SECTION THREE:
THE CARIBBEAN BASIN

This section provides a brief overview of the potential impacts of recent US trade legislation, an extension of the Caribbean Basin Initiative (CBI), on apparel production in the Caribbean Basin region. It also provides an outline of Canadian investment in the Caribbean Basin and the potential impact of CBI enhancements on the Canadian garment industry. We have included the results of an initial case study of Gildan Activewear, a Canadian manufacturer that has made substantial investments in both Central America and the Caribbean over the last five years, and who, according to the industry press, is a Canadian success story. Gildan is currently the second largest manufacturer and marketer of cotton T-shirts for the wholesale market, after the Hanes division of Sara Lee Corp.

A. US APPAREL PRODUCTION IN THE CARIBBEAN BASIN

The Caribbean Basin (CB), made up of 27 countries in Central America and the Caribbean, has a history of apparel production, for both domestic and international markets. Free trade zones were set up as early as 1968 in the Dominican Republic,[1] and 1976 in Nicaragua.[2] These zones have been closely connected to the US promotion of free market economies in the region.

The United States has always been an important export market for CB countries, with production sharing agreements in place since the 1960s. This trend was accelerated with the 1984 Caribbean Basin Initiative Act (CBI), which granted CB countries preferential access to the US market through reduced tariffs. Although, apparel was excluded from the CBI, apparel assembled in the Caribbean Basin and exported back to the US was subject to reduced duties through the 807 program. In addition, in 1986, six CB countries[3] were granted Guaranteed Access Levels, which allowed essentially unlimited quotas for assembled apparel. From the late 1980s onwards, an increasing number of American retailers and manufacturers took advantage of these incentives and began investing in Central American maquilas or contracting production to factories in the CB free trade zones.[4] Investment in the CB apparel industry has also come from Asian

[1] Free trade zones began to boom in the Dominican Republic in the 1980s. Employment in the Dominican free trade zones has increased from 20,000 workers in 1982 to 182,000 workers in 1997. In 1992, the Dominican Republic had a higher level of apparel exports to the United States than any country in the Caribbean Basin or Mexico. At this time, two of every three factories in free trade zones were producing apparel. Helen I. Safa, “Where the Big Fish Eat the Little Fish: Women’s Work in the Free-Trade Zones,” *NACLA Report on the Americas* (March/April 1997).

[2] The Las Mercedes free trade zone was established in 1976 outside of Managua, Nicaragua. It attracted mostly American investment in the garment industry. Following the Sandinista revolution, foreign companies left the free-trade zone. With the return of a right–wing government, the free-trade zone re-opened in 1992 attracting American and Asian capital. See the Nicaragua country profile.

[3] Costa Rica, the Dominican Republic, El Salvador, Honduras and Jamaica were granted Guaranteed Access Levels.

[4] Examples of prominent manufacturers pursuing this strategy include VF Corp in Costa Rica and Sara Lee in Puerto Rico, Jamaica and El Salvador.

manufacturers who have used the CB as a low-cost base that allows them to evade quota restrictions limiting Asian production for the US market.[5]

At the time NAFTA was being negotiated, CB countries accounted for a considerably higher share of US apparel imports than did Mexico. However, apparel imports from the "big three" Asian countries -- Hong Kong, Taiwan and Korea -- still far exceeded the share from the Caribbean Basin or Mexico. The breakdown of imports was similar for Canada.[6]

With the implementation of NAFTA in 1994, Mexico gained a series of advantages for apparel production over the Caribbean Basin. Under its terms, tariffs and quotas were eliminated for clothing that previously qualified for reduced duty under the US Special Regime program for Mexico, (clothing made in Mexico, with fabric wholly-formed in the United States). In comparison, similar classes of apparel assembled in the Caribbean Basin are subject to a six percent tariff.[7] Under other NAFTA clauses, all tariffs will be phased out and quotas eliminated for apparel assembled in Mexico of fabric and components made in any of the three NAFTA countries, including Mexico. Some analysts argue that the 1994 Mexico currency devaluation also enhanced Mexico's competitiveness in relation to the CB.[8]

CB apparel manufacturers and exporters complain that as a result of NAFTA, investment has been diverted to Mexico and their region has been held back in terms of growth.[9] Although Mexico has witnessed rapid growth in the apparel industry since the signing of NAFTA and now accounts for a higher share of US imports than all CB countries combined, apparel exports to the US from the Caribbean Basin as a whole have continued to increase in this period, rising from 11 percent of US apparel imports in 1993, to 15 percent in June 1999.[10]

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[5] Korean investment has been prominent in Guatemala, Honduras and the Dominican Republic. Korean manufacturers began investing in this region in the mid-1980s, following the establishment of the Caribbean Basin Initiative. Gary Gereffi, "International trade and industrial upgrading in the apparel commodity chain," *Journal of International Economics 48* (1999), and Won-Ho Kim, "Koreas and Latin America: End of a Honeymoon?," *Capitulos Magazine of Sela* (May-August 1999). Taiwanese investment has been prevalent in Nicaragua.

[6] See Appendix One for a breakdown of apparel imports for the United States and Canada, in 1993 and 1999.

[7] Raymond J. Ahearn, *Trade and the Americas* (Washington: Foreign Affairs, Defense, and Trade Division, 2000), http://www.cnie.org/nle/econ-28.html (August 2000).

