

Unlocking the Potential of Latin America for Global Sourcing Strategies

 COTTON USA™

COTTON @CONFIDENTIAL

Contents

Introduction	2
The Strategic Advantages of Sourcing in Latin America	3
• Proximity to Key Markets	3
• Trade Agreements and Duty-Free Benefits	3
• Flexibility and Agility	4
• Vertical Integration and Regional Collaboration	4
Evolving Capabilities and Product Specialization	5
• Product Diversification	5
• Sustainability and Traceability	6
• Social Compliance: A Regional Strength	6
Addressing Challenges and Bottlenecks	7
• Supply Chain Bottlenecks	7
• Strategic Partnerships	7
Conclusion	8

Introduction

In today's dynamic global economy, sourcing strategies have become increasingly complex, requiring brands and retailers to prioritize speed, flexibility, and resilience. As global supply chains face disruptions, the need for diversified and agile sourcing regions has never been more critical. The current trade environment — marked by tariff volatility and shifting geopolitical dynamics — has accelerated the strategic case for nearshoring and regional diversification, making the duty-free access available through Latin America's trade agreements more valuable than ever. Latin America has emerged as a key player in this space, offering unique advantages that position it as a strategic alternative to traditional sourcing hubs like Asia.

During the recent COTTON USA™ Cotton Confidential™ webinar, “Sourcing in Latin America – Speed, Access & Duty Advantages,” industry leaders, trade experts, and brand representatives gathered to discuss the opportunities and challenges of sourcing in this dynamic region.

This white paper delves into the insights shared during the webinar, highlighting the region's competitive advantages, evolving capabilities, and potential challenges. It also provides actionable recommendations for brands seeking to integrate Latin America into their global sourcing strategies.

The Strategic Advantages of Sourcing in Latin America

Proximity to Key Markets

One of Latin America's most significant advantages is its geographical proximity to the United States, which results in shorter transit times and reduced logistics costs. Shipping times from Latin America to the U.S. range from 3 to 12 days. This proximity enables brands with U.S. distribution to respond quickly to market trends, manage inventory more effectively, and reduce the risk of supply chain disruptions.

As Daniel Facusse, President of the Central American Apparel and Textile Council, noted, "Several Central American ports feature U.S. customs pre-clearance facilities, meaning goods arrive in the U.S. already inspected and cleared — further accelerating delivery timelines and reducing friction at the border."

The ability to deliver products quickly also allows brands to implement replenishment models, which are critical for meeting consumer demand in real time. Jaime Miguel, CEO of Intradeco, emphasized the importance of speed: "We can turn products quickly, manage inventory in real-time, and enable weekly replenishment, which reduces markdowns and increases profitability."

Trade Agreements and Duty-Free Benefits

Latin America's extensive network of trade agreements with major global markets provides a significant cost advantage for brands.

Key agreements include:

- **United States-Mexico-Canada Agreement (USMCA):** Replacing North American Free Trade Agreement (NAFTA), this agreement provides duty-free access for goods that meet the yarn-forward rule of origin, which requires that yarn production and subsequent manufacturing occur within member countries.
- **Central America-Dominican Republic Free Trade Agreement (CAFTA-DR):** This agreement facilitates duty-free trade between the U.S., the Dominican Republic, and Central American countries — including Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica — for yarn-forward goods.
- **EU and UK Agreements:** Agreements such as the EU-Central America Association Agreement and the UK-Central America Association Agreement provide duty-free access to European and UK markets for compliant, fabric-forward goods.

Natalie Hanson, President of Textile Trade Solutions and former Deputy Assistant U.S. Trade Representative for Textiles, explained the importance of these agreements: "By meeting the rules of origin, brands can benefit from duty-free access, which can significantly reduce costs. For example, U.S. duties on apparel can be as high as 32%, while EU and UK duties can reach up to 12%."



Flexibility and Agility

The region's ability to adapt to changing market demands is also a key differentiator. Latin America excels in high-mix, low-volume programs, allowing brands to test new products, respond to demand shifts, and adjust production schedules with minimal lead times. This flexibility is particularly valuable in today's retail environment, where consumer preferences are constantly evolving.

Aaron Mora, Vice President of Product Supply at Carhartt commented, "The speed and flexibility of Latin America allow us to react faster to demand shifts and replenish quicker. That reduces the amount of inventory sitting in the pipeline, and the capital component of the cost of carrying this inventory."

José Pablo Maaud, President of the Mexican National Chamber of the Apparel Industry, highlighted the importance of building strong partnerships: "The expectation of a quick, turnkey capacity for large orders can lead to frustration. Instead, brands need to invest in building strong alliances—a deep mutual knowledge that enables faster responses, product adjustments, and true speed-to-market."

Vertical Integration and Regional Collaboration

Latin America's textile and apparel industry is characterized by its vertical integration, with many companies managing the entire supply chain – from raw materials to finished garments. This integration reduces lead times, ensures quality control, and enhances supply chain resilience. Regional collaboration among countries such as Mexico, Guatemala, El Salvador, Honduras, and Peru further strengthens the region's capabilities.

Carlos Arias, President of Vestex, explained, "The region is acting as one. Investments in one country serve the others, creating a fully integrated supply chain that is efficient and resilient."

