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Assessing the Impact of the Phasing-out of the Agreement on Textiles and Clothing
on Apparel Exports on the Least Developed and Developing Countries

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Assessing the Impact of the Phasing-out of the Agreement on Textiles and Clothing on Apparel Exports on the Least Developed and Developing Countries

Abstract

On January 1, 2005, the Multifiber Arrangement (MFA), which establishes quotas on different categories of apparel and textile imports to the US and the EU, will be fully phased out. The quota system, which has been in force for nearly thirty years, has resulted in the global dispersion of textile and apparel production, by restricting imports from countries that – based on market conditions – would have a larger volume of exports were they not constrained by their quota allocations. There is concern among many developing countries that the elimination of quotas will result in a loss of apparel and textile exports to a relative handful of countries that will have a competitive advantage. This research addresses these questions, in an effort to better understand the dynamics of global sourcing in the textile and apparel industries. It is based primarily on a review of existing research, both macro-level research that simulates world trade patterns, and case studies of individual countries. It also examines World Bank data on textile and apparel exports. The study shows that large retailers play an increasingly important role in determining the nature apparel production, including a preference for “lean retailing” that favors Hong Kong, Taiwanese, Korean, and Chinese suppliers. The changing nature of production is discussed, including the importance of well-established relationships between Asian suppliers and U.S. and EU buyers – relationships that enable the Asian suppliers to operate effectively across many different countries. The impact of MFA phase-out is discussed, with special emphasis on several sub-Saharan African countries, for which some information is available concerning the role of foreign suppliers. The paper concludes with a number of policies that might mitigate the anticipated effects of MFA phase-out.

Key Words: MFA, Multifiber Arrangement, Multifibre Agreement, Agreement on Textiles and Clothing, etc, FDI, Textile and Apparel Quotas, Textile and Apparel Exports

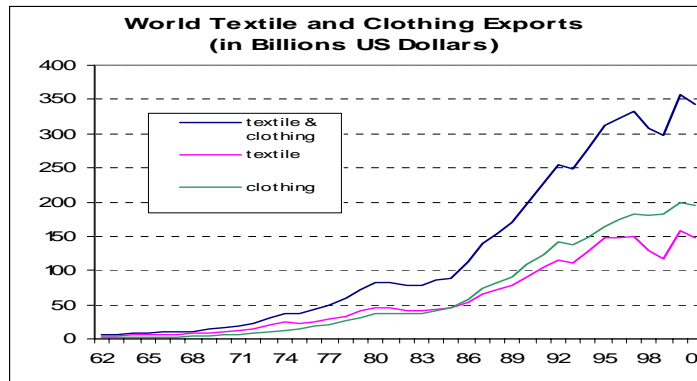
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1.0 Introduction

Global trade in textiles and apparel has exploded sixty-fold during the past forty years, from under \$6 billion in 1962 to \$342 billion in 2001 (see Figure 1). Today textile and apparel trade represents nearly 6% of total world exports. The more labor-intensive apparel export sector has grown more rapidly than textile exports (apparel has increased 128-fold, textiles 36-fold), so that today apparel accounts for more than half (57%) of the total.

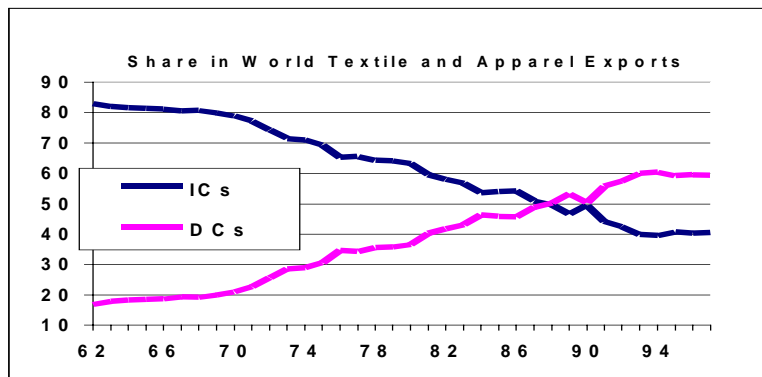
Figure 1
World Textile and Clothing Exports, 1962-2000



source: EU (2003b): 3

Forty years ago, the industrialized countries dominated global exports of textiles and apparel. During the late 1980s, however, the developing countries – with their seemingly limitless pools of low-cost labor – surpassed the industrial countries (see Figure 2). Today, developing countries account for half of world textile exports, and nearly three-quarters of world apparel exports (EU 2003b: 1, 3).

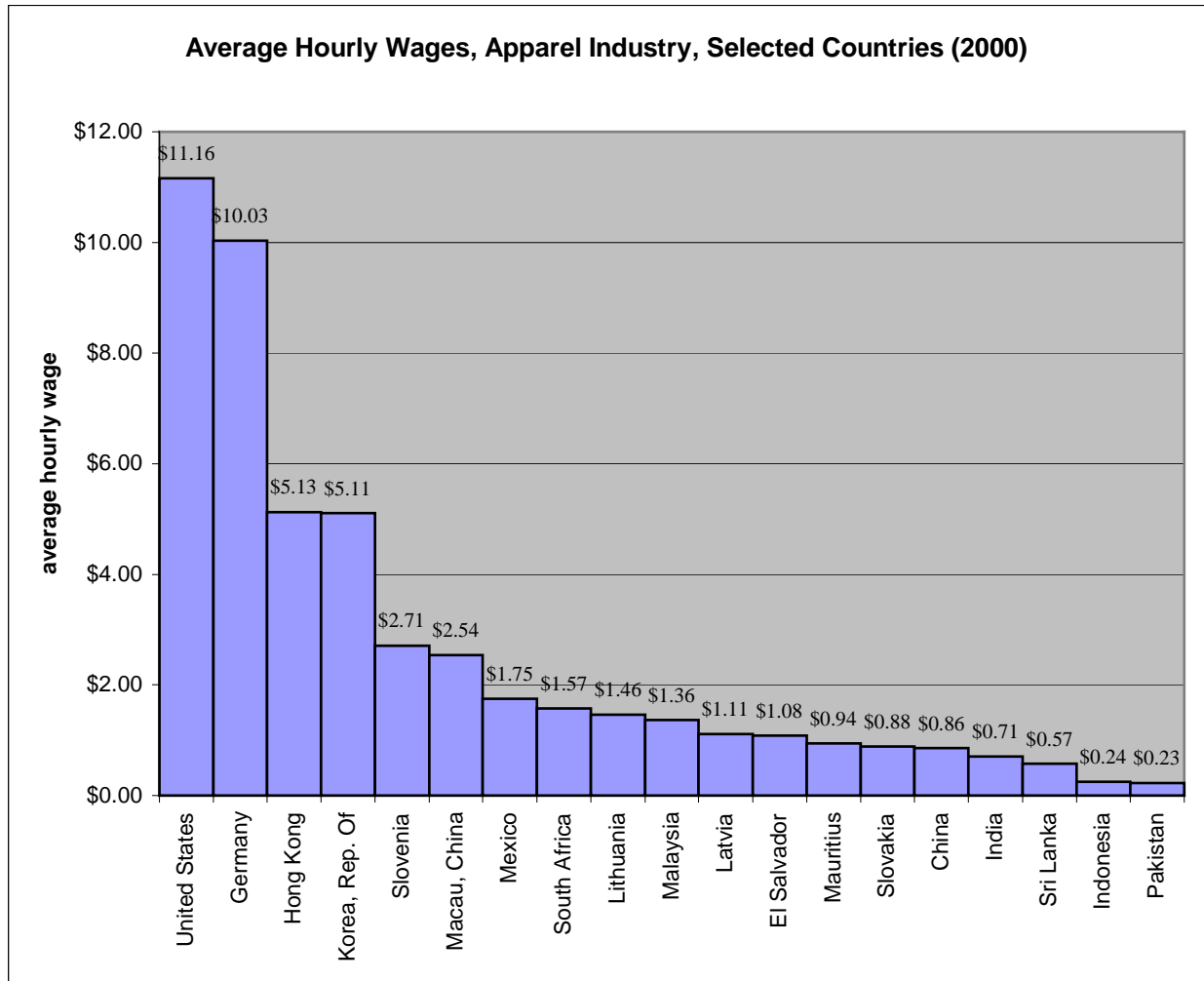
Figure 2
Share in World Textile and Apparel Exports,
Industrial Countries and Developing Countries



source: EU (2003b): 8

The globalization of apparel production is driven by many factors, but chief among these are two: labor costs, and the quota system that was put in place by the Multifiber Arrangement (MFA) in 1974. Concerning the former, there is an enormous differential in apparel labor costs between countries that plays a significant role in driving the global apparel production system (see Figure 3). Concerning the latter, quotas will cease to be a significant factor after January 1, 2005. Both labor costs and quota will be discussed in greater detail below.

Figure 3
Labor Costs in Apparel Industry, Selected Countries¹



source: ILO 2003; EU2003b: 11

¹ The most recent year for which there are consistent estimates is 2000. Apparel estimates for China, India, Malaysia, and Sri Lanka derived from EU 2003b: 11; all other figures were derived from the ILO on-line Laborsta Database, table 5B. Apparel estimates for Hong Kong and Pakistan estimated as 84% of textile wages. Apparel and textile figures for El Salvador, Indonesia, and South Africa were not separated in the ILO database. Wage rates for Least Developed Countries (LDCs) are not available from the ILO or in a reliable form, but clearly they are at the bottom of the scale.

2.0 Review of the Impact of Quotas, the Agreement on Textiles and Clothing, and other arrangements with an impact on the allocation of export-oriented production in the textiles and clothing industry

MFA quotas apply differentially to products and exporting countries. Some products, and countries, are highly constrained by quotas, which greatly restrict the quantity of specific categories of apparel they can export. Other countries – or, more accurately, product lines within countries – may be largely unaffected. The quota system thus has several effects.

First, numerous factors help to shape the global dispersion of apparel and textile production, including labor costs, quality, productivity, time-to-market, reliability, the presence of synergistic forces in apparel producing industrial districts such as Los Angeles or Hong Kong, and the ability to engage in full-package production – that is, the ability to go beyond simple assembly and supply the client with a completely finished product by providing designing, sourcing, cutting, sewing, assembling, labeling, packaging, and shipping.

Among these various factors, quota availability and cost are extremely important.² As exporting countries reach their quotas on specific products, production shifts to less restricted countries and product categories. Since quota allocations are usually based on historic export performance, there is a further incentive to increase exports to unrestricted markets, even when it is not profitable, in order to increase subsequent years' quota allotments. As a result, the quota system has provided many developing countries with access to markets they otherwise would likely not have achieved on the basis of competition. These countries will be adversely affected by phase-out (ILO, 2000). In the view of the American Textile Manufacturers Institute, "It is correct to say – and this is a point that should not be overlooked – *dozens of countries which currently ship textiles and apparel to the United States would not be doing so if initially Japan, then Hong Kong, Taiwan, South Korea and, finally, China, were not subject to control*" (Moore, 2003: 1; italics in original).

Conversely, eliminating quotas will likely consolidate production into larger companies and a smaller number of supplying countries, because of the economies of scale that can be achieved (Speer, 2002). In the view of the U.S. Association of Importers of Textile and Apparel (Jones, 2003: 2):

There can be little question that there will be consolidation in the post-2004 world. U.S. importers and retailers have been limited in their ability to rationalize operations so long as quotas forced them to rely upon facilities in many more locations than would otherwise be justified. The termination of the quota system is not just an opportunity to consolidate operations, eliminate duplicative functions and better manage the movement of goods, it is a long awaited necessity for the sustained health of importing firms.

² A full treatment of the locational determinants of apparel and textile production is beyond the scope of this paper. For a formal analysis of location determinants, see Appelbaum and Christerson, 1994; for a more general discussion, see Bonacich and Appelbaum, 2000.

Industry sources (AROQ, 2003) claim that large retailers and manufacturers such as the Gap, JC Penney, Liz Claiborne, and Wal-Mart that once sourced from 50 or more countries now source from 30-40; when quotas are eliminated, it is predicted that the number will fall to 10-15, notably countries with vertically integrated industries or in regions where raw materials as well as finished products can be found (Juststyle.com, 2003a; Malone, 2002, McGrath, 2003). Competition among garment-producing countries will likely increase, contributing to increased pressures to lower wages and weaken labor standards (Maquila Solidarity Network, 2002-3). By the same token, geographical concentration in China will create a new market of Asian consumers, along with new marketing strategies aiming to tap into this market (Speer, 2002).

Second, quotas add to the cost of production, both indirectly, through restricting supply and thereby raising prices, and directly, since quota are frequently sold and thus become a cost of doing business. The imposition of quotas results in quota rents – the profit that results from the difference in price that results from the quota. This rent is typically captured by the exporters who are allocated the quota. When quotas are sold, the rents accrue to whomever has the right to sell quota – in some cases the government of the exporting country, in others the exporters themselves. Relative to unrestricted goods, the quota system causes the quantity of quota-restricted goods to decrease, and their price increase (Tanzer, 2000; Kathuria, Martin, and Bhardwaj, 2001). The actual impact on the indirect and direct costs of quotas to consumers is a matter of some dispute, however, and will be taken up below (see Section 4.1).

Third, in the past quota restrictions have contributed to industrial upgrading in some quota-restricted countries (most notably in East Asia), by encouraging them to move up into higher value-added production – either of more costly products that are less quota-constrained, or into higher value-added activities (such as design and marketing) in the apparel commodity chain, sourcing out low-cost production to less quota-constrained countries. Hong Kong, Taiwan, and more recently China are examples (Tyagi, 2003). Mexico has also moved somewhat into full-package production, upgrading skills, investing in higher value-added activities, and developing quick response capabilities (Juststyle.com, 2003a; Gereffi, Spener, and Bair, 2002). Conversely, to the extent that quotas redirect production to relatively unconstrained developing nations, it can provide a degree of protection that reduces their incentive to adopt new technologies.

Finally, quotas protect jobs in the industrial countries. Indeed, this is the purpose for which they were originally intended. According to IMF-World Bank estimates, as many as 19 million jobs in developing countries may have been lost due to quota restrictions under the MFA, rising to 27 million jobs when tariffs are included. The export revenue loss to developing countries is estimated in the same study to be \$40 billion (\$22.3 billion due to quotas alone). The study claims that protecting a single job in the industrial core causes 35 jobs to be lost in developing countries (IMF figures cited in Truong, 2003; Chandrasekhar, 2003).

It should be noted that quotas are only one form of non-tariff barriers that constitute a “hindrance to trade.” The Doha Round of WTO negotiations includes as “non-tariff barriers” the following (Euratex, 2003):

- ♦ Any additional duties on the import or sale of products of origin from one WTO member in excess of the custom duties set out in the Agreement, or any other taxes of equivalent

effect, which are higher than any such duties or taxes imposed on the production or sale of equivalent domestic goods.

- ◆ Technical regulations or standards, or conformity assessment or certification rules, procedures or practices going beyond the purposes for which they are required.
- ◆ Any formal or informal minimum import price requirement, or other customs valuation rules, procedures or practices giving rise to barriers to trade provided that transshipment problems are solved.
- ◆ Rules, procedures or practices for pre-shipment inspection that are discriminatory, non-transparent, and excessively lengthy or the imposition of customs controls for the clearance of goods to shipments that have been subject of pre-shipment inspection.
- ◆ Excessively burdensome, costly or arbitrary rules, procedures or practices concerning the certification of the origin of products or requiring direct shipment of goods from the country of origin to the country of destination provided that traceability is part of the Trade Facilitation measures.
- ◆ Any non-automatic or discretionary licensing requirements, or any automatic licensing rules, procedures or practices imposing disproportionate burdens or having restrictive effects on imports.
- ◆ Requirements or practices concerning marking, labelling, the description or composition of the product or the description of the manufacturing of products which, either in their formulation or in their application, are in any form discriminatory as compared with domestic products.
- ◆ Unduly long customs clearance delays or excessively burdensome, excessive or costly customs procedures, including inspection requirements, which have an unnecessary restrictive effect on imports.
- ◆ Subsidies causing injury to the WTO members industries and not covered by existing WTO rules.

2.1 Quota Phase-Out: The Agreement on Textiles and Clothing (ATC)

During the Uruguay Round of WTO negotiations, the Agreement on Textiles and Clothing (ATC)³ called for the phase-out of quotas⁴ on textiles and apparel over a 10-year period,

³ The full text of the Agreement on Textiles and Clothing (ATC) can be found at <http://otexa.ita.doc.gov/atc.htm>; for a detailed explanation, see the WTO's website at http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm5_e.htm.

⁴ While quotas are scheduled to be phased-out under the ATC, tariffs are not. Tariffs on apparel are much less burdensome than quotas, however. The average U.S. tariff on apparel is 17%, whereas the tariff equivalent of quotas – the amount of tariff that would be necessary to produce the same restrictive effect as quotas – is estimated to be at least twice that amount, reaching 40% or more in the case of China and other Asian exporters (cited in Nathan Associates, 2002: 11,22).

beginning in January 1995. This phase-out was scheduled to occur over four phases, two of which have already been completed. Two mechanisms are employed to eliminate quotas: the phased removal of existing quotas, and accelerated growth rates of remaining quotas (see Table 1).

Table 1:
Stages of U.S. and EU Textile and Apparel Quota Phase-out

Stage	Component 1: Share of importing country's textile and apparel trade to be free of quota (% of 1990 import quantity)	Component 2: Permitted Growth Rates in Remaining Quotas (%)	
		major supplying countries	small supplying countries
I 1995-97	16	16	25
II 1998-2001	17	25	27
III 2002-04	18	27	27
IV 2005	49	No quotas	No quotas

source: Nathan Associates, 2002

Stages I and II (beginning January 1, 1995 and ending December 31, 2001) called for the elimination of no less than one-third of the importing country's textile and apparel quotas to be eliminated (based on 1990 levels). These initial changes had little impact, since they applied mainly to products whose imports were already below quota levels. The final two phases will have a strong impact, since they apply to products that are more strongly constrained by the use of quotas. A quota is said to be "constraining" if it is 85-90% filled, although the EU uses a 95% threshold (Nathan Associates, 2002: note 7). Phase III, which began January 1, 2002 and is scheduled to be completed December 31, 2004, calls for the elimination of no less than an additional 18% of quotas. The remaining 49% of quotas are to be eliminated in 2005. In fact, since the importing countries have a great deal of discretion over which quotas to eliminate, removal of quotas on the most restrictive categories has been deferred until the very end. In fact, according to WTO Director-General Supachai (2003),

Only twenty per cent of the products integrated into WTO rules in the first three phases of the ATC were subject to quotas. This means, of course, that the remaining 80 per cent of quotas must be eliminated by end December 2004, consisting of a total of 239 quotas maintained by Canada, 167 quotas maintained by the European Union and 701 quotas maintained by the United States. Furthermore, since the elimination of restrictions in the more sensitive products has largely been left until the final phase, the adjustment will be abrupt in these areas.

