

# Stitched Up

## How rich-country protectionism in textiles and clothing trade prevents poverty alleviation

Exports of textiles and clothing are a vital source of employment and income for developing countries. Under the Multifibre Arrangement, rich countries used quotas to restrict entry of these goods to their markets. Quotas are now being lifted, but protectionist barriers remain, and more may be erected. The abrupt lifting of quotas has also left several poor and vulnerable countries facing a harsh transition period, and in urgent need of assistance.

## Summary

The textiles and clothing industry represents a vital source of income for developing countries. Although working conditions are often precarious, the industry provides tens of millions of jobs, particularly for women.

Sadly, under the rigged rules of international trade, North America and the European Union still protect their markets against developing-country exports, thereby reducing the industry's contribution to poverty alleviation. A restrictive system of Multifibre Arrangement (MFA) import quotas, combined with high tariffs, has hurt economies in the developing world, costing them an estimated 27 million jobs and \$40 billion each year in lost exports, according to one recent IMF/World Bank study. Quotas are now being lifted, but other protectionist barriers remain, and more may be erected.

This paper argues that, together with substantial improvements in labour standards, increased access to industrialised-country markets for textiles and clothing produced by developing countries is essential for poverty alleviation. Rich countries must deliver improved market access at the WTO if talk of a 'development round' is to be more than just rhetoric.

The end of import quotas on 1 January 2005 will lead to a major restructuring of the global industry. Overall, the developing world will gain, but countries that have benefited from restrictions on big exporters such as China will lose out. Oxfam believes that rich nations should continue to give these countries preferential access, and should mobilise urgently to assist them with economic and social adjustment.

### Lower walls, higher fences

While there will be winners and losers once quotas are lifted, *all* exporters will lose if rich countries replace quotas with other protectionist barriers:

**continuing tariff barriers:** Exports of textiles and clothing to industrialised countries face average tariffs that are three times higher than for other manufactured goods, as well as sharp tariff peaks of up to 40 per cent for certain items. These taxes represent a perverse redistribution of wealth from poor to rich countries. In 2001, exports from Bangladesh to the United States generated \$331 million in tariff revenue for the US Treasury; in the same year, net US aid to Bangladesh was just \$87 million. WTO negotiations over industrial tariffs (non-agricultural market access, or NAMA, talks) are supposed to address this problem, but are currently stalled. Tariff reduction offers from the EU and USA are too modest, and are tied to unfair demands for reciprocal liberalisation by poor countries.

**using protectionist 'rules of origin':** Rules of origin determine where a good 'comes from' for the sake of trade preferences, as only goods originating in certain countries qualify for lower tariffs. However, current rules are much stricter than necessary. While the prevailing business model means that several countries will typically be involved in the production of a garment, rules of origin often require the majority of a good's value to be added in the country of export in order for preferences to be obtained. This is completely unrealistic given that value added in assembly — the stage most often conducted in Least Developed Countries (LDCs) — is usually 25-30 per cent of the total. By denying that exports are made in their final country of processing, rules of origin withhold desperately needed trade preferences from the world's poorest countries. For example, Cambodia, as an LDC, is supposed to receive duty-free access for its products to the EU; because of restrictive rules of origin, only 36 per cent of its exports qualify.

The EU is currently reviewing its rules of origin for preferential trade agreements. This review should focus urgently on the negative impact of existing rules of origin on developing country exporters.

**abusing non-tariff barriers:** The USA and the EU have shown signs that they will use tariffs and temporary quotas to block imports from developing countries once MFA quotas are phased out. These measures are supposedly used to defend domestic industries against sudden import surges or unfair competition. However, their use is often unjustifiably protectionist, and WTO rules are too weak to prevent this. The EU initiated 57 anti-dumping and anti-subsidy cases against developing countries in the textile and clothing sector between 1994 and 2001. This paper describes a long-running dispute between the EU and India over the latter's bed-linen exports, which illustrates how anti-dumping mechanisms can be abused.

### **Winners and losers**

There are aggregate benefits for developing countries from the ending of quotas, but a number of poor countries will suffer severely from increased global competition, as major exporters such as China and India increase their shares in rich-country markets. These include Bangladesh and Sri Lanka, two of our case study examples, for whom textile and clothing exports constitute 86 per cent and 54 per cent of merchandise exports respectively, and who stand to lose hundreds of thousands of jobs.

Quotas, long-imposed by rich countries under the Multifibre Arrangement, were supposed to disappear gradually over a ten-year period, partly to reduce the shock to these economies. Regrettably, under pressure from domestic lobbies, rich countries are removing most of the economically significant quotas at the very end of 2004.

This transition will hit women workers particularly hard, since they have few alternative job opportunities. Industrialised countries must greatly increase financial aid and technical assistance to help these countries get over the shock of sudden job losses and to become more competitive. They should reform rules of origin requirements to ensure that existing tariff preferences are fully realised and grant temporary preferential treatment to the handful of non-LDC countries particularly vulnerable to quota phase-out.

In industrialised countries, import liberalisation will mean job losses in the textile and clothing sector. The overall impact on employment may not be negative, since the reduction in the price of clothing will increase demand for other goods, creating jobs, and because more prosperous developing-country economies will buy more from industrialised countries. However, Northern governments must recognise where workers and communities are vulnerable to the loss of manufacturing jobs and provide greater assistance for retraining, job searching, and regional development.

At the same time, ending protectionism in textiles and clothing will bring down prices in Europe and North America, giving important welfare benefits to low-income consumers; the current system of quotas and tariffs costs the average European family of four around €270 a year.

### **Market access: not enough on its own**

Market access alone is inadequate to ensure that the benefits of trade reach the poorest people in developing countries. The final section of this paper completes the picture in the textiles and clothing sector by looking at other factors that need to change in order for workers to enjoy real gains. As Oxfam's current campaign on labour conditions in the industry highlights,

there are many important actors: national governments, brands and retailers; international organisations; customers and investors; and producers and factory managers. A co-ordinated response to the 'footlooseness' of corporations is vital, to prevent intense competition leading to the further squeezing of those at the bottom of the supply chain.

## **Recommendations**

Oxfam believes that poverty reduction in developing countries entails growing an industrial base, and that textiles and clothing manufacture is an essential step in the process. For many millions of women and their families, if they are treated fairly and granted minimum labour rights, this industry offers hope of a better life. Rich countries must therefore agree to open their markets, as well as help countries which will lose out from the damaging endgame for quotas. Specifically, Oxfam calls for:

### **By Northern governments:**

- A reduction in tariffs on textiles and clothing imports to the average for manufactured goods (4 per cent) by 2010, through WTO negotiations.
- A halt to protectionist abuse of non-tariff barriers, such as anti-dumping measures.
- Easing of EU and US rules of origin for LDC exports, and extension of US preferences to include textiles and clothing.
- Urgent financial and technical assistance to countries that will suffer as a consequence of sudden quota phase-out.
- Temporary preferences until at least 2010 for five non-LDC developing countries that are highly vulnerable to the lifting of quotas.
- More trade adjustment assistance for displaced Northern workers.

### **By Southern governments:**

- Enforcement of international labour standards with strict monitoring of corporate compliance particularly during MFA phase-out.
- Re-training and job-search assistance for displaced workers.
- Provision of better legal institutions, customs administration, marketing and infrastructure to increase industry competitiveness.

### **By retail and brand corporations:**

- Responsible sourcing strategies that integrate respect for labour standards.
- Corporate Social Responsibility commitments to consider the needs of current supplying communities: not abandoning their responsibilities to these communities.
- Ensuring that suppliers build reserves to meet severance payments for workers where factories close or many workers are fired.

### **By manufacturers:**

- Provision of 'decent work' through respect for workers' rights.
- Provision of adequate notice periods, compensation, and due wages to workers displaced during quota phase-out.

## **Acronyms**

<b>ACP</b>	African, Caribbean and Pacific Group of States
<b>AGOA</b>	African Growth and Opportunity Act
<b>ATC</b>	Agreement on Textiles and Clothing
<b>EBA</b>	Everything But Arms
<b>GSP</b>	Generalised System of Preferences
<b>ILO</b>	International Labour Organisation
<b>LDC</b>	Least Developed Country
<b>MFA</b>	Multifibre Arrangement
<b>WTO</b>	World Trade Organisation

## Glossary

**African Growth and Opportunity Act:** Part of the US Trade and Development Act 2000, which partially liberalises trade between the USA and 37 sub-Saharan African countries.

**Agreement on Textiles and Clothing:** A transitional agreement under the WTO, whose objective is the gradual integration of the textile and clothing trade – long subject to bilateral quotas under the Multifibre Arrangement – into normal trade rules established in the General Agreement on Tariffs and Trade 1994. Covers the period 1 January 1995 – 31 December 2004.

**anti-dumping:** If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be ‘dumping’ the product. The WTO allows governments to act against dumping where there is evidence of injury to the competing domestic industry, but its rules are vague.

**apparel:** Clothing, material accessories, and furnishings.

**backloading:** The practice of delaying the majority of cuts to quotas until the final year of the transition period, instead of making the cuts gradually over that period.

**Cotonou Agreement:** An agreement between the EU and the African, Caribbean and Pacific Group of States, signed in 2000 to replace the earlier Lomé Convention. The agreement provides for the gradual liberalisation of trade between the two parties, but maintains current non-reciprocal trade preferences until 2008.

**countervailing duties:** An extra charge that the WTO allows a country to place on imported goods to counteract subsidies granted to the exporters by their home governments, if the importing country can prove that the subsidy would cause injury to the competing domestic industry.

**cumulation:** Provisions that allow producers in one country to use a certain amount of inputs from another country without the final good being classified as non-originating.

**Doha Declaration:** The November 2001 declaration of the Fourth WTO Ministerial Conference in Doha, Qatar, which provides the mandate for the Doha Round of trade negotiations.

**Everything But Arms:** An initiative adopted in 2001 by the EU, which grants duty-free and quota-free access to imports of all products from Least Developed Countries, except for arms, munitions, and (temporarily) certain agricultural products. These preferences are dependent upon meeting stringent rules of origin.

