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****Final, Double Issue****

THE PHASE-OUT OF THE MULTIFIBER ARRANGEMENT

The Multifiber Arrangement (MFA), sometimes referred to as the Multifiber Agreement, is a trade agreement adopted in 1973 by the United States, Canada, and Europe that set quotas for the amount of textiles and apparel that other countries could export to these countries. The MFA, which came into force in 1974, was seen as a protectionist measure intended to prevent the loss of textile and garment industry jobs in the US, Canada, and the EU to countries, mainly developing countries, where such goods could be more cheaply produced. It was first seen as a temporary measure, but was extended five times (Hyvärinen, 2000). However, by the end of this year, following a 10-year phase-out program governed by another agreement, the Agreement on Textile and Clothing (ATC), that came into force along with the World Trade Organization (WTO) agreement in 1995, the MFA system will come to an end. This means that in 2005, all WTO members will have unrestricted access to the European, US, and Canadian markets.

The MFA has shaped the pattern of production in garment and textiles for the past three decades by binding countries to maximum quotas of export for specific product categories. Because of the important role the MFA has played in structuring international trade in garments and textiles, the phase-out of this agreement and its system of quotas is important to consider. This *Bulletin* presents information on the different concerns and predictions currently being voiced in relation to the phase-out of the MFA quota system. Labor rights advocates have voiced opinions on how the phase-out and its impacts should be dealt with in order to safeguard the rights of workers, who are sure to be impacted by the changes. These ideas are also presented below.

WHAT ARE QUOTAS?

In this context quotas refer to the limits put on the amount of different categories of garments (ex. knitted T-shirts, sweaters, gloves) and textiles (ex. knitted fabric, acrylic yarn, cotton fabric) that can be exported to the US, Canada, and the European Union (EU). Under the MFA system garment and textile-producing countries were assigned a maximum quantity that they could legally export to the US, Canada, and EU during a particular time frame. The quotas set by the MFA differed per country and per product. The allocation of quotas was generally based on historical export levels (Appelbaum, 2003:6).

In practice, the quota system was an important factor in helping to distribute garment production throughout the world: as some garment-producing countries reached their quota limit, companies looking to outsource production for the US, Canadian, or European markets would place their orders with suppliers in other countries that had not yet exceeded their quota allocation. In this way sourcing "followed" quota.

"Fifty percent of every sourcing decision today is a function of quotas," remarked Paul Charron, chairman and CEO of US garment company Liz Claiborne (Malone 2004).

The MFA helped create garment industries in some countries where such sectors probably would not have emerged on their own, simply because these countries had available quota. In such cases, in 2005 with the lure of these quotas gone, the sustainability of these industries comes into question.

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Box 1: GLOOMY FORECAST FOR BANGLADESH

In Bangladesh "the garment industry is everything," reports *The Wall Street Journal.* With an estimated 1.8 million people working in the industry and garment exports representing nearly 80% of hard-currency earnings, there is great worry over predictions that with the coming quota phase-out Bangladesh is at risk of losing a million jobs (Fritsch, 2003).

Bangladesh is an example of a country whose garment industry benefited from the quota system. In the early days of the MFA Bangladesh had little garment production or exports, but in the early 1980s Korean export agents and U.S. buyers spotted the potential of new suppliers in Bangladesh, a country with large quota allocations. With its designation as a "least-developed country" (LDC), Bangladesh also had duty-free access to the EU.

Most of the country's garment and textile exports currently go to the US and EU. Garment exports went from US $2 million in 1980 to US $ 1.25 billion in 1993 (Hyvärinen 2000). Apparel exports alone generated an estimated $5.1 billion in export earnings in 2001 and nearly $2 billion in economic activity in other sectors (ex. banking, transport, insurance, real estate, utility services, packaging). Now, the phase-out of quotas is expected to have a negative impact on the industry in Bangladesh. With labor costs among the lowest in the world, why are analysts predicting such massive job loss for Bangladesh once the attraction of its quota allocation is eliminated?

Industry analysts believe that Bangladesh will lose out to other Asian competitors India, Pakistan, and China because of low productivity, inadequate infrastructure, unreliable energy supplies, long lead times (120-150 days, compared to 12 days in neighboring India) and the lack of a developed domestic textile industry, which will make it difficult to meet new rules of origin requirements for LDCs exporting duty-free to the EU. Also of significance in terms of competition for the US market are the regional trade initiatives beyond Asia, such as NAFTA and the CBI, which make production locales like Mexico, with better proximity to the US, more attractive (summarized by Appelbaum, 2003).

The spillover effect of losing jobs in the industry could be devastating. One industry analyst described the potential job loss as a possible "social catastrophe" (Malone, 2004). A writer in the *Far Easter Economic Review* (November 27, 2003) likened the challenge facing Bangladesh as one that will "test it like nothing since its bloody 1971 independence revolt against Pakistan: the potential collapse of a garment industry that anchors the economy and sustain millions of families."

Proposals for how to address this challenge include recommendations to vertically integrate the industry to improve production times, diversify the industry and increase the amount of value added by Bangladeshi workers, improve productivity through training, organization and technology upgrades, and continuing favorable generalized system of preferences (GSP) treatment by the EU (Appelbaum, 2003).

"We have no alternative but to improve the quality of our exportable products, otherwise, it will be difficult to survive in the post-MFA era," said Monjurul Hoque, president of the Bangladesh Knitwear Manufacturers and Exporters Association, at a training program for knitwear industry managers in Dhaka in January (BSS, 2004).

