The fallout from the phase-out: What lies ahead for the garment industry and the garment workers?

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Ann Weston, The North-South Institute, Ottawa

Thanks to MSN for inviting me to speak – it is a privilege and a pleasure.

In my brief remarks today I want to make three points.
First – I shall briefly set out what we know about the changes in the Canadian market that are underway – in terms of the pattern and value of imports. Of course in many respects it is too early to be able fully to appreciate the changes that are likely to take place – we still do not have data for the first two months of this year. So the impact of the MFA phase-out remains the subject of much debate. Various studies from the WTO and OECD projected large changes that others are contesting and suggesting exaggerate what is really likely to happen – and in particular exaggerating the share of the world market that will be absorbed by China. For instance studies by others like UNCTAD argue that there are several factors likely to mitigate the shifting of purchases to China.

Another problem is that focusing on trade figures alone does not capture what is happening in terms of the restructuring of the industry, concentration of supply chains, and changes in the pattern of employment and wages – which are the issues which concern us.

Second – I shall briefly address what has been the Canadian government's response to the changing world of textiles and clothing trade.

Third – I shall turn to the issue of other areas for Canadian action – whether by the government, buyers, or others in the supply chain, or groups working to see improvement in workers' conditions of employment.

Let me start with a few charts using the Canadian trade database which shows broad trends in the Canadian market in the last year. These are very macro numbers – ie not differentiated by product. They also include all products in the textiles and clothing categories (HS 50 to 63). But they may be important to provide a backdrop to our discussions today – and particularly to show how the Canadian industry is being squeezed on the domestic front – by increasing imports – and in its key export – the US (See Chart I).

It is also interesting to compare what is happening in the US market with the Canadian market – as it allows to see how different trade policies have had different effects in terms of which countries are now supplying more to Canada and the US – though the extent to which these policies – which largely focus on tariff differences – are now diluted by the end of the MFA quotas – is an issue on which there is a lot of speculation.

Briefly then – Canadian imports and exports – show slight increase in trade deficit from $5.2 bn in 2000 to $6.3bn in 2004. Top 10 major suppliers – (See Chart II) shows the decreasing importance of the US (44% to 33%) while China has increased its share from 12% in 2000 to 22% in 2004. The scale of the chart makes it hard to see what is happening with the other 8 top suppliers of imports to Canada – so I have prepared another chart that focuses only on these countries (See Chart III). What is striking here is the sharp increase in imports from Bangladesh – a least-developed country – following the introduction in Jan 2003 of Canada's duty-free, quota-free market access initiative for Least Developed Countries – imports from Bangladesh more than doubled from 2002 to 2003 and in 2004 were three times the 2002 level -- Bangladesh is now 5th largest supplier to Canada. NB while the value and share of imports has increased it still only accounts for 4% of all T&C imports – up from 1.4% in 2000.

The importance of this Least Developed Countries policy can be seen when we examine the situation in the US. Here the trade deficit in textiles and clothing has also grown – from $78.4 bn to $84.4 bn over the 2000 to 2004 period (See Chart IV). Turning to the top 15 suppliers of US imports – we see the shift even before Jan 2005 from Mexico to

China, with China accounting for 11% in 2000 and 17% in 2004, while imports from Mexico have declined steadily from in absolute and relative terms – its share of US imports fell from 14% to 10% (See Chart V).

Again removing these top two suppliers – we are able to focus more on the relative importance of other suppliers (See Chart VI). This shows that most supplying countries have experienced declining exports to the US – Canada from 4.9% to 4.0% – Bangladesh from 2.7% to 2.0% -- though India from 4.0% to 4.5% and Vietnam from 0.1% to 3.0% have been able to increase their exports.

Canadian (federal) government response domestically

How then has the government responded? And what have been its priority concerns? Briefly the government has been concerned to promote domestic textiles and clothing production through funds for various initiatives to upgrade products and strengthen marketing. It has also made changes to trade policy – to lower the cost particularly of imported textiles which the clothing industry says cannot be sourced domestically. Finally it has tightened border controls to ensure no illegal transshipment of textile and apparel products – eg products being diverted from China via Least Developed Countries such as Bangladesh or Cambodia in an attempt to benefit from the duty-free quota-free access which Least Developed Countries enjoy in Canada.

