

A New Pattern Is Cut for Global Textile Trade

China Likely to Dominate as Quotas Expire

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AMPARA, Sri Lanka -- Wild monkeys and Buddhist shrines outnumber any signs of industry, and rampaging elephants are not uncommon. The closest port lies seven hours away, down a rutted road. Yet here in the jungle of this small island nation in the Indian Ocean, the Daya Apparel Export Ltd. factory and others like it churn out pants and shirts for American Eagle Outfitters, A-line skirts for the Gap and bras for Victoria's Secret.

"If I didn't have this job, we wouldn't have enough to eat," said 20-year-old Mohammed Ismail Mazeela, one of 2,000 women from surrounding villages who work at the plant. The \$40 monthly wage supports her family in Sammamthurai village, where people walk trash-strewn lanes in bare feet. It buys the electricity powering the lone bulb in her shack, the food her mother cooks over the wood fire on their concrete floor, and schoolbooks for her sister's three children. "There is nothing else here."

Soon there may be even less. On Jan. 1, World Trade Organization rules governing the global textile trade will undergo their biggest revision in 30 years. The changes are expected to jeopardize as many as 30 million jobs in some of the world's poorest places as the textile industry uproots and begins consolidating in a country that has become the world's acknowledged low-cost producer: China.

About \$400 billion in trade is at stake, but the

implications are greater than the money involved. Since 1974, many developing countries have pinned their economic hopes on a complicated system of worldwide quotas that guaranteed each a specified share of the lucrative textile markets in the United States and Europe. By specifying how many blue jeans or how much fabric an individual country could export, the quotas have effectively limited the amount of goods coming from major producers like China, while giving smaller or less competitive



At the Timex (Garments) Ltd. factory in Sri Lanka, workers stitch bras for major U.S. brands. China's efficiency and speed to market may lead to substantial layoffs in Sri Lanka. (Peter S. Goodman -- The Washington Post)

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nations room to participate. Capital and jobs followed the quotas, helping countries build an industrial base through textile exports.

The jobs are low-paying and tough: Overseas textile plants have been a central target for labor and human rights activists. But the textile industry has, since the Industrial Revolution, provided an opening wedge for broader economic development, and officials in dozens of countries hoped it would continue to do so.

Now, in a matter of weeks, those quotas will be scrapped. Buyers for companies like J.C. Penney Co. or Banana Republic Inc. will be able to purchase as much as they want from whoever gives them the best price -- and there is widespread agreement that China will capture an increasing share of the trade. The coming transition has already prompted factory closings in places such as Honduras, worry about falling wages and labor standards in Cambodia, and a general despair in Sri Lanka and dozens of other countries expected to lose a key economic prop.

If the emerging world economy has sparked anxiety among white-collar Americans about outsourcing abroad, the expiration of the textile quotas signals that, in the endgame of globalization, even sweatshop jobs can be undercut.

"You're dropping us in the well on the first of January with no rope. Fifty to sixty thousand people might lose their jobs. Fifty to 100 factories will be closed," said Sri Lanka's minister of trade, Jeyaraj Fernandopulle, whose country of 19 million depends on the garment industry for 450,000 jobs, more than half of its exports and as much as one-sixth of its total economic activity. "Most of the factories are in rural areas. Almost all the families are dependent on their wages. All their livelihood is gone when you take off the quota."

With the new system so close, buyers from companies like Wal-Mart Stores Inc. say they have already set plans to collapse their business from factories in dozens of countries down to a carefully hedged and competitive few -- with China topping the list.

"That's about it," said Andrew Tsuei, Wal-Mart's global procurement chief, who expects to reduce the number of countries where Wal-Mart has apparel deals from around 63, cobbled together based on which countries have room to export under their quota limits, to a mere four or five that can produce as much as Wal-Mart orders. "The overall balance of quality, reliability and price makes China probably the most competitive market in the world."

The result is a likely bonanza for consumers. The United States alone imports approximately \$90 billion worth of textiles annually. Under the new system, prices of blue jeans, men's shirts and other types of clothing now governed by quotas could fall by as much as one-third, as production shifts to lower-cost locations.

However, it has left development and trade officials in other countries worried about their future in a global system that makes job security for seamstresses in Asia, Africa and

Latin America dependent upon the decisions of buyers in Manhattan and industrial policy in Beijing.

