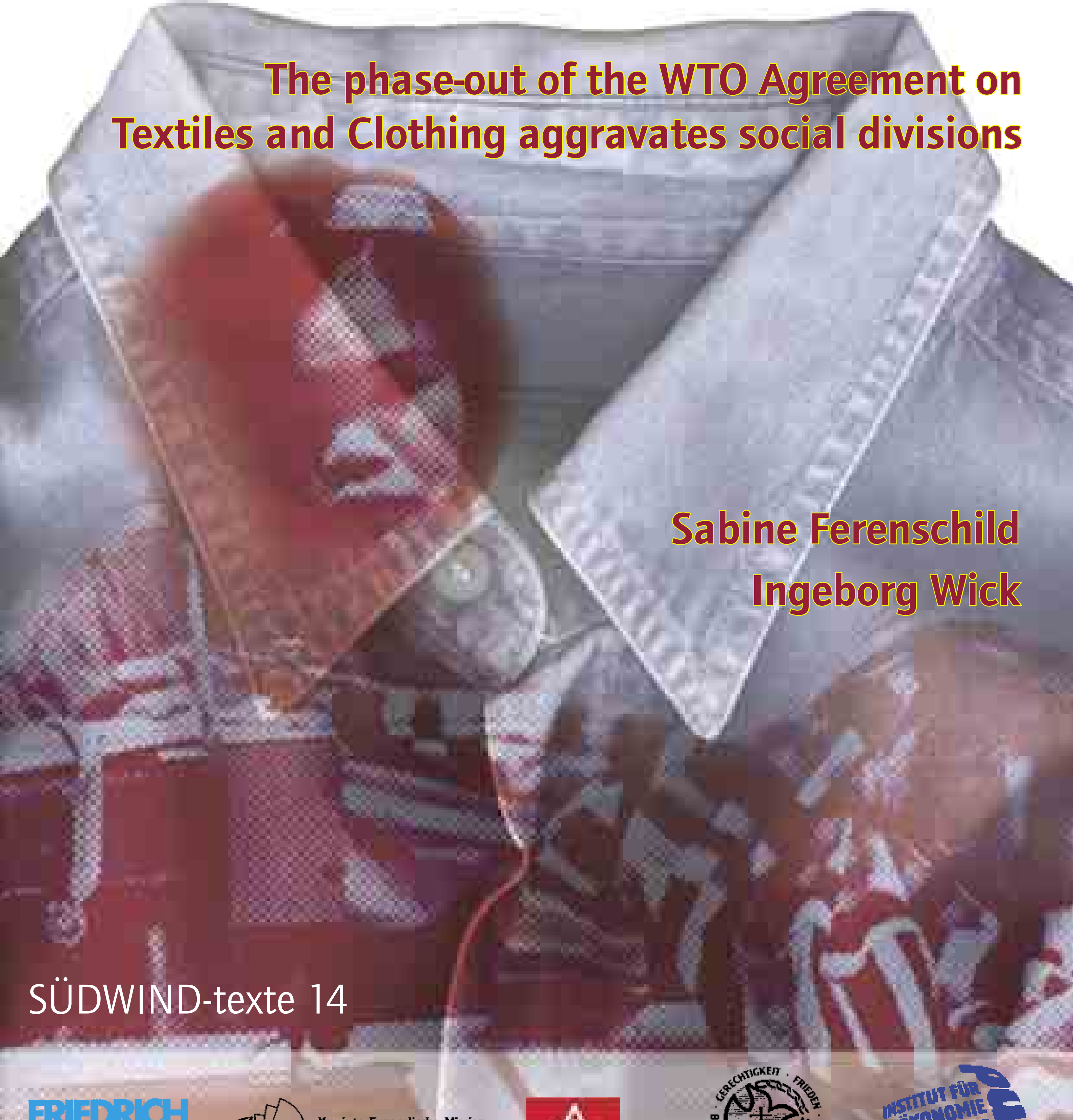
Global game for Cuffs and Collars



The phase-out of the WTO Agreement on Textiles and Clothing aggravates social divisions

Sabine Ferenschild
Ingeborg Wick

SÜDWIND-texte 14

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SÜDWIND Institut für Ökonomie und Ökumene
Lindenstr. 58-60
D 53721 Siegburg/Germany
Phone: + 49-(0)2241-259530
Fax: + 49- (0)2241-51308
e-mail: wick@suedwind-institut.de
website : www.suedwind-institut.de

Ökumenisches Netz Rhein Mosel Saar
Pfarrer-Werner-Mörchenstr. 1
D 56564 Neuwied/Germany
Phone: + 49-(0)263-354140
Fax: + 49-(0)2631-354141
e-mail: oekumenisches-netz@t-online.de
website : www.oekumenisches-netz.de

Authors:

Sabine Ferenschild / Ökumenisches Netz Rhein Mosel Saar
Ingeborg Wick / SÜDWIND Institut für Ökonomie und Ökumene

Translators:

John McLaughlin
Ingeborg Wick

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Frank Zander

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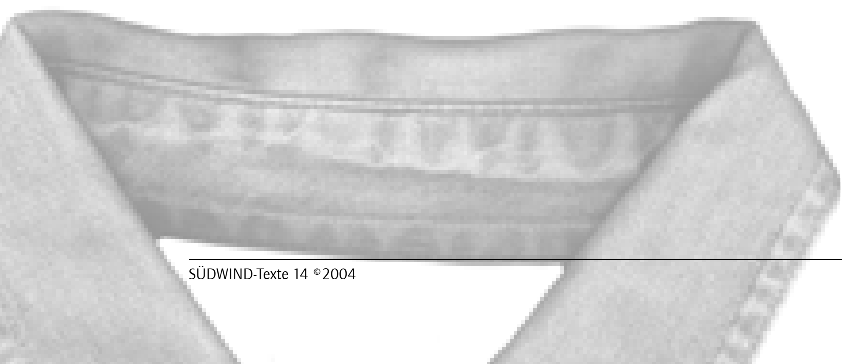


Preface by the Metal Workers' Union

Worldwide implementation of core labour standards

At an international level, the Metal Workers' Union is committed to the reinforcement of human and trade union rights as well as social and ecological minimum standards in international trade organisations and agreements. The aim is for the core labour standards of the International Labour Organisation (ILO) to be observed in all countries. These standards are:

- the right to form free trade unions and to bargain collectively
- the elimination of all forms of forced labour
- the real abolition of child labour
- the removal of discrimination, especially the discrimination of women, in the workplace.

The majority of workers in the worldwide textile and clothing industry are women. They often work in discriminatory working conditions. Their low wages are unable to cover their basic needs. All too often, they have no rights and are subject to arbitrary action. In Export Processing Zones, which are widespread, even the inadequate labour laws of the countries' concerned are not being applied.

In an attempt to change this situation, the Metal Workers' Union, the German Trade Union Federation and the Global Unions have been calling for the past few years for ILO core labour standards to be integrated into the framework of the World Trade Organisation (WTO). Globalisation must acquire a social dimension.

The phase-out of the WTO Agreement on Textiles and Clothing at the end of 2004 will boost the further liberalisation of production and trade, putting many jobs at risk – especially in developing countries. There is a danger of a worldwide increase in social and wage dumping. The European Union has a particular responsibility to do something to change this situation. At a European level, the Metal Workers' Union is therefore working to ensure that social standards are anchored in all international trade agreements.

Free trade must be carried out under fair and social conditions. Hence, the Metal Workers' Union is also a member of the German Round Table on Codes of Conduct overseen by the Ministry of Economic Development and Cooperation. The Round Table seeks to improve labour and social standards in developing countries through the introduction of company codes of conduct. The Global Players, i.e. transnational companies, must not only face up to their responsibility to observe the social standards of their own employees, but also be under an obligation to guarantee the implementation of core labour standards in the factories run by their suppliers and sub-contractors.

It is important that the core labour standards are integrated into the labour laws of supplier countries. International Framework Agreements – another voluntary instrument to enhance the global social responsibility of companies – are also useful, as in the case of Volkswagen, DaimlerChrysler, Hartmann, General Motors Europe and Faber-Castell. They all guarantee social standards, not only in the subsidiaries of these enterprises, but also in the operations of suppliers and sub-contractors. These International Framework Agreements refer explicitly to the core labour standards of the ILO. The Global Players, in particular, must set a good example. That is why the Metal Workers' Union supports the UN Secretary General Kofi Annan's "Global Compact" initiative. Signatories vow to protect universal principles such as human rights, labour standards and the environment. The Guidelines for Multinational Enterprises of the OECD, the organisation of industrialised countries, also promote core labour standards and further social standards.

There is a problem in monitoring the implementation of voluntary agreements. How can transnational companies and their worldwide network of suppliers and subcontractors monitor the actual observance of social standards? This is the challenge facing a broad coalition of trade unions and non-governmental organisations. The Metal Workers' Union is a member of the Clean Clothes Campaign which is working for the implementation of social standards in the worldwide textile and clothing industry. In many parts of the world, trade unions and non-governmental organisations are coming together to force companies to take their social responsibility seriously and to respect labour and human rights in developing countries too.

We know that codes of conduct are only a second-best solution. They cannot be a substitute for effective national labour laws. Since the phase-out of the Agreement on Textiles and Clothing on 31st December 2004 risks aggravating worldwide social divisions, this brochure, in a number of case studies, analyses the possible impacts. It also contains a number of proposals for action which are relevant to our union strategies.

Jürgen Peters	*Kirsten Rölke*	*Wolfgang Rohde*
Chairman	*Member of the Executive Board (Gender-Equality Policy Division)*	*Member of the Executive Board (Economic Policy Division)*

1 Introduction

Every game needs rules. Yet in contrast to the world of games and sports, in which all players are given the same starting chance, the real competitive world of international trade in textiles is rather different. Here, it is particularly the global players, the international corporations and brand-name companies who hold the trump cards. On the global market for textiles and clothing gains and losses are distributed very unfairly. »The textile and clothing sector is one of the sectors, in which the question of fair distribution of profits from trade and globalisation is particularly acute« – the EU Trade Commissioner Pascal Lamy stated before the Conference of the World Trade Organisation (WTO) in the Mexican city of Cancún in autumn 2003.

These weren't merely chance remarks, as the »pack« will be reshuffled at the beginning of 2005 with the beginning of »free trade« in the textile and clothing sector. After a ten-year transition period, the WTO Agreement on Textiles and Clothing (ATC) will run out on 31.12.2004. The new rules of the game will affect many countries, companies and workers.

Even if the struggle for competitiveness by individual countries and companies is now reaching a peak, for the last few decades the most widely varied and, to an extent, competing interest groups have been pulling the trade in textiles and clothing in all directions and been attempting to influence its rules.

→ Businessmen in the South and East are looking for sales opportunities for their products, particularly in industrialised countries.

→ Businessmen in the North are making massive job cuts in favour of more capital intensive production here or cheaper locations in the South and/or East. They are calling, simultaneously, for state protection for endangered business sectors, which, given the »right« circumstances, they would want to maintain in the North.

→ The big retailers and brand-name companies, the global players in this game – increasingly engaged in forcing one another out of business – are dividing up the clothing market among themselves, by taking advantage of the rules that suit them respectively.

→ For several decades, the countries of the South, like those in the North, have been functionalising the textile and clothing industry for the sake of their own development and political strategies.

The many millions workers worldwide – predominantly women – who want to retain, improve or even just find jobs, have, as a rule, been rendered relatively powerless in this conflict of interests. This »game for cuffs and collars« may indeed present them with advantages (e.g. rapid growth in employment in Southern countries), but these are accompanied by growing disadvantages (over-exploitation, informalisation, unemployment etc.) – coupled with a lack of influence on the rules of the game.

For all those, who are interested in the process of neo-liberal globalisation, the global textile and clothing production must simply be a brilliant example of the contradictions in this process:

- On the one hand, the textile and clothing industry is the forerunner in global production and, by now, **»more boundless«** than any other industrial sector due to its geographical dispersion; on the other hand, however, it is the only industry which has had its own restrictive international trade regulations for the last few decades. It stands as an illustration of the fact that **free trade** is not a universally valid demand of leading trading powers, but superimposed by **protectionist measures** on their competitively weak sectors.
- On the one hand, going against the dominant trend of rationalisation, it is, so to speak, an employment miracle (especially in the South and in Eastern Europe), that officially employs 23.6 million workers worldwide, with a further 5–10 times as many informal workers. On the other hand, however, this employment miracle is, at the same time, a negative miracle of **deteriorating working conditions** – a downward social spiral, which still appears to surpass the term »exploitation«.
- The textile and clothing industry is, on the one hand, the out-and-out **»women's industry«**, since 80%–90% of its employees are women and girls. It thereby offers women the chance to have their own income opportunities and liveli-

hood security. On the other hand, the industry's growth strategy depends on the **social discrimination of women** and, as a consequence of this, on their major willingness to accept low qualified, low paid and, often, informal employment opportunities. No wonder, then, that the increase in jobs, hitherto, has not brought with it an increase in the social standing and autonomy of women.

- On the one hand, it is the ideal »start-up« export industry (simple technology, no more than limited requirements for workers' qualifications and little capital intensity), recommended by the North to the poorer countries as a suitable strategy for modernisation. On the other hand – like other export oriented sectors – it leads to the negligence of domestic development and the degradation of the indigenous population as a cheap reservoir of workers for the rich countries.
- The conversion of more and more countries into textile and clothing producers has, over a period of decades, led to a significant growth in the production of textiles and clothing. This growth contributed to **over-production and over-saturation** in the three major markets – the USA, the EU and Japan, while insufficient amounts of clothing are available to people throughout the world. The acceleration of fashion cycles functions as an instrument to raise consumption in the most important, over-saturated markets and keep them profitable.

Is it surprising, then, that in the face of these competing interests, the textile and clothing industry became an international political football and still is one? Through numerous international trade agreements, the highly industrialised countries, in recent decades, have attempted to protect their industries against »cheap competition« from the South – although the same countries are simultaneously propagating free trade and global liberalisation as well as pushing them through in many areas. The »protection« of their own textile and clothing industries thus became ever more untenable and will draw to a close at the end of 2004 with the termination of the WTO Agreement on Textiles and Clothing.

Yet, shortly before the end of the ATC it is becoming evident that this agreement is not only to be understood as an instrument to protect textile and clothing production in the industrialised countries. For in the »shadow« of this agreement, some »developing« countries were able to build up their own industry. A more detailed view of the regulation up to now and the future liberalisation of the textile and clothing trade is therefore appropriate, if we are to be able to judge:

→ Who will be the winners and who will be the losers of the post 2004 liberalisation?

→ Can we identify the factors that have a significant influence on the development of the textile and clothing industry?

→ What effects can we expect the phase-out of quotas to have on the allocation of jobs along gender lines and on working conditions?

→ What strategies are currently being discussed as »survival strategies« for national textile and clothing industries?

→ What strategies could be introduced to support the interests of the workers worldwide in the textile and clothing industry?

→ Does an examination of the textile and clothing industry allow us to draw conclusions for an »alternative« globalisation?

This brochure seeks to find some answers to these questions. The first section outlines the political and economic context of the textile and clothing industry, and then, through a number of country examples in the following section, will explore the actual impact of the regulations and free trade respectively. The final section considers the differing strategies that are currently being proposed for the »post 2004 epoch« and attempts to make its own distinctive contribution to the debate.

For several years, the publishers – the SÜDWIND Institute and the Ökumenische Netz (Ecumenical Network) Rhein Mosel Saar – have been campaigning as part of the Clean Clothes Campaign for social standards in the global garment industry. This commitment expresses the option for the creation of a humane world and forms the background against which this brochure has been created.

2 Between protectionism and free trade

Free trade and growth – these have been the dogmas of global economic policy since the end of the second World War: free trade and growth would guarantee the prosperity of industrialised countries (or rebuild them after the destruction of World War II) and simultaneously leave the door open for »underdeveloped« countries in the »Third World« to catch up in the industrialisation process. No wonder that among the industrialised countries it was the USA that advocated this course, since, in the 50s, the USA accounted for 50% of world production: The USA, therefore, »had nothing to fear from free trade and everything to gain.«[1]

The textile and clothing industry (TCI) was one of the first sectors to question the premises of free trade: shortly after the launch of free trade through the General Agreement on Tariffs and Trade (GATT) in 1948, the USA already began protecting itself against cheap clothing imports from the Far East.

Women workers in the darning section, yarn factory Feodor & Moritz Meyer shortly after 1900. (Deutschland Städtebau. Aachen. DARI Deutscher Architektur- und Industrieverlag Berlin-Halensee 1925, p. 259)

2.1 A look back at 50 years of trade in textiles and clothing

A new start for trade: GATT

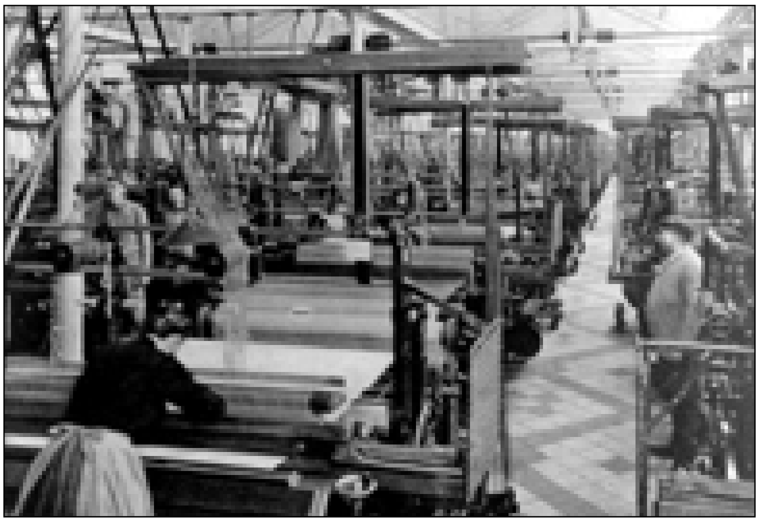
GATT, adopted by 23 nations in 1947, was intended to be an important tool in promoting free trade[2]. During the very early stages of GATT, the extreme trade protectionism that had dominated the post world economic depression period at the end of the 1920s was, above all, to be dismantled. Hence, after 1948, GATT served as the framework for the step-by-step reduction in tariffs on industrial goods, which in the year GATT was founded, averaged 40–50%. The central GATT rules required of its member countries:

- → **Trade liberalisation:** the prohibition of quantitative restrictions, dumping and export subsidies and the step-by-step dismantling of tariffs.
- → **Non-discrimination:** this included the prohibition of discrimination, in other words, legally equal treatment for domestic and foreign goods, as well as the most favoured nation clause, i.e. preferences must be granted on an equal basis to all trade partners.
- → **Reciprocity:** the principle of mutuality in the dismantling of trade barriers.
- → **Special treatment:** allows exception from the rules above.

Special treatment or exceptions to the rule procedures always applied, when during the development phase a specific economic sector had to be protected against excessive disruptions, i.e. competition.

These exceptions to the rule were actually supposed to support poorer countries, but were used mainly by industrialised countries to protect their own economic interests.

In the following years, the trade in textiles and clothing proved to be one single »exceptional case«, for which special rules were always being agreed. Because during the 1950s cheap imports, especially from Japan and Hong Kong, were already putting pressure on the textile and clothing industries in western nations, particularly the USA, and led directly to protective measures being introduced by the governments concerned. So while they were actively pushing for the prohibition of quantitative restrictions (i.e. quotas) in world trade within GATT – they were negotiating fixed-period agreements (at first voluntary) with Asian competitors on the restriction of textile and clothing exports to the USA and Great Britain. Then, in the 1960s, through the Cotton Agreement on the regulation of trade in cotton textiles, these were placed on a multilateral footing, initially, for an eleven-year period. The Cotton Agreement allowed importing countries to restrict the growth in exports of their supplier countries to a maximum of 5% annually in cases of »massive trade disruptions«.[3] Thus, a **multilateral framework for bilateral trade restrictions** was established, thereby representing a fundamental breach of GATT principles.



Women weavers in the silk factory A. Weyermann Söhne, Dulken, about 1900. (Stadtarchiv Viersen)

Although these export-restrictive agreements improved the chances of western industries to survive in the short-term, they simultaneously led to a **boost in the internationalisation of the structures of production**. In order, for example, to circumvent the US market's import restrictions, Japanese textile and clothing producers transferred their production to various other Asian countries. The increasing number of producing countries, but also the growing number of materials not covered by the Cotton Agreement, meant that its effects soon petered out.

Nevertheless, the industrialised countries were not prepared to integrate the textile and clothing trade into GATT, which, as part of the tariff reductions rounds in the 1960s and '70s, had made huge strides towards free trade (the Kennedy Round agreed to halving tariffs between 1964 and 1967 in measured steps; the Tokyo Round decided to further reduce this by a third between 1973 and 1979 and to remove non-tariff trade barriers). The European Community states, in particular, exerted great pressure during the early 1970s and called for more comprehensive regulation.

Squaring the circle: The Multi-Fibre Arrangement (1974–1994)

And so the industrialised countries, by pushing through the Multi-Fibre Agreement (MFA), attempted to square the circle: they wanted to contribute to the expansion of trade, to reduce barriers in world trade and bring about the progressive liberalisation of the textile and clothing trade – and at the same time to ensure regulated development and the avoidance of disruptions to individual export and import markets.

