Critical issues for the garment industry

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Amsterdam, 2004

SOMO

COLOFON

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Published by:
Stichting Onderzoek Multinationale Ondernemingen (SOMO)
Centre for Research on Multinational Corporations

Cover Design:
Annelies Vlasblom

This report is financed by:
Ministry of Foreign Affairs

Additional copies are available from:
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Download and ordering at www.somo.nl

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Introduction - Critical issues for the garment industry

In 2003 and the first half of 2004, SOMO conducted a sector study on the garment industry. The study described trends and 'critical issues' in the sector from the perspective of poverty eradication and sustainable development. The trends and critical issues were identified through discussions with organisations and trade unions working on garments and textiles. The study aimed to give insights and background information for groups working on improving the situation in the garment industry and to provide arguments for civil society organisations to feed the debate on trade & investment and corporate accountability. The study was conducted by SOMO in collaboration with Southern partners. SOMO focused on the corporate structures and relations throughout the sector and the production, supply and subcontracting chains.

As part of the SOMO study on the garment industry, SOMO produced five bulletins, each focusing on a particular issues that currently direct the garment industry. These bulletins are compiled together in this booklet.

Another part of the sector study conducted by SOMO includes a wider study on Turkeys changing position in the worldwide garment industry, country case studies on Malawi and Indonesia, and two company case studies on the Dutch companies G-sus and WE International. An overview of CSR codes and standards in the garment and textile industry has been compiled as part of this sector study. This documentation can be found on the website of SOMO at www.somo.nl

1. PRICING IN THE GLOBAL GARMENT INDUSTRY

The first bulletin produced by SOMO discusses the issue of pricing in the global garment industry.
Increasingly, labor rights campaigners realize that they have to better understand the cost breakdown involved in garment production and where responsibility lies for pricing decision making so that they can push more effectively for changes in the system that currently short-changes workers. A current priority for researchers and activists in this field therefore is to develop such an understanding and to investigate how the money paid for a T-shirt or pair of trousers, for example, can be better distributed, so that working conditions are improved and workers will earn a fair and living wage.

2. ASIAN MNCS IN GLOBAL SUPPLY CHAINS

North American and European garment and footwear MNCs have had operations in Asia for decades, with governments in the region often seeking to attract foreign companies and investors to their countries. Such MNCs paved the way for international economic restructuring around the world. More recently Asian

MNCs are playing an important role in international supply chains in these industries, with Asian companies investing in production operations not only in the region but as far away as Africa and Central America. This edition of the bulletin specifically focuses on the less-documented role of what have been referred to as "production MNCs" that are based in Asia.

3. FOCUS ON TURKEY

Turkey, located at the junction between Europe and Asia, is not only an important regional player in the garment and textile industry but also as a supplier to Europe, North America and elsewhere plays a significant role in global garment and textile supply networks. Providing a full package of integrated services – from cotton to yarn, textiles, and clothing, dying and finishing, as well as proximity to its main market – Europe – Turkey has moved into the number three position along with Mexico in terms of clothing exports, behind China/Hong Kong, and Italy. Production capacity, plentiful raw materials (such as cotton), cheap labour, and investing into the modernization of its industry are all pegged as factors in Turkeys success in these sectors.

4. TRADE AND INVESTMENT AGREEMENTS

This bulletin examines the influence of regional, bilateral, and preferential trade and investment agreements on the garment and textile industries worldwide. Researchers and industry analysts suggest that investment in the garment and textile industries following the phase-out of the Multifibre Arrangement (MFA)in 2005 will be influenced by an interplay between investment agreements, buyers' demands, and trade agreements (regional, bilateral, and preferential). This bulletin specifically addresses how such agreements influence both the sourcing and buying decisions of brand name and retail companies and investment in manufacturing units (factories). Their impact on workers wages and conditions and the response of labour activists are also explored. The relationship of trade and investment agreements to the MFA and a brief overview of the situation for agreements in the garment industry following the last round of World Trade Organisation (WTO) talks in Cancun are covered. The bulletin concludes with a summary of issues to be considered by activists in relation to these agreements.

5. THE PHASE-OUT OF THE MULTIFIBER ARRANGEMENT

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. Labour 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.

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This study is part of a four year project (2003-2006) in which SOMO conducts two of such sector studies per year, financed by the Dutch Ministry of Foreign Affairs. The content of this publication does not necessarily reflect the views of the Dutch government.

Somo bulletin on issues in garments & textiles

Number 1, May 2003

The SOMO Bulletin on Issues in Garments & Textiles is a bi-monthly on-line publication of the Centre for Research on Multinational Corporations (SOMO) that presents critical issues of interest to those working to improve conditions and empower workers in the global garment and textile industries. Each edition of the bulletin focuses on one specific topic. Unless otherwise indicated, information presented is drawn from SOMO research. All editions of the bulletin can be found at the SOMO <www.somo.nl> and Clean Clothes Campaign <www.cleanclothes.org> websites. Content of the bulletin may be freely reproduced or distributed, with appropriate attribution.

Pricing in the global garment industry

In order for labour practices in the garment industry to meet the basic standards set by the International Labour Organization (ILO) and those outlined in model codes of conduct (ex. the codes of the International Confederation of Free Trade Unions and the Clean Clothes Campaign) there has to be the will to implement such standards and the resources to do so. This means money. Garment factory owners around the world complain that their clients do not pay them enough for the goods they produce, and as a result they cannot cover the costs associated with improving conditions. Their profits are so low, they say, that it is impossible to make the changes (more toilets, new ventilation systems, etc) that companies with codes are demanding. They say that they have to keep wages low just to stay afloat. If they raise wages they won't get orders and in the end workers will lose their jobs. Their governments often support them on this point -- they say that minimum wage levels should not be raised or else the industry will leave the country. The companies that place the orders (sourcing companies) say that they also have to stay competitive and keep their costs down, so they cannot pay manufacturers more. And anyway, some add, when they do pay their vendors more, the money is not always spent on improving the workplace or paying workers better wages, it just goes into someone's pocket.

So where does the money go? Increasingly, labour rights campaigners realize that they have to better understand the cost breakdown involved in garment production and where responsibility lies for pricing decision making so that they can push more effectively for changes in the system that currently shortchanges workers. A current priority for researchers and activists in this field therefore is to develop such an understanding and to investigate how the money paid for a T-shirt or pair of trousers, for example, can be better distributed, so that working conditions are improved and workers earn more.

Pricing example nr. 1: JEANS PRODUCED IN EASTERN EUROPE

Approximate price breakdown of a pair of jeans produced in Eastern Europe and sold in Western Europe (1998)

Value-added tax: 17.5%
Brand name company: 25%
Retailer: 50%
Transport, import duties: 11%
Production costs: 13% (material, profit and other costs 12%, worker wages approximately 1%)

How are prices set?

In the garment industry, different terms are used to refer to the price of a garment, depending on which costs are covered. For example, companies speak of the free-on-board (FOB) price of a garment. This term refers to the price that a supplier is paid for a garment. This price does not include the cost of delivery or insurance for the garment. A price that includes duties and quota fees is known as the landed duty paid (LDP). This is the price that a retailer pays to import a product.

Generally, to calculate the FOB prices a garment supplier has to consider:

- direct costs (such as costs for material, labour, transport and commissions);
- indirect costs (these are costs not directly linked to the specific product, such as overhead, design, sample, and administrative costs); and
- macro costs (such as taxes, quota fees, tariffs, infrastructure, education, other government policies/regulations, corruption).

According to industry expert Sebastian Siegele, garment suppliers often do not have knowledge of the relationship between these different costs.

Suppliers focus on direct costs

Without a clear understanding of all the costs, or a belief that most costs are beyond their control, suppliers find it easier to go no further then calculating direct costs before they launch into negotiations with their clients regarding price, reports Siegele. However direct costs are only linked to 15% of the approximately 100 steps between the design and shipment of a completed garment. These costs – those directly related to materials and the cost of labour for assembly -- correspond to the labour-intensive “cut-make-trim” (CMT) part of the production process. Siegele believes that suppliers should focus more on indirect costs, because they have influence over such costs. If lead times (the time from order to delivery) were shorter, for example, less would have to be spent on indirect costs, he explained.

Sourcing companies also fail to consider all costs

Sourcing companies meanwhile have had a tendency to ignore or be blind to macro costs and sometimes also to indirect costs. Industry experts report that many companies simply go to the countries with the lowest direct costs (wages) without realizing that paying a higher FOB price could actually sometimes mean higher profits (due to fewer quality or delivery problems for example).

PriceTrak, for example, a quarterly reporting service that analyzes the landed price of garments imported into the European Union (EU) and the United States, reports that by tracking typical wage costs in the EU's 50 largest supplying countries they have found that there is no correlation between prices and wages. While labour costs might be much higher in "rich" countries (85% of manufacturing costs), PriceTrak claims that "other costs are often higher in developing countries. There are a host of other costs manufacturers in developing countries need to manage" (Just-style.com, 2003). Sometimes buyers from sourcing companies and their suppliers refer to the cost of garment production, especially during the CMT phase of production, in terms of "cost per minute." For example, in 1999 costs were listed as US$0.056 per minute in Cambodia, US$0.057 per minute in Vietnam, US$ 0.059 per minute in China, US$0.069 in Guatemala, up to US$0.171 per minute in the United States and US$ 0.267 per minute in Germany (KSA, in Tait, 2001).

A trend that industry insiders have recently noted that has implications for cost and pricing is the emergence of full-service suppliers (i.e. suppliers that carry out more of the 100 steps mentioned above then just those relating to the CMT part of production; sometimes such suppliers are referred to as FOB suppliers). Full-service suppliers take on more of the indirect costs associated with garment production and offer their clients the convenience of "one-stop shopping." Increasingly these full-service suppliers are geographically concentrated (ex. Hong Kong, Istanbul).

Wages: the direct cost most often under the axe

Wages are one of the most obvious direct costs in the garment industry. Factory owners often see this as one of the costs that they have the most control over, and therefore see wage cutting as a tool for bringing their costs down. And, as mentioned above, their clients are often attracted above all to low wages.

Wages in the industry are low: for example approximately US$0.15 per hour in China (2002), US$20 per week in Swaziland (2001), and US$54 per month in Bulgaria (2002). Total labour costs are kept low by non-payment of overtime and social security benefits. The following strategies are used by employers to underpay garment workers: payment by a piece rate and based on reaching unreasonably high production targets, casual employment without benefits, and union repression to weaken the possibility that workers can successfully negotiate better wages (Labour Behind the Label, 2001).

Researchers have found that it is not unusual for garment workers to be paid below the legal minimum wage. They have also compiled overwhelming evidence that the legal minimum wage often does not sufficiently cover the needs of even single workers, let alone those with families. For example, in Mexico most maquiladora garment workers earn between one and two times the minimum wage, however Julio Botvinik of the Colegio de Mexico calculated that in 2001 a worker would have had to earn almost seven times the basic minimum wage to provide for basic necessities (Maquiladora Health & Safety Network, 2002). In Lesotho, journalist Thabo Motlamelle found when investigating conditions at the Nien Hsing factory that workers basic wages cover less then half of the basic needs for a family of four. The workers, were earning just US$0.27 per pair of jeans they were producing for Gap, a US retailer that sold the jeans for approximately US$39 (UNITE, 2002).

One of the most important demands made by garment workers and their advocates is that employers pay a living wage. A living wage is a wage that enables workers to meet their needs for nutritious food and clean water, shelter, clothes, education, health care and transport, as well as allowing for discretionary income. In short, it should be enough to provide for the basic needs of workers and their families, and allow them to participate fully in society and live with dignity. Presumably, doubling the wage of the Lesotho garment worker mentioned above (i.e. paying them a mere 27 cents more per pair of jeans) would increase their quality of life tremendously. However, especially from the perspective of sourcing companies this is a controversial proposal. For example, in their 2001 social report, sportswear company Nike reported that "…there is considerable debate about the wisdom of basing income on need. Some [Nike] stakeholders argue a unilateral move to a living wage policy would be foolhardy, because it would drive prices up, margins down, and ultimately mean a less successful company creating fewer jobs."

