

The Multi-Fibre Arrangement (MFA) and free trade's impact on the garment industry  
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### **How will the MFA phase-out impact the domestic garment industry?**

Today, less than 500,000 apparel manufacturing jobs remain in the US—half of the 1990 workforce of over 1 million. From our experience with the North American Free Trade Agreement (or NAFTA), labor advocates saw what impact the removal of quotas has on domestic apparel jobs. American retailers and garment manufacturers shifted production from the U.S. to Mexico as quotas were removed under NAFTA. Nearly 500,000 jobs in the U.S. apparel manufacturing sector have been lost since NAFTA's passage in 1994. More recent trade agreements, such as the Caribbean Basin Trade Preferences Act (CBTPA) and the African Growth and Opportunity Act (AGOA), have accelerated job losses in the U.S. apparel sector as these countries have gained more access to the U.S. market with reduced tariffs.

Quotas are what prevented the rest of the industry from leaving the U.S. Studies on the impact of the quota phase-out predict massive employment disruptions, as increased global competition leads to even greater downward pressure on wages and working conditions. Thus, it will be even more difficult for U.S. garment workers to compete in the global economy. American retailers and garment manufacturers will shift even more production overseas as quotas are phased out. The US Bureau of Labor Statistics predicts 245,000 apparel manufacturing jobs will be lost between 2002 and 2012 as a result of increased imports and labor-saving technology,<sup>1</sup> thus reducing the industry by half again. Here in California, when you consider that many garment jobs are not officially reported, up to 50,000 immigrant workers may lose their jobs.

Many of us are already seeing major apparel employers leave town. In September, the San Francisco Sewing Association closed its doors after 22 years. A union shop with 200 workers that made clothing for Gap, Esprit and Koret, the company lost the last of its contracts to China. Steven Lau, co-owner of the factory, told the *New York Times* "We lost the business because Mexico and China are a lot cheaper. ... One day's salary here is one month's salary in China."<sup>2</sup>

Also in September, VF Jeanswear, the maker of Wrangler and Lee jeans, announced it was moving the last of its jeans production and more than 1,000 jobs in El Paso, Texas to Mexico. Levi Strauss, Sun Apparel, and Farah have already stopped making jeans there.<sup>3</sup>

Of course, some jobs will stay here due to the necessity of quick turn-around time, especially in the ever-changing area of women's fashion; and Los Angeles and New York, home to numerous designers, will likely retain jobs that require high quality. Our

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<sup>1</sup> U.S. Department of Labor, Bureau of Labor Statistics. <http://www.bls.gov/oco/cg/cgs007.htm>. Accessed 13 August 2004.

<sup>2</sup> Charlie LeDuff, "Mexican-Americans Struggle for Jobs," *The New York Times*, October 13, 2004.

<sup>3</sup> Ibid.

challenge, in addition to ensuring the apparel industry provides fair working conditions, is now to find our market niche, to strengthen the industry and stabilize it; and to identify and create stable, living wage jobs that are accessible to immigrant workers.

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**Apparel Employment in the U.S.**

<b>Year</b>	<b>U.S.</b>	<b>California</b>	<b>New York</b>	<b>Texas</b>
2004	477,400	86,400	33,700	n/a
2003	501,600	89,000	40,600	16,400
2002	527,900	96,700	47,200	21,800
2001	590,900	106,100	57,500	28,000
2000	651,300	122,600	68,100	32,300
1999	707,900	125,000	73,100	37,000
1998	786,200	129,500	82,200	43,300
1997	834,900	134,000	84,900	48,700
1996	877,300	137,500	84,000	50,900
1995	956,200	133,800	87,700	55,100
1994	967,500	123,900	88,900	56,100
1993	996,200	115,900	94,200	56,100
1992	1,007,500	120,800	95,100	53,900
1991	996,300	121,600	98,600	49,800
1990	1,050,300	116,400	107,000	51,100

Source: U.S. Department of Labor, Bureau of Labor Statistics, March benchmark; California Employment Development Department, March benchmark; New York Department of Labor, March benchmark; Texas Workforce Commission, April benchmark

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**What other trade issues impact the garment industry?**

Trade agreements, such as the pending Central America Free Trade Agreement, will continue to play a regulating role in apparel and textile trade. These agreements set tariffs, among other things. The US currently levies an average tariff of 15.9% on imported apparel and 10.2% on textiles.<sup>4</sup> These tariffs will remain in place after quotas are eliminated, which means duty breaks will remain an advantage for the nations covered by NAFTA (which has no tariffs), CBTPA (which has 6% tariffs) and AGOA (which has 11% tariffs).

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**U.S. Free Trade Agreements**

<b>Agreement</b>	<b>Tariffs (average)</b>
NAFTA	0%
CBTPA	6%

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<sup>4</sup> Joanna Ramey, "What's Next," *Women's Wear Daily*, September 28, 2004.

