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Rags or Riches? Phasing-Out the Multi-Fibre Arrangement

by

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Foreword

Employment in the garment industry expanded rapidly during the last three decades in the developing countries due to the export growth witnessed in this sector through quota arrangements. In developing countries, large number of female workers joined the garment manufacturing jobs pushing the percentage of female workers in some instances as high as ninety per cent. As the Multi-fibre Arrangement (MFA) comes to an end by the year 2005 and as the full effects of globalization take hold, the jobs being held by these workers would be very much in a precarious situation. While garment exports have fuelled early industrialization in many of the east and southeast Asian countries and have led the way for expansion of other manufacturing activities, several economies are still heavily dependent for employment and foreign exchange earnings on garment exports. Even for larger countries like India and Pakistan, garment exports hold a great deal of importance in terms of foreign exchange earnings.

While increasing employment remains a major preoccupation among the developing countries, large scale job losses resulting from the sudden shift in manufacturing base can be catastrophic particularly for those countries which saw hope in ending poverty through job creation. On the other hand, the working environment in the industry has not been optimal at best of times, it is expected to further worsen when competitive pressures arising from globalization force the entrepreneurs to cut costs, including the wage cost. Thus, not only is the employment at stake, working conditions for those continuing to work are not expected to improve for better, particularly for women workers who already face a great deal of challenge.

This publication examines the dynamics of trade in garments across the continents and highlights the implications to the developing countries, particularly from the standpoint of the abolition of quota at the end of Multi-Fibre Arrangement in 2005. It exemplifies the case of a garment manufacturer in Bangladesh taking steps to improve job quality, which have implications on productivity and competitiveness. The paper suggests that there is a great deal of possibility in averting disaster in terms of large-scale job losses in developing countries if certain proactive steps are taken early enough before MFA is terminated.

Understanding how governments can diversify production and employment, especially for women, in the face of globalization is one facet of the work carried out by the ILO's InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED). The findings in this paper are particularly relevant to the ILO's work in South Asia, where the prospects for employment dislocation in the garment industry is particularly acute. The research benefited from the technical support of the ILO's South Asia Advisory Team in New Delhi (ILO-SAAT). The research was initiated by Auret van Heerden, staff member of IFP/SEED and completed jointly with Maria Prieto Berhouet and Cathrine Caspari, both research associates with IFP/SEED.

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Abbreviations

ATC	Agreement on Textiles and Clothing
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
CBI	Caribbean Basin Initiative
CBTPA	Caribbean Basin Trade Partnership Act
CBERA	Caribbean Basin Economic Recovery Act
GSP	Generalized System of Preferences
MFA	Multi-fibre Arrangement
NTTB	Non-tariff trade barriers
RTA	Regional Trade Agreement
T&C	Textiles and Clothing
AAFL	Asia-American Free Labour Institute
EPZ	Export Processing Zone
RMG	Ready Made Garments
NAFTA	North American Free Trade Agreement
RTA	Regional Trade Agreement
EU	European Union
ACP	Apparel and Clothing Producer
BEPZA	Bangladesh Export Processing Zones Authority
CSSC	Component Supply Sub-Contracting
OEM	Original Equipment Manufacturing
OBM	Original Brand-Name Manufacturing
CMT	Cut-Make-Trim
EDI	Electronic Data Interchange
QR	Quick Response
OPT	Outward Processing Trade

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1. Introduction

The textile and clothing (T&C) industry typifies the development of global production chains in the world economy. The production of goods is allocated to companies around the world according to their position in the production chain. The increasing use of this model of decentralized production provides an opportunity for developing countries to enter the global production process of T&C products, initially by offering the comparative advantages of lower labour costs and therefore taking over the most labour intensive parts of the chain. This division of labour between industrialized and developing countries has led to considerable increases in employment and exports in developing countries and in some cases has even enabled these countries to move up the value chain.

Apart from these economic factors, there are other factors determining shares in the T&C industry worldwide – the most significant being the Multi-fibre Arrangement (MFA). Motivated principally by the fear of industrialized nations that their national T&C industries would be adversely affected by the rising (low-cost) competition from developing countries, the MFA came into being in 1974. As a consequence, trade in T&C was subjected to quotas according to the MFA, which allowed quantitative restrictions on imports when they caused, or threatened to cause, serious damage to the industry of the importing country. Not surprisingly, countries with comparative advantages fared relatively poorly in the allocation of quotas and those with little or no T&C industry were given relatively larger quotas, thus managing the risk to the domestic industry in the importing countries.

The MFA was established as a limited-term Agreement to allow structural adjustment in the industrialized countries. Yet, by the end of the 1980s it was still in existence after having been extended several times. The present pattern of investment and trade in the T&C sector has been strongly determined by the MFA. It has led to increased investment in high-quota countries such as Bangladesh, the Caribbean region, Central America, Sri Lanka and the Maldives, that had little or no T&C export production. That investment often came from quota-hopping enterprises from highly competitive countries that were being starved of quota. In other cases, high quota allocations and low entry costs combined to produce a new generation of garment exporters. In Bangladesh, for example, the export garment industry grew from zero in 1970 to some 3,000 locally-owned factories employing more than 1.5 million workers (mainly women) in 1999, which in turn accounted for over 75 per cent of the country's total exports.[1]

In 1995, after the conclusion of the Uruguay Round, the members of the WTO agreed that the process of phasing-out the MFA was to be completed by 2005 and would be regulated through a 10-year transitional programme set-out in the Agreement on Textiles and Clothing (ATC). At first sight, it appeared that the developing countries would gain from this liberalization in T&C trade, given their competitive advantage over the industrialized countries in labour-intensive production. Thus, developing country exporters are assumed to enjoy the twin gains

[1] Bhattacharya, 2000, p. 1.

of increased access to expanding markets in the North and reduced output by their northern rivals.[2]

However, two important factors will influence the ability of garment exporters in developing countries to realize those gains. First, a host of trade measures including regional trade agreements (RTAs), bilateral preferential trade provisions and non-tariff trade barriers (NTTBs) will continue to limit the market share of developing countries. Second, increasing competition in the post-MFA global T&C market means that economic efficiency will play a greater role in determining the future position of exporters in the T&C production chain.

The first point implies that trade in the T&C sector is unlikely to become barrier free, at least not in the near future. The liberalization process kicked off in 1995 takes place in the multilateral sphere only. There are a broad variety of bilateral and regional trade Agreements that have considerable impact on trade flows, particularly into the two main markets for T&C products in the industrialized world, namely the United States and the European Union. In addition, even assuming that the industrialized countries are willing to abolish their quotas and tariffs on T&C products, new barriers are already making their way into the different trade regimes, one of the most conspicuous being labour standards.

One only needs to consider the impact that offshore production is having on major T&C producers in the USA and EU to realize that they will not welcome a free market in T&C trade. In July 2001 the governors of four major American textile producing states sent a letter to President Bush requesting him to use appropriate measures, including the prohibition on imports made with child labour, to protect their textile industry. The letter urged the President to recognize the deepening crisis in the American textile industry and to make maximum use of the various powers at his disposal to address this situation.[3] According to the Governors, plant closures in the USA have cost 56,000 jobs in the past twelve months, including 9,000 in May 2001.

Taking a more differentiated look at the T&C exporting countries, a distinction can be made between potential winners and losers of the MFA phasing-out process. Countries with no comparative advantages in the T&C sector, which are relatively new to the market (such as Bangladesh and Sri Lanka), face an uncertain future due to strong low-cost competitors with bigger domestic markets and a longer tradition in T&C production (such as China). The more recent entrants to the global T&C market have become dependent on their exports in terms of foreign exchange earnings and employment. They have experienced a substantial expansion of their T&C export sectors due to their high quota allowances; and they will not be able to switch to other sectors without high political, economic and social costs. The crucial question for them now is how to secure their position in the future T&C production chain by building competitiveness – not on the basis of quotas but on cost efficiency, quality and speed.

This report will first give an overview of trading patterns in T&C under the MFA. It then tackles the issue of labour standards as a new non-tariff barrier to trade.

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[2] UNCTAD, 1996, p. 150.

[3] Letter from the Governors of North Carolina, South Carolina, Georgia and Alabama, July 25, 2001, available at – http://www.atmi.org/newsroom/releases/govletter.pdf

Tendencies and prospects for T&C trade from the perspective of exporting countries in South Asia are assessed. In order to shed some light on the future of the so-called "high-risk" countries, the T&C sector in Bangladesh and the challenges it now faces will be evaluated. The changes in the T&C trade regime and the effect of international labour standards are examined. The phasing-out of the MFA will probably not end trade barriers (tariff and non-tariff) on textiles and clothing. However, it will definitely lead to changes in the global marketplace, to which all T&C countries will need to react urgently and effectively. The ILO's role as an advocate of decent work is to help government agencies, employers' and workers' organizations respond to this fluid and uncertain situation. To this end, an upgrading strategy is proposed for developing countries that need to enhance their competitiveness in preparation for the post-MFA era.

2. The textile and clothing industry

Mapping the global structure of the T&C sector gives a working account of globalization and its impact on developing countries since it is arguably the most global of all industries.

The T&C commodity chain starts with raw materials being made into fibres that are used to make textiles which, in turn, are cut and sewn into garments. These garments are finally sold through retail outlets which, along with the major brands, dominate garment production. Each link in the production chain has a different capital/labour ratio and degree of value-added. Fibre production is capital-intensive and involves a high degree of value-added. The design, marketing and retail end of the chain also involves a lot of valued-added and, with electronic systems of inventory and production management, is becoming more capital-intensive.

Between these two ends of the chain are the more labour-intensive functions of cutting, sewing and finishing garments – activities once organized on a national basis by vertically integrated firms which often stretched from the farm to the finishing room. Today, the T&C commodity chain stretches across regions in a series of highly coordinated activities by specialized independent contractors. Hong Kong, for example, initially performed this role in Asia for foreign buyers (who may be branded manufacturers, designers, or retailers). The Hong Kong-based agent would receive the orders and place the contracts with a network of producers in lower-wage production platforms in the region. The orders were often delivered straight from the contractor to the buyer, giving rise to what is known as triangle manufacturing – from the buyer to the Hong Kong facilitator to the contractor and straight on to the final market. The contractors may be wholly or partly-owned subsidiaries, joint-venture partners, or entirely independent of the buyers and facilitators.

2.1 Leading-edge firms

Firm strategy is a determinant of who gets to do what in the T&C commodity chain. Lead firms allocate roles to specialized contractors throughout the world, according to their capacity to perform a certain level of activity at a given price and within a specified time. This creates a hierarchy of export roles with different levels of valued-added, skill, and wage involved at each level. The resulting production chains have a dynamic quality because producers often seek to move up to higher valued-

added activities. This usually means a move from simple assembly work, through a number of levels of sophistication, up to integrated manufacturing or "full package" production in which a buyer simply supplies design data and relies on the manufacturer to procure the materials, wash, dye, cut, sew, finish and deliver the final product.

Because a full-package garment manufacturer has to source fabric and trim, it is an advantage if the country or the garment cluster has a textile base and a network of upstream and downstream partners with whom to cooperate. Some full package manufacturers have developed extremely sophisticated networks which enable them to offer a full range of services to the buyer, including design and sample making. They have their own textile base and are linked to their major buyers through electronic data interchange systems, which enable the buyer to place or renew orders automatically as stores empty. Those orders will then be placed with production units in the global chain according to the level of sophistication required and the available capacity. The Hong Kong group Esquel, for example, epitomizes full-package production, with a raw materials base in China, textile mills in China and Malaysia, and clothing factories in a number of countries, including China, Jamaica, Malaysia, Mauritius, the Philippines and Sri Lanka. Orders are transmitted electronically via a sophisticated electronic management system from the clients to Esquel headquarters in Hong Kong and then to one of their production platforms from which the goods are delivered on racks in store-ready form with prices and bar codes already attached. Esquel has also developed its own brand name goods, which it markets throughout the world.

Full-package manufacturers invariably "learn" the range of services involved from lead firms with whom they collaborate over a lengthy period. Leading brand names such as Liz Claiborne, the world's largest producer of women's clothing, work closely with their suppliers to improve cost, quality and speed, and in the process transfer considerable skill and expertise, particularly in terms of management systems and quality control. Liz Claiborne works with partners in over 35 countries. The relationships are long-term and constructive, resulting in excellent production facilities with progressive management, which could potentially expand or upgrade to produce their own labels. Not all lead companies have such a constructive approach however, and many do not work with their contractors to improve systems and quality. This poses real problems for the majority of contractors in the T&C commodity chain. They are under constant pressure from lead companies to improve their speed, cost and quality, but they do not have the means of acquiring the knowledge and the expertise needed to make those improvements.

2.2 Upgrading

The issue of upgrading is controversial. There is no clear evidence of subcontractors being able to create their own destinies by deciding to move up the commodity chain. Most cases of upgrading involve a lead firm playing the key role in providing or facilitating the orders, technology and expertise. As lead firms de-verticalize and allocate more of the production activities to subcontractors in less developed countries the possibilities for upgrading will multiply, but it remains to be seen whether firms at the supply end of the chain can take the initiative by developing an expanded range of capacities in order to capture or occupy higher levels in the chain, or whether they will be allocated those roles by lead firms. This question has

implications for government policy and firm and trade union strategies. This paper argues that upgrading is essential for garment exporters to survive in a post-MFA global market.