The agreement also calls for an increase in those quotas that remain (pending complete phase-out in 2005), with somewhat larger increases permitted for the smaller supplying countries, at least initially. The actual benefit of these increases will depend on the overall global growth of MFA-regulated apparel.⁵ Although WTO Director-General Supachai (2003) has recently called for a pre-deadline easing of quotas (so as to blunt the impact of the final phase-out at the end of 2004), his advice has thus far gone unheeded.

2.2 Quota Constraints Vary From Country to Country

Not all countries (nor apparel and textile products) are equally constrained by quotas. Countries which were once among the world's leading apparel exporters (Hong Kong, Taiwan, South Korea) have moved into higher value-added activities than apparel production, so today frequently have unfulfilled quota in some categories of apparel. At the same time, countries such as China, India, and Pakistan – which have experienced rapid growth in apparel exports – are becoming highly constrained in some categories (Diao and Somwaru, 2001: 13). As shown in Table 2, slightly more than half (53.1%) of the estimated \$24.4 billion in apparel exports in 2001 from Asia to the U.S. was constrained by quota, including nearly three-fifths (58.9%) of China's \$6.2 billion in exports. As the other extreme, only 14.0% of CBI country exports, 13.4% of sub-Saharan African Growth and Opportunity Act (AGOA) member exports, and 0.5% of NAFTA-member exports to the U.S. were constrained.

Table 2:
Regional Differences in Quota Constraints of U.S. Apparel Imports, 2001

	NAFTA	Sub-Saharan Africa (AGOA)	CBI	ASIA	CHINA
unconstrained	99.50%	86.60%	86.00%	46.90%	41.10%
constrained	0.50%	13.40%	14.00%	53.10%	58.90%
total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Nathan Associates, 2002: figure 4

2.3. Preferential Trade Agreements Already Weaken the Impact of Quotas and Tariffs

The U.S., EU, and Japan all have preferential bilateral and regional trading agreements with selected trading partners. Such agreements, which generally favor industrial nations, typically have rules of origin exempting apparel that uses the importing country's yarn, fabrics and dyeing from quota and tariff restrictions. Preferential access to US and European markets has been an important mechanism for selected developing countries to improve their competitive position (EU, 2003b). This is a mechanism that will be lost when quotas disappear and one of the chief barriers requiring preferential treatment is thereby eliminated. Given that the average U.S. tariff

⁵ For example, for major supplying countries an MFA growth rate of 1% would have resulted in an allowable 1.16% growth of remaining quotas during Stage I, 1.45% during Stage II (a 25% increase of Stage I), and 1.84% during State III (a 27% increase over Stage II) (OTEXA, 1995).

for apparel is around 13%, preferential treatment can make a large difference in the ability of a country to export to the U.S. (Gibbon, 2003a).

Preferential trade agreements for the United States include:

- ♦ **The North American Free Trade Agreement (NAFTA)**, which effectively eliminates quota constraints and tariffs on apparel and textile trade with Mexico. “In order to qualify as a NAFTA good, apparel must be produced from North American fabric, that is, fabric that has been woven from North American yarn that has been spun in North America” (MAC, n/d).
- ♦ **The African Growth and Opportunity Act (AGOA)**, part of the Trade and Development Act of 2000, exempts from quota and tariffs imports from 37 African countries that meet certain requirements; these include 23 countries that are eligible for preferential treatment in textiles and clothing (Benin, Botswana, Cameroon, Cape Verde, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Rwanda, Senegal, South Africa, Swaziland, Tanzania, Uganda, and Zambia). Only Zimbabwe, among major African apparel-exporting countries, is excluded.⁶
- ♦ **The Caribbean Basin Trade Partnership Act (CBTPA)**, an expansion of the Caribbean Basin Initiative (CBI), provides that certain apparel products (e.g., knitwear, T-shirts) may be imported into the U.S. duty- and quota-free (Bora, Cernat, and Turrini, 2002: 29). Rules of origin apply: products must be made with US fabrics wholly formed with US yarns. Currently, fewer than 15% of Caribbean exports are constrained by quota. This agreement is effective until September 2008.
- ♦ **The Andean Trade Preferences Act (ATPA)**.⁷ This twelve year-old agreement lowers or eliminates duties on imports from Bolivia, Colombia, Ecuador, and Peru, in an effort to expand economic alternatives to the production of drugs (principally cocaine). The act provides for duty- and quota-free imports of apparel made from U.S. fabrics (as well as some such specialized fabrics such as alpaca and llama), as well as products that use regional or U.S. yarns, subject to certain caps. Some apparel items – such as those made out of leather, and footwear – can be included so long as they are not determined to be “import sensitive” with respect to other Andean country imports (IMRA, 2003; U.S. Trade Representative, 2003).

The EU has expanded free trade agreements to the point where it “now trades duty- and quota-free with more than 30 countries in Eastern Europe, Africa, Latin America, and Asia” (Bora, Cernat, and Turrini, 2002: 17). Its preferential trade agreements include:

⁶ While the present report focuses on apparel, AGOA’s most important economic impact is to give duty-free status to oil and oil product exports, which accounted for 84% of all US imports under AGOA in 2001 (Gibbon, 2003b). For a detailed discussion of the impact of AGOA, see Mattoo, Roy, and Subramanian, 2002.

⁷ The ATPA has been amended and expanded by the Andean Trade Promotion and Drug Eradication Act (ATPDEA) in 2002; it expires at the end of 2006 .

- ◆ **The Euro-Mediterranean Association Agreements**, between the EU and 12 Mediterranean “partners,”⁸ which establishes a free trade area to be fully implemented by 2010.
- ◆ **The African Caribbean Pacific (ACP)** trade agreement, which allows most ACP exports (including 80% of all industrial products) to enter the EU quota- and duty- free.
- ◆ **The Everything But Arms (EBA) Initiative**. This measure, announced by European Trade Commission Pascal Lamy in September 2000, eliminates quotas and tariffs on all imports into the EU from the 49 least developed countries, with the exception of arms and munitions. The EU has called on “all members of the WTO to harmonize their customs duties towards a common level set as low as possible, and to eliminate all non-tariff barriers, which many countries fear will replace quotas and which are a worry to all textile and clothing exporters” (Lamy, 2003).

2.4 Other Factors Mitigate the Current Impact of Quotas

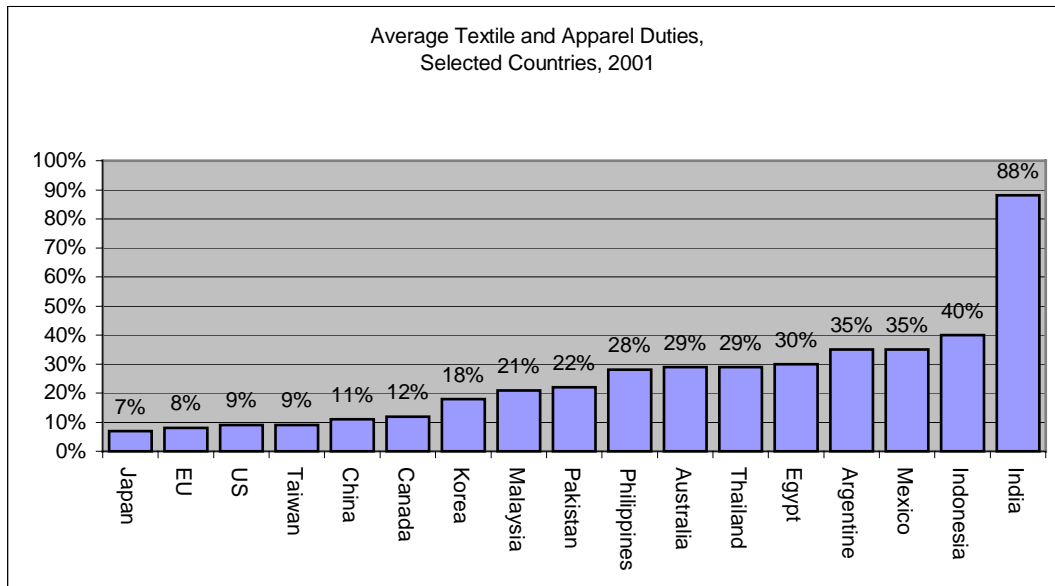
It should be noted that the elimination of quotas will not by itself result in a fully competitive global market for textile and apparel production. This is for several reasons:

- ◆ **Regional trading blocks may become more important.** The relaxing of quota constraints will increase the relative importance of geographical proximity (which reduces delivery time), contributing to the strength of trading blocks such as NAFTA, an expanded EU (including East European countries and Turkey), and ASEAN (see discussions in Azziz, 2002; Tyagi, 2003; Juststyle.com, 2003a; O’Rourke, 2000; Kahn, 2003; Ricupero, 2003; Truong, 2003).⁹
- ◆ **Tariff barriers will remain and possibly increase even after quotas are eliminated.** While the quota exemptions will no longer be relevant post-MFA, favorable tariff treatment will continue to play a role (although tariffs are less restrictive than quotas); indeed, pressures to increase tariffs may increase. Tariffs currently vary considerably across countries (see Figure 4):

⁸ Algeria, Tunisia, Egypt, Israel, Jordan, the Palestinian Authority, Lebanon, Syria, Turkey, Cyprus and Malta; Libya has observer status. See http://europa.eu.int/comm/external_relations/euromed/free_trade_area.htm.

⁹ ASEAN countries have discussed maintaining quotas after 2005, and have explored the creation of a Free Trade Area (USITC, 2003).

Figure 4:
Average Textile and Apparel Duties, Selected Countries, 2001



source: Libeert, 2003¹⁰

- ♦ **Anti-dumping measures.** Strong domestic textile and apparel lobbies in the US and EC are likely to argue that any significant price reductions are due to dumping, calling for “trade remedy actions” such as dumping investigations. Anti-dumping measures will doubtless continue to be invoked by importing countries as a way to protect their domestic industries from low-cost imports.¹¹ The EC, for example, has repeatedly initiated such measures on behalf of industry associations, with significant impact on the exporting countries. Between 1993 and 1998, the volume of cotton fabric imports was reduced from 59% to 38% for Egypt, India, Indonesia and Pakistan, all of which were involved in anti-dumping investigations. Such investigations are not likely to diminish after quotas are removed (ITCB, 2003; Chandrasekhar, 2003).
- ♦ **The growing power of large contractors.** Large retailers who import are likely to develop “mega-relationships” with big suppliers (McGrath, 2003). The geographical concentration of production associated with the elimination of quotas favors the growth of an already strong new sector in the global apparel commodity chain: multinationals (mainly Asian) that operate enormous factories under contract with large retailers and manufacturers. To the extent that giant contractors squeeze out smaller competitors,

¹⁰ These figures under-estimate the size of tariffs on apparel imports, since they are averages of textile and apparel duties; duties on apparel imports tend to be higher than those on textiles.

¹¹ Pakistan Trade Minister H.A. Kahn (2003), in criticizing WTO anti-dumping measures, notes that “According to the International Textiles and Clothing Bureau, the textile sector has seen 197 initiations of anti-dumping actions from 1990 to 1999. From 1994 to 2001, the European Commission has been the biggest user of anti-dumping and anti-subsidy actions accounting for 64 initiations in the textile sector alone. Of these 57 were targeted against developing countries.” He further notes that “The WTO Committee on rules and procedures is already debating the inadequacy of the anti-dumping law especially where the purpose behind initiation of investigations is simply to ‘freeze’ the imports.”

concentration of production in a handful of giant companies may reduce competition at the factory level, resulting in higher prices to consumers.

- ♦ **Loopholes: safeguards against “market disruptions.”** Moreover, the agreement contains some loopholes which may partly mitigate or substantially delay its full implementation. China’s accession agreement to the WTO included a safeguard to protect trade from possible “market disruptions” that might arise from the lifting of quotas on Chinese exports.¹² The agreement stipulates that the importing country can “request consultation” with China if “market disruptions” were such that exports of unrestricted products “threaten to impede the orderly development of trade between the two countries” (USITC 1999: ch. 8, 12-13). A “restraint limit” would be then placed on the product or products in question during the consultation period, as the importing country made its case that the imports in question contributed to the alleged market disruption.¹³ This restraint limit would continue until a mutually agreeable quota was reached – or, that failing, until then end of the trade agreement period.¹⁴ Under the terms of China’s accession to the WTO, this consultation mechanism is to be in place for four years following the elimination of quotas (through the end of 2008), although actions taken under the mechanism are limited to one year’s duration.¹⁵

3.0 The Importance of Textile and Apparel Exports in the Developing and Least Developed Countries

The apparel and textile industries are central to the global economy, and have played an especially important role in the export-oriented development East Asia – initially in Hong Kong, Singapore, Taiwan, South Korea, and Malaysia, and, more recently, China, Vietnam, Thailand, and Indonesia. There is cross-national statistical evidence that average incomes in a country are higher when this sector is healthy (Diao and Somwaru, 2001).

Global apparel and textile exports totaled nearly \$342 billion in 2001 (World Bank, 2003). Approximately 130 countries are producing textiles and apparel for export; many are highly dependent on these exports for employment and foreign exchange (Kearney, 2003b). Although some 30 nations are importers of textile and apparel, in reality developing country dependence on textile and apparel exports means dependence on two principal import markets – the U.S. and the EU. The US is the largest importer of textiles and apparel in the world, surpassing the EU by

¹² Other countries have also negotiated exceptions to the ATC agreement. India, for example, is permitted to revert to 1990 tariff levels on textiles and clothing, should phase-out fail to be completed as scheduled in 2005 (Chadha *et al*, 2001).

¹³ Specifically, “Within 30 days of receipt of a WTO Member’s request for consultation with China on market disruption complaints, consultations should be held. Meanwhile, China will hold its shipments of the relevant product to a level no greater than 7.5 per cent (6 per cent for wool product categories) above the amount reached during the first 12 months of the most recent 14 months” (Li, 2002: footnote 14).

¹⁴ This provision has already been invoked by the U.S. textile and apparel industries, which requested consultations on four product groups (knit fabrics, dressing gowns, brassieres, and gloves) in July 2003 (Tirschwell, 2003). For more information, see the American Apparel and Footwear Association website at <http://www.americanapparel.org/3col.cfm?pageID=95>.

¹⁵ After one year, a re-application is required, unless both countries agree to continue the action. There is also a product-specific safeguard that is part of China’s accession agreement, that can be applied against any import surge from China.

50% and Japan by 300% (ATMI, 2003). Europe accounts for about 40% of world apparel imports, although about half of that is intra-EU trade. The value of textile and apparel imports into the EU increased some 60% since 1995, to the point where today about a third are imports (EU, 2003a: 1). Still, it is important to note that a substantial amount of textile and apparel trade in the world today remains within the industrial core. One study (Diao and Somwaru, 2001: 5) concludes that “if we further take into account trade between the U.S. and EU, and between the US and Canada, intra-industrial country trade accounts for 50 percent of T&A market share in the industrial countries.”

3.1 Apparel Exports

Global apparel exports totaled nearly \$197 billion in 2000.¹⁶ Twenty-five exporters (counting the EU as a single entity, and including intra-EU transactions) accounted for 95% of global apparel exports; three (the EU, China, and Hong Kong) accounted for more than half (55%). If we exclude the EU, the U.S. and Canada from the analysis (Table 3), global apparel exports totaled \$139 billion, with China and Hong Kong together¹⁷ accounting for 44%; Mexico (6%) is a distant third, followed by Turkey (5%), India (4%), and Korea (4%). A small handful of countries clearly dominate the global apparel export market; the least developed countries do not appear among the world’s largest apparel exporters. The largest gains between 1990 and 2000 were made by Mexico, whose global exports increased nearly fifteen-fold (largely as a result of NAFTA, but also partly due to the December 1994 peso devaluation). Among the world’s largest non-industrial apparel exporters, Bangladesh and Sri Lanka showed the largest gains; growth among smaller exporters favored El Salvador, Romania, and Poland.

Table 3
22 Largest Apparel Exporters (Excludes EU, US, and Canada)
(Million dollars and percentage)

	Value		% change 1990- 2000	% total
	1990	2000		
World	\$108,100	\$138,653	28.3%	100.0%
1 China a	\$9,669	\$36,071	273.1%	26.0%
2 Hong Kong, China	\$15,406	\$24,214	57.2%	17.5%
3 Mexico a	\$587	\$8,631	1370.3%	6.2%
4 Turkey	\$3,331	\$6,533	96.1%	4.7%
5 India	\$2,530	\$6,030	138.4%	4.3%
6 Korea, Rep. of	\$7,879	\$5,027	-36.2%	3.6%
7 Indonesia	\$1,646	\$4,734	187.5%	3.4%

¹⁶The following section is based on data downloaded from the World Bank website at http://www.wto.org/english/res_e/statis_e/its2002_e/its02_bysector_e.htm.

¹⁷ Hong Kong is a Special Administrative Region of China. If we add in Taiwan as part of a “greater China” export region, the total is 46%.