Meanwhile, the government of Bangladesh has been slow to move on these issues and there appears to be little action taken to develop a plan to address the needs of the thousands of workers who face the prospect of job loss. As recently as September 2003, Nasiruddin Ahmed, deputy secretary of the Ministry of Commerce said that the government was only as far as reviewing the findings of a foreign consultant hired to develop a rescue strategy of the ready-made garment sector (*The Daily Star*, 2003).

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Meanwhile, countries that were constrained by quotas (such as Hong Kong, Taiwan, South Korea, who were formally big apparel exporters) moved into higher value-added activities (Appelbaum, 2003:10).

Some developing country governments felt that the quota system should be abolished because it prevented them from having greater access to the lucrative North American and European markets and thus hindered growth in their countries.

"…Many countries in the South sought an end to the MFA as they saw it as operating primarily in the interests of the industrialized countries domestic textile and garment sectors," according to Transnationals Information Exchange (TIE)-Asia (Choudry, 2002).

The MFA, in a way provided a certain level of stability: countries could be reasonably sure of a certain level of quota, and thereby of orders, jobs, and foreign exchange. Now that quotas are set to be eliminated there is concern, including from those who once opposed them, that the change will create uncertainty and negatively impact industries that experienced growth during the past three decades.

Quotas also had an impact on *how* the textile and garment industries in certain countries developed. Countries which had a potential to develop an integrated sector, for example the Philippines, abandoned the development of cotton production and of their textile industry because under the MFA it was more profitable to use imported textiles to fulfill their garment product quota.

Methods to circumvent quotas emerged during the MFA period, notably practices such as the altering of "made in" labels, the transshipment from the producer country to a second country from which the products were finally exported, or the falsification of documents.

QUOTA AND COST

Quotas came along with a cost factor. In garment or textile-exporting countries the government would sometimes "sell quota" to brokers or factories (Foo & Bas, 2003: 3). For example, *Women's Wear Daily*, the periodical of the US garment industry, reported that "quota rights are traded as a commodity in China, and the government and some private companies are believed to be making money by selling the right to export" (Malone, 2003). In Indonesia, Bambang Sujagad, the chairman of the investment division of the Indonesian chamber of commerce, noted that there has been a black market business in selling quota and those who do not even have a factory have been able to secure some quota and then sell it to other companies (Fauzan et al, 2004: 62).

In this sense, industry watcher David Birnbaum characterizes quotas as a "form of corruption."

"The quota premiums seldom go to those directly involved in the production process but rather to parasites such as those who are politically connected," he writes (2004).

William Fung, managing director of Li & Fung Ltd., the Hong Kong-based trading group that specializes in garments and footwear, believes that the price of imported apparel will drop once quotas are eliminated because they have been traded as commodities in most nations. What is not clear is exactly how much of a garment's price results from the purchase of quota rights because, as Fung notes, this can vary widely depending on the country, the product category and the time of the year, noting that prices usually increase at the end of the year when there is less quota available. Some put the cost at half the landed cost of a garment. Fung estimates that on average 15 percent of the cost of garments in the United States is due to the cost of quota rights (Malone, 2004).

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Box 2: WHERE QUOTA COSTS FIT IN

Landed duty paid price (LDP) is the price that is paid for an order of garments or sports shoes when it reaches the border of the importing country. This price can be substantially different from the free on board (FOB) price, which does not represent the cost of quota or duties. Consider the difference in price for a garment produced in China and another in Mexico:

Country	FOB	Quota	Duty	Freight	Clearance	LDP
China	$5.75	$2.50	$1.21	$0.40	$0.15	$10.01
U.S./Mexico	$8.13	0	0	$0.15	$0.15	$8.43

Source: Birnbaum 2000: 140

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THE PHASE-OUT PLAN

In January 1995 the World Trade Organization (WTO) put into effect a new agreement that replaced the MFA called the Agreement on Textiles and Clothing (ATC). This was basically a 10-year plan to phase-out the MFA system of quotas and integrate textiles and garments into the General Agreement on Tariffs and Trade (GATT) rules. The ATC, which was preceded by seven years of complex negotiations, is the transitional tool that facilitates quota removal (*Hyvärinen, 2000).*

The ATC phase-out plan, which will have run its course by December 31, 2004, involved four phases. The final two phases (phase three running from 2002 –2004, involving 18% of quotas; and phase four which eliminates 49% of quotas by 2005) are the ones expected to have the most impact as they apply to products that are most strongly restricted by quotas (167 quotas maintained by the EU, 239 quotas for Canada and 701 quotas maintained by the US) (Appelbaum, 2003:9; De Coster, 2003). When quota restrictions are gone the products they applied to will be subject to the WTO's regular rules of world trade.

Some industry-watchers have looked to the earlier years of the phase-out process to draw conclusions about what is to come. The lifting of MFA quotas has already had a negative impact on the Philippine garment industry, writes Roselinda Pineda Ofreneo (2002: 92-93), who attributes this to the mediocre quality of the goods by world standards and notes that Philippine suppliers are only used as secondary sources. In the baby apparel category, where quotas have already been eliminated, the share of US imports has already declined (Just-style.com, 2004c).

