

DISASTER LOOMS WITH THE ENDING OF THE QUOTA SYSTEM

**The social impact of the ending of the quota system in the textile
and garment industry from 2005**

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INTRODUCTION

The textile and clothing sector is set to experience a revolution on 1 January 2005. The quota system that has long governed a considerable number of producer countries' textile and clothing exports to the world's biggest markets (primarily the United States and the European Union), will, as of that day, cease to exist among members of the World Trade Organisation (WTO), by virtue of a decision taken ten years ago within the framework of the Uruguay Round (the international trade negotiations held between 1986 and 1994).

We can expect to see a wholesale restructuring of this sector, which according to some estimates employs 40 million people (mostly in developing countries) and generates trade in excess of 364 billion dollars a year, i.e. over 6% of world trade. Until now, the major sourcing companies, i.e., the major international brands have spread their orders over factories in several dozen different countries, mainly in developing regions. Many of these countries seized on this opportunity to embark on the process of industrialisation, but did not subsequently seek to diversify their manufacturing base, leaving them heavily dependent on the textile and clothing sector for their export revenue.

According to the vast majority of experts, the end of the quota system in January 2005 will lead major buyers to stop sourcing from many different countries, and thus rationalise their networks of suppliers. Most of these sourcing companies will not take the risk of placing all the orders in a single country, but they do intend to reduce the number of countries from which they source. A representative of the American Importers' Association recently stated that its members are likely to buy most of their supplies from five or six countries by 2007, rather than spreading their purchases over some 50 countries, as they do today.

This lifting of export ceilings will undoubtedly benefit China, which has been a member of the WTO since 2001 and has become highly competitive thanks to its cheap labour, economies of scale and its recent investments in the textile and clothing sector. The total absence of trade union freedom clearly facilitates the unbridled exploitation of Chinese workers, and goes some way towards explaining the country's low production costs. There are strong fears that Chinese products will eventually supplant all others in clothing stores around the globe. A WTO report published this summer estimates that China's share of clothing imports into the United States will rise to 50% once the quota restrictions are completely lifted (as compared with 16% in 2002), and to 29% for Europe (relative to 20% in 2002). According to the World Bank's forecasts, China will account for half of the world's clothing exports by 2010, as compared with its current one-quarter share.

A glance at what has happened in Australia since the total removal of its import quotas ten years ago provides us with some indication of the changes we can expect to see after 2005. According to the statistics published in the Financial Times on 20 July 2004, the value of China's clothing exports to Australia has doubled over the last five years, reaching 70% of all Australian imports in this sector. During the same period, clothing imports from countries other than China have fallen by 30%. In certain subcategories such as t-shirts and undergarments, China's share of the Australian

market has rocketed to 95%. Another country that does not set any quotas, Japan, has 85% of its clothes imports coming from China.

Trends in imports to the European Union and the United States of clothing products that were removed from the quota system in 2002 also indicate what could happen after 2005. In the United States, for example, Chinese exports of products already withdrawn from the quota system have increased ten- or twenty-fold, capturing between 40 and 60% of the market share. The same trend has occurred with the European Union. If we take underclothes, imports from China rose from 16% of the market in the European Union in 2001 to 42% in 2003. And in the United States, baby clothes imports from China more than tripled in 2002, whilst those from Bangladesh fell by 16%.

It is not difficult to imagine the social upheaval set to accompany the drastic contraction of clothing exports in countries whose economies are heavily reliant on this sector. Developing countries account for 50% of global textile imports and 70% of the world's clothing exports. For many, this sector represents the main source of export earnings, accounting for up to 90% of the exports in industrial goods in some cases. The quality of jobs in these countries may not be very high, however the workforce is less exploited than in China. Thus, from 2005 onwards, we are likely to see medium-quality jobs replaced by jobs subject to maximum levels of exploitation.

"The losers will be some of the poorest countries in the world," says Neil Kearney, general secretary of the ITGLWF (International Textile, Garment and Leather Workers' Federation). "Bangladesh is set to lose one million of the 1.8 million jobs in the sector. Indonesia will also lose a million jobs and Sri Lanka may see 300,000 of the 350,000 workers in the industry thrown on the scrap heap. Factories are closing or threatening to close everywhere, including in Turkey, in Mexico, in Central America, in Africa and across Asia. Only in China are the builders working overtime constructing new plants and installing new machinery."

In the past we have already seen jobs in this sector moving from Western countries to Japan, then from Japan to South Korea, Taiwan and Hong Kong, and then again from the latter group of countries to Malaysia and other countries. In the early part of this period, in each country, the level of exploitation of workers decreased over time and the quality of jobs improved somewhat, until the major orders for clothes were sent elsewhere. But that is no longer the case today in many countries: despite some modest improvements, severe exploitation of workers remains the norm in countries like Bangladesh, Guatemala, Indonesia and many others. Despite that, the workers risk losing their jobs to others who are even easier to exploit, i.e. those living under the Chinese dictatorship.

The textile and garment sector also remains an important source of employment in the West, providing jobs for 2.5 million people in the European Union. According to the Institut de la Mode, a French industrial organisation, the end of the quota system will result in the loss of 15% of the jobs in this sector in the United Kingdom and 13% in Germany. In the United States, 350,000 jobs have already been lost in the industry over the last four years, and workers in both the U.S. and Canada are seriously concerned at the prospect of a quota-free market.

Some countries specialised in clothing production, like the Republic of Mauritius (see page 28), have reacted to the forthcoming end of the quota system by promoting their production of higher-end clothing. Thailand, for its part, is trying to hold on to its clothing industry by promoting the country as the region's fashion centre. Cambodia (see page 23) is banking on improvements in its workers' rights record to attract investors. At this moment in time, no one can predict with any certainty if such initiatives will suffice, if only to maintain current production levels (and, above all, the number of jobs). Although price is clearly an important decider in the choices made by major sourcing companies, a whole host of other criteria also come into play: delivery deadlines, the quality of the goods, customs and excise tariffs, rates of exchange, the level of corruption, etc. Other important selection criteria for importers include the producer country's transport infrastructure and the efficiency of its administration and telecommunications.

China is performing well on most of these criteria. Clothing importers working with China often point out that the suppliers are reliable, have a pro-business attitude and are quick to understand the customer's needs. These suppliers usually work in factories equipped with modern machines, as the development of the textile and clothing sector geared towards Western countries is quite recent in China (under 10 years). Another asset is China's access to the financial capabilities and marketing expertise of a business centre like Hong Kong. The government is also doing everything possible to promote exports, turning a deaf ear to international criticism accusing it, for example, of intentionally keeping the value of its currency artificially low (to make its exports cheaper). Critics also criticise the State aid to industrialists, such as loans from State banks, granted on the understanding that they will probably never be repaid.

The integration of the cotton, textile and clothing industries in China is another competitive advantage. Thanks to this integration, Chinese manufacturers currently only have to import a small percentage of the raw materials required to produce clothing, thus saving a great deal of time and money. It gives China a considerable edge over countries such as Bangladesh or Mauritius, which have to import most of their raw materials before processing and then re-exporting them. This factor contributes to keeping prices down in China, as does the fact the customs formalities are better organised, less convoluted and more predictable than in many other producer countries (such as Cambodia and Bangladesh).

However, things are not all rosy for companies buying in China. Corruption exists, as elsewhere, and water and electricity supply problems are not uncommon in the big industrial zones. The post-quota safeguard mechanism that importing countries are deploying or planning to deploy to limit the rise in Chinese imports (see page 9) will also curb their growth. Another setback facing China is the difficulty companies in the Shanghai and Pearl River Delta region are having in recruiting new workers, as underlined by the Chinese minister of Labour and Social Security in September 2004, despite the tens of millions of people who are underemployed. The textile sector is a prime example. The poverty wages, kept at the same level for years and sometimes paid months in arrears, together with the appalling working conditions, are among the main reasons behind the struggle to attract new workers from rural areas – a relatively easy task in the past. An added factor is the slight improvement in wages in the rural economy over recent years. This situation may at last force China's employers to

increase wages and improve working conditions in a bid to attract the much-needed workers to their garment factories. Even under such circumstances, however, the absence of free trade unions able to push for higher wages will create automatic limits on wage increases, so China's competitive advantage deriving from workers' rights violations will persist.

Despite these problems there is no doubt that China will be the main beneficiary of post-2005. It does not seem particularly worried about the dramatic social effects that its domination is likely to cause in other developing countries. At the WTO meeting on 1st October 2004, seven countries (Bangladesh, Mauritius, the Dominican Republic, Fiji, Madagascar, Sri Lanka and Uganda) submitted a proposal for WTO action to address the impact of the upcoming elimination of quotas on their fragile textile and clothing industries. The proposal asked the WTO Secretariat to prepare a study on adjustment-related issues and costs arising from quota elimination and to establish a WTO work programme to discuss possible solutions to the problems identified in the study. However, no programme of action could be adopted owing to opposition from several WTO member states, in particular China.

This report focuses on the likely social consequences of the mini-revolution that awaits the textile and clothing sector in 2005. Following an explanation of the exact nature of the quota system and some of the key factors that will influence importers' choices after January 2005, we present an overview of the situation in some of the countries whose economies are strongly geared towards this sector, together with the future prospects of these countries and, above all, their workers. The report covers Bangladesh, Cambodia, Mauritius, Dominican Republic and Guatemala - countries chosen to illustrate the different situations found in three different continents. The focus could just as easily have been on a multitude of other countries where the end of the quota system is a major cause of concern, such as Mexico, Honduras, Nepal, Philippines, Indonesia, Sri Lanka, Turkey, Lesotho, Madagascar, etc. Vietnam, which will still be subject to quota restrictions after January 2005, as it is not yet a member of the WTO, is equally anxious, with two million of its workers currently living off the textile and clothing sector.

THE MULTIFIBRE ARRANGEMENT (1974-1994) AND THE AGREEMENT ON TEXTILES AND CLOTHING (1995-2005)

The first Multifibre Arrangement (MFA) came into force in 1974. It rests on a system of clothing and textile export quotas allocated to developing countries by developed countries. The industrialised nations established these quotas as a means of protecting their own sectors in the face of increasing competition from countries where goods could be produced at lower costs, such as Asia. The quotas allocated to highly competitive exporting countries, such as the South Korean Republic, tended to be very limited, while those allocated to those that exported less were high.

This led clothing exporters to move all over the world in search of the quotas available, contributing to the creation of millions of jobs in countries that previously had a very small clothing export base, or none at all, such as Mauritius, Cambodia or Bangladesh. Indeed, as a developing country reached its export quota ceiling, production was redirected to countries with either unfulfilled quotas or no quotas at all. Some of these states did not have the infrastructure needed for the harmonious development of this sector, but still saw a vertiginous rise in the growth of clothing manufacturers thanks to the quota system alone.

The MFA, renewed on three occasions, (the last renewal was in 1991), profoundly altered the nature of competition in the textile and clothing sector. It also contributed to complicating the production process, by forcing companies to spread different production stages over different factories in different countries. As a result, it is not unusual to find textiles bought in one place, cut in another and sewn in a third.

The MFA was a major departure from the basic rules of GATT (General Agreement on Trade and Tariffs), particularly the principle of non-discrimination. Consequently, the countries involved in the Uruguay Round of trade negotiations (1986 to 1994) agreed to progressively integrate the textile and clothing sector within the GATT framework of rules on non-discrimination. Signed on 1 January 1995, the Agreement on Textiles and Clothing (ATC) established the conditions of this integration process, to be completed by 2005. The ATC replaced the Multifibre Arrangement.

The ATC thus established the progressive phasing out of the quota system between WTO members over a period of ten years. A number of developing countries had campaigned in favour of dismantling the quota system, suggesting that it was, above all, a protectionist measure in favour of the most industrialised nations. As we shall see later in the report, they now realise that this system was in fact protecting their own exports from more competitive countries, such as China, which has entered the WTO in the meantime.

Since the ATC is limited to WTO members, a country like Vietnam, which is not yet a member, is likely to see its exports being limited by quotas whilst neighbouring Cambodia, where productions costs are higher, benefits from the lifting of restrictions. Having said that, in the case of Vietnam, as for so many other countries, the main worry is China, with its gigantic, low-cost production capacity.

Despite the pressing demands of developing countries together with those of textile and clothing manufacturers from industrialised nations, any attempts to secure an

extension of the quota system seem destined to failure. The United States and the European Union have insisted that they will remove the quotas on the date set; failing to do so would, in any case, bring them into confrontation with the WTO. Even less probable is a WTO agreement to extend the quotas, as it would have to be approved by its 148 members ... including China and India.

The end of quotas in exchange for intellectual property rights

The negotiation on the end of the quota system was linked to that on TRIPS (Trade-Related Intellectual Property) and TRIMS (Trade-Related Investment Measures). The industrialised countries (pushed by powerful business interests) were pressing the other members to recognise the rights linked to these agreements. It could be suggested that the industrialised nations did not really want an end to the quotas (save a few groupings of importers interested in securing imports as cheaply as possible), but used the MFA, which many developing countries wanted to see suppressed, as a bargaining chip in the negotiations, to secure progress on TRIMS and TRIPS.

It should be noted there was no one present during these talks to negotiate on behalf of the workers, who are set to be the hardest hit given the huge job losses forecast as of January 2005, since neither the GATT nor the WTO provided any scope at all for worker involvement in this process.

Schedule to be met

In 1994, six WTO members still had import restrictions on textiles and clothing: Canada, European Union, United States, Norway, Sweden and Austria (the latter two have since entered the European Union). According to the ATC, the quotas were to be gradually phased out over three periods of three, four and five years, and fully removed by 1 January 2005. A schedule was drawn up establishing the minimum proportion of the quota restrictions to be lifted (as a percentage of the volume of imports in 1990 of all the products subject to quotas), as follows:

January 1995: 16%
January 1998: 33%
January 2002: 51%
January 2005: 100%

But the ATC text left the signatories with sufficient room for manoeuvre so that they could postpone the most painful decisions for as long as possible. The schedule for the progressive phase out of the quotas thus opened the possibility of starting by removing unfulfilled quotas whilst holding on to the most effective ones. The two markets absorbing the lion's share of global clothing imports, the United States and Europe, have done nothing to accelerate the quota removal process. They have, on the contrary, stuck to the "legal minimum", leaving almost half of their volume of imports, including the most sensitive products, under the quota system. The transition at the beginning of 2005 thus promises to be very abrupt.

Provisional safeguard mechanism

The ATC negotiators have established a safety mechanism whereby a country is able to limit the increase in imports from another country to a small percentage if it deems that such imports are causing or threatening to cause serious damage to a domestic sector producing similar or competing products. This safety mechanism can be applied on a selective, country-by-country basis, by mutual agreement, or unilaterally if an agreement is not reached through the consultation process within 60 days. The restriction may not be lower than the level of goods imported from the exporting country over the last 12-month period, and may only remain in place for up to three years.