**Generalised System of Preferences:** Programmes maintained by 27 industrialised countries which grant temporary and non-reciprocal preferences to developing countries. Each importing nation determines the goods, margin of preference, and the value or volume of goods that may benefit from preferential treatment.

**import quota:** A direct restriction on the quantity of a good that can be imported into a country.

**Least Developed Country:** A country designated by the United Nations as Least Developed based on criteria of low GDP per capita, weak human resources and a low level of economic diversification. There are 48 LDCs.

**Market Access Initiative:** A Canadian initiative that entered into force in 2003, which grants duty-free and quota-free access to imports of all products from Least Developed Countries, except for certain agricultural products. The initiative has liberal rules-of-origin requirements.

**Millennium Development Goals:** An agenda for reducing poverty and improving lives, agreed by world leaders at the UN Millennium Summit in September 2000. One or more targets have been set for each goal.

**missing preferences:** Preferences granted in theory under preferential trade arrangements (e.g. the EBA) but not realised in practice, often due to rules of origin requirements.

**Most-favoured-nation treatment (MFN):** Article I of the General Agreement on Tariffs and Trade 1994, which requires countries not to discriminate between goods on the basis of their origin or destination.

**Multifibre Arrangement:** A 1974-1994 arrangement governing the import quotas on the textile and clothing trade, which were imposed by industrialised countries on developing-country exports.

**rules of origin:** Laws, regulations, and administrative procedures, which determine a product's country of origin. A decision by a customs authority on origin can determine whether a shipment falls within a quota limitation, qualifies for a tariff preference, or is affected by an anti-dumping duty. These rules vary from country to country and from product to product.

**safeguards:** Temporary and selective measures (such as increased tariffs, tariff quotas, or quantitative restrictions) explicitly designed to reduce the flow of imports in order to enable a particular industry to adjust to heightened competition from foreign suppliers.

**tariff:** A tax levied upon goods transported from one customs area to another, either for protective or for revenue purposes.

**tariff peaks:** Relatively high tariffs, usually on 'sensitive' products. For industrialised countries, tariffs of 15 per cent and above are generally recognized as 'tariff peaks'.

**textile:** A woven or knit fabric, made from natural or synthetic fibres, filaments, or yarns, suitable for further processing into apparel.

**WTO:** World Trade Organisation, established on 1 January 1995.

# 1. Context: textiles and clothing

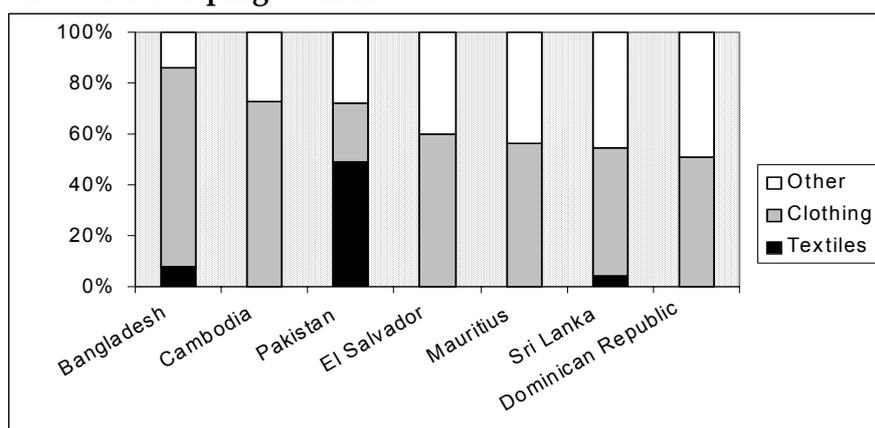
*'I started working in a garment factory in 1988. This job has given me power to make my own decisions for myself. I was even able to marry out of love and without paying one taka in dowry. I could have never made such a decision if I stayed in my home village. I gained dignity doing this job... I just learned to write at age 30, but I have always thought of helping my children to get an education, and earning money had allowed me to send my daughter to a school and to even hire a tutor for her... Without this work my life is meaningless and empty.'*

Nila, a garment worker in Dhaka, Bangladesh

## A vital sector for developing countries

For Nila, and many of the other women who make up nearly three quarters of all workers in the garment industry worldwide, the export garment sector can be a lifeline. Globally, tens of millions of people work in textiles and clothing, more than two thirds of whom are located in Asia. World trade in textiles and clothing constitutes more than \$350 billion – nearly 8 per cent of all trade in manufactured goods.<sup>1</sup> A major proportion of these exports comes from developing countries, including more than 70 per cent of all apparel exports, making the sector a vital source of employment, income, and foreign-exchange revenues.<sup>2</sup>

**Figure 1: Textiles and clothing as a percentage of total exports, selected developing countries**



Source: Applebaum (2003) p.20

**Alleviating poverty:** The textiles and clothing trade provides employment for millions of people in poverty across the world. Jobs in this sector currently fail to meet their full potential for poverty alleviation, owing to precarious employment conditions; however, wages still form an essential part of workers' livelihoods and make

enormous contributions to family income.<sup>3</sup> These wages also have a positive effect on poor urban communities and village economies. Factories are surrounded by innumerable small shops, and vendors selling fruits, snacks, cosmetics, and clothing. A large part of workers' incomes support these small businesses. Moreover, with a portion of the wages returning to villages as remittances, garment work contributes to the rural economy.<sup>4</sup> In other words, every dollar earned by garment workers in developing countries multiplies to represent more than one dollar in terms of the employment that it generates; conversely, every dollar denied loses more than one dollar for the developing economy.

**Steps towards gender equality:** Walk into any garment factory, and the chances are that the majority of workers you see will be women. Studies have shown that the most common characteristics among garment workers are that they are young, female, migrants from rural areas, and have no previous work experience.<sup>5</sup> While working conditions in the industry leave a great deal to be desired, the opportunity for women to work - and their consequent empowerment - is nonetheless exceptional, given that women in many of the major exporting countries often find little other opportunity to work outside the home.<sup>6</sup> Without this work, many young women would stay at home and be married off at a very early age.<sup>7</sup> Instead, employment in the garments industry presents a rare opportunity for them to become a major income-earning member of the family.

*'Back in the village I would have been constrained, but over here I am experiencing freedom,'* said one Sri Lankan garment worker. Along with an income of their own, many women are provided with the opportunity to delay marriage and childbirth and to invest in their own health and education.<sup>8</sup> Garments jobs therefore serve as an avenue for empowerment.

Nonetheless, by design, the industry exploits the vulnerabilities of women and reinforces socially constructed stereotypes. Women make up an overwhelming proportion of the workforce, partly because they can be paid less than men and are stereotypically considered 'less troublesome'. Combined with the incidence of sexual harassment in the workplace, this means that, while garment jobs have tremendous potential for benefiting people in poverty, and particularly women, poor employment practices and the denial of labour rights mean that this is not consistently realised.

## A history of protectionism

Industrialised countries have protected their markets against developing-country exports for nearly half a century. Back in the 1950s, rich countries started obliging poor countries in East Asia to restrain their exports of fabrics and clothing. A series of 'short-term' protectionist agreements culminated in the far from short-term

Multifibre Arrangement (MFA, 1974-1994), which allowed industrialised countries to apply quotas unilaterally on textiles and clothing goods from exporting countries. This was complemented by high tariffs and other non-tariff barriers.

Under the MFA, individual importing countries could choose which products to restrict from which countries. Consequently, developing countries had very varied experiences of the system. For example, Taiwan, Hong Kong, and South Korea were initially restricted by quotas, but over time shifted production to categories for which their quotas were less tight. China and India found that quotas became increasingly binding as their production expanded. Bangladesh and Sri Lanka were also bound by quotas, but on aggregate they benefited from the restrictions on their main competitors.

Given that the MFA had some beneficiaries among developing countries (an issue that will be discussed further in Part 3 of this paper), it cannot be said that its effects were entirely negative. However, in aggregate the MFA was detrimental to poverty reduction. Those who were most tightly constrained by rich nations' quotas were the countries with the lowest costs and greatest efficiency. Since these included China and India, the negative impact on global poverty reduction was extremely high. A recent IMF/World Bank study estimates that up to 19 million jobs have been lost in developing countries as a result of quota restrictions on textiles and clothing, plus an additional eight million owing to high tariffs. For every job protected in rich countries, around 35 have been lost in poor countries.<sup>9</sup>

During the Uruguay Round of trade talks, pressure from quota-constrained countries built up to such a pitch that rich nations agreed to bring textiles and clothing into the 'mainstream' of world trade. The Agreement on Textiles and Clothing (ATC) came into force on 1 January 1995, laying down procedures for the gradual phasing out of quotas on textile and clothing exports to Northern markets. By 1 January 2005, all quotas are set to be removed, so that trade in textiles and garments is subject to ordinary WTO disciplines. Despite pressures in importing countries to delay the implementation of ATC promises, the governments concerned have notified the WTO of their intention to lift all remaining quotas by the end of the year.<sup>10</sup> WTO delegates from all countries take it as given that these commitments will be met: failure to remove quotas on schedule would cause a huge drop in faith in global trade agreements, potentially leading to a 'tit-for-tat' escalation of trade protectionism on all sides. The practices of brands and retailers, who are planning on the basis that phase-out will occur, support this assumption.

Although quotas are being lifted, high tariff barriers on textiles and clothing remain as obstacles to developing country exports. Rich countries have promised in the context of the Doha "development" round of WTO trade negotiations to reduce tariffs on all industrial

products including textiles and clothing. Talks on non-agricultural market access (NAMA) are currently semi-paralysed following the collapse of the WTO Ministerial at Cancun. The USA and EU are making very limited offers for tariff reduction and are tying these unacceptably to demands for full reciprocal liberalisation by developing countries.

## 2. Pulling down walls and finding fences: rich-country protectionism

Industrialised countries promised, in the 1995 WTO Agreement on Textiles and Clothing, that they would phase out restrictive quotas on developing-country exports in this sector, and bring trade in textiles and clothing into line with standard trade rules. However, an analysis of these countries' actual practices reveals that their approaches to trade in textiles and clothing remain distinctly protectionist. This section examines specific policies adopted by Northern governments: delayed quota phase-out, continually high tariff barriers, and abuse of measures ostensibly designed to protect domestic industries from unfair competition but in reality often used as protectionist tools. It concludes that, despite their rhetoric of liberalisation, rich countries continue to abuse their power in the world trade regime to block exports from developing countries.

