Adjusting to a New Era for Textiles and Clothing

4
Chapter

Many countries in Asia, like the developed countries before them, embarked on large-scale trading in industrial goods through textiles and clothing. And from the 1960s several poorer countries in the region were able to capitalize on a quota system that offered preferential access to markets in developed countries. Now that era is over, and a number of countries are struggling to adjust to the prospect of fierce competition, particularly from China.

Developing countries now account for half of the world's exports of textiles and almost three-quarters of exports of clothing.[1] This represents a dramatic turnaround: the sector used to be dominated by the developed countries, but by the 1980s the developing countries had overtaken them and now rely on textiles and clothing (T&C) for a substantial proportion of their industrial production and employment.

Many economies in East and South-East Asia have been very prominent in this trade, using the T&C sectors as industrial launching pads: Hong Kong (China), Singapore, Taiwan (China), the Republic of Korea, and Malaysia led the way, to be followed later by China, Viet Nam, Thailand, and Indonesia.

Even this expansion falls far short of the full potential. The developed countries, worried about the speed of the decline in their own industries, had established strict quotas by country on imports from developing countries. Under the auspices of the GATT in 1962 they negotiated a Long-Term Arrangement Regarding International Trade in Cotton Textiles and Substitutes, which was extended in 1974 to become the Multifibre Arrangement (MFA). This reduced aggregate imports and restricted exports from large producers such as China and India, but it also benefited smaller countries such as Bangladesh and Nepal, whose quotas were sufficient for them to establish new industries.

The outcome was a highly dispersed T&C industry that provided employment for thousands of disadvantaged and lower-skilled workers all across the region. Women in particular seized these new opportunities. Even in traditionally secluded societies, many more women were able to enter the workforce. This could be an empowering experience: for the first time many women had independent incomes and a greater say in household decision-making. Apart from promoting gender equality, this brought positive benefits for society as a whole – as women were more likely to use this new income to invest in the education and health of their families.

These new industries also brought wider economic benefits. They gave the exporting economies the opportunities to acquire new skills and raise productivity and also diffused knowledge and technology and stimulated other industries and services that grew up around the new factories and their workforces. A healthy textiles and clothing sector in a country has been shown by cross-national statistical analysis to be associated with a higher-than-average income.[2]

But this economic advance also had social costs. Working conditions in the T&C sector can be harsh and exploitative. The demand for clothing is seasonal and unpredictable, so the industry employs a high proportion of its workforce on a part-time or piece-rate basis without

Developing countries now account for half the world's exports of textiles and almost three-quarters of exports of clothing offering job contracts or health or other employment benefits. Women have been especially vulnerable: they might have gained a degree of independence by working outside the home, but they often face discrimination within the factories being paid less than men and obliged to take non-managerial jobs with little opportunity to enhance their skills.

Now the era of quotas has come to an end, and the global T&C sector is in the midst of a dramatic upheaval. The smaller exporting countries can no longer rely on the quota regime that favoured them for 40 years and are exposed to much tougher international competition. This chapter examines the implications of these changes and explores ways in which the textiles and clothing sector can better contribute to human development.

TABLE 4.1

WORLD TEXTILES AND CLOTHING EXPORTS ($ MILLIONS)

Years	*Textiles*	*Clothing*	*Total T&C*
1980	54,990	40,590	95,580
1990	104,354	108,129	212,483
2000	154,180	197,029	351,209
2002	152,151	200,851	353,002
2003	169,000	226,000	395,000
2004	195,000	258,000	453,000

Source: UN Comtrade and WTO 2002b, 2003a, 2004, 2005a.

Figure 4.1: Shifts in the pattern of global exports 1990-2002

Source: UN Comtrade.

Trends in Global Trade in Textiles and Clothing

Over the past 40 years the global trade in textiles and clothing has grown 60-fold. Between 1962 and 2004, it increased from $6 billion per year to over $450 billion (Table 4.1). Today, textiles and clothing is one of the most dynamic product sectors, representing about 7 per cent of total world exports of manufactures. Clothing is the larger of the two, representing 57 per cent of total T&C trade. It is also growing faster: between 1997 and 2004 textiles exports grew on average by only 3 per cent per year but clothing exports grew by about 6 per cent.[3]

This trade is also strikingly international: around 130 countries produce and export textiles or clothing. However, fewer countries have substantial imports, around 30, the largest being the United States, the EU and Japan.[4,5]

Shifts in the Pattern of Exports

The most rapid shift in the balance of exports occurred between the early 1980s and 2000. Over this period, the developing countries' share in world textile exports increased from 8 to 46 per cent, and their share in world clothing exports increased from 9 to 60 per cent.[6] By the early 2000s, not only did the value of developing countries exports in textile and clothing increased, but also transition economies began to register a presence on the global scene (Figure 4.1). The leading developing-country exporters of clothing are China, Hong Kong (China), Mexico, India, Bangladesh and Indonesia. For textiles, the leading developing country exporters are China, Hong Kong (China), Taiwan (China), India and Pakistan.

Recent trends for major exporting countries are summarized in Table 4.2 and 4.3. These show, for example, that the developed countries maintain a strong interest in this sector; indeed, in textiles they still have the edge since production of textiles tends to be more capital-intensive than that of clothing. Another feature of developed-country trade is that much of it is with each other – between the US and the EU, for example, and between the US and Canada.[7]

These tables also show the importance of Asia in global trade in this sector. China is the second-largest exporter for both textiles and clothing worldwide and close to number one for clothing. While individually other Asian countries do not command a large market share, collec-tively the region has emerged as an important player in the global market for exports.

On the import side, there have been no significant changes. The major importers are mainly the US, the EU and Japan. China too is a major importer of textiles, but mainly as an input to its clothing industry.

Such has been the expansion of the T&C sector in Asia that many countries are now highly dependent on this trade. This is less of an issue in the larger countries. For China, for example, T&C exports are only 16 per cent of total merchandise exports and for India they are 21 per cent. Other, smaller countries rely on this sector much more heavily: Cambodia, 71 per cent; Pakistan, 68 per cent; Bangladesh, 59 per cent; Sri Lanka and Nepal, around 50 per cent (Figure 4.2). A similar pattern emerges when

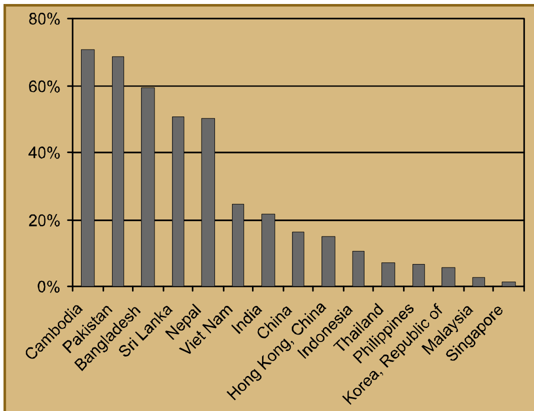

Figure 4.2: Share of textiles and clothing in total merchandise exports in selected countries of Asia 2004

Source: WTO 2005a; World Bank 2005.