The MFA was modelled completely on the Cotton Agreement but, through the introduction of numerous categories, covered a wider range of textile products, integrated the by-now booming production of synthetic fibres and, after 1986, specific plant fibre products. It set up the multilateral framework of bilateral agreements and allowed exporting countries a maximum of 6% annual growth in the categories specified by the importing countries. Yet, importing countries often even managed to dodge this 6% with the help of bilateral agreements and exemption clauses.[4] Developing countries had wanted to push through an annual growth rate of 15%, but failed to achieve this goal.[5] Cases of conflict were dealt with by a supervisory body, the »Textiles Surveillance Body«, which had a monitoring and reporting function. Initially, the MFA was approved for a four-year period, but was then renegotiated – becoming increasingly restrictive – several times and extended to cover new products (1977, 1982, 1986, 1991) so that, in the end, it was in effect for 21 years. At short intervals, often annually, the »complex network of bilateral quotas«[6] was renegotiated. In recent years, »only« six of the MFA members (European Economic Community, Finland, Canada, Norway, Austria and the USA) applied quotas that were almost exclusively intended to act as a protection against imports from developing countries. Switzerland and Japan, also members of the MFA, did not apply any quotas. Sweden dropped all quotas in 1991 and withdrew from the MFA. It did, however, reintroduce quotas when it joined the EU in 1995. In the final year of its operation, 1994, the MFA had 44 members. This was less than half the number of GATT members. But it had impacts for the majority of GATT members with an interest in the textile and clothing trade, China included, which was not one of GATT's contracting partners.

Through the quotas, the MFA contributed to a renewed boost in internationalisation, as more and more producers attempted to circumvent the trade restrictive consequences of the agreement: they either switched to product categories, in which they had not yet filled their quota limit, they relocated their production to a whole new range of countries, or simply altered the labelling of their products to disguise the country of origin.

The consequence: the textile and clothing industry became ***the*** globalised industry with around 160 producing countries, which, primarily were competing against one another for the three major markets of the USA, EU and Japan. In many poorer countries, the TCI developed into the most important industrial sector of all (see **Table 1**). But it wasn't just the expansion of the TCI, but also the nature of its structure that was influenced by the quota system. Thus, the Philippines, for example, abandoned the development of its own cotton and textile industry, since, because of the quotas it was allocated, it was more profitable to expand its clothing production.[7] For the protected industries in the North, the attempts at regulation brought with it massive bursts of surges in rationalisation and relocation, with the aim of increasing competitiveness – to be interpreted as being more of a case of »organised decline« than »organised restructuring« from the workers' point of view. For the »restricted« industries in southern countries, in terms of competitiveness, the regulation represented opportunity and danger simultaneously: opportunity as the quotas also made small countries with unfavourable starting conditions interesting for textile and clothing corporations, guaranteeing, as it were, a certain level of sales and led generally to a large increase in the employment of women; danger, insofar as the system of quotas capped the trading potential of quite a few export countries (maximum quantities!), intensified competition between producing countries – the number of which was rising as a result of the quotas, and thereby contributing to the contest to reduce production costs. The expansion of Export Processing Zones (see 2.2.) and the increase in more insecure »informal« working relationships are a manifestation of this race to the bottom.

In short: over the years, the MFA developed into an increasingly complex instrument that failed to completely satisfy anyone's interests and, apart from that, contradicted GATT rules. Even the large retail stores, which, through falling production costs were profiting from the quotas, were hoping to make even bigger profits from liberalisation, which would allow them, for instance, to streamline their supply chain.

Table 1: Dependency on T&C exports (as share of total manufactured goods exports) of selected countries

(in %)

Bangladesh	95
Laos	93
Macao	89
Cambodiha	83
Pakistan	73
Sri Lanka	71
Nepal	61
Tunesia	46
Morocco	43
Turkey	38
India	30
Romania	27
China	12

Source: EU 2003

Give and take: how the textile and clothing trade entered the WTO

One of the important concerns of the Uruguay GATT Round in the late 1980s and early 1990s, and for many developing countries the most important of all[8], therefore, was the integration of the textile and clothing trade into GATT and its most important principle: non-discrimination among all trading partners. With this in mind, the developing countries in 1984 had already set up the International Textiles and Clothing Bureau (ITCB) with its head office in Geneva. The 23 members[9] set themselves the central goals of:

1. abolishing all discriminatory and protectionist measures, to which developing countries in the textile and clothing sector were exposed;
2. full application of GATT rules in the international textile and clothing sector;

3. supporting members in their negotiations with the important international organisations.

The ITCB participated in the Uruguay Round and the negotiations on the integration of the textile and clothing trade into GATT.

For the industrialised countries it was an ideal time to liberalise the textile and clothing trade, since they had interests in the liberalisation of the service sector and the protection of »intellectual property«, and were prepared to make concessions in order to realise these interests. They gave the developing countries consent for the ending of the MFA and concessions in the agricultural sector as a kind of »sweetener«. In return, they had to agree to the whole package negotiated in the Uruguay Round that led, in 1995, to the foundation of the World Trade Organisation (WTO). It could be said that with the transformation of classical industrialised countries into service societies, their interest in the extension of GATT liberalisation to cover services was greater than in the further protection of their own textile and clothing industries – especially as these, over the decades of international competition, had lost importance in employment policy terms[10].

The developing countries, therefore, accepted the **extension of the character of commodities** to cover services and intellectual property and the progressive liberalisation of these »trade sectors« within the framework of the WTO, and with the Agreement on Textiles and Clothing (ATC) they acquired an instrument, which over a ten-year period was to integrate the ATC into the »new« GATT of 1995. Considering the opportunities for growth and profits, which the new product markets promised the industrialised countries and their industries, »writing off« the textile and clothing countries in the industrialised countries appeared to be an acceptable price to pay for those leading the negotiations. That it took so many years for the Uruguay Round to reach a conclusion, is partly a result of the difficulty in finding compromises in the textile and clothing sector.

»The fight for the Multi-Fibre Arrangement«

»We need a fair chance« was the slogan used by workers in the textile and clothing industry in the 1970s in their fight to protect jobs against the threat posed by cheap imports, especially from the Far East. They believed the Multi-Fibre Arrangement was a vital constituent of this protection. Together with their European colleagues, they demanded a reduction in the annual growth rate granted to exporting countries in the Multi-Fibre Arrangement. This alone, in the opinion of European trade unions, would guarantee the preservation of jobs in Europe. To add weight to their demands, the European textile and clothing trade unions joined forces in 1980 in a one-off campaign: on 2nd December 1980, all machinery in the textile and clothing industry in all the countries that were then members of the European Community came to a standstill for one hour. The workers went on strike together to fight to protect their jobs through an improved Multi-Fibre Arrangement.

(GTB 1991)

The Agreement on Textiles and Clothing: Built-in countdown

In contrast to all other agreements, which were negotiated during the Uruguay Round and which, as a result of the commitment to continuously increasing liberalisation, tend towards the never-ending, the exact end of the ATC is predetermined: on the 31.12.2004, with the termination of the »transitional instrument«, the ATC, the 40-year long endeavours to regulate the textile and clothing trade at a multilateral level will come to an end. The industrialised countries had negotiated a ten-year phase-out period for these »endeavours«, in the course of which there was to be a stage-by-stage dismantling of quotas. What was new was the universal fixing of quotas, which have to be fulfilled by importing countries, whereas the MFA was responsible solely for the multilateral framework for bilaterally negotiated quotas, as well as the setting of clear goals, which, at the end of the ten-year period, was to bring about the end of trade restrictive quotas in the textile and clothing trade.

The central regulations of the ATC are[11]:

1. It applies to all yarns, fabrics, textile products and clothing and covers all products, which within the framework of the MFA, were subjected to quotas by at least one importing country[12]. The broad range of products is listed in detail in the Annex to the ATC, with 14 main categories, which in turn have a total of 795 sub-categories.

These include categories such as Category 5601.10 »Tampons«, but also categories such as Category 6203.42 »Men's/boys trousers and shorts, cotton, not knitted« (i.e. including jeans). Partly, the quotas had little trade-restrictive impact on these categories, i.e. the actual level of trade did not reach the level of permitted quotas. But partly, though, the quotas did have a strong trade restrictive impact, i.e. the quotas were utilised to 90% or more by one or more exporting countries. Thus, these countries would presumably have been able to export considerably more than the quotas permitted.

2. The product categories listed in the ATC must be **progressively liberalised up to full elimination of quotas** and thereby integrated into GATT and the general WTO rules. Quotas still remaining must be increased in accordance with a fixed integration scheme (see **Table 2**).

   Which product is to be liberalised at which stage is to be decided by the importing country, the only condition being that the integration list at each stage must contain products from the four sub-categories of yarns, fabrics, textile products and clothing.

3. One specific **safeguard mechanism**, which enables selective protective measures (in contrast with the »non-selective« measures provided for in GATT 1994), is intended to prevent »massive market disruptions« during the transitional period. This means that an importing country can classify a specific product as being a threat to its domestic industry and ascribe this threat to a specific export country. It can then impose special trade barriers on the latter. Until 1998, this protective mechanism was used, above all by the USA and Brazil, but by 2002, the EU had clearly caught up and had initiated anti-dumping proceedings in 174 cases (see country example China, p.23ff.).

4. For the implementation of the ATC, **a supervisory agency**, the Textile Monitoring Body (TMB) was set up, which was to reach consensual decisions. Eleven parties were represented in the TMB: 1. ASEAN, 2. Canada and Norway, 3. Pakistan and China (after its accession to the WTO), 4. EU, 5. Korea and Hong Kong, 6. India and Egypt / Morocco / Tunisia, 7. Japan, 8. Latin America and the Caribbean, 9. USA, 10. Turkey, Switzerland and Bulgaria / Czech Republic / Hungary / Poland/ Romania / Slovakia / Slovenia, 11. Observers from Asia and Africa. The TMB is to be informed of all existing quotas and it reports annually to the WTO Council on Trade in Goods on the implementation of the ATC. The TMB has a reporting and monitoring function, bringing unresolved cases of conflict to the Dispute Settlement Body of the World Trade Organisation.

The ten-year period was intended to be a period of adjustment for importing as well as exporting countries. This intention, however, was counter-

Table 2:
ATC integration scheme for textile and clothing

	Integration*	Growth rate of residual quotas
	(Base: 1990 importvolume)	(Base: Previously agreed growth rates)
Stage I (1 January 1995)	16% (Total: 16%)	16% higher than initial rate (Example: From 3% to 3.48%)
Stage II (1 January 1998)	17% (Total: 33%)	25% increase (Example: From 3.48% to 4.35%)
Stage III (1 January 2001)	18% (Total: 51%)	27% increase (Example: From 4.35% to 5.52%)
End of transition period (1 January 2005)	49% (Total: 100%)	

*Importing countries are free to choose the products that they integrate at each stage, as long as prducts are included from the four groupings tops and yarn, fabrics, made-up textile products, and clothing

(Source: Appelbaum 2003)

Table 3:
Integration after the first two stages 1.1.1995 and 1.1.1998

Integration as percentage of 1990 imports in volume

WTO Member	Stage	Yarns	Fabrics	Made-ups	Clothing	Total
USA	1	8.46	1.65	4.19	1.92	16.21
	2	8.00	2.51	4.54	1.98	17.03
	Total	**16.46**	**4.15**	**8.73**	**3.90**	**33.24**
EU	1	5.41	7.22	3.17	0.40	16.20
	2	10.64	2.25	2.10	2.13	17.11
	Total	**16.04**	**9.47**	**5.27**	**2.53**	**33.31**

(Source: Hyvärinen 2000)

checked by the importing countries' implementation of the ATC. For, through the protracted delays in removing quotas in key categories such as T-shirts, men's shirts, women's blouses, jeans etc., which will be integrated only on 31.12.2004[13], the importing countries prevented the majority of developing countries profiting from the dismantlement of quotas.

Thus, the liberalisation of the EU and the USA, for example, in the clothing sector in the first two stages amounted only to 2.53% and 3.90% of the total 33.31% and 33.24% respectively of liberalised products (see **Table 3**). The liberalisation plan presented by the USA proposed that the lifting of quotas on 70% of imports would take place only at the end of the ten-year period.[14] Thus, after eight and a half years of the ATC, the majority of quotas remained in effect: 851 of the original 932 of the USA, 222 of the original 303 of the EU und 292 of the original 368 of Canada.[15] In this way, the liberalisation gains anticipated by the GATT Secretariat, of around US$100 billion between 1994 and 2005[16] were not experienced by the majority of supplier countries. One consequence is the considerably slower growth in the market share of suppliers restricted by quotas, in contrast to those, which, thanks to bilateral or regional trade agreements, were not subject to quotas.[17] The IMF and World Bank estimate that the deficit resulting from the loss in export receipts in developing countries as a consequence of quotas and tariffs was $US22.3 billion annually.[18] The German Retail Association for External Trade estimates that the consumer spends between 5% and 10% more than they would if their were no quotas.[19] This paradoxical situation can be interpreted in two different ways, which, however, are not mutually exclusive, but presumably represent facets of one and the same reality: on the one hand, the industrial lobby in the EU and the USA, in consideration of the »phase-out of the quota re-

Members of large regional trade zones

AFTA (ASEAN Free Trade Area): Brunei, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam

AGOA (= African Growth and Opportunity Act): USA, Sub-Saharan Africa

Andean Trade Preference Act: Columbia, Venezuela, Peru, Ecuador, Bolivia

EU: Benelux, Denmark, Germany, Finland, Greece, Great Britain, Ireland, Italy, Austria, Portugal, Sweden, Spain; Accession countries on 1.5.2004: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Malta, Cyprus)

Mercosur: Brazil, Argentina, Uruguay, Paraguay and Chile and Bolivia as associate members

NAFTA: Canada, USA, Mexico and Chile as associate member. The USA is planning to extend NAFTA to the whole of North and South America (FTAA).

The cost of quotas

The quotas granted by the importing country are »sold« by the government in the exporting countries to companies or trader. This quota price has enormous impacts on the competitive prices as the following comparison demonstrates:

Country	Free on Board (FOB Price)	Quota price	Duty	Freight	Clearance	Price on arrival in USA
China	5.75$	2.50$	1.21$	0.40$	0.15$	10.01$
Mexico	8.13$	0	0	0.15%	0.15$	8.43$

(Source: SOMO 5.2004)

If Mexico and China export clothing to the USA, the piece of Mexican clothing is not subject to quotas or tariffs, as Mexico is a member of NAFTA. China may be able to produce more cheaply, which is demonstrated in the lower Free on Board (FOB) price, but it must pay quota prices and tariffs. The price on arrival in the USA, therefore, is considerably higher than for the equivalent piece of Mexican clothing. After the phase out of quotas, this piece of Chinese clothing, despite tariffs, will be cheaper than the Mexican.

gime« foreseen by the ATC, could, through influencing the composition of the liberalisation plans, put-off the implementation of the ATC.[20] On the other hand, the EU and the USA's restrictive liberalisation plans were able to reveal the acknowledgment – not officially admitted – that free trade benefits only those who are competitive, and in the textile and clothing sector they are only to be found in a few Southern countries, not the industrialised countries – at any rate, not without protective measures. In such a situation, restrictive liberalisation plans could, for a certain amount of time, create new scope for bilateral negotiations. The massive increase in bilateral trade agreements, anyhow, supports the view that the industrialised countries are no longer seeking to push through their interests primarily within the framework of the WTO, but attempting to do this more through bilateral or regional channels.

The tactic of dismantling the majority of quotas only at the end of the ATC, will lead to massive changes in subsequent years. The IMF and the World Bank are even predicting a »shock« at the end of the ten-year period – for developing and industrialised countries.[21] A **concentration of the TCI in a few competitive supplier countries** is a certainty. What is undecided is the extent of this concentration and where exactly this concentration will occur. The country examples in the next chapter deal with these questions. The US Department of Commerce, for example, estimates that the large retail chains will halve the number of their supplier countries as early as 2005/06 and by a further third by 2010.[22] In the major consumer markets, the increased competition will presumably lead to an intensification of the already long evident **reduction in prices**, which will subsequently bring about a deterioration of the terms of trade in supplier countries. The International Textile Garment and Leather Workers Federation (ITGLWF) believes that, as a consequence of quota removal alone and the contingent »unipolar textile world with China at its heart«, one million jobs in Bangladesh could be lost, a further million in Indonesia, several tens of thousands in Sri Lanka and several millions in the producing countries as a whole.[23]

New forms of regulation

Parallel to the multilateral negotiations within the framework of GATT and the WTO, the nation states, above all the USA and the EU, increasingly negotiated regional and bilateral agreements[24]. In a similar way to GATT, they were supposed to simplify trade and not put up barriers.

By the end of 2002, around 250 trade agreements had been registered with the WTO, with a further 70 to come into effect by 2005t[25]. Of the current trade agreements – predominantly free trade agreements and a few tariff unions – 80% are bilateral. Such agreements were often precursors of later trading blocks. Thus, for example, the trade agree-

Adidas supplier factory PT. Tuntex Clothing Indonesia 1998. (Ingeborg Wick)

ment between the USA and Canada constitutes the forerunner of NAFTA. At present, the EU and the USA are pushing through these forms of regulation, as they have great hopes of them offering a better realization of their interests – for example, through the **Generalised System of Preferences (GSP)**. Bilateral trade agreements, to a certain extent, encompass the textile and clothing sector. But there are also other specific bilateral agreements for the textile and clothing sector (see country example EU, p.42ff.). Today, three-quarters of world trade is being transacted through bilateral or regional trade agreements.

An important element of these trade agreements are **tariff reductions**: so, for example, the average US tariff on clothing may range anywhere between 17% and 0% within one trade agreement, depending on whether certain conditions are complied with, particularly, for example, the **rules of origin** laid down in the relevant agreement. The average EU tariff on textiles and clothing of 8.9% is actually only imposed on imports from a few countries, as more than 100 countries have tariff-free access to the EU market. But this, too, only applies where there is compliance with the rules of origin: if less than 51% of the raw materials used in clothing imported into the EU from Bangladesh is of Bangladeshi or EU origin, then the full tariff rate must be paid.[26]

One part within the general trend to lower tariffs is a tariff escalation that is linked to the level of processing: thus, for example, the EU imposed a tariff of 4% on Indian yarns, but a tariff of 14% on Indian clothing.

Following the failed WTO Minster Conference in Cancun in autumn 2003, the USA entered into negotiations with 14 countries on a free trade agreement, alongside the six existing agreements. For several years, the EU has been expanding its network of bilateral trade agreements, rules of origin inclusive, towards ASEAN states and, up to 2005, with the European Mediterranean zone, and takes frequent advantage of its opportunities within the framework of **anti-dumping procedures**. Thus, the EU entered into trade agreements with Egypt, Israel, Malta, Morocco, Tunisia, South Africa and Mexico, established a tariff union with Turkey and took »autonomous measures« against specific countries, i.e. they imposed quotas on Bosnia-Herzegovina, North Korea, Serbia / Montenegro and Taiwan.[27] The Mexican President, Ernesto Zedillo, described the race between the USA and the EU for bilateral trade agreements in recent years as a »strategy of divide and rule«.[28] These developments managed to lead to a growing significance for tariffs in the textile and clothing trade – against the tendency in world trade as a whole, in which the average tariff has fallen to 4%–5% (compared with 40%–50% in 1948). Since tariffs on clothing – undeniably high in comparison with tariffs on other products – amounted to only about one half of the costs brought about by quotas (see box »The cost of the quota«), up to now they haven't played a decisive role in the clothing trade. With the trend towards bilateral, regional or preferential trade agreements, the tariff rate granted to the supplier country concerned could become an important criterion in determining its competitiveness.[29]

The growing number of preferential trade agreements reduces the losses incurred by the supplier countries involved, as a result of the long drawn-out lifting of quotas. Thus, the EU has scrapped quotas on clothing imports from Sri Lanka, Pakistan, the Ukraine and Bosnia-Herzegovina, and, in return, has obtained better market access for EU clothing to these countries. Equivalent negotiations are being held with Thailand and the Philippines.

2.2 The actors

The development in the textile and clothing trade in recent decades is not only the result of the policies of nation states. The strategies of national and international corporations play a decisive role. A closer look at the individual actors in the international clothing business, the corporations, the countries and the workers can, therefore, provide important insights and indications, especially, into what kind of prospects the industry has – still an open question.

The workers – the true producers – may have no significant influence on the shape of production and trading structures, but, because of the labour intensive nature of the industry and its gender relevance, they do play a key role in the internationalisation process. On the question of the future prospects of this sector, they are at the heart of this publication's considerations, for if insufficient attention is given for the particular consequences for the workers, there will be no development in the textile and clothing industry to bring about decent working conditions.

The lean retailers

The textile and clothing industry encompasses the entire gamut of corporations, from the small producers to the transnational corporations, from the small sweatshops to globally operating retail chains. But the trend, above all, in the textile industry is unquestionably towards capital intensive production, in which large companies are becoming increasingly significant. The clothing industry is even more globally distributed and less technologically advanced than the textile industry. For the clothing industry is a »complex of linked handicraft activities«, which witnessed little technological change between the late 19th and late 20th centuries. Thus, while the intensified competition in recent decades in the textile industry has led to the development of labour-saving technologies, in the clothing industry, where sewing and stitching account for around 80% of labour costs, it has contributed to the relocation to countries with lower production costs.

