try to reduce their dependence on China. However, for the moment, Vietnam is heavily reliant on Chinese imports.¹³⁵ In particular, Vietnam relies on China for about 60 percent of fabric, 55 percent of yarn and fiber, and 45 percent of trims used in apparel production.¹³⁶ Domestic yarn and textile production has increased in Vietnam, and it sources much of its cotton from the United States.¹³⁷ But significant investment in the Vietnamese textile industry is needed to reduce Vietnam's reliance on Chinese imports, and Vietnam would need a reliable source of cotton as well. Recent trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EVFTA, with their respective yarn- and fabric-forward rules of origin, could provide important incentives for Vietnam to develop its domestic yarn and fabric manufacturing.¹³⁸ The new EVFTA also requires significant improvement to Vietnam's labor laws, pushing Vietnam to ratify six of eight fundamental ILO conventions in 2019, and a seventh in 2020 that obliged the country to cease all forms of forced labor.¹³⁹ Compared to relevant Southeast Asian and South Asian neighbors, Vietnam is on a more positive trajectory vis-à-vis labor rights. If enforced, the FTA may help create a more socially responsible hub for the sector.

Bangladesh: If brands begin to move away from sourcing in China due to concerns about XUAR-linked forced labor, Bangladesh may also become increasingly vertically integrated. In Bangladesh, there is some interest in vertical integration, and textile mills are starting to develop.¹⁴⁰ Bangladesh is importing increasing amounts of cotton from West Africa due to quality concerns with cotton from India; in 2018 and 2019, 41 percent of imported cotton was from Africa.¹⁴¹ Despite these factors, Bangladesh has faced extremely severe issues with labor compliance, most famously the building collapse in Rana Plaza. Experts with the ILO testified that the country has made significant efforts to make the industry a safer place to work than it was in 2013.¹⁴² The Rana Plaza collapse led to the creation of an accord between multinationals, retailers, and trade unions to improve safety standards in the garment industry. Its enforcement body, the Readymade Sustainability Council, performs factory inspections, remediation monitoring, and safety training and addresses independent safety and health complaints from workers in garment factories.¹⁴³ Despite health and safety gains in Bangladesh, substantial improvement is needed, particularly regarding freedom of

association. In 2019, workers faced mass dismissals and arrests in response to labor disputes and collective action, amounting to the largest crackdown on workers in years.¹⁴⁴ Most recently, garment workers have reportedly gone unpaid during the Covid-19 pandemic, and labor compliance remains a significant concern for apparel companies.¹⁴⁵

India: India is the world's largest cotton producer and has further capacity for increasing production. Like cotton production in West Africa, production of cotton in India is characterized by low yield rates and mostly smallholder farms. However, the inconsistent quality of cotton presents challenges for India's attractiveness as a major vertically integrated sourcing destination. Still, India is the world's second-largest textile exporter, and the national government has invested in the textile industry, recently setting up a national textile plan to upgrade technology, improve productivity, and promote textile exports.¹⁴⁶ India exports textiles to several major markets, including major ASEAN garment producers. Yet India's withdrawal from the Regional Comprehensive Economic Partnership (RCEP), an FTA in the Asia-Pacific region, may present difficulties for competing with China to export textiles to East Asia. Additionally, India has struggled to attract significant amounts of FDI, which is exacerbated by concerns about poor infrastructure.¹⁴⁷ Moreover, for the U.S. market, long transit times to bring finished products to market from India are a significant concern, making this a better alternative source for EU countries. Labor rights in India vary across its geographic regions. India faces significant challenges related to child and bonded labor, including in agriculture, and under the Modi government, labor rights have been eroded, including several states suspending labor laws during the Covid-19 crisis.¹⁴⁸