3. Trading patterns under the MFA

When viewed on a global basis the distribution of foreign direct investment (FDI) can appear puzzling. Understandably China's huge market and low labour costs attract the majority of FDI and have made it the worlds largest garment exporter, and yet it does not have the lowest labour costs in the region. The annual survey of labour costs carried out by the reputable textile consultancy firm Werner International found that in the year 2000 China had hourly labour costs of $0.69 while India ($0.58), Pakistan ($0.37) and Indonesia ($0.32) all offered lower rates. Mauritius for example, has hourly labour costs of $1.47 compared to Madagascar's $0.37, and yet the T&C industry in Mauritius is considerably larger. The reasons for the unusual distribution of investment have a lot to do with trade and market access. Investors have sought out export platforms that offer them the best advantages in terms of trade, be they in the form of free trade agreements, other preferential trade privileges, or geographical proximity to major markets. When a number of these factors combine they clearly make a formidable case for investment. The main driving force behind the present pattern of investment in T&C is, however, the Multi-fibre Arrangement (MFA).

3.1 The Multi-fibre Arrangement

T&C goods feature prominently in world trade and represent one of the major labour-intensive export items for developing countries. Interestingly, an inverse relationship exists between the growth of exports from developing countries and the degree of tariff protection in industrialized countries.[4] Accordingly, tariffs and quantitative restrictions imposed on the import of textiles and clothing remain the highest, except for the agricultural sector, and increase with the amount of value-added, even after the Uruguay Round.

The main instrument for regulating the quantitative restrictions in trade in T&C goods has been the Multi-fibre Arrangement (MFA). It came into effect in 1974 and, like the Cotton Textiles Agreements which preceded it, was meant to create a transition period during which industrialized countries could adapt to new competition from developing countries. It did this by providing rules for the imposition of quotas through bilateral agreement or unilateral action to avoid market disruption caused by a surge in imports. The quotas imposed quantitative limits on imports from specific countries and as such were a discriminatory departure from GATT rules. The Textiles Surveillance Body monitored all actions taken in terms of the MFA in order to ensure that the rules for imposing quotas had been observed and handled any disputes that arose. The MFA was extended five times between 1974 and 1994 and in its penultimate years of operation counted 44 members with countries such as Austria, Canada, the EC, Finland, Norway and the USA applying quotas, mainly to developing countries.

[4] UNCTAD, 1999, p. 137.

At the conclusion of the Uruguay Round in 1994 it was decided that the MFA should be phased out in a 10-year transition period regulated through the WTO Agreement on Textiles and Clothing (ATC). It is designed to progressively integrate textiles and clothing into GATT rules by 2005 by phasing out quotas. The WTO's Textiles Monitoring Body monitors compliance. Quotas would be either lifted or enlarged (for those products not yet quota-free) in four stages, with a special mechanism to safeguard domestic producers in the importing nations from damage caused by imports not already covered by quotas. Importing countries – such as Canada, EU, Norway and the USA – and a further 37 WTO members who had participated in the MFA, plus 20 newcomers who had not been part of the MFA, decided to join the ATC. The first three-year integration stage began on 1 January 1995. Stage two ran for four years from 1 January 1998, and stage three will run from 1 January 2002 until the expiry of the ATC on 31 December 2004. However, the impact of the reduction in quota restrictions will be delayed, since the most import-sensitive product categories remain protected until the last phase. In the EU only 14 out of 219 categories restricted by quotas have been liberalized so far. In the USA the figure is 13 out of 750.[5]

The MFA produced a number of anomalous effects in the global production and trade of textiles and clothing:

- **Deviation from comparative advantages**. It forced restricted-quota developing country producers to shift production to less restricted and unrestricted countries. This led to a global production chain based not on comparative advantage and supply and demand but on the "political" factor of managed trade.
- **Contradictory incentives for specialization patterns**. Because the quotas were quantitative, developing country producers who could not increase the amount they produced obviously sought to increase the value by producing higher value-added items. This placed them in direct competition with the industrialized country producers the MFA was meant to protect. "Protectionism heightened the competitive capabilities of developing country manufacturers, who learned to make sophisticated products that were more profitable than simple ones".[6] In developed countries, in turn, the protection afforded by the MFA led to heavy investment in new technology, particularly in the textiles sector, and specialization in niche markets such as high fashion.
- **Higher costs for consumers**. The high cost of protection has been borne mainly by consumers, particularly in the low to middle price range where freer competition would otherwise have lowered prices. In 1995, it was estimated that US consumers were paying 7.6 per cent more for clothing and EU citizens 5.8 per cent more than they would without the MFA.[7]
- **Increasing problems with circumvention and illegal transhipments**. Regulated trade in T&C turns on the question of rules of origin. The origin of a product determines its degree of access to certain markets. This encouraged the transhipment of goods from low-quota countries through third (high-quota) countries. To disguise their true origin, false declarations were made concerning place of origin on official documents. A range of trade disputes

[5] Dow Jones Newswires, 07/19/00 (http://www.ifai.com/NewsDetails.php?ID'282).
[6] Gereffi, 1999, p. 51.
[7] EIU, 1995, p. 107.

followed, including import bans for products from accused firms[8] and, consequently, an increased demand for control over customs procedures and the issuing of export licences.[9]

Overall, the MFA has led to a trading pattern based on regulated access to markets and protectionism on the part of the industrialized countries. This is highlighted by the fact that although unit labour costs are higher in EU countries than in most Asian countries, the EU keeps competing with Asia as the world's largest exporter of T&C products. "It is true that the EU, like the US, generally wanted to keep out the most competitive T&C exporters as long as possible".[10] And the boom of T&C exports from countries with no comparative advantages but high quota allowances underlines the regulated character of the present trading system.

With the phasing-out of the MFA in 2005 trade in T&C should be primarily based on economic factors but further analysis of the politico-economic determinants of present and future trends in trade in T&C reveals that the main markets will not be freely accessible.

3.2 Shaping T&C markets and influencing trends

The present trade pattern in T&C has not only been influenced by quotas but also by a variety of tariff-related trade measures. The US and the EU are the most relevant markets for the majority of T&C exporting countries and their trade policies will therefore play a crucial role in shaping future trends in international trade in T&C.

The following tariff-related trade measures are of importance in T&C trade: Regional Trade Agreements (RTAs); General System of Preference (GSP) schemes and "production sharing arrangements" for offshore assembly. The GSP schemes give preferential (often duty-free) access to least developed countries (LDCs) in order to foster the development of export industries in those countries. In contrast, the "production sharing arrangements" instead, offer lower tariffs to clothing imports which are assembled from cut cloth sent from the developed country to the developing one. This enables industrialized countries to buy garments made from their own materials and, in so doing, retain the high value-added parts of the production process such as fibre production. In the USA this type of trade preference programme is referred to as the *Harmonized Tariff Schedule Provisions* and in the EU as *Outward Processing and Harmonization of Standard Trade*.

The US and the EU are the most important markets for T&C exporting countries. The trade flows in clothing between Asia and North America are the second

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[8] In 1999, the US Government forbade the entry of goods of 77 Macau companies accused of textile transhipment. It even threatened to expand the embargo to "products allegedly manufactured in companies found to be illegally transhipping, closed, or unable to produce records to verify production". ("The US bans imports from firms accused of transhipping", *World Textile News*, 4 August 1999).

[9] This issue has been further complicated by a change in the rules defining the country of origin of a product in the US in 1996 whereby the main criterion is now to be assembly and not cutting. Thus, instead of one rule, there are now six rules determining the country of origin for different kinds of T&C products (see Pinnells, 1999, p. 6).

[10] Spinanger, 1999, p. 8.

biggest worldwide (US $31.5 billion in 1999), following those in Intra-Western Europe (US $46.6 billion).[11] The USA is by far the largest single country importer of textiles and garments. In 1997 US share in garment imports was about 30 per cent of global garment imports.[12] The flows between Western Europe and Asia are also significant with a value of US $19.7 billion in clothing in 1999 and some US $8.1 billion in textiles in the same year.[13] The trade policies of the EU and the USA are decisive for developing countries. In Bangladesh, for example, these two markets represented more than 94 per cent of ready-made-garment exports between 1991 and 1997.[14]

3.3 European Union trade policies

As far as regional trade agreements (RTAs), are concerned the most relevant one for Western European[15] countries remains the EU itself. Intra-Western European trade flows in T&C were the largest in the world in value terms from 1994 to 1999. In the same period, Western Europe's share in world trade placed it first as an importer of textiles and clothing. As an exporter of textiles, Western Europe competes constantly with Asia (mainly China and India) for first place while lagging behind Asia in clothing.[16] Clearly, Western Europe continues to play a major role in global T&C trade despite the importance of its internal market.

There have been considerable shifts in the sourcing pattern of EU T&C importers in the 1990s. A growing tendency towards imports from Eastern European countries[17] as well as European Rim countries such as Morocco, Tunisia and Turkey has emerged over the past decade. In clothing, Eastern Europe's share of EU imports rose from 6.9 per cent in 1993 to 10.6 per cent in 1999 in value terms. The increasing importance of Eastern Europe is equally evident in textile imports. The region's share increased from 2.1 per cent in 1993 to 4.7 per cent in 1999. The same upward trend can be seen with Morocco, Tunisia and Turkey. In contrast, Asia (traditionally the most important supplying region after the EU) saw its share in clothing imports erode from 30.8 per cent in 1993 to 29.3 per cent in 1999; and its share in textile imports rise only slightly from 15.3 per cent in 1993 to 16.2 per cent in 1999.[18]

This shift away from Asia and towards sourcing in the Eastern European and European Rim countries is due partly to the outward processing trade (OPT) legislation and a variety of more recent bilateral agreements. The OPT legislation imposes tariffs only on the value-added to exported intermediate inputs that are

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[11] WTO, 2000, p. 148.

[12] Hyvarinen, n.d., p. 6.

[13] WTO, 2000, p. 141 and 148.

[14] Dowlah, 1999, p. 935.

[15] The following data are based on WTO Trade Statistics, in which Europe is regionally divided into Western and Central/Eastern Europe/former USSR; the former comprises the 15 member States of the EU as well as Iceland, Malta, Switzerland, Turkey, the former Yugoslavia and territories in Western Europe.

[16] WTO, 1995, 1997, 1998 and 2000.

[17] Central and Eastern Europe and the former USSR includes by WTO definition the following countries: Albania, Bulgaria, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, and the former USSR (Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Republic of Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan).

[18] Own calculations based on data from WTO, 1995, 1997, 1998 and 2000.

domestically produced and when they are re-imported (mainly by France, Germany, Italy and the United Kingdom) as partial or complete final products. This system retains the high value-added activity of textile production in the EU and allocates the lower value-added activities to countries in Eastern Europe and North Africa. The advantages of geographical proximity, such as quicker response times and tighter quality control, make it more attractive to source T&C imports in countries close to the EU market. The processing of T&C products under the OPT has grown considerably in recent years, particularly for textiles. Outward processing involved 3,200 tonnes in 1990 and rose to 37,700 tonnes in 1995. For clothing, the volume increased from 65,000 tonnes in 1990 to 185,000 tonnes in 1995. Operating under the OPT legislation, five suppliers, Morocco, Poland, Romania, Tunisia and Turkey, have managed to capture a market share of some 32 per cent of total EU imports in clothing and the growth prospects for OPT processing are considered to be promising.[19]

In 2001 the EU further liberalized its trade with Eastern European countries. In a series of bilateral (non-WTO) agreements with Ukraine, the Baltic States, and countries such as Bosnia Herzegovina and Croatia, it agreed to the removal of quota on T&C products.[20] The OPT legislation, together with the bilateral agreements, give Eastern Europe a competitive edge over Asia; and this is reflected in the shifting sourcing pattern of the EU countries.

This partly demonstrates the ambiguous role of the EU in the implementation of the ATC. Mediterranean EU member countries; such as, Greece, Portugal and Spain in particular, who were the traditional suppliers of T&C products to the EU before the 1990s, are against the liberalization of trade in T&C under the ATC.[21] As mentioned above, the EU postponed the removal of quotas for the most sensitive products until the last phase of the ATC, starting 31 December 2004. For the third stage of liberalization under the ATC, beginning in 2002, the EU proposes to include 37 categories in the quota removal process, but they will still not include the categories most vital to the majority of developing country exporters.[22]

Furthermore, the EU endeavours to make concessions on its behalf dependent on better access to the exporting countries' markets – as evidenced in the cases of Indonesia, Pakistan, the Philippines and Sri Lanka. As the European Commission has stated, "The EU will not give away unnecessarily negotiating leverage that could be used to open third countries' markets."[23] The EU has repeatedly been criticized for liberalizing only those categories that have not been under full quota usage anyway; and this is acknowledged by the EU Commission, "Quotas with low utilisation rates have been considered more positively for elimination."[24] The ambiguous role of the EU engenders a certain scepticism on the part of developing countries vis-à-vis the EU's commitment to the implementation of the ATC. Considering the above, there is

[19] All data Pinnells, n.d., p. 19.
[20] Emerging Textiles, 4 January 2001: EU further frees textile trade with Eastern Europe.
[21] See Spinanger, 1999.
[22] Included clothing articles comprise: vests, parkas and anoraks, pyjamas, women's or girl's skirts; Emerging Textiles, 10 November 2000: EU tries exchanging most sensitive quotas for better market access.
[23] Ibid.
[24] Ibid.

a real danger of a "liberalisation impasse for the year 2005"[25] whereby the lion's share of all T&C products will have to be liberalized from one day to the next.

These measures are unlikely to confer on the EU the image of a promoter of free trade in T&C. They point rather towards a strategy of retaining the high-value added parts of garment production in EU member countries while at the same time building up a "cordon" of neighbouring countries for the labour-intensive parts. Sweden represents a telling example of this sourcing strategy. Sweden eliminated all non-tariff barriers on T&C imports in 1990. Consequently, it shifted imports from Greece, Portugal and Spain to lower-cost sources in East Asia (mainly China). After joining the EU in 1995 however, Sweden turned to Eastern European and European Rim countries, following the same trend as other EU member States.[26] If this example, and the data, are indicative of future developments, it is likely that the EU will opt to source from countries which have the advantages of geographical proximity (quicker response and better quality control) rather than the lower labour cost sources in Asia.