This relocation has taken place in several phases: beginning in the 1950s from West Europe and the USA to Japan, from Japan in the 1970s and 1980s to Hong Kong, Taiwan and South Korea, in the late 1980s and 1990s from there to China, Southeast Asia and Sri Lanka and parallel to this during the 1990s to Mexico and the Caribbean. It would now appear as if out of these various phases of relocation, a picture is emerging of a »regionalisation of globalisation« with three **large regional centres**: **USA** plus Mexico and the Caribbean, **Japan** plus East and Southeast Asia, **Western Europe** plus Eastern Europe and North Africa, whereby the stages of production that are more training and technology intensive are found in these regional centres, while the unskilled and labour intensive production stages have established themselves in market-near regional low-wage countries.[30] This distribution of the different stages of production between industrial and developing countries is a key factor in the continuing importance of the trading and clothing industry in the industrialised countries. It is quite simply not a purely »Third World industry«. It is more a case that the key corporations are located in the industrialised countries.

Above all, the retailers play an important and still growing role – with an impact on the organisation and the global geography of structures of production: in this retailer-driven production chain[31], the major retail and brand-name companies set the tone in a decentralised production network. Without the »ballast« of their own production plants, as »lean retailers or companies without factories«, the large retail houses and chains concentrate a large amount of purchasing power, which gives them an enormous influence on the textile and clothing factories that are predominantly found in southern countries: »Even though the production and the trade in clothing in individual markets may be fragmented, the international buying transactions are still highly concentrated.«[32]

From the outset, internationalisation has been carried out through such things as direct investments and/or through companies transferring their operations to cheaper locations, but mainly through supply relationships. The awarding of subcontracts and licences were, and still are, the main methods used, especially where production centres are market-remote. Thus, 70% of West German clothing companies, for example, were already involved in overseas production in the 1970s, 45% of this through subcontracting, and a further 40% through investments in local partners, above all in Eastern Europe and in Mediterranean countries.

The diverse internationalisation strategies employed by companies lead to conflicting positions on

Watchtower in the Export Processing Zone KBN / Jakarta, Indonesia. (Ingeborg Wick)

the question of »free trade or regulation«. This can be clearly demonstrated in the example of the bilateral trade agreement between the USA and Vietnam, valid until the end of 2004: while Nike, Gap and K-Mart – large clothing retailers, whose production is carried out by suppliers in Vietnam – totally rejected quotas for Vietnamese clothing exports to the USA, the clothing industry producing domestically in the USA criticised the agreed quotas as being far too high.[33]

These differing positions can probably be generalised: while the one side – usually the large retailers from the »three major centres« – wanted quotas to be abolished and simultaneously, through the increasing internationalisation of their supply chains, took advantage of the quota system, companies with their own production in industrialised countries demanded state protection for their production. So, what was actually supposed to be a nationally regulated withdrawal and transitional phase became a regulated profit-maximisation phase up to the end of 2004.

Welfare for the rich: The national competition states

The internationalisation spurts in the textile and clothing trade increased **competition between the nation states involved**. These played a part in the international competition in the textile and clothing industry, by

→ paying subsidies to increase the competitiveness of their own economy,

→ offering financial incentives through setting up Export Processing Zones (see below)[34],

→ awarding guarantees, tax allowances etc to companies experiencing difficulties[35],

→ granting tariff reductions or even tariff exemptions, as part of trade agreements, for imports that were produced using raw materials or semi-finished products from the importing country,

→ negotiating, at an international level, either protective measures for their domestic industry (Multi-Fibre Arrangement, Agreement on Textiles and Clothing) or by advocating free competition, depending on their particular national competition strategy.

Through this, the nation states act(ed) at an international level as »Competition States«[36], whose central motivation is safeguarding the competitiveness of national companies in the global competition. In this process, territoriality and sovereignty of the nation states are fundamentally altered. The more global the national economy is, the greater the territory of national interests. The more refined (and powerful) the international system of regulations, the more restricted (or weaker) the national sovereignty.[37]

Safeguarding competitiveness as the central motivation of national policy has far-reaching consequences for the people. For all areas of society – labour standards, health, education, social security – are increasingly coming under the dictate of competitiveness. This has thrown open the doors to the »race to the bottom«, which manifests itself in the lack of social security in Southern countries and social cutbacks in the supposedly developed countries. Social security, secure jobs and »good« working conditions become »luxury commodities« in times of global competition. Although the »race to the bottom« logic of this process is considerably uneven, it is, nevertheless, something that is becoming increasingly evident. Hopes of astonishing impacts on employment in the service sector or of effective impulses for growth from the hi-tech sectors do appear to indicate another direction and promise economic prosperity for all. Yet, here, too, a look at the developments in the textile and clothing industry could be instructive, especially for those who are interested in the impact of these developments on the people and the workers. Because, in this apparently optimistic sector, too, global competition will lead to a social race to the bottom.

Seamstress in Phnom Penh, Cambodia. (Frank Zander)

The working poor or: the race to the bottom

With quota or without: the internationalisation of clothing production is a contradictory process: it may indeed have reduced the dependence, in many countries, on raw materials and/or agricultural exports and created an impressive number of **formal jobs**, i.e. unlimited, full-time employment with working contracts.[38] Yet, these jobs are, as a rule, **a new[39] old form of overexploitation** – as proven by the many cases which the SÜDWIND institute and the Clean Clothes Campaign have uncovered in their research in recent years.[40] Overexploitation for the predominantly female workforce (80%–90% of all workers) means long working hours with forced overtime, no social security, poor working conditions, non-living wages, sexual harassment in the workplace, no – or poor – protection against unfair dismissal, and virtually no opportunities for workers to organise themselves in unions.

The majority of formal jobs in the clothing industry are found in the so-called Export Processing Zones (EPZ), also described as »special economic zones« or »Maquilas«: just as the »global cities« are described as »denationalised platforms of global capital«[41], so can most of the EPZs be described as the denationalised production plants of global trade, which play a central role in the deterioration of working conditions and – most of them being union-free zones –in the undermining of union power[42]. Their expansion in recent decades and their global distribution clearly demonstrate that they are the key to breaking up formal production structures in so-called »low-wage countries«: although recommended by various UN organisations and the World Bank as long ago as the 1960s as a suitable instrument of export-oriented industrialisation, the boom in EPZs only really began in the 1970s/80s.

The electronics industry as well as the textile and clothing industry dominate production in the EPZs.[43] Correspondingly, up to 70%–90% of workers in the EPZs are women.[44]

Alongside the rapid growth in the number of EPZs in recent years, the systematic combination of informal and formal labour in the textile and clothing production is proof of the »race to the bottom«, which does not end with the overexploitation in formal employment or rising unemployment. It is estimated that a quarter of the world's population of three billion, i.e. around 750 million, are involved in informal work, which is not officially registered, reg-

Table 4:
Export Processing Zones (EPZ)

	Country with EPZs	Number of EPZs	Workers
1975	25	45	550,000
1986	47	176	1.3 million
2002	106	3,000 (2,000 in China)	43 million (30 millions in China)

(Source: Wick 1999, ILO 2003)

ulated or even protected.[45] The fact that the informalisation of work is an »integral component of economic globalisation«[46] is clearly demonstrated by the system of subcontracting in the textile and clothing sector: the acceleration of fashion and supply cycles force the direct suppliers of large retail chains to fulfil their contracts, with the help of informal suppliers (smaller factories, cottage industries, sweatshops). It is now estimated that about one half of all jobs in the clothing industry are covered by this system.[47] The increase in informal work – also in industrialised countries – appears to bear out the notion that it isn't the informal sector that should be described as a transitional phenomenon, but rather the formal sector.[48]

Women, above all, are directly affected in several ways by this race to the bottom. This is not based on coincidence. For, the formal as well as the informal working relationships are built on the foundations of a **patriarchal gender regime**. This incorporates a distribution of labour along gender-specific lines, apportioning »paid« employment to the men, i.e. the productive component of work, and the household and family work to the women, i.e. the reproductive component. According to this, the formal working relationships takes the unpaid household and family work, performed overwhelmingly by women, for granted. Informal work is playing an increasing role in circumstances, where formal work, as a result of increased global competition, is disintegrating, or hasn't even had the opportunity to become a dominant form of employment (as in many Southern countries). Its significance for the textile and clothing production is similarly based on patriarchal gender relationships, since women, as a consequence of their responsibility for the reproductive tasks in the family, are prepared to work »at any price«.

Seamstresses in a market hall in Phnom Penh, Cambodia. (Frank Zander)

Part of the strategy to increase competitiveness, through taking advantage of low wages in other countries is, therefore, the combination of formal and informal work and the inequality of men and women.[49] The search for positive prospects for the textile and clothing sector after the phase out of the ATC, must, therefore, take account of both aspects – the need to guarantee the subsistence of workers, both in the formal and the informal areas, as well as equal status for men and women, and the accompanying restructuring of socially indispensable work.

Endnotes

[1]Altvater 1996, 416.

[2]Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxemburg, Netherlands, New Zealand, Norway, Pakistan, South Rhodesia, Syria, South Africa, Great Britain, USA. The Federal Republic of German joined on 1.10.1951.

[3]Cf. Dicken 2003, 336

[4]Cf. Wick 2000, 23

[5]Cf. Dicken 2003, 338

[6]ATC: A short history, s. www.wto.org/english/thewto_e/whatis_e/eol/e/wto02/wto2_28.htm

[7]Cf. SOMO 5/2004, 3

[8]Cf. Bhattacharya 2003, 22

[9]These are: Egypt, Argentina, Bangladesh, Brazil, China, Costa Rica, El Salvador, Honduras, Hong Kong – China, India, Indonesia, Jamaica, Columbia, Korea, Macao, Maldives, Mexico, Pakistan, Paraguay, Peru, Sri Lanka, Thailand, Uruguay. Observers are Cuba, Mauritius, Singapore as well as UNCTAD, the WTO and the ITC.

[10]In concrete, this represents a reduction of 780,000 in the number of employees between 1963 and 1987 in Great Britain, 564,000 in West Germany, 520,000 in France, and 500,000 in the USA. In the West German clothing industry alone the number of employees in the clothing industry alone fell from 400,000 in 1966 to 95,000 in 1995. Cf. Blotevogel 2002

[11]Cf.: www.wto.org

[12]Four future WTO members – Canada, EU, Norway, USA – had introduced quotas under the Multi-Fibre-Arrangement and were to present their liberalisation list for the first phase of the ATC to the Textiles Monitoring Body before 1.10.1994; 55 other WTO members took advantage of the possibility of using special safeguard mechanisms (Article 6.1. of the ATC) and submitted their integration lists containing the product categories they intended to liberalise. Nine members did not take advantage of this opportunity, as they had already fully

integrated them. Cf. Textiles: Agreement (www.wto.org)

[13]Hyvärinen 2000, 3

[14]Cf. Dicken 2003, 339.

[15]ITCB 2003. This communiqué also condemns the special regulation of carrying forward quota allocations from the following year, applied regularly in the last nine years, would no longer be possible in 2004: since there would be no quota in 2005, in the opinion of the EU and the USA and others, it wouldn't be possible to carry forward quota allocations from 2005 to 2004. The consequence would be increased trade restriction for all supplier countries which have fully utilised their quotas, since in 2004 they would only be entitled to their 2004 quota allocation.

[16]Hyvärinen 2000, 9

[17]Cf. Chandrasekhar 2003

[18]IMF / World Bank 2002, 43.

[19]Cf. AVE 2001

[20]In a press statement from 2001, the AVE as a Foreign Trade Association of the self-importing retail trade in Germany, however, explicitly regrets this delayed implementation and the restriction of liberalisation to »formal« commitments in the third liberalisation plan of the EU

[21]Cf. IMF / World Bank 2002, 44.

[22]Knappe 2003, 2.

[23]ITGLWF 2003

[24]Although investment agreements also have influence on the textile and clothing industry, these are not taken into consideration here. Cf. however SOMO 2004

[25]Schmidt 2003

[26]Cf. Somo 4. 2004

[27]Cf. Bilateral Textile Agreements (www.trade-cec.info)

[28]Pinzler 2003. Considering the comments of the US Commissioner for Trade Issues, Robert Zoellick, that free trade partners of the USA must also co-operate in foreign policy and security matters, this judgement appears most appropriate.

[29]The research report »Changes in Global Trade Rules for Textiles and Apparel« from November 2002 (www.nathanic.com) assesses this differently: it says that, since quotas have more significance than low tariff rates, »preferential trade agreements will be less significant in producers' decisions on location (2) after the phase out of the quota system«. It believes that preferential trade agreements are no substitute for improved competitiveness. The latter may be correct, but preferential trade agreements can also be an important building block in improving competitiveness.

[30]Dicken 2003, 346. According to Dicken, this regionalisation could be down to the growing significance of market proximity in comparison with wage costs.

[31]Dicken 2003, 318. Dicken makes a distinction between this and producer-driven production networks, in which the transnational corporations, e.g. automobile companies, play a dominant role in the control of the system of production.

[32]Dicken 2003, 342

[33]Cf. Somo Bulletin 2/2004

[34]Cf. DGB Material 46, 1996

[35]Cf. the West German Government's remarkable establishment of the »social network« for »needy« textile companies in the 1970s, in: H.-J. Wirtz 1981, 141ff

[36]Cf. Hirsch 1995

[37]Cf. Sassen 1998, 199

[38]Cf. Wick 2003, who describes this »established working relationship« as a »product of the blossoming of Fordism« (71), which alongside economic growth and high profits, was the distinguishing feature of the western economic model in the 1960s and 1970s.

[39]Old, because of the well-known form of overexploitation from the early phase of industrialisation in Europe in the 19th century. Cf. also, the description of the everyday life and work of women textile workers in the Rhineland in the 19th century in: Ferenschild 1994, 30–57.

[40]Cf. Wick 2000, www.saubere-kleidung.de or www.cleanclothes.org

[41]Sassen 1998, 1999

[42]The ILO defines Export Processing Zones as »Industrial zones with special incentives for foreign investors, in which imported materials are processed and re-exported thereafter.« (ILO 2003)

[43]The ILO databank, on which this information is based. exhibits, however, inconsistencies: for 39 of 106 countries with EPZs, the information of the major sectors in the EPZs is lacking, including countries that are highly significant for the textile and clothing industry, such as Hong Kong, Korea, Taiwan, Indonesia, Thailand, Cambodia, Japan, El Salvador, Honduras, Bulgaria, Turkey. Of the 67 countries, for which information is available, the production of textiles, clothing, shoes or leather for 37 countries is given. In the case of China, however, textile and clothing production is not mentioned.

[44]Cf. Wick 2000

[45]Cf. Wick 2003

[46]iz3w, March 2003, 21

[47]Parnreiter 2003, 30

[48]Cf. Parnreiter 2003, 30

[49]Cf. Ruppert 2003, 109

3 Country examples

Over the following pages, more light will be thrown on the development, in recent years, of the textile and clothing industry in selected countries and its prospects after the expiry of the ATC at the end of 2004. A number of aspects have played a role in selecting the countries of China, Indonesia and Cambodia and the regional economic bloc European Union: it embraces industrial and developing countries, large and small suppliers on the world market for textiles and clothing, likely winners and losers, whereby regarding the latter category there is, however, a marked difference of opinion among experts. In addition, in evaluating these prognoses differentiation will have to be made between each of the individual countries' industry, trade, workforce and government.

The starting point for the country analysis will, firstly, be the background data of the respective textile and clothing industries, which are considered to be crucial in international competition, such as access to raw materials and semi-finished products, productivity and production costs, the legal system and political situation, infrastructure and proximity to markets, level of service provided etc.. Secondly, the question of working conditions and social standards will also play a role.

Textiles and Apparel: Factors of Competitiveness

Business climate
- Political stability
- Safety of personnel
- Security of production and shipping
- Transparent and predictable legal commercial and regulatory system
- Minimal administrative burden and corruption
- Compliance with internationally recognised health and labour standards
- Subsidies and tax credits
- Free trade zones
- Real exchange rates
- Market demand and economic growth

Infrastructure and proximity to markets
- Roads, ports, rail, and airports for moving goods into and out of the country
- Shipping and other transportation times and costs
- Proximity to major markets
- Access to reliable sources of energy, water, and telecommunications

Market access
- Preferential access in major markets

Labour and management
- Availability of workers and competition for workers from other sectors
- Compensation rates
- Labour skills and productivity
- Availability of qualified managers, including middle management

Raw-material inputs
- Access to quality and cost-competitive domestic or regional yarn and fabric production
- Tariffs on imports of raw materials
- Rules of origin for trade preferences
- Cost and availability of capital to invest in new machinery and purchase raw materials

Level of service provided and reliability of supplier
- Reputation for quality and on-time delivery
- Existing business networks (supply chain linkages, relationship with customers)
- Level of service provided (e.g., fullpackage versus assembly)
- Flexibility and variety in styles or products and lot sizes offered
- Lead time and flexibility to respond to quick turnaround orders

(Source: ITC 2004)

3.1 China: The vacuum cleaner effect

Experts are forecasting that the biggest growth rates in the global trade in textiles and clothing will be experienced in China. Some are predicting a rise of 150% within a few short years, which would mean that China would account for almost half of world exports.[1] Before looking more closely at the reasons for this predicted boom, the following will summarize some of the basic data of the Chinese textile and clothing industry. This will clearly demonstrate that, today, China already occupies the leading position in this sector.

The Chinese textile and clothing industry and world trade

In 2002, China's share of world clothing exports amounted to 20.6%, equivalent to US$ 41.30 billion.[2] China is thereby the world's number one exporter. Exports in clothing constitute 12.7% of all China's exports in merchandise goods. In terms of exports in textiles, China also tops the international table: its market share of 13.5% amounts to US$ 20.56 billion.[3] Textile exports account for 6.3% of all Chinese exports in merchandise goods.

China is USA's number one partner in the trade in textiles and clothing. Its corresponding market share in Japan and Australia is 70%.

Competitive advantages of the Chinese textile and clothing industry

The Chinese textile and clothing industry profits from the fact that it encompasses all aspects of the textile chain, starting with the production of cotton and synthetic fibres, through the production of yarns and fabrics, to their processing into clothing, carpets and domestic and industrial textiles. As a result of its self-contained product cycle, China can meet today's demands of the global sourcing practices for frequent changes in design and increasingly faster manufacturing and transport times, and thereby gain advantages over its international competitors.

Moreover, in recent years, China, in terms of **productivity**, has rapidly caught up with its competitors and satisfies today's demands for wide-ranging quality standards.

The Chinese textile industry consists mainly of state owned factories, which, since 1998, have progressively been replacing outdated technologies with modern machinery. This in itself has led to the loss of 1.5 million jobs.[4] The rise in productivity in China, not only in the textile industry but also in the clothing industry, led to a growth in output of 37% between 1995 and 1999, while the number of workers decreased by 27%.[5] In recent years, China has been one of the leading buyers of looms and knitting machines. Its imports in textile machines trebled between 1998 and 2002.[6] In 2000, the Chinese Government issued credits amounting to US$ 2.4 billion to the 200 leading textile companies and US$ 1.7 billion in bank loans for technological renewal in the textile industry.[7]

The clothing industry largely consists of small, mainly private factories, which are located in the eastern and coastal special economic zones (SEZs), and which sell 60% of their predominantly low-quality bulk goods to buyers from Hong Kong and abroad. In the province of Guandong, which has around 30,000 clothing factories and 5 million workers, 60% of all semi-finished products are imported, while 40% of supplies are Chinese in origin. China is increasingly developing its own designs, manufacturing higher quality products and taking control of its own marketing and innovation. In coming years, the internal Chinese market, where the buying potential of its population of 1.3 billion is growing, will become a growing focus of the textile and clothing industry.

One other competitive advantage lies in the fact that China, in contrast to many competing ASEAN nations, can guarantee relatively **favourable transportation times to the major sales markets**: shippings from Honk Kong and Taiwan, for example, reach the west coast of the USA in 12–18 days – whereas, some of the ASEAN member states require up to 45 days.[8]

Chinese workers are among the cheapest in the world (See **Table 6**).

Although the approximately 15 million workers (in 2002) in the Chinese textile and clothing industry – predominantly young women – may earn more than their colleagues in Bangladesh, India, Indonesia and Vietnam, the productivity in China, however, is higher and thereby wages in terms of 'per unit costs' are lower. In 2002, Chinese sewers earned, on average, US$ 0.68 per hour, while the hourly rate in Bangladesh, India, Indonesia and Pakistan was less than US$ 0.50 (in comparison: US$ 1.50 in Guatemala and Honduras and US$ 2.45 in Mexico).

A chronic and growing **surplus of workers** represents a structural weakening of all the attempts to improve the working conditions of Chinese sewers: approximately 150 million migrants are pouring in from the rural areas into the cities, and a further 23 million people made redundant by the state sector must also be added to these job-seekers.[9] The widespread billeting of Chinese sewers in cramped dormitories, excessive working hours and scandalous working and health conditions in the last 10–20 years have been well documented in numerous publications and research findings.[10] As is the case in most of the approximately 3,000 worldwide »Export-Processing Zones«, over 70% of workers in the Chinese »Special Economic Zones« are young women. Sexual harassment and discrimination during pregnancy are widespread discrimination practices on the basis of gender.