Meanwhile, in China the growth of exports in categories that have already been freed up of quota restrictions feeds into predictions that China will do well in the post-MFA order. For example, since quotas on luggage made from man-made fibers were dropped in 2001 China's market share in that category has risen from 13 percent to 62 percent, reports Ira Kalish, global director of Deloitte Research (Malone, 2004). After the lifting of quotas on brassieres, China's exports into the U.S. rose 232%. After the removal of quotas on baby clothes, China's exports surged 826% while those from Bangladesh and the Philippines fell 18% and 17% (US ITC in Foo and Bas, 2003: 4).

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Box 3: REACTIONS VARY TO THE PHASE-OUT

'Textiles is a sector with a future in Europe. In 200 5 import quotas will have gone, but not our interest in the industry: we need to create trading conditions and opportunities so that the European industry can compete internationally"

- EU Trade Commissioner Pascal Lamy (Just-style.com, 2003)

'Th e end of the MFA will be a catastrophic thing that will turn back the clock on our society"

- Nazrul Islam Khhan, senior leader of the ruling Bangladesh Nationalist Party (Fritsch, 2003)

"Developing countries have been preparing for this for eight years. This is a tactical game with the idea that they want to play the game,"

- Munis Ahmed, executive director of the International Textiles & Clothing Bureau in Geneva, a group of 24 exporting nations including China, India, Pakistan and Indonesia (*WWD*, 2003)

"Quotas are not the evil people thought they were. They are a guaranteed entitlement to the U.S. market and that guarantee will disappear on Jan. 1, 2005. Now countries have to go toe-to-toe with China. China has got the waterfront covered. It can ship and make anything and everything"

- Charles Bremer, vice president of international trade, American Textile Manufacturers Institute (*WWD*, 2003)

"Is this the Millennium Bug in reverse? Five years ago we were all terrified computers would stop at midnight, 1-1-2000. They didn't. Similarly, quota abolition isn't going to bring instant prosperity throughout Asia, or even throughout India and China. It will just sort out the sheep from the goats,"

- industry reporter Mike Flanagan (just-style.com, 2004c)

"The European textiles and clothing industry has shown over time its capacity to modernise and to adapt to substantial challenges. Now it is again faced with major developments with enlargement, deep changes in the international trade environment and a marked slowdown in economic activity. The industry is focusing on innovation, research, quality and creation related competitive advantages,"

- EU Enterprise Commissioner Erkki Liikanen (EC, 2003: 1)

"The ATC is being presented as a great leap forward in international trade relations, creating a more equal playing field which will benefit Southern countries more than the North. In reality the main impact of the ATC will not be a relocation of the industry from North to South but a relocation of production sites within the South itself … Those who criticise the ATC present it as a battle ground between South and North, but the real battle is between international capital and workers everywhere … workers in both the North and South will suffer as their jobs become even more insecure and conditions continue to deteriorate,"

- Angela Hale and Jennifer Hurley, Women Working Worldwide (2000).

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THE INDUSTRY WITHOUT QUOTAS

The big question that everyone with an interest in garments and textiles -- from labor rights campaigners to industry representatives to government officials -- is currently asking is "what will happen after the MFA phase-out?"

There is no clear consensus on what the post-MFA order will be. Some industry-watchers decline to predict who will be the "winners" or "losers" once the quotas are phased-out. Others make bold statements on who will come out on top. Some studies offer contradictory predictions on the future of garments and textiles per country (as noted by University of California's Richard Appelbaum in his survey of some 50 studies and reports on the subject (2003: 39). Serious concerns have been raised about the impact on national economies and workers, while others criticize these views as being "scare tactics."

Industry experts also note that even though quotas will soon be gone, that does not mean that the regulatory framework governing the trade in garments and textiles is going to get any simpler or that there will not be other barriers to trade. UK industry consultant Mike Flanagan of *Clothesource Sourcing Intelligence* believes that trading apparel is going to become a lot more difficult, because the GSP system is still up in the air (it was to be renegotiated at the WTO meeting in Cancun in September, but was not), countries that remain outside of the WTO (current examples are Russia and Vietnam) will still be subject to quotas, and duty rates continue to fluctuate (ex. EU duties on Indian bed linen) (Flanagan, 2004). Bilateral and multilateral trade agreements and incentives used to lure investment are other significant factors that will continue to shape trade in these sectors.

Clearly, countries make use of and are directly impacted by quotas. So when the removal of these quotas is discussed, thoroughly considering the impact will mean taking into consideration the different position of each particular country vis-à-vis this system of restrictions and other factors.

In his useful overview on the impact of the MFA phase out and the voluminous literature generated around post-MFA predictions, Appelbaum notes that "countries which are most threatened by MFA phase-out suffer from a common set of interlocking problems at the level of production. Their industries are inefficient, with low productivity and poor quality. They often rely exclusively on a single market (the US or the EU), specializing in a handful of product lines, rather than providing product diversity. They typically lack both backward linkages to indigenous textile industries, and forward linkages to markets, engaging in simple assembly work at the bottom of the value chain" (2003: 48-49).

Countries that have most of their apparel exports in categories that have been highly constrained by quota (those covered by the last two phases of the phase-out) are expected to be in trouble when those restrictions are gone; countries such as Lesotho, Haiti, Jamaica, Honduras, El Salvador, Kenya, and Nicaragua (Hillman in Appelbaum, 2003: 29).