AGOA	11%
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Source: Nathan Associates, Inc., *Changes In The Global Trade Rules For Textiles And Apparel: Implications For Developing Countries, 2002*

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Mexico, through the NAFTA, and the Caribbean nations, through the CBTPA, will not only have a slight advantage on tariffs, but will also be able to compete on turnaround times. Nonetheless, these countries have seen their exports to the US decline with the continued lifting of quotas. Last year, China became the number one clothing supplier to the US, surpassing Mexico.<sup>5</sup> In the last two years, 325 of Mexico's 1,122 garment factories have closed down, leaving over 220,000 Mexican workers jobless. Many of these companies were owned by foreign investors who moved their production elsewhere, often China.<sup>6</sup>

A long term goal of the US is to eliminate tariffs on apparel, textiles and all other industrial goods. Last year, the US proposed a phase-out date for tariffs of 2015 as part of the WTO talks, but those talks collapsed in Cancun, Mexico. WTO negotiators have only recently revived discussions for eliminating tariffs, but there continues to be opposition from developing countries.

### **How is the industry responding to the MFA phase-out?**

According to a US State Department report, which surveyed industry executives and diplomats abroad, firms that source fabric and garments from 40-60 countries intend to focus on 20-30 by late 2005 or early 2006. By 2010, the number of foreign suppliers could drop to one-quarter to one-third of the present number.<sup>7</sup>

J.C. Penney now buys from factories in 53 countries. The company estimates that number will drop by half in the coming years.<sup>8</sup>

Liz Claiborne's senior vice president Bob Zane estimated that Chinese imports could eventually represent 50 to 85 percent of the US' apparel supply. Those estimates are supported by China's more than 90 percent share of the shoe and toy markets.<sup>9</sup>

However, many retailers admit they will not put all their eggs in one basket, referring to China.

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<sup>5</sup> U.S. Commerce Department, Office of Textiles and Apparel, <http://otexa.ita.doc.gov>; Kristi Ellis, "China Takes Apparel Import Lead," *Women's Wear Daily*, October 13, 2003.

<sup>6</sup> Maquila Solidarity Network (MSN), "Codes Memo, Number 15: Labor Rights, Trade Agreements and the MFA Phase Out," Toronto, Canada: MSN, September 2003, (<http://www.maquilasolidarity.org/resources/codes/memo15.htm>); Ryder, Guy, International Confederation of Free Trade Unions (ICFTU) Press Conference, World Trade Organization Fifth Ministerial Meeting, Cancún, Mexico, September 12, 2003.

<sup>7</sup> "Quota Phase-Out Poses Worry for Some," *Women's Wear Daily*, August 26, 2003.

<sup>8</sup> Scott Malone, "Winners and Losers," *Women's Wear Daily*, September 28, 2004.

<sup>9</sup> Scott Malone, "Report: Low-Wage Nations Import Share to Surge," *Women's Wear Daily*, June 3, 2004.

One thing is clear. The benefits of the MFA phase-out will be reaped by multinational corporations. Their supply chains will become even more flexible; they will have fewer constraints governing their movements between countries and suppliers. Workers will be the losers as they face even more job insecurity.

Most textile and apparel associations are scrambling to protect their industries.

In March 2004, apparel and textile associations from the U.S., Turkey, Mexico and Europe lobbied the WTO for a 3 year delay in the MFA phase-out, asking for an emergency session to discuss the issue. Then, 15 industry associations from Sub-Saharan Africa joined the call, suggesting a phase-out date of 2010. In June, associations from Bangladesh and the Philippines became the first Asian countries to join. The groups now call themselves the Global Alliance for Fair Textile Trade; they represent more than 90 textile and apparel associations from over 50 countries.

In July 2004, Bangladesh and Mauritius became the first government's to lobby the WTO to address their concerns about the MFA phase-out. In response, J.C. Penney, who planned to expand its business in Bangladesh after quotas are lifted, said it would reconsider doing business in Bangladesh if the government failed to withdraw its request for the WTO to review the quota phase-out and its implications.<sup>10</sup>

In August 2004, the WTO met informally with a group of 20 countries and the European Union and determined there was not a consensus for an official forum on the impact of the MFA phase-out. But member nations were able to raise concerns at the formal meeting of the WTO's Council on Trade and Goods in October. Although they did not discuss specific solutions, many suggested the creation of a global safeguard that would be triggered if any country's exports surged quickly, dominating another market. Other proposals would provide duty-free access to major markets for the hardest-hit countries, or the creation of a fund to help poor countries increase their competitiveness or diversify their economies.