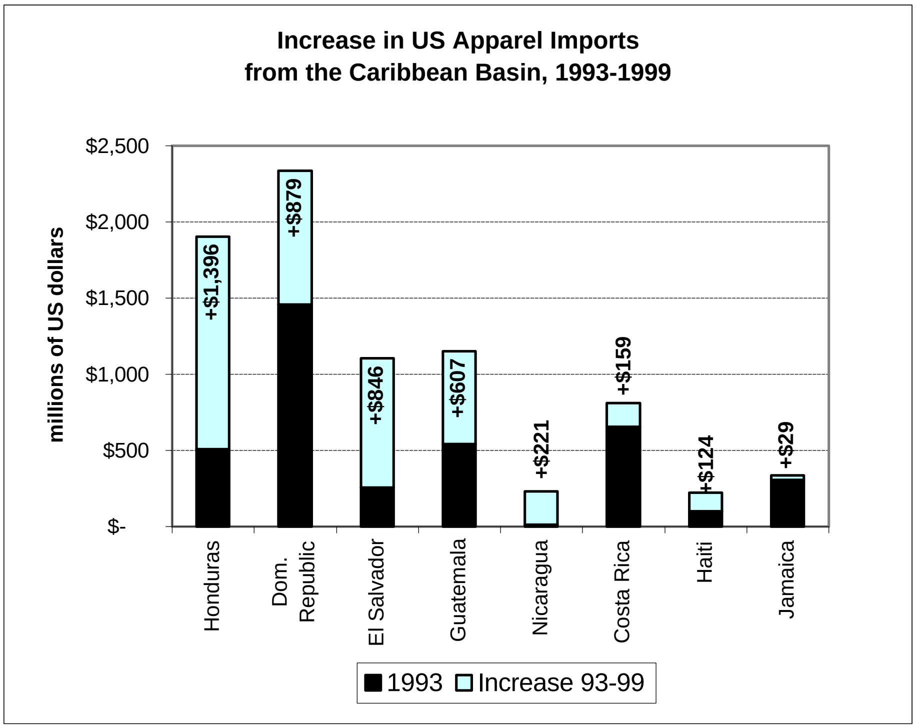
[8] Industry experts have varying opinions on the effects of the Mexican peso devaluation. While Gereffi argues that the peso devaluation had an important effect in drawing apparel investment to Mexico, Kessler writes "…NAFTA, for the most part, is perceived by manufacturers as correlating much more closely with cost savings than the 1994 Mexican peso devaluation and monetary collapse. Very few manufacturers in Southern California are willing to initiate the complex process of production relocation based merely on currency fluctuations." Judi Kessler, "Southern California: Transition takes hold," *Bobbin* (October 1998).

[9] Andrew Bounds and Canute James, "New Trade Law: Despite US Initiative Some Signatories See Their Lack of Parity with NAFTA as a Problem," *Financial Times*, June 15, 2000.

[10] See Appendix One at the end of this report and Figure 2.2 in Section Two: Focus on Mexico.

A 1997 *Miami Herald* article highlighted the differential growth in apparel production and investment across the CB region since the implementation of NAFTA.[11] The article showed that the countries with significant growth in apparel exports tended to be low-wage ones. Other countries such as Jamaica, the Dominican Republic and Costa Rica had flat or declining exports.[12] An updated analysis of the increase in apparel exports to the US from the CB between 1993 and 1999 mirrors some of the article's findings.[13]

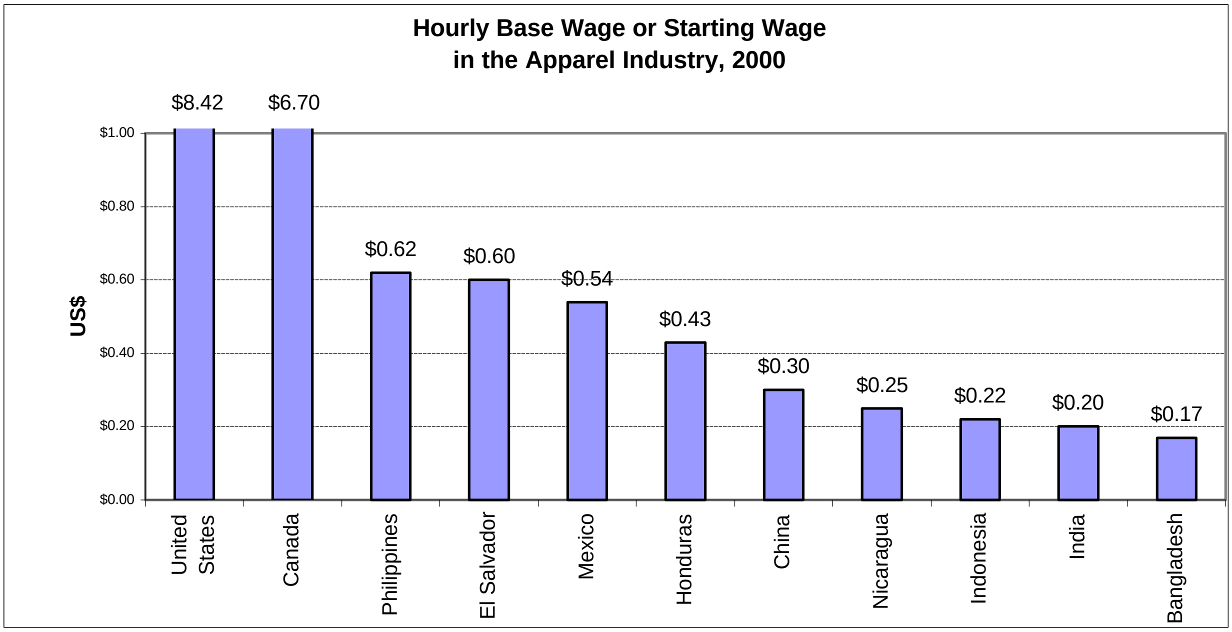
Figure 3.1



Source: United States International Trade Commission

[11] Mimi Whitefield, "What Mexico Has, Caribbean Wants," *Miami Herald*, April 7, 1997.
[12] Ibid.
[13] One interesting exception is the Dominican Republic, which continues to play a dominant role in US apparel imports from the region. Some of the size of the Dominican Republic's share of apparel imports by value may relate to its development of a high-quality apparel production niche. Other CB countries appear to be continuing to concentrate on low-quality and low-cost items.

Figure 3.2



While US apparel investment has rapidly increased in Mexico under NAFTA, it is not clear whether this expansion has been at the expense of apparel investment in Central America and the Caribbean. Certainly many American manufacturers have continued to contract production to the Caribbean Basin or have maintained their facilities there.