Those developing countries that are expected to benefit from the phase-out of quotas are "those that possess a strong and a diversified mix of textile and apparel products, engage in full package production, produce high-quality, high value-added products, and possess diverse markets outside the US and EU" (Appelbaum, 2003: 29). While in the days of quota, apparel-producing countries that did not have backward linkages into textiles or cotton for example could compete, after this year they will be at a disadvantage when up against countries that can more easily satisfy the terms of trade agreements (for example on such points as rules of origin).

A United States International Trade Commission (USITC) report assessing the competitiveness of foreign suppliers to the U.S. market after the phase-out (based on interviews with representatives of U.S. apparel and textile companies, US retailers, foreign textile and apparel producers, investors and public officials) generally predicted increased sourcing from East Asia and South Asia, with declines in sourcing generally predicted for the Association of Southeast Asian Nations (ASEAN), the Caribbean Basin Economic Recovery Act (CBERA), Andean (Ecuador, Bolivia, Colombia, Peru), and Sub-Saharan African countries, and Mexico. The status of Turkey was seen as uncertain and hinging upon the possibility of a free-trade agreement with the U.S. (US ITC, 2004). For more on how the USITC gathered information and arrived at these and other conclusions, plus a table that summarizes the anticipated effects of quota elimination and key competitive factors in 2005 by region and country, please see http://hotdocs.usitc.gov/pub3671/main.html.

Industry analyst Malcolm Newbery believes the USITC survey is also a good indicator of the view among European buyers.

"Europeans feel warmer to the established Asian and African countries with duty preferences (Sri Lanka, Bangladesh, Cambodia, Mauritius), and both the duty structure and the planned PanEuroMed area make their neighbours more attractive to them than is the case in the US," he writes. He adds however that studies like this only mirror buyers views, which are not always based on an accurate understanding of the world. Such predictions need to be adjusted for buyer misunderstandings (ex. is perhaps the fear of sanctions against China exaggerated?), unpredicted world events, and buyer counter-reaction (2004: 18).

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Box 4: INDONESIA'S FUTURE UNCLEAR AFTER PHASE-OUT

Despite Indonesia's large low-cost skilled workforce and large manufacturing base for raw materials, especially synthetic fibers, yarns, and fabrics, industry predictions have been unclear about how the country will fare after 2004 and it is uncertain what Indonesia's status as a supplier to US and European markets will be (just-style.com, 2004c: 5). As in Bangladesh, there have been predictions that the industry – and workers –- will suffer once quotas are phased out. Jobs losses for the garment and textile sectors in Indonesia following quota elimination are pegged at about one million.

"I think the huge layoffs are going to come in 2004," said Rudy Porter, country director of the American Center for International Labor Solidarity, the AFL-CIO's liaison office in Jakarta (quoted in Shari: 2003). "The effect of the MFA will be massive."

In 2003, a US International Trade Commission (USITC) study that surveyed major US apparel buyers found that they believed Indonesia would provide a good supply base in the future except for the risk of political and industrial unrest. The survey named Indonesia as "a country most American buyers wanted to source more from. But they also cited it as a country about whose stability they had grave concerns: simply the fear of instability was deterring them from establishing buying offices in Indonesia" (Newbery, 2004: 17, 25).

The industry itself refers to several other factors when discussing why the elimination of quotas is expected to have a negative impact. Indonesian Textile Association chairman Benny Soetrisno said that the "lack of trained labour as well as lack of efficiency and lack of funds to upgrade machinery will weaken the national textile industry." Indonesia's Sedane Labour Information Center (LIPS) reported that employers have called upon the government to improve the industry's competitiveness through deregulation and by making bureaucracy and procedures more efficient. LIPS found that the government had done little to prepare for the coming restructuring of the sector. Workers meanwhile told researchers about bad working conditions and the threat of massive dismissals.

In 2002 Soetrisno warned of the near imminent collapse of the industry unless the government took drastic action, pointing to the dozens of factories that had closed down. He cited high taxes, interest rates, and energy costs as problems, as well as labor disruptions as reasons that production had shifted away from Indonesia to other countries (just-style, 2004b; just-style, 2002). Indeed, in recent years labor rights activists have been concerned that as workers have tried to exercise their rights to freedom of association and collective bargaining, and push employers and buyers on such issues as living wages, orders have been relocated to other countries.

"…There will never be a 'sunset' in our textile industry as we are a country of 220 million people, how could the industry die?" Rini Soewandi, minister of industry and trade, optimistically remarked in a meeting with the government's WTO negotiation team in August 2003. However, at that time her director general of foreign trade revealed that the government had not yet formulated any special plans to help textile and garments makers deal with tougher export competition. In November 2003, with exports to both quota and non-quota markets declining, the Indonesian government revealed plans to lobby the United States and Europe to maintain textile export links with the country after the elimination of quotas in 2005 (Fiber2fashion, 2003a; just-style, 2003b). Responding to industry and some trade union requests (though generally many unions and most workers remain unaware of the MFA or the quota system), the government unsuccessfully lobbied the U.S. and the EU to extend quotas (Fauzan et al, 2004).

Meanwhile, Jadin Djamaludin, deputy chairman of the Indonesian Textile Producers Association suggested that one way to face the post-MFA challenge was for the industry reposition itself to focus on the possible potential of the Muslim market, with Muslim styles and ethnic designs, geared toward the Asia and the Middle East (*Asia Pulse*, 2003).