Labour rights advocates believe that the large profit margins enjoyed by companies such as Nike and the Gap can easily be trimmed, allowing workers wages to increase to decent levels and without passing on additional costs to consumers.

Shorter hours instead of lower wages?

Research on the garment industry has often documented that because workers' wages are so low they are compelled to work long hours to earn enough money to survive. In many cases workers also do not have a choice: overtime is mandatory and if they refuse to work extra hours they are fined or fired.

Not only are these long working hours difficult for workers and sometimes illegal or in violation of internationally-agreed upon labour standards, some suggest that long working hours do not make good business sense. Excessive working hours lead to poor quality and high accident rates, meaning costs for medical treatment and leave, and extra costs for late deliveries. If workers put in fewer hours such costs would be cut and productivity would go up. However, if workers' hours are cut they still need to get higher wages.

Currently, garment workers are often called upon to work long hours to accommodate unreasonable deadlines: the only way to meet delivery dates is by having workers put in overtime hours (sometimes over night, or even for more then 24-hours straight; and often not properly compensated) to complete orders. For example, Bulgarian garment workers report having to work 27 days a month, with 92-100 hours of overtime per month (CCC, 2002).

What suppliers say about scheduling and pricing

- "Now we have 800 workers. Even if we hire 400 more right now to diminish overtime this would increase the overhead costs in turn and buyers then cannot get the price they want," said one Chinese factory owner producing garments for European and North American companies.

- "The timing for the delivery of the products is very tight and when we can't make the orders in time by boat we have to fly the garments to the buyers, which is very costly," reports one factory manager in Madagascar.

The role of purchasing policies

Schedules for production, agreed upon delivery dates, and the prices paid for orders are all part of the purchasing policies of companies that place orders with garment producers. Such factors all have an impact on the costs of producing garments and in turn on what workers are paid, the number of hours they work, and other working conditions. Therefore, purchasing policies must be adapted to allow for the compliance with wage and hour standards, as well as the cost for compliance with other standards for labour practices (ex. those outlined in national labour laws and voluntary codes of conduct). However, labour rights advocates and industry insiders agree that for the most part purchasing policies have not been adapted to accommodate the cost for compliance to such standards.

"Compliance is contradicted by the sourcing practices," reports one social auditor who monitors compliance with labour standards in China. "Every year the buyers are lowering the prices, and with new product designs the orders are getting shorter, especially in this very competitive market where trends are changing so fast, this makes compliance very hard, for example managers know that if they miss a deadline they have to ship at their own cost."

According to industry expert Simon Zadek, large sourcing companies have failed to integrate their compliance and labour management into their incentive systems (i.e. the rewards they give to buyers or procurement teams; currently, Zadek says, incentive systems usually reward behavior that is actually at odds with compliance goals); their stock inventory systems; and their reporting systems (ex. information from compliance people is not being distributed to other departments within the company).

Because of the link between purchasing policies and an employer's capacity to pay better wages and improve other aspects of working conditions, campaigners believe that companies at the top end of garment supply chains, not just direct employers, have an important role to play in ensuring that garment workers receive a living wage and that other standards are implemented. Because of this link focusing on changing policies and practices at the supplier level alone is unlikely to result in compliance with labour standards.

What suppliers are saying about pricing

- A Romanian factory manager producing for a German brand, described as one of their best clients, said the shirts they make sell in shops in Germany for approximately US$141 while the factory is paid only US$5.50 to $6.50 per shirt. The different is too big; "it's more or less a kind of exploitation."

- It's easy to find customers, but hard to get a good price, reports one Romanian garment factory manager. "For everything you want to buy you have to pay world market prices, for everything you want to see you cannot get world market prices."

- One garment factory manager in Madagascar reports that the prices they are paid have fallen 20% in the last year; another says that during the past 10 years prices have been cut 50%. US retailers pay lower prices then European clients, they both agreed, but there's an advantage to producing for US clients: they place larger orders.

- The owner of a Romanian factory producing primarily for the Italian market reports that the profit margin is too low now and consequently his company is in debt because of the investments they have to make.

Pricing example nr. 2: TROUSERS PRODUCED IN MADAGASCAR

Approximate cost of producing a pair of trousers in Madagascar that retail in France for approximately US $23.57 (2001)

Fabric: $3.50
Accessories: $1
Transport: $0.17
Production: $2 (of which the workers receive $0.49)

How pricing is connected to trade agreements

The criteria set out in trade agreements (regional, bilateral, global) can establish links between costs and the ability for businesses in one country to trade with those in other countries. Trade agreements have an impact on production practices and sourcing decisions.

Take for example the production of a blouse in Madagascar. To a make a blouse approximately one meter of fabric, which costs about US$ 1.96 to $2.38 per meter, is needed. The added costs (labour, electricity, rent, etc) will cost about $0.67. For export to Europe under the Cotonou Agreement between the African, Caribbean, and Pacific group of states (ACP) and the European Union (EU), 60% of the garment's value ("added value") has to be attributed to the ACP region. With a simple blouse, that takes approximately 12 minutes to make, the 60% value added level will not be met unless the cost of the fabric is factored in, and therefore locally-produced fabric will have to be used. However if the producer is making a more complicated garment, for example one that take 55 minutes to produce, they can reach the 60% added value level just with labour costs and other direct costs. In such a case, they could use cheaper fabric (approximately US$1.26 per yard) that is produced in Asia.

Of particular interest to the overall garment and textile industry is the Multi-fiber Arrangement (MFA), an agreement negotiated in 1973 among developed country importers and developing country exporters of textiles and apparel to regulate and restrict the quantities traded. The MFA set up a system of quotas scheduled to be phased out by 2005. Import quotas specify the maximum amount of an import per year and are typically administered with import licenses that may be sold or directly allocated to individuals or companies. Garment industry expert Michiel Scheffer forecasts that with the MFA phase-out already underway, quota costs will be replaced by tariffs, particularly those tariffs created by trading blocs, such as those tariff preferences for developing countries outlined in the Generalized System of Preferences (GSP).

Pricing issues in relation to labour rights campaigning

Labour rights activists have been calling for the payment of a living wage to garment workers for more then a decade, and more recently have begun to focus their attention on the purchasing policies of sourcing companies. However, campaigners recognize that getting sourcing companies to pay higher prices is only part of the solution to tackling the issues of low wages and excessive hours faced by garment workers, because more money to factory owners does not automatically mean more money and better working conditions for workers. Therefore, other demands in relation to fair pricing practices are still being debated by labour rights advocates. In general, activists recognize that there is a need for changes to be made at the sourcing company level (ex. stricter setting and enforcement of standards for buyers, especially in relation to pricing and scheduling) and at the supplier level (for example better management and cost accounting and the development of incentives for establishing mechanisms to comply with labour law and the standards outlined in codes of conduct). Some labour rights advocates believe that in order to be successful attempts to tackle specific issues of wages and hours in the garment industry context will have to be linked to broader struggles to change labour practices in the industry.

Monina Wong of the Hong Kong Christian Industrial Committee, an organization that has carried out extensive research on the garment industry in China, points to three key venues for addressing the issues of pricing and wages: through unions and collective bargaining negotiations, legislation and regulation, and through voluntary measures that attempt to discipline MNCs and restructure supply chains. Since the garment industry is one that is characterized by a low-level of unionization Wong's analysis reiterates the need for continued support of worker organizing initiatives. Activists seeking improved industry conditions also note that continued pressure is needed to prevent companies from cutting their contracts with facilities where workers are organizing and relocating ("cutting and running") to other factories, regions, or even countries where workers are less organized and less able to negotiate better wages.

Consumers, who in the end buy the garments, have long been seen by activists as powerful players in pressuring companies to adopt better labour practices in the workplaces where their goods are produced.

More then a decade of consumer awareness raising and consumer campaigns has helped put wages and hours on the corporate agenda and no doubt will be necessary to keep such issues in the spotlight. Meanwhile, not only consumers, but also banks and investors (including institutional investors, such as pension funds) who regularly put money into garment industry supply chains have also been identified as actors who should be called upon to push companies to comply with good labour standards.

Recommended reading & references

Ascoly, Nina (2003) “Pricing in the Global Garment Industry” report on IRENE/CCC seminar held February 20th, Mülheim an der Ruhr, Germany. Includes comments by industry experts Scheffer, Zadek, and Siegele referred to in this bulletin. Report available from IRENE <http//www.irene-network.nl> or the CCC <http://www.cleanclothes.org>.

Birnbaum, David (2000) *Birnbaum's Global Guide to Winning the Great Garment War*, Third Horizon Press, Hong Kong. Industry insider Birnbaum presents the full value cost analysis (FCVA) – his method of calculating all the costs involved in producing garments. His analysis includes breaking down costs into three categories: macro, indirect, and direct. Written as a how-to for industry to remain profitable, this book is nevertheless instructive for labour rights campaigners interested in getting a better handle on how industry perceives pricing issues (ex. Birnbaum believes the only way companies can remain profitable is by cutting production costs). For an overview and analysis of this volume, see “Birnbaum's Global Guide to Winning the Great Garment War: A critical review,” written by Jeroen Merk (2003). Available via the CCC website <http://www.cleanclothes.org/ftp/Birnbaum.pdf>.

CCC (2002) “In the Workplace: Standards in the Bulgarian Garment Industry,” *CCC Newsletter*, no. 15, June. The *CCC Newsletter*, which presents news on the activities of the CCCs throughout Europe and research on working conditions in the global garment industry, is published several times per year by the International Secretariat of the Clean Clothes Campaign. Available via the CCC website <http://www.cleanclothes.org/news>.

Just-style.com (2003) Background and sample of PriceTrak, Clothesource Limited. Available via the Internet at < http://www.just-style.com/store/products_detail.asp?art=18129&lk=sup>. Quarterly reports on several apparel categories (knitwear, menswear, womenswear, intimate apparel and hosiery) that cover price movements for the garments in each of the 50 leading export countries for that category of garment in the last period and also presents price histories per garment category for each of the 75 leading apparel exporting countries. Marketed to apparel buyers (“to track competitiveness and to provide an indication of current pricing”) and apparel sellers (“to keep track of prices other sellers are getting”) this kind of information does not come cheap – an annual subscription to the PriceTrak service is £2500 per year.

Labour Behind the Label (2001) *Wearing Thin: the State of Pay in the Fashion Industry*, report produced by Labour Behind the Label (UK CCC), draws upon research done by the Clean Clothes Campaign (CCC) and CCC partner organizations. Provides an overview of wages and payment practices in the garment industry and the different approaches for calculating a living wage.

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Somo bulletin on issues in garments & textiles

Number 2, July 2003

Asian multinationals in global supply chains

The role of multinational corporations (MNCs) in Asia has been well-documented. Many North American and European garment and footwear MNCs have had operations in Asia for decades, with governments in the region often seeking to attract foreign companies and investors to their countries. Such MNCs paved the way for international economic restructuring around the world. More recently Asian MNCs are playing an important role in international supply chains in these industries, with Asian companies investing in production operations not only in the region but as far away as Africa and Central America. These Asian MNCs generally are focused on manufacturing, serving as subcontractors for brand-name garment and footwear MNCs. While they have lower global name recognition than their customers – Nike, for example – Asian MNCs such as Pou Chen and Nien Hsing, with turnover of more than US $1 billion, are crucial links in these supply chains. While Western MNCs draw their own huge profits from the development, marketing, and retail of items such as clothes and sports shoes, these Asian companies have shown that the lower-profile business of producing these goods can be equally and in some cases more profitable. There are some notable examples of Asian MNCs that are involved in the marketing and retailing of their own highly-branded goods, for example the Japan-based Asics, an athletic-footwear company with 2002 sales of approximately US $972 million, and Mizuno, also a Japanese sportswear company, whose sales in 2002 exceeded US $1 billion (www.hoovers.com; www.mizuno.com). And there are large Asian trading companies that play an important role as "supply chain managers," such as Li & Fung, the Hong-Kong based trading group (2002 turnover approximately US $4.8 billion) that facilitates the sourcing of garments and footwear (Li & Fung, 2003:3). This edition of the bulletin however, specifically focuses on the less-documented role of what have been referred to as "production MNCs" that are based in Asia.