TABLE 4.2

Leading Exporters of Textiles 2004

	Value (billion dollars)	% share in world textile exports			
	2004	1980	1990	2000	2004
European Union (25)	71.3	..	..	36.5	36.6
Extra-EU exports	24.3	..	..	11.2	12.5
China [a]	33.4	4.6	6.9	10.4	17.2
Hong Kong (China)	14.3	..	..	..	..
– domestic exports	0.7	1.7	2.1	0.8	0.4
– re-exports	13.6	..	..	..	..
United States	12.0	6.8	4.8	7.1	6.2
Korea, Rep. of	10.9	4.0	5.8	8.2	5.6
Taipei, Chinese	10.0	3.2	5.9	7.7	5.2
Japan	7.1	9.3	5.6	4.5	3.7
India [b]	6.9	2.4	2.1	3.9	4.0
Turkey	6.4	0.6	1.4	2.4	3.3
Pakistan	6.1	1.6	2.6	2.9	3.1
Indonesia	3.2	0.1	1.2	2.3	1.6
Thailand [c]	2.6	0.6	0.9	1.3	1.3
Canada	2.4	0.6	0.7	1.4	1.2
Mexico [a, c]	2.2	0.2	0.7	1.7	1.1
Switzerland	1.6	2.8	2.5	1.0	0.8

Notes: a. Includes significant shipments through processing zones; b. 2003 instead of 2004; c. Includes secretariat estimates.
Source: WTO 2005a.

TABLE 4.3

Leading Exporters of Clothing 2004

	Value (billion dollars)	% share in world clothing exports			
	2004	1980	1990	2000	2004
European Union (25)	74.9	..	..	27.0	29.0
Extra-EU exports	19.1	..	..	6.9	7.4
China [a]	61.9	4.0	8.9	18.3	24.0
Hong Kong (China)	25.1	..	..	..	..
- domestic exports	8.1	11.5	8.6	5.0	3.2
- re-exports	17.0	..	..	..	..
Turkey	11.2	0.3	3.1	3.3	4.3
Mexico [a, b]	7.2	0.0	0.5	4.4	2.8
India [c]	6.6	1.7	2.3	3.1	2.8
United States	5.1	3.1	2.4	4.4	2.0
Romania	4.7	..	0.3	1.2	1.8
Indonesia	4.5	0.2	1.5	2.4	1.7
Bangladesh	4.4	0.0	0.6	2.0	1.7
Thailand [b]	4.1	0.7	2.6	1.9	1.6
Viet Nam [b]	4.0	..	..	0.9	1.5
Korea, Republic of	3.4	7.3	7.3	2.5	1.3
Tunisia	3.3	0.8	1.0	1.1	1.3
Pakistan	3.0	0.3	0.9	1.1	1.2

Notes: a. Or nearest year; b. Includes significant exports from processing zones; c. Includes Secretariat estimates.
Source: WTO 2005a.

T&C exports are considered as a proportion of manufactured exports, with the percentages being higher.

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Employment

The expansion of the textiles and clothing sector has created millions of new jobs. Just how many is difficult to say, because national statistics do not generally distinguish between those working for the domestic market and those involved in the export trade – and miss many people who work in the unorganized sector. With this caveat, estimates of employment are given for a selection of countries in Table 4.4. Other estimates suggest that the T&C sector employs around 340,000 people in the Philippines, more than a million in Indonesia, and close to 3 million in Viet Nam, mostly female migrants from rural areas.[8]

TABLE 4.4
Textiles and Clothing Employment, Selected Asian Countries

	Year	*Employment (thousands)*	*Share of manufacturing employment (%)*
Bangladesh	2004	1,800	n.a.
Cambodia	2005	473	80
China	2004	19,000	19
India	2001	1,645	22
Pakistan	2001	2,300	43
Sri Lanka	2000	237	49
Mauritius	2001	85	73

Note: For Cambodia's total textiles and clothing employment figures, while clothing employment is from 2005, textile employment is from 2000.
Source: ILO 2005b.

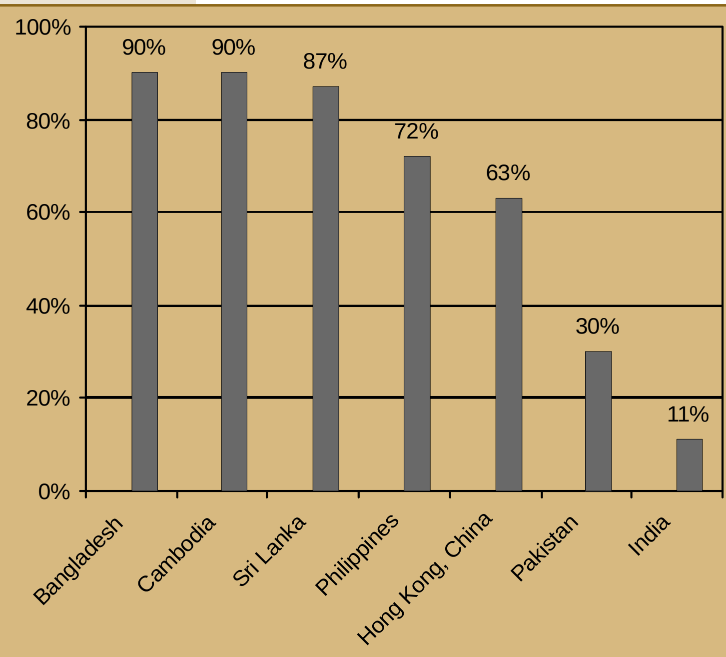

Figure 4.3: Women's share in paid employment in textiles and clothing

Source: Based on ILO 2003; figure for Pakistan taken from Siegmann 2004.

The majority of these workers are women – with the proportion as high as 90 per cent in Bangladesh and Cambodia, and 87 per cent in Sri Lanka (Figure 4.3). This was partly because the pace of expansion increased employment generally and drew more people into the labour force, but also because the sector favoured part-time or piece work, circumstances in which female workers have tended to predominate. In Pakistan, for example, a country in which women make up 15 per cent of the labour force generally, they are 30 per cent of the workforce in textiles and clothing and 75 per cent of the workers in stitching units, where they are employed via subcontractors on piece rates.