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Despite differing opinions on what the quota phase-out holds for specific countries, China is almost universally predicted to be among the likely "winners" after the phase-out (see related box below). Other countries that are expected to fare well after quotas are eliminated, according to industry resource Just-style.com, are India (due to huge, cheap, skilled labor force, design expertise, one of the world's largest yarn and fabric producers, wide range of apparel , competitive on home textiles, has a huge domestic market) and Pakistan (large relatively cheap labor force, local raw cotton), which they see as being among the most competitive alternatives to China (Just-style.com, 2004c).

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Box 6: CHINA: THE BIG WINNER?

China is the world's largest single producer and exporter of garments and textiles. That's with many quota restrictions still in place. In 2002 China's share of textiles and apparel imports to the U.S. was 16 % and 11 %, respectively (ATMI, 2003). According to Euratex figures, China is the dominant textile and clothing exporter to the EU – increasing from €8 billion in 1999 to €13 billion in 2003 (De

Coster, 2004). In Japan and Australia where no quotas are in place for apparel, China's market share is over 70%. Some are predicting that this will happen in the US and the EU. But will all textile and garment production go to China as some are predicting?

Currently, this is a threat frequently made to workers in the industry around the world who attempt to organize to defend their rights. China is predicted to be the big winner in the post-quota landscape, with more and more apparel companies and retailers expected to source in China. Labor costs are very low due to low wages and high productivity (though not the lowest in the region); all the inputs needed are on hand (fabrics, trim, packaging, etc.) and China's industry produces garments at all different quality and price levels.

In the year after China joined the WTO (Dec. 2001), textile and garment exports to the US from China rose in volume by 125%; EU textile and garment imports from China increased by 53% in value and by 164% in volume in. As mentioned above, in categories where quotas have been removed Chinese exports skyrocketed. In 2002, the volume of US imports from China increased 242% for gloves, 250%for bras, and 557 % for dressing gowns (De Coster, 2003).

With even more production likely to move to China once all the quotas are phased out, there is concern for industries and workers that will lose orders and jobs.

"China is wiping the board and threatening to destroy the economies of more than a dozen poor textiles-dependent countries," said Neil Kearney, general secretary of the International Textile, Garment and Leather Workers' Federation (ITGLWF, 2004), adding that "the WTO must urgently find solutions."

However, it does not seem very likely that *all* production will go to China. Though it might have the capacity to "clothe the world" and has access to both textiles and cotton, industry analysts predict that sourcing companies will not risk relying on just one country for all their production, and while China will be important, an equally important second-tier of suppliers will emerge.

"It is true China is a formidable competitor, but so [are] Mexico, Canada, India, Pakistan, [South] Korea and Taiwan," said Julia Hughes, vice president of international trade at the U.S. Association of Importers of Apparel and Textiles. "It is not this simple story where everything will go to one place" (quoted in *WWD*, 2003).

The USITC survey of US garment buyers, found that while "China could provide most needs…traders were nervous of possible US sanctions" (Newbery, 17). The survey suggested that US buyers want alternatives to China. The outbreak of the SARS virus also made clear the risk of a sourcing strategy too reliant on China (Flanagan, 2003).

"Most of us do feel there will be some limits put on China, but we still have to be positioned for the future," said Nancy Marino, senior vice president of worldwide sourcing and brand development at US retailer Sears, Roebuck & Co. A priority for Sears will be building up their presence in China before quotas are removed. Already, according to Marino, the company's central office in Shanghai, has a staff of more than 50 (Malone, 2003).

Daniel Bernard, Chairman and CEO of France's Carrefour, the world's second largest retailer (behind Wal-Mart) said that China will become more important in Carrefour's sourcing policy but they will "continue to source from India and other Asian countries and as well from the EuroMed region" (De Coster, 2003).

Temporary quotas imposed

The rapid growth in China's shipments of bras, dressing gowns and knit fabrics to the U.S. prompted the Bush administration to activate temporary safeguard quotas on five categories of Chinese imports in November 2003. Such temporary safeguards are allowed under the WTO accession agreement for China. This allows for limits on imports from China in very specific circumstances (conditions relating to the "disruption of orderly trade") until 2008, and some other similar safeguards until 2014 (Malone, 2004; Newbery, 2004).

De Coster explains that "such quotas may last for no more than a year (for each case), and while consultation about quotas is going on, China must hold its export growth to 7.5% or less (that is, to a slower rate than the industry has achieved in the past decade)" (2003:15).

Textile Outlook International concludes however that 'The new quotas are unlikely to have much impact on China. The five categories accounted for only 0.3% of Chinese textile and apparel exports in 2002. The quotas are also unlikely to have much impact on the US textile industry. Limiting import growth from China will not make the US textile industry more competitive against low labour cost countries. Instead, it will provide more market share for other low cost suppliers. Perhaps the most significant impact, however, will be to deter US buyers from sourcing in China" (2003).

Sweatshop Watch, the U.S.-based garment workers rights organization, has criticized the inordinate amount of attention China has received in debates on the future of the textile and apparel industries.

"Opportunist politicians would like U.S. workers to believe that Chinese workers are taking our jobs, but the reality is that U.S. corporations are moving their production every day in search of lower costs and higher profits," write Sweatshop Watch's Lora Jo Foo and Nikki Fortunato Bas. "If we recognize that the problem lies with multinational corporations whose only concern is the bottom line, we can unite across national borders in holding them and global institutions accountable because they control the current rules of the global economy" (2003:1-2).