Several major importing countries have already announced their intention to apply this provisional safety mechanism. One example is the United States, which lost no time in re-imposing restrictions on nightgowns, bras and dresses in 2003 following the 1000% rise in the imports of these products from China, after the removal of the quotas on them in 2002. This type of action creates tension with China, but the U.S. textile and clothing industry is heading an intense lobby, highlighting that 600,000 workers will be threatened if action is not taken. The U.S. National Council of Textile Organizations has underlined that although the end of the quotas may lower the price paid by U.S. consumers for clothing, the salaries lost and the resulting fall in income tax paid to the authorities will affect many more nations.

The European Union has also indicated that it may use this safeguard against Chinese products (the value of imports from China into the European Union has almost doubled between 2001 and 2003): it fears for the 2.7 million jobs that still exist in the sector within the 25 member states.

Circumvention of quotas

All the players in the market have not always strictly observed the rules of the quota system. Indeed, the quotas have been the object of intense trafficking, giving rise to "quota exchanges" and specialised quota brokers of the kind found in Hong Kong.

Another way of circumventing the strict application of the quota system has been to class products in less sensitive or quota-free categories, or to arrange for entry (to the European Union, for example) through a country where the customs are inclined to be "lenient", or by re-routing goods through third countries with unfulfilled quotas or no quota restrictions.

The ATC defines the rules and procedures to be applied in the event that quotas are circumvented through re-transshipment, re-routing, false declaration of origin, or falsification of official documents, but stipulates a number of added requirements such as consultation and full cooperation among the WTO members concerned, during the investigation of such practices.

TRADE IN TEXTILES AND CLOTHING FOLLOWING THE REMOVAL OF QUOTAS

Countries who have focused much of their development on textile and clothing exports are polishing their weapons ahead of the impending removal of quota restrictions on 1 January 2005. Every effort is being made to pit national strengths against the fierce competition wrought by dominant suppliers like China and India, which are set to become the big winners of post-ATC trade liberalisation. Thailand is promoting its capital city Bangkok as a leading fashion centre for Asia; Cambodia is making a determined effort to improve working conditions; Mauritius is shifting production towards top-end clothing lines; Central American countries are banking on their geographical proximity to the US market...

Once rid of trade barriers in the form of quotas, leading clothing buyers intend to drastically reduce their list of supplier countries. Their choices will be guided by a combination of largely interconnected factors, which can be randomly listed as follows:

1) Cost

Cost is often viewed as a priority criterion among organised trade, which covers the largest share of the market in many importing countries (e.g. 60% in Europe). A number of factors come into play when setting the cost. These include:

- workers' wages and working conditions
- the possible need for calling in foreign specialists to manage production (in case of a middle or senior management shortfall at local level)
- domestic and international transport costs
- energy costs (cost of electricity; existence of frequent power cuts creating the need for back-up generators, water costs, ...)
- the level of corruption (particularly at customs)
- the level of automation and workers' training (which can help reduce the number of products that do not comply with orders)
- the exchange rate and customs tariffs (see below)

It is widely known that production wages in the developing world are so low that they represent a mere fraction of the cost of a garment sold on Western markets by a major brand. However, given the very low prices imposed by the major sourcing companies (most often multinationals) on their suppliers in developing countries, the suppliers' profit margin is not usually very high. Any increase in production costs (labour costs for instance) may therefore represent a substantial loss of income, which cannot always be recouped through increased prices, as this may prompt the client to turn to the competitors.

Competition between suppliers sometimes allows major buyers to obtain discounts on the price they pay for garments, which in turn further reduces the manufacturers' profit margins, together with any prospects their workers have of securing improved conditions. This state of affairs was reflected in the "Play Fair at the Olympics" report jointly released in 2004 by Global Unions, Oxfam and the Clean Clothes Campaign as part of its campaign on respect for workers' rights in the sportswear sector (available

at <http://www.fairolympics.org/en/report/olympicreportfr2.pdf>). The report refers to a number of cases in Honduras, Indonesia and China: "In Honduras, two companies producing t-shirts for various well-known brands noted that the price per dozen paid by their clients had fallen from 3.70 dollars in 2000 to 2.85 dollars in 2003, in other words, a 23% drop over a three-year period. In Indonesian factory D, producing for Nike, Fila, ASICS, Lotto, and Puma, one worker said: *'The manager of our division often uses this [the fall in unit prices] as a pretext for not increasing our basic monthly wages.'* The owner of a factory in China, producing for Umbro, confirmed that the unit prices for Umbro shoes were falling. In this factory, workers complained that their wages had fallen dramatically over the last three years. Back then, the factory at least paid them the minimum wage during the low season, but this protection no longer exists. In September 2003, workers in the shoe sole department were paid between US\$24 and \$48 - below the legal minimum set by the provincial government."

It should be noted, however, that the downward drive on workers' wages and working conditions to allow employers to cut the prices offered to the major buyers does not necessarily increase the latter's profit margins on the final sale of the products.

"The biggest winners are the advertising agencies," points out Neil Kearney, general secretary of the ITGLWF (International Textile, Garment and Leather Workers' Federation). *"The head of Puma said a few years ago that even though a considerable part of the company's production had been shifted from European countries to China, its profit margins had not increased substantially, as the company is now able to invest much more in advertising. You only have to look at the colossal budgets that leading brands like Nike allocate to sponsoring major sporting events or world famous sports personalities."*

2) Deadlines

Ever-shorter deadlines have become one of the buyers' central requirements. This appears to be a recent development in the clothing sector, as explained in the "Play Fair at the Olympics" report: "The traditional system of ordering in bulk to meet consumer demands in the basic four seasons has dramatically altered. For one thing, the number of fashion seasons has increased. For another, bar-coding systems track consumer purchases, allowing retailers to order stock automatically as it runs out in stores. So instead of ordering in bulk from suppliers and then keeping supplies in stock, either in the shop or in the warehouse at huge cost, the purchaser expects the supplier to deliver smaller amounts to replenish the shop-shelves as and when they become empty. This system also protects the companies from the problem of surplus stock if products prove to be unsuccessful."

Also included in the report was a statement made by the general manager of Nike in Bangkok, which confirms this trend: *"Thai factories receive orders for Nike products on a monthly basis, but this is expected to change to a weekly order system as customers become more demanding."* At Adidas, the 2002 annual report states that the company aims to reduce lead-time for apparel from 120 days to 90 days.

For the suppliers, it means having to deliver smaller orders in less time and according to very tight export deadlines. If they fail to do so, they incur fines and other penalties. Workers at an Indonesian factory producing for ASICS, Fila, Lotto, Puma and Nike,

reported being forced to work for as long as 24 consecutive hours during export periods. They complained to management that such overtime is against the law, but were told that if the goods did not reach the loading dock at a fixed time, the factory would be fined several million rupiahs (1 US dollar equals approximately 9,000 rupiahs)– and, as this would be the workers' fault, they would have to bear the cost.

The importance attached to delivery lead-times acts in favour of supplier countries within close proximity of the two main markets (Central America for the United States and Canada, Mediterranean and CEE countries for Europe). The distance separating Asian and Southern African supplier nations from the two main markets means they cannot be competitive for all clothing segments given the high cost of airfreight. It is therefore likely that once the quotas have been removed, fashion wear, which is more ephemeral than classic clothing, will tend to be manufactured in regions that are closer at hand, so as to allow for faster restocking following a commercial success or faster adjustments in response to new fashion trends.

3) Quality

This is clearly a determining factor for buyers. Whereas most leading low-cost clothing distribution chains in the West may be ready to settle for "normal" quality, top-end brands have to justify their higher prices with flawless quality. Yet for newcomers in the clothing sector (such as Cambodia), or countries where a majority of the workforce is not sufficiently trained (such as Bangladesh) it can prove difficult to raise the quality of the garments produced to meet the standards required by the leading brands. A degree of investment in machinery and management skills is equally important. Hence the need for a skilled, literate workforce that is able to readily adapt to the introduction of new production methods or technology. Unfortunately, in most countries of the South, quality education is in too short supply to produce sufficient numbers of skilled workers.

4) Customs tariffs and rules on origin

When the quota system among WTO members comes to an end, customs tariffs will be the only remaining restriction on the imports of certain countries (with the exception of the safeguard mechanism provided for in the ATC). Although they cannot be set arbitrarily and there is a general trend towards the lowering of these tariffs across nations, they still go some way towards protecting markets from imports. The tariffs currently applied reach averages of up to 12% in the European Union and 15% in the United States.

Importing countries could bring their customs duties into play to favour imports from countries where the social impact of the end of the quota is strongest, for example, or countries where workers' rights (particularly freedom of association) are most respected. Countries like Bangladesh hope to benefit from tariff reductions to offset the losses linked to the end of the quota system. Bangladesh has, in fact, already obtained an exemption on customs duties from the European Union, which has promoted the growth of its clothing exports to this market. It now hopes to obtain the same from the United States.

Countries whose economies rely heavily on the textile and clothing sector, generally the poorest, feel they are being unjustly treated in relation to those exporting high-value-added goods, such as high technology: a trading power like the United States imposes very low (or non-existent) tariffs on high-technology imports from developed countries like Singapore or Australia, whilst nearly all the products exported from the poorest countries like Bangladesh, Cambodia, Pakistan or Nepal are subject to tariffs varying between 5 and 30%. Major disparities remain between the tariffs on high-tech goods and those on textile and clothing goods.

In Europe, the European Commission proposed, in October 2004, the establishment of a new system of trade preferences aimed at reserving benefits, as of 2006, for the developing countries most in need. The benefits (tariff reduction) will depend partly on the country's market share in the European Union for a given group of products. The Council of Ministers and the European Parliament have not yet approved the proposal, but if adopted, it will have a major impact on textile and clothing exports from China, which will no longer be able to count on the preferential tariff of 3% it currently enjoys (as compared with the usual EU customs tariff of 12%).

Regional free trade agreements also play a key role in this area, such as NAFTA for North America, AGOA (the U.S. Government's African Growth and Opportunity Act), or the bilateral agreements between Europe and the Maghreb, Mexico, South Africa, etc.. These agreements, offering preferential access to Western markets, may afford some protection from outright competition with China, at least for a time. In the long term, however, the global trend towards ever-lower tariffs may gradually offset the advantages created by these agreements.

The rules on origin are another aspect to be considered. Some countries or regions, like the European Union, award lower tariffs on the clothes produced in a country on the condition that they comprise a certain percentage of raw materials from the country concerned. AGOA applies a similar principle (see chapter on Mauritius) as regards African exports to the United States; the only difference being that the raw materials can come from any country covered by AGOA.

Countries like Bangladesh, which have to import most of the raw materials needed to produce clothes, are penalised by this regulation. As the president of BGMEA (Bangladesh Garment Manufacturers and Exporters Association) recently confided to a national newspaper: *"Our clothing industry will triumph in the post-MFA era if the European Union relaxes its rules on origin. Our exports to Canada have seen a spectacular increase since it has relaxed the rules on origin and awarded us duty-free access. It would be the same in the European Union if the rules on origin were relaxed."*

Several people are warning about the possible disappearance of the sector producing raw materials in certain countries should the rules of origin be removed. In Bangladesh, for instance, that sector still employs tens of thousands of people. It is not certain whether the loss of jobs in production of raw materials following the removal of the rules on origin could be offset by an increase in jobs linked to increased exports.

In any event it is workers from the South whose jobs are the most affected by the customs duties imposed by developed countries cannot, unfortunately, do much to influence customs policies.

5) Rates of exchange

The exchange rate between the currencies of the exporting and the importing country is another key factor influencing the real price paid by the buyer. Serious criticism is often levelled against China in this respect, particularly from Washington, which accuses the authorities of keeping the value of their currency artificially low, thus providing Chinese exports with a major advantage.

6) Respect for workers' human rights

Every effort has to be made to ensure that another criterion is given greater importance in the major sourcing companies' selection process: respect for human rights, and, above all, workers' rights. The current rush towards a China that sadly champions violations of all such rights would seem to suggest that little importance is attached to this criterion. Yet the emergence of codes of conduct (although barely applied) and the more recent framework agreements would indicate an ever-growing number of leading brands are in fact paying some attention to their suppliers' respect for workers' rights. In the longer run, we may see more widespread awareness of the need to respect workers rights, not only as a result of trade union pressure or for fear of the damage that inhumane working and employment conditions can cause to a brand's image, but also based on the simple economic logic that a company's productivity increases as its working conditions improve. *"It is no surprise that if you're forced to work 16 hours a day, 7 days a week, the quality of goods you produce will be lower,"* underlines Neil Kearney, general secretary of the ITGLWF. *"A German mail order company recently carried out a comparative survey of its 1000 or so suppliers around the world. It discovered that those with the worst social practices were also those with the lowest ranking in terms of quality, productivity and respect for deadlines."*

Countries like Mauritius and, more recently, Cambodia or, to a lesser extent Bangladesh, have understood the interest in improving their respect for workers' rights (see the chapters on these countries, below). It is undoubtedly a slow process, and much progress still has to be made before reaching a situation that could be deemed acceptable (Particularly in the case of Bangladesh), but, at a time when consumers are attaching increasing importance to the way workers are treated, the countries evolving in the right direction will have an extra card to play against China.

The Generalized System of Preferences (GSP) is an important instrument in this area. This system offers reduced or even zero customs fees on a large number of exports from developing countries. It is used by the overwhelming majority of industrialized nations, including the USA, Canada, Japan, Norway, Switzerland, Australia, New Zealand and the European Union (EU). Under the GSP, the EU and the USA are applying clauses on workers' rights. In the United States many countries have been investigated in this regard and some have lost their GSP entitlements owing to violations of workers' rights. In certain cases of this type, the countries concerned have taken adequate measures to improve respect of workers' rights (e.g. by

amending their labour legislation or granting unions permission to hold free congresses) and can now benefit once again from the USA's GSP.

From 1998 onwards the EU also introduced some incentive clauses, granting other tariff reductions to those countries that respected and applied all the ILO's core labour standards, apart from those on discrimination. Then in December 2001, it adopted a new Generalized System of Preferences covering the period 2002 to 2004 (later extended to the end of 2005). The new GSP retains the incentive clauses, together with some new provisions extending the possibility of refusing to grant the benefits under the GSP where one or other fundamental labour standard is breached (since then all the ILO core labour standards have been included).

AGOA also makes reference to workers' rights, but on a wholly promotional basis.