Against its international competitors, Chinese exporters also profit from the fact that the Chinese currency, the Yuan, through being pegged to the US dollar since 1994 (8.2 Yuan = 1 US dollar), has been undervalued by about 40%, and has, consequently, made exports much cheaper.[11] Although China has

Table 5:
Leading exporters of clothing, 2002

(Billion US $ and percentage)

	Value	Share in world exports/ imports				Anual percentage change			
	2002	1980	1990	2000	2002	1995–2000	2000	2001	2002
European Union (15)	50.45	42.0	37.7	24.1	25.1	0	−5	2	4
Extra-exports	16.59	10.4	10.5	7.4	8.3	0	0	7	6
China[a]	41.30	4.0	8.9	18.3	20.6	8	20	2	13
Hong Kong. China	22.34	–	–	–	–	3	8	−3	−5
domestic exports	8.31	11.5	8.6	5.0	4.1	1	4	−7	−10
re-exports	14.04	–	–	–	–	4	12	−1	−1
Turkey	8.06	0.3	3.1	3.3	4.0	1	0	2	21
Mexico[a]	7.75	0.0	0.5	4.4	3.9	26	11	−7	−3
USA	6.03	3.1	2.4	4.4	3.0	5	4	−19	−14
India[b]	5.48	1.7	2.3	3.1	2.8	8	20	−11	...
Bangladesh	4.13	0.0	0.6	2.1	2.1	16	25	2	−3
Indonesia	3.95	0.2	1.5	2.4	2.0	7	23	−4	−13
Korea, Republic of	3.69	7.3	7.3	2.6	1.8	0	3	−14	−14
Thailand	3.37	0.7	2.6	1.9	1.7	−6	9	−5	−6
Romania	3.25	...	0.3	1.2	1,6	11	14	19	17
Domenican Republic[abc]	2.71	0.0	0.7	1.5	1.4	11	11	−6	...
Tunesia	2.69	0.8	1.0	1.1	1.3	−1	−6	17	3
Philippines[a]	2.61	1.4	1.6	1.3	1.3	1	13	−6	10
Above 15	153.78	73.0	79.3	76.7	76.7	–	–	–	–

[a] includes significant shipments through processing zones.
[b] 2001 instead of 2002.
[c] includes Secretariat estimates.
[d] Imports are valued f.o.b.

(WTO 2003)

Table 6:
Textiles and apparel: Hourly compensation[1] for selected countries, 2002
(in US $)

Region or country	Textile Industry	Apparel Industry
East Asia:		
China	0.41[2] 0.69[3]	0.68 0.88[4]
Hong Kong	6.15	([5])
Korea	5.73	([5])
Taiwan	7.15	([5])
South Asia:		
Bangladesh	0.25	0.39
India	0.57	0.38
Pakistan	0.34	0.41
Sri Lanka	0.40	0.48
ASEAN countries:		
Indonesia	0.50	0.27
Malaysia	1.16	1.41
Philippines	([5])	0.76
Thailand	1.24	0.91
Mexico	2.30	2.45
CBERA countries:		
Costa Rica	([5])	2,70
Dominican Republic	([5])	1.65
El Salvador	([5])	1.58
Guatemala	([5])	1.49
Haiti	([5])	0.49
Honduras	([5])	1.48
Nicaragua	([5])	0.92
Sub-Sahara Africa:		
Kenya	0.62	0.38
Madagascar	([5])	0.33
Mauritius	1.33	1.25
South Afrika	2.17	1.38
Andean countries:		
Columbia	1.82	0.98
Peru	1.63	([5])
Other countries:		
Egypt	1.01	0.77
Israel	8.17	([5])
Jordan	([5])	0.81
Turkey	2.13	([5])

[1]Includes wages and fringe benefits.
[2]Represents hourly compensation for China, other than coastal areas.
[3]Represents hourly compensation for coastal China.
[4]Reflects labor compensation for factories in China producing moderate to better apparel.
[5]Not available.

(Source: ITC 2004)

an enormous trade surplus, has attracted more foreign investors than all other developing countries and has huge foreign currency reserves, there is no sign of currency re-evaluation. Although pressure increased when it joined the WTO at the beginning of 2001, China, for the time-being, is sticking to the exchange rate.

»Working conditions«

»A 7-day working week during the peak season is increasingly becoming the norm, especially in China, even though the labour law stipulates that one day in seven should be a rest-day. In two Chinese factories producing for Umbro, workers said that they were made to work a seven-day week frequently during the peak season. In one factory they worked a total of 120 hours of overtime during the month of October 2003 – three times in excess of Chinese labour legislation. 'We have endless overtime in the peak season and we sit working non-stop for thirteen to fourteen hours a day. We sewing workers work like this every day – we sew and sew without stopping until our arms feel sore and stiff' said one of the workers.«

(Clean Clothes Campaign / Oxfam / Global Unions 2004)

»In China's Guangdong province, one of the world's fastest growing industrial areas, young women face 150 hours of overtime each month in the clothing factories – but 60 per cent have no written contract and 90 per cent have no access to social insurance.«

(Oxfam 2004)

China and quotas

Since the beginning of the WTO Multi-Fibre Arrangement (MFA) in 1974, bilateral agreements on quantitative restrictions (quotas) on the trade in textile and clothing products over a certain period have been made between the governments of two countries. While in the past, the Chinese Ministry of Foreign Trade and Economic Co-operation (MOFTEC) awarded quotas only to specific companies with official export rights, today, MOFTEC and the Chinese Chamber for the Export and Import of Textiles and Clothing are responsible for the awarding of quotas to a wider range of companies.

In 2001, 22% of all Chinese textile and clothing exports were subject to quota restrictions.[12] Regarding textile exports, these quota-based markets in the USA; Canada and the EU represented 17% of all textile exports, while the corresponding share of clothing exports was 25%.

Since the adoption of the MFA, the ultimate selling price of textile and clothing products has, to a great extent, been determined by the **quota price**, which, in effect, producers have to pay for being awarded the much-desired quotas. In China, quota prices are paid to the Chinese Chamber for the Export and Import of Textiles and Clothing and to MOFTEC. Official quota prices in China are not available.[13] However, quota prices on the illegal secondary*/ black* market are being traded on the Internet. Together with average tariffs per product category, quota pri-

Clothing production at ESPRIT Far East in the Special Economic Zone Shenzen / South China. (Michael Kottmeier)

Table 7:
Textile and apparel:
China's fill rates of adjusted U.S. quota levels, selected products, 2000–2002

	Fill rates			Quota prices	
	2000	**2001**	**2002**	**Value[2]**	**ETE[3]**
		in %		US dollars	Percent ad valorem
Cotton apparel					
Other men's and boys' coats	83.0	68,0	87.9	36.00	27.9
Women's and girls' coats	94.8	94.9	92.5	41.00	27.1
Knit shirts and blouses	89.0	89.8	92.6	15.50	27.4
Knit tops, including tanktops	98.4	95.5	92.7	33.00	([4])
Men's and boys' shirts, not knit	84.4	78.1	97.3	29.00	64.0
Women's and girls' shirts, not knit	74.2	85.6	92.0	31.00	44.8
Skirts	82.5	90.1	94.8	39.00	60.4
Trousers and shorts	75.7	88.0	97.6	41.50	64.0
Nightwear and pajamas	66.6	98.0	85.7	24.00	44.0
Underwear	70.5	100.0	86.1	7.00	29.7
Coveralls and overalls	65.1	65.0	89.7	2.80	([4])
Wool apparel					
Other men's and boys' coats	67.1	96.5	96.1	80.00	23.0
Sweaters	95.2	100.0	95.0	78.00	25.6
Manmade-fiber apparel					
Women's and girls' coats	90.0	97.9	86.8	45.00	24.0
Dresses	69.2	79.9	87.6	37.5	13.8
Knit shirts	66.4	97.6	90.2	23.00	41.6
Men's and boys' shirts, not knit	82.9	90.5	87.2	15.00	43.3
Women's and girls' shirts, not knot	87.1	95.0	86.3	15.50	23.8
Skirts	78.7	78.9	93.8	36.00	55.9
Women's and girls' trousers and shorts	86.8	82.0	92.0	24.50	34.1
Nightwear and pajamas	97.6	91.8	87.4	16.00	26.2
Headwear	94.0	84.1	92.1	4.50	([4])

Note:
[1]Quota prices are black market quota prices. Official quota prices quoted by the Chinese Textiles Chamber of Commerce are not available.
[2]Prices are per dozen, except for category 659-H, which is per kilogram.
[3]Export tax equivalents calculated using customs average unit value per category and the quota price per category.
[4]Not available.

(Source: Compiled from official statistics of the U.S. Department of Commerce, Office of Textiles and Apparel, except as noted in: ITC 2004)

ces constitute »Export Tax Equivalents«, which sometimes account for more than 60% of the FOB price (Free on Board = free on board of a ship in the port of clearance/departure).

The **Table 7** shows that in 2002, three of the four group quotas of the Chinese textile and clothing exports to the USA were at least 90% filled. In 2002, there were 42 quota regulations for Chinese exports to the European Union, of which 25 were at least 90% filled. After the lifting of quota regulations at the beginning of 2005, it must therefore be assumed that the level of Chinese exports to the USA will become very high in percentage terms, and that there will also be a marked increase to the EU – at much reduced prices, as the removal of quota prices will probably lead to **lower ultimate selling prices for the consumer**.

A indication of the likely rise in Chinese export levels after the beginning of 2005 is given, for example, in the statistics relating to the US-Chinese trade in textiles and clothing from the beginning of 2002, as the third stage of the ATC came into effect and 18% of further product categories were liberalised: Since then, China's market share, in terms of quantity, has risen from 4% to 13.3%, and in terms of value, from 8.5% to 16.4%.[14] Since the fourth step of the ATC – liberalisation of 49% of the remaining quotas from January 1st 2005 – is the biggest since 1995, it must be assumed that the expansion of China's exports will actually be much greater than previously imagined.

Trade policy

Against the background of increasing Chinese exports to the USA in 2003 (e.g. between January and September 2003, in comparison with the same period of the previous year, these grew by 148% to US$ 787 million), the US Government resorted to using an instrument contained in the WTO regulations, which was intended to guarantee protection for the markets in industrial countries beyond 2005. When China joined the WTO at the end of 2001, safeguard provisions, pushed through by the USA, the EU and further WTO member states, came into effect. These permit the **quantitative restrictions on imports** of specific goods wherever increases in imports cause market disruptions. Thus, at the beginning of 2004, the US Government determined that the level of imports of coats, knitwear and brassieres could not be more than 7.5% above the level of the previous year.

By taking this measure, the US Government is acting against the interests of large **US trading companies**, which are expecting higher sales figures from cheap imports from China. However, in doing so, it is acting in the interests of US clothing producers, which have blamed the loss of around 316,000 jobs in recent years[15] on increasing imports from China – a controversial and, in all likelihood, unreasonably biased conclusion, as confirmed by an ILO study into the causes of job losses in the textile and clothing sectors in industrial countries.[16] According to the study, technological renewal, competition between industrial countries and decreasing consumption in the major sales markets have been primarily to blame for the drastic loss of jobs in the Northern textile and clothing industries since the 1970s.

In addition to the US Government's restrictive measures, in March 2004, the US American **Trade Union Confederation AFL-CIO** called on the Government to impose trade sanctions against China, so long as there was evidence of fundamental violations of labour laws in the country and that it was gaining trade advantages as a result. In May 2004, the US government rejected this call.

In fact, with regard to predicting what will happen to China after the end of the ATC, one must ask whether the 15 million **workers** in the Chinese textile and clothing industry will profit in some way or other from the predicted boom. Unfortunately, developments in working relations within the »Special Economic Zones« and factories during Chinese export expansion in recent years do not give a positive answer to this question. As in other regions throughout the world, the much repeated statement, 'economic growth automatically promotes broad social prosperity', has proved to be an empty promise. A representative of the »All Chinese Trade Union Federation« explained at a conference in September 2002 in Singapore: »With China's accession to the WTO, there has been an enormous increase in market pressure to improve competitiveness and reduce costs. That is why many companies have to sack workers and reduce wages or social benefits.«[17]

Tariffs vs. quotas

Numerous developing countries have tariff-free or preferential access to the markets in industrial countries. Yet, **tariff reductions are much less significant than quotas**: while worldwide tariffs on clothing amount on average to 17%, quotas often cost more than double this. With the lifting of quota regu-

CANTEEN AT ESPRIT FAR EAST FACTORY IN THE SPECIAL ECONOMIC ZONE SHENZEN / SOUTH CHINA. (MICHAEL KOTTMEIER)

lations, some developing countries, which, like Mauritius, for example, have tariff-free access to the US market, will not be able to sell their products there as cheaply as China. Agreements on tariff reductions must therefore be significantly improved and the competitiveness of industries developed so that countries such as Mauritius can survive in the liberalised global market. The tariff-free import of Mexican textiles into the USA within the framework of NAFTA will, in the face of quota-free cut-price imports from Asian countries, probably be put under pressure – despite geographical proximity and shorter delivery times. In 2001 and 2002, 325 of Mexico's 1,122 clothing factories already closed down with the loss of 220,000 jobs, as China became the USA's chief supplier, and many foreign investors transferred their production to China.[18] The member countries of AGOA (African Growth and Opportunity Act) enjoy a special tariff of 11% for imports of textiles and clothing into the USA, while the corresponding tariff rate for the Caribbean member states of the Free Trade Agreement CBTPA is 6%. All of them, as well as contract partners in the EU preferential trade agreements with African and Eastern European countries, with Sri Lanka, Pakistan and Bangladesh, are facing the threat of enormous losses which will barely be offset by the recommended remedies within the WTO. Here, too, there are threats of factory closures and job losses through the lifting of quotas.

Voices / demands from China vis-à-vis the phase-out of the ATC

The Chinese Government, as a result of China joining the WTO, may have agreed to several restrictions to Chinese textile and clothing imports, yet, with the liberalisation stages of the ATC, it championed the greatest possible expansion of Chinese exports – without any recognisable interventions for the compliance with labour laws and the social standards of workers. When the US Government invoked the safeguard provisions contained in China's WTO protocol of accession at the end of 2003, to restrict cheap Chinese imports, the Chinese Government protested against these US trade restrictions – however, with no success.

The Chinese textile and clothing industry went even further in this conflict with the USA and called for retaliation measures against US trade barriers. Like the Chinese Government, it is counting on the greatest possible expansion of its production – not only for export, but also increasingly for the internal Chinese market.

China's state trade union, the All-China Federation of Trade Unions (ACFTU), believes that although China's accession to the WTO in 2001 and the subsequent phase-out of the ATC will bring long-term advantages for the workers in China, it will however

Socio-economic data on China

Annual income per capita: according to the classification of the UN Development Programme, China ranks among the world's middle-income countries (annual income per capita of US$ 746 – US$ 9,205).

Population in 2001: 1.3 million

GDP growth per capita 2000–2001: 6.5%

Average GDP growth rate 1990–2001: 10%

Life expectancy 2000: 70

Illiteracy rate among adults in 2000: 16%

Proportion of the population, who, from 1990 to 2001, lived on US$ 1 per day: 16.1%

Proportion of the population, who, from 1990 to 2001, lived on US$ 2 per day: 47.3%

Status of ILO core labour standards:

Convention 87 (trade union freedom) – not ratified.

Convention 98 (right to free collective bargaining) – not ratified.

Conventions 29 and 105 (forced labour) – not ratified.

Convention 100 (discrimination) – ratified.

Convention 111 (discrimination) – not ratified.

Conventions 138 and 182 (child labour) – ratified.

Source: World Bank 2003 and UNDP 2003

lead to short-term changes for the worse (see above). Chinese trade unions – according to an ACFTU representative – must become more democratic and better acquainted with the situation of trade unions in other countries.[19]

Endnotes

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[3] loc. cit.

[4] ITC 2004, p.

[5] James, William E. / Ray, David J. / Minor, Peter J. »Indonesia's Textiles and Apparel. The Challenges Ahead, in: Bulletin of Indonesian Economic Studies, Vol. 39, No. 1, 2003, p. 97

[6] ITC 2004, p. E-8

7 loc. cit., p. E-13

8 loc. cit., p. E-9

9 loc. cit., p. E-11

10 e.g. Asia Monitor Resource Center »Arbeitsbedingungen in der chinesischen Bekleidungsindustrie«, in: Kleiderproduktion mit Haken und Ösen. Arbeitsbedingungen in der chinesischen und philippinischen Bekleidungsindustrie am Beispiel von Zulieferbetrieben deutscher Unternehmen«, ed. SÜDWIND Institute for Economy and Ecumenism (text 6), Siegburg 1997

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[13] loc. cit., p. E-16

[14] James, William E. et al., p. 98

[15] Süddeutsche Zeitung 20.11.03

[16] ILO »Globalisation of the footwear, textiles and clothing industries«. Report for discussion at the Tripartite Meeting on the Globalisation of the Footwear, Textiles and Clothing Industries: Effects on Employment and Working Conditions, Geneva 1996, p. 119

[17] FES Workshop on China's Membership in the WTO – Consequences for Labour Markets in ASEAN Economies, 9.–10. September 2002, ed. Norbert von Hofmann, FES Singapore, p. 76

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3.2 Indonesia: Gloomy perspectives after 2005

With the phase-out of quotas on the world market for textiles and clothing at the end of 2004, many experts are predicting a gloomy future for Indonesia. A range of competitive disadvantages in recent years has already led to a sizeable exodus of foreign investors with the closure of hundreds of factories and the loss of thousands of jobs.[1] The International Textile, Garment & Leather Workers' Federation (ITGLWF) fears that around one million jobs will be wiped out in the Indonesian textile and garment industry after 2005.[2] If a broad range of measures are not taken in the coming months, Indonesia is in danger of becoming one of the heavy losers when the Agreement on Textiles and Clothing runs out.

Export Processing Zone KBN / Jakarta. (Harald Klöpper)

The Indonesian textile and clothing industry and world trade

Indonesia's share of worldwide exports in clothing in 2002 amounted to 2% (1980: 0.2%, 1990: 1.5%, 2000: 2.4%), or the equivalent of US$ 3.95 billion.[3] Its share of textile imports and exports in 2002 was 1.9%, a drop of 19% from 2000.

The Indonesian textile and garment industry makes up around 15% of total exports and is consequently the second largest foreign exchange sector (after the oil and petroleum industry). After textile and garment exports had risen by more than 50% to US$ 8.3 billion between 1997 and 2000, its value sank by around 15% to US$ 7 billion by 2003.[4] The primary importer of Indonesian textile and garment exports in 2001 was the US (28%), followed by the EU (24%), whereby the US lead has increased in recent years.[5]

Data on the Indonesian textile and clothing industry

In recent years, the international competitiveness of the Indonesian textile and garment industry has declined due to a number of factors. These factors, both internal and external, are as follows:

Apart from the almost **100% import of cotton for textile production, Indonesia has a vertically integrated production system** at its disposal, with low imports of semi-finished products and high exports of clothing and sportswear. Despite a relatively low dependency on imports, the Indonesian economy was exposed to considerable disadvantages when the value of the Indonesian currency, the Rupiah, fell by 75% as a result of the Asian financial crisis in 1997/98, increasing the price of all imports. A further recent difficulty for cotton importers has been the imposition of a value-added-tax, which has to be paid retroactively from 1983 up to the present day.

Due to the current weakness of the US dollar, Indonesia's export-oriented manufacturers are being disadvantaged, especially compared with exporters in China where the currency – tied to the dollar since 1994 – is reckoned to be undervalued by about 40%.[6]

Although in recent years, Indonesia's textile industry has been producing around 50% of the semi-finished products it requires, i.e. polyester and other synthetic fibres, outdated technology has put this industrial sector under increasing strain (the average age of the spinning, weaving and dyeing plants is between 10 and 20 years).[7] The number of foreign investors in the textile and garment industry has decreased by around 30% since 1997.

The strain on the industry is further increased as a result of wage rises, even if they are extremely low, and increased energy costs (electricity up 102%, petrol 52%, diesel 159%, water 27% and transport 32%) in 2001–2002. These are a consequence of the abolition of state subsidies in the energy sector – one of the measures that the Indonesian government believed it was forced to take during debt-rescheduling negotiations with the IMF in the after-

Table 8:
Indonesia: Exports of textiles and apparel, by selected markets, 1997–2001

Item and market	1997	1998	1999	2000	2001
			(Million dollars)		
Textiles:					
Quota markets:					
United States	151	164	165	240	231
European Union	478	545	553	565	576
Canada	29	26	41	46	35
Subtotal	*658*	*734*	*760*	*852*	*842*
All other:					
Japan	243	188	304	311	291
United Arab Emirates	127	119	209	226	201
Korea	61	96	204	190	181
Other	1,171	1,211	1,539	1,926	1,684
Subtotal	*1,602*	*1,615*	*2,257*	*2,654*	*2,357*
Grand total	**2,260**	**2,349**	**3,017**	**3,505**	**3,199**
Apparel:					
Quota markets:					
United States	1,109	1,232	1,555	2,069	1,991
European Union	848	801	1,211	1,489	1,334
Canada	41	39	76	88	106
Subtotal	*1,998*	*2,072*	*2,842*	*3,646*	*3,431*
All other	960	611	1,077	1,165	1,173
Grand total	**2,958**	**2,683**	**3,920**	**4,811**	**4,604**
Textiles and Clothing:					
Quota markets:					
United States	1,260	1,396	1,721	2,310	2,222
European Union	1,326	1,346	1,764	2,054	1,910
Canada	69	64	117	134	141
Subtotal	*2,656*	*2,806*	*3,602*	*4,498*	*4,273*
All other	2,562	2,226	3,334	3,819	3,530
Grand total	**5,218**	**5,032**	**6,936**	**8,316**	**7,803**
			(Percent)		
Share of exports going to quota markets:					
Textiles	29	31	25	24	26
Apparel	68	77	73	76	75
Average	51	56	52	54	55

(Source: ITC 2004)

Lunch break at the Export Processing Zone KBN / Jakarta. (Harald Klöpper)

math of the 1997/98 financial crisis. Today, Indonesia is regarded as a politically unstable country (e.g. the terrorist attack on Bali in October 2002), where changed labour laws and increased trade union activity since the collapse of the Soeharto dictatorship in 1998, are seen as further allegedly negative competitive factors. Additionally, local taxes and levies have had to be paid since decentralisation of the administration in 2001. These are often regarded as yet another form of the notorious **corruption payments** paid by businesses to officials in the Indonesian Government.[8] In the past, these »invisible« costs were already estimated to amount to 10–30% of total production costs.[9]

The around 8,000 factories in the Indonesian textile and garment industry are located in the metropolitan areas of Jakarta and West Java. In the last few years, several hundred factories have either closed down or been downsized, with the **eradication of thousands of jobs in clothing factories** – according to government statistics 25,000 alone between 2001 and 2002. Altogether, the sector today employs about 1.2 million Indonesians, predominantly women, with a further 3.5 million in related sectors such as transport, food supplies etc.[10] This means that a quarter of all working people in Indonesian manufacturing industries are employed in this sector. Despite a marked increase in the legal minimum wage in recent years – 2000: 17–49% and 2001: 34–39%, varying from area to area[11] – and increased trade union demands for these wages, **Indonesian** wages in the textile and garment industries are **still among the lowest in the world**.[12] The average hourly rate received by Indonesian textile workers in 2002 was US$ 0.50 – compared to US$ 1.24 in Thailand and US$ 2.30 in Mexico – while the average hourly wage in the Indonesian clothing industry was US$ 0,27, in Thailand US$ 0.91, in Mexico US$ 2.45.

