

## Surviving Without Quotas

**What the end of the Agreement on Textiles and Clothing means for garment workers and how the local trade union movement is responding**  
*A Philippine Case Study*

For over three decades, the Philippine textile and garment industry had secure access to big markets such as that of the European Union and the United States through the Agreement on Textiles and Clothing (ATC), commonly known as the Multi-Fibre Agreement (MFA). This legal instrument benefited this Southeast Asian country, like other small garment producers, as it entered the global clothing trade with an assured imports quota. However the final stage of the ATC phase-out since 1 January, 2005 threatens this privileged position as it has ushered in a few cheap-labour heavyweight Asian producers such as China, whose exports were previously restricted, and enabled them to export as much as they can. Could the Philippines-made shirts or pants still look as attractive as before without the trade mechanism which shaped and sustained the local garment industry for so long?

### Losing ground in the US market

From a cottage-based industry in the late '50s, the Philippines garment industry expanded rapidly in the '60s. When the ATC was signed in 1974, the quota allocated to the Philippines propelled the growth of its garment manufacturing sector. The value of garment exports ballooned at an impressive rate from US\$36 million in 1970 to US\$2.4 billion in 2003.<sup>1</sup> Most of the quota garment exports (almost 83%) were shipped to only one marketplace: the United States.<sup>2</sup>

The garment sector reached its peak in 1991 when it represented up to 35% of total export shares and had a workforce of roughly one million. However since the mid-1990s, the garment sector has steadily and continuously declined although it has remained the second

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<sup>1</sup> *Philippine Economic Indicators*, National Economic and Development Authority (NEDA). Website: <http://localweb.neda.gov.ph>

<sup>2</sup> *The Philippine Garments and Textile Industry*, Industry Outlook, Garments and Textile Export Board (GTEB), Department of Trade and Industry (DTI). Website: [www.gteb.gov.ph](http://www.gteb.gov.ph) and [www.dti.gov.ph](http://www.dti.gov.ph)

highest foreign exchange earner next to the electronics sector.<sup>3</sup> As of March 2005, the value of apparel and clothing exports decreased by 16.6% (US\$149.23 million) compared to the same period last year (US\$179.01 million).<sup>4</sup> As early as 2001 and 2002, the local garment and textile industry had already been badly hit by a US\$198 million export loss when several specific items such as baby clothing and luggage products were liberalized. This sent a clear and worrying signal of the times looming ahead for this Southeast Asian country.

In the US market, the Philippines have been quickly losing its competitive edge against leading Asian exporters such as China, Vietnam and India. After ranking number 11 on the top 30 clothing exporters list in the US market for three consecutive years, the Philippines slipped last year to the 13th position.<sup>5</sup> In the past ten years, its share of the US clothing market shrunk from 4.3% (1994) to 2.8% (2004) while China's share increased from 11.4% to 13.8% in the same period.<sup>6</sup> None of the neighbouring Southeast Asian competitors such as Indonesia and Thailand have suffered such a sharp fall. Based on last years' predictions from a World Trade Organization (WTO) expert, the plunge will be even deeper with the Philippines getting only 2% share of the US apparel market while China will capture a huge chunk of it, around 55%, by 2005–2007.<sup>7</sup>

## Failure in moving the supply chain

Is the entire Philippine garment industry doomed to be eaten up by China and disappear completely? What slice of the pie will be left for the Philippines since its top brand buyers such as Gap, Liz Claiborne, and Ann Taylor are likely to significantly reduce their sourcing base? Aside from being increasingly unable to compete on the basis of low wages, the Philippines is often perceived to have failed in developing a

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<sup>3</sup> *Exports decline for second month on weak electronics*, in Manila Times, 11 May 2005.

<sup>4</sup> *Merchandise Export Performance – March 2005*, National Statistics Office. Website: <http://www.census.gov.ph>

<sup>5</sup> *Major Shippers Report by Country in Millions of US\$: the Philippines*, May 2005, U.S: Department of Commerce, Office of Textiles and Apparel (OTEXA). Website: <http://otexa .ita.doc.gov>

<sup>6</sup> *US Imports of Clothing from Top 30 Exporters (1990-2004)*, United States International Trade Commission (USITC). Website: <http://datawebusitc.gov>

<sup>7</sup> *Global Textile and Clothing Industry post the Agreement on Textiles and Clothing*, Nordas Hildegunn Kyvik, ERSO, World Trade organization, July 2004.

full-service garment industry.<sup>8</sup> By focusing mainly on the assembly operation at the expense of its design capabilities and logistics efficiency, the industry seems to have neglected to move its supply chain into higher value-added areas and more profitable products.<sup>9</sup> Only a few garment manufacturers have entered the more differentiated branded markets.