Indonesia: Indonesia aspires to propel itself into the top five largest textile producers in the world by 2030. Currently, its domestic cotton capacity is very low, and it imports most of its cotton from the United States and Brazil. Exports from the textile and garment industry grew by a third from 2018 to 2019, although the industry remains 40 percent of the size of Vietnam's. But as part of its Industry 4.0 masterplan unveiled last year, Jakarta announced plans to relax foreign investment restrictions to encourage capital inflows. The country is a signatory to the CPTPP alongside Vietnam, and an FTA with the European Union is being negotiated, with a deal expected to increase employment in the garment, textile, and footwear industry by over 10 percent.¹⁴⁹ But impediments remain, including exceptionally high logistics costs compared to its regional neighbors such as Malaysia and Thailand.¹⁵⁰ Electricity and gas prices are also high compared to other textile producing countries, while labor costs have increased annually.¹⁵¹ A controversial new labor bill sparked widespread labor unrest in 2020. In an effort to compete with China for investment, the Indonesian government proposed an omnibus bill for "job creation" that reduces workers' benefits and makes it easier for employers to hire contract and part-time workers. The government says relaxing workers' benefits would bring more people into formal employment. But the bill has been met with widespread opposition in part because of its timing, coming at a moment when unemployment is at a high, after Indonesia was hit hard by the Covid-19 pandemic.¹⁵²

Pakistan: One distinctive feature of the apparel industry in Pakistan is that it largely produces for the domestic market.¹⁵³ However, 8 to 10 large companies produce products exclusively for foreign export. These companies have been successful by establishing vertically integrated hubs with access to Pakistan's raw cotton resources. In general, Pakistan's garment industry can be characterized as top-heavy, with the largest companies often only focusing on a single product.¹⁵⁴ Cotton production in Pakistan has declined in recent years, and the quality of the cotton is comparatively low.¹⁵⁵ Diversification of product offerings could convince more apparel companies to source from

Pakistan. Security considerations and government-issued travel advisories also present barriers, and representatives of apparel companies from foreign countries very rarely visit the country.¹⁵⁶ Pakistan's reputation has limited buyers' willingness to engage with producers. Domestic producers must often work through intermediaries or meet in nearby countries. Yet individuals who have had firsthand experience with Pakistan's garment exporting industry remark that factories are better run than those in nearby countries and that infrastructure has improved dramatically.¹⁵⁷ Because foreign companies are often located in designated economic zones, targeted government policies to attract FDI and improve security could help Pakistan increase exports in existing product categories. However, this will require a sustained commitment to the industry within a long-term vision for success as well as an improved security environment. Pakistan's record on labor rights and working conditions is poor. For example, one province entirely suspended labor inspections to attract investment.¹⁵⁸

ITUC Rankings from Best to Worst:

- Vietnam: 4 (Systematic violations of rights)
- Bangladesh: 5 (No guarantee of rights)
- Indonesia: 5 (No guarantee of rights)
- India: 5 (No guarantee of rights)
- Pakistan: 5 (No guarantee of rights)

Reshoring and Nearshoring

Compared to Africa, nearshoring through North and Central American apparel hubs may offer significantly faster transit times to the North American market. However, costs to produce apparel in Central America are generally higher than for countries in Africa and Asia.¹⁵⁹ Currently, textile industries in Central America benefit from CAFTA-DR and export more than 6 billion USD worth of textiles and clothing to the United States.¹⁶⁰ In the aftermath of the pandemic, U.S. manufacturing firms have begun to rethink supply chains, and many have expressed interest in reshoring and nearshoring.¹⁶¹ With automation and capital investments in textile production, nearshoring may also present a cost-effective alternative. Investment in the textile and apparel industries of Latin America could bring long-term economic stability to the region.¹⁶²

However, the technical abilities of many manufacturers in the region are limited, meaning that the region may only be able to produce relatively simple apparel. Footwear production faces even greater limitations. Footwear often requires sophisticated molds and equipment and is constantly innovating, and the region lags behind East Asia.

For the European market, Turkey is the most likely candidate for nearshoring. It can produce a wide variety of yarn and textiles.¹⁶³

United States: Currently, the United States is the third-largest producer of cotton in the world, after India and China.¹⁶⁴ Several initiatives have focused on strengthening the textile industry in the United States, with a focus on technical fibers and textiles, where the cost of labor is a less decisive factor.¹⁶⁵ In recent years, reshoring has taken place at a modest pace, with an increasing number of Chinese firms investing in the American textile industry.¹⁶⁶ The textile industry in the United States is well-developed and produces cotton yarn and synthetic fabrics. Automated sewing of certain

items has helped bring certain apparel production back to the United States as well. But because of high labor costs associated with manufacturing apparel in the United States, it is likely that U.S. textiles would be exported to countries in Central America for final apparel production. Along with strategies related to government procurement, it may be worthwhile to focus on efforts to increase yarn and textile production within the United States, which can promote nearshoring and regional integration within North and Central America.