8 Bangladesh	\$643	\$4,244	560.0%	3.1%
9 Thailand	\$2,817	\$3,757	33.4%	2.7%
10 Taipei, Chinese	\$3,987	\$3,022	-24.2%	2.2%
11 Dominican Republic a, b	\$782	\$2,880	268.3%	2.1%
12 Sri Lanka	\$638	\$2,812	340.8%	2.0%
13 Philippines a	\$1,733	\$2,536	46.4%	1.8%
14 Morocco a	\$722	\$2,401	232.4%	1.7%
15 Romania	\$363	\$2,328	541.3%	1.7%
16 Malaysia a	\$1,315	\$2,257	71.6%	1.6%
17 Tunisia	\$1,126	\$2,227	97.8%	1.6%
18 Pakistan	\$1,014	\$2,144	111.6%	1.5%
19 Poland	\$384	\$1,884	390.6%	1.4%
20 Macao, China	\$1,111	\$1,849	66.5%	1.3%
21 Singapore	\$1,588	\$1,825	14.9%	1.3%
22 El Salvador a	\$184	\$1,673	809.2%	1.2%

a Includes significant exports from processing zones.

b Includes Secretariat estimates.

source: World Bank (2003)

Many developing countries are highly dependent on textile and apparel exports, which often accounts for a significant share of their total industrial goods export and hence export earnings, creating a high degree of dependency on this sector (EU 2003b: 1, 8; see Table 1).¹⁸ The largest apparel exporters, however, are not necessarily the most dependent on apparel exports. Table 4 shows the 25 countries for whom apparel exports comprised the largest share of total merchandise exports in 2001, organized in descending order.¹⁹ There are seven countries for whom apparel exports constitute half or more of total merchandise exports. Among the least-developed countries there are only two: Bangladesh (78%), Cambodia (73%). Others include Macao (72%), El Salvador (60%), Mauritius (57%), and Sri Lanka (50%). The figure for Nepal, the only other least developed country that appears on the list, is only 26%. Dependence on apparel exports increased for most apparel-exporting countries between 1990 and 2001. For some countries, it increased substantially: Honduras, Bangladesh, El Salvador, Sri Lanka, and the Dominican Republic all increased their apparel exports to 40% or more of their total merchandise exports. The most dramatic increase was for Honduras, which grew from 8% to 41%; the most significant was for Bangladesh, which doubled from 39% to 78%.

¹⁸ Although China is the world's leading textile and apparel exporter, it is not as heavily dependent on this sector as most other developing nations; only 12% of its total industrial goods exports derive from textile and apparel exports (EU 2003b: 12).

¹⁹ Only three LDCs appear in the World Bank tables (which list 48 apparel exporting countries) – Bangladesh, Cambodia, and Nepal.

Table 4
25 Countries Whose Apparel Exports Are the Largest Percent of Total Merchandise Exports (Selected Countries)*
(Million dollars and percentage)

	total amount	Share in economy's total merchandise exports	
		1990	2001 a
World	\$195,030	3.2	3.3
1 Bangladesh	\$5,111	38.5	78.3
2 Cambodia b	\$1,125	...	72.5
3 Macao, China	\$1,663	65.3	72.3
4 El Salvador a	\$1,724	31.6	60.2
5 Mauritius	\$860	51.9	56.6
6 Dominican Republic a, b	\$2,712	36.0	50.9
7 Sri Lanka	\$2,398	33.4	49.8
8 Honduras	\$544	7.7	41.3
9 Tunisia	\$2,603	31.9	39.4
10 Morocco a	\$2,338	16.9	32.9
11 TFYR Macedonia	\$319	-	27.3
12 Nepal	...	24.4	26.0
13 Romania	\$2,774	7.3	24.4
14 Pakistan	\$2,136	18.1	23.1
15 Turkey	\$6,627	25.7	21.2
16 Bulgaria	\$793	...	15.5
17 India	...	14.1	14.2
18 China a	\$36,650	15.6	13.8
19 Jordan	\$296	1.0	12.9
20 Hong Kong, China	\$23,446	18.7	12.3
21 Jamaica	...	7.2	11.5
22 Lithuania	\$523	-	11.4
23 Croatia	\$490	-	10.5
24 Indonesia	\$4,531	6.4	8.0
25 Philippines a	\$2,384	21.4	7.4

a Includes significant exports from processing zones.

b Includes Secretariat estimates.

*World Bank data are available for selected countries only; some countries whose merchandise exports are heavily dependent on apparel may be excluded.

source: World Bank (2003)

3.2 Textile Exports

Textile production is more capital-intensive than apparel production, and as a result tends to favor the more industrialized countries. Exports are also less concentrated in a relatively handful of countries than apparel. Global textile exports reached \$155 billion in 2000, nearly a 50% increase over the preceding decade (Table 5). The EU was the largest exporter of textiles, accounting for more than a third of the total (34%; as will apparel, intra-EU transfers are significant), followed by China (10%), Hong Kong (8%), Korea (8%), Taiwan (8%), and the United States. During the ten period 1990-2000, three countries more than doubled their exports: Malaysia (270%), Mexico (261%), and Canada (221%). Other countries showing substantial increases included Indonesia, Poland, India, Turkey, and China.

Table 5
25 Largest Textile Exporters
(Million dollars and percentage)

			% change	
	1990	2000	1990-2000	% total
		\$154,74		100.0
World	\$104,330	0	48.3%	%
1 European Union	\$50,795	\$52,923	4.2%	34.2%
2 China a	\$7,219	\$16,135	123.5%	10.4%
3 Hong Kong, China	\$8,213	\$13,442	63.7%	8.7%
4 Korea, Rep. of	\$6,076	\$12,710	109.2%	8.2%
5 Taipei, Chinese	\$6,128	\$11,896	94.1%	7.7%
6 United States	\$5,039	\$10,961	117.5%	7.1%
7 Japan	\$5,859	\$7,023	19.9%	4.5%
8 India	\$2,180	\$5,899	170.6%	3.8%
9 Pakistan	\$2,663	\$4,532	70.2%	2.9%
10 Turkey	\$1,440	\$3,672	154.9%	2.4%
11 Indonesia	\$1,241	\$3,505	182.4%	2.3%
12 Mexico a	\$713	\$2,571	260.6%	1.7%
13 Canada	\$687	\$2,205	221.1%	1.4%
14 Thailand	\$928	\$1,960	111.3%	1.3%
15 Switzerland	\$2,557	\$1,533	-40.0%	1.0%
16 Malaysia a	\$343	\$1,270	270.0%	0.8%
17 Czech Rep. a	-	\$1,218	-	0.8%
18 Singapore	\$903	\$907	0.4%	0.6%
19 Brazil	\$769	\$900	17.0%	0.6%
20 Poland	\$284	\$769	170.8%	0.5%
21 Iran, Islamic Rep. of b	\$510	\$766	50.1%	0.5%
22 Russian Fed. b	-	\$495	-	0.3%
23 Israel	\$270	\$490	81.4%	0.3%

24 Belarus	-	\$410	-	0.3%
25 Hungary a	\$249	\$371	49.0%	0.2%

a Includes significant exports from processing zones.

b Includes Secretariat estimates.

source: World Bank (2003)

While a number of countries are heavily dependent on apparel exports, such dependency is much less marked in the case of textile exports (Table 6). With the exception of Pakistan, nearly half (49%) of whose merchandise exports consisted of textiles in 2001, in no other country did textiles comprise more than a quarter of total merchandise exports. Nepal, one of two least developed countries to appear on the list, was second (23%), followed by India (14%), Turkey (13%), and Macao (12%). In no other country did textile exports reach 10% of total merchandise exports.²⁰

Table 6
25 Countries Whose Textile Exports Are the Largest Percent of Total Merchandise Exports (Selected Countries)*
(Million dollars and percentage)

	total amount	share in economy's total merchandise	
		1990	2001 a
World	\$146,980	3.1	2.5
1 Pakistan	\$4,525	47.4	49.0
2 Nepal	...	40.4	22.7
3 India	...	12.1	13.9
4 Turkey	\$3,907	11.1	12.5
5 Macao, China	\$278	8.0	12.1
6 Taipei, Chinese	\$9,917	9.1	8.1
7 Bangladesh	...	20.5	7.6
8 Korea, Rep. of	\$10,941	9.3	7.3
9 Egypt	\$290	15.9	7.0
10 Hong Kong, China	\$12,214	10.0	6.4
11 China b	\$16,826	11.6	6.3
12 Latvia	\$118	-	5.9
13 Indonesia	\$3,202	4.8	5.7
14 Belarus	...	-	5.6
15 Lithuania	\$208	-	4.5

²⁰ Only two LDCs appear in the World Bank tables (which list 47 textile exporting countries) – Bangladesh and Nepal; the figure for the latter is only 8% of total merchandise exports.

16 Sri Lanka	...	1.3	4.5
17 Czech Rep. b	\$1,327	-	4.0
18 Slovenia	\$365	-	3.9
19 Tunisia	\$201	3.2	3.0
20 Thailand	\$1,888	4.0	2.9
21 Slovak Rep.	\$341	-	2.7
22 Bulgaria	\$137	...	2.7
23 Uruguay	\$54	5.0	2.6
24 Iran, Islamic Rep. of c	\$656	2.6	2.6
25 European Union (15)	\$50,542	3.4	2.2

a Or nearest year.

b Includes significant exports from processing zones.

c Includes Secretariat estimates.

*World Bank data are available for selected countries only; some countries whose merchandise exports are heavily dependent on textiles may be excluded.

source: World Bank (2003)

3.3 Textile and Apparel Exports Combined

Table 7 presents combined textiles and apparel sales as a percent of total merchandise exports, for the top 25 countries. Since apparel is the principal export of most of these countries, this table is similar to table 4 above. The principal exception is Pakistan, whose textile industry outweighs by a factor of two (in terms of contribution to total merchandise exports) the country's apparel industry. Apparel and textile exports combined accounts for more than 80% of total merchandise exports in Bangladesh and Macao; 70-80% in Cambodia and Pakistan; and 60-70% in El Salvador, Mauritius, Sri Lanka, and the Dominican Republic. There are thirteen countries in which exports of apparel and textile account for more than a third of total merchandise exports – another key index of vulnerability to quota elimination. Among the least developed countries, only Bangladesh, Cambodia, and Nepal appear to be especially vulnerable in terms of having any significant share of total merchandise exports devoted to apparel.

Table 7
Apparel and Textiles As Percent of Total Merchandise Exports, 2001,
Selected Countries:* Top 25 Countries

	percent		
	apparel	textiles	total
World	3.3	2.5	5.7
1 Bangladesh	78.3	7.6	85.8
2 Macao, China	72.3	12.1	84.4
3 Cambodia b	72.5	-	72.5
4 Pakistan	23.1	49.0	72.1
5 El Salvador a	60.2	-	60.2
6 Mauritius	56.6	-	56.6
7 Sri Lanka	49.8	4.5	54.3

8 Dominican Republic a, b	50.9	-	50.9
9 Nepal	26.0	22.7	48.7
10 Tunisia	39.4	3.0	42.4
11 Honduras	41.3	-	41.3
12 Morocco a	32.9	2.0	34.9
13 Turkey	21.2	12.5	33.8
14 India	14.2	13.9	28.1
15 TFYR Macedonia	27.3		27.3
16 Romania	24.4	2.0	26.4
17 China a	13.8	6.3	20.1
18 Hong Kong, China	12.3	6.4	18.7
19 Lithuania	11.4	4.5	15.9
20 Bulgaria	15.5	-	15.5
21 Indonesia	8.0	5.7	13.7
22 Jordan	12.9	-	12.9
23 Egypt	5.8	7.0	12.8
24 Croatia	10.5	1.8	12.3
25 Jamaica	11.5	-	11.5

a Includes significant exports from processing zones.

b Includes Secretariat estimates.

*World Bank data are available for selected countries only; some countries whose merchandise exports are heavily dependent on textiles and apparel may be excluded.

source: World Bank (2003)

3.4 The Changing Regional Geography of Apparel Sourcing: The US, EU, and Japan²¹

The number of leading global apparel exporting countries has increased sharply between 1980 and 2000. Countries whose apparel exports exceeded US\$1 billion in 1980 included only the East Asian NIEs (Hong Kong, Taiwan, and Korea), along with China and the U.S. A decade later, the list also included Indonesia, Thailand and Malaysia; India and Pakistan; Turkey (which had emerged as the world's fifth-largest apparel exporter); and Tunisia. By 2000, the list included the Philippines and Viet Nam; Bangladesh and Sri Lanka; Morocco and Mauritius; four East European countries; and of course Mexico, whose apparel exports had grown from virtually nothing in 1990 to \$9.3 billion in 2000. In that year the top five apparel exporters were China (\$39.2 billion), Hong Kong (\$24.7 billion), the United States (\$9.3 billion), Mexico (\$9.3 billion), and Turkey (\$7.0 billion). Yet there remains substantial variation in the degree to which apparel is a principal export item among the world's 25 largest apparel exporters, as Table 7 indicates. As Gereffi and Memedovic (2003: 26) note, "In Northeast and Southeast Asia, [apparel] has declined in importance, except in China where it remains the top export item, and in Indonesia and Viet Nam where apparel has climbed to third place."

²¹ This section is based in large part on Gereffi and Memedovic (2003).

If one looks at changing regional patterns for U.S. apparel imports during the last several decades, it is clear that Northeast Asian countries are declining in importance, South and Southeast Asia have stabilized, and China, Mexico and to some extent the Caribbean Basin have increased; only China and Mexico are core suppliers, however. For most countries there was little change between 1990 and 2000 (Mexico being the principal exception, thanks in large part to NAFTA). The countries that have been most successful in exporting to the U.S. are those that do not engage in simple assembly, but have developed, or are developing, full-package production capabilities – Hong Kong, Taiwan, Korea in the first instance, China and Mexico in the latter.

European imports show a similar pattern, with Hong Kong and China playing the leading role among East exporters; prominent new exporters to Europe include Turkey, Tunisia, Morocco, and several East European countries (especially Romania, Poland and Hungary and the former Yugoslavia). While Tunisia and Morocco engage mainly in assembly, the other countries are capable of providing full-package production.

Japan's pattern of imports, on the other hand, is quite distinct from those of Europe or the U.S.: it is overwhelmingly dominated by China, whose share of Japanese imports grew from 31% in 1990 to 76% in 2000. The reason for this sheds some light on the probable consequences of quota elimination, since Japan – although a member of the MFA – never chose to use quotas. While China's dominance in Japan's apparel imports may be in part due to geographical proximity, it may also “be showing the rest of the world what the future will look like when the MFA is phased out” (Gereffi and Memedovic, 2003: 23).

Gereffi and Memedovic (2003: 20) summarize their conclusions regarding the future of imports to the U.S., EU, and Japan as follows:

China (including Hong Kong SAR) is likely to become even more dominant as the world's export leader after 2005, with Indonesia, Viet Nam, India, Mexico and Turkey moving into the second tier at the global level, although Mexico and Turkey are primarily regional suppliers for the United States' and EU markets, respectively. Republic of Korea and Taiwan Province of China will continue to exploit their niche as suppliers of textile inputs to the major Asian apparel exporters, and they are likely to retain smaller but still significant exports of relatively high-value apparel items in which quality, product development, timely delivery and related services are at a premium.

Note that although the U.S. and the EU both rely heavily on imports from Asia, there is clearly a strong regional component to sourcing as well, with the U.S. relying on Mexico, Central America and the Caribbean, and Europe relying on East-Central Europe and North Africa. Moreover, Asian exporters provide full-package production, while Mexico, Central America, the Caribbean, East-Central Europe, and northern Africa primarily sew textiles from the U.S. and EU into garments – lower value-added activities less likely to result in industrial upgrading and economic development.

Although Mexico has benefited thus far from NAFTA, in a post-MFA world NAFTA will not assure success: Mexico will need to develop full-package production capabilities. At the present

time, U.S. firms control design and marketing, while Mexican companies engage mainly in assembly. The same is true of Caribbean exporters, which are losing out to Mexican firms – which themselves are losing out to China. Moreover, Mexico’s experience under NAFTA suggests some of the limitations of relying on apparel exports as a developmental strategy: even during the height of the post-NAFTA production boom only a small number of well-connected local firms benefited, with much production and assembly subcontracted out to small firms that frequently engaged in harsh exploitative labor practices. The downturn in the U.S. economy reversed the fortunes of even the largest Mexican exporters, and much apparel production in the past couple of years has shifted to lower-wage areas (most notably China). Only the more capital-intensive segments of the textile and apparel commodity chain (textile mills, modern laundries and computerized cutting rooms) seem relatively secure (Bair and Gereffi, 2003).

4.0 The Role of Retailing and Foreign Production in Textile and Apparel Exports in the Developing and Least Developed Countries

Apparel and textile production are examples of global “buyer-driven” commodity chains

...in which large retailers, marketers and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in developing countries. This pattern of trade-led industrialization has become common in labor-intensive, consumer-goods industries such as garments, footwear, toys, handicrafts and consumer electronics. Tiered networks of third-world contractors that make finished goods for foreign buyers carry out production. Large retailers or marketers that order the goods supply the specifications (Gereffi and Memedovic, 2003: 3)

Global textile and apparel production can be seen as comprised of a series of intersecting networks organized around five principal activities: raw material supply, component provision, production networks, export channels, and marketing networks (Appelbaum and Gereffi, 1994). For a country to benefit from its linkages to these networks, it must link up with the major lead firms in the industry – those that control access to the resources yield the greatest profits. Increasingly these are found at the retailing and design end of the value chain – activities that entail product design, new technologies, brand names or consumer demand. While simple assembly is a source of jobs and therefore can play an important role in developing economies, for many countries it is no longer an obvious path to higher value-added activities:

Sustained competitiveness in the international apparel industry involves continual changes in economic roles and capabilities. New exporters constantly enter the global supply chain, which is pushing existing firms to cut costs, upgrade or exit the market. There is a need to run faster to stay in the same place (Gereffi and Memedovic, 2003: 21-22).

East Asian producers were able to move up from what Gereffi and his colleagues term “captive networks” (in which producers are limited to assembly of cut fabric following detailed instructions) into “relational value chains” entailing “more complex forms of coordination, knowledge exchange, and supplier autonomy,” permitting full-package production (Gereffi,

Humphrey, and Sturgeon, 2003: 12). There is a significant debate regarding whether East Asia's success can be replicated in a world dominated by large multinational retailers and producers.

4.1 The Growing Importance of Large Retailers

One of the principal changes in global apparel commodity production has been the growing economic power of giant retailers. The firms exert a great deal of control over prices and sourcing locations, both through price pressures they exert on the independent labels they carry, and through their growing volume of private label production (now estimated to encompass as much as a third of all U.S. retail apparel sales). The world's forty largest retailers accounted for nearly \$1.3 trillion in total sales in 2001, or roughly 4% of the world economy. Among the top forty, twelve are based in the U.S. accounting for nearly half (43%) of total sales; almost all the rest are from the EU (accounting for 46%). The only Asian firms in the top forty are five Japanese retailers (accounting for 11%). Wal-Mart alone – with revenues of \$246 billion in 2002 - accounts for nearly a fifth of total sales of the world's forty largest retailers (Appelbaum, forthcoming 2004).

