

INTERNATIONAL LABOUR ORGANIZATION
Sectoral Activities Programme

**Promoting fair globalization in
textiles and clothing in a post-MFA
environment**

Report for discussion at the Tripartite Meeting on
Promoting Fair Globalization in Textiles and Clothing
in a Post-MFA Environment

Geneva, 2005



INTERNATIONAL LABOUR OFFICE GENEVA

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Preface

At its 292nd Session (March 2005), the Governing Body decided to hold a Tripartite Meeting on Promoting Fair Globalization in Textiles and Clothing in a Post-MFA Environment.

It also decided that the purpose of the Meeting would be to enable governments and employers' and workers' organizations to discuss the consequences and trends associated with the phase-out of quotas and to provide guidance to the tripartite constituents on how to share strategies, lessons and experiences throughout the supply chain to allow them to best adapt to changing circumstances and to identify ways to address them. The outcome of the discussions at the Meeting and any recommendations would be provided to the Governing Body in a format which would best respond to the circumstances.

The Director-General proposed that this be a tripartite meeting lasting three working days, with 45 participants, and that the following 15 governments be invited to participate at the expense of the Office: Bangladesh, Brazil, Cambodia, China, France, Haiti, India, Kenya, Lesotho, Mexico, Morocco, the Philippines, Romania, Turkey and the United States. Although the nomination of the Employer and Worker representatives was to be made by the respective groups of the Governing Body, it was hoped that national tripartite delegations would be selected. It was further proposed to place the following countries on a reserve list: Burkina Faso, Dominican Republic, Egypt, Italy, Madagascar, Sri Lanka and Viet Nam. All interested governments were invited to attend as observers.

The Meeting is part of the ILO's Sectoral Activities Programme, one of the purposes of which is to facilitate sectoral social dialogue and the exchange of information between constituents on labour and social developments relevant to particular economic sectors, complemented by action-oriented research on topical sectoral issues. This objective has traditionally been pursued by holding international tripartite sectoral meetings with a view to: fostering a broader understanding of sector-specific issues through social dialogue; developing an international tripartite consensus on sectoral concerns and providing guidance for national and international policies and measures to deal with related issues; promoting the harmonization of all ILO activities of a sectoral character and acting as a focal point between the Office and its constituents; and providing technical advice, practical assistance and support to the latter to facilitate the application of international labour standards.

This report was prepared by Jean-Paul Sajhau of the Sectoral Activities Department. The ILO received external contributions from Hildegunn Kyvik Nordås from the Institute for Research in Economics and Business Administration (SNF) (Norway) and Philippe Pochet from the Observatoire Social Européen (OSE) (Belgium). A number of ILO technical departments and ILO Offices provided inputs to this report. Particular thanks should be given to: Marie-France Binétruy, Harvey Clavien, Claudia Coenjaerts, Christoph Ernst, Rosalind Harvey, Alfons Hernández Ferrer, Amelita King-Dejardin, Shauna Olney, Nikolai Rogovsky, William Salter, Emily Sims, Jean-Pierre Singa, Michael Urminsky, Corinne Vargha and Daan Zult.

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Abbreviations and acronyms

AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
CAFTA	US-Central America Free Trade Agreement
CSR	Corporate social responsibility
DWPP	Decent Work Pilot Programme
EPZ	Export processing zone
EU	European Union
EUROMED	Euro-Mediterranean Partnership
EUROSTAT	Statistical Office of the European Communities
GDP	Gross domestic product
GSP	Generalized System of Preferences
ICFTU	International Confederation of Free Trade Unions
IGO	Intergovernmental organization
IMF	International Monetary Fund
LDC	Least developed country
MFA	Multifibre Arrangement
MNE	Multinational enterprise
NAFTA	North American Free Trade Agreement
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
RMG	Ready-made garment
SITC	Standard International Trade Classification
SME	Small and medium-sized enterprise
TC	Textiles and clothing
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

Introduction

Textiles and clothing was until recently the only major manufacturing sector that did not come under the rules of the General Agreement on Tariffs and Trade (GATT). Instead it was subject to extensive use of quotas by the major importing countries. The quota system started with the Long-Term Arrangement Regarding International Trade in Cotton Textiles and Substitutes (LTA) under the auspices of the GATT in 1962. The LTA was extended to materials other than cotton in 1974, and became known as the Multifibre Arrangement (MFA). At the end of the Uruguay Round of negotiations it was agreed that countries which wished to retain quotas committed themselves to phasing them out gradually over a period of ten years, with the last quotas being lifted on 1 January 2005, as stated in the Agreement on Textiles and Clothing (ATC).

Three countries – Canada, Norway and the United States – and the European Union (EU) – chose to maintain quotas under the ATC. These countries have allocated quotas to trading partners unilaterally. At the same time they have awarded trading partners quota-free and some times also tariff-free access to their markets through regional trade agreements or various preference schemes for developing and least developed countries. The resulting trade regime was highly distorted and unpredictable, particularly from the point of view of exporters that faced binding quotas. The countries most restricted by quotas were China, India and Pakistan. Bangladesh and Sri Lanka were subject to binding quotas on clothing exports to the United States, but not to the EU.

Conversely, a significant clothing exporting industry was established in preference-receiving countries, based on comfortable preference margins. With the phasing out of quotas, preferences are eroded and it has been feared that jobs could be lost on a massive scale in these countries post ATC. This has been a particular concern in countries which earn half or more of their total merchandise export earnings from textiles and clothing, such as Bangladesh, Cambodia, the Dominican Republic, El Salvador, Mauritius and Sri Lanka. These countries have enjoyed preferences in EU or the United States or both, but are facing increased competition post ATC.

The quota-imposing countries have followed the letter of the ATC, but it turned out that binding quotas on the most significant imports could be maintained until the very last day of the adjustment period, resulting in backloading and a drastic change of trade regime on 1 January 2005.

China's market access improved substantially when the country became a member of the World Trade Organization (WTO) in 2001. While most developing countries had supported the ATC before China's entry, they became increasingly concerned that the lion's share of the gains from quota phase-out would accrue to China. This concern intensified following the implementation of the third step in the ATC, when China's exports of the newly integrated products increased by about 90 per cent to the EU and almost 200 per cent to the United States. In view of China's potential for rapid export growth, there is a special safeguard clause in China's protocol of accession to the WTO, allowing trading partners to impose temporary quotas on China under given circumstances until the end of 2008. In May 2005 the United States imposed quotas on seven products. The EU also initiated a safeguard investigation on nine categories of textile products and considered using the safeguard for two products (flax yarn and T-shirts) in May 2005. Finally, the EU suspended its investigation and planned sanctions against these two products following the signature with China in June 2005 of a three-year transitional agreement. Under this agreement, China agreed to limit the increase in its textiles and clothing (TC) exports to the EU to 8-12.5 per cent per year in ten "sensitive" categories of products.

All these developments have led to a situation of extreme uncertainty among producing countries, workers and enterprises worldwide. The changes resulting from the new quota-free TC trade regime will concern millions of workers and hundreds of thousands of enterprises in both developed and developing countries. They will affect an industry in which wages and working conditions are already below the manufacturing sector average, and where trade unions report violations of trade union and workers' rights. The most vulnerable people, in particular women, and the most vulnerable countries, in particular the least developed countries (LDCs), are likely to be hardest hit.

Dealing in a socially responsible way with these new circumstances in order to promote fair globalization in the TC industry requires the elaboration and implementation of integrated strategies from global to local level, which involve the governments and social partners concerned. The ILO is in a key position to examine, provide a forum for and facilitate this process.

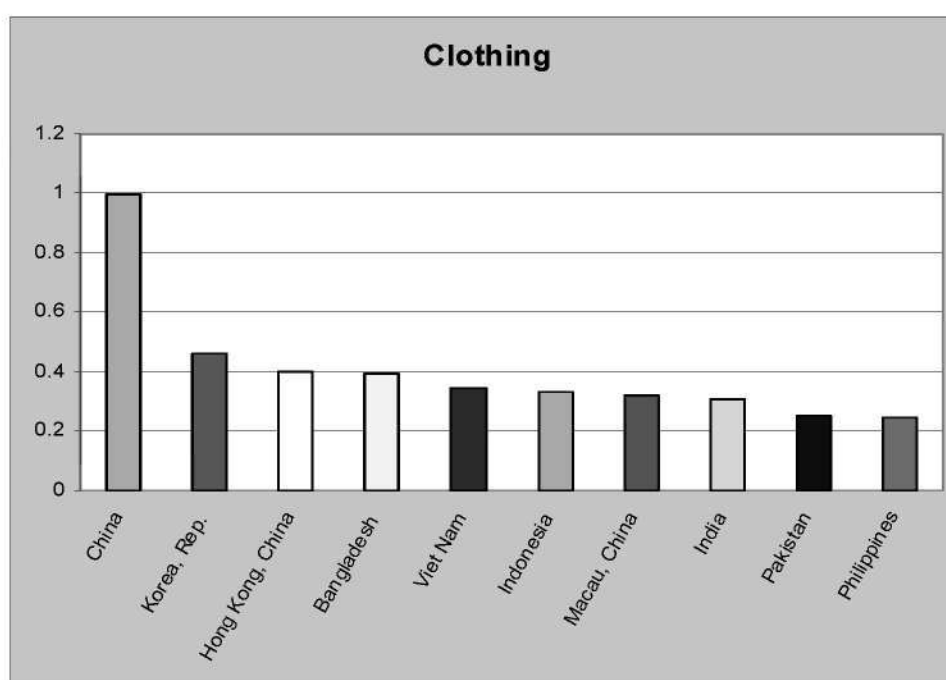
1. Developments in the TC industry before the phase-out of quotas

1.1. Recent trends in trade of major exporting countries

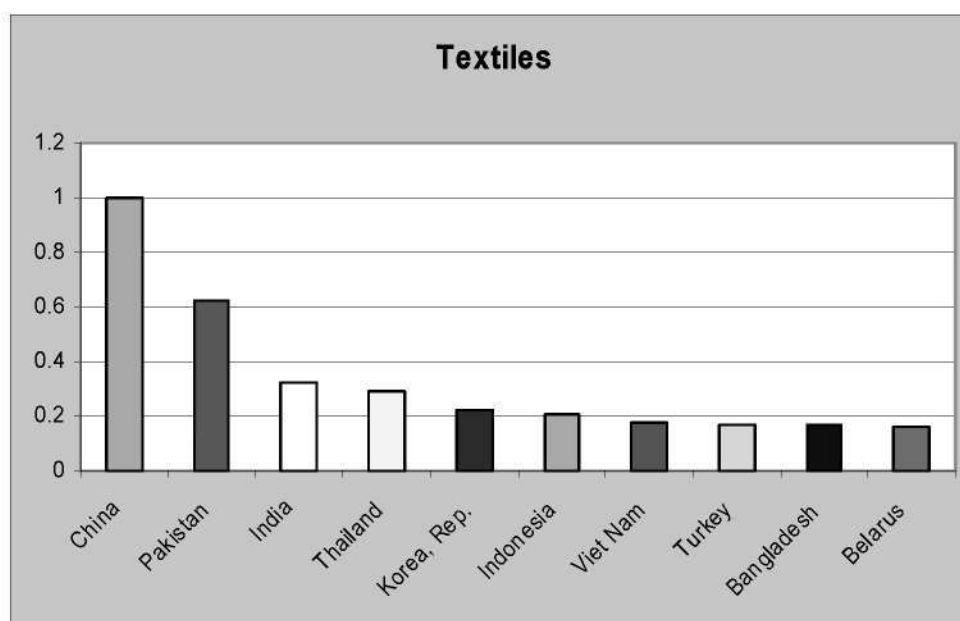
The year 2005 has heralded a major change in world trade in textiles and clothing and hence in employment. A number of countries fear that a new wave of cheap textile and clothing products will flood their markets and thus threaten their domestic industry; others hope for new export opportunities as a result of a quota-free trade environment. A third set of countries will lose preferential access to United States or EU markets and thus face higher competition for their exports. The following sections describe the trends in trade and employment in the years leading up to the end of the ATC, with the main focus on exporting developing countries.

Figure 1.1 shows the exporting countries most affected by import quotas established by the United States, the EU and Canada. A quota impact indicator has been designed to measure the extent to which a country has actually used the quota to its limit and how many quotas have been applied to each country. China is most affected by quotas in the TC sector. In clothing, the Republic of Korea's exports were also significantly bound by import quotas, followed by other main exporters from Hong Kong, China, and countries in South Asia and South-East Asia.¹

Figure 1.1. Ten countries most restricted by textile and clothing quotas, 2004 (quota impact indicator)



¹ Other exporters are Thailand (11th place), Malaysia (12th place), Taiwan, China (13th place), Sri Lanka (16th place), Turkey (18th place), Cambodia (20th place).

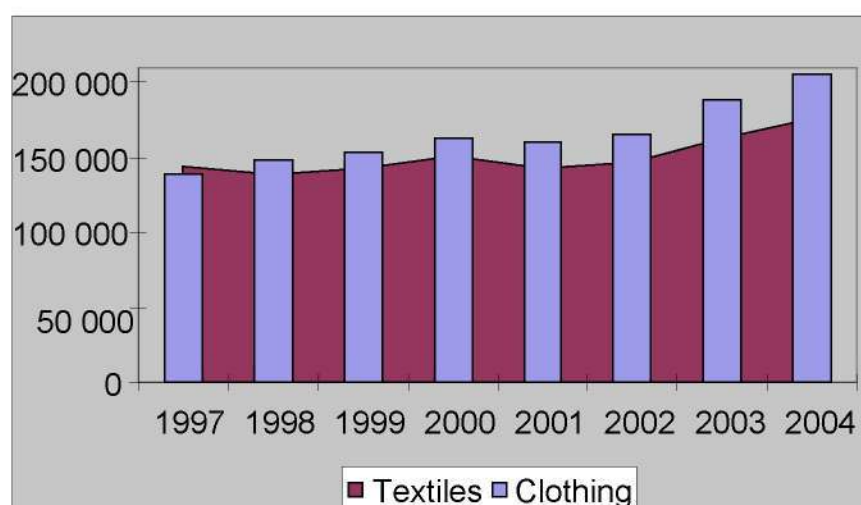


Source: ILO calculation based on EU, United States and Canadian customs data.

Besides China, Pakistan and India were most affected by textile quota restrictions. Other countries, such as Belarus, Brazil, Egypt, Romania and Turkey, are also important textile exporters exposed to quotas; Brazil and Egypt are also major cotton producers. Although some countries are smaller and produce less than China, they may be harder hit by quotas.

An analysis of the relationship between imports and quota impact indicators shows a positive correlation which reflects the causal relationship between the strictness of quotas and the size of exports towards the quota-imposing countries. In other words, quotas were specifically targeted towards the countries that could export on a large scale and therefore have the potential to serve a large market.

Figure 1.2. Trends in world exports in textiles and clothing, 30 major exporting countries, 1997-2004 (in millions of US\$)



Source: ILO calculation based on data from Global Trade Atlas.

Today, textiles and clothing represent about 7 per cent of total world exports and are among the most dynamic product sectors worldwide. The more labour-intensive clothing industries now represent 57 per cent of total TC trade. Clothing exports grew at an average rate of 5.9 per cent between 1997 and 2004 (figure 1.2). The textiles industry registered an average growth rate of 3 per cent in the same period. Developing countries now account for half of world textile exports and almost three-quarters of world clothing exports.

Trade concentration among the major exporting and importing countries fell between 1997 and 2004. China has increased its share of world exports in textiles and clothing and is the top exporter of both products. Its lead position is even more striking if one takes China and the Hong Kong and Macau Special Administrative Regions together. Industrialized countries are still important exporters of textiles and clothing, especially Germany, Italy and the United States – the latter just in textiles. The share in textiles of the Republic of Korea and Taiwan (China), however, is declining, as they have been specializing in higher value-added products. Latin America, South Africa and Australia also experienced a decline in their textile exports share, while India's share increased. Turkey has been an emerging exporter of clothing, as has Mexico.

Table 1.1. Clothing and textiles as a percentage of total exports, 2003

	Textiles	Clothing	Total
Bangladesh	8.7	76.5	85.2
Cambodia ¹		80.0	
China	6.3	11.9	18.2
Guatemala ²		42.0	
Hong Kong, China	4.9	52.5	57.4
Macau, China	0.9	89.9	90.8
Macedonia, FYR	3.2	30.0	33.2
Madagascar	2.3	30.8	33.1
Mauritius	4.2	52.6	56.9
Morocco	1.5	32.5	34.0
Nepal	16.5	34.5	51.0
Pakistan	47.7	26.3	74.0
Romania	2.6	23.2	25.7
Sri Lanka	4.0	51.6	55.6
Turkey	11.0	21.7	32.7

¹ Cambodia: data for 2004; ² Guatemala: data for 2001 from the Permanent Mission of Guatemala to the United Nations in Geneva.

Source: ILO calculation based on United Nations Commodity Trade Database (COMTRADE).

In a number of developing countries that are small exporters on a global scale, textiles and clothing exports are crucial for their economic development. Table 1.1 reveals that clothing accounts for more than 70 per cent of total exports in Bangladesh and Cambodia. For China, the share of textiles and clothing in total trade is not that important, but clothing accounts for a large share in the Hong Kong and Macau Special Administrative Regions. In the case of Pakistan, textiles are even more important than clothing, with a share of 48 per cent that accounts for a large part of the total value of 74 per cent. Other Asian countries with a strong specialization in textiles and clothing are Sri Lanka and Nepal. In Europe, major exporters are Turkey, The former Yugoslav Republic of Macedonia and Romania; in Africa, mainly Morocco and Mauritius; some Central American and Caribbean countries are also exporters.

With regard to imports, there have not been significant changes in the major importing countries, which are mainly the United States, the EU and Japan. China and Hong Kong, China, are also major importers of textiles, even ahead of member countries of the Organisation for Economic Co-operation and Development (OECD) – mostly as intermediary products for clothing production.

1.2. Employment trends in selected countries

Many developing countries, in particular in Asia, have specialized in exports of textiles and clothing. Increased exports generated a surge in employment, which was most impressive in China, up from 14.7 million in 1995 to 19 million in 2004 (table 1.2). Textiles and clothing as a proportion of China's total manufacturing employment, however, is less dominant (18.9 per cent) than in other countries such as Bangladesh (35 per cent), Pakistan (43 per cent) or Madagascar (45 per cent). Pakistan (2.3 million), Bangladesh (2 million) and India (1.6 million) are the only other countries with a workforce of over one million in textiles and clothing.

Table 1.2. Trends in employment and share of clothing as a percentage of manufacturing employment, selected countries, 1995-2005

	Year	Employment	Share (%)	Year	Employment	Share (%)
Bangladesh ¹	1998	1 049 360	49.9	2004	2 000 000	n.a.
Cambodia	1995	–	n.a.	2005	250 000	38.2
China ¹	1995	14 710 000	6.2	2004	19 000 000	18.9
India	1998	398 618	5	2001	463 319	6.2
Pakistan ¹	1996	26 915	4.8	2001	2 300 000	42.9
Sri Lanka	1997	154 542	34.9	2000	165 388	34.2
Mexico	1997	72 660	5.2	2005	460 000	12.3
Guatemala	1997	66 800	n.a.	2005	104 464	23
Romania	1997	286 300	14.1	2002	403 400	25.3
Turkey	1997	142 554	12.6	2000	164 353	14.6
Mauritius	1997	69 423	65.6	2001	76 963	65.8
Morocco	1997	131 995	16.1	2002	176 894	17.8
Madagascar ¹	1999	83 000	44.9	2001	87 000	44.8

n.a. : Not available. – : Insignificant.

¹ Recent data from Bangladesh, China, Pakistan and Madagascar are for clothing and textiles. China's textiles and clothing share based on 2003 data. Manufacturing employment in 2003 based on estimation.

Sources: UNIDO: Industrial Statistics Database (INDSTAT) 2003 and 2005, Rev. 2 and 3; Cambodia: *Better Factories Cambodia Project*; China: *China Textile Industry Development Report 2005* for textiles and clothing and *China Statistical Yearbook 2004* for manufacturing employment; Pakistan: Textiles and clothing employment for 2001 from Institut Français de la Mode (IFM) et al.: *Study on the implications of the 2005 trade liberalization in the textile and clothing sector* (Paris, Feb. 2004), manufacturing employment from the Federal Bureau of Statistics; Bangladesh: Bangladesh Garment Manufacturers' and Exporters' Association (BMGEA) for 2004 data; Guatemala: Asociación Gremial de Exportadores de Productos no Tradicionales; Madagascar: Ministry of Labour and Social Law.

An analysis of trends in employment in the clothing sector as a share of total manufacturing employment shows that for Cambodia, China, India, Pakistan, Romania and Turkey employment in the clothing sector is increasingly important, while this share declined in Bangladesh and Sri Lanka, and in Africa, with the exception of Madagascar.

Worldwide, a declining trend in employment has been observed – from 14.5 million workers in 1990 to 13.1 million in 1995 and 13 million in 2000,² partly as a result of a consolidation process of this production group and a more intensive use of capital.

In textiles, employment declined even faster worldwide – from 19.7 million workers in 1990 to 16.8 million in 1995 and 13.5 million in 2000. China,³ Pakistan and India are the most important employers in textiles among developing countries, but Turkey also has large textile workforce. Trends in textile employment as a share of total manufacturing employment are shown in table 1.3.

Table 1.3. Trends in employment and share of textiles as a percentage of manufacturing employment, selected countries, 1995-2005

	Year	Employment	Share (%)	Year	Employment	Share (%)
Bangladesh	1998	630 810	30	n.a.	n.a.	n.a.
Cambodia	1995	–	n.a.	2000	223 337	41.9
India	1997	1 529 142	17.5	2001	1 182 123	15.7
Pakistan	1996	235 183	41.9	n.a.	n.a.	n.a.
Sri Lanka	1997	64 112	14.5	2000	72 499	15
Mexico	1997	109 490	7.9	2000	140 000	3.7
Romania	1997	159 400	7.8	2002	91 400	5.7
Turkey	1997	227 131	20	2000	222 268	19.7
Guatemala	n.a.	n.a.	n.a.	2005	18 500	4.1
Mauritius	1997	5 517	5.2	2001	8 180	7
Morocco	1997	68 640	14.4	2002	41 303	9.5

n.a.: Not available (for Bangladesh and Pakistan, see note to table 1.2). –: Insignificant.

Sources: See table 1.2.

The share of female workers in the TC sector is above the manufacturing average and particularly high in the clothing industry. These women are often young and many of them enter the industry without qualifications. The share of female employment is very high in Asia, with more than 89 per cent in Cambodia, 80 per cent in Bangladesh and 82 per cent in Sri Lanka, but also in Africa, for example in Mauritius with 73 per cent. India and Turkey, however, have a share below 50 per cent and Guatemala 50 per cent. The female share in textiles is generally lower, normally significantly below 50 per cent, with the exception of Cambodia (75.9 per cent) and Sri Lanka (61.2 per cent).⁴

² Based on data from the United Nations Industrial Development Organization (UNIDO), 2005. This is just a proxy; it does not take other data sources into account, in particular the abovementioned data on China.

³ According to UNIDO data, which underestimated the real size of textile employment, 4.78 million people are employed in textiles in China.

⁴ Various sources: UNIDO; INDSTAT 2005; BGMEA data for Bangladesh; Instituto Nacional de Estadística (INE) for Guatemala.

2. Predicted implications of quota phase-out

The impending expiry of the ATC triggered numerous studies on the impact of quota phase-out.¹ All agreed that China and India would gain market share and that local manufacturers in the EU and United States would lose market share. The magnitude of gains and losses and the impact on preference-receiving developing countries vary from one study to the next, however.

The estimates of *China's* share in total textiles and clothing exports post ATC vary from about a third to more than 50 per cent. For comparison, China's share of total world exports was about 20 per cent for textiles and 28 per cent for clothing in 2003. The reason why China is predicted to be the main winner of quota phase-out is simply that it was the main loser from the quota system. It was by far the country facing the highest trade barriers and it far outstrips other countries in its capacity to respond to the opportunities created by better market access. Nevertheless, there are factors restraining China's export expansion. First, there are the safeguards that can be invoked by importing countries, should China's export growth create serious market disruption. Quotas can be imposed for about a year at a level of 7.5 per cent above the level of imports during the first 12 months of the recent 14 months preceding the month of the request for consultations with China on the matter. Second, China is in the process of outgrowing its comparative advantage for the most labour-intensive manufacturing industries, and textile and clothing's share of employment and GDP is on a declining trend. In other words, it is evolving towards higher value-added industries. During this process, China is developing not only as a manufacturing hub, but also as an important consumer market which is likely to absorb a larger share of its own production, as well as total world imports. Nevertheless, employment in the textiles and clothing sector is expected to grow by about 12 and 30 per cent, respectively, over and above what it otherwise would from 2005 to 2018, as a result of quota phase-out.²

Exports from *India* have been restricted both by quotas and by domestic regulation. A recent study argues that expansion in the textiles and clothing sector in India is held back as much by domestic regulation as quota restrictions.³ In particular, it is argued that labour market regulations that apply to firms with more than 100 employees favour small companies and lead to a fragmentation of the industry.

¹ Some examples of recent studies are: D. Audet: *Structural adjustment in textiles and clothing in the post-ATC trading environment*, OECD Trade Policy Working Paper No. 4 (Paris, OECD, 2004); S. Grumiau: *Disaster looms with the ending of the quota system*, International Confederation of Free Trade Unions report (Brussels, Nov. 2004); Institut Français de la Mode (IFM) et al.: *Study on the implications of the 2005 trade liberalization in the textile and clothing sector* (Paris, Feb. 2004); J. Mayer: *Not totally naked: Textiles and clothing trade in a quota-free environment*, United Nations Conference on Trade and Development Discussion Paper No. 176 (Dec. 2004); H.K. Nordås: *The global textile and clothing industry post the Agreement on Textiles and Clothing*, Discussion Paper No. 5 (Geneva, WTO, 2004); H.K. Nordås: *Labour implications of the textiles and clothing quota phase-out*, Sectoral Activities Programme Working Paper No. 224 (Geneva, ILO, 2005); United States International Trade Commission: *Textiles and apparel: Assessment of the competitiveness of certain foreign suppliers to the US market*, Publication 3671 (Washington, DC, Jan. 2004).