THE CURRENT SITUATION AND OUTLOOK IN FIVE KEY COUNTRIES

A) BANGLADESH

The government of Bangladesh has the bad habit of only relying on its cheap labour to attract orders in the clothes industry, which is a key plank of its economy. That lack of vision might cause it major problems from 2005 onwards, when its exports will no longer be protected by the quota system.

Tension is mounting in Bangladesh: on 1 January 2005 the Agreement on Textiles and Clothing (ATC) will expire and Bangladeshi exporters will no longer be protected by the quotas restricting imports of textiles and clothing from more competitive countries like China and India. The problem is that the clothing industry forms the backbone of the economy of Bangladesh, which is one of the poorest and most densely-populated countries in the world with over 130 million inhabitants: clothes exports represent two-thirds of its export revenues and clothes factories employ 1.8 million people, which is half of the total industrial labour force. Almost 80% of these workers are women.

Some experts are making predictions suggesting that the ending of the ATC could lead to the loss of 1 million jobs in Bangladesh's clothing industry. The Bangladeshi government itself estimates that at least 200,000 to 300,000 workers could lose their jobs. Millions of jobs in related sectors of activity, such as transportation, button-making, meals outside factories, hotels, financial services and property companies, are also at risk.

Very disturbing trends

The statistics for trade in products that are already quota-free (handbags, bras, baby clothes, etc.) give some idea of what might happen. For example, the USA's imports of baby clothes from China more than quadrupled in 2002, whilst those from Bangladesh fell by 16%. Other types of clothes show similar trends: according to the government, Bangladesh has lost 33% of its export markets for the 29 products removed from the quota system on 1 January 2002, mostly to the benefit of China and Vietnam. A government document also shows that in 2003 export revenue from the Bangladeshi clothing industry fell by 33%.

Hundreds of garment factories have already closed between 2001 and 2003 following the drop in demand from the USA after the attacks on September 11 2001. Some of those who lost their jobs at that time have managed to get jobs in other factories in the clothing sector or other sectors, such as agriculture. That is not likely to happen this time round, given the potential magnitude of the job losses and the fact that all the firms in this sector will be looking to keep their staff numbers down in order to become more competitive (and so are unlikely to take on many other workers who have lost their jobs in other companies).

There is another piece of bad news for Bangladesh: as well as the breathtaking rise in its imports from China, the USA has started to buy more clothes (albeit it on a lower scale) from Caribbean and sub-Saharan African countries, which have recently been

granted customs-free access to this market for their clothes. At the same time, the USA has kept high taxes on clothes imported from Bangladesh. In 2002, Bangladesh paid almost the same amount in tax on its 2.4 thousand million dollars of clothes exports to the USA (approximately 330 million dollars) as France for its 24 thousand million dollars of exports to the USA. Senior American officials are stating that they do not intend to lower the tariffs on clothes, which has been one of the main lobbying issues for Bangladesh with a view to the ending of the MFA. And Bangladesh, for its part, has not managed to diversify its exports enough to include products that are tariff-free or subject to lower tariffs.

The other major market for Bangladeshi exporters, the European Union (EU), has scrapped import dues though only on a few clothes containing a certain proportion of materials with the “made in Bangladesh” label. And the lack of raw materials, like cotton, for making clothes is one of the headaches for clothing companies, which have to import them. Many Bangladeshi unions and employers are asking the EU to relax its rules on countries of origin. In answer to these requests both the EU and the USA are stressing the need for Bangladesh to diversify its exports.

A number of strong points

Bangladesh does, admittedly, have some strong cards to play in the more competitive arena it will face from 2005. In addition to its labour force, which is one of the cheapest in the world (with the minimum wage below 15 dollars a month), it can rely on the good quality of its products and the solid business relations that some Bangladeshi exporters have built up with very large buyers (such as Wal-Mart, H and M, Levis, Nike, etc.), which do not intend to leave the country overnight. These buyers do not intend only to use China as a supplier in the future, in order to avoid the mistake of putting all their eggs in one basket.

If it had wanted to, Bangladesh could also have relied on a good image in terms of respecting workers’ rights in order to attract orders from buyers concerned about their social policy reputation. Unfortunately, Bangladesh’s employers and its government have not yet fully understood this. Though they have worked with the ILO and UNICEF since 1995 on ensuring that the producers of clothes for export scarcely employ any more children, employers have been much slower to respect the full range of Bangladeshi labour legislation and most are averse to any notion of trade union representation in their companies (see box). An ILO project has been monitoring all the labour standards included in Bangladesh’s legislation and in the ILO Declaration on Fundamental Principles and Rights at Work, but only a few members of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) are so far involved in the project though the association has 3,500 members.

Lack of raw materials

Alongside these strong points, Bangladesh has some severe handicaps within a liberalised market. One major obstacle, as mentioned above, is the fact that it does not produce on its own territory all of the raw materials needed for making clothes. According to the Bangladeshi daily ‘The Financial Express’ on 5 August 2004, this dependency is highest in the woven garments sector, since barely 29% of the raw materials needed for this work can be found in Bangladesh. A lot of time and money

is therefore lost through importing these materials, which is a considerable disadvantage at a time when the delivery deadlines set by the major clothes buyers are getting shorter and shorter.

Solely concerned with making profits, Bangladeshi employers are quick to accept orders even when they know it will be very difficult to deliver them on time. They often try to recover the time lost in importing raw materials by putting pressure on their employees to do a lot of overtime. Given the low basic wages, the workers are forced to agree to doing this overtime, however the fatigue that the latter produces adds to the existing bad health of many workers in this sector (see below) and to a reduction in the quality of products and in the companies' productivity. That could soon get worse since the government has recently announced that it would increase the amount of authorised overtime and loosen the restrictions on women's night work, with a view to post-2005.

There has been much talk in the country of setting up warehouses for storing large quantities of raw materials that can then be made available quickly to firms needing to meet urgent orders, but so far the talk has not resulted in the construction of such warehouses. So everyone is continuing to criticise their absence, together with the infrastructure of Bangladesh's ports and the corruption and labour disputes that are common there. The lengthy administrative formalities at customs make life even harder for those producing goods for export. A further source of discontent amongst employers is the electricity supply, which is frequently cut off, so that factories are forced to buy generators.

Serious health problems and resulting inefficiency

The bad working conditions (such as serious problems of access to toilets for women workers), crazy working hours in many companies and indecent wages are also causing serious problems. A study carried out in 2003 by a Bangladeshi institute on over 800 textile workers (1) discovered that 42% of women workers and 24% of their male counterparts are suffering from chronic diseases (such as gastro-intestinal infections, urinary complaints, blood pressure problems and anaemia, etc.). 45% of the women and 36% of the men who were interviewed said they felt weak, whilst 3% of the women and 4% of the men had fainted in the months prior to their interviews. Their weakened state is causing major losses of productivity but has not really encouraged the bosses to make radical improvements to the situation.

Whilst the wages of textile workers force them to endure disastrous living conditions by today's standards, they do at least enable them to eat from time to time and have a roof over their heads. *"Because of the poor wages I earn I can't find any good accommodation",* says Kulsum, 20 years old, for wages ranging from 600 takas (10 dollars) at the start to 1,700 takas (28 dollars) when she had gained some experience. *"So I live in a building where the sanitary and kitchen facilities are shared by all the tenants. There's a long queue for both every morning and I have to get up at 5, or sometimes even 3 am, in order to have a wash and cook something, as I then have to eat (we are not allowed to take any food to the factory, where work starts at 8 am), go and fetch some drinking water and do a little housework, etc. It's very hard getting up so early when you've worked all the previous day till 10 pm or midnight, especially*

when the weekly rest day is cancelled and you don't have enough time or money to eat properly”.

The ill-health of a large section of garment workers has led to a large turnover of staff: on average a worker only stays 4 years with one employer. The employer therefore has to take on and train another worker to replace the one he could have kept if only he had provided better working conditions. Is that how Bangladesh's employers are hoping to compete after 2005? Worse still: a consultancy firm advising on the post-2005 period has described 'protection' measures for workers as one of the obstacles to competitiveness, though in practice Bangladeshi workers are already some of the least well-protected in the world.

Old factories

Another handicap for Bangladesh is that compared to competitors like China its clothing factories are outdated. Unlike those belonging to firms in the EPZs, which are in the minority, many of the country's garment factories date back to the 1980s. Hundreds have not modernised their machines since their owners felt protected from competition by the quota system and did not seriously expect it to end. *“One of the problems in Bangladesh is the outdated machinery in many factories, since the owners made a quick profit by avoiding reinvesting in the modernisation of their infrastructure”*, bemoans Neil Kearney, the General Secretary of the ITGLWF (International Textile, Garment & Leather Workers' Federation).

These out-dated factories are often located in buildings that were not designed to house industrial-scale operations. Some are located on one or two floors of an office building or block of flats and do not have enough room to expand. Their owners have never created adequate reserves for investing in new buildings. The working conditions are tough in such factories, with a lack of ventilation, very narrow stairways (presenting a fire risk), etc. They do not have very good prospects of survival in the increasingly competitive post-2005 climate. It is not clear how many enterprises are currently operating under such conditions since such statistics are in short supply in Bangladesh. But to give some idea: in a preparatory document for the post-ATC phase, the Bangladeshi government estimated that between 30 and 35% of the SMEs in the clothing sector would close down.

Efficiency will be one of the keys after the ATC

Ranah George Abraham, Levi Strauss' main buyer in Bangladesh, explains the strategy that the big label firms will be adopting from 2005. *“As far as we are concerned, we are not planning to reduce our orders in Bangladesh, on the contrary in fact. The big companies are not just looking for the cheapest producers but also partners who can offer them 'solutions' from A to Z. At the moment we can order whatever we want from them, but in future we might, for example, ask them to cover transport to the countries where we sell the goods, and then to our warehouses. So we shall need partners able to meet our needs quickly and efficiently. Not many companies are able to work like that in Bangladesh at the moment, but the best ones have understood what is needed. Up till now they simply added staff when a task was getting a bit too complicated, since the wages are so low that they can afford to do*

that. Some firms have understood that they will need to change if they want to survive in a quota-less environment where efficiency will be the key to success”.

Thus, a process of natural selection will take place in Bangladesh from 2005: well-organised companies that have invested in new machines and treat their employees correctly have a good chance of keeping their orders, and so their jobs, mainly since they have good relations with the major sourcing companies who require basic respect of workers. At the bottom end of the scale, those inefficient factories that only survived thanks to the quotas are likely to have a hard time sooner or later. These firms do not have the wherewithal to survive in the price war that is set to break out in 2005.

Social disaster in prospect?

The social impact of the many factory closures expected to take place after the ending of the quota system will be very hard for a country as poor as Bangladesh to cope with. *“With no hope of finding another job or, in some cases, of returning to the agricultural regions they came from, and with no savings or home of their own (since wages are too low), women workers are also unlikely to receive their final salary, final overtime hours and severance pay, since the companies will be bankrupted. It’s a dangerous situation”*, warns Rob Wayss, an ACILS (American Center for International Labor Solidarity) representative in Bangladesh. About 50 people are said to have committed suicide in the district of Gazipur this year after suddenly losing their jobs in the clothing industry.

Some people think that insecurity could rise in the major cities if nothing is done to prevent sackings or to help those who lose their jobs. *“The vast majority of garment workers in Bangladesh come from rural areas”*, according to Neil Kearney. *“There is little chance of these women returning to their villages after losing their jobs. We are almost certain that major social problems will arise in Bangladesh if hundreds of thousands of people lose their jobs. Some Bangladeshis say there has already been a rise in insecurity and lawlessness over the last two years, largely due to the fact that many young people have nothing to live on”*.

Will companies respect the law?

Bangladesh’s trade unions are worried too. They are insisting that the authorities ensure that sacked workers receive their severance pay and any arrears they are due, since the unions are all too aware that when a company shuts down its obligations towards its staff are low on its list of priorities *“There is no doubt that if a very large number of people all find at the same time that they cannot meet basic needs like feeding themselves, there will be a problem”*, stresses Nazma Akter, the General Secretary of the Bangladesh Independent Garment Workers Union Federation (BIGUF), which has no links to any political party and is affiliated to the ITGLWF. *“As unions we help sacked workers to go to court to obtain the compensation they are legally entitled to. That said, if Bangladeshi factories do close we may have to take things further and make representations to the “big labels” that are currently buying their goods from Bangladesh but would be quick to send their orders to China instead. These companies have the financial means to compensate the workers and it is they who promoted the development of this sector in Bangladesh. If they cancel*

their orders there is not much that Bangladeshi employers will be able to do about it”.

The affiliates of the ITGLWF in Bangladesh are pressing the government to allocate a special budget to cover the period after January 2005, to be used mainly for creating alternative jobs for workers who lose their jobs in the textile and garment industry. *“I am very worried for the future”,* explains Nurjahan, 25 years old, who has been working in textile factories since the age of 11. *“I earn between 35 and 50 dollars per month (depending on how much overtime I can do) and my husband gets 58 dollars as a security guard. We pay 20 dollars a month in rent for our room, but I have to send 25 dollars a month to my husband’s parents out of my own wages (a tradition). I’m worried how he will react if I am no longer able to send that money. I know that some women have ended up in prostitution after losing their jobs. I would never want to do that but might have to as my only training has been in sewing”.*

How is this affecting women?

Women’s status in Bangladeshi society has improved somewhat thanks to the growth of the textile industry, which is a major employer of women. *“Women with jobs in the textile industry are respected more by their husbands and families since they are contributing financially to their households’ survival”,* explains Nazma Akter. *That is very important in a country like Bangladesh. When the textile industry initially started growing here the women employed in it were despised by society and had a bad reputation, but that is no longer the case now that everyone appreciates the importance of their financial contribution”.* No-one could say for sure what the impact of huge job losses would be on the image or status of women workers in the country, but it will certainly not be positive.