Large retailers characteristically have large volume requirements, leading them to only consider large producers (1000+ workers) as potential suppliers. In the words of one African supplier, success requires “never deviating from a chosen product type, not trying to be versatile, seeking efficiency on single styles and going for longer and longer runs” (Gibbon, 2003b: 33).

Related to these trends, since the mid-1980s, there has been a move toward “lean retailing,” particularly in the U.S. but also in Europe and Japan. Traditionally, apparel producing firms and retailers were relatively independent of one another. Led by Wal-Mart and other large U.S. retailers, and enabled by technological changes that permitted a high degree of data sharing and other electronic interchanges, retailers increasingly brought their suppliers under much more direct control, requiring them to “implement information technologies for exchanging sales data, adopt standards for product labeling, and use modern methods of material handling that assured customers a variety of products at low prices” (Abernathy *et al*, 1999: 3). Such changes in retailing are believed to favor Hong Kong, Taiwanese, and South Korean garment firms, who are well positioned to manage triangle manufacturing²² in the global apparel industry. As Thun (2001: 15) notes in his study of Taiwanese firms,

small, local firms in Southeast Asia or mainland China may be able to undercut a Taiwanese firm on labor costs, but they are unlikely to be able to make the investments in electronic data interchange that make rapid response possible. In short, being able to handle electronic orders from buyers, effectively forecast, plan, track production, and manufacture apparel quickly and flexibly, are skills that provide a far more enduring form of comparative advantage for Taiwanese firms than constantly scouring the globe for the lowest cost labor.

²²In triangle manufacturing, a foreign buyer places an order with an East Asian firm (most commonly based in Hong Kong or Taiwan) that it has worked with previously. The firm then arranges the production, either with factories in other countries that it owns or with factories that it contracts with. The factory then completes the triangle by shipping the goods to the foreign buyer (Gereffi and Pan, 1994): 127.

One study of European retailing (focusing on Britain, France, and Scandinavia) found that Scandinavian retailers tended to concentrate their purchases among a relatively small number of foreign suppliers, while French retail sourcing was more dispersed (British retailers were in between). The study identified three different models of supply base management (Palpacuer, Gibbon, and Thomsen, 2003):

- a rules-based *UK model* emphasizing rationalization of the supply chain through formal supply chain management (SCM) doctrines, with specialized functions centralized at corporate headquarters
- a market-based *Scandinavian model* emphasizing concentrated sourcing networks, achieved by establishing strong personal relations with overseas manufacturers
- a socially-embedded *French model* emphasizing more open, informal, and dispersed sourcing networks

The growing size and dominance of larger EU and U.S. retailers suggests an important dynamic in the world economy: the experience of Hong Kong, Singapore, Taiwan, and South Korea – newly-industrializing economies that relied on apparel and textile production as integral parts of successful development strategies – may prove difficult to replicate in a world where the retail end is much more tightly controlled today than it was 20-30 years ago.²³ Only countries with sizeable internal markets, such as China and India, may prove capable of moving up the apparel chain into higher value-added activities, insofar as they are able to capitalize on their internal markets in developing indigenous retail capabilities.

4.2 The Growing Importance of Major Producers

The main general point about foreign ownership in textiles and apparel, I think, is the key role played by Hong Kong, Taiwanese, and Korean intermediaries in various regions of the world. This “triangle manufacturing” has been remarkably pervasive, but undoubtedly will shift with the quota phase out of 2005. There is no easy way to document this statistically, however (Gereffi, 2003).

As noted previously, recent years have seen the growth of giant, mainly Asian multinational corporations that operate enormous factories under contract with large retailers and manufacturers. For example, the Taiwanese company Pou Chen is the world’s largest shoe manufacturer, employing 150,000-170,000 workers, an estimated one-sixth of the world’s total. Pou Chen has 40,000 workers in its Dongguan (China) factory alone, with 65,000 more slated for the Huyen Binh Chanh megafactory in Vietnam, soon to be the world’s largest shoe factory. About half of Pou Chen’s production is for Nike; other clients include Polo Ralph Lauren, Kenneth Cole, Calvin Klein, and NBA Properties. Other examples of multinational producers include Nien Tsing (Taiwan), the world’s biggest jean manufacturers, whose Central American factories in 2000 produced 40 million pairs of jeans for Wal-Mart, JC Penny, Kmart, the Gap, Sears, and Target; Yupoon (Korea), the world’s second largest cap manufacturer; and Boolim (Korea), maker of athletic, casual, and knit wear in more than 25 countries.

²³ There are other factors which make it less likely that other countries will be able to replicate the original East Asian experience. For a more complete discussion, see Henderson and Appelbaum (1992).

One study of changing patterns of imports to Britain, France and Scandinavia concluded that as recently as the late 1980s, southern Europe (mainly Portugal and Italy) was by far the leading source of imports to the three countries combined. Today the picture is far different:

...by 2000, this picture changed so that Asian and 'greater European' producers were of roughly equal significance, ahead of their Southern European counterparts.... Importing countries' increasing dependence on a combination of 'low price' and 'medium price/short lead time' producing countries lends support to the idea that there are now commonly acknowledged 'global production centres'... Factors to do with history, language and proximity play a role in determining the weight that specific supplying countries and regions enjoy in specific end-markets, even within this framework (Palpacuer, Gibbon, and Thomsen, 2003: 7-8).

There are only a small number of case studies that document the role of FDI in apparel production in different countries, and no systematic evidence is available to permit detailed cross-country comparisons of how the leading producers are allocating their investments to different countries and regions, or how FDI by specific producers will be impacted by quota phase-out. The existing research, particularly with regard to Africa, will be summarized in section 6 below.

Finally, it should be noted that increased concentration of production may paradoxically be facilitating worker organizing, since the large factories are vulnerable to pressure from the large retailers and manufacturers that use them. A number of successful unionization drives have occurred in such factories in recent years, including the Kukdong (now Mexmode) apparel factory in Mexico, the BJ&B hat factory in the Dominican Republic (owned by Yupoon); and Hien Hsing factories in Mexico (Chentex) and Lesotho. In these examples, pressure on the factories and their clients (which included Nike, Reebok, the Gap, and other major U.S. companies) by local independent labor unions, supported by U.S. and EU unions and NGOs, have caused the parent companies to allow the formation of independent unions.²⁴

5.0 The Impact of Quota Elimination

The immediate beneficiaries of quota elimination are predicted to be consumers, who will experience declining costs of textile and apparel products as production shifts to the lowest-cost countries and quota rents are eliminated (Slater, 2003) – although, as will be argued immediately below, the size of this benefit is subject to debate. Textile and apparel workers in the high labor cost industrial countries, as well as less competitive developing countries, are predicted to be disadvantaged by phase-out. Econometric simulations of the aggregate global benefits of trade liberalization of all sorts vary enormously, from a low of \$6.5 billion to a high of \$324 billion, depending on the underlying assumptions. The contribution of ATC reform is estimated to range from two-thirds of all gains, to a mere 5 percent (EU 2003c; Walkenhorst, 2003). Clearly this is not an exact science.

²⁴ For more detailed discussion see Espenshade, 2003, forthcoming.

5.1. Impact on Consumers in Developed Countries

Most studies, based on assumptions of market competitiveness, conclude that the elimination of quotas will be of significant benefit to consumers. Indeed, that is a principal justification for the phase-out. Eliminating quotas is predicted to lower costs, increase efficiency, and reduce risks (Tyagi, 2003). Price reductions of anywhere from 50 cents to \$2.00 per unit are predicted (Speer, 2002). Equilibrium models of global textile and apparel trade usually predict that the elimination of quotas will enlarge total world trade while lowering prices, thereby benefiting consumers in the importing (developed) nations. For example, Chadha *et al* (2001: 11), employing a global computable general equilibrium model,²⁵ conclude that quota elimination will result in increased apparel exports and declining prices, with the result that “most of the developed countries ... gain from MFA elimination, although neither their gains, nor the losses of the few losers—Australia/New Zealand and Japan—are particularly large.” One general equilibrium simulation concluded that over the ten years following phase-out, the discounted present value of welfare gains²⁶ for North America would be only of the order of six-tenths of one percent (Diao and Somwaru, 2001: Table 4).

One study, however, challenges the assumption that phase-out will benefit consumers, arguing that the cost of the quota system is overstated (Scott and Lee, 1991). Most predictions, they claim, are based on assumptions that overstate the degree of retail market competitiveness,²⁷ the amount of investment in textile technology that quota elimination will stimulate, and the adjustment costs for workers displaced by protection. The study’s model predicts a price reduction of 10% in U.S. apparel imports (2.5% in domestically-made apparel) if protections are removed, in comparison with the 35% reduction in import prices (and 22% in domestic apparel) calculated in other models. The study also claims that eliminating protections would be associated with a labor adjustment cost of \$600 million – a cost not taken into account by others.

5.2 Impact on Least Developed and Developing Countries

There is general agreement that the elimination of textile and apparel quotas will immediately benefit a small handful developing countries - those that possess a strong and a diversified mix of textile and apparel products, engage in full-package production, produce high-quality, high value-added products, and possess diverse markets outside the U.S. and EU.²⁸ One general equilibrium analysis concludes that “MFA phase-out would enlarge world trade of T&A [textile and apparel] and developing countries will further gain market share in world total exports. However, without evaluating the possible and differential impact of the MFA phase-out on the economic growth pattern and growth rate among countries, the model fails to capture a significant change in world T&A market structure” (Diao and Somwaru, 2001: 26).

²⁵ Chadha *et al* (2001: 6) use a “special version of the NCAER-University of Michigan computable general equilibrium (CGE) patterned after the Michigan Model of World Production and Trade” (NCAER – the National Council of Applied Economic Research – is based in New Delhi, India; see <http://www.ncaer.org/>).

²⁶ “Welfare gains” are an estimate of the income increase that would be equivalent to the changes resulting from phase-out.

²⁷ To the extent that retailers are able to determine prices, lowering the cost of products through quota elimination will not result in a corresponding reduction in retail prices for consumers.

²⁸ To this list we might also add the weakest labor laws and environmental protections, lowest tax burdens, and strongest restrictions on labor organizing (including the formation of independent unions). See e.g. Tantillo, 2003.

One recent review of existing research offered a straight-forward summary: “The lion's share of these benefits will accrue to India and China” (WWD, 2003b; see also Truong, 2003). Pakistan, Vietnam, South Korea, Hong Kong, Taiwan, and some countries with preferential access to U.S. and EU markets will also likely prove to be competitive (Moore, 2003; Jones, 2003). It is also arguable that major suppliers who have developed strong commercial ties with the U.S. will remain major suppliers after quota is eliminated (Jones, 2003).

Most of rest of the developing world will likely experience a decline in apparel exports, at least in the short run.²⁹ Countries in which more than three-quarters of all apparel exports are in highly constrained quota categories (and therefore will lose this advantage when such constraints are eliminated) include Lesotho and Haiti among the least developed countries, as well as Jamaica, Honduras, El Salvador, Kenya, and Nicaragua (Hillman, 2003). This includes especially countries that sell a limited range of products, and that compete on the basis of price rather than quality (Manjur, 2002).

Quota elimination will remove a principal support from those countries that currently benefit from preferential trade agreements, since they will lose the competitive advantage previously conferred by quota-free exporting once highly-constrained exporters such as China are also freed from quota constraints. While such countries will continue to enjoy preferential tariff treatment, tariffs are generally far less costly to exporting countries than are quota restrictions. One study has estimated that the export tax equivalent of quotas in 1999 averaged 40 percent in the U.S. and 20 percent in the EU³⁰ (Kathurina, Martin, and Bharwaj, 2001: 20). Another study concludes that tariff benefits “are likely to be far less significant than quota benefits have been,” since U.S. textile and apparel benefits are “not prohibitive:”

The average U.S. duty on apparel items is 17 percent. This provides only a thin margin of preference over producers not receiving preferential access – a margin that in some cases may be less than the production cost advantages that large Asian supplies mat enjoy vis-à-vis preferential suppliers in the Caribbean, Africa, and Mexico (Nathan Associates, 2002: 2).

The study also points out that “a major thrust of new trade negotiations is to lower peak tariffs on non-agricultural products” (*Ibid.*)

In the case of exports to the U.S. market, Mexico, Africa, and the Caribbean region are predicted to lose market share to China, while in Asia only large, low-cost producers such as India, Pakistan, and (most notably) China are likely to benefit. China’s – whose share of U.S. apparel imports declined from just under 15% in 1993 to about 7% in 2001, thanks to quota restrictions – will be the prime beneficiary (Nathan Associates, 2002: 1, 7, figure 3). One general equilibrium analysis, conducted for UNCTAD, summarizes its results with respect to apparel and quota elimination as follows (Bora, Cernat and Turrini (2002: 95):

²⁹ One exception, whose general equilibrium model sees the less developed countries generally benefiting in the long run through improved terms of trade and improved allocation efficiency, is Bora, Cernat, and Turrini, 2002.

³⁰ This is the level that tariffs would have to be in order to have the same restrictive effect as quotas.

In apparel, only Bangladesh, Cambodia, Haiti, Nepal, Myanmar, and Maldives [among all the LDCs] appear among the top 50 exporters [to the U.S., in 1999]. Assuming no increase in demand and no reduction in domestic production, data presented... suggests that, for instance, a fifty percent increase in apparel exports from Bangladesh would translate into an overall 2 percent reduction in current apparel exports from third countries. Big market-share losses will accrue to big exporters. However, small exporters may see their market share reduced significantly, and may even be driven outright out of the market. African LDCs [least developed countries], for instance, with the exception of Madagascar, are small exporters. The only other exporters above the \$100,000 threshold [for large exporters] are Malawi, Mali, Sierra Leone and United republic of Tanzania. Even though African countries may already qualify for duty-free and quota-free market access to the United States under AGOA, granting duty-free quota-free market access to all LDCs, including competitive Asian producers like Bangladesh and Cambodia, may result in a decrease in exports from African LDCs.

At the regional level, aggregated risks resulting from quota elimination, at least in terms of U.S. apparel imports, are estimated in Table 8.³¹ The highest risks are faced by NAFTA countries (in this case, Mexico), whose preferential advantage will be lost when quotas are eliminated. An estimated 90% of Mexico's apparel exports to the U.S. are estimated to be at high risk, as are 75% of CBI exports to the U.S. The sub-Saharan least developed countries of the African Growth and Opportunity Act (AGOA) face a similar situation, with 84% of their apparel exports to the U.S. at high risk (see section 6.1 for a more detailed discussion). The impact on Asian countries is much lower, and only 5% of China's exports are said to be at high risk.

Table 8:
U.S. Apparel Imports, By Source and Risk Level, 2002-5

	NAFTA	Sub-Saharan Africa (AGOA)	CBI	ASIA	CHINA
low	9.3%	2.2%	11.2%	16.4%	44.0%
medium	0.5%	13.6%	14.0%	52.3%	51.1%
high	90.2%	84.2%	74.8%	31.4%	4.9%
total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Nathan Associates, 2002: figure 5

³¹ Risks are said to be "low" for products that already lack restraining quotas (so quota elimination will make no difference). Risks are said to be "moderate" for products that are currently restrained for producers in the region, restraints that will end when quotas are eliminated. Risks are said to be "high" for products that are currently not restrained for producers in the given region, but which are restrained for producers in other regions; the competitive advantage arising from this situation will end with the elimination of quotas (Nathan Associates, 2002: 11).

5.3 China's Advantages and Disadvantages

China's potential strength in global textile and apparel imports has already been mentioned. China's advantages can be summarized as follows: relatively low labor costs (although far from the world's lowest; see again Figure 3); a productive and highly "disciplined" workforce (the latter the result of state policies which forbid the formation of independent labor unions and other forms of labor dissent); full-package production, the legacy of highly advanced business networks originating in Hong Kong and Taiwan; and excellent shipping connections, resulting in fairly rapid transit time to the U.S. and Europe. There are also considerable wage differentials between the rapidly-industrializing coastal regions of China, and the less-industrialized interior.

China is already the world's largest (and, among major producers, most rapidly-growing) exporter of apparel, even though it is highly constrained by quotas, and its apparel products are generally of low or medium quality. The phasing-out of quotas will eliminate the first constraint, while as China moves into higher value-added apparel production, the second constraint will also be eased. Furthermore, China has long been set up for full-package production, making it relatively easy for U.S., European, and Japanese manufacturers to reliably source completed garments from Chinese factories. Combined with the country's vast supply of productive low-cost labor, it is clear that the movement of apparel production to China will likely accelerate in the near future.³² One analysis of actual locational shifts in production that occurred during Stage II of the ATC (1998-2001) concluded that during the first half of 2002, exports from China more than doubled in 12 out of 18 categories such as brassieres, cloth luggage, and infant wear.³³ The analysis further found that

the market shares of quota-constrained suppliers – principally Asia – increase markedly after 1998. Meanwhile the market shares of non-quota constrained suppliers – NAFTA and the CBI – dropped by an average of one-third between 1997 and 2001. Most ominous for other suppliers, between the first quarters of 2001 and 2002, China's market share increased in 5 percentage points, while other suppliers' market share decline (Nathan Associates, 2002: 13, and Figure 3).

The U.S. International Trade Commission (USITC, 1999), using a global General Computable Equilibrium (GCE) model to simulate the impact of China, drew a similar conclusion: compared with scenarios in which China retains its quotas, in a quota-free world China would greatly increase its share of global apparel exports, at the expense of other apparel-exporting countries.³⁴ The study simulated the impact of quota removal on U.S. apparel imports, as well as global

³² China is also taking steps to modernize its textile industry (fibers, yarns, and fabrics), suggesting that in even in this more capital-intensive sector, where it has thus far enjoyed no comparative advantage, China may well increase its share of global production.

³³ Infant wear tripled in exports. J.C. Penny moved fabric-sided luggage manufacturing to China after quotas on this category were removed in 2002, and plans to do the same with infants-wear manufacturing currently being done in Thailand and the Philippines (USITC, 2003). The significance of these shifts has been disputed, however. One source argues that these are all detail and labor-intensive products which are favored by Chinese manufacturing (McGrath, 2003), while another claims that China's share of brassiere exports to the U.S. is merely proportional to its share of garment workers among developing countries (see Just-style.com, 2003).