ASIAN MNCS: EXAMPLE #1: POU CHEN

The Taiwanese-owned Pou Chen Corp., the world's largest supplier of branded sports shoes (16% market share), started out with one factory in central Taiwan in 1969. The family business grew, and in 1980 received its first contract to produce for adidas. By 1988, labour costs had increased and the Taiwan dollar had appreciated in value. Pou Chen moved its factories to China. Today Pou Chen employs a quarter of a million people worldwide, and has factories in China, Indonesia, Vietnam, and the United States. With a turnover approaching US$ 2 billion, the company's first quarter profits in 2003 nearly tripled to US $92 million. Pou Chen holds a majority share (49%) in the Hong Kong-based Yue Yuen Industrial, itself a branded sports shoe manufacturing giant with subsidiaries in China, Indonesia, and Vietnam. Yue Yuen also operates approximately 100 footwear and apparel stores in mainland China. In 2001 Yue Yuen's net profits were higher than those of its customers Reebok and adidas. In the first six months of this year, the company posted a turnover of US $1.24 billion. Recently, Yue Yuen announced it would spend US $10-20 million later this year to acquire two new projects relating to its shoe and apparel businesses, possibly moving production lines back to Hong Kong, where they produced in the 1980s, in light of a pending new free trade pact between Hong Kong and China (Wu, 2003; Hoover's Online, 2003; Reuters, 2003; WGSN Daily, 2003; Merk, 2003).

ASIAN MNCS: EXAMPLE #2 TRI-STAR

In 1979 when Deshabandu Kumar Dewapura set up his first garment factory just outside of Sri Lanka's capital city of Colombo he had only 10 machines and 15 employees. That modest unit was the beginning of Tri-Star Apparel Exports, a group that boasted some 30 factories in Sri Lanka. Following the reduction in quota entitlements in 1995 and citing financial pressures, the company sold off eight of its factories in 2002. Tri-Star set up operations in Kenya, Botswana, and most recently, in January 2003, in Uganda. Producing in the past for such name brands as Ralph Lauren, Gap, Guess, and Victoria's Secret, Tri-Star recently signed an agreement with Grasshopper Holder in the UK, one of the European Union's largest garment suppliers, to produce up to two million pieces of baby wear and children's wear per month (www.lankae.com, undated ; *The Island*, 2002; De Coster, 2002; Bharattextile.com, 2003*Sunday Observer Magazine*, 2003).

Incentives for going multinational

Asian MNCs – ranging from small, medium, to large companies – have been drawn to invest or set up operations in other countries for the same reasons that Western companies have: cost factors, the regulatory environment, possibilities for growth, and access to markets.

Incentive packages from host governments and trade agreements can help facilitate relocation to other countries. For example, recently the Vietnamese province of Hung Yen granted a foreign direct investment license to South Korea's Beeahn company, which plans to build a US $1.2 million garment factory for export. The agreement includes a seven-year exemption from land rental fees and an exemption from corporate income tax until the venture has been profitable for four years (Just-style.com, 2003).

In Africa the African Growth and Opportunity Act (AGOA), which went into effect in 2000, authorizes the duty and tariff-free export of garments from 36 sub-Saharan African countries to the United States. This preferential access to the U.S. market, as well as low labour costs, and access to European Union (EU) markets under the Cotonou Agreement, have been a powerful lure for investors, particularly from Asia. Researchers report that southern Africa has drawn Asian investors mainly from Taiwan, Hong Kong, Malaysia, and Sri Lanka (De Coster, 2002).

In Swaziland, for example, new investment in the garment and textile industries was once primarily South African, however now investment predominantly comes from Taiwan. Investors say that it is not only the AGOA provisions, but also tax incentives (such as five-year tax holidays) that bring them to Swaziland. Further south in Lesotho, there has also been a similar increase in Asian (mostly Taiwanese) investment in the garment industry during the 1990s.

Access to the North American market and the absence of quota restrictions or easy access to new quotas due to the North American Free Trade Agreement (NAFTA) and the Caribbean Basin Initiative encouraged Taiwanese and South Korean investment in Central America in the 1990s. In Cambodia, access to the U.S. market via a Bilateral Textile Agreement signed in 1998 with United States, as well as low wages, has drawn Chinese, Malaysian, Singaporean, and Taiwanese investors (Chen, 2003; Postlewaite, 2001).

In some cases, Asian MNC home countries also give companies incentives to set up operations overseas. The Taiwanese government, for example, provides financial support and tax rebates to companies that invest in Central America and Africa. At a Swaziland factory producing jeans and other garments for U.S. brands such as Basic Edition and Bugle Boy, researchers were told that the Taiwanese parent company, which also had operations in Cambodia, received reimbursement from the Taiwanese government for 15 – 20% of wages.

When Taiwanese denim and jean giant Nien Hsing invested in Nicaragua in 1993, "the company received more than US $370,000 in support from the Taiwanese government," reports Chen Yi Chi, editor of the *Asia Pacific Labour Update*. In addition to trade agreements that grant favorable market access, Chen explains that the political situation contributes to the Tawainese government's willingness to support overseas investment. By subsidizing overseas investment elsewhere, the government hopes to discourage an overdependence on investment in China, which they see as jeopardizing national security. He also reports that because Taiwan is politically marginalized due to its relationship to mainland China, it uses Taiwanese investment as leverage to establish official diplomatic ties with other countries (Chen, 2003).

ASIAN MNCS: EXAMPLE #3 RAMATEX

Ramatex Berhard, Malaysia's largest integrated textile and garment manufacturer, started out in 1982 with one small textile manufacturing plant in Batu Pahat, Malaysia. By 1989 the company had expanded from dyeing and knitting mills to yarn manufacturing, and then in 1992 into fabric finishing and printing. Today the company, with profits in 2002 of approximately US$ 18.9 million, has direct subsidiaries in China and Namibia and offers a wide range of textile and garment products. According to Executive Director Albert Lim Poh Boon, clients on the west coast of the United States are served by Ramatex's Chinese operations, while the Namibian subsidiary caters to European Union, Middle East, and east coast U.S. buyers. At their annual general meeting this month, Ramatex announced that they will spend US $10 million to buy several medium-sized garment factories in Cambodia, Indonesia, and in Africa (Ramatex.com.my, 2003; Musa, 2003).

Concerns regarding sourcing policies and labour practices

During the past decade, organizations such as SOMO and the Clean Clothes Campaign (CCC) have documented violations of labour rights at Asian-owned garment, textile, and sport shoe factories both in Asian and in other parts of the world. For example:

- A study carried out by the Urban Community Mission (UCM) in Jakarta and published by the German Clean Clothes Campaign in 2000 documented ongoing labour rights violations at PT Tuntex, a Taiwanese-owned garment factory producing for Nike, adidas, Gap, and others. Researchers found forced overtime, wages below the legal minimum, long working hours that violated local law, physical and verbal insults. A UCM researcher testifying during a November 2000 European Parliamentary hearing on labour conditions spoke in detail about the serious rights violations at the

Indonesian factory. Follow-up research carried out in 2001 and 2002 showed that significant labour rights violations continued to occur at Tuntex. Meanwhile, Tuntex Textile is one of the leading Taiwanese investors in Swaziland, having invested more than US $10 million since it came to the country in 1998 (Wick, 2002; Du Ling, 2003).When researchers visited one Tuntex facility in Swaziland in 2002 interviews with workers revealed a variety of problems, including forced overtime, low wages, and unhealthy and unsafe conditions (including locked exits). Though management told researchers they had signed a collective bargaining agreement with the union, workers reported that management had in fact refused to recognize the union even though membership exceeded the 50% mark necessary for recognition.

- In 2001 workers at the Kuk Dong factory in Puebla, Mexico went on strike to protest a variety of labour rights abuses (forced overtime, low wages, verbal abuse, failure to give legally mandated benefits). The factory, which produced for Nike and various U.S. universities, was owned by Kuk Dong International, a Korean-based company with large factories in Indonesia, Brazil, and Mexico. Labour disputes had also been reported at the company's Indonesian facility, including failure to pay the minimum wage. The Mexican Kuk Dong workers entered into a difficult nine-month struggle to form an independent union. The Workers Rights Consortium (WRC), Verite, and a Mexican labour lawyer were each called in to investigate conditions at Kuk Dong surrounding the alleged rights violations, generating considerable evidence to support the workers' claims. An international campaign to support the Kuk Dong workers was mounted, with organizations in North America, such as United Students Against Sweatshops, the Maquila Solidarity Network, the Campaign for Labour Rights, and the AFL-CIO putting enormous pressure on Kuk Dong clients Nike and Reebok to take responsibility for improving conditions and settling the dispute at their Mexican supply facility. The Korean House for International Solidarity, a Seoul-based NGO, put pressure on Kuk Dong in the company's home country. European organizations and consumers participating in the Clean Clothes Campaign network also responded to the appeal to help the Kuk Dong workers, putting pressure on Kuk Dong's European clients, such as Pierre Cardin, to push their supplier to settle the dispute in Mexico. Finally, in September 2001 the workers succeeded in gaining recognition of their union. A collective agreement was signed by the union, known as SITEMEX, and the company (by then operating under a new name, MexMode). Campaigners continued to pressure Nike and other Kuk Dong clients to continue to place orders with the factory now that workers were represented by the union of their choice. This was a precedent-setting victory for the Mexican *maquiladora* sector, where independent unions had not been able to operate. The KukDong/MexMode victory is said to have had a positive spillover effect on worker organizing in the Puebla region (Maquila Solidarity Network, 2001-2002).

- In American Samoa, where garments bearing “Made in USA” labels enjoy tariff-free entry to the U.S. market, South Korean factory owner Lee Kil-soo was found guilty of human trafficking in the largest such case ever brought to court in the United States. Lee employed 251 workers from Vietnam and China in appalling conditions that were described by the US attorney general as “nothing less than modern-day slavery.” Beaten, deprived of food and wages, and forced to pay (illegal) recruitment fees to get their jobs, the workers who were making garments for US retailers Sears and JC Penney successfully pressed their claims in court. In April 2002 they were awarded a total of US $3.5 million by the High Court of Samoa (Fickling, 2003; Greenhouse, 2002).

- In Saipan, an island that is part of the Commonwealth of the Northern Mariana Islands, a U.S. territory located in the Western Pacific, garment factories received more than 1,000 citations for violating U.S. Occupational Safety and Health Administration standards, many of which were characterized as "capable of causing death or serious injury." These manufacturers, predominantly Chinese, South Korean, and Japanese-owned, as well as the well-known U.S. retailers they were producing for (such as Gap, Levi Strauss, The Limited, and Target), were charged with using indentured labour -- predominantly young women from Asia -- to produce their goods. The immigrant workers (30,000 participated in the class action suit) alleged that they had to sign contracts that denied them their basic human rights; pay exorbitant recruitment fees that keep them in a state of indentured servitude; work up to 12 hours a day, seven days a week, often without overtime pay; and live in overcrowded housing in unsanitary conditions. After more than four years, a U.S. Federal judge approved a settlement in the Saipan cases in April, establishing a US $20 million fund to pay back wages to the workers and create an independent monitoring system of Saipan garment factories (Branigan, 1999; Sweatshop Watch 1999-2003).

Drawn by trade agreements and other incentive programs to countries desperate for foreign investment and jobs, investors, including Asian investors, have been able to circumvent local labour laws (for example, minimum wage and social security requirements) as well as the standards for good labour practices set out by the International Labour Organization (ILO). In Swaziland, for example, where violations documented at Asian-owned factories include forced overtime, verbal abuse, sexual intimidation, unhealthy and unsafe conditions (including locked doors), unreasonable production targets, and union repression, the department of labour admits that in an attempt to keep investors happy it does not pursue labour law violations to its fullest ability. They say they “can’t push investors too hard,” but instead are “very gentle and persuasive.” While investors see profitable returns on their investments, critics wonder if workers and their communities really benefit when wages and conditions are substandard and tax abatements and subsidized infrastructure mean little money goes back into the community.

Asian investors in the garment and textile industries have proven to be as mobile as Western investors, “cutting and running” from one location to another as suits their interests. For example, Mauritius developed a significant clothing export industry directed to the EU, fueled by investment from Hong Kong companies. Now that wages in Mauritius have gone up, this location is less attractive to investors (De Coster, 2002).