Earlier this year, the International Monetary Fund finally took action on the MFA phase-out. It approved a loan program to assist developing countries that may suffer economic turmoil due to trade liberalization such as the removal of apparel and textile quotas. The IMF will make available about \$1.45 billion in loans to poor countries who qualify. In a report, it singled out Egypt, Mexico, Indonesia, Thailand, Sri Lanka, Cambodia and Bangladesh as countries that have already seen a huge decrease in apparel and textile exports to the US. Bangladesh is the first nation to receive funding under the program.

Looking more closely at the reactions of US apparel and textile manufacturers, we see them place blame squarely on China. In July 2003, a coalition led by the American Textile Manufacturers Institute filed a petition with the US Commerce Department to limit Chinese imports, specifically bras, gloves, dressing gowns and knit fabric. The US

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<sup>10</sup> Kristi Ellis, "Penney's Warns Bangladesh," *Women's Wear Daily*, July 29, 2004.

textile industry claimed that since quotas were lifted on these items, China has been flooding the market and causing job losses.<sup>11</sup>

According to China's agreement to enter the WTO, any WTO member can reimpose quotas on Chinese textile and clothing import categories for one year, from 2005 to 2008, if there are market disruptions. Nations have the option of negotiating with China to determine a mutually acceptable limit on imports of certain items, or, if China fails to agree, the importing nation can cap China's shipments at a level 7.5% higher than they had been the previous year.<sup>12</sup>

Last December, the US imposed safeguard quotas on three Chinese import categories: bras, dressing gowns and knit fabric. They will expire this December.

Last month, four US textile groups — the National Council of Textile Organizations, American Manufacturing Trade Action Coalition, National Textile Association and SEAMS — along with the union UNITE HERE, jointly filed several petitions to reimpose the existing quotas on China, and to impose new quota limits against 20 items valued at nearly \$2 billion last year. This accounts for about 14% of China's clothing exports to the U.S. This month, the US Commerce Department agreed to investigate the petitions.

Unfortunately, much of the current public debate on the future of the apparel and textile industries points an accusatory finger at China as the “big winner” in the global economy. But, blaming China fails to address the root problems of economic globalization, and it fails to address the widespread labor and human rights abuses of Chinese workers. The true culprits of the race to the bottom are powerful corporations and undemocratic institutions such as the World Trade Organization, World Bank and International Monetary Fund. Giant retailers and brand-name manufacturers are firmly in control of decisions to move production to China or anywhere else that fits the bill for low costs and high profits. American companies are consciously shaping the rules of free trade and influencing governments to aid them.

### **How are worker advocates responding to the MFA phase-out?**

UNITE HERE, as I mentioned earlier, is seeking to place restrictions on Chinese imports.

The International Textile, Garment & Leather Workers' Federation (ITGLWF) supports pushing back the quota phase-out to 2008, as well as placing restrictions on dominant suppliers such as China; including labor standards in trade agreements; supporting emerging and struggling industries; and national industrial policies that include industry upgrading, skills training for workers; and promotion of respect for international labor standards.

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<sup>11</sup> American Textile Manufacturers Institute (ATMI), *The China Threat to World Textile and Apparel Trade*, Washington, D.C.: ATMI, September 3, 2003, (<http://www.atmi.org/Textiletrade/ChinaThreat.pdf>).

<sup>12</sup> Li, Yuefen, *China's Accession to the WTO: Exaggerated Fears?* United Nations Committee on Trade and Development (UNCTAD) Discussion Paper No. 165, November 2002,

Sweatshop Watch has staked a position similar to the ITGLWF. Even if it appears unlikely that the phase-out will be pushed back, some regulatory measures will allow temporary protection for those countries whose industries and workers are most vulnerable, allowing them more time for transition. However, our priority is to assist workers in California, those in the garment industry and those who are displaced.

Unions and NGOs, particularly in South Asia, are demanding increased access to US and EU markets; supporting industry upgrading; and calling on governments and multinational corporations to take responsibility for the welfare of displaced workers.

Some unions and NGOs are also exploring multi-stakeholder initiatives. One initiative involves the World Bank, United Nations Development Program, Nike and Gap, which released its first Social Accountability Report in May detailing the conditions in some of its contract factories—an important step in the area of public disclosure for corporations. These initiatives are promoting compliance with labor standards as a competitive advantage for countries and an important element in a company's sourcing decisions. Indeed, when I met with Gap representatives in September they described their interest in developing guidelines for how companies can operate responsibly in vulnerable countries, and ultimately how they can responsibly exit a country if its industry is not competitive.

While strategies to address the MFA phase-out differ and have not yet achieved a significant level of coordination, there is a common thread. Transparency and accountability from corporations who employ millions of garment workers around the world, and from governments and institutions who write the rules of global trade, are essential for ensuring worker rights and fair trade.