According to a Manila-based company selling to the American brand Gap, producing the same garment item can cost 50% less in China mainly because of relatively high labour and non-labour costs such as water, electricity and communication rates in the Philippines.<sup>10</sup> Compared to Thailand, the Philippines also suffers from a longer lead time which reflects its lack of locally-produced raw material and poor vertical integration.<sup>11</sup> Poor logistics, slow turnaround time, inefficient supply chain, declining productivity, high transaction costs, and high reliance on one single market are the other most commonly identified issues that put the Philippine products at a disadvantage. On the other hand, although sourcing decisions are no longer merely driven by quotas, US-based buyers reportedly praise some valuable comparative advantages from the Philippines such as flexible English-speaking labour, ability to produce fashion-oriented products, reliability for high-end products as well as good interpersonal and communication skills.

## Little support to retrenched workers

In light of these international trade statistics, there is little doubt that the end of the ATC has severely hit the Philippine textile and garment industry whose roughly 92% of total exports were bound to a once quota-regulated market. Of the 900,000 formal textile and garment

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<sup>8</sup> *Export Leadership: Does success in one breed failure in another? A look at the Philippine electronic and garment sectors*, by Ma. Teresa G. Dueñas-Caperas and Sandra M. Leitner, in *Development Research News*, Vol. XXIII, N3, Philippine Institute for Development Studies (PIDS), May-June 2004, 10-17pp.

<sup>9</sup> *Labour Implications of the Textiles and Clothing Quota Phase-out*, Nordas Hildegunn Kyvik, Working Paper, International Labour Office, Geneva, January 2005.

<sup>10</sup> *China 'The Winner' as US, Europe Lose Textile Quota*, in *China Apparel*, 31 August 2004. Website: [www.efu.com.cn](http://www.efu.com.cn)

<sup>11</sup> *Textile and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the US Market*, Investigation number 332-448, U.S. International Trade Commission, January 2004.

workers registered in 1994, about one third (311,000) remained ten years later in 2004. According to International Textile, Garment and Leather Workers' Federation (ITGLWF) General Secretary Neil Kearney, "the Philippines sees 120,000 jobs at risk."<sup>12</sup> Other projections are more alarming with half of the current garment workers to be seriously affected in if there is a failure to compete.<sup>13</sup>

Have the small- and medium-sized enterprises, which represent 95% of the Philippine garment manufacturing base in 2002, been capable of re-engineering their businesses within the newly-liberalized trade regime? According to local labour unions, many have not and were forced to shut down and relocate to other countries that are less expensive such as Vietnam as a result of the quota phase-out.<sup>14</sup> In 2003, around 90 textile or apparel establishments resorted to closure or retrenchment, which left 9,443 workers jobless.<sup>15</sup> Although government support programs directed at dislocated garment workers are supposed to be in place, research last year pointed out that "little support has been given to retrenched workers."<sup>16</sup>

What are the existing economic alternatives for the displaced workers in a country with an unemployment rate of 11.3% and an underemployment rate of 16.1%? According to the Confederation of Garment Exporters of the Philippines (Congep), "all combined subsectors (costume jewellery, leather goods, footwear) under the wearable group may not be able to absorb the majority of possible displaced workers in the garment and textile sector."<sup>17</sup> Based on local NGO estimates, more and more women who dominate the garment

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<sup>12</sup> "New Trade Rules – New Skills: Responding to the Post-2005 Trade Environment", Comments by Neil Kearney, International Textile, Garment and Leather Workers' Federation, at FuturTex 2005, organised by the Textiles Human Resources Council, Montreal, Canada, 2 May 2005.

<sup>13</sup> "Behind the Seams", by Emilio R. Gonzales, Philippine Business Magazine, Volume 11 No.8, November 2004. Website: [www.philippinebusiness.com.ph](http://www.philippinebusiness.com.ph)

<sup>14</sup> *Labor Action, Policy and Legislative Agenda Towards Industry Transformation*, Labor Forum Beyond the MFA, Manila, March 2005.