³⁴ The elimination of quotas was also predicted to have a much smaller (although positive) impact on Chinese textile exports.

apparel imports. China's post-2004 share in the U.S. apparel market was predicted to grow 18 percentage points, from 10% today to 28% in 2010. South Korea, Taiwan, and Hong Kong (combined) would lose out slightly, their share of the U.S. apparel market declining to about 10%, a few percentage points lower than it would have been if China had remained under quota. South Asia – a region with large-scale production, low labor costs, and a large internal market – would increase its share of the U.S. import market from roughly 15% in 2004 to 25% in 2010 – a large increase, although smaller than it would have enjoyed had China remained under quota (when its share was projected at 33%). Canada and Mexico – currently operating quota-free under NAFTA – would lose out slightly: their combined share of the U.S. apparel market, which is projected at about 4% in 2004, would drop to 2-3% in 2010, a few percentage points lower than it would have been. Other restricted suppliers (a broad category that includes ASEAN countries as well as other countries under quota restrictions) would see their share drop from about 40% in 2004 to a little under 30% in 2010 – about 7% lower than it would have been. Finally, all other suppliers (a residual category comprised mainly of Japan, the EU, and other developed countries) would see their share of U.S. apparel imports drop from 12% in 2004 to 5% in 2010, slightly lower than it would have been had China remained under quota.

As with its share of U.S. apparel imports, China's share of world apparel imports is also projected to increase after 2005.³⁵ Under the USITC simulations, a quota-free China can expect to see its global market share for apparel increase about 6 percentage points, from 30% in 2004 to 36% in 2010. South Korea, Taiwan, and Hong Kong's combined share of the world market would be largely unaffected, declining only a percentage point or two below what it would have been in 2010 had China remained under quota. South Asia, by the same token, would increase its share of the world market from about 10% in 2004 to around 19% in 2010 – a sizeable increase, although several percentage points lower than predicted had China remained under quota. Canada and Mexico, which together account for a miniscule percentage of world apparel imports, would be largely unaffected. The other restricted suppliers would see their share drop from 22% in 2004 to 20% in 2010, a few percentage points lower than it would be had China remained under quota. All other suppliers would see their share of global apparel imports drop from 20% in 2004 to 15% in 2010, again slightly lower than it would be had China remained under quota.³⁶

China is thus projected to benefit considerably from MFA phase-out. China's apparel exports had already reached \$36.6 billion in 2001, approximately a fifth of the world's total – nearly a five-fold increase since 1980 (WWD, 2003b). One study predicts that China will account for as much as half of the world market after 2005 (Francois and Spinanger, 2002; see also EU, 2003c). Moreover, China's internal market for clothing is predicted to double, from roughly \$50 billion

³⁵ Its share of world textile imports is predicted to drop slightly

³⁶ Some extremely dire forecasts have been made by the U.S. textile industry. The American Textile and Manufacturers Institute, for example, predicts that after 2005 "China's share of the U.S. textile and apparel market will rise to over two-thirds of the U.S. market within 24 months" (ATMI, 2003: 1). See also the statement of the American Textile Trade Action Coalition (Tantillo, 2003: 6). *Women's Wear Daily* (2003a) comments that such reports are "the latest move in a coordinated effort among six textile trade and lobbying groups to pressure the Bush administration to invoke a special textile and apparel safeguard against China."

in 2000 to around \$100 billion in 2010 (WWD, 2003b). One forecasting model predicts that China's export of apparel will double by 2020 (Walmsley and Hertel, 2002).³⁷

China's potential to dominate is based on numerous advantages (Nathan Associates, 2002, Speer, 2002; USITC, 2003; EU, 2003c, Moore, 2003):

- ◆ It exports nearly one half of its apparel production, of which only a third is currently destined for the U.S. or EU, suggesting potential for significant growth; moreover, “the breadth and variety of China's apparel production is unmatched anywhere in the world...no other country comes close to shipping as many [10-digit SIC] headings as China” (Moore, 2003: 2).
- ◆ It is nearly self-sufficient in the raw materials to supply its own textile industry, including the world's largest production capacities for cotton, man-made fibers such as flax and ramie, and silk (the principal exception is wool, which it gets mainly from Australia and New Zealand)
- ◆ It has ready access to high quality imported fabrics, principally from South Korea, Taiwan and Japan (more than half of China's apparel exports are made from these imported fabrics).
- ◆ The full weight of China's government is dedicated to making textile and apparel exports a principal industry and employer
- ◆ China textile and apparel industries benefit from marketing, managerial, and financial expertise from Hong Kong and Taiwanese investors.
- ◆ It has a skilled labor force that is difficult to match elsewhere in the world, particularly when coupled with China's low hourly wages.³⁸
- ◆ It is well placed for productivity, management skills and technology, non-wage labor, transportation costs, material costs, product quality.
- ◆ China has been investing in the apparel and textile sectors, while in South Asia investment in these sectors have been stagnating
- ◆ 50% of textile and apparel imports from China come from state-owned enterprises, which often operate at a loss (and hence provide a subsidy)
- ◆ China has a fixed exchange rate, which some claim is undervalued by 30%-40%, thereby lowering the cost of its exports.

³⁷ Walmsley and Hertel, (2002) ran a model in which China remained under quota until 2010; under this scenario, a short-term benefit for competing countries is offset by an approximately \$1billion reduction in “world welfare.”

³⁸ To which can be added the suppression of labor actions, including the formation of independent trade unions that would challenge China's wages and working conditions.

- ◆ China's success in Japan, where there are no quotas and consumers are very demanding, shows that it can supply high-quality apparel. The same is true with Australia, which abolished quotas with China, from which it now imports virtually all of its apparel.

One study (Shafaeddin, 2002) notes that for a handful of countries (such as Japan, Korea, Taiwan, and possibly some other ASEAN countries), China's dominance may be partly mitigated by so-called "complementarity effects" – the need for China's need to import textiles and other inputs to supply its growing apparel export industry. But South Asia, which relies on traditional labor-intensive methods to produce low-quality textiles, will not benefit. "In short, while South Asia, in contrast to the NIEs and ASEAN, is subject to competition effects of China's accession, it gains little from its complementarity effects" (19). By the same token, China's growing market for apparel imports (which grew from virtually nothing in 1990 to more than \$1 billion today) benefits primarily the same ASEAN countries, who – unlike South Asia – are capable of producing high-fashion, high-quality clothing.

There are a few countervailing pressures may partly mitigate China's growing dominance (Speer, 2002; Li, 2002). These include:

- ◆ The special safeguards against "market disruption" from China's exports that will be in place until 2008, previously discussed. Additionally, some limited safeguards – which will be in place until 2013 – permit the unilateral imposition of restraints by importing countries on the basis of criteria that are lower than ordinarily allowed by WTO Safeguards Agreements.³⁹
- ◆ Continuing preferential treatment for particular countries or regions, as noted previously (for example through free trade agreements between the U.S. and European markets, and developing country neighbors, such as NAFTA, CBI, etc.)
- ◆ Some WTO members (e.g., Argentina, the European Community, Hungary, Poland, Slovakia and Turkey) have signed agreements with China to maintain restrictions until 2005; Mexico will be permitted to keep anti-dumping practices in place until 2007 (even though the practices are inconsistent with WTO rules)
- ◆ Production for the US and EU markets may remain more regionally-based, particularly of the more fashion-sensitive items that require quick turn-around times (the lead time for Chinese production is typically 3-6 months); moreover, full-package production requires local sources of textiles, which will play a big role in determining where apparel sourcing is located
- ◆ China's domestic textile industry has begun to slow after years of rapid growth, which may result in excess capacity for Chinese producers and a need for adjustment
- ◆ Currency fluctuations may make some regions more competitive based upon weaker currencies

³⁹ Article 2, Agreement on Safeguards. These are product-specific safeguards that will make it easier for importing countries to target imports from China (Li, 2002: 11).

There is not universal agreement that most production will move to China following PFA phase-out. One business consulting service warns against over-estimating the ability of China to overwhelm other garment-exporting nations: “China has grown dramatically, but does not dominate and does not offer the lowest prices” (Flanagan, 2003). China is also disadvantaged in terms of turn-around. There is growing competition among retailers on lead time for as much as 30% of their total imports; this favors sourcing closer to home – for example, from Turkey and Rumania for the EU (Gibbon, 2003a).

In light of this caveat, the forecast of the International Textile, Garment, and Leatherworkers’ Federation (ITGLWF, 2003) perhaps may prove to be extreme:

Today, China is leading a race to the bottom, which will quickly drive other developing nations out of the market. Often, prices are cut in such a proportion that competitors cannot possibly cope with the pressure. In some categories of imports into the European Union, China’s prices are 30-35% lower than world-wide prices. As a consequence, China has gained extremely large market shares against which no one can compete...

Continue like this and many poorer countries dependant on exports of textiles and clothing will see their economies destroyed up to and after the disappearance of quotas in 2005...

In Bangladesh hundreds of factories have already closed and thousands of jobs have been lost. Factories are closing in Mexico, Indonesia, even in Turkey. Closures of factories in Indonesia jumped by 22% in 2002 as 835 factories disappeared. Another 767 downsized their operations. In Central America, Guatemala has seen 50 of its 350 factories disappear in the last year. In Mexico, 200 factories have left over the past year or so. Of 150 that had announced plans to set up shop in Mexico none showed up. Most of the departees are going to China whose representatives are busy recruiting in Mexico’s maquila belt.

The ITGLWF estimates that millions of jobs will be lost in developing countries. In Doha the ITGLWF suggested that Bangladesh would lose 1 million jobs. This figure has since been confirmed by the United Nations Development Programme. The ITGLWF also estimated that Indonesia would lose a million jobs, Sri Lanka 200,000 of the 250,000 jobs in the sector and that tens of thousands of jobs would disappear in other countries in Asia, Central America and Africa.

...it looks as if we are moving to a unipolar world where China is the pole...Everywhere workers are being told ‘compete with China or die.’

6.0 The Impact of Quota Elimination: Case Studies

Some sixty studies and reports from a wide range of governmental and non-governmental organizations were reviewed in an effort to ascertain the impact of quota elimination on individual countries. These materials reflect a range of methodologies: some conducted original research, many cite existing research, and some are based on the opinions of industry leaders and

academic experts. A number consist of the testimony of government officials, experts, labor leaders, and industry representatives at hearings conducted by the U.S. International Trade Commission concerning the competitiveness of the textile and apparel industries in early 2003.⁴⁰ Although some of the studies and reports attempt to neutrally assess impacts, most are far from disinterested in the results.⁴¹ While their conclusions should not be taken as definitive, they do represent the current state of thinking among those who have taken a close look at the ATC and its affects.

It should be noted that these accounts do not always agree with the global simulation models, nor with one another. One study predicts that China, Central America, Mexico, Turkey, and Eastern Europe will maintain their growth after 2005, while Bangladesh, Sri Lanka, the Philippines, Greece, and Portugal will likely suffer (Hale, 2001). There is disagreement over whether Thailand will be hurt (Hale, 2001; Malone, 2002), or be protected by its larger internal market (as reported in Bas, 2003). Indonesia, Sri Lanka, and Singapore are also frequently mentioned as likely to be hurt (Malone, 2002).

Many of these studies contain recommendations for improving the competitiveness of each country's apparel industry. These recommendations (which are briefly summarized below for each country) often suggest that the time remaining before full quota elimination be used to implement innovations and gain some experience while some degree of protection still exists.

6.1 Africa

Gibbon, who has conducted the most extensive research on the textile and apparel industries in sub-Saharan Africa, concludes that FDI in these countries "is basically an overseas Chinese thing, though with Hong Kong dominant in Mauritius/Madagascar and Taiwan and, to a much lesser extent, Malaysia in southern Africa" (Gibbon, 2003a).

Evidence from Mauritius...Lesotho, South Africa and Madagascar points in a single direction. Increases in production for the US market are mainly accounted for by firms that are Far Eastern-owned, specialised assemblers and finishers of long runs of basic garments. Where non-Far Eastern owned enterprises also export significant volumes to the US market, they normally share most of these characteristics except ownership... Finally, as the South African case shows, enterprises of the 'Far Eastern' type seem to be able to produce profitably for the US market even in the absence of qualifying for the trade preferences conferred by AGOA (Gibbon, 2003b: 29-30).

Gibbon (2003b: 34) further notes that, at least with regard to U.S. manufacturers and retailers, African suppliers (like all suppliers) have had to engage in "production migration" – that is, they have had to pursue "a trajectory corresponding to buyers' own migrations," becoming global

⁴⁰ USITC Investigation 332-448, *Competitiveness of the Textile and Apparel Industries*. Testimony and documents are available at the USITC website (<https://edis.usitc.gov/hvwebex/>) under the number of investigation number (prior registration, which is free, is required).

⁴¹ Most were conducted by, or on behalf of, countries and NGOs that are likely to be hurt the most by quota elimination; some were conducted by industry and other proponents of free trade.

contract manufacturers (GCMs).⁴² One South African producer described his plant (which exported primarily to the U.S.) as a “caravan,” claiming that “it looks exactly the same as the ones in central America and mainland China. Our objective has been that we could pack it up and unpack it wherever we needed to put it” (Gibbon, 2003b: 34). Gibbon offers the Hong Kong-based Esquel Group as “probably the best example worldwide of a clothing sector GCM:”

Esquel was founded in 1978 as a business selling sewing machines into China and receiving payment in made-up garments. Today its stated employment globally is 44,000, in plants in China (where it is integrated backward as far as in-house cotton production), Vietnam, Malaysia, Mauritius, Sri Lanka and the Maldives.⁴³ Esquel claims to be the largest single cotton shirt manufacturer worldwide, and the largest single holder of quota into the US market (interview with manager in Mauritius). In 2000 (the last date for which figures are available) its turnover was \$500 million (Gibbon, 2003b: 34-35).

Production in Africa has been strongly impacted by the African Growth and Opportunity Act (AGOA), which, as noted above (section 2.3), provides tariff and quota exemption, under specified conditions, for African countries that meet its requirements. These requirements include working toward “strengthening market based economies, the rule of law and political pluralism, elimination of barriers to United States trade and investment, protection of intellectual property, efforts to combat corruption, policies to reduce poverty, increasing availability of health care and educational opportunities, protection of human rights and worker rights and elimination of certain child labour practices”⁴⁴ (Bora, Cernat, and Turrini, 2002: 29). The Least Developed Beneficiary Country (LDBC) provision, which applies to those countries that had per-capita incomes below \$1,500 in 1998, provides the most significant preferences, permitting preferential access to U.S. markets on the basis of a “single-stage” rule – that is, preferential treatment requires only that final assembly be in the country of origin, regardless of where yarn spinning or fabric weaving or knitting occur (Gibbon, 2003b).⁴⁵ AGOA expires in September 2008, the LDBC provision expires this coming year (in September 2004), although both are likely to be extended (Gibbon, 2003b).

AGOA sets quota ceilings for aggregate apparel imports, although most AGOA countries do not typically utilize their full quota, and so are unlikely to be affected.⁴⁶ Apparel “made from U.S. fabric, yarn, and thread is provided with duty-free *and* quota-free access to the U.S. market without limitations.” Such rules of origin restrictions, however, can impede the indigenous

⁴² The phrase originates with Sturgeon, 2002.

⁴³ Gibbon (2003b) indicates that until 2000, Esquel also manufactured in the Philippines and Jamaica. Esquel’s website does not list the Maldives as a garment manufacturing site; it lists China, in addition to the locations mentioned by Gibbon.

⁴⁴ The 38 sub-Saharan countries currently eligible for preferential treatment include Benin, Botswana, Cameroon, Cape Verde, Central African Republic, Chad, Republic of the Congo, Democratic Republic of the Congo, Cote d’Ivoire, Djibouti, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leona, South Africa, Swaziland, Tanzania, Uganda, and Zambia (http://www.agoa.gov/2003_eligibility_results.pdf).

⁴⁵ Non-LDBC AGOA countries are subject to a “three-stage” rule – yarn spinning, weaving or knitting, and assembly must all occur in the country of origin, another AGOA country, or the U.S.

⁴⁶ Where quotas impose a constraint, quota is often trade, adding an estimated \$1.50 to the cost of men’s knit shirts, \$5.25 to the cost of men’s jeans, and \$21 to the cost of men’s suits (Gibbon, 2003b).

development of a textile industry. “Apparel made in qualifying Sub-Saharan African countries from domestically produced fabric and yarns, or from fabrics and yarns sourced from other AGOA-beneficiary countries in Sub-Saharan Africa,” can be imported duty-free but is subject to certain quotas (AGO, 2003). Special provisions allow apparel to be imported duty- (but not quota-) free regardless of the origins of the fabric, provided they “meet the requirement of an effective visa system and enforcement mechanism” to avoid illegal transshipments (Bora, Cernat, and Turrini, 2002: 29-30). As noted earlier, 23 countries met these requirements as of January 2004. The ability to make duty-free imports is significant, since U.S. tariffs average 17% of landed value, with cottons averaging 13% and synthetics 25% (Gibbon, 2003b).

Since AGOA provides an effective 17% price advantage along with quota costs to all participating sub-Saharan African countries, along with liberal rules of origin for LDC countries, it has had a significant impact on apparel exports. U.S. imports from Kenya, Lesotho, Madagascar, Mauritius and South Africa increased by 66% between 1999 (pre-AGO) and 2001, to the point where they accounted for more than 90% of total African apparel exports. By way of comparison, imports to the EU from the five countries increased only 6% between 1999 and 2001. Growth reached 85% between 1999 and 2002, the most recent year for which data is available. Most of the growth in U.S. imports was from Lesotho and Kenya. The growth in U.S. imports was due to increased capacity in the exporting countries, rather than a shift in exports from the EU to the U.S (Gibbon, 2003b).

AGO notwithstanding, it seems likely that African countries will be hurt after 2005. AGO is just in its beginning phase, and African exporters do not yet have the economies of scale that will be required to compete effectively with more developed apparel industries (such as those in China). One World Bank study argues that the impact of MFA phase-out can be mitigated if the LDC provision is extended, since restricting preferential benefits to apparel that is made from U.S. or sub-Saharan yarns and fabrics will result in high cost inputs that will make the industries non-competitive. The study concludes that “Africa’s apparel exports will be lower by over 30 percent with the dismantling of the [Multifiber Arrangement]; if, on the other hand, AGO had provided unrestricted access, the negative impact of the dismantling could be nearly fully offset” (Mattoo, Roy, and Subramanian, 2002: 1).