The scale of this commitment is significant: the CAFTA-DR region alone has seen more than \$1.8 billion invested in supply chain infrastructure in recent years. Facusse illustrated the practical depth of this regional integration: a yarn can be produced in the U.S., knit in Honduras, sewn in El Salvador, embellished and distributed in Guatemala, and then shipped back into the U.S. — all within the framework of a single CAFTA-DR compliant supply chain. This cross-border collaboration creates a uniquely efficient and resilient sourcing ecosystem.

Evolving Capabilities and Product Specialization

Product Diversification

Latin America has evolved from producing basic cotton t-shirts to offering a wide range of high-value products. Maaquad noted that Mexico alone exports billions in apparel to the U.S. annually and is the single largest importer of U.S. Cotton in the region – a testament to the depth and maturity of the regional manufacturing base.

The region now specializes in:

- **Denim:** Mexico is a global leader in denim production, offering premium wash capabilities and exceptional quality. The country's expertise in denim manufacturing has made it a preferred destination for brands seeking high-quality woven bottoms.
- **Activewear and Athleisure:** Central America has invested heavily in producing high-performance products for the growing activewear market, with mills and manufacturers expanding capabilities across materials and construction.
- **High-End Apparel:** Peru, known for its high-quality cotton, is a leader in premium and sustainable garments. The country's long history of textile craftsmanship has positioned it as a top choice for luxury brands. José Ignacio Llosa, Director of the Textile Committee of the National Society of Industries in Peru, highlighted that Peru ranks among the top three countries in the world by average apparel export price, below only Italy and Switzerland, reflecting the exceptional quality of Peruvian manufacturing.

Juan Jose Cordova, CEO of Textil del Valle, shared insights into Peru's transformation: "Our focus is on giving the consumer garments that deliver sustainability, comfort, transparency, traceability, and quality — rooted in innovation. This innovation is allowing us to rescue a history of more than 4,000 years of making these fabrics."



Sustainability and Traceability

Sustainability is a growing priority for consumers and brands alike. Latin America has embraced this trend, with many manufacturers offering traceable and sustainable production processes. The region's use of U.S. Cotton, which is known for its verified sustainability and traceability, further enhances its appeal.

Cordova highlighted the value of the region's vertical integration for transparency: "Vertical companies give brands and consumers transparency and traceability and confirm what kind of fiber we're using and where we produce. The way to go to market is very transparent for the consumer."

Mora reinforced the strategic importance of the region from a brand perspective: "For us, Latin America isn't necessarily about the lowest cost. It's more about agility, resilience, and balancing the overall sourcing portfolio."

Social Compliance: A Regional Strength

Latin America has established itself as a leader in social compliance, with a long history of prioritizing workers' rights and ethical manufacturing practices. The region's commitment to social responsibility is deeply embedded in its operations, making it an attractive option for brands focused on ethical sourcing.

Carlos Arias emphasized, "Social compliance is not a trend in our region; it's a core value. It's built into the investments and supply chain, making it one of our biggest strengths."



Addressing Challenges and Bottlenecks

While Latin America offers numerous advantages, there are challenges that brands must navigate:

Supply Chain Bottlenecks

Certain trims and packaging materials may need to be imported due to limited local production or brand-mandated suppliers. However, regional sourcing of trims and packaging has improved significantly in recent years, with countries like Peru, Colombia, and Brazil offering more options.

José Ignacio Llosa explained, “The possibilities of sourcing trims and packaging materials locally have increased significantly over the past 15 years.”

Brands have the opportunity to actively partner with regional suppliers to identify and approve locally sourced alternatives — reducing the need to import components from across the world and improving overall supply chain efficiency. As Liz Hershfield, Executive Director of COTTON USA™, noted during the webinar, suppliers in the region can help make those connections, and brands that approach this collaboratively can get the same trims approved through regional sources.

Strategic Partnerships

Large-scale turnkey operations are less common in Latin America, and the brands that benefit the most from working in the region invest in building strong, medium to long-term partnerships with suppliers. Factory visits, collaborative product development, and mutual understanding of business goals are essential for success.

As Maaud emphasized, “Brands need to invest in partnerships and build strong alliances. This approach ensures a robust, strategic partnership that goes beyond simple transactions.”

This model is validated by more than 30 years of successful U.S.-Mexico apparel trade relationships built under NAFTA and USMCA — partnerships that have been forged through exactly this kind of patient, investment-driven approach, and that now underpin billions of dollars in annual apparel trade.



Conclusion

Latin America is no longer just a supplemental sourcing region – it is a strategic partner for brands with U.S. distribution seeking speed, flexibility, and resilience in their supply chains. With its proximity to the U.S., robust trade agreements, and vertically integrated supply chains, the region offers a compelling alternative to traditional sourcing hubs. By investing in strategic partnerships and leveraging the region's strengths, brands can create a balanced and resilient sourcing strategy that meets the demands of today's dynamic market.

For brands looking to explore or expand their sourcing in Latin America, organizations like COTTON USA™ and regional trade associations are valuable resources for guidance and support. As the region continues to evolve and innovate, it is well-positioned to play a pivotal role in the future of global sourcing.

To find out more, please contact Floribeth Gonzalez Schuyler at fschuyler@cotton.org.