In recent years, as part of the broader framework of international consumer campaigns such as the Clean Clothes Campaign, there has been much research into **working conditions in the Indonesian clothing and sportswear industry**. Up to now, the results of this research have revealed flagrant violations of the fundamental working norms of the International Labour Organisation (ILO) and Indonesian labour legislation. Most strikingly of all is the repression of trade unions, the payment of non-subsistence level wages, the excessive amount of over-

Clothing factory in Indonesia. (PMK Jakarta)

time, sex-discrimination and the violation of health standards. Wage increases, including voluntary bonuses, were often unable to keep up with the rising cost of living. Working pressure as a result of ever-diminishing delivery times and increasingly fluctuating orders as well as wages below the minimum needed to survive, mean that the **predominantly female workers** fail, for instance, to take their menstruation leave to which they are entitled under law, or are often forced to send their children to their parents in the countryside.

Working conditions at Indonesian suppliers to Nike and adidas

»Workers live in extreme poverty. They earn full-time wages of approximately US§ 56 a month and report that recent increases in legal minimum wages have not kept pace with the dramatic increases in the cost of food. They depend on the extra income gained by working extensive overtime. (...) Approximately half of those workers with children are forced by poverty to send them to live with relatives in remote villages. Many can only afford to see their children three or four times a year and find the separation extremely painful. Those who live with their children commonly go into debt to cover their family's basic needs.«

(Source: Connor 2002)

Working conditions in the Indonesian clothing factory Kolon Langgeng (former supplier to Otto)

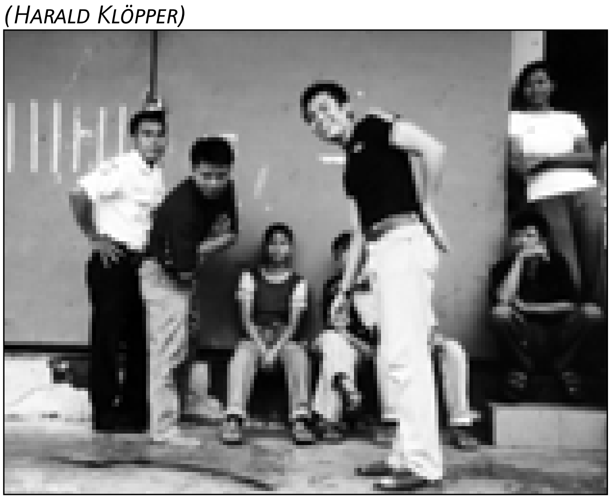
Women workers are sexually harassed and after maternity leave are paid even less than before. They receive a wage that is below the legal minimum wage. Instead of the permitted maximum of 12 hours overtime they have to work up to 32 hours overtime per week. Supervisors often put them under physical and mental pressure: jackets are thrown at them, their ears are pulled and their bottoms beaten.

(Source: Wick 2000)

Indonesia under the protection of quotas

In recent years, the share of Indonesian exports in textile and garment products to the quota markets of the USA, the EU and Canada has risen slightly. While this amounted to 51% in 1997 (29% in textiles and 68% in clothing), in 2001 it amounted to a total of 55% (26% for textiles and 75% for clothing).[13] It would appear as if Indonesia can fare better in markets with quotas than without. For example, between 1995 and 2000, its market share in the predominantly quota-based markets in the USA and the EU rose from 2.06% to 2.27, while in non-quota-based markets in Japan, Australia, New Zealand and Israel it sank from 2.81% to 2.39%.[14]

Workers / Security staff at PT. Megasari / Indonesia. (Harald Klöpper)



This **expansion within the framework of the ATC** is also reflected in the growth figures of existing quotas between 2002 and 2004: with 11% rises in annual quotas, Indonesia tops the international table.

For an analysis of the probable impacts of the expiry of the ATC on Indonesia, it is important to know the quota fill rates vis-à-vis its exports to the main markets. In 2001, 48% of US textile and garment imports from Indonesia were subject to quotas, which were at least 90% filled. From the beginning of 2005, this high proportion will be exposed to international competition, which in many respects can

Table 9:
Performance of Indonesia and China in the US Textiles ans Apparel Market[a]

Sector	China			Indonesia		
	% Change (2001/2002 Jan–Jul)[b]	Market-Share (%)[c] Jan–Jul 2001	Market-Share (%)[c] Jan–Jul 2002	% Change (2001/2002 Jan–Jul)[b]	Market-Share (%)[c] Jan–Jul 2001	Market-Share (%)[c] Jan–Jul 2002
Non-apparel items						
Volume	445.0	5.9	24.3	2.7	6.8	5.3
Value	120.5	16.0	33.9	−24.0	7.0	5.1
Fabrics						
Volume	952.3	0.2	1.4	9.8	2.2	1.8
Value	2.71	0.7	2.2	−4.4	1.6	1.3
Apparel						
Volume	161.8	5.2	13.5	1.9	4.0	4.0
Value	73.1	7.6	13.9	−1.1	4.3	4.5
Total (22 items)						
Volume	303.5	4.0	13,3	3.5	4.3	3.8
Value	89.4	8.5	16.4	-7.1	4.5	4.3

[a]For 22 quota categories al least partially integrated in 2002, as discussed in the text.
[b]Year on year
[c]Year to year

(Source: James 2003)

benefit from advantages in location (e.g. China) compared with Indonesia. Indonesia's non-quota exports have already come under pressure with the hitherto liberalisation phases of the ATC, especially since China joined the WTO in December 2001. Since China, on the whole, produces goods more cheaply than Indonesia and provides a broader range of product quality, it is highly likely that China will soon capture the market share of other suppliers such as Indonesia. For example, China's market share in the non-quota market of Japan rose from 61% in 1996 to almost 80% in 2001. Since Indonesia's quota-based exports to the EU are less exhausted than those to the USA, competition from China after 2005 will be greater in the USA than in the EU. On average, Chinese imports into the USA between 2002 and 2003 rose from 8.5% to 16.4%, while the share of Indonesian imports in the same period fell from 4.5% to 4.3%.

Trade policy

Preferential agreements govern an ever-growing proportion of world trade, especially in the textile and garment industry. According to WTO estimates, from 1993 to 1997, 42% of world trade was carried out through preferential agreements, and today it is probably nearly 50%.[15]

Indonesia has no bilateral agreements with the USA or the EU for preferential trade in textiles and clothing and until now it has also not belonged to a larger regional trading zone (such as NAFTA) with one of the main sales markets. It would appear that any efforts by Indonesian manufacturers in the future to also export higher quality goods, without the ATC quota system, will be confronted with the preferential treatment of global competitors, such as manufacturers in NAFTA, AGOA, Caribbean and Andes countries, which all supply the US market. While, within the framework of these agreements, import tariffs of between 0.5% (NAFTA) and 15.5% (countries of the Andes) are being paid for clothing imports into the USA, Indonesia is subject to an import tariff of 18.2%.[16]

Both the USA and the EU, as part of their »Generalised System of Preferences« (GSP) have entered into a range of preferential agreements with individual nations that anticipate a fall in tariffs. Preferential agreements made by the USA and the EU with Pakistan, for example, were made after Pakistan had pledged to introduce anti-terrorism measures. Since Pakistan and Indonesia were competitors in 34 out of a total of 45 top ATC quota-based import goods into the USA in 2001, the lifting of the quota from 2005 will rapidly increase Pakistan's market share, since Indonesia, unlike Pakistan, has no preferential access to the US market.

The **ASEAN Free Trade Area – (AFTA)**, founded in 1992, of which Indonesia is a member, originally intended to remove tariffs on at least 60% of all products. However, this goal is still a long way off. It applies to only 3.7% of all products in the Philippines and 4.2% in Thailand. Although current negotiations to set-up a free-trade zone of ASEAN countries with China, which is aiming towards exemption from tariffs by 2010 for Indonesia among others, as well as plans for free-trade agreements between ASEAN and the USA, the EU, India, Korea, Japan etc., the end of these discussions still seems to be a long way off. Consequently, this will be little compensation for the negative impacts of the expiry of the ATC on Indonesia after 2004.

Voices / demands from Indonesia vis-à-vis the expiry of the ATC

For several months, the **Indonesian Government** has been publicising strategies to address the expiry of the ATC.[17] These include: a) developing the textile and garment industry towards the production of higher value-added goods which comply with top fashion standards; b) recruiting foreign investors; c) opening-up new markets; d) improved use of Indonesian semi-finished products, especially in the production of synthetic fibres; e) improving labour policy; f) simplifying business sector legislation; g) establishing national stability and security. Textile and garment companies are being encouraged by the Government to have their production monitored against relevant ethical standards (SA 8000, WRAP etc.). One difficulty in doing this, however, is that the Indonesian industry is being expected to pay for the restructuring itself, and the Government has no plans to provide structural aid.

These strategies to increase competitiveness are, on the whole, congruent with those of the **Indonesian textile and garment industry**. However, the industry does expect government support: therefore,

Clothing factory in Indonesia. (PMK Jakarta)

Socio-economic data on Indonesia

Annual income per capita: according to the classification of the UN Development Programme, Indonesia ranks among the world's lowest-income countries (annual income per capita of US$ 745 or less).

Population in 2001: 213.6 million

GDP growth per capita 2000–2001: 1.8 %

Average GDP growth rate 1990–2001: 3.8%

Life expectancy 2000: 66

Illiteracy rate among adults in 2000: 13%

Proportion of the population, who, from 1990 to 2001, lived on US$ 1 per day: 7.2%

Proportion of the population, who, from 1990 to 2001, lived on US$ 2 per day: 55.4%

Status of ILO core labour standards:

Convention 87 (trade union freedom) – ratified

Convention 98 (right to free collective bargaining) – ratified

Conventions 29 and 105 (forced labour) – ratified

Conventions 100 and 111 (discrimination) – ratified

Conventions 138 and 182 (child labour) – ratified.

(Source: World Bank 2003 and UNDP 2003)

it is proposing, for example, a cut in base interest rates, the provision of state loans and the lowering of tariffs (cotton imports) and taxes.

Up to now, Indonesian **trade unions and non-governmental organisations closely associated with the** manufacturing sector have scarcely expressed their position on the ATC phase-out, with the exception of the SPN trade union (formerly the SPTSK), a member of the International Textile, Garment and Leather Workers Federation (ITGLWF), which, among other measures, is calling for a continuation of the regulation of the world trade in textiles and clothing, including a quota for China, as well as development programmes for the industries in individual countries.

Endnotes

1 Jakarta Post 11.8.03, and International Textile, Garment and Leather Workers' Federation (ITGLWF) press statement »What future for Textiles and Clothing Trade after 2005« by Neil Kearney 2.9.03, p. 4

2 ITGLWF 2003, p. 4

3 WTO International Trade Statistics 2003

4 US International Trade Commission (ITC) »Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market«, 2004, p. G-12

5 loc. cit., S. G-13

6 Just Style 27.10.03

7 James, William E. / Ray, David J. / Minor, Peter J. »Indonesia's Textiles and Apparel. The Challenges Ahead«, in: Bulletin of Indonesian Economic Studies, Vol. 39, No. 1, 2003, p. 100

8 loc. cit., S. 100

9 Wick, Ingeborg »Das Kreuz mit dem Faden. Indonesierinnen nähen für deutsche Modemultis«, hg. SÜDWIND Institut für Ökonomie und Ökumene (texte 11), Siegburg 2000, p 18

10 ITC 2004, p. G-7

11 James, William E. et al., p. 99

12 loc. cit., pp. 3–7

13 loc. cit., p. G-13

14 James, William E. et al. 2003, p. 102

15 loc. cit., p. 102

16 loc. cit., p. 96

17 ITC 2004, pp. 4–9

3.3 Cambodia: End of the ten year boom?

The brutal regime of the Khmer Rouge and the civil war in Cambodia came to an end in 1991 with the signing of the Paris Peace Agreement. After the elections of 1993, the Cambodian Government, in co-operation with the World Bank and the International Monetary Fund, launched a Structural Adjustment Programme, through which the former planned economy was to be converted into a market economy. Cambodia is not yet a member of the WTO, but, since 1996, it has had the Most Favoured Nations status of WTO members (see box: Basic data WTO).

One key element of this new economic policy was the development of an export-oriented textile and garment industry, and one of its attractions was the extremely cheap labour. Since 1995, this industry has experienced such a boom that with over 200,000 employees today, it has become the biggest private sector employer. However, the expiry of the world textile agreement (ATC) at the beginning of 2005 threatens to bring the boom to an abrupt end, since Cambodia, owing to several competitive disadvantages, has been dealt a poor hand on the liberalised world market. The special agreement on quota-based trade in textiles made between Cambodia and the USA in 1999 is valid only until the end 2004 and, thereafter, can offer no more protection. But beyond this poor forecast, are there any positive opportunities for the workers and development in the country? Closer examination of the industry's recent history and of its chief characteristics will help to answer this question.

Seamstress in Phnom Penh / Cambodia. (Frank Zander)

The Cambodian textile and clothing industry and world trade

In 2001, Cambodia exported clothing with a total value of US$ 1.1 billion, which is approximately 0.5% of total worldwide exports.[1] In 1996, the equivalent figure was US$ 20 million. The vast majority of Cambodian clothing exports are to the USA, where they make up 1.7% of all US clothing imports. For the EU, as second most important target region

»World Trade Organisation (WTO) – Basic Data«

Predecessor GATT (1947–1994): Liberalisation of international trade in merchandise goods

WTO (from 1995): Liberalisation of international trade in

- merchandise goods (GATT)
- agricultural products (AoA)
- intellectual property (TRIPS)
- services (GATS)
- investment measures (TRIMS)
- Agreement on Textiles and Clothing (ATC) 1995–2004

Basic principles of the WTO:

Dispute Settlement: possibility of sanctions against member states

Non-discrimination: foreign competitors to be treated like nationals

Most Favoured Nations: trade advantages apply to all member states

Special and Differential Treatment: permits exceptions from WTO rules for Cambodian clothing exports, in 2002 these amounted to 0.5% of total imports in this sector.[2]

While textile and garment exports in 1995 accounted for only 8% of total Cambodian exports, by 2002 this share had risen to 96.5%.[3] Thus, Cambodia, together with Bangladesh and Macao is one of the countries that are most heavily economically dependent on this industrial sector.

Data on the Cambodian textile and clothing industry

Alongside the demonstrated structural weaknesses of the Cambodian economy's substantial dependency on textile and garment exports and its US export target markets, there is a range of additional factors, which places the country at a severe disadvantage in terms of international competition.

Cambodia must **import almost all of the semi-finished products it requires for clothing production**. Energy and transport costs are, compared with other countries, high: while container freight in Vietnam can be transported from port to factory for US$ 200, the equivalent figure in Cambodia, because of the poor roads, is US$ 700.[4] In 2000, for example, US$ 70 million was spent on the extraordinarily rife corruption payments – 7.2% of the total value of exports. The owners of the current 248 clothing factories outside the gates of the capital city Phnom Penh, are almost exclusively Hong Kong Chinese, Taiwanese, Chinese, South Korean and Malaysians with **only 9% of them Cambodian**.

The wages paid to the over 200,000 workers in the Cambodian textile and garment industry are among the lowest anywhere in the world. The legal monthly minimum wage is US$ 45, or US$ 1.50 per day.[5] But simply to cover basic needs an employee requires a monthly wage of US $80. The wage situation forces the workers, 90% of whom are women, to work overtime. Although 2 hours overtime per day are the legal maximum, **violations of up to 4 or 5 hours overtime per day** are very common.[6] Through the payment of piece-wages and the use of contract labour (short-term employees), the Cambodian labour laws modelled on the ILO labour standards are often circumvented.

Seamstress in Phnom Penh / Cambodia. (Frank Zander)

Living conditions of Cambodian seamstresses

Due to low incomes, many of the predominantly 18–25 year old seamstresses cannot afford to pay more than US$ 5 for **cramped sleeping conditions** in a hut near to the factory. Usually three of four women have to share a 10–15 square metre hut. The huts have neither running water nor toilets. Many seamstresses have run up **debts** with money lenders, sometimes as much as US$ 100, so that they be given one of the highly sought-after jobs in a clothing factory and escape the growing rural poverty. They often send US$ 20–30 from their monthly pay to their families back home.

(Source: ICFTU 2004)

US-Cambodia Trade Agreement on Textile and Apparel

Although Cambodia is not yet a member of the WTO (its application is currently being processed), the country was awarded the »Most Favoured Nations« status in 1996 by the WTO members and recognised as a WTO observer. As a non-member of the WTO, Cambodia is not subject to the provisions of the ATC. Nevertheless, the USA, in a special agreement, has awarded the country quota rights.

In January 1999, the USA and Cambodia entered into a three-year agreement on the trade in textile and garment products. The agreement stipulates specific export quantities from Cambodia to the USA. Annual increases in this quota of 14% – after the extension of the agreement up to the end of 2004: 18% – were planned should specific Cambodian Government labour laws and ILO labour standards be complied with. These laws and ILO conventions relate to regulations on wages, working hours, labour and safety standards, established employ-

Bicycle transporter in Phnom Penh / Cambodia. (Frank Zander)

ment relationships, freedom of association, the right to collective bargaining, and the banning of child labour, discrimination and forced labour.

This bilateral agreement is the first to link the stipulations of a trade agreement to compliance with social standards – a link that has been a central issue since the founding of the WTO in 1995, with the catchphrase »Social clause«, but something that has been opposed, especially by aspiring developing countries as being a protectionist instrument used by industrialised nations. The USA-Cambodia bilateral agreement has received criticism from different sides because of the agreed tariff reductions. While Cambodia had to lower tariffs for the import of yarn, cloth, fibres and clothing from the US from the start of the agreement, this will only apply to Cambodian exports to the USA in the period 2005–2014.[7]

This quantitative agreement is especially interesting, as the ILO has been appointed to monitor adherence to the labour laws and conventions. The budget for this monitoring is provided by the USA, and, to a lesser extent, by the Cambodian Government and the local clothing industry association. On the basis of the six-monthly ILO monitoring reports, the USA, so far, has approved each of the increases in quotas.

This agreement initially encountered resistance from factory owners in Cambodia. In the meantime, though, this resistance has largely dissipated, since the ILO publishes only summary reports and links training measures to the monitoring. Cambodian trade unions have welcomed the ILO controls, but have also made it clear that they would prefer regular Cambodian Government inspections. Moreover, both at home and abroad, there are protests that multinational buyer companies such as Nike or The GAP which source their products from Cambodia, are not being held accountable here for their social and financial responsibilities. On the whole, this agreement is a double-edged instrument, which as well as a number of advantages also has serious disadvantages that cannot be ignored.

At the beginning of 2005, however, the special agreement will expire, at the same time as the WTO's ATC. The final ILO inspections will be completed by the end of 2005. A continuing role for the ILO in Cambodia would be more than desirable in view of the threatened risk to the jobs of more than 200,000 workers and a whole industry.[8]

Cambodia's membership in other trading blocks

As a member of the Association of South East Asian Nations (ASEAN) it is also a member of the ASEAN Free Trade Zone (AFTA), founded in 1992, in which

Socio-economic data on Cambodia

Annual income per capita: according to the classification of the UN Development Programme, Cambodia ranks among the world's lowest-income countries (annual income per capita of US$ 745 or less).

Population in 2001: 12.3 million

GDP growth per capita 2000–2001: 3.2%

Average GDP growth rate 1990–2001: 4.8%

Life expectancy 2000: 54

Illiteracy rate among adults in 2000: 32%

Proportion of the population, who, in 2001 lived on less than US$ 1 per day: 40%

Status of ILO core labour standards:

Convention 87 (trade union freedom) – ratified.

Convention 98 (right to free collective bargaining) – ratified.

Conventions 29 and 105 (forced labour) – ratified.

Conventions 100 and 111 (discrimination) – ratified.

Convention 138 (child labour) – ratified.