Mexico: The textile and apparel industry in Mexico has grown in recent years. In particular, Mexico has seen significant growth in the technical textile industry, producing industrial fabrics and medical textiles for the North American market.¹⁶⁷ In the future, growth may accelerate as a result of the USMCA, and Mexico is a likely candidate for nearshoring. Because of USMCA rules of origin, it is likely that a significant portion of Mexico’s exported apparel would consist of American-made yarn and textiles. Due to transport and duty savings, nearshore options may be cheaper than production in China or other Asian countries. Assuming that fabric costs were the same, an estimated price comparison for a pair of jeans revealed that production in Mexico would be 12 percent cheaper than production in China, with significantly faster time to market.¹⁶⁸ Mexico continues to struggle to enforce its labor laws, but the USMCA, if enforced, could help shift incentives. Mexico is generally on a somewhat positive trajectory vis-à-vis labor rights, although significant challenges remain.

The following table shows transport time and cost from different sourcing locations, where landed cost is defined as the total cost associated with getting a shipment to its destination. The calculations assume that the final destination is a port in Los Angeles, California for offshore sourcing locations and Austin, Texas for nearshore sourcing locations.

Costs of Certain Sourcing Countries and Transit Times to the United States

	Sourcing Location	Transport Time (Days)	Landed Cost (USD)
Offshore	Bangladesh	30	10.68
Offshore	China	30	12.04
Nearshore	Mexico	2	10.57
Onshore	United States	0	14.05

Source: CSIS HRI analysis based on Johanna Andersson et al., *Is apparel manufacturing coming home?* (New York: McKinsey Fashion & Luxury Group, October 2018), https://www.mckinsey.com/~/media/McKinsey/Industries/Retail/Our%20Insights/Is%20apparel%20manufacturing%20coming%20home/Is-apparel-manufacturing-coming-home_vf.pdf.

Central America: Countries in Central America have long produced textiles and apparel and have benefited from preferential treatment in CAFTA-DR. In 2018, the Northern Triangle Countries (NTC), El Salvador, Guatemala, and Honduras, sent more than 6.3 billion USD of textiles to the United States, making the area a leading U.S. supplier.¹⁶⁹ They typically produce relatively simple items that do not require substantial technical capacity. Factories in these countries also manufacture casual shoes that require fewer parts that are not as technical and need less tooling. When they do require

more technical parts or trims, these may be imported from Asia, diminishing the quick turn-around time that should be a competitive advantage for the region. Companies note that the labor force is often not competitive with Asia when wages, workforce flexibility, and technical skills are taken into account. Investment in developing skilled labor and investment in more technical equipment could help the region increase its yarn, textile, and casual footwear production up to a point and provide much-needed jobs that might help support stability and development in the region. Thoughtful U.S. investment in the region could assist with supply chain diversification while providing a tool to build stronger economies and opportunities that would complement other U.S. efforts to stabilize and improve the region's economy and human rights conditions.

Labor conditions in the most relevant Central American countries are extremely poor, with the exception of El Salvador, which improved its labor laws and became more tolerant of labor unions under the previous government.¹⁷⁰

Turkey: Turkey is a substantial textile supplier, exporting more than 11 billion USD worth of textiles in 2019.¹⁷¹ Textile production in Turkey is advanced, and Turkish firms have the capacity to produce different kinds of textiles and fabric.¹⁷² Turkey is much less dependent upon China for early inputs in the supply chain. Turkey imports cotton from a variety of countries, with the United States making up the largest share.¹⁷³ Cotton yarn is primarily imported from Turkmenistan and Uzbekistan, both of which have faced significant problems with state-sponsored forced labor in their cotton fields. This could become less problematic if Uzbekistan continues on its current positive trajectory on forced labor, and Turkish textile producers are simultaneously pressured to stop sourcing from Turkmenistan.¹⁷⁴ Turkey, however, still imports some cotton fabric from China (approximately 23 percent in 2018).¹⁷⁵ Trade tensions between Turkey and China and talks of limiting Chinese textiles have contributed to decreased imports from China.¹⁷⁶ While labor costs are significantly higher in Turkey compared to China, automation may allow for cost-effective manufacturing in less than five years. Although not a complete replacement for China, Turkey may present a near-term option for reshoring for the EU market, especially if concerns about state-sponsored forced labor in inputs from Turkmenistan and Uzbekistan can be addressed. Turkey itself faces labor rights challenges, with working conditions varying widely in factories and labor unions not aligned with the current government facing persecution.¹⁷⁷

The following table shows transport time and cost from different sourcing locations to Hamburg, Germany.