When confronted with labour rights violations or with a workforce that increasingly demands the enforcement of labour rights, companies sometimes suspend or cut their orders to factories in the spotlight to distance themselves from such negative publicity. Companies that own factories embroiled in labour disputes sometimes close down their operations, either temporarily or permanently, to put an end to worker organizing efforts.

In El Salvador for example, when workers at the Taiwanese-owned Tainan factory organized a union, the company responded by suspending workers and diverting orders to other factories. The workers had faced forced overtime, harassment, and low wages. When they sought a collective bargaining agreement in 2002, Tainan (which owned factories in China, Cambodia, and Indonesia) said they would have to close the factory due to a lack of orders (Campaign for Labour Rights, 2002).

In Indonesia, increased worker organizing since independent unions became legal in 1998 is said to contribute to the exodus of investment out of the country in search of an environment where workers are less able to voice their demands, for example China and Vietnam. In 2002 eight garment factories (six owned by Korean investors, one Chinese, and another Japanese-Indonesian) shut down leaving thousands of workers jobless and without sufficient compensation. PT Elaine, a garment factory in East Jakarta abruptly shut down this February, relocating to Taiwan, leaving workers without jobs or income (Simanjuntak, 2003; Asia Today International, 2002).

ASIAN MNCS EXAMPLE: #4 ESQUEL

In 2002 Marjorie Yang, chairperson and chief executive officer of the Esquel Group, was named one of the most powerful businesswomen in the world by *Fortune* magazine. Yang's Hong Kong-based family-owned multinational has 47,000 employees, with 17 plants in nine countries. The company's vertically-integrated operations span cotton farming, spinning, weaving, knitting, garment and accessories manufacturing, exporting, and retailing. Esquel's garment manufacturing facilities are located in Malaysia, Vietnam, Mauritius, Sri Lanka, and China. Customers include Abercrombie & Fitch, Brooks Brothers, Marks & Spencer, Nordstrom, Ralph Lauren, and Tommy Hilfiger. Esquel, which reportedly makes more men's cotton shirts than any other company in the world, had revenues of more than US $500 million (*Fortune*, 2002; Esquel.com).

Asian MNCs and campaigns to improve working conditions: Nien Hsing

The Taiwan-based Nien Hsing Textile Co., a denim and jeans manufacturing giant, reported US $56.3 million profits in the last year period, up from the year before. Nien Hsing, which is reportedly the world's biggest jeans supplier, has just two small factories in Taiwan, employing approximately 700 people, however in factories in Central America and Southern Africa the company employs many thousands more. Nien Hsing has come into the spotlight in recent years due to high profile cases linking the company to serious labour rights violations. In both cases, organizing efforts at the factory level were coupled with sustained international pressure to successfully pressure Nien Hsing to make concessions to workers' demands.

First in 2000 management at Nien Hsing's Chentex factory, in the Las Mercedes Free Trade Zone in Nicaragua, was charged with union repression and illegal dismissal of union members. A year-long campaign ensued to press for reinstatement of the fired unionists and an end to the company's anti-union stance. Activists throughout the United States, where the jeans produced at Chentex were sold, carried out more than 400 actions to protest conditions at the factory. In Taiwan a coalition of organizations came together to form "Taiwan Solidarity for Nicaragua Workers," to put pressure on Nien Hsing in their home country. The Taiwanese activists held rallies and spoke at Nien Hsing's shareholder's meeting, drawing media attention to the reality of working conditions at the Chentex factory, where mostly young single mothers were earning an average of 20 cents per pair of jeans that retailed for US $30. Legal battles were launched in Nicaragua and lawsuits against Chentex and Nien Hsing were filed in the United States, while in Europe CCC activists and others also took up the case. A trade union leader from Lesotho, where Nien Hsing also has factories, came to Nicaragua to express solidarity with the Chentex workers. In 2001, the Chentex union signed an accord with management and the union leaders and workers were reinstated. This precedent-setting victory reportedly was instrumental in encouraging union organizing drives at other factories in the Las Mercedes zone.

In 1991 Nien Hsing had opened its first jeans factory (C&Y) in Lesotho. With the African Growth and Opportunity Act (AGOA) opening up more possibilities to access the U.S. market via Africa, a second factory was opened 10 years later right across the street. By 2002 Nien Hsing employed approximately 7,500 people at its Lesotho facilities which produced jeans for U.S. and Canadian clients, including Kmart, Sears, Gap, and Cherokee. A third facility, a textile mill, was under construction at a cost of US $8.6 million. In September 2004, those seeking to take advantage of the provisions of AGOA requirements, fabric will have to be sourced from southern Africa; with this new mill supplying fabric to their factories Nien Hsing will be in compliance with the AGOA requirements.

A variety of problems were reported at the Nien Hsing facilities: taking advantage of Lesotho's high unemployment rate workers were employed on a "casual" basis, at a lower minimum wage. This is legal for casuals employed for less than six months, however at C&Y some workers had been employed as casuals for ten years. Workers also reported verbal harassment, physical abuse, unsafe conditions (including locked emergency exits) and non payment of benefits. The Clean Clothes Campaign took up the case, as did unions and NGOs in the United States and Canada. In July 2002 the ITGLWF-Africa and the Lesotho Clothing and Allied Workers Union (LECAWU) started an organizing campaign at the two Nien Hsing factories. With increasing pressure on all these fronts, LECAWU and Nien Hsing signed a memorandum of understanding in mid-July that committed the company to recognize the union and enter into collective bargaining negotiations once the union recruits a majority of workers at each facility (just.style.com, 2003b; Chen, 2003; CLR, 2001; de Haan and Philips, 2002; Workers College and ITGLWF Africa, 2002).

Labour rights campaigning in relation to Asian MNCs

Pressuring Asian garment, textile, and footwear multinationals to take responsibility for their role in respecting workers rights can present special challenges. Because many of these companies are not "brand name" companies they are less visible. This means that labour rights advocates will get less leverage from the threat of tarnishing brand image (something which holds considerable value for brand name companies -- one 2002 survey attributed 71% of a company's worth to "intangible assets" such as reputation) (Ethical Corporation, 2002). However, pressuring manufacturing multinationals via their relationship with the companies they produce for can yield results. Some Asian manufacturing MNCs however have a broad base of clients and therefore are less susceptible to pressure or threats of canceled orders made by individual buyers.

Campaigns, as in the Kuk Dong and Nien Hsing cases mentioned above, that have utilized an approach that mobilizes stakeholders at the various levels of the garment industry supply chain – for example, where the clothes are produced, where the production multi-national is based, and where the garments are sold – have demonstrated a potential to open up space for workers to successfully voice their demands.

A challenge to workers' rights advocates will be to raise awareness of the role of these less-visible multi-national corporations and develop strategies for pushing them to take up their responsibilities for improving working conditions in the industry and respecting workers' rights. Because these Asian production MNCs occupy a space in the production chain that is often closer to workers then the brand name companies they produce for (ex. sometimes they are direct employers of garment workers) they have an important role to play in implementing workers rights. Attempts to seek better compliance with labour laws, international labour standards, and voluntary codes of conduct will need to consider the role these important actors play in shaping labour practices throughout global garment supply networks.

Monitoring Asian MNCs

Increasingly, more research is being done to understand and assess the role of Asian MNCs in global supply chains and in the regions where they operate.

Acknowledging the growing importance of manufacturing multinationals from such countries as Taiwan, South Korea, and Hong Kong, the CCC, at their March 2001 international evaluation and strategizing meeting, concluded that there was a need for more information on (including tracing production chains) and campaigns on such manufacturing multinationals, based on links between regions. The CCC network agreed to address this need in planning future activities (Ascoly and Zeldenrust, 2001, 48).

In 2001 Asia Monitor Research Center (AMRC), a Hong-Kong based coalition advocating for workers' rights for more than 25 years, launched Asian Transnational Corporations Monitor (ATNC Monitor) to focus attention on such companies, both in the region and beyond. ATNC Monitor brings together organizations from Hong Kong, Japan, Korea, Taiwan, Thailand, the Philippines, Sri Lanka, and New Zealand that are examining the way Asian companies, including garment and textile companies, operate overseas. The group notes that apart from a small number of well-known and powerful brand-name companies, such as Sony, Toyota, and Samsung there are many other Asian MNCs that are small and medium-sized firms that play a supplier or subcontractor role to North American or European companies. Their role in the supply chain often puts them in immediate contact with workers as their employers, therefore NGOs and trade unions should be monitoring their activities.

Through a program of research, education, training, exchange projects, and solidarity action ATNC Monitor hopes to build awareness of labour practices among these companies.

“Although TNCs from Japan, Korea, Taiwan and Hong Kong are violating labour rights and environmental law in the region, the public awareness of this in Asian countries is very low. Even workers and labour groups show almost no interest in domestic capital investment overseas… Home countries’ protectionist stand has to be broadened to international solidarity,” according to ATNC Monitor (2002).

Other initiatives focusing attention on Asian companies in this sector include the International Textile Garment and Leather Workers Federation (ITGLWF) investigations into Asian multi-national companies operating in southern Africa.

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Somo bulletin on issues in garments & textiles

Number 3, November 2003

Garment and textile production: focus on Turkey

Turkey, located at the junction between Europe and Asia, is not only an important regional player in the garment and textile industry but also as a supplier to North America and elsewhere plays a significant role in global garment and textile supply networks.

Trade liberalization in the 1980s designed to shift the Turkish economy to a more private-sector, market-based model, followed by the signing of a Customs Union Agreement in 1996 with the European Union facilitated the growth of Turkey's export-oriented garment industry. According to the International Textile, Garment and Leather Workers' Federation (ITGLWF) clothing and textile exports represent 40% of all Turkey's exports. Those working in the clothing and textile sectors make up 35% of the country's industrial workers (ITGLWF, 2003).

Despite an economic crises in the late 1990s and in 2000-2001 that resulted in the closure of facilities, the sectors are once again going strong.

"Export [of ready-to-wear clothing] which was US $450,000 in the 1970s, increased to US $2.5-3 billion in the 1990s and to US $7.4 billion in 2000, reached US $9.3 billion in 2002," noted Umut Oran, head of the Turkish Clothing Manufacturers Association (TCMA). "Taking a significant leap this year, the sector is proceeding towards US $11.5 billion" (approximately 10.2 billion euros) (Agencies, 2003). Turkish textile exports in 2002 were valued at approximately US $3 billion (883,626,403 euros) (just-style.com, 2003d).

At a time when the number of jobs in the European Union's textile and clothing industry are declining (down by 70,000 jobs in 2001 to 2.1 million) Turkey has become the European Union's number two clothing supplier (behind China) and number one textile supplier. Turkey's exports of clothing and textiles to the European Union were 9 billion euros in 2002. Big names in European garments, such as German fashion house Hugo Boss, German sportswear giant adidas, and Swedish retailer H&M produce clothes in Turkey. Some of Europe's top football teams, such as Real Madrid, AC Milan, and Bayern Munich, have their garments made in Turkey. U.S. brands are in Turkey as well: Levi Strauss, Nike, and Gap, for example. The U.S.-based VF Corporation, the world's largest apparel company, reported plans in 2003 to invest US $15 million (approximately 13 million euros) to increase capacity at its factory in Soke (Just-style.com, 2002c; Just-style.com, 2003d; Fibre2Fashion.com, 2003; just-style.com, 2002d; just-style.com, 2003d).

Providing a full package of integrated services – from cotton to yarn, textiles, and clothing, dying and finishing, as well as proximity to its main market – Europe – Turkey has moved into the number three position along with Mexico in terms of clothing exports, behind China/Hong Kong, and Italy. Production capacity, plentiful raw materials (such as cotton), cheap labour, and investing into the modernization of its industry are all pegged as factors in Turkeys success in these sectors (*Knitting International*, 2003; Tait, 2000).

BOX #1: Company Profile: Yesim Tekstil

Yesim Tekstil, ranked as the second most important clothing company in Turkey (Euratex, 2002), began its operations in 1983 as a producer of home textile products, such as tablecloths and sheets. Today the company employs nearly 5,000 in the production of home textiles and (since 1985) ready-wear clothing at its three units, located in Bursa.

