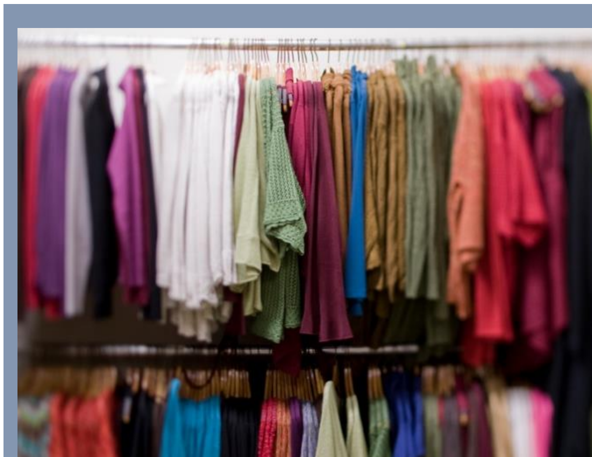
Bahrain's Position in the Global Apparel Value Chain:

How the U.S.-Bahrain FTA and TPLs Shape Future Development Options



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Executive Summary[5]

In 2006, the U.S.-Bahrain Free Trade Agreement (FTA) went into effect. The FTA establishes rules of origin that determine whether exports from one country qualify for duty-free access when imported into the other. For textiles and apparel, the rule is a so-called "yarn-forward" rule, meaning that home textiles and apparel exported from Bahrain receive duty-free access to the U.S. market if they are 1) sewn in Bahrain from 2) fabrics knit or woven in the United States that 3) contain yarns spun in Bahrain or the United States. Thus, the rule of origin requires at least three links in the value chain to be located in either Bahrain or the United States in order for textile goods to be considered as originating in the free trade area.

For the last nine years, the majority of Bahrain's textile and apparel exports have entered the U.S. market duty-free under a provision of the FTA called Tariff Preference Levels (or TPLs). In recognition of Bahrain's limited domestic yarn and fabric production, the TPLs provide an exception to the yarn-forward rule of origin by allowing Bahrain to export a designated volume of home textiles and apparel that contain yarn or fabric from third-party countries. Under the FTA, the TPLs expire in July 2016. Once they expire, imports in the U.S. from Bahrain will either have to meet the FTA's rules of origin or be subject to the Most Favored Nation (MFN) duty. Since textile and apparel production is a key activity for Bahrain's small manufacturing sector, and one of the only manufacturing industries with which Bahrain has a positive trade balance with the United States, the loss of the TPL benefit is of concern not only to firms and workers in the region, but also to the Bahraini government.

Our report analyzes the situation of Bahrain's industry and its prospects in light of the looming TPL expiration. One of the key findings is that the part of the Bahraini industry oriented to the U.S. market contains two distinct segments: *textile manufacturers*, which own spinning, weaving and finishing mills in Bahrain, and rely on TPL for a relatively small portion (just over a third) of the final products they exports to the United States; and *apparel companies*, which currently rely on TPL for 100% of their garment exports to the United States, since these contain fabrics and yarn from third party countries, such as China. The apparel companies currently exporting to the U.S. from Bahrain are owned by foreign firms, they employ predominantly migrant workers from South Asia, and they have other production locations in the Gulf region, including Jordan and Egypt. *Consequently, if garment manufacturers are unable to receive duty-free access to the U.S. market once TPLs expire in 2016, they are unlikely to stay in the country, in contrast to the textile companies, whose investments in Bahrain are far more significant.* We therefore make a series of recommendations regarding different ways in which Bahrain might continue to receive limited exemptions from the yarn-forward rules of origin after 2016. These proposals include, but are not limited to, an extension of the current benefit.

Moreover, maintaining the viability of textile and apparel manufacturing in Bahrain will require aggressive steps to integrate the value chain in the region. Ultimately, TPLs will not sustain the

[5] Note: trade data values for the textile and apparel industry vary in this report due to the use of different sources. For example, the value of Bahrain's exports to the United States does not match U.S. imports from Bahrain. Similarly, U.S. trade data available from OTEXA (Office of Textiles and Apparel, U.S. Department of Commerce) use slightly different categories for textiles and apparel than we use in other sections; however, only data from OTEXA can show the value of imports under FTAs and TPLs.

competitiveness of Bahrain's industry, nor will they encourage linkages between the small number of firms oriented to the U.S. market and the set of manufacturers in Bahrain that are exporting to faster-growing markets in the Gulf. Another key finding is that there is yarn and fabric manufactured in the Middle East-North Africa (MENA) region, including in Bahrain. Exploring the degree to which this production could serve the needs of Bahrain's U.S.-oriented manufacturers should be a key priority for government and industry stakeholders in Bahrain.

Our recommendations also highlight the importance of reconfiguring supply chains within the Gulf region so that, in the future, Bahrain's exports will be FTA compliant. In addition to proposing an expedited short-supply mechanism under the existing FTA, possible strategies include: developing additional yarn and textile production in Bahrain; forging linkages between existing producers and exporters; and pursuing cumulation agreements that would allow Bahraini manufacturers to use inputs from other countries in the region with which the U.S. has existing FTAs or other preferential trade programs. Overall, our report stresses the importance of textile and apparel production for Bahrain's broader objectives of employment creation and economic diversification.

1. The Apparel Value Chain in a Post-Quota World

Textile and clothing production has long been an important industry for countries looking to develop their manufacturing sector. As an initial rung on the industrialization ladder, it potentially paves the way for upgrading and expansion into other kinds of economic activities. Historically, it has also been one of the most globally dispersed manufacturing activities. For much of the twentieth century, textile and apparel production was a mainstay of industrial sectors across the world, from developed economies such as the United States and Germany to industrializing countries, such as Mexico and Turkey, and less-developed economies, such as Bangladesh and Haiti.

In part, the global dispersion of textile and clothing production was the product of an international quota regime that managed trade in textile products. This system, codified in the Multi-Fibre Arrangement (MFA), served to protect firms and workers in developed countries by limiting exports of clothing and other textile products from lower-cost producers in developing nations. As exports from highly competitive countries were constrained by the quantitative restrictions established under the MFA, importers were forced to shift orders to those countries that had unused quota. Consequently, many countries around the world were able to launch small but significant export industries, even though these economies may have lacked a natural comparative advantage in textile and apparel production (Someya et al., 2002).

The geography of textile and apparel production generated by the quota regime changed dramatically during the 1990s. In 1995, the World Trade Organization (WTO) committed to phasing out the MFA over a ten-year period. With the exception of short-term measures such as transitional safeguards, all quantitative restrictions on imports were eliminated as of January 1, 2005 (Gereffi & Frederick, 2010). Most analysts predicted that, in a post-quota world, countries in Asia whose exports had been limited by quotas would see a dramatic expansion in their share of the world market. China was widely expected to be the biggest winner of trade liberalization, while experts also speculated that countries that had relied heavily on the quota system would not be globally competitive in the new environment (Appelbaum, 2004; Diao & Somwaru, 2001).

Among those countries expected to lose world market share because of the quota-phase out were economies in the MENA region. Someya et al. (2002), for example, argued that in a post-quota World the Middle East would have few advantages as a production base, given that it enjoyed neither geographic proximity to major export markets in Europe and North America nor an abundant, low-cost labor supply. The emergence of apparel industries in the MENA region had been driven largely by investment from Asian-based manufacturers looking for export platforms because expansion in their home countries was disabled by quota constraints. In the case of Bahrain, Pakistani investors played a key role in developing the country's textile sector (USITC, 2004). In terms of the MFA phase-out, many observers assumed that foreign investors would abandon such export platforms in favor of consolidating production in lower-cost locations, once the elimination of quotas made it feasible to do so.

Such predictions proved largely correct. China's export sector did indeed expand significantly during the quota phase-out, as the country dominated both the U.S. and European import markets. While the pace of China's growth appears to be slowing, Asia remains the most dynamic global region for textile and apparel production. In recent years, lower-wage countries such as Bangladesh and Vietnam have expanded their world market shares. Table 1 illustrates this trend for the U.S. market, showing imports from leading suppliers for the post-MFA period. In 2014, China exported $30.5 billion of textiles and clothing to the United States—36.7% of all such imports. While more than one-third of U.S. imports, this percentage has actually declined modestly in recent years, down from a peak of nearly 40% in 2010.

Countries in Southeast Asia posted significant gains in U.S. import market shares over the past decade. The most dramatic case is Vietnam. In 2000, Vietnam's clothing exports to the United States were minimal; by 2012, the country's $7.1 billion in exports made it the second largest individual country supplier of apparel to the U.S. market, behind China. Though less dramatic, rates of export growth have also been strong for Bangladesh, Indonesia, and Cambodia.

Table 1: U.S. Apparel Imports from Leading Suppliers, by Value, 2004-2014

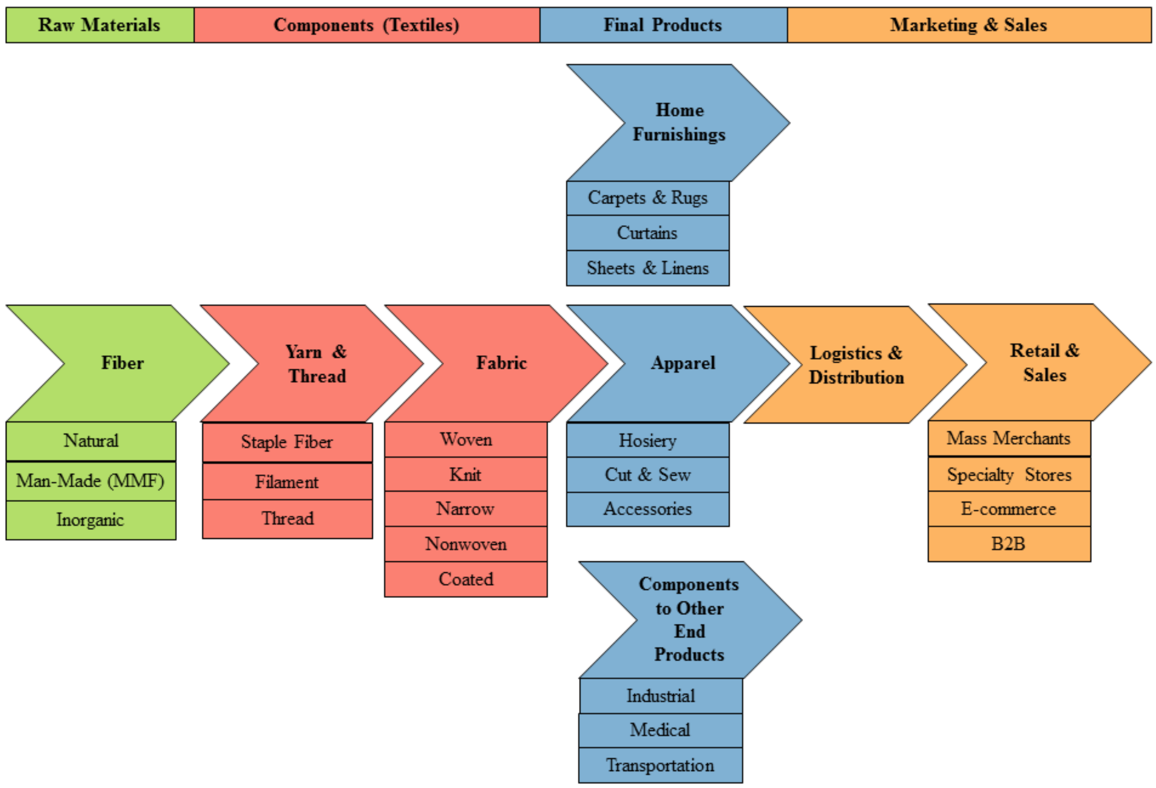
Country	Value ($, Millions)							Share of U.S. Imports (%)				
	2004	2007	2009	2011	2012	2013	2014	2004	2009	2011	2013	2014
World	**69,963**	**78,920**	**66,795**	**78,775**	**77,921**	**80,978**	**82,986**					
China	11,314	25,176	25,367	30,093	29,696	30,482	30,493	16.2	38.0	38.2	37.6	36.7
Viet Nam	2,678	4,519	5,225	6,557	7,028	8,060	9,208	3.8	7.8	8.3	10.0	11.1
Indonesia	2,554	4,183	4,031	5,066	4,959	4,996	4,866	3.7	6.0	6.4	6.2	5.9
Bangladesh	2,003	3,171	3,510	4,392	4,358	4,837	4,702	2.9	5.3	5.6	6.0	5.7
Mexico	6,903	4,665	3,508	3,963	3,844	3,816	3,856	9.9	5.3	5.0	4.7	4.6
India	2,433	3,425	3,054	3,370	3,089	3,256	3,446	3.5	4.6	4.3	4.0	4.2
Honduras	2,800	2,648	2,156	2,694	2,650	2,584	2,675	4.0	3.2	3.4	3.2	3.2
Cambodia	1,508	2,554	1,946	2,586	2,530	2,552	2,480	2.2	2.9	3.3	3.2	3.0
El Salvador	1,760	1,522	1,329	1,738	1,839	1,859	1,903	2.5	2.0	2.2	2.3	2.3
Sri Lanka	1,643	1,664	1,272	1,428	1,510	1,693	1,805	2.3	1.9	1.8	2.1	2.2
Top 10	**35,596**	**53,527**	**51,398**	**61,888**	**61,504**	**64,133**	**65,435**	**50.9**	**76.9**	**78.6**	**79.2**	**78.9**

Source: UNComtrade (2015a); list includes top 10 U.S. apparel import countries in 2014.