² IFM: *Study on the implications ...*, op. cit.

³ A. Elberhi; T. Hertel; W. Martin: "Estimating the impact of WTO and domestic reforms on the Indian cotton and textile sectors: A general-equilibrium approach", in *Review of Development Economics*, 7:3, pp. 343-359, 2003.

India needs to modernize its textiles and clothing sector. Modernization does, however, inevitably lead to the introduction of somewhat more capital-intensive technologies than the outdated technologies currently in use. Therefore, total employment in the textiles and clothing industry, including informal sector jobs, is unlikely to grow much, if at all, even if output and exports expand to the tune of 10 to 15 per cent per year for three to five years following quota elimination. In any case, India's exports are expected to increase considerably even in the absence of reforms, and the country is also well positioned to capture some of the market shares that China loses as a result of the imposition of safeguard measures.

Most studies agree that *Bangladesh* will suffer job losses and a decline in export earnings post ATC. However, Bangladesh also faces domestic regulatory obstacles to job creation and exports in the clothing sector. Weak infrastructure – particularly low port efficiency and insufficient port capacity – as well as frequent power cuts, high costs of telecommunications and red tape prevent Bangladesh from realizing its potential as a low-cost clothing exporter.⁴ If these problems are addressed, job losses could be limited or even avoided. Data from the United States suggests that Bangladesh actually increased its market share slightly in that country during the first months of 2005, as will be further discussed in Chapter 3.

Pakistan differs from most other low-income countries in the sense that textiles are a more important source of export revenue than clothing. Pakistan faced quota restrictions on both textiles and clothing in the United States and EU in 2004, but the quotas were less restrictive than those imposed on China and India. The phasing-out of quotas will have two effects on Pakistan's exports, pointing in opposite directions. On the one hand, quotas on Pakistan's textiles exports will be lifted, creating new market opportunities. On the other, quotas will be lifted on major competitors as well, and Pakistan's clothing exports will face more competition. Another factor that is important for Pakistan as an exporter of textiles is the conditions related to preference schemes awarded to apparel exporters such as Bangladesh. Whether or not Pakistani textiles qualify as local content under preference schemes is important for the development of regional supply chains, in which Pakistan could play an important role. This is, however, not directly related to the quota phase-out under the auspices of the ATC.

Model simulations by World Bank staff suggest that output in the textiles sector will increase somewhat while output and exports in the clothing sector will decline as a result of quota phase-out.⁵ In addition, Pakistani exporters face domestic regulation that most studies find to be an impediment to the competitiveness of the sector. If successful reforms are introduced, textiles could grow more and the expected downsizing in the clothing sector could be smaller, according to the World Bank study. Reforms would lead to higher productivity and higher wages, but stagnation or even a decline in the number of workers in the sector, including the informal segment.

Most recent studies of the impact of quota phase-out express great concern that poor preference-receiving countries would suffer job losses and export revenue losses post ATC. The increasing importance of lead time and design also in low-price apparel market segments implies that low labour costs are not sufficient to ensure competitiveness in a quota-free world market. High costs of utilities, poor infrastructure and long and

⁴ M. Mlachila; Y. Yang: *The end of textiles quotas: A case study of the impact on Bangladesh*, IMF Working Paper WP/04/108 (Washington, DC, 2004).

⁵ W. Martin: "Textiles and clothing policy note: Implications for Pakistan of abolishing textiles and clothing export quotas", World Bank draft paper (17 Feb. 2004).

unpredictable lead times more than outweigh lower labour costs in many LDCs, particularly those located far from major markets. These concerns have been raised for example with regard to *Mauritius, Lesotho, Madagascar* and other countries that are heavily dependent on clothing exports, where a large share of formal sector employment is concentrated in this sector. Poor, preference-receiving countries located in areas where they can easily integrate into regional supply chains could well benefit from quota phase-out. Cambodia and Viet Nam, for example, are attractive locations for assembly of apparel on behalf of lead firms in the major middle-income textile and clothing exporters in Asia. Those located far from major markets, however (Lesotho, Madagascar, Mauritius), are the largest potential losers post ATC.

Asian middle-income textile and clothing exporters such as the *Philippines* and *Indonesia* have seen their clothing exports decline as a share of total exports over the past five years, but the sector is still important for employment. These countries have had their remaining quotas lifted, while they face increased competition, particularly from India and China. Their ability to remain important exporters depends on their capacity to upgrade technology and enter the higher value-added market segments. The post-ATC trade environment is conducive to more effective supply chains in the Asian region, which could in turn help them compete with middle-income countries located close to the former quota-restricting countries.

Textiles and clothing exporters located close to the former quota-restricting countries (such as *Turkey, Romania, Tunisia, Morocco, Mexico* and the *Caribbean countries*) are likely to lose market share to the most restricted countries (China and India) in the short run, simply because competition for market share is a zero-sum game. However, many studies argue that proximity to the major markets is increasingly important.⁶ Therefore, most studies taking lead time, design and marketing into account predict that exports from these countries to the EU and United States will continue to grow after a short period of stagnation. This is not likely to generate much employment, however, since technology upgrading and productivity improvements are necessary in order to stay competitive in the fashion markets.

Finally, all studies referred to in this review agree that local producers in the *EU* and *United States* will suffer the largest losses in market shares. These have been the main beneficiaries of the MFA and are consequently the main losers from quota phase-out. The downward trend in the industry has, however, been evident for the last decade and more in spite of quota and tariff protection. Job losses and plant closures are expected to accelerate following quota phase-out. Nevertheless, the situation is expected to stabilize and there will still be room for innovative niche producers in the fashion market and in the medium-to high-technology parts of the textile industry.

⁶ The most prominent is C.L. Evans; J. Harrigan: *Tight clothing: How the MFA affects Asian apparel exports*, NBER Working Paper 10250 (Cambridge, MA, National Bureau of Economic Research, Jan. 2004).

3. Rapid impact assessment

3.1. Developments during the first half of 2005: Trade and employment issues

3.1.1. United States

Trade patterns post ATC

Both the United States and the European Union (EU) have established monitoring programmes following the lifting of quotas. Imports to the United States are published early, and the latest figures available are for May 2005. Aggregate imports for textiles (SITC code 65) from selected countries are presented in table 3.1. The countries included are the major exporters to the United States as well as selected developing countries for which textiles exports to the United States are an important source of export revenue and employment.

Table 3.1. Imports of textiles to the United States from selected countries (US\$ millions)

Country	2003	2004	2004 (to May)	2005 (to May)	Change 2004-05 (%)
World	18 251	20 662	8 324	9 201	10.5
EU15	2 783	3 060	1 220	1 289	5.6
Bangladesh	120	125	62	64	1.9
Cambodia	13	14	5	7	41.8
Canada	1 947	2 045	890	893	0.3
China	3 623	4 601	1 757	2 300	30.9
Dominican Republic	76	80	31	41	31.5
El Salvador	36	36	19	12	-33.9
Honduras	5	5	2	2	8.9
Hong Kong, China	106	94	44	40	-8.2
India	1 528	1 786	707	824	16.5
Indonesia	182	211	86	81	-5.9
Korea, Republic of	1 008	1 017	417	423	1.3
Malaysia	69	68	34	26	-23.0
Mexico	1 581	1 692	699	713	2.1
Pakistan	1 251	1 478	462	511	10.8
Philippines	115	104	49	27	-44.3
Sri Lanka	59	47	24	21	-9.8
Taiwan, China	727	718	282	274	-2.7
Thailand	323	380	147	143	-3.0
Turkey	536	655	272	305	12.2

Source: United States Department of Commerce and International Trade Commission.

The last three columns show import values for the first five months of 2004 and 2005 and the percentage change from the first five months of 2004 to the same period in 2005.

Among the major exporters, China and India have both gained market share since quotas were lifted (i.e. their exports have grown faster than total world exports to the United States), Mexico and the EU15 have lost market share and Pakistan has maintained its market share. Turning to the smaller developing country exporters, the Philippines, El Salvador, Malaysia and Sri Lanka have suffered a decline in export value, while Cambodia has experienced the largest gain – although from a low level. In addition, some of the smaller Caribbean and Latin American countries increased their exports many times over, but their total export value during the first quarter of 2005 was still below US\$1 million (not shown in the table).

These developments are largely in line with what analysts and researchers expected. The most quota-restricted countries have gained, while poor, preference-receiving countries located far from markets have lost market share. The same goes for relatively rich countries such as Malaysia, Taiwan (China), Hong Kong (China), the EU, Canada and the Republic of Korea. One exception to this trend, however, is Cambodia (for more detailed information, see the section on “Better factories Cambodia” in Chapter 4), whose increased share of export, has in large part been attributable to its reputation as a safe haven for labour standards. The sharp decline in El Salvador’s exports is also surprising, given its advantage of proximity.

Table 3.2 presents data on United States clothing imports (SITC code 84).

Table 3.2. Clothing imports to the United States from selected countries (US\$ millions)

Country	2003	2004	2004 (to May)	2005 (to May)	Change 2004-05 (%)
World	71 278	75 731	27 075	30 137	11.3
EU15	2 663	2 681	949	943	-0.6
Bangladesh	1 973	2 119	735	918	24.8
Cambodia	1 311	1 520	538	624	16.0
Canada	1 757	1 717	723	651	-9.9
China	12 015	14 394	4 663	7 607	63.1
Dominican Republic	2 175	2 106	770	777	0.9
El Salvador	1 759	1 760	661	670	1.5
Honduras	2 623	2 802	1 066	1 122	5.3
Hong Kong, China	3 967	4 128	1 289	966	-25.0
India	2 309	2 540	1 053	1 454	38.1
Indonesia	2 370	2 644	1 041	1 215	16.7
Korea, Republic of	2 038	2 054	718	510	-29.0
Lesotho	419	482	166	161	-2.8
Madagascar	212	346	106	104	-1.7
Malaysia	1 253	1 279	478	489	2.3
Mauritius	286	240	100	76	-24.3
Mexico	7 257	7 005	2 750	2 602	-5.4
Pakistan	1 200	1 322	597	662	10.9
Philippines	1 976	1 909	708	703	-0.7
Sri Lanka	1 567	1 689	607	727	19.7
Taiwan, China	1 794	1 725	598	476	-20.4
Thailand	2 278	2 344	819	923	12.7
Turkey	1 368	1 260	463	425	-8.2

Source: United States Department of Commerce and International Trade Commission.

Again it is clear that the countries that were most restricted by quotas (China and India) are the countries that have gained market share since the abolition of quotas. It is likely that some of the gains experienced by China reflect a rerouting of exports that previously went through Hong Kong Special Administrative Region and Taiwan, China, which have both experienced a decline in export values in the post-ATC period. The rise of China is therefore somewhat smaller than it would appear from a first reading of the data, but it is still quite dramatic.

It is encouraging that Bangladesh, Sri Lanka, Cambodia and Indonesia have been able to increase their market shares, while Pakistan and Thailand have been able to maintain theirs. Developments in Mauritius, and to some extent in Madagascar, however, are a cause of concern. Madagascar experienced rapid growth from 2003 to 2004, but has suffered a setback post ATC. In Mauritius, the problems in the clothing sector have been apparent for a long time. Export earnings from clothing reached a peak in 1998 and have since fluctuated around a flat trend.

The slow growth of exports from developing Latin American countries should be less of a concern, and is likely to be a temporary phenomenon as the market accommodates China and India. Owing to the benefits of proximity and closer economic integration in the Americas, these countries are likely to claw back and gain market share, for example from more remote or relatively high-cost countries such as Turkey and Asian middle-income countries.

The discussion on the impact of quota phase-out focuses largely on single items, where output, exports and employment may change substantially. It is, however, important to evaluate these developments against the overall picture, which reflects the ability or inability of countries to switch from one product or one market to another as market conditions change.

Use of safeguards

On 23 May, the United States imposed restrictions on three categories of imports from China. These were: cotton knit shirts and blouses (category 338/339), cotton trousers, slacks and shorts (category 347/348) and cotton and man-made fibre underwear (category 352/652). On 27 May, limits were imposed on an additional four products: cotton yarn (category 301), men's and boys' cotton and man-made fibre shirts (non-knit) (category 340/640), man-made fibre knit shirts and blouses (category 638/639) and man-made fibre trousers (category 647/648). The reason given for introducing quantitative limits is a sharp increase in imports of these items.¹ Restrictions are imposed from the date of the request for consultations with China until 31 December 2005. Table 3.3 presents data on restriction periods, limits on quantities imported from China during those periods, imported quantities from China during the first quarter of 2005, the increase in imports from China from the first quarter of 2004 to the first quarter of 2005, and China's share of total imports, excluding imports under outward processing programmes.

¹ Announcement of Request for Bilateral Textile Consultations with the Government of the People's Republic of China and the Establishment of Import Limits for certain cotton and man-made fibre textiles and textile products in categories 301, 340/640, 638/639 and 647/648, produced or manufactured in the People's Republic of China. *Federal Register/Vol. 70, No. 99/ Tuesday, May 24, 2005/Notices*, Committee for the Implementation of Textile Agreements, 26 May 2005.

Table 3.3. Safeguards on imports from China (end of May 2005)

Category	Period	Quantity limits (dozens)	Imported quantity (1st quarter, 2005)	Per cent change (1st quarter 2004- 1st quarter 2005)	Share China (1st quarter 2005) %
338/339	23.05-31.12	4 704 115	7 137 399	1 277	10
347/348	23.05-31.12	4 340 638	6 794 375	1 573	17
352/652	23.05-31.12	5 062 892	5 252 622	318	16
301*	27.05-31.12	1 450 777	612 219	120	3
340/640	27.05-31.12	2 213 126	1 921 894	284	16
638/639	27.05-31.12	2 844 383	2 751 180	328	19
647/648	27.05-31.12	2 660 678	2 328 112	278	18

*The unit of measurement is kilograms for category 301, cotton yarn.

Key for table 3.3.

338/339	Cotton knit shirts and blouses
347/348	Cotton trousers, slacks and shorts
352/652	Cotton and man-made fibre underwear
301	Cotton yarn
430/640	Men's and boys' fibre shirts (non-knit)
638/639	Man-made fibre knit shirts and blouses
647/648	Man-made fibre trousers

In the first three cases, the import volume allowed for the period 23 May to 31 December is less than what was imported during the first quarter of 2005. China's market share in value terms for the products listed in table 3.3 was on average slightly less than 4 per cent in 2004, a figure much lower than China's share in United States total imports of textiles and clothing, which was about 20 per cent in 2004 (see tables 3.1 and 3.2). It thus appears that the categories on which limits have been reintroduced were among those for which quotas were the most restricting (i.e. had the highest export tax equivalent) during the ATC regime.

The Committee for the Implementation of Textile Agreements received requests for safeguard action on an additional four categories of textiles and clothing imports from China on 6 April 2005. These are: cotton and man-made fibre sweaters (345/645/646), cotton and man-made fibre brassieres (349/649), cotton and man-made fibre dressing gowns and robes (350/650), and other synthetic filament fabric (620). The Committee acted on the request by soliciting public comments on 28 April. These were to be submitted by 3 June.

Labour market developments

Developments in employment in the textiles and clothing sector in the United States are shown in table 3.4.

Table 3.4. Employment in the United States (textile and clothing sector), seasonally adjusted (thousands)

	June 04	Dec. 04	Jan. 05	Feb. 05	Mar. 05	Apr. 05	May 05	June 05
Textile mills	239.3	233.2	231.5	230.1	228.7	225.5	225.4	224.7
Textile product mills	178.5	178.0	178.1	177.9	177.9	177.7	178.3	176.7
Apparel	285.9	271.9	269.3	267.2	262.8	262.2	258.5	256.0

Source: Bureau of Labor Statistics.

Employment in the textiles and clothing sector fell by about 7.7 per cent from June 2004 to June 2005 (preliminary figures). Since quotas were lifted on 1 January 2005, about 25,000 jobs have been lost in the sector as a whole, most of them in apparel manufacturing.

3.1.2. European Union

Trade patterns post ATC

The European Union, in December 2004, established a statistical monitoring system for the 35 textile product categories concerned by liberalization. Data on import volume, prices and values are available for these 35 categories for the period January to April 2004 and 2005. Table 3.5 shows data on values and unit prices of imports from China by category and China's share of the total in both periods.

It is important to note that import data from the EU and United States are not comparable. The data given in tables 3.1 and 3.2 include all textiles and clothing imports to the United States, while the data in table 3.5 include only the import categories under surveillance. It is, for example, not the case that imports of textiles and clothing to the EU have increased more than those to the United States, but data on total imports to the EU by source are not yet available for the period in question.

Table 3.5. EU imports of selected categories from China and China's share of total imports

Code	Name	Jan.-Apr. 2004		Jan.-Apr. 2005		Change (%)	Share of total (%)	
		Total value (million euros)	Unit price (euros)	Total value (million euros)	Unit price (euros)		2004	2005
1	Cotton yarn	4.3	4.33	5.4	4.09	25.58	1.3	2.4
2	Woven cotton fabric	65.9	5.28	93.9	4.3	42.49	11.3	17.6
2A		26.5	6.42	45.9	5.23	73.21	8.8	15.0
3	Woven man-made fabric	15.6	3.46	18.2	3.47	16.67	6.7	9.1
3A		10.4	3.52	11.4	3.95	9.62	8.4	10.6
4	T-shirts, etc.	190.0	2.26	409.6	1.71	115.58	7.3	15.3
5	Pullovers	78.1	5.9	337.1	4.52	331.63	5.9	24.6
6	Men's trousers	119.2	3.88	589.9	3.59	394.88	4.1	19.3
7	Blouses etc	39.9	3.96	106.6	3.27	167.17	5.4	13.8
8	Men's shirts	50.2	3.45	97.7	3.31	94.62	6.6	14.0
9	Terry towelling	27.7	5.25	28.2	3.9	1.81	12.3	12.6
12	Stockings and socks	7.2	0.18	33.7	0.22	368.06	2.2	10.3
13	Underpants	159.2	0.74	190.6	0.62	19.72	28.8	37.1
14	Men's overcoats	30.8	7.1	31.6	6.35	2.60	47.7	50.2
15	Women's overcoats	54.5	9.43	131.3	7.67	140.92	15.9	28.3
16	Men's suits	60.3	8.99	64.4	11.53	6.80	25.3	28.5
17	Men's jackets	11.3	8.92	20.2	8.48	78.76	7.7	12.1
20	Bed linen	24.8	11.39	41.4	7.26	66.94	7.4	12.2

Code	Name	Jan.-Apr. 2004		Jan.-Apr. 2005		Change (%)	Share of total (%)	
		Total value (million euros)	Unit price (euros)	Total value (million euros)	Unit price (euros)		2004	2005
22	Man-made yarn	9.1	2.74	8.3	2.74	-8.79	6.8	7.6
26	Dresses	42.5	11.05	66.9	6.46	57.41	13.0	21.6
28	Trousers	93.9	2.43	75.7	2.25	-19.38	24.9	26.1
29	Women's suits	65.9	8.85	36.9	7.85	-44.01	44.2	41.0
31	Brassieres	94.4	2.46	141.8	1.93	50.21	22.7	36.7
39	Table linen	24.1	9.79	26.2	6.18	8.71	18.7	20.0
78	Garments	221.3	20.78	231.2	13.8	4.47	39.9	49.0
83	Overcoats	65.5	20.36	75.1	15.77	14.66	32.7	40.3
97	Nets and netting	4.0	3.79	6.2	3.66	55.00	22.70	30.3
163	Gauze	21.4	7.77	20.6	5.44	-3.74	64.0	74.3
X115	Flax yarn	6.3	5.51	9.5	5.41	50.79	34.3	44.0
X117	Woven flax fabric	6.0	6.72	29.6	6.66	393.33	10.8	50.9
X118	Table linen	5.7	9029	4.7	7.62	-17.54	46.3	31.9
X136A	Woven fabric, silk	7.1	54.56	10	48.06	40.85	16.8	21.1
X156	Silk blouses	48.5	21.39	45.7	44.59	-5.77	81.5	77.8
X157	Other garments	88.3	14.21	72.7	28.24	-17.67	59.7	50.6
X159	Silk dresses, ties	65.8	63.72	77.4	55.6	17.63	55.1	53.2
Total		1 845.7		3 195.6		73.14		

Source: European Commission.

During the first four months of 2005, the total value of imports from China in the categories shown in the table increased by about 73 per cent compared to the first four months of 2004. The overall increase in value takes into account both the increase in total volume and the decline in unit prices for most items.

Use of safeguards

The European Commission launched investigations into nine categories of imports from China on 29 April 2005. These are: T-shirts (category 4), pullovers (category 5), men's trousers (category 6), blouses (category 7), stockings and socks (category 12), women's overcoats (category 15), brassieres (category 31), flax yarn (category 115) and woven fabrics of flax (category 117).² The investigations revealed that T-shirts and flax yarn imports from China were causing market disruptions, and it was found that the conditions for introducing safeguards were met. Import volumes from China had increased by 187 per cent for T-shirts during the period January-end April 2005 compared to the same period in 2004, and the corresponding figure for flax yarn was 56 per cent. During the same period, import prices of T-shirts fell by 36 per cent. The investigation found that the surge in imports of T-shirts from China has replaced local production in Greece (down by 12 per cent), Portugal (down by 30 to 50 per cent) and Slovenia (down by 8 per cent). In addition, it was found that imports from China have replaced imports from traditional suppliers. During the first four months of 2005, imports from regional partners and some

² Note that the United States and EU categories are different.

developing countries also declined (Morocco –8 per cent, Tunisia –22 per cent, Romania –29 per cent, Pakistan –36 per cent, Sri Lanka –25 per cent, Bangladesh –9 per cent).

China's share of total imports of T-shirts to the EU was 7 per cent in 2004, but increased to 15 per cent during the first four months of 2005 (as shown in table 3.5). This is close to its market share for total clothing imports.

Flax yarn is a smaller category in value terms, and production in the EU fell by 25 per cent during the first four months of 2005 compared to the same period in 2004.³

Consultations concluded on 10 June resulted in a Memorandum of Understanding (MOU). It covers imports from China in ten categories of products: cotton fabrics (category 2), T-shirts (category 4), pullovers (category 5), trousers (category 6), blouses (category 7), bed linen (category 20), dresses (category 26), brassieres (category 31), table and kitchen linen (category 39) and flax or ramie yarn (category 115). These overlap to some extent with the categories in which investigations were launched, but there are some new categories in the MOU, while some categories under investigation are not included. The new regulation entered into force on 12 July 2005. It sets a quota limit for the remainder of 2005, and for 2006 and 2007, on imports from China in the ten categories mentioned. The quota limits allow for an increase in import volume of 10 per cent per annum.

Table 3.5 shows that for all these categories, with the exception of categories 2 and 31, import value has grown sharply during the period January to April 2005 compared to the same period in 2004. But for all the categories in question, import volume has grown sharply. The unit price of cotton yarn declined by about 18 per cent during the period in question, while the unit price of table linen fell by 37 per cent.

Labour market developments

Eurostat provides data on production volumes and employment for the European Union. The data show that for the EU15 and EU25, the monthly production index for textiles (latest available figures) declined by 3.8 and 3.6 per cent respectively from April 2004 to April 2005. The corresponding figures for the clothing sector showed a decline in the production index of about 7.3 per cent from April 2004 to April 2005 for both the EU25 and EU15. This continues and accelerates the long-term trend that has been observed over the past decade. Employment in the textiles sector declined by 3 per cent in the EU25 and by 2.4 per cent in the EU15 from March 2004 to March 2005. The corresponding employment figures for the clothing sector show a decline of 9.8 per cent in the EU25 and 11 per cent in the EU15. Employment has declined more than production in the clothing industry, indicating a shift towards more capital-intensive products and technologies.

3.1.3. Romania

In Romania, the phase-out of quotas in January 2005 has been accompanied by increased penetration of Chinese products in the local market. The growth rate of Chinese imports during the first quarter of 2005 was particularly high for pullovers (group 5 of the EU statistical monitoring system: 194.4 per cent), stockings and socks (group 12: 177.5 per cent), men's trousers (group 6: 167.7 per cent), blouses (group 7: 142.5 per cent), brassieres (group 31: 144.4 per cent), women's overcoats (group 15: 112.1 per cent), T-shirts and shirts (group 4: 106 per cent) and textiles and woven flax fabrics (group 117:

³ Information on EU safeguards obtained from the EU Portal at <http://europa.eu.int>.

515.3 per cent). The Government estimates that this surge in imports will most likely lead to the closure of some SMEs and cause a loss of employment, particularly for women. On the export side, the Government considers that the real impact of the new trade regime will be more significant during the second half of 2005. During the first three months of 2005, global TC exports represented 99.3 per cent of the level reached during the same period in 2004. Employment figures show a constant decline between 2003 and 2005. In March 2005, TC enterprises employed 356,000 workers, compared to 359,400 in March 2004 and 368,100 in March 2003. In April 2005, TC employment fell further to 352,600. As to the future, the Government remains confident of the competitiveness of Romanian TC exports, as the industry is implementing strategies for better quality and quicker delivery, but fears a deterioration in the internal market where cheap Asian imports tend to occupy a growing place.

3.1.4. Turkey

According to official statistics, the Turkish TC industry accounts for 16.3 per cent of the country's total industrial production and 18.7 per cent of manufacturing. It generates 11 per cent of total employment and 30 per cent of industrial employment. However, since the informal economy is widespread in this sector, the total share of employment may be higher than estimated. The TC industry produces goods worth US\$30 billion annually. The EU market represents about 65 per cent of Turkish TC exports and, in 2004, the TC industry generated 28 per cent of the country's total exports.

Recent statistics show that between 1 January and 14 June 2005, textile exports increased by 12.2 per cent to US\$2.5 billion, while the garment sector increased its exports by 8.8 per cent to US\$6.2 billion. During this period, the total export share for textile products was 7.8 per cent and for garment products 19.4 per cent – a total share of 27.2 per cent, slightly down from the 28 per cent recorded a year earlier.