### Delaying quota phase-out

The Agreement on Textiles and Clothing (ATC) which took effect on 1 January 1995 introduced a ten-year period during which rich countries should gradually have lifted their quotas on textiles and clothing imports from developing countries. One of the intentions of this phased process was that countries which had previously been protected by the quota regime would have time to adjust to increased global competition.<sup>11</sup> However, while importing countries followed the letter of the Agreement, they strayed very far from its spirit. Ruthlessly exploiting certain characteristics of the ATC, they delayed the lifting of quotas that mattered for as long as possible in order to protect their own industries:

- Much of the supposed 'lifting of quotas' involved products that had not been restricted in the first place. The list of products to be integrated into normal trade rules included all those that had ever been subject to restrictions in *any* bilateral agreement. However, not all countries had restricted the same products. For example, 37 per cent of products mentioned in the ATC list had never been restricted by the USA. Despite this, importing countries cynically listed such products as part of their 'integration' during the first stages, thus meeting their legal requirements but bringing no

benefits to poor countries. In 1995 the EU ‘integrated’ previously unrestricted articles such as parachute parts, typewriter ribbons, and dolls’ clothes. Such pseudo-liberalisation clearly had no value to developing countries.<sup>12</sup>

**Table 1. Liberalisation of previously restricted items, stage by ATC stage**

	No. of items limited at outset of ATC	Stage 1 (1 Jan 1995)	Stage 2 (1 Jan 1998)	Stage 3 (1 Jan 2002)	Stage 4 (1 Jan 2005)
USA	758	0	14	43	701
EU	218	0	14	27	167
Canada	295	6	23	27	239
Norway	54	0	46	8	0

Source: World Trade Organisation (2001a), pp.220-21.

- Within minimal guidelines, rich countries could select which products to include at each stage. Consequently, in the initial stages they chose mostly low-value-added products (tops, yarns, and fabrics), which were of little value to exporting countries.

Developing countries have been outraged by this behaviour. At the launch of the Doha Round of trade negotiations in 2001, they declared: *‘We remain deeply disappointed and concerned... seven years from the Uruguay Round Agreement on Textiles and Clothing, few quota restrictions have been phased out.’*<sup>13</sup> Despite this, rich countries have continued to ‘backload’ the integration of important products until the very end of the transition period. That is, instead of lifting quotas gradually over the ten year period, they have delayed the majority of cuts to the final year. They claim that their compliance has been entirely faithful to the ATC.<sup>14</sup>

The backloading of quota phase-out will cause a sharp shock including major job and income losses for several developing-country exporters such as Bangladesh and Cambodia when a large number of quotas suddenly disappear on 1 January 2005. (This issue is addressed in greater detail in Part 3 of this paper). It is therefore only fair that the rich countries who are responsible for this shock should help the developing countries that experience sudden losses with increased technical and financial assistance.

They should also extend duty-free access until at least 2010 to non-LDC developing countries that are highly dependent on textile and clothing exports (i.e. which earn more than 50 per cent of their current export revenue from this sector), to help them to cope with the shock of adjustment. This would cover five countries: the Dominican Republic, El Salvador, Mauritius, Pakistan, and Sri Lanka. Sri Lanka in particular is in need of this assistance, as unlike the other

countries it does not receive preferences from industrialised countries under the Central American Free Trade Agreement or the Cotonou Agreement, or for efforts in combating drug trafficking.

## Tariff barriers: taxing the poor

Even after quotas are phased out, exports of these goods from developing to industrialised countries will face tariff levels that are considerably higher than for other manufactured goods, as well as sharp tariff 'peaks' for certain goods. (These high tariffs apply to developing-country exports generally and to exports from LDCs when they do not qualify for duty-free access). The average tax imposed by rich countries on textiles and clothing imports is 12 per cent, compared with 3.8 per cent for all industrial products; peaks reach up to a remarkable 30 per cent or 40 per cent on particular goods. Men's synthetic shirts face a huge 32 per cent tariff, for example, at US customs.<sup>15</sup>

The disproportionate tariffs imposed on these goods are evidenced by the fact that, while accounting for only 6.7 per cent of the value of US imports, shoes and clothes account for \$8.7 billion tariff revenue - almost half of all tariff revenue collected.<sup>16</sup> This can be likened to a system of regressive taxation, in which the poorest people face the highest tax rates. Since these highly taxed products form a greater proportion of exports from developing countries than industrialised ones, this leads to the perverse situation in which Cambodia's exports to the USA face a total of \$152 million in tariff duties, while Norway's face just \$24 million, even though the total value of Norway's exports is five times higher, and Norwegian GDP per capita is 129 times higher than that of Cambodia. Similarly, taxes on Bangladeshi exports contributed \$331 million in revenue to the government of the United States in 2001, while those on French exports contributed just \$330 million;<sup>17</sup> meanwhile, net Overseas Development Assistance from the United States to Bangladesh totalled just \$87 million in the same year.<sup>18</sup>

**Table 2. Poor countries pay more**

Country	GDP/capita	Export to USA	Tariffs paid
Cambodia	\$280	\$0.964 billion	\$152 million
Norway	\$37,850	\$5.173 billion	\$24 million
Bangladesh	\$360	\$2.353 billion	\$331 million
France	\$22,010	\$30.023 billion	\$330 million

Source: GDP/capita data from World Bank Data Query (2002 figures),  
Export and tariff data from Gresser (2002) p.11.

**Table 3. Value of US imports, tariff rates and tariff revenue from the top three imports from Bangladesh in 2002**

Description	Tariff (%)	Value in \$	Revenue in \$
Men's or boys' shirts, not knitted.	19.80	200,488,270	39,696,677
Sweaters, pullovers and similar articles.	16.90	154,268,618	26,071,396
Men's or boys' trousers and shorts.	16.70	134,802,820	22,512,071

Source: www.usitc.gov

## Abusing protective mechanisms

In theory, protective mechanisms (safeguards, anti-dumping measures, and countervailing duties) have rational justifications in international trade. They exist to protect countries from being suddenly flooded with imports which could cause a domestic industry to collapse, whether on account of other countries' exports becoming suddenly more competitive, or being sold at artificially low prices (known as 'dumping'), or being subsidised by exporting governments. In practice, however, they can easily be misused as protectionist tools.

The Agreement on Textiles and Clothing has a special 'Transitional Safeguard' mechanism which WTO members can apply to imports from individual countries during the phase-out period. This has been heavily abused, particularly by the USA, which has used it to block imports no fewer than 27 times. Moreover, the USA has refused to lift safeguard defences, even when specifically instructed to do so by the Textiles Monitoring Body, the body responsible for ATC implementation.<sup>19</sup> While the USA initiated most of the cases in the mid-1990s, then reduced its protectionist activity in this sphere towards the end of the decade, there are worrying indications that the country may return to other, similar protective measures.

The Byrd Amendment (or 'Continued Dumping and Subsidy Offset Act 2000') distributes funds raised from any US imposition of anti-dumping and anti-subsidy duties directly to American producers, giving them an incentive to bring (often spurious) cases against foreign exporters. Although the Amendment was ruled illegal by the WTO in January 2003, the USA has not repealed it. On the contrary, the US Department of Commerce has held sessions for textiles and clothing manufacturers to explain how anti-dumping and anti-subsidy mechanisms can work for them. Furthermore, in November 2003 the US government announced that it would impose controversial 'safeguard' quotas on imports of Chinese knit fabrics, dressing gowns and robes, and bras. This is allowed under China's protocol of WTO accession if the importing country determines that Chinese exports threaten or disrupt its market; however, Chinese

trade officials dispute whether the USA can really demonstrate disruption in this case.<sup>20</sup> Such steps bode ill for US policy towards developing-country exports in the post-MFA world.

The EU, although it has not used the ATC safeguard clause, has exploited conventional WTO mechanisms. Pakistan's Trade Minister Khan notes: 'From 1994 to 2001, the European Commission has been the biggest user of anti-dumping and anti-subsidy actions, accounting for 64 initiations in the textile sector alone. Of these, 57 were targeted against developing countries.'<sup>21</sup> The case of Indian bed-linen, below, highlights the damaging impact of the EU's use of anti-dumping measures.

The need for tighter and more transparent WTO disciplines on protective measures is clear. Such reform was requested by several developing countries in the latest round of trade negotiations, and forms part of the Doha mandate. However, the USA in particular continues to resist reform.

### **Case study: The EU blocks Indian bed linen**

Textiles and clothing have been interwoven with Indian livelihoods since time immemorial. Today the industry accounts for 20 per cent of the country's industrial production, directly employing more than 15 million people in production for export and domestic markets. Although MFA quota restrictions have seriously limited Indian exports,<sup>22</sup> textiles and clothing nonetheless account for close to a third of the total value of the country's exports. Once quotas are fully lifted in 2005, India should be a major beneficiary of the new trade regime.

However, there are clear signs that rich countries intend to use alternative protectionist measures to block competitive Indian exports once quotas are removed. In 1997 the EU began imposing extra duties on Indian bed linen, claiming that it was being 'dumped' in the European market. The dispute at the WTO was finally decided in India's favour in 2001, but by that time exports of bed linen had fallen considerably – from \$127 million in 1998 to \$91 million in 2001. The Indian company 'Anglo-French Textiles', one of those affected by the EU action, saw its revenue fall by more than 60 per cent in the three years in which the duties were imposed. It was forced to shed more than 1,000 jobs, with a severe economic impact on the southern Indian town of Pondicherry where the company is located, being both the biggest industry and employer.<sup>23</sup>

Moreover, although the WTO ruled in favour of India in 2001, the EU merely altered the terms of the complaint slightly and reapplied the duties. This highlights the effectiveness of anti-dumping measures as protectionist tools: they take a long time to resolve, impose heavy costs of arbitration, and can be prolonged by small changes to the case. In an ironic twist, the EU is now challenging the USA in the WTO for using a particular method to judge whether dumping is happening (known in trade jargon as a 'zero dumping' assessment).