Asia's competitiveness in the textile and apparel sector is often attributed to the existence of a large, low-cost workforce. However, the region's success reflects more than a surfeit of labor for sewing. Today, Asia boasts a well-developed, balanced apparel supply chain, with ample amounts of raw material (cotton fiber), high-quality textiles, including yarn and fabric production, and significant sewing capacity. In addition, many full-package manufacturers based in countries such as China, Hong Kong and South Korea offer design and product development capabilities as well as logistical services. All of these factors account for Asia's growth in the global market, and the region's status as the preferred destination for many global retailers and brands (Frederick & Gereffi, 2011).

The upshot is that export competitiveness in a post-quota world requires an analysis of the entire textile and apparel value chain. Figure 1 shows the different segments of this value chain. While not all links in this chain "touch down" in each country in Asia, the large economies, such as China and India, feature all of the production segments in the chain (the green, blue and pink sections stretching from raw materials to final products). Moreover, the region is cross-crossed by production networks linking fabric or yarn suppliers in one country—say, Pakistan—to garment factories in another, such as Bangladesh. From the vantage point of U.S. or European retailers or brands, sourcing out of Asia enables "one-stop shopping"; highly capable full-package manufacturers can purchase all inputs from regional producers, and have the garments or home textiles sewn in any number of cost-competitive sites in the region. The co-location of different segments of the value chain in one region provides numerous competitive advantages to Asian producers, including lower shipping costs and shorter lead times between textile mills and garment factories.

Figure 1: Textile-Apparel Value Chain



Clearly, the center of gravity in global textile and apparel production has shifted to Asia, and this process is greatly facilitated by multilateral trade liberalization. The elimination of quotas does not necessarily mean that trade policy is no longer relevant in this industry, however. In tandem with the phase-out of import quotas, preferential trade regimes have proliferated as a new mechanism for providing market access to exporting nations.

The United States has been particularly active in pursuing bilateral FTAs and other preferential trade arrangements with countries both inside and outside the western hemisphere. To date, the United States has signed twelve bilateral FTAs (with Australia, Bahrain, Chile, Colombia, Israel, Jordan, South Korea, Morocco, Oman, Panama, Peru and Singapore) and two regional FTAs (North American Free Trade Agreement in 1994, with Canada and Mexico, and the Dominican Republic-Central American Free Trade Agreement in 2004, with Costa Rica, Dominican Republic, Guatemala, El Salvador, Honduras and Nicaragua). In addition, it has implemented a number of other preferential trade programs benefiting apparel exporters in developing countries: the African Growth and Opportunity Act (AGOA), the Andean Trade Promotion and Drug

Eradication Act (ATPDEA), the Caribbean Basin Trade Partnership Act (CBTPA), and the Haitian Hemispheric Opportunity through Partnership Encouragement Act (CBTPA).

On the one hand, regional trade agreements have not managed to stave off increased penetration of the U.S. import market by Asian producers. As Table 1 shows, among the top five exporters to the United States, only one, Mexico, has an FTA with the United States. On the other hand, the only countries outside Asia that appear among the top ten suppliers to the U.S. market are countries that enjoy duty-free market access: Mexico under the North American Free Trade Agreement, and Honduras and El Salvador under the Dominican Republic-Central American Free Trade Agreement. Without the benefits these agreements provide, regional exporters in the hemisphere probably would see their U.S. import market share eroded even more dramatically in the post-quota period.

It is less clear that preferential trade regimes between the United States and countries outside of the Americas have had a similarly positive effect on export performance, however. We return to this theme in the next section of our report, after a review of U.S. trade preference programs with countries in the Middle East and North Africa.

2. Mapping Trade Policy: Rules of Origin and Preferential Trade Regimes

In section 1, we noted how preferential trade agreements shape the geography of textile and clothing production in a post-quota world. In this section, we broaden our analysis to focus on a key determinant of whether FTAs, particularly those between geographically distant countries, stimulate increased trade flows—namely, rules of origin. Rules of origin establish the criteria for determining which products qualify for duty-free treatment in the import market of a partner country (i.e., a party to the agreement). They ensure that the primary benefits of the agreement accrue to the signatory countries.

Rules of origin may be defined in a variety of ways, including the “wholly obtained or produced” criterion (common for primary products or natural resources, such as minerals and timber, as well as unprocessed agricultural commodities), the “substantial transformation” criterion (i.e., non-originating components or inputs undergo a fundamental, nature-altering change), the “tariff-shift rule” (i.e., as a result of processing, non-originating materials shift from one tariff heading/subheading to another), and/or a “value-added” criterion (i.e., a minimum percentage of the final product’s total value must come from materials or originating or performed in the signatory countries).

In addition to the general rules of origin, trade in a particular class of products may be governed by specific rules of origin. In agreements negotiated by the United States, the rules of origin for textile and apparel products are one such notable exception. In general, the United States has sought and secured yarn-forward rules of origin for textile and apparel products in most trade agreements it has negotiated since the early 1990s. Under the yarn-forward rule of origin, textile or apparel products must be made from fabric containing yarn that was spun in one of the signatory countries.

The yarn-forward rule benefits U.S. fabric and yarn manufacturers; with few exceptions, the apparel-exporting countries with which the United States has signed FTAs have limited domestic fabric production, and even fewer have large-scale yarn manufacturing. Consequently, apparel manufacturers must import fabric and/or yarn from the United States in order for their finished products to receive duty-free access to the U.S. market (Bair & Dussel Peters, 2006). If the costs of U.S. inputs are not globally competitive, compliance with the yarn-forward rule of origin can dampen the competitiveness of trade partners, transforming what should be a benefit—preferential market access under an FTA—into a liability.

In non-regional trade agreements involving countries geographically distant from the U.S. market, compliance with yarn-forward rules of origin is especially onerous. The costs and delays involved in shipping inputs from the United States for processing and re-export are seen as incompatible with the demands of the global apparel industry, since manufacturers are under constant pressure from their clients to deliver goods more quickly and more cheaply (Azmeh, 2015).

Consequently, restrictive rules of origin might undermine the potential for FTAs to stimulate trade among the signatory countries. A recent report by the European Commission, for example, found a correlation between more stringent rules of origin and a lower utilization of the preferences provided in the agreement (Curran & Nadvi, 2015). Similarly, the yarn-forward rules of origin in the U.S.-Morocco free trade agreement may explain why Moroccan apparel manufacturers have not made more use of the agreement to expand exports to the United States, thereby diversifying beyond their traditional markets in Europe (Benabderrazik, 2009).

Given the challenges the yarn-forward rule of origin poses for trade partners lacking developed textile industries, the United States has negotiated limited caveats to it. The most important of these exceptions are tariff preference levels (TPLs)—essentially import licenses that permit countries to receive duty-free access to the U.S. market even if exported goods contain inputs from third-party manufacturers of yarn and/or fabric. In other words, exports covered by TPLs are treated the same as exports that meet the agreement's rules of origin.

To date, the United States has signed a number of regional and bilateral trade agreements that grant trade partners a specific quantity of TPLs (measured in square meter equivalents, or SMEs) as a temporary benefit. These include FTAs with Bahrain, Morocco, and Oman. Below we provide additional information regarding the U.S.-Bahrain FTA, including the agreement's provisions regarding TPLs, before turning to a brief description of similar trade regimes between the United States and other countries of the Middle East and North Africa region.

2.1. Bahrain-U.S. FTA and TPL

The U.S.-Bahrain Free Trade Agreement entered into force on August 1, 2006. Although the general rules of origin are laid out in chapter 4 of the FTA, special rules of origin governing trade in textile and apparel products are described separately in chapter 3. Key provisions of chapter 3 of the U.S.-Bahrain FTA that are relevant for our analysis are as follows:

Rules of origin: The general rule of origin for textile and apparel products is yarn-forward. However, there are exceptions to the yarn-forward rule of origin. For some products a more restrictive fiber-forward rule applies, while other products are subject to a more lenient fabric-forward rule. The complete list of these exceptions can be found in Annex 3-A of chapter 3, "Rules of Origin for Textile or Apparel Goods for [HTS] Chapters 42, 50 through 63, 70, and 94" (USTR, 2006).

Tariff Preference Levels (TPLs): Under the FTA, Bahrain received annual TPLs of 65 million square meter equivalents (SMEs) each year for the first ten years of the agreement. Initially, the TPLs were set to expire on December 31, 2015. However, the date of expiration was later clarified via Presidential Proclamation 9223 (issued on December 23, 2014) and determined to be July 31, 2016.

Commercial Availability Provision (also known as "short supply"): This mechanism, described in chapter 3.2 of the FTA, allows the apparel and textile industry to petition for duty-free access for garments that do not meet the yarn-forward rule of origin on the grounds that the fabric or yarn used in the garment cannot be supplied by the signatory countries in an adequate and timely manner or is unavailable from a signatory country in sufficient quantity.

De Minimis: A textile or apparel good may contain a minimal amount of non-qualifying inputs and still qualify as originating as long as the total weight of all non-originating fibers and yarns comprises less than seven percent of the total weight of the product. However, the de minis rule does not apply to elastomeric yarns. Consequently, in the absence of any domestic Bahraini production, any textile product manufactured in Bahrain containing elastomeric yarns must either be imported under Bahrain's TPL allocation, or contain U.S. yarn, in order to receive duty-free access upon import into the United States.

In the nine years since the FTA went into effect, Bahrain's textile and apparel exports to the United States have never exceeded the annual TPL limit of 65 million SMEs. Bahrain's TPL utilization rate—that is, the percentage of the annual allocation used by Bahraini exporters—peaked in 2008 at about 60% and subsequently declined. As Table 2 shows, the TPL utilization rate fell from 53.9% in 2010 to 49.5% in 2014, reaching its lowest point in 2014, when only 40.3% of the 65 million SMEs allocated under the FTA were used. The last row of Table 2 shows the percentage of Bahrain's textile and apparel exports to the United States each year covered by TPLs. In the last two years, just under half of Bahrain's exports entered the U.S. market under the TPL provision.

Table 2: Bahrain TPL Fulfilment Rates, by SME, 2010-2015 (YTD, Sept. 20)

	2010	2011	2012	2013	2014	2015*
U.S. Imports from Bahrain under TPL (SME)	35,024,336	33,662,142	32,815,923	26,226,007	32,157,469	28,897,331
TPL Level (SME)	65,000,000	65,000,000	65,000,000	65,000,000	65,000,000	65,000,000
TPL Utilization	53.9%	51.8%	50.5%	40.3%	49.5%	44.5%
Share of Total Imports Qualifying for TPL (by SME)	44%	52%	56%	48%	48%	N/A

Source: OTEXA (2015); Note (*): 2015 represents year-to-date (YTD), January-September 20th.

Exports from Bahrain *not* covered by TPLs either qualify for duty-free access under the rules of origin established in the FTA, or they are subject to the MFN duty. The amount of the duty depends on the specific product in question. As Table 2 illustrates, the percentage of textile and apparel exports that do not require TPLs to receive duty-free access—in other words, the percentage entering under the FTA's rules of origin—has fluctuated over recent years.

Table 3 shows U.S. textile and apparel imports from Bahrain. We include data for all textile and apparel imports as an aggregate category, as well as the import statistics for apparel and made-up items (for example, sheets, semi-finished pillow shams or comforter shells of the sort exported by WestPoint Home's Bahraini facility).[6] For each of these categories, we then show 1) total imports; 2) imports under the FTA; 3) imports under the FTA using TPL; and 4) imports that qualify under the FTA, not elsewhere specified (i.e. imports that do not require TPL to receive duty-free access under the terms of the agreement). The remaining columns display the same data as a percentage of total imports.