<sup>15</sup> *Key Labor Statistics*, Bureau of Labor and Employment Statistics (BLES), Department of Labor and Employment (DOLE), April 2005. Website: [www.manila\\_online.net/bles/](http://www.manila_online.net/bles/)

<sup>16</sup> *Managing the Transition to a Responsive Post-MFA Global Garment Industry: Research Briefing for the Business for Social Responsibility (BSR) Conference*, by Accountability, November 2004, 15 pp.

<sup>17</sup> *Trade in Textiles and Clothing and Human Development in the Context of the Full Implementation of the ATC: Country Case Study – Philippines*, Maria Teresita Jocson-Agoncillo, Asia Pacific Regional Trade Initiative on Trade, Economic Governance, and Human Development, United Nations Development Program (UNPD), May 2004, 67pp.

workforce (70–80%) have also been driven to the growing informal garment sector that is comprised of as many as 700,000 people.

Some trade unions are looking into possible measures that can be adopted to safeguard the Filipino workers' jobs and to address the displacement of workers. *"Most terminated workers are usually of the age where it will be difficult for them to get rehired elsewhere,"* says Florencia P. Cabatingan, National Vice-President for Education and Information at Associated Labor Unions–Trade Union Congress of the Philippines (ALU–TUCP). *"We are trying our best on how to cushion the impact of the quota phase-out by looking at other union alternatives such as upgrading their abilities to become 'entrepreneurs'. But the market is difficult to find. We asked the government to come in and help us along that line."*<sup>18</sup> One very practical idea that is being currently considered is organizing them into cooperatives which could supply "Made in the Philippines" uniforms to the armed forces and government agencies.

## More subcontracting schemes

Aside from the grim prospect of massive lay-offs, working conditions for the remaining jobs have deteriorated as labour standards tend to be disregarded. In February 2004, a consultative board composed of government and business representatives seriously considered as an option exempting garments manufacturers from the minimum wage act and proposed that workers be paid according to their productivity rate instead. Based on a trade union survey, almost 37% of the garment companies located mostly in export-processing zones remunerate their workers below the minimum wage.<sup>19</sup> Forced overtime, extra work without compensation, suspension of days off, and keeping time cards to prevent workers from going home illustrate the same "race to the bottom" agenda as a misguided effort by companies to retain competitiveness and reduce costs. If the situation in the biggest garment factories is known to be worse than in non-

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<sup>18</sup>Florencia P. Cabatingan, Interview conducted on April 20 2005, Quezon City.

<sup>19</sup> Workers' perceptions of Companies' Compliance with Core Labor Standards and Codes of Conduct in Selected Economic Zones and Industrial Areas in the Philippines, USAID/Solidarity Center/TUCP, Anti-Sweatshops Project, Manila, 2002, 55pp.

garment sectors such as electronics or chemicals, the downward spiral has further escalated with the quota phase-out.

In addition, precarious forms of labour such as factory-based contracting or home-based sub-contracting for minor sewing operations are becoming widely-used in the Philippines at the expense of more stable, better-paid, and protected job opportunities.<sup>20</sup> Garment companies are favouring job contract schemes that are renewable every 3 to 5 months as a disguised but common strategy to keep workers from getting access to regular employment and to discourage them from joining unions.

Another negative implication of the progressive lifting of the quotas is the increase in “overnight” closures that leave more and more Filipino workers jobless and payless at the same time. This scenario sounds dramatically familiar to the 36-years-old sewer Liberty Abille. The Subic-based factory where Liberty was working shut down after declaring bankruptcy. The workers who had unsuccessfully negotiated a Collective Bargaining Agreement (CBA) for two years filed a case to recoup the money against the Korean management who fled the country with a PhP3 million debt. *“We won in the court, but it was just on paper,”* laments Liberty. *We cannot claim anything because the owner already went abroad. We cannot even claim the machinery because it is under the possession of the Philippine authorities. Who will pay us now?”*<sup>21</sup> Like hundreds of other garment workers, Liberty neither received her last wage nor redundancy pay.