The declining share of total exports indicates that the quotas may be having some effect. According to the Turkish Clothing Manufacturers' Association (TGSD), the rate of growth of exports in the TC industry has decreased since 2004, as the rate of growth from 2003 to 2004 was 24.7 per cent in textiles and 13.7 per cent in garments (as opposed to the figures of 12.2 per cent and 8.8 per cent between 1 January and 14 June 2005).

The latest available import figures for Turkey indicate that Turkey imported US\$1.97 billion worth of textiles in the first four months of 2005 and US\$2.17 billion worth of ready-made clothes during the same period. The largest source of ready-made clothes was China, (22 per cent of the total), followed by Italy (10.5 per cent). The biggest exporter of textiles to Turkey was the United States (12 per cent), followed by Italy (10.5 per cent).

Turkey is very concerned about the end of the ATC. In March 2004, Turkey initiated the Istanbul Declaration which called upon the WTO to postpone the elimination of quotas until 2008. The Declaration, endorsed by 124 TC associations from 55 countries, argued that in the absence of preventive measures, China's trade-distorting practices gave it an unfair comparative advantage. Although this last-minute effort failed to halt the phase-out, the international support received by this initiative enhanced the chances of further safeguard petitions against China.

Both the public and private sectors in Turkey are adopting measures aimed at reducing the impact of the new trade regime. In accordance with Turkish legislation relating to unfair competition (Laws Nos. 4412 and 3577), the country has implemented anti-dumping measures against China for seven different categories of textiles and garments, and is investigating one additional category. Also, measures have also been taken to track the imports of 57 additional product categories, and Turkey has imposed

safeguards on 42 products (based on paragraph 242 of the report of the Working Party on China's accession to the WTO).

During the last session of the WTO's Council for Trade and Goods, a communication dated 28 June 2005 was circulated at the request of the Turkish delegation. In this communication, Turkey presented its views on developments in textiles and clothing and addressed the impact of Chinese TC trade on developing countries and its negative influence on prices. Turkey clearly drew attention to the responsibility of the WTO in solving problems arising from trade agreements. The communication also made a number of suggestions on how to move forward, such as establishing a work programme to monitor global textiles and clothing trade, identifying possible ways to stabilize prices, and examining adjustment-related measures. Finally, the communication called for collaborative efforts within the relevant IGOs.⁴

In April 2005, the United States began an inquiry into three categories of garments imported from China. This inquiry was later broadened to cover four additional categories. More recently, a quota decision was taken by the United States to limit the growth of exports from China to the United States in the first three categories. As these three categories constitute 51 per cent of the total value of Turkish garment exports to the United States, it is expected that this decision will have a positive impact on Turkey. The impact of the agreement signed between the EU and China in June 2005, which limits export growth from China to the EU until 2008, is less certain. Nevertheless, considering the fact that 65 per cent of Turkish exports in this sector go to the EU, the outcome is likely to affect Turkey positively and allow it additional time to cope with the new competitive environment.

3.1.5. Bangladesh

Bangladesh's TC sector contributes 76 per cent of the country's annual US\$6 billion in export earnings. The industry, the largest employer after agriculture, provides jobs for 2 million workers, almost 80 per cent of whom are women.

By 2004, most studies relating to the post-MFA environment predicted the collapse of the TC sector and huge employment losses. Today, the picture is rather different. Post-MFA potentials are now recognized, at least in certain segments of the TC industry. Garment factories are not closing down as they did during the 2001-03 period following the sharp decline in the United States market. On the contrary, they are reportedly consolidating their capacity. Some factories are even expanding in response to a predicted boom in 2005, as major United States and European buyers, consolidating and narrowing their outsourcing strategies, have indicated that they will keep Bangladesh among their top suppliers. Furthermore, Bangladesh benefits from duty-free access to the EU, with more generous rules of origin in sight.

Bangladesh's apparel exports were far from declining in the first quarter of the post-quota regime, although confronted with strong competition from China. Bangladesh managed to maintain its comparative advantage despite a growing tension on prices. Orders are on the rise and manufacturers are exploring new strategic alliances. For example, in May 2005 in Dhaka, business leaders from Bangladesh and China signed a Memorandum of Understanding to boost the apparel sectors of the two countries. They have agreed to set up a textile communication committee to promote mutual investment in TC and facilitate cooperation between Chinese and Bangladeshi enterprises. With this

⁴ World Trade Organization, Council for Trade in Goods: "Issues related to trade in textiles and clothing; the perspective of Turkey on the issues involved". G/C/W/522, 30 June 2005.

agreement, both countries intend to strengthen their cooperation and combine their comparative advantages to better penetrate world markets.

Five months after the expiry of the ATC, data on Bangladesh's apparel exports were available until March 2005. Early signals in the post-MFA period reveal a mixed picture. As table 3.6 shows, Bangladesh's apparel exports in the first month of the quota-free regime were about US\$52 million lower than in January 2004. However, a strong recovery was staged in February 2005, when exports of apparel goods rose to US\$488 million, compared to US\$331 million in 2004. In March 2005, growth in exports was modest – only about 5 per cent compared to March 2004.

Table 3.6. Total apparel exports from Bangladesh (US\$ million)

	2001	2002	2003	2004	2005
January	349.42	428.66	434.18	569.53	517.81
February	371.6	386.39	356.46	331.22	488.98
March	316.13	317.63	387.31	471.11	495.96

Source: Export Promotion Bureau, Bangladesh.

Export data disaggregated between woven and knitted ready-made garment (RMG) products show that it is the woven RMG that has performed worse in 2005 compared to the first three months of 2004. During January-March 2005, woven exports stood at US\$853 million, as against US\$903 million during the same period in the previous year. In contrast, as seen from table 3.7, knitwear products enjoyed a handsome growth rate of 38.6 per cent in the first three months of 2005 compared to the same period in 2004.

Table 3.7. Woven and knitted RMG exports from Bangladesh during the period January-March (US\$ million)

	2001	2002	2003	2004	2005
Woven RMG products					
January	252.07	298.26	297.89	376.61	296.07
February	266.1	272.72	259.61	222.9	292.92
March	208.26	216.17	257	304.12	264.54
Knitted products					
January	97.35	130.4	136.29	192.92	221.74
February	105.5	113.67	96.85	108.32	196.08
March	107.87	101.46	130.31	166.99	231.41

Source: Export Promotion Bureau, Bangladesh.

Table 3.8 gives data on apparel exports from Bangladesh to the United States. For 2005, the EPB data for the United States market are available only for the first two months. The export figures show that exports of both woven and knitted RMGs have increased. Compared to January 2004, the growth of woven RMGs in 2005 in January 2005 was 5.3 per cent, but for the month of February the growth was as high as 48 per cent. Growth rates for knitted RMGs have been truly dramatic. During January-February 2004, knitwear exports were only US\$18.04 million, while in 2005 the corresponding figure was US\$63.41 million.

Table 3.8. Exports to the United States market (US\$ million)

	2003			2004			2005		
	Woven	Knit	Total	Woven	Knit	Total	Woven	Knit	Total
January	131.37	23.23	154.6	14.79	12.2	146.99	141.76	33.9	175.66
February	113.9	17.97	131.87	88.86	5.84	94.7	131.76	29.51	161.27
March	114.98	21	135.98	113.43	7.6	121.03	–	–	–

Source: Export Promotion Bureau, Bangladesh.

Early data from the post-MFA period thus suggest that it is still too early to predict the country's prospects for future exports. The most encouraging sign for Bangladesh is the rapid growth in sales of knitwear products in the United States market, although the base level of knitwear exports to that market is still very low. It was widely thought that immediately after the MFA phase-out, woven RMG exports to the United States market would be badly hit. However, in the first three months of the phase-out, manufacturers of woven garments have been able to maintain their orders and have actually enjoyed a modest growth of 5 per cent. As the data from Bangladesh suggest a decline in the overall growth of woven RMGs, it is most likely the EU market where woven products are doing badly. Therefore, the stringent EU rules of origin appear to be more constraining than the tariff barriers faced by Bangladesh's manufacturers of woven garments in the United States market.

Employment data for Bangladesh, unlike export data, are not readily available. It is thus difficult to identify a trend in the employment-unemployment situation due to movements of ready-made garments during the early part of 2005. From the modest growth of RMG products during the first quarter of 2005 compared to the same period in 2004 and 2003, it may be expected that there will be additional employment in this sector.

3.1.6. Cambodia

A more detailed impact analysis of the "Better Factories Cambodia Project" is provided in Chapter 4 of this report.

The clothing industry is vital to Cambodia's economy, accounting for over 80 per cent of the country's exports. The value of these exports rose from US\$26 million in 1995 to US\$1.9 billion in 2004, with around two-thirds of these exports going to the United States and most of the rest to the EU. More than 270,000 workers are employed in more than 200 clothing factories, and 85-90 per cent of those workers are women.

Thanks largely to its original "Better Factories Cambodia Project", which has been implemented by the ILO with the aim of improving working conditions, much of Cambodia's garment industry has successfully survived the end of the global quota system.

Most of Cambodia's factories have retained the loyalty of major buyers around the world by appealing not just to their preference for low-cost production but also to their desire to outsource under decent working conditions. Cambodia's TC industry has chosen to rely on a socially responsible strategy to increase its competitiveness and, despite the loss of preferential access to the American market with the end of quotas, to continue to stick to this strategy in the post-MFA environment. The continuation of this "high-road" strategy in terms of labour standards is perceived by all the actors concerned as the best way of retaining buyers and keeping the apparel industry afloat. In 2005, some 16 large plants are scheduled to begin production and will more than replace the dozen factories which closed down in 2004 as a result of economic difficulties. In the future, to maintain

its credibility and competitiveness, the Cambodian Government will have to reduce bureaucratic practices and combat rampant corruption more efficiently. Mention must also be made of the report published in April 2005 by the ICFTU showing increasing pressure on trade union rights, in particular outside factories. This, according to the ICFTU, risks tarnishing the country's good reputation with foreign investors.⁵

The social partners will have to continue their collaboration and dialogue in order to maintain high labour standards and competitive costs.

3.1.7. China⁶

The importance of textiles and clothing in China

Textiles and clothing have a long tradition in China and the development of a TC industry has been central to China's industrialization process. In China's move to a market economy and its integration into the international trading system, the textiles and clothing industry has gone through a difficult structural adjustment process, in which 1.4 million textile workers (the majority of whom were middle-aged women) lost their jobs. This has given China a strong competitive position in international trade.

The opening of China's market entailed by its accession to the WTO led to a shift of resources in response to the forces of comparative advantage. With a population increase of 15 million a year, China had to provide employment for its huge labour force, including the millions of migrants from rural areas who have been displaced by increased agricultural imports. Work opportunities had to be found in sectors where China possessed international comparative advantages, and the TC industry was a key sector in that respect. Today, the TC industry provides employment for 19 million workers (22 per cent of total employment in manufacturing industry), and another 80 million people are estimated to be indirectly dependant on the TC industry.

The TC industry is based in the Eastern coastal region, the most industrialized area of China and one which contributes significantly to the growth of national GDP. Zhejiang, Guangdong, Jiangsu and Shandong Provinces and Shanghai municipality are the five top exporters of China's textiles, representing 76.8 per cent of total TC output.

Since 1997, wages in the Chinese TC industry have been rising sharply to reach a higher level than those of a number of other exporting developing countries. Working hours have declined in the recent past, and factories are investing in housing and other social infrastructures for their labour force.

The story of Hongdou Group

Hongdou Group in Jiangsu Province has invested 40 million yuan in setting up ten dormitory buildings for its employees. There are 300 rooms in every building, and each room, measuring 30 square meters, accommodates six employees. There are also special rooms for couples. Hongdou Group also spends 30 million yuan per year in providing three meals a day for all its employees. It is common practice for textile and clothing firms in China to provide such accommodation for their workers.

⁵ ICFTU: Cambodia: *Increasing pressure on trade union rights: The impact of the ending of quotas on the textile industry* (ICFTU, Apr. 2005).

⁶ Information provided by officials of the Government of China.

Private capital, including foreign capital, has played a leading role in the modernization of the TC sector, where adjustment has resulted in a fundamental change in the ownership structure. Currently, only 13 per cent of the industry is held by state-owned capital, whereas private ownership accounts for 87 per cent (15 per cent is foreign owned, another 15 per cent is owned by companies from Hong Kong and Macau Special Administrative Regions and Taiwan, China). As stated in China's notifications to the WTO, the TC industry does not receive subsidies or any other form of government support. It is required to respect international labour standards, as well as environmental standards and intellectual property rights. In meeting the traditional challenge of clothing its huge population (currently 1.3 billion), China's TC industry has developed a very large productive capacity, of which 80 per cent is destined for domestic consumption.

Access to the most competitive inputs is an important factor in the competitiveness of the Chinese clothing industry. China's garment exports depend greatly on the import of fabrics, raw materials and textile machinery from other countries. It is estimated that about 50 per cent of exported clothing is made from imported textiles. In 2004, China's clothing exports reached US\$61.62 billion in value, while its import of fabrics, raw materials and textile machinery from other countries reached US\$24.02 billion. China is the world's third largest textile importer, just behind the EU and the United States. The Chinese textile industry is the world's largest importer of raw cotton. China is also among the top importers of wool in the world (220,000 tons in 2004) and the world's largest importer of textiles machinery and parts (importing US\$4.48 billion worth in 2004, of which 43.1 per cent, or US\$1.95 billion, came from the EU). Through its imports, the Chinese TC industry has contributed to the growth of other TC activities worldwide.

Recent developments in China's exports

Between January and April 2005, China exported US\$31.2 billion worth of TC products, a year-by-year increase of 18.4 per cent. The growth rate was 5 per cent lower than that of the same period last year and far slower than the 35 per cent growth rate of China's overall exports for the same period.

During this period, overall Chinese textile exports to the United States grew by 70 per cent and by 45 per cent to the EU. The growth of Chinese textile exports to Europe and the United States, which were formerly subject to quota, were 82 per cent and 250 per cent respectively. But despite the overall growth of Chinese exports to the EU and the United States between January and April 2005, the growth rates were declining month by month, while the share of TC in overall China-EU and China-United States trade was also dropping month by month. For highly sensitive categories of products, like T-shirts (categories 338 and 339), where China significantly increased its exports to the United States during the first quarter of 2005, it should be borne in mind that China still accounts for only a small share of United States imports in these categories (3.64 and 5.44 per cent respectively).

The quota restrictions imposed on TC exports during the last four decades had placed China at a disadvantage, with respect both to unrestrained competitors and to other countries subject to such restrictions. Despite China's export capacity, Chinese textile manufacturers had to compete against one other for the very limited allocated quota volume. This benefited other countries with much smaller export capacity. For example, in 2001, for the category 210 (parkas and anoraks), the EU set quota volumes of 169.1 million pieces for China and 178.1 million pieces for the Republic of Korea. According to EU statistics, the utilization rate of China in this category was nearly 100 per cent in 2001, while the utilization rate of the Republic of Korea was just over 20 per cent.

Furthermore, the figures from the first quarter of 2005 present a distorted picture of the real evolution of imports of Chinese origin. The data show an increase in imports from

China, but also a substantial decrease in imports from Hong Kong and Macau Special Administrative Regions and Taiwan, China. These volume changes reflect the natural shift from more costly outward processing arrangements between these regions and mainland China to total production in China. In addition, knowing that the quotas would be abolished on 31 December 2004, traders postponed shipments from the fourth quarter of 2004 to the first quarter of 2005. The traditional flexibility permitted under quotas (e.g. "carry over") was not available in the final year of the ATC. The anticipation that the EU and the United States might apply the transitional safeguard clause against China in the second quarter of 2005 prompted buyers to accelerate imports which would otherwise have taken place later in 2005. As a result, trade in 2004 was artificially suppressed and the figure for imports from China inflated for the first quarter of 2005.

The impact of United States restrictions on Chinese exports

In May 2005, the United States Government decided to impose new quantitative restrictions against seven textile and clothing products imported from China. The new restrictions, which came into force on 23 May and 27 May, affected some US\$2.08 billion worth of exports from China and 140,000 jobs. Most of the workers concerned are young girls or women from rural area not covered by the limited social safety net in China. These quotas will be filled within two months and the enterprises affected (most of which are SMEs) will most likely have to stop production for the rest of the year.

Measures taken by China to adapt to the new trading environment

Export taxes

Despite the fact that the increases in China's TC global market share had been foreseen, China took unilateral action to mitigate this growth. In addition to lowering the VAT rebate rate for TC exports by 4 per cent in January 2004, China imposed export duties on textile and clothing exports on 148 tariff lines at the 8-digit level on 1 January 2005. On 20 May, the Tariff Committee of the State Council decided to increase export duties on 74 tariff lines at the 10-digit level. This voluntary measure was designed to stabilize exports and encourage Chinese enterprises to transform their pattern of export growth. These export duties were specific, not *ad valorem*, thus imposing a higher tax burden on cheaper products in order to discourage exporters from increasing export volumes of low value-added products. After the United States imposed restrictions against seven categories of Chinese products, the Chinese Government revoked the decision to levy export duties on 81 Chinese textile products out of the total number of such products subject to export duties, in order to prevent Chinese textile exporters from being doubly penalized. Export duties on the remaining unrestricted products were kept in place.

Collaboration with other developing countries

China has increased its collaboration with the least developed countries (LDCs). It has provided, to the maximum extent possible, free market access for many products imported from those LDCs that have diplomatic relations with China. TC technical assistance programmes, including training courses and technology transfers, have been implemented in a number of LDCs. China is supporting international initiatives within the international financial institutions to provide further assistance to LDCs and other developing countries to adjust to the quota-free trade regime.

China is also collaborating with other developing countries to upgrade their production and strengthen their competitiveness in the TC sector. China's foreign investment in the TC industry has reached US\$500 million, mainly in developing countries. More Chinese enterprises are considering investing in other developing

countries that benefit from lower labour costs or duty-free access to the major importing markets. In late May 2005, the Deputy Minister of Commerce led a Chinese textiles delegation to Tunisia and Morocco. The Chinese clothing industry also discussed business cooperation schemes with the Moroccan TC Employers' Association in early June. In mid-June, a Chinese textile delegation visited Bangladesh with a view to developing cooperation in that country, and by the end of 2005 a business delegation headed by the Bangladesh Textile Association will visit China.

A series of preferential policies have been implemented by the Chinese Government in order to encourage its TC manufacturers to invest more in other developing countries. These measures include preferential loans, simplified administrative procedures, and enhanced information and intelligence support, as well as a comprehensive TC investment catalogue. China's overseas investment in TC is expected to grow faster in the coming years as mutually beneficial cooperation between China and other developing countries proceeds rapidly.

3.1.8. India

The TC industry occupies a unique place in the Indian economy. It accounts for 14 per cent of the country's total industrial production, nearly 30 per cent of total exports, and is the second largest employment generator after agriculture. Most studies relating to the end of quotas predicted an increase in India's current 4 per cent share in the world's TC trade and the creation of more than 1 million jobs between 2005 and 2010. The most recent figures show a more complex picture. India recorded a 28 per cent growth in textile exports for the period January to March 2005 in comparison with the same period last year. At the same time, ready-made garment exports fell by 24 per cent. Garment exports declined to US\$1.18 billion (from 1.56 billion in the same period last year). Overall TC exports dropped by 3.4 per cent to US\$13.03 billion in the first three months of 2005. During the first two months of 2005, a comparative performance analysis of India and China also seemed to indicate that, within particular garment item categories where both countries have revealed a strong comparative advantage, India performed with mixed results. India seems to have lost market share against China in categories 347 (men's cotton trousers), and 348 (women's cotton trousers), but gained market share in categories 336 (cotton fibre dresses) and 338 (men's cotton knit shirts). These first results are particularly unwelcome, given the widespread assumption in India that local industry would benefit from the free TC trade regime. They also demonstrate that the benefits of the new regime might accrue in only a limited number of subsectors if the Government does not accelerate the pace of reforms requested by the business community and if domestic manufacturers do not take steps to improve their competitiveness.

3.1.9. Pakistan

An analysis of trade data released by the Federal Bureau of Statistics in Karachi at the end of May 2005 showed that TC exports during the first four months of 2005 reached a record level of US\$3.048 billion. This puts the average TC monthly exports at US\$762 million, an increase of 22.1 per cent compared with the average during the second half of 2004. TC manufacturers in Pakistan attribute this huge improvement to the phase-out of quotas. Exports of cotton cloth, knitwear, towels and ready-made garments have mostly grown following the elimination of quantitative restrictions on textile exports from January 2005 onwards. TC exporters also indicate that better results could have been achieved if the EU had not imposed a 13.1 per cent anti-dumping duty on bed wear, as a result of which bed wear exports dropped by 5.4 per cent, and reintroduced a 12 per cent customs duty on textile exports from Pakistan. As the TC industry accounts for 59 per cent of Pakistan's total export earnings, the Government is considering offering further incentives to the sector in the next budget to be presented in June. Although the measures

had not been disclosed at the time of writing this report, there were clear indications that the budget would be textile-friendly in order to reduce production costs and keep the balance of payments deficit as low as possible.

3.1.10. Philippines⁷

The trade and employment situation

The Philippine clothing industry began in the late 1960s. Driven by early opportunities in the quota regime, exports grew from US\$36 million in 1970 to US\$3 billion in 2000. Exports slowed down to US\$2.9 billion in 2001, and declined further to US\$2.6-2.7 billion between 2002 and 2004. Exports from January to February 2005 amounted to US\$413 million and accounted for 6.6 per cent of total exports, compared to 9 per cent over the same period in 2001, 7.67 per cent in 2002, 7.2 per cent in 2003, and 8.25 per cent in 2004. While the percentage share of garments exports to total exports went down in the first two months of 2005, the Garments and Textile Export Board (GTEB) nevertheless forecasts an overall 10 per cent growth in exports for the year. Industry associations such as the Philippine Chamber of Commerce and PhilExport have expressed confidence that even under the non-quota regime, exporters will continue to perform well and to keep their share of the global market. Growth is seen to come from the industry's "old buyers", which last year tried to buy their supplies elsewhere but are now back and posting new orders. Trade indicators as of the first quarter of 2005 show that orders have increased by 30 per cent. Two major customers have also booked orders equivalent to 20 per cent of the country's average exports in the last three years. However, prices have declined by 10 per cent, underscoring heightened competition. It has also been observed that subcontractors are absorbing most orders.

Based on GTEB records as of December 2004, there were 887 active manufacturers and 780 subcontractors engaged in garments exports. This is down from 1,200 active manufacturers and 1,150 subcontractors in 2002, and 945 and 854 respectively in 2003. The industry remains the second biggest employer in the manufacturing sector, next to electronics. The large number of subcontract workers, indirect workers and home workers, however, makes it difficult to estimate actual numbers. One estimate is that total employment in the sector was as high as 700,000 in 2002. In 2004, estimates had gone down to 215,000, excluding home workers in unregistered enterprises. Notices of termination and closures of establishments filed with the Department of Labor and Employment (DOLE)⁸ indicate that in 2004, some 96 establishments downsized operations, while 25 establishments resorted to permanent closures, displacing 5,686 workers. Between January and May 2005, a total of 28 establishments reduced their workforces while 12 establishments permanently ceased operations, displacing 2,260 workers. On a year-on-year comparison between the period January to May 2005 with the same period in 2004, there were more establishments permanently closing in 2004 (17, as against 12 for 2005), fewer establishments reducing their workforce (13 as against 28), and more workers displaced (2,260 as against 2,057).

Post-MFA regime

Although the data generated in 2005 are not adequate to identify trends, it is clear that the industry remains, and increasingly so under the post-MFA regime, in a state of flux.

⁷ Information provided by the Department of Labor and Employment (DOLE) of the Philippines.

⁸ The number is based only on notices of closure filed with DOLE. Actual numbers may be greater as many establishments resorting to closures do not report to DOLE.

The DOLE, Department of Trade and Industry, the GTEB, and the organizations of garment employers and workers, have set up an industry tripartite council to consider adjustment measures. To help ensure that the industry remains competitive, they have put together an industry restructuring plan which includes the following strategic components:

Moving up the value chain. The industry must move up the value-added chain by focusing on branded products, developing Asian brands, expanding emerging markets, and gaining more market niches. Investments will be needed in the necessary infrastructure and technology to make this happen.

Improving labour productivity through training and retraining. Research undertaken by the Department of Labor and Employment indicates that the average productivity of garments workers is higher than the national average across industries but has been going down in recent years. Further, the Philippines ranked lowest among ASEAN's garment exporting countries in terms of labour productivity. Appropriate training and retraining programmes that enable workers to develop productivity values and to acquire skills and use technology to produce higher-value products, should be made available by both government and industry.

Getting unions to participate. As of May 2005, there were 95 collective agreements covering more than 18,000 garments workers.⁹ Some of the most assertive unions in the Philippines operate within the industry. As a result, the industry in recent years has been beset with high-profile disputes. Key issues in these disputes, aside from terms and conditions of work and security of tenure, include adjustment measures that may be appropriate to the post-MFA regime. Accordingly, continuing participation of unions in the design and implementation of the industry restructuring plan is important.

Managing the social costs. About 80 per cent of garment workers are women, most of whom are over 40 years old. Moving up the higher value chain means altering the industry's mix of technology and skills. While some workers may be retrained so that they can be shifted to higher value production, there will nevertheless be inevitable displacements, particularly among homeworkers who represent a large percentage of workers and producers of garments, footwear, handicrafts, toys and non-traditional agricultural products. Safety nets and interventions will have to be set up, with government and private sector support to enable them to shift to other occupations or livelihoods.

3.1.11. Viet Nam

Viet Nam's clothing exports, after rising sharply in recent years, are now stagnating in the post-quota period. Sales in the United States and EU are being depressed by surging competition and the current fall in prices of apparel from China. As Viet Nam has not yet joined the WTO, United States quotas have been maintained, further limiting the possibilities of expansion. Although the EU eliminated its quotas with Viet Nam from January 2005 as part of a bilateral agreement, shipments to the EU market fell in most sensitive categories. Viet Nam's TC products are still subject to a 14 per cent tariff on average in the EU market. Furthermore, the TC industry had to struggle to boost exports to the EU when the EU introduced tax incentives for imports from the tsunami-affected countries.