Table 3: U.S. Textile and Apparel Imports from Bahrain

Segment	**Value, $, Millions**								**Total Imports by Segment (%)**						
**	**2005**	**2007**	**2009**	**2011**	**2012**	**2013**	**2014**	**2015***	**2007**	**2009**	**2011**	**2012**	**2013**	**2014**	**2015***
(1) Total Imports															
T&A	159.5	122.5	150.7	178.8	172.0	177.5	211.5	123.9							
Apparel	120.0	69.6	71.1	82.9	92.7	110.1	133.8	73.2	39%	40%	46%	54%	62%	63%	59%
Made-ups	29.9	46.9	68.4	92.0	76.6	64.3	75.9	50.0	26%	38%	51%	45%	36%	36%	40%
(2) Imports under FTA (Total of items below)									**Total Imports by Segment & Program (%)**						
T&A	0.0	117.6	150.0	177.2	171.1	176.5	209.0	123.4	96%	100%	99%	99%	99%	99%	100%
Apparel	0.0	65.6	70.9	82.5	92.2	109.7	132.5	73.0	94%	100%	100%	99%	100%	99%	100%
Made-ups	0.0	46.0	68.3	91.3	76.3	63.7	74.6	49.7	98%	100%	99%	100%	99%	98%	99%
(3) Imports under FTA: TPL															
T&A	0.0	70.4	81.3	122.6	124.1	127.5	136.8	91.2	57%	54%	69%	72%	72%	65%	74%
Apparel	0.0	55.7	64.7	80.9	88.7	103.2	106.8	70.9	80%	91%	98%	96%	94%	80%	97%
Made-ups	0.0	11.7	7.6	40.0	34.0	22.7	28.7	19.7	25%	11%	43%	44%	35%	38%	39%
(4) Imports under FTA: FTA Qualifying															
T&A	0.0	47.2	68.7	54.6	47.0	49.0	72.2	32.2	38%	46%	31%	27%	28%	34%	26%
Apparel	0.0	9.9	6.2	1.7	3.5	6.5	25.7	2.1	14%	9%	2%	4%	6%	19%	3%
Made-ups	0.0	34.3	60.7	51.3	42.2	41.0	45.9	30.0	73%	89%	56%	55%	64%	60%	60%

Source: OTEXA (2005-2015). Notes (*): 2015 represents Year-to-date (YTD) represents January-July. (**): Textiles and Apparel (T&A) represented by Category 0, Apparel Category 1, and Made-ups Category 4.

Since the FTA went into effect, between 94% and 100% of Bahrain's textile and apparel exports in all categories entered the U.S. duty-free. The percentage requiring TPL varies, both across years, and within any given year, by category. For total textile and apparel imports, the percentage entering under the FTA *without* TPL varies between 26% in 2015 (year to date) and 46% in 2009. When one looks specifically at apparel, the rate is markedly lower, varying between 2% in 2011 and 19% in 2014. In contrast, well over 50% of the "made-up" textile products received duty-free access without TPL in each of the years shown in Table 3, with the percentage ranging from a low of 55% in 2012 to a high of 89% in 2009.

[6] Fabric (category 3) and yarn (category 2) are omitted from the table because they account for less than 2% of U.S. imports from Bahrain.

In summary, Bahrain's textile and apparel exports to the U.S. market have grown modestly since the FTA entered into force in 2006. However, Bahrain's export performance was uneven over the period. Total exports declined during the first few years of the agreement before rebounding. This trend was more marked for apparel, with garment exports falling precipitously from $120 million in 2005 to $69.6 million in 2007 before beginning a slow but steady rise. Between 2012 and 2014, export growth was much stronger, registering 44% growth over the two-year period. Nevertheless, after ten years Bahrain's apparel exports to the United States remain below their pre-quota level: garment exports in 2014 totaled $134 million, as compared with $164 million in 2004, the final year of the quota regime.

2.2. Other U.S. FTAs with countries in the MENA region

The United States has concluded FTAs with five other countries in the MENA region. Below we provide a brief description of these bilateral agreements, as well as the United States' special Qualifying Industrial Zone (QIZ) initiative with Egypt.

U.S.-Israel Free Trade Agreement: This agreement entered into force in September 1985, and it establishes a value-added rule of origin. Under this rule, textile and apparel products exported from Israel receive duty-free access to the U.S. market as long as 35% of the value of the product is added in Israel. This allows Israel to use fibers, yarns and/or fabrics from third-party countries, as long as the 35% value-added threshold is reached.

U.S.-Jordan Free Trade Agreement: This agreement entered into force in September 2001. As in the case of the Israeli agreement, Jordan also has a value-added rule of origin. To receive duty-free treatment, 35% of the final value of Jordan's exports must be added in Jordan. Jordan also enjoys preferential U.S. market access under the QIZ program, which supports the Middle East peace process by fostering commercial relations between Israel and its neighbors. For QIZ exports to receive duty-free access, they must either contain 35% Jordanian content, of which 11.7% must come from a Jordan QIZ and 8% must come from Israel, with the remainder coming from a Jordanian QIZ, Israel, the United States, or the West Bank / Gaza; OR they must contain 20% Jordanian content and 15% U.S. content value (Ahmad, 2007; Kardoosh & Khouri, 2005).[7] In 2014, Jordan exported $30.2 million in textile and apparel (virtually all clothing) to the United States under the QIZ regime (down from $61.2 million in 2013), as compared with $1.1 billion under the U.S.-Jordan free trade agreement.

U.S.-Morocco Free Trade Agreement: This agreement entered into force in January 2006. Like the U.S.-Bahrain FTA, it establishes a yarn-forward rule of origin for trade in textile and apparel products. Morocco also received a TPL allocation of 30 million SMEs, with reductions in the quantity beginning in year five of the agreement. The TPLs expire in 2016. In addition, the agreement establishes a 7% de minimis rule (with the same exception for elastomeric yarn that applies to the U.S.-Bahrain agreement). It also includes a cumulation provision that permits Morocco to receive duty-free access for 1,067,257 kg of otherwise non-qualifying cotton goods each year if the products contain cotton grown in a designated least-developed country in Sub-

[7] The country's FTA with the United States is widely regarded as having surpassed or rendered irrelevant the QIZ initiative remains in effect.

Saharan Africa. However, in the agreement's first nine years, this cumulation provision has remained virtually unused.

U.S.-Oman Free Trade Agreement: This agreement entered into force in 2009. Its provisions are nearly identical to those of the Bahraini FTA in terms of the yarn-forward rule of origin, 7% de minimis rule (with the elastomeric yarn exception), and a ten-year period of TPLs for non-qualifying apparel. However, Oman received a lower TPL allocation than Bahrain; its TPL regime of 50 million SMEs annually is due to expire in 2019.

Egyptian Qualifying Industrial Zones: In December 2004, the QIZ program expanded to Egypt with the creation of three QIZs, and additional zones have been established since. Products exported from a QIZ in Egypt must have at least 35% of the final value-added in Israel, Egypt or the United States in order to receive duty-free access to the U.S. market. Specifically, Israel and Egypt must each contribute a certain percentage of the 35% minimum. Initially, both were required to contribute one-third (11.7%) of this minimum, but in 2007 Israel's required contribution was lowered slightly to 10.5%. In 2014, $866.6 million of Egypt's $1.0 billion in apparel exports to the United States entered under the QIZ regime.

How have these agreements affected trade in textile products—specifically, apparel—between the United States and MENA countries? Table 4 shows U.S. imports from those countries in the region with which the United States has an FTA or other kind of trade incentive program. The yellow cells indicate years for which a preferential trade program between the United States and the country in question was in effect. Although all countries, with the exception of Israel, registered higher exports in 2014 than the year the agreement with the United States entered into force, three countries (Bahrain, Israel, and Oman) have seen their exports to the U.S. market decline in the post-quota period.

Overall, export performance over the ten-year period shown in Table 4 has been uneven. Jordan and Egypt were the only countries in the MENA region to claim at least 1.0% of the U.S. import market in 2014, and for both countries, this represented a slight decline in market share from previous years. Jordan's share of the market peaked in 2006, when its $1.3 billion of exports represented 1.7% of the U.S. import market. In 2010, Egypt's exports of $837 million accounted for 1.2% of U.S. imports in that year.

Table 4: U.S. Apparel Imports: MENA Suppliers, by Value, 2004-2014

Country	**Value ($, Millions)**							**Share of U.S. Total Apparel Imports (%)**						
	2004	**2007**	**2009**	**2011**	**2012**	**2013**	**2014**	**2004**	**2007**	**2009**	**2011**	**2012**	**2013**	**2014**
World	**69,963**	**78,920**	**66,795**	**78,775**	**77,921**	**80,978**	**82,986**							
Bahrain	164	72	74	83	93	110	134	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Jordan	1,006	1,194	791	896	981	1,043	1,135	1.4	1.5	1.2	1.1	1.3	1.3	1.4
Egypt	451	738	778	903	871	804	824	0.6	0.9	1.2	1.1	1.1	1.0	1.0
Israel	349	197	117	93	87	80	81	0.5	0.2	0.2	0.1	0.1	0.1	0.1
Morocco	78	94	61	83	103	115	136	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Oman	133	11	1	3	4	5	8	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total	**2,180**	**2,306**	**1,821**	**2,061**	**2,139**	**2,158**	**2,317**	**3.1**	**2.9**	**2.7**	**2.6**	**2.7**	**2.7**	**2.8**

Source: UNComtrade (2015a)

In general, rules of origin affect the degree to which export growth is stimulated by signing an FTA with the United States. Another way of evaluating the implications of rules of origin is to ask whether trade partners have increased their purchase of fabrics and yarns made in the United States. Table 5 shows imports of U.S. yarn and fabric by trade partners in MENA. Also included in Table 5 is Singapore—a country that has FTAs with both the United States and Bahrain, and thus is a promising candidate for a cumulation deal with Bahrain, as we will explain below.

Table 5 shows that MENA countries are not significant export markets for the U.S. textile industry. Egypt's imports of $62 million in 2014 were the highest for the region, and yet this quantity represented only 2% of U.S. yarn exports in that year. Although Morocco has imported some U.S. yarn in recent years, the yarn-forward rules of origin in their FTAs with the United States have had negligible effects on imports of U.S. textiles by Oman and Bahrain. Since their FTAs with the United States entered into force, Oman has imported $1 million of U.S. yarn and thread, while Bahrain has imported none.

The picture is much the same when looking at imports of U.S. fabric rather than yarn. Again, Bahrain and Oman have imported minimal inputs from the United States. Israel's imports of U.S. fabric have remained steady over the past decade, but for most years, they register as 0% of U.S. exports. The most significant importer of fabric is Singapore. In 2011, Singapore imported $51 million of fabric from the United States and $35 million in 2014. In both years, these imports were equivalent to 1% of U.S. fabric exports to the world market.

Table 5: U.S. FTA Partners Imports of Yarn/Thread and Fabric from the U.S., 2004-2014

(a) Yarn and Thread

Export Destination	Value ($, Millions)						Share of U.S. Exports (%)					
	2004	2007	2009	2011	2013	2014	2004	2007	2009	2011	2013	2014
World	**2,356**	**2,737**	**2,721**	**4,100**	**4,202**	**3,737**						
Bahrain	0	0	0	0	0	0	0%	0%	0%	0%	0%	0%
Egypt			16	33	51	62	0%	0%	1%	1%	1%	2%
Israel	26	14	9	10	9	6	1%	0%	0%	0%	0%	0%
Jordan	2	1	2	1	5	6	0%	0%	0%	0%	0%	0%
Morocco	2	1	2	18	7		0%	0%	0%	0%	0%	0%
Oman	0	0	0	0	1	0	0%	0%	0%	0%	0%	0%
Singapore	17	11	9	13	10	13	1%	0%	0%	0%	0%	0%

(b) Fabric

Export Destination	Value ($, Millions)						Share of U.S. Exports (%)					
	2004	2007	2009	2011	2013	2014	2004	2007	2009	2011	2013	2014
World	**6,644**	**7,520**	**5,563**	**7,125**	**7,034**	**6,779**						
Bahrain	0	1	1	2	1	1	0%	0%	0%	0%	0%	0%
Egypt			9	7	4	7	0%	0%	0%	0%	0%	0%
Israel	27	30	29	20	19	22	0%	0%	1%	0%	0%	0%
Jordan	2	4	1	2	2	1	0%	0%	0%	0%	0%	0%
Morocco	6	2	2	4	4		0%	0%	0%	0%	0%	0%
Oman	0	0	0	1	1	1	0%	0%	0%	0%	0%	0%
Singapore	14	24	29	51	37	35	0%	0%	1%	1%	1%	1%

Source: UNComtrade (2015b); countries imports from the United States

We have gone to such lengths to explain the provisions of varied FTAs with the United States because, in a post-quota world, these agreements provide a potential advantage to apparel-exporting countries vis-à-vis competitors that have not signed such agreements. Crucially, however, exports must meet the rules of origin established in FTAs to receive preferential market access. For trade in textile and apparel products, the rules of origin are designed to internalize most links in the value chain (such as the spinning of imported fiber into yarn) within the free trade area; in the case of the U.S.-Bahrain FTA, all these steps must occur either in Bahrain or the United States.

