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Study on Apparel Quotas: Global Phase and Consciousness

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Abstract

The right to organize is the worker's most effective weapon against exploitative conditions. Yet the global "race to the bottom" has turned the weapon of unionizing – and the anti-sweatshop struggle overall – into a double-edged sword. If workers organize they are likely to lose their jobs, as corporations pursue factories where unions are forbidden and cheap labor is therefore guaranteed. But if workers do not organize, their rights will continue to be violated. These conditions pose a significant challenge for the anti-sweatshop movement – a challenge that will increase with the end of apparel quotas. This paper begins by reviewing the impact of the Multi Fiber Arrangement (MFA) and the Agreement on Textiles and Clothing (ATC) – two regulatory frameworks that have governed global trade in these commodities for 30 years. This regulatory framework came to an end on January 1, 2005 with the WTO-mandated end of textile and apparel import quotas. A large body of research on the probable result of the end of the quota system concludes that a small number of countries (and primarily China) are likely to be the chief beneficiaries of the end of quotas, while a large number of countries are likely to suffer significant declines in their apparel and textile export industries.

Keywords: ATC, Multi Fiber Arrangement, MFA, Agreement on Textiles and Clothing and Quota.

1. Introduction

The right to organize is the worker's most effective weapon against exploitative conditions. It is also one of the basic labor rights established by the International Labor Organization. Yet the global "race to the bottom" has turned the weapon of unionizing – and the anti-sweatshop struggle overall – into a double-edged sword. If workers organize they are likely to lose their jobs, as corporations pursue factories where unions are forbidden and cheap labor is therefore guaranteed. But if workers do not organize, their rights will continue to be violated. These conditions pose a significant challenge for the anti-sweatshop movement – a challenge that will increase with the end of apparel quotas. The global "race to the bottom" results from the systemic features of the current apparel production and distribution system. Typically, retailers place wholesale orders with so-called manufacturers, who are in fact branded marketers (Gereffi and Memedovic, 2003) that design clothing and market their label or image, but do not actually manufacture anything. Rather, fabrication is done by the independently-owned factories around the world where the manufacturers (and retailers, in their private label production) place their orders. In searching out these factories, manufacturers and retailers scour the planet for the lowest-cost production, as well as places that are free from government regulation, environmental constraints, and pressure from independent labor movements.

2. The Multi fiber Arrangement and the Agreement on Textiles and Clothing

Global trade in textiles and apparel has increased sixty-fold during the past forty years, from under $6 billion in 1962 to $353 billion in 2002. Today textile and apparel represents nearly 6% of world exports. The more labor-intensive apparel exports have grown more rapidly than textile exports, so that today apparel accounts for more than half (57%) of the total. Forty years ago, the industrialized countries dominated global exports of textiles and apparel. Today, developing countries account for half of world textile exports, and nearly three-quarters of world apparel exports (UNCTAD, 2005 forthcoming). The globalization of apparel production has been driven by many factors, but one of the less-appreciated causes is the quota system that was put in place by the Multi Fiber Arrangement (MFA) in 1974. The MFA established limits on different categories of apparel and textile imports to the United States, the EU, Canada and Norway through a series of bilateral agreements between trading partners. As with previous restrictions in the area of textiles and clothing, it was supposed to be a temporary measure. The principal vehicle was an elaborate quota system, whereby each country established import quotas for detailed categories of goods from each major trading partner (for example, specifying the number of women's wool sweaters the United States could import from Hong Kong in a given year). By 1981, 80% of all imports of textiles and apparel to the United States were covered by bilateral quota agreements and consultative mechanisms (Krishna and Tan 1997).