⁹ Source: Bureau of Labor Relations, DOLE.

During the first three months of 2005, the country's TC exports to the United States and Japan surged by 5 per cent but declined by 12 per cent in the EU. TC export earnings reached US\$1.32 billion in the first four months of 2005, up by 6 per cent against the same period last year. However, this figure has to be compared with the goal of expanding exports by 18-20 per cent in 2005. Although a slowdown in garment exports was expected, these first results create a climate of uncertainty among national producers. Sales in the United States have been recently growing as a result of the reintroduction of quotas against China for certain categories of products. The Minister of Industry called on TC enterprises to respond to this new challenge, keeping in mind that contracts would be of a short-term nature and would require rapid delivery. He also indicated that, despite these new developments, the future remained gloomy owing to the quota problem, high production costs and global slow delivery.

3.1.12. Africa

United States curbs on Chinese textile imports might give temporary relief to African producers currently under pressure after the end of quotas.

Sub-Saharan African countries have seen their TC industries grow sharply in the last five years owing, in particular, to a preferential trade agreement, the African Growth and Opportunity Act (AGOA), signed with the United States. United States apparel imports from sub-Saharan Africa rose in 2003 and 2004 to more than US\$1.5 billion a year, benefiting from duty-free access under the AGOA.

This advantage is now under threat. During the first three months of 2005, textiles and apparel exports to the United States under the terms of the AGOA fell to US\$270 million, compared with \$361 million for the same period in 2004. This 25 per cent drop coincides with a 19 per cent increase in China's TC exports for the same period. At the same time, many Asian companies, which had invested in Africa in order to take advantage of the AGOA, seem to be pulling out.

The TC industry in Egypt, which is struggling against increased competition to maintain its level of exports, notably to the United States, which accounts for US\$615 millions, may have found economic salvation with the signing in December 2004 of a trade agreement with Israel. Under this agreement, Egyptian textiles products, like other products, have duty-free access to the United States market provided that they include 11.7 per cent of produce from Israel. For many Egyptian TC enterprises, even if buying from Israel involves additional cost, the duty-free access to the United States combined with Egypt's advantage over Asia in terms of delivery times should protect the industry, at least in the short term, against further turbulences.

In Kenya, President Mwai Kibaki issued a statement through the Presidential Press Service at the end of May 2005 to express his serious concern for the future of the TC industry which, in 2004, generated US\$261 million in exports and employed 39,000 workers. He asked the Ministries of Finance and Trade and Industry to consult with EPZ operators to investigate the situation. Kenya exported US\$60 million worth of TC products to the United States between January and March 2005, which represents a drop of 13 per cent or US\$9 million compared to the same period in 2004. Since October 2004, six investors operating in the country's EPZs have closed down and 6,000 jobs have been lost in the process. Two companies moved to Uganda, while the others moved to the United Republic of Tanzania, South Africa, Sri Lanka and China. The Trade and Industry Minister, in a declaration made in May 2005, estimated that half of the jobs in the EPZs were at risk as companies producing for export had, since the beginning of the year, received reduced orders or no orders at all. However some manufacturers consider that the current TC crisis might be linked to the relative apathy of the Government as regards boosting the sector's competitiveness. Complicated customs procedures were also

mentioned as further eroding the relative comparative advantage of Kenya in TC export capacity. In June 2005, the Ministry of Trade and Industry, together with the Kenya Association of Manufacturers and other key TC players, formed a Committee to address the current crisis and formulate recommendations to avoid further relocations of TC companies.

In Lesotho, one of the world's poorest countries, the once booming TC industry is currently experiencing very serious problems in the face of increased competition. Lesotho's economy benefited from the AGOA, and Asian entrepreneurs started arriving in Lesotho in 2000 to take advantage of it. The TC sector rapidly became the country's economic mainstay and the key engine of growth in Lesotho's small economy. By 2004, it accounted for more than 90 per cent of the country's exports and was by far the largest single employer, with 56,000 workers accounting for virtually every manufacturing job. The TC industry suffered a sudden demise at the end of 2004 when six of the nation's 50 garment enterprises, unable to match the prices of foreign competitors, closed down. Subsequently, some 6,650 garment workers were left jobless and without job termination benefits. The remaining enterprises, facing shortfalls in orders since January 2005, decided to put a further 10,000 workers onto short-term working, meaning that they will be hired and paid only when work is available. These difficulties had indirect negative consequences for other sectors of the economy and created huge uncertainty in a country where unemployment already reaches 40 per cent. Lesotho officials blamed the closures on the end of quotas, and considered that the new trade regime threatened the economy. After the closures, the Government announced measures to try to reopen three of the closed enterprises and offered tax incentives for the others. The Lesotho Textile Exporters Association asked for further incentives but also emphasized the need to improve productivity and quality to remain competitive. In a recent declaration (March 2005), the Trade Minister expressed his confidence in the future of the industry as Lesotho built its development strategy on the quality of garments, but also on the quality of workers' conditions, respecting the core labour standards. This argument seems to have had some effect among the more socially conscious buyers in the United States: two major buyers (Levi Strauss and Gap) subsequently announced that they would maintain or increase their orders in Lesotho in 2005. However, some garment manufacturers believe that the current TC crisis in Lesotho is more the result of the foreign exchange situation and the plunge of the dollar in relation to the national currency: three years ago, Lesotho's garment factories had to sell only US\$56 worth of clothes to cover the monthly wage of a sewing machine operator. Today, the same salary consumes US\$109 in sales.

A similar foreign currency problem is affecting South Africa, which has already lost more than 30,000 TC jobs since 2002 and is currently experiencing further difficulties owing to the opening of markets. Thousands of jobs were affected by a further decrease in orders in January 2005.

In Madagascar, where job creation through new manufacturing activities in the EPZs is vital for the economy and labour market volatility has been a major concern in the recent past, the industrial sector is recovering steadily from the 2002 crisis, when employment in the EPZs fell from 110,000 to 10,000. The principal economic activity in the EPZs remains TC production, which still benefits from the AGOA. While the major export market remains the EU (which accounts for 42 per cent of Madagascar's exports in value), the AGOA has encouraged major American brands to place orders in Madagascar so as to benefit from these trade regulations as well as from the country's low cost of labour. TC exports to the United States have risen consistently since 2003.

By the end of 2004, the EPZs employed 85,000 workers in the TC industry out of a total of 115,000 employees. However, despite the apparent recovery, there are a number of indications which cast doubt on the future of the TC industry. Some enterprises closed in 2004 in anticipation of the end of quotas. As a result, 5,000 jobs were lost in the TC

industry in the EPZs. The OECD considers that more TC enterprises could be affected in the near future and insists on the importance of developing strategies to create alternative activities and to get those hit by unemployment back into jobs. Some local entrepreneurs estimate that up to 20 per cent of the enterprises presently operating in TC might disappear, putting 20,000 workers out of work by the end of 2005. During a recent seminar, the Government analysed the future of the TC industry. One strategy under consideration would be to reduce the dependency on imports of raw materials through improved vertical integration relying on cotton growing and processing.

The Mauritius TC industry is struggling to maintain its competitiveness. The sector, currently under threat, still generates 9 per cent of GDP. It directly employs 68,000 workers and provides indirect employment for 250,000 people. According to the Central Statistics Office, TC exports declined by 13 per cent in 2004 (exports fell from 8.4 billion rupees in 2003 to 7.3 billion in 2004). Since January 2005, TC manufacturers have been trying to maintain their market share, in particular in the United States, where Mauritius benefited from the third-country fabric provision for the current AGOA year. The United States decision to impose quotas on certain Chinese garment exports raised hopes among Mauritian producers. The future of the TC industry in the post-MFA period is at the heart of the present legislative campaign.

In Morocco, the TC industry, which now employs 201,000 workers (compared to 218,000 workers in 2002) is under pressure. According to the AMITH (the TC employers' association), increased competition is affecting the prices of TC products, which have declined on average by 15 per cent since January 2005. It is also influencing the relocation strategies of foreign companies. Two major enterprises had already anticipated the opening of markets and relocated their activities to lower-cost producing countries. In addition, non-stabilized global sourcing strategies are generating further uncertainty, as buyers seem to adapt their sourcing to the evolution of bilateral trade negotiations. These combined elements reduce the reactivity of enterprises to the new post-MFA environment. On the trade side, export figures show an average decline of 16 per cent per cent during the first four months of 2005. During the same period, enterprises registered a reduction of orders. However, more recent information seems to indicate a trend towards recovery. On the employment side, job losses for 2005 have been estimated at between 20,000 and 50,000 in the absence of corrective measures. To maintain their market share within the EU, and improve their market penetration in the United States, Moroccan enterprises are accelerating their economic and social upgrading, redeploying their activities towards higher quality and value-added products and lobbying their traditional and new partners to limit the expansion of their Asian competitors. In May 2005, the Minister of Trade and Industry, in support of these efforts, announced an important plan to boost the industrial sector. The new industrial policy will look into Morocco's troubled TC sector, focusing on rationalization and modernization.

Namibia's nascent TC industry is also under pressure, and one factory closed down in early 2005. Government officials nevertheless remain confident that the TC industry will not be severely affected by the end of quotas, and argue that it has a competitive edge in the United States market under the AGOA and in the EU market under the Cotonou Agreement. Some observers believe, however, that Namibia's preferential export benefits will not be sufficient to offset the cheaper production costs of the major competitors in Asia. A large TC company employing 7,000 workers indicated in April 2005 its willingness to maintain its activities in Namibia, but also admitted that it had not received as many orders as the previous year during the same period.

In Nigeria, the textile industry, which by the end of the 1990s was the second largest in Africa after Egypt, appears to be on the verge of final collapse. Only 50 of the 150 factories that existed in 1999 are still in operation, and only ten of them seem to be in a stable condition. Some 100,000 jobs have already been lost since this period, and the

40 factories currently in distress may close down operations soon. Since the beginning of 2005, another 8,500 workers have lost their jobs as the result of the closure of three important factories. To remedy this situation, which is attributed to the liberalization of trade, the National Union of Textile Garment and Tailoring Workers has advised the federal Government to initiate appropriate fiscal incentives. It has also demanded that a task force of stakeholders be set up to promote the effective implementation of the government ban on imports of certain categories of textiles.

Following on the heels of Nigeria, the Government of Ghana in May 2005 presented a comprehensive package of new remedial and reform measures, including higher tariffs on imported textiles, as a first step towards protecting the national textile industry. The Trade Minister indicated that, as a result of greater competition from South-East Asian imports and increasing production costs, a number of national enterprises had encountered growing difficulties and therefore needed protection. He noted in particular that the cost of importing one yard of textile from China was around 40-45 cents, while the national cost of production was around 90-95 cents.

In Swaziland, where the clothing industry also took off in 2000, when Asian investors opened factories to take advantage of the AGOA, the situation is also worrying and huge job losses are feared in the garment industry. In February 2005, the Enterprise and Employment Minister, during a meeting with the Swaziland Textile Exporters Association, recalled that the TC industry had created 45,000 jobs during the period 2001-03, when development was at its peak. He further indicated that, according to recent estimates, some 15,000 jobs – one-third of the TC labour force – could be lost by June 2005 if orders remained at their present level. Some factories which had closed for the end-of-year holidays had not yet reopened, and none of the ten major garment companies in the country had received orders for the second quarter of 2005. At the same time, the increased competition on prices is putting pressure on wages (the cost of labour in Swaziland is twice the cost of labour in China), and workers' campaigns for better working conditions are diminishing in the light of recent worries that factories might shut down their activities.

Tunisia is in a similar situation to Morocco. The TC industry, which represents 47 per cent of Tunisia's exports (TC exports totalled US\$3.7 billion in 2004) and generates 250,000 jobs in 2,000 enterprises, is under growing pressure with the end of quotas. Although official figures have not been published yet, the beginning of 2005 was marked by a decline in orders in the most sensitive categories of products that were under investigation by the EU. The initial trend confirms the need for Tunisia to reduce its dependency on low-cost production dominated by subcontracting arrangements and to progress towards "full package" ("*cotraitance*") production systems. It also shows that, in the future, Tunisia will have to enhance its strategic alliances with Europe (which accounts for 80 per cent of its TC exports) under the Euro-Mediterranean Partnership (EUROMED) in order to develop niche markets for products like knitwear or underwear, where Tunisia has a comparative advantage. This will require improved managerial practices and the implementation of integrated upgrading strategies. The Government, with the support of the ILO, has recently launched a tripartite initiative to improve the competitiveness of the TC industry through the promotion of decent work.

3.1.13. Latin America

By the end of 2004, less than three months before the end of quotas, Latin American suppliers of United States apparel markets were requesting effective measures from their governments to resist increased competition from their Asian competitors. But although measures were required to compensate for the declining trend of recent years in the major Latin American producers, no common approach was identified.

Brazil's economic recovery is now under way, with GDP growth of more than 5 per cent in 2004, the fastest expansion in ten years. Since 2003, the new administration has restored confidence. The economy has become more resilient to external shocks following the adoption of a number of government measures to reduce trade barriers and the reliance on foreign financing, and to implement an ambitious social agenda. The TC industry has benefited from this positive environment. In 2004, the TC sector was the second biggest job creator (after food and drinks) in the industrial sector, with net hiring of 80,885 workers between January and November 2004. Brazil appeared to be holding up well in the first months of the post-quota regime. TC exports rose by 3.6 per cent in January 2005, compared to the same month in 2004. As new regulatory frameworks (notably for electricity) are now in place to reduce production costs, the business community has confidence in the future. The director of the Brazilian textile and clothing association ABIT recently expressed his optimism about the prospects of the Brazilian TC sector, with the conditions for sustainable growth by and large in place.

Mexico, like many other countries that depend economically on the TC sector, has failed to compete efficiently and has lost much of the revenue it once generated from textile manufacturing. Rising internal direct costs, including climbing energy prices, have compromised the industry's competitiveness and only the largest companies have been able to survive. The only segment of the TC industry that showed positive growth in 2004 was synthetic fabrics. However, in the last ten years, the number of companies producing synthetic textiles has shrunk from hundreds to just three main companies which now generate 90 per cent of national production. During the last four years, more than 380 garment manufacturing plants closed down owing to increased competition and growing production costs. Overall, the TC sector still accounts for 7.5 per cent of Mexico's manufacturing gross domestic product and employs more than 800,000 workers. With the end of quotas, Mexico, which had gained certain trade advantages under the North American Free Trade Agreement (NAFTA), is now exposed to direct competition with China and continues to lose market share in the United States market (between 2001 and 2004, Mexico's apparel imports to the United States declined from 14.2 per cent to 8.9 per cent). Wider duty-free access to the United States market for Central American countries through the United States-Central America Free Trade Agreement (CAFTA) could further compromise the sector's future. Recently, the Government has reduced tariffs on imported fabrics and electricity costs in order to help TC enterprises, but stronger measures may be required in the future if the sector is to survive.

In January 2002, the United States administration offered to negotiate a free trade agreement with Nicaragua, El Salvador, Guatemala, Costa Rica and Honduras. The Dominican Republic was integrated into these negotiations in March 2004. This agreement, known as the United States-Dominican Republic Central American Free Trade Agreement (DR-CAFTA), was officially signed in May 2004 (in August 2004 for the Dominican Republic component). The signature of this Agreement created hopes and expectations for the TC sector in these countries already suffering from the turbulences associated with the elimination of quotas. For the Dominican Republic, which is the third largest market for United States products in Latin America and the Caribbean, but which is also heavily dependant on garment exports to the United States, the implementation of the Free Trade Agreement is of paramount importance. With the elimination of quotas, the Dominican Republic is expected to experience an immediate and sharp decline in apparel exports to the United States by more than 30 per cent, which in absolute terms represents more than US\$650 million. Employment in the TC sector could accordingly decline by about 40 per cent. Sales already fell in 2004 in the most sensitive garment categories, and TC exporters are requesting a rapid implementation of the duty-free agreement. Guatemala, thanks to its proximity with the United States market, may be better placed to resist increased competition. It is trying to compete with China and Viet Nam in the field of quicker delivery times and is counting on the arrival of Asian investors attracted by the prospects of the Free Trade Agreement. In El Salvador, where according to some forecasts

30,000 jobs could be lost in the coming years in the TC sector as a result of the end of quotas, the business community is also calling for speedy implementation of DR-CAFTA. In 2004, some 6,000 TC workers were laid off following a decline in orders from the United States. Since January 2005, China has gained a substantial share of the United States market for lower-priced products that are also made in El Salvador, where the domestic apparel industry association (ASI) is requesting special incentives from the Government to resist the competition from China. In Nicaragua, apparel exporters intend to take full advantage of a Trade Preference Level granted under the DR-CAFTA which allows the use of Asian fabrics under duty-free access to the United States market. A series of incentives is also requested from the Government to help the TC industry in overcoming the phase-out of quotas.

The view expressed by a number of representatives from the region – that the implementation of the Free Trade Agreement will also be critical for the survival of the many United States fibre, yarn and fabric producers which supply raw materials to the Central American garment producers – is shared by NCTO, the most influential United States textile association, which has given its public support to the DR-CAFTA. This support, given in May 2005, against some minor modifications in the rules of origin, facilitated Congressional approval, and CAFTA was approved by the United States Congress on 28 July 2005. However, trade unions have warned that the Agreement provides inadequate protection for workers' rights.

3.2. Post-MFA global sourcing strategies: The socio-economic challenges

Global sourcing strategies have been affected in the recent past by a number of new trends. The last ten years have seen the emergence and growing influence of large retailers in the TC global commodity chain. These large retailers have consolidated their position through mergers and acquisitions and by moving into new emerging markets. They have put pressure on their suppliers to set up production facilities in their new markets, which has subjected local producers to growing competition. Big retailers are also exercising an increased influence on prices. As they are sourcing large volumes, their bargaining power is strong and they can obtain lower unit prices from exporters in manufacturing countries. This in turn affects producers' margins and limits their capacity to modernize and provide better wages and working conditions.

Consumers are more demanding in terms of fashion and services. They are also more "value-driven" and concerned about the conditions in which the garments they wear have been produced. As a result, big retailing companies are developing CSR strategies and taking over independent brands to provide more customer value. Value-driven stores like hypermarkets and discount stores are growing more rapidly than department stores and are selling not only mass-production items but also high-performance and fashion garments. Consequently, even niche markets are facing increased competition. On the other hand, the trend towards more socially responsible buying offers new opportunities for buyers and manufacturers that respect national legislation and apply international labour standards.

Prices are also coming under further pressure as a result of the stagnation in the world market for TC products. TC consumption worldwide is not progressing as quickly as for other goods and services. In developed countries, TC products represent a declining share of total consumer expenditure, and the ageing population tends to be more value-conscious. The emerging countries offer growth opportunities, but it is only through the improvement of the global purchasing power of developing countries that the TC market will take off again.

The end of quotas adds a new dimension to the global sourcing strategy and will further modify the commodity chain.

Before 2005, the sourcing of clothing was largely influenced by quotas in the sourcing country, and the availability of raw materials was a secondary consideration. In the absence of quotas, the availability of raw materials and a country's capacity to process them will become more crucial. Vertical integrated production of textiles and clothing will provide an important comparative advantage to clothing exporting companies and countries. The vertical integration will have to be either real or "virtual" if the country or enterprise concerned is to be able to develop national or international partnerships to increase supply chain efficiency and satisfy the quick response requirement. It is only through real or virtual integration that companies and countries will be able to compete in the rapidly expanding "full package" market ("full package" solutions usually start with product development and end with the delivery of finished products). Some countries, like Honduras, are more able to compete in the new free trade regime owing to their involvement in the "full package" strategy.

In the post-MFA environment, sourcing is likely to occur increasingly from countries that are competitive in terms of cost, quality, delivery time, productivity and compliance with labour standards.

Some major retailers and brand names have already announced a drastic reduction in the number of their supplying countries and partners. Some of them, like Gap, which sources in 50 countries, have also indicated that in the future they will be able to choose their suppliers more freely and more carefully and to develop partnerships with them, focusing in particular on the improvement of labour practices.

As a result of the increased concentration of global brand names and retailers and their growing influence on world markets, countries and companies able to deliver large volumes in shorter periods will benefit from the new situation. At the other end of the spectrum, small producing countries and enterprises, and particularly those remote from their markets, will suffer most.

Although quotas have gone, regional trade blocs and preferential trade agreements maintain distortions in trade patterns. They facilitate market access for some countries and restrict entry for others. Preferential trade agreements are used mainly by developed countries to encourage imports from the least developed countries, but they also put other developing countries at a disadvantage. Increasingly, special access to developed markets depends on social preconditions which contribute to the promotion of fair globalization in the TC industry. However, this positive development is hampered by the increasing pressure on prices, which makes it difficult to implement more socially responsible policies in the countries and enterprises concerned. Regional trade agreements are also expanding and creating further distance from the principle of free trade. It is forecast that in 2005 more than half of world merchandise trade will take place under regional trade agreements (the share in 2000 was 43 per cent). The recent developments described above show the importance of these agreements for the future development of the TC industry in many developing exporting countries. If the trend continues, the fact of belonging to a trade bloc and the signature of bilateral trade agreements with the major buying countries will become a precondition for survival in the new TC trade regime.

However, as part of the Doha Development Agenda, WTO members are currently undertaking negotiations on Non-Agriculture Market Access (NAMA). These negotiations aim to reduce tariff and non-tariff barriers for non-agricultural goods, including textiles and clothing. The current focus of negotiations is on getting agreement around a "Swiss-type" formula, which would lead to non-linear tariff reductions (reducing higher tariffs more than lower tariffs) with the aim of harmonizing all tariffs. Many poor and preference-

receiving countries that have lost production owing to the quota phase-out have kept some preferential access to developed country markets through tariff preferences, such as the EU Generalized System of Preferences (GSP) or the AGOA trade preferences. Ambitious liberalization of tariffs in textiles and clothing would lead to the almost complete loss of preferences for these preference-receiving countries, and would put additional pressure on their textile and clothing industries.

These economic and trade developments have far-reaching social implications. The opening of markets to international competition puts pressure on labour markets and results in hardship, temporary or permanent, for displaced workers. Greater concentration on fewer suppliers will benefit some countries and enterprises, which will be able to provide more jobs, possibly of a better quality. But it will also marginalize countries that had developed a TC industry based on the existence of quotas and were already in a precarious situation. In this latter category, unskilled workers, mainly women, will become jobless with very limited prospects of finding new employment. Experience shows that displaced workers in the TC industry generally have a low level of education and low skill levels. These characteristics, combined with the fact that they are mainly women, make it more difficult to adjust to changes in labour market conditions. Furthermore, for some developing economies that are highly dependant on TC trade, alternative job opportunities simply do not exist. Broader industrial and restructuring policies focusing on re-employment will be required to deal efficiently with this new situation. Further training and retraining will also be required for workers who keep their jobs. Markets are now more demanding in terms of quality and reactivity, and only those enterprises and countries that invest in human resources development and develop sound industrial relations will maintain their position in the new global supply chain. As already mentioned, respect for international labour standards is a condition of access to the major brand names and retailers. The end of quotas gives more possibilities to the buyers to operate strategic choices among their suppliers, keeping those which will not tarnish the good social image they want to show to their customers.

Greater competition, combined with increased concentration of global sourcing, has had a negative impact on prices. The immediate reaction among producing countries might be to try to minimize production costs, and above all labour costs, even if labour costs represent only a small proportion of the overall cost of garments. There is already evidence of such strategies. The Kenya Association of Manufacturers in June 2005 said that the TC industry might collapse unless its labour costs were reduced. The Government of the Philippines has recently indicated that the law on minimum wages would no longer apply to the garment sector. The Government of Bangladesh has announced that it will increase authorized overtime and relax restrictions on night work by women in order to prepare the country for the post-quota regime. In India, a new law is in preparation to permit companies with more than ten employees to deploy women on night shifts. The Clothing Manufacturers Association of India has indicated that, in order to survive, the industry has to introduce greater flexibility in the present system of labour laws. These are a few examples, among others, of what could become a general trend. However, in the long term, it is not by allowing social conditions to deteriorate that national TC industries will survive. The labour factor should, on the contrary, be regarded as an asset that needs to be protected in the search for improved competitiveness.

4. Integrated strategies towards fair globalization

4.1. Improving competitiveness in the TC industry by promoting decent work

4.1.1. *Better Factories Cambodia: Promoting social dialogue, improved working conditions and productivity*

Better Factories Cambodia is a multi-donor ILO project benefiting workers, employers and their organizations, government, consumers in Western countries, and helping to reduce poverty in one of the poorest nations of the world. It does this by monitoring and reporting on working conditions in Cambodian garment factories according to national and international standards, by helping factories to improve their productivity and by working with the Government, workers' and employers' organizations and international buyers to ensure a rigorous and transparent cycle of improvement.

In Cambodia in 2001, the ILO was part of a unique experiment. Cambodia's garment industry, which today employs around 260,000 mostly female workers and makes up 80 per cent of all its exports, grew rapidly as a result of United States quotas on big garment-producing countries. The United States Government gave trade privileges to Cambodia in return for demonstrated improvements in factory working conditions. It was agreed that the ILO would help the industry to make those improvements. Owing in large part to the measurable improvements in working conditions obtained as a result of the project, Cambodia received bonus quotas each year of 9-14 per cent during the period of the trade agreement.

The ILO created a team of independent labour monitors to make unannounced visits to garment factories, checking on conditions as diverse as freedom of association, wages, working hours, sanitary facilities, machine safety and noise control. The monitors' checklist, based on Cambodian labour law and ILO standards, contains more than 500 items. The ILO also offers the factories direct remedial assistance, and capacity building for trade unions, employer representatives and the Government.

There are three stages of monitoring: first, individual reports to the factories with suggested improvements; second, after time for discussion and follow-up action, the monitors again visit the factories to determine progress. These findings from the second visit are made public through synthesis reports on the ILO web site summarizing the overall improvements made in a group of factories. At the third stage of monitoring, the monitors again visit the factories to determine progress. Factories are named and progress on implementation is identified in all subsequent synthesis reports. Transparency has been one of the keys to the success of the programme.