For Bahrain, as for other countries lacking large-scale domestic production of yarn and fabric, these rules of origin pose a challenge. One, albeit temporary, solution to this problem is a TPL agreement, which creates a temporary (in Bahrain's case, ten year) exception to the yarn-forward rule of origin for a limited volume of exports (in Bahrain's case, 65 million SMEs per annum). The loss of this benefit would be significant, but as we elaborate in the remainder of this report, *the expiration of the TPL is a much greater threat to the apparel side of Bahrain's industry than to the textile side.*

Moreover, while in the final section of this report we propose multiple strategies that Bahrain might pursue in order to secure an extension of the TPLs, any additional TPL benefit will also almost certainly be temporary. *Therefore, Bahrain's ultimate objective should to be to shore up the long-term viability of its textile and apparel industry and ensure the sector's contribution to the country's broader development goals*. There are multiple routes to this objective, including developing a vertically integrated supply chain in Bahrain or finding other ways to meet the U.S.-Bahrain FTA's rules of origin, and/or pursing additional export markets beyond the United States.

3. Profile of Bahrain's Textile and Apparel Industry

Like many other countries, quota availability was what propelled Bahrain's participation in the global apparel trade prior to the phase-out of the MFA. Data collected by Bahrain's Ministry of Industry & Commerce reveal that, since 1980, 35 companies have produced textiles and/or apparel in Bahrain for export to the U.S. market.[8] All but five of these companies established operations in Bahrain prior to the final elimination of MFA quotas in 2005.

In a post-quota world, textile and apparel manufacturers in Bahrain benefitted from the market access provided by the FTA with the United States. Given the limited production of yarn and fabric in Bahrain, these companies have also been heavily reliant on TPLs. However, the availability of TPLs has not been sufficient to stave off a decline in the number of textile and apparel firms operating in Bahrain. Among those establishments that were exporting to the U.S. market after the FTA entered into force in 2006, 17 are no longer operational.[9]

[8] The number of registered manufacturing establishments exceeds this number, since a few of these companies owned and operated more than one factory.
[9] It is unclear if the looming expiration of the TPLs and/or uncertainty regarding their possible extension may have contributed to this decline in the number of firms exporting to the United States.

Bahrain is a relatively expensive location for textile and apparel production. Local manufacturers manage labor costs by employing migrant workers who earn wages that are, in most cases, both substantially lower than those earned by Bahraini nationals and significantly higher than what they would earn in their native countries of Bangladesh, Sri Lanka, India, and Pakistan. In addition to wages, employers cover additional costs for the migrant workforce, including housing, food, transportation, and medical expenses, where necessary. The standard contract term is two years, though employers have the option to request a renewal from the Labor Market Regulatory Authority, the government body that oversees the issuance of migrant worker visas.

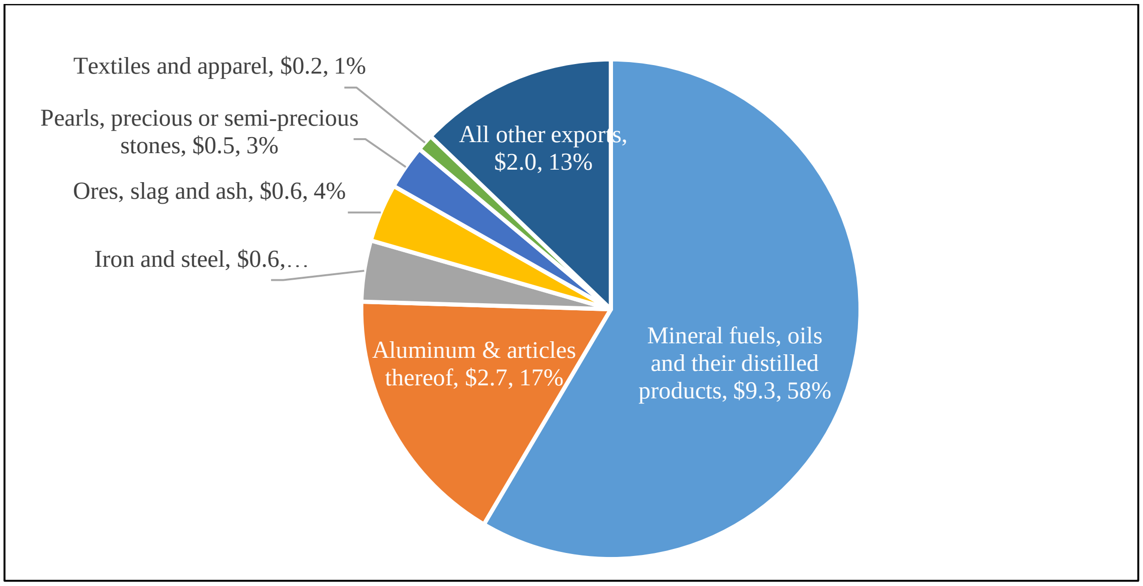
Migrant workers are recruited to Bahrain from major textile and apparel-producing economies, meaning that employers in Bahrain are able to assemble an international, expatriate workforce with experience in the needle trades. This reduces training costs for employers in Bahrain, but the absence of local training may also help explain why, among the already small percentage of native Bahraini workers employed in the sector, very few appear to work in direct production jobs, such as sewing machine operator.

Due to a heavy reliance on motivated and experienced workers, productivity in the Bahraini factories exporting to the United States is reported to be higher than that in the home countries of the migrant workers, and on par with that of producers in Jordan—another country that recruits migrant workers from South Asia. Compared with other apparel-exporting economies, Bahrain's non-labor force advantages include a highly developed infrastructure for industrial production, including a reliable electricity supply, modern ports, and efficient customs processing.

3.1. Profile of Bahrain's Export Sector

Within Bahrain's export sector, textiles and apparel is a leading activity. When oil exports and other primary commodities are excluded, textiles and apparel is the third most important industry in Bahrain's export profile, after aluminum and iron and steel (see Figure 2 below). In 2014, textiles and apparel accounted for 1.1% percent of Bahrain's domestic exports; this is a decline from over 3% of total exports in 2004—one year before the final phase-out of the MFA and two years before the U.S.-Bahrain FTA entered into force.

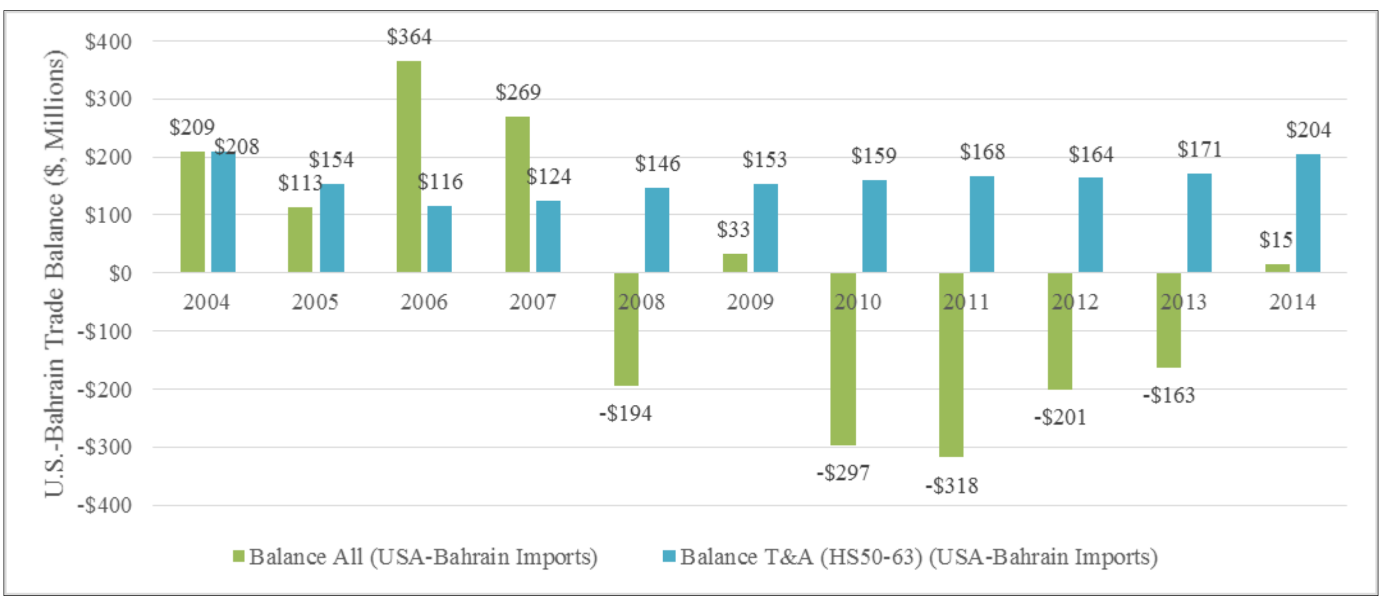
Figure 2: Composition of Bahrain's Domestic Exports, by Value ($, Billions), 2014



Source: UNComtrade (2004-2014b)UNComtrade (2004-2014e); percentages reflects two-digit HS code's share of Bahrain's total 2014 exports. Note: domestic exports equal (total exports) – (re-exports).

Textiles and apparel are also important to the Bahraini economy because it is one of a very few manufacturing industries that enjoys a positive trade balance with the United States. Figure 3 shows that Bahrain's trade balance with the United States has been negative for five of the nine years since the FTA went into effect; in two of the remaining years, 2009 and 2014, the magnitude of the positive balance was small. In all years, in contrast, the balance of trade in the textile and apparel sector (defined here as HS codes 50-63) was strongly positive.

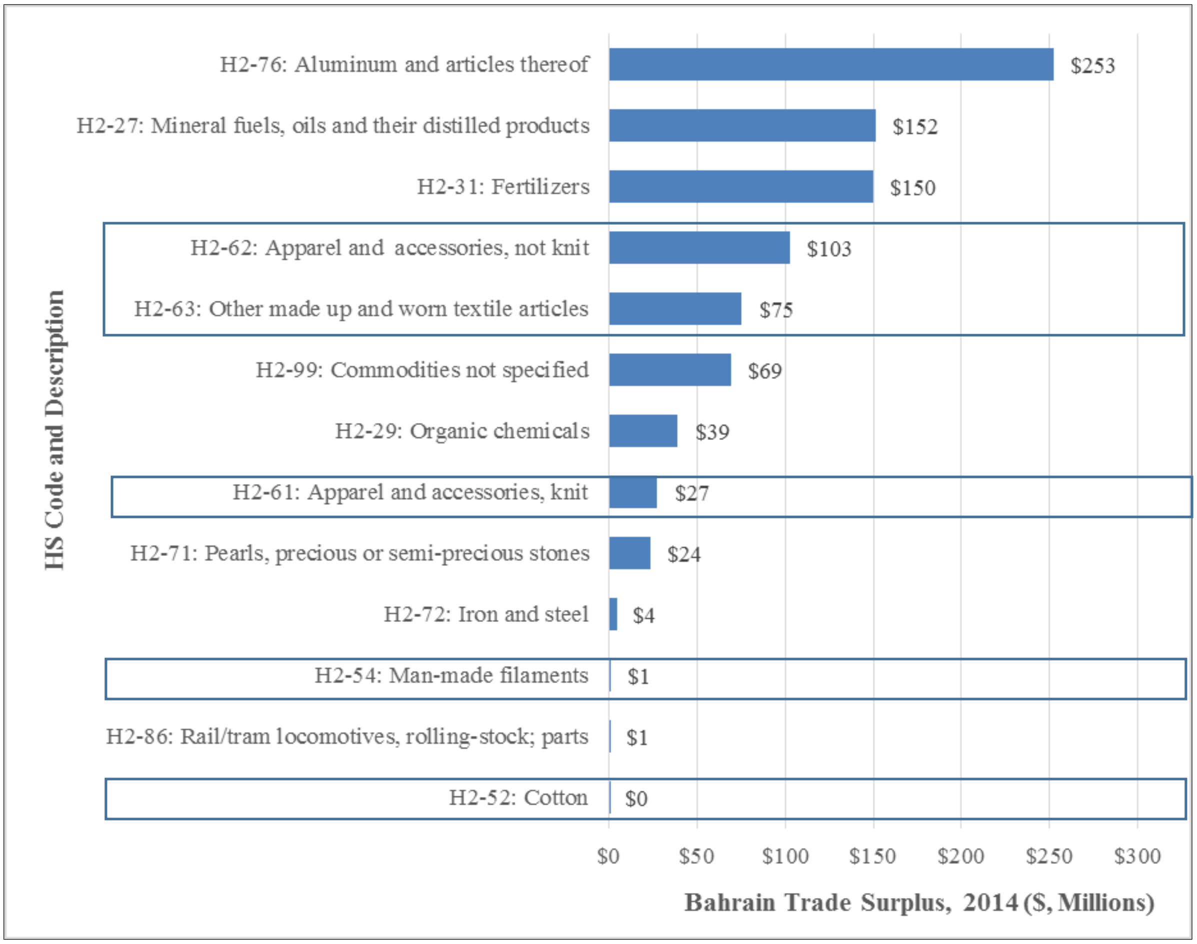
Figure 3: U.S.-Bahrain Trade Balance, All Products and Textiles and Apparel, 2004-2014



Source: UNComtrade (2004-2014a, 2004-2014c) based on Bahraini import data

This point is elaborated in Figure 4, which shows those economic activities in which Bahrain's trade balance with the United States is positive. After aluminum, textiles and apparel is the sector with the largest trade surplus with the United States. This surplus has increased steadily over the period of the FTA, reaching $204 million in 2014.