Yesim specializes in cotton knits and has produced for a number of major US and European brands, including Reebok, Gap, Nike, Marks & Spencer, JC Penney, Sears, Sara Lee, Tchibo, Eddie Bauer, and Lands End. Yesim reports that all these brands have conducted audits of their facilities to monitor compliance with social standards. Other clients include El Corte Ingles, Zara, Wal-Mart, Costco and Nekermann. The company's exports in 2002 were valued at US$ 200 million (nearly 191 million euros), with 57% going to the United States, nearly 37% to Europe and 6% to other markets, such as Russia, Kuwait, the Ukraine, and Chile (Yesim Tekstil, 2003).

Garment production in Turkey

With no quota restrictions on Turkish clothing entering the EU, Europe is the major destination for Turkish clothing (73%), with the majority going to Germany. Other important markets are the United States (where Turkish goods are subject to quotas), the UK, France, the Netherlands, Italy, Belgium-Luxemburg, the Middle East, and the Russian Federation (IGEME, 2002a). In addition to garment production for export and for domestic consumption, for which there are official figures, there is also a “cash-and-carry” niche in the sector. These are goods that are exported to Russia and the former Soviet bloc.

“…No one knows the actual value of the cash-and-carry market…, which is centred around the Laleli region of Istanbul. This area is absolutely packed with discount ‘Tekstil Stores,’ and hordes of east European buyers armed with suitcases in which to cram their tax free goods. This market is supplied by a plethora of small knitting companies which operate as a separate ‘black market’ economy,” according to a *Knitting International* report (2002).

Much of Turkey's garment production for the export are produced in and around Istanbul (75%, according to the Istanbul Exporters Association). Other important locations are Bursa, Izmir, Denizili.

However, because costs are higher in the vicinity of Istanbul the Turkish Clothing Manufacturers' Association is promoting investment in Anatolia, where costs are much lower and unemployment is high. The manufacturers see this as a way to keep the industry competitive globally (*Knitting International*, 2003).

Most of production, the majority of which is carried out by women workers takes place in small or medium-sized enterprises; most are privately-owned. Knitted garments, followed by woven garments, are the main export product in the sector. As in the garment industry elsewhere, subcontracting is an important characteristic, and in reality much of production in Turkey takes place in unregistered workplaces (ex. small workshops and in homes). Subcontracting to other countries, particularly to Bulgaria, where Turkey is the main investor in the country's garment industry, is also not uncommon. However, because most production takes place in unregistered workplaces – as part of the so-called informal economy – reliable detailed data on the structure and characteristics of the industry is difficult to come by (FWF, 2003).

Turkey is also home to some large vertically-integrated companies, however, such as Sahinler Holding, profiled below.

BOX #2: Company Profile: Sahinler Holding A.S.

According to 2002 Euratex figures, Turkey's top garment company is Sahinler Holding, based in Istanbul. Founded by Kemal Sahin, a Turkish immigrant who went to study engineering in Aachen, the Sahinler group grew out of a small gift shop Sahin opened there in 1982. When Sahin had delivery and distribution problems with his Turkish supplier he decided to go into production for himself, opening a small factory in Turkey and then acquiring more. Sahinler Holding, which produces and sells clothing both wholesale and retail now has 17 companies in Turkey (in Istanbul, Corlu, Antalya, Edirne, and Izmir). For example, Bilkon Jeans, a subsidiary founded in 1994 to produce jeans but later expanded to a range of cotton and mixed fabric products. Bilkont, with annual turnover of US$ 11.4 million in 2002 (approximately 10.9 million euros), exports to customers in Europe and the U.S. Bilkont has operations in Belikduzu and the ASB Free Trade Area, but also outsources production to Romania and recently set up a factory in Jordan (Sun Jordan Textile), where production is expected to start at the beginning of 2004.

Sahinler also has two companies in Germany (Santex Moden GmbH and Adessa Moden GmbH) and others in the United States (Santex Fashion USA, Inc.), the Netherlands (Santex Fashion B.V.), France (Sahinler France S.A.), Switzerland (Adessa Moden AG), Austria (Adessa Moden Austria GmbH), the UK (Santex Fashion U.K.) and since 2001 has factories in Bulgaria (Sahinler Bulgaria OOD) and Romania (S.C. Sahinler Romania). The group employs more than 9,000 in Turkey, 2,700 in other countries, and estimates that it indirectly employs another 30,000.

The group, which markets more than 50 million pieces of ready-made clothing per year to Europe and the U.S (including garments for Ann Taylor, Everlast, Liz Claiborne, and Nautica), also has holdings in other sectors, including energy and tourism. Sahinler Holding, with total sales of 1.15 billion euros in 2002, was behind the European Free Industrial and Trade Zone (Avrupa Serbest Bolgesi, or ASB), set up in 1999 in Corlu, about 100 km from Istanbul (Euratex 2002; Sahinler Holding, 2003, Steinborn, 2002, Bilkont, 2003).

Turkey's textile industry

Textile exports, valued at US $3 billion in 2002 (more than 883 million euros), are 8.4 percent of total Turkish exports (just-style.com, 2003c). Most fabric formation (weaving and knitting) and processing (dying, printing, and finishing) takes places in the Istanbul area, Bursa, Adana, and Kayseri.

Much of Turkey's fabric production is based on cotton, as Turkey is one of the world's major cotton grower, ranking sixth in cotton production in 2000 with a total amount of 791,000 tons (IGEMEb, 2002).

Recognizing the strategic value of having operations in Turkey, and tariff-free access to the EU, Cone Mills, one of the U.S.'s top textile manufacturers and the largest producer of denim fabric in the world began a joint venture in Turkey. The company, IsKone, teams up Cone with Turkish denim company Isko to sell denim fabrics to Levi Strauss Europe (Cone, 2003).

Turkey also has a man-made textile sector, with reportedly the sixth largest capacity for synthetics in the world, and also has a wool industry (Turkey is the third largest mohair producer in the world) (IGEME, 2002b).

In recent years some Turkish textile companies have gone multinational, expanding or relocating operations to other countries. For example, the Turkish cashmere and silk manufacturer and retailer Fabeks Group announced plans to set up a factory in Inner Mongolia; Ateks Textile chose Turkmenistan as the location for its new textile plant, as well as future yarn spinning and weaving operations; Akteks Tekstil announced plans to invest in a factory in Syria, while Bursel joined in a joint venture with Japanese and Uzbek investors to build a textile factory in Uzbekistan (BFIA, undated; Agencias, 2003b; just-style.com, 2001; just-style.com, 2002a; just-style.com, 2002b).

Looking toward the future

Comments from industry experts seem to suggest that Turkey is poised to consolidate its position as a producer and sourcing hub that serves the European market and beyond.

Industry analyst Michiel Scheffer predicts that in the future, brands seeking to place orders for garment production will want "one-stop shopping" with a local base in textiles. They want production that is closer to their markets and want speed and flexibility to respond to rapid changes in customer preferences. He predicts that Turkey will emerge as a base for European production, winning out over production countries that are dependant solely on garments (Ascoly, 2003).

Analysts McKinsey & Company note that Turkey "excels at the lower end of the apparel value chain: clothing assembly (sewing) and original manufacturing (replicating a given sample product). At this level, Turkey is competitive, indexing at 70 to 80 percent of the productivity rate of Italian clothing manufacturers." However, they add, if Turkey wants to move into major profits in the sector that will come with original design and brand manufacturing (2003).

Indeed, this is where the industry would like to see itself going. Major Turkish brands, for example the Orka Group's Damat-Tween brand and leading Turkish shirt maker Oztay Tekstil's Abbate brand have expanded sales operations in such markets as Europe, North America, and South Africa. But also companies that previously produced mainly for Western brands are seeking to make the transition to producing and retailing their own brands in markets beyond Turkey. Gunkar Tekstil, for example, a swimwear producer for such brands as Otto, Champion, and Marks & Spencer, is seeking to expand its own brand production (Sunset and Lei brands) both nationally (where they have 30% of market share) and internationally (plans were recently announced to open shops in Paris and Milan). Another example is Eker, a company that started production for export in 1984, and produces jeans for such brands as Calvin Klein, Guess, Mustang, and Eddie Bauer. The company launched its own brand, Mavi, in 1991 on the Turkish market, but has since made inroads into the North American and European markets and was recently launched in Australia (just-style.com, 2003; CDI, 2003, BharatTextile, 2003, IHT, 2003).

BOX# 3: Turkish Producers Discuss Their Position

Fifteen textile and apparel companies in Turkey's Agean regions were surveyed in 2001 regarding the characteristics and potential of their companies, market conditions, and other concerns. The companies involved in the study had turnovers ranging from US $10 million to $50 million (11.3 million to 56.4 million euros), and most produced mainly for export. They felt their success was mainly due to competitiveness based on prices and quality; lifestyle and cultural similarity to their EU customers; and management, production and distribution efficiency. They believed that their competitive advantage had to do with:

- Large variety of designs and colors
- Quick response
- Just-in-time delivery
- Fine workmanship
- Business conducted in all currencies
- Flexible payment terms
- Good packing and efficient delivery

While investments up to 1996 had been geared toward improving productivity and quality control, most of their future investments were going to be made in marketing and communication. Most companies intended to focus on building their own brands and selling their own collections (Ercan, 2002).

Umut Oran, head of the TCMA, sees more attention to the development of Turkish brands and collections as a strategy to diminish the competitive threat posed by clothing producers in the Far East, particularly China, and the Maghreb region in the post-MFA playing field (*Knitting International*, 2003).

"If Turkey can continue to improve its core productivity and make inroads into the creation of further added value, the apparel industry could create up to 1 million new jobs," predicted McKinsey & Co. (2003).

Concerns regarding labour practices

A number of serious concerns regarding working conditions in the Turkish garment and textile industries have been raised by trade unions and labour rights NGOs.

- *Limited trade union rights*

The International Confederation of Free Trade Unions (ICFTU) reports that legislation in Turkey places restrictions on trade union rights, the right to strike, and collective bargaining. For example, while people of foreign nationality can join a union, workers have to be Turkish to be a member of a union's executive body and have to have at least ten years work experience. Solidarity strikes, general strikes, and go-slows are banned. The penalties for participating in illegal strikes in Turkey are severe, according to the ICFTU, and include imprisonment. This is significant because there is an extremely long waiting period (nearly three months) from the start of negotiations before a strike can be held. The ten-year ban on strikes, lock-outs and mediation in the export processing zones (there are 21 “Turkish Free Zones”) was repealed in August 2002 (ICFTU, 2003; Ministry for Foreign Trade, 2003).

Overall, unionization rates in the sector are very low (about 4%) and as a result workers have restricted bargaining power. According to the Fair Wear Foundation (an organization that verifies that member companies have implemented good labour practices throughout their global supply chains and has studied industry conditions in Turkey) it is not uncommon for security forces to be used to prevent union representatives from distributing fliers or talking with workers near their workplaces.

"Union representatives are often arrested and subjected to physical violence by Turkey's security forces," the FWF reports (2003). There are only about a dozen unionized workplaces with collective bargaining agreements in Turkey's apparel industry, according to the FWF.

BOX #4: Trade Unions in Turkey’s Garment and Textile Sectors
(source: FWF, 2003)

Tekstil-Is: Affiliated nationally to the DISK Confederation, and internationally to the ITGLWF, which puts active membership at about 12,000 in June 2000. A significant presence at only two garment factories.

Teksif: The largest textile and garment sector union in Turkey, also Turkey's oldest union. Affiliated nationally to the Türk-Is Confederation and internationally to the ITGLWF, which puts its active membership at 80,000 in June 2000. The majority of members are from the textile sector. The union currently represents workers at several garment factories.

Ozilplik-Is: Affiliated nationally to the Hak-Is Confederation and internationally to the ITGLWF, which puts its active membership at 5,153 in June 2000. The majority of members are from the textile sector. The union does not represent any garment factories.