This is not to say that labour costs in the Eastern European and Euro-rim countries are uncompetitive. Total labour costs in the Czech Republic ($1.97), Slovakia ($1.61) and Estonia ($1.53) are all lower than those in Mexico ($2.20) and Brazil ($3.20). In addition, there are still lucrative possibilities in Eastern Europe and Central Asia for "cost-shopping" investors. In fact, Turkey, which has seen its share of the EU market increase in recent years, now finds itself with rising labour costs, high inflation and reduced earnings as a result of the depreciation of the Euro. The Turkish Government has warned that the country can no longer rely on the T&C industries to drive the economy and is trying to promote diversification. Turkish T&C producers have therefore started moving to lower cost platforms in Eastern Europe such as Armenia, Bulgaria, Romania, Turkmenistan, the Ukraine and Uzbekistan. Not only do these countries offer lower labour costs but many have market access privileges in the EU and US which Turkish producers would benefit from.

This trend towards Eastern European and European Rim sources has not yet eclipsed the developing country garment exporters, particularly those with generous quota and other trade privileges. Bangladesh, for example, fares quite well despite the changing sourcing pattern of the EU. It was not listed among the top 20 importing nations at all in 1981, but increased its share in EU clothing imports from 1.3 per cent of total imports in 1993 to 2.3 per cent in 1999. This is a considerable achievement given that China, in the same period, only increased its share from 7.4 per cent in 1993 to 8.6 per cent in 1999 and Hong Kong saw its share decrease from 6.9 per cent (1993) to 5.2 per cent (1999).[27] This is closely linked to the fact that Bangladesh has always enjoyed duty-free access to the EU market under the GSP scheme. It is open to question whether this competitive edge based on preferential access is likely to persist. The further reduction of tariffs under the WTO will erode the present GSP-margins enjoyed by Bangladesh and the extension of similar privileges to other garment exporting nations will intensify competition.

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[25] Spinanger, 1999, p. 7.
[26] Spinanger, 1999.
[27] Own calculations based on data from WTO, 1995, 1997, 1998 and 2000.

In June 2001 the European Union announced that from 1 January 2002 to 31 December 2003 the GSP system would be streamlined from four product categories to two. Designated goods will benefit from duty-free entry into the European Union while so-called "sensitive products" will enjoy a reduction in tariffs.

Under the present GSP scheme, sensitive products are divided into three categories with three different rates of duty. From 1 January 2002, these three categories have been unified and attract even lower rates of duty. In addition, an extra 30 per cent duty reduction is available to countries complying with social standards. To receive such an incentive, a country must comply with ILO standards on freedom of association, the right to organize and bargain collectively and eliminate child labour.

This measure will partly compensate developing countries that saw their GSP margins undercut when the EU granted quota and duty free access to its markets to LDCs earlier in 2001. In addition, textile and clothing articles from various Mediterranean or Eastern European countries enjoy duty-free entry into the EU. In all nearly 50 per cent of the EU's T&C imports were exempt from duties in 1999, compared to only 28 per cent in 1994. However, there is a "graduation system", whereby products that make large inroads into EU markets can be excluded; and this has counted against the more competitive developing countries in recent years.

3.4 United States trade policies

US trade preference programmes include the Caribbean Basin Economic Recovery Act (CBERA) of 1983; the Generalized System of Preferences (GSP) that provides for duty-free treatment of nearly 4,700 tariff items from over 140 developing countries and territories; and the US Harmonized Tariff Schedule provisions for the duty-free entry of US components and materials processed or assembled offshore and then re-imported into the United States (HTS items 9802.00.60 and 9802.00.80).

3.4.1 Caribbean Basin Economic Recovery Act. The CBERA represents the trade component of the Caribbean Basin Initiative (CBI) that was launched by the USA in 1983 to encourage investment in non-traditional sectors of the Caribbean Basin. It was intended to help CBERA beneficiaries diversify their economies and expand their exports. The Act was scheduled to remain in effect until 30 September 1995 but was expanded in 1990 by the Caribbean Basin Economic Recovery Expansion Act (Public Law 101-382, title II) with no statutory expiration date.[28]

The CBERA grants preferential treatment for apparel made in the Caribbean Basin region. For apparel made from US fabrics and yarns and for certain knit garments there is duty/quota-free treatment. The amendment of the CBERA through the recently implemented Caribbean Basin Trade Partnership Act (CBTPA – Title II of the Trade and Development Act of 2000) expands preferential treatment in T&C for apparel made in the Caribbean from fabrics which are defined to be in short supply

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[28] The 24 CBERA beneficiary countries and dependent territories were: Antigua and Barbuda; Aruba; Bahamas; Barbados; Belize; the British Virgin Islands; Costa Rica; Dominica; Dominican Republic; El Salvador; Grenada; Guatemala; Guyana; Haiti; Honduras; Jamaica; Montserrat; Netherlands Antilles; Nicaragua; Panama; St. Kitts – Nevis; St. Lucia; St. Vincent and the Grenadines; Trinidad and Tobago. Honduras briefly lost its CBERA and GSP duty – free treatment from April 20 to June 30 1998 because of television piracy.

in the US, and for hand-loomed, handmade or folklore articles.[29] At the start of the programme in 1983 the United States ran a merchandise trade deficit of over US $3.2 billion with the 24 CBERA beneficiaries, but this was gradually transformed into a surplus, which had reached US $2.1 billion by 1998. The United States exports more to the CBERA countries than it imports and much of what it imports is made up from US components. The level of US imports from the CBERA rose 3.3 per cent between 1997 and 1998 and accounted for 1.9 per cent of total US merchandise imports while US exports to the CBERA increased 7.8 per cent in 1998 and accounted for 3.4 per cent of all US merchandise exports.[30]

3.4.2 Harmonized Tariff Schedule. The main industrial item imported by the USA from the CBERA beneficiaries in 1998 was apparel (worth US $8,158 million). It was also the main US export to the Caribbean, amounting to US $3,635 million in 1998. As per the provisions 9802.00.60 and 9802.00.80, US import duty is levied only on the value-added in offshore assembly or processing of US-made components, which are then re-imported into the United States. Most of the trade between the USA and the CBERA is in the same categories for the simple reason that the CBERA beneficiaries are an offshore assembly and processing platform for the United States, using US-made components. Apparel worth US $6,730 million (with 63 per cent US-content value), which was assembled in CBERA beneficiary countries accounted for 91 per cent of the value of US imports from the CBERA under HTS items 9802.00.60 and 9802.00.80 in 1998. Other significant 9802 imports from the CBERA beneficiaries in 1998 included: textile mill products (US $238 million with 90 per cent US-content value), electrical machinery (US $118 million with 55 per cent US-content value), scientific instruments (US $118 million with 54 per cent US-content value), leather products (US $115 million with 54 per cent US-content value), and rubber and plastic products (US $12 million and 65 per cent US-content value), as Table 2 in Annex shows.

The "production sharing arrangement" between the USA and the CBERA countries (and Mexico for that matter) has locked the latter into an assembly role. In the apparel trade the product is grown, spun, woven, designed and cut in the USA, shipped to the Caribbean for assembly, then sent back for marketing. US companies find it more convenient to do this in countries close by than to ship the cut fabric to Asia, for example. Hence the Asian producers tend to be providing complete clothes to the US market at the higher end of the price and quality range. In other words, geographic proximity reinforces the assembly function of Caribbean countries while the higher costs of transport favour more integrated manufacturing of upmarket items in Asia.[31] Innovation and improvement is therefore far more likely and necessary in the Asian plants than in the CBI countries.

3.4.3 North American Free Trade Agreement. Yet, this regional division of labour and allocation of export roles within the Western Hemisphere changed

[29] Fact sheet on CBTPA; http://www.ustr.gov/regions/whemisphere/camerica/factsheet.html

[30] US Department of Labor, Bureau of International Labor Affairs, "Trade and employment effects of the Caribbean Basin Economic Recovery Act", Fifteenth Annual Report to the Congress Pursuant to Section 216 of the Caribbean Basin Economic Recovery Act, 1999, p. 3.

[31] "Manufacturers engaged in production sharing arrangements (…) require the lowest level of expertise from their apparel suppliers: the assembly of cut parts into finished garments" (Gereffi, 1999, p. 52).

dramatically with the entry into force of the North American Free Trade Agreement (NAFTA) in 1994. Because NAFTA imposes no duties on goods produced within its territory (Canada, Mexico and the USA), it has placed Caribbean states at a disadvantage relative to Mexico which enjoyed lower tariffs in the highly competitive T&C sector. There was a dramatic growth in Mexico's exports to the USA after 1994 thanks to the fact that they entered duty free while those from CBI countries were subject to duty on the value added offshore. Mexico increased its share of the US apparel market from 3.8 per cent in 1992 to 12.6 per cent in 1998. In addition, the 50 per cent devaluation of the Mexican peso at the end of 1994 effectively reduced the price of Mexican exports in dollar terms.[32]

CBI states have continued to increase their textile and apparel exports to the USA but at a slower rate than Mexico. Whereas Mexico and the Caribbean countries had been growing their production-sharing exports to the US at the same rate before NAFTA (23 per cent and 24 per cent respectively between 1990-1994), Mexico leapt ahead after NAFTA with a 42 per cent average annual increase between 1994-1996 while the Caribbean managed an increase of only 17 per cent.[33] US imports of textiles and apparel covered by the MFA grew by 6 per cent in 1995 to US $44 billion, but imports from Mexico jumped 60 per cent while those from CBI countries rose 25 per cent. The CBI as a group was still the largest supplier of MFA products to the USA, followed by China, Hong Kong and then Mexico, but by 1996, only two years after the entry into effect of NAFTA, Mexico had already overtaken China and Hong Kong. By 1999, US imports of MFA products were worth US $63.7 billion; Mexico being the leading supplier with US $8.6 billion worth of exports to the USA, China with US $6.1 billion and Hong Kong with US $4.4 billion.[34] El Salvador, Honduras and Mexico accounted for 48 per cent of the total increase in US imports of apparel.[35]

The Caribbean has been the hardest hit by NAFTA and the increasing competitiveness of other regions. The currency devaluations that followed the financial crisis in Asia in 1997 reduced the cost of exports from those countries and intensified the competition in major markets even further. The Caribbean Textile and Apparel Institute reported in 1997 that since the introduction of NAFTA over 150 companies and 123,000 jobs had been lost in the apparel industry in the Caribbean, and that many of those firms relocated to Mexico.[36] Central American and Caribbean producers have put their hopes on the Trade and Development Act to restore the equilibrium in the region.

It looks very likely that Asian apparel exporting countries could be next to suffer the NAFTA-effect. In fact, there has been a steady reduction in apparel imports from Asia over the last twenty years, from 83 per cent of the total in 1981 to 55.8 per cent in 1999.[37] "Throughout the 1990s Latin America gained considerable market shares in the US primarily at the expense of Hong Kong, China, the Republic of Korea and Chinese Taipei..." according to the WTO's "International Trade Statistics

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[32] Source for statistics on trade with USA — USITC.
[33] USITC, Publication 3146, December 1998, pp. 3-5.
[34] Office of Textiles and Apparel. www.otexa.com
[35] Emerging Textiles, 23 February 2000: The US diversifies apparel sourcing.
[36] Rohter, L: Backlash from NAFTA batters economies of Caribbean; New York Times, January 30, 1997.
[37] WTO, 1995, 1997, 1998 and 2000.

2000". Before looking at their prospects, the issue of labour standards as a new non-tariff trade barrier is outlined below.

3.5 Labour standards as a non-tariff trade barrier

Although the quota system that has regulated world trade in textiles and garments for decades is about to expire, developing countries will not have automatic access to the world's largest and richest markets. In addition to the forms of managed trade discussed above there are other major non-tariff barriers coming to the fore, namely international labour standards and environmental norms (e.g. eco-labelling).

> There has been heated debate over the incorporation of core labour standards into the world trade regime ever since the start of the Uruguay Round. The issue has been discussed in a number of fora, including the ILO, the WTO, the EU and the OECD. International Labour Standards so far have been kept out of consideration in trade related agreements. The absence of a multilateral agreement has resulted in a proliferation of bilateral agreements, guidelines and private initiatives all designed to promote respect for international labour standards in the global economy.[38]

The crucial question of whether to promote the implementation of core labour standards by linking their adherence to trade benefits has remained unresolved at the multilateral level, due in part to the firm opposition of developing countries, who see it as a protectionist measure to impose developed country standards – and hence costs – on their emerging economies.[39] This failure to reach a multilateral agreement has had some negative implications for developing countries.

> There is the danger that if the issue of labour standards is not discussed in an appropriate multilateral forum, such as the ILO, it will be taken up in other contexts such as bilateral, multilateral and regional trade agreements.[40]

Some industrialized countries do indeed link labour standards to preferential market access and might be expected to make greater use of this measure in future. The Indian Ministry of Commerce, for example, argues that since the start of the liberalization process with the conclusion of the Uruguay Round in 1994, developed countries have used the issue of labour standards to protect their markets.