Since the signing of NAFTA, industry groups in the CB region have been lobbying for NAFTA parity legislation for their countries. Caribbean Basin Initiative enhancement legislation has been under debate in various forms in the American congress and senate since 1993. In 1999, two versions were being discussed. In one version approved by a House of Representatives committee, the legislation would give CB countries full NAFTA parity. In this version, garments made of local fabrics would be able to be exported to the US duty and quota free. In a second version, approved by the Senate in November 1999, only apparel made with American fabrics and yarns would be subject to this tariff and quota liberalization. On May 18, 2000, a combination of the two proposed bills was passed. Duty-free, quota-free treatment was established for apparel made in Caribbean Basin countries from US fabrics and yarn. In addition, 300 million square meters of apparel made from locally produced fabric, but with US yarn, will be eligible for the same full quota and duty exemptions.[14] The allocation of quotas across CB countries under this last provision is yet to be determined. The implementation date for the new bill is October 2000.

[14] The full name of the bill is Title II of the Trade and Development act of 2000 (HR 434). It is available at: http://www.americanapparel.org/AAMA_Industy_News.html.

An examination of the support and opposition in the US for this legislation provides a window on to larger trends in the US apparel industry. The American Apparel Manufacturers Association supported the bill and actively lobbied for its adoption. According to many industry analysts, the large American manufacturers with international operations already in place, are searching for ways they can remain competitive when the apparel quota system is phased out in 2005.[15] For example, Whitefield writes that in order "to compete with countries like China, US manufacturers will have to lower production costs - and that generally means looking for cheaper labor offshore."[16] This bill provides large manufacturers with easier and cheaper access for goods already being made in the CB.[17]

The American Textile Manufacturers Institute supported the final version of the bill because it requires the use of US textiles and yarns. Textile manufacturers lobbied for the bill because they believed that it would provide a support to the American textile industry in the face of global trade liberalization. Textile manufacturers have been particularly worried about the effects of China's entry into the WTO, and the potential phase-out of US quotas on Chinese textiles. A representative from the National Cotton Council describes agreements such as the Caribbean enhancement bill as having "the potential to enhance cotton producer income while improving US cotton and textile competitiveness against increasing imports from Asia. Cotton apparel imports from Caribbean countries are about three times more likely to be composed of US cotton than apparel imported from other sources."[18]

In contrast, the National Knitwear and Sportswear Association, representing small American contractors without offshore operations, did not support the legislation, because of the effect they argued it would have on small domestic manufacturers.

The consensus among industry analysts was summed up in a recent Bobbin article. "Either form of the legislation could benefit many of the industry's large, multinational apparel firms by making it less expensive for them to produce or import their goods, but both forms of the legislation promise to hurt the United States' remaining apparel contractor base."[19] One apparel contractor's predictions resemble processes already underway in Canada, John Campolong, argues that, "for the America sewing contractor, CBI [enhancements] in any form or version will

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[15] In 2005, the Multi-Fibre Agreement which held up a system of quota restrictions for third world countries exporting to the West, will be fully phased out. There is much speculation as to how this will affect the current sourcing patterns and import levels in the United States.

[16] Mimi Whitefield, "What Mexico Has, Caribbean Wants," above note 11.

[17] In the US, American retailers have relied almost exclusively on full-package production, which has typically only been available in Asia. Manufacturers on the other hand, have made greater use of production-sharing arrangements, where cut fabric is sewn and exported back to the US. This has typically been the only apparel production available in Central America and Mexico.

[18] Cotton Nelson, "NCC Elated Over House Passage of Caribbean Trade Agreement," *News and Analysis @TextileWeb*, http://www.textileweb.com (May 5, 2000). Most fabrics are imported to the Caribbean Basin partly due to existing duty and quota exemptions under the 807 program and GAL's and to weak textile development in the region. While Mexico has been improving its textile capacity since NAFTA, it also has a limited textile industry.

[19] Shawn Meadows, "WTO, CBI trade negotiations heat up," *Bobbin* (January 2000).

probably hurt them. More contractors will find it difficult to work. They're going to have to find a niche, and they're going to have to produce quick turns. It is the only hope for them."[20]

It is clear that certain American interests stood to gain from the passage of the CBI enhancement bill. Who will benefit in the Caribbean Basin? CB manufacturers praised the passage of the bill, although some criticized it for not going far enough with NAFTA parity.[21] The reaction from labour rights advocates in the Caribbean Basin has been mixed. Some groups to whom the MSN has spoken are pleased with the increased investment and employment in the apparel sector they feel the new legislation will bring to their countries. For the most part, however, our contacts are not clear how the widespread labour rights violations and low wages prevalent in the region will be affected by the enhancement bill and the anticipated growth in the garment industry.

Northern non-governmental organizations and unions have criticized the bill arguing that it puts additional pressure on CB governments to de-regulate manufacturing facilities and lower wages to attract American companies. They point to the fact that apparel imports to the United States have increased most rapidly in CB countries with the lowest wages. In addition, these groups have argued that because most CB countries do not have the infrastructure for more than maquila production, and there is little local ownership of manufacturing facilities, little of the profit realized under CBI enhancements is likely to be retained in CB countries, or transmitted to workers.[22]

However, these issues are increasingly coming under debate in industry circles. As mentioned in the Mexico Section, prominent US industry analysts are predicting a transition to full-package production, and the introduction of more value-added elements of production in Mexico, which they argue will benefit the Mexican economy and workers alike.[23] The industry press is also discussing whether this same kind of shift can occur in the CB, and if so, whether it would lead to improved economic opportunities for CB countries.[24] Obviously, one important question is whether the implementation of the CBI enhancement bill can help to facilitate this shift, in the same way that analysts argue NAFTA did for Mexico.

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[20] Ibid.

[21] Andrew Bounds and Canute James, "New Trade Law: Despite US Initiative Some Signatories See Their Lack of Parity with NAFTA as a Problem," above note 9.

[22] *Statement of Jay Mazur, President Union of Needletrades, Industrial and Textile Employees Before the Subcommittee on Trade Committee on Ways and Means U.S House of Representatives On H.R. 984 The Caribbean and Central American Relief and Economic Stabilization Act March 23, 1999.*

[23] Full package production refers to production that includes the acquisition of raw materials, cutting sewing, laundering, finishing and distribution. Typically Asian suppliers have specialized in full-package production, while Mexican suppliers have been limited to maquila assembly, where imported cut pieces are assembled and exported. Industry analysts such as Gereffi have argued that under global restructuring and NAFTA's terms, Mexican suppliers can enter the full-package niche Asian suppliers have typically dominated.