Costs of Sourcing Regions and Transit Times to Hamburg, Germany

	Sourcing Location	Transport Time (days)	Landed Cost (USD)
Offshore	Bangladesh	30	9.94
Offshore	China	30	12.46
Nearshore	Turkey	3-6	12.08
Onshore	Germany	0	30.36

Source: CSIS HRI analysis based on Andersson, Is apparel manufacturing coming home? (based on data from EUROSTAT, EIU, HIS, Xenta, WITS, European Commission, McKinsey Cleansheet Solution).

ITUC Rankings from Best to Worst:

- El Salvador: 3 (Regular violations of rights)
- United States: 4 (Systematic violations of rights)
- Mexico: 4 (Systematic violations of rights)
- Guatemala: 5 (No guarantee of rights)
- Honduras: 5 (No guarantee of rights)
- Turkey: 5 (No guarantee of rights)

East and West Africa

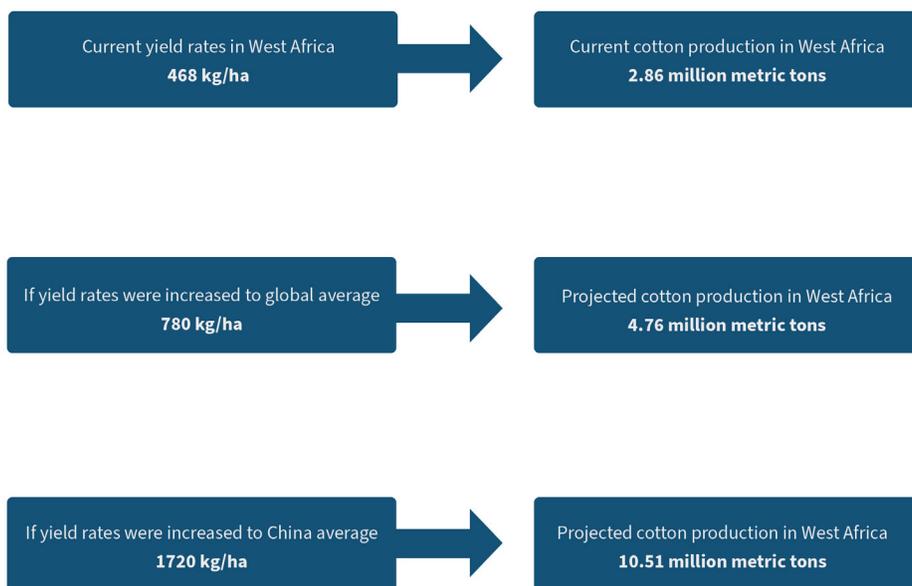
East and West Africa both present exciting, long-term opportunities to develop vertically integrated supply chain hubs. However, this will take considerable time and require appropriate investments in capacity and infrastructure from other governments and commitments from brands to sourcing from the region so that yarn and textile manufacturers migrate to the region.

Both East and West Africa have received attention by apparel brands interested in developing new sourcing locations. AGOA, which offers important cost savings compared to Asia and other sourcing locations, presents a valuable opportunity for U.S. apparel brands. The European Union also often has preferential tariffs in place for these countries, as well as development-oriented FTAs known as economic partnership agreements (EPAs). EPA partners do not pay any tariffs or duties on their exports to the European Union, while countries not covered by EPAs may also benefit from unilateral customs and duty reduction schemes such as GSP and EBA.