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FORECASTING THE FUTURE

The following are some of the predicted impacts of the phase-out:

- *Consolidation of the industry*

Without the need to source production in countries and with producers that have quota, industry insiders are predicting that the garment and textile industry will become more consolidated. The US State Department has also predicted that while US importer currently purchase garments and textiles from 40 to 60 countries they predicted that number would drop to 20 to 30 countries by late 2005-early 2006, and that by 2010 the number of foreign supplier could be as low as one-quarter or one-third of the current number (Foo and Bas, 2003).

The U.S. Association of Importers of Textile and Apparel believes that "there can be little question that there will be consolidation in the post-2004 world. U.S. importers and retailers have been limited in their ability to rationalize operations so long as quotas forced them to rely upon facilities in many more locations than would otherwise be justified" (Appelbaum: 6).

Instead of selecting producers because of their access to quota, other factors (ex. turnaround time, reliability, quality) will become more important. Industry insiders are predicting that this will make the system more efficient. When quotas are lifted, inefficient manufacturers will lose their previous advantage (Fung in Malone, 2004).

However, not all quota holders are worried that they will lose out once this advantage is removed.

Deepak Mohindra, editor-in-chief of *Apparel Online* and *StitchWorld*, trade journals of the Indian garment industry, observes that "Exporters who have huge holdings in quota do not feel that they will be at a disadvantage with the quota phase out in fact most of them are very confident that besides the infrastructure they have created, the relationship they have developed with the buyers will translate into positive business once quotas no longer effect buying decisions."

He reports that Prem Verma of Sewa Exports, reportedly the biggest quota holder in India says "Why should exporters like me who have substantial holdings be scared of the non-quota scenario. We have built our business to a level when the absence of quota will not in any way be a negative factor. After all, we have created a quota holding based on past performance. The buyer is not a fool and he only comes back if the product being supplied is to his satisfaction" (Mohindra, 2003).

Clearly, a concern connected to this efficiency prediction is how will efficiency be defined? How will good labor practices fit into the equation?

Workers will be hurt by job losses, worsening labor practices

The restructuring of the industry that will be ushered in by the removal of quotas will mean job losses for many. This will be most hard felt by workers in countries with economies that are overly dependent on the apparel industry where there are weak or non-existent social safety nets and few opportunities for employment in other sectors (ex. in Bangladesh, as described above). Also in the more diversified economies where jobs were also protected (ex. United States) the problem of job loss for garment workers will be compounded by the fact that they are drawn largely from particularly vulnerable segments of the population (ex. female migrant workers whose employment options and access to social security provisions are limited by language, skills, and legal status).

Whether in countries where the industry is expected to shrink or not (ex. China and India) there are concerns that the phase-out of quotas will have a negative impact on labor practices. As the competition to provide lower cost production becomes more intense when quotas are removed, labor rights advocates fear that the "race to bottom" will be accelerated as countries feel the increased need to promote themselves as supplying the cheapest, most flexible labor in a workplaces regulated by the fewest by few social and environmental controls. Flexibilization in the garment industry translates into informalization which means worse working conditions and fewer legal protections for workers.

Job losses and large-scale collapse of some garment and textile industries

With the industry projected to become more consolidated and shrink or leave those countries where garments and textiles became big earners due to quota allotment and pressure to follow low-wage, low-skill production export-oriented models of economic development, there will be hard felt repercussions for national ecomonies and workers.

Trade agreements, which facilitate the investment in garment and textile industries in some countries or regions will be a factor in preserving jobs in some countries, but are not seen as providing enough of a deterrent to prevent buyers from looking elsewhere. Countries that have enjoyed tariff-free treatment from the US, for example Mauritius through the provisions of the African Growth & Opportunity Act (AGOA) are not expected to be competitive enough with the lower costs and full-service package that countries like China or India can offer.

"It is a very serious concern," said Peter Craig, trade commissioner at the embassy of Mauritius in the U.S. "In the case of Africa we have AGOA, which began helping create meaningful employment and economic development in the poorest countries of the world. If that suddenly disappears on the first of January 2005, it will be another serious blow to the poorest of the poor. It is only 18 months now before the end of the Multifiber Arrangement and people will not invest with so much uncertainty. Our concern is not only for Mauritius but for the terrible repercussions on all African countries" (quoted in *WWD*, 2003).

Some governments and industry associations, as well as some trade unions and global justice organizations have been pushing for the re-imposition of some quotas, in order to prevent job losses, weakening economies and worsening conditions, however this is unlikely to happen as it would require a consensus among all 146 WTO member countries.

Garment prices will go down

With the cost of quota removed and the need to make sourcing decisions based on quota availability eliminated, some industry experts are predicting that garment and textile prices will go down.

"We see a lot of impact on pricing," when the nations of the World Trade Organization drop their quotas on textiles and apparel, said Mackey McDonald, chairman and chief executive officer of VF Corp. "How much are prices going to change? The assumption we're making is about 15 percent."

In general garment industry MNCs are predicting a drop in prices anywhere from 5 to 20%, with the most commonly quoted price cut being pegged at 15% (Malone, 2004).

Lower prices coupled with predictions that the industry will become more efficient and involve fewer risks are seen in most phase-out studies as benefiting consumers in North America and Europe (Appelbaum, 2003: 28).

New trade barriers to replace quotas

When the MFA quotas are gone tariffs, anti-dumping measures, and bilateral trade agreements have been predicted to be important factors that will shape the garment and textile trading environment.