3. Literature Review

The MFA was renegotiated four times before 1991. As global textile and apparel trade expanded, subsequent versions of the MFA became increasingly restrictive. Although as a general rule quotas were supposed to increase at least 6% each year, this limit was often much lower due to bilateral commitments that countries undertook on top of MFA obligations. Bilateral negotiations took place quite frequently, even on an annual basis, resulting in different quota annual growth rates for different products and countries. As part of the WTO-related Uruguay Round of Multilateral Trade Negotiations, the MFA expired in 1994, when it was replaced by the Agreement on Textiles and Clothing (ATC). The ATC called for the phase-out of quotas on textiles and apparel over a 10-year period, beginning in January 1995 and culminating January 1, 2005. This phase-out was scheduled to occur over four phases involving the scheduled removal of existing quotas, and accelerated growth rates of those remaining (see table 1). The initial stages had little impact, however, since they applied mainly to products whose imports were already below quota levels. The final phase is expected to have a strong impact over the next few years, since it applies to products that are more strongly constrained by the use of quotas.

4. Data Analysis and Representation

While the original intent of the MFA was to protect jobs in the importing countries, its actual result was to disperse apparel production around the globe. When a country's quotas for particular items were reached, retailers and manufacturers simply looked for factories in other (lower-cost) places. The result was that production for export is today found in 130 or more countries. There are seven countries in which apparel exports constitute half or more of total merchandise exports (see Table 2): Cambodia (82%), Macao (70%), Bangladesh (68%), El Salvador (62%), Mauritius (54%), and Sri Lanka (50%). These countries may literally have the rug pulled out from under them on January 1. In Bangladesh, an estimated 1.5-2 million people work in the apparel export sector, 90% of whom are women (Khundker, 2002; Shefali, 2002; Hiller and Olfames, 2003; Kearney, 2003); in Pakistan, 1.4 million workers and a quarter of the country's GDP (Kahn, 2003). Sub-Saharan African countries face a similar situation: thanks to the United States' African Growth and Opportunity Act (AGOA) of 2000 they are beginning to export to the United States. A quota is said to be "constraining" if it is 85-90% filled, although the EU uses a 95% threshold (Nathan Associates, 2002: note 7). AGOA is part of the United States Trade and Development Act of 2000 and exempts from quota and tariffs imports from 37 African countries if they are determined to have established, or are making continual progress toward establishing the following: market-based economies; the rule of law and political pluralism; elimination of barriers to U.S. trade and investment; protection of intellectual property; efforts to combat corruption; policies to reduce poverty, increasing availability of health care and educational opportunities; protection of human rights and worker rights; and elimination of certain child labor practices.

5. The Imperative Notes on Quotas

With the end of quotas on January 1, 2005, retailers and manufacturers are now able to source from anywhere in the world. Most studies agree that there will likely be consolidation of production into larger factories in a smaller number of locations. Industry sources claim that large US retailers and manufacturers such as the Gap, JC Penney, Liz Claiborne, and Wal-Mart that once sourced from 50 or more countries already source from only 30-40. With the elimination of quotas it is predicted that the number will fall to 10-15 ((Juststyle.com, 2003; Malone, 2002, McGrath, 2003). This will greatly increase competition among garment-producing countries, contributing to increased pressure to lower wages and weaken labor standards. China is already the world's largest (and, among major producers, most rapidly-growing) exporter of apparel, and has long been set up for full-package production. When combined with the country's vast supply of productive low-cost labor, it is clear that the end of quotas means that the movement of apparel production to China will accelerate. China is also taking steps to modernize its textile industry (fibers, yarns, and fabrics), suggesting that even in this more capital-intensive sector, China may well increase its share of global production. China's apparel exports had already reached $41 billion in 2002, approximately a fifth of the world's total – nearly a five-fold increase since 1980. Moreover, China's internal market for clothing is predicted to double, from roughly $50 billion in 2000 to around $100 billion in 2010, providing additional impetus to its textile and apparel industries (UNCTAD, 2005 forthcoming; WWD, 2003).