In Honduras, Minister of Industry Norman Garcia said he hopes the country can hang on to most of its 130,000 textile jobs but acknowledges that economic survival may require a detour back to agriculture. At least, he said recently, economic success for China's 1.3 billion people will probably mean rising prices for the melons, peppers, shrimp and fish that Hondurans can harvest year-round.

"If the Chinese are destined to become the manufacturing center of the world," he said, "somebody's got to feed those guys."

Initially rooted in efforts to protect developed world factories by limiting imports, the textile quotas evolved into a sort of de facto economic aid, awarded as a way to spread the wealth of U.S. and European consumers around the globe. Ironically, many of the same countries voicing concerns today about the end of quotas argued for decades that they should be abolished. At the time, those countries believed that scrapping the quota system would give their textile companies unlimited access to the United States and Europe -- a sure path to riches. They got their way when the member states of the World Trade Organization in 1994 agreed that the Multifibre Arrangement would expire after 10 more years, ending one of the world's more extensive exercises in managed trade.

That position now stands as a colossal miscalculation, which failed to factor in the rise of China. The world's most populous country was on the outskirts of the global economy at that point, and there was little inkling that its cautious economic reforms were about to begin reshaping international commerce.

Since then, China's increasing efficiency and its burgeoning, low-cost partnership with U.S. consumers have prompted other textile-exporting countries to appeal to Washington for new preferential trade agreements. The quota system is independent of the customs duties that the United States and Europe apply to imported textiles, which average 16 percent in the case of the United States. Countries such as Cambodia and Honduras have asked that, as the quota system disappears, their goods be given duty-free access to the United States to give them a cost advantage over China. U.S. textile executives, concerned about the approximately 695,000 jobs left in the dwindling U.S. industry, likewise have asked that the Bush administration use its power under global trade rules to limit the growth of Chinese imports until 2008.

These sorts of measures, like the quota system itself, may distort free trade. But proponents argue that China has its own unfair advantages -- including currency rules that keep its goods cheap, hidden subsidies and, most significantly, abusive labor standards of the sort that other countries have been under world pressure to correct.

China

Ready to Take On All Competitors and Markets

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In China, the textile boom has been building for a decade. As the local industry began refashioning itself in the 1990s, it experienced what much of the rest of the world now fears: massive layoffs. Between 1997 and 1999, the Chinese textile industry shed more than 1 million jobs as the government dismantled a network of outmoded, state-financed textile and apparel factories and allowed the free market a much greater hand.

Executives at Shanghai's Shenda Group Co. have closed 20 factories and fired 50,000 people in the past six years. Reequipped with modern machines and with only 10,000 employees left on the payroll, the company boosted annual sales from \$170 million to \$415 million.

"We can beat any competitors in international markets," said Yao Xiyi, Shenda's general manager. "We're prepared for expansion."

The transformation is industry-wide. Rich in labor and raw materials, China has also invested in the full array of textile and apparel operations, allowing it to spin, weave and dye the fabric, cut and stitch the clothing, and manufacture and attach the buttons and zippers.

In 2002, China accounted for nearly three-fourths of all worldwide purchases of advanced weaving machines known as shuttle-less looms, according to a recent study by the U.S. International Trade Commission. Brother Industries Ltd., the Japanese sewing machine company, has doubled sales within China every year for the past three and expects to do so again this year. Overall, Chinese textile and garment factories bought \$2.4 billion worth of imported machinery over the first half of this year, according to a Chinese trade group.

With highways and ports that allow delivery to the United States in as few as 18 days -- compared with 28 to 45, for example, for Sri Lanka -- the result is an increasingly efficient operation that has pushed up labor productivity and pushed down the cost of its exports by as much as 30 percent over the past five years, according to Chinese government figures.

The potential impact on world trade is demonstrable. In Japan and Australia, two major nations that have no quota restrictions, China has already captured 70 percent of the textile market. In the United States, quotas were eliminated in 2002 on products such as baby clothes and robes, and China's share of those U.S. imports jumped from 11 percent



Workers at Chinese textile factories, like this one in Harbin, make an average of 68 cents an hour. They cannot organize, and bosses often disregard overtime laws. (Guo Junfeng Via Bloomberg News)

to 55 percent by the end of last year, according to data analyzed by Pietra Rivoli, a trade expert at Georgetown University's McDonough School of Business.