Africa is also a significant producer of cotton, with four major cotton zones located in a vertical strip from Egypt to South Africa and a major basin in West Africa.¹⁷⁸ In particular, West Africa, which produces about 5 percent of the world's cotton (two-thirds of Africa's total output), has significant capacity to scale up production.¹⁷⁹ Moreover, West Africa accounts for about 15 percent of global cotton exports.¹⁸⁰ Cotton produced in West Africa is high quality, and around 60 percent is either produced under Better Cotton Initiative (BCI) or Cotton Made in Africa (CmiA) sustainability standards.¹⁸¹ Cotton yields in Africa are low, which presents an opportunity to increase production by improving seed availability, agricultural techniques (e.g., irrigation and fertilization), and region-wide capacity building. For example, it is estimated that over 25 percent of the cotton crop in West Africa is lost due to pests alone.¹⁸² If cotton yield rates in West Africa (Burkina Faso, Chad, Mali, and Senegal) were as high as yield rates in China, West Africa alone could produce as much as 10 million metric tons of cotton—significantly more than China's forecasted cotton production in 2018–2019 (5.9 million metric tons).¹⁸³

Mali and Burkina Faso are arguably the most promising locations for scaling up sustainable cotton production.¹⁸⁴ In both countries, the average cotton farm is small and produces cotton at a much lower yield compared to the global average. Although both countries are politically unstable, cotton certification bodies have been able to function in them, suggesting that it may be possible to further develop the cotton sector in a relatively responsible manner despite governance and security challenges. Small-scale cotton production often is associated with significant labor abuses, particularly child labor. Because of the smallholder, non-mechanized nature of present-day cotton farming in countries such as Burkina Faso, Benin, and Mali, children often work on family plots and

Current and Potential Cotton Yields in West Africa



Source: HRI analysis. Yield rate calculations based on TBI T&G Initiative presentation on file with authors (estimating 468 kg per hectare yields in West Africa and 1,720 kg per hectare yields in China). Global average estimated at 780 kg per hectare based on Kai Hughes, “Developments in the Global Cotton Market.” Cotton production data from the USDA.

are vulnerable to harsh conditions of long hours and heat.¹⁸⁵ Recent reporting suggests that Burkina Faso’s cotton sector also may face challenges of forced labor.¹⁸⁶ The U.S. DOL indicates that the country made minimal advancement in 2019 toward eliminating the worst forms of child labor.¹⁸⁷

Organizations such as the Tony Blair Institute are seeking to support a vertically integrated textile and apparel industry in West Africa, using West African cotton and with later stages of production in countries such as Ghana, Togo, or Cote d’Ivoire, which are relatively politically stable and have excellent port facilities. The success of such an effort would benefit from regional reductions in internal tariffs. The shipping time from West Africa to the North America is considerably shorter than from East Africa, which is a major consideration for apparel brands, many of which rely on quickly moving products to shelf. The relevant West African countries face a range of labor challenges, but generally rank better than the other regions explored in this report. Given that some of these countries have small formal sectors in their economies, any expansion of factories would likely necessitate support for their labor inspectorates. Ghana, in particular, is considered to have better labor laws, space for labor unions to operate, and enforcement capacity.¹⁸⁸

The current lack of textile manufacturing capacity presents a bottleneck for Africa’s cotton, textile, and apparel value chain.¹⁸⁹ Currently, Africa sources much of its textiles from China and other Asian countries, with China contributing to over 40 percent of total textile imports to sub-Saharan Africa.¹⁹⁰ Another limiting factor is the large amount of secondhand clothing that is imported to Africa, which government officials have blamed for disrupting the development of the textile industry.¹⁹¹ Additionally, infrastructure concerns have made it difficult to attract investment for new textile mills, which require significant sources of electricity and water. Another area of concern is the lack of enforcement of labor standards in many African countries.¹⁹² Finally, periodic political

instability in some countries in the region presents challenges for setting up technology- and capital-intensive manufacturing industries for yarn and textile production.

Nevertheless, textile firms—primarily of Chinese origin—have been interested in investing in the textile industry in Africa, with a potential investment pool estimated to be over 300 million USD.¹⁹³ This creates a risk that XUAR raw cotton will simply shift to Africa, although this is only a risk if demand for XUAR raw cotton dries up in China. However, some research suggests that these Chinese firms are often not state-backed, may cooperate in designing labor and environmental standards, and may be willing to follow customers' directions about the origin of the yarn and cotton they use.¹⁹⁴ Trade incentives that favor products using African inputs could also help address this challenge.

Within the current sourcing landscape, some believe that Kenya and Ethiopia are the most promising candidates for regional vertical integration of the cotton, textile, and apparel supply chains, due to the existing investment climate and some experience with the apparel sector there.¹⁹⁵ However, East Africa is not a major cotton producer, with the exception of Tanzania.