Speaking at the 16th Congress of the Turkish textile and clothing union Teksif in Ankara earlier this year, Neil Kearney, general secretary of the International Textile, Garment and Leather Workers' Federation, said that the Turkish government and Turkish employers will have to take steps to come into compliance with ILO standards. Ensuring that "the Turkish approach to industrial relations is in line with ILO standards, which until now has not been the case" is urgent if Turkish goods are going to be successfully marketed internationally, said Kearney (ITGLWF, 2003).

- *Use of child labour*

A 1998 expose in a major Italian newspaper on child labour at an Istanbul factory producing garments labeled "Made in Italy" for Benetton drew international attention, not only to the Italian company's failure to implement good labour standards in its contract factories, but also to conditions in the Turkish garment industry. The use of child labour was condemned by the ITGLWF and the Clean Clothes Campaign (CCC) (ITGLWF, 1998; CCC, 1998).

The issue of child labour was raised in 2000 during the seminar "Meeting Labour Standards in the Turkish Ready-made Clothing Sector" when an ILO representative noted that labour practices in Turkey fell short of ILO conventions on child labour, freedom of association, and other working conditions. Gulay Aslantepe, the ILO's Turkey director stressed the need to address child labour and increase education on health and safety issues, as well as the importance of programs to improve union rights (ILO & IBLF, 2000). Although there are no official figures on the number of children working in the sector, the DISK/Textile Workers Union estimates that 180,000 to 200,000 children are employed in the garment industry (FWF, 2003).

- *Unregistered workers have fewer rights*

One of the conditions that facilitates child labour is the fact that much of the Turkish garment sector operates in unregistered workplaces. Official Ministry of Labour and Social Security figures on the number of workers employed in the garment and textile sectors were set at approximately 518,000 in July 2002, however employee and employer associations estimate employment in the sectors are more than five times as much, perhaps as high as three million (FWF, 2003).

According to the Fair Wear Foundation "existing legislation considers unregistered operations and the employment of unregistered workers as illegal. However, enforcement and inspections are almost totally non-existent; and constant understaffing means inspections and enforcement remain wholly inadequate" (FWF, 2003).

With such a significant amount of activity in the unregistered and unregulated workplaces where labour practices go unmonitored, standards often do not meet international labours standards or standards set by law for registered workplaces. Unregistered companies usually do not have legal obligations to pay taxes, social insurance, or severance pay (ex. the Job Security Act does not cover workplaces with ten or fewer employees, though in 2000 for example, such workplaces made up 25% of total employment in 2000) (ICFTU, 2003). Employers operating in this informal economy basically have free reign to reduce labour costs as they wish, also by employing children, as mentioned above, or unregistered foreign workers. Migrant workers, numbering at about one million in 2001, are a relatively new phenomena in Turkey; the majority come from the Balkan states, former Russian Republics, and the Middle East (FWF, 2003).

The motivation for employers to operate in the informal economy is clear. According to DISK, registered and unionized workplaces have labour costs that are six to seven times higher than those where children or unregistered foreigners are employed. Unregistered workplaces are also often unsafe and unhealthy. Unregistered workers are not able to join existing trade unions or establish their own, which limits their ability to organize and press for improvements in their working conditions.

- *Low wages and insecure employment*

Other concerns raised in relation to working conditions in the Turkish garment industry include the possible existence of sex-based discrimination in wage scales, wages below the living wage (especially for unregistered employees), improperly compensated overtime, and sexual harassment and intimidation of women workers (particularly in unregistered workplaces). Because Turkish producers often fill the role of subcontractors within global supply networks there are problems with continuity of employment, i.e. workers are hired when orders come in and during busy seasons, but are laid off when the orders stop (FWF, 2003).

Relevant projects underway

Recognizing the strategic importance of Turkey in global supply networks and the need to have more extensive information on conditions in the Turkish garment industry SOMO has commissioned a study of the sector. The study, to be carried out in 2003 and 2004 will consider such issues as the impact of the phasing out of the multi-fiber arrangement (MFA) on the Turkish garment industry, and will look at working conditions in specific factories. The findings will be made available on the SOMO website in April 2004.

Turkey has been selected as the location of a project to be undertaken by the major multi-stakeholder initiatives (MSIs) related to the monitoring and verification of compliance with codes of labour practice in the garment industry. The project will bring together the Ethical Trading Initiative, Fair Labour Association, Fair Wear Foundation, Workers Rights Consortium, the Clean Clothes Campaign International Secretariat, and Social Accountability International. The project aims to establish guidelines and principles for good practice in code implementation.

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Somo bulletin on issues in garments & textiles

Number 4, February 2004

Trade and investment agreements

This bulletin seeks to examine the influence of regional, bilateral, and preferential trade and investment agreements on the garment and textile industries worldwide. Researchers and industry analysts suggest that investment in the garment and textile industries following the phase-out of the Multifibre Arrangement (MFA)in 2005 will be influenced by an interplay between investment agreements, buyers' demands, and trade agreements (regional, bilateral, and preferential). This bulletin will specifically address how such agreements influence both the sourcing and buying decisions of brand name and retail companies and investment in manufacturing units (factories). Their impact on workers wages and conditions and the response of labour activists will also be explored. The relationship of trade and investment agreements to the MFA and a brief overview of the situation for agreements in the garment industry following the last round of World Trade Organisation (WTO) talks in Cancun will be covered. The bulletin concludes with a summary of issues to be considered by activists in relation to these agreements.

Increasingly bilateral trade agreements (involving two parties) and plurilateral agreements (those involving more than two parties) are made, according to the WTO. Since 1995, the WTO has been notified of 149 new trade agreements. Today there are 215 trade agreements in force, with the majority being free trade agreements (in which countries set trade terms with specific countries) and the rest mostly customs unions (agreements in which a common external tariff is set between countries and trade policy is harmonized). About 80% of these 215 agreements are bilateral agreements and the rest plurilateral (WTO Secretariat: 2003).

Bilateral agreements are binding international agreements made between two countries, or a grouping of countries, such as the European Union (EU), and another country. Bilateral trade agreements can deal with the trade of specific goods, such as the US-Cambodia Free Trade Agreement on textiles (signed in 1999, originally for a three- year period and extended for a further three years on December 31, 2001). However, bilateral agreements can also deal with a broader range of goods, services, and investments. Such agreements have the effect of providing companies in one country with access to industrial and service sectors in another. Such industries and service can include financial, telecommunications, computer, construction, education, health and tourism services. Though agreements covering a range of goods, services and investments can include garments and textiles, agreements focussing *only* on garments and textile are currently not common.

Investment agreements play and will continue to play a role in encouraging further foreign direct investment (FDI) into the development of facilities (factories) for the production of garments. Trade agreements can encourage FDI as well. It is important however to note that FDI flows do not have to be facilitated through an investment agreement and that other factors are also important in attracting FDI. For example, investor friendly laws, the establishment of free trade or export processing zones (FTZ/EPZs) that provide infrastructure and/or restrictions on union activity, and other national policies favorable to foreign investment.

Many governments are simultaneously involved in multilateral and bilateral trade negotiations. The WTO, established in 1994 as a result of the Uruguay round of negotiations of the General Agreement on Tariffs and Trade (GATT), currently has 148 member governments and oversees the multilateral trading system. This also includes overseeing the Agreement on Textiles and Clothing (ATC), which is the agreement that implements the phasing out of quotas under the Multifibre Arrangement (MFA – also known as the Multifibre Agreement). According to the WTO, around three-quarters of world trade is conducted under bilateral and multilateral trade deals. WTO rules say the purpose of bilateral or regional trade agreements should be to facilitate trade between constituent countries and not to raise barriers to the trade of other WTO members who are not parties to whatever agreement is negotiated.

The US imposes import duty on garments of around 17%. This is often reduced to zero, through regional or bilateral trade agreements, if raw material from the US or country where the garments are sewn is used. EU Import duty on garments is lower (around 8.9%) and is only applied to garments from a small number of countries. Theoretically over 100 countries are not liable to import duty on garments to the EU. However, rules of origin, negotiated through regional, bilateral or preferential trade agreements, apply to garments that are considered import or duty free. This means that the raw material used to make the garments must be either local or from the EU. If they are not then the EU charges the duty rate applying to the raw material supplier – almost always at the highest rate (Flanagan: 2003). For example; Bangladesh garments currently have quota and duty free access to the EU, however under rules of origin 50% + 1 of the material used must be either local or European. It is not possible for Bangladesh to meet these criteria on its garments so import duties are paid.

Activists challenge trade agreements

In September 2003 the fifth round of WTO talks collapsed because an agreement could not be reached between the participating countries on starting negotiations on issues such as investment, competition policy, government procurement, and market access for agricultural and non-agricultural products. Especially the emergence of a strong alliance of developing countries within the context of WTO talks has been instrumental in forcing developed countries to take their views into consideration. The responses by activists worldwide have been mixed. The failure of these talks may signal the end of the global multilateral trading and investment system under the WTO, an important goal that has been pursued by activists worldwide for the past decade. Some activists see this as a victory for developing countries who they see as having united to successfully block the position of the wealthier and more powerful developed countries. However, the rules and framework of this global economic system of free trade envisaged by the WTO remain.

After the failed Cancun negotiations the United States will continue negotiating free trade agreements with selected countries. According to US Trade Representative Robert Zoellick the US has Free Trade Agreements with six countries and is currently negotiating a further 14 (Foo & Bas: 2003). Based on currently available research it is difficult to predict whether or not tariffs, alone, negotiated in trade agreements will play a decisive role in the sourcing and buying practices of companies. Tariffs on garments are perceived as about half of the costs of quota (Nathan 2002). It is expected that regional, bilateral and preferential trade agreements will give some advantage, depending on their rules of origin requirements and other terms, over countries without such agreements. However these agreements can change frequently, which will probably lead to instability in the industry and rapid changes in market share. With the number of regional and bilateral trade and investment agreements increasing worldwide and the phasing out of the quota system more insight into such processes is important. Some industry analysts predict the growing, decisive, importance of tariffs: "With textile quotas being removed *[under the ATC]* by the end of next year *[2004]*, differences in US import tariffs will play a decisive role in selecting producers in low-cost countries" according to an article written in *Emerging Textiles* immediately after Cancun (2003).

Acknowledging that the textile and garment sector will come under additional strains worldwide, Lamy called for the use of the EU's Generalised System of Preferences (GSP) to help least developed countries and urged other developing countries to grant duty free access to imports from LDCs. High tariff and non tariff barriers should be dismantled said Lamy (*Bangkok Post*, 2003).

Currently the EU applies common rules of origin on products imported from countries within the Association of South East Asian Nations (ASEAN). This means that clothing produced in one ASEAN country with raw materials from another ASEAN country fulfils the EU rules of origin requirements. By 2005 the EU plans to set up a similar system within the European-Mediterranean area (EU Communication: Oct 2003).

The MFA and the link to trade agreements

The MFA set the rules for international trade in textiles and garments. It was created in 1974 by developed nations (namely the US and Europe) under the General Agreement on Tariffs and Trade (GATT) and was in effect until 1994. Developed countries believed the MFA would protect their industries through quotas by limiting imports from developing countries where labour and costs of production were cheaper. Quotas have constrained imports from Asian countries, including China to the EU and US (Miner:2002). Although criticised severely, especially by developing countries, the quota system was repeatedly extended. For many developing countries (for example Sri Lanka, Bangladesh, and Honduras) the MFA led directly to the development of the garment industry. Under the Uruguay round of GATT talks the WTO was established to supervise the implementation of world trade agreements. Also under this round the ATC was made. The ATC phases out the quota system of the MFA under the WTO.

The phase-out of the MFA does not mean that developed countries have given up on trying to regulate garment and textile trade with developing countries. Instead, this will be done through a variety of measures. For example regional, preferential and bilateral trade and/or investment agreements, which can include tariffs or import duties. Non-tariff measures, such as rules of origin, anti-dumping measures and legislation will also play an important role. For this reason understanding the role and impact that trade and investment agreements can and do have on the sectors is increasingly important.

Some industry analysts predict an increased consolidation in the industry as quotas are phased out. The U.S. State Department predicts that “companies who currently purchase goods from 40 to 60 countries will shift to 20 to 30 by late 2005 or early 2006. By 2010 the number of foreign suppliers could drop to one quarter to one third of the present number” (Foo & Bas: 2003).