This employment has been a liberating experience for many thousands of women who otherwise might have stayed in their villages or been confined to their homes. In Cambodia, for example, most of the women are migrants from rural areas. They earn $60 to $70 per month, around two-thirds of which they remit to their families. With this contribution to the family income they have a stronger voice in decision making, on issues such as marriage, family size, education and health. The 1.8 million women employed in the garments industry in Bangladesh have also gained from their employment, both financially and socially (Box 4.1).

Working Conditions

The textiles and clothing sector is highly competitive, with complex layers of relationships between different producers along the

BOX 4.1

Female Employment in the Bangladesh Garments Industry

The expansion of clothing exports from Bangladesh resulted in increased employment opportunities for Bangladeshi women, who now comprise 80 per cent of the 1.8 million workforces in the sector. Women's incomes have effectively risen, as their daily wage rates in the garments industry are twice as high as the agricultural and construction wages. As with all female employment, there are positive ripple effects on the family: Women employed in export-oriented garment production contribute around 46 per cent to the family income, and their earnings have been instrumental in keeping a large number of their families above the poverty level. Also, by having some control over part of their income, women invest in health, education, and tend to save more.

Rising incomes in this industry have also had a positive effect on women's education levels: survey results show that 78 per cent of women had at least one year of formal schooling in 1997, compared to 65 per cent in 1990 (Paul-Majumder and Begum 2000). Economic independence and opportunities to improve educational levels have increased their empowerment within the household (Bhattarcharya and Rahman 1999).

Nevertheless, within the industry, women are still subject to gender discrimination:

Wage Disparities. Even though nominal as well as real wages in the T&C sector have increased over the last 20 years, women have benefited substantially less than men. Wages have risen most for skilled workers, who are usually men. Between 1990 and 1997, the gender-related wage gap widened: Female wages fell from the equivalent of 66 per cent of male wages in 1990 to 59 per cent in 1997. Even after controlling for skills, the gender-related wage gap persisted.

Assignment to Lower-skilled Jobs. Women are typically employed in the lower-skilled jobs, as production workers or helpers, with few prospects of transition to higher-skilled and better-paid positions in the supervisory or managerial fields. Moreover, women workers often are bypassed when new technologies are introduced, as they are not trained to use them.

Medical Benefits and Leave. Survey results also reveal that women do not receive medical treatment for about 40 per cent of illnesses and diseases afflicting them, while for men the proportion is 33 per cent. Only 35 per cent of female workers who asked for it were granted paid leave, compared to 60 per cent of male workers.

Source: Tran-Nguyen and Zampetti 2004.

value chain, and employers are under constant pressure to cut costs. This has frequently led to a very exploitative and hazardous working environment, including excessively long hours, lack of freedom of association, continuous exposure to toxic substances and the prohibition of rest breaks[9] – well-illustrated by the treatment of garment workers in some Delhi production units (Box 4.2). In addition to poor working conditions, parts of the industry have a poor environmental record. For instance, the textile industry uses solvents, pesticides, dyes and bleaches in its production processes, but often makes little effort to treat effluents, leading to water pollution.

Gender-related Disparities

Women are employed in large numbers in the T&C industry, but they are still far from being

BOX 4.2

Sweatshop Conditions in Delhi's Garments Industry

In north India, an overwhelming 90 per cent of the garment units producing for the export market are located in the Delhi metropolitan area. These units employ nearly 103,000 workers – 6 per cent of the total industry workforce – and in 2001 they contributed 35 per cent to the country's earnings from garment exports.

The industry is highly diverse. Large mechanized factories producing standardized products coexist with a wide network of subcontractors producing labour-intensive items, only 20 per cent of which are registered in the 'formal' sector. Irrespective of whether they are large factories or smaller *karkhanas* (workshops), these units try to offset the high overheads by cutting operating costs. They are run like sweatshops, where workers are bound by informal contracts, have to work long hours with limited break, and use outdated machinery. Costs are kept low by keeping wages low and circumventing the obligations required of employers in the formal sector. Flexible production systems have also led the de-skilling of workers, which has effectively weakened the traditional caste-based system of skill formation.

Source: Verma, 2004.

treated on a par with their male counterparts (Box 4.1). In most countries women are paid less than male workers for the same work, and they are usually employed on the lower-skilled, and consequently lower-paid, rungs of the industry, such as weaving and spinning, with few opportunities for skill enhancement. Even in the Sri Lankan industry, where gender-related wage disparities are not as high, female workers endure other forms of hardship such as harassment, problems in commuting to and from work, and the dual responsibilities of family and work.

Women workers are also subject to other forms of maltreatment. In India, for example, as more women enter the labour force there seems to have been a rise in domestic violence. In some patriarchal societies this could be because women who move beyond their domestic role to become family breadwinners are perceived as threats. Even outside their family and social settings, female workers have often been the victims of exploitation, oppression and harassment at their workplace.

BOX 4.3

LDCs: Major Beneficiaries of the Multifibre Arrangement

The Multifibre Arrangement was particularly advantageous to a number of LDCs.

Bangladesh. From 1981 onwards the Bangladeshi garment industry grew at 20 per cent per year, with the number of producing units increasing from 70 to around 3,000. Garment exports which in 1983 accounted for 3.9 per cent of total exports, by 2002 had reached 86 per cent.

Nepal. The Nepali clothing industry grew as a direct result of restraints on Indian exports. Garment exports were the most lucrative export items and brought in $162 million in 2003, although this declined by 18 per cent in the first eight months of 2004 (EIU 2004). At its peak in the early 1990s, the Nepali textile sector employed more than 100,000 people.

Cambodia. Over the past decade the quota regime for garment exports allowed Cambodia to become one of the fastest-growing garment exporters: between 1995 and 2003, export earnings rose from $26 million to $1.6 billion, by which time they accounted for 90 per cent of the country's merchandise exports. The industry has become the largest sectoral employer in the country. Around 90 per cent of workers are from rural areas. Remittances are typically around two-thirds of their monthly incomes of $60-70. These remittances have had a tremendous impact on rural poverty, as they often are the family's only source of cash, and help generate peripheral and supporting jobs in the rural areas. As 90 per cent of the workers in these factories are women, the expansion of this industry has also had an empowering effect.