[24] Brenda A. Jacobs, "Have CBI nations found a full-package opportunity?," *Bobbin* (July 1998), Lisa C. Rabon, "Full Package: Central America's Stand," *Bobbin* (April 2000) and Lisa C. Rabon, "CBI Trade Enhancements: Landmark Victory Signals Start of Investment Race," *Bobbin* (August 2000).

While the CBI enhancement bill allows for some elimination of tariffs reduction for clothing made with local fabric in the CB, the bill is more restrictive than NAFTA in this regard. NAFTA allows full quota-free and eventually tariff-free treatment for garments cut and sewn in Mexico with Mexican fabric and yarn. Under the CBI enhancements, clothing must be made with US fabric made from US yarn, and only a limited amount can be made from local fabric. The legislation does permit the cutting of US fabric in CB countries. It is unclear whether the bill's provisions will lead to the types of changes in production Mexico is witnessing under NAFTA. Some industry associations in Central America are predicting a growth in cutting, laundering, and embroidering facilities as a result of the CBI enhancements. At the same time, however, they also predict a growth in the number of factories dedicated solely to assembly.[25]

On the other hand, the analysts predicting the shift to full-production in Mexico argue that it was not just trade liberalization, but also increased investment as well as the competitive pressures under NAFTA, that helped to strengthen other elements of the Mexican apparel supply chain.[26] Some analysts, while acknowledging that full-package production capacity in the Caribbean Basin is currently weak, argue that increased American investment under the CBI enhancements will help to facilitate this transition.[27] It's still too early to make serious predictions about trends for the next five to ten years. This debate will likely take a more prominent place in the industry press in the near future.[28]

Alternatively, some industry analysts question whether gains in competitiveness under the CBI will be long-term, given the Multi-Fibre Agreement phase-out looming in the very near future. Robert Scott from the Economic Policy Institute in the US is one of the skeptics. In his view:

> [T]he market for apparel from CBI countries is likely to collapse in the near future, as textile and apparel quotas are phased out under the 1994 World Trade Organization (WTO) agreements. Thus, the CBI program is really a get-rich-quick scheme for a few apparel contractors, who will shift production to the region for a few years, and others who will profit from the illegal transshipment of goods from other countries. Most of these operations will disappear as soon as the global system of apparel is eliminated in 2005.[29]

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[25] *CBI Enhancement* (Guatemala: Association of Non-Traditional Exporters in Guatemala (AGEXPRONT), 2000).
[26] Gary Gereffi, "US companies eye NAFTA's prize," *Bobbin* (March 1998).
[27] Lisa C. Rabon, "CBI Trade Enhancements: Landmark Victory Signals Start of Investment Race," above note 24.
[28] Industry associations and manufacturers in the Caribbean basin are certainly promoting that full package production is where they would like to go. The director of VESTEX in Guatemala writes "full package is the buzzword and our industry is already in position to be a major supplier to the U.S. and European market." Carmer Robinson, "CBI measure hailed during Guatemalan show," *Textile News* (June 2000). Rabon writes that Central American industry representatives report that "hands-down – some type of Caribbean Basin Initiative (CBI) enhancement bill will be the full package lynchpin in Central America." Lisa C. Rabon, "Full Package: Central America's Stand," above note 24.
[29] Robert E. Scott, *Rebuilding the Caribbean: A Better Foundation for Sustainable Growth* (Washington: Economic Policy Institute).

Other analysts take a less extreme position about the effects of the MFA phase-out on the apparel industry in the Caribbean Basin. The United Nations Economic Commission for Latin America and the Caribbean predicts that it may be possible for CB countries to build up supply relationships with manufacturers and retailers before the MFA phase-out occurs, as other analysts have argued NAFTA is allowing Mexico to do.[30] These analysts promote a view that NAFTA and other regional trade agreements will be more important to apparel sourcing than changes resulting from the MFA phase-out. These debates will continue into the future and are an important area for further research.

It is also important to recognize that there are many differences across Caribbean Basin countries in terms of local employment, investment and production patterns in the garment industry. For instance, the Dominican Republic has managed to carve a niche in high-end production to a much greater extent than its neighboring countries in Central America, who continue to focus on the production of low-cost standardized products such as T-shirts. This makes it more difficult to predict the effects of recent and future trade legislation on the garment industry in the region as a whole.

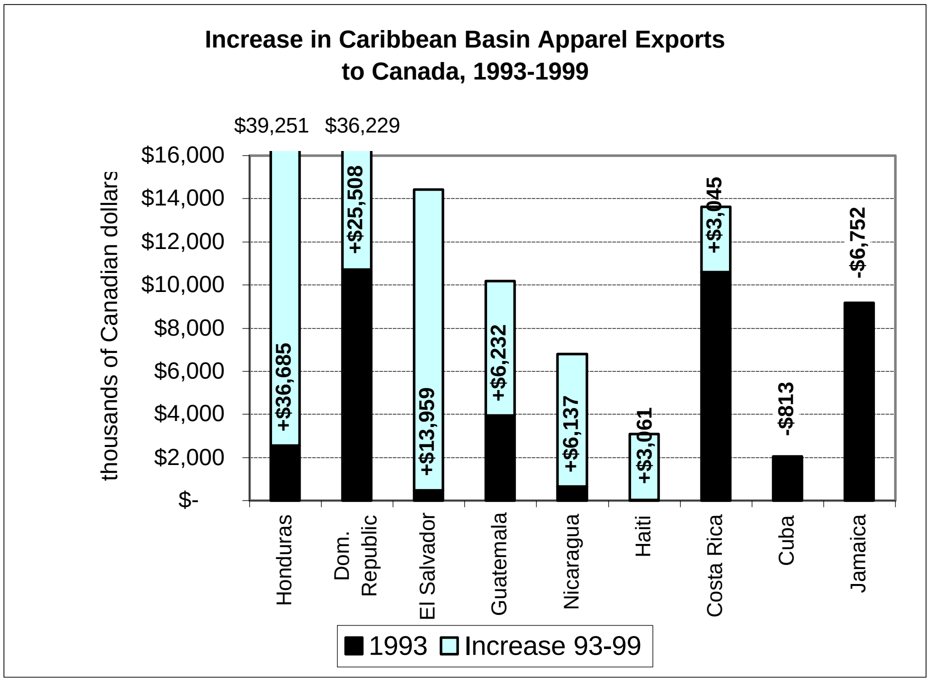
B. CANADA AND THE CARIBBEAN BASIN

The Caribbean Basin has played a smaller role for Canadian manufacturers and retailers than for their US counterparts. And, our research indicates, the Caribbean has been of less importance than Mexico for Canadian manufacturers branching into offshore production.[31] Of course, the large majority of Canadian offshore sourcing is still from Asia.