6. Progression of Quotas

Numerous studies have attempted to predict what will happen now that quotas have been eliminated. Almost all agree: China, India, and possibly a handful of other countries such as Pakistan and Mexico (because of its proximity to the United States) are expected to be the winners; most other countries the losers. China in particular is predicted to become the big winner. Some experts predict that China will account for as much as half of the world market after 2005. Even the World Trade Organization has expressed concern: one recent WTO study (Nordås, 2004: 34) concludes that "China and India will come to dominate world trade in textiles and clothing, with post-ATC market shares for China alone estimated at 50% or more." The Nordås study (2004: 34) also notes that since "lean retailing" makes time to market (and hence geographic proximity) increasingly important. Mexico, the Caribbean, Eastern Europe and North Africa are therefore likely to remain important exporters to the US and EU respectively and possibly maintains their market shares." The U.S. International Trade Commission (USITC), after an exhaustive study involving testimony at public hearings, written statements provided by officials of affected countries as well as representatives of NGOs, fieldwork in Mexico, East Asia, Central America, and sub-Saharan Africa, and telephone interviews with representatives of U.S. apparel and textile producers, importers, and retailers, drew similar conclusions.

7. Two Important Trends in Global Production and Distribution

The growing economic power of giant retailers: Large retail firms exert growing control over prices and sourcing locations, both through the price pressures they can exert on the independent labels they carry, and through their growing volume of private label production (now estimated to encompass as much as one third of all United States retail apparel sales). The world's forty largest retailers accounted for nearly $1.3 trillion in total sales in 2001.[8] Wal-Mart alone – with revenues of $263 billion in 2003 – accounts for nearly a fifth of total sales of the world's forty largest retailers (Appelbaum, 2005). Related to these trends, since the mid-1980s, there has been a move toward "lean retailing," particularly in the United States but also in Europe and Japan. Led by Wal-Mart and other large United States retailers, and enabled by technological changes that permitted a high degree of data sharing and other electronic interchange, retailers increasingly brought their suppliers under more direct control (Abernathy *et al*, 1999: 3), enabling them to replenish their stores on a weekly basis (Nordås, 2004: 4).

The growing economic power of giant consumer goods contractors: The geographical concentration of production associated with the elimination of quotas also favors the growth of an already strong new sector in the global apparel commodity chain: multinationals (mainly Asian) that operate huge factories under contract with large retailers and manufacturers. Large retailers characteristically have large volume requirements, leading them to consider only large producers (1000 + workers) as potential suppliers. For example, Yue Yuen/Pou Chen Industrial Holdings, based in Hong Kong, China, is the world's largest manufacturer of branded athletic and casual footwear, producing nearly 160 million pairs of shoes in 2003.

8. What Can Countries Do to Mitigate the Effects of the End of Quotas?

What can be done by apparel producing countries in order to retain market share following the end of quotas? Countries which are most threatened by ATC phase-out suffer from a common set of interlocking problems at the levels of production and distribution. They typically seek to compete on labor costs alone, and as a consequence their industries are usually characterized by low levels of efficiency, productivity and quality. They often rely exclusively on a single market (the United States or the EU), specializing in a handful of product lines, rather than providing product diversity. They tend to lack both backward linkages to indigenous textile industries, and forward linkages to markets, engaging in simple assembly work at the bottom of the value chain. They suffer from extremely poor infrastructure, impeding the rapid turnaround that is increasingly essential for success in a world of "lean retailing." Enhancing working productivity through skills training and technological upgrading is one step towards diversifying production into higher value-added garments such as the more fashion-sensitive women's wear categories. Developing indigenous sources of textiles, accessories, and other inputs is another step that has been recommended frequently.