This was the very method that the EU originally used against Indian bed linen back in 1997.<sup>24</sup>

## An ambiguous effect on Northern countries

Under pressure from their domestic textile and clothing industries, Northern countries employ protectionism to limit exports from developing countries. From the perspective of global development and the Millennium Development Goals, targets to which Northern governments have signed up, such protectionism is clearly remiss. However, even from the perspective of many citizens in Northern countries it is short-sighted.

Trade barriers which raise the price of textiles and clothing products in Northern markets have obvious costs for consumers in those countries. Estimates suggest that the average European family of four loses about €270 a year as a result of the higher costs of textile and clothing products imposed by trade protectionism.<sup>25</sup> Low-income families are particularly hard hit, for two reasons: first, they spend a larger proportion of their income on these goods, and thus bear a disproportionate part of the cost. Second, tariffs on lower-quality clothing products tend to be particularly high: baby trousers made out of synthetic material bear the cost of a 29 per cent tax when imported to the USA, while silk ones bear just 2.8 per cent. Since tariffs have a double burden (both on consumers in the importing country and on producers in the exporting country), removing tariff peaks could benefit people in poverty in both industrialised and developing countries.

It is true that import liberalisation in industrialised countries will mean job losses in the textile and clothing sector. The consequences of these job losses, and the actions that Northern governments should take in response to them, are discussed at length in Part 4 of this paper. However, it should also be noted that the overall impact on employment need not be negative. Reductions in the price of clothing in industrialised countries, and growing prosperity in developing-country economies, should stimulate demand, giving Northern countries the chance to expand production and employment in other sectors.

## 3. Strict rules and broken promises

The existence of winners and losers from the phase-out of MFA quotas and tariff reform is a key feature of the textiles and clothing trade at present. Exact predictions for a post-quota world are hard to make, but one recent IMF-World Bank study suggests that developing countries' export revenues could rise by \$22 billion a year thanks to the lifting of rich countries' import quotas.<sup>26</sup> Three facts about the distribution of benefits are generally accepted: first, the lifting of quotas will yield positive benefits for the developing world

on aggregate. Second, countries that were highly constrained by quotas – notably China and India – will benefit significantly from the phase-out. And third, a number of developing countries which previously benefited from the restrictions on those large exporters will find it extremely difficult to deal with increased competition.

Not surprisingly, there are very conflicting predictions about the exact impact of MFA-phase out on China's market share. In many of the less significant categories that have seen their quotas removed, China has exhibited enormous growth. For example, when infant wear was liberalized in Phase Two of the ATC, China's exports in this category grew by 298 per cent in 2002 and 81 per cent in 2003. In the same years, Bangladesh's exports of infant wear shrank by 25 per cent and 9 per cent.<sup>27</sup>

A well-publicised report by the American Textiles and Manufacturers Institute (ATMI) also suggests that imports from China in all categories will surge, to occupy more than two thirds of the US textiles and clothing market once quotas are removed.<sup>28</sup> However, the US International Trade Commission estimates much more moderately that China's share of the US apparel market will reach 28 per cent by 2010.

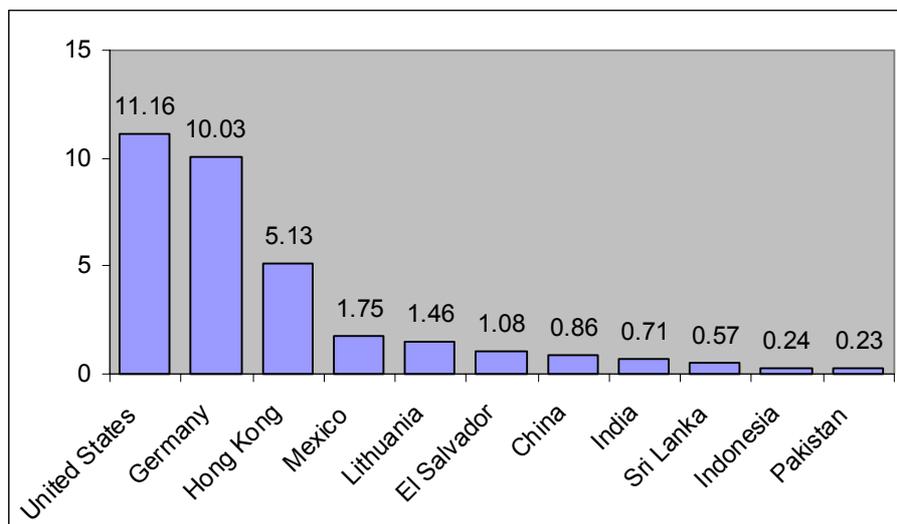
Although China benefits from low labour costs, these are not the lowest in the industry, as Figure 2 shows.<sup>29</sup> Of course, other factors having an impact on competitiveness, such as the right to organize, should be factored in to make international comparison more meaningful.

In any case, it is unlikely that brands and retailers will choose to put all their eggs in one basket by sourcing from China alone. It should also be remembered that, even if China and India are the main beneficiaries of quota phase-out, the potential impact on poverty reduction from these countries' gains is still considerable, given that their joint populations constitute more than 2.3 billion people, of whom 563 million live in abject poverty.<sup>30</sup> Of course, where labour organisation is heavily restricted, the benefits for poor workers can be substantially reduced. However, denying jobs to those workers is not the solution. The aim must be to achieve more jobs *and* better employment conditions.

Notwithstanding the aggregate gains, the consequences for textile and clothing workers in countries that were protected by MFA quotas will be stark. Bangladesh and Sri Lanka, for example, benefited from tight quota restraints on their major competitors, and witnessed rapid growth in their exports, such that textiles and clothing came to constitute 86 per cent and 54 per cent of national merchandise exports respectively in 2001.<sup>31</sup> One pessimistic estimate for Bangladesh suggests that more than one million workers will lose their jobs over the coming years.<sup>32</sup> Industry forecasts for Sri Lanka estimate that around 40-50 per cent of factories will close down, and

that about 100,000 (one in three) jobs in the industry will be lost.<sup>33</sup> Displaced women workers in particular will have great difficulty in finding employment, because of the limited alternative job opportunities for women.

**Figure 2. Average hourly wages in the apparel industry, selected countries (\$, 2000)**



Source: ILO 2003, cited in Applebaum 2003, p.5

**Box 1. The benefits of clothing work and the tragedy of job losses**

‘When my father left my family for good, we had no other option but to come to Dhaka and find ways to survive. In our village we do not have any work. I made the journey with my brother and two sisters, because everyone said that Dhaka is like a paradise where everyone can find employment in the garment factories... I used to work in a factory as a helper. Without any guilt my employer threw me out of the factory... He says that we are losing our market... Now we do not have food, and soon we will have to vacate our room too if we cannot pay the rent... Every morning I beg for a job, but nobody is giving me one... Earlier I used to say that I work in a factory, but now I feel like crying when I think about my fate. My mother is sick, and I do not have any money to buy her the medicines she needs.’

*A Garment worker, Dhaka, Bangladesh*

As mentioned above, rich countries should help the losers from quota phase-out with increased financial and technical assistance, particularly given that the suddenness of job losses will largely be due to backloading of phase-out. However, preferential access granted by industrialised countries for the poorest and most vulnerable countries also has a crucial role to play in the industry’s survival in these countries.

The principle of preferential access for exports from the world’s poorest countries to industrialised-country markets is widely accepted: WTO members pledged in the 2001 Doha Declaration: ‘We

*commit ourselves to the objective of duty-free, quota-free market access for products originating from LDCs.*<sup>34</sup> If such promises of preferences for the poorest and most vulnerable countries were actually realised, then losses due to quota phase-out would be partially mitigated. However, despite rich-country promises and a number of widely publicised preference schemes for LDC exports, duty-free and quota-free access has *not* been realised for a sizeable proportion of the exports in question. Nor have preferences granted in trade agreements with other developing countries been fully realised. Contributing significantly to this phenomenon of ‘missing preferences’ are certain little understood but vital features of trade agreements, known as ‘rules of origin’.

## Theory and practice of rules of origin: learning from Bangladesh

Rules of origin exist in order to determine which country a product ‘comes from’ for the sake of trade policy. In principle, they are desirable instruments. Without them, preferential schemes such as the ‘Everything But Arms’ (EBA) initiative and the ‘Africa Growth and Opportunity Act’ (AGOA), through which the EU and USA offer duty-free access to exports from many of the world’s poorest countries, would offer beneficiary countries little advantage over their competitors. As an example, take a t-shirt produced entirely in Korea, which would ordinarily face a tariff when entering the European market. If there were no way of determining where the t-shirt ‘came from’ for trade purposes, it could simply be shipped via Bangladesh (an LDC eligible for trade preferences under EBA) and thus gain duty-free access to the European market. If this were to happen, the extra incentive that EBA should generate for producers to locate in Bangladesh rather than Korea would be lost.

Clearly, it makes sense to require that a t-shirt exported from Bangladesh should have *some* Bangladeshi content if it is to qualify for preferential market access. In practice, however, rules of origin requirements are far more arduous than is necessary. Typically they prescribe heavy conditions on how much value must be added in the exporting country, and the sources of inputs to goods, if the goods are to be considered as ‘originating’ there.

The EU is currently reassessing its rules of origin, within a broader review of its preferential trade agreements. The reassessment should focus on the restrictive nature of rules of origin for developing country exporters, particularly in the textile and clothing sector, and propose changes in line with those introduced by Canada in its recent ‘Market Access Initiative for LDCs’ (discussed in more detail below). However there is a risk that attention will instead be diverted towards bureaucratic and administrative procedures,

ignoring the development perspective. It is vital that this is not allowed to occur.