However, a few Canadian manufacturers have established operations in Central America and the Caribbean, the most important being Gildan Activewear, which is profiled at the end of this section. Grand National Apparel, a Canadian menswear manufacturer is also active in the region. Grand National contracts its licensed production of Haggar brand men's pants to one or more plants in the Dominican Republic. It has been difficult to obtain information about Grand National's activities in the Dominican Republic. As a private company, there is very little public information available on their offshore facilities.

[30] *Foreign Investment in Latin America and the Caribbean: 1999 Report* (Santiago: United Nations Economic Commission for Latin America and the Caribbean, 2000).
[31] See Figure 2.3 in Section Two: Focus on Mexico for a breakdown of Mexican and Caribbean and Central American exports to Canada in 1993 and 1999. It is interesting to note that following NAFTA, Mexico has far exceeded the Caribbean Basin in terms of apparel exports to Canada.

Figure 3.3



Source: Statistics Canada

Label research at major Canadian retail stores suggests that a very small amount of private label apparel is made in CB countries. The most notable exception is the Cherokee label, sold exclusively at Zellers, which is sourced from facilities in the Las Mercedes free trade zone in Nicaragua.[32]

It will be interesting to see if this underutilization of Mexico and the Caribbean by Canadian retailers changes in the future, as US investment in Mexico and the Caribbean Basin increases, and the full-package production, which retailers have traditionally sought in Asia, potentially begins to be developed in this hemisphere.

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[32] While we have not been able to confirm the exact location of the manufacturer, our research indicates that production of Canadian Cherokee jeans was probably taking place at the Chentex factory in the Las Mercedes free trade zone. Wages at this factory are reported to be very low, meeting only one third of an average family's basic needs. After a six month organizing struggle, a union was recognized at the factory in 1998. However, factory managers have attempted to break the union since its inception, announcing plans to close the factory, and refusing to negotiate in good faith with the workers. After a work stoppage in April 2000, nine union leaders were fired, and armed national guards were brought into the factory. Chentex owners have since said that if they are legally prohibited from firing union leaders, they will close the Chentex factory and stop other Taiwanese investment in Nicaragua. (See Nicaragua Country Profile for an example of common labour rights violations in Nicaragua.)

It is hard to predict how the passage of the CBI enhancements will affect Canada. Certainly, it is likely to encourage a further restructuring of the US apparel industry, already reeling from an intense restructuring following NAFTA. Given that much of the current growth in the Canadian apparel industry can be traced to high levels of exports to the US,[33] changes in the US industry as a result of the CBI enhancements will no doubt have an important impact on the Canadian industry.

One impact could be a loss of competitiveness for Canadian manufacturers exporting to the United States as they are forced to compete with more CB-made items in the US market. And just as importantly, if the CBI enhancements result in another restructuring of the US domestic apparel industry, which is what many analysts are predicting, Canadian manufacturers exporting to the US could also face increased competition from a downsized and consolidated domestic supplier base. Finally, Canadian manufacturers producing for the Canadian market could also experience this competition from more "cost efficient" US suppliers who are exporting to Canada.

The CBI enhancement legislation could open up more possibilities for Canadian investment in Central America, as maquila infrastructure, such as ports, transportation systems, and free trade zones, is expanded through increased American investment and government efforts to attract it. Canadian manufacturers producing in the Caribbean Basin and exporting to the US will be eligible for the new CBI enhancement duty and quota reductions, but only as long as they follow the legislation's rules of origin provisions. For example, fabric will have to be formed in the US, with US thread, or in the Caribbean Basin with US thread under certain classes. Gildan Activewear, a manufacturer currently producing in the CB, provides an interesting example of how Canadian manufacturers may be affected by the new legislation. (See the case study at the end of this section).

A more important variable for Canada is likely to be the negotiation of the Free Trade Area of the Americas (FTAA) already underway, and scheduled for completion in 2005. This trade agreement would essentially extend NAFTA to all of Central and South America and the Caribbean, with the exception of Cuba. As mentioned previously, some industry analysts downplay the impact of regional trade agreements, predicting a major global restructuring in the apparel industry as a result of the phase-out of the Multi-Fibre Agreement in 2005.

What Does it Mean for the Workers?

From its inception, the maquila model of production in Central America and the Caribbean has encouraged and thrived on labour rights violations. Fast-paced production, "flexible" hours of work, low wages and a non-unionized workforce have been the key selling points to investors. Reports on worker rights abuses in manufacturing facilities producing for the North American market -- unpaid and forced overtime, poor health and safety practices, physical, verbal and

[33] See Section One: Recent Trends in the Canadian Garment Industry.

sexual abuse and forced pregnancy testing -- have surfaced in a number of countries.[34] (See the country profiles on Nicaragua and Honduras for two examples.)

There is a strong tradition of labour and community organizing in the Caribbean Basin countries, including in those low-wage countries where apparel production has increased. Recent struggles in Guatemala, Honduras and El Salvador illustrate the challenges workers face when they attempt to organize to improve conditions.

In Guatemala, after a long and intensive battle for union recognition and a signed collective agreement, workers at Camisas Modernas, a maquila factory directly owned by Philips-Van Heusen, workers received notice that the factory was closing. Similarly, workers at the Kimi factory in Honduras, who also fought long and hard for a union and a collective agreement, and against the expulsion of their factory from the industrial park where it was located, were recently thrown out of work when the factory was closed. Despite extensive international solidarity campaigns, both these companies were able to rid themselves of unions and collective agreements by simply shutting down the factories, laying off the workers and shifting production to non-union subcontractors. The situation is perhaps more hopeful at three Doall maquila factories in El Salvador, where an international campaign recently won the reinstatement of fired union supporters and acceptance of independent monitoring of factory conditions. However, Doall workers continue to face tremendous opposition to their efforts to win union recognition and a collective agreement.