A Changing Trade Regime

The Multifibre Arrangement (MFA) controlled imports of textiles and clothing by assigning quotas for exporting countries. Large producers such as China and India soon reached the limit of their quotas, but a number of other countries found themselves with quotas they were not filling, and developed T&C industries to take advantage of them. The Philippines, for example, which had not previously been a significant exporter, rapidly expanded its industry, which by 2004 was sending more than 80 per cent of its total garment exports to quota markets in Europe and the US. LDCs such as Bangladesh and Cambodia had a further advantage, since their LDC status entitled them to both quota-free and duty-free access to the EU (Box 4.3).

That era is now over. As a result of pressure from some of the larger exporting countries, as well as from retailers in the importing countries, the WTO in 1994 set up the Agreement on Textiles and Clothing (ATC), under which from 1995 onwards, the MFA quota restrictions would be lifted in a series of stages. By 31 December 2004, quotas in product categories of interest to poor-country exporters disappeared completely, and textiles and clothing were fully integrated into the WTO system of free trade.[10]

However, the full force of the ATC has been offset by number of factors that have continued to constrain imports from some Asian countries:

Protection from disruption by China. When China entered the WTO in 2001, the accession agreement included a safeguard to protect importing countries from possible 'market disruptions'. This allowed importing countries to request a 'restraint limit' that would be in place until the end of 2008. This applied to all products, but the effect was likely to be greatest for textiles and clothing.

Import tariffs. The importing countries no longer apply quotas, but they do discriminate between exporting countries through tariffs. This is a powerful tool, because tariffs are far higher on textiles and clothing than for other industrial products. In the US, for example, the average industrial tariff is 3.5 per cent but for textiles and clothing it is 14.6 per cent. For the EU the figures are 3.6 and 9.1 per cent respectively, and for Japan 1.7 and 7.6 per cent. However, the importing countries offer concessions on these tariffs to certain favoured countries. The US, for example, offers lower tariffs to countries in the North American Free Trade Agreement (NAFTA) and the Central American Free Trade Agreement (CAFTA), and also offers preferential rates to a number of African countries through the African Growth and Opportunity Act (AGOA). The EU similarly offers tariff-free entry to exports from all member countries, which includes several Central and East European countries that produce textiles and clothing. Also, through its Everything But Arms Agreement (EBA), the EU offers tariff-free access to goods from all LDCs.

Anti-Dumping Legislation. Importing countries may also decide to stop imports from countries that appear to be off-loading goods at very low prices, even below the cost of production. The EU, for example, has repeatedly initiated anti-dumping measures. Between 1993 and 1998 it took action against cotton fabric items from India, Indonesia and Pakistan. Often such action has been based on spurious information.[11] It seems unlikely that such actions will diminish following the removal of quotas.[12]

Technical barriers. Countries can also introduce new technical standards. The clauses in the Uruguay Round leave considerable scope for ambiguity, saying merely that technical standards have to be applied in a way that does not prove to be discriminatory between foreign and domestic buyers. So far, however, there does not seem to have been any increase in their use for protectionism.[13]

Winners and Losers

The changes to the international trade regime, and the range of ways in which importing countries can shape the pattern of imports, have created uncertainty in the global textiles and clothing industry. Among the winners in this new environment are the T&C buyers in the importing countries, who now have greater freedom to source from countries or suppliers that offer the best combination of price, quality and speed of delivery. Also likely to gain are the larger exporting countries that previously were constrained by quotas; here the more efficient producers should be able to expand their operations – employing more people and benefiting consumers through lower prices.

The losers will be some of the smaller countries that exploited quotas within the MFA. While they might have been able to take advantage of the window of opportunity, their textiles and clothing industries may still not be internationally competitive, so they are likely to lose export markets – with severe economic ramifications for employment and incomes.

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A number of studies have attempted to assess the overall impact of this new environment. They differed in a number of respects, but they did agree that overall there would be an increase in exports from Asia and that the benefits would be shared unequally. The main winners would be China and India, which were in a position to deliver competitively at every level of price and quality. The losers would include the smaller exporting countries, which had benefited from the quota.

What has actually happened? Although only a short period has elapsed since the removal of quotas, the outcome seems to have been broadly as predicted. The UNDP analyzed the flow of textiles and clothing to the US and the EU,[14] a snapshot of which is presented in Tables 4.5 and 4.6.

TABLE 4.5
US and EU Imports of Textiles and Clothing 2004 and 2005

Country	US + EU Imports					
	Value ($ 000's)			Volume (kg 000's)		
	2004	2005	% change	2004	2005	% change
Bangladesh	6,831,529	6,986,371	2.3	772,398	805,074	4.2
Cambodia	2,077,287	2,309,302	11.2	139,582	157,337	12.7
China	33,184,188	48,328,640	45.6	3,415,846	4,902,913	43.5
India	9,461,662	11,498,711	21.5	1,201,657	1,336,645	11.2
Indonesia	4,780,437	5,061,899	5.9	475,909	496,362	4.3
Lao PDR	149,135	150,918	1.2	10,145	10,330	1.8
Nepal	229,322	189,297	–17.5	18,921	13,358	–29.4
Pakistan	5,438,106	5,393,774	–0.8	947,320	1,000,860	5.7
Philippines	2,319,502	2,187,351	–5.7	162,364	145,930	–10.1
Sri Lanka	2,646,967	2,727,200	3.0	212,297	206,596	–2.7
Thailand	3,665,385	3,519,697	–4.0	330,086	332,717	0.8
Viet Nam	3,478,990	3,687,055	6.0	273,593	274,902	0.5
Asian-12	74,262,510	92,040,215	23.9	7,960,118	9,683,024	21.6

Source: Adhikari and Yamamoto 2006.

TABLE 4.6
Share in Value in Textiles and Clothing (%)

Country	US		EU	
	2004	2005	2004	2005
Bangladesh	2.3	2.6	5.6	5.0
Cambodia	1.7	1.9	0.7	0.6
China	17.2	24.2	23	30.7
India	4.6	5.4	6.8	7.5
Indonesia	3.0	3.3	2.6	2.2
Lao PDR	-	-	-	-
Nepal	0.2	0.1	0.1	0.1
Pakistan	2.9	3.1	3.6	3.0
Philippines	2.1	2.0	0.5	0.3
Sri Lanka	1.8	1.8	1.3	1.1
Thailand	2.5	2.4	1.9	1.6
Viet Nam	3.0	2.9	1.1	1.1
Asian 12	41.3	49.7	47.2	53.2
Rest of the world	58.7	50.3	52.8	46.8
World	100.0	100.0	100.0	100.0

Source: Adhikari and Yamamoto 2006.