Figure 4: HS Codes with Bahrain Positive Trade Balance with USA, 2014

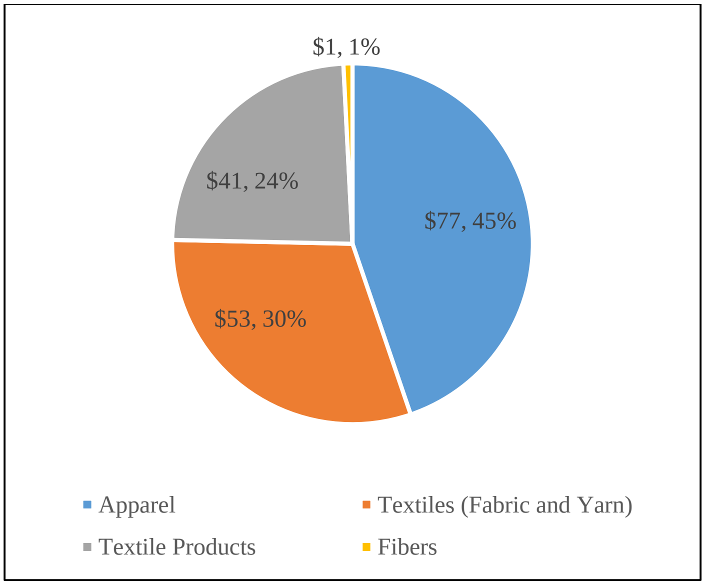


Source: UNComtrade (2004-2014a, 2004-2014c). Note: there is a significant discrepancy between the value of Bahrain's exports and world imports from Bahrain. Textile and apparel codes are boxed.

3.2. Profile of Bahrain's Textile & Apparel Exports and Imports

Within Bahrain's textile and apparel sector, apparel is the leading export category, accounting for 45% of Bahrain's exports to all countries in 2014. Fabric and yarn exports contributed another $53 million to Bahrain's export profile. Although this represents 30% of total exports, very little yarn and fabric is shipped to the United States (less than 1%); most of it is destined for Turkey (47%), Bangladesh (18%), and Egypt (11%). Textile products, mostly the "made ups" referred to earlier, round out the industry's export profile with $41 million of domestic exports, or 24% of the total. Fiber exports are negligible at 1% (see Figure 5).

Figure 5: Bahrain's Textile and Apparel Domestic Exports by Value ($, Millions) by Segment, 2014



Source: UNComtrade (2004-2014b, 2004-2014d); percentages reflect the segments share of total textile and apparel exports from Bahrain in 2014. Note: domestic exports equal (total exports) – (re-exports).

Bahrain's textile and apparel sector has diversified its export markets in recent years, but it is still highly dependent on the United States. The U.S. import market absorbed 90.5% of Bahrain's apparel exports in 2014—down from 96% in 2004. Table 6 shows that other export markets accounting for more than 1% of Bahrain's domestic apparel exports in 2014 include Oman, Canada, Japan, and the United Kingdom. Similar to apparel, Bahrain remains heavily dependent on the U.S. market for home textiles.

Table 6: Bahrain's Top Five Apparel Domestic Export Markets in 2014, by Value, 2004-14

Country	Value ($, Millions)						Share of Bahrain's World Domestic Apparel Exports (%)					
	2004	2008	2010	2012	2013	2014	2004	2008	2010	2012	2013	2014
World	**177**	**55**	**94**	**57**	**60**	**77**						
USA	170	53	92	51	52	70	96.1	95.7	97.8	89.6	85.5	90.5
Oman	3	0	0	3	5	2	1.6	0.7	0.0	5.4	7.8	3.1
Canada	1	0	0	0	1	2	0.5	0.3	0.2	0.8	2.1	2.5
Japan	1	0	0	0	0	1	0.4	0.0	0.1	0.2	0.8	1.4
United Kingdom	2	0	0	0	0	1	0.9	0.0	0.0	0.8	0.6	1.0
Top Five	**176**	**53**	**92**	**55**	**58**	**76**	**99.5**	**96.7**	**98.1**	**96.8**	**96.8**	**98.5**

Sources: UNComtrade (2004-2014b, 2004-2014d). Note: domestic exports equal (total exports) – (re-exports).

While Bahrain's primary export category is apparel, its main import category is fabric. Although there is a textile manufacturer in Bahrain producing apparel fabric (Orta Anadolu, which we discuss in the next section), the company is not currently supplying any local manufacturers, and is instead exporting all of its production. Moreover, since this company only produces denim, and local manufacturers are producing apparel from other kinds of fabric, Bahrain's clothing industry is heavily reliant on textile imports to fuel the country's apparel exports. Fabric imports reached a high of $128 million in 2014. Bahrain also imports yarn and thread, though in more modest percentages, as shown in Table 7.

Table 7: Bahrain's Textile Component Imports by Sector, by Value, 2004-2014

Sector	Value ($, US Millions)										
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Fabric	98	88	51	56	83	58	77	96	82	83	128
Yarn & Thread	45	40	23	24	55	27	53	32	23	24	40
Fibers	0	0	0	0	0	0	0	0	0	0	0
Total	**143**	**129**	**74**	**80**	**138**	**85**	**130**	**128**	**105**	**107**	**168**

Source: UNComtrade (2015b)

Table 8 lists the major fabric suppliers to Bahrain. China is the leading source of fabric for apparel manufacturers in Bahrain, accounting for between one-third and one-half of fabric imports, depending on the year. Romania emerged as an important supplier of textiles in 2014, contributing 18% of the fabric imported by Bahrain. Turkey, Pakistan and India also consistently rank among the top five suppliers, with additional fabric imports coming from South Korea, Thailand, Japan, and Hong Kong.

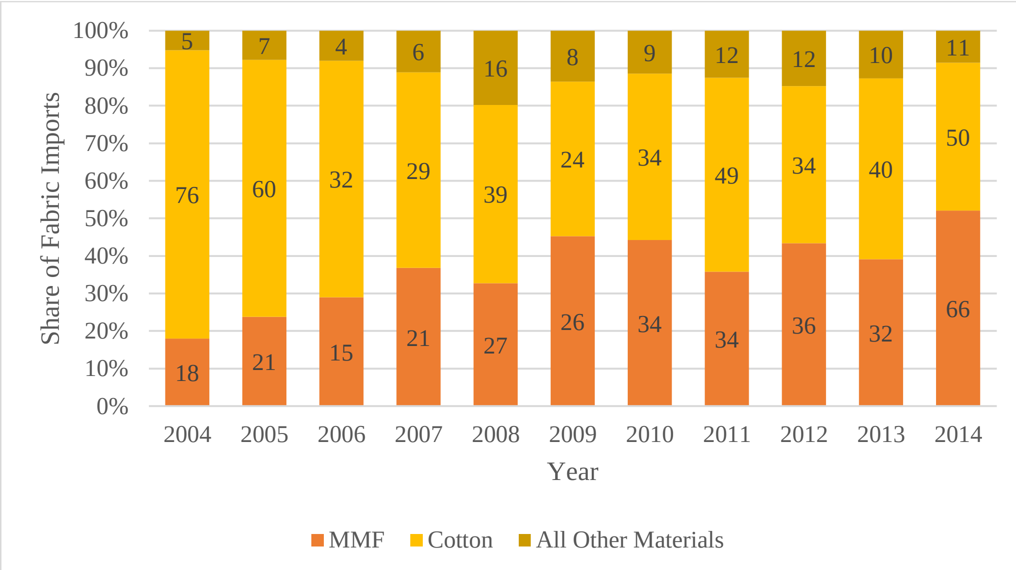
Table 8: Top Five Fabric Import Countries for Bahrain by Year, 2004, 2007, 2009, 2012-14

Country/ Region	Value ($, Millions)						Share of Bahrain's Fabric Imports (%)					
	2004	**2007**	**2009**	**2012**	**2013**	**2014**	**2004**	**2007**	**2009**	**2012**	**2013**	**2014**
World	**98.5**	**56.2**	**57.7**	**82.1**	**82.6**	**127.6**						
China	32.2	21.7	26.3	42.6	43.9	54.7	33	39	46	52	53	43
Romania	--	--	--	--	--	22.6	--	--	--	--	--	18
Turkey	5.7	--	4.9	10.0	6.6	16.2	6	--	9	12	8	13
Pakistan	8.2	4.4	3.8	--	6.8	7.2	8	8	7	--	8	6
Rep. of Korea	--	2.8	--	4.8	3.9	5.8	--	5	--	6	5	5
India	15.5	6.8	5.1	4.5	4.2	--	16	12	9	5	5	--
Thailand	--	--	1.2	2.2	--	--	--	--	2	3	--	--
Japan	--	4.5	3.9	--	--	--	--	8	7	--	--	--
China, Hong Kong SAR	15.2	3.2	--	--	--	--	15	6	--	--	--	--
Top Five	**76.8**	**43.5**	**45.2**	**64.1**	**65.4**	**106.4**	**78**	**77**	**78**	**78**	**79**	**83**
USA	0.5	0.6	0.5	1.6	1.2	1.2	**0**	**1**	**1**	**2**	**2**	**1**

Source: UNComtrade (2015b); all fabric codes; Note (--):country was not a top five supplier in the given year.

Bahrain's textile imports are dominated by woven fabrics, which accounted for 88% of all textile imports in 2014. Fabric imports are split between cotton and man-made fiber (MMF) fabrics. As Figure 6 shows, the composition of fabric imports varies from year to year. Imports of MMF fabric have grown slowly over the last decade, before rising sharply in 2014 to account for over half (52%) of all fabric imports, with cotton fabrics comprising the remaining 39%.

Figure 6: Share of Bahrain's Fabric Imports by Primary Material, 2004-2014



Source: UNComtrade (2015b); all fabric codes. Numbers in the bars represent shares by material for each year.

Turning from imports of fabric to imports of yarn, Pakistan and India consistently rank among Bahrain's top suppliers of yarn and thread. Table 9 shows that, in 2014, these two countries accounted for $32 million of Bahrain's $40 million of yarn and thread imports, with much smaller quantities coming from China, Egypt, Saudi Arabia, and Oman.

Table 9: Bahrain's Top Six Yarn & Thread Suppliers, by Value, in 2004-2014

Country/ Region	Value ($, Millions)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
World	**45**	**40**	**23**	**24**	**55**	**27**	**53**	**32**	**23**	**24**	**40**
Pakistan	7	8	7	13	23	11	16	16	8	12	17
India	29	22	10	7	21	3	16	9	9	6	15
China	0	0	1	0	1	0	2	2	1	1	3
Egypt	0	2	3	0	1	5	6	3	2	2	1
Saudi Arabia	0	1	1	1	0	0	0	1	1	1	1
Oman	1	1	0	0	1	0	0	1	1	1	1
Sum of Above	**37.4**	**34.5**	**21.8**	**21.5**	**45.9**	**19.9**	**40.7**	**31.1**	**21.3**	**22.5**	**38.1**

Source: UNComtrade (2015b); all yarn and thread codes. Note: table includes countries that were in the top five any year between 2011 and 2014.

3.3. Firm Profiles based on Interviews: Production and Employment

In this section, we provide profiles of the four firms in Bahrain that currently export directly to the United States. These include three apparel manufacturers as well as one producer of home textiles. We also examine a fifth company—a textile mill—that is converting yarn into fabric for the home textile producer. After providing brief profiles of each firm, including basic production and employment information, we analyze these companies' supply chains. Our examination of the types of inputs these companies are importing underscores the degree to which they are dependent on the TPL provision of the U.S.-Bahrain FTA.