The trafficking of Bangladeshi girls to foreign countries could increase as the number of jobs falls in the textile industry. The prospect of getting a job in this sector in Dhaka or other major cities attracts tens of thousands of young women from rural areas, who are determined not to return to their villages without having succeeded in earning a lot of money. The traffickers are well aware that these young women are in a very vulnerable position ... and are very gullible. *“80% of our residents say they left the poverty of their villages for Dhaka, the capital, where they hoped to find a job in the garment industry or domestic work”,* says Salma Ali, director of the BNWLA (Bangladesh National Women Lawyers’ Association), an NGO that specialises in providing help to trafficked women. *Often when they arrive in Dhaka, they do not have anywhere decent to live and end up in slums where they meet people who promise them good wages if they go abroad, and the abuse that some of them suffer in these slums encourages them to accept these offers. They have no idea of the risk they run of ending up in foreign prostitution networks. The traffickers sell these girls for around 100 to 400 US dollars. India, Pakistan and some Arab countries are some of the main destinations for these smuggled girls”.*

Those Bangladeshi workers who lose their jobs will of course, be able to blame the unfair competition from China: in addition to the economies of scale allowed by the sheer size of the country, Chinese exporters are even freer than their Bangladeshi counterparts to exploit their labour force and receive certain government subsidies (see the chapter on China). They may also blame the lack of vision of the country’s

leaders: the ending of the ATC on 1 January 2005 has been fixed for ten years now, but the government and many employers have done nothing to adapt to the new circumstances (until three years ago the Bangladeshi government even wanted to speed up the ending of the quota system!). It is only in recent months that the government has become seriously worried about the 2005 deadline, and organised lots of meetings and a number of tentative measures aimed at damage limitation. There is still no social security or unemployment benefit available to any workers who lose their jobs, and the lack of diversification of exports remains a problem.

(1) “Health Status of the Garment Workers in Bangladesh”, by Pratima Paul-Majumder, Bangladesh Institute of Development Studies.

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DEEPLY ENTRANCHED ANTI-UNION ATTITUDES

Bangladesh’s employers have strongly anti-union attitudes and claim that all the unions are manipulated by political parties and serving their own interests rather than those of the workers. So they are very unwelcome in factories. It is true that a number of Bangladeshi unions are indeed much closer to the political elite than to the workers and are prepared to use their members to please one party or other. But it is quite wrong to lump all the unions together. Some outstanding Bangladeshi union leaders are dedicating their lives to defending workers, but also suffer from the image conferred on the union movement by others, which the employers are happy to propagate.

The textile and clothing companies in Bangladesh are some of the most hostile towards recognition of workers’ union rights. Of the more than 3,000 textile firms that produce for the export market barely 127 have an officially registered union and less than a dozen employers have serious negotiations with unions. Workers are frequently victims of sackings, beatings or false accusations by the police of militancy within their unions. Workers who try to set up a union are not protected before its registration and so are often subjected to harassment from their employers, which sometimes assumes a violent form with police support. The names of workers asking to register a union are often passed on to employers, who quickly try to transfer or sack them, above all in the textile sector. Even once a union has been registered those workers suspected of activism are subjected to frequent harassment.

Anti-union attitudes are worst within the country six export processing zones (EPZs), which together produce one fifth of the country’s export revenues and in which textile and garment companies are in the majority. It was not until July 2004 that a law came out legalising trade union action in the EPZs... but only as from 1 November 2006! And there are some serious restrictions: the unions at a factory in an EPZ will only be allowed to set up one federation and that federation will not be permitted to join those in other export processing zones so as to form a confederation representing all the workers in the zones. The unions set up in EPZs will also not be allowed to join a national trade union federation. All these restrictions represent violations of ILO Convention 87 on freedom of association and protection of trade union rights.

Respect for workers' rights could be a definite advantage once the clothing industry is liberalised from January 2005. Unfortunately, though, Bangladesh's employers and government have not yet got the message.

B) CAMBODIA

The end of the quota system looms like a black cloud over the future of Cambodia's textile industry. What will become of the 200,000 jobs in the sector once Cambodia comes into direct competition with a giant like China? A fall in the number of jobs in this vital sector of the Cambodian economy would have very serious social consequences.

The zones where the garment factories are installed on the outskirts of Phnom Penh are aswarm with people at the start and end of the working day. Added to the 200,000 garment sector workers is a horde of people in other trades that depend on the factories (truck, bus and motorbike-taxi drivers, street vendors selling snacks...), all struggling to make their way through the crowded narrow streets. These zones represent the bulk of the country's industrial activity, but their future is clouded by uncertainty as 2004 draws to a close.

It is largely thanks to the quota system that the clothing industry has seen such development in Cambodia, a country with very little to offer investors as it emerged from many years of war and political turmoil. Starting out with almost zero, Cambodia's clothing exports to the United States went from just 0.06 million dollars in 1995 to 1.54 billion in 2003, thanks in particular to the application of a trade agreement allowing an increase in export quotas from Cambodia to the USA, provided that the workers' rights situation improved (see below). The textile and clothing sector's share of Cambodian exports has thus risen from 8% in 1995 to 96% today. Two-thirds of its exports are sold to the United States, and the remaining share goes mainly to Europe. Thanks to such development, the sector is now the largest single employer in Cambodia's formal economy, employing some 200,000 workers, 90% of whom are women. According to some estimates, as much as a fifth of Cambodian women aged between 18 and 25 work in this sector today.

The end of the quota system in January 2005 is therefore a matter of grave concern. The impact of a substantial fall in production in the garment industry would be catastrophic for the country, as no other sector of the economy would be in a position to absorb the tens of thousand of workers who would lose their jobs. But aside from its (relatively) favourable working conditions, appealing to image-conscious buyers, Cambodia offers very few advantages in relation to its competitors. Investors often underline the country's "negative points": energy and transport costs are high relative to its competitors in the region, virtually all the components needed for clothing production (sewing machines, fabrics, buttons, etc.) have to be imported, and corruption is widespread.

Outrageous "bureaucratic costs"

According to the Cambodia Development Resource Institute, during the year 2000 the garment industry lost some 70 million dollars in "bureaucratic" costs (a euphemism for corruption), i.e. 7.2% of the value of its exports for that year. According to the estimates of the U.S. Embassy, if it were not for such expenses, the average salary in the textile sector could have reached 98 dollars a month, which is substantially higher than the decent wage workers currently aspire to. *"These expenses multiply the cost of the administrative documents to be completed by ten,"* points out a Hong Kong

investor. The same businessman also complained of the high transport costs generated by the poor state of the roads in Cambodia. *"Taking a container of raw materials from the port to the factory costs around 200 dollars in Vietnam, and 700 dollars in Cambodia."* A recent World Bank report underlines that four fifths of the 800 companies surveyed across the country recognised that bribes have to be paid to do business. Industrialists are constantly being racketeered by the local officials.

Fuelling fears about the future is the fact that most factory owners are non-Cambodian Asians: only 9% of the textile factories in Cambodia are owned by Khmers, whilst the rest are owned by a mix of investors from Hong Kong, Taiwan, China, South Korea, Malaysia and Singapore, etc.. (1) Hence, little sympathy is expected on their part once the quotas are removed. If it is in their financial interest to leave Cambodia for China, they will fire the workers en masse. *"We are anxious about post-2005,"* Ray Chew, General Secretary of GMAC (2), confided in October 2003. *"We are praying that the buyers will stay with Cambodia. It's the smallest factories that are most at risk. Those with high production capacity and a history of good relations with a buying network should pull through. Having said that, we cannot produce as fast as certain countries with a long history in the business, which is why we have to rely on overtime to fulfil our orders. The deadlines for supplying goods to the buyers are becoming increasingly short in this sector."*

But there is a quite a difference between occasionally asking workers to do overtime and regularly forcing them to work four or five hours' overtime a day, as some companies do. As Soy who works in a sportswear factory confirms: *"They force us to do overtime. If we refuse three times, the bosses threaten to sack us. It's the same if we refuse to work on Sundays or public holidays."* It has to be said, however, that most workers are more than willing to do overtime, so low are their wages. *"I earn 65 dollars a month if I do two hours overtime every day,"* explains an employee of the In Fong Garment Co. factory on the outskirts of Phnom Penh. *"It's a trap: if I refused the overtime my salary would be too low and the production line I work on would not be able to operate, which would penalise my colleagues who want to work overtime."*

According to a study carried out in collaboration with the ILO (International Labour Organisation), a Cambodian worker needs a salary of 80 dollars a month to live in decent conditions and support a family. The minimum wage in the textile sector is currently 45 dollars. So workers are under immense pressure to agree to do overtime. The refusal to "grant" overtime is, moreover, one of the tools some employers use to discourage workers from joining a union.

Despite these violations of workers' rights and the poverty wages, hundreds of thousands of Cambodians still dream of working in the textile industry, as it is the only sector to take on such large numbers of people with little education. Every year, some 3000 young women leave the rural areas of Cambodia to seek work in the textile factories largely located around Phnom Penh. On their arrival, they are confronted with a serious shortage of accommodation. Although the number of textile factories rose from 48 in 1996 to 248 in 2002, the supply of lodgings for the 200,000 workers now employed in these factories has not increased in the same proportion. Most of these workers have no family in the capital and have to manage as best they can to find a place to sleep. Factory dormitories are rare, so the workers cram into makeshift huts that they build themselves or the ramshackle accommodation hastily erected by

unscrupulous property developers keen to capitalise on the workers' desperate circumstances. In most cases, three or four workers share a room or small hut of no more than 10 to 15 square metres, for which they each pay 5 dollars a month.

No going back?

The worst is feared for women garment workers if they lose their jobs with the end of the quota system. Given their poor image within Cambodian society, they would find it very difficult to go back to the village life they left behind to find work in the city. They are often considered to be "bad" girls in their home villages, as they live far away from their families and, under such circumstances, are free to go out with men. Many marriage engagements are broken off when the family of the groom-to-be find out that the future wife is working in a textile factory. The men employed in textile factories tell those back home not to marry these women workers because they are no longer virgins. *"Some of the women say that they are criticised if they go back to their villages with new clothes; but if they go back with old clothes people may say that they have spent all their money going out with men, and have no money left to buy clothes,"* explains the WAC in a report on the situation endured by working women in Cambodia (3). It is more commonplace for girls to leave their villages to work in textiles than boys, who are prioritised when it comes to education in Cambodia, as well as being relied on more to help with work in the fields.

Another obstacle to their return to rural areas is that they have often taken out loans there and have not yet fully repaid them. Many have had to pay out large sums of money to convince recruiters to employ them. *"I, like others who work in my factory, had to pay 100 dollars to get recruited,"* says a young unionised worker employed at the Sam Han factory in Phnom Penh. *"If I were a man, I would have had to pay up to 200 dollars, as the bosses would rather employ women. My family had to borrow the money; the families of other workers have had to sell land to raise such an amount. It is absolutely essential that I keep my job now, as otherwise I will never be able to pay back my family's debt. I earn 65 dollars a month and send 20 to 30 dollars to my parents. I pay 5 dollars for lodgings, so have little left for all the rest, such as food, clothes, transport to and from work, and so on."*

It is becoming increasingly difficult to survive in Cambodia's rural areas (where 80% of the population lives), owing to the authorities' poor management of agriculture. Of the 6.5 million hectares of arable land, only 2.1 million are utilised and only 300,000 hectares of these lands are still irrigated. Barely 10% of Cambodian farmers hold a title deed, and well-off city dwellers take advantage of the absence of this document to confiscate land, forcing the farmers to flee. According to the IMF, the development prospects of the primary sector are not encouraging, and no efficient plan has been implemented to support agriculture. As a result, we can expect to see a growth in the exodus towards the cities... and fear the worst if jobs are no longer available in the textile and clothing industry.

A trade agreement bearing hope

The lot of Cambodia's garment workers has improved over recent years thanks to a trade agreement signed in 1999 between the governments of the United States and Cambodia. This agreement, covering the textiles and clothing alone, was designed to

improve working conditions in this sector of Cambodian industry. It originally covered a three-year period and was later extended until December 2004. It offers Cambodia the possibility of increasing its textile export quota every year (from 18% to the maximum) if it can prove that its labour laws and the international standards governing this sector are being duly applied. The ILO (International Labour Organisation) has to prepare two reports a year on compliance with these criteria. The reports are based on factory visits carried out by a team of monitors. Although the US government is under no obligation to take these reports into account, they undoubtedly have an impact on its decision.

At the outset, employers in Cambodia were none too happy about agreeing to these ILO inspections. But greater confidence has been gradually built up, thanks to the regular increases in export quotas since this system came into force, and the fact that the monitors discuss the reports with the companies before they are published. When the ILO monitors detect irregularities in a company, these are not published in the next report. The companies are given a period of grace during which they can take measures to ensure compliance, failing which their names are published in the following report. As for the Cambodian unions, they support the ILO inspections but underline that it would make more sense if government inspectors carried them out, on the condition that they are well equipped and not corrupt.

Although working conditions, irregularities in the payment of wages, long overtime hours and threats against trade unionists are still serious problems within the textile and garment sector in Cambodia, the pressure these ILO reports bring to bear on employers is slowly contributing to progress in the right direction for workers. Major apparel buyers such as Nike, for example, have made it clear that they are continuing to import from Cambodia thanks to this agreement and the guarantees it provides at a social level. Hence, it is critically important that the ILO inspections are pursued after 2005 when the "carrot" now offered, that is, increased export quotas, is completely withdrawn.

What will follow the end of the "carrot"?

There is nothing to say that garment factory bosses and the Cambodian government will agree to cooperate with these inspections if there is no guarantee of direct benefits such as those offered under the quota system. The dramatic rise in trade union rights' violations observed during 2004 raises serious concerns in this respect. On 22 January, Chea Vichea, defender of human rights and president of the Free Trade Union of the Workers of the Kingdom of Cambodia, was shot dead in broad daylight in a busy street of the capital, Phnom Penh. During the months leading up to his death Chea Vichea, together with other independent trade unionists and opposition activists, had received death threats delivered by text message to his mobile phone. The police had managed to identify the person who sent the text, but since it was a top-ranking government official, had told the union leader that they could not protect him, and advised him to leave the country, which he refused to do.

The assassination of Chea Vichea was followed, on 7 May 2004, by that of another leader of the same union, Ros Sovannareth, who was also gunned down in the street. Since then, other activists from the union have been victimised, such as Lay Sophead, who was left for dead by unknown aggressors who had attacked her in her home,

accusing her of being a supporter of Chea Vichea. To date, the inquiries into the two murders have raised more questions than answers, and have been strongly criticised by several independent observers. Witnesses have been threatened and key eyewitnesses of the murders have disappeared without testifying to the police. The legal proceedings are tainted by partiality.

It is clearly no coincidence that trade unionists are suffering greater harassment and victimisation as the end of the quota systems approaches: the United States will no longer be able to respond to a rise in trade union repression with a reduction in quotas. As mentioned earlier, the end of the quota system is raising strong fears among textile and clothing manufacturers in Cambodia. They would seem to believe that more docile trade unions would make their life, and that of the government, much easier. Herein, perhaps, lies the explanation for the growing attacks on trade unions.

As in so many other countries whose economies are dependent on the textile and clothing sector, Cambodia fears the impact of competition from China and India when its quotas are removed in January 2005. Yet, it would seem that the Cambodian authorities have forgotten the importance of playing the "good image" card, if we are to judge by the absence of any efforts to protect the lives of trade unionists and their inability (intentional or otherwise) to bring to justice the perpetrators of the murders reported above.