### **How rules of origin limit South-South trade and restrict exports**

For a t-shirt to originate in Bangladesh under the EU's rules, it must either have undergone two stages of transformation there (from yarn to fabrics, and fabrics to clothing), or have used fabrics from other South Asian countries and added more value in Bangladesh than in any other contributing country. Unfortunately, Bangladesh simply does not have the spinning and weaving capacity to produce enough fabrics to supply its clothing industry, nor does the value added in the last stage of production usually constitute the majority of the good's value (the usual value addition at the assembly stage is 25-35 per cent of the total export value).<sup>35</sup> By using fabric inputs from other developing countries, Bangladeshi clothing exports face the high tariffs that are applied to non-LDC exports. Paradoxically, despite Northern politicians' rhetoric about the desirability of South-South trade, current rules of origin requirements penalise clothing producers in the world's poorest countries for using inputs from other developing countries.

Rich countries try to justify these heavy requirements by saying that they encourage poor countries to develop textile production to supply their clothing sector. However, historical experience and contemporary production patterns undermine this argument. No small, poor country with a significant clothing industry has ever succeeded in developing a matching supply-capacity in textiles.<sup>36</sup> Bangladesh comes closest, having developed a textile capacity to cover 60-70 per cent of its knit sector and self-sufficiency in certain accessories. However, even Bangladesh can provide only 12-15 per cent of inputs for its woven sector, and this sector represents the majority of the country's exports.<sup>37</sup>

#### **Box 2. How strict rules undermine trade preferences**

'On the face of it, we have preferential market access to EU, but in reality half of our products don't get it. The principles of EBA and GSP are good rhetoric and very helpful in painting a benign façade on EU, but their conditionalities are harsh - they expect us to reach the same level of industrial development as China and Taiwan before we can fully benefit as an LDC. Well, if we could do it, we won't be counted as LDCs anymore and won't remain eligible. It's a case of damned if we do and damned if we don't. With the changes apprehended post-MFA, it may very well be the end of EU as a market for us.'

*M. Faruq Ghulam, Vice President of the Bangladesh Garment Manufacturers Export Association and Chairman of SQ Sweaters Ltd.*

Moreover, the garments industry is highly buyer-driven; retailers and clothing brands make very precise demands of their suppliers, and merely having a textile industry does not mean that a country will meet all the demands of its garment producers. It would be better for Least Developed Countries to get duty-free access for

products that they have played *some* part in assembling, than to have preferences for the few goods produced entirely in their country. Canada's recent 'Market Access Initiative for Least Developed Countries', which requires only 25 per cent of value to be added in a garment's country of export, and does not stipulate a double-transformation requirement, is the only rich-country initiative that takes this into account. The effect can be dramatic: more flexible rules of origin have contributed to the doubling of LDC exports to Canada over the past year.

**Box 3: The global model of textile and clothing production**

Rules of origin implicitly assume that products can be produced mostly in a single country, from which they will then be exported. Yet the current business model militates against this. Buyers' power is such that they can dictate where fabrics and accessories should be bought, and suppliers have little choice but to go along with this. Victor Fung, Chairman of Li & Fung, Hong Kong's major garment supplier to American and European clothing brands, explains how today's clothing production works:

*'We might decide to buy yarn from a Korean producer but have it woven and dyed in Taiwan. So we pick the yarn and ship it to Taiwan. The Japanese have the best zippers and buttons, but they manufacture them mostly in China. Okay, so we go to YKK, a big Japanese manufacturer, and we order the right zippers from their Chinese plants. Then we determine that... the best place to make the garments is Thailand. So we ship everything there. ... We're not asking which country can do the best job overall. Instead, we're pulling apart the value chain and optimizing each step – and we're doing it globally. ...If you talk to the big global consumer-products companies, they are all moving in this direction – toward being best on a global scale.'*<sup>38</sup>

In the typical preferential trade agreement, however, a developing country can satisfy the requirements of rules of origin by using fabrics from the rich country that grants the preferences. For example, under the EBA, if an African LDC imports fabrics from the European Union, it will achieve both quota-free and duty-free access to the European market. The same holds true for the US market. As such, agreements that are supposed to benefit poor countries actually serve to promote the production of textiles in rich countries, to the detriment of the developing world as a whole.

If rich countries really want to assist poor countries in developing more sophisticated industries, the best way to intervene is through financial or technical support, rather than through opaque trade instruments which have the perverse effect of blocking LDC exports. Bangladesh's success in building backward and forward linkages from the clothing industry was arguably as much due to supportive government policy as to quota protection. From 1993 to 2002, the textile industry received a 25 per cent cash subsidy, which has slowly been reduced to 15 per cent in 2004. This subsidy was key to developing backward linkages in Bangladesh. There are also market incentives to produce fabrics domestically, for example in order to reduce lead-time, which are becoming increasingly important.

## Denying preferences to the poorest countries

Ironically, the rules of origin requirements described above hit the very poorest countries hardest. The smaller and poorer a country is, the less able it is to establish a supporting textile industry that would enable it to meet the conditions to get duty-free access to rich-country markets. These countries are therefore penalised by ‘missing preferences’ to an even greater degree than the average developing country. As Table 2 shows, several of the world’s poorest countries miss out on more than half of the preferences they should be eligible for under the EU’s ‘Everything But Arms’ initiative.

**Table 2. ‘Missing Preferences’: LDC exports face tariffs upon entry to the EU market despite EBA eligibility (2001)**

	Exports to the EU listed under EBA (€ 1000s)	Eligible exports that actually entered duty-free (€ 1000s)	Missing preferences: per cent of EBA products failing to enter duty-free
Afghanistan	5,705	307	94.6
Maldives	37,152	9,732	73.8
Cambodia	477,700	171,685	64.0
Bangladesh	3,265,831	1,637,514	49.9
Laos	133,872	78,878	41.1

Source: Brenton (2003) p. 31. Figures cover all products, not just garments

As mentioned earlier, clothing producers in South Asia can use a certain proportion of inputs from other South Asian countries in their production (so-called ‘regional cumulation’), without losing preferential access to rich-country markets. Rules of origin within the EU Generalised System of Preferences (GSP) allow similar regional cumulation of inputs to occur within the groupings of Central America and Mexico, the Andean Community, and East Asia. However, there is no development rationale for promoting *regional* rather than *global* cumulation. Sri Lanka, for example, which uses a lot of Indonesian fabrics in its garment production, incurs a penalty for doing so; it would receive tariff reductions if it used the same fabrics imported from India. There is no economic or development logic for discouraging trade between Indonesia and Sri Lanka in this fashion.

While regional cumulation is a flawed trade instrument, some exporters do not even have this option. The EU’s ‘Everything But Arms’ initiative, which draws upon EU GSP rules of origin, makes no provision for regional cumulation in Africa. This forces exporters of garments containing inputs from other countries to access the EU market under the Cotonou Agreement (which has more liberal rules-

of-origin requirements), even though in other respects it is a less favourable arrangement than EBA.

The USA's African Growth and Opportunity Act (AGOA) also contains imperfect rules on cumulation. The act stipulates that apparel exported from African countries to the USA must use either US or African fabrics to qualify for AGOA benefits, notably discriminating against fabrics produced in Asia. One recent study estimates that Mauritius would have seen its total exports increase by 36 per cent between 2001 and 2004 under AGOA, rather than 5 per cent, had restrictive rules of origin not been in place.<sup>39</sup> Although a so-called 'third-country fabric provision' relaxes this rule for less-developed AGOA beneficiaries (i.e. LDCs along with other poor developing countries), allowing them to source fabrics globally, this is only a temporary provision and it needs repeated renewal. Also, it is applicable only to a certain quantity of exports – beyond this ceiling, the standard provisions apply.

## A 'spaghetti bowl' of rules

The complexity of current rules of origin adds strength to the argument that rich countries are exploiting them as protectionist tools, rather than using them in good faith. Rules of origin are not based on logical principles, but on political expediency. Thus, the USA has different rules of origin for different trade agreements, such that the criteria for a garment to be classified as 'Made in Malawi' is not the same as for 'Made in India'; it also has different rules for different products even within individual trade agreements. Likewise the EU has different rules for different trading partners, often quite different from those of the USA. As economist Jagdish Bhagwati puts it, this complexity creates a 'spaghetti-bowl effect' of regulations.<sup>40</sup> In addition, the provisions within any single trade agreement may be extremely intricate: the rules of origin in the recent USA-Singapore Free Trade Agreement, for example, run to more than 240 pages of detail. With such complexity, it is hard for developing countries to be involved in the determination of these rules, and in practice they rarely are.

Complexity is a heavy burden on producers, who have to make decisions about which imports to use in the face of often quite different rules for different markets. Administrative costs are another problem. Exporters have to provide documentation on the location of a good's production, the number of machines used, the workers employed, and the production process used; manufacturers have to submit to on-site visits and inspections to verify the documentation. Even in relatively well-off countries, the administrative costs can be high: approximately 3 per cent of the total value of the product.<sup>41</sup> In poorer countries, they are likely to be much higher. It is a paradox that rules which are supposed to encourage the economic development of the poorest countries may actually

deter investment through their complexity. Simpler rules of origin would require less documentary proof and therefore place less of a burden upon LDC exporters, helping these countries to realise greater benefits from trade preferences.

**Box 4. How rich countries measure up to their Doha promise on duty-free and quota-free access for LDC goods: a summary**

**United States: not good enough**

- The USA's Generalised System of Preferences, the primary vehicle for allowing developing countries' exports preferential access to the US market, excludes almost all textile and clothing products, even from LDCs.
- AGOA provides African countries with preferential access in textiles and clothing, but with unreasonably demanding rules of origin.
- There is no provision equivalent to AGOA for Asian LDCs, arguably because the USA fears competition in textiles and clothing from these countries.

**European Union: nice promises, but there's a catch...**

- The 'Everything But Arms' initiative ostensibly offers duty-free and quota-free access for all exports from Least Developed Countries. However, several countries lose more than half of their preferences because of inability to comply with strict rules of origin.
- A 'two stage' processing requirement (yarns to fabrics, fabrics to apparel) in EU GSP discriminates against small developing countries which lack sufficient textiles capacity to support their garment industry.
- Cumulation provisions, supposed to relax the rules of origin, have unrealistically high value-added requirements. They are also unnecessarily restrictive in allowing only regional rather than global cumulation, thus discouraging South-South trade.
- The very poorest countries in the world, African LDCs, are the most discriminated against in terms of EBA preferences by rules which discourage global cumulation.