9. The Effect of Quota Elimination on Efforts to Combat Sweatshops

The end of quotas will increase the challenges for code enforcement by making it easier for brands to shift sourcing from countries with relatively higher standards to those with lower standards. One case in point is Cambodia, a country that is currently attractive for United States manufacturers and retailers, partly because it participates in an International Labor Organization inspection program designed to improve factory conditions. This program, which was conceived by the AFL-CIO and other labor advocates, and negotiated in conjunction with a bilateral trade agreement between the United States and Cambodia, included preferential treatment in the form of extra quotas (up to an additional 14%) that are directly contingent on maintaining acceptable labor standards, including workers' right to strike and engage in collective bargaining. Eleven field monitors working for the ILO make regular factory visits and publish an on-line report (Brooke, 2004). Now that quotas have been eliminated, the labor rights portion of the treaty ceases to have an impact, since there is no longer a preferential quota as a reward for compliance – nor, indeed, an incentive to keep production in Cambodia. This threatens the limited gains that have been realized for Cambodian garment workers.

10. Defending the Gains Made in Workers' Rights

No "cut and run:" manufacturers and retailers should make no immediate change in sourcing patterns.

Any immediate shift in sourcing patterns by corporations will negate good faith efforts by local vendors and governments to improve labor standards compliance, and will show that corporate practices to be driven mainly by economic choice. Manufacturers and retailers should reward contractors who have demonstrated compliance with codes of conduct by continuing or establishing production relationships. Abandoning contractors who have worked with manufacturers and retailers to improve labor standards implies that there is no such thing as corporate social responsibility. Manufacturers and retailers should establish long-term relationships with contractors. Short-term relationships with contractors provide no incentive to change labor practices. Longer commitments, however, lead to shared interests, heightened trust, and greater willingness to change labor practices. Manufacturers and retailers should establish a set of guidelines that define their relationship with their contractors. Currently contractors have no security about business relationships with their customers, and as a result workers have no security about their jobs. Yet economic security is basic to the survival of workers and small business owners.

11. Ensuring that Workers Rights Are Upheld in China

a. Manufacturers and retailers should actively enforce codes of conduct in China, including freedom of association.
b. Manufacturers and retailers should actively promote corporate social responsibility in China.
c. Manufacturers and retailers should work with unions and non-governmental organizations to jointly engage in strategies that will promote compliance with codes of conduct.

12. Findings

USAS and the WRC have done an excellent job of pushing the major universities of this country to take a stand against the use of sweatshop production for their logoed apparel. The student movement has confronted a major consumer of apparel and forced it to set a moral standard for its purchases. The WRC's monitoring has, in turn, opened up spaces for organizing drives so that independent unions have the hope of establishing a foothold in the notoriously exploitative export sector. These achievements are extremely significant. The end of the MFA means that these hard-won gains may be threatened, as another major impediment to the "race to the bottom" is removed. One can view the MFA as a form of international regulation of the apparel industry, and now even that small intervention has been eliminated. Given that the unchecked free market produces a host of social ills, the removal of this last remaining government-imposed structure is clearly a move in the wrong direction. What is needed is more regulation, not less. While USAS and the WRC must deal with the immediate crisis to their work created by the end of the MFA, and try to salvage what they can of the agreements that are already in place, perhaps this is a time to consider, once again, the bigger picture of global sweatshop production, and what can be done about it. Here are a few thoughts along those lines: Universities are direct purchasers of logoed apparel, and the decision to focus on these products has made a lot of sense because of the centralized nature of orders. However, logoed apparel is also a very small proportion of the entire U.S. apparel market. While some major companies (like Nike and Adidas) have been caught in this net, global sweatshop production is much larger than this, and is not limited to apparel. Since universities are also sites where thousands of students may be mobilized in terms of their individual consuming behavior.

13. Conclusions

The end of the MFA seems to put USAS and the WRC in a defensive position, holding on to their gains. But it is not necessarily a harbinger of potentially losses for the social justice movement; it also affords activists with new opportunities. It is these new possibilities that we must explore and use to gain worker power. We should use this new phase as an opportunity to reconsider our entire approach, to explore where power is shifting, and how we might better combat it. The goal of this movement has never been solely to improve university production. Rather, the universities afforded a concentrated opportunity to apply pressure on a piece of this system that could be made to respond. The bigger goal is nothing less than to change the way global corporations do business. We should use this shift to get back to that larger goal and see what can be done about it.

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