The industrial zones of Cambodia were deserted areas ten years ago, prior to the arrival of the first textile factories. The 200,000 textile and garment workers fear that they will see a return to their barren past after 2005 if their rights are not better respected. Cambodia's short and medium term future depends on the decisions made by leading garment buyers as of 2005.

(1) Source: WAC (Womyns' Agenda for Change), 2001. WAC (Womyn's Agenda for Change) is a project of Oxfam Hong Kong, its Web site is <http://www.womynsagenda.org/>

(2) Garment Manufacturers' Association in Cambodia

(3) "Garment workers", WAC, 2003. WAC

C) MAURITIUS

The garment industry has made a major contribution to the economic development of Mauritius. No fewer than 75,000 of the overall working population of 549,000 are employed in the clothing sector. The country has gradually moved away from “bottom of the range” products towards those with a higher added value, so as to increase stability, retain comparatively high wages and compensate for the shortage of local labour. With several Hong Kong-owned groups already having left the country, to what extent does Mauritius fear the ending of quotas and the growing power of countries with lower wages like China?

In 1968, when Mauritius gained independence from the United Kingdom, its economy was dominated by the sugar industry and there was a high level of unemployment. This exclusive reliance on sugar cane did not guarantee income stability since good harvests were followed up by cyclones or droughts that could reduce production by 30 to 40%. In order to throw off this yoke from the colonial era and create more employment, the Mauritian government decided as soon as 1970 to diversify the economy by promoting tourism and setting up an export processing zone (EPZ), the first of its kind in Africa. The peculiarity of the zone is that it does not cover a particular geographical area but the whole island. Companies wishing to enjoy the zone's financial benefits simply have to produce goods primarily intended for export.

The large-scale development of the Mauritian EPZ started in the early 1980s, mainly thanks to the textile industry. The presence on the island of a very active Chinese business community attracted investors from Hong Kong, who were already worried about the forthcoming reunification with China. As with the first generation of newly-industrialised Asian states, investors welcomed Mauritius's cheap labour, political stability and lack of fixed export quotas to the EU and the USA. Following the tax incentives introduced by the government, large sugar cane plantation owners in Mauritius have also decided to diversify by investing in the export processing zone (EPZ) and tourism. This combined investment by Mauritians and foreigners has increased the number of jobs on offer in the EPZ, which has become the main source of employment in the country.

Some 90,000 men and women are currently employed in the export processing zone, including 75,000 in the garment industry. Slightly under two-thirds of the 90,000 people are women. Daughters and mothers with low qualifications who would otherwise have been unemployed throughout their lives have been absorbed by this sector. This has boosted women's status in the rural areas. The 75,000 jobs in the clothing industry have also generated thousands of others in related sectors, such as construction, transport, banks, customs and accountancy. The purchasing power they have generated has also stimulated a general rise in consumption in the country.

The Lomé and Cotonou Conventions, followed by the USA's adoption in May 2000 of the AGOA (African Growth and Opportunity Act) have helped Mauritius further. The aim behind the AGOA is to allow African countries access to the American market and to develop their local industry. About one hundred products for export have been exempted from tax, generating a 55% increase in exports to the USA and 340 million dollars of investment in Africa. But the AGOA is not set in stone.

President Bush agreed on 13 July 2004 to extend it until 2015, though with some major restrictions: as from 2007 African countries will have to buy their raw materials in another country covered by the AGOA, whereas beforehand they had a free choice. 2007 is a sword of Damocles hanging over Mauritius and all the other African clothes exporters under the AGOA, since most countries do not have a derogation on raw materials and currently no African country is able to supply these materials in adequate quantities and quality for the clothing industry. This has led to the launching of a vertical integration strategy by certain Mauritian groups, which have decided to invest in creating suppliers in Mauritius itself.

Rising unemployment

Mauritius's major economic development has led to wage increases. Nowadays a garment worker can hope to earn at least 150 dollars a month, which is four or five times more than in many Asian countries or other African countries that rely on this industry. There has been a succession of company closures in recent years, which have seriously affected the unemployment rate. In 2003, for instance, the net increase in recruitment (4,800 jobs created) was not enough to offset the number of new job seekers following the successive closures of textile and clothing factories throughout the year (9,600 job losses). With 54,400 people looking for work, the unemployment rate rose to 10.2% in 2003. The situation has got even worse since early 2004. According to the worst predictions, the EPZ will only be able to maintain between 60,000 and 75,000 jobs in the years ahead. Despite the large number of unemployed people, the number of foreigners employed in the EPZ has increased and rose to 18,200 in 2003, since employers do not always find it easy to get Mauritian staff prepared to work under the conditions offered in the garment industry (see below).

Initially at least it was mainly employers from Hong Kong that tended to relocate from Mauritius. Closures of Hong Kong-owned companies have already caused 6,000 job losses. The closure of Summit Textiles last March involved 1,500 job losses, for example. Having had operations in Mauritius since 1985 the group had accumulated some major financial losses and decided to close down owing to the high wage costs and very fierce competition from Asian countries. Hong Kong employers have found it hard to resist the economic attractions of China since its entry into the WTO, particularly with the prospective ending of the Agreement on Textiles and Clothing. These textile groups had come to Mauritius largely for the quotas, and now the latter are disappearing. "We love Mauritius for its political stability and educated work force ... but our shareholders are expecting returns on their investment", said Edmond Lau of Sinotex in a recent statement that also spoke for other Hong Kong enterprises. Mauritius's long distance from the USA, compared to Asia, does not do it any favours either.

Playing on its good image

Mauritius intends to make the most of its positive social image in order to keep the trust of big western buyers, since whilst things are far from perfect, working conditions and wages are less exploitative than those in many other countries specialising in the clothing industry. "*These days if you don't respect workers' fundamental rights and have a transparent personnel management policy, your customers will drop you*", states David White, human resources adviser to

management at the Compagnie Mauricienne de Textile (CMT¹). *“The USA and Europe are very sensitive on these matters. We have legislation that provides good protection to workers and are trying to be proactive in this area. Every month one of our customers comes over to carry out an audit. There have been some abuses but these are isolated cases. Social responsibility is one of our key concerns as is organising our human resources in an optimal fashion”*.

Upgrading quality to save jobs and create more

Despite the departure of some Hong Kong-owned companies, the general atmosphere is not downbeat in Mauritius’s garment industry. People point out that this is not the first time the local textile industry has faced a difficult period. In the early 1990s a consolidation phase saw the disappearance of the least efficient factories, whilst those that opted to focus on quality, productivity, efficiency and top-range products managed to find a niche. The most far-sighted employers had already realised that producing low-quality products would leave them vulnerable to competition from the Indian continent and South-East Asia. That trend has increased. The local industry wants to set itself up to a greater extent as a knowledge base and service centre for the region’s textile industry. Upgrading and improvement of the quality of products, training and use of more efficient technology are the slogans underpinning this new drive.

“We are well aware that we will be beaten on the bottom-range clothing market”, explains David White. “That is why we have gone into the medium-range market, where we are tending to compete with Southern Europe and North Africa. In that range there is some price elasticity. We employ 5,200 workers and want to keep that level so as to fulfil our social responsibility towards them. It’s wrong to think that customers are leaving Mauritius overnight for Asia or elsewhere. The most important thing is keeping trust and the added value of the product (such as design), for which customers are prepared to pay a fair price”.

And Alain Chan Sun, Director of the MEPZA² adds: *“10 years ago we faced the same sort of competition from Bangladesh and Sri Lanka. Some buyers were leaving Mauritius for those countries. But most of those buyers came back owing to the higher quality of our products and our professionalism. Today some customers are asking themselves the same questions concerning China, where deadlines are often missed and there is still a lack of professionalism”*.

Labour shortage despite the unemployment rate

There are other examples of this approach. Sentosa is one: this Singapore-owned company is banking on future developments and plans to open a new production unit in the north of Mauritius for making tee shirts and polo shirts for the American market. Another company, SEL, plans to recruit 300 workers, including 150 foreigners, to produce its products, all of which are for export to the USA. That said, recruitment is a serious problem, as Mauritius’ garment manufacturers stress: the current workforce is ageing and the new generation is less keen to work in factories

¹ Textiles Company of Mauritius

² Mauritius Export Processing Zone Association

and so is failing to take over the work. As Alain Chan Sun, Director of MEPZA, put it: *“There is a high level of education in Mauritius and the best educated young people no longer want to work in the export processing zone but prefer tourism, which has a pleasanter working environment, or else IT jobs, for example in call-centres”*.

The leader in the Mauritian daily “the Express” on 16 January 2004 read: *“2000 workers needed for the textile industry”*. According to the paper: *“the workforce is getting older and not being replaced in the textile industry. Companies are finding it very hard to recruit machinists, despite all their efforts to train apprentices and meet young people directly in the colleges. This shortage is also due to the perceived job insecurity of employees in the export processing zone. And wages and working conditions are not always very attractive either”*.

CMT is a Mauritian company that wants to extend its activities. David White, its human resources adviser, is faced with a headache: *“Today I could do with recruiting 500 skilled workers but I just can’t find them. We’ve taken on some skilled women workers who had been sacked by another firm, but that is not enough. There has not been enough investment in human resources in Mauritius. We have not had a proper training school for the textile industry. The products are getting increasingly sophisticated and the work is getting more and more complex in this sector. A major effort is needed to identify those young people with vocational and non-academic aptitudes from the earliest possible age, so that they can quickly get some vocational training. We have had to call on foreign workers, mainly from Sri Lanka, India and China”*.

Floréal Knitwear (part of the Ciel Textiles group, which has 10,000 employees in the sector, including a thousand Indians and Chinese) would also like to develop but is held back by the lack of available workers. The company has set up a training programme with the Industrial and Vocational Training Board and offers 1500 Mauritian rupees (about 53 US dollars) per month plus transport costs to those receiving training (the training course lasts between 3 and 4 months).

Regional relocations

To tackle these problems some Mauritian clothing companies have relocated some of their production to countries in the region with lower wages and a plentiful supply of labour, such as Madagascar. Such moves have been facilitated by the establishment of legislation promoting regional integration (via the Indian Ocean Commission, the SADC and COMESA). According to Musa Rubin, a consultant in the textiles and clothing sector, *“Madagascar provides the advantage of cheap and abundant labour (unlike Mauritius’ own expensive and inadequate supply) as well as the benefits accruing from its status as a less-developed country under the AGOA. That means Mauritian companies are able to produce clothes that are not subject to import duties on the American market, using raw materials from any country of origin, whereas Mauritius itself, as a developed country under the AGOA, must only use raw materials from Africa if it is to avoid paying customs duties to access the US market.*

Companies like the CMT, which want to avoid being controlled by foreign investors, apply the following approach: *“to ensure job stability we play the AGOA card as far as we can”*, explains David White. *“We are currently setting up a plant that will use*

cotton from Mali and Burkina. So the product will be 100% African and we will not have to pay taxes on the US market. We want to be pioneers of a '100% made in Africa' label. Our plant will be a 55 million dollar investment and is the largest Mauritian industrial project. It will generate hundreds of new jobs”.

However, some Mauritian manufacturers have found out that cheaper labour is not always the best way of getting competitive prices: the benefit of the cost of labour in Madagascar has been totally offset by the high cost of working in a country with a less developed society, where the infrastructure is less good and where the administration is less efficient and undermined by corruption. Other complaints are the lack of skilled local labour (hence the costly business of having to import ex-pat managers) and, above all, the political instability. *“Of the 20 initial Mauritian investors just 4 have remained in Madagascar, stresses Alain Chan Sun, Director of the MEPZA. “To begin with people believed Mauritius’ future lay in Madagascar, which had an abundant labour supply and promised big profits. But unfortunately the Mauritian investors made some heavy losses. Attitudes towards work are very different over there”.*

But according to Musa Rubin things are clear: despite a number of bad experiences, the relocation of the Mauritian garment industry will continue in the years ahead owing to the shortage of labour in Mauritius and its increasing cost. Mauritius will be able to choose from 30 eligible countries under the AGOA. According to a study by the SADC on the textile and clothing industry, Malawi has the lowest wages in the region and perhaps anywhere in Africa, but on the downside it has a poor infrastructure, a lack of professionals and political instability. Mozambique and Senegal can offer low wages coupled with political stability but neither country has any experience of producing clothes for exportation, which means investors would have to do some real pioneering work.

There are opportunities in the so-called “decentralised” regions of South Africa (which are essentially home to the Bantustans of the apartheid era). These regions have access to the same infrastructure and public administration as the rest of South Africa, but are not amongst those covered by the “Tripartite Bargaining Council”, whose wages are relatively high. In these regions, the wages are between 25 and 50% lower (even in those regions with 50% union membership provided by the SACTWU, a textile union affiliated to the ITGLWF) than those in urban areas. Such wages are comparable to those in Lesotho or Swaziland. But like Mauritius, South Africa has the disadvantage that it does not enjoy the benefits granted to less developed nations under the AGOA as regards the supply of raw materials.

State intervention to maintain social peace?

The Mauritian government is aware of the difficulties the garment industry will face after the ending of the ATC. *“We expect some 9,000 job losses in a dozen companies”*, says Labour Minister Showkutally Soodhun. *“We shall try to provide training in tourism and other alternative sectors to textiles, in order to re-deploy some of the workers sacked by the companies in the export processing zone. With help from the World Bank we have also started taking measures to restructure and renovate the whole EPZ”.*

Some of the workers who have been sacked so far have managed to find another job quickly thanks to the labour shortage, sometimes with help from the social partners. 'Job markets' are organised, for example, as a means of putting workers and potential employers in touch with one another, particularly when factories are closed. The social assistance fund of the EPZ can also provide help when factories close down, not least by adjusting or cancelling the dues owed to it by sacked workers.

Nonetheless, politicians' stated desire to help dismissed workers and the reality on the ground are sometimes very different. Paulette, who is now 44, worked for 24 years for the Summit-Textile factory, until its closure in August 2003. She is very disappointed by her current situation. *"None of the 1,500 of us who were dismissed has found a new job. We had been promised help with finding work and access to training, but those promises were not kept. Our severance pay amounted to 15 days per year of service. With my seniority I received the equivalent of one year's salary. Now I have no income source and am the breadwinner for my family with children. The public health system is free but inefficient and you obviously have to pay for private health care"*.