The intensification of competition in the garment industry after the phase-out of MFA quotas might very well have a negative effect on workers rights. Increased competition in the labour intensive garment industry leads buyers to demand higher quality at lower prices with faster and more accurate times which might lead to demands for: greater flexibility (the right to hire and fire at will); long hours of work; unsafe work; non-implementation of existing labour laws or inadequate laws to protect workers.

REGIONAL TRADE AGREEMENTS , EXAMPLE #1 NAFTA

Due to the North American Free Trade Agreement (NAFTA) and the Caribbean Trade Preferences Act (CBTPA) Mexico and the Caribbean nations will have more competitive tariff levels that have been negotiated through these agreements. However, the advantage of these tariff levels is not expected to be enough to outweigh the impact of the removal of quotas. Differing tariff levels alone, without quota allocations/restrictions, will not give *substantial* competitive advantage to one country over another in so far as *sourcing* decisions are concerned. China is now the number one supplier of clothing to the US. In the last two years, 325 of Mexico's 1,122 garment factories have closed down, 220,000 workers have lost their jobs. Many of these factories, owned by foreign investors moved elsewhere, some to China.

Since 1994 when NAFTA was created an estimated 450,000 jobs in the American garment industry were lost. Many more jobs than this were created in Mexico, but often under worse conditions.

With the looming Free Trade Agreement of the Americas (FTAA) it is anticipated that more jobs will be lost in Mexico, the US ,and Canada, while more jobs will be created, with worse working conditions, in Haiti, Guatemala, or Brazil and outside of Latin America in China and India (Foo and Bas, 2003).

The influence of regional and bilateral agreements on the garment and textile industries

Bilateral agreements between two countries have sometimes been building blocks for regional trade and investment agreements. For example the US-Canada bilateral free trade agreement was the forerunner to the regional North American Free Trade Agreement (NAFTA), which binds together Canada, the United States, and Mexico in terms of trade and investment. NAFTA in turn has greatly influenced negotiations for the proposed Free Trade Area of the Americas (FTAA), which will cover 34 countries (Choudry: 2002). According to UNCTAD, bilateral investment agreements can also reflect the position that a country would take in regional trade agreements (UN: 2000).

Regional and bilateral trade agreements give developed countries some control over where their garments are imported from, by negotiating measures within agreements such as: differing tariff levels, rules of origin, anti-dumping measures, or other forms of preferential trade, such as the GSP. According to industry analyst Mike Flanagan "[Garment] importing countries have greater scope under current WTO rules to inhibit exports [from other countries] if they want to." He also says that governments of developed countries who want to protect their industries post quota still have three options available: Import duties; WTO sanctioned temporary measures: and non WTO sanctioned measures (Flanagan: 2003).

REGIONAL TRADE AGREEMENTS, EXAMPLE: #2 THE AFRICAN GROWTH AND OPPORTUNITY ACT

The African Growth and Opportunity Act (AGOA), which went into effect in 2000, authorizes the duty and tariff-free export of garments from currently 37 sub-Saharan African countries to the United States. This preferential access to the U.S. market, as well as low labour costs, and access to EU markets under the Cotonou Agreement, have been a powerful lure for investors, particularly from Asia. Researchers report that southern Africa has drawn Asian investors mainly from Taiwan, Hong Kong, Malaysia, and Sri Lanka. For example, Nien Hsing, a Taiwanese multinational corporation established two garment factories in Lesotho garments and is currently constructing a textile mill to take advantage of the new AGOA requirements.

Currently, the AGOA agreement allows for garments to be made from any material (i.e. there is no requirement for the material to be of US or African origin) for most of the countries covered by the agreement, however, this provision expires September 30, 2004. After that date clothing must be made from local (i.e. from one of the 37 African countries) or US material and thread to gain duty free access to the US. Third World Network's Africa secretariat says: "The requirement for US raw materials to be used will work against the ability of African countries to develop, either individually or together, their own domestic raw materials base to textiles, and therefore undermine the development of integrated textile industry in Africa. Moreover, importing US raw materials for use in textile production may turn out to be expensive in view of transport and other costs, which means in the end African textiles products exported to the US may not be competitive after all." The *New York Times* writes "Struggling African cotton farmers are forced to compete with products from affluent American agribusiness whose rock bottom prices are made possible by as much as $3 billion in annual subsidies" (*New York Times* 2003).

AGOA demands that African countries eliminate barriers to all US trade and investment in Africa, including that US firms be given equal treatment to African firms, and demands further privatisation, the liberalisation of service sectors, the removal of government subsidies and price controls. It also links AGOA to participating countries' guarantee of international labour standards, and demands that African countries not engage in any act that undermines US national security and foreign policy interests.

(de Haan and Philips, 2002, de Haan, Koen and Mthembu, 2003, Aziz Choudry, 2002)

Investment agreements and production of garments

Bilateral investment agreements can facilitate both foreign investments in a country and the development of an industry. This was the case when a bilateral investment agreement was signed between Taiwan and Malawi in 1995. This agreement led to Taiwanese investment in the Malawi garment industry. Two Taiwanese owned companies dominate the sector, employing approximately 5,500 of the 10.000 workers in the garment industry in Malawi. When looking at the influence of the AGOA it becomes clear that not only is the investment agreement instrumental in facilitating investments but favourable trade agreements as well. With changes to the rules of origin under the AGOA foreign investors in Malawi take the view that if the AGOA no longer benefits the production of garments in Malawi then they will move elsewhere (De Haan, Koen and Mthembu: 2003).

Usually under investment agreements foreign companies must be given access to industries referred to in the agreement under the same or better terms that exist for local investors ("no less favourable" is the wording that is often used). This could mean that a government would be prevented from granting more favourable treatment to a local firm.

EXAMPLE #3: BILATERAL TRADE AGREEMENTS AND QUOTAS

A bilateral textile trade agreement between the United States and Vietnam, reached in April 2003, that will remain in force until the end of 2004, provoked strong reactions from the garment industries in both countries.

The American Textile Manufacturing Institute (ATMI) criticized the agreement for causing job loss in the U.S. only to benefit companies that seek to "save pennies per garment." Reportedly large US MNCs, including Nike, Gap, and K-Mart, sent letters to US Trade Representative Robert Zoellick urging him not to impose quotas on Vietnamese exports.

According to ATMI President Willis C. Moore "… these quotas are enormous, just one of them sets the knit shirt category at 164 million shirts, or one for every adult person in the United States." Meanwhile, the chairman of the Vietnam Textile and Garment Corporation slammed the $1.7 billion ceiling set on the country's exports by the US, believing that the agreement aims to limit Vietnams export capacity to the US and ability to compete in an open market in the lead up to Vietnam joining the WTO at the end of 2004 (Delta Farm Press, 2003; Just-style.com, 2003).

Unit pricing and the connection to trade and investment agreements

Quotas add to the price of a garment. Currently available information suggests that the removal of quotas could reduce the price of a garment substantially, perhaps up to one third of the price paid to the factory. However most industry literature suggests that this reduction in overall cost per item of clothing, as a result of the abolition of quotas, will be passed onto the consumer through cheaper priced clothing (just-style.com, 2003a).

"Many discounters like Wal-Mart and other chains will immediately try and pass as much as possible of this saving to the consumer to capture market share. Other retailers and merchants will be forced to follow suit and this could lead to a further downward price spiral" (just-style.com; 2003a).

The capturing of market share by the giant discounters such as Wal-Mart creating virtual monopolies, through the tools of free trade such as advocating zero tariffs, duties and quotas through agreements is another trend that is detrimental to workers, as the downward spiral in retail pricing may see a further reduction in the margins of manufacturers. This in turn leads to manufacturers, usually subcontractors along the supply chain, to look for ways to cut costs, which translates into lower wages, more insecure, unsafe and informalised employment for workers who have few other viable alternatives. Additionally these monopolies can apply tremendous pressure on governments, either directly or through IFIs (international financial institutions) to further deregulate workers wages and conditions.

The criteria set out in trade agreements can establish links between costs and the ability for businesses in one country to trade with those in other countries (SOMO: 2003).

EXAMPLE: #4 PRODUCTION COST OF A BLOUSE IN MADAGASCAR

To a make a blouse approximately one meter of fabric is needed, which costs about US$ 1.96 to $2.38 per meter in Madagascar. The added costs (labour, electricity, rent, etc) will cost about $0.67. For export to Europe under the Cotonou Agreement between the African, Caribbean, and Pacific group of states (ACP) and the European Union (EU), 60% of the garment's value ("added value") has to be attributed to the ACP region. With a simple blouse, that takes approximately 12 minutes to make, the 60% value added level will not be met unless the cost of the fabric is factored in, and therefore locally-produced fabric will have to be used. However if the producer is making a more complicated garment, for example one that take 55 minutes to produce, they can reach the 60% added value level just with labour costs and other direct costs. In such a case, they could use cheaper fabric (approximately US$1.26 per yard) that is produced in Asia (SOMO, 2003).

Labour rights and trade and investment agreements

With the abolition of quotas the costs of garments will be less. What is not passed on to consumers will, according to some activists, no doubt be kept as an increase in profit by retailers and brand name companies. Campaigners have suggested though that the money that will become available opens new possibilities to improve labour rights.

There is no consensus in the literature and research on who the winners and losers will be once quotas are abolished, new regional trading agreements and blocs established, and more bilateral trade and investment agreements signed. Labour rights activists note the negative impact that the terms of some trade and investment agreements can have on labour practices. Critics fear that trade and investment agreements are likely to force open economies further, liberalise essential services and patent local knowledge while delivering little in the way of increased market access for goods, including garments and textile, from that country. Rights activists are concerned that governments and MNCs will be the beneficiaries, in this context: China and India will benefit substantially; it is likely that Pakistan, Vietnam, Turkey and Jordan will also benefit; it is predicted that the impact on countries such as Sri Lanka, Indonesia, Philippines, Mexico and Caribbean countries will be negative; and possible that the industry will be decimated in Mauritius, Bangladesh, Dominican Republic, Fiji, and many sub Saharan African countries -- this list is not meant to be exhaustive. Most industrial analysts see the productivity in countries like China skyrocketing, but on the downside there are still large scale violations of workers rights taking place (ex. prohibition on independent trade unions). In this sense, many fear that workers in the post-MFA "winning" countries will not be winners at all.

Very little opposition by unions and activist organisations to bilateral trade and investment agreements related to the textile and garment industries has occurred. This is possibly due to a lack of awareness and understanding of these agreements, their impact on the garment and textiles industries and the fact that these agreements are usually broader than textile and garments. Most agreements are negotiated secretly and the text of the agreements, if it is made public at all, is usually just prior to the signing of the agreement. The text is written in legalistic language that can be difficult to understand. There is an urgent need to develop a greater understanding of agreements and their likely impact on workers in the garment and textile industries.

The most high profile opposition to a regional agreement has been protests against NAFTA and the proposed FTAA, where the biggest concerns revolve around the liberalisation of services, such as education, utilities (water, electricity), and health. These impact negatively on the poor, workers and ordinary people – for further information see for example www.stopftaa.org. There has been some opposition to bilateral trade and investment agreements. For example the Korean Confederation of Trade Unions (KCTU) and the Federation of Korean Trade Unions (FKTU) opposed the Japan-Korea bilateral investment agreement (signed in 2002) because it sought to protect Japanese investors and disadvantage Korean citizens and workers. They said it strengthened the dominance of Japanese firms, that Korean labour practices would not be respected, and it would lower environmental standards. New Zealand activists managed to stall the New Zealand – Hong Kong bilateral agreement in 2002, which included garments, voicing grave concerns about the rules or origin contained in the agreement (Choudry:2002).