Convention 182 (worst forms of child labour) – not ratified.

(Source: World Bank 2003, UNDP 2003, AMRC 2002)

tariffs for 60% of all products were supposed to have fallen by 2003. But this objective still remains far-off. The trend within the ASEAN association today is, if anything, moving away from greater integration and towards free trade agreements with China, Japan, the USA, the EU, Korea, India and others.

Voices / demands from Cambodia

Numerous trade unions and non-governmental organisations in Cambodia have criticised the Government's draft legislation on the setting up of »Export Processing Zones«, since it proposes that labour laws should not be applicable there. They have called on the ILO to become involved in this dispute. The negotiations are still continuing. The prominent position of the ILO in Cambodia since 1999 is a ray of hope, which should also shine beyond the 2004/2005 transition.

Endnotes

[1] WTO International Trade Statistics 2003

[2] loc cit.

[3] International Confederation of Free Trade Unions (ICFTU) »Cambodia – Textile Workers Face a Gloomy Future«, Trade Union World Briefing No. 1, January 2004, p. 5

[4] loc cit., p. 5

[5] loc cit., p. 2

[6] loc cit., p. 2

[7] Choudry, Aziz »The MultiFibre Agreement (MFA), ed. Transnationals Information Exchange (TIE) Asia, Colombo 2002, p. 3

[8] ICFTU 2004, p. 4

Selling clothes in the central market hall in Phnom Penh / Cambodia. (Frank Zander)

3.4 EU – Regionalisation in globalisation

The core regions of the first industrial revolution lie within the EU: the industrialisation phase began in the textile industry in England in the 18th century. It did not only produce a technological revolution, but brought with it a radical change in business operations through the transition from cottage industries to industrial production in factories. But the term used to describe this transformation, »Manchester capitalism«, soon became synonymous with the blatant social misery that accompanied it. For all other countries in Europe and North America, which became industrialised in the 19th century, the textile and clothing industry (TCI) played a key role. It created jobs and the workforce potential it required (by destroying traditional forms of industry), contributed to growth and international trade and, through growing capital intensity in the 1850s, to the increasing significance of share-capital.[1] Even though the significance of the TCI for Europe in the 20th century decreased, it remains – especially at a time of huge job losses – a significant labour-intensive sector in industrialised countries, which is why it is »right at the top of the EU trade agenda«[2]. Working conditions in the European TCI are no longer comparable with those during the »Manchester capitalism« period. However, it cannot be ignored that the TCI remains one of the low-wage industries; working conditions are often problematic because of noise, dust, and the extensive use of chemicals; the jobs, especially because they are in the labour-intensive sector, are under the constant threat of being moved to a different location; and in Europe, too, there is an increasing tendency to interconnect informal and formal working, by combining factory-work with production in tiny operations and sweatshops.

Successful modernisation and value production

The EU, alongside the USA and Japan, is not only one of the most important markets for textiles and clothing, with a trade volume of 115 billion Euros in 2002, it also remains an important location for textile and clothing production. Despite relocation over

Women workers at the factory A. Weyermann Söhne. (Stadtarchiv Viersen)

Table 10:
Job losses in the German T&C industry 1957–2003

Year	Textile Industry	Clothing Industry
1957	648,000	?
1970	496,600	382,000
1979	320,000	259,000
1991*	279,000	221,000
1996	139,100	66,200**
2000	121,500	
2002	112,000	55,000
2003	101,000	49,000

*from 1991 including East-Germany
**stated for 1999

(Source: IG Metall, EPPA/CEPS 2002, Wirtz 1981)

recent decades and the associated dismantling of labour-intensive production sectors, the European TCI has, through a range of strategies, managed to remain a significant player in the global competition. These strategies included capital intensive modernisation with value production, product diversification, the leaning of production and relocation overseas. As a consequence of this strategy, the proportion of domestic production within the German clothing industry at the beginning of this decade was only 8%.[3] But the emergence of »factory-free companies« and the trader-driven production chain are also part – as described in chapter 2 – of this struggle for survival in the face of international competition.

It is estimated that the impact of the quota phase-out on the textile industry of the »EU of 15« at the end of the global Agreement on Textiles and Clothing on 31.12.2004, will not be particularly serious[4] because of their high level of competitiveness and specialisation – or at least not as serious as the expected impact of EU enlargement on 1.5.2004. For the clothing industry, far-reaching consequences are expected, as the competition with low-wage countries is more intense than it is in the textile industry. In the medium-term (approx. 7 years), as a result of the lifting of quotas, German textile production may fall by 4.4% and German clothing production by 6.4% – with job losses of between 4% and 6% in the same period.[5]

The European textile and clothing industry and world trade

The TCI accounts for roughly 4% of total manufacturing production in the EU and employs 7% of workers in this field. In the »EU of 15« in the year 2002, that amounted to around 2.1 million employees – and thereby around 1 million employees less than at the beginning of the 1990s. After German reunification in 1990, the job losses in eastern Germany were extraordinarily high. In July 1990, the eastern German textile and clothing industry including the production of chemical fabrics employed about 320,000 workers. In the following ten years, the eastern German textile industry alone dismissed 200,000 workers. In 2001, it counted not more than 18,417 workers.[6]

With EU enlargement, the number of workers in the EU will rise initially to over 2.7 million. The proportion of women in the clothing sector throughout the EU is 74%.

The high proportion of direct employees, the trade volume of about 115 billion Euros in 2002 (this is about one third of the global trade volume of around 350 billion Euros[7]), the approximately 177,000 mainly small or middle-sized companies (including, however, only about 2,000 in Germany[8]), but also the great importance of foreign markets (20% of EU production, in terms of value, has been relocated abroad, and the EU is the world's biggest exporter of textiles with a market share of 15%) ensure that the textile and clothing sector is a significant factor in EU economic policy. Another contributory factor is the fact that all EU member states have their own textile and clothing production. The most important are Italy, Germany, France and Great Britain, which together account for around three quar-

Poland, factory 18, Plock. (CCC)

Table11:
Trade in textiles and clothing by EU Member States (million €)

	1995		2002		% change 1995–2002	
Member State	Imports	Exports	Imports	Exports	Imports	Exports
Germany	15,903	7,609	18,640	9,671	17%	27%
GB	6,563	2,621	14,198	3,711	116%	42%
Italy	5,599	8,030	10,330	13,497	84%	68%
France	5,805	3,888	8,867	5,544	53%	43%
Netherlands	2,923	1,126	4,661	1,742	59%	55%
Spain	1,330	1,259	3,606	2,150	171%	71%
Denmark	1,003	518	1,699	822	69%	59%
Sweden	1,123	379	1,590	617	42%	63%
Austria	944	852	1,295	1,273	37%	49%
Portugal	556	614	612	804	10%	31%
Greece	308	374	593	777	92%	108%
Finland	346	213	501	316	45%	49%
Ireland	206	107	447	217	118%	102%
Bel-Lux	2,642	1,643	4,365	2,363	65%	44%
TOTAL	**45,252**	**29,234**	**71,406**	**43,502**	**58%**	**49%**

(Source: EU 2004)

ters of all exports and imports (see **Table 11**). On the other hand, within the countries themselves, the textile and clothing industry is **highly regionally concentrated**, so that whole regions would become economic wastelands if this economic sector were to collapse.[9] For example, 12,700 out of a total of 18,417 employees in the eastern German textile industry work alone in Saxony. In Italy, a large proportion of the textile and clothing industry is concentrated north of Florence in a radius of 1–2 hours drive from Milan[10]. Women will be especially hit, as they are less mobile than men because of their responsibility for the »reproductive sector«.

Romania, factory 8, Botosani. (CCC)

Alongside regional concentration, **national differences** are also characteristic of the EU textile and clothing industry. While the German textile industry, for example, has specialised in the development and production of technical textiles and synthetic fibres and has a 5-year head-start in technological development over its competitor China, the southern European countries of Portugal, Greece and Spain are the EU's »low-wage countries« (see **Table 12**). Italy's textile and clothing industry, on the other hand, is greatly influenced by the major importance of clothing production, on which the textile industry is primarily concentrated.

Trade policy under the protection of quotas

In order to protect its textile and clothing industry, the EU states in recent decades were among the advocates and vehement **defenders of the quota system**. Through the quotas, they wanted to save their production from sudden collapse and give themselves breathing space to restructure. In 1999, the EU imposed quotas on 21 countries, including 14 WTO members[11]. The value of quota imports was around one quarter of the EU's total textile and clothing imports. »Only« ten percent of EU quotas at this time were 95% or more filled, and, therefore, restricted the trade of the affected exporting countries.[12]

Despite the relative protection provided by the quotas (relative, because millions of jobs in Europe were either lost or relocated), all EU countries, except for Italy, Portugal and Greece, have a negative trade balance in the textile and clothing sector (see **Table 11**). The **negative trade balance** is thanks to the clothing sector, for its balance of –36.7 billion Euros could not be offset by the positive balance in the textile sector of +8.9 billion Euros (see **Table 13**). The value of imports rose between 1995 and 2002 by around 60% from 45.2 billion Euros to more than 70 billion Euros, or to 20% of global imports, which made the EU the second most important market after the USA with 24% of global imports. The most important import countries for the EU are China, Turkey and India. The most important export countries for EU products were the USA, Switzerland and Poland (see **Table 14**).

In recent years, the EU has resorted to an **offensive bilateral strategy in trade policy**: it made bilateral trade agreements with »quota countries«, especially for the textile and clothing sector (e.g. with Sri Lanka, Croatia, Vietnam, Brazil, Bosnia-Herzegovina, Pakistan, Ukraine, North Korea, the Baltic States), in which there is agreement on the lifting of quotas or higher quotas respectively, with a simultaneous improvement in market access for EU products. The agreement between the EU and Sri Lanka, for example, stipulates that Sri Lanka lowers external tariffs for EU textile products in correspondence with WTO rules, and in return, the EU removes four of the trade restrictive quotas on Sri Lanka (in the

Table 12:
Hourly wages in 1998 – international comparison
(in US $)

Countries	Textiles	Garment
EU		
Denmark	23.10	18.71
Belgium	21.70	16.49
Germany	21.48	18.04
Netherlands	19.88	14.71
Sweden	19.41	16.30
Austria	18.13	14.32
Italy	15.81	13.60
Finland	15.69	13.96
France	14.16	13.03
UK	13.58	10.86
Ireland	10.76	8.72
Spain	8.49	6.79
Greece	7.99	6.55
Portugal	4.51	3.70
New EU members		
Poland	3.15	2.77
Hungary	2.98	2.12
Czech Republic	2.05	1.85
Romania	o.A.	1.04

(Source: EU 2004)

Table 13:
EU 15: Trade in textiles and clothing (billion €)

	EU Imports				EU Exports			
Products	1995	2002	% 95–02	1st half 2003	1995	2002	% 95–02	1st half 2003
Textiles	14.3	16.3	14%	8.0	17.3	25.1	45%	12.2
Clothing	30.9	55.1	78%	26.4	11.9	18.4	54%	8.4
T & C	45.3	71.4	58%	34.5	29.2	43.5	49%	20.6

(Source: EU 2004)

categories: trousers, cotton blouses, cotton shirts and jackets). A licensing procedure is intended to guarantee the respective origin in the declared country of origin **(rules of origin)**.

The external tariffs of the EU for textile and clothing imports are in international terms (0.7% for raw materials, 5.3 % for yarn and fibres, 6.3% for fabrics and 11.9% for clothing)[13] relatively low. Within the framework of the Generalised System of Preferences (GSP), which, alongside the multilateral GATT rules, constitutes an independent tariff instrument, the EU grants 20% tariff reduction to TCI imports from developing countries and tariff exemption to Least Developed Countries (LDCs). For 1999, the EU declared tariff-free access for textiles and clothing to its market, which accounted for 40% of total imports, or a total value of 24 billion Euros.[14] The tariffs, set by developing countries, are significantly higher: in 2001, the EU indicated that, for example, external tariffs amounted to 20%–25% on textiles and clothing for countries such as Argentina, Brazil or Thailand, and around 40% (and in the clothing sector as high as 45%) for Pakistan. For many developing countries, these high tariffs function as a protectionist instrument against foreign competition. Against this background, the EU is pursuing a strategy of **quota reduction against tariff reduction**, in order to reverse the falling trend of EU exports to ATC countries, from 3.16 billion Euros in 1995 to 2.78 Euros in 1999. But the EU is also relying on tariff reductions on **multilateral levels**: it is demanding the removal of tariff peaks and a significant reduction in tariff escalation within the framework of the Doha Round of the WTO for all industrial goods, including the textile and clothing sector, and is thereby seeking to reach a common tariff rate, as near to zero as possible.

Wages and Working Conditions in the German Textile and Clothing Industry

Wages are distinctly lower than average wage levels in German manufacturing. In 2000, the average monthly wage in the textile industry was approximately 4,200 German Marks (= 2,143 EURO), and in the clothing industry approximately 3,900 German Marks (=1,990 EURO). In the textile services sector, wages were sometimes lower than this, even though changing company structures and production processes in recent years meant that workers in the industry were expected to meet greater working challenges and be better qualified.

Company size:

The German textile and clothing industry consists mainly of small and medium-sized companies. The average number of workers in companies in the textile industry is slightly over 100, and in the clothing industry slightly under. In the textile services sector there are few large companies, but a large number of small ones, often with only one or two workers. A high percentage of female workers is a characteristic of the clothing and textile services sectors – around 80% of the workforce.

Union membership:

The overall percentage of unionised workers in the textile and clothing industry is higer than in the metal and electrical engineering industry: around 40%. In the textile services sector it is only about 10%.

Working hours:

Western Germany has a 37-hour working week – whereas Eastern Germany has a 40-hour week.

Shift work:

In the textile industry shifts, including night shifts, are the rule. Around 10% of workers work regularly on Saturdays and almost 5% on Sundays. Where a worker has to work weekend shifts, this is compensated for by a reduction in the working week, for example, from the normal 37 to a 34-hour working week.

Occupational health and safety hazards:

In the textile industry, workers are exposed to high levels of noise pollution. Other hazards include the dust and chemicals produced during the manufacture of fabrics. In the clothing industry, the fact that workers are almost continuously bent over has led to problems of the cervical vertebrae.

(Source: www.igmetall.de/branchenspiegel/textil/arbeitsbedingungen.htm)

Table 14:
EU main trading partners in textile and clothing (Billion €)

Rank	Country	Imports		Rank	Country	Exports
1	**China**	11.4		**1**	**USA**	5.2
2	**Turkey**	9.0		**2**	**Swizerland**	3.4
3	**India**	4.0		**3**	**Poland**	2.6
4	**Romania**	3.8		**4**	**Romania**	2.6
5	**Tunesia**	3.1		**5**	**Japan**	2.2
6	**Bangladesh**	2.9		**6**	**Tunesia**	2,1
7	**Morocco**	2.7		**7**	**Turkey**	1.8
8	**Poland**	2.4		**8**	**Morocco**	1.8
9	**Hong Kong**	2.3		**9**	**Czech Rep**	1.6
10	**Indonesia**	2.0		**10**	**Russia**	1.5
11	**Pakistan**	2.0		**11**	**Hong Kong**	1.5
12	**Czech Rep**	1.6		**12**	**Hungary**	1.3
13	**USA**	1.6		**13**	**Norway**	1.0
14	**Korea**	1.6		**14**	**Bulgaria**	0.9
15	**Swizerland**	1.5		**15**	**Korea**	0.8
16	**Hungary**	1.3		**16**	**China**	0.7
17	**Thailand**	1.1		**17**	**Slovenia**	0.6
18	**Bulgaria**	1.0		**18**	**Slovakia**	0.6
19	**Taiwan**	0.9		**19**	**Saudi Arabia**	0.6
20	**Sri Lanka**	0.8		**20**	**Canada**	0.6

(Source: EU 2004)

The challenge of EU enlargement

Trade relations within the textile and clothing sector between the EU and the accession countries of Eastern Europe, were, up to now, characterised by »outward processing trade«, through which low production costs in these countries were exploited for the processing of semi-finished products (e.g. textiles from Germany are processed into clothing in Poland): 75%–90% of exports from accession countries went to the EU, whereas 45%–75% of imports into these countries were from the EU. The trend, which has lasted for many years, towards the relocation of production will, as a result of the »improved« conditions after EU enlargement, presumably become more pronounced, or in the case of the German textile industry even become a question of survival.[15] Nevertheless, huge problems for the textile and clothing industry in EU accession countries are foreseeable, since, by joining the EU, they will also have to adopt EU environmental legislation and »trade policy specifics«, in other words, relatively low EU external tariffs and the EU quota system[16]. EU accession, therefore, could have similar effects on new EU member states as the expiry of the ATC will have on smaller Asian producing countries. Germany's textile and clothing exports and the related further stages in processing could shift even further eastwards.

The German textile industry is more oriented towards Eastern Europe and its processing markets than any other EU countries. Accordingly, it will presumably be even more affected by EU enlargement towards Eastern Europe than the other existing EU states.

Voices / demands vis-à-vis the phase-out of the Agreement on Textiles and Clothing

The **EU Commission** is preparing for intensified competition in the textile and clothing sector after 2004. It has reacted to the ending of the ATC by producing an extensive study on the »Future of the textile and clothing sector in the enlarged European Union« and by setting up a High Level Group of experts for the period 2004–2006, which should develop measures and recommendations to improve the competitiveness of the European textile and clothing sector. In this High Level Group, representatives of the Commission and EU member states (Germany, France, Italy, Portugal) as well as representatives from industry/trade, associations and trade unions will work together.[17] Although the EU Commission is clear that the tougher competition after the lifting of quotas will »increase pressure on natural and human resources«[18] and that smaller producing countries, without preferential margins, will be driven out of the market, it is not calling for »the subsidising or privileged treatment of the sector or the substitution of import quotas by other protective measures.«[19] Instead, the EU is pursuing a strategy involving offensive and defensive elements[20]. The former include improved market access (eliminating tariff peaks and non-tariff trade barriers, harmonising rates towards the lowest levels) and opening new markets for traditional goods, bilateral and regional agreements (especially with Latin America), inspection of a free-trade agreement between the USA and NAFTA on the one side and Russia on the other, a concentration of EU trade preferences on the poorest countries, setting up an EU-Mediterranean free-trade zone (if possible by the end of 2004) and new developments, for example, in intelligent textiles. According to EU Trade Commissioner, Pascal Lamy, the defensive elements are intended to »counter illegal practices, dumping and fraud«, but also require compliance with fundamental social rights to also enable smaller developing countries »to block the Chinese steamroller«. This could include preferences for products made in compliance with international labour or environmental standards. But the protection of intellectual property rights (trademarks) and the establishment of »Made in Europe« labelling would also be included in these measures.

The **Foreign Trade Alliance of the German Retail Trade** (AVE) and the **Registered Association of Finished Product Importers** in Germany (VFI) view the expiry of the ATC and the liberalisation of

Romania, factory 24, Bucharest. (CCC)

The limits of free trade

»Let me be quite clear about this: extending the textile quotas will not solve anything. We cannot turn the clock back. I know that some in the North have raised the possibility, in particular US textile manufacturers, who, with their Turkish counterparts, are banking on the support of a few African countries. It seems that some sections of the EU industry (i.e. Italy) could be tempted to go along with them. These initiatives by industrialised countries are not, in my view, very productive. I would rather work with the sector to prepare offensive strategies, which do not, moreover, run counter to the interests of the most vulnerable small producer countries.«

Pascal Lamy, EU Trade Commissioner, 25.3.2004

These offensive strategies and the propagation of free trade reach their limits where the EU's leading position is seriously under threat – as demonstrated by Pascal Lamy's comments on China:

»As the Commission emphasised in October's communication, our approach to China must be multipronged: first, we have to insist that China scrupulously honour its WTO commitments, including the opening up of its textile markets; second, we need to monitor production conditions in China to avoid all forms of unfair competition; third, we have to make dialogue and cooperation the preferred means of tackling such problems; and, fourth and last, we have to be ready to use the veritable arsenal of trade defence instruments available to the EU in the case of trade with China.«

Pascal Lamy, EU Trade Commissioner, 25.3.2004

the trade in textiles and clothing as being long overdue. The latter stresses that rules of origin, especially those relating to the clothing sector, must either be abolished or liberalised. Within the sphere of environmental and social standards, the Association recommends the rejection of fixed rules and the deployment of declarations of intention and recommendations instead.[21]

The **IG Metall** trade union, together with the German Ministry of Economics and Technology, the Federation of Synthetic Fibres Industries and the Central Association of the German Textile Industry (Gesamttextil), ordered a study into the effects of the ATC quota reductions on the German textile and clothing economy. This study believes that the lifting of quotas will present a minor problem for the domestic market, but stresses the need for improved market access to markets that are still protected, for example in the USA. Moreover, it proposes preferences wherever low-wage countries comply with environmental and social standards, in order to counteract the likely »race to the bottom« from 2005.

Poland, factory 19, Lodz. (CCC)

Endnotes

[1] Cf. Ferenschild 1994, 30f.

[2] Lamy, in: EU 2004.

[3] Cf. www.igmetall.de/branchenspiegel

[4] Cf. Commission 2003. Unless otherwise indicated, all data is taken from the Commission Report and the Study EPPA / CEPS 2002.

[5] Cf. EPPA/CEPS 2002, xii.

[6] IG Metall 2002.

[7] Cf. Lamy 18.6.2003.