An analysis of the US and EU figures for 12 countries of Asia in the early post-quota period yields the following tentative conclusions:

1. In 2005, the market share of the 12 major producers in total T&C exports to the US increased by 8.4 per cent and to the EU by 6 per cent. This is in line with historical growth rates. Therefore, the end of quotas has not yet visibly led to enhanced import penetration in these markets – or therefore to the displacement of domestic producers and employment losses. Despite enhanced competition, unit prices of imports have not fallen dramatically, and this has enabled textiles and clothing manufacturers in the US and EU to withstand competition. In addition, safeguards of the type described below have been invoked, especially against Chinese imports.
2. The 12 major Asian producers and exporters have collectively increased their share to both the US and EU markets. Overall, in both markets combined the share has increased from 44 per cent in 2004 to over 51 per cent in 2005. This has come at the expense of the countries of Latin America, Caribbean, Africa and elsewhere.
3. Within Asian exporters, the biggest gains have been experienced by China and India. In the two markets combined (EU and US), China's share has increased from 20 per cent to 27 per cent, while that of India has gone up from around 5 per cent to over 6 per cent. The shares of Cambodia, Indonesia and Viet Nam have remained largely unchanged.
4. The initial losers, in terms of the decline in value of exports to the US and EU markets combined are Nepal, the Philippines, Thailand and Pakistan (Figure 4.4).

China

Even during the era of quotas, China had become the largest exporter; in 2003, it had 20 per cent of global textile exports and 28 per cent of those for apparel. But it also far outstrips other countries in its capacity to respond to the opportunities created by better market access and is certain to be the principal beneficiary of the post-MFA global trading regime.

The Asian giant possesses numerous advantages. It has relatively low labour costs; by no means the lowest in the world, but sufficiently low to undercut many other countries. It has a productive and highly ‘disciplined’ workforce, with no independent labour unions. It has strong business networks that originated in Hong Kong (China) and Taiwan (China). It also has excellent shipping connections that allow rapid transit times to the US and Europe.

With the ending of quotas, Chinese companies are moving quickly to seize a huge opportunity. At present China imports around half its textile needs, making it the world’s third largest importer, just behind the EU and the US. It is also the world’s largest importer of raw cotton and amongst the top importers of wool in the world. But in future Chinese suppliers will be able to source more of their textiles locally. In 2004 they imported $4.5 billion worth of up-to-date textile and clothing machinery, 43 per cent of which came from the EU, which should enable Chinese manufacturers to make higher-quality products to tighter delivery schedules. All this will produce a substantial rise in employment.

China’s export expansion will, however, face some constraints. In the short term, importing countries that become alarmed about a surge of Chinese imports can protect themselves by imposing quotas. In the medium term, as its own consumer market grows, China is likely to absorb more of its own production as well as imports from other countries. And in the longer term, China, like other industrializing countries, is likely to shift away from the manufacture of relatively simple goods like textiles and clothing and put more emphasis on high-tech industrial products such as electronics.

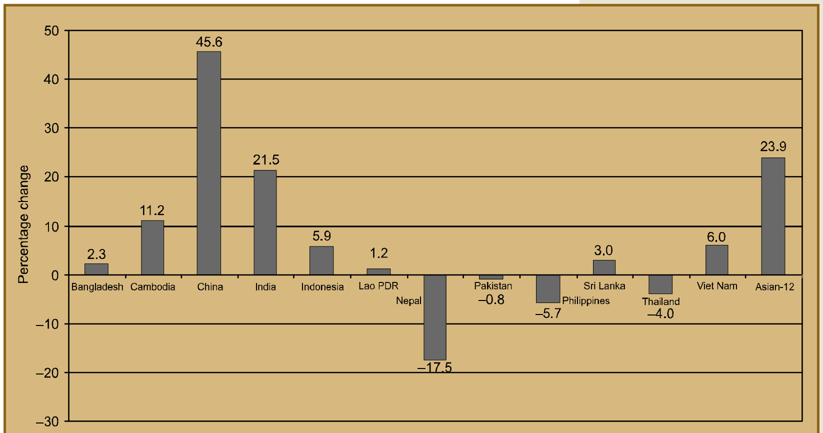

Figure 4.4: Growth in value of exports of textiles and clothing to the EU and the US 2004-05

Source: Adhikari and Yamamoto, 2006.

As expected, China’s exports rose rapidly following the end of the quota regime. Between 2004 and 2005, exports to the US and the EU increased by 46 per cent in value and 44 per cent in volume. These increases were for almost all categories of apparel. However, there could have been special factors that boosted these figures. In some cases the exports substituted for goods that previously might have come via the Special Administrative Regions of Hong Kong and Macau as well as Taiwan (China). And some traders will have seen this as a window of opportunity to increase shipments before the US and the EU retaliated with protective measures.

China is certain to be the principal beneficiary of the post-MFA global trading regime

As expected, the US and the EU started imposing restrictions. On 23 May 2005, for example, the US imposed restrictions on cotton knit shirts and blouses, cotton trousers, slacks and shorts, and cotton and man-made fibre underwear. On 27 May, it imposed limits on cotton yarn, men’s and boys’ cotton and man-made fibre shirts (non-knit), man-made fibre knit shirts and blouses and man-made fibre trousers. It thus appears that the categories on which limits have been reintroduced were among those for which quotas were the most restrictive during the ATC regime.

The companies producing these goods, most of which are small and medium enterprises, will be severely affected. Since they filled their new quotas within a couple of months, they had to stop production for the rest of the year. This affected some 140,000 jobs, most of which are occupied by young girls or women from rural areas who are not covered by China's limited social safety net.

Following these measures and subsequent additional requests for safeguard action, in November 2005 the US and China arrived at a broad pact. In exchange for guaranteed access to the US, China agreed for three years to limit its exports for 34 categories of clothing, accounting for 46 per cent of Chinese textile imports into the US. The agreement allows an annual average growth of 11 per cent – considerably lower than the Chinese demand of 20-30 per cent.

On 29 April 2005, the EU too launched investigations into Chinese imports – T-shirts, pullovers, men's trousers, blouses, stockings and socks, women's overcoats, brassieres, flax yarn and woven fabrics of flax. The surge in imports of T-shirts was of particular concern: during the period January–April 2005, T-shirt import volumes from China had increased by 187 per cent compared with the same period in 2004, increasing China's market share from 7 to 15 per cent and leading to a fall in import prices of 36 per cent. These imports had replaced production in a number of EU countries, including Greece, Portugal and Slovenia, and also displaced imports from traditional suppliers such as Morocco, Tunisia, Romania, Sri Lanka, and Bangladesh.