The ILO monitoring arrangements are unique, providing a source of independent information the garment buying companies use to make sourcing decisions. This information is invaluable to companies that now see social responsibility as an essential part of their corporate mission. The public at large, including consumers and workers' representatives, also access this information.

Better Factories Cambodia is creating services to help the industry improve working conditions, whilst at the same time enhancing quality and productivity. A range of training opportunities and resources are being progressively offered to the industry. Options range

from simple good practice sheets to an intensive 12-month modular training programme. The topics covered include workplace cooperation and dispute resolution, occupational health and safety, working conditions, globalization and change processes.

Workplace cooperation between management and unions is at the heart of the Better Factories Cambodia training programmes. Each factory involved in the factory remediation programme is establishing a Productivity Improvement Committee to reinforce dialogue on a range of issues.

The project will soon implement a world-first information management system. The new system will be web-based and will provide timely reports on monitoring, training and improvements in Khmer, English and Chinese.

The project has been successful for several reasons. It includes all exporting garment factories and represents common interests of all those involved in the industry. It is transparent, credible to international buyers making sourcing decisions, and meets the needs and interests of workers and the industry.

Since the United States-Cambodian trade agreement expired at the end of 2004, along with the MFA, bonus quotas are no longer the impetus for improvements in working conditions in Cambodia. However, in view of the considerable local demand, ILO monitoring and remedial activities are continuing. Forecasts of the future of Cambodia's garment industry are cautiously optimistic, since it is seen as having a comparative advantage in the region in the area of labour standards, as highlighted in the results of a World Bank survey of Cambodian buyers released in December 2004. The World Bank found that good working conditions in Cambodian factories was a major factor in buyers' sourcing from Cambodia. Cambodia's key overseas buyers rated labour standards as a top priority in their decision to source from a country and considered Cambodia to have an advantage over Bangladesh, Thailand, Viet Nam and China in that regard. The survey also found that almost 80 per cent of buyers considered monitoring of labour standards to be critical after the end of quotas, and praised the ILO's monitoring. Buyers also considered improved labour standards to have positive effects on accident rates, workplace productivity, product quality, worker turnover and absenteeism.¹

Impact of the end of quotas on Cambodia's export garment industry

Background

The quota system expired on 1 January 2005. Many have predicted that this would result in a dramatic reduction in employment and exports. This has not occurred to date. Data from January to April 2005 shows that:

- employment levels have been maintained;
- both volume and value of imports to the United States have increased since January 2005 in seasonally adjusted terms (see table 4.1);
- factories are expanding in size (see figure 4.2).

¹ Foreign Investment Advisory Service (FIAS): *Cambodia: Corporate social responsibility and the apparel sector: Buyer survey results* (Washington, DC, World Bank Group, Dec. 2004).

The International Monetary Fund (IMF) has revised Cambodia's predicted gross domestic product (GDP) growth for 2005 from 2.3 to 6 per cent based on the strength of the garment industry post quota. According to Mr. Lee, an IMF Deputy Director for Asia, "The main contribution to the revision is garment exports."² Mr. Sok Hach, Director of the Economic Institute of Cambodia (EIC) said, "We had predicted no growth in the garment industry [last year], but 10 to 20 per cent growth now seems likely."³

The United States and EU took safeguard action against Chinese exports on 27 May and 10 June 2005, respectively. Over 40 per cent of Cambodia's production occurs in categories in which the United States has imposed safeguards on textile exports from China. Therefore the impact of these decisions on Cambodian export volumes is not yet reflected in the above data. Further strong growth in exports can be expected.

Cambodia appears to have fared better than many other developing countries in the post-quota environment. A key question is to what extent the ILO's Better Factories Cambodia has contributed to this. Generally, buyers are looking for price, quality, lead times and compliance with labour standards. The Royal Government of Cambodia and the Garment Manufacturers Association of Cambodia have sought to capture a market niche based on respect for labour standards. The results of the World Bank Group survey of December 2004 support the efficacy of this strategy.

Box 4.1.
World Bank Group survey of Cambodia buyers

- Just over 60 per cent of buyers surveyed said compliance with labour standards was of equal or more importance compared to considerations of price, quality and lead times.
- 86 per cent of buyers believe that compliance with labour standards is of moderate to critical importance to their consumers.
- ILO monitoring is highly credible with buyers, rating 4.43 on a 5-point scale.

Source: Foreign Investment Advisory Service (FIAS): *Cambodia: Corporate social responsibility and the apparel sector: Buyer survey results* (Washington, DC, World Bank Group, Dec. 2004).

Export activity

The United States import data shows that both the quantity and value of imports from Cambodia have significantly increased.⁴

Table 4.1. Percentage increases in Cambodian exports to the United States
(all MFA categories)

	Year preceding April 2005/ year preceding April 2004 (% increase)	Jan.-Apr. 2005/ Jan.-Apr. 2004 (% increase)	Share of US imports
Quantity	20.86	11.01	1.44
Value	18.79	17.25	1.77

Source: United States Department of Commerce – International Trade Administration, Office of Textiles and Apparel, at www.otexa.ita.doc.gov.

² *Cambodia Daily*, 15 June 2005, p. 17.

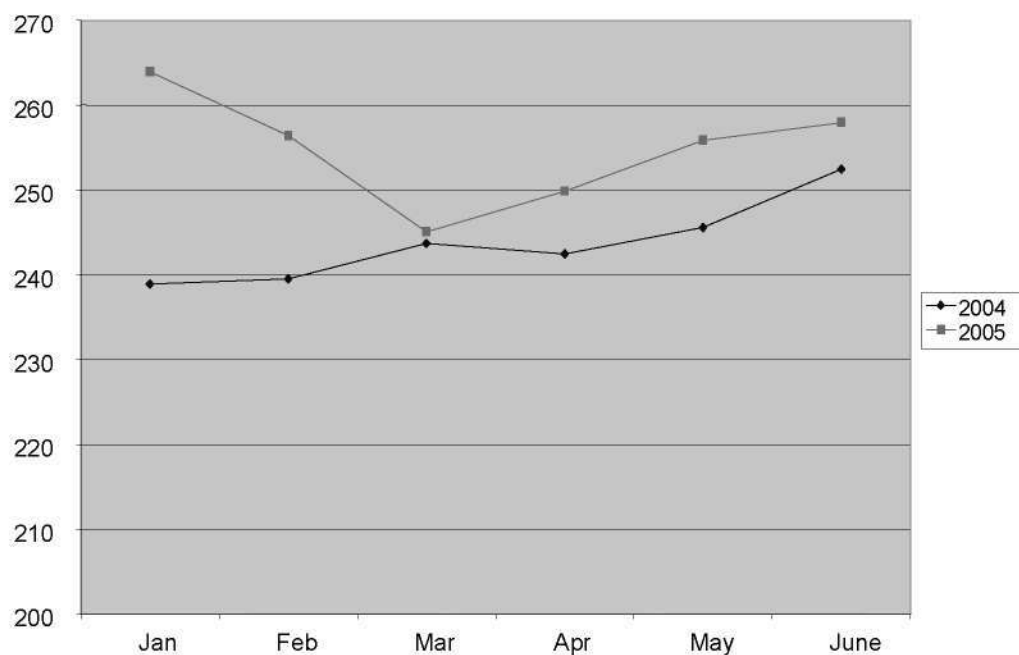
³ *ibid.*

⁴ Comparable EU data is not yet available.

Employment levels

Net employment levels have been maintained, with a slight decrease in April 2005, consistent with seasonal patterns (figure 4.1).⁵

Figure 4.1. Number of employees in the export garment industry, Cambodia (January-June 2004/2005) (thousands)

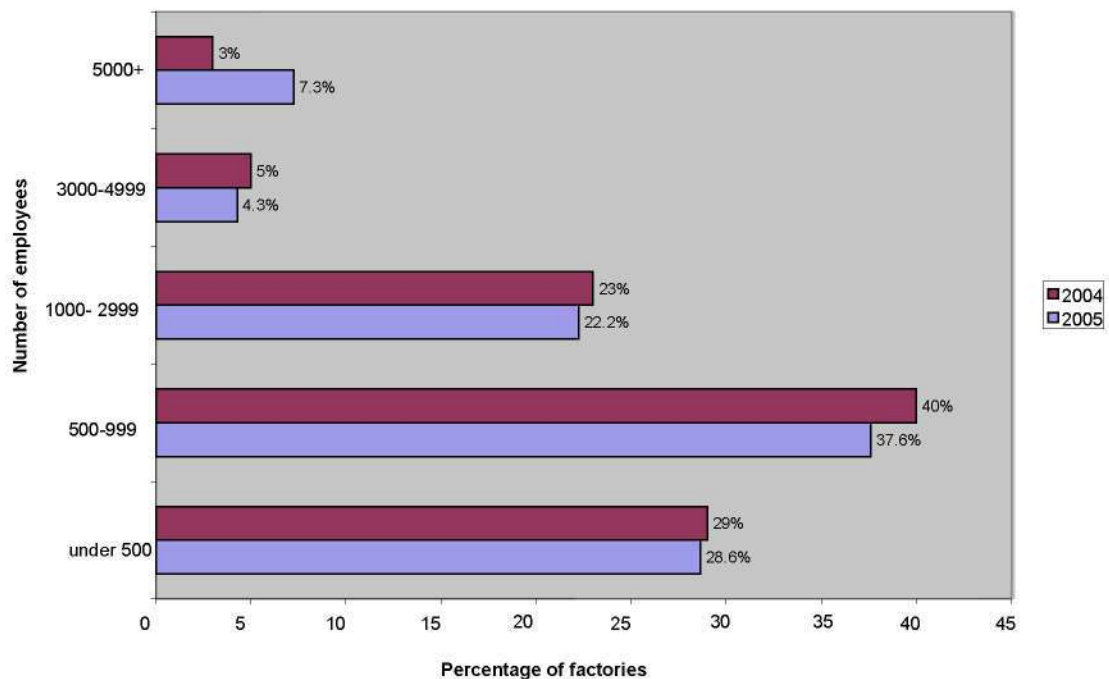


Source: Ministry of Commerce, Cambodia.

While net employment levels have been maintained, there has still been labour readjustment in the industry. In general, buyers are consolidating their supply bases between and within countries, seeking to source from fewer, but bigger, factories. As can be seen in figure 4.2, the share of factories employing more than 5,000 workers has more than doubled. There was a decline in the share of factories in all categories with smaller workforces. This trend can be expected to continue, putting smaller factories under pressure. Job losses in smaller factories are likely to occur, affecting female workers in particular as they are the most vulnerable at the point of recruitment and termination.

⁵ Month-by-month employment data is not available for 2004, but export patterns for 2004 show that production generally drops in April each year between sewing seasons.

Figure 4.2. Consolidation of factory base: Factory size (2004 and 2005)



Source: Ministry of Commerce, Cambodia.

The constituents' views

ILO constituents are clearly of the view that the ILO Better Factories Cambodia project has assisted them in the post-quota environment. In February 2005 the Royal Government of Cambodia, the Garment Manufacturers' Association of Cambodia, unions and the World Bank announced a sustainability strategy for the project, including a three-year transition period (2006-08). The stakeholders have evidenced the value they place on the continuation of the work of the project by making financial commitments.

Box 4.2. Better Factories Cambodia: The constituents' views

Government

The ILO has championed an innovative approach by supporting Cambodia in monitoring the working conditions in the garment industry, thus providing a tremendous boost to Cambodia's image as a venue for investment with social responsibility.

Prime Minister Samdech Hun Sen, at the Conference on Seizing the Global Opportunity: A Growth Strategy in an Era of Free Trade, Phnom Penh, February 2005.

We are extending our labor standards beyond the end of the quotas because we know that is why we continue to have buyers ... If we didn't respect the unions and the labor standards, we would be killing the goose that lays the golden eggs.

*H.E. Cham Prasidh, Senior Minister for Commerce
(New York Times, 12 May 2005)*

Tripartite partners

We believe that the decision ... to support the ILO [Better Factories Cambodia] program has brought positive benefits to all of the parties in Cambodia and has led to better working conditions, and a greater respect for the rights of workers.

Statement of the tripartite Project Advisory Committee of the Better Factories Cambodia project on the 11th Synthesis Report on the working conditions in Cambodia's garment sector, June 2005.

Unions

According to the textile quota agreement between the Government of the United States and the Government of Cambodia under the MFA, a project was begun to improve working conditions through ILO monitoring. Because of good cooperation between workers, the Royal Government and some big companies like Gap, Nike and H&M, working conditions have improved ... garment unions are working together with key partners ... to bring about better working conditions and more respect for workers' rights than are found in other Asian countries.

Chhorn Sokha, Vice-President of the Coalition of Cambodian Apparel Workers Democratic Union (CCAWDU), statement to the Conference on Seizing the Global Opportunity, on behalf of the Cambodian Confederation of Trade Unions (CCTU) and the Confederation of Free and Democratic Trade Unions of Cambodia (CFDTUC), 11 February 2005.

Our successes are unheard-of in countries like El Salvador or Guatemala ... but we could lose it all if the ILO doesn't stay to protect us.

*Mr. Chea Mony,
President of the CFDTUC
(New York Times, 12 May 2005)*

Employers

Cambodia has a reputation among buyers ... Cambodia garment factories are monitored by the ILO ... Wages are only 15 per cent of the cost of production. We are not playing at reducing wages ... we want to improve productivity so that everyone can share the wealth.

*Mr. Van Sou Ieng,
President of the Garment Manufacturers Association of Cambodia (GMAC)*

Buyers

The presence of the ILO was an important factor in our decision to remain in Cambodia.

*Kris Marubio, Spokesperson for Gap
(New York Times, 12 May 2005)*

We are very impressed with these programs, and we are fully supportive of the ILO project.

*Carolyn Wu, spokesperson for Nike
(USA Today, 4 April 2005)*

No question that such a reputation is a plus ... Having confidence that a factory is doing the right things for workers in terms of pay, benefits, working conditions, etc., is important to us and could be a deciding factor in where the business goes.

*William Wertz, spokesperson for Wal-Mart
(USA Today, 4 April 2005)*

4.1.2. The Decent Work Pilot Programme in Morocco

Background: A vital industry under restructuring

Textiles and garments are at the forefront of export-led industrial growth in Morocco. From the early 1980s to the early 1990s, exports by this sector increased almost fivefold. The expansion has since slowed down as a result of a fall in growth in export markets and declining demand at home. Nonetheless, the sector contributes 15 per cent of the value added of the industrial sector and generates 36 per cent of foreign export earnings. It is also at the origin of 23 per cent of enterprise creation. It remains a key source of employment. With over 201,000 workers employed in 1,607 enterprises, the sector contributes to 43 per cent of overall employment, three-quarters of which is female employment. Given its national strategic importance, both in social and economic terms, the sector has been the subject of a long-standing upgrading strategy (*mise à niveau*). The programmed end of quotas, the forecasted entering into force of the free trade zone with the EU in 2010, and the signing of the free-trade agreement with the United States in 2004 have put additional pressure on the industry to accelerate its redeployment process. The national actors have

decided to be proactive and to anticipate the impact of these trade agreements on Morocco's share of the global TC market.

First initiative: An economic strategy

The initial strategy to upgrade the sector was developed in 2002 when the employers and the Government signed a Framework Agreement aimed at boosting the TC industry from a conventional standpoint of the determinants of competitiveness. This strategy focused mainly on the need to reduce production costs and to improve the investment climate, as well as economic and political stability. In parallel, the employers' association of the TC industries, the Moroccan Textile and Apparel Manufacturers Association (AMITH) has developed, with EU support, specific upgrading strategies for each of the four Moroccan areas of TC specialization.⁶ These strategies and their accompanying action plans addressed the following key factors: competitiveness; responsiveness; creativity; commercial assertiveness; skills development; networking and clustering; and vertical integration.

Moving towards an integrated economic and social strategy, with ILO support

At the same time, the ILO and the Government of Morocco decided to launch a Decent Work Pilot Programme (DWPP). There was a consensus that the focus should be on TC, with the objective of improving competitiveness through the promotion of decent work. In doing so, it was recognized that the TC redeployment strategy would gain from improved social dialogue and better integration of the economic and social determinants of competitiveness. Pursuant to those objectives, the first phase of the DWPP (mid-2002-03) focused on the establishment of a tripartite steering committee involving all the stakeholders (the Ministry of Employment and Vocational Training, the Ministry of Industry, Commerce and Economic Upgrading, the National Agency for the Promotion of Small and Medium-sized Enterprises, the TC employers, the General Confederation of Moroccan Enterprises and the three most representative trade unions), and the facilitation of tripartite dialogue around the challenges faced by the industry in terms of competitiveness and decent work. The outcome was the adoption, in December 2003, of a "National Tripartite Action Plan to promote the competitiveness of the TC industry through the promotion of decent work". The action plan has two components: the first relates to the improvement of social dialogue at enterprise and industry level; the second focuses on measures to boost competitiveness through enhancing the quality of employment.

Box 4.3.

Integrating the social dimension

"It is our strong conviction that industry restructuring and upgrading must be based on strengthening the social dimension, which has to be promoted in an integrated way, coordinating it with the economic dimension ... It is with men and women that we intend to give the industry a new face."

Statement by Mr. Salah-Eddine Mezouar, former President of the Moroccan Textile and Apparel Manufacturers Association (AMITH), Minister of Industry, Commerce and Economic Upgrading, at the official adoption of the tripartite action plan, 13 December 2003.

⁶ These four areas of specialization are woven fabrics, knitted fabrics, jeans and sportswear and household fabrics.

From political consensus to action: The social partners join forces

In its second phase (2004-05), the DWPP provides support to the implementation of the priority components of the tripartite action plan. The social partners identified the following priority areas calling for immediate action: promotion of social dialogue at the industry and enterprise levels; capacity-building among the social partners; social upgrading of enterprises and strengthening of their role in the design and implementation of on-the-job vocational training. Other key areas were promotion of gender equality; child labour in the informal segment of the industry; and the extension of workers' access to health insurance coverage. The full implementation of the action plan is currently under way, and since June 2005 it has received funding from the Ministry of Labour and Social Affairs of Spain. It is too early to assess whether the implementation of the action plan will be a complete success. It has already succeeded to a certain extent in that it has brought the social partners and the Government together to work on competitiveness. Central to that dialogue is the notion of decent work as a competitive factor.

Outcomes of the DWPP

One of the major achievements of the DWPP is certainly the move from a conflictual approach of social dialogue to a more collaborative one. Not only has this led to the adoption of the tripartite action plan, but it also gave a new impetus to national, sectoral and regional social dialogue. The social partners decided in January 2004 to establish a bipartite TC committee to deal in a socially responsible way with the new challenges of globalization. This nascent bipartite institution will be supported by the ILO through the Spanish-funded component of the DWPP. The Moroccan social partners are also contemplating the possibility of establishing regional tripartite TC forums. In the recent past, some trade unions have established TC national federations to strengthen their representation.

Another major achievement of the programme so far is that the new strategy of the employers' association AMITH puts the human dimension at the heart of the restructuring process, recognizing the importance of integrating the social dimension with the search for economic efficiency.

Box 4.4.

Social dialogue for a win/win partnership

"The ILO programme has brought all of the social partners in the Moroccan TC sector together for the first time. It has given them valuable opportunities to get to know one another better, exchange views based on the facts and on scientific research, and explore the possibilities and opportunities for a win/win partnership."

Statement by Mr. Karim Tazi, President of AMITH, in L'Économiste, 10 December 2004.

4.1.3. An integrated action programme to improve competitiveness: Romania and the Philippines

A similar approach to the one implemented in Morocco has been developed in Romania and the Philippines. With the support of the ILO, the Government and social partners of each country have designed a coordinated strategy to prepare the TC industry for the post-MFA environment and improve its competitiveness through the promotion of decent work. A similar sequence was followed in both countries. The first step was to evaluate the current situation in the national TC industry, together with the opportunities and challenges raised by the new trade regime. Particular attention was given to identifying the key aspects of competitiveness, including social factors. The second step was to develop capacities for consultation and dialogue with the social partners in the sector with

a view to formulating and implementing an overall strategy for economic and social development in the TC industry. For this purpose, a tripartite National Steering Committee was created. Its mandate was to validate the research phase, to elaborate an Action Plan and to monitor its implementation, in collaboration with the ILO.

In Romania, the Action Programme was launched in October 2004. A tripartite National Steering Committee (NSC) was set up, comprising the Ministry of Labour, Social Solidarity and Family, the Ministry of Economy and Trade, the National Agency for SMEs and the sectoral social partners. Its first task was to define the terms of reference of the background study, identify a national consultant and establish the consultative process to ensure tripartite collaboration throughout the programme. Following its first session, the national consultant worked in close collaboration with the members of the NSC, which validated his report and subsequently set up a tripartite drafting committee to elaborate a draft Action Plan. The draft Action Plan was submitted, amended and adopted during the second session of the NSC in April 2005.

The Action Plan develops a strategic approach, coordinated in its economic and social dimensions, for bringing the Romanian TC industry up to date in the new trade environment. It consists of four major components. The first sets forth concrete proposals and actions aimed at improving the image and competitiveness of the Romanian TC sector by promoting decent work. Particular attention is given to the management systems for corporate social responsibility (CSR) and safety and health at work. The second part focuses on enhancing the capacity of the sectoral social partners and strengthening social dialogue. Under this item, particular attention is given to raising awareness of the positive linkages between competitiveness and improved working conditions. The third component deals with human resources development in the TC industry as a key factor for competitiveness in the world market. Lastly, the Action Plan places gender at the centre of the whole programme. Under each topic, the Action Plan contains a list of objectives, activities and respective responsibilities, together with a tentative agenda. The activities requiring ILO support have been clearly identified and budgeted accordingly. The Action Plan is currently under implementation. An evaluation is planned for September 2005 during the third session of the NSC. On that occasion, the NSC will present the Programme and its first achievements within the framework of a major international TC fair organized by the Romanian Ministry of Economy and Trade.

With this additional step, Romania has clearly indicated its willingness to incorporate a social dimension in its economic strategy, a strategy oriented towards enhanced responsiveness and better quality products. In doing so, the TC enterprises and the Government might attract foreign buyers who are particularly concerned by corporate social responsibility.

In the Philippines, the Government and social partners took a number of initiatives to deal in an integrated way with the post-MFA environment and its socio-economic challenges. In January 2004, several labour organizations convened to adopt a Labor Action Plan, Policy and Legislative Agenda in the TC industry. This plan, now referred to as the Labor Agenda, acted as an impetus for the tripartite actors to respond to the urgent call for integrated action in view of the end of quotas. The labour organizations requested that the Labor Agenda be integrated within the Industry Transformation Plan currently implemented by the Department of Trade and Industry, which embodies the programmes aimed at sustaining the Philippines' TC competitiveness in the world market. Addressing this call for integration, the Garments and Textile Export Board (GTEB) convened three tripartite meetings in February and March 2004. These meetings focused on the following topics: market access and trade facilitation; employment issues; social protection and safety nets; skills development and training; labour relations and social accountability; wage policy; export processing zones (EPZs); and structural reforms. The workers also mentioned the following concerns that required immediate government response: a

package of assistance for displaced workers; provision of an emergency loans window for garment workers; and reactivation of the Clothing and Textile Industry Tripartite Council (CTITC) to provide a venue for continuing dialogue among the tripartite partners. The three tripartite meetings generated responses from the employers and the Government and a commitment towards a better integration between the economic and social issues raised by the end of quotas.

The proposal for the ILO's Action Programme on Improving Competitiveness in the Philippines' TC Industry by Promoting Decent Work was submitted and approved at that moment. In its Letter of Approval, the Government indicated that the initiatives relating to the TC industry could not succeed without the establishment of capacities for consultation and dialogue as the primary mechanism for policy formulation and programme implementation. After a series of ad hoc meetings and consultations, the Government obtained the support of the social partners to reactivate the CTITC and to act as the National Steering Group (NSG) of the Action Programme. The CTITC was formally convened on 22 February 2005. During its first session, it focused on the elements to be incorporated in the Action Plan and on how the tripartite partners should go about this. Concerned that immediate action should be undertaken in the face of industry challenges and that previous tripartite discussions had already taken place, the CTITC suggested focusing on very targeted actions, specifically aimed at assisting the workers affected by the abolition of quotas. A final Action Plan, which will be monitored by the CTITC, will be issued in the second half of 2005.

The Action Plan will be integrated into the Philippines TC industrial strategy, whose main objective is to move up the value chain by focusing on branded products and gaining more market niches.

4.1.4. Bangladesh prepares for the post-MFA environment

Government initiatives

Following the publication of a number of national and international studies predicting the collapse of the ready-made garment (RMG) in Bangladesh after the complete phase-out of quotas, the government apprehended a sharp fall in RMG export earnings and a huge displacement of workers. In order to prevent this scenario, three institutional arrangements were introduced: a task force was formed, chaired by the Commerce Minister, to coordinate the efforts of the various government ministries and agencies and private sector organizations; a Core Group was also set up and chaired by the Commerce Secretary to implement the decisions of the task force; and a Post-MFA Implementation Committee was formed to identify and design the programmes to be implemented to cope with the post-MFA scenario.

A Post-MFA Action Plan (PMAP) has been formulated. This Plan contains six major components: a Skill and Quality Development Programme (SQDP); a Displaced Workers Rehabilitation Programme (DWRP); a Support to Capacity Enhancement Programme (SCEP); a Support to Primary Textile Sector (SPTS); a Support to Handloom Sector (SHS); and a Support to Forward Linkage Industries (SFLI).

The major elements of the DWRP are: (i) training and retraining in various occupations to help workers find alternative employment; (ii) provision of microcredit for new business or enterprise at zero or minimum interest rates for at least five years; (iii) provision of microcredit for export-oriented production; and (iv) new job avenues in sectors with growth potential.