[8] Cf. www.igmetall.de. The Italian textile and clothing industry is entirely differently structured, producing in very small businesses and making up around one half of all European textile and clothing companies. Cf. EPPA/CEPS 2002, 234.

Socio-economic data on the countries of the European Union

Annual income per capita:
According to the classification of the UN Development Programme (UNDP) all 15 countries of the European Union rank among high-income countries (annual income per capita of US$ 9,206 or more).

Of the ten EU accession countries, all rank among middle-income countries (annual income per capita of between US$ 746 and US$ 9,205) – with the exception of Cyprus, which is ranked among high-income countries.

Population in 2001:
EU of 15: 380 million / ten accession countries: 77 million

GDP growth per capita 2000–2001:
EU of 15: 1.7% / ten accession countries: 3.4%

Average GDP growth rate 1990–2001:
EU of 15: 2.7% / ten accession countries: 1.1%

Life expectancy:
EU of 15: 77.9 / ten accession countries: 73.7

Illiteracy rate among adults in 2000:
Europe of 15: 0.1% / ten accession countries: 1.2%

Proportion of the population, who, from 1990 to 2001, lived on US$ 1 per day:
Europe of 15: 0.13% / ten accession countries: ca. 2%

Proportion of the population, who, from 1990 to 2001, lived on US$ 2 per day:
Europe of 15: 0.13% / ten accession countries: ca. 4.6%

Status of ILO core labour standards:
Europe of 15: all states have ratified the 8 conventions – apart from Spain, which has not ratified convention no. 138 (child labour).

Ten accession countries: all states have ratified the 8 conventions – with the following exceptions: Estonia has not ratified convention no. 111 (discrimination) and no. 138 (child labour); Latvia has not ratified convention no. 29 (forced labour) and no. 138 (child labour); Lithuania has not ratified convention no. 182 (worst forms of child labour); the Czech Republic has not ratified convention no. 138 (child labour).

Source: World Bank 2003 and UNDP 2003

[9] Cf. IG Metall 2002.

[10] Cf. EPPA/CEPS 2002.

[11] Argentina, Brazil, Hong Kong, Macao, South Korea, Singapore, India, Pakistan, Sri Lanka, Thailand, Indonesia, Malaysia, Peru and the Philippines.

[12] Cf. EU 2001.

[13] Cf. ibid.

[14] Cf. ibid.

[15] Cf. EPPA/CEPS 2002.

[16] Cf. Chandrasekhar 2003.

[17] Cf. EU 5.3.2004: In March 2004 the High Level Group met for the first time. It wants to present its initial recommendations to the European Council by July 2004.

[18] EU Commission 2003, 12.

[19] EU Commission 2003, 4.

[20] Lamy 2004.

[21] Cf. AVE 2001 and VFI 2003.

4 Interim evaluation

1. Because of the global distribution of the structures of production, the correlated global political interest in the textile and clothing industry as well as the power wielded by the major trading corporations and brand-name companies in this »game for cuffs and collars«, the textile and clothing industry is a prime example of the perspectives, the winners and losers in the process of globalisation.

2. In recent decades, the regulation of the textile and clothing trade has, in various phases, made a decisive contribution to the globalisation of production. The emergence of the clothing industry in many South East Asian, Central American and East European countries in the past ten to fifteen years is typical of this. From the outset, this regulation was at odds with the GATT rules.

3. The high-tech textile industry is principally concentrated in industrialised countries (with Germany in a top position). To a large extent, the management, design and marketing of the clothing industry are still controlled by the industrialised countries, while labour-intensive sectors have been transferred to the so-called low-wage countries.

4. The phase-out of the Agreement on Textiles and Clothing (ATC) at the end of 2004 will intensify competition in the textile and clothing sector and, presumably, contribute to a downward spiral in social and environmental standards.

5. The predominant reaction of industry and politics throughout the world is greater technological development and the concomitant increase in competitiveness. There are first signs of calls for the implementation of social and environmental standards (trade agreement between the USA and Vietnam, EU High-Level Group), even if their protectionist undertones are also quite plain.

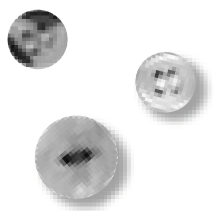
6. The complete dismantling of the quota system at the end of 2004 will reduce the number of supplier countries in the textile and clothing industry to somewhere between a third and a quarter of the around 160 supplier countries at present. This »slimming-down« of the number of suppliers will probably encourage the transfer of production to China (vacuum cleaner effect) and other major suppliers.

7. In this »slimming-down«, it is already possible to observe the regionalisation of globalisation, which, in the case of the EU, means growing significance for the Mediterranean region and Eastern Europe.

8. In view of the end of the multilateral regulation of the textile and clothing trade, the EU and the USA are committed to bilateral and regionally oriented policies, which are even more symptomatic of a regime where the strong dominate the weak. They have been using the ten-year period of the ATC, the implementation of which they delayed, to establish this regime, which comprises a mixture of tariff reductions, rules of origin, anti-dumping measures and preferential access to markets.

9. In the countries that will be victims of this »slimming-down« process, hundreds of thousands of jobs will be lost as a consequence. The new jobs that will subsequently be created in competitive locations such as China will, due to higher capital intensity on the one hand, and over-saturation of major markets and a lack of buying potential in many countries on the other, not compensate for the number of jobs lost.

10. The loss of hundreds of thousands of jobs mainly affect women, who, as a result of the hierarchical division of labour along gender lines, constitute the overwhelming majority of workers in labour-intensive industries such as the clothing industry. Furthermore, experience shows that in the competitive industries the higher technological level will lead to reductions in the number of female workers to the advantage of male workers.



5 What‘s to come when the quota goes? Strategy discussion and options for action

The millennium goals of the UN included halving absolute poverty by 2015. The expiry of the ATC threatens to undermine this objective, if a comprehensive package of measures of immediate aid is not put into effect for the many workers threatened with redundancy, for the small manufacturing countries and the subsidiary industries, and if structural improvements to the framework conditions are not introduced.

To achieve this, will require a considerable expansion of activities carried out up to now and improved co-ordination. There has been very little public debate on the phase-out of the ATC, either on international or national levels. Although individual organisations and groups such as the WTO, the ILO, the EU, the ITCB (International Textile and Clothing Bureau in the Third World), the ICFTU (International Confederation of Free Trade Unions), the ITGLWF (International Textile, Garment and Leather Workers Federation), Sweatshop Watch, TIE (Transnationals Information Exchange) Asia are publicising their own positions and publishing numerous specialist journals containing studies by various experts, very few proposals for joint action have been developed, never mind implemented. The EU Commission Conference on the ATC in May 2003 in Brussels, for example, understood itself to be more of a collection point for different positions than a committee for common agreements. Exceptions to this have included the „Labor Forum Beyond MFA" set-up by trade unions in the Philippines, and an international solidarity forum for workers in the clothing industries in LDCs (Least Developed Countries) held in Dhaka, Bangladesh from 18th to 19th August 2003. If, however, as the ITGLWF fears, millions of jobs in the global textile and clothing industry are under threat, greater efforts to develop joint strategies and courses of action are urgently required.

The previous chapters have listed a large number of actors, whose economic significance, interests and positions in the global trade in textiles and clothing are different from each other. In recent years, these differences have become decidedly more marked. So, today, for example, alongside the conflict of interests between industrial and developing countries, employers and employees, male and female workers, and governments and non-governmental organisations, there are also conflicts of interests within these camps that cut across traditional lines: thus, in several transition countries, transnational corporations (TNCs) with branches in the Third World have sprung up, whose economic power now greatly exceeds that of traditional suppliers of multinationals in the North. On the basis of this heterogeneity, it is not surprising that the demonstrated effects of the termination of the ATC at the end of 2004 – insofar as they already reveal clear trends – must be seen against the background of the respective »stakeholders«. Hence, regarding possible courses of action and strategies, there can, for example, also be no easy solutions or remedies for specific countries or industries.

Over the following pages, the strategic approach of a range of actors that have recently become evident, will be presented and discussed. Presumably, there will be an intensification of the international debate in the near future, which will necessitate extending the list below.

Agreement on Textiles and Clothing: extension desirable?

In view of the huge changes expected at the beginning of 2005, it is obvious that various parties will attempt to extend the ATC:

In recent months, **69 exporting countries** have called on the USA, the EU and Canada, to campaign for an extension to the ATC within the WTO (Kompas 15.3.03).

Similarly, **textile and clothing manufacturers in industrial countries** (USA etc.) and Turkey – which as the second most important supplier to the EU is afraid of competition from the Chinese from the beginning of 2005 – have called for an extension to the quota system.

The **Indonesian trade union, SPN**, is supporting the calls for the ATC to be extended. The forthcoming expiry of the ATC, according to the chairman Rustam Aksam, has already led to the closure of factories and job losses in Indonesia in the last few months. According to him, Indonesia is not yet prepared for liberalisation.

While the Indonesian Government originally demanded an extension to the ATC, it has, in the meantime, withdrawn from this position.

The following voices clearly disassociate themselves from these demands:

At its conference from 5th to 7th April 2004 in New Delhi, the association of 24 developing countries, the **International Textile and Clothing Bureau (ITCB)**, welcomed the ending of the ATC and rejected demands for the agreement to be extended or modified. Within the ITCB, it is presumably the developing countries, for example India, with a major textile and clothing industry that are setting the tone, and expecting liberalisation to offer considerable expansion opportunities.

International commercial enterprises and large brand-name companies such as Wal-Mart, Otto, Nike, adidas etc. have an interest in the lifting of the ATC, since, with the removal of the quotas, they would be able to offer cheaper products on their markets and thereby gain competitive advantages.

Up to now, the **governments of the quota-setting countries, the USA, Canada and in the EU** have not guaranteed their support for the call for an extension to the quota system. This position, however, is not synonymous with the intention of achieving full liberalisation of the textile and clothing trade.

This is because, for several years to come, they will still be able to use effective regulatory instruments against massive increases in imports from developing countries, if these were causing market disruptions and hardship in their countries. It is therefore to be expected that these governments will lay claim to the exemption clauses in the ATC, still valid after the 01.01.2005 deadline, and the safeguard provisions contained in China's WTO protocol of accession. At the beginning of 2004, the USA made use of these safeguard provisions for some clothing imports from China. Furthermore, the industrialised nations have unlimited opportunities to control unwelcome imports, such as ingenious rules of origin and anti-dumping measures, which they have been using for several years.

Fabrics in a market hall in Phnom Penh / Cambodia. (Frank Zander)

The **ITGLWF, Sweatshop Watch, the Centre for Political Dialogue in Dhaka and others** are calling for continued quantitative restrictions on imports from major exporters such as China in order to protect weaker, more vulnerable exporting countries and millions of threatened jobs. China, according to the ITGLWF, was guilty of huge violations of fundamental labour laws in the textile and clothing industry and was extending its expansion strategy through the exploitation of its workers. Moreover, the US American Trade Union Confederation AFL-CIO also called on the US Government to impose trade sanctions against China, as long as there was evidence of basic labour violations in the country and that it was gaining trade advantages as a result.

The **Study, produced in 2002 by the German Ministry of Economics, the Central Association of the German Textile and Clothing Industry (Gesamttextil) and the IG Metall trade union** dealing with the elimination of the ATC, states that protective measures against China would be easy to circumvent and consequently ineffective. The main thrust of this line of argument, however, has more to do with the consideration that such measures would in fact block other important German exports to China.

■ **Conclusion:** *Even if there appears to be little likelihood of an extension to the ATC being pushed through the WTO, calls for further regulatory instruments make sense. This could guarantee temporary protection for the threatened industries and jobs in developing countries through targeted quantitative restrictions on major exporters such as China.*

Improved market access

Alongside the discussion on the extension of the quota system, many voices are calling for improved market access:

In the **Declaration of the International Solidarity Forum in Dhaka** of August 2003, it is stated that all LDCs (Least Developed Countries) should receive duty-free and quota-free access to the markets in industrialised countries – with rules of origin that strengthen their industries. Orienting the global trade system towards the goal of sustainable development, according to the Dhaka Declaration, would only be possible, if the poorest countries were guaranteed protection for their internal domestic policies as well as improved market access.

The **Director of the Centre for Political Dialogue in Dhaka**, Bhattacharyia, called for duty-free and quota-free access for all products from LDCs to all WTO member states.

Within the WTO-Doha-Development Round, Indonesia is advocating lower tariffs on textiles, in order to minimize the impacts of Indonesia's exclusion from preferential trade agreements. Developing countries have proposed a 5-year moratorium on anti-dumping measures from the beginning of 2005.

The **ILO World Commission on the Social Dimension of Globalisation**, in its report from February 2004, proposed that the rights of LDCs should be extended and incorporated in the Special and Differential Treatment (SDT) provided for in the WTO regulations, as well as the new orientation of the rules of origin in order to benefit the national development of Third World Countries.

■ **Conclusion:** *In view of the fact that the tariffs for textiles and clothing in industrialised nations are among the highest in the world and that anti-dumping measures are already a favoured instrument of industrialised nations, these proposals for the protection of the market share of smaller suppliers are all sensible. But these proposals are not enough to remedy the structural decline in the trade in textiles. Improved market access in the industrialised nations maintains or improves the exports of many developing countries, but does not directly contribute to improving working conditions. For, if the savings from lower tariffs are eaten up by higher working costs, the much sought-after »competitiveness«, of course, declines. Reform proposals for the global trade system must, therefore, be linked to a range of measures across all levels, as outlined below.*

Increasing competitiveness

Irrespective of if, and, if so, in whose interest the textile and clothing industry continues to be regulated or liberalised, calls for an increase in the competitiveness of each of the national textile and clothing industries are ringing out:

Driven by the relatively successful »catch up« development of former developing countries such as South Korea or Taiwan, today, the **governments and industries in countries throughout the world involved in the production of textiles and**

Clothing factory in Indonesia. (PMK Jakarta)

clothing are counting on increasing competitiveness. They hope this will enable them to endure the tougher competition when the ATC ends. This has been demonstrated by the diverse country examples in this brochure. Industrialised nations such as Germany are also accelerating the technological development of their remaining textile and clothing industries. One important way of increasing competitiveness, also now being considered by industrialised nations (see discussion on a »Special Economic Zone East Germany«), is through the »Export Processing Zones« despite proven structural deficits and risks. Governments throughout the world are counting on this solution, in the hope of belonging to the few winners in this development trend.

On one hand, it is often overlooked that the success of South Korea or Taiwan is based not least on the fact that their governments, contrary to the neoliberal formula of global market orientation, were able to push through a **robust national component** in their economic policies. Hence, they ensured that the »Export Processing Zones«, through supplies, qualification programmes for employees etc., were linked to the national economy. The picture today, however, is entirely different for the vast majority of workers in the now more than 3,000 »Export Processing Zones« worldwide, in which the predominantly young female workers are driven to the brink of complete exhaustion and replaced after a couple of years by new employees. The sum of the know-how they have acquired is limited to the sheer art of survival.

On the other hand, the global offensive to increase competitiveness also leads to greater technological progress in production and, consequently to a massive reduction in low-skilled jobs, which, in turn, primarily affects women.

That is why trade unions such as the ITGLWF, the Philippine Labor Forum Beyond MFA, the participants at a conference organised by the Friedrich Ebert Foundation in September 2002 in Singapore on China's accession to the WTO, the non-governmental organisations TIE Asia and Sweatshop Watch/USA are calling for **training and further education programmes for workers in the textile and clothing industry**, since this alone will improve their chances on the job market and enable them to escape dependency on low-paid jobs.

What, however, would the long-term consequences be if everyone were to follow the same strategy? Global overproduction and price reductions, cuts in jobs and social standards as well as the elimination of women's jobs as a result of technological progress. Most workers would end up losing if this strategy was pursued.

■ **Conclusion:** *Against the background outlined above, increasing productivity is only possible for the few and, in a context where the major sales markets are saturated, it would only make sense, if it contributed to resolving the under-provision in textiles and clothing in Southern and Eastern countries. That is why the regional development of these countries must be improved. This could be achieved by industrial diversification in developing countries, insofar as these are not entirely dependent on export production. Whatever, decent work must become the practice in »Export Processing Zones«, including providing training and further education for workers as well as space for organising in the textile and clothing industry.*

Social security and decent work

When the worlds of politics and business in industrial nations demand that developing countries comply with social standards, there are grounds for suspicion that they are actually conveniently misusing these standards in the pursuit of their own protectionist interests. For, more than anything else it was the cost pressure from these industrialised countries which caused the downward spiral of social standards in developing countries. That is why, in recent years, many developing countries have, for example, objected to social standards being admitted into the WTO. Nevertheless, many organisations are calling for binding regulations for the implementation of social security and decent work, not only in the textile and clothing industry.

In its concluding report from February 2004, the **ILO World Commission on the Social Dimension of Globalisation**, alongside its demands for measures for the implementation of fundamental labour standards, is also calling for a minimum level of social security.

The **ITGLWF** names its long-term goals as being the binding acceptance of international labour standards in all multilateral and bilateral trade agreements, in investment agreements and development strategies for industries, and that these are accompanied by rewards and sanction-based mechanisms (ITGLWF 2.9.03).

The **ICFTU** is committed to setting up a special WTO committee to anchor social and environmental standards in all WTO agreements and structures. All WTO agreements should be examined at the outset to see if they contribute to the objectives of combating poverty and securing decent working conditions before they are further implemented.

The **Declaration of the International Solidarity Forum in Dhaka** of August 2003, states that the highest principle of all WTO negotiations should be combating poverty. The Conference participants spoke in favour of setting up social safety net programmes, which are to be financed not only by government but also by employers. The **Philippine Labor Forum Beyond MFA** is calling for companies to contribute to such government programmes.

■ **Conclusion:** *Social protection and decent work must be bindingly regulated at an international level. Since this requirement is contrary to achieving increases in competitiveness, it is neither a chief concern of the industries themselves nor of the ‚competition states'. The support lobby for this is largely restricted to trade unions and non-governmental organisations, whose co-operation, bearing in mind their lack of power, is even more important.*

Gender and globalisation

Social security and decent work are inconceivable without a new orientation of the economy and society in terms of gender equality. Directing the economy towards the goal of gender equality was a key element in the **closing report of the ILO Commission**. This did not happen by chance, as women account for two-thirds of the world's poor and casually employed. With regard to proposed countermeasures, the report limits itself, however, to improved education, health care and food security, and sidesteps the key issue of the division of labour along gender hierarchical lines, according to which women are almost exclusively responsible for unpaid domestic and family work.

The **UN Development Fund for Women (UNIFEM)** regards the redistribution and re-evaluation of work in society as a key to overcoming the discrimination of women in working life and society. If this challenge is disregarded, programmes for the advancement of women run by governments, employers and others will simply remain incomplete.

Instruments that can be used to implement the calls for a gender balanced economy, according to the **UN World Women's Conference in Beijing in 1995**, could be the inclusion of the value of unpaid work in overall national budgets, or the examination of state budgets vis-à-vis their gender-specific impact (Gender Budgets), as demanded, for example, by UNIFEM.

Applied to the textile and clothing industry, with its proportion of women workers between 70% and 90%, the **delegates to the International Solidarity Forum in Dhaka** and the **Philippine Labor Forum Beyond MFA** believed it was the responsibility of governments and employers, over and above guarantees of decent paid work, to provide support for the care economy of textile workers, for example through free education or health provision, inexpensive housing programmes and safe transport.

■ **Conclusion:** *The realisation of decent work will only then be possible, when the whole living environment of the (mainly female) workforce and not just the specific conditions in the workplace are integrated into this concept. Programmes for the advancement of women in state, business and civil-society-run institutions must be linked to initiatives for the redistribution and re-evaluation of domestic and paid labour.*

Changing Structural frameworks, forging new alliances

When all conceivable alternatives are no longer measured against the yardstick of competitiveness, scope for proposals to transform the system will develop.

Both publishers, the Ökumenische Netz (Ecumenical Network) Rhein Mosel Saar and the SÜDWIND Institute for Economics and Ecumenism, which are involved in the Europe-wide campaign Clean Clothes Campaign (CCC), measure economic and political development and decisions in terms of their impact on the poor. Economic success, from this perspective, is not (solely) demonstrated by productivity levels or growth figures in an industry such as the textile and clothing sector, but by considering if the situation of the poorest has deteriorated or improved. Economic policies that justify increases in poverty as indispensable adjustments are labelled inhumane by the publishers.

The changes to the trade in textiles and clothing after the beginning of 2005 should be used as an opportunity to think about a **new orientation of the economy**. The precedence of growth, competitiveness and profit-making must be replaced by the **precedence of social security, human development and decent work for all**. To achieve this, though, will require a genuinely global approach that extends beyond all policies relating to clientele and competition. Global trade, investment, the financial system, work and social security must be realigned and oriented to the principle of **»Economics for the benefit of human life«**. This necessitates a binding regulatory framework, for the benefit of all.

There is no lack of proposals for a »different world«, such as the reform of the international financial system, the reform or dismantling of the Bretton Woods institutions – the IMF and World Bank, the strengthening of the ILO or the criticism of competition states«. But there is a lack of international alliances to debate and develop these proposals, and a lack of power to put them into practice.

■ **Conclusion:** *If the structural framework that is currently supported by nation states, multilateral organisations and transnational corporations is to be changed, these new international alliances between trade unions, social movements, non-governmental organisations, churches etc. are necessary.*

Global social accountability of transnational corporations

An example of these new alliances, or at least a step towards their development, has been the recent social initiatives for the implementation of social standards.