**Canada: well done**

- Of all the rich countries, Canada is the only one to have met its Doha promise on duty-free, quota-free access for LDC textile and clothing exports. Canada's 2003 'Market Access Initiative' requires only that a good be made in LDCs (with no value-added requirement for the final stage of production) or that it adds at least 25 per cent of value in the final stage (but with no double-transformation requirement, and the possibility of using inputs from anywhere in the world).
- The impact of Canada's reforms on LDC exports has been dramatic, as Table 3 illustrates.

**Table 3. Textiles and clothing exports from Bangladesh to Canada**

Commodity/Source	Value (in US\$)		% change
	Jan-Oct 2002	Jan-Oct 2003	
HS 61- Knitted or Crocheted Clothing	41,130,351	75,339,628	83 per cent

and Articles of Apparel			
HS 62 - Woven Clothing and Articles of Apparel	35,628,148	104,758,409	194 per cent
HS 63 - Other Made-Up Textile Articles and Worn Clothing	6,616,032	17,470,230	164 per cent

Source: Canada Trade Statistics, 2004

## 4. Market access: necessary but not sufficient

Reforms to rich countries' policies on textile and garment imports have the potential to yield major benefits to developing countries. However the idea that market access alone will prompt the benefits of export manufacturing to 'trickle down' to workers and their communities has been largely discredited. The trickle-down discourse of trade incorrectly sees good labour standards as an outcome of economic development, rather than a contributing factor towards it. In fact, workers' rights and the enforcement of these rights should be seen as crucial determinants of poverty alleviation.

Enforcement measures become even more urgent in the wake of rapid industry restructuring and increased global competition due to quota phase-out. Southern governments have a critical role to play not only in providing the conditions for business competitiveness, but also in promoting labour rights. Corporations must take responsibility for the workers, factories, and communities from whom they purchase goods, as well as address sourcing practices that undermine labour standards. In this section we complete the analysis by assessing the actions that Southern governments, international organisations, trans-national corporations, and producers and suppliers should take to enhance the contribution of the textile and garment sector to poverty alleviation.

### Workers: at the bottom of the chain

Employment in the textiles and clothing sector is often precarious, as workers are normally hired on short-term contracts, or even with no contract at all. Few jobs in the industry offer sick leave, maternity leave, health insurance, or unemployment schemes. Workers endure long hours in repetitive tasks with excessive targets, just to earn a decent wage. They can become stuck in low-skill, low-pay jobs and be vulnerable to stress and exhaustion.<sup>42</sup>

Why do garment workers not enjoy the fruits of their labour, decent working conditions, and a living wage? In a fast-liberalising world there are many reasons:<sup>43</sup>

- National governments, desperate to attract much-needed foreign investment, offer incentives, including increased labour-market ‘flexibility’ – that is, the denial of fundamental labour rights such as freedom of association, along with the failure to enforce existing legislation.
- Powerful global buyers, whose business model is based on short-term profit maximisation, squeeze the players lower down the supply chain.
- Producers use cheap labour as their primary competitive advantage, actively discouraging workers from organising.
- Lending agencies such as the IMF and World Bank insist on labour-market flexibility as a part of their lending policy.
- Young women and migrants, who constitute a majority of the ‘flexible, obedient, pliant’ workforce, are often not aware of their rights and are highly vulnerable to exploitation (notably including sexual exploitation).

## More squeezing due to MFA phase-out

The rapidity of back-loaded quota phase-out will exacerbate the pressure on workers. Big brands and retailers wield enormous power and have used it to make massive profits from the industry. With the removal of quotas and the opening of markets, these corporations will gain greater freedom to shift production whenever and wherever they choose. Situated comfortably at the top of the supply chain, in the post-quota world they will be more able to maximise short-term profits with even less regard for workers’ welfare. This has happened already in a number of textile and clothing categories in which quotas have been lifted: production has shifted rapidly between factories and countries, leaving a trail of anguish in former host communities and among factory workers. Similarly, corporations can and will use their increased potential to shift production as a threatening device to squeeze those further down the supply chain. All of this will lead to downward pressure on prices and increased demand for shorter lead-times and better quality; invariably, these demands will be passed on to the weakest link in the supply chain: the worker.

## Taking a pro-active development stance: national government

Trade preferences are not enough to make the garment industry flourish or to ensure poverty reduction in a given country. Governments in garment-exporting countries have a responsibility to make trade work for people in poverty by improving labour standards and by increasing national competitiveness.

In the short run, as MFA phase-out accelerates, governments must take measures to mitigate the adverse impact on workers and small- and medium-sized enterprises. They can do this by putting in place the following measures:

- legislative amendments and streamlined procedures to ensure that workers who lose jobs are adequately compensated by their employers;
- multi-stakeholder national MFA 'watch committees' which monitor industry restructuring, with a special focus on small- and medium-sized enterprises and workers;
- social support and re-training programmes, and job-bank facilities to help displaced workers find employment.

In the long run, Southern governments must consider the business environment needed to promote the competitiveness of the garment industry, such that this promotes the sustainable economic and social development of the nation. They should particularly concentrate their efforts on helping producers to move up the value chain, and improve their marketing. Progress towards transparent, predictable, and accessible legal institutions, and efficient customs administrations with minimal corruption are essential to attract investment. Improved roads, ports, rail networks, and airports, and access to reliable sources of energy, water, and telecommunications are also vital. On the labour side, an important long-term measure is to institute permanent tripartite national consultation bodies which meet regularly to address core labour-standard issues.<sup>44</sup> All efforts to raise labour standards must also be supported by increased investment and capacity building for labour ministries and tribunals.

## **Corporate social responsibility: brands, retailers and suppliers must match their words with action**

As emphasised by Oxfam's recent report *Trading Away Our Rights*, buyers (i.e. retailers and brands) have a crucial role to play in improving labour standards and practices. In particular, the report emphasises that buyers should recognise the detrimental effect their sourcing strategies have on employment conditions. Consequently, they should integrate respect for labour rights into their business strategies and purchasing practices, and thereby influence the way in which producers treat their workers. Such a prescription becomes increasingly urgent due to the expected sudden decline in prices, forced by these corporations, when quotas are removed. Price levels have already come down in a number of clothing categories, and manufacturers in Sri Lanka, which has been recognised for its efforts towards better labour conditions, have noted how this makes compliance more difficult. Furthermore, the effect of quota phase-out on sourcing patterns adds another essential dimension to the

corporate social responsibility of buyers. Corporations must take steps to minimise the impact that shifting their production has on workers and the larger community.

The most desirable outcome is, of course, for corporations to maintain stable, long-term relationships with their suppliers. This would require buyers to see that investment in factories and workers is good business practice and that constantly shifting production in search of short-term profit is not only socially undesirable but also an unsustainable strategy. Moreover, corporations must accept that payment of compensation to displaced workers is an essential aspect of business. They can address this issue in two ways: first, placing compensation for job losses within their corporate codes of conduct; and second, working with suppliers to build up funds such that, if a necessity for retrenchment arises, they can actually provide this compensation. Buyers should not see these steps as simple philanthropy; widespread retrenchment of workers will damage their reputation and ultimately hurt business.

### **Case study: post-MFA business prospects and labour protection in Sri Lanka**

The clothing industry was one of the few sectors to thrive during the civil war that plagued Sri Lanka for twenty years. MFA restrictions on international competitors gave Sri Lanka a relative advantage, while industry characteristics such as quick return on investment and low barriers to exit made Sri Lanka suitable, despite its instability. Workers, mainly young women, came in their thousands from remote parts of Sri Lanka to work in the industry. Now the industry employs about 340,000 workers directly (more than 85 per cent of whom are women), and twice as many indirectly. Total employment created by the garment industry amounts to 15 per cent of Sri Lanka's workforce. Yet, even two decades after the country's first entry into international markets, the full development potential of the industry has been unfulfilled.

To be clear, Sri Lanka has not been selected because its employment conditions are worse than those of other developing countries. It does not have the worst conditions in the world by any means. In fact, in recognition of its relatively good labour legislation and its commitment to working towards the enforcement of core labour standards, the country has recently obtained extra tariff concessions under the EU GSP. It is one of the only two countries in the world to have been so recognised. Yet conditions vary according to a number of criteria including management capacity and are harsh in a number of factories. Even though clothing factories have been a fixture of Sri Lankan industry for twenty years, jobs are still precarious for many women workers. Living away from their families, boarded in squalid quarters and subject to stress and exhaustion, these women bear the hidden cost of employment in the sector. Despite increased

productivity, their wages have not even kept pace with inflation. In many factories workers rarely receive the premium rates due to them for working overtime (if they receive *any* overtime pay).<sup>45</sup> Health and safety standards are poor; for example, occupation-health law in Sri Lanka does not recognise respiratory diseases inflicted by inhaling fabric lint, which affects thousands of workers.<sup>46</sup> Obstacles to organising in the sector still persist, as highlighted in a recent report by the International Confederation of Free Trade Unions.<sup>47</sup>

Under these circumstances, prospects for workers after MFA quota phase-out are bleak. Over 100,000 are expected to lose jobs and increased price pressures will translate into poor employment conditions. The large number of retrenched workers with no alternative skills will suppress the already low wages and benefits in the industry for years to come. The women workers who lose their jobs will have few savings, poorer health, and few alternative sources of employment, while returning to their towns or villages of origin will be difficult. In Sri Lankan newspapers, it is not uncommon to see marriage advertisements which say '*Garment women, please do not reply*'.<sup>48</sup> With such heavy costs, it is possible that retrenched workers will find themselves worse off at the end of their employment than at the beginning.

Oxfam in Sri Lanka works with trade unions, labour NGOs, and other support institutions to campaign for measures which would ensure that the industry benefits people in poverty. This means calling not only for more jobs, but also for better-quality jobs for women workers. These jobs must meet internationally recognised labour standards, include a living wage, and must respect workers' right to organise. In order to achieve this, Oxfam promotes multi-stakeholder interactions in both the local and international arenas, and has initiated dialogues in Sri Lanka with industry and the government. Such initiatives are all the more important, given the threat that MFA phase-out poses to the country's garment industry. In this context Oxfam calls internationally for more market access for Sri Lankan exports, while supporting campaigns for living wages and freedom of association at the local level. As a precaution against the adverse impact of phase-out, Oxfam also argues for a comprehensive compensation scheme, enforcement of labour laws, and responsible sourcing. It is vital to raise awareness of these issues before it is too late.