On 10 June 2005, the EU and China concluded a Memorandum of Understanding (MOU) that covered imports from China in ten categories of products, setting a quota limit for the remainder of 2005 and for 2006 and 2007 – allowing for an increase in import volume of 10 per cent per annum. But by late August 2005, Chinese manufacturers had already met or exceeded these quotas, and since the above-quota goods had already been despatched they were impounded in Europe – more than 75 million garments. After further negotiations the European Commission agreed to allow half of these goods to enter, and China agreed that the rest would be deducted either from its 2006 textile quota or switched to other unfilled-quota categories.

In addition to its agreements with the US and the EU, China has undertaken its own unilateral measures to dampen down exports. It has, for example, lowered the VAT rebate rate on T&C exports and imposed export duties on a number of lines to encourage Chinese enterprises to switch to higher value-added products – although it later revoked some of these following the US and EU restrictions, to prevent Chinese textile exporters from being doubly penalized.[15]

Bangladesh

Bangladesh had expanded its T&C exports very rapidly under the quota regime. This was largely based on having some of the world's lowest wages – although offset by low productivity. In 2004, 500,000 workers were employed in knitwear and 1.3 million in woven apparel;[16] 80 per cent of the workers are women.

In recent years Bangladeshi enterprises had made considerable improvements, reducing lead times, increasing the value added, and becoming more price-competitive. Nevertheless, Bangladesh remained highly reliant on quotas, sending 98 per cent of its exports to the US and the EU. Most analysts assumed that without these quotas its T&C sector would collapse.

The result has been more mixed – with a stronger performance in the US and a weaker one in the EU. What appears to be happening is that, for woven garments, EU's stringent rules of origin appear to be more constraining than US's tariff barriers.

So far there has been no evidence of significant factory closures or retrenchment of workers; indeed, one survey found that 19 out of 35 firms had increased the number of workers,[17] while employment in the rest was unchanged.

There could also be improvements in working conditions, since another survey found increasing pressure to meet the different codes of conduct and social standards set by different buyers.[18] However, these burdens fall upon employers' and then workers' shoulders, without too much support from buyers or from government. The demands will also differ from one buyer to another; one buyer may require workers to be provided with sandals, while another requires work shoes. Work hours have also been reduced as buyers demand that factories meet the legal limit of 60 hours a week. Though this is an advance in one respect, it also means people now earn less income and miss out on snacks provided for overtime workers.

Cambodia

Cambodia too had fared well under the quota regime. Investors from Hong Kong (China), Taiwan (China), and Singapore, along with local businessmen, many of Chinese origin, had built up an industry with 200 clothing factories that in 2004 exported $1.9 billion worth of goods. But Cambodia appeared vulnerable to the removal of quotas. Some 40 per cent of its exports were to a US retailer, Gap, which also sourced about one-sixth of its clothing in China. Since Cambodia's production costs were around 25 per cent higher than those in China, and transportation to foreign ports took far longer, it was feared that much of this production would migrate to China.

In the event the outcome has been better than expected, as exports to the US and EU increased by over 11 per cent in value and 13 per cent in volume in 2005. This appears to be the fruit of Cambodia's efforts to improve factory conditions and its participation in an ILO inspection programme that made the country more acceptable to foreign buyers. Cambodian workers have the right to strike. Many are organized into independent unions. A recent report found no forced labour, child labour, or discrimination. Apparently because of these better working conditions, the US provided Cambodia with preferential treatment in the form of higher quotas and lower tariffs.[19] However an ILO report cautions against bureaucratic practices and rampant corruption, and a report from the International Confederation of Free Trade Unions shows increasing pressure on trade union rights that threatens to tarnish the country's image.[20]

Because of better working conditions, the US provided Cambodia with preferential treatment in the form of higher quotas and lower tariffs

India

India's T&C industry accounts for 14 per cent of total industrial production and nearly 30 per cent of total exports. In the 1960s India exported about half of its products to the USSR and Eastern Europe, but from the late 1970s shifted more towards the US and European markets, where it ran into quota restrictions. Most studies have concluded that India would benefit from the lifting of quotas, and some consider that India alone has the ability to be competitive with China. Potential revenue gains have been put at $2 billion annually.[21]

India seems to have gained in both textiles and clothing. Between 2004 and 2005, exports to the US and EU grew by 22 per cent in value and over 11 per cent in volume. In absolute terms, the value of exports grew by almost $2 billion, as anticipated. But India has lost market share in cotton trousers, though gaining in cotton fibre dresses and men's cotton knit shirts. Although no job losses have been reported yet, many female workers are expected to lose their jobs when the textile industry replaces handlooms by machine looms.

Indonesia

Indonesia's T&C sector is the country's major contributor of non-oil and gas exports. Directly and indirectly, about 3.5 million people are now working in the sector. According to the 2004 National Labour Force Survey, 1.1 million people were officially employed in the sector in 2004, down from 1.4 million in the previous year. In addition to factory workers, the T&C sector, especially ready-made garments, hires many informal workers. In Bali, for example, sewing is contracted out to village groups. Wages are among the lowest in the region, averaging $0.27 per hour. In export processing zones the basic wages for females workers in the garment sector were found to be $55 to $74 per month, when the minimum wage was around $74. Thus, women are not earning above minimum wage in the garment industry.[22]

Between 2004 and 2005, the sector increased its output: exports to the US and EU, which account for about two-thirds of exports, show an increase in value of 6 per cent. Nevertheless, there is evidence of factories laying workers off as a result of falling orders and rising costs.

Nepal

In the early 1980s Indian exporters, constrained by the system of quotas, turned to Nepal and established export-oriented garment manufacture there. Output of ready-made garments peaked in 2000 then declined over the next two years in anticipation of the end of the quota regime. The value of exports declined sharply, by 18 per cent in value and 29 per cent in volume, to the US and EU markets in 2005.

Pakistan

Overall, the T&C sector accounts for 60 per cent of exports. In 2000 it employed 2.3 million people, including informal workers – 43 per cent of manufacturing employment – and is the second-largest employer of women, after agriculture. This is mostly a cottage industry: around 90 per cent of work is subcontracted to small- and medium-sized enterprises.

Between 2004 and 2005, Pakistan lost some of its exports to the EU while expanding in the United States. Overall, however, there are some doubts about the growth of the sector following the removal of quotas. The value of export declined by 1 per cent, while volume increased by around 6 per cent. The impact on employment is not yet clear, though there are signs of male production workers being replaced by female ones.[23]

Sri Lanka

Sri Lanka's success has been partly achieved through supportive government policies – lower corporate taxes, duty-free imports of machinery and raw materials, and subsidies and duty rebate schemes. But Sri Lanka has also had a particularly large share of export quotas and enjoyed relatively secure markets through bilateral agreements with the US, the EU, Canada, and Norway. Most of the T&C sector here is in clothing, since there is no significant textile industry. But even before the quota regime was disbanded, labour costs had been rising and garment exports had been shrinking. With the ending of quotas some analysts estimated that as much as half the local industry would have to close.[24]

In a 2005 survey there were 733 apparel factories, and employment seems to have been falling, from 340,367 in 2003 to 273,600 in 2005. Some 85 per cent of these are women. Some of this reduction has been due to the consolidation of the industry, though other factories have closed abruptly, without paying any compensation.