## Threat or Opportunity?

How did the various Philippine garment actors react to the recent changes in the international clothing trade regime? While some view the quota phase-out as a potential threat to job security and quality of employment, others tend to consider the end of the ATC as a challenging opportunity to explore new markets and develop new

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<sup>20</sup> *A Study on the Implications of the Phasing-out of the Multi-fiber Agreement (MFA) to Workers and Trade Unions in the Sector*, International Textile, Garment and Leather Workers Federation (ITGLWF - Philippines), Manila, November 2002, 23pp.

<sup>21</sup> Liberty Abille, Interview conducted on April 20 2005, Subic.

products. The fear and apprehension of trade unions to the quota phase-out is a contrast to the overwhelming optimism of the Philippine government and even of some employers.<sup>22</sup> The rosier picture of the garment sector has been persistently painted by Serafin Jualiano, the State-run Garments and Textile Exports Board (GTEB) Executive Director, who maintains that *“the end of the quota system had no negative impact on the Philippines since the global market expanded.”*<sup>23</sup>

Last May the Philippine government also welcomed the restrictions imposed on several Chinese clothing items by the United States who claimed an excessive “market disruption” by China.<sup>24</sup> Officials said the Philippine industry has been given more time to adjust to a fully liberalized trade regime while China is again constrained by those new “safeguard” quotas. But are the Philippine garment products now out of harm's way? This external factor, although much-needed, has brought partial and temporary relief only to Filipino textile and garment manufacturers since the “safeguard” clause will expire by 2008 and will not diminish the aggressive competition from other Southeast Asian producers. As another way of rescuing the Philippine garment industry, some segments of the society have been advocating for free-trade agreement negotiations with the US for the garment exports to enjoy a preferential duty-free treatment to their major market. Similar moves have been observed in Sri Lanka, Cambodia and Thailand.

## Making changes instead of criticizing

With the onset of the quota phase-out, has the Philippine government taken any measures to boost the vulnerable national industry? Based on the Industry Transformation Plan (ITF), unilaterally designed by the government before the year 2000, some companies began to introduce new productivity models at the workplace since 2001. But

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<sup>22</sup> *Garment quota end reveals local infirmities*, by Manila Times Research, Manila Times, 08 November 2004.

<sup>23</sup> Textile exports to US fall in Jan-Feb period, Manila Times, Tuesday 03 May 2005. Website: [www.manilatimes.net](http://www.manilatimes.net)

<sup>24</sup> *Safeguards give Southeast Asia a breather*, The Taipei Times, Bangkok, 21 May 2005. Website: [www.taipeitimes.com](http://www.taipeitimes.com)

Filipino workers whose voices had not been listened to vehemently opposed these changes and the government eventually accepted a social dialogue negotiation with local trade unions.

How is the Philippine trade union movement responding to the challenges posed by this new quota-free global garment market? As early as three years ago, the International Textile, Garment and Leather Workers' Federation (ITGLWF) started to raise awareness among its affiliates and helped them initiate some activities to mitigate the phase-out's possible impact. Aware of the need to speak as one, thirteen of the biggest federations and labour unions from the garment sector agreed to work together on what are priority issues for the workers. Under ITGLWF coordination, the group called itself the "Labor Forum Beyond the ATC". They submitted to the government and the employers an eight-point structural reform agenda in which ensuring decent work through proper implementation of the minimum wage and compliance to international labour standards is the cornerstone. According to ITGLWF National Coordinator Annie R. Adviento, *"Trade unions recognize the difficulties the garment industry is facing. We are ready for closures and downsizing. We don't ask companies to stay in the Philippines even if they are losing money. But we insist that whatever decision is taken the workers' rights must be protected and the right to due process must be observed."*<sup>25</sup>

Upon the proposal of the *Labor Forum Beyond the ATC*, the Clothing and Textile Industry Tripartite Council (CTITC), a tripartite body aimed at rejuvenating the vulnerable post-quota Philippine industry, was eventually created. Its first meeting was held early this year. Even if a concerted plan of action has yet to be formulated, this initiative shows that bringing government officials, employers' representatives and trade unions to the discussion table is challenging but possible. *"Why not participate in making the changes from within instead of just criticizing the system from outside?"* asks Annie Adviento who sees the CTITC as one positive development for the workers. *"Of course initiating this tripartite body will not prevent us from playing our*

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<sup>25</sup> Annie R. Adviento, Interview conducted on April 15 2005, Quezon City.

*traditional trade union role in strengthening collective bargaining and organizing workers.”*

Laurent Duvillier (June 26, 2005)