Ambattur Clothing International: Ambattur manufactures women's dress trousers for U.S. brands, both via direct sourcing and via its relationship with the world's largest trading house, Li & Fung. The parent company, also called Ambattur Clothing International, is headquartered in India, and was established in 1981. Ambattur has been in Bahrain since 2001, and its factory there currently employs 1,450 people, of whom 848 (or 12%) are Bahraini. Additionally, Ambattur has two production facilities in Bangladesh, two in India, and one in Jordan. The production volume of the Bahraini facility is 300,000 pieces per month, all of which is exported to the United States.

M.R.S. Fashions: M.R.S. Fashions is the Bahraini branch of Must Garments, a company headquartered in Hong Kong. M.R.S. Fashions initiated operations in Bahrain in 2000, and opened a second factory in 2014. These factories manufacture women's dress and casual trousers, including denim and twill plants. It has been doing business with its main client, a large U.S. retailer with multiple private label brands, since 2001. The two Bahraini factories employ 2,294 workers, of which 2,080 are migrants (mostly from Bangladesh) and 214 are Bahraini nationals. The current, combined production volume of the Bahraini factories is 1 million garments per month. Must Garments also owns and operates two production facilities in Bangladesh, which employ 10,000 workers, and textile mills in China. Between 2006 and 2010, Must Garments also had production facilities in Egypt. This plant is not currently operational, but the company pays rent on the building and hopes to reopen at some point.

Noble Garments: Noble Garments' parent firm is a company called Neelkemal International Traders, based in Dubai, and it has interests in multiple industries other than apparel manufacturing. Noble Garment has been producing in Bahrain since 2001. The parent firm's production in Dubai was discontinued after the quota phase-out in 2005. In addition to the facility in Bahrain, it operates a factory in Kenya and inaugurated production in Jordan on November 11, 2015. Noble Garments makes men's dress pants from synthetic fabrics, and 95% of its production is for its main client, a U.S. menswear brand. The company employs 800 people in Bahrain of whom 100 are Bahraini. The production volume of the factory in Bahrain is 210,000 pieces per month

WestPoint Home Bahrain: Unlike the three companies described above, WestPoint Home Bahrain is a manufacturer of home textiles, not apparel. Its parent company, WestPoint Home, is based in the United States and has a 200-year history in the textile business. WestPoint Home acquired its facilities in Bahrain in 2006 from their previous owner, Manama Textiles, which was then one of WestPoint's suppliers. Manama Textiles was a Pakistani-owned company established in Bahrain in 1994. The facilities purchased by WestPoint Home include two spinning mills, a weaving mill, a finishing plant (dyeing and printing mill), and a fabrication (sewing) plant. The company produces sheets and semi-finished shells for pillows and comforters. The semi-finished products are completed in the company's factory in Chipley, Florida. WestPoint Home has 1,700 employees in Bahrain, of whom the majority are Pakistani. Bahraini nationals comprise 10% of the workforce. Each month, WestPoint Home produced 2.7 million linear meters of home textiles in Bahrain; some of this product is shipped directly from Bahrain to its U.S. clients, but most is shipped to the company's Florida facility for packing and/or further processing. A very small percentage goes to clients in Europe.

WestPoint also has a facility in in the United States in Chipley, Florida that employs 250 people, of whom one-third work in packing and distribution and two-thirds in manufacturing. The manufacturing segment engages in the final stage of manufacturing comforters and decorative bed pillows that require fiberfill/batting. The outer textile materials for these products are imported from WestPoint's facility in Bahrain, filled in Chipley, and then distributed from Chipley to U.S. customers.

WestPoint's facility in Bahrain is currently capable of producing approximately 70% of the yarn that its Bahraini operations require, and thanks to planned investments in Bahrain, it anticipates that this percentage will reach 80% by the time the TPL is set to expire in 2016. The yarn that WestPoint currently imports is fine, higher count yarn that it uses to manufacture higher-end sheets, not the comforters and decorative bed pillows, which are shipped as semi-finished shells to the Florida plant.

Given that WestPoint can produce the yarn used in the pillow and comforter shells filled in Florida, the expiration of the TPL should have a minimal direct impact on the Chipley facility. If WestPoint decided not to import third-party yarn following the expiration of the TPL, the main product affected would be sheets. Some of the sheets manufactured in Bahrain are shipped to WestPoint's Chipley facility, where they are packed and sold to U.S. clients. Thus, a small number of the Florida workers employed in distribution could be negatively affected. Moreover, although the loss of TPLs would not directly impact the bulk of WestPoint Home Bahrain's production, which already qualifies for duty-free access under the U.S.-Bahrain FTA's yarn-forward rule of origin, the TPL expiration could cause the company to more fundamentally reassess its overall production model and its Bahraini operations in particular.

Orta Anadolu: Orta is a 64-year old Turkish company that has been producing in Bahrain since 2010. Its main line of business is ring-spun denim, which it manufactures both in Bahrain and Turkey. Rather than exporting directly to the U.S. market, however, Orta ships its denim to apparel manufacturers that are producing for leading U.S. jeans brands, such as Levis and Gap. Therefore, Orta exports to many countries from its Bahrain facilities, including Bangladesh, Mexico, Colombia, and Jordan. Like WestPoint Home, Orta is a vertically-integrated producer that imports cotton, spins the cotton into yarn, and then weaves the yarn into denim. In addition to its own denim production, the company also does contract work for WestPoint Home. Specifically, it weaves yarn provided by WestPoint Home into unfinished fabric (greige goods), which WestPoint Home then finishes. Orta is producing 20 million linear meters of denim per year in Bahrain, and 6 million linear meters of greige goods for WestPoint Home. It has 600 workers, of whom 20% (120) are Bahraini.

Table 10 summarizes the employment data of Bahrain's four direct exporters, as well as Orta. The percentage of Bahraini workers employed by these four companies has declined over time, from just under 20% in 2008 to 12% for each of the last three years. In order to put these employment figures in a broader context, economy-wide employment in Bahrain was 694,909 during the first quarter of 2015. Of this total, 156,429 workers were Bahraini and 538,480 were migrant workers, meaning that Bahrainis accounted for 22.5% of the total workforce.

Table 10: Employment in Bahrain's Textile and Apparel Factories, 2008-2015

Company Name	2008	2009	2010	2011	2012	2013	2014	2015	Change: 2008-14
Ambattur Clothing	1,176	1,270	1,254	1,368	1,427	1,548	1,438	1,450	22%
M.R.S. Fashions	969	1,281	1,375	1,410	1,616	2,159	2,163	2,294	123%
Noble Garment	756	555	612	719	827	845	822	800	9%
Apparel share of employment	68%	67%	66%	66%	68%	67%	65%	66%	
Orta Anadolu Textile Bahrain			169	307	356	475	613	600	263%
WestPoint Home Bahrain	1,351	1,509	1,499	1,491	1,452	1,724	1,756	1,700	30%
Total	**4,252**	**4,615**	**4,909**	**5,295**	**5,678**	**6,751**	**6,792**	**6,844**	**60%**
Bahraini Employment	**821**	**802**	**847**	**882**	**838**	**822**	**815**	**848**	**-1%**
Bahraini Share of Employment	**19%**	**17%**	**17%**	**17%**	**15%**	**12%**	**12%**	**12%**	
Female Share of Total Employment	**45%**	**41%**	**39%**	**39%**	**37%**	**36%**	**37%**	**45%**	

Sources: LMRA (2008-2014), data represents December of given year; data for 2015 from company interviews.

Figure 7: Bahrain's Footprint in the U.S.-Focused Textile and Apparel Value Chain

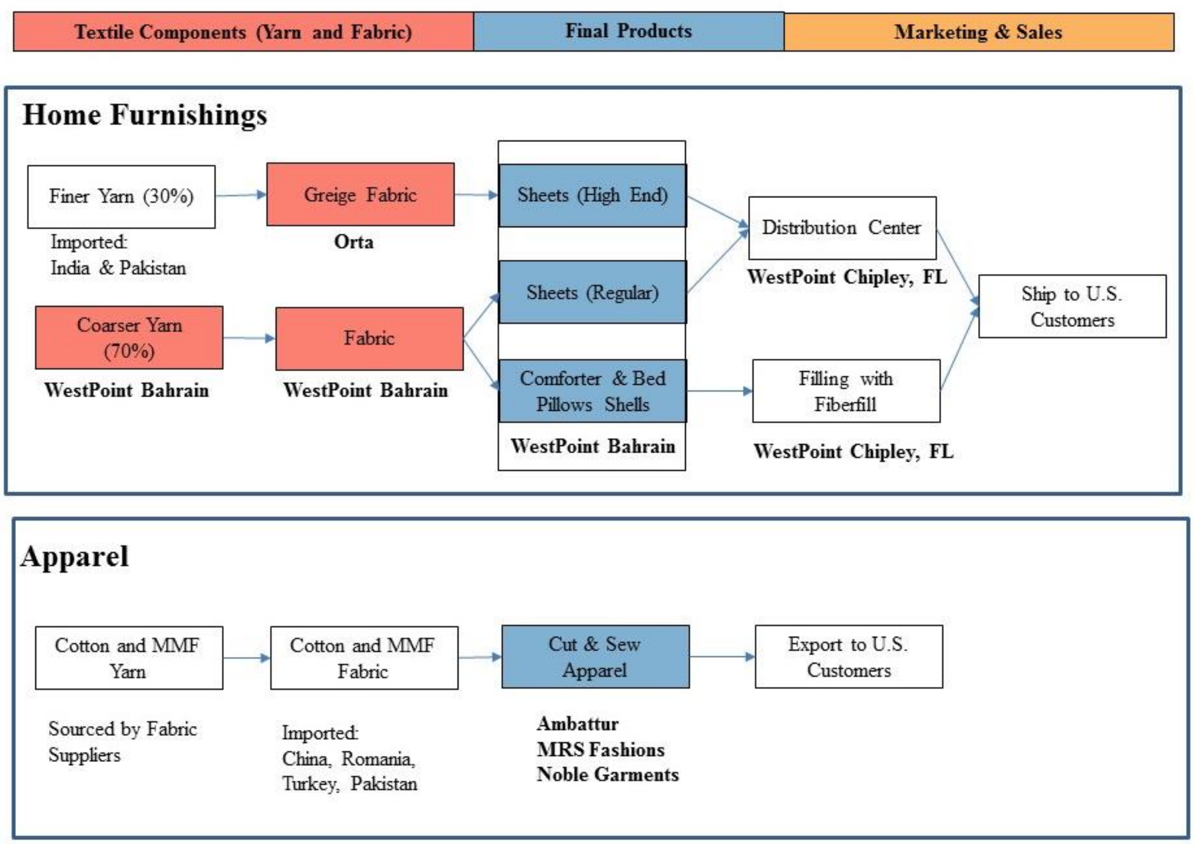


Figure 7 shows which segments of the apparel value chain are represented among the textile and apparel companies exporting to the United States. It illustrates a key difference between the textile and apparel firms. The operations of WestPoint Home Bahrain extend across three segments of the chain: 1) yarn/thread; 2) fabric; and 3) home textiles. In other words, WestPoint produces both components and final products (though some of those products undergo further processing in the United States). In contrast, the three apparel companies occupy only one link in the chain—namely, garment production. They import all of their inputs from abroad. Despite this important distinction, each of the companies exporting from Bahrain imports inputs—all fabric in the case of the apparel manufacturers, and some yarn in the case of the textile firms.

Because the apparel companies are importing fabric from countries other than the United States, the percentage of their final product entering the U.S. market under the TPL provision is 100%. Each of the three companies manufacturing apparel in Bahrain imports fabric from Chinese mills, though the percentage of their total fabric that comes from China (and other supplying countries) varies:

- Ambattur's main fabric import is synthetic blends, most of which comes from Turkey. Ambattur imports an additional 10% of fabric from China, and a smaller quantity from Romania.
- M.R.S. Fashions imports most of its fabric from its parent company's textile operations in China, though it supplements this with imports from Pakistan and South Korea.
- Noble Garments imports most of its fabric from China (65%), but it also receives textiles from Thailand, Taiwan, and India.

As noted earlier (see Figure 6), the three apparel manufacturers in Bahrain use a mix of cotton and MMF fabric, though growth in the latter has been particularly strong since the implementation of the FTA. Production of apparel from MMF fabrics is favored by the fact that tariffs are higher on MMF apparel than on cotton garments. Consequently, the duty-free access that Bahrain's exports receive under the FTA, using TPLs, is particularly important for these products.

Because these garments are made from inputs that do not qualify under the FTA rules of origin, they would not get duty-free access to the U.S. market in the absence of the TPL provision. Under such a scenario, importers would either have to pay the MFN tariff rate on these products, or reengineer their supply chains to meet the rules of origin. The latter option means finding textile suppliers whose products would qualify as yarn-forward under the FTA. Because such suppliers do not currently exist in Bahrain, apparel manufacturers in Bahrain would have to import yarn and/or fabric from the United States. Alternatively, instead of incurring the additional expense and delay of having their Bahraini suppliers import fabric from U.S. textile mills, the clients of Bahrain's apparel firms could simply decide to shift their orders from Bahrain to another apparel-exporting country.