Diversifying into other sectors

In the long term, whilst the Republic of Mauritius intends to use its strengths to defend its share of the clothing industry it also intends to diversify into other sectors, since it knows that its Asian competitors will also move into producing top-range clothes and it will have big problems remaining competitive. *"At the moment we are still very competitive thanks to the mechanisation of production methods"*, notes Alain Chan Sun, the MEPZA Director. *"We have made major investments in this area over the last five years and are also improving our infrastructure, not least by continuing to develop ports. We think we'll manage to continue to support the textile industry in the medium and long term, but won't try to increase it further. Our main aim is to diversify. This is a natural development, similar to what we did before in moving on from sugar cane"*.

The skills level and age of workers in the garment industry means they are not able to re-train for all the sectors that Mauritius would like to develop, such as tourism or information technologies. *"We can't simply take workers who have been employed for 20 years in the textile industry and only know that and retrain them for sectors like the cyber city"*, explained Danielle Wong, former Director of the MEPZA, in "Le Mauricien"³ on 15 June 2003. *"We will need to redirect workers within that industry since there are no openings elsewhere. I'm not saying that the cyber city is a bad economic choice but it can't replace the textile industry. We have been in textiles for many years and we know there is new potential. It won't be easy but it can work. If we do nothing we will be faced with unmanageable social disintegration. There is a price to pay for social peace"*.

An uncertain future

In answering the question to what extent Mauritius is dreading the imminent ending of quotas, we need to strike a balance between the pessimism of the Hong Kong investors who are leaving the country with the positive attitude of Mauritian and

³ daily newspaper

Singaporean groups, which are investing in order to meet the challenges ahead. The latter are convinced that the relatively small scale of the Mauritian textile industry is an advantage, since it is able to concentrate on niche markets and so has a good chance of successfully negotiating this hazardous turning-point. This in turn requires adopting a two-pronged approach consisting of continuing to upgrade its products whilst using the opportunities afforded by the AGOA and the trade relationship with the European Union.

However, whilst Mauritius clearly aims to play a leading role in the regional development under the AGOA, whether by developing vertical integration at home or making use of relocations and partnerships with other less developed African countries covered by the Act, it should be noted that the future of the AGOA itself is very uncertain. This means that the future of Mauritius, and of the textile industries of other African countries, is partly dependent on the good intentions of the American authorities.

The second important unknown quantity governing the future of the Mauritian textile industry is its social costs, which will continue to cause the type of restructuring currently under way. Aware that job levels in the Mauritian textile industry are likely to carry on falling, with all the attendant social damage, the Mauritian government and notably its Labour Minister, himself a former trade unionist, have signalled their desire to use social dialogue to try to minimize this damage. It remains to be seen if, faced with the growing pressure from threats to relocate, the authorities will finally listen properly to the unions and continue to focus on 'stability and trust' as Mauritius' comparative advantage over the Chinese bulldozer.

* * * * *

STILL MANY BARRIERS TO UNIONISATION

Though labour legislation covers companies operating within the Mauritian EPZ (with a few adaptations on working time), the unions are critical of its inadequate application and the partiality of many labour inspectors. *"It's very easy to sack people in the EPZ,"* stresses Jugdish Lollbeeharry, General Secretary of the Mauritius Labour Congress (MCL), an ICFTU affiliate. *"That is why workers are so scared of becoming union delegates. We have been calling for a revision of industrial law to help combat abuses, but the government has replied that changing the law risks frightening off investors and causing relocations"*.

Fear of dismissal coupled with a large percentage of newly-recruited women employees on the labour market partly account for the low unionisation rate in the EPZ, despite the fact that social dialogue is generally respected in Mauritius. *"Workers know of many cases of people who joined unions ending up sacked or deprived of the right to work overtime"*, explains François Alexis, MLC organiser in the EPZ. *"The law allows you to join a union but is not applied. The bosses do what they like and use blackmail along the lines of 'if you set up a union the factory will close'. The Labour Minister is from the grass roots, as a former trade unionist, but the political speeches do not reflect the real situation"*.

The long working hours impede contact between union officials and the women workers, since the latter also have family and domestic commitments in addition to their paid work. *“They work very late on weekdays and till 3 or 4pm on Saturdays”*, states François Alexis, *“so they clearly prefer to spend the rest of the weekend with their families”*. Immigrant workers are even harder to contact, owing to language barriers though also restrictions set by employers. *“I visited some Madagascan migrants in one factory”*, continued the trade unionist. *“They are not aware of the law that protects them just like Mauritians and often earn 2000 to 2500 rupees (70 to 90 dollars) less per month. Some of them have intolerable living conditions, sleeping in dormitories on couchettes with no mattresses in tiny rooms where 12 people can be crowded together”*.

Aware of the problems that threaten the future of the EPZ, the unions are calling for a voluntary effort to engage in the tradition of social dialogue which, whilst imperfect, has so far allowed Mauritius to provide a positive image in terms of social stability. *“We are prepared as unions to cooperate with the government and work together to preserve our markets, since we are aware that the standard of living on this island largely depends on the EPZ”*, explains Dev Luchmun, Director of worker education at MLC and the author of various publications on trade union action in Mauritius’ export processing zones. *“We know that factories that are not modernised will face serious problems, which is why we are calling right now for a major effort on training workers”*.

D) GUATEMALA

Having signed a free trade agreement with the USA and with its production approved for the “full package” process, the Guatemalan garment and textile industry thinks it is off the hook. That said, though they will not collapse entirely the ‘maquilas’ of Central America might lose a proportion of their 500,000 jobs.

Though virtually non-existent in the early 1980s, Guatemala’s clothing and textile industry, which largely consists of the ‘maquiladoras’ or garment factories, increased massively in the 1990s, turning it into one of the main sources of foreign currency and jobs in the country and indeed in Central America as a whole. Guatemala currently has the largest number of clothing companies in Central America - 231 in 2003 – and the largest number of textile workers, who represent 37% of the 383,245 jobs in the Central American clothing industry⁴. Whilst half of Guatemala’s 12.5 million inhabitants are living in poverty⁵, some 141,638 of them are working in the textile and clothing ‘maquiladoras’ according to figures from January 2004⁶. In terms of attracting foreign currency, sales of clothes and materials – some 95.4% of which are to the USA – brought in some 389 million dollars last year, which represented a rise following 2 years, 2001 and 2002, that had seen a 36% decrease, according to the Central Bank of Guatemala (Banguat).⁷ In the first four months of this year, it is one of the few economic sectors in the country that is continuing –albeit timidly – to register growth, unlike those of traditional products (such as coffee, bananas and cardamom), which are in steep decline.⁸

South Korean capital and a market in the USA

So why has there been such a boom over the last 20 years? Together with a domestic policy geared to attracting foreign investment, the growth of business for Guatemalan and Central American maquilas can also be attributed to a combination of external factors. These include the selective application of very tight limitations on quantities produced by the major Asian producers since 1974, via the Multifibre Arrangement and the Agreement on Textiles and Clothing, as well as the trade preferences granted unilaterally by the United States. For nearly 20 years now, Central American countries have been used – under the *Caribbean Basin Initiative* (CBI, in 1984) and the *Caribbean Basin Trade Partnership Act* (CBTPA, in 2000) – to exporting their clothes to the North American market without paying any import duties, as long as they respected certain conditions. It was mainly to escape the North American quotas that are penalizing Asia and to take advantage of those benefiting the whole of Central America and the Caribbean that Asian producers, above all from South Korea, decided to set up in Guatemala.

⁴ “Directorio Regional 2003”, Centro Latinoamericano para la Competitividad y el Desarrollo Sostenible (CLACDS), INCAE. See: www.incae.ac.cr

⁵ World Development Indicators Database, World Bank, April 2004. See: www.worldbank.org

⁶ “Estadísticas Generales”, Comisión de la Industria de Vestuario y de Textiles – VESTEX, 26 February 2004. See: www.vestex.com.gt or www.apparel.com.gt

⁷ “Ingreso de Divisas por Exportaciones”, Información Económica, Mercado Institucional de Divisas/Banco de Guatemala (Banguat), July 2004. See: www.banguat.gob.gt

⁸ Dirección de Análisis Económico, Ministerio de Economía. See: www.mineco.gob.gt

However this broadly favourable context for Central American countries is now rapidly changing. The ending of all quotas in 2005 will not lead to an increase of Guatemalan production, which had never been inconvenienced by them, but will allow clothes made in China, which are currently blocked by the quotas, to flood the US market at prices defying any competition and thereby deprive Guatemala of the crucial competitive advantage it enjoys with its main – and virtually only – ‘customer’. Paradoxically, in today’s increasingly competitive international environment, Guatemala’s share of the US market has been decreasing – from 2.41% in 2003 to 2.40% in 2004 – despite the fact that its exports to the North American giant have increased by 4.5% over the same period. According to the US Ministry of International Trade, imports of Guatemalan clothes have continued to rise in value (from 1,658.2 million dollars in 2002 to 1,761.8 million dollars in 2003).⁹ However Guatemala has fallen in 2004 from 16th to 17th position amongst countries exporting clothes to the USA and is now preceded by Pakistan, whilst Honduras (3rd) and El Salvador (5th) have managed to keep their relative positions.

Cheaper than the USA but dearer than Asia

Compared with the textile industries in other Central American countries, Guatemala has the edge on production costs thanks, for example, to the low price of electricity and oil and the lowest sea transport costs in the whole Central American region¹⁰. However the country is no longer able to claim to have the cheapest labour costs on the isthmus. According to recent estimates by the Central American Monetary Institute, a Guatemalan worker receives a minimum monthly wage of 127.45 dollars¹¹, which is higher than a colleague in Nicaragua (72.43 dollars) and much higher than one in China (between 12 and 36 dollars)¹². Though cheaper than in the USA and Mexico, the cost of labour in Guatemala is considerably higher than in the major Asian textile producing nations.¹³ Once the quotas have been ended, it remains to be seen whether the South Korean investors, which alone own 66% of Guatemalan garment companies, will be tempted towards the cheaper and more profitable EPZs in other parts of Central America or Asia (even though the latter will also have to pay very high, if not prohibitive customs dues).¹⁴ Amongst the textile employers in Guatemala – particularly South Koreans – pessimism is the order of the day, according to a study in June.¹⁵ Roughly two of every three ‘maquila’ bosses are most

⁹ « U.S. General Imports in U.S. Dollars », “General Statistics”, Office of Textile and Apparel - OTEXA, US International Trade Commission, June 2004. See: <http://otexa.ita.doc.gov>

“Developments in Textiles and Clothing Imports in the US 1990-2003” (Updated in April 2004), International Textiles and Clothing Bureau (ITCB). See: www.itcb.org

¹⁰ « Perfil de la industria textil guatemalteca », 2003. See: www.fullpackage.org

¹¹ Statistics corroborated by the trade union organisation FESTRAS, according to which the minimum monthly wage is about 1,026 quetzals (105€) whilst the domestic budget comes to about 2,600 quetzals (267€).

¹² “Informe Económico Regional 2003”, Secretaría Ejecutiva del Consejo Monetario Centroamericano (SECMCA), 2004. See: www.dol.gov et www.secmca.org

¹³ A highly specialised worker in South Carolina earns ten times as much (2,000 \$/month) as a Guatemalan colleague with identical qualifications (200\$/month). It is in order to make such savings that the North American International Textile Group (ITG) has announced its intention to invest 50 million \$ in building a mixed fabric factory in Guatemala in 2005.

¹⁴ “Outsourcing regulation: Analyzing Nongovernmental Systems of Labor Standards and Monitoring”, O’Rourke D., The Policy Studies Journal, Volume 31, No 1. 2003.

¹⁵ “Clima aún no mejor; Inversión: Empresas coreanas perciben pocos cambios este año”, Prensa Libre, 23 June 2004.

worried about China (42%) and Vietnam (21%), from whom they have been facing tougher competition in the first quarter of 2004.¹⁶ These ‘blues’ have been reflected in terms of jobs, with two out of three bosses stating that they intend to freeze staff numbers for the rest of 2004. What is even more alarming is that 20% of Guatemala’s employers say they know nothing at all about the ending of quotas on the international clothing and textiles market.

100,000 more jobs with CAFTA?

With a view to the forthcoming major upheaval of global trade, which factors could tip the balance in Guatemalan producers’ favour compared to their counterparts in Asia? The ability to respond quickly and quick access to the market are the slogans on everyone’s lips, given the geographical proximity to the United States. “*We are selling the time factor*”, states the Chairman of VESTEX (Commission for the clothing and textile industry), who represents the sector within AGEXPRONT (Association of exporters of non-traditional products).¹⁷ As 1st January 2005 approaches, Alejandro Ceballos says he is confident, though admits that “... *[the elimination of quotas] will have a major impact, which we shall not be able to avoid. Some companies will certainly suffer more than others. (...) It is important that companies re-assess their strategies and build alliances in order to be competitive*”.

Is the VESTEX Commission scared of China? “*The big fish has no reason to eat the little one,*” its Chairman argues, “*as long as the little one is fast enough in providing its rapid response and ‘full package’ and is able to hit the target, the USA.*”¹⁸ Thanks to technical assistance provided to bosses by VESTEX, Guatemala has indeed achieved the best results for the ‘full package’ production process¹⁹. This system, which favours more added value and a better vertical integration of the production chain, is seen as the key to boosting Central America’s supply side.²⁰ With a view to obtaining further benefits from the ‘full package’ the VESTEX Chairman sees the *U.S. Central American Free Trade Agreement (CAFTA)* signed in May 2004²¹ as “*a great opportunity and very positive development, which can cushion the impact from the ending of quotas.*” Alejandro Ceballos believes this free trade agreement (FTA) will not just help increase Guatemalan exports by 25% but transform the region into an attractive base for investment as long as the government establishes suitable conditions. “*And the main thing is the potential to create over 100,000 new jobs*”. According to VESTEX, if the FTA is not ratified Guatemala will have to forget this windfall of extra jobs.

¹⁶ Study carried out by the Asociación de Investigación y Estudios Sociales (ASIES – social studies institute) between 17th May and 17th June 2004 in 153 of the 232 enterprises in Guatemala’s textile and clothing sector. “III Encuesta a la Industria de Vestuario y Textiles: Informe de los Principales Resultados”, ASIES, June 2004, pp.28. See: www.asies.org.gt

¹⁷ « CAFTA y la Eliminación de Cuotas: un Logro y un Reto », Comisión de la Industria de Vestuario y de Textiles - VESTEX, 06/03/04. See: www.vestex.com.gt

¹⁸ “Los Beneficios del CAFTA para la Industria de Vestuario y Textiles”, Comisión de la Industria de Vestuario y de Textiles – VESTEX, March 2004.

¹⁹ See: www.fullpackage.org

²⁰ “Textiles en Centroamérica”, Perfiles de Países, Observatorio de Pymes, Centro Latinoamericano para la Competitividad y el Desarrollo Sostenible (CLACDS/INCAE), 2004. See: www.incae.ac.cr

²¹ FTA negotiated between January and December 2003 between the USA, five Central American countries (Honduras, Guatemala, Nicaragua, El Salvador, and Costa Rica) and the Dominican Republic.