### **Case study: assistance for displaced workers in the USA**

The domestic textile and apparel industry in the USA has been one of the losing sectors in recent rounds of trade liberalisation, with plant closures in southern US states, such as Virginia and the Carolinas, being particularly painful for rural communities.

Under American law, US workers who lose their jobs due to trade agreements are entitled to Trade Adjustment Assistance (TAA). This assistance includes re-employment services, training, income support, job search, and relocation allowances. This support is vital to ensure that the gains to the USA from trade liberalisation are used to compensate those who lose out.

However, only a fraction of eligible workers have benefited from the programmes, and many critics argue that they are poorly designed and do not offer real assistance. For example, although employers are obliged to provide affected workers with information and instructions on obtaining TAA, almost 70 per cent of job losses reported to the state of North Carolina were not followed by an application for TAA benefits.<sup>49</sup> Furthermore, TAA itself is underfunded, overly bureaucratic, and unresponsive to job seekers' real needs.<sup>50</sup> The programme should be improved by setting up local reception centres in affected areas and eliminating the red tape involved, so that displaced workers get immediate assistance rather than undergoing a 90 day to 180 day review process. Assistance levels should be raised and extended in duration, while the current wage insurance programme, which temporarily supplements the earnings of a worker who has found a new, but lower-paid, job, should be expanded.

TAA alone cannot provide a lasting solution; training and transition packages cannot help if there are too few jobs available. More good-quality jobs are needed, and this will require significant public investment for regional development. Initiatives like the Economic Revitalization Zones, which target economically depressed regions in order to build infrastructure and attract investment (the Mississippi Delta has been scheduled to receive \$40 million over ten years) can offer valuable lessons. Regional investments should be directed towards job-creating public works and infrastructure development, as well as skill-training both for current workers and also for the next generation.

## 5. Policy recommendations

World trade has great potential to reduce poverty, and textiles and clothing, the largest industrial sector of developing countries, can clearly play a role in this. However, rich countries have long discriminated against developing countries' textile and clothing exports, denying these countries billions of dollars in lost export earnings and millions of jobs. Although import quotas are being lifted, other protectionist barriers remain and others may be erected. The abrupt lifting of quotas has also left several countries, that previously benefited from restrictions on their competitors, in considerable difficulty. Oxfam therefore calls for the following measures:

### By Northern countries:

- **Reductions in tariffs:** in the context of WTO negotiations on non-agricultural market access, rich countries should reduce their average tariffs on textiles and clothing to the average for manufactured goods (4 per cent) by 2010. They should also urgently eliminate sharp tariff peaks in this sector. This should be done without demanding full reciprocal liberalisation, in line with their Doha commitments.
- **No unfair use of non-tariff barriers:** safeguards, anti-dumping measures, and anti-subsidy measures in the WTO system should be reformed to make them more transparent and to prohibit their exploitation for protectionist purposes. Safeguard measures in agreements signed when countries join the WTO should not be abused.
- **Fair rules of origin in the EU, as adopted in Canada's recent Market Access Initiative:** LDC exports should obtain duty-free access to the EU, provided they have had value added in the exporting LDC equal to at least 25 per cent of the good's final value, *or* been manufactured from LDC inputs. The double-transformation requirement for apparel to count as originating (yarns to fabrics, fabrics to apparel) should be relaxed to just single transformation (fabrics to apparel).
- **Trade concessions for developing countries that are highly clothing-dependent and vulnerable to quota phase-out, but do not receive LDC preferences:** developing countries not classified as LDCs, but earning more than 50 per cent of total export revenue from this sector, should be granted preferences for their textile and clothing exports equivalent to those offered to LDCs, at least until 2010. These should include the same rules of origin recommended for LDCs.
- **Inclusion of textiles and clothing in the USA's GSP system:**

this should be done immediately for LDCs in particular, in order to respect the Doha promise of duty-free, quota-free market access.

- **Increased financial aid and restructuring assistance for all countries which will suffer losses due to quota phase-out:** this should be given both by individual countries in the North and also by multilateral agencies such as the World Bank.
- **Increased trade-related adjustment assistance for Northern workers displaced by quota phase-out:** this should include greater help with retraining and job-searching.

**By Southern governments:**

- **Labour legislation in line with ILO standards, including freedom of association, accompanied by rigorous enforcement mechanisms:** in particular for countries expecting to lose jobs due to quota-phase out, ensuring that displaced workers who lose jobs are adequately compensated.
- **Adjustment monitoring and assistance for displaced workers:** multi-stakeholder national 'watch committees' should be established to monitor industry restructuring. Retraining programmes and job-bank facilities should also be set up.
- **Competitive industrial policy:** governments should provide improved legal institutions and efficient customs administrations to facilitate investment, as well as better infrastructure for transport and other day to day business needs.

**By brands and retailers:**

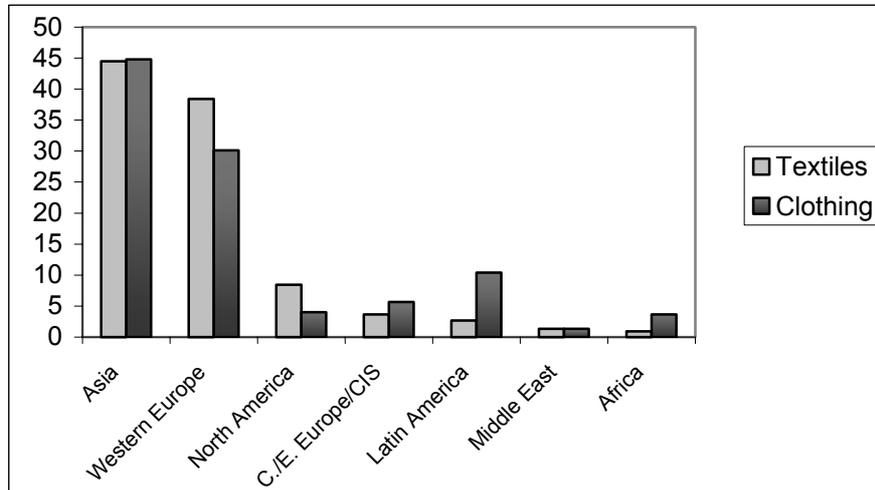
- **Adoption of responsible purchasing practices which integrate respect for labour standards at all times.**
- **Particular attention to workers' needs during MFA transition:**
  - Giving sufficient notice in cases of retrenchment for workers' rights to be respected.
  - Including compensation in Corporate Codes of Conduct.
  - Working with suppliers to develop reserve funds to compensate retrenched workers.

**By producers and factory managers:**

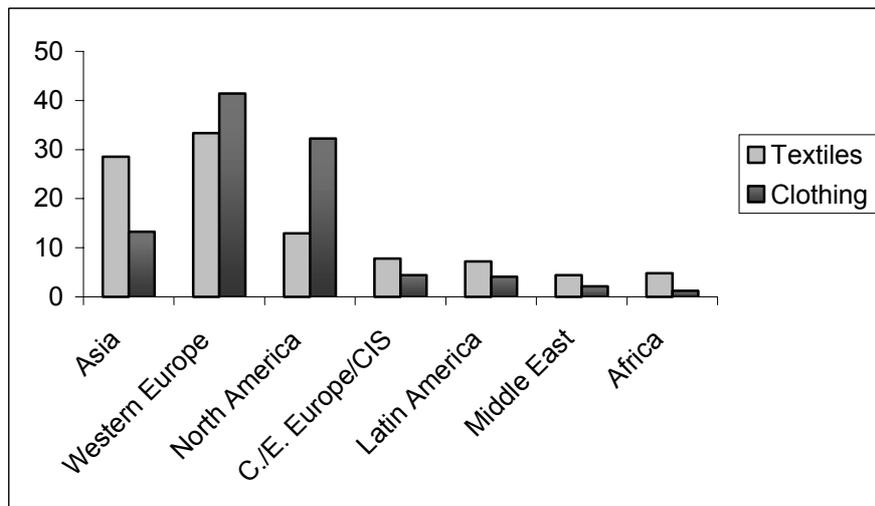
- **Respect for workers' rights:** including the right to organise and also, particularly in the context of MFA-related transition, the provision of adequate notice periods and the payment of all dues to displaced workers.

## Appendix

**Figure A1. Regional shares (%) in global trade in textiles and clothing: exports**



**Figure A2. Regional shares (%) in global trade in textiles and clothing: imports**



**Source:** Charts IV.11 and IV.12, 'Regional Shares in World Trade in Textiles, 2002' and 'Regional Shares in World Trade in Clothing, 2002', [www.wto.org/english/res\\_e/statis\\_e/its2003\\_e/its03\\_bysector\\_e.htm](http://www.wto.org/english/res_e/statis_e/its2003_e/its03_bysector_e.htm)

**Table A1. Apparel and textiles as a percentage of national merchandise exports, top 25 countries (2001)**

	percent		
	apparel	textiles	total
World	3.3	2.5	5.7
1 Bangladesh	78.3	7.6	85.8
2 Macao, China	72.3	12.1	84.4
3 Cambodia b	72.5	-	72.5
4 Pakistan	23.1	49.0	72.1
5 El Salvador a	60.2	-	60.2
6 Mauritius	56.6	-	56.6
7 Sri Lanka	49.8	4.5	54.3
8 Dominican Republic a, b	50.9	-	50.9
9 Nepal	26.0	22.7	48.7
10 Tunisia	39.4	3.0	42.4
11 Honduras	41.3	-	41.3
12 Morocco a	32.9	2.0	34.9
13 Turkey	21.2	12.5	33.8
14 India	14.2	13.9	28.1
15 TFYR Macedonia	27.3	-	27.3
16 Romania	24.4	2.0	26.4
17 China a	13.8	6.3	20.1
18 Hong Kong, China	12.3	6.4	18.7
19 Lithuania	11.4	4.5	15.9
20 Bulgaria	15.5	-	15.5
21 Indonesia	8.0	5.7	13.7
22 Jordan	12.9	-	12.9
23 Egypt	5.8	7.0	12.8
24 Croatia	10.5	1.8	12.4
25 Jamaica	11.5	-	11.5

a Includes significant exports from processing zones.

b Includes Secretariat estimates.