> The ostensibly social 'new' issues such as those relating to child labour, labour standards, wages and working conditions/workers rights, environment and ecological standards and even fire safety standards have been invoked both by the EU and the US, and linked to trade, as thinly veiled protectionist measures, all too frequently in the textile sector.[41]

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[38] These range from the newly adopted version of the OECD Guidelines for Multinational Enterprises to the ILO Declaration of Fundamental Principles and Rights at Work and the Global Compact of the Secretary General of the UN to the hundreds of voluntary Codes of Conduct applying to enterprises.
[39] There are two issues at stake here, firstly the need to ensure respect for international labour standards in the global economy, and secondly, the link to trade. The ILO Declaration on Fundamental Principles and Rights at Work, the Global Compact and company codes of conduct all address the former and will not be discussed here. This report concentrates on the link to trade and specifically the use of labour standards as a non-tariff barrier.
[40] Srinivasan, 1999, p. 1057.
[41] Monthly Newsletter of Ministry of Commerce, Vol. 1, No. 8, August 1999.

The USA has been the most active in linking observance of workers' rights to trade. International labour standards criteria have existed in trade legislation for over a century in the USA,[42] but have featured prominently in recent initiatives. The adoption of the Trade Act in 1974 (amended in 1984) defined internationally recognized workers' rights (without making reference to ILO Conventions) as follows:

- the right of association;
- the right to organize and bargain collectively;
- a prohibition on the use of any form of forced or compulsory labour;
- a minimum age for the employment of children and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

> The GSP has always had labour standards as eligibility criteria, as did the CBERA. Yet the standards referred to in the GSP go beyond core labour standards to include minimum wages, hours of work and occupational safety and health provisions.[43] The law also authorizes the President to grant preferential access even if the above criteria are not met, giving the US Government considerable leeway in making decisions on compliance.[44] Furthermore, the GSP Renewal Act directs the President not to extend GSP privileges to any country which "...has not or is not taking steps to afford internationally recognized worker rights to workers in the country".[45] Any interested party may lodge a petition for a review of the labour standards of a beneficiary country if they believe that the country is not respecting the workers' rights criteria. If the petition is accepted, an inter-agency committee gathers information through hearings, US embassies and published reports before making a finding, which may lead to the suspension or withdrawal of a beneficiary country's GSP status. Recent examples of this include the cases of Belarus, Thailand and Swaziland. Belarus had its GSP benefits suspended in July 2000 after an interagency committee found that it had not taken sufficient steps to respect the freedom of association and the right to organize and bargain collectively. Thailand and Swaziland on the other hand both introduced labour laws in response to GSP reviews and were able to retain their benefits, as did the Dominican Republic, El Salvador, Guatemala, Honduras and Panama.

The Bush administration shows no signs of changing this policy of pursuing labour standards through trade measures. Guatemala was obliged to adopt a number of reforms to its labour legislation in order to retain its benefits in terms of the GSP and Caribbean Basin Trade Partnership Act. Initial reforms passed in April 2000 "...did not reflect sufficient progress to maintain Guatemala's trade benefits…." according to

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[42] See for example the McKinley Tariff Act of 1890, which prohibited imports of goods into the USA made by prison labour, or the Smoot-Hawley Tariff Act of 1930, which prohibited imports made by prison, forced or indentured labour.

[43] Section 502(b)(2)(G) of the GSP law.

[44] The somewhat inconsistent application of these provisions has led some commentators to call them into question. A World Bank paper notes, "The American application of the GSP provision has been roundly criticized by labour groups as politically motivated, in that suspension of benefits seems to have been concentrated in "adversary nations" (e.g., Nicaragua, Liberia, and Syria) and to have been avoided in "friendly" nations with questionable records on labour rights (e.g. Egypt, El Salvador, Indonesia). Maskus, 1997, p. 63.

[45] General System of Preferences Renewal Acts of 1984 and 1996. The President may waive this and other criteria.

the US State Department and so further reforms were adopted in May which "…demonstrate a significant effort by Guatemala to meet commitments it made to the International Labour Organization" and hence retain its benefits.[46]

The most explicit link between trade and labour standards is to be found in the bilateral agreement on garment exports concluded between the USA and Cambodia[47] whereby the US agreed to extend Cambodia's export quota for garments by 14 per cent a year provided that Cambodia respects a number of conditions, including national and international labour standards. A determination has to be made on December 1 each year as to whether the country is in compliance, after which the quota may be extended. If it is not in compliance, the quota levels remain unchanged. In the agreement the US Government also offered to assist the Cambodian government to secure resources for upgrading its export garment sector to improve the levels of compliance. As part of that commitment, the Cambodian Government, the Garment Manufacturers Association of Cambodia and the ILO signed an agreement to monitor conditions in the garment industry. The three-year project will be co-funded by the US Government ($1 million), the Cambodian Government and the Garment Manufacturers Association ($250,000 each). The project will produce public reports on compliance with internationally recognized core labour standards which the US Government will take into account when deciding whether to grant Cambodia quota increases.[48] Cambodia, which is not a WTO member, has a growing export garment sector with over 100 factories employing 100,000 workers and exports of $815 million to the USA in the year 2000.[49]

The EU started to link the recognition of core labour standards to trade in May 1998 by establishing special incentive arrangements. Unlike the US, the EU scheme utilizes a positive incentive strategy by linking *additional* preferences to respect for labour standards. To be able to profit from additional tariff preferences, a country must comply with ILO Conventions No. 87 (Freedom of Association and Protection of the Right to Organise) and No. 98 (Right to Organise and Collective Bargaining) as well as No. 138 concerning the minimum age for admission to employment. In December 1998 the Council renewed the GSP scheme, including the special incentive arrangements until December 2001.[50] To date, only two countries have applied for inclusion, namely Russia and Moldova. It remains to be seen to what extent these initiatives will be used in future and how relevant they will become for T&C exporting countries. There can be no doubt however that preferential access to the EU and US market will remain regulated for the foreseeable future and that labour standards are a non-tariff barrier that may be used more frequently.

In the build-up to the WTO ministerial meeting in November 2001 and the negotiations for the Free Trade Area of the Americas, President Bush had been seeking so-called "fast track" negotiating authority. In July 2001, Senator Baucus,

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[46] Quoted in World Textile News, 21 May 2000. www.emergingtextiles.com

[47] The "Agreement Relating to Trade in Cotton, Wool, Man-made Fiber, Non-Cotton Vegetable Fiber and Silk Blend Textiles and Textile Products Between the Government of the United States of America and the Royal Government of Cambodia" reads just like any other bilateral garment agreement except for the section on labour standards. It will run from January 1, 1999 through December 31, 2001.

[48] Office of the United States Trade Representative, Press Release May 18, 2000.

[49] World Textile News, 3 February 2000 and 1 June 2001. www.emergingtetxtiles.com

[50] Council Regulation (EC) No. 2820/98 of 21 December 1998.

Democratic Chair of the Senate Finance Committee, released a proposal for trade negotiating authority which included provisions on labour standards and the environment. The proposal includes a clause which commits the United States to ask its trading partners to re-affirm their commitment to the core labour standards of the ILO, and the US will conduct a labour rights review to establish whether those core labour standards have been observed.[51] The EU released a communication on July 18, 2001 that set out their strategy for the promotion of the core labour standards.[52] This document stresses the integrated approach to trade, development and political dialogue that the EU adopts in its cooperation agreements. All cooperation agreements signed between the EU and third countries since 1992 have included a clause on human rights, including labour rights, and the 2000 Cotonou Agreement between the EU and the 77 ACP states contain a specific provision on trade and labour standards. The strategy proposes the increased use of the GSP system to promote labour standards by widening the additional trade preferences available and increasing the labour standards component from Conventions 87 and 98 to include the four core labour standards identified in the 1998 ILO Declaration on Fundamental Principles.[53] The strategy also calls for closer links between the GSP scheme and development programmes and for the inclusion of provisions on core labour standards in agreements signed by the EU and third countries. The Commission also expresses its support for codes of conduct and labelling schemes that promote core labour standards.

4. T&C trade and the "third wave" of exporting countries in South Asia

The foregoing analysis of trading patterns under the MFA shows that trade in T&C has been anything but free for the past thirty years, being strongly influenced by international and regional arrangements limiting access to the major markets. There will undoubtedly be important changes in the overall structure of trade in T&C as the MFA is phased-out, but it will retain its regulated character. The big question is – will developing country exporters be able to maintain and expand their market share under those conditions?

The question is particularly pertinent for the so-called "third wave countries"[54] which entered the global T&C production chain in the late 1980s, almost exclusively due to high quota allowances. When the initially successful Asian T&C producers ran out of quota they sought other production platforms from where to export to the main markets in Europe and the USA and found them in those countries that had no T&C industry worth mentioning at the time and which therefore enjoyed high quota allowances under the MFA. The clothing industries in these countries consequently boomed, with many of them serving as production platforms for quota-hungry investors from Hong Kong, South Korea and Taiwan Province, who were exporting to the EU and the US. The third wave countries are mainly located at the lower end of

[51] Senator Max Baucus, 25 July 2001, http://usinfo.state.gov
[52] Promoting Core Labour Standards and Improving Social Governance in the Context of Globalisation, Commission of the European Communities, Brussels, July 2001.
[53] Ibid pp. 16-17.
[54] First wave (ca. 1970s and early 1980s) countries being: South Korea, Hong Kong, Taiwan, Singapore; second wave (between 1985 and 1990) countries being the Philippines, Indonesia, Thailand, Malaysia (Dowlah, 1999, p. 947).

the international T&C commodity chain, providing the market with relatively simple mass-produced items rather than more complex or highly fashion-sensitive products.[55] This is due to a number of factors, including the relative weakness of their T&C export sectors, the quota categories they were allocated, their long lead times and their distance from final markets, all of which make them less attractive to producers of high value-added fashion items which require quick turn around.

The changes likely to occur in the trade pattern flow from four factors: the liberalization efforts at the multilateral level (i.e. phasing-out of the MFA); the changing sourcing patterns of the EU and the USA, the increasing share of developing countries in trade in T&C (despite quotas) and, last but not the least, the rising economic importance of intra-Asian trade and China in particular.

As far as the first two factors are concerned the impact is likely to be mixed. The abolition of quotas in T&C trade will end an era of restrictions on free trade and bring about a trade regime in which comparative advantage should prevail. As such it represents an opportunity for T&C exporting countries from the developing world, given their lower production costs. To what extent will developing countries be able to profit from these opportunities? The answer hinges on the implementation of the ATC (which remains to be seen) and then on the ability of developing countries to compete on the basis of cost, quality and speed alone. South Asian exporters in particular will need to improve because the changing sourcing patterns of the USA and the EU point towards a decreasing relevance of Asian suppliers. This is largely due to the trend towards new RTAs and regional production sharing arrangements, but also has a lot to do with market dynamics and the need for quick response.

The advancing share of developing countries in T&C production was an inevitable process that the MFA decelerated but could not stop. The labour-intensive nature of garment production meant that it would always gravitate to areas where labour costs were lower. The shifts in market share among leading clothing exporters[56] between 1973 and 1996 show that Belgium/Luxembourg, France, Germany, Italy, Japan, the United Kingdom and the United States saw their share of world production reduced by 19.2 per cent while the major developing country garment producers (China, Hong Kong, India, Republic of Korea, Taiwan Province and Turkey) increased theirs by almost 5 per cent. For textile production, the industrialized countries' shares shrank by 18.7 per cent whereas the developing countries' leading exporters increased theirs by 18.8 per cent. The main "winners" over these 24 years however, were developing countries that were not among the above-mentioned leading 13 T&C exporters.[57] Countries such as Bangladesh, India, Indonesia and Pakistan experienced even larger increases in their shares in T&C trade.[58]

The increasing significance of developing country producers becomes even more evident when looking at the Asian sub-continent and the relevance of its internal trade flows. The importance of non-quota markets has risen considerably over the past

[55] See e.g. Gereffi, 1999; Chan, 1998 or Dowlah, 1999.
[56] Based on top 13 T&C exporting countries in 1997, Spinanger 1999, Table 3 p. A4.
[57] Spinanger 1999, Table 3 p. A4 and p. 5.
[58] "It is the low-wage Asian countries which have been the main winners in the export of clothing over recent decades" (ILO, 2000, p. 11).

decade. Exports to the EU and the USA have been declining, while at the same time intra-Asian trade in textiles and clothing has been growing by 11 per cent and 14 per cent respectively each year. For textiles, intra-Asian trade flows figure second after Western Europe (worth US $41.4 billion after Europe's US $45 billion in 1996).[59] Table 3 in Annex shows the rise of intra-Asian flows between 1990 and 1997.

The Asian financial crisis has slowed trade flows in the region but it is likely that Asia will become a major T&C market on its own. China's entry into the WTO will lead to a sharp increase in its output and share of world exports. In 2005, China will have doubled its share of world exports from the level of 1995 and will therefore make up 6.8 per cent of world exports according to a senior economist of the World Bank.[60]

> Asia's growing prominence as a market for its own textile and apparel output (…) suggest a general restructuring may be underway that is leading to parallel processes of regionalization of the apparel commodity chain within Asia, North America and Europe.[61]

The demographics of the Asian region and its increasing per capita GDP mean it will continue to grow in importance as a market, and Asian garment exporters have every chance to dominate it, except perhaps in certain niche segments where the major Western brand names will be hard to beat. Those brands however will most likely use Asian production platforms to satisfy the Asian market so the employment benefits should be retained in the region. Whether Asian demand will be sufficient to compensate for the decline in market share in the more lucrative EU and US markets remains to be seen however.

In contrast to the deregulation of the global market in T&C that goes with the phasing-out of the MFA, two factors suggest that market access will continue to be controlled. First is the increasing importance of RTAs and bilateral trade agreements and, second, the emergence of NTTBs in the form of labour and environmental standards.