For the national and international obligation to comply with minimum social and labour legislation standards, which have been systematically undermined in the textile and clothing industry and other branches, needs to be supplemented by the introduction of global social accountability measures by TNCs, as part of multi-stakeholder initiatives. One answer to the neo-liberal-driven deregulation policies concerning social and labour legislation can be found in the public relations campaigns organised in recent years by trade unions and non-governmental organisations such as the CCC, which have

Seamster in Phnom Penh / Cambodia. (Frank Zander)

moved TNCs to support codes of conduct and independent monitoring systems.

These alliances regard themselves, **supplementing rather than replacing** state implementation of social and labour laws. However, a flood of corporation-led initiatives on global social responsibility is threatening to undermine their complementarity of regulation by the state. In contrast, multi-stakeholder institutions such as the Ethical Trading Initiative, the Fair Wear Foundation, the Fair Labour Association, the Worker Rights Consortium, Social Accountability International etc., see themselves as a second important mainstay for the respect of internationally and nationally guaranteed human rights and labour laws. They work closely with partner organisations in developing and transition countries.

■ **Conclusion:** *Alongside their efforts to strengthen state regulations, new social alliances comprising trade unions and civil society organisations in industrial, developing and transition countries should also push for the global social accountability of TNCs in multi-stakeholder initiatives. Moreover, their central priority must be to work for a new economic and political orientation in line with the above.*

Interim regulations to secure immediate survival

The development and implementation of the above mentioned proposals for action require time -of which little remains before the lifting of quotas. These proposals are insufficient to adequately support the workers who, as a consequence of the end

Poland, factory 16, Plock. (CCC)

of the ATC, are threatened with unemployment and social insecurity. It is essential that interim regulations for the affected workers are immediately introduced.

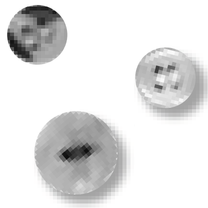
The **International Solidarity Forum in Dhaka** called for social safety net programmes and a special fund to be set up for the clothing and textile workers affected by the end of the ATC, to be financed by governments and employers. The **Philippine Labor Forum Beyond MFA** also spoke up for appropriate financing from both sides.

The **SÜDWIND Institute** and the **Ökumenische Netz** propose that transnational corporations and brand-name companies, in particular, should also be involved in the financing, as they are the main beneficiaries of the global textile and clothing industry and will gain considerable advantages from the liberalisation of the global textile market. In future, exporters in developing and transition countries will be able to sell their products more cheaply, i.e. without the quota price. The publishers of this booklet believe that they should not pass these advantages onto the consumer, who, so far, has had to spend exceptionally little on clothing. Through publicity campaigns, the publishers will do all they can for the growth in consumer understanding for this kind of solidarity with the affected workers.

The urgency of the situation also means it will be necessary to set up public forums to debate the measures and responsibilities that will be required. The Dhaka Conference has encouraged national committees of governments, workers and groups from civil society to work towards this. These committees should determine the respective national policies for the period after the end of the ATC.

Final remarks

The short and long-term proposals for action presented above are intended to stimulate debate, a debate that will have to be developed further at all possible levels. In the situation of upheaval facing the global trade regime that has been looming since the collapse of the meeting of the Ministerial Council of the WTO in Seattle in 1999, the end of the ATC could perhaps contribute to a further challenging of undemocratic, inhumane globalisation policies and to the further development of alternatives.



6 Appendix

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Abbreviations

ACFTU	All-China Federation of Trade Unions
AFTA	ASEAN Free Trade Area
AGOA	African Growth Opportunity Act
AMRC	Asia Monitor Resource Center/ Hong Kong
AoA	Agreement on Agriculture (WTO)
ASEAN	Association of South East Asien Nations
ATC	Agreement on Textiles and Clothing
AVE	Außenhandelsvereinigung des Deutschen Einzelhandels (German Retail Association for External Trade)
CBPTA	Caribbean Basin Trade Partnership Act
CCC	Clean Clothes Campaign
EPZ	Export-Processing Zone
FES	Friedrich Ebert Stiftung
GATS	General Agreement on Trade in Services WTO
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
HKCIC	Hong Kong Christian Industrial Committee
ILO	International Labour Organisation
ICFTU	International Confederaton of Free Trade Unions
ITC	International Trade Commission/ USA
ITCB	International Textiles and Clothing Bureau
ITGLWF	International Textile, Garment and Leather Workers' Federation
LDC's	Least Developed Countries
MFA	Multi-Fibre Arrangement
MOFTEC	Chinese Ministry of Foreign Trade and Economic Cooperation
NAFTA	North American Free Trade Area
OECD	Organisation for Economic Co-Operation and Development
SA 8000	Social Accountability 8000, USA
SDT	Special and Differential Treatment (WTO)
TCI	Textile and Clothing Industry
TIE	Asia Transnationals Information Exchange Asia
TMB	Textiles Monitoring Body (WTO)
TNC	Transnational Corporation
TRIMS	Trade-Related Investment Measures
TRIPS	Trade-Related Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
VFI	Verband der Fertigwarenimporteure in Deutschland (German Association of Importers of Finished Products)
WRAP	Worldwide Responsible Apparel Production
WTO	World Trade Organisation

Glossary

■ Anti-Dumping Measures
Dumping is where a company exports products at prices lower than it charges on its own home market. Anti-dumping measures impose an additional tariff on these products in order to prevent them from ousting producers in import countries or competitors in other countries from the market. Through the reduction of tariffs and other trade barriers since the foundation of GATT in 1947, industrialised countries, in particular, have introduced anti-dumping measures against »sensitive« products from developing countries such as textiles and steel. Low-priced third-world products were often used by industrialised countries as a convenient excuse to initiate lengthy anti-dumping procedures which resulted in extraordinarily high administrative costs for many developing countries.

■ Contract labour
As opposed to an established employment relationship, contract labour lacks many of the labour and social security regulations intended to protect workers (see »Informalisation«).

■ Core labour standards of the ILO
In its special »Declaration on Fundamental Principles and Rights at Work and its Follow-up«, adopted by the International Labour Organisation in 1998, the conventions on freedom of association, the right to collective bargaining and on the prohibition of forced labour, child labour and discrimination were made binding for all member countries. These conventions are called the core labour standards. In the framework of all 184 conventions of the ILO, the core labour standards are therefore specifically highlighted.

■ Ethical Trading Initiative
The British »Ethical Trading Initiative« (ETI), launched in 1998, is an alliance of companies, unions and non-governmental organisations which aims to improve labour conditions in the worldwide supply chains of member companies through testing control mechanisms (see »Multi-Stakeholder Initiative).

■ Export Processing Zone
An »Export Processing Zone« (EPZ) is an industrial zone offering special incentives for foreign investors in which imported materials are processed and re-exported thereafter« (ILO 2003). Most of the about 3,000 EPZs are based in developing and transformation countries. The majority of the 43 million EPZ employees – 70–90% are women – work in the garment and electronic industry. The incentives for foreign investors consist of tariff and tax reductions, advantages concerning the costs of the infrastructure and exemptions from applied labour and social security laws. One specific problem is the repression of trade union rights.

■ Fair Labor Association
The US-American »Fair Labor Association« (FLA) was launched in 1998. It verifies the implementation of social standards in the worldwide supply chains of member companies such as Nike, adidas, puma etc. Representatives of US universities and non-governmental organisations are also members of the FLA (see »Multi-Stakeholder Initiative«).

■ Fair Wear Foundation
The Dutch »Fair Wear Foundation« (FWF) was founded in 1999 and is an alliance of clothing companies, unions and non-governmental organisations such as the Clean Clothes Campaign. The FWF verifies the implementation of social standards in the worldwide supply chains of member companies (see »Multi-Stakeholder Initiative«).

■ Informalisation
Informal labour is not protected by labour and social security laws or by Collective Labour Agreements. Informalisation means the gradual process of removing legal protection from formal employment relationships. Informal labour is also called precarious, atypical, insecure or unprotected labour. In industrialised countries, informal labour was long considered to be the preserve of women, but with the march of globalisation it has expanded among men as well as women.

■ Most-Favoured Nation Treatment
Trade Preferences apply to all WTO member countries equally.

■ Multi-Stakeholder Initiative
Multi-Stakeholder Initiatives are independent bodies which verify the implementation of social standards in the supply chains of member companies. Multi-Stakeholder Initiatives are alliances of companies, unions, non-governmental organisations, and sometimes also governments (see ETI, FLA, FWF, SAI and WRC).

■ Non-Discrimination
Foreign and national competitors or products must be treated equally.

■ Outward Processing Trade
»Outward Processing Trade« (OPT) stands for a type of production in which imported semi-finished products undergo limited processing with little value added. OPT mainly takes place in Export Processing Zones or neighbouring low-wage countries.

■ Preferential Trade Agreement
Preferential trade agreements fix preferential tariffs between trading countries.

■ Protectionism
In world trade, protectionism means protecting a national economy from foreign competition. GATT and WTO explicitly aim(ed) at gradually liberalising world trade – by reducing protectionist measures such as quotas, dumping, export subsidies and tariffs. After the phase-out of the WTO Agreement on Textiles and Clothing at the end of 2004, industrialised countries are likely to use modern protectionist measures such as anti-dumping, rules of origin and safeguards (part of the protocol of China's accession to the WTO).

■ Quota
In world trade, quotas represent quantitative restrictions, the abolition of which was an explicit objective of GATT and WTO rules. The most prominent example are the quotas of the world textile and clothing trade which were established in the Cotton Agreement of 1963, in the Multi-Fibre Arrangement of 1974 and in the Agreement on Textiles and Clothing of 1995.

■ Quota price
The Multi-Fibre Arrangement (MFA) which came into being in 1974 as a special GATT agreement, was a framework agreement which foresaw annual bilateral treaties between exporting and importing countries. Governments of exporting countries distributed quotas to specific national producers, allowing them to export their products. Although governments did not officially sell these quota licences, a flourishing quota trade has developed in many countries over the years. This trade led to a quota price (or rent) being added to the production costs of textiles and garment. The quota price amounts to 10–30% of the FOB (Free On Board) price, i.e. the price producers have to pay up to the point of shipment in the harbour of origin. After the phase-out of the Agreement on Textiles and Clothing at the end of 2004, producers are likely to pass on the price advantage to worldwide importing companies which in turn will offer a better price to consumers.

■ Reciprocity
Reciprocity means the principle of mutually agreed equal treatment in lowering trade barriers. For instance, developing countries are called upon to undertake liberalisation commitments equal to those of industrialised countries.

■ Rules of origin
Rules of origin determine what percentage of raw materials or semi-finished products must originate in the country of the trading partner in order for specific trade preferences to take effect.

■ Social Accountability International
Social Accountability International (SAI), founded in 1997 in the USA, is an alliance of companies, unions and non-governmental organisations. It verifies the implementation of social standards in the worldwide supply chains of member companies such as Dole, Eileen Fisher and Otto Versand (see Multi-Stakeholder Initiative).

■ Special and Differential Treatment
»Special and Differential Treatment« (SDT) allows developing countries to be granted exceptions from WTO rules, such as special transition periods or reduced obligations. Developing countries criticize that SDT rules are applied much too restrictively to them, too seldom and with insufficient differentiation.

Sub-Contracting
In global sourcing, transnational companies orchestrate sophisticated supply chains composed of suppliers, sub-contractors, licensees and home-workers. The system of outsourcing orders to judicially independent, but economically dependent sub-contractors facilitates an informalisation of labour and allows production costs to be reduced.

■ Tariff escalation
Tariffs are increased according to the degree of processing of a product. Tariff escalation is used by industrialised countries to protect their markets. It prevents third world countries from developing their manufacturing industries.

■ Worker Rights Consortium
The »Worker Rights Consortium« (WRC), launched in 2000 in the USA, is an alliance of US universities, trade unions and non-governmental organisations which verifies the implementation of social standards in the supplier chains of licensee companies of member universities (see Multi-Stakeholder Initiative).

Contact addresses

Ökumenisches Netz Rhein Mosel Saar
Pfarrer-Werner-Mörchenstr. 1
D 56564 Neuwied
Tel. 02631-354140,
Fax: 02631-354141
e-mail: oekumenisches.netz@t-online.de
Homepage: www.oekumenisches-netz.de

SÜDWIND Institut für Ökonomie und Ökumene
Lindenstr. 58-60
D 53721 Siegburg
Tel.: 02241-259530
Fax: 02241-51308
e-mail: wick@suedwind-institut.de
Homepage: www.suedwind-institut.de

Deutsche Kampagne für Saubere Kleidung
Koordinationsbüro
c/o Vereinte Evangelische Mission
Rudolfstr. 131
42219 Wuppertal
Tel.: 0202-89004-316
Fax: 0202-89004-79
e-mail: ccc-d@vemission.org
Homepage: www.saubere-kleidung.de

Gerechtigkeit jetzt!–Die Welthandelskampagne
Am Michaelshof 8-10
D 53177 Bonn
Tel.: 0228-368 10 10
Fax: 0228-92 39 93 56
e-mail: info@gerechtigkeit-jetzt.de
Homepage: www.gerechtigkeit-jetzt.de

Forum Umwelt & Entwicklung
Am Michaelshof 8-10
D 53177 Bonn
Tel.: 0228-35 97 04
Fax: 0228-35 90 96
e-mail: forumue@compuserve.com
Homepage: www.forumue.de

ATTAC Bundesbüro
Münchener Str. 48
D 60329 Frankfurt/Main
Tel. 069-900 281-0
Fax: 069-900 281-99
e-mail: info@attac-netzwerk.de
Homepage: www.attac-netzwerk.de

Weltladen-Dachverband
Karmeliterplatz 4
D 55116 Mainz
Tel.: 06131-68907-80
Fax: 06131-68907-99
e-mail: c.albuschkat@weltlaeden.de
Homepage: www.weltlaeden.de

WEED
Torstr. 154
D 10115 Berlin
Tel. 030-275 82 163
Fax: 030-275 96 928
e-mail: weed@weed-online.org
Homepage: www.weed-online.de

German Watch
Kaiserstr. 201
D 53115 Bonn
Tel.: 0228-60492-0
Fax: 0228-60492-19
e-mail: wiggerthale@germanwatch.org
Homepage: www.germanwatch.org

Misereor
Bischöfliches Hilfswerk
Mozartstr. 9
D 52064 Aachen
Tel.: 0241-442-0
Fax: 0241-442-188
e-mail: piepel@misereor.de
Homepage: www.misereor.de

Brot für die Welt
Stafflenbergstr. 76
D 70184 Stuttgart
Tel. 0711-2159-0
Fax: 0711-2159-368
e-mail: advocacy@brot-fuer-die-welt.de
Homepage: www.brot-fuer-die-welt.de

Deutsche Kommssion Justitia et Pax
Kaiser-Friedrich-Str. 9
D 53113 Bonn
Tel.: 0228-103 217
Fax: 0228-103 318
e-mail: Justitia_et_Pax_Deutschland@t-online.de
Homepage: www.justitia-et-pax.de

IG Metall Vorstand
Lyoner Str. 32
D 60528 Frankfurt/Main
Tel.: 069-6693 2589
Fax: 069-6693 2007
e-mail: christiane.wilke@igmetall.de
Homepage: www.igmetall.de

Ver.di Bundesverwaltung
Potsdamer Platz 10
D 10785 Berlin
Tel.: 030- 6956-0
Fax: 030-6956-3006
e-mail: uwe.woetzel@verdi.de
Homepage: www.verdi.de

Internationaler Bund Freier Gewerkschaften (ICFTU)
Boulevard du Roi Albert II, Bte 1
B 1210 Bruxelles
Belgium
Tel. : +32-2-2240 211
Fax : +32-2-2015 815
e-mail : multinationals@icftu.org
Homepage : www.icftu.org

Internationale Textil-, Bekleidungs- und Lederarbeiter–Vereinigung (ITGLWF)
8, rue Joseph Stevens
B 10000 Bruxelles
Belgium
Tel. : +32-2-5122 606
Fax : +32-2-5110 904
e-mail : office@itglwf.org
Homepage : www.itglwf.org

Internationale Arbeitsorganisation (ILO)
4, route des Morillons
CH 1211 Genève
Switzerland
Tel. : +41-22-799 7940
Fax : +41-22-799 8577
e-mail : webinfo@ilo.org
Homepage : www.ilo.org

World Trade Organisation (WTO)
Centre William Pappard
154, rue de Lausanne
CH 1211 Genève 21
Switzerland
Tel.: +41-22-739 5111
Fax: +41-22-731 4206
e-mail: enquiries@wto.org
Homepage: www.wto.org

International Textiles and Clothing Bureau (ITCB)
15, Route des Morillons
CH 1218 Grand Saconnex, Genève
Switzerland
Tel. : +41-22-929 1616
Fax : +41-22-929 1617
e-mail: itcb@bluewin.ch
Homepage: www.itcb.org

European Commission
Unit Trade A.3, Information
200, Rue de la Loi (Char 7/116)
B 1049 Bruxelles
Belgium
Tel. : +32-2-295 2888
Fax: +32-2-296 9854
Homepage: http://trade-info.cec.eu.int/textiles/index.cfm

Clean Clothes Campaign
International Secretariat
Postbus 1001 GN Amsterdam
Netherlands
Tel.: +31-20-412-27-85
Fax: +31-20-412-27-86
e-mail: info@cleanclothes.org
Homepage: www.cleanclothes.org

Centre for Research on Multinational Corporations (SOMO)
Keizersgracht 132
NL 1015 CW Amsterdam
Netherlands
Tel.: +31-20-639 1291
Fax: +31-20-639 1321
e-mail: info@somo.nl
Homepage: www.somo.nl

Oxfam International
c/o Oxfam GB
274 Banbury Road
Oxford OX 27 DZ
Great Britain
Tel. +44 - 1865 - 311311
e-mail: oxfam@oxfam.org.uk
Homepage: www.oxfam.org.uk

Sweatshop Watch
310 Eighth Street
Suite 303
Oakland CA 94607 USA
Tel: + 1-510-834-8990
Fax: + 1-510-834-8974
e-mail: sweatinfo@sweatshopwatch.org
Homepage: www.sweatshopwatch.org

Transnationals Information Exchange – TIE Asia
141 Ananda Rajakaruna Mw
Colombo 10
Sri Lanka
e-mail: tieasia@tieasia.org
Homepage: www.tieasia.org

Ökumenisches Netz

The Ökumenisches Netz (Ecumenical Network) links up individuals, groups and institutions in the northern region of Rhineland-Palatinate and in Saarland. Since 1992, it has been a member of the ecumenical movement for »Justice, Peace and the Integrity of Creation«.

Its main working concerns are the Clean Clothes Campaign, fair trade, the debt situation of developing countries and globalisation and the Rhineland-Palatinate. It is part of such networks as ELAN (Regional Network on Development and Co-operation) and local social forums.

Ökumenisches Netz Rhein Mosel Saar
Pfarrer-Werner-Mörchenstr. 1
D-56564 Neuwied
Tel. 02631-354140,
Fax: 02631-354141
e-mail: oekumenisches.netz@t-online.de
Homepage: www.oekumenisches-netz.de

Ökumenisches Netz
Rhein – Mosel – Saar e.V.

SÜDWIND

The SÜDWIND Institut für Ökonomie und Ökumene (»South Wind Institute of Economics and Ecumenism«) is a church-oriented third world research center which was founded in 1991 in Cologne/Germany. SÜDWIND analyses different sectors of the world economy from the perspective of the poor and develops options for change. It closely cooperates with similar organisations, trade unions, womens groups etc. in countries of the South and the North.

Current research topics are:

- Cancellation of third world debts
- Ethical investment
- Social standards in the world-wide garment industry
- International second-hand garment trade
- Informal work/economy

SÜDWIND
Institut für Ökonomie und Ökumene
Lindenstraße 58–60
D-53721 Siegburg
eMail: buero@suedwind-institut.de
Tel. 0 22 41/5 36 17 + 6 78 01 • Fax 5 13 08
www.suedwind-institut.de

At the end of 2004, the Agreement on Textiles and Clothing of the World Trade Organisation (WTO) will be phased out. As from the beginning of 2005, the quota regime, which has characterised the world trade in textiles and clothing in recent decades, will disappear. Textile and clothing exports of developing and Eastern European countries to industrialised countries will then no longer be subject to quantitative restrictions.

The textile and clothing industry is a perfect example of the contradictions and the development impasse inherent in the process of neo-liberal globalisation: Contrary to the logic of free trade, the industrialised countries have used it to enforce their protectionist interests. The "job miracle" in the third world was accompanied by precarious working conditions. Women, who constitute a high percentage of the workers in this industry, have largely been unable to improve their social status.

The liberalisation of the world market of textiles and clothing will be accompanied by sharp structural transformations. It will have a dramatic impact on numerous production countries and industries as well as on millions of workers. Whereas it appeared for a long time as if the quota regulation of the global trade in textiles and clothing has only protected the industries in developed countries, it has become increasingly obvious that it also allowed some developing countries to build up their own industries. Who, then, will consider the phase-out of the Agreement on Textiles and Clothing to be a risk rather than an opportunity? What are those risks and opportunities if you look at them closely? Which strategies should be developed to support the interests of the workers in the worldwide clothing industry?

This publication analyses the development of the textile and clothing trade in the framework of GATT and the WTO. It presents a series of country case studies as well as proposals for action.

The two publishers consider this brochure to be a contribution to the work of the Clean Clothes Campaign which for many years has struggled to improve social standards in the international clothing industry.

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