The anticipated adverse impacts of MFA phase-out will be worsened by the possible elimination of tariffs altogether by 2015. As Usha Jeetah, Mauritius’ U.S. Ambassador puts it,

The proposals by both the US and the EU to bring down their tariffs by 2015 will also contribute to the destruction of small and nascent apparel and textile industries in Africa. Both the US and the EU have had hundreds of years to develop their apparel and textile industries protected by very high tariff barriers and quotas. What is being asked of the small and infant industries in Africa is that they will have 10 years in which to develop their textile and apparel capacity to be competitive with long established countries with huge export capacities (Jeetah, 2003: 2).

Existing and planned preferential trade agreements between the US and EU and other countries will further exacerbate Africa’s problems. These include the U.S.-Central American Free Trade

Agreement (CAFTA); the Free Trade Area of the Americas (FTAA), if enacted; U.S. preferential treatment for other countries such as Turkey; and the EU's Lamy initiative.

6.1.1 South Africa

Apparel production in South Africa is aimed at three principal sectors: the U.S. market, a lower-end domestic market (with some also destined for the U.S.); and a mid-level domestic market (with some destined for the EU) (Gibbon, 2003b). The four main sourcing agents in South Africa are Li & Fung, Linmark Westman International, Mast, and Hot Source (Moodley, 2002). J.C. Penny, for example, uses Linmark, part of the Taiwanese-owned, Singapore-based, Roly International Holdings Group. Li & Fung, headquartered in Hong Kong, is the largest global garment sourcing company in the world; Mast Holdings is owned by The Limited, and is based in the U.S. Hot Source is an Australian-US-South African company. None of these companies engage in the production of apparel; rather, they provide global sourcing and supply chain management, including raw material and factory sourcing, product development, production planning, quality assurance, and shipping.

The three largest exporters from rural South Africa in 2001 were, from the eastern Cape, Ramatex Berhad (trading under the names May Garments and Tai Wah Garments) and China Garment Manufacturers, and Tern Sportswear (in Kwazulu Natal). Other large exporters are found in Kwazulu Natal, Botshabello, and Owa Owa (Free State) (Gibbon, 2003b). Ramatex Berhad (2003) originated in 1982 in Malaysia as a small textile manufacturing plant, vertically expanding in 1989 from dyeing and knitting mills into yarn manufacturing. In 1992 it moved into finishing fabrics and printing. The company has been publicly traded (Kuala Lumpur Stock Exchange) since 1996. It describes its core business today as textile manufacturing, and claims (on its website) to be the "undisputed leader" in the Malaysia textile industry, providing "a one-stop shopping center that offers a wide range of textile products from yarn to garments." Although the company originated as a yarn and fabric manufacturer, it produces knotted garments (dresses, pants, T-shirts, polo shirts, etc.). Ramatex Berhad operates in Malaysia, China, Namibia, and South Africa. It claims a global market share of 3% in its specialty, knitted tops (Gibbon, 2003b).

Neither China Garment Manufacturers nor Tern Sportswear maintains a public website, and no additional information was readily available on either firm. All three firms have engaged in backward integration in the region, investing in mills in order to obtain relatively local sources of fabric (Ramatex in Namibia, China Garment Manufacturers and Tern Sportswear in South Africa) (Gibbon, 2003b).

6.1.2 Lesotho

Lesotho is emerging as the denim-producing center of Africa. Its apparel industry was created in the early 1980s by South African companies searching for lower labor costs, a way to avoid anti-apartheid sanctions, and preferential treatment under the Lomé Convention's rules of origin for EU imports (which was available for Lesotho-based production). Today, however apparel industry is dominated by Taiwanese producers. This is especially true of the sector that exports apparel to the United States. The first Taiwanese plant, Lesotho Haps, opened in 1986. As of

September 2000, the firm was listed as employing 820 workers in T-shirt manufacturing (LNDC 2000). During the next five years additional factories included one from South Africa (jeans maker H D Lee, which later became part of Edgars retail group subsidiary Celrose), four from Taiwan, including China Garment Manufacturers (CGM) and C & Y Garments (owned by Nien Hsing), and one from Hong Kong. These companies were joined by United Clothing (owned by the Taiwanese Carry Wealth Group) in 1996, Precious Garments (also from Taiwan), and Kings Ang in 2001. Production throughout the industry increased significantly beginning in late 1999, with the anticipated passage of AGOA. The Maputsoe industrial park was expanded, and a new industrial park was constructed between Mafeteng and Maseru. By 2003, total employment had reached 40,000 in 54 plants. Table 10 lists 33 apparel manufacturing companies for which the Lesotho National Development Corporation had information as of September 2000 (the most recent data for which this data is available on its website). This was before the industry had grown to its present size (only 19,000 workers are listed in the table), but after AGOA had begun to figure into the firms' strategies.

About a quarter of the workforce was employed in 8 firms whose primary market was South Africa; three-quarters of the workforce was employed in the remaining 15 firms, whose output was destined primarily for the U.S. With the exception of Poltex (Hong Kong), Cee Bee (Lesotho), and Heritage (Namibia), all of the firms producing for South Africa were South African in origin. These included the one of the largest firm, Springfield footwear (2,225 workers). With the exception of Lakim Textiles (Singapore), all of the firms producing for the U.S. market were Taiwanese. About 60% of workers in plants producing for the U.S. were engaged mainly in making T-shirts, including the largest factory, operated by Precious Garments (2,500 workers); the rest were engaged in making jeans. The principal consumers for Lesotho apparel exports include Old Navy (the Gap's low-end division), Wal-Mart, and Kmart.

Table 10: Lesotho Apparel Manufacturing Companies (Sept 2000)

Year Opened	Company	Origin	Product	Employment	Markets
1989	Poltex	Hong Kong	Jeans	160	South Africa
1999	CeeBee	Lesotho	Jeans	250	South Africa
1999	Heritage	Namibia	Jeans	165	South Africa
1986	Maseru Clothing	South Africa	Sportswear	360	South Africa
1991	H D Lee Manufacturing (Celrose)	South Africa	Jeans	450	South Africa
1995	Springfield Footwear	South Africa	Shoes	2,225	South Africa
1997	BA Tex	South Africa	Kidswear	250	South Africa
1997	Carca Footwear	South Africa	Shoes/Sandals	745	South Africa

1997	Lekim Textiles	Singapore	T-Shirts	200	United States
1995	Evergreen Textiles	Taiwan	T-shirts	828	United States
1986	Lesotho Haps	Taiwan	T-Shirts	820	United States
1987	C G M	Taiwan	Jeans	1,767	United States
1989	Lesotho Hinebo	Taiwan	T-Shirts	630	United States
1989	Super Knitting	Taiwan	T-Shirts	600	United States
1990	C & Y Garments (Nien Hsing)	Taiwan	Jeans	1,920	United States
1994	Sun Textiles	Taiwan	Pants/T-shirts	872	United States
1996	United Clothing (Carry Wealth Group)	Taiwan	Jeans	1,765	United States
1996	Vogue Landmark	Taiwan	T-Shirts	854	United States
1996	J & S Fashions	Taiwan	Skirts/T-shirts	505	United States
1997	Teboho Textiles	Taiwan	T-shirts	500	United States
1998	Maluti Textiles	Taiwan	Jeans	280	United States
1999	Precious Garments	Taiwan	T-Shirts	2,500	United States
1999	Tai Yuan	Taiwan	T-Shirts, pants	430	United States

source: LNDC 2000

Nien Hsing (listed on the Taiwan stock exchange) is one of the largest apparel producers in Lesotho, and, as noted previously, is the largest jeans maker in the world. It has engaged in upstream integration to provide its Lesotho production with locally-produced fabrics. Its plants in Lesotho, Swaziland, Mexico, and Nicaragua in 2001 employed some 17,000 workers, produced nearly \$300 million in revenues, and made 2-3% of all jeans consumed in the U.S. (Gibbon, 2003b, 2003c). According to its website, Nien Hsing (2002) was operating three garment factories in Lesotho in 2002, totaling nearly 300,000 square meters of space. It lists as its U.S. principal clients Calvin Klein, DKNY, Tommy Hilfiger, Nautica, Mudd, the GAP, Levis Japan, JC Penney, Wal-Mart, Target, VF Jeanswear, Sears, and No Excuses.

In 2001 Nien Hsing responded to AGOA by announcing plans for a new garment factory, scheduled for completion June 2004, which will effectively increase Lesotho's monthly garment production from 3.9 to nearly 6 million square meters. This will be Africa's "largest vertically integrated denim fabric and jeans facility, complete with spinning, weaving, dyeing, finishing and sewing capacities," providing jobs for some 5,000 people (Laing, 2001).

Carry Wealth Group, which was founded in 1992 and is listed on the Hong Kong Stock Exchange, has plants in China, Indonesia, Vietnam, and El Salvador, as well as Lesotho, employing 8,500 workers globally in 2001, and generating total revenues of approximately \$150 million (Gibbon, 2003b, 2003c; see also Hendrawan, 2003). Its website notes that the company is

primarily engaged in making (directly or through subcontracting) knit tops (polo shirts, T-shirts, blouses and casual shirts), woven bottoms (pants and jeans), and sweater tops. On its website, Carry Wealth Chairman Hendrawan (2003) offers some candid comments on the anticipated impact of quota-phaseout on the apparel industry in general, as well as Carry Wealth's strategy for responding to the anticipated changes by focusing its production in countries that enjoy preferential trade agreements with the United States:

By 2005, the phasing out of quotas will deal a blow to the industry with a flood of clothing imports to the United States from all member countries in the World Trade Organization around the world. Global competition will intensify and pressure on order prices and lead-times will be heightened. Countries with preferential trade deals with the United States will certainly be in a more favorable position.

Preparing for the end of the quota age, the Group has strategically diversified its production bases to countries enjoying trade preferential status such as El Salvador and Lesotho. On top of the trade preferential treatment granted to Caribbean countries which include El Salvador under the Trade and Development Act of 2000, the Bush administration recently proposed the expansion of free trade throughout the Western Hemisphere with the removal of all tariffs on apparel from the Caribbean. The trade benefits granted to sub-Saharan African countries, including Lesotho, by the United States under the African Growth and Opportunity Act have also been enhanced.

CGM opened its Lesotho plant in 1987, the first Taiwanese denim manufacturer in the country. It has additional plants in Nicaragua and South Africa, and has also engaged in upstream textile integration in South Africa with the purchase of De Nim Textiles in KwaZulu-Natal (Gibbon, 2003b, 2003c). Virtually all of its production is destined for export, primarily to the U.S. (Laing, 2001).

Lesotho's Taiwanese apparel and textile companies (organized as the Lesotho Textile Exporters' Association, or LTEA) have strongly resisted unionization campaigns on the part of the Lesotho Clothing & Allied Workers' Union (LECAWU). Nonetheless, the LECAWU has achieved some success in its organizing drives (it claims a membership of nearly half of Lesotho's apparel workers) and campaigns for higher wages as well as an end to child labor, thanks in part to its creation of a political party (the Lesotho Workers' Party) and support from U.S. and EU labor unions and NGOs (for a more detailed discussion, see Gibbon, 2003c).

6.1.3 Madagascar

The Madagascar apparel industry originated in the latter half of the 1990s, when large Mauritian firms began producing in Madagascar in response to labor shortages and rising costs in Mauritius. In 1997, Novel Denim Holdings and Crystal - two Hong Kong-owned companies, and among the largest in Mauritius - opened plants in Madagascar. Novel closed its plant in 2002. Polo Garments Majunga, based in Belgium, is also listed as among the largest foreign affiliates, with some 200 workers in 1999 (UNCTAD, 2001).

Crystal makes knits, sweaters, and wovens; it has plants in Mauritius and Madagascar, as well as China, Malaysia, Mongolia and Sri Lanka. Further outside investment came from the Gulf states, China, and Sri Lanka (the latter from MAS Holdings, Associated with Mast International, the principle sourcing agent of The Limited). By 2002, employment in the apparel industry had reached 80,000, with the average factory employing 1,500 workers, although the industry is currently suffering a setback as a result of civil conflict (Gibbon, 2003b). Gibbon (2003b: 29), drawing on research by Tait (2002), concludes that “Mauritian-owned firms now accounted for 40% of employment, Far Eastern ones for 30%, Gulf states and South Asia for 20% and ‘French and Malagasy’ for 10%.”

6.1.4 Kenya

There are about 21 factories employing as many as 30,000 workers in Kenya.⁴⁷ Principal producers include Kenya Altex (a Qatar-based joint venture between Global Readymade Garments and Industrial Promotion Services (an affiliate of the Aga Khan Fund for Economic Development), Tri Star (from Sri Lanka), and Apparel Exports Ltd. (also based in Sri Lanka) (Gibbon, 2003b; East African Standard, 2003). In December 2003 Kenya Altex opened its plant in the export processing zone at Athi River, described as a “state of the art facility” that will employ 2,000 (mainly female) workers – a greenfield project that, according to the Aga Khan Development Network press release, “is purpose-built, has set benchmarks in technology, training and productivity. Its pioneering welfare and childcare facilities rank it as a regional industry leader” (AKDN 2003).

Kenya is braced for the scheduled end of the LDBC provision of AGOA, which, as noted, will end September 30, 2004, unless extended by the Bush administration. Kenya is also concerned about MFA phase-out, and Mukhisa Kituyi, Kenya's minister for trade and industry, has called for an extension of both deadlines. Kituyi credits the near quadrupling of Kenya's apparel employment in the past few years to AGOA, and predicts a doubling of exports to nearly \$250 million in the coming year – and a reversal of these gains if Kenya is required to produce from indigenous textiles in order to maintain preferential treatment⁴⁸ (WWD, 2003c).

6.1.5 Mauritius

The apparel industry in Mauritius employs 15% of the country's workforce (some 77,000 workers) in 250 apparel-producing factories; an additional 5,000 people are employed in the textile sector, which provides fabrics for apparel manufacturing. The eight largest companies account for about half of all employment in the apparel industry. Most factories produce for the U.S. or EU markets.

FDI – although modest in size – has nonetheless played a central role in the development of Mauritius' textile and apparel sector in the country's export processing zone. Yet this influx of

⁴⁷ Estimates vary from 21,000 (Gibbon, 2003b) to 30,000 (WWD, 2003).

⁴⁸ African countries with more advanced textile and apparel industries, such as South Africa and Mauritius, draw the opposite conclusion – that continuing preferential treatment for AGOA countries that import textiles from non-AGOA countries like China will only discourage necessary investment in domestic textile industries (WWD, 2003).

foreign investment has proven to be short-lived, largely the result of efforts by US and EU firms to find new supply sources when constrained by quotas or other trade barriers. In recent years FDI has declined, and many foreign firms have closed. This trend is expected to continue with MFA phase-out, resulting in “a dramatic decline in FDI flows” (Ancharaz, 2003: 13).

The industry was developed during the 1970s and 1980s by Hong Kong-owned firms; although many of them are still operating, today the industry is Mauritian-dominated. The industry employs foreign contract workers (mainly Chinese women) as well as native workers. Foreign contract workers comprised a quarter of all workers in the large factories producing for the U.S. market⁴⁹ (Gibbon, 2004). The largest producers for the U.S. market are large branch plants (1,000-8,000 workers) of Hong Kong- or Shanghai-owned companies. Gibbon’s (2004: 8) research on Mauritius suggests that these factories face different sourcing strategies on the part of U.S. and EU buyers:

According to Mauritian suppliers, EU buyers came with less detailed specifications and expected that important suppliers would be able to elaborate them independently, or even suggest slight modifications to them. Similar differences existed with regard to QC. US buyers had comprehensive QC regimes, which were often implemented by out-stationed employees of the US buyer themselves. EU buyers had narrower QC regimes whose implementation was typically contracted-out to third parties, such as international inspection services (SGS, Bureau Veritas, etc.)... In addition to laying down more detailed, non-negotiable, product specifications and insisting upon more ‘hands-on’ forms of quality assurance, US buyers were also said to have stricter demands for reporting of progress on orders.

As noted above, rising labor costs in Mauritius led many firms in recent years to relocate production – especially of low-cost “basics” – to Madagascar, a trend that “appeared irreversible” by 2000. Production for the EU market has been relocated to Mozambique, South Africa and India as well (Gibbon, 2004: 14).

Among the companies operating in Maritius is Novel Denim Holdings (listed on Nasdaq), which makes denims and chinos, and has factories in South Africa and China as well as Mauritius. Novel Denim Holdings projects worldwide revenues of about \$150 million in the fiscal year ending March 31 2004 (Business Wire, 2003). Although its China operations have been profitable, its plants in Mauritius and South Africa have not. K.C. Chao, President and CEO of Novel Denim, notes that “the Company plans to increasingly focus on ways to improve production efficiencies and reduce costs in its Mauritian and South African operations in preparation of the expected significant increase in competitive pressure from lower cost Asian countries following the planned release of global apparel quota in 2005” (Novel, 2004). Novel Denim Holdings is a subsidiary of Novel Enterprises Ltd., a privately held company owned by the Chao family. Novel Enterprises moved successfully into original brand manufacturing (OBM), acquiring the well-known Tommy Hilfiger label in 1989; it also has a controlling interest in London-based Pepe Jeans (Novel, 2001).

⁴⁹ Gibbon’s (2004: 11) informants report that contract workers were willing to work “all the hours that God could send,” with productivity as much as 30% higher than native workers.

In written testimony before the USITC (Usha, 2003) , Mauritius' Ambassador to the U.S. stated that the apparel and textiles industries account for 90,000 jobs and a quarter of GDP in Mauritius. Nearly three-quarters of apparel and textile exports go to the EU, and a fifth to the US. Apparel and textiles are the largest employer and principal source of foreign exchange for the country, resulting in full employment, empowering women, permitting investment in neighboring countries, and transforming Mauritius from an impoverished country in the 1970s to a model of sustainable development today. Despite rising labor costs (thanks to full employment) and high transportation costs (due to distance from major shipping routes), Mauritius has remained competitive by investing in technology and skills training, moving into higher value-added apparel production, and out-sourcing lower value-added activities to other African countries.