To supervise, monitor and evaluate the activities of the PMAP, a Steering Committee has been formed, headed by the Secretary of Commerce, and consisting of all relevant ministries, associations of manufacturers and exporters in the garment industry, and leading non-governmental organizations (NGOs) and development partners.⁷

To review the PMAP and prepare recommendations, a working group was set up with representatives from the World Bank, the Department for International Development (DFID) of the United Kingdom, the South Asian Development Fund (SADF), BGMEA, BKMEA, ERD, the Ministry of Textiles and Jute and the Ministry of Foreign Affairs. As an immediate first step, to cope with the issue of displaced workers, the Government allocated 200 million taka in 2004-05 to start a programme involving key strategic partners, called Garment Workers' Retraining and Employment Programme, to generate employment for retrenched RMG workers through retraining. This programme was put under the monitoring of the Ministry of Commerce.

Business responses

Manufacturers' associations (BGMEA and BKMEA) and individual enterprises (primarily large-scale enterprises) have taken initiatives in the past two years to diversify buyers and improve product quality and productivity through participation in international trade fairs, in-house skills training for workers and supervisors, acquisition of modern technology such as computer-assisted design (CAD) and productivity improvement schemes. To raise compliance with social and labour standards by RMG factories, BGMEA set up a Compliance Cell in January 2004, in addition to collaborating with the ILO on a project to upgrade labour relations and working conditions in RMG units. BKMEA has also run awareness-raising activities on compliance among its members.

Trade union responses

Trade union federations have held meetings and rallies to consolidate their position on post-MFA issues and call the attention of government and RMG employers to workers' concerns. At the International Conference on the MFA Phase-out held in December 2004 in Dhaka, trade unions endorsed the Dhaka Declaration, which called on the Government, BGMEA and BKMEA, Bangladeshi and international workers' unions to take a number of actions aimed at mitigating the negative impact of the MFA phase-out and protecting workers' rights and interests.

Elements for an integrated response

At the National Policy Dialogue on Globalization, Decent Work and Poverty Reduction: Policy Alternatives, held in April 2004 in Dhaka, within the framework of the ILO Decent Work Pilot Programme, the tripartite partners called for concerted action aimed at minimizing the potential losses in jobs and exports, and securing Bangladesh export competitiveness after the full MFA phase-out. The ILO is supporting national efforts to deal with these global challenges by two means: (i) promoting social dialogue

⁷ The composition of the PMAP Steering Committee is as follows: Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Bangladesh Textile Mills Association (BTMA), Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), Bangladesh Terry Towel and Linen Manufacturers and Exporters Association (BTTLMEA), etc.; Ministry of Textiles and Jute, Ministry of Women and Children Affairs, Ministry of Labour and Employment, Ministry of Youth and Sports, Ministry of Industries, Ministry of Shipping, and Ministry of Civil Aviation and Tourism, National Board of Revenue (NBR), Economic Relations Division (ERD), Finance Division, Bangladesh Handloom Board (BHB), and Bangladesh Bank (BB), and leading NGOs and development partners. Trade unions are not members of the Steering Committee.

and consensus among the tripartite partners on the employment and social dimensions of post-MFA challenges and on possible joint courses of action; and (ii) assisting the social partners in taking an integrated approach that combines and balances the goals of global competitiveness, productivity, decent employment and workers' income security. So far, the national post-MFA agenda has given much more attention to technical, financial and commercial aspects of global competitiveness and industry upgrading than the human and employment dimensions. There is little hard data on garment workers' employment profile, and how this is changing as the industry restructures. Moreover, there is no mechanism for monitoring employment impacts.

Although the social partners have identified a number of possible actions, tripartite consensus and joint action are critical for confronting the tough global challenges ahead. The ILO and the tripartite partners are currently preparing for a tripartite meeting of the RMG industry, tentatively scheduled for the end of July 2005. The meeting will be aimed at: strengthening tripartite participation and consultation in setting the national post-MFA policy agenda; consolidating the views of tripartite stakeholders on the post-MFA and decent work challenges in the RMG industry; and facilitating tripartite consensus on priority issues and actions for meeting the challenges facing the industry and workers.

It is envisaged that the meeting will lead to a joint plan of action which the ILO could support. The workers, employers and the Government are finalizing their respective papers for the meeting. The Ministry of Commerce has agreed to convene the meeting, in partnership with the Ministry of Labour and Employment.

4.1.5. EPZs in Madagascar: Productivity improvement through decent work promotion

With the support of the ILO, the United Nations Development Programme (UNDP) and Catholic Relief Services (a United States NGO), the Government of Madagascar has initiated a project aimed at improving the productivity of EPZs through the promotion of decent work. Launched in September 2004, this project has benefited from previous ILO experience, in particular the Decent Work Pilot Programme in Morocco. It has followed a similar approach, with the establishment of a National Steering Committee and the preparation of a background study to lay down guidelines for the development of an Action Plan. The national background study, which was validated in January 2005, provided interesting inputs, confirming the need for an integrated socio-economic approach. The study shows that the TC sector alone represents 63.8 per cent of the enterprises in the EPZs and 54 per cent of their exports. It also contributes to the bulk (69 per cent) of the 115,000 jobs created by EPZs (or 39 per cent of total industrial employment). The majority of workers (71 per cent) are women and the average age is 28 years. The study also reveals a very low contribution of EPZs to GDP (around 1 per cent), evidencing a low degree of integration with the rest of the economy and a near absence of linkage effects. Wages in EPZs compare favourably with the rest of the economy, but overtime is the rule and workers complain of working under stress. Safety and health measures are important issues for employers, but some accidents occur owing to excessive hours of work. Although the unionization rate is low (14 per cent), social dialogue is progressing. Both employers' and workers' organizations express a common will to develop a negotiated approach to deal with labour and social issues. In its conclusions, the study indicates that while EPZs remain a major contributor to foreign exchange earnings and employment, their sustainability is not guaranteed, especially in the TC sector, owing to increased competition and high non-labour production costs. Based on these results, four strategic objectives were identified, to be incorporated in the Action Plan: economic promotion of EPZs (in particular for TC enterprises in relation to the post-quota regime); vocational training (to ensure the upgrading of skills required for higher-quality production); social protection, fundamental rights and social legislation; and industrial

relations. Once adopted and implemented, with the support of the ILO, the Action Plan should bring about better coherence between the responses to the economic and social challenges that the EPZs in Madagascar will have to face to remain competitive at the international level. It should also contribute to the implementation of the Framework Agreement on the National Employment Policy adopted by the social partners in December 2003. The study recommends the adoption of innovative approaches to highlight the employment dimension in global strategies aimed at boosting the private sector. It calls for urgent measures by the Government to support the competitiveness of EPZs, promote decent employment and facilitate social dialogue.

4.1.6. Improving working conditions in the Haitian assembly sector

The employment situation in Haiti, the poorest country in the Americas, is catastrophic. There are an estimated 110,000 formal sector jobs in total (both public and private sectors) for an economically active population of 4.1 million. The remaining members of the labour force, nearly 4 million men and women, are unemployed or self-employed in the informal sector. Formal sector employment has been falling steadily.⁸

The garment assembly sector is the largest employer in the private sector. At its peak in the 1980s it employed nearly 100,000 workers, but this had contracted to less than 20,000 workers by 1998, of whom more than two-thirds were women. The UNDP estimated in 2003 that garment sector employment had fallen still further to around 13,500.⁹ Political unrest, a weak physical infrastructure, mismanagement and allegations of substandard working conditions in the assembly sector have discouraged potential investors and buyers of Haitian goods from doing business with Haiti.

An ILO project funded by the United States Department of Labor, implemented from 2000 to 2004 by the Manufacturers' Association of Haiti (ADIH), sought to encourage productive investment and create jobs in the export garment sector.¹⁰ The project was based on the premise that better working conditions could contribute to attracting international buyers and hence more orders and increased employment, as well as improving conditions in their own right. It therefore supported garment factories in making tangible improvements in working conditions.

By the end of the project, a large number of improvements had been made to working conditions by participating enterprises. The project used the ILO's Work Improvements in Small Enterprises (WISE) methodology for promoting voluntary action by enterprises to enhance working conditions, by demonstrating the practical links between working conditions and increased productivity. ADIH's capacity was strengthened to offer services concerning conditions of work and related issues to its members. In addition, the project sought to help lay the groundwork for sustainable social dialogue in Haiti. A tripartite workshop at the end of the project resulted in unanimous agreement to work together for the establishment of the Labour and Employment Council.

The project demonstrated that even in very difficult conditions and without external pressures in terms of business or legal requirements or trade union mobilization, it is

⁸ UNDP: *Integrated Emergency Response Programme Targeting Vulnerable Groups and Communities in Haiti* (March 2003), p. 48, at <http://www.ht.undp.org/haiti/documents/PIRen.pdf>.

⁹ *ibid.*

¹⁰ Improving working conditions in the Haitian assembly sector (HAI/99/M01/USA).

possible to promote voluntary action by enterprises to improve working and employment conditions, by helping enterprise owners, managers, supervisors and workers to see the links between such improvements and their other goals and by giving them the practical tools and confidence to take improvement action. However, these efforts to promote voluntary improvement action should be part of a broader approach to promote decent work in garment factories, including through laws, regulations and labour inspection, trade union action, codes of conduct and their monitoring by international buyers, and by other means. Moreover, a workable system of social dialogue is an indispensable element of any strategy for improving working and employment conditions. This in turn requires developing the capacity of all three partners – employers’ and workers’ organizations and the government labour administration system.

Haiti continues to experience social, political and economic upheaval as it prepares for national elections and tries to rebuild itself after the chaos that led to and followed the end of the Aristide regime in 2004. In these conditions, the end of the MFA is only one of the factors affecting the health and future of the garment sector in Haiti, together with countless other factors – including the burning of factories during the 2004 riots. Haitian garment employers, whose exports are overwhelmingly destined for North America, have pinned many hopes on a bilateral trade agreement with the United States, which so far has not materialized.

4.1.7. Sri Lanka: Coping with a post-MFA environment

The Sri Lankan garment industry experienced phenomenal growth since the late 1970s and continues to be the strongest manufacturing subsector in that country. The garment industry had a comparative advantage as the quantitative restrictions imposed under the MFA provided a certain degree of protection for the industry by increasing both export volumes and accessibility to foreign markets. Since Sri Lanka is a labour-surplus economy, the growth of the garment industry in the past few years has generated a large amount of manufacturing employment, particularly for women in the organized sector. The garment sector currently provides direct employment to approximately some 340,000 people, of whose 87 per cent are women. Another 600,000 workers are indirectly dependent on the industry through employment in a range of support and related service occupations.

During the growth period of the industry, Sri Lanka enjoyed a relatively secure export market for garments through bilateral agreements, mainly with the United States and the EU. Most garment manufacturers were geared to producing standard, low value-added garments for the major markets under export quotas. More than 60 per cent of total garment exports were still based on quota exports in 2004, and Sri Lanka’s dependence on quotas had been increasing since 1995.

At present, Sri Lanka not only faces stiff competition from other developing countries of South and South-East Asia, but also from China, which has emerged as a dominant force in the global apparel industry. In the higher-value clothing segment, producers such as Malaysia, Republic of Korea, Singapore, Hong Kong (China) and Japan are also now serious competitors. One of the most significant factors affecting the competitiveness of the Sri Lankan garment industry is low productivity. While it has become evident that Sri Lanka cannot compete on low labour costs alone, the emphasis has been shifted to improving the productivity of both labour and the manufacturing operation as a whole. Despite the fact that the Sri Lankan garment industry has achieved phenomenal growth over the last two decades, the development of backward linkages has been poor. The industry is heavily dependent on imported inputs, with the result that the level of value added is low. In addition, the need to import raw materials results in longer lead times, posing another serious threat to the international competitiveness of the industry.

Inadequate training of managers and workers is an important factor constraining productivity and competitiveness. One of the most significant restrictions on the competitiveness of garment manufacturing enterprises is the poor relationship between employers and their employees. In addition, Sri Lankan manufacturers are more likely to invest in technology in order to reduce their labour force and minimize the constraints imposed by the country's stringent labour laws. Many of the factories currently operating do not comply fully with labour standards and are already losing potential market share as a result. In addition, poor infrastructure such as roads, transport and telecommunications, as well as the delays caused by documentation and customs procedures at ports and airports, have seriously affected lead time and costs in the garment industry.

The likely impact after the end of quotas is that workers in the small and medium-sized garment manufacturers may face retrenchment. Compensation will have to be paid to workers under local labour regulations. However, the larger and stronger enterprises may have the opportunity to expand further as quota barriers are lifted. Because of the high quality of their product and good relationships with buyers, they may be able to obtain larger volumes of unrestricted orders from these buyers. With globalization, pressure on buyers from consumer movements to avoid producers who do not respect workers' and other rights can have fast and significant effects. This is already visible in the Sri Lankan garment industry, where buyers have stressed the need to adhere to international labour standards.

Towards an integrated response

The TC social partners, with the support of the ILO, have initiated three programmes geared to meeting the challenges faced by the TC sector both in terms of competitiveness and the phasing out of the MFA.

Factory Improvement Programme

A pilot multi-supplier training programme for the apparel sector in Sri Lanka, the Factory Improvement Programme (FIP) was implemented with ILO support. The programme was designed to both raise factories' capacity to comply with international labour standards and to increase their competitiveness.

The programme encompasses six training modules, followed by factory visits to the participating factories by the experts conducting the modules. The modules are as follows: (1) continuous improvement (setting in motion the structure, discipline, teamwork and commitment of senior management towards the entire project); (2) quality improvements (tools, techniques, systems and internalizing a quality culture); (3) workplace cooperation (introduce/enhance worker-management relations and social dialogue, participation of worker-level teams for a two-way process and worker rights); (4) productivity enhancement (process planning and monitoring, efficient techniques and overtime assessment and monitoring); (5) human resources management (organization culture, procedures and practices, payroll practices, employee appraisals and worker development); and (6) occupational safety and health (safety techniques, safety training, healthy workforce and conforming to international requirements).

A pilot programme (FIP-1) was carried out with eight garment factories in Sri Lanka between June 2002 and June 2003. Since then, a second project (FIP-2) has been completed (September 2004), and a third phase was launched in collaboration with the Employers' Federation of Ceylon (EFC) in 2005. Evaluations conducted at the end of the first two phases indicate that the FIP programme is considered a success and a valuable tool to enable garment sector enterprises to become competitive and productive through an innovative approach. The evaluation report concludes that the programme is innovative in terms of its aims, underlying philosophy and training methodology. In particular, the FIP

contributed to an improvement of working conditions by developing new managerial skills and management systems in the garment factories.

Compliance initiative

In response to a request by the apparel industry to discuss the possibility of setting up a third-party auditing system to ensure the highest levels of compliance and give it a competitive edge, the ILO, in partnership with EFC and the Joint Apparel Associations Forum (JAAF), organized a Compliance Managers Conference which dealt with social auditing, compliance and labour issues. Attended by Sri Lankan companies and business associations, multinational buyers, trade unions, and the Department of Labour, the meeting agreed to pursue the issue of certification and compliance. It set up a tripartite working group comprised of representatives of buyers, EFC, trade unions, JAAF, Sri Lanka Standards Institute (SLSI), the Department of Labour and the ILO, to develop a common system of compliance with international standards. As of May 2005, the tripartite working group's deliberations, along with three completed sectoral studies, have paved the way for a common code of compliance. It is now working towards a multi-stakeholder monitoring mechanism which, if adopted nationally, would be in line with major corporate codes of conduct and accepted international norms. It would also facilitate the promotion of the Decent Work Agenda and boost the competitiveness of the TC industry through the existing relationship between trade benefits and adherence to international labour standards.

Tripartite Action Plan

The third initiative supported by the ILO was the development of a Tripartite Action Plan by a Multi-Stakeholder Task Force that was formed as an outcome of a tripartite workshop on MFA and Beyond, held in Colombo in July 2004. The workshop was organized by the ILO at the request of a few workers' organizations and the Apparel Industry Labour Rights Movement (ALaRM) (a consortium of concerned workers' organizations and NGOs which, since October 2004, has been working on the issue to discuss the problems of potential job losses associated with the end of quotas).

The main objective of the Task Force was to develop a Tripartite Action Plan to deal with possible job losses as the TC industry restructures and adjusts to a post-MFA environment. The Tripartite Action Plan, through its nine action initiatives, aims at providing a comprehensive operational strategy to minimize the impact of job losses in Sri Lanka's garment industry as a result of the expiry of the ATC. The paper also reflects the possibilities of strengthening the industry in terms of productivity and global competitiveness. Hence, the document outlines a range of preventive initiatives and transitional arrangements aimed at ensuring productive and decent jobs for all, as well as fair and reasonable treatment of displaced workers.

The Tripartite Action Plan recognizes the need to prevent job losses in the industry, but its prime focus is on identifying how displaced workers can be assisted and supported in finding alternative employment through access to skills development programmes and a range of employment promotion activities (including counselling, information on specific alternative employment opportunities, opportunities for self-employment, job matching and placement services). The preventive initiatives and transitional arrangements are being followed up by a multi-stakeholder committee in parallel to government and employers' and workers' activities addressing the problems posed by the end of quotas.

4.1.8. Worker-management development programme in the garment sector in Turkey

The TC sector has a substantial place in Turkey's economy and foreign trade. It constitutes the largest industry and accounts for 10 per cent of GDP, 22.6 per cent of manufacturing output and 21 per cent of employment in the manufacturing sector. Turkey's TC exports represented 34.4 per cent of total merchandise exports in 2003. The EU has traditionally been the main market, followed by the United States.

Before the end of the ATC, at the international level, Turkey was extremely active in seeking ways to protect the market share of the developing countries in their export markets. In particular, it has been lobbying to establish safeguard clauses to deal with market disruptions. At the national level, Turkey has developed strategies to improve the competitiveness of its TC sector. Some of these strategies have been developed with the support of the ILO.

The ILO Ankara Office has been working with the social partners in the clothing sector to help prepare them for the post-MFA competitive environment. A training project was developed in close consultation with the social partners, with funding from the European Commission, to help companies to increase productivity through improved conditions of work, social dialogue and more cooperative worker-management relations. The project focused, in particular, on the role trade unions can play in raising the competitiveness of clothing manufacturers. Participants subsequently organized meetings in their factories to share what they learned with other workers and managers, so as to distribute the information widely.

Both managers and workers agreed after the training sessions that the appropriate response to increased competition from China is not to slash workers' wages, but rather to improve responsiveness, quality and ethical and fair labour practices. The training, organized in clusters, was greatly enriched by sharing knowledge and experiences between companies. Increased awareness of the importance of freedom of association for both workers and employers was a key outcome of the pilot programme: workers in unionized factories shared their experiences with non-unionized workers about the benefits of organizing; and the employers became more aware of the value of being a member of an employers' association.

In addition, the ILO is currently engaged in a research project on the costs and benefits of social auditing for the textile sector in Turkey, Romania and Bulgaria. The survey seeks the views of both managers and union representatives. The objective is to identify the scope of the social audits and possible areas of involvement for the ILO and the EU in the field of auditing. The research results will be a tool for both buyers and suppliers to maximize the benefits of the social audits for both sides and develop corporate social responsibility in the clothing sector in Turkey.

In general, the social partners are very positive about these new projects in the Turkish textile sector, and would like to be involved in the planning, implementation and monitoring of the projects, and to take advantage of the new opportunities opening up. For instance, the Textiles, Knitting and Clothing Workers' Union of Turkey (TEKSIF) stated that its strategy is organization in the factories supplying to brands that are sincere in implementing their codes of conduct.

4.2. Sectoral social dialogue in the TC industry: The European experience ¹¹

4.2.1. European social dialogue thriving in a difficult context

The TC sector accounts for 4 per cent of production and 7 per cent of employment in the manufacturing industry. Following enlargement of the EU to 25 Member States, over 2.7 million persons now work in this sector (a third more than in the former 15-Member EU). It consists largely of SMEs (117,000 in the EU-15).

Between 1995 and 2000, the sector lost 500,000 jobs, a trend which has since gathered momentum. In 2003, production decreased by 4.4 per cent and employment by 7.1 (EU-25). Faced with the impending opening up of markets in 2005, the European Commission pursued preventive policies to prepare for the changes to the extent possible. Social dialogue plays a key role in this context.

The two partners are the European Trade Union Federation of Textiles, Clothing and Leather (ETUF:TCL) and the European Apparel and Textile Organisation (EURATEX) on the employer side. It should be noted that EURATEX does not hold a mandate from national organizations to negotiate wages and conditions of work at European level.

4.2.2. Overview of developments in European social dialogue

It was not until the Single Act (1986), which provides for the possibility of contractual relations between the European social partners – the European Trade Union Confederation (ETUC), the Union of Industrial and Employers' Confederations of Europe (UNICE) and the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP) – that social dialogue came into its own as part of the history of European union. The Treaty on European Union (Maastricht) (1993) laid down the framework for European collective bargaining which could lead to collective agreements that were made generally binding (*erga omnes* extension) by a Council Directive or implemented by the national social partners themselves. At cross-industry level, three framework agreements have been transposed into Directives: one on parental leave (1995), one on part-time work (1997) and one on fixed-term work (1999). These were followed by two voluntary agreements, which the national social partners are free to apply: one on telework in 2001 and one on work-related stress in 2004. The abovementioned provisions of the Treaty can also be applied at sectoral level.

The initial framework for consultation of the European social partners consisted of the joint committees in the sectors where "integrated" common policies were adopted: mines (1952), agriculture (1964/1974), road transport (1965), inland navigation (1967), fisheries (1974) and railways (1972). The 1980s saw the emergence of informal working groups set up at the request of the "social partners". In 1998 the Commission decided to harmonize the system, replacing the two earlier structures with sectoral social dialogue committees (SSDCs). It is in this context that sectoral social dialogue in the TC sector developed. In 1992, the ETUF:TCL and EURATEX decided to set up an informal working group. In 1999, following the Commission's communication on adapting and promoting

¹¹ Source: Observatoire social européen.

the social dialogue at community level, the TC sector was one of the first to ask for the establishment of an SSDC.

The SSDC had the following objectives:

- to advise the Commission on Community social policy initiatives and on European policy developments with a social impact on the sector;
- to encourage social dialogue as a means of contributing to employment and competitiveness.

A closer look reveals five key areas of activity of the SSDC:

- influencing international trade negotiations in which the Commission negotiated on behalf of the EU;
- intervening in industry policy-making in the TC sector;
- influencing general European decisions having an internal impact on the sector;
- taking a dynamic and proactive approach to address the effects of restructuring in the sector linked to innovation and liberalization processes;
- developing common social ground rules for enterprises operating within and outside the EU.

4.2.3. Outcomes of sectoral social dialogue

Three types of instruments were used to achieve the aims outlined above:

- (a) developing joint texts (common positions) to be submitted to European institutions, with the aim of shaping European policy;
- (b) drafting joint recommendations or declarations embodying shared commitments by the social partners. Recommendations included a follow-up clause while declarations were commitments without a formalized follow-up provision;
- (c) joint activities consisting of jointly commissioned studies and research, participation as social partners in official groups established by the European authorities.

To date, 14 texts have been adopted, on a wide variety of subjects. In addition to the 1997 code of conduct (see below), it is worth mentioning the manuals of good practices on equality of opportunity and public procurement. These are two tools that can be used in a decentralized way and have a considerable impact on the number and quality of jobs.

Most of the other texts were for submission to the Commission and essentially relate to employment and training issues. No new documents have been adopted since 2002. The strategy was to enhance the effectiveness of existing texts and respond to new challenges. Enlargement is certainly one of these challenges. But the main challenge, of course, is the end of quotas and the major restructuring faced by the sector.

4.2.4. The Code of Conduct and participation in the High-Level Group: Two faces of social dialogue

The Code of Conduct

The Code of Conduct for the TC sector is a key element of social dialogue between EURATEX and the ETUF/TCL. Similar codes were adopted in the leather and tanning (11 July 2000) and footwear (updated on 17 November 2000) sectors. It was agreed in the new work programme (2005) to open discussions on implementation and verification by setting up a joint group on implementation methods.

Dissemination of the code is essential. It was to be gradually incorporated in the collective agreements of 14 Member States of the EU-15 (apart from Portugal), making it legally binding. This was done in 1997 by Finland, followed in 1998 by Belgium, Germany and Italy, then by Spain in 1999, and so on. This is a dynamic process, which takes more time in some countries than in others. The code has been translated into all the languages of the EU-15 and widely disseminated in enterprises. In 2000, some 40,000 copies were distributed in the 11 languages of the EU, about 10,000 in the languages of the accession countries and about 10,000 in Turkish.

In response to the impending enlargement, the social partners decided to distribute the Code of Conduct in the accession States and Turkey, in cooperation with the ILO. As in other sectors, enlargement poses a major challenge to the TC industry since social dialogue is less firmly established, and in some cases nonexistent, in the new Member States, where national organizations are fairly weak. This is a gradual process that will include capacity building (financed by the European Commission in the absence of strong organizations in these countries).

It is too early for an accurate assessment of the impact of the code. It provides a reference framework that can be used as and when problems arise. Rather than being applied according to the letter it should be part of a dynamic process of strengthening mutual confidence and enhancing the capacity to deal with problems in a concerted manner. According to the European social partners, there have already been ten cases in which difficult situations in terms of trade union representation have been resolved merely through the threat of bringing the issue up for social dialogue.

The High-Level Group: Participation in strategic orientations

The High-Level Group on textiles and clothing was set up pursuant to the Communication on the future of the textiles and clothing sector in the enlarged European Union, adopted by the European Commission on 29 October 2003, and the resolution of 21 January 2004 of the European Parliament on the same subject. It consisted of the top decision-makers in the sector: the three Commissioners concerned, representatives of the four EU Member States with an important TC sector, a member of the European Parliament, industrialists, trade unions, retailers and importers.

The Group addressed a number of issues such as competitiveness, intellectual property rights, regional aspects, innovation, research and development, and trade policy. Education, training and employment featured prominently on the social dialogue agenda. The High-Level Group emphasized the need for a European lifelong learning strategy for the sector and a better match between training supply and demand. The Leonardo da Vinci programme and "Article 6" measures supported by the European Social Fund provided a framework for financing sectoral projects with European added value and innovative employment measures, together with responses to industry change.