Organizing around women's rights and promoting women's leadership has emerged as a strong counterpoint to union organizing in Central America's maquilas. In Nicaragua for example, the Maria Elena Cuadra Movement of Working and Unemployed Women (MEC) has worked extensively with maquila women workers on worker and gender rights and women's leadership training, as well as national campaigns for legislative change and a voluntary code of conduct for the maquila industry. Women's groups in Honduras, El Salvador, and Guatemala have developed similar programs. In the Dominican Republic, CIPAF (the Centre for Participatory Research and Feminist Action) has been involved in research and advocacy to support women workers in the free trade zones since the zones were first established in 1968.

Trade Liberalization and Workers

As with NAFTA, Caribbean Basin Initiative Enhancement legislation supporters have argued that the legislation would benefit workers in the CB, increasing employment and wages in the garment sector.[35] However, although employment in Mexico's maquiladora sector has increased

[34] See: *Women Behind the Labels: Worker Testimonies from Central America.* Toronto: Maquila Solidarity Network and STITCH, 2000, National Labor Committee website, http://www.nlcnet.org, Gareth Madoc Richards, *Export Processing Zones in Nicaragua*. London: One World Action, 1998, Mirta Kennedy and Melissa Cardoza, *Mujeres en la Maquila: El Caso de la ZIP Choloma*. San Pedro Sula: Centro de Estudios de la Mujer – Honduras, 1995, and COVERCO *2nd Public Report Independent Monitoring Pilot Project with LIZ CLAIBORNE, INC.* Guatemala: COVERCO, 2000.

[35] Supporters of the bill argued that CBI enhancement legislation was necessary to prevent the loss of CB jobs to Mexico and to provide assistance to CB countries after the devastation wrought by the recent hurricane. In his statement on the bill, Bill Clinton said that the legislation would "…bolster their [CB and

as a result of NAFTA, Mexican labour rights groups report that working conditions have not improved, and studies show a decline in real wages over the six years since NAFTA's implementation.[36]

Another negative impact of trade liberalization on Mexican and CB workers is the virtual collapse of domestic garment industries. Unless a dramatic change in the structure of apparel production occurs, labour rights and wages in the Caribbean Basin are likely to follow the pattern witnessed in Mexico. It remains to be seen whether the CBI enhancement bill will help to facilitate the kind of structural change that would result in more value added components of production being introduced in the CB countries, and whether these types of changes do indeed have the *potential* to improve working conditions and expand space for worker organizing.

Over the next months, MSN will be working with women's and labour rights groups to better to assess the trends and their implications for workers and worker organizing.

C. SEWING FOR GILDAN

The Clark Street Story

In February 2000, workers sewing T-shirts in a Montreal factory owned by Gildan Activewear learned that many of their jobs would be "restructured" out of existence. In the words of the company's vice-president, Edwin Tisch, "We manufacture the same products in our facilities and through our sub-contractors, in Honduras, Nicaragua, Mexico, El Salvador and Haiti. Comparatively, costs at our Clark Street plant are dramatically higher. This leaves us with no choice but to restructure…."[37]

While the company vice-president was speaking the new language of global competitiveness and inevitability, the workers in the Clark Street plant suspected the decision had something to do with the recent certification of their union. According to Henri Massé, president of the Fédération des Travailleurs et Travailleuses du Québec (FTQ), the company's threat to close the plant and move to the Third World was a direct consequence of the employees' decision to join the union.[38] In his view, the company was unwilling to operate a unionized sewing facility in Quebec, and would rather lay off those workers than negotiate a first contract.

The story of the 93 workers whose jobs were on the chopping block at the Clark Street plant is not uncommon. Gildan Activewear Inc., a highly successful, Montreal-based textile and apparel

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African countries] efforts to alleviate poverty, and improve long-term prospects for democracy and stability around the world." The Honduran Foundation for Investment and Development of Exports (FIDE) writes that the CBI enhancement will protect and promote US textile and apparel jobs, because of the US component requirements. They also argue that the legislation will help reduce illegal immigration refugees and the war against drug trafficking.

[36] See sources cited in Section Two of this report.

[37] Gildan press release, "Gildan Activewear Announces a Restructuring at its Clark Street Sewing Plant," March 6, 2000.

[38] La Presse, February 18, 2000.

manufacturer, provides an excellent example of one approach to the restructuring of the Canadian garment industry.[39] When many traditional protections for the industry were removed with the advent of trade liberalization in the late 1980s, Canadian manufacturers reacted in several ways. Some apparel companies laid off workers and began subcontracting most or all of their sewing operations to small contract shops and homeworkers in Canada's urban centres. Others opted out of manufacturing and became clothing importers. A third strategy involved a combination of the two strategies above – subcontracting sewing and moving production offshore.[40] Gildan is an example of this third approach. By the late nineties, Gildan Activewear had simultaneously subcontracted a great deal of its sewing operations, and gone global.

The Gildan model combines the retention of some manufacturing facilities in Canada and the US with the creation of a new network of wholly-owned factories and subcontractors in Mexico, Central America and the Caribbean. Gildan appears to have strategically located each of its different operations (knitting, cutting and sewing) in a different country or region for maximum benefit from advantageous trade laws, low-cost water and electricity or the lax enforcement of labour standards. Often left out of Gildan's success story are the effects of the Gildan model on the workers who make their products, both in Canada and abroad.

Gildan in Mexico, Central America and the Caribbean

Today Gildan's sewing operations are scattered throughout the Caribbean Basin, in Honduras, Nicaragua, El Salvador and Haiti, and most recently in Mexico. The advantages of the region are obvious: an inexpensive, "flexible" labour force, tax exemptions for foreign investors, and its proximity to the largest single buying market in the world, the United States.