The first point refers to the new sourcing patterns of the EU and the USA. T&C trade in these countries/regions is increasingly shaped by RTAs and political considerations despite ongoing liberalization efforts on the multilateral level. Regional trade agreements essentially offer tariff incentives to encourage brand retailers to source within the region. These incentives can be very persuasive given that the tariff reductions concluded by the Uruguay Round negotiations were minimal for apparel and textile products and that duty rates for these products remain about three times the levels of those on other products in the industrialized countries.[62] Thus, while the battle is fought over whether to negotiate lower textile and apparel

[59] All data WTO, 1998.
[60] ChinaOnline News, Charles Snyder, 1 February 2001: China to benefit from WTO entry, experts say, but accession delays drag on.
[61] Gereffi, 1999, p. 64.
[62] Jacobs, 1999, p. 3.

duties multilaterally, and if so, over what period of time, regional programmes will continue to offer businesses substantially greater benefits.[63]

For the EU, T&C trade within its borders and with other Western European countries; such as, Switzerland, Turkey and those in the former Yugoslavia,[64] remains important. Beyond that, the neighbouring countries from Eastern Europe and the Mediterranean Rim are coming into play, based on a mixture of economic and political considerations. Firstly, Eastern Europe and the Mediterranean Rim offer EU low labour costs combined with a better educated labour force than that available in Asia, while at the same time enjoying the advantages of geographical proximity. Secondly, it is high on the political and economic agenda to promote economic growth and stability in the EU's "backyard" by involving those countries in closer trade relations. This provides the EU with cheaper goods and opens new markets for EU products.

The same holds true for the US sourcing pattern in T&C and its impact on Asia. The CBI and NAFTA make it more attractive to produce in the Western Hemisphere than in Asia. It is not only cheaper and quicker to do it there, but it allows US textile manufacturers to supply the bulk of the fabric, something they cannot do with Asian suppliers. The vertically integrated operations that some US companies are now establishing in Mexico will probably be copied elsewhere as well for achieving competitive advantage based on the combined factors of speed, cost and quality rather than simply on labour costs. Politically, there are the same arguments for the US to focus on promoting growth in its "own backyard" by establishing closer trade links with its neighbours. The ongoing negotiations on the formation of a Free Trade Area of the Americas underpin this orientation of the US towards the American continent and away from the Asian region.[65]

4.1 Winners and losers

> The abolition of the quotas will create opportunities for developing countries, but will also expose them to additional competition from other, formerly restrained, exporters. The outcome for any individual country will depend heavily on its policy response.[66]

The phasing-out of the MFA will create new conditions in the global market for T&C products. Developing countries whose T&C sectors flourished on quota allocations will have to compete for market share on the basis of new criteria that range from economic efficiency to regional trade agreements and new non-tariff barriers. The ability of developing country T&C exporters to adapt to those market conditions will depend partly on which policies and strategies they put in place over the next few years and partly on their geopolitical location in relation to RTAs and other preferential trade agreements. A glance at the world map shows that the US and EU have constructed regional trade agreements which favour T&C producers in

[63] Ibid.
[64] This is the geopolitical categorization used in the WTO statistics of intra-regional trade flows; see subchapter on EU policies.
[65] See e.g. *The Economist*, April 21st 2001, p. 12: "Breaking barriers in the Americas" on the Summit of the Americas in Quebec-City, April 2001.
[66] Katuria, Martin and Bhardwaj, 2000, p. 1.

Central America and the Caribbean and in Eastern Europe and the European Rim respectively. Of the T&C exporting-countries outside those two trade blocs China is considered to be a likely winner in the post-quota market because of its low production costs and huge internal and export markets. China's strength as a global apparel exporter is not seriously rivalled by any other single country. Rather, it competes with entire trading blocs of countries.[67] With China as the cornerstone Asia may well come to constitute a third trade bloc or market providing some counterbalance to the North American and EU markets.

India has the T&C tradition, factor endowments (mainly cheap labour and cotton) and large domestic market to be a major force in both intra-Asian and global trade. India's exports of T&C goods grew at an average annual rate of 11 per cent (by value) during the 1990s to total $10.7bn in the 1998-99 fiscal year. As such they are vital to the Indian economy since they represent the largest net earner of foreign exchange and account for over a third of total exports.[68] In 1997 the EU and US markets absorbed 74 per cent of India's apparel exports, but its share in those two markets has declined over the last decade. However, the policy environment has prioritized domestic concerns over export performance; and this may limit its ability to make the changes necessary to compete in the post-MFA market. The Indian T&C sector is highly decentralized and has a large number of small firms, a feature that limits investment, productivity and quality. At the same time it is also highly flexible, producing small runs for particular market niches. This could be a strength in an industry increasingly focussed on rapid response to changes in demand.

For India to turn this into a competitive advantage, however, would require considerable investment in new plant and equipment (a key factor in which India lags behind other Asian competitors) and improvements in the supply and quality of fabric. Investment in more efficient factories however was discouraged by the policy of reserving the garment sector for small-scale industry and by restrictions on foreign direct investment in the sector. The limit on investment in the garment sector was Rs.10 million and companies that exceeded this had to undertake to export at least 50 per cent of their output. Most companies were not willing to take that risk and the result was that only 5 per cent of the 58,000 garment factories had investment of over Rs.10 million. The average unit in the small-scale garment sector had only 10-15 machines.[69] In comparison to other major garment producers in the region the Indian garment sector has a marked technological disadvantage – average annual investment in machinery per establishment is $2.5 million in Hong Kong and $1 million in China but only $2,900 in India![70]

Indian textile policies have favoured the hand- and small power-loom sectors that cannot provide the necessary quantity, quality or price for the export garment industry to be more competitive. The reservation of certain textile products for the handloom sector has been an important factor in preserving jobs in that culturally significant craft (over 12 million employed in 1999) but it has led to the proliferation of unproductive bureaucratic controls and has not prevented the growth of the power-

[67] Chan, 1998, p. 1.
[68] India's Textile and Apparel Industry: growth potential and trade and investment opportunities; US International Trade Commission, March 2001.
[69] India Infoline Sector Reports: Textiles; www.indiainfoline.com/sect/teip/ypdt/ch04
[70] US International Trade Commission, ibid., p. 5-5.

loom sector either. In addition, the protection of this sector has involved the imposition of the so-called “hank yarn obligation” which obliges spinning mills to produce at least 50 per cent of their yarn in the form of hanks for use by the hand-loom sector. In addition, the policy bias in favour of cotton has reduced India’s competitiveness in the all-important market for synthetic fabrics and apparel. Finally the long and expensive delays associated with the extensive administrative procedures involved in export garment production add significant costs and obstacles which would have to be tackled for India to become more competitive in this sector.

The Indian Government has started to introduce policy reforms in an effort to raise the competitiveness of the T&C sector. It has scrapped the reservation of the garment sector for small-scale industry, lifted the 24 per cent ceiling on foreign direct investment in garment factories and removed the requirement to export at least 50 per cent of output. The “Technology Upgradation Fund Scheme” has been set up to improve the productivity and quality of all levels of the textile industry, including the handloom sector, while the Indian Brand Equity Fund is to promote Indian brands abroad. Other initiatives involve diversification of production, the establishment of dedicated apparel parks with appropriate infrastructure and the development of new markets. Garment factories are being encouraged to adopt the batch system of production and to try to move up the value chain by producing higher value-added goods to better standards.

Pakistan is another of the South Asian producers that is struggling with inappropriate policies and a weak industrial base in the T&C sector, especially in synthetics and higher value-added garment products. It has the same factor endowments as India, namely cheap labour and raw cotton, but these have not been productively utilized. The cotton crop has been contaminated and the subsequent ginning, spinning and weaving has produced low quality materials for the apparel industry to cut and sew. Despite these limitations the textile sector accounts for 60 per cent of the country’s exports and employs over 1.4 million people. In order to become competitive however the industry will have to invest heavily in new technology, training and diversification of products and markets. Whether the necessary policy incentives will be introduced in time is an open question.

The smaller Asian and African quota-based producers will be the most exposed to the risks of the post-MFA market. Included in this group are Bangladesh, Egypt, Madagascar, the Maldives, Mauritius, Nepal, South Africa and Sri Lanka. The challenges facing these producers go deeper than the phasing-out of the MFA, but it throws into sharp contrast their strengths and weaknesses as exporters of T&C products. Nepal for example, has seen increases in its garment exports of 38 per cent and 44 per cent in fiscal years 1999 and 2000 respectively. Some of that growth was due to the involvement of Indian and Chinese garment exporters taking advantage of Nepal’s quota allocations. Those garment exports account for over 25 per cent of Nepal’s exports and are likely to suffer badly after the phase-out of the MFA.[71]

What are the future prospects for these countries? On the one hand the phasing-out of the MFA and the increasing popularity of de-verticalized production

[71] World Textile News: Nepal’s garment exports continue surging. 29 November, 2000. www.emergingtextiles.com

chains could provide new and expanded opportunities for developing countries to increase their global market share. However, this will depend on their intrinsic qualities as T&C producers, measured in terms of cost efficiency, quality and lead times. Most third wave producers would have to upgrade significantly in order to compete on that basis alone. Egypt provides another example of a garment exporter with strong factor endowments (low labour costs and world famous cotton) but whose policy environment has frustrated attempts to become more competitive in preparation for 2005. Garment exports to the US and the EU have been growing thanks to quotas with the former and a bilateral agreement with the latter, but the industry is not well positioned to face the future. It has not developed an integrated production network stretching from raw cotton to finished garments and relies on imported cloth due to the poor quality and high prices of the domestic product which is highly protected.

In addition to competing for market share in the US and EU markets, third wave countries could try to capitalize on developing country markets that may be opening up. Intra-Asian trade may grow to rival the US and EU markets. With China's opening up to the rest of the region and to the world, an Asian T&C sourcing pattern could conceivably emerge.

The development of intra-Asian trade may well be essential to the future growth of the third wave producers because the combination of regional trade agreements and the increasing importance of quick response to market fluctuations will favour producers "inside" the trade blocs and work to the disadvantage of those "outside" and further from the major markets. Asian countries may be the next to suffer the "NAFTA-effect" already experienced by the Caribbean region and the Central American countries. For example, when "The Limited", manufacturer of Victoria's Secret underwear, recently opened a plant in Mexico, their CEO, Martin Trust, was quoted in Forbes Magazine[72] as saying that despite the fact that wages are three times higher in Mexico than in Sri Lanka it was more economical to produce in Mexico because of savings in time, transport costs and duties. The same is the case for the European market where the Asian countries keep losing out to the Eastern European and European Rim countries. Sullivan and Kang (1999) cite a number of studies which indicate that when garments are fully costed, including inventory carrying costs, lead times, and protracted delivery from distant suppliers, US manufactured merchandise or goods cut in the US and assembled nearby are as or more competitive than Asian imports.[73]

For third wave countries, the main conclusion to be drawn from these developments is that competitiveness will become even more crucial for them. The abolition of quotas will raise overall competition in T&C production because it enlarges the number of potential participants with market access. Quota-hopping companies, who have been using the third wave quota allocations to penetrate the EU and US markets, will be free to locate anywhere in the world and may well choose export platforms inside the major regional trade blocs and closer to final markets. Third wave producers who want to build or maintain market shares in the European and the US markets will need to be extremely competitive because they lack the

[72] February 10, 1997.

[73] McMillan, M., Pandolfi, S., Salinger B. L., Promoting Foreign Direct Investment in Labor-Intensive, Manufacturing Exports in Developing Countries, CAER II Discussion Paper No. 42, July 1999, Harvard University.

advantages of preferential trade privileges and geographical proximity which their competitors enjoy.

Low labour costs and quota allowances are no longer sufficient to secure a position in the international T&C commodity chain. Speed, flexibility and quality will become more and more important and will require improved human resource development and greater productivity. Furthermore, the emergence of new NTTBs such as international labour standards calls for export strategies, which emphasize not only economic efficiency but better enforcement of labour laws and more stable labour relations.

Developing-country suppliers will need to be capable of responding rapidly and flexibly to market conditions that are increasingly variable. This implies closer and more collaborative links between retailers and manufacturers, using electronic data interchange systems to improve the flexibility of supplies and reduce inventory costs. It also demands short lead times that favour highly efficient suppliers or those closer to final markets. For manufacturers to achieve – and constantly improve on – the required efficiency levels will require considerable investments in technology and training at both management and production levels.

Developed-country garment producers have already faced this challenge of working smarter to remain competitive. They have specialized in high value-added niche production involving complex operations but to do so they had to develop a flexible, multi-skilled workforce which could handle quick response technology in a modular and increasingly computerized manufacturing set-up.

Section 5 highlights the case of Bangladesh, a third wave country that has undergone dynamic growth under the quota-based trading system but whose T&C future is uncertain in the post-MFA era.

5. The case of Bangladesh

The Bangladesh ready-made garment industry (RMG)[74] has grown from zero in the 1970s to become the country's principal export earner in the 1990s. The first exports began in the mid-1970s, contributing less than US $1 million to Bangladesh's export income. They have accelerated at an average rate of 22 per cent a year, to earn US $4.2 billion from sales by the year 2000. This accounts for more than 70 per cent of Bangladesh's total exports. The main markets are the EU and the USA, with the former representing 54 per cent and the latter 41 per cent of the country's exports.[75] The EU market has proven to be particularly promising in terms of future shares of Bangladesh in the clothing sector. The number of garment factories grew from 50 in 1983 to more than 3,000 in 1999, employing approximately 1.5 million people, the majority of who were young women (over 66 per cent).[76] This represents over 70 per cent of the female formal sector employment in Bangladesh.

[74] RMG refers to assembly or process manufacturers, used in the Bangladesh context; it comprises knit- and woven-RMG.
[75] All data from Dowlah, 1999.
[76] Rahman, M./Bhattacharya, 2000, p. 1 and Paul-Majumder, 2000.