The Group proposed to set up training and employment “observatories” at national and European levels, develop common qualification standards, strengthen social dialogue at every level, launch retraining and redeployment units, and use Structural Funds and regional policy resources. All of these issues are now on the sectoral social dialogue agenda.

Based on the conclusions of the High-Level Group, the Commission considered that European social dialogue in the TC sector played a key role, enabling the major challenges facing the sector to be addressed, such as recognition of skills and competencies, modernization of work organization, promotion of equal opportunity and development of active ageing policies. Social dialogue and social partnership are also fundamental to an efficient and responsible restructuring process. In this context, negotiations between the social partners are the most appropriate means of moving forward on modernization and change management issues.

The Commission Communication on the future of the TC sector opens up possibilities for more flexible financing. The TC sector should benefit from this.

4.2.5. Conclusions: The impact of social dialogue

European social dialogue in the TC sector has produced a set of joint texts. Although 14 of these have been adopted to date, only some of them have a practical effect at the national level. However, it would be reductionist to look at texts alone. Joint action has to be taken into account as well, and its impact is more difficult to assess objectively.

Social dialogue has enabled the social partners, and the trade unions in particular, to influence restructuring processes in the sector. While one should not overestimate the results achieved to date or overlook different or even divergent interests, social dialogue has given the social partners access to policy-makers and enabled them to carry out joint activities. It has led to innovative forms of cooperation, the most successful example being of course the High-Level Group.

In addition, the adoption and dissemination of the Code of Conduct have contributed to a climate of confidence, which in turn paved the way for finding solutions to critical situations involving trade union rights. However, compared to the new generation of codes of conduct such as the one adopted in the sugar industry, the TC code is particularly limited in terms of content and verification of compliance, and an update is planned for 2005-06.

The major restructuring processes now under way, which are expected to gather momentum, will be a testing ground for the sectoral social partners’ ability to find acceptable solutions. Change and restructuring are a particularly sensitive area, in which the European Commission has a key role to play in identifying possible action, as it holds the monopoly over trade and competition policy-making. In this context, discussions are focused on active training policy and should lead to the upgrading of qualifications, in line with the sector’s strategy towards specialization.

As mentioned above, EU enlargement poses a new challenge in the absence of an established tradition of social dialogue in many of the new Member States.

Like other sectors, the TC industry is facing a watershed that will determine whether it is able to enter a new stage of more effective verification of the implementation of agreements and to conclude agreements with a more far-reaching content. This will require an in-depth review of the objectives of sectoral social dialogue and the meaning of mutual commitments between the social partners.

4.3. Corporate social responsibility in the TC industry: A contribution towards fair globalization

Corporate social responsibility (CSR) is a prominent phenomenon in the textiles and clothing sector. Thrust onto the sector's agenda in the early 1990s following pressure from activists, NGOs and the press about sweatshop conditions in workshops subcontracted by global brands, it has spread to most companies, big and small. CSR can encompass many different activities, but in textiles and clothing three stand out: the development of internal corporate programmes and systems; social auditing and certification; and involvement of companies in multi-stakeholder initiatives. The following sections will outline these initiatives and show how they address the social challenges of the end of the MFA.

4.3.1. Company actions

Enterprises in the TC sector have developed a variety of initiatives addressing the social dimension of their industry. Many have corporate codes of conduct concerning labour rights in their supply chains, and these have led to a variety of initiatives by companies individually or jointly to deal with the social impact of the end of the MFA. These include upgrading factories and workers' skills and helping to implement rights at work. For example, H&M established a training centre in Bangladesh which trains young people in sewing, thus helping to upgrade their skills while improving productivity. The Bulgaria Apparel Project Partnership was established by five apparel and footwear brands to address working conditions. It encourages dialogue, capacity building and the integration of the state labour inspectorate into worker-employer dialogue at the factory level. In Lesotho, GAP Inc. worked with trade unions and local partners to counter interference by local management in the activities of trade unions (see box 4.5).

Stakeholder consultation is another component of many corporate activities. Adidas-Salomon, for example, holds regional stakeholder dialogues and posts reports of them on its web site.¹² The consultations have included discussions of the implications for suppliers and workers of the end of the MFA. They helped the company develop a six-part Position on the Multifibre Arrangement, which outlines the steps it will take to manage the changes in a socially responsible way. The steps include: applying standards; a sourcing strategy focused on long-term arrangements; managing factory closures; and engagement with stakeholders.¹³ Activities such as these can help to ensure that standards do not fall, but also that supplier companies in the sector become more competitive – two objectives that are important for the industry in addressing the social dimension of globalization.

In 2005 Nike published its *Corporate responsibility report* for 2004 and posted a complete list of its suppliers on its website. This action broke new ground in terms of corporate transparency. The report covers areas such as workforce diversity, the environment, community programmes and socially responsible investment. Nike placed particular emphasis on using trained internal monitors and supporting common monitoring platforms. "Despite anecdotal instances of success," the report states, "we remain profoundly challenged to understand how to systematically measure the impact of our own

¹² http://www.adidas-salomon.com/en/sustainability/transparency/stakeholder_dialogue/default.asp .

¹³ Adidas-Salomon: "Adidas-Salomon's Position on the Multi Fibre Arrangement", at www.adidas-salomon.com/en/sustainability/archive/2005/MFA_statement.asp , visited on 5 Apr. 2005.

interventions.”¹⁴ The end of the MFA puts further pressure on enterprises, particularly those that are not as far advanced as the leaders in CSR.

Box 4.5.

Case study: Gap supplier in Lesotho

Early in 2002 Gap was notified by the Maquila Solidarity Network, a Canadian NGO, of management interference in union affairs at a supplier factory in Lesotho. Gap's social compliance officers had visited the Lesotho factory in February 2002 without identifying major problems at the factory.

On learning that the situation in the Lesotho factory had escalated into a violent confrontation between a manager and worker, Gap returned to the factory in early April. Compliance officers interviewed workers, union representatives (including the leading union at the time – Lesotho Clothing and Allied Workers' Union (LECAWU)), factory human resources representatives, supervisors and management. To their surprise, the parties reported no problems. Without evidence of a problem, Gap continued with the inspection schedule in other parts of Lesotho.

However, speaking with workers and unions (in particular LECAWU), Gap realized that the workers doubted Gap's commitment to protecting their rights and were suspicious of its interest. Recognizing that garment companies like Gap lack credibility in this area, Gap's officers instructed workers to call the compliance hotline number to report cases of union interference in their factories.

Workers flooded the compliance hotline with reports of interference at the very factory where nothing had been reported just days earlier. Gap established a plan of action requiring workers who reported interference to provide a certain degree of information so that it could investigate the claim and report findings to the workers and unions involved. Following investigations into numerous claims, it was confirmed that the factory management had been engaging in union interference and was unwilling to recognize any union in the factory.

As Gap moved into a remediation phase, it began direct dialogue with management to address supervisor/manager issues that had led to union interference. There was initial resistance from the parent company and factory management, stemming principally from a lack of awareness of local issues and misunderstandings about the effects of unions on business. Gap convinced the factory's head office to address the management issues, and a new factory manager was appointed.

Immediately, Gap encouraged LECAWU and management to begin talks to create forums for open communication. After a great deal of hostility build-up between the parties, finding common ground was difficult; talks often came to a deadlock. To assist the communication process, Gap introduced a local social actor into the mix, the Directorate of Dispute Prevention and Resolution, and encouraged the workers and management to consult it. Subsequently, a Memorandum of Agreement was signed in July 2002 between LECAWU and the factory management, which committed the factory to recognizing unions and negotiating a collective bargaining agreement once a union gained majority status in the factory.

This example shows that large companies can, in partnership with trade unions, play a role in ensuring respect for freedom of association and collective bargaining.

Source: Interview with GAP staff and GAP's *Social responsibility report* of 2003.

4.3.2. Social auditing and certification

Social auditing and certification activities are widespread in the TC sector. ILO research has identified 13 national and international initiatives of this kind, including pilot projects and fully-fledged certification programmes on labour standards, as well as various capacity-building projects that these initiatives have created to address labour standards in the TC sector's supply chains. For example, over 500 audits took place in Turkey's TC industry. ILO data collected from suppliers shows that the situation is similar in Bulgaria and Romania. This is clearly an important phenomenon that affects portions of the industry.

¹⁴ Nike: *Corporate responsibility report* (financial year 2004), p. 15, at www.nike.com/nikebiz/gc/r/FY04_Nike_CR_report_full.pdf.

Auditing and certification can help make industry more competitive and also lead to improved respect for standards. In Sri Lanka the apparel industry, along with employers' and workers' organizations, has been studying the issue of certification and social auditing with ILO assistance. The social partners are interested in developing a national auditing and certification programme that could improve standards and help to promote Sri Lanka as a respectable place to do business. In Viet Nam, Social Accountability International (SAI) initiated a project to promote the rule of law, attract orders from brands and buyers to Viet Nam, and put in place commitment, expertise and the local means to continue to improve standards.

Another example of the role that certification initiatives can play in promoting respect for standards is the work of the Fair Labor Association (FLA) in Sri Lanka, where a local garment company was accused of anti-union discrimination. The FLA helped to reach an agreement between the company and trade union.

Although there are some examples of the potential of social auditing and certification, its usefulness has been challenged. The quality of most social audits still leaves much to be desired, and the sustainability of the approach may be questionable. However, where auditing and certification are linked with remediation and corrective action, and where trade unions are fully involved, it may become a useful tool for addressing the challenges the industry is facing in the post-MFA environment.

4.3.3. Multi-stakeholder dialogue

A number of brands, unions and NGOs met in early 2004 to discuss the coming end of the MFA and how to mitigate its social impact. This initiative, now known as the MFA Forum, has led to research and dialogue between various stakeholder groups in the sector and culminated in a plan of action.

Advocates of CSR have increasingly come to realize that corporate or voluntary initiatives alone will not solve the problems without concerted government action, and the current lack of government involvement in this approach could limit its impact. The lack of supplier representatives could also be a negative factor. At the moment, the industry is represented by the brands.

Corporate social responsibility initiatives can help to promote fair globalization, including in the TC industries. Their success will depend in part on expanding and deepening the involvement of workers and their representatives. The MFA Forum and the corporate efforts noted above are promising examples of the possible contribution of CSR. Efforts to promote competitiveness in parallel with respect for labour standards are an important contribution towards a sustainable globalization, which needs to be expanded and replicated.

4.4. The MNE Declaration: A tool for promoting fair globalization in the TC industry

The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) was adopted by the Governing Body of the International Labour Office in 1977 and last updated in 2000. It is the only universal instrument directed at multinational enterprises and dealing with employment and labour issues that has been agreed upon by governments, workers and employers. Its two interdependent aims are to encourage the positive contributions of MNEs to economic and social progress, and to minimize and resolve any difficulties to which their operations may give rise. The MNE Declaration seeks to advance these aims by providing guidance and making

recommendations to MNEs, governments and employers' and workers' organizations on employment, training, conditions of work and life and industrial relations.

The MNE Declaration is particularly relevant in the context of the end of the MFA. Its dual focus on employment and rights at work addresses the twin challenges of deteriorating labour standards and employment shifts that are associated with the end of the MFA.

The MNE Declaration contains many relevant recommendations on employment-related issues. MNE operations are called on to increase employment opportunities, to consult government and workers' organizations and to keep their manpower plans in harmony with national social development policies. Within the context of the MFA, these recommendations are relevant to countries receiving new investment from MNEs which may be transferring operations or establishing new operations in these countries. As noted above, shifts in operations are a continuing key feature of the post-MFA environment.

The MNE Declaration's recommendations to enterprises and governments in the areas of training, industrial relations and conditions of work are important for two reasons. First, the instrument recognizes that enterprises alone cannot bear the responsibility for ensuring fair globalization. One of the tendencies of the CSR movement has been to attribute ever-increasing responsibilities to MNEs and other enterprises. Government and intergovernmental action is particularly important in ensuring that the post-MFA environment does not result in adverse social impacts.

The Declaration's recommendations that governments ensure that MNEs provide adequate safety and health standards for their employees, or ensure, where they offer incentives for MNEs to invest, that these do not limit freedom of association or the right to organize and bargain collectively remind us that it is not companies alone that have responsibilities, and remind governments of their own. Many of the CSR initiatives discussed above should reflect on the Declaration and its relevance for their own activities. While some CSR initiatives clearly go beyond its provisions, many can learn from the fundamental labour standards and the principles of social dialogue and tripartism upon which it is based.

4.5. Socially sensitive restructuring policies

Socially sensitive restructuring policies are in increasing demand almost everywhere as a means to cushion the negative impact of restructuring, which is accelerating because of growing global competition. This applies particularly to economies, sectors or individual enterprises facing particularly turbulent environments, as in the case of TC-producing countries in the post-MFA environment.

With the new trade regime some TC-producing countries will not be able to compete. They will have to develop and implement restructuring policies to move away from TC production and reduce their dependency on TC trade. Other countries will still have a comparative advantage under the new environment. However, the long-term survival of their TC enterprises in the global market will require the implementation of restructuring measures oriented towards product upgrading and market diversification. Thus, restructuring will be an important issue throughout the post-MFA environment. In the process, however, some workers will lose their jobs and alternative employment opportunities will have to be found for them. Those whose jobs are maintained will have to upgrade their skills to meet the changing requirements of the market.

Socially sensitive restructuring at national and enterprise levels can mitigate the negative economic and social impact of rapid and major structural change and ease the transition to new opportunities.

Although socially sensitive restructuring might increase the immediate costs of restructuring, it is often more efficient overall (more benefit per cost) than the traditional approach to restructuring (widespread downsizing, no retraining, no assistance in job search, etc.), if one takes into consideration the social and personal benefits of socially sensitive restructuring (less unemployment, no social unrest, better health and morale) as well as economic benefits. Moreover, many hidden costs at the enterprise level are often not taken into account during restructuring. These include:

- poor morale of the remaining workforce, caused by increased stress and its effect on work behaviours and attitudes;
- increased resistance to change;
- misplaced energy;
- erosion of trust in management for the future.

These can have considerable effects on enterprise performance.

Governments have an important role to play in facilitating the restructuring process. They can, in consultation with employers' and workers' organizations, offer guidelines and incentives in developing a coherent industrial policy in which the contribution of the TC industry to social and economic development would be clearly identified. They can ensure a legal and regulatory environment in which enterprises can restructure, and they can limit social costs through active labour market policies. Governments can also provide appropriate structures and incentives to contribute to the training and retraining of TC workers affected by change.

At the enterprise level, restructuring does not necessarily mean downsizing. Companies can go through restructuring without massive layoffs. To cope with the new challenges, TC enterprises have to explore, in collaboration with workers' organizations, the means to improve competitiveness through the development of the existing workforce. If restructuring leads to downsizing, enterprises have several tools to minimize the social impact on employees (both those affected and those remaining). These include: counselling; skills assessment; internal job search; external job search; help in SME creation; mobility assistance; early retirement; alternative work schedules (part-time work, subcontracting, flexible leave); and severance packages. Through appropriate use of such tools, TC enterprises can ease the restructuring process and likely improve their social image, an element that has acquired growing importance in the global TC supply chain.

5. Elements of a possible agenda for action:

A wide spectrum of actions and policies with shared responsibilities

Although the ending of quotas may well, in the long term, have an overall positive effect on the ability of the TC industries to contribute to economic and social development and fair globalization, the transitional period is likely to have some adverse effects on workers and enterprises, particularly in the most vulnerable countries. Given that women make up the majority of the labour force in the TC industry, they will be particularly concerned by possible mass layoffs in vulnerable countries. Measures will therefore have to be taken to ensure that the gender dimension is mainstreamed in the strategies elaborated during the transitional period.

The transition will have to be managed in a collaborative way so as to ensure the elaboration of integrated strategies aimed at mitigating negative socio-economic impacts and taking advantage of positive opportunities.

Failure to manage this transitional period would further erode trust in the broader agenda of development through trade, harm the reputation of TC business for addressing the socio-economic dimension of globalization, and, more importantly, cause serious damage to the workers and national economies affected.

Collaborative strategies imply the involvement of all the actors concerned, including trade and financial institutions, to promote fair globalization in textiles and clothing. They require a better awareness of the social components of competitiveness and better integration of the social dimension of globalization. In today's global economy, neither enterprises nor workers in any part of the world are protected from the effects of developments elsewhere. National public policies and restructuring strategies therefore cannot be elaborated and implemented in isolation; they need to consider the global environment to have any chance of success. For the same reason, enterprises cannot maintain or improve their competitiveness without being fully aware of the evolution of the international context, and trade unions need to recognize the international dimension of their activities in order to defend their members' interests.

In the TC industry, the competitiveness of enterprises, and therefore their capacity to create wealth and generate employment, rests on four major principles: producing the right product, at the right price, at the right time, under the right conditions. Each of these principles has a social content. For example, it is impossible to produce the right product if the workers involved have not been adequately trained and quality awareness has not been developed. Producing at the *right* price does not necessarily mean at the *lowest* price with the lowest wages. Some enterprises with higher labour costs may be more competitive than others if they have a good level of productivity and fewer cost-sensitive niche-market products. When social dialogue at the enterprise level is poor, the risk of conflict is high and can compromise the capacity of the enterprise to deliver on time. Finally, respect for core labour standards has become a key strategic element of buyers' policy. It cannot be ignored in a business world in which outsourcing strategies are extremely volatile. All these elements are important when it comes to elaborating a national policy or an individual enterprise strategy to deal efficiently with the post-MFA environment.

5.1. The role of governments

All studies relating to the future of the TC industry in the post-MFA environment refer to the role that governments can play in sustaining the competitiveness of their national industries.

Some focus on the economic reforms required (including improved transport facilities and enhanced operational efficiency for quicker delivery, tax incentives, reduction of non-labour costs, in particular water and electricity, improved customs procedures, measures to combat corruption, and realistic foreign exchange policies). Others emphasize the crucial role of governments in trade negotiations with a view to bilateral and multilateral agreements.

These factors are indeed important in a context of increased liberalization. Governments can support the textiles and garment industry by improving infrastructure and access to credit, streamlining administrative procedures, and creating an environment conducive to increased productivity. They can provide technical and financial assistance to those particularly vulnerable enterprises directly affected by the opening up of markets. They can also facilitate the building of international strategic alliances.

Very few studies, however, highlight the important role of governments in managing the process of improved integration into the global economy in a post-quota environment and in ensuring that it meets both economic and social criteria. In the TC global market, this role includes, *inter alia*, the correction of market deficiencies and negative externalities, the capacity to enforce labour legislation, the provision of social protection and safeguards for the most vulnerable, and the establishment of a suitable environment for constructive social dialogue.

The Meeting might therefore consider the following issues in relation to the responsibility of governments:

- economic support aimed at improving the sustainability of the TC industry in a post-MFA environment;
- appropriate framework conditions to enable enterprises, and particularly SMEs, to fully exploit their competitive potential;
- the role of the supporting institutions and regulatory frameworks in the implementation of good governance practices;
- provision of a suitable framework for constructive social dialogue;
- the role of governments in the implementation of a gender dimension in post-MFA strategies;
- the role of governments in the promotion of decent work in the TC industry;
- socially responsive restructuring and redeployment policies;
- effective and equitable social safety nets and labour market institutions;
- assistance in providing appropriate opportunities for training and retraining in the TC industry;
- measures aimed at improving the employability and facilitating the reemployment of displaced workers;

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- the role of governments in the promotion of CSR practices, including incentives for compliance with international labour standards;
 - intergovernmental cooperation (between exporting countries and between importing and exporting countries) in trade and associated issues in the TC industry.

5.2. Organizing the manufacturers

In the post-MFA environment, manufacturers will have to be guided more than ever before by the four major principles of competitiveness outlined above. Manufacturers will have to ensure market development, both internally and externally, and develop strategic alliances to improve their bargaining power. Market strategies will have to be carefully examined in the light of changing worldwide TC consumption patterns. A high degree of reliance on traditional markets in developed countries, for example, might be inappropriate at a time when the fastest growing markets are located in emerging countries. Production structures will have to be modified towards more integration and larger units to benefit from economies of scale and to cope with a more concentrated demand. Small units are probably the ones that are going to suffer more from the liberalization of trade. This in turn might have a positive impact on the promotion of decent work, as it is in the TC informal sector and the small enterprises that violations of workers' rights occur most frequently. In the post-MFA environment, respect for national labour law and core labour standards has become a key element of competitiveness for enterprises operating in the global market. In order to cope with these new trends, innovative strategies will have to be developed to ensure both the long-term viability of enterprises and the promotion of fair globalization.

In relation to this topic, the Meeting might consider the following issues:

- innovative economic strategies to cope more efficiently with the post-MFA environment;
- human resources development as a tool of competitiveness;
- gender-oriented approaches: the responsibility of manufacturers;
- factory standards, working and employment conditions and productivity;
- participative and constructive social dialogue and economic efficiency;
- the implementation of national legislation and promotion of decent work: meeting buyers' requirements;
- enterprises operating in EPZs: the challenge of fully respecting workers' rights;¹
- cooperation between manufacturers at the national level and international cooperation to deal with economic and social issues of common concern;
- how to better integrate the informal sector and protect its workers in a post-MFA context.

¹ See in particular ICFTU: Behind the brand names: Working conditions and labour rights in export processing zones (ICFTU, Dec. 2004); and Exporting processing zones – symbols of exploitation and a development dead-end (ICFTU, Sep. 2003).

5.3. The responsibility of buyers

In a worldwide TC market that is evolving towards greater concentration at both ends of the commodity chain, buyers, and in particular international buyers, have to improve their knowledge of their supply chains in order to source responsibly. A major TC company operating worldwide has recently speculated on transparency by publicizing its sourcing structure internally and externally. Disclosing supply chain information facilitates accountability to external stakeholders. It also helps to improve a firm's image.

During this transitional period, when a majority of producers are trying to adapt to the new environment, international buyers have an important responsibility to maintain relative stability in the world textiles and clothing supply. They can also greatly contribute, through their CSR policies, to the promotion of fair globalization

The Meeting might consider the following issues in relation to the responsibility of buyers:

- outsourcing strategies in a post-MFA environment, new opportunities and challenges: how to avoid erratic movements and improve transparency;
- technical assistance to the suppliers: determining fields and priorities;
- cooperation with governments and social partners in the exporting countries: determining fields and priorities;
- sourcing strategies: the importance of international labour standards;
- responsible exit strategies when sourcing is relocated;
- multi-stakeholder initiatives: the buyers' involvement.

5.4. The role of trade unions

In the global economy where employment is so volatile, and in a sector so affected by international structural changes and turbulence, unions must endeavour to make their organizations relevant to workers. The issues they have to deal with have an international dimension which requires the development of new mechanisms and approaches. The constraints imposed on enterprises by the opening up of markets and by consumer and other pressure groups are important elements of the global environment that cannot be ignored.

Under this item, the Meeting might consider the following issues:

- awareness of competitiveness issues in the post-MFA global TC economy and decent work: the role of trade unions;
- monitoring the developments arising from trade liberalization in the TC industry;
- trade union participation in the social dialogue process at the sectoral, national and international levels;
- global production systems and the development of new social dialogue institutions;
- consolidation of the supply chain and decent work: the role of trade unions;

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- collaborative approaches with governments and employers for upgrading skills, improving employability and retraining displaced workers (with particular attention to the gender dimension);
 - direct support for training and retraining initiatives;
 - promotion of the best TC social practices worldwide;
 - increased competition and the implementation of safety and health regulations;
 - tripartite consultative structures in financial and trade institutions;
 - trade unions and multistakeholder initiatives in the TC industry;
 - the ICFTU resolution on liberalization of trade in textiles (June 2005).

5.5. Improved collaboration between intergovernmental organizations (IGOs)

Under this item the Meeting might consider the following issues:

- liberalization of trade in textiles and clothing: impact assessment by the international institutions concerned;
- the post-MFA trade regime: collaborative assistance for the most affected countries, with particular attention to the least developed countries (LDCs);
- coordinated initiatives for promoting a fair globalization in the TC industry;
- the role of financial institutions in facilitating the implementation of socially responsible restructuring programmes in the TC industry;
- partnerships between the private sector and IGOs to promote corporate governance in the post-MFA environment.

5.6. The ILO as lead agency in efforts to promote fair globalization in the TC industry

The implementation of reforms to deal in a socially and economically responsible way with the impact of the end of quotas will require worldwide political support, the commitment of key global actors and improved collaboration between global institutions.

Because of its tripartite structure and access to the actors directly concerned, the ILO is in a key position to facilitate the elaboration of integrated strategies, from global to local level, involving national governments and social partners. These strategies should also pave the way for improved global governance of the issues relating to globalization in textiles and clothing and more effective inter-organization cooperation.

It will be a major task for this Meeting to define the mandate it intends to give to the ILO to follow-up and contribute to the implementation of such strategies.

Under this item, the Meeting might consider, inter alia, the following issues:

- decent work in the global TC production system: globalizing decent work in practice;

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- mobilizing tripartism and reinforcing social dialogue in the TC industry;
 - ILO support to coherent national policies for a fair globalization in the TC industry;
 - advisory services and technical support to the sectoral constituents in the TC industry to help them cope with the social implications of the post-MFA environment;
 - ILO support for gender mainstreaming in post-MFA environment strategies;
 - capacity-building services for constituents;
 - alliances and partnerships with IGOs.

Summary

Since January 2005, with the termination of the ATC and the complete phase-out of quotas, the TC sector has been experiencing another global revolution. After 40 years of quota restrictions, the TC sector has been integrated into the General Agreement on Tariffs and Trade. This trade liberalization process is creating huge uncertainty among producing countries, workers and enterprises worldwide.

The post-MFA environment has triggered numerous studies on the impact of the new trade regime and generated conflicting results that have increased fears and hopes in both importing and exporting countries. All studies, however, agreed that some countries would benefit from the opening of markets, while others would encounter growing difficulties as a result of increased international competition. The magnitude of gains and losses has been a matter of considerable debate. All studies also concluded that there would be considerable consolidation of production, both between countries and within countries, as a result of changing global buyers' strategies. This would further modify the TC supply chain and affect the worldwide level and distribution of employment.