Freedom of association ‘particularly weak’

Without contesting the job losses caused by the liberalisation of the international textile market, José David Morales Calderon, General Secretary of FESTRAS (federation of food, agricultural and allied workers), denounces the ‘doublespeak’ of employers: *“On the one hand, the employers are saying they are making preparations. But on the other, they keep on complaining that the conditions are still not right for investors to stay in Guatemala (...). The closure of small firms that cannot compete is an undeniable fact, but so is the PR campaign launched by the employers, which puts more emphasis on the possible job losses and threats to relocate to Honduras than on the establishment of new companies. What is more, many firms are closing down to avoid taxes only to re-open again under a new name.”*²²

So what will be the chances of securing retraining for those workers who will lose their jobs in maquilas following the changes in the international clothing industry? *“There aren’t that many alternatives”*, states José Morales Calderon. *“This is not a highly-skilled workforce and we have not noted enough dynamism in other industries in order to absorb the lack of jobs. That’s why there is such a large flow of migrants to the USA”*. According to the FESTRAS leader, the women working in the maquilas, who are mainly poorly-educated indigenous Mayas fleeing the countryside, would therefore find it very hard to find another job.

The trade unionist also has reservations concerning the assumed benefits of the US CAFTA and is calling, along with other trade union organisations, for more information prior to any ratification since *“we have no clear view of the positive and negative aspects enabling us to make an objective assessment”*. Despite the propaganda ‘talking up’ the CAFTA, some analysts reckon that the preferential access to the US market that it consolidates might lead to a quick short-term increase in exports whilst failing, in the medium term, to replace the benefits that will be lost with the ending of quotas from 1st January 2005.²³ In addition, certain conditions and restrictions have been imposed on the authorisation granted to maquilas to use raw materials from outside the USA whilst still enjoying the customs exemption. There is no question, for instance, of the Central Americans fulfilling their hope of buying Chinese cotton or other materials for making all their clothes for export to the USA, which would have prevented some 64,000 job losses.²⁴ If the *North American Free Trade Agreement* (NAFTA) signed in 1994 by the USA, Canada and Mexico failed to prevent the painful loss of 200,000 Mexican jobs, due to pressure from Chinese competition, why should another FTA safeguard those in the Central American maquiladoras?²⁵ Why should an as yet unsigned CAFTA succeed where the NAFTA has failed?

²² Federación sindical de Trabajadores de la Alimentación, Agro-industrias y Similares (FESTRAS). Interview (27/06/04). See: <http://festras.homestead.com>

²³ “Responsabilidad Corporativa y Acuerdo de Libre Comercio CA-EUA (CAFTA): ¿Son compatibles?”, Quinteros, Grupo de Monitoreo Independiente de El Salvador (GMIES), July 2004. See: www.gmies.org.sv

²⁴ “Temor en Torno al TLC Centroamerica – Estados Unidos”, Sara Martinez Juan, GMIES

²⁵ « Tiempo de escuchar », Adolfo Gilly, La Jornada, 03/08/2003.

So, keeping preferential access to the US market and fully exploiting the ‘full package’ seem to be the two strategies preferred by the government and workers in order to keep a different approach from China²⁶. Those choices are “good but not broad enough” according to the Salvadorian independent monitoring group GMIES, which regrets the fact that the systematic respect of international labour law and environmental standards is not being promoted to a greater extent as a quality label in Central America.²⁷ Apart from a few notable improvements in 2003²⁸, Guatemala’s application of the labour legislation that theoretically guarantees freedom of association has remained “particularly weak” in the EPZs, as the ICFTU noted in its latest report in 2004.²⁹ A regular practice denounced by the International Textile, Garment & Leather Workers' Federation (ITGLWF)³⁰ has been the closure and transfer of factories the minute trade unions are set up in them. Both international NGOs and the International Labour Organisation have frequently pointed the finger at Guatemala as one of the 7 Latin-American countries that are violating workers’ rights, and in particular those of the women workers who make up 80% of the workforce in the maquiladoras.³¹

Complementarities between Asian and Central American producers?

So are the Guatemalan and, by extension, the Central American maquiladoras doomed to extinction in the face of competition from the Asian giants? According to the most pessimistic prediction by the American Textile Manufacturers Institute (ATMI), China could get its hands on a share of Guatemalan exports equivalent to 1.265 thousand million dollars.³² According to the US-based *Wall Street Journal*, even the most optimistic reporters accept that around half of the 500,000 jobs in the Central American and Caribbean region’s 1000 companies will be axed over the next five years³³. However, from the viewpoint of buyers from the USA, Central American and Asian producers appear more as complementary rather than rival forces. Competing on labour costs with the Asian textile giants is an impossible feat, but the Central Americans do have the upper hand in terms of speed of response owing to their strategic location near the USA. It takes Asian firms 2 months to deliver the finished

²⁶ “La inversión en América Latina y El Caribe, 2003”, Comisión Económica para América Latina y el Caribe (CEPAL), 2004. See: www.eclac.cl

²⁷ “¿Puede el CAFTA sacar adelante a la maquila centroamericana?”, Carolina Quinteros, Revista “Centroamérica en la Economía Mundial del Siglo XXI”, ASIES, 2004.

²⁸ Following pressure from the international trade union movement and a long argument, a collective agreement was eventually signed between the management and FESTRAS at the South Korean-owned Choi Sin and Cimatextiles factories.

²⁹ “Americas: assassinations and death threats”, Annual Survey of violations of trade union rights », International Confederation of Free Trade Unions (ICFTU) 2004, 7/6/2004. See : www.icftu.org

³⁰ See: www.itglwf.org

³¹ “Del Hogar a la Fabrica: Discriminación en la fuerza laboral guatemalteca”, Human Rights Watch, February 2002, 147 pp. See: www.hrw.org

“Mujeres, Derechos y discriminación laboral”, Oxfam Intermon y Centro para la Acción Legal en Derechos Humanos (CALDH). See: www.intermonoxfam.org and www.caldh.org and www.maquilasolidarity.org

³² “The Chinese Threat to World Textile and Apparel Trade”, American Textile Manufacturers Institute (ATMI), September 2003. See: www.atmi.org

³³ “Is there hope for Central American maquilas?”, *Wall Street Journal*, June 2004. See: <http://online.wsj.com>

product after the order date, whilst the Central Americans need just 2 weeks.³⁴ The impressive production volumes, under-paid labour and economies of scale of the Asian countries could enable them to secure all the big orders issued with several months' notice. Whilst the Central Americans could become 'secondary suppliers' catering for changes in fashion and the preferences of North American consumers, e.g. by making standard products available in different sizes and colours.³⁵

That apparently attractive hypothesis of complementary production in the two regions has one serious drawback. By requiring greater productivity and profitability it is very likely to worsen further the working conditions of the employees of Guatemala's maquiladoras, who are already under strong pressure. And the avalanche of Asian products could also cause downward pressure on international prices and thus drag the producers of Central America into a downward spiral of over-exploitation of their workers.³⁶ A study published in June 2004 and commissioned by the Guatemalan employers' association AGEXPRONT argues that ensuring the future of Central American maquilas will require "*less rigid employment regulations with no increased protection for workers*".³⁷

Brandishing the threat of company closures³⁸, the report unashamedly presents a whole range of exclusively neo-liberal measures, such as reducing the minimum wage, restricting the unions' powers and renegotiation of collective agreements. In other words, saving jobs would require giving up many of the few rights that Guatemalan workers have wrested through their struggles. Judging by such attitudes, it would unfortunately seem that the "*state of terror*" prevalent in Guatemalan maquiladoras, according to José David Morales Calderon of FESTRAS, is set to stay for the foreseeable future.

³⁴ "Textiles en Centroamérica", Luis Figueroa/Luis Obando/Luis Morales, Julio 2003, Centro Latinoamericano para la Competitividad y el Desarrollo Sostenible (CLACDS), INCAE. See: www.incae.ac.cr

³⁵ "Textiles and Apparel : Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market", United States Trade Representative (USTR), US International Trade Commission, January 2004. See: www.usitc.gov

³⁶ "The Maquila in Guatemala: Facts and Trends", Prepared by Corey Mattson, Updated by Marie Ayer, STITCH, USA, 2002. See: www.stitchonline.org

³⁷ "Políticas Laborales en Centroamérica: ¿Oportunidades o Barreras al Desarrollo?", Maria Isabel de Anzuelo, Lisardo Bolaños, Sigrida Lée y Hugo Maul, Centro de Investigaciones Económicas Nacionales (CIEN), June 2004, 211 pp. See: www.cien.org.gt

³⁸ "Economía: Guatemala, un país más consumista que exportador", Centro de Reportes Informativos sobre Guatemala (CERIGUA), 30 June 2004. See: www.cerigua.org

E) DOMINICAN REPUBLIC

The ending of quotas is likely to lead to the loss of one quarter of the jobs in the garment industry in the Dominican Republic. But will the free trade agreement that the Caribbean country has signed with United States help salvage anything from the wreckage?

With their close proximity to the Hispaniola island, the United States seems to have become an irreplaceable trading partner for the Dominican garment industry at both ends of the production line. Almost 47% of the firms in the EPZs of the Dominican Republic, which produce almost all the country's textile products, are owned by North American investors, according to the national council on EPZs (CNZFE)³⁹. These are followed by Dominican (34%) and, to a lesser extent, South Korean (some 5%) owners. The importance of North America as a purchaser is even greater, since the USA and Puerto Rico received 93% of Dominican clothes exports in 2003.

So why have such close links been established with the USA? Along with other Caribbean and Central American countries, the Dominican Republic has enjoyed privileged access to the US textile market over the last 20 years, with virtual freedom from any customs duties or quotas. This has been thanks to two main initiatives:

- The Multi-Fibre Arrangement followed by its successor, the Agreement on Textiles and Clothing (ATC), allowed the USA to impose some very strict import quotas on Asian countries. The quotas were set at such high levels that they never applied to the Dominican Republic.
- Then the North American giant unilaterally granted some extremely preferential customs dues, under the “*Caribbean Basin Initiative*” (CBI) of 1983 and then the “*U.S. Caribbean Basin Trade Partnership Act*” (CBTPA) of 2000, on condition that the clothes were made with raw materials from the United States.

These incentives granted by the USA to the Dominican Republic have been on the decrease since 1995, as the import quotas under the ATC have gradually been removed. On 1st January 2005, once the remaining quotas have been removed, Dominican clothes manufacturers will lose one of their strongest shields against the Asian producers with their cheap labour force, who will themselves enjoy easier access to the US market.

Loss of US market share

Over the last 10 years, the Caribbean country has dropped from sixth to tenth place in the ranking of principal clothes exporters to the USA, according to the World Trade Organisation (WTO)⁴⁰. For example, the Dominican Republic saw its US market share fall from 3.5% in 2001 to 3.3% in 2002, largely to the benefit of Honduras (3.8%), which has overtaken it since 2000, China (15%) and Hong Kong (6.2%).

³⁹ Datos Estadísticos 2004, Consejo Nacional de Zonas Francas de Exportación – CNZF. See www.cnzfe.gov.do

⁴⁰ International Trade Statistics 2003, World Trade Organization. See www.wto.org

According to the Office of Textile and Apparel of the US International Trade Commission⁴¹, the value of Dominican clothes exported to the USA, which had reached 651.5 million dollars in the first quarter of 2003, fell to 584 million dollars in the same period in 2004. Just last year, the EPZs involved exclusively in clothes production, which make up 51% of the total number in the country, saw a 1.5% reduction in the value of their exports, whilst maintaining a 49.9% share of the total volume (worth the equivalent of 2.193,4 million dollars), according to the Dominican Central Bank⁴². The CNZF reckons that the 142,000 direct jobs generated by the Dominican textile EPZs in 2000 had fallen to just 119,101 in 2003, though that still represents 69% of the total number of jobs in the EPZs.

The proximity of the American market is a major advantage

With most North American buyers saying that they are preparing to reduce their suppliers as from 2005, what comparative advantages does the Dominican Republic have compared to China, Honduras or Guatemala, all of which have cheaper labour? According to José Manuel Torres, Executive Director of ADOZONA (Association of Dominican EPZs)⁴³, *“our geographical proximity to the United States and our treatment as a ‘zero tariff zone’ will be our main advantages compared to China. Even if the quotas are removed, China will still have a long distance to cover and will continue to pay customs dues”*. It is true that the country can boast of the best delivery time to the USA – less than 5 days on average by sea transport – which equips it well for responding to urgent and seasonal orders based on fashion trends, as the US International Trade Commission has recognised⁴⁴.

However the country is failing to take full advantage of the preferential customs regime that will remain beyond 2005. At the moment most Dominican clothes exports are in the category in which quotas – rather than customs dues – represent the main barrier to Asian competition⁴⁵. So it is unlikely in the medium term that such obstacles will manage to contain the assault on the North American market waged by Asian producers.

Moves to Haiti

So which companies are most at risk from the quota-free textile market that will exist from 2005 onwards? The most vulnerable will be firms operating in the Dominican EPZs that carry out traditional garment assembly tasks rather than offering their customers a ‘full package’, i.e. a broad gamut of services ranging from styling to marketing. José Manuel Torres admits: *“we are not worried about the large companies that already offer the full package, since they are well organised and will grow anyway. But what will happen to the little firms that are not well-prepared: those are the ones we are working with by providing training”*.

⁴¹ “General Statistics”, Office of Textile and Apparel – OTEXA, U.S. International Trade Commission. See: <http://otexa.ita.doc.gov>

⁴² “Informe Estadístico de la Economía Dominicana. Enero-Diciembre 2003”, 2004, Banco Central Dominicana. See: www.bancentral.gov.do

⁴³ Asociación Dominicana de Zonas Francas (ADOZONA). See: www.adozona.org

⁴⁴ “Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the US Market”, US International Trade Commission, January 2004. Website: www.usitc.gov

⁴⁵ “Los desafíos de los exportadores de zonas francas en República Dominicana”, Joaquín Vial, Cambridge, June 2002, 29pp.

A far-sighted Dominican company, the M group, sets a good example in terms of providing a full package, but a very bad one on freedom of association, in both the Dominican Republic and its neighbouring country Haiti⁴⁶. In order to cut its production costs and benefit from the very preferential treatment the USA is planning to grant Haiti, this Dominican textile giant started production in mid-2003 in an EPZ near the Haitian border town of Ouanaminthe, and proceeded to threaten it with closure in June 2004. Complementary production between the two countries, coupled with scant regard for union rights, could become the norm in future, with the simplest tasks – e.g. production of cotton trousers and tee shirts – tending to be outsourced to Haiti, whilst more complex work is kept in the Dominican Republic.