Source: World Bank, cited in Applebaum (2003), p.20.

**Table A2. US import of apparel and clothing accessories (\$ 1000s)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>China</b>	8,482,711	8,866,405	9,565,374	11,381,380
<b>Mexico</b>	8,731,157	8,128,410	7,732,961	7,199,284
<b>Hong Kong</b>	4,587,416	4,309,082	3,959,854	3,784,813
<b>Honduras</b>	2,417,032	2,438,651	2,504,241	2,568,288
<b>Vietnam</b>	47,427	48,174	900,473	2,380,250
<b>Indonesia</b>	2,191,295	2,356,095	2,155,974	2,235,540
<b>India</b>	2,001,586	1,933,880	2,063,938	2,155,890
<b>Thailand</b>	2,136,376	2,151,631	2,102,198	2,155,877
<b>Dominican Rep</b>	2,450,548	2,282,272	2,177,300	2,134,318
<b>Korea</b>	2,462,629	2,355,567	2,207,582	1,926,488
<b>Philippines</b>	1,927,604	1,920,394	1,839,829	1,874,453
<b>Bangladesh</b>	2,117,791	2,103,514	1,885,638	1,849,038
<b>Guatemala</b>	1,502,500	1,630,998	1,676,347	1,782,924
<b>Italy</b>	1,738,150	1,747,346	1,686,704	1,776,091
<b>Canada</b>	1,911,773	1,765,495	1,799,924	1,741,016
<b>Subtotal :</b>	44,705,994	44,037,914	44,258,336	46,945,651
<b>All other:</b>	19,590,278	19,823,801	19,551,220	21,216,497
<b>Total</b>	<b>64,296,271</b>	<b>63,861,715</b>	<b>63,809,556</b>	<b>68,162,148</b>

## Notes

- <sup>1</sup> 2002 data, World Trade Organisation, [www.wto.org/english/res\\_e/statis\\_e/its2003\\_e/its03\\_bysector\\_e.htm](http://www.wto.org/english/res_e/statis_e/its2003_e/its03_bysector_e.htm), tables IV. 56 and IV.64 (last checked 23 March 2004).
- <sup>2</sup> Data on share of apparel trade accruing to developing countries given for 2000; may be even higher now. Applebaum (2003), p.15.
- <sup>3</sup> According to Paul-Majumder and Begum p.16, female garment workers in Bangladesh provide 46 per cent of their total family income. Moreover, 23 per cent of unmarried garment workers (both male and female) constitute their families' primary source of income. Paul-Majumder and Begum (2000) p.16.
- <sup>4</sup> Begum and Paul-Majumder (2000).
- <sup>5</sup> Paul-Majumder and Begum (2000), Paul-Majumder and Zohir (1996), Amin and Hewitt (2000).
- <sup>6</sup> For further discussion, see Begum and Paul-Majumder (2000) and Zohir and Paul-Majumder (1996).
- <sup>7</sup> Zohir and Paul-Majumder (1996).
- <sup>8</sup> See Zohir and Paul-Majumder (1996), Amin and Hewitt (2000).
- <sup>9</sup> IMF-World Bank (2002), p.43.
- <sup>10</sup> Letters from the USA, EU and Canada to the WTO Textiles Monitoring Body are reproduced on the International Textile and Clothing Bureau's website, [www.itcb.org/Documents/ITCB-MI40.pdf](http://www.itcb.org/Documents/ITCB-MI40.pdf) (last checked 29 March 2004).
- <sup>11</sup> This was such a fundamental aspect of the ATC that it was enshrined in a four-stage process: by 1 January 1995, members had to integrate products representing not less than 16 per cent of the total volume of 1990 imports; by 1 January 1998 and 2002, a further 17 per cent and 18 per cent (at least) respectively, and by 1 January 2005, all remaining products.
- <sup>12</sup> Sunsonline, 'Textiles and Clothing: Miniscular Integration by US, EC' 19 June 1997, [www.sunsonline.org/trade/areas/industry/06190197.htm](http://www.sunsonline.org/trade/areas/industry/06190197.htm) (last checked 23 March 2004).
- <sup>13</sup> ITCB (2001).
- <sup>14</sup> 'As regards compliance with their ATC obligations, the so-called "restraining" members have proceeded carefully but faithfully with the integration of products under the ATC.' Carlo Trojan, EU Ambassador to the WTO. Source: Trojan (2002).
- <sup>15</sup> Ikenson (2003), p.17.
- <sup>16</sup> Gresser (2002), p.3.
- <sup>17</sup> Ibid, p.11.
- <sup>18</sup> Data on ODA from OECD (Organisation for Economic Co-operation and Development), Development Assistance Committee, 2002, DAC Online, Database, Paris.
- <sup>19</sup> The case mentioned is against Pakistan, described in WTO (2001a), p.65.

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- <sup>20</sup> Business Weekly: 'US Action on China's Textiles Seen As Excessive' [www.china.org.cn/english/BAT/66726.htm](http://www.china.org.cn/english/BAT/66726.htm) (11 June 2003); Xinhua News Agency: 'China Opposes US Textile Quotas' [www.china.org.cn/english/international/80413.htm](http://www.china.org.cn/english/international/80413.htm) (19 November 2003).
- <sup>21</sup> Khan (2003), pp. 5-6.
- <sup>22</sup> This can, for example, be witnessed in the fact that non-quota constrained exports have grown by 339 per cent in the last decade, while quota-constrained exports have grown by 240 per cent. Another piece of evidence comes from Sweden's unilateral lifting of quotas in 1991, and then reimposition in 1995 upon joining the EU: India's garment exports to Sweden almost doubled between 1991 and 1992, then declined again by nearly half between 1994 and 1996. Verma (2004).
- <sup>23</sup> Oxfam International (2002), p.104.
- <sup>24</sup> *Financial Times*, 'EU set to take new US trade spat to WTO' 27 January 2004.
- <sup>25</sup> Francois et al (2000), p.4.
- <sup>26</sup> IMF-World Bank (2002), p.43. Predictions depend considerably on the assumptions made; studies predict global benefits ranging from \$6.5 billion to \$324 billion according to different scenarios of liberalisation in the textile and clothing sector. Applebaum (2002), p.28.
- <sup>27</sup> United States International Trade Commission, [www.usitc.gov](http://www.usitc.gov) (last checked 29 March 2004).
- <sup>28</sup> Applebaum, p.33.
- <sup>29</sup> Statistics on the website of the National Labor Committee for worker and human rights, though dating from the late 1990s, suggest similar patterns: China's hourly wage in the apparel industry is reported as 23¢, while Bangladesh's is just 1¢. Source: [www.nlcnet.org/resources/wages.htm](http://www.nlcnet.org/resources/wages.htm) (last checked 29 March 2004).
- <sup>30</sup> Population data taken from World Bank Data Query; data on proportion in poverty taken from World Bank research on progress towards the MDGS: [www.developmentgoals.org/Goal1.xls](http://www.developmentgoals.org/Goal1.xls). India's GDP per capita was \$2,540 in 2003, putting it in 156<sup>th</sup> place worldwide; China's was \$4,400, putting it in 129<sup>th</sup> place. Source: [www.worldfactsandfigures.com/gdp\\_country\\_desc.php](http://www.worldfactsandfigures.com/gdp_country_desc.php) (last checked 28 March 2004).
- <sup>31</sup> World Bank, 2003, cited in Applebaum p.17.
- <sup>32</sup> Hiller and Trygve (2003).
- <sup>33</sup> A forewarning of things to come was seen during the third stage of phasing out. When synthetic fibre luggage was integrated, China increased its exports in the category by 490 per cent, global prices dropped by 26 per cent, Sri Lanka lost 40 per cent in a year, and three Korean firms located in Sri Lanka closed their factories and fled without fully paying statutory dues or compensation to their employees. Wijmenga and Fernando (2002), p.63.
- <sup>34</sup> WTO (2001b), paragraph 42.
- <sup>35</sup> Brenton (2003), p.13.
- <sup>36</sup> Author's conversations with Paul Brenton (World Bank) and Chris Stevens (Institute of Development Studies, Sussex).
- <sup>37</sup> Bhattacharya and Rahman (a).

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<sup>38</sup> Quoted in Magretta (2002), p.6.

<sup>39</sup> Mattoo et al (2002), p.4 and p.14.

<sup>40</sup> Jagdish Bhagwati and Arvind Panagariya, 'Bilateral Trade Treaties are a Sham', Financial Times, 13 July 2003.

<sup>41</sup> Estevadeordal and Suominen (2003), p.7.

<sup>42</sup> See Oxfam International (2004) for complete coverage.

<sup>43</sup> Ibid.

<sup>44</sup> Core labour standards outlined in the 1998 ILO Declaration on Fundamental Principles and Rights at Work at the ILO's 86<sup>th</sup> Session, Geneva.

<sup>45</sup> Centre for Policy Alternatives (2003).

<sup>46</sup> Ibid.

<sup>47</sup> 'International trade union group whips [Sri] Lanka over bad labour practises,' an ICFTU Report submitted to the WTO. Noted in the Daily Mirror (Sri Lanka), 8 March 2004, p.1.

<sup>48</sup> Centre for Policy Alternatives (2003).

<sup>49</sup> Giermanski and Lodge (2002).

<sup>50</sup> If the TAA budget were divided among all of the eligible displaced workers, each would receive under \$4,000 annually; the average American family pays more than double that for health-care insurance alone.

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This paper was written by Catherine Barber, Balachandiran Gowthaman and Jonathan Rose, with additional material provided by Samar Verma and Beth Williamson. The authors acknowledge particular help from Michael Bailey, Kevin Watkins, Marlies Filbri and many members of Oxfam International's Labour Campaign and South Asia Labour and Trade (SALT) Groups in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues. The text may be freely used for the purposes of campaigning, education, and research, provided that the source is acknowledged in full.

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