6.2 Mexico, Central America, and the Caribbean

As noted above, Mexico, Central America, and the Caribbean enjoy preferential treatment, an advantage that will diminish somewhat with the end of the quota system. The U.S. International Trade Commission predicts that the Mexican apparel industry will decline due to wage competition from China, especially in sectors such as men's underwear (USITC, 2003).⁵⁰ In recent years the Caribbean Basin has lost U.S. market share to Mexico, even after the implementation of the CBTPA (Caribbean Basin Trade Partnership Act), which is hindered by a slow enactment, restrictive rules and burdensome documentation requirements. This decline in trade will likely continue after the MFA repeal. The Central American Free Trade Agreement (CAFTA) doesn't include the Dominican Republic and it may be too late in implementation (Burke, 2003). At least one trade organization (the U.S. Association of Importers of Textiles and Apparel) is guardedly optimistic about the region:

The fact is that Western Hemisphere suppliers, including the Caribbean, Central America, and the Andean countries, under the Caribbean Basin Trade Partnership Act and the Andean Trade Preferences Act as amended, will continue to be important to U.S. importers and retailers after 2004 because of their close proximity, facilitating shortened production cycles and keeping costs down both as a result of duty savings if the preference criteria are met and lower transportation costs. For many U.S. importers, Western Hemisphere producers are an important source for "basics" as opposed to fashion goods, and are therefore key to quick inventory replenishment strategies (Jones, 2003: 8).

6.2.1. Mexico

Mexico has a number of large, integrated, full-package, Mexican-owned apparel manufacturers. Avante Textile, located near Mexico City, had a workforce of 5,000 in 2001. It is the largest vertically integrated Mexican manufacturer of knit fabrics, but also specializes in yarn and apparel manufacturing and retailing (through some one hundred of its own retail outlets). Avante produces about 3 million pieces each month, 30% of which goes to U.S. clients (for example, JC Penney). The company also is a licensee for such brands as Disney, Warner Brothers, and Skinny

⁵⁰ Not all of Mexico's trade is shifting to China; some is also shifting to Central America, the result of recently negotiated preferential trade agreements with the region (Gilligan, 2003).

(a German company specializing in upscale undergarments). Kaltex, twice the size of Avante, is Mexico's largest manufacturer of woven fabrics, and is considered to be one of Mexico's leading textile companies. In 1998 it was the largest Mexican consumer of U.S. cotton. It has become one of Mexico's largest denim producers, exporting most of its denim to the U.S. through its subsidiary Denimex. Kaltex also engages in full-package production of apparel, selling finished jeans as well as denim. Its principal client is VF Corporation, the maker of Lee jeans (Bair and Gereffi, 2002).

In Torreón, which has emerged as "the new blue jeans capital of the world,"⁵¹ some 4 million pairs of jeans were being produced each week in 1998, employing 65,000 workers in 350 apparel factories. While some of the plants were owned by foreign (including U.S.) companies, many of the largest were Mexican in ownership. These included firms that had successfully moved up from assembly into full-package production (although design and marketing, the most profitable activities, remained largely in the hands of U.S. companies). OMJC, for example, which is the third largest manufacturer in the region, is a joint venture between U.S. apparel manufacturer Aalfs, and the (Mexican) Martín family. OMJC "distribute[s] the jeans directly to American stores and manages their inventory information" (Gereffi, Martinez, and Bair, 2002: 215). Kentucky-Lajat emerged in 1995 as a joint venture between Grupo Lajat (a Mexican firm that owns L.P. Gas) and Kentucky Apparel (a U.S. manufacturer); in 1999 Grupo Lajat bought out its U.S. partner. Grupo Lajat also produces cotton throughout Mexico, and its subsidiary Textiles Lajat established a mill that produced (in 1998) 3 million yards of denim per month, sold almost entirely to U.S. manufacturers such as VF Corporation's Lee and Wrangler jeans. Parras-Cone is another joint venture between one of Mexico's oldest and largest textile firms (Compañía Industrial de Parras) and a U.S. textile firm (Cone Mills). Because of the rapid growth in demand for production in Torreón, labor costs have risen and Mexican firms have strengthened their position through the provision of full-package production. U.S. manufacturers and retailers such as Sun Apparel, Wrangler, and Levi-Strauss have responded by consolidating their own operations, building their own assembly and laundering plants. Sun apparel now makes its own jeans through a subsidiary, Maquilas Pami. Wrangler built a new hub and plants in nearby towns. Levi continues to produce exclusively through contracting arrangements, by increasing its volume with major suppliers, such as Fábricas de Ropa Manjai (Gereffi, Martinez, and Bair, 2002).

6.2.2 Dominican Republic

More than four-fifths of the Dominican Republic's export income comes for CBI-related free trade zones, and of that 70% of the resulting employment is in the apparel industry. The implementation of NAFTA in 1994 essentially stopped the growth of apparel exports from the Dominican Republic, which has seen its share of U.S. apparel imports decline by half (to around 4% of such imports). Although the CBPTA offered options for a remedy, the agreement did not provide parity with NAFTA and other similar agreements.

As of December 2000, U.S. producers dominated the Dominican Republic's export processing zones, with some \$747 million in investments. U.S. firms were followed by domestic firms

⁵¹ The title of the chapter by Gereffi, Martinez, and Bair, 2002).

(\$312 million), South Korean (\$75 million), Panama (\$36 million), the Netherlands (\$8 million), and Taiwan (\$6 million) (Mathews, 2002).

After 2001, when all tariffs on Mexican apparel were removed, and 2002 when the U.S. Central American Free Trade Agreement was implemented, there was a large reduction in apparel manufacturing employment in the Dominican Republic. When quota on cotton headwear was removed, the plants making these products shut down altogether (Navarro-Bowman, 2003). The tariff preference requiring U.S.-made fabrics has reduced the incentive for the industry in that country to vertically integrate, which will prove an additional disadvantage post-2005 (USITC, 2003). Because of the massive investments required, the apparel industry has been unable to vertically integrate to include textile manufacturing and other parts of the supply chain. This leaves it less able to compete in a quota free trading environment. South Korea, one of the primary foreign investors in the country, is unlikely to invest further, or maintain investments after the removal of quotas, unless a U.S.-Dominican Republic free trade agreement is arranged and implemented (Navarro-Bowman, 2003).

6.2.3 Guatemala and Honduras

Textile and apparel production in Guatemala supports an estimated 137,000 people in production, warehousing, shipping, logistics, and other services; production is valued at \$1.4 billion. It is likely to remain competitive post-2005 because of its preferential trade agreements with the U.S., its proximity to the U.S. market, and “the high level of integration between the textile, apparel and retail industries in the United States and the companies that manufacture in Guatemala and throughout Central America” (Vextex, 2003: 1). In Honduras, the textile and apparel industry is the largest employer, accounting for 26% of all employees (although down somewhat in the last few years). Honduras’ post-2005 competitiveness, like that of Guatemala’s, derives from preferential trade agreements with the U.S., integrating with the U.S. industry, and geographical proximity.

For Honduras and Central America to remain competitive, however, the U.S. Congress and the USTR must negotiate and ratify a CBTPA that integrates NAFTA with the Central American region, the rest of the CBI region, and eventually the Andean region. CAFTA [the Central American Free Trade Agreement currently under negotiation] must reduce the complexities in custom and sourcing rules and regulations; have sensible and simple rules of origin; and permit Honduras, and its U.S. partners, to compete in the international marketplace (Canahuati, 2003: 6).

6.3 South Asia

Among South Asian countries, there is uniform agreement that India will benefit; with few exceptions, however, most studies also agree that Pakistan and Sri Lanka will be hurt. One comprehensive region-wide analysis notes that the entire region (but especially the smaller nations) are highly dependent on the quota system, which launched the garment export industry in some places, contributing to its rapid growth throughout the region. South Asia makes garments mainly for buyer-driven mass merchandise and discount chains, so it has little control

over the return received on the products. The study further notes that only India and Pakistan have raw materials such as cotton, but that even in these countries unfavorable governmental policies prevent their optimal use. The region currently competes almost exclusively on the basis of low labor costs, and this will not be sufficient to retain it when the protections afforded by the quota system are lost. As a result, phase-out carries with it a high risk of job loss, wage cuts, and job quality degradation. The study concludes that the region as a whole should integrate, supporting its apparel and textile industry by taking advantage of its sizeable local market as a hedge against the loss of exports, as well as developing intraregional trade agreements with the U.S. and EU (Joshi, 2002).

6.3.1 Bangladesh

A number of studies focused on Bangladesh, one of the few LDCs for which data is readily available. Bangladesh's garment industry is heavily dependent on local producers; according to one estimate, apart from Export Processing Zones (where most foreign investment is concentrated), 95% of the country's garment factories are owned by local companies or families (Juststyle.com, 2003). FDI in general has been declining in Bangladesh in recent years, and totaled only \$12.4 for textiles and apparel in 2002 – less than 5% of total FDI. (As recently as 1999 the total was \$81.8 million.) In a recent survey conducted by the Bangladesh Board of Investment of the 22 largest foreign investors, only one textile company was listed (Daeyu Bangladesesh Ltd, in the 21st place) (BOI 2003; UNCTAD, 2001).

Bangladesh is heavily dependent on the export of low-cost ready-made garments, a sector that employs 1.5-2 million people, 90% of whom are women (Khundker, 2002; Shefali, 2002; Hiller and Olfames, 2003, Kearney, 2003b). Wages are among the lowest in the world, but productivity is also among the lowest, limiting any competitive advantage that might be gained from low-cost production. Yet despite the low wages, employment in this sector has helped to alleviate poverty, as well as empower women in their domestic relationships (Khundker, 2002).

The garment export sector has shown rapid growth. Its exports to the EU have benefited from both GSP arrangements (which permit duty-free access), as well as the Lamy EBA agreement (see above). Thanks to GSP, Bangladesh has doubled its production of export-quality knit and woven fabrics since 1998, reduced its lead times, increased its value-added, and become more competitive in terms of price. Bangladesh has also benefited from generous quotas allocations with the U.S. Ninety-eight percent of the country's exports are to the EU and U.S. (Awal, 2003).

Textiles and clothing accounted for 86% of the country's total merchandise exports in 2001 (see again Table 7; see also Kearney, 2003a, 2003b). It is estimated that apparel exports alone generated \$5.1 billion in export earnings in 2001 (see again Table 4), as well as "almost \$2 billion worth of economic activity in areas such as banking, transport, insurance, packaging, real estate, utility services, and consumer goods" (Hiller and Olfames, 2003: 1). The Bangladesh Garment Manufacturers' and Exporters' Association has reportedly experienced annual growth rates of 18% (Khundker, 2002). Between 1983 and 2001, apparel exports from 4% to 78% of total exports (Bow, 2001; also see again Table 4). This rapid growth has been based upon low direct costs (especially labor costs), large quota allotments from the U.S., and preferential treatment under Europe's General System of Preferences (Khundker, 2002; Bow, 2001). Almost

all textile and apparel exports from Bangladesh go to the U.S. and the EU. The U.S. alone accounted for about 42% of total garment exports from Bangladesh in 1999, about 70% of which were done under quota. Only an estimated 25-30% of the value of woven exports is added in Bangladesh (Bow, 2001: 15; Kearney, 2003b). More immediately, Bangladesh is also threatened by current quota-free regional trade initiatives, especially NAFTA and CBI, which doubly benefit from close proximity to US markets, as well as by Bangladesh's inability to lower the costs of doing business there (Bow, 2001).

The elimination of quotas will adversely impact Bangladesh, whose apparel and textile industries are not likely to be competitive with those of India, Pakistan, and China. Among the problems (Bhattacharya and Rahman, 2000; Awal, 2003):

- ◆ the absence of an indigenous cotton crop, and consequently an undeveloped domestic textile industry; this, in turn, prevents Bangladesh from fully benefiting from its membership in the South Asian Association for Regional Cooperation (SAARC)
- ◆ an inadequate infrastructure, such as congestion and customs delays at Chittagong port, inadequate telecommunications infrastructure, uneven “professional office practices,” and uncompetitive and unreliable energy supplies – all of which contribute to high costs (Bow 2001)
- ◆ the EU gave Bangladesh (and other less developed countries) a 12.5% tariff margin by removing duties on imports of clothing; this will soon be conditional on meeting tough rules of origin which Bangladesh and other countries will have difficulty meeting (since they have limited backward linkages)
- ◆ the end of the MFA could mean higher yarn and textile prices for Bangladesh if exporting countries redirect these products to their own garment industries
- ◆ Bangladesh’s long lead times (120-150 days, in comparison with 12 days in India) is a major disadvantage

A number of solutions to some of these problems have also been proposed. These include (Khundker, 2002, Awal, 2003):

- ◆ Since importers, now no longer constrained by quotas, will be driven to a much greater extent by costs, efforts should be taken to vertically integrate the industry to improve production time
- ◆ Steps should also be taken to diversify the industry and increase the portion of value added by Bangladeshi workers compared to the final product value
- ◆ Improved productivity through training, organization, and technology upgrades is necessary for increased competitiveness
- ◆ Continued favorable GSP treatment by the EU

Nari Uddug Kendra (NUK – the Centre for Women’s Initiatives) – a development-oriented NGO working to promote women’s rights and gender equity in Bangladesh – is one organization that has done a study of retraining needs. NUK helped to create the Bangladesh Garment Workers Protection Alliance (BGWPA), and has developed other strategies for coping with the challenges facing the garment industry (Shefali, 2002).

6.3.2 Nepal

Nepal is another LDC for which a fair amount of research is readily available. The ready-made garment industry is relatively a new industry for Nepal. The industry began to grow after 1983, when quota restrictions on India resulted in spill over business for Nepal. By 1999 the garment industry had become the largest exporter in the country, account for 26% of merchandise exports in 2001 (see again Table 4). Nepal serves 12 quota categories covering both cotton and rayon products, most notably cotton shirts, terry towels, shop towels (Pant and Pradhan, 2002). The industry employs a tenth of Nepal's workforce (Shakya, 2001), accounts for about a quarter of its total export trade (Kearney, 2003b), and is a major source of its foreign income *Nepal News*, 2001). It will be hard hit by MFA repeal; the majority of small and medium industries will not survive (Pant and Pradhan, 2002).

Total FDI in Nepal has been low, averaging just \$8.3 million annually during 1990-2000, peaking at \$23 million in 1997, and dropping precipitously to around \$5 million only two years later. Manufacturing accounted for 43% of all foreign investment in 2001; about a quarter of all manufacturing FDI is in the textile and apparel industries, a relatively insignificant amount. The largest source of FDI is India, followed by the US and China (UNCTAD, 2003a).

The quota system enabled Nepal to become an apparel exporter, by providing large quotas that effectively insulated the industry from competition. But this has also limited its export market to the United States,⁵² and discouraged the industry from developing in such a way as to become competitive with large exporters. Nepal's apparel industry is inefficient, resulting in higher unit costs (one estimate is that competitors sell similar items for three-quarters of the price of Nepalese goods). Its industry is troubled by outdated manufacturing, poor logistics, bad governmental policies, and geographic isolation. The cost of production in Nepal is reportedly as much as 25% higher than in India and Bangladesh, the result of higher costs of transportation, labor, fabric, and other raw materials. Nepal's lead time (the time from the date the order is placed to the date that goods are shipped) is three times as long as India's.

Nepal's garment manufacturing industry has discouraged the development of a handloom textile industry, which might afford it a niche market consisting of unique Nepalese designs utilizing indigenous fabrics. The situation has been worsened by the previously-mentioned U.S. trade policies that are preferential to African and Caribbean countries, which caused apparel exports to drop 30% between the first half of 2000 and the first half of 2001 (Pant and Pradhan, 2002; Shakya, 2001; *Nepal News*, 2001; Adhikari, 1997).

A number of recommendations have been made to improve the efficiency and competitiveness of the industry (Shakya, 2001; *Nepal News*, 2001; Pant and Pradhan, 2002). These include:

- ♦ develop and implement a governmental Ready Made Garment promotion policy that would foster an investment climate more favorable to foreign investment – for example, by upgrading skills and technology, improving domestic input linkages, increasing trade support services, enhancing trade financing, and providing incentives (for example, reduced freight charges, export financing, and removal of export duties and other taxes)

⁵² 90% of Nepal's apparel exports are destined for the U.S. (*Nepal News*, 2001).

- ♦ emulate recent developments from the industrialized countries (for example, eco-friendly products, social clauses and social labels)
- ♦ develop a labor policy relevant to garment exports, considering issues related to: job security, labor strikes, export delivery, and international business cycles
- ♦ develop industries that provide fabrics and accessories, build dry ports, and establish an export processing zone to implement incentives and develop ancillary industries
- ♦ intensify lobbying for the GSP facility, to counteract the adverse impact of preferential trade agreements
- ♦ diversify the export market to there is less reliance on the U.S. – while at the same time seeking preferential treatment from the U.S.

6.3.3 India

In 1960, textile and apparel exports accounted for a miniscule percentage of total manufactured exports from India; by 2001 they stood at 28% (see again Table 7). Much, if not most, of the labor involved in apparel production is in the informal sector, and therefore is afforded few protections. The large majority of India's garment exports are knitwear, of which nearly three-quarters is made of cotton. While early in the Cold War India exported about half of its products to the USSR and Eastern Europe, beginning in the late 1970s there was a shift towards the U.S. and European markets, where quotas restricted the amount of exports that were possible. The elimination of quotas will thus work to India's benefit (Vijayabaskar, 2002). Some research argues that the MFA is not necessarily the most significant factor affecting the garment trade and garment sector workers in India, since there is a sizeable garment industry producing for the domestic market that is not directly linked to the MFA (Unni, 2000). According to a question-and-answer discussion with U.S. International Trade commissioners (USIRC, 2003), India alone has the ability to be competitive with China.

Chadha *et al*'s (2001) simulation of the effects of MFA phase-out, previously discussed, concludes that MFA phase-out will boost Indian GDP by 0.6%; Kathuria, Martin and Bhardwaj (2001) place the estimate at \$2 billion annual. Unni (2000) argues that MFA phase-out will create great opportunities for the growth of Indian textiles and clothing sectors, since the presence of high export tax equivalents on Indian garments and textiles is indicative of high demand beyond the quota allocations.