As is the case for most of the third wave countries, this dramatic growth was largely due to the quota-based trading system and, in the EU market, due to the unrestricted, duty-free access accorded to Bangladesh as a least developed country (LDC). To cater for quota-hopping East Asian exporters such as Korea, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) administers a bonded warehouse system using letters of credit which allows cloth to be sent in duty-free by customers for cutting and sewing before being exported direct to the distributor. Bangladeshi entrepreneurs found it relatively easy to enter the export garment sector since the technology was cheap, labour-intensive and easy to operate.

The sector's main markets are mainly in the relatively low value-added market segments, exporting products such as ordinary shirts, pyjamas, shorts and caps. There are signs that the garment industry is upgrading from the simple assembly of shirts to higher value added items; like suits, jackets, branded jeans and embroidered ladies wear.[77] In particular, the knitwear sub-sector has proven to be relatively competitive. It experienced growth rates of about 400 per cent between 1992 and 1997, showing that the industry has emerged as a competitive supplier in the global market.[78] For this sub-sector, there has also been an increase in local sourcing; and some 80 per cent of the accessories used are now sourced from the local knitting mills.[79]

5.1 Weaknesses, challenges and prospects

The future of the Bangladesh export garment industry is uncertain. Along with garment producers the world over, BGMEA members are now speculating on what will happen to them as the MFA is phased out. As has been stated above, most garment factories are trying to move up the production chain to higher value-added levels, though their ability to do so depends not only on their making the investments necessary to improve speed, cost and quality, but also on the opportunities created by the lead firms who largely determine production roles in the chain.

> The way forward for Bangladesh is probably to upgrade its production. This means companies starting their own collections and improving the quality and finishing of products thus capitalizing on skills developed over the past 15 years.[80]

It is increasingly clear that low labour costs are not enough to retain a competitive position in the world market. The ability to respond quickly, at the appropriate cost and quality levels, is vital. Countries which are far from main markets, and who do not have their own raw materials and textile base, will find it difficult to respond quickly enough to market demand and may be overlooked by lead firms. Distant production platforms like Bangladesh may still be able to supply certain commodity items (bulk, standard garments), which do not rely on rapid delivery and are less fashion-sensitive, but in the higher value-added, fashion-sensitive segments Bangladesh will face strong competition from export platforms closer to main markets.

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[77] Dowlah, 1999 and Rahman, M./Bhattacharya, 2000.
[78] Dowlah, 1999, p. 936.
[79] Dowlah, 1999, p. 939.
[80] Pinnells, n. d., p. 4.

> Thus, the need to develop spinning and weaving as well as dyeing and finishing activities capable of servicing the export demand acquires highest priority in the current context.[81]

The immediate challenge facing Bangladesh is to improve the productivity and quality of its thousands of small, family-run factories through investments in new technology and the training of both direct labour and management. They could then offer a wider range of services to their clients, enabling them to move from assembly towards full package production. Factory infrastructure and the organization of work would also need to be addressed, given that most exporters are operating from premises that were never intended to serve as production sites and are using simple and outdated technology.

> Lack of adequate skill and appropriate technology, (…) together with weak infrastructure have significantly constrained a more intensive use of existing export sectors as well as a diversification in areas where labour intensive export-oriented activity have otherwise been flourishing in some of the other developing countries.[82]

5.2 The issue of labour standards

In addition to the technical challenges facing garment exporters in Bangladesh there are important social and labour questions confronting enterprises and their response to those will in part determine their future share of the global market. Labour standards are likely to be as determinant in the new trade environment as tariffs, lead times and productivity.

Many Bangladeshi garment factories are now bound to observe codes of conduct imposed by their large customers (such as, the retail chain C&A). Those codes relate not only to working conditions and health and safety provisions but also to human or workers' rights. The issue of freedom of association is a pressing one that the garment industry will have difficulty in addressing given the complex nature of the labour movement in Bangladesh. The export garment sector has remained largely unorganized, although there are over 100 trade unions registered as operating in the sector. The Bangladesh Independent Garment Workers Union Federation, a group of women garment workers, has been launched with assistance from the Solidarity Centre (formerly known as the Asia-American Free Labour Institute or AAFLI), but it remains to be seen whether it will be able to make inroads into the industry.

One labour issue that has been tackled is child labour, thanks to very concerted pressure from the US Congress and consumers. As a result of the combined action of the ILO, UNICEF and the United States Embassy in Dhaka, child labour has been all but eliminated from BGMEA factories. An audit was conducted to identify the number of children below the age of 14 who were working in export garment factories. They were then removed and placed in schools constructed and run by UNICEF with financial support from the US Government. A replacement worker was found, often from the same family as the child who had been removed to school. Over 100 such schools are now operating under this system, and the ILO runs a programme whereby factories are inspected to ensure that no children are working.

[81] Rahman, M./Bhattacharya, 1999, p. 25.
[82] Rahman, M./Bhattacharya, 1999, p. 30.

In the year 2000, Bangladesh was threatened with the loss of its GSP privileges in the USA because of its exclusion of freedom of association in its EPZs. This was not the first time it had faced this threat. The US had threatened to withdraw the GSP treatment in the early 1990s but in 1991 the Government of Bangladesh had asked for time in order to introduce freedom of association in phases. The US Government had agreed to the time-table, but when almost ten years passed without any sign of progress the AFL-CIO requested another review. The US Ambassador in Bangladesh, John C. Holzman, explained:

> My country's hope is that Bangladesh will make progress towards ensuring that its workers enjoy internationally recognized rights including freedom of association. My government does not accept that an inevitable contradiction exists between workers rights and stable economic growth and added that as consumers, we expect that goods sold in the United States will be produced by workers whose voices are protected, not suppressed.[83]

The Government of Bangladesh responded by maintaining its ban on trade union activity in the zones and instead introduced welfare committees in zone enterprises. These committees, however, were to be appointed by the employer and the EPZ authority and would not be permitted to discuss wages. The Government of Bangladesh also proposed the establishment of labour tribunals to deal with disputes. This was clearly a case of "too little, too late;" and under continued pressure from the USA, the Government of Bangladesh eventually agreed to introduce freedom of association in the zones by the end of 2003. A notification published in the government gazette by the Ministry of Labour and Employment will allow EPZ workers to engage in TU activities from 1 January 2004.

> All the legitimate rights relating to organisation of the workers at the EPZs in the country established under Bangladesh Export Processing Zones Authority Act (XXXVI of 1980) and other related rights will come in to effect from January 1, 2004.[84]

The Government of Bangladesh, however, has continued to insist that the highly politicized and fragmented trade union movement in Bangladesh would cripple the EPZs and drive out investors if allowed access to the zones. The same logic lies behind the decision not to allow the welfare committees to be elected – the government fears that political parties and trade unions seeking to extend their influence would exploit the elections. The Government intends to reform the labour laws to reduce the scope for "disruptive trade union activity" and to cater for the fears of investors who are threatening to leave rather than deal with trade unions.

The Government of Bangladesh lobbied hard to get its proposal accepted by the US Administration, despite the fact that the exports that benefit from GSP treatment amount to "only" about US $40 million. However, the consequences of this dispute, if left unresolved, were likely to spread much further. Bangladesh could have lost not only US $40 million in GSP privileges but could have severely jeopardized their trading relationship with the USA. For example, the Overseas Private Investment Corporation encourages private investment by US companies in developing countries,

[83] John C. Holzman, quoted in The Daily Star, Dhaka, 20 December 1999.
[84] www.bangladesh-web.com/news/Feb.15/

but it also has mandatory workers' rights criteria for its programmes and could have refused to back investment in Bangladesh. The image of Bangladesh in the minds of American consumers could also have suffered, leading to reduced sales, and possibly even to boycotts, in the US market.

At the same time, as the Government of Bangladesh continued to insist that the introduction of workers' organization in the zones would be disruptive, the rising level of labour management conflict in the zones served as a reminder of how urgent the need for labour relations mechanisms was. In June 2000, some 12,000 workers in the Chittagong EPZ went on strike in support of their demand that trade union rights be respected and that their wages be paid according to scales contained in the "1993 Instruction" drawn up by the BEPZA (Bangladesh Export Processing Zones Authority) but never published. (EPZ wages at the time were still being paid according to the "1989 Instruction", which had never been updated). In the course of this dispute some workers had taken managers hostage and others had gone on hunger strikes. Zone sources said that over 20,000 workers had been agitating for more than two months to be paid according to the 1993 schedule. The Labour Relations Department of the zone had not been able to resolve the dispute and was sticking to its 1989 schedule of wages. Sheikh Abdul Nikit, the Sales Manager of one of the affected factories was quoted as saying:

> Our factories suffered huge production loss due to the unrest. Besides, we are hostage in the hands of our workers for the last two months. In all the towel factories here, workers took control of internal administration and started a go-slow. Management officials were kept confined in most of these troubled towel factories. They were later rescued by police. We are undone in controlling the workers. I think the main purpose of the unrest is to introduce trade union activities here.[85]

5.3 Working conditions in garment factories

The Bangladesh garment sector factories are mainly located in downtown Dhaka, often on the upper floors of commercial office buildings. Production rooms are crowded; from 500 to 1,000 young women work 10-12 hours a day in poor working conditions. Doors are often locked and guarded, apparently to prevent theft; workspaces are hot, ventilation is inadequate, and the stress is tangible, with workers under pressure to increase production in an unsatisfactory working environment. Many workers travel long distances (often on foot) and frequently lack the nourishment required to work a long and demanding shift. Employers complain of high rates of absenteeism and labour turnover which undermine efficiency and discourage investment in training. In addition, they point to the relatively short (5-8 year) work-span of the women, most of whom will leave in their early twenties to marry and raise a family.

Many garment factories around the world can be similarly portrayed, a situation that poses incisive questions about workers' rights, wages and working conditions. Since the Bangladesh export garment industry represents a huge success story in terms of employment generation and export earnings, it also calls up many of

[85] *The Daily Star*, Dhaka, 1 July, 2000.

the classic issues and problems that small and medium size exporters face in dealing with globalization.

Changes need to take place to improve the wages, working and living conditions of the more than two million women in the export garment industry. However, such improvements are not easy to achieve in a context like Bangladesh, where the finance, know-how or sometimes even the will is lacking. Nevertheless, one innovative enterprise has demonstrated that many of the physical and social hardships faced by workers can be addressed through dialogue and cooperation between management, labour and civil society. The innovations described in Box 5.1 are unique in the Bangladesh export garment sector, creating a precedent for improved working conditions by means of modest and relatively simple initiatives.

Box 5.1 Productivity through improved working conditions

Implementing modest initiatives to overcome limitations and obstacles

The Bantai Company in Bangladesh

At first glance, the Bantai Company is outwardly the same as any other garment factory in Bangladesh. It has 500 women working intensively to maximize their piece-rate earnings in too small a space. Bantai was started in 1991 with an initial investment of US $500,000 and 300 workers. Within one year it employed 540 people making eight million caps a year for sale on the west coast of the USA. Like most of the women working in garment factories in Dhaka, the workers at Bantai came from outlying areas. It is usually their first time away from home. On arrival in Dhaka, they face problems in finding safe housing, buying food and necessities at a reasonable price, staying healthy, receiving medical treatment, and ensuring that their children are cared for and educated. Like most other workers they did not have family networks or other support structures in Dhaka. Unlike other garment workers however, they found part of the solution to these problems at work. Although the ergonomics of the production line are lacking at Bantai, the company's part-owner, manager, and agent of change, Said ur Rahman, has approached the employment relationship in a way, which is without precedent in the industry.

Said ur Rahman helped the women set up a housing cooperative and a buying cooperative which sells quality produce at low prices in the fair price shop located in the factory. Together with Phulki, an NGO dedicated to setting-up workplace crèche facilities, a crèche was established in the plant with three helpers. Mothers may feed at any time. After the age of three, the children move into another room where the well-known NGO Bangladesh Rural Action Committee helped to set up a pre-school for children up to the age of eight. In order to provide adequate health care, Bantai arranged with the Dhaka Community Hospital to provide medical treatment to employees at company expense. To make treatment more accessible to those who require it, Bantai made an arrangement with the hospital to send a doctor to the plant one day a week. Every worker has a medical history card and can consult the doctor at any time during that day. All the company's workers have been immunized.

Perhaps the most challenging of the innovations introduced by its part-owner and change agent involved the establishment of bank accounts for the women workers at Bantai. In one of the regular consultations that take place on the shop-floor at Bantai, the women workers explained that they had no control over their earnings. They were obliged to hand them over to their husbands or fathers, who disposed of the cash. In searching for a solution, the discussion resolved that the women would not divulge the full sum of their piece-rate earnings, and hand over only a portion to the men of their family. The rest would be saved (secretly) in a bank account. When Said ur Rahman approached the bank on their behalf, the bank refused to accept the women as clients. He tried every bank in Dhaka and met the same response. Finally, he was able to prevail on an ex-pupil of his (Said ur Rahman had been a teacher before moving into the garment industry) to take the accounts, but the bank imposed one condition: the women must never come to its premises. They reluctantly agreed and a finance clerk at Bantai makes the deposits and withdrawals on their behalf. These women workers will become the first women in their families to accumulate cash savings that could be used, for example, to provide their children with education and health care.