The assistance to the industry amounts to some $100 mn – over a period of 7 years – ie roughly $15mn a year. The first $33mn was made available under the Canadian Apparel and Textiles Industry Program which has funded some 300 projects to increase productivity, lower costs, improve efficiency and identify new markets. For instance in 2003 funds supported Canadian textile firms to participate in the 2003 NATO Combat Clothing and Individual Equipment Exhibition. A number of projects have assisted Canadian children's clothing producers with marketing. Some have promoted the Canadian textiles industry on the strength of its innovative, highly skilled workforce

The remaining \$70 mn is focusing on similar initiatives under the Textile Production Efficiency Component – or CANtex program. CANtex is intended to encourage 'excellence and competitiveness in technical, specialty and industrial textile manufacturing, as well as helping textile producers to move from supplying apparel firms – to other textile markets. (Firms may apply for \$3mn in loans to cover the cost for example of new machinery and equipment).

Otherwise there has been little discussion of initiatives to monitor and target working conditions in the industry – nor to facilitate adjustment – ie to help workers find alternative employment other than through the regular mechanisms (Employment Insurance, etc).

Changes to import duties have been made to lower the input costs especially of clothing producers – which has raised concerns amongst that sector of the textile industry producing cloth for clothing – estimated by the government to be 25-30% of the textile industry (ie in which some 12,000 to 16,000 workers may be involved). (There were to be hearings at the Canadian International Trade Tribunal to determine which products would retain import tariffs in order to protect domestic textile interests). The 'tariff relief' is estimated to be worth some \$42mn (\$27mn announced in Feb 2004 and another \$15mn announced in Dec. 2004). The government considers that it will lower input costs by \$90mn (some textile producers may benefit from lower yarn costs).

In addition there is a 'duty remission' scheme which has been in place since 1997/98 which allows clothing manufacturers to reclaim duty paid on imports of some products (like tailor collared shirts and women's wear) – in effect this was a form of cross-subsidisation – allowing producers to include cheap imports in their mix of garments sold onto retailers. They get access to those imports at prices some 25% below what retailers would pay as they do not have to pay duty on them. This practice is considered to be worth some \$30mn annually to Canadian producers and will be gradually phased out after 2006, to end by 2010.

Canadian government response internationally

What then has Canada been doing internationally to address the radical changes in textile and garment supply chains that are taking place and will accelerate now that the MFA has ended? Broadly speaking there have been two strategies – one through our trade policy and the other through our aid programming.

As already mentioned, Canada introduced the Least Developed Countries Market Access Initiative partly to help Least Develop Countries producers – notably Bangladesh – to face increased competition post MFA from China and more competitive suppliers in India and other countries. It was expected that providing a 15-25% tariff margin could help some Least Developed Countries producers stay competitive thus sustaining employment, mitigating the pressure to cut wages or lower working conditions. There was no linking of tariff removal for Least Developed Countries to compliance with working conditions or national labour standards.

Canada has also negotiated a number of bilateral trade agreements with countries such as Costa Rica and Chile, and is considering negotiating further agreements with other countries including emerging markets. An important element of those agreements could be the improved access to Canada's clothing market but there has been no consideration of linking that improved access to discussions of labour standards or working conditions in garment factories let alone sectors.

Even in Canada's aid programming – there has been less emphasis on working conditions and labour standards, than say in the case of the US with its targeted support of the work of the ILO in Cambodia (as set out in the yellow fact sheet no 4 in your kits).
CIDA does recognize the importance of labour standards and working conditions – it does support the ILO more generally – but there are no specific initiatives targeting working conditions in the garment sector in this way. Instead, the strategy has been on the one hand to support opportunities for developing countries through liberalization of the Canadian market – and through CIDA support of expanding trade capacity building. For instance in Bangladesh, CIDA is planning a large project to help Bangladesh develop

new exports in order to create opportunities for those women likely to be laid off in the post-MFA period. Some of the project will likely target the clothing sector directly – eg through support for a design school. Other initiatives may target improvement in the ports to lower the shipping costs that have limited the competitiveness of Bangladesh exports.