In 2005, the combined exports to the US and the EU rose by 3 per cent in value and fell by an equal percentage in volume. The EU granted Sri Lanka GSP-plus benefits in 2005. But without a strong textile processing sector, the country will not benefit much from the scheme.

Viet Nam

Viet Nam had also seemed likely to be a loser from the reduction in quotas. So far, the results do not appear to have been negative; exports in value to the US and the EU increased by around 6 per cent in value and half of 1 per cent in volume in 2005. Nevertheless, there is a climate of uncertainty among national producers. Viet Nam has benefited from the reintroduction of restrictions against China, which increased Viet Nam's sales somewhat. However, according to government sources, the outlook is not very promising – not just because of the removal of quotas, but also because of relatively high production costs.[25]

Impact on Workers and Communities

If countries and suppliers are to survive in the new global trading environment, they will have to become more competitive. In efforts to do so, however, they could pass on the pressure to their workers – reducing wages and demanding more unpaid overtime and threatening to close or move if workers do not comply. Increased competition could also lead to less-secure forms of employment, such as piece-rate jobs – which would mean greater health and safety risks for workers as well as a loss of benefits such as medical insurance.

However, there may also be pressures to improve working conditions. Consumers in the importing countries are asking retailers to prove that goods are not produced by sweatshops. This could improve standards for many workers, though there is also the risk that retailers' demands will be so stringent that they drive some developing-country suppliers out of business.

A decline in the garment industry in any country will see job losses, especially for women. Even in countries that maintain production, women's employment may fall because of increased mechanization and the transfer of work to larger factories that employ more men. The introduction of new technologies often leads to greater redundancies among women: first, because the new technologies will replace jobs such as weaving, traditionally performed by women; and second, because women, with their lower access to skills, often lack the knowledge to operate the new equipment.

Women working on piece rates in the informal sectors could also be particularly vulnerable if better working conditions moves more production into factories; unable to find work in more modernized garment factories, these women are more likely to turn to marginal micro-enterprises, such as taking in laundry and street vending.

National Policy Directions

The textiles and clothing industry worldwide is on the threshold of major changes, with gains in some countries offset by losses in others as factories close and unemployment increases. But even countries that manage to boost their export earnings will not necessarily provide more work or better labour conditions. Higher levels of trade in textiles and clothing can lead to higher levels of human development, but only if governments and employers take the necessary action. In the long run, the only way to survive in a competitive global market is by upgrading the industry and removing some of the barriers to increasing both the quality and quantity of output.

Decent Work

Countries that do not have legislation should enact labour laws to guarantee the rights of

Countries that do not have legislation should enact labour laws to guarantee the rights of workers, particularly women

workers, particularly women. Such guidelines, following ILO recommendations, should cap weekly working hours, while offering firms incentives to attain competitiveness through increased labour productivity. Meanwhile, countries that have already enacted such legislation need to be more proactive in ensuring compliance and in taking punitive action against offending enterprises.

In the current climate, international retailers and garment manufacturers are closely scrutinized in their home countries with regard to the labour conditions in the factories of their suppliers. Cambodia, for example, has already demonstrated how improved working conditions can help boost exports. It is important, however, that developed countries do not use such requirements as a substitute or pretext for increasing tariffs and other forms of protection.

Exporting countries can take advantage of such concerns by following the codes of conduct developed by some major retailers to protect basic labour rights in their contracted factories. These typically include adequate wages and work hours, job security, health and safety guarantees, and the right to form independent labour unions. Countries that have labour laws consistent with these codes of conduct – and the means to enforce them – could then market themselves to the socially more conscious US and EU retailers and manufacturers.

Environmental Protection

The textiles and clothing sector can only promote sustainable human development if it is environmentally responsible. All developing countries need relevant and enforceable domestic regulatory frameworks that can mitigate the industry's negative effects on the environment – using cleaner technologies, reducing water usage, avoiding pollution and promoting more efficient use of process chemicals.

Offsetting the Effects of Quota Elimination

In countries where job losses are anticipated, the States need to ensure protection and rehabilitation of affected workers. To manage this, they could set up cells in government departments to track changes in the sector.

The most vulnerable countries are those with inefficient and low-productivity industries that produce poor-quality goods. These are unlikely to survive. In a quota-free world, enterprises have to compete on grounds other than cheap labour. Governments must, therefore, help create the conditions for alternative employment: for example, by improving infrastructure, particularly telecommunications. Governments also need to negotiate new beneficial trade agreements for other products – possibly working through groupings and trading blocs where they can share resources and information.

At the same time, government and industry will need to work together to find ways of moving up the value chain – diversifying product lines, developing indigenous sources of textiles and other inputs.

- *Responsible closure of units*. Governments need to adopt responsible closure guidelines, including notification requirements and phased implementation of closure. All firms – including large retailers that source production in Asia – should have social safety nets to protect workers who are laid off. These workers should also be paid before other creditors. Most countries have laws to protect workers against summary dismissal, but enforcement is unreliable and factory closures will need to be carefully monitored to ensure that workers receive due severance pay, social security and pension payments, along with social safety nets and training and programmes for reemployment.
- *Labour restructuring programmes*. Dis-

placed workers can be helped to gain new employment through labour market adjustment programmes. These can include disseminating labour market information, creating job banks, providing employment subsidies and training, and retraining in alternative skills for employment in sectors akin to textiles and clothing. Particular attention needs to be paid to informal workers, and especially to women, who should be given opportunities to upgrade their skills.

But these programmes need to go beyond classrooms to provide skill-specific and on-the-job training. For this purpose, some governments have entered into partnerships with private-sector and community organizations. In Bangladesh, for example, the Nari Udyug Kendra – the Centre for Women's Initiatives – has conducted a study of worker retraining needs, and the government plans to improve the skills of 40,000 garment workers in partnership with the NGO BRAC (previously known as the Bangladesh Rural Advancement Committee). This type of training can help diversification into higher-value-added production such as fashion-sensitive women's wear. Some countries have already initiated the process: in Sri Lanka, for example, the government has levied a garment tax to fund technological upgrading and skills enhancement. Credit schemes could also be set up to help retrenched workers begin their own small businesses.