However, such management initiatives are not part of any overall, national strategy coordinated by the Dominican government. Many analysts have warned against the tendency of the EPZs to specialise in just one stage of the production process – the actual making of clothes – and in a very limited range of products – trousers and men’s shirts – whilst focusing on a single market, the USA. In order to benefit from tax-free access to the US market, the country has in fact agreed to 90% of its clothes being produced using North American raw materials, instead of developing its own materials industry and thereby increasing its added value, as Central American countries have preferred to do.

Is the Free Trade Agreement a panacea?

In the Dominican Republic neither the unions, nor analysts, nor employers have ever disputed the negative impact that the elimination of quotas would have on the national garment industry. It has only been a matter of the precise scale of that impact. In June 2003, a study set out the huge bill: if the Dominican Republic joined the free trade agreement (FTA) being negotiated between 5 Central American countries⁴⁷ and the United States, only 29,633 direct jobs would be lost, compared to 46,000 if it did not join up. In terms of the value of cargo, the estimated loss would be 25% if the country joined the FTA or 39% if it did not.⁴⁸

Published right in the middle of the negotiations on the “*United States - Central American Free Trade Agreement*” (US-CAFTA), this report came like an electric shock. Hoping to obtain the same advantages as its direct competitors in Central America, the Dominican government decided to jump on the train of the US-CAFTA, despite not having initially received an invitation. Now it has been signed the US-CAFTA, which includes the Dominican Republic, will only come into force once it has been ratified by the respective governments. Nevertheless, José Manuel Torres already welcomes it optimistically, since the clothing industry should become one of the “*main beneficiaries*”, thanks largely to the legal guarantees afforded by this bilateral agreement compared to the preferences that had hitherto been granted on a unilateral basis. In addition, a new provision in the US-CAFTA that loosens the clause

⁴⁶ For more details on the anti-union practices of the M group, see the ICFTU website at the following address: <http://www.icftu.org/displaydocument.asp?Index=991220194&Language=FR>

⁴⁷ Honduras, Guatemala, Nicaragua, El Salvador and Costa Rica.

⁴⁸ “Economic and Employment Impacts on the Dominican Republic of Changing Global Trade Rules for Textiles and Apparel”, Submitted by Nathan Associates Inc. to USAID/Dominican Republic, June 2003, See www.tcb-project.com.

on the “rule of origin” could allow Dominican firms to substantially reduce their production costs by using raw materials from countries other than the USA. *“As things stand, with the signing of the US-CAFTA and the possibility to buy cheaper materials for production and add value to the industry, the negative impact of the elimination of quotas will decrease, though not disappear. The agreement should enable us to restrict the industry’s decline to some 10 or 15%”*.

The Chair of the Caribbean Economic Research Centre⁴⁹ (CIECA) Pavel Isa Contreras is less optimistic and simply sees the FTA as a “consolidation of existing developments”. *“There are two major challenges in global trade that the US-CAFTA fails to address. The first is Asian competition. Joining the US-CAFTA will prevent any deterioration of our terms of access to the North American market compared to Central American countries, but will not improve the terms compared to Asia. These are already negative and will get worse. And the second problem is the granting of anti-dumping subsidies and compensatory measures. The WTO explicitly bans any tax exemption for income resulting from commercial activities, which is precisely what the EPZs in the Dominican Republic are involved in. At the moment there is a dispensation, in the form of a temporary exemption running till 2009. But what about afterwards? ”*

How do the local union organisations view the US-CAFTA? *“It’s a conditional type of support”*, is the balanced judgement of Mayra Jiménez, General Secretary of FUTRAZONA (United Federation of EPZ workers)⁵⁰, which is affiliated to the International Textile, Garment & Leather Workers' Federation (ITGLWF). *“On the one hand this is a free trade agreement that was not necessarily intended to give the economy a human face. But on the other, with the Multi-Fibre Arrangement coming to an end along with certain preferential conditions, we knew that if the US-CAFTA were not signed we would lose almost 50,000 jobs. They are unstable jobs, admittedly, but jobs all the same”*. And in a country where 54% of the working population is already employed in the informal economy (according to official statistics)⁵¹, owing to a lack of opportunities elsewhere, every job matters and is worth saving. According to the economist Pavel Isa Contreras, no sector of the crisis-ridden Dominican formal economy could come to the rescue of the garment industry apart from tourism, which has seen continuous growth in recent years, with over 3 million visitors in 2003. A tragic indication of the lack of job prospects was the exodus last year of several thousand Dominicans, who secretly tried to reach Puerto Rico on makeshift boats; some never reached their destination.

Whilst accepting that the FTA will help absorb the shock from the ending of quotas, Mayra Jiménez is openly critical of the lack of transparency in the negotiations that led to its conclusion and the exclusion of the unions from that process. She admits that *“although this issue affects the lives of the people we represent and is on the agenda of all trade union organisations, it has so far been addressed very timidly”*. A combination of disinformation, the technical complexity of the macro-economic

⁴⁹ Centro de Investigación Económica para el Caribe (CIECA). See www.cieca.org “Desarrollo y Políticas Comerciales en la República Dominicana, Pavel isa Contreras, Miguel Ceara-Hatton y Federico Alberto Cuello Camillo”, Friedrich Ebert Stiftung/Centro de Investigación Económica para el Caribe, December 2003, 150pp.

⁵⁰ Federación Unitaria de Trabajadores y Trabajadoras de Zonas Francas

⁵¹ Encuesta Nacional de Fuerza de Trabajo (ENFT), October 2003.

issues and a lack of human resources for monitoring have severely hampered efforts to mobilise the Dominican trade union movement behind a joint strategy for action.

What about a Dominican ‘clean clothes’ label?

The notion of boosting the competitiveness of the Dominican Republic on the global textile market by further undermining working conditions seems to be rejected by both employers and the unions, as merely worsening even further the living standards of Dominicans, who were sorely hit by an inflation rate of 43% in 2003 without a proportional indexation of wages⁵². The minimum current monthly wage of 3,561 pesos (about 127 dollars) received by workers in the Dominican EPZs no longer covers the basic needs of families, which the UNDP reckoned to be around 15,000 pesos in April 2004. Not to speak of the wage of just 1,690 pesos that is paid in the ‘economically depressed regions’ along the country’s border with Haiti!

If there is no hope of beating China, with its rock-bottom wages and union rights violations, in a social dumping race to the bottom, then why not attempt an upward harmonisation of working conditions instead? Maribel Batista, a lawyer in the National Trade Union Unity Council⁵³, regrets the fact that the unions have never been consulted about that kind of alternative approach. *“All the big clothing companies with operations in the Dominican Republic, like Nike, Reebok, GAP, Levis, Liz Claiborne, Lee Cooper and Tommy Hilfiger, have based their marketing strategies on their image. If the million Dominicans living in New York said they preferred clothes produced in the Dominican Republic, many of these famous brands would keep some of their production here. I think we should make a better evaluation of the consumer potential of Dominicans living in the United States. Isn’t it time to promote the Dominican Republic as a place where we produce quality goods by respecting environmental laws and labour rights?”* Marketing ‘clean clothes’ is one area where China is not unbeatable. But the Dominican Republic still has a long way to go towards achieving that goal: the ILO, the ICFTU and Human Rights Watch⁵⁴ have once again singled the country out as one of those that violates workers’ rights, particularly those of women workers.

Since it lacks any proper national strategy involving all the affected partners for approaching the forthcoming quota-free textile market, the Dominican Republic seems to be pinning its hopes mainly on the US-CAFTA to save its increasingly vulnerable textile industry⁵⁵. However, even if the US-CAFTA managed to keep it afloat, it could not convert it into the kind of engine for sustainable development that the Dominican economy – with its negative growth rate (- 0.4%) in 2003 - desperately needs. And this electoral year in the United States means that the US Congress’s ratification of that very controversial agreement is unlikely to come in the next few months. So from 1st January 2005, the Dominican export processing zones, one of the

⁵² Banco Central Dominicana

⁵³ Consejo Nacional de Unidad Sindical (CNUS = National Trade Union Unity Council, a platform of union organisations that includes the Dominican CNTD, an ICFTU affiliate)

⁵⁴ “Pregnancy-Based Sex Discrimination in the Dominican Republic’s Free Trade Zones: Implications for the U.S.-Central America Free Trade Agreement (CAFTA)”, April 2004, Human Rights Watch. See <http://hrw.org/spanish/informes/2004/dr0404>

⁵⁵ “La inversión extranjera en América Latina y el Caribe, 2003”, Comisión Económica para América Latina y el Caribe (CEPAL), 2004. See: www.eclac.cl

economy's pillars for creating jobs and attracting foreign currency, are very unlikely to reap any immediate benefits from the FTA, but instead risk facing the ravages of increased Asian competition without being fully prepared for the onslaught.

CONCLUSIONS AND RECOMMENDATIONS

The end of the quota system in January 2005 is undoubtedly set to radically alter the face of the textile and clothing sector in the months and years to come. One of the countries that most exploits its workforce, China, is being proclaimed the world over as the chief beneficiary. Its exploitation of the poorest is contributing to the downward pressure on prices throughout the world and pushing global suppliers to reduce their workers' rights in a bid to stay competitive. China is dragging down the standards of respect for workers' rights, a situation the trade union movement is strongly condemning, as much out of solidarity with Chinese workers as out of concern for the domino effect it is having on other countries.

This negative effect has already been noted in some countries. For example, the government of the Philippines stated that its law on the minimum wage would no longer apply to the clothing industry. And as we showed in the chapter on Bangladesh, the Bangladeshi government recently signalled that it would increase the number of authorised overtime hours and loosen the restrictions on women' night work in order to prepare for 2005. A consultancy firm charged with studying the post-2005 situation in Bangladesh referred, for its part, to the measures "protecting" workers as one of the obstacles to competitiveness, though in practice Bangladeshi workers are some of the worst protected in the world. An economist from the Asia Foundation stated this November at a conference in New York on "Business for Social Responsibility" (an organisation promoting corporate social responsibility) that as from 2005 workers would need to relinquish certain social achievements if they were to remain competitive. It is hard to see just where those achievements exist in many clothes exporting countries, since the workers do not even earn enough to survive on decently.

Those profiting most from this downslide in social conditions are the major clothing distributors in the world's main markets, i.e. the Western world. They protest, of course, that they do not intend to put all their eggs in one basket after 2005, in other words, they will not source solely from China (saying that it would not be in their interest). But they are guarded about revealing any further intentions, not to mention announcing one of the only measures that would prevent the social tragedy awaiting workers around the world, that is, a commitment to maintaining the same level of orders in every country whose workers they have called on over recent years.

Where the same level of orders cannot be maintained in a particular country, the major sourcing companies should at least pass on orders to suppliers who will have work performed in countries where there is the political will to apply labour regulation that provides for all of the minimum internationally recognised labour standards and that also provides some protection, such as vocational training, for workers in the event that their jobs disappear. Sourcing companies must assume responsibility for the labour practices of their suppliers and for the conditions under which work is performed in their supply chains. This responsibility must be reflected in their demands with respect to prices and delivery schedules. It should also be reflected in the choice of countries where work will be performed.

For their part, the suppliers need to do all they can to ensure they become less dependent on their main customers, for example by improving the training provided to

their workers, investing in new technologies, strengthening the marketing skills of their managers, etc.

Countless workers see the direction currently being taken as a major injustice. It was, after all, the major industrialised countries that imposed the quota system on the world economy in the 1970s, radically altering industrial landscapes throughout the globe, delocalising textile and clothing production to countries that did not even have a manufacturing base in this sector at the time. Millions of people transformed their lives, abandoning their villages and families in response to the call to work in the factories. Some years later, a new change in the rules imposed by the "global economic giants" is now set to deprive many of these people of the jobs and the new lives they have found. No one was there to negotiate on behalf of such workers when these far-reaching decisions were taken - decisions that will take them from relative poverty to absolute misery from one day to the next.

It was the GATT and its successor, the WTO, that supervised the quotas system and were the overseers of its dismantling. It is now up to them to help limit the negative social consequences. The unbridled liberalisation of trade must be reviewed as a matter of urgency. The economies of developing or emerging countries need measures that will help them face up to giants like China. If necessary these measures should include restrictions on exports from countries that violate basic workers' rights, otherwise there is a risk of millions of jobs being lost in regions where there are no alternative sources of employment. Co-ordinated worldwide action is needed to prevent the repression of workers as an illegitimate tool to gain export advantage, which is precisely the case today in China and export processing zones.

The report of the World Commission on the Social Dimension of Globalisation (ILO) states that when a serious problem arises in the global economy there should be an initiative to bring together the various agencies concerned to look into the problem and identify possible solutions. The end of the quota system is, indeed, a serious problem, given the threat it poses to the jobs of millions of workers throughout the world. It is vital that the WTO, the OECD, the World Bank, the ILO, the IMF, UNDP and all the other major international agencies and organisations look into this problem and, above all, the solutions required to avoid the social tragedy awaiting so many countries. The only effective way of doing this would be to closely involve the workers in these debates and solutions. The clothing multinationals must, of course, also be involved in this process. The ILO has a crucial role to play in organising an international meeting, with involvement of all the above categories, the result of which should be to produce measures to safeguard the livelihoods of workers from the textile and clothing sector.

Too few of the countries whose economies rely on the textile and clothing sector have reacted in time to prepare for the post-ATC world. The application of core labour standards is often too weak in these countries. Their social security systems remain weak, access to vocational training is limited to a small minority of the workers who lose their jobs, and employers are generally not prosecuted if they elude their obligation to pay fair compensation to redundant workers. Little has been done in countries such as Bangladesh or Cambodia to diversify the economy in anticipation of the end of the quota system, although it was announced ten years ago.

These serious errors of management by governments need to be remedied as quickly as possible. The international financial institutions must make funds available for helping the governments of countries affected by the ending of quotas to strengthen their domestic economies, their competitiveness and their application of fundamental labour standards. The “Trade Integration Mechanism” of the IMF is a start, but in order to be useful, the interest rates offered must be on a highly concessional basis for the poor countries. The governments of those countries facing structural crisis in the textiles and clothing sector - whether industrialised or developing - must be prepared to spend more on trade restructuring measures, including unemployment assistance, retraining and investment.

The major social dramas resulting from the ending of the quota system cannot be prevented by a single measure. All those involved - from suppliers, to sourcing companies or distributors, and from national governments to the highest international authorities - need to act together to prevent the loss the millions of jobs in countries which are already some of the poorest in the world.

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