EXAMPLE #5: TRADE AGREEMENT AIMED AT IMPROVING LABOUR CONDITIONS

In a report from the International Confederation of Free Trade Unions (ICFTU), “Cambodia: textile workers face a gloomy future”: “In January 1999, the governments of Cambodia and the United States signed a trade agreement on textiles and apparel aimed at improving working conditions in the sector in Cambodia. The agreement, originally covering a three-year period, was later extended until December 2004. It offers Cambodia the possibility of increasing its textile export quota every year (from 18% to the maximum) if it can prove that its labour laws and the international standards governing this sector are being duly applied. The ILO (International Labour Organisation) has to prepare two reports a year on compliance with these criteria. The reports are based on factory visits carried out by a team of inspectors known as “monitors”. Although the US government is under no obligation to take these reports into account, they undoubtedly have an impact on its decision. At the outset, employers in Cambodia were none too happy about agreeing to these ILO inspections. But greater confidence has been gradually built up, thanks to the regular increases in export quotas since the system came into force, and the fact that the monitors discuss the reports with the companies before they are published. Irregularities detected by ILO monitors in a company are not quoted in the next report. The companies are given a period of grace during which they can take measures to ensure compliance, failing which their names are published in the following report. The Cambodian unions support the ILO inspections but point out that it would make more sense if government inspectors carried out these inspections, on condition that they were well equipped and not corrupt” (ICFTU:2004) The impact of this agreement has yet to be thoroughly evaluated and it remains to be seen to what extent real and sustainable improvements to labour practices in the Cambodian garment and textile industries have been made.

Directly including demands to ensure workers rights in trade and investment agreements has been one approach to address concerns about the impact of such agreements, however this is a controversial strategy. Many see the labour standards/trade linkage as a disguised form of protectionism for developed countries and argue that non-trade issues such as workers rights, that are fundamental human rights and not commodities, should not be included in trade agreements and rules. Another argument, sometimes linked to this one is that free trade and investment is fundamentally anti-worker and so cannot be made more “worker-friendly” by the inclusion of wording about labour standards (usually referred to as “social clauses”). However, some believe that it is wrong to reward countries with lower labour and environmental standards with increased trade and argue for the inclusion of labour and environmental standards in trade agreements as one way of ensuring some protection for workers rights. This debate remains unresolved with very differing viewpoints.

More awareness raising on trade and investment agreements is needed, as well as more research on their link to labour practices. Cooperation is needed between labour rights activists to develop an agenda for action to address the serious concerns outlined above.

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Somo bulletin on issues in garments & textiles

Number 5, April 2004

****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. Labour 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.

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 labour 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 neighbouring 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 spill over 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 favourable 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).

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 fulfil their garment product quota.

Methods to circumvent quotas emerged during the MFA period, notably practices such as the altering of "made in" labels, the transhipment 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).

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	Freight	FOB	Quota Clearance	Duty LDP
China	$0,40	$5,75	$2,50 $0,15	$ 1,21 $10,01
US / Mexico	$0,15	$8,13	$0 $0,15	$0 $8,43

Source: Birnbaum 2000: 140

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).

Box 3: REACTIONS VARY TO THE PHASE-OUT

"Textiles is a sector with a future in Europe. In 2005 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)*

"The 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)*

The industry without quotas

The big question that everyone with an interest in garments and textiles -- from labour 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).

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 Labour 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 labour disruptions as reasons that production had shifted away from Indonesia to other countries (just-style, 2004b; just-style, 2002). Indeed, in recent years labour 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).

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 labour 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 labour force, local raw cotton), which they see as being among the most competitive alternatives to China (Just-style.com, 2004c).

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. Labour 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).

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 labour practices fit into the equation?

- *Workers will be hurt by job losses, worsening labour 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 labour practices. As the competition to provide lower cost production becomes more intense when quotas are removed, labour 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 labour 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, labour 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 answer 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 cannot 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 labour 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 Hyvärinen, senior market development officer, ITC, Geneva in 2000. Governments also have a role to play in this context, by initiating labour law reforms that raise standards to meet International Labour Organization standards set out in the better codes of conduct.

"Countries with labour 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 labour standards,” said Suraiya Haque, who has carried out audits for the Fair Labour 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 labour 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 labour 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 labour 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 labour 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 labour 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 labour practices at all levels of garment and textile production meet good international standards.

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Annex: Codes of conduct in the garment and textile industry

The clothing industry features a complex international sub-contracting chain. Over the past decades clothing manufacturing has been almost completely relocated to low-wage countries, with the accompanying risks regarding labour conditions. Due to this development and under pressure from civil society organisations, the clothing industry has become a trend-setting sector in terms of corporate responsibility.

Most clothing industry codes apply to labour standards. There are also some initiatives on environmental standards in the production chain. Codes on labour standards primarily focus on the manufacturing process following fabric assembly into garments (CMT, cut make and trim). The environmental codes are much more geared towards the process preceding the production of garments, i.e. on the (organic) production of cotton and textiles.

A. Labour codes in the garment and textile industry

1. CCC model code: Code of labour practices for the apparel industry including sportswear

In 1998, the Clean Clothes Campaign put forward a model code for the clothing industry. The code is aimed at the clothing manufacturing chain, from the moment fabrics are made into clothes (cut-make and trim). As such, the manufacturing of textiles falls outside the scope of this code. Besides the standard nine labour norms, based on the ILO conventions, this code also incorporates stipulations regarding implementation and independent monitoring:

- a ban on the use of forced or bonded labour
- a prohibition against discrimination
- a ban on child labour
- a right to collective bargaining
- a right of association
- sustainable wages
- restriction and remuneration of overtime
- safe and healthy working conditions
- assessment of contracting agreements
- independent monitoring of compliance with the code

2. Fair Wear code of conduct

The Fair Wear Foundation is a Dutch organisation advocating acceptable basic working conditions in the clothing industry world-wide. It is an initiative by employers' organisations in the fashion industry, the trade unions and civil society organisations. The FWF uses the Fair Wear Code of Conduct as its main means to realise its aims.

The Fair Wear Code of Conduct focuses on the following key points:
Labour standards which meet the internationally recognised standard of the International Labour Organisation:

- no forced labour
- no discrimination
- no child labour

- freedom to form and join (trade) unions and the right to collective bargaining
- wages covering a family's basic needs
- no excessive overtime
- a healthy and safe work place
- a valid labour contract

- Dutch companies will regularly monitor working conditions at all clothing suppliers and will carry out programmes for improvement when necessary according to a prescribed method. Not only manufacturers in direct supply to the Dutch company, but their sub-contractors too, will be subject to inspections.

- A step-by-step approach will be applied to ameliorate labour conditions in the factories. It generally proves impossible to immediately bring labour conditions up to par with the ILO standards.

- Independent verification of compliance with the code of conduct by the Fair Wear Foundation. The FWF verifies whether labour conditions are in keeping with labour standards and whether improvements are in fact being implemented. This will take the form of unannounced visits to manufacturing companies, a complaints procedure for employees and others, and auditing the Dutch companies' accounts.

3. Euratex & ETUF – TCL code of conduct

In 1997, the European employers' and workers' organisations from the textiles and clothing industry agreed a code of conduct to promote socially responsible manufacturing practices. This was one of the results of the European social dialogue between Euratex (on behalf of the employers) and the association of European textiles and clothing trade unions. This code of conduct is modelled on the fundamental ILO labour standards:

The European Apparel and Textile Organisation (EURATEX) and the European Trade Union Federation of Textiles, Clothing and Leather (ETUF:TCL) call on their members (**) to encourage actively the companies and workers of the European textile and clothing industry to comply with the following ILO Conventions:

1) The ban on forced labour (Conventions 29 and 105):
2) Freedom of association and the right to negotiate (Conventions 87 and 98):
3) The ban on child labour (Convention 138):
4) Non-discrimination of employment (Convention 111):

Following the signing of this code of conduct, it was gradually implemented in the 15 member states' sectoral labour agreements. Adherence to the code is assessed at regular intervals.

4. SA 8000

SA 8000 is a global multi-sectoral standard for monitoring and certifying labour standards, in which SA 8000 stands for 'Social Accountability 8000'. Although the standard is multi-sectoral, one of the main sectors where the standards is being used is the garment and textile sector.

This standard was developed by Social Accountability International (SAI). This standard primarily applies to manufacturers and suppliers, and as such, is relevant to the leap project of the National Initiative for Sustainable Development (NISD) on chain responsibility. The SA 8000 standard is based on the Universal Declaration of Human Rights and fundamental labour standards, supplemented by various ILO core conventions on safety and health, working hours and sustainable wages. The SA 8000 system was modelled after the ISO 9000 system used in corporate quality checks. SAI trains and accredits auditing companies which may subsequently be contracted by manufacturers and suppliers to gain SA 8000 certification.

The following survey delineates SA 8000's normative frame.

Child labour	No workers under the age of 15; minimum lowered to 14 for countries operating under the ILO Convention 138 developing-country exception; remediation of any child found to be working.
Forced labour	No forced labour, including prison or debt bondage labour; no lodging of deposits or identity papers by employers or outside recruiters.
Health and safety	Provide a safe and healthy work environment; take steps to prevent injuries; regular health and safety worker training; system to detect threats to health and safety; access to bathrooms and potable water.
Freedom of association and collective bargaining	Respect the right to form and join trade unions and bargain collectively; where law prohibits these freedoms, facilitate parallel means of association and bargaining.
Discrimination	No discrimination based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation, or age; no sexual harassment.
Discipline	No corporal punishment, mental or physical coercion or verbal abuse.
Working Hours	Comply with the applicable law but, in any event, no more than 48 hours per week with at least one day off for every seven day period; voluntary overtime paid at a premium rate and not to exceed 12 hours per week on a regular basis; overtime may be mandatory if part of a collective bargaining agreement.
Compensation	Wages paid for a standard work week must meet the legal and industry standards and be sufficient to meet the basic need of workers and their families; no disciplinary deductions.
Management systems	

B. Environmental codes in the garment and textile sector

In terms of the environment, the norms in the clothing industry are much less standardised. Many individual company's codes of conduct (such as C&A's) have added a clause on the environment to said labour standards. Such clauses generally rank in one of the following categories:

1. Local regulations, i.e. referring to acting according to local rules and regulations.
2. Referral to treaty, i.e. national or international treaties on the environment, such as the treaties of the European Union or a company's own directives.
3. Packaging, metals and colouring agents, i.e. listing whether specific criteria and descriptions apply. For example, the Netherlands and the European union have banned the use of certain AZO dyes.

1. European Eco-label

The European eco-label was established by the European Commission in 1992 to encourage producers to develop more environmentally friendly products and help consumers make better informed and more secure choices when purchasing products. Product criteria were established after thorough research into the effects of the products concerned on the environment in each and every stage of their life cycle. This includes energy and water expenditure, discharge into the air, water and soil; raw materials, manufacture and distribution as well as their eventual disposal. European eco-label criteria were developed for a number of products, including textiles. All conditions to be met were laid down in the "European Commission decision (2002/371/EG) establishing the ecological criteria for the award of the Community eco-label to textile products".

The eco-label criteria are aimed foremost at reducing water pollution in key processes in the various stages of the textiles production chain, including fibres, spinning, weaving, knitting, bleaching and sizing. They were established to promote the award of the eco-label to textile products with the lesser impact on the environment.

The ecological criteria are aimed at:

- Limiting the permissible amount of toxins in fibres
- Reducing air pollution from the production of fibres
- Reducing water pollution from production processes
- Limiting the use of substances harmful to the environment

In addition, there are two further performance and durability criteria:

- A guarantee on shrinking during washing and drying
- A guarantee on colourfastness

2. Oko-tex standard

Oko-tex is a standard primarily concerned with (the ban on) substances harmful to public health in the production of textiles, listing the following criteria:

- substances classed as health hazards: consisting of a list of 54 substances (including AZO dyes), potentially harmful to public health.
- Textile ecology, covering four subcategories: production ecology, human ecology, performance ecology and disposal ecology.

3. SKAL

SKAL is an international eco-labelling organisation, based in the Netherlands, which has been auditing and certifying sustainable and ecological methods of production since 1985. SKAL is active in three certification programmes: ecological production, sustainable forest management (FSC) and sustainable textiles production. The textiles certification programme rests on two pillars. Firstly, all fibres must be 100 percent natural and produced ecologically, based on the criteria laid down in the EC regulation on ecological production. And secondly, every stage in the chain of production needs to meet the SKAL standards for sustainable textiles production. These standards were jointly formulated by experts from the textiles industry, consumer and environmental organisations.

The "SKAL International standards for sustainable textile production" list criteria for every stage in the production of textiles: from spinning to weaving, rinsing and dyeing.