About the same time, China supplanted Mexico as the largest supplier of textiles and apparel reaching the United States, accounting for about 17 percent of U.S. imports.

The end of the quota system is expected to cut the price of Chinese goods even further. Companies currently compete with one another in a widely tolerated black market for shares in China's allotted exports to the United States and Europe. Shanghai Shenda officials, for example, say that they can make a pair of blue jeans for \$10 but that the cost climbs to \$13 after tacking on the expense of obtaining a share of the export quota. Once the quota limits are lifted next year, that expense will disappear.

Countries that are serious about free trade, Chinese officials argue, should welcome the change.

The apparel trade has always migrated toward lower-cost producers, and "now it's coming to China," said Gao Yong, vice chairman of a Chinese textile trade group. "This is an economic phenomenon that should not be interfered with for political purposes."

With about 18 million employees in the textile industry, the stakes are as significant for China as they are for Sri Lanka and others. The estimated average wage of 68 cents an hour isn't much. But it compares well with the less than 50 cents an hour paid to textile workers in places such as Bangladesh, India and Pakistan, and it has become a main source of support for many rural families.

Though wages are higher, China remains cost-competitive because its workers are more productive -- a fact that some attribute not just to the country's new investments and management skill, but also to the fact that employees are forbidden from organizing independent unions and are at the mercy of bosses who often violate overtime and minimum-wage laws.

"If China is going to work their people to death, have them work seven days a week, then there's simply no way Sri Lanka can compete," said Peter Wilson, a British textile industry consultant overseeing a training program for the Sri Lankan Ministry of Industry aimed at making domestic factory workers more productive.

"In China, the workers have no rights," said Wang Hua, a Chinese garment factory technician who spent several years in plants in southern China and now works at a factory in Sri Lanka. "Here, if the workers are sick, if they have a problem, if they have to take care of a relative, if they get married, the boss allows them to miss work. In China, they have to work no matter what. The boss keeps much greater control."

Workers in Chinese factories routinely talk of forced 12-hour shifts with no overtime pay and no days off. Government reports have documented similar abuses and blamed localized labor shortages in some parts of the country on the mistreatment of workers.

A Chinese technician now working at a garment factory in Cambodia said labor strikes are a common occurrence in that country. "Here, you have Saturday and Sunday off," said the technician, Ling Li, who came to Cambodia two years ago. "In China, there's no such thing as Sunday. We work every day."

Honduras

Banking on Openness and Proximity to U.S.

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When Danubia Rodriguez walked away from her rural Honduran village six years ago to accept a textile factory job, it demonstrated the implicit bargain Honduran officials struck in hopes of improving the lot of their country, one of the poorest in the hemisphere.

In the early 1990s, they scrapped inward-looking policies and turned the economy into the most open in Central America and one of the most open in the world, according to the World Bank. Generous tax treatment for foreign factories helped persuade companies such as Sara Lee Branded Apparel, owners of the Hanes line, to invest in places like El Progreso, a town of 97,000 in central Honduras. Shipments of agricultural commodities such as bananas, coffee and shrimp were gradually eclipsed by exports of fabric, garments and other textiles churned out by the new plants, or "maquilas." Between 1995 and 2003, employment in the factories doubled from 65,000 to 130,000 -- substantial numbers in a country of just 6.8 million.

It was, Honduran officials hoped, the start of a cycle of development and wealth creation whose virtues could be glimpsed in the small steps forward taken by people like Rodriguez.

Life in her village of Las Mangas was difficult. A trip to the doctor or the store, a hunt for a home with electricity to watch a soccer game on television -- all required an hour's trek down tough mountain paths and across a river on foot.

The family house, built by her father, was an earthen-walled structure with a roof of corrugated zinc and coconut leaves, and only makeshift bathing facilities on the outside. The family worked from 4 a.m. to 5 p.m. during the coffee harvest, picking, washing and drying beans on a small plot of land.

The village school stopped at sixth grade.



Danubia Rodriguez moved from the earthen-walled house in her village to this cinder-block house in El Progreso, which has indoor plumbing and electricity. (Paul Blustein -- The Washington Post)

Today, she gestures proudly around the cinder-block home she now occupies in El Progreso. "It has been really hard for me to achieve all this," said Rodriguez, who most recently worked at a Sara Lee plant for \$1.50 an hour.