- *Improving infrastructure*. Many garment-exporting countries are hampered by poor infrastructure, inadequate power supplies, high telecommunication costs, poor roads and rail networks, and high turnaround times at ports. According to World Bank estimates, the average customs clearance time for sea cargo is more than ten days in South Asia, compared with only two days in developed countries. This is a serious handicap for fashion-sensitive items. Countries need to invest in dry ports and new export processing zones while developing supportive services and industries and removing shipping and customs bottlenecks. Electronic data interchanges at ports and customs houses, for example, can ensure faster clearance.
- *Raising levels of skill*. Training is especially important at the entry level, particularly in countries such as Cambodia, which have weak education systems that severely limit workers' productivity. Training is necessary at two levels: First, for the workers, with a view to enhancing their skills, speeding up the production process and minimising waste; Second, for mid-level managers to enable them to supervise works more effectively, communicate well with buyers or their agents, and process the orders efficiently. This is an area where there is wide scope for public-private partnership.
- *Upgrading technology*. T&C is generally a low-tech sector. Even so, enterprises in most LDCs and low-income countries are hampered by their inability to invest in latest technologies – including computer-aided design and computer-aided manufacture – not just to increase their efficiency but also enhance quality and respond to buyers' requirements. These technologies are common in middle-income countries, and larger exporters in Bangladesh have installed them. In other LDCs and low-income countries, however, such facilities may not be feasible. Here one possibility is for firms to work together as groups to use such equipment. Another option would be to make use of foreign direct investment through South-South cooperation.
- *Fiscal support*. In some countries fully export-oriented enterprises are accorded special privileges, such as full-duty

drawbacks and exemptions from import taxes. These fiscal incentives could also be extended to firms that export only a part of their output. Other incentives could include: reducing or eliminating tariffs on key intermediate inputs; allowing garment exporters the freedom to choose between using local and imported fabric, as in China and Pakistan; lowering taxes on the sale of 'export-reject' T&C products in the local market; reforming export credit guarantee schemes covering pre- and post-shipment risks and financing needs; and extending the time limit for repayment of export credits. In Bangladesh, for example, the government is eliminating taxes on electricity and utilities used by garment factories.

- *Promoting reputations and brands*. Governments can help smaller enterprises build reputations for quality, reliability, and compliance with product and process standards. They might, for example, target quality niche products such as bed linen or, as Cambodia has done, seek an advantage through well-publicized compliance with international labour and environmental standards. They can do some of this work through trade fairs and missions abroad, as well as by helping domestic producers establish contact with the largest retailers.

International Measures to Increase Market Access

At the same time, governments in both exporting and importing countries will need to take action at the international level to ensure that the trade in textiles and clothing promotes human development in the poorest countries.

The developing countries need to ensure that human development considerations are included in trade agreements. Apart from trying to preserve access to markets, they also need to maintain advantages where they have indigenous manufacturing capabilities. As part of its terms of accession to the WTO, Mongolia, for example, had to eliminate its export restrictions on raw cashmere. This has undermined the competitiveness of its clothing enterprises, since their main competitors in China can now purchase high-quality Mongolian cashmere. Despite a per-capita GDP of less than $1,000, Mongolia was not permitted to maintain export subsidies, a provision that WTO members at similar levels of development enjoy.

The objective should be to seek greater market access along with margins of preference for the LDCs – but without requiring reciprocal reductions that would undermine indigenous manufacturing, especially in the traditional handloom and handicraft sectors that employ substantial numbers of women.

Anti-Dumping and Countervailing Duties

The T&C sector has long been affected by anti-dumping measures. Between 1994 and 2001, the EU, initiated 53 anti-dumping and countervailing actions in the textile sector, while the US invoked 28 safeguard measures under the ATC between 1995 and 2001.[26] In the more liberalized trade regime for textiles and clothing, there is a general expectation that developed countries may increasingly resort to such measures. Discussions on WTO rules should, therefore, aim at reducing the scope for this – with a moratorium on actions against producers in the LDCs.

Promoting South-South Cooperation

Traditional markets such as the EU, the US, Japan and Canada still account for almost 80 per cent of world imports, but their future growth is expected to be marginal. In contrast, the markets of the larger developing countries are growing very fast: China is already the world's fourth-largest market for apparel, accounting for 5 per cent of demand. Brazil and

South Africa are also growing, although at a slower pace.

Asian countries thus have an opportunity to boost T&C trade though regional agreements that promote South-South trade and thus reduce dependence on northern markets. This can be done on three levels: selling to developing country markets; sourcing intermediary products from developing countries and building relations with their investors; and increasing technical cooperation between developing countries.

Moving in this direction will need a considerable investment in resources and time – learning about unfamiliar cultures, market structures and distribution channels. But one problem that can be addressed quickly is tariff protection. Many of these markets have high tariffs; in India and Mexico, for example, the average import tariff for textiles and clothing is 35 per cent. One option is to use the Agreement on Global System of Trade Preferences among Developing Countries (GSTP), administered by UNCTAD, to help deepen the scope of tariff preferences amongst the G-77. Larger and more advanced developing countries could use this to give preferential market access to LDCs, helping them find new outlets that might compensate for losses in traditional markets.

Preferences for the LDCs

The developed countries grant unrestricted market access to T&C exports from some, but not all, LDCs. The US offers this to LDCs in sub-Saharan Africa under the AGOA, but not to any Asian T&C-producing LDCs such as Bangladesh, Cambodia, Lao PDR and Nepal. The EU, in contrast, provides duty-free access to exports from all LDCs under its 'Everything But Arms' (EBA) initiative, though exporters would be able to make better use of this if the EU harmonized the rules of origin so that beneficiaries do not have to fulfil different criteria in different preferential schemes. But even large developing countries, such as China and India, could consider extending such preferences to Asian LDCs.

Addressing these issues would have very beneficial human development outcomes, especially since many women in LDCs are employed in this industry.

Major Changes Ahead

The textile and clothing industry worldwide could be on the threshold of major changes. In the long term, trade liberalization through the removal of quotas could provide more jobs in certain countries and improve human development. At the same time, vulnerable countries could face disruptions if factories close and unemployment increases.

But market access is not sufficient. Exporting countries also need to improve competitiveness, including investing in developing skills, upgrading technology, diversifying products and markets, and integrating better into global supply chains.

Moreover, increasing volumes of trade and expanded export earnings do not necessarily translate into increased employment and, given the sweatshop conditions in many garment units, increased employment does not automatically translate into higher standards of human development. With so many women workers in this sector in Asia, there are also significant gender implications, both positive and negative.