These innovations are unique in the Bangladesh export garment sector, creating a precedent for improved working conditions by means of modest and relatively simple initiatives. The crèche is no more than a curtain drawn across the end of the production floor with little by way of furniture or facilities, but the mothers on Bantai's workforce express their relief and satisfaction in the knowledge that their children are safe and cared for. Bantai's initiative has enabled its women workers to balance work and family obligations. The pre-school is a single room one floor below the factory, as is the fair-price shop. The doctor consults behind a screen placed in the production workspace. The humble facilities and cooperation with NGOs have limited the costs to the Bantai company of these services. By far the most costly investment is the time devoted to these initiatives by Said ur Rahman as agent of change. He explains that the company largely runs itself, and he has staff to take care of finances and administration. His role is to deal with the company's human resources, which implies the workers' social as well as their vocational concerns. The workers at Bantai can only achieve the productivity expected of them if their housing, transport, nutritional and family needs are catered for. Said ur Rahman has managed to leverage the combined resources of management, labour and NGOs in such a way as to create a win-win situation.

5.4 Business by social responsibility: The Social Standards Working Group of Bangladesh

Given the growing awareness of the importance of international labour standards in the global marketplace, Bantai is likely to be recognized as something of a benchmark for the RMG sector in Bangladesh. After making a presentation at a seminar organized by Business for Social Responsibility, Said ur Rahman was approached by 29 other garment exporters wanting to know how they could make similar improvements in their factories. This prompted them to set up a Social Standards Working Group, which will develop a set of standards to which they will all commit themselves. Other garment exporters will be invited to join the group.

In the post-MFA era, can a third wave country effectively compete, upgrade and deal with international labour standards? This report argues that upgrading is essential for garment exporters to survive post-MFA given the present situation in Bangladesh.

6. Upgrading the T&C industry

> As Northeast Asian firms began moving their production offshore, they devised ways to coordinate and control the sourcing networks they created. Ultimately, they focused on the more profitable design and marketing segments within the apparel commodity chain to sustain their competitive edge. This transformation can be conceptualised as a **process of industrial upgrading**, based in large measure on building various kinds of economic and social networks between buyers and sellers.[86]

The potential to upgrade the garment sector should be viewed in the context of a global industry that is driven by a range of different forces. As discussed in earlier sections, the determining factors that impact on the ability of a country, sector, cluster or enterprise to upgrade are:

- the quota system that governs the international trade in garments and distorts the distribution of production by obliging enterprises from countries which have exhausted their quota to move to countries which have spare quota;
- regional trade regimes which influence the location of production facilities and the type of work performed (assembly or full-package);
- proximity to major markets which influences the quantity and type of production;
- the strategies of the major trading companies, designers and retailers, who increasingly no longer manufacture their own products but utilize an international network of suppliers locking contractors into allocated roles; and
- the investment environment, including the quality of infrastructure and human resources, the stability of the labour relations and the integrity of government structures.

In order to profit from the opportunities resulting from the changes in the international trade pattern, third wave countries should concentrate on improving their competitiveness through industrial upgrading. Industrial upgrading is a process of

[86] Gereffi, 1999, p. 51.

improving the ability of a firm or an economy to move to more profitable and/or technologically sophisticated capital- and skill-intensive economic niches.[87] In other words, they have to look to factors other than low wage costs – such as quality and speed (quick response) – to define their position in the T&C commodity chain. These companies need to concentrate on building up forward and backward linkages (particularly to develop the textile sector)[88] and increasing their efficiency (unit labour costs) through improved capital and labour productivity. This implies additional social and economic challenges including a raised human capital base, greater equality in employment and training, improved transport and housing for workers and the necessary industrial and social stability to enable all the links in the chain to integrate smoothly.

6.1 Evolution up the commodity chain

The traditional conception of upgrading involves an evolution up the value chain from Component Supply Sub-Contracting (CSSC) to Original Equipment Manufacturing (OEM) to Original Brand-name Manufacturing (OBM).[89] The garment commodity chain comprises the following links:

- assemblers who sew together cut-and-formed pieces provided by the customer (typical 807-type arrangement);
- the bonded warehouse/letter of credit system, such as in Bangladesh, in which the cloth is provided by the customer and then cut and sewn by the local contractor (Cut-Make-Trim or CMT);
- CMT operations which may also offer some additional services such as computerized scanning, sample-making, grading and marking, pattern-making, or the ability to turn out store-ready merchandise on hangers with bar coded labels;
- full-package operations without their own textile base who would do all of the above but in addition would hold fabric, dye, wash (if necessary) and then cut-make-trim (possibly using locally sourced trim);
- full-package operations with their own textile base would do all of the above but would not be forced to procure the gray fabric (base cloth) and may even produce their own trim;
- full-package operations producing store-ready items which are labelled, priced and ready to display; depending on the quality of their Electronic Data Interchange (EDI) network whereby they could develop a Quick Response (QR) capacity and with some R&D capacity, could customize basic designs for the customer and may even provide design ideas to their major customers; and
- OBM operations offer full package but in addition have their own retail outlets stocked with their own brands, without necessarily dropping full-package work for major customers.

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[87] Ibid., 1999, p. 51f.
[88] Ibid.
[89] See Gereffi, Gary Global Production Systems and Third World Development in B. Stallings ed., *Global Change, Regional Response: The New International Context of Development*.

6.2 Interventions for low-end or high-end producers

There is no automatic, inevitable or natural evolution from CSSC to OEM to OBM, or even from one stage to the next. Progress up the value chain will need to be consciously planned and engineered. Specific skills and capacities will need to be developed. Each of the links or category of producer listed above will have to make certain investments to move up the value chain. These are described below:

- Assemblers need to add front-end services, invest in the necessary technologies (perhaps with joint venture partners or government assistance), upgrade and diversify skills, and acquire new skills, and bring in outside expertise to jump start the process.
- CMT operations hoping to upgrade to full package will have to develop the front-end skills, the ability to source all the inputs and put them together in virtually store-ready form. The organization of work will need to change, in order to take account of shorter runs with quicker turn-around times. This may favour small, highly specialized workplaces.
- For full-package operations hoping to upgrade to OBM, building networks and alliances are essential. They will need to enter into cooperative planning with textile mills to get more flexible supplies. This is vital for Quick Response (QR). Here, there may be a regional specialization to consider. Italian or American mills dominate in particular categories. Asian mills have other strengths, and so full-package operations in Asia should play to those strengths and develop product lines based on Asian textiles. They may also decide to target Asian consumers, given their superior understanding of Asian tastes and customs. This implies a marketing capacity that very few CMT or FP operations have. If they are to become more independent OBM producers and ultimately drive their own destinies, they will have to have the capacity to go out and make their own market rather than relying on their customers to decide.

Each category has its low-end and high-end producers, so part of the upgrading strategy would be to start moving towards the higher end of the existing category. This may not require a large investment in new technology but will necessitate an improved use of technology and human resources and improved organization of work. It may also require a marketing skill to go out and capture higher-end work.

6.3 Creating a garment industry development agency

The interventions proposed above may be beyond the scope and the means of individual firms. They require a dedicated institution that takes an industry-wide approach. There is therefore a need for a garment industry development agency (GIDA) capable of making strategic interventions in areas such as human resource development, technology diffusion, productivity, improved management and market penetration. It is important to understand that this is not a regulatory body, nor an industry association, but an industry-driven, proactive, catalytic service organization that reflects the composition of the industry. The GIDA should take on frontier work which enterprises cannot take on alone by channelling a wider range of expertise into pioneering interventions such as export promotion or moving up to full-package production.

The range of services offered by the GIDA could include:

- technology services – upgrades, diffusion, facilitating implementation;
- new techniques and organization of work according to the particular demands of the targeted market segment and production targets;
- productivity improvements;
- market development, particularly in the light of new trading arrangements such as the NAFTA and the phasing out of the Multi-fibre Arrangement; and
- management development (particularly as the industry upgrades to more sophisticated levels) and the need for professional management capable of competing in a global economy by meeting more demanding cost, speed and quality criteria. Programmes would include statistical process control (SPC), quick response (QR), global market dynamics, changing production chains and strategic alliances.

The GIDA should be a tripartite industry-wide agency that can make firm-level interventions. The tripartite structure – one-third comprising industry representatives, one-third labour, one-third government for example – is important, making it representative of the industry able to overcome bureaucracy and build consensus and capable for speedy intervention and delivery. Government participation could be local, district, provincial or national depending on the circumstances and should involve the agencies responsible for industry, training and labour. Financing could be based on a combination of an industry levy, grants from industry foundations, tax rebates, refunds on some of the levies which industry pays to government (on exports, for example) and fee for service.

7. Conclusions

The phasing-out of the MFA will not end trade barriers (tariff and non-tariff) on textiles and clothing. However, it will lead to changes in the global marketplace – changes in which some will win and others lose. Clearly a lot will depend on the policies of the United States and the European Union. These two trade powers will play an important role in deciding the structure of the textile and clothing industry, but there must be a role individual developing countries can play to help shape their future as exporters of T&C products. In Bangladesh, for example, once the quotas are gone and other tariff and non-tariff barriers take effect (such as eco-labelling or labour codes of conduct), the incentives to buy Bangladeshi textiles will not be all that evident. The same is true for other third wave developing countries in the T&C sector.

a) Employment implications

One question that must be posed regarding the phasing-out of the MFA relates to the employment implications – especially in those countries whose high quotas have been the main basis of their export growth. A sudden loss of market share would almost certainly lead to large-scale retrenchment of workers and closure of enterprises. Most quota-based exporters would not be able to replace lost orders with new customers in other export markets or in the domestic market. There are a number of reasons for this, one being that their dependence on quotas made it unnecessary for them to acquire the capacity to develop new products and penetrate new markets. Quotas are by their very nature allocated, product-specific and guaranteed, so

companies that thrived on them are ill-equipped to go out and compete for new markets. In addition, the low entry barriers of the garment industry mean that many exporters are in fact too small and financially weak to invest in new technology and skills, or to market themselves internationally.

b) Young women workers are most affected

The workers who stand to lose their jobs are mainly women – young women – for whom the export garment sector was perhaps their only opportunity to enter the formal sector. Many of them hail from rural areas and their families subsist on the money sent home. Their children have benefited greatly from their wages (meagre as they are) in terms of basic health care and education.

c) Social protection

There is no social “safety net” available to most garment workers. Even in countries with some form of social protection, the deductions are either not made or not transmitted to the funds, so that a retired, retrenched or injured garment worker is unlikely to have access to the funds required to be financially independent. Governments need to ensure that the limited period of formal employment of garment workers is accompanied by some provision for social protection.

d) Skills training

If their mothers lose their jobs in the export garment sector, the prospect of a better future for their children will be in jeopardy. The very limited training that most garment workers receive and the repetitive nature of the functions they perform mean that very few acquire a transportable skill. They could not leave the export garment sector and support themselves as dressmakers, since most piece-rate workers are only taught to perform discrete operations in making a shirt or dress.

One response to this looming employment crisis would be to take advantage of the time women workers spend in the export garment sector to train them to be qualified dressmakers, or to provide them with other skills (including how to start their own business), so that they could exercise a craft as independent artisans or find work elsewhere in the domestic economy. If income could be sustained, millions of children would grow up with markedly better life chances than those of their parents.

e) Creating a garment industry development agency

Taking an industry-wide perspective, this report proposes the need for a garment industry development agency, capable of making strategic interventions in areas such as human resource development, technology diffusion, productivity, improved management and market penetration. The garment industry development agency envisaged in this report is an industry-driven, proactive service organization. Acting as a catalyst, the agency would take on the frontier work that enterprises cannot take on alone. It would channel a wide range of expertise into pioneering interventions such as export promotion or upgrading to full-package production. Financing the agency could be based on a combination of industry levy, tax rebates,

export refunds or fee for service. Governance would be tripartite. The agency would be industry-wide but able to make firm-level interventions.

f) Upgrading

This report argues that upgrading is essential for garment exporters to survive in a post-MFA global market. To improve their competitive potential, the upgrading strategy proposed here could be pursued by countries – or the T&C sector in a country. Changes in the international trade pattern and the post-MFA era mean that developing countries should look at factors other than low wage costs to define their position in the T&C commodity chain. Quality and the capacity for quick response need to be built up. New links need to be forged to develop the textile sector and the ability to move to more profitable niches through industrial upgrading. For low-end or high-end producers, progress up the value chain will need to be consciously planned and engineered, specific skills and capacity will need to be developed and continuously improved.