“There will be a fight to keep tariff protections as they are,” according to Dutch industry expert Michel Scheffer, speaking about the future of the industry in Europe “and rules of origin will be used to keep production in the European area. More non-tariff barriers will also develop (for example along the lines of the restrictions that were developed regarding the use of cancer-causing AZO dyes) and this will create uncertainty” (quoted in Ascoly, 2003).

So-called technical barriers to trade (TBTs) are grounds for limiting the entry of products under the WTO rules. (Ascoly and Zeldenrust, 2003).

There are other possible barriers. Under the WTO agreement countries facing a surge in imports, especially if those imports are arriving at non-commercial prices (“dumping”), have the right to adopt so-called emergency measures, called “emergency anti-dumping duty.” The EU recently did this for footwear and bed linen.

FACING UP TO THE PHASE-OUT

In general, governments in countries with garment and textile industries likely to be effected by post-MFA restructuring have been slow to react to the challenge the quota phase-out poses, despite advance knowledge that such changes were to come. Up until a few years ago, labor rights activists had also been relatively silent on the subject.

Generally there is an air of resignation about the coming elimination of quotas and a lack of consensus on what specific strategies should be pursued. This is probably due to the fact that there is no one single strategy that fits the needs of the very different countries for which the most negative effects are predicted.

Indeed, Sweatshop Watch notes that “garment workers in every country must address their unique local needs. However, new global strategies and alliances are required to tackle the imminent changes in the garment industry due to free trade” (Foo and Bas, 2003: 2).

Box 7 : European Commission Response to Quota Phase-out

In Europe the European Commission has recognized the serious challenges that quota phase-out, along with EU expansion, pose to the European textile and garment sector, whose 177,000 companies have a combined turnover of •200 billion (2002) and which accounts for approximately 4% of total EU manufacturing production and 7% of manufacturing employment. EU enlargement is expected to add half a million direct employees to the EU textiles and clothing industry's 2.1 million workforce. The Commission formed the Textiles High Level Group in March to develop recommendations on how to improve competitiveness in the European textiles and clothing industry. Ideas coming out of the EU leading up to the formation of this High Level Group included reduction and harmonisation of customs duties to enhance market access and the elimination of all non-tariff barriers, completion of the Euro-Mediterranean area by 2005, and examining the use of a “Made in Europe” label of origin to promote European quality products and offer consumers better information (EC, 2003: 3). For more complete information on these recommendations, please see <http://europa.eu.int/comm/trade/issues/sectoral/industry/textile/pr050304_en.htm>.

Preserving market share with better productivity?

A number of reports have called for increasing productivity through skills training and technology upgrades as ways in which garment and textile industries in countries at risk of losing orders can meet the challenge of the post-quota regulated marketplace. Diversification, developing local inputs, and investing in infrastructure improvements are also often recommended as ways to face up to the phase-out (Appelbaum, 49).

However, as the Sudwind Institute, a member organzation of the German Clean Clothes Campaign recently noted 'the answers offered by individual countries and industry organizations are rather shortsighted. They all propagate a diversification of exports, the accessing of high quality markets, an abandonment of mass markets, and an updating of their technology and infrastructure. But if everyone follows the same strategy, what will be the long-term consequences? Within the current economic environment, only a few will be able to profit from such a strategy. The majority of workers worldwide would be among the losers" (2004: 3).

Regional cooperation in order to survive?

In her study of how African apparel firms in the sub-Saharan region can be more competitive after the phase-out, Philadelphia University's Natalie Weathers concludes that 'the answ er lies in regional partnerships between African nations."

'There are ways that African apparel firms can build competencies by reaching across national boundaries and building regionalism into their marketing strategy. Partnering means firms must be in a position to be flexible and responsive to each other. This requires open communication facilitated by investments in technology. Governments and private sector have to work together to achieve this," according to Weathers (2004). "African apparel firms ca nnot be successful only on their own because of capacity constraints or limited access to raw materials. In order for African apparel firms to create a permanent presence in the USA market, a shift in mindset is required to think in terms of 'What is good for the Africa region?' versus 'What is good for my company only?'"

Others have also called for the development of regional trading blocs in other parts of the world as a possible key strategy for remaining competitive (ex. Appelbaum: 50).This is also linked to many recommendations that countries push for better bilateral governmental agreements. For more on the role of trade agreements in the garment and textile industries, please see Bulletin #4 <http://www.somo.nl >.

Preserving market share with better labor standards?

Attention to social and environmental standards has also been cited as a way in which countries particularly at risk of job loss could make their industries more competitive.

"The producers in developing countries are well advised to follow the recent development in industrialized countries particularly in the field of environmentally friendly products, production methods, social clause and social labels," suggested Antero Hyvä rinen, senior market development officer, ITC, Geneva in 2000. Governments also have a role to play in this context, by initiating labor law reforms that raise standards to meet International Labor Organization standards set out in the better codes of conduct.

"Countries with labor laws consistent with …codes of conduct – and the means to enforce them – could effectively market themselves to the more socially-conscious US and EU retailers and manufacturers," noted Appelbaum (2003: 50). This is a strategy that has not been seriously addressed in much of the MFA phase-out literature, he observed.

Following the "compliance as competitive edge" strategy costs money and comes back to a question that those involved in the corporate social responsibility debate have been posing for years: who foots the bill? Clearly suppliers, especially in LDCs, cannot cover the costs on their own.