Though cramped and ramshackle by U.S. standards, the home holds luxuries undreamt of in village life. A gas stove. Indoor plumbing. Television, and the electricity to power it. A diet that has moved beyond rice, beans and tortillas to include regular portions of meat, fish and fresh vegetables.

In areas where maquilas are concentrated, business executives and workers point proudly to signs of modernization supported in part by the spending power of factory workers -- American fast-food outlets and family restaurant chains, and even a couple of air-conditioned shopping malls in major urban centers, all of which provide additional employment. Civic officials report that tax revenue from workers' incomes has helped finance improvements in public services such as trash collection.

Most important, Honduran maquila workers say, their earnings offer hope for their children, because the money enables them to afford the expense of sending kids to high school -- the books, supplies, uniforms, transportation and other costs that can add up to hundreds of dollars a year.

Nubia Ramos, a sewing machine operator at a maquila in the western commercial city of San Pedro Sula, said her eldest son, who is 18, never got past the sixth grade "because we didn't have the resources." Since she landed her job four years ago, she and her husband, a security guard, have started sending their second child to high school.

In the case of Honduras, there is some hope that the textile industry can remain competitive. Though wages are about double those of China, some companies here are expanding, betting that their proximity to the United States, and the more rapid speed to market it allows, will keep them afloat.

"Central America has a huge advantage that China cannot take away -- the geographical position we're in," said Jesus Canahuati, general manager of Elcatex SA, one of the country's biggest textile producers. "All the customers have in mind speed to market. No one knows how much sales will be for a particular silhouette; you don't know how many mediums you'll need, or how many extra larges, or how many of a particular color."

Officials are taking no chances, pushing hard for passage of the Central American Free Trade Agreement, which is stalled in the U.S. Congress. The terms of the pact would give Central American goods duty-free access to the U.S. market, while Chinese makers of textiles and apparel, like those from many other countries, would still face the average 16 percent customs duties. But CAFTA has drawn stiff opposition from critics who say it does not require industries in Latin American countries to adequately protect labor standards and the environment.

And if history is a guide, even that may not be enough. B.J. Robbins knows the ups and downs of the textile cycle well. An American who trains workers in Central American countries, he says he "started cutting cotton at age 5" in Arkansas and spent 34 of his 52 years working in the textile and apparel industry.

His parents were illiterate sharecroppers, but Robbins, with the stability of a factory job, was able to send his wife to college, buy a farm in Mississippi, and ultimately move into at least lower-level management. From that perch, he watched the textile industry migrate away from the southern United States, just as it had from Europe and New England, and he predicted that a similar change is coming to Honduras.

"Work will go out of here," Robbins said from the executive dining room of the InterContinental Hotel in San Pedro Sula. "Just like it did in the states."

But whereas Robbins had 34 years and a full career to prepare his family for the transition, time is already expiring for Rodriguez and other Honduran maquila workers.

A decade into its deal with the global economy, Honduras's progress has stalled, with gross domestic product hovering around \$930 per person, its school system barely functioning, and the outlook uncertain.

In June, Sara Lee Branded Apparel shut down the factory in El Progreso, leaving 470 families, and much of Honduras's leadership, wondering whether the benefits of globalization have come and gone too quickly to make a lasting difference.

Cambodia

Pinning Hope On Fair Labor Standards

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Sok Hong wants to believe that Cambodia's reputation for decent factory labor conditions will be enough to protect his garment business from competitors across the South China Sea. But he has spent enough time with the U.S. clothing labels that keep his shop running to know that one factor alone will probably determine whether his business can survive.

"They just care about the price. If you have a cheaper price, they will buy from you," said Sok, managing director of the family-owned Kong Hong Garment Co., which exports as many as 30,000 pairs of blue jeans per month to the United States, nearly three-fourths to Wal-Mart Stores Inc. "We don't have child labor at this factory. . . . [But] the buyer doesn't care how good you are."

Five years have passed since Cambodia and the United States signed a trade deal that remains a watershed. Factories here gained duty-free access to the U.S. market in exchange for submitting to inspections from the International Labour Organization, a

watchdog group. The volume of clothing Cambodia could ship was pegged directly to improvements in labor conditions.