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Annex

Table 1: EU's total ATC imports by major suppliers [a] in base year 1990 and those to be liberalized in Phase III and IV [b]

Major suppliers[g]	EU's total ATC imports in 1990[c]					EU's ATC imports to be liberalized in phase II and IV[d]					
	Percentage of total EU ATC imports[h]	Structure of ATC imports [e]				Percentage of total not integrated	Structure of ATC imports[l]				Percentage of total EU ATC imports to be liberalized[j]
		Tops, yarns	Fabrics	Made-up text	Clothing		Tops, yarns	Fabrics	Made-up text	Clothing	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
World	100	24	33	22	21	56	23	28	22	27	100
Germany	10.8	28	50	15	8	39	30	43	16	11	9.8
Italy	8.6	30	39	8	22	53	30	34	8	29	8.5
China [l]	3.3	6	27	15	53	55	5	21	19	56	4.0
Turkey [k]	3.6	36	18	7	40	76	32	16	8	44	4.0
India	3.1	23	37	17	23	71	22	35	17	26	3.1
Greece	1.9	49	11	4	36	88	46	11	5	38	1.9
Portugal	3.2	30	12	17	41	77	28	11	16	45	3.3
Pakistan	2.7	16	49	18	18	89	15	47	16	21	2.6
Taiwan [l]	1.3	21	53	5	21	48	20	49	5	26	1.4
Hong Kong	1.9	1	20	2	78	91	1	15	1	83	2.4
Yugoslavia	1.4	17	26	13	45	60	14	21	14	52	1.5
Thailand	1.3	28	33	8	32	59	24	28	10	39	1.4
Bangladesh [k]	0.5	1	0	9	90	22	1	0	8	91	0.5
S. Korea	1.4	18	31	3	49	59	17	29	3	50	1.4
Indonesia	1.5	15	53	1	31	90	14	49	2	36	1.6
Brazil	1.3	71	20	4	6	86	70	20	4	7	1.3
Morocco [k]	0.8	12	8	5	75	85	7	5	3	84	1.2
CSFR	0.5	13	54	15	18	40	12	46	321	21	0.5
Tunisia [k]	0.5	2	24	4	70	81	1	13	2	84	0.9
Poland	0.5	10	17	17	56	56	8	15	18	60	0.6
Hungary	0.5	33	21	15	32	56	29	17	18	36	0.5
Malaysia	0.5	8	33	2	57	92	7	29	1	63	0.5
USA [k]	1.9	19	50	21	10	35	20	38	22	21	1.7
Switzerland [k]	1.6	49	33	14	4	37	5	32	14	5	1.5
Egypt	1.1	73	16	4	7	98	73	16	4	7	1.1
Japan [k]	0.8	9	85	3	3	50	9	79	3	10	0.8
Mauritius [k]	0.4	3	18	3	76	97	3	17	23	79	0.4
Macau	0.3	0	14	0	86	93	0	10	0	90	0.5
EU15	63.1	25	34	29	12	52	25	29	30	17	59.9
NON-ICs	32.3	22	30	9	39	67	19	26	10	45	35.6
ICs	4.7	29	48	15	8	38	29	41	15	15	4.5

[a] The 24 largest suppliers (based on volume of trade in tons) plus aggregates EU, IC (ICs = 19909 OECD countries excl. EU15 and Turkey), and NONIC (NON-ICs = World minus EU15 ICs). Ranked according to share in total EU ATC imports from world. – [b] Phase III begins on 1/1/2002; Phase IV begins 1/1/2005. – [c] 1990 was the base year used in the ATC to represent the universe of ATC imports in volume terms. – [d] Calculated by subtracting Phase I and II from the base year. – [e] Percent in total ATC imports from respective country as used in Col. (1). The concordance between HS and these four groups was based on the listing set up by the USA, since the EU did not publish such a concordance. The allocation of HS to the four groups could thus differ somewhat from EU notifications (see text). – [f] In percent of remaining ATC imports as used in Col. (6). – [g] Based on boundaries in 1990. – [h] Total is all ATC imports of EU in 1990. – [i]Total is all ATC imports from degree. – [l] China and Taiwan are not yet WTO members, but will be subjected to ATC rules when they are accepted.

Source: Faking liberalization and finagling protectionism: The ATC at its best, Dean Spinanger, 1999.

Table 2: USA's total MFA imports by major suppliers [a] in base year 1990 and those to be liberalized in Phase IV [b]

Major suppliers	USA's total MFA imports in 1990[c]					USA's MFA imports to be liberalized in phase IV[d]						
	In percent of total US MFA imports[g]	Structure of MFA imports [e]				Share of country's trade under quota[h]	In percent of total MFA imports[i]	Structure of MFA imports[1]				In percent of total US MFA imports to be liberalized[j]
		Tops, yarns	Fabrics	Made-up text	Clothing			Tops, yarns	Fabrics	Made-up text	Clothing	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
World	100.0	8	26	17	49	65.3	67.3	5	25	4	65	100.0
China	14.0	0	22	28	50	95.5	69.8	0	29	8	61	14.5
Taiwan	10.4	2	23	20	56	85.8	66.1	2	25	2	72	10.2
EU[1,m]	8.8	26	48	14	12	0.0	35.4	18	41	14	27	4.6
S. Korea	8.0	4	26	20	51	87.1	70.9	5	31	0	64	8.4
Hong Kong	8.0	0	15	2	82	94.3	87.2	0	14	0	85	10.3
CBI[n]	7.1	6	4	7	84	65.7	82.6	6	2	2	90	8.6
Canada[m]	6.4	23	53	18	5	0.0	18.2	21	51	0	27	1.7
Mexico	3.7	21	14	22	42	22.4	50.7	15	19	0	65	3.0
Philippines	3.6	0	3	16	82	86.0	65.5	0	1	8	91	3.5
Pakistan	3.6	0	44	35	20	89.9	75.3	0	58	16	25	4.0
India	3.2	0	22	40	37	90.2	62.4	0	35	7	57	3.0
Thailand	2.9	15	26	25	34	80.0	71.7	20	33	3	44	3.0
Indonesia	2.6	0	34	2	64	96.6	96.7	0	35	2	63	3.7
Japan[m]	2.5	11	80	3	7	0.0	69.9	4	90	0	6	2.6
Bangladesh	1.8	0	0	8	92	88.8	93.0	0	0	7	93	2.5
Malaysia	1.5	2	27	3	69	87.3	92.5	2	29	1	68	2.1
Singapore	1.3	6	2	0	92	86.6	93.4	5	1	0	94	1.9
Sri Lanka	1.3	0	0	11	89	97.2	88.3	0	0	5	95	1.7
Brazil	1.3	32	24	23	21	72.1	60.4	41	24	5	31	1.1
Turkey	1.2	10	7	25	57	69.1	74.6	13	8	11	68	1.3
Israel[m]	0.8	4	50	11	34	0.0	35.9	0	10	21	69	0.4
Egypt	0.7	23	38	8	32	76.3	95.8	24	40	6	30	1.0
Colombia	0.6	16	34	6	45	5.2	87.3	18	36	0	46	0.8
Macau	0.6	0	0	0	100	90.9	95.6	0	0	0	100	0.8

[a]The largest 24 suppliers (based on volume of trade in square meter equivalents) considering the EU and CBI as individual suppliers. – [b] Phase IV begins on 1/1/2005. – [c] 1990 was the base year used in the ATC to represent the universe of ATC imports in volume terms. – [d] Based on US notifications to the WTO. – [e] In percent of total MFA imports from respective country as used in Col. (1). The four groups are designed by the U.S. Dept. of Commerce. - [f] In percent of remaining MFA imports as used in Col. (7). – [g] Total is all MFA imports of USA in 1994. – [h] Represents product categories under quota in 1994. – [i] Total is all MFA imports from respective country. – [j] Total is all MFA imports liberalised in phase IV. – [k] Neither China, Netherlands. Portugal, Spain, and the United Kingdom. - [m] Imports from these countries are not subject to US quotas. – [n] CBI members are Anguilla, Antigua, Aruba, Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, St. Cristopher-Nevis, St. Lucia, St. Vincent, and Trinidad and Tobago.

Note: Columns or rows may not add to 100 percent due to rounding.

Source: Faking liberalization and finagling protectionism: The ATC at its best, Dean Spinanger, 1999

Table 3: Regional trade patterns in world exports of textiles and clothing

	1980	1984	1987	1990	1993	1996
Textiles						
World (US$) billions)	55.6	53.9	80.2	104.8	115.4	150.2
World (percentage)	100.0	100.0	100.0	100.0	100.0	100.0
Intra-western Europe	40.1	34.9	40.0	41.4	32.8	30.0
Asia to Western Europe	13.1	17.4	18.2	20.6	26.6	27.6
Western Europe to C./E. Europe/ Baltic States/CIS[a]	NA	NA	NA	2.3	3.1	4.4
Asia to North America	2.9	5.4	4.9	3.6	4.3	3.5
Asia to the Middle East	NA	NA	NA	2.2	3.0	2.8
Western Europe to Asia	1.6	2.4	2.0	3.0	2.6	3.1
Western Europe to North America	1.6	3.2	2.9	2.4	2.3	2.0
Other	39.1	32.1	26.1	18.9	19.5	21.3
Clothing						
World (US$ billions)	41.8	48.2	81.9	106.4	133.0	163.3
World (percentage)	100.0	100.0	100.0	100.0	100.0	100.0
Intra-Western Europe	36.6	29.3	33.7	35.2	28.7	28.1
Asia to North America	14.8	26.8	33.7	35.2	28.7	28.1
Intra-Asia	4.3	6.2	6.0	8.8	10.5	12.3
Asia to western Europe	14.4	11.0	13.2	12.9	13.6	11.0
Latin America to North America	1.7	2.1	2.3	2.4	3.9	5.1
C./E. Europe/Baltic States/CIS[a] to Western Europe	NA	NA	NA	NA	NA	4.1
Africa to Western Europe	1.9	1.2	2.1	NA	3.0	NA
Other	26.3	23.4	20.2	21.1	20.7	23.6

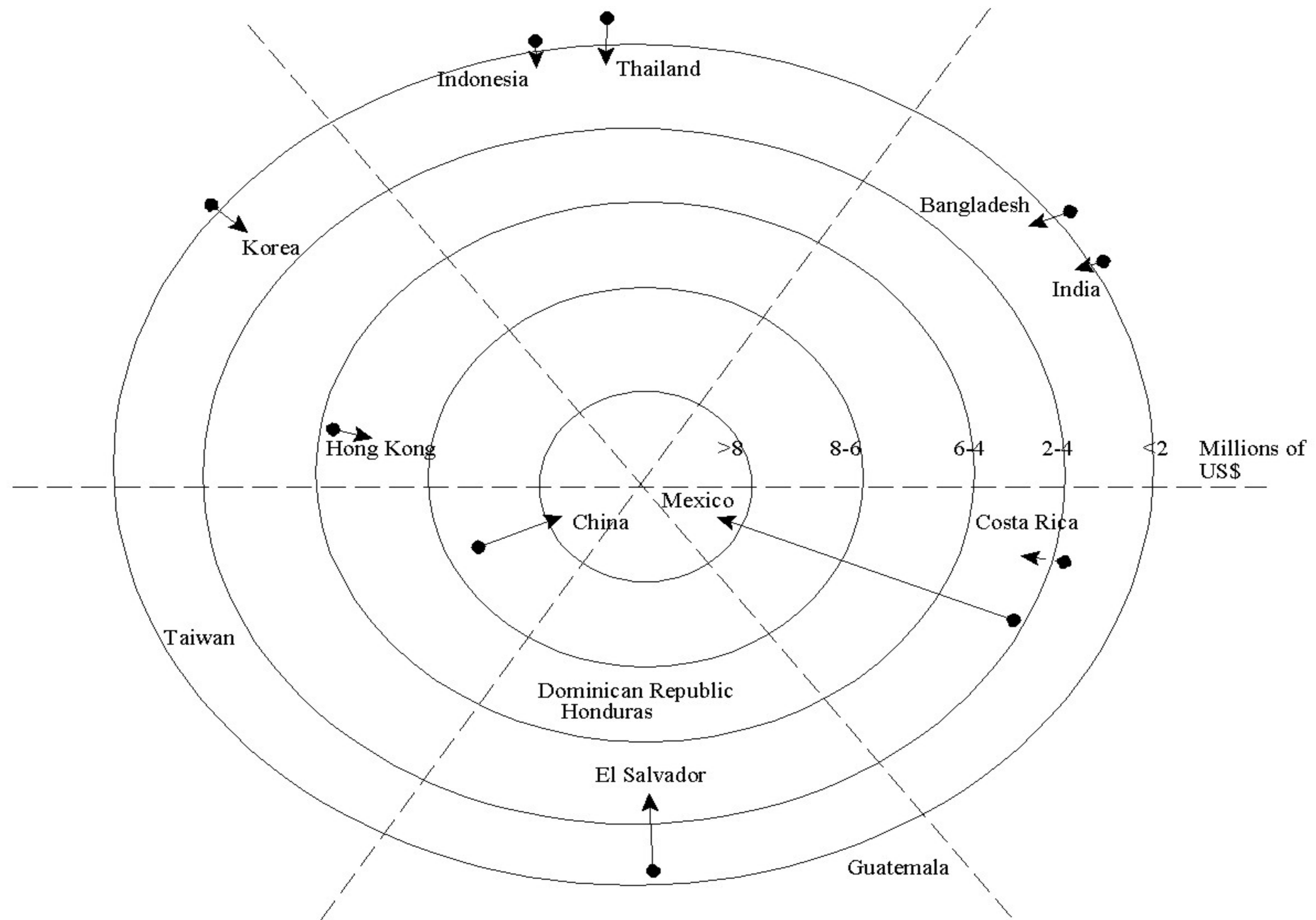
[a] Includes Central and Eastern Europe, the Baltic States, and the Confederation of Independent States.
NA = Not Available.

Table 4: Changes from 1996-2000 by country in the general US import of articles of apparel and clothing accessories

	Millions of US$				
Country	**1996**	**1997**	**1998**	**1999**	**2000**
Mexico	3 848	5 349	6 813	7 843	8 731
China	6 307	7 440	7 141	7 355	8 483
Korea	1 522	1 655	2 039	2 257	2 463
Dominican Rep.	1 775	2 236	2 358	2 355	2 451
Honduras	1 241	1 689	1 905	2 198	2 417
Indonesia	1 449	1 736	1 795	1 816	2 191
Taiwan	2 068	2 172	2 220	2 076	2 163
Thailand	1 216	1 435	1 700	1 774	2 136
Bangladesh	1 127	1 449	1 628	1 678	2 118
India	1 349	1 506	1 642	1 646	2 002
Philippines	1 534	1 620	1 766	1 815	1 928
El Salvador	722	1 053	1 171	1 329	1 602
Sri Lanka	1 056	1 240	1 344	1 301	1 508
Guatemala	810	976	1 151	1 244	1 503
Turkey	594	687	796	852	1 078
Pakistan	631	697	763	809	1 016
Costa Rica	707	851	825	829	828
Haiti	107	145	227	259	259

Source: US Department of Commerce, the US Treasury, and the US Internationa Trade Commission.

Figure 1: An illustration of the changes in garment imports to the United States of America between the years 1990 to 1999



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