"About half the factories I see are improving compliance with labor standards," said Suraiya Haque, who has carried out audits for the Fair Labor Association in Bangladesh. "We hope these are the ones that survive." But, she added that many suppliers are unsure about the future and therefore are not willing to invest in compliance (quoted in Fritsch, 2003).

The EU has included compliance with labor standards in its discussions of the future of the sector. Anna Diamantopoulou, the EU's Commissioner for Employment and Social Affairs noted that: "An important aspect of the Commission's proposals for the textiles industry is the focus on issues of corporate social responsibility - including respect for international labour and environmental standards - and responsible management of industrial change, including consultation of workers in good time." In an October 2003 statement the Commission called for the exploration of the use of labeling to facilitate access to the EU of products made in respect of international labor or environmental standards (EC: 2).

Box 8: Sri Lanka: Marketing Compliance

In Sri Lanka, where the government announced a five-year plan in December 2003 for the future of the garment and textile industries (Fiber2Fashion, 2003b), there are plans to pursue social compliance as a marketing tool to boost business after the quota phase-out.

The European Commission granted additional benefits to Sri Lanka in January 2004 under the EU's Generalised System of Tariff Preferences (GSP), "rewarding the country for making good progress towards full compliance with the core labour standards as defined by the International Labour Organization" (just-style, 2004a). The country has since set up a special committee to help all apparel export companies become socially compliant, and that government and industry groups "have pledged to build the competitiveness of the Sri Lankan industry by championing its compliance with national and international standards." And recently, the country's Joint Apparel Association Forum (JAAF) co-hosted a workshop, along with the ILO and Employers Federation of Ceylon, to see how the industry in Sri Lanka could move forward on social compliance (Just-style, 2004a). What will come of such initiatives remains to be seen.

Meanwhile, exercising such core rights as freedom of association and collective bargaining remains a struggle for garment workers in Sri Lanka's free trade zones, according to the Clean Clothes Campaign. The CCC has campaigned in support of organizing efforts by the Free Trade

Zone Workers Union in Sri Lanka, which has faced an uphill battle in pushing employers to grant recognition to the union and end discrimination against workers involved in organizing efforts. For more on the possible impact of the quota phase-out on garment industry in Sri Lanka and implications for workers, see Dent and Tyne (2002).

- Addressing workers' needs

The Maquila Solidarity Network notes that "while there has been a great deal of speculation on the impacts the MFA phase out will have on investment and sourcing patterns, and which garment producing countries will be 'winners' and 'losers,' very little attention has been paid to the potential consequences for workers in particular countries, such as the impacts on jobs, wages and working conditions, or workers' ability to exercise and defend their rights. Nor has much attention been given to the need for new strategies and international alliances to defend workers' jobs, standard of living and rights" (2003: 2).

Sudwind, in their critique of the responses to the MFA phase-out, point out that this period of immense structural change and upheaval for workers could be seen as on opportunity to debate a new regulatory framework for trade and labor and calls for an international level consultation, taking the ITGLWF's recent suggestion that the ILO and WTO cooperate more closely under the auspices of the UN as a possible first step. But a new regulatory framework takes time and in the meantime, transitional steps are needed, they note, naming quotas for large exporters and social hardship and worker training funds set up by multinational clothing companies as possible measures (Sudwind: 4).

WORKERS FACE MANY URGENT ISSUES

With restructuring of the garment and textile industries a guaranteed consequence of the quota phase-out, the issue of compensation to workers who lose their jobs due to factory closures or downsizing is also certain to be an increasingly important issue. Relocation is nothing new in a sector that has often been characterized as highly mobile, but unions and other workers' rights advocates are likely to face increased cases in which workers will need support in getting the benefits (ex. severance pay) that they are entitled to. With much of garment production taking place in the informal economy where workers are beyond the scope of current legal protections, many workers will be left without jobs and without any compensation.

Retraining and support for jobless workers will be a pressing issue. Governments, as well as international organizations, such as the International Labour Organization (ILO), will need to play a role in organizing or providing financial support to address these needs.

The workforce in the global garment industry is highly feminized and given the potential for large-scale job losses in some countries when quotas are removed (ex. in Bangladesh where some 90% of the workforce in the sector is female), there is sure to be an immediate and disproportionately negative impact on women. A gendered analysis of the impact of the quota phase-out and the development of gendered responses is lacking. Strategies for supporting workers to reorient themselves to the possibilities in a post-MFA job market will need to take into consideration specific, gendered contexts.

With downward pressure on wages being one of the predicted impacts of the phase-out of quotas, efforts to push for living wages will need to be renewed. With a significant drop in prices being predicted in conjunction with the quota phase-out, some labor rights activists have suggested that the money saved should be put into improving working conditions in the industry and increasing wages. But just as securing market access in the past did not translate into better lives for those working in national garment or textile industries, simply lowering costs for producers does not necessarily mean workers' wages will go up.

Attention needs to go into the actual purchasing practices of the companies that place orders for garment production around the world, in order to see that workers do not lose out in the scramble for producers to cut costs to appear more competitive. Sourcing companies will need to ensure that their pricing practices (ex. low unit prices, tight delivery schedules) are not at odds with labor standards compliance (ex. in relation to wage and working hour standards). The growing importance of large retailers in global supply networks means that their practices should also come under scrutiny when considering roles and responsibilities in relation to ensuring that labor practices at all levels of garment and textile production meet good international standards.

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