Similarly, the three apparel manufacturers currently producing in Bahrain could opt to relocate their production elsewhere. This possibility is increased by the fact that each has another option in the region. Ambattur already has production in Jordan, and Noble Garments' parent firm will inaugurate production there in November 2015. Must Garments, the owner of M.R.S. Fashions, is retaining possession of a shuttered plant in Egypt, which could be reopened to replace production in Bahrain. Exports from Jordan and Egypt do not have to meet the yarn-forward rule of origin to receive duty-free access to the U.S. market; as discussed in section 2 above, the U.S.-Jordan FTA and the QIZ programs have more flexible rules based on a value-added threshold.

Reconfiguring Bahrain's apparel supply chain to comply with the U.S. FTA yarn-forward rules of origin would be difficult for two main reasons. First, the companies producing apparel in Bahrain report relatively small production runs of many different styles. The average production run for two of the three companies is 25,000 pieces; by way of contrast, the average size of a production run in one of their Bangladesh factories is 800,000 pieces. The third company was unable to estimate an average production run.[10] Manufacturers were skeptical that U.S. textile mills would be willing or able to supply small volumes of the many different fabrics they require.

More significantly, apparel manufacturers are often unable to make their own decisions about the fabric used to fill the orders they receive from clients, since these decisions are typically made by the brands and retailers placing orders. Increasingly, clients "nominate" or designate the mill or mills from which the fabric for a specific order must be purchased by the clothing manufacturer. Consequently, garment producers in the exporting country have limited ability to ensure compliance with yarn-forward rules of origin, while brands and retailers in the importing country can circumvent such rules by shifting their orders among a vast base of suppliers.

Unlike the apparel companies discussed above, WestPoint Home Bahrain is a vertically integrated producer of home textiles. *Much of its production contains yarn spun in Bahrain from imported cotton, which qualifies under the FTA's yarn-forward rule of origin. Therefore, it is far less reliant than the clothing companies on TPLs.* However, as noted above, WestPoint Home currently imports a little more than a third of the yarn that it requires (35-37%) to make bedding, specifically sheets; this yarn is imported primarily from India, with smaller quantities coming from Pakistan and China. It is then provided to Orta, which weaves the yarn into greige fabric for WestPoint Home.

Because the final products containing this yarn do not qualify as originating under the FTA, they require TPLs when imported into the U.S. market. Although WestPoint Home is looking to expand its spinning and weaving capacity in Bahrain, it does not plan to internalize the production of all the yarn that it will require, given the changing nature of the market and consumer preferences. Consequently, it too would need to reassess its current production model in the absence of TPLs. However, given the sizable "bricks and mortar" investment that WestPoint's Bahraini facilities represent, the company is probably much less likely than the apparel firms to shutter its operations or relocate production to another country upon expiration of the U.S.-Bahrain FTA's TPL provision.

4. Making the Connections: Linkages between Bahrain and the U.S. Textile Industry

To date, Bahrain's apparel, and to a lesser extent textile, exports have relied on TPLs. After the expiration of the TPL provision in 2016, and barring any extension of TPLs past this date, duty-free access to the U.S. market will require a different strategy. One option is to increase imports from U.S. manufacturers of yarn and/or fabric. A second is to seek permission to use non-qualifying inputs on the basis of the "short supply" or commercial availability argument. Like

[10] The size varies dramatically across orders, from as few as 500 pieces to as many as 100,000 units, so quoting an average size could be highly misleading.

TPLs, short supply, is an exception to the rules of origin established in a FTA. However, unlike TPLs, a short-supply designation is only made for a very specific type of input (a particular fabric or yarn, based on its composition and characteristics), if it is determined that the input is not available in "commercial quantities" from producers within the trade area.[11]

The U.S.-Bahrain FTA has an unusually brief and vague article, called "consultation," addressing the issue of short supply. To date, only one short supply petition has been submitted under the FTA. The Bahraini government submitted this petition in 2009, and, if approved, it would have allowed products manufactured by WestPoint Bahrain in Bahrain that contain certain compacted, single, ring spun cotton yarns from third-party countries to enter the U.S. market duty-free. Shortly after this request was submitted, however, a similar petition that had been submitted and approved under the CAFTA short supply provision became a matter of dispute on the U.S. side, causing a delay in the consideration of Bahrain's case. The petition was not subsequently revisited and no determination was made.

One way to explore whether the short supply option might be viable for Bahraini producers is to assess whether U.S. firms are currently exporting the main fabric that Bahrain imports. We first examine this question before looking at other sources of textile production in the region—specifically, in those countries with which the U.S. has an FTA or other active trade preference program.

Table 11 identifies the ten leading fabric imports (by HS code) into Bahrain in 2013 and 2014. It also shows U.S. exports of those same products, and, for each year, the percentage of total U.S. exports that Bahraini imports from other countries represent. The colored boxes in the third column provide a rough assessment of commercial availability, based on the ratio of U.S. exports to Bahraini imports of a particular fabric. The red boxes are cases where Bahraini imports exceed the total value of U.S. exports to the world market. The fabric categories with red cells may be strong candidates for short supply petitions.[12]

[11] In the case of the U.S.-Bahrain FTA, this would mean that the yarn or fabric in question is not currently available from a U.S. or Bahraini textile producer.

[12] However, more detailed, firm-level analyses are needed in order to assess the degree to which the FTA's short supply mechanism is an option for manufacturers in Bahrain. We found a number of discrepancies in HS codes at the six-digit level when comparing the import and export data. Company-specific consultations with the firms importing fabrics are the best way to assess whether true substitutes for the inputs currently imported from third-party providers are available.

Table 11: Potential Capacity of U.S. to Meet Bahrain's Fabric Needs

Type, Primary Material, HS Code	U.S. Export Value ($, Billions)		Bahrain's Import Value ($, Billions)		Share of Bahrain's Fabric Imports (%)		Bahrain's Demand Share of Total U.S. Exports in Top HS Codes	
	2013	2014	2013	2014	2013	2014	2013	2014
Fabric Total	**7.0**	**6.8**	**0.1**	**0.1**				
Woven, Cotton, 520939	0.1	0.1	0.0	0.0	29	30	33%	44%
Woven, MMF, 551511	0.0	0.0	0.0	0.0	6	21	22%	114%
Woven, MMF, 551643	0.0	0.0	0.0	0.0	5	8	323%	943%
Woven, MMF, 540761	0.0	0.0	0.0	0.0	6	3	21%	18%
Woven, Cotton, 520921	0.0	0.0	0.0	0.0	12	3	3116%	2241%
Woven, MMF, 540752	0.1	0.0	0.0	0.0	3	3	4%	9%
Woven, MMF, 551512	0.1	0.0	0.0	0.0	2	2	3%	7%
Woven, Cotton, 520839	0.0	0.0	0.0	0.0	0	2	3%	47%
Nonwoven, MMF, 560314	0.2	0.2	0.0	0.0	2	2	1%	1%
Woven, MMF, 551219	0.1	0.1	0.0	0.0	1	1	1%	2%
Top 10 (in 2014)	**0.6**	**0.6**	**0.1**	**0.1**	**67**	**75**	**10%**	**17%**

Source: UNComtrade (2015b)

While Table 11 suggests that U.S. manufacturers do currently have the capacity to meet demand for at least seven of Bahrain's top ten fabric imports, manufacturers in Bahrain may still find it difficult to switch from a third party to U.S. suppliers after the TPL expiration. As noted earlier, there are issues of both cost and lead time involved in importing inputs from the United States, and these factors may make Bahraini manufacturer and/or their U.S. clients reluctant to purchase U.S.-made textiles.

Another scenario to explore is cumulation, which essentially is an amendment to an agreement's rules of origin that permits inputs from *particular* third-country suppliers to count as qualifying under the FTA's rules. This is in contrast to TPL, which permits inputs from *any* third country supplier, at least up to the specified annual limit. Although there is no cumulation provision in the U.S.-Bahrain FTA, they have been included in other agreements, including the U.S. FTA with Morocco, as well as the NAFTA and CAFTA.

In order for cumulation to be a viable option for Bahrain, there would need to be regional suppliers of yarn and/or fabric in countries that have trade agreements with the United States and/or Bahrain. Table 12 lists yarn and fabric exports from countries in the MENA region. The top panel shows yarn exports for each year 2004 and 2014. There are three countries with yarn exports that exceed $130 million in each of these ten years: Egypt (with $396 million in exports in 2014); Israel (with exports of $182 million); and Singapore (with exports of $140 million in 2014).

Shifting from yarn to fabric, the bottom panel of Table 12 shows three countries that exported at least $100 million in fabric in multiple years between 2004 and 2014. Among this set of countries, Israel's exports are both the largest in value and the most consistent over time, varying from a low of $433 million in 2006 to a high of $556 million in 2008. Egypt's export values have fluctuated over the course of the past decade, but they have shown strong growth in recent years with 2014 exports of $271 million. Singapore's fabric exports are also uneven across years; after peaking in 2012 at $241 million, they reached only $95 million in 2014. It is important to emphasize that Table 11 reveals Bahrain to have modest exports of fabric, though the value of these exports have declined steadily, from $70 million in 2004 to $35 million in 2014.

To be clear, the export data presented in Table 12 is for broad HS categories. Determining whether this production could serve Bahrain's textile and apparel manufacturers would require a more thorough and fine-grained analysis—one which disaggregates this data to look at the specific types of yarn and fabric manufactured in the region, and examining the degree to which it matches the specific input needs of the companies currently producing final goods in Bahrain. Moreover, cumulation is not an alternative to TPL at this time, since the U.S.-Bahrain FTA lacks a cumulation provision. Exploration of adding such a clause to the FTA's rules of origin is one of the recommendations we suggest in our concluding section.

Finally, it is important to underscore that fabric made in Bahrain may already meet the FTA's rules of origin if woven from yarn spun in Bahrain. This issue requires further exploration. It also suggests the need to look at Bahrain's current textile and apparel sector, and even more importantly its future prospects, in a more holistic way, rather than assuming it is divided into segments that reflect a particular product profile or market orientation—for example, U.S. versus Middle East countries. Such a perspective is required to identify the possibilities of forging new linkages between different segments of the value chain within Bahrain, and between Bahrain and other producers in the region.

Table 12: Potential Capacity of Regional Yarn and Fabric Producers to Supply Bahrain

(a) Yarn and Thread Exports to the World (based on partner imports)

Country	Value ($, Millions)							World Share
	2004	2007	2009	2011	2012	2013	2014	2014
World	**47,601**	**55,423**	**45,484**	**71,462**	**63,604**	**67,744**	**60,452**	
Bahrain	23	2	0	0	1	7	2	0%
Egypt	170	205	234	490	387	456	396	1%
Israel	160	192	149	213	202	190	182	0%
Jordan	2	4	3	7	3	2	2	0%
Morocco	30	30	15	32	23	27	30	0%
Oman	2	5	7	10	9	8	10	0%
Singapore	166	143	106	152	143	140	140	0%

(b) Fabric Exports to the World (based on partner imports)

Country	Value ($, Millions)							World Share
	2004	2007	2009	2011	2012	2013	2014	2014
World	**97,769**	**115,253**	**93,184**	**129,988**	**118,963**	**123,544**	**103,702**	
Bahrain	70	55	34	47	30	39	35	0%
Egypt	75	117	88	140	172	254	271	0%
Israel	458	473	493	544	542	535	541	1%
Jordan	12	19	13	17	19	18	11	0%
Morocco	93	88	87	94	102	92	60	0%
Oman	1	1	0	1	0	1	0	0%
Singapore	155	126	97	150	241	111	95	0%

Source: UNComtrade (2015b)

5. Conclusions: Main Findings and Recommendations

In this final section, we review the main findings from our analysis of Bahrain's textile and apparel industry in the context of the global value chain. We then outline a set of recommendations for strengthening the industry and increasing its potential to generate industrial diversification, exports, and jobs in an expanding manufacturing sector. These recommendations are divided into: 1) those directed at the TPL issue specifically; 2) those proposing alternative workarounds to the yarn-forward rules of origin; and 3) those addressed to the broader goals of value chain development.

5.1. Main Findings

Textile and apparel's significance to Bahrain's manufacturing sector is evident in its contribution to the country's positive trade balance with the United States, as well as the (admittedly, limited) employment opportunities it creates for Bahrainis, especially Bahraini women. Moreover, the industry is playing a key role in developing a nascent manufacturing sector, as the government seeks to diversify the economy beyond its traditional niches in oil and aluminum production.