The deal has been widely hailed as a success, with Cambodia gaining jobs and investment along with better working conditions. But that arrangement will end in January, along with the global textile quotas, and Cambodia's producers will begin paying the same customs duties as everyone else.

Already, buyers are shifting orders to China.

"I'm really worried," Sok said, as he walked a shop floor occupied by 600 workers, the din of sewing machines echoing through muggy air as seamstresses hunched over their tables. "We can't compete against China, no way. I don't want to hurt these workers, but if I have no choice, I will close down the factory."

In preparing for the world after quotas, countries hope to find something that distinguishes them from China. Sri Lanka, for example, hopes its factories can establish an expertise in women's lingerie and manufacturing for labels like Victoria's Secret. Though Cambodia may sell itself on its credentials as a socially responsible producer, industry executives and government officials there express little confidence that their plants can endure without some form of special access to the U.S. market.

Without duty-free access to the United States, "we cannot convince the buyer to come here," said Mashiur Rahman, general manager of Universal Apparel (Cambodia) Co., which makes baseball caps and sweaters for U.S. brands including Banana Republic and the Gap in its six-story factory.

Deeply impoverished and still scarred by the genocidal rule of the Khmer Rouge in the 1970s and more than two decades of war, Cambodia is dependent on garments for 98 percent of its exports, two-thirds of which go to the United States, according to government figures. About 230,000 of the country's 13 million people work in the garment trade.

Beyond the economic disaster that could unfold if factories shut down, the demise of the industry would undermine the notion that poor countries can focus on improving labor standards while still attracting foreign investment and business, Cambodian officials argue.

"The Chinese could lead a race to the bottom," said Cambodia's minister of commerce, Cham Prasidh. "In Cambodia, we started at the very beginning, in 1999, to link trade with labor standards while no other countries in the world dared to do so. Now Cambodia has gained a reputation in the world as a country free of sweatshops."

Sam Srey Mom, acting vice president of the Free Trade Union of Workers of the Kingdom of Cambodia, which represents 47,000 workers in 94 garment factories, said conditions have improved since the start of ILO inspections. There are fewer abuses of

Cambodia's \$45-per-month minimum-wage law and more compliance with bans on child labor, she said.

But unless Cambodia is given continued duty-free access to the U.S. market, she added, factories here could face an unfortunate choice: Ditch the emphasis on fair play and try to match Chinese labor productivity by squeezing workers or maintain the high road and lose jobs.

Only a decade ago, Cambodia had almost no garment industry. Until United Nations-brokered elections in 1993, imports of Cambodian-made goods were barred by the United States, which refused to recognize the country's Vietnam-backed government. The first major push came in 1994, as Cambodia gained access to the U.S. market, illustrating how the awarding of textile quotas could follow political and diplomatic ends even at the expense of economic logic.

Cambodia relies on imported fabric to make clothes. Energy is limited, and the country's lone seaport at Sihanoukville is inefficient and far from the United States. But once the quota was awarded, the value of garment exports to the United States leaped from \$500,000, reaching \$288 million in 1998, according to Ministry of Commerce data. In the southern suburbs of Phnom Penh, where thatched-roofed shacks line muddy lanes, modern factories sprouted up across from rice fields.

The biggest surge came in 1999, with the signing of the duty-free access deal with the United States. Today, Cambodia is home to more than 200 garment factories, which collectively shipped \$1.1 billion worth of goods to the United States last year, according to the government.

Kong Hong Garment was part of this wave. It launched its first factory in 1995, making uniforms for the Cambodian military. Then a Hong Kong firm, Welsum Enterprise Trading Co., approached it about making blue jeans for Wal-Mart. Sok hired five technicians from Chinese factories to improve efficiency. In 1999, he launched two new factories.

Orders have slowed in recent months as buyers wait to examine new opportunities in China. In mid-August, Sok's factory began sending home dozens of unneeded seamstresses.

"I always think about my future," said Yung Vanna, 22, one of those sent home. "I worry. But what can I do?"

About This Report

Staff writer Paul Blustein wrote and reported from Honduras and Washington. Staff writer Peter S. Goodman wrote and reported from Sri Lanka, Cambodia and China.