Gildan owns and operates three garment assembly plants in Honduras, in the cities of Choloma, El Progreso and San Pedro Sula.[41] The latter is also the site of their offshore sewing management office, which oversees production and quality control.[42] In February 1999, Gildan announced the launch of its new international division in Bridgetown, Barbados, which would oversee all non-Canadian sales and related activities.[43] The same release also forecast the opening of a new golf shirt sewing facility in Barbados in the summer of 1999. As of January 2000, the plant was not yet operational and the new target date was spring 2000.

The remaining seven facilities sewing for Gildan are independently-owned contractors. There are two in El Salvador, two in Haiti, one in Honduras, one in Mexico and one in Nicaragua. Most sew exclusively for Gildan and their initial contracts range from one to three years. This combination of exclusivity and long-term business relationships means that Gildan can exert a

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[39] See Corporate Profile, Section Five, page 1.

[40] Lynda Yanz, Bob Jeffcott, Deena Ladd and Joan Atlin. *Policy Options to Improve Standards for Garment Workers in Canada and Internationally* (Ottawa: Status of Women Canada, 1999).

[41] MSN had an opportunity to interview Ira Kaminsky, Gildan's vice-president of Offshore Operations, in San Pedro Sula, in February 2000.

[42] Ira Kaminsky. indicated that this office would shift to Mexico in the coming months, where Gildan has plans for the development of combined textil and manufacturing complex. Details of the location were not revealed in the interview.

[43] Gildan press release, "Gildan Activewear Announces New International Division," February 23, 1999.

great deal of control over pricing, production rates and the enforcement of quality controls.[44] It also means that Gildan would be able to influence and monitor wages and working conditions in any one of its factories, whether or not it is directly owned by Glidan.[45]

It is rumoured that Gildan may soon expand its textile manufacturing capabilities beyond Canada. As the terms of NAFTA are fully implemented, Mexico's capacity for full-package production is becoming an attractive option to apparel manufacturers. Under NAFTA, products assembled in Mexico of Mexican components and imported into the US or Canada will enjoy tariff-free status. As a result, the trade incentives to import cut fabric from Quebec for assembly in Mexico could be eliminated.[46] Later we will discuss the pressures Gildan faces to move its textile operations outside of Canada as a result of the recently passed CBI enhancement bill in the US. Nevertheless, Gildan will likely keep some of its textile production in Quebec as, in the words of Gildan's chief executive, "Canada has the most cost-advantaged location in North America for manufacturing textiles, specifically in the province of Quebec."[47] By locating their knitting, dyeing and finishing facilities in Quebec, the company benefits from the province's abundant supply of water and low-cost electricity.

Journey of a T-shirt[48]

The journey of a Gildan T-shirt is a long and complicated one. Any Gildan T-shirt, whether sold in the Nike Store in downtown Toronto or in a college bookstore in Arkansas, probably started its life as a spool of yarn in the United States. Yarn from the US is brought to Ville St-Laurent, Quebec, where it is knitted into fabric, dyed into one of Gildan's range of colours and sent to New York State for cutting.

Once the fabric has been cut at the automated cutting facility in Malone, New York, it is shipped to one of Gildan's many sewing facilities, either in Montreal or in the Caribbean Basin or Mexico. For example, cut pieces could be delivered to one of Gildan's contractors in Haiti. Or they could go to San Pedro Sula, Honduras, to be sewn by women working at Los Angeles de San Jose, S.A., a Gildan-owned factory in the San Jose Industrial Processing Zone (ZIP) in San Pedro Sula. Sometimes Los Angeles de San Jose contracts out work to smaller sub-contractors in neighbouring industrial parks.

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[44] Interview with Ira Kaminsky, February 18, 2000.

[45] Over the last six months, labour rights groups in Haiti and Nicaragua have contacted MSN requesting more information about Gildan. They report labour rights violations in Gildan factories in their countries. We are awaiting more detailed information. A June 2000 Honduran magazine reporting on labour rights in the maquilas noted two recent "denuncias" of problems at the Gildan-owned factory in the El Provenir export processing zone in El Progreso. MSN will follow-up these complaints, and with more documentation, will contact Gildan Activewear directly.

[46] See Section Two for a more in-depth analysis of full package production.

[47] Greg Chamandy, evidence presented to the Sub-Committee on International Trade, Trade Disputes and Investment of the Standing Committee on Foreign Affairs and International Trade, May 26, 1999 http://www.parl.gc.ca/InfoComDoc/36/1/SINT/Meetings/Evidence/sintev31-e.htm. However our interview with Ira Kaminsky indicated that textile production in Mexico would be increasingly important in the coming years.

[48] Primary source: Gildan Activewear Inc., *US SEC Annual Information Form*, January 25, 2000, pp.4-20.

If you bought your Gildan T-shirt in Canada, it was most likely assembled in Montreal at the Clark Street factory. T-shirts sewn in Mexico and the Caribbean Basin are generally destined for the US market and imported into the US through the port of Miami, where Gildan owns a distribution centre. Gildan's other distribution centre is in Ville Saint-Laurent, Quebec. Gildan is reportedly considering the construction of a new distribution center in Greensboro, North Carolina, which would be larger than the two existing ones combined.[49]

In 1999, Gildan sold 96 percent of its products to North American wholesale distributors. The remaining four percent went to mill direct customers, some of the larger screenprinters and embroiderers in North America, and to private label customers, including Nike Canada Ltd. and Boca/Au Coton.

Sewing for Gildan

In 1999, Gildan had approximately 4,500 direct full-time employees, and its contractors employed 2,200 additional persons. According the company's 1999 Annual Report, employee relations are "very good." The report goes on to say, "We have not experienced any work stoppages that have had a material impact on our operations."[50] The report was published shortly after a union organizing drive had just been concluded at their Clark Street plant in Montreal. A couple of months later, the company threatened these newly unionized workers with massive lay offs.[51]

Gildan's three Honduran maquilas employ 3,000 workers. In 1997, Gildan commissioned a "gender and development" survey of their maquila in San Pedro Sula, with funding from the Canadian International Development Agency's (CIDA) Industrial Cooperation Program (Canada-Honduras). The report indicated that, although working conditions were relatively good, women workers were being subjected to forced pregnancy testing after one month of work. In Honduras and other Central American countries workers who are found to be pregnant are often fired to avoid paying maternity benefits. The CIDA-funded report recommended putting an end to forced pregnancy testing, installing fire extinguishers and providing childcare.