While both textile *and* apparel production make important contributions to the Bahraini economy and are often treated as a singular industry, from a value chain perspective it is essential distinguish between the apparel and textile segments of Bahrain's textile and apparel sector.

Bahraini apparel manufacturers, like those in many other countries, were negatively affected by the expiration of the MFA quota regime. In this context, since 2006 the U.S.-Bahrain FTA has given Bahrain's garment exporters an opportunity to maintain their U.S. import market share. To the extent that Bahrain's *apparel exporters* have been able to do so, they have relied heavily on the TPLs provided in the FTA. *The expiration of the TPLs at the end of July 2016 represents an existential risk to the Bahraini operations of the three companies currently exporting apparel to the United States, given that each relies on TPLs for 100% of its exports, and each already has alternative production locations in the region.*

Simply put, clothing manufacturers are in Bahrain for duty-free access to the U.S. market, and this market access is premised on TPLs. The fact that the vast majority of garment workers in Bahrain, as in several other countries in the Middle East, are migrant workers significantly increases the "modular" nature of the industry. As one manager that we interviewed in Bahrain put it, "we'll pick everything up here [when the TPLs expire] and set it down somewhere else."

However, this characterization does not apply to the *textile segment* of the industry. Bahrain hosts two vertically integrated textile firms that export (directly or indirectly) to the United States: WestPoint Home Bahrain produces yarn, fabric and home textile products, while Orta produces yarn and denim fabric, as well as greige fabric for WestPoint Home. Although these companies also currently benefit from the TPL provision of the FTA, they are far less dependent on TPLs than the apparel manufacturers. Moreover, both WestPoint and Orta have made very substantial investments in installed capacity that cannot be easily relocated. *Our assessment is that the expiration of the TPL provision does not directly threaten the continued viability of WestPoint Home's operations in Bahrain, since the majority of its Bahraini production does not* *rely on TPLs. However, it may well result in a contraction of those operations if WestPoint chooses to stop locally fabricating the products that are manufactured from imported yarn that requires TPLs.*

More generally, the vulnerability of the industry to the loss of TPLs underscores the urgent need to identify new sources of supply for textile as well as apparel manufacturers. For the long-term viability of the industry, it is necessary to think beyond TPLs. First, stakeholders need to collaborate in order to explore how apparel manufacturers in Bahrain can organize value chains that support FTA-qualifying final products for the U.S. market. Second, Bahrain should seek to increase its impressive performance in export diversification. These are by no means incompatible or orthogonal strategies; integrating the apparel value chain within the MENA region, especially if combined with a cumulation strategy, can simultaneously expand trade with neighboring economies while also supporting exports to the U.S. market. In what follows, we outline the recommendations that proceed from our findings.

5.2. Recommendations for Maintaining TPLs

We see five specific approaches that Bahrain could pursue as it endeavors to secure some type of extension of the TPLs provided under the U.S.-Bahrain FTA and which are set to expire on July 31, 2016. In addition, we offer other recommendations to strengthen the apparel value chain in Bahrain that go beyond TPLs per se.

1. *Straight TPL extension*: From the vantage point of current producers, the most desirable outcome is a straight extension of the provision—in other words, another 65 million SMEs per annum for the next ten years. Not surprisingly, this outcome is also the least likely, given the U.S. Trade Representative's repeated assertions that TPL is a temporary benefit that will not be renewed upon expiration, and the strong opposition of U.S. textile producers, as represented by the National Council of Textile Organizations.

   The prospects for this scenario may be a bit brighter in light of the recent conclusion of the negotiating phase of the Trans-Pacific Partnership (TPP). While these negotiations were ongoing, the U.S. Trade Representative and the domestic textile industry saw the issue of TPLs under *existing* FTAs as inherently linked to Vietnam's requests for TPLs in an *eventual* TPP.[13] On the face of it, this may be surprising; After all, Bahraini exports are such a negligible percentage of U.S. apparel imports that manufacturers in the United States cannot plausibly claim that imports from Bahrain using TPLs are displacing domestic producers. However, Vietnam's anticipated share of the U.S. import market is far less negligible, and the United States appeared unwilling to set a precedent for Bahrain that could complicate negotiations with Vietnam in the context of the TPP.

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[13] For example, the TPLs allotted to Nicaragua under the Dominican Republic-Central America Free Trade Agreement (CAFTA) expired at the end of 2014. The Nicaraguan government and several U.S. apparel manufacturers and buyers either producing in or sourcing from Nicaragua lobbied government officials to extend these preferences, but their efforts were unsuccessful.

Now that the negotiations have concluded, this concern may have abated somewhat, and U.S. officials may be more willing to countenance TPL extension, particularly given Bahrain's arguments regarding the sector's importance for generating economic opportunity and diversifying beyond oil. Additionally, although arguments that the sector is an important source of employment are complicated in light of Bahrain's very high reliance on migrant workers, the three companies that are most likely to close in the absence of an extension generate 66% of Bahrain's jobs in textile and apparel manufacturing. However, it is worth underscoring that the recently released draft text of the TPP does not include TPLs for Vietnam. Their absence from the TPP may signal a general turn towards stricter enforcement of rules of origin for trade in textile products, and thus may not augur well for the Bahraini case for extension.

2. *TPL extension with a reduced SME volume per annum*: Our analysis of Bahrain's TPL utilization rate demonstrated that the quantity of TPLs granted under the FTA substantially exceeds the needs of Bahraini manufacturers. A reduced TPL allocation of 45 million SMEs per annum would meet current demand for Bahraini manufacturers, while representing a 30% decline in TPL from the original volume of 65 million SMEs per year.

3. *Extend the timeframe for using the original TPL allocation*: Although the TPLs are set to expire in July 2016, Bahrain has not used the 65 million SMEs per year provided in the original agreement. Essentially, this means that imports from Bahrain of third-party fabric have been substantially lower than what the United States was willing to accept over the course of the last decade. Accordingly, we advise seeking a deal that would permit Bahrain to use the remainder of its unused TPL allocation over the next five to ten years.

   Importantly, this proposal may be more palatable than an extension because it would simply imply a change in the timeframe for the TPL so that Bahrain could use the remainder of the original allocation it already received under the FTA. Specifically, the Bahraini government could propose carrying forward the unused remainder of the TPL allocation from each of the past ten years forward into the next ten years (i.e., through 2026).

4. *Negotiate an Earned Import Allowance Program*: The United States has been willing to accept the use of third-party inputs when these are "earned" via the purchase of U.S. inputs. Earned Import Allowance Programs currently exist with the Dominican Republic and Haiti, and such a program was also negotiated between the United States and Vietnam as a side agreement to the TPP (see Appendix E: https://ustr.gov/sites/default/files/TPP-Final-Text-US-Appendix-E-Earned-Import-Allowance-Program.pdf). Under the proposed Earned Import Allowance program for Vietnam, the United States shall issue one "matching" fabric credit for each SME of U.S.-made fabric, though the program is restricted to bottom weight fabric (e.g., fabric used in jeans, khaki pants, shorts, and other

kinds of trousers). In this way, manufacturers in Vietnam can "earn" duty-free access for their exports to the U.S. market by purchasing an equivalent amount of fabric produced in the United States.

Earned Import Allowance Programs use a specific ratio of U.S. imports to matching imports in granting credits, and these vary by country. For example, the Earned Import Allowance Program with the Dominican Republic is based on a two for one ratio (i.e., Dominican exporters receive a credit for one SME of third-party fabric for every two SMEs of U.S.-made fabric they purchase), while the proposed program with Vietnam is based on a one-to-one ratio. Given the cost and time factors involved in importing from the United States, Bahrain would likely require a ratio of less than one in order for an Earned Import Allowance Program to provide importers an appreciable benefit over paying the MFN duty on Bahrain's non-qualifying exports. For example, Bahrain could request the ability to use one SME of non-originating yarn or fabric for every .5 SME of U.S.-made fabric.

Our analysis suggests that a straight phase-out of the TPL is not likely to increase U.S. textile exports, particularly of fabric, to Bahrain; the more probable outcome is that manufacturers will simply relocate to countries where market access is regulated by more lenient rules of origin. Consequently, an Earned Import Allowance Program is one of the few proposals that could plausibly be considered a win-win scenario.

5. *Seek to link the TPL issue to further discussion of U.S. concerns regarding Bahrain's compliance with the labor provisions of the FTA*: In April 2011, the United States' main labor federation, the AFL-CIO, submitted a public report to the U.S. Department of Labor (DOL) claiming that Bahrain had violated its commitments under the Labor Chapter of the FTA. A process of consultation between the Bahraini and U.S. governments was initiated in relation to the complaint, but it has not been formally resolved.

   The substance of the complaint focused on allegations of discrimination and retaliation against workers in relation to the spring 2011 demonstrations, and did not address the labor situation in the textile and apparel industry per se. Nonetheless, Bahrain's willingness to engage with the United States over this issue would signal its commitment to complying with its obligations under the Labor Chapter. This is particularly salient given the heightened attention to labor issues in the context of U.S. trade policy (for example, the United States' withdrawal of GSP preferences for Bangladesh following repeated assertions of labor violations in that country's garment sector).

6. Recommendations for Work-Arounds to the Yarn-Forward Rule of Origin

- *Specify a concrete mechanism for short supply consultation*: The U.S.-Bahrain FTA has an underdeveloped consultation mechanism that, theoretically at least, permits an investigation of an input's commercial availability, and in the event it is found to be in short supply, the use of a third-party product. However, the vagueness of the current provision limits its use in a timely and effective manner.

We recommend seeking an agreement with the United States to consider short-supply petitions on an expedited basis. This would involve creating a more equitable distribution of the responsibility for adjudicating such a request, as the current format is unduly onerous for the petitioner. Bahrain might propose a concrete consultation mechanism whereby U.S. producers have a designated window to respond to a short-supply petition with specific information about their ability and willingness to supply a potential customer with the yarn or fabric in question, *and in the volume sought by the petitioner*. Under such an approach, if no response is received within the designated timeframe (for example, 30 to 60 days), the petition would be presumptively granted.

- *Seek a cumulation deal with other FTA partners*. Given considerations of distance and cost, the large-scale importation of inputs manufactured in the United States is not a feasible option for Bahrain's apparel manufacturers, especially given the variety of fabrics they require and the time pressure they are under to deliver to their clients. However, there is a sizable set of countries in the region that manufacture yarn and/or fabric and that also have FTAs or other preferential trade arrangements with the United States. These include Egypt, Israel, Jordan, Morocco, and Singapore. Bahrain could seek U.S. approval for a cumulation measure that would grant duty-free access to apparel and textile goods that contain inputs from other countries with which the United States already extends trade preferences.

  As an example of how cumulation might work, consider the case of Orta textiles. Orta produces denim in Bahrain and ships that denim to apparel manufacturers that make jeans for U.S. clients, such as Gap. In principle, Orta might be able to supply apparel companies making jeans or other denim apparel in Bahrain for export to the United States. However, even though Orta is weaving denim from yarn spun in Bahrain, garments containing this fabric would not qualify for duty-free access to the U.S. market because Orta uses a small amount of elastomeric yarn in its denim, and it imports this yarn from Singapore. Under the FTA's elastomeric yarn exception to the de minimis rule, this small amount of yarn from Singapore would violate the yarn-forward rule of origin. However, a cumulation deal with Singapore—a country that has FTAs with both Bahrain and the United States—would permit the use of elastomeric yarn imported from Singapore in originating garments.

7. Other Recommendations to Strengthen the Apparel Value Chain in Bahrain

- *Encourage additional investment in yarn spinning and fabric weaving, and explore the possibility of linkages between Bahrain's existing denim mill (Orta) and Bahrain's apparel manufacturers*: Bahrain has multiple advantage as a site for textile production, including well-developed infrastructure, affordable electricity and efficient customs. Moreover, the country's relatively high labor costs are not a prohibitive factor for textile production, since spinning yarn and weaving and finishing fabric are relatively capital-intensive links in the apparel value chain. A domestic supply of textiles would not only help Bahraini exporters to meet the FTA's rule of origin for some products, it would also deepen Bahrain's industrial base and create opportunities for further economic diversification. We particularly encourage Bahrain to explore the possibility of attracting foreign direct investment in MMF textiles, given the existence of a petrochemical industry.

- *Encourage firms to export to other end markets, including those with which Bahrain has FTAs*: For example, WestPoint recently opened a sales office in Dubai to coordinate sales for the institutional market. Bahrain and the UAE have an FTA, so exports to this country would not require the use of U.S. or Bahraini yarn. Moreover, if the trade talks between Bahrain and the European Union resume at some point in the future , Bahrain could be positioned to expand exports to Europe—a market that is already being served by at least one of the apparel manufacturers currently in Bahrain, but from its Bangladeshi as opposed to Bahraini facility.

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