Dealing in a socially responsible way with this changed environment requires the elaboration and implementation of integrated strategies from global to local level involving national governments, the social partners and the other key players.

The report prepared for this Meeting presents a picture of the situation, as it stands, a few months after the abolition of quotas. It also analyses some lessons and experiences drawn from attempts to develop integrated strategies towards fair globalization in textiles and clothing. It finally suggests some elements that could be incorporated into a Collaborative Agenda for Action where all the actors concerned would have shared responsibilities.

Analysis of the current trade and employment situation confirms some of the predicted implications. However, the overall picture is more contrasted than expected.

Among the most quota-restricted countries, China is reinforcing its penetration of the major TC markets. The monitoring programmes established by the United States and the European Union confirm this trend. As a result, the United States in May 2005 used the special safeguard clause contained in China's WTO Accession Protocol and imposed temporary quotas on seven categories of products. The European Union, by contrast, signed a three-year transitional agreement with China. The agreement, which regulates the growth of Chinese exports in ten sensitive product categories, put an end to planned sanctions and safeguard investigations. As anticipated in most of the post-quota scenarios, employment in the United States and EU TC industry fell at the end of 2004 and during the first months of 2005, declining by 6.5 per cent between May 2004 and May 2005 in the United States and by 5 per cent between February 2004 and February 2005 in the EU25. China indicated that the quota restrictions imposed by the United States would affect 140,000 workers. Romania also registered a decline in TC employment (356,000 workers in March 2005, compared to 359,400 in March 2004) and a slight deterioration in export performance (with a decline of 0.7 per cent for the first quarter of 2005 compared to the same period in 2004). Romania expressed confidence, however, in its international competitiveness, but also concern about its competitiveness on the internal market, where cheap Asian products are on the increase. During the first period of the post-MFA environment, Turkey, which had been extremely concerned by the abolition of quotas, performed rather well, with an increase in the total value of textiles exports of 12.2 per cent between 1 January and 14 June 2005 and an increase in garment exports of 8.8 per cent for the same period.

In Asia, Bangladesh, one of the countries most often cited as a potential loser under the new regime, does not seem to be greatly affected. When compared with similar months in 2004, garment exports declined in January 2005 (by US\$52 million) but strongly recovered in February (by US\$157 million) and slightly increased again (by 5 per cent) in March. Another encouraging sign is the rapid growth of knitwear products in the United States market. On the basis of these preliminary figures, it may be predicted that there will be additional employment creation in the ready-made garments sector in 2005. This might be the result of proactive measures undertaken by the Government and social partners to prepare the TC industry for the opening of markets. Similarly, Cambodia appears to have fared better than many other developing countries in the post-quota environment. Many studies had predicted that the end of quotas would result in a dramatic reduction in employment, which has not actually occurred. Employment levels have been maintained, both the volume and value of exports to the United States have increased since January 2005, and factories are expanding in size. The IMF has revised Cambodia's predicted GDP growth for 2005 from 2.3 to 6 per cent, based on the strength of the garment industry post-quota. The current performance of Cambodia's garment industry is attributed to the country's high profile in terms of respect for core labour standards, social dialogue and improved working conditions.

On the other hand, India, regarded as one of the major potential beneficiaries of the new trade regime, presents a more complex picture. India recorded a 28 per cent growth in textiles exports for the period January to March 2005 compared with the same period in 2004, but also experienced a 24 per cent fall in garments exports. During the first two months of 2005, India also seems to have lost market share to China in TC products, where both countries have a strong comparative advantage. This could indicate that India might benefit less than expected from the new regime if appropriate measures are not taken to improve its competitiveness.

Pakistan, by contrast, has largely benefited from the elimination of quantitative restrictions. TC exports during the first four months of 2005 reached a record level and underwent average monthly growth of 22.1 per cent when compared with the same period in 2004. The Government envisages offering additional incentives to further boost the growth of the industry. In the Philippines, the Government and social partners are confident in the country's capacity to maintain its TC share in the global market. TC exports are expected to grow by 10 per cent in 2005, and trade indicators for the first quarter of 2005 show that orders have increased by 30 per cent. An Industry Restructuring Plan has been developed accordingly. It integrates economic aspects (moving up the value chain) and social components (training and retraining, safety nets, social dialogue) with the aim of providing a coordinated answer to the post-MFA challenges. Viet Nam's clothing exports, after rising sharply in recent years, are now stagnant. During the first three months of 2005, the country's TC exports to the United States and Japan increased by 5 per cent, but those to the EU declined by 12 per cent. It is likely that the targeted goal of expanding TC exports by 18-20 per cent in 2005 will not be achieved unless corrective measures are undertaken.

Africa seems to be the continent most affected by the end of quotas. Sub-Saharan Africa, whose TC industry has grown significantly in the last five years mainly as a result of the African Growth and Opportunity Act (AGOA) is currently under pressure. During the first three months of 2005, TC exports to the United States under the terms of the AGOA fell by 25 per cent compared to the same period in 2004. At the same time, it seems that many of the Asian companies that had invested in Africa to take advantage of the AGOA are now pulling out as the quota restrictions have disappeared. The situation is particularly difficult in Kenya and Lesotho, both of which had benefited from the restricted trade regime. Of the 39,000 jobs generated by the TC industry in Kenya, some 6,000 have disappeared since October 2004. Between January and March 2005, TC exports to the United States fell by 13 per cent. It is estimated that half of all TC employment is at risk,

as orders from foreign buyers are declining sharply. A special committee has been formed to address the current crisis. In Lesotho the TC industry was, by 2004, the biggest single employer (56,000 workers) and contributed more than 90 per cent of total exports. By the end of 2004, six of the 50 TC enterprises had closed down and 6,650 people lost their jobs. The remaining enterprises, facing shortfalls in orders since January 2005, placed 10,000 workers on short-term contracts on the condition that these workers would be hired and paid only if work were available. These difficulties have created huge uncertainty in the future of the sector. Other African producer countries, including Namibia, Swaziland and South Africa, have also lost their preferential access with the quota phase-out. They are now experiencing fiercer competition and fear for the sustainability of their TC industry. In Nigeria, the once flourishing textile industry is on the verge of collapse. Since 1999, two-thirds of textiles enterprises have disappeared and 100,000 jobs have been lost. During the first months of 2005, another 8,500 workers lost their jobs as three important textile companies closed down. In Madagascar, the future of TC enterprises operating in the EPZs is still uncertain. Some enterprises closed in 2004 in anticipation of the end of quotas, leaving 5,000 workers unemployed. In Mauritius, the debate around the prospects of the already declining TC sector, which still employs 68,000 workers, is at the heart of the present legislative campaign. Morocco and Tunisia are struggling to maintain their international comparative advantage and develop strategic alliances under the Euro-Mediterranean Partnership. Both countries are experiencing increased competition and pressure on prices since the end of quotas. In Morocco, TC exports fell by 16 per cent in the first four months of 2005 and orders are on the decline. Enterprises that had anticipated the end of quotas and adapted their strategies accordingly resist better than others. A climate of uncertainty prevails, as many international buyers operating in Morocco do not seem to have a clear sourcing policy.

The majority of Latin American TC producers have been confronted in the recent past with increased competition from Asia and have lost market share. The most striking example is Mexico, which has failed to compete efficiently and lost much of the revenue once generated by its TC industry. With the end of quotas, international competition is at its peak and a number of producing countries are counting on free trade agreements and proximity to the United States to maintain a viable TC sector. In particular, much hope has been raised with the imminent implementation of the United States-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA).

In their search for improved competitiveness, a number of countries and TC enterprises have developed innovative integrated approaches. Their experiences provide useful material for the elaboration of a global strategy to promote fair globalization in the post-MFA environment.

Since 2001, Cambodia has embarked on an ambitious programme aimed at ameliorating working conditions and promoting social dialogue. This has begun to have positive effects on productivity, and the benefits of the programme are becoming evident. Now that the United States-Cambodian Textile Trade Agreement has expired, along with the ATC, quotas are no longer the impetus for improving working conditions. However, the programme continues with the support of the Government and social partners, as international buyers rely on it to maintain their TC sourcing in Cambodia. After four years of implementation, the "Better Factories Cambodia" programme has become a powerful tool for maintaining the competitiveness of the Cambodian TC sector in the post-MFA environment. In Morocco, the Decent Work Pilot Programme, which aims to improve the competitiveness of the TC industry by promoting decent work, has achieved concrete successes in terms of coping with the free trade regime. The Government and social partners have recognized that the required TC redeployment strategy would gain from improved social dialogue and better integration of the economic and social determinants of competitiveness. The social partners have joined forces with a view to concrete action. Their common purpose is to deal more efficiently with the new trade environment, putting

the human dimension at the heart of the redeployment strategy. Similar programmes are being implemented, with the support of the ILO, in the Philippines and Romania. In Madagascar, a project launched in 2004 uses a similar approach to improve the productivity of EPZs through decent work promotion. Tunisia is also elaborating a tripartite strategy to better integrate the social dimension in its upgrading programme for the TC industry. In Bangladesh, a Post-MFA Action Plan has been formulated. This Plan contains six major components, two of which (*skills and quality development* and *displaced workers' rehabilitation*), are socially oriented. Further discussions are under way to strengthen tripartite participation and consultation in setting the national post-MFA policy agenda. In Haiti, an ILO project was implemented by the employers' organization between 2000 and 2004 to raise productivity, encourage productive investment and improve working conditions in the TC industry. The project demonstrated that even in very difficult conditions, it was possible for enterprises to promote voluntary action to improve working and employment conditions. In Sri Lanka, three programmes were launched, with the support of the ILO, to meet the challenges posed by the phase-out of quotas. The Factory Improvement Programme was designed both to raise the capacity of factories to comply with international labour standards and to increase their competitiveness. The Compliance Initiative dealt with the questions of social auditing, compliance and international labour standards. A tripartite action plan was developed to deal in a socially responsible way with the possible job losses associated with the post-MFA situation. In Turkey, a training project was developed by the ILO, in close consultation with the social partners, to help TC companies increase productivity through improved conditions of work, social dialogue and more cooperative worker-management relations. The ILO is also engaged in a research project on the costs and benefits of social auditing and certification programmes.

Within the European Union, a Social Dialogue Committee for Textiles and Clothing was created in 1999. Since its creation this Committee has developed common declarations and recommendations, joint initiatives and common texts. One of the major texts adopted by the Committee is the "charter by the Social Partners in the European textile and clothing sector: code of conduct". This text, which encourages compliance with the ILO's core labour standards, is the central element of the social dialogue in the European TC industry. The TC Social Dialogue has enabled the social partners, and in particular trade unions, to influence the restructuring process. The code of conduct has created a climate of mutual trust which has facilitated dialogue and consensus on difficult issues.

Corporate social responsibility (CSR) is a prominent phenomenon in the TC sector. Thrust onto the sector's agenda in the early 1990s, it has spread to most companies, large or small. In the TC sector, CSR involves the development of internal corporate programmes and systems, social auditing and certification, and the involvement of companies in multi-stakeholder initiatives. These initiatives address the socio-economic challenges of the post-MFA environment. They can help to promote a fair globalization in textiles and clothing, as they follow interrelated objectives of industry competitiveness and respect for labour standards. *The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy* (MNE Declaration), adopted by the ILO in 1977 and last updated in 2000, is the only universal instrument directed at multinational enterprises dealing with employment and labour issues. The MNE Declaration is particularly relevant in the post-MFA context. With its dual focus on employment and rights at work, it addresses the twin challenges of better respect for labour standards and employment shifts associated with the new trade regime. Some CSR initiatives could also benefit from its standards and the principles of social dialogue and tripartism on which it is based.

If in the long term the ending of quotas may well have an overall positive impact on the ability of TC industries to contribute to economic and social development, the transitional period is likely to have adverse effects on workers and enterprises, especially

the most vulnerable groups such as women and SMEs in the least developed countries. In this unsettled environment, the search for security is paramount. Governments are seeking sustainable social and economic development. Manufacturers want to maintain viable enterprises, buyers want to secure their supply chain, and workers want stable and decent jobs.

Failure to manage this transitional period would erode confidence in the agenda of development through trade, harm the reputation of the TC business community for addressing the socio-economic challenges of globalization, and cause damage to the workers and economies concerned.

Collaborative strategies that better integrate the social dimension are required to promote a fair globalization in textiles and clothing. National public policies and restructuring strategies cannot be elaborated in isolation. They need to consider the global environment to have any chance of success. For the same reason, enterprises cannot improve their competitiveness without being fully aware of the international context, and trade unions need to recognize the international dimension of their activities. It is only through better awareness of the global challenges and improved cooperation between all the actors concerned that the post-MFA environment will be dealt with in a socially and economically responsible manner.

The competitiveness of TC enterprises, and thus their capacity to create wealth and generate employment, rests on four major principles: producing the right product, at the right price, at the right time, under the right conditions. It is around these four principles, all of which include a social dimension, that post-MFA strategies must be elaborated.

In doing so, it must be borne in mind that the “new” global TC market is more demanding in terms of diversity, quality and reactivity, more concerned with the respect for international labour standards, and in need of stable strategic alliances throughout the supply chain.

Suggested points for discussion

1. Since the termination, on 1 January 2005, of the Agreement on Textiles and Clothing (ATC), and the associated complete suppression of quotas, the textiles and clothing (TC) industry is experiencing a global revolution. What, in general terms, are the potential beneficial and adverse economic and social effects of these changes?
2. What measures and policies were undertaken during the ATC period to limit the impact of increased competition and improve the competitiveness of the TC industry? Were these measures both economically and socially appropriate, and if not, why not?
3. What impact assessment and lessons can be drawn from the first ten months of open trade in TC?
4. In order to develop an integrated strategy to deal in a socially responsible manner with the challenges of trade liberalization in textiles and clothing:
 - (a) What national policies should be developed and implemented by the governments in exporting and importing countries?
 - (b) How should manufacturing enterprises adapt their strategies to cope more efficiently with increased international competition and better promote decent work?
 - (c) How could international buyers contribute to the promotion of fair globalization in TC?
 - (d) How could social dialogue be optimized to improve policy and social coherence?
5. What strategies should be followed to improve global governance and cooperation between international organizations in dealing with trade-associated issues in textiles and clothing? What are the most appropriate measures to make decent work for all a global goal pursued through coherent policies relating to textiles and clothing within the multilateral system?
6. What should be the ILO's mandate in following up the conclusions of this Meeting?

Appendix

Figure 1. Share of world trade in clothing, 1997 (percentage)

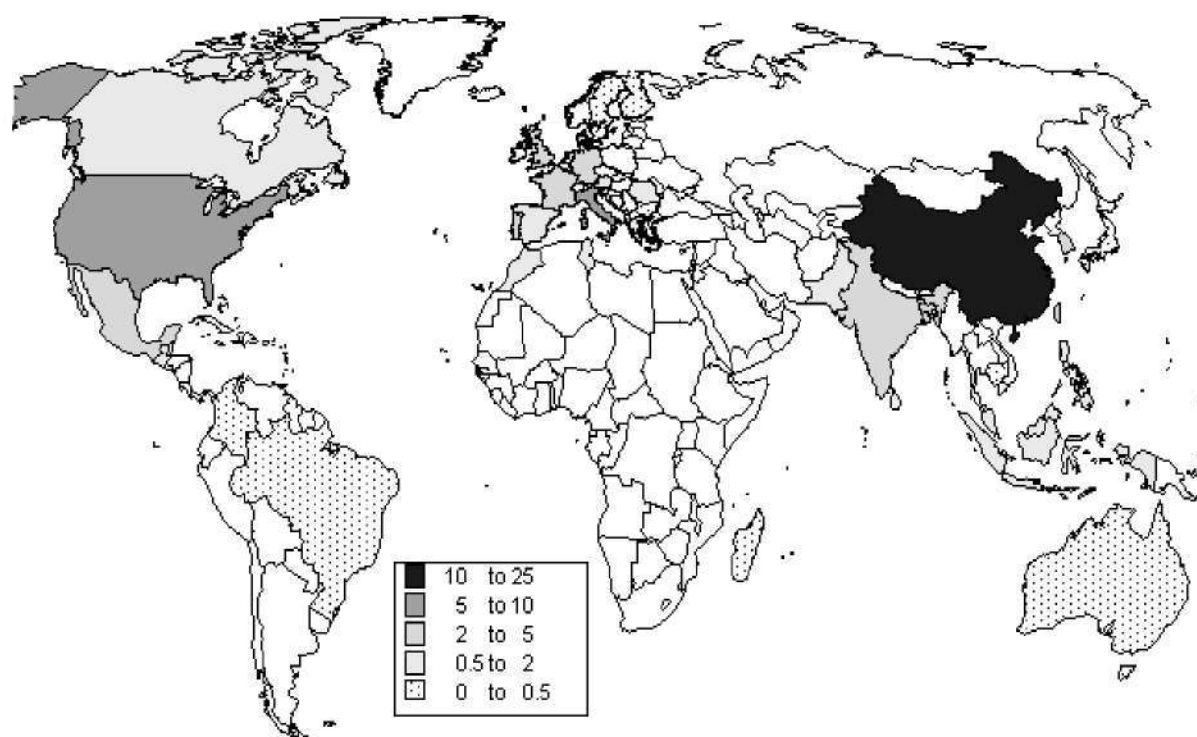


Figure 2. Share of world trade in clothing, 2004 (percentage)

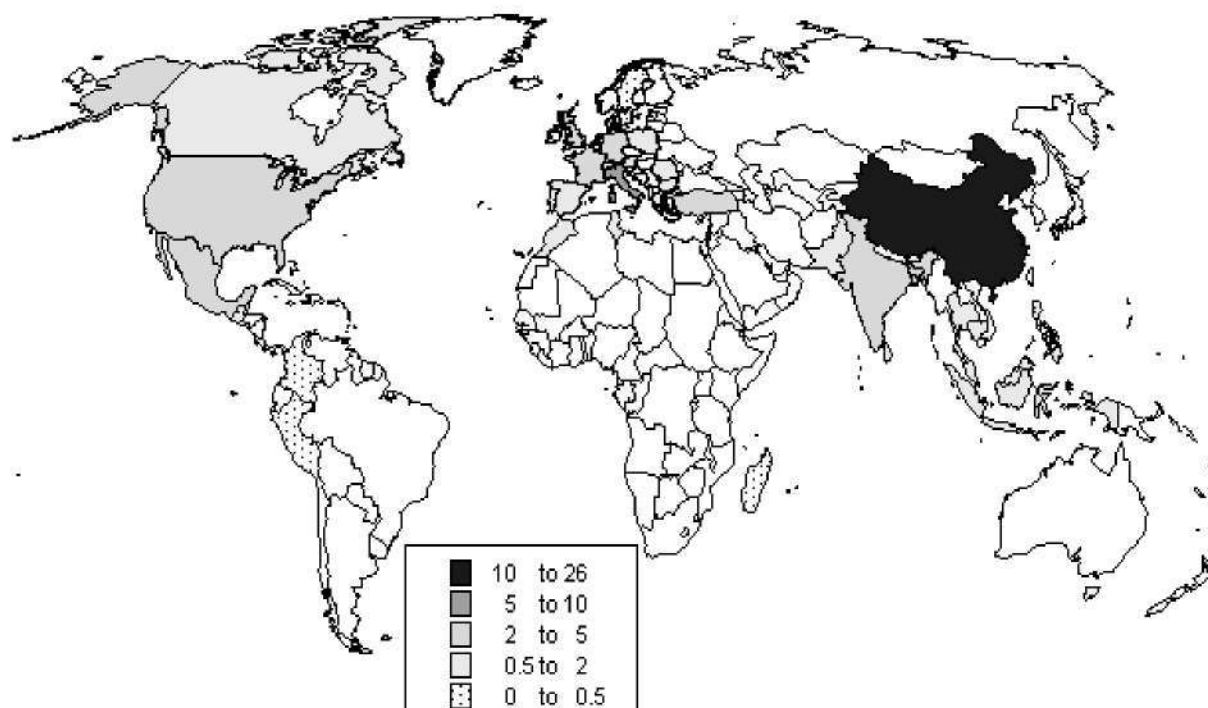


Figure 3. Share of world trade in textiles, 1997 (percentage)

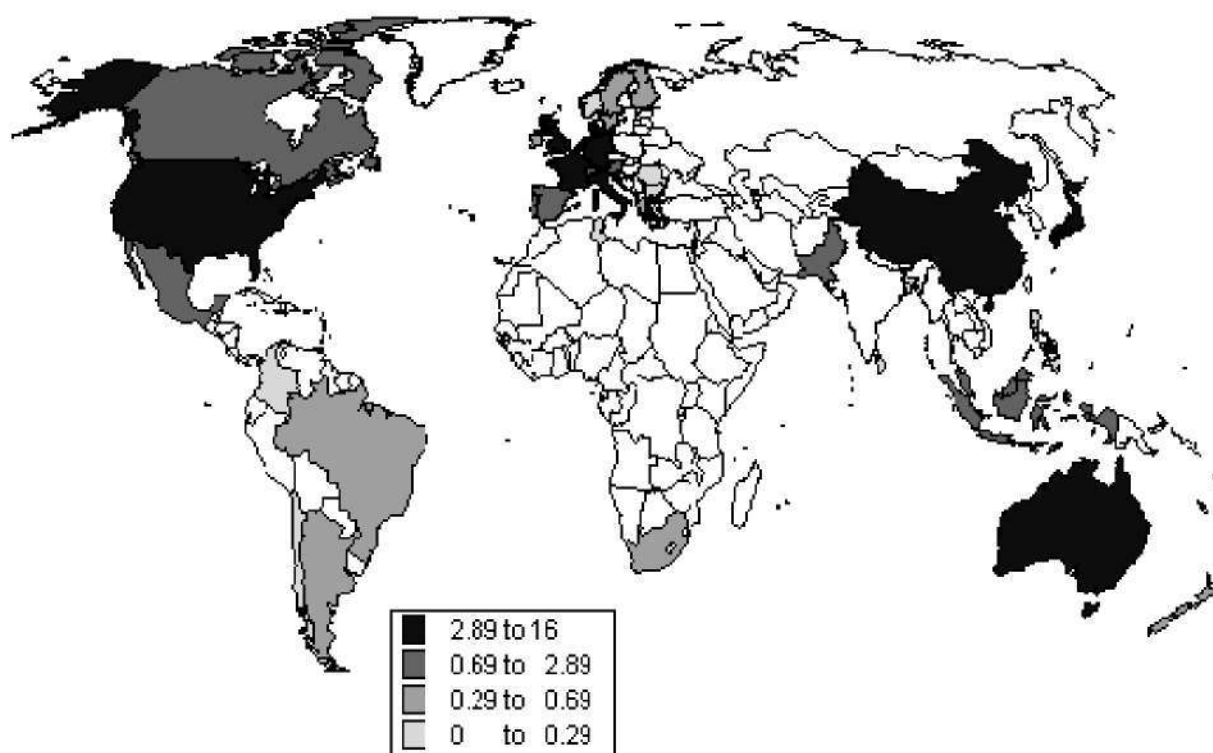
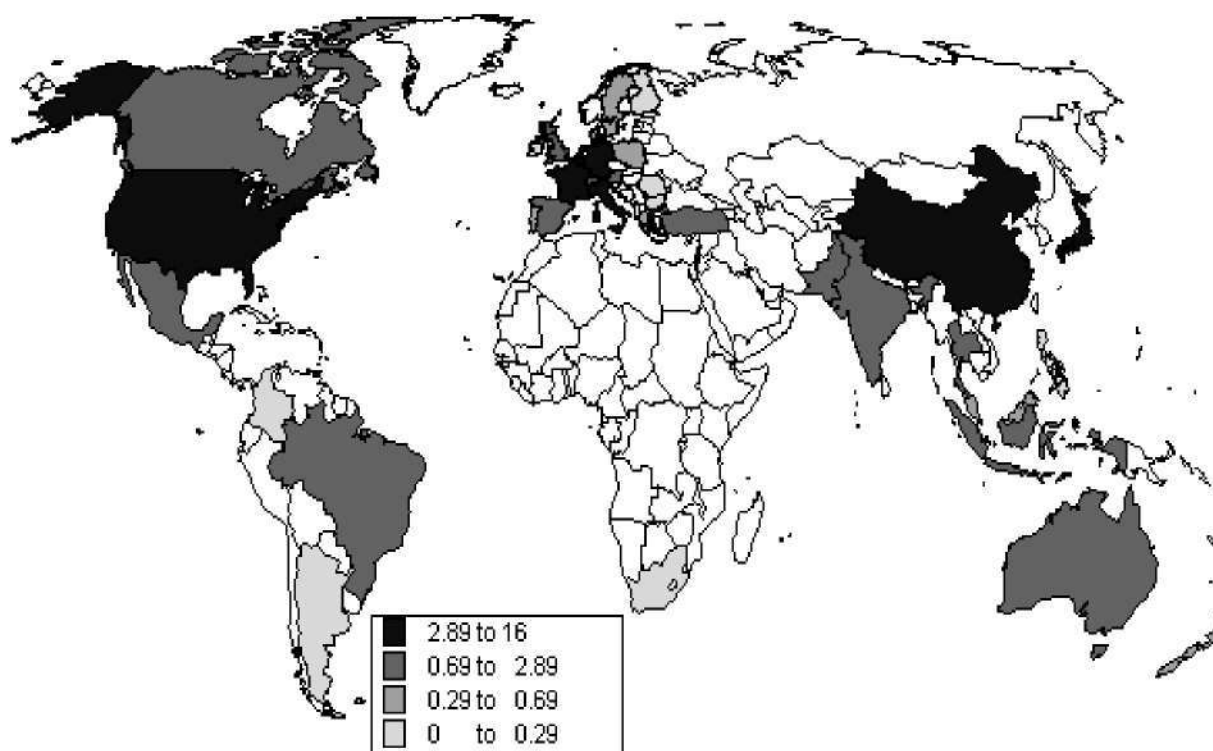


Figure 4. Share of world trade in textiles, 2004 (percentage)



Source: ILO calculation based on data from World Trade Atlas.