Kathuria, Martin and Bhardwaj (2001) argue strongly that India has the potential to benefit substantially from quota elimination in terms of increased market access, employment, output growth and productivity gains. This will only occur, however, if domestic reforms are implemented to streamline production and increase productivity, which will be necessary to enable India to thrive in a period of heightened global competition. The study suggests a number of domestic reforms, including

- ♦ eliminating taxes and concessions that favor decentralized production arrangements and subcontracting, which results in inconsistent quality as well as labor abuses

- ♦ ending the bias against man-made fibers, which are subject to special taxes, industrial licensing requirements, and import duties⁵³
- ♦ restricting certain products to handloom production which, despite its cultural significance, disadvantages India in global competition
- ♦ eliminating delays in shipping and customs clearance when imported fabrics are used in production

6.3.4 Pakistan

The textile and apparel sector is central to Pakistan's exports, accounting for 72% of total exports (see again Table 7), 1.4 million workers (approximately two out of every five), and a quarter of the country's GDP (Kahn, 2003). Apparel manufacturing is the single largest source of industrial employment in the country, employing mainly men (90%) as sewers, with women working in trimming and packing. Pakistan specializes in men's woven and knit wear (trousers and shirts), utilizing locally-produced cotton. While this provides a degree of upstream integration, reliance on indigenous cotton inputs hampers its ability to compete in man-made fabrics. A large number of products ranging from cotton yarn to ready-made garments are under quota restraints, implemented by a private sector Quota Supervisory Council and product group committees. Its labor costs are among the world's lowest, but quality and productivity are also generally low. The principal markets are the U.S. and the EU (Manjur, 2002; Kearney, 2003b).

Pakistan's lack of product diversity and innovation could prove a liability when quotas are eliminated, although its Trade Minister, H.A. Kahn, is a strong advocate of full liberalization. He notes that Pakistan has already taken a number of steps to strengthen its competitive position: (Kahn, 2003).

Pakistan has an established industry, which adds value at all levels from cotton onwards to made-ups. A broad policy framework Textile Vision 2005 aims at making Pakistan a more viable, stronger and much more competitive textile industry, especially at the value added stages. For this over US\$ 2 billion have been invested over last 3 years for restructuring of the textile industry as a whole. Emphasis is being laid on increasing the share of the downstream industry in the overall textile exports of the country, meaning greater value addition and taking advantage of the high 'Integrated Textile Indigenisation Index'. Integrated factory-mode production has greater chances in mass market for clothing which demands consistent quality across huge volumes of single item of clothing.

Furthermore, increasing the share of man-made fibre [MMF] based products in the downstream industry is being stressed. Pakistan is in the process of expanding the raw material base for the MMF sector by encouraging the production of Polyester staple fibre and other man-made fibres within the country. The aim is indigenisation for we believe that quota elimination will benefit those countries most that have a high indigenisation index in the cotton as well as the man made fibre base

⁵³ Kathuria, Martin and Bhardwaj (2001) contend that if such biases did not exist, India's textile and apparel exports would be 75% higher.

The proposal for Textile Vision 2005 calls for a mix of “low road,” “do-able,” and “high road” approaches to developing the industry. The latter is seen as the “engine of export growth,” emphasizing high value-added products such as the women’s and woven garment sector, a far greater emphasis on processed fabrics for export (Kazmi, 2000). In order to be fully competitive, Pakistan must offer greater product diversity, including expanding into the more profitable women’s wear sector. Other measures that would promote Pakistan’s apparel export industry include the development of regional trading blocs, more aggressive marketing, and liberalizing its import regime (Manjur, 2002).

6.3.5 Sri Lanka

The Sri Lankan garment export industry experienced great growth after the 1970s, and continues to be the strongest manufacturing sector in terms of its contribution to the GDP, exports, foreign exchange earning, and employment generation. It comprises about 2% of the global market (see again Table 3), and has historically enjoyed a favorable reputation. Success has been partly achieved through such supportive governmental policies as subsidies and duty rebate schemes, duty-free imports of machinery and raw materials, and lower corporate taxes. The protection afforded by the quota system also contributed to the growth of the industry. Sri Lanka has had a particularly large share of export quotas, which has made it more dependent on the MFA than some other countries. By the end of 1998, about 5% of all workers were estimated to be employed in the garment sector, 87% of whom were female. The garment and textile industries contribute nearly half of the country’s industrial production (Udagedara, 2003: 3).

The country has enjoyed relatively secure markets for the past two decades through bilateral agreements with the U.S., EU, Canada, and Norway (Kelegama and Epaarachchi, 2002). The U.S. alone accounted for nearly two-thirds of apparel exports in 2003, the EU most of the rest. The US market in particular is aimed at discount and department stores such as Wal-Mart, Target, Macy’s, and JC Penney (Udagedara, 2003: 7). Two new markets have emerged in the last two years – India and sub-Saharan Africa. The Indo-Sri Lanka Bilateral Free Trade Agreement (March 2000) permits 8 million pieces of garments at duty concession to the Indian market, while the U.S. Trade and Development Act (2000) resulted in the relocation of many Sri Lanka garment industry to sub-Saharan Africa, which enjoys preferential treatment under the Act (Kelegama and Epaarachchi, 2002).

The Sri Lankan industry is, however, experiencing declining competitiveness due to its heavy reliance on quota categories, concentration on a few markets, lack of direct marketing links with major purchasers, and dependence on imported inputs. Productivity is very low and labor costs have been increasing, although workers still have low wages and cannot unionize. Additionally, “backward linkages have not developed in Sri Lanka due to the high cost of investment required for the setting up of such operations and the relatively small domestic market. Sri Lanka therefore faces stiff competition from countries that have well established backward linkage industries [such as Hong Kong, South Korea, Taiwan and China]” (Udagedara, 2003: 10). Most garment manufacturers are geared to produce standard, low value-added garments under export quotas.⁵⁴ As a consequence of these factors, garment exports have been shrinking in recent years,

⁵⁴ 62% of total exports are under quota, mainly to the U.S. market, although non-quota exports to the U.S. have been increasing. EU exports are largely non-quota (Kelegama and Epaarachchi, 2002).

a process that will likely accelerate with the abolition of quotas, resulting in a significant loss of garment-related jobs, and worsening conditions of work and pay in those that remain. The weaker, less-competitive businesses may fail. Some surveys estimate that as much as half of the local industry may have to close (Udagedara, 2003: 3).

To avoid these problems, according to several studies, Sri Lanka must invest in technology in order to shift to higher value-added products. As a first step, the government has imposed a tax on garments to fund technological and skills upgrading in the industry. While this is seen as promising, some of the funds have been used for other purposes (Kelegama and Epaarachchi, 2002; Dent and Tyne, 2001). Some recommended future steps include Udagedara, 2003: 18-21):

- National Economic Policy:
 - ♦ develop electronic data interchange at port and customs, as well as a program to reduce the cost of utilities
 - ♦ establish Sri Lankan Business Associations in export markets to secure strong business contacts
 - ♦ reform labor laws
 - ♦ develop an infrastructure adequate to support efficient external and internal trade logistics.
 - ♦ enter into bilateral arrangements with importing countries for preferential treatment, in particular the US (for example, extend GSP to apparel products originating in Sri Lanka on basis of assembly of the final product)
 - ♦ encourage the US to provide technical assistance to companies that are likely to be adversely affected, enabling them to increase their capacity to absorb the displaced workers

- Industry- Level Strategic Initiatives:
 - ♦ improve market intelligence
 - ♦ develop professional marketers; aggressive marketing in existing markets
 - ♦ increase the productivity minimum by 30% among at least half of the factories, thereby reducing manufacturing costs
 - ♦ introduce design and product development professional courses for industry participants through universities
 - ♦ invest in processing and manufacturing, marketing and information technology, thereby reducing lead times

6.3.6 Cambodia

Although technically not part of South Asia, Cambodia – like its South Asian neighbor, Bangladesh – is heavily dependent on apparel exports, which account for 73% of total merchandise exports (the figure for Bangladesh is 78%). FDI in 2002 totaled only \$14.0 million in textiles and \$13.6 million in apparel, a substantial decline from only three years earlier (in 1999, the corresponding figures were \$57.8 million and \$60.8 million). Among the foreign firms investing in the textile and apparel industries are several from China (YGM and Gennon Garment Manufacturing, both based in Hong Kong, M&V Industrial Manufacturing, based in

Macao, and June Textiles, based in China itself), and one from Taiwan (King First International) (UNCTAD, 2003b).

The US accounts for two-thirds of Cambodia's apparel exports, which have quadrupled (to \$1.5 billion) between 1998 and 2003, rising 11% in the last year alone. Employment at the 200 or so factories has tripled since 1999, to 235,000 (mainly female) workers. Much of the investment in apparel production reportedly comes from Hong Kong, Taiwan, and Singapore, as well as local businessmen (many of Chinese origin). The US's largest apparel retailer, the Gap, accounts for some 40% of Cambodia's exports, primarily for its Banana Republic and Old Navy lines (Brooke, 2004).

Yet Cambodia's dependence on the Gap is indicative of the country's vulnerability to MFA phaseout: the retailer manufactures about a sixth of all of its clothing in China, and there is considerable concern that production will shift to China following MFA phaseout. Production costs in Cambodia's apparel industry are reportedly 25% higher than in China, and transportation to foreign ports takes considerably longer (the major seaport is more than one hundred miles from Phnom Penh, where the factories are located; delays in shipping can be significant.) Yet Cambodia remains attractive for US manufacturers and retailers, partly because it participates in an International Labor Organization inspection program designed to improve factory conditions. Under this program, 11 field monitors working for the ILO makes regular factory visits and publishes an on-line report (a recent report found no forced labor, child labor, or discrimination, but did find evidence of involuntary overtime and poor payroll practices). Cambodian workers also have the right to strike and engage in collective bargaining, and many are organized into independent unions; an arbitration council provides dispute resolution.⁵⁵ Because of these conditions, the US has provided Cambodia with preferential treatment in the form of higher quotas and lower tariffs (Brooke, 2004).

7.0 Conclusions and Policy Options

As noted in Section 4, in recent years global apparel commodity production has been characterized by the growth of giant retailers along with the emergence of large transnational producers. Much FDI in apparel production is thus dictated by the sourcing strategies of a relative handful of large players. Revenues of the world's 40 largest retailers (mainly from the U.S. and the EU) account for nearly 4% of total world GDP, representing enormous ability to direct foreign investment to targeted markets. Very large retailers tend to place very large orders, leading them to seek out very large factories. Furthermore, the trend towards "lean retailing," mediated by data sharing and electronic interchange, has enabled retailers to bring their suppliers under much more direct control than previously. These changes, in turn, seem to favor transnational producers from Hong Kong, Taiwan, and South Korea – they have the know-how, technological capacity, and flexibility to tightly manage dispersed production networks. Moreover, retailers and manufacturers often tend to follow their suppliers, preferring to work

⁵⁵ There is evidence that Cambodia's free trade union movement continues to be harassed, however; on January 22, 2004, Chea Vichea, president of the Free Trade Union of Workers of the Kingdom of Cambodia, an umbrella group with ties to the opposition party, was killed by a lone gunman, presumably because of his union activities (Brooke, 2004).

with the large transnational producers with whom they have done prior business, rather than smaller, unfamiliar suppliers.

In this final section, I offer some possible policy options that synthesize those individual country recommendations – reported above – that seem to have the broadest applicability. Policies are divided into two categories – those calling for changes at the level of the textile and apparel industries, and those calling for state policies. This distinction is somewhat arbitrary, since changes at the industry level frequently require various forms of state support. First, however, it is useful to briefly consider the probably future role of FDI in the development of the textile and apparel industries.

7.1 The Role of FDI in Textile and Apparel Production

It is clear that FDI will continue to play the key role in the apparel and textile industries of developing countries. It is also clear that future investment decisions will reflect the growing consolidation of both retailers and suppliers into a smaller number of larger firms, a consolidation that may in fact provide a point of leverage for influencing investment. As noted at the end of Section 4, there have been a number of instances where NGOs (along with U.S. government agencies) have successfully pressured retailers into working with their suppliers to improve working conditions in factories in Mexico, the Caribbean, and elsewhere. Perhaps investment decisions could be influenced by a similar strategy. (Cambodia's participation in an ILO inspection program, which secures preferential treatment for exports to the U.S., is one example.)

The tasks of developing countries are twofold. First, they must become attractive for investors without competing on labor costs alone, since, in a quota-free world, there will always be lower-cost production sites. A number of suggestions are offered below to accomplish this. Second, they must seek to attract investment under conditions that will enable them to move up from simple assembly to full-package production and eventually original brand manufacture (thereby replicating the successful developmental experience of the East Asian newly-industrializing economies). This requires a partnership between indigenous suppliers and their customers in the US and the EU. The emergence of transnational producers will make such partnerships more difficult. Although there is no research on the forward and backward linkages generated by the mainly Taiwanese, Hong Kong, and South Korean suppliers that are emerging as central actors in this industry, it seems likely that technology transfer – industrial learning – is less likely to occur than were the suppliers to be local firms. This is an important topic for future research.

7.2 Industry-Level Policies

Countries which are most threatened by MFA phaseout suffer from a common set of interlocking problems at the level of production. Their industries are inefficient, with low productivity and poor quality. They often rely exclusively on a single market (the US or the EU), specializing in a handful of product lines, rather than providing product diversity. They typically lack both backward linkages to indigenous textile industries, and forward linkages to markets, engaging in simple assembly work at the bottom of the value chain.

Enhancing working productivity through skills training and technological upgrading is one step towards diversifying production into higher value-added garments such as the more fashion-sensitive women's wear categories. In Sri Lanka, the government has levied a garment tax to fund technological upgrading and enhancing skills in the industry; in Bangladesh, Nari Uddug Kendra – the Centre for Women's Initiatives – has done a study of worker retraining needs. The Commercial Minister for Sri Lanka has called for the introduction of design and product development professional courses for industry participants in the country's universities. He has also called on the industry to invest in information technology in order to reduce lead times, as well as develop professional marketers who can more effectively sell the country's textile and apparel products. The creation of national business associations in key export markets is seen as one way of helping to secure strong business contacts.

Developing indigenous sources of textiles, accessories, and other inputs is another step that has been frequently recommended. Pakistan's Textile Vision 2005, for example, calls for increasing their output of apparel made of synthetics by encouraging the production of polyesters and other man-made fibers, so the industry is not overly reliant on cotton fibers. Of course, improving backward linkages presupposes the capacity to develop an indigenous textile industry. One specific recommendation, made for the Nepalese industry but applicable to other countries, is to develop products for emerging market niches. Such niches could include socially- and environmentally- conscious consumers. This niche would focus on the manufacture and sale of eco-friendly fabrics, as well as garments aimed at consumers that are concerned with working conditions. There is a potentially large market for such products – initially in Europe, where consumer awareness already exists, but also in the United States, where a growing anti-sweatshop movement has led major branded labels such as The Gap and Nike to be far more cognizant of labor practices in their contracted factories (Bonacich and Appelbaum, 2000; Featherstone, 2002; Appelbaum, 2000, forthcoming; Esbenshade, forthcoming).

7.3 National Economic Policies

In many apparel-exporting countries, lengthy turnaround time is a major handicap to being competitive, particularly in high value-added production, where time-to-market is a key factor for more fashion-sensitive items. Infrastructure improvements are often recommended to support efficient trade logistics. Recommendations include such major public investments as building dry ports and creating export processing zones, providing financial incentives (grants, loans, or tax relief) to develop supportive industries, and removing bottlenecks that result in delays in shipping and customs clearance (for example, introducing electronic data interchange at the ports and customs houses to facilitate faster clearance of imported fabrics). Since enhanced financial resources are obviously key to developing local industries, a number of recommendations mentioned such things as providing direct funding to build capacity in the export sector, as well as providing such incentives as reduced freight charges, reductions in utility costs, and the removal of export duties and other taxes. In countries where the tax system is biased against particular inputs (for example, man-made fibers in India, which are subject to special taxes, industrial licensing requirements, and import duties), changes in the tax code were called for.

Labor law reform is also a largely untapped area for change, one that was not seriously addressed in the studies that were reviewed. A growing number of leading retailers and manufacturers in the US and the EU, concerned about harsh labor practices (and the adverse publicity that can result from exposure of such practices) have developed codes of conduct that require basic labor rights and protections in their contracted factories. In the US, two national organizations – the Fair Labor Association (a quasi-governmental body) and the Worker Rights Association (an NGO) have been created to oversee the implementation of such codes.⁵⁶ Codes of conduct typically call for adequate wage and hour protections, job security, prohibitions against pregnancy testing (or firing female workers who become pregnant), health and safety guarantees, and the right to form independent labor unions and engage in collective bargaining. Countries with labor laws consistent with these codes of conduct – and the means to enforce them – could effectively market themselves to the more socially-conscious US and EU retailers and manufacturers.

A number of recommendations called for bilateral governmental agreements with importing countries that would favor local industries. These ranged from encouraging the US to provide technical assistance to companies to better enable them to absorb workers displaced by MFA phaseout (Sri Lanka), to retaining or securing or retaining preferential trade treatment with the US and the EU (for example under the General System of Preferences).

Finally, the development of regional trading blocs was often mentioned as a key strategy for remaining competitive. For example, the Honduran Ambassador to the US has called for the integration of NAFTA with Central America, the rest of the Caribbean Basin region, and eventually the Andean region as well. The Central American Free Trade Agreement currently under negotiation (CAFTA), in his view, should reduce complexities in custom and sourcing regulations, as well as simplify rules-of-origin requirements. Moreover, preferential benefits under regional trade agreements should not be limited to imported fabrics from the importing nation. For example, the requirement that benefits under the AGOA be restricted to apparel that is made from U.S. or sub-Saharan yarns and fabrics is predicted to lower African apparel exports by as much as a third once quotas are eliminated. Such restrictions should not be imposed on countries that are struggling to develop competitive apparel industries in a post-quota world.

⁵⁶The Fair Labor Association's members include eight footwear and apparel-related companies with sales of \$30 billion, producing in 3,000 factories in 80 countries, as well as 178 colleges and universities. Company members include Nike, Reebok, Polo Ralph Lauren, Phillips-Van Heusen, Liz Claiborne, adidas-Solomon, Eddie Bauer, Patagonia, Nordstrom, Zephyr Grax-X, Gear for Sports, and Joy Athletic. Its code of conduct can be found at <http://www.fairlabor.org/all/code/index.html>. The Worker Rights Consortium's members include NGOs, independent labor rights experts, and 117 affiliated colleges and universities. Its code of conduct can be found at <http://www.workersrights.org/coc.asp>.

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