In its Trade-Related Capacity Building more generally CIDA recognizes as a basis principle the importance of ensuring markets embody high standards – including working conditions. But there have been few projects – other than those supported indirectly through others such as the trade unions and NGOs – that directly address these issues – that attempt to link trade to improved working conditions. There is still an underlying belief that trade liberalization will create new opportunities and that in turn this will lead to improved working conditions etc

So – to briefly turn to some of the areas where there might be more action to ensure that as supply chains are restructured that governments, producers and retailers – these are areas that the next speakers will address much more directly – so my comments here are very brief.

I think it would be interesting to explore ways in which the Canadian aid program worked more closely to ensure improvements in labour standards – whether through measures to help producers move up the supply chain in terms of developing higher value added products, or through monitoring and enforcement of labour standards, as in a Cambodia-type project. This type of program would seem particularly useful in some of the Least Developed Countries which are benefiting from special access to the Canadian market – and where there may be a particular need for technical support in labour standards enforcement. There would be scope for involving Canadian buyers in such a scheme.

The issue of labeling information has been raised in the past – but with little action as yet in Canada to require disclosure of the factory of production – again this could usefully complement work in producing countries to raise standards.

Finally, there needs to be more discussion with trade agreement partners about measures to enforce labour standards..

Thanks

Chart I

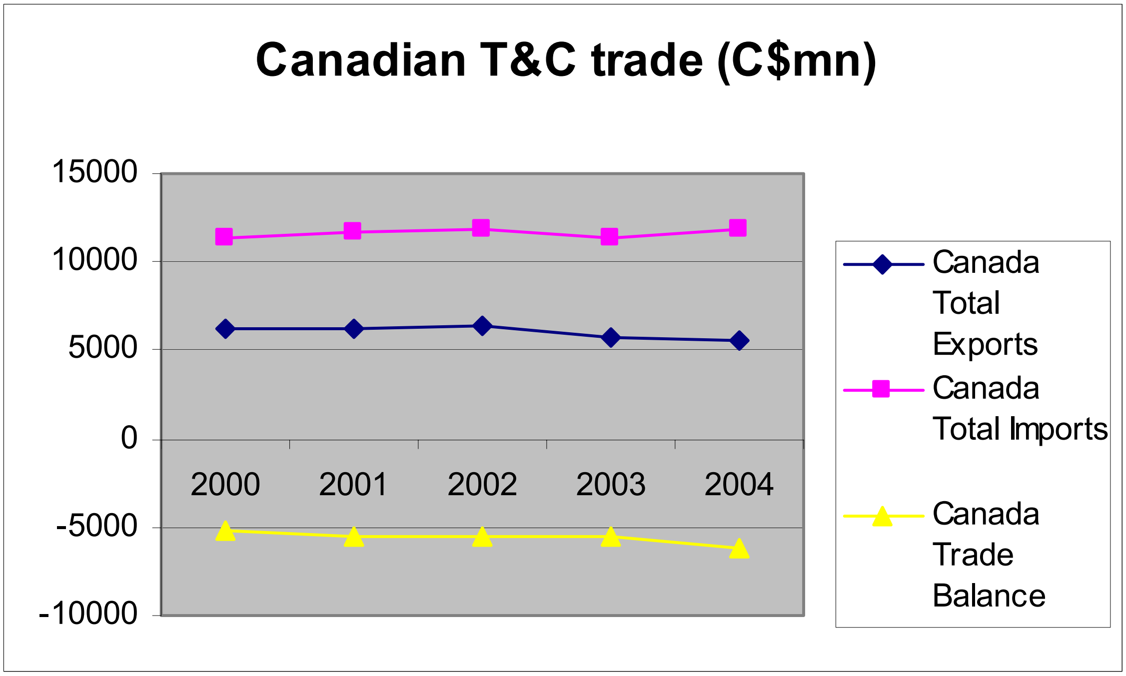

Chart II

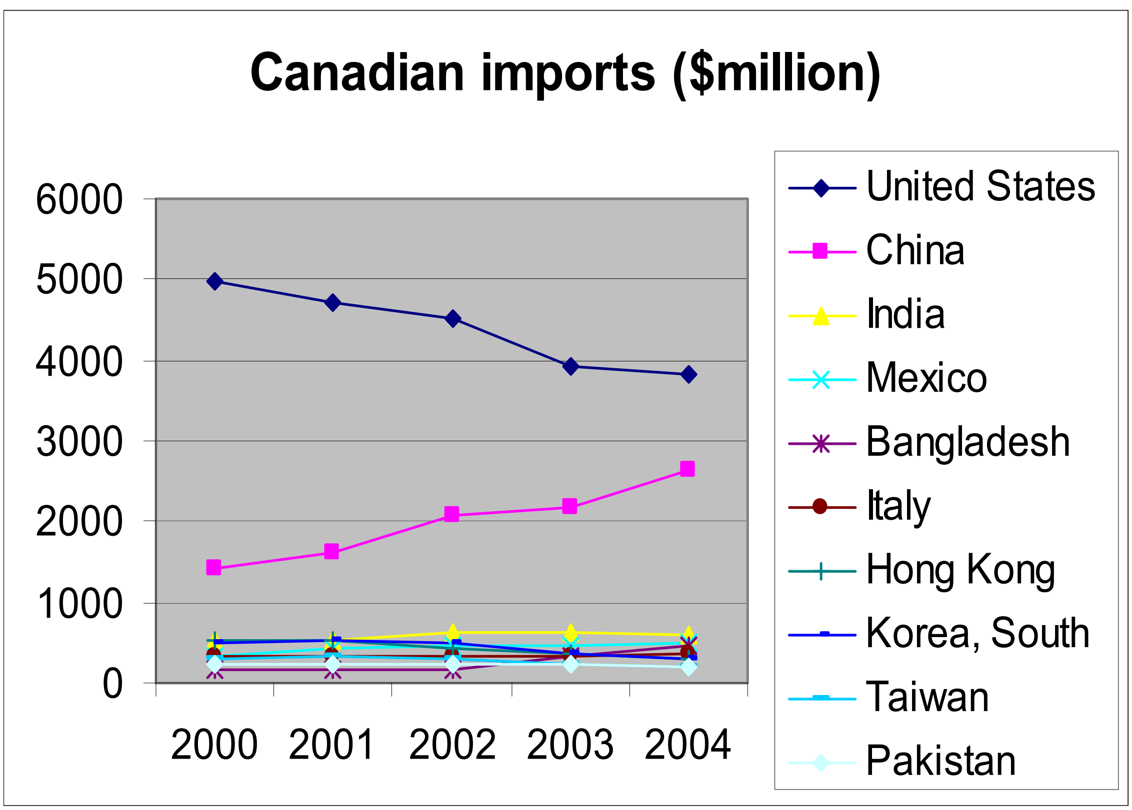

Chart III

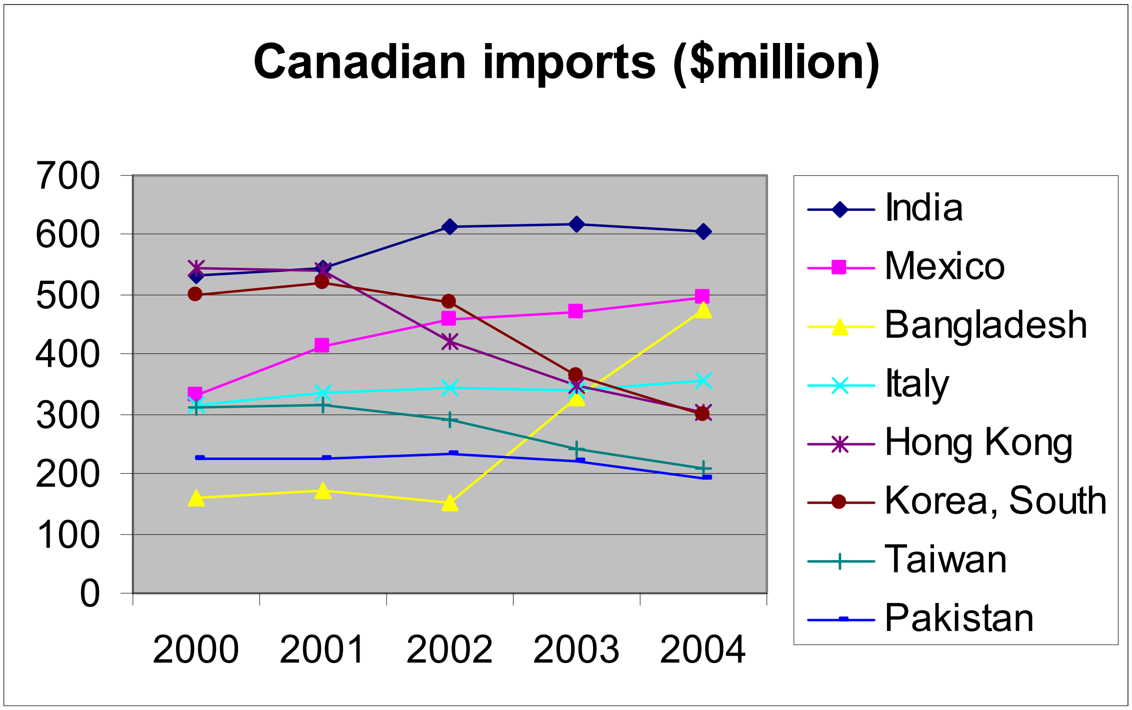

Chart IV

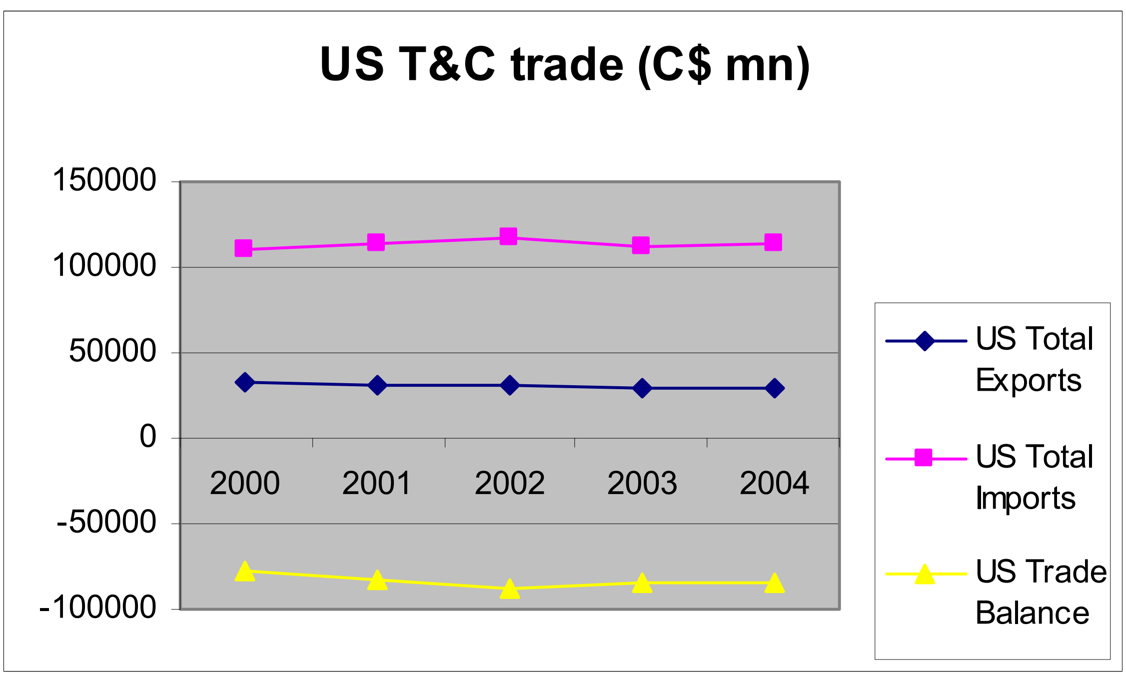

Chart V