In their 1999 Annual Report, Gildan states, "We have invested significant managerial resources in ensuring that the working conditions at our offshore sewing facilities meet or exceed the standards imposed by Canadian occupational health and safety laws. We contractually oblige our contractors to follow prescribed employment policies requiring, for example, minimum employee age of sixteen and a clean and safe work environment." While the MSN has received some reports from contact groups in El Salvador, Nicaragua, Honduras and Haiti which call into question Gildan's claims of better than average working conditions, further research is required to verify whether and where labour rights violations exist.

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[49] Leslie Brown, *Greensboro News Record*, April 14, 2000.
[50] Gildan Activewear Inc., *US SEC Annual Information Form*, above note 48.
[51] MSN has received two reports of brief work stoppages in recent months at Gildan's factory in El Progreso, Honduras.

According to Gildan's Vice President of Offshore Operations, Ira Kaminsky, production quality and volume are the two major priorities for Gildan's operations in Central America and the Caribbean. To ensure increased levels of production, Gildan has implemented a unique system in Honduras. Employees work 12-hour shifts, four days a week (known as 4 by 12's). This translates into 12-hour days for which Gildan pays no overtime, since the 48-hour total falls within the Honduran legal workweek. According to Kaminsky, this system also benefits the mostly women workers in his plant since it leaves them three days at home with the children, where they don't have to pay for child care. Maritza Paredes, a labour rights advocate for a local women's group isn't so sure. "Unfortunately the wages are so low, that most women don't have the luxury of staying at home. If they can't find jobs in another maquila, most will be on the streets selling food and other items on their days off from Gildan."

Although the MSN has not yet carried out in-depth on-the-ground research on working conditions in plants owned by or producing for Gildan in Central America and the Caribbean, we have received inquires about Gildan from partner organizations in Haiti and Nicaragua. We hope to work with those organizations on the next stage in our research.

Business Success Story

Gildan Activewear is touted in the business press as a Canadian success story. Gildan is currently the second largest manufacturer and marketer of cotton T-shirts for the wholesale market, after the Hanes division of Sara Lee Corp. Its annual sales in 1999 topped $334-million, up from $70-million in 1996. Its annual gross profits over the same period grew to $24-million from $0.97-million.[52]

The company's projections for future growth are even more ambitious. Gildan's Chief Executive, Greg Chamandy, recently set a $1-billion sales target for fiscal 2003. "We're a growth company and we mean to go on to the $2-billion mark after fiscal 2003."[53] The forty-one-year-old Chamandy and his brother Glenn have turned a small, traditional textile and fabric firm into a Canada-US powerhouse.

Although the company is headquartered in Ville Saint-Laurent, Quebec, most of its business happens outside of Canada. In 1999, Gildan did 87 percent of its sewing offshore, and US sales accounted for 85 percent of its overall sales. It has strategically positioned itself between the largest consumer market and the most productive market of cheap labour in the Americas. The company is also seeking greater investment from outside of Canada. On September 1, 1999, Chief Executive Greg Chamandy rang the bell of the New York Stock Exchange to launch Gildan's first day of trading on that exchange. Gildan shares continue to be traded on the Toronto Stock Exchange as well.

Gildan is concerned about how changing trade regulations in the US and Canada will impact its business. In evidence presented to the Parliamentary Sub-Committee on International Trade in

[52] Gildan Activewear Inc., *US SEC Annual Information Form*, above note 48 at 27. All figures are in Canadian dollars, unless otherwise noted.
[53] Robert Gibbens, "Gildan aims to drive T-shirt sales over $1-billion," *National Post*, May 12, 2000.

May 1999 concerning the Free Trade Area of the Americas, Gildan Chief Executive Greg Chamandy explained:

> The reason we've been very successful is because of access to the Caribbean and Central America by participating in the American bilateral agreement, known as the Caribbean Basin Initiative, that is their law 807… We have access to a labour pool that is very aggressive, very anxious to work, and very cost-effective. Compared with Canadian and American wage rates for garment assembly, a sewing operation that you can't get people interested in working at in North America, labour is very plentiful over there… Obviously our company is in favour of pursuing the free trade of the Americas agreement. The key thing that we would like to say is let's not reinvent the wheel… The NAFTA agreement is working with Mexico. Let's just extend it further into the hemisphere, down into the southern hemisphere…
>
> I would just say, for our company and our industry, our biggest concern is the U.S.A. I think the Canadian government really has to be aware of what the Americans are doing behind our backs. Specifically—I'll give you a most recent example—they had the audacity to present legislation in the United States that is called the Caribbean-NAFTA parity agreement. They've essentially created a bilateral agreement that gives the Caribbean all the benefits of NAFTA, yet they specifically precluded Canada from being a participant in that agreement. I find this very alarming.[54]

Gildan's major US-based competitors will soon begin benefiting from the CBI enhancement bill. Gildan is precluded from benefits under the new bill because fabric for its products is knitted in Canada, not in the US. Unless Gildan moves its textile knitting mills to the US, as it has done with its cutting operations, firms using US-made fabrics will enjoy a tariff advantage over Gildan when importing from the Caribbean Basin. These competitors include Anvil Knitwear Inc., Bassett-Walker (VF Corp.), Delta Apparel (Delta Woodside Industries Inc.), Hanes (Sara Lee Corp.), Jerzees (Russell Corp.), and Tultex Corp. They have all been shifting more and more assembly operations offshore.

For example, in its 1999 Annual Report, Russell Corp. bragged that it started 1998 with 17 percent of production offshore, but aimed to end 1999 with 60 percent in Mexico and the Caribbean Basin. Russell surpassed its own expectations and managed to shift closer to 70 percent of production offshore by the end of 1999. So, in its rush to Mexico and the Caribbean Basin, Gildan is not alone.

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[54] Greg Chamandy, evidence presented to the Sub-Committee on International Trade, Trade Disputes and Investment of the Standing Committee on Foreign Affairs and International Trade, May 26, 1999, above note 47.

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