Given both EU and U.S. commitments to supporting sustainable development on the continent, they could support the creation of new textile hubs through investment, support for renewable energy and other infrastructure, and capacity building for the enforcement of environmental and labor practices. Together, this would have commercial benefits as consumers increasingly emphasize responsible sourcing, and so must companies. Creating these hubs would require long-term commitment from donor governments and companies.

Ethiopia: East Africa, compared to West Africa, is seen as a somewhat more developed sourcing hub.¹⁹⁶ Ethiopia and Kenya have large garment export industries, and several established apparel brands have set up operations. Ethiopia's security is also ranked higher than other countries such as Kenya, Nigeria, and South Africa, although recent internal conflict may alter that.¹⁹⁷ Most crucially, Ethiopia's government has expressed a commitment to the textile and apparel industry, aggressively promoting investment by offering financial incentives and highlighting Ethiopia's benefits. International investors have funded more than 65 textile investment projects in Ethiopia since 1992.¹⁹⁸ However, respect for labor rights and uncertainty about Ethiopia's prospects of transitioning to democratic rule present ongoing challenges.¹⁹⁹ Compared to workers in other garment-exporting countries, workers in Ethiopia have some of the lowest wages, and garment workers have reported labor rights abuses.²⁰⁰ Improving labor conditions is an important step for establishing long-term interest in Ethiopia as a sourcing destination. Currently, Ethiopia is heavily dependent upon China for textiles.²⁰¹ Establishing vertical integration in the region would reduce costs and promote long-term development in the apparel sector.

Kenya: Factories in Kenya may have greater productivity, though Ethiopia offers certain cost savings.²⁰² Kenya's garment sector is rapidly growing and has a strong trade relationship with the United States, with a new FTA under negotiation. Approximately 70 percent of apparel companies there focus on exporting to the American market.²⁰³ Like Ethiopia, Kenya is also dependent upon China for much of its textiles.²⁰⁴ A U.S.-Kenya FTA may have significant implications for the apparel industry, especially if it can encourage the development of yarn and textile production. This would likely require maintaining AGOA-level tariffs if a certain percent of inputs are sourced from other AGOA countries. Producers in Kenya could also seek to diversify current export opportunities, particularly in duty-free EU markets

where Kenya is already exporting. Because Kenya's apparel production is concentrated on large-volume, low-value-added products (e.g., trousers), it is also important to diversify product offerings and develop more textile capacity, which requires investment in skills development and training.²⁰⁵ While Kenya faces labor challenges, it has a vibrant labor union movement.²⁰⁶

ITUC Rankings from Best to Worst:

- Ghana: 2 (Repeated violations of rights)
- Togo: 3 (Regular violations of rights)
- Burkina Faso: 3 (Regular violations of rights)
- Chad: 4 (Systematic violations of rights)
- Cote d'Ivoire: 4 (Systematic violations of rights)
- Ethiopia: 4 (Systematic violations of rights)
- Kenya: 4 (Systematic violations of rights)
- Mali: 4 (Systematic violations of rights)
- Senegal: 4 (Systematic violations of rights)

Conclusion

The regions discussed above present different challenges as well as opportunities for sourcing. For reasons explained in this report, it is unlikely that any particular country or region will fully replace China as the next major sourcing hub. In fact, it is likely that multiple regions may be developed for different purposes. Scaling up is likely to be fastest in countries and regions where there is already some vertical integration. Companies and governments could jointly target key Asian countries such as Vietnam, India, Bangladesh, or Indonesia for larger-scale and more technical production. Central America and Mexico might play niche sourcing roles in certain product categories for the North American market, taking into account limitations on producing highly technical products. Turkey might play a similar nearshoring role for the EU market, with greater technical capacity.²⁰⁷ The United States and European Union could both develop longer-term plans to support vertical integration in African supply chains. All of these efforts should incorporate strong social and environmental safeguards as a priority so that alternative sourcing hubs are more responsible and thus a meaningful improvement on the status quo.

Diversification requires coordination from multiple actors, including governments, companies, international organizations, NGOs, and other country-level stakeholders. Diversification is valuable in its own right and may help create pressure to change practices in the XUAR. Because of the challenges that will likely arise, diversification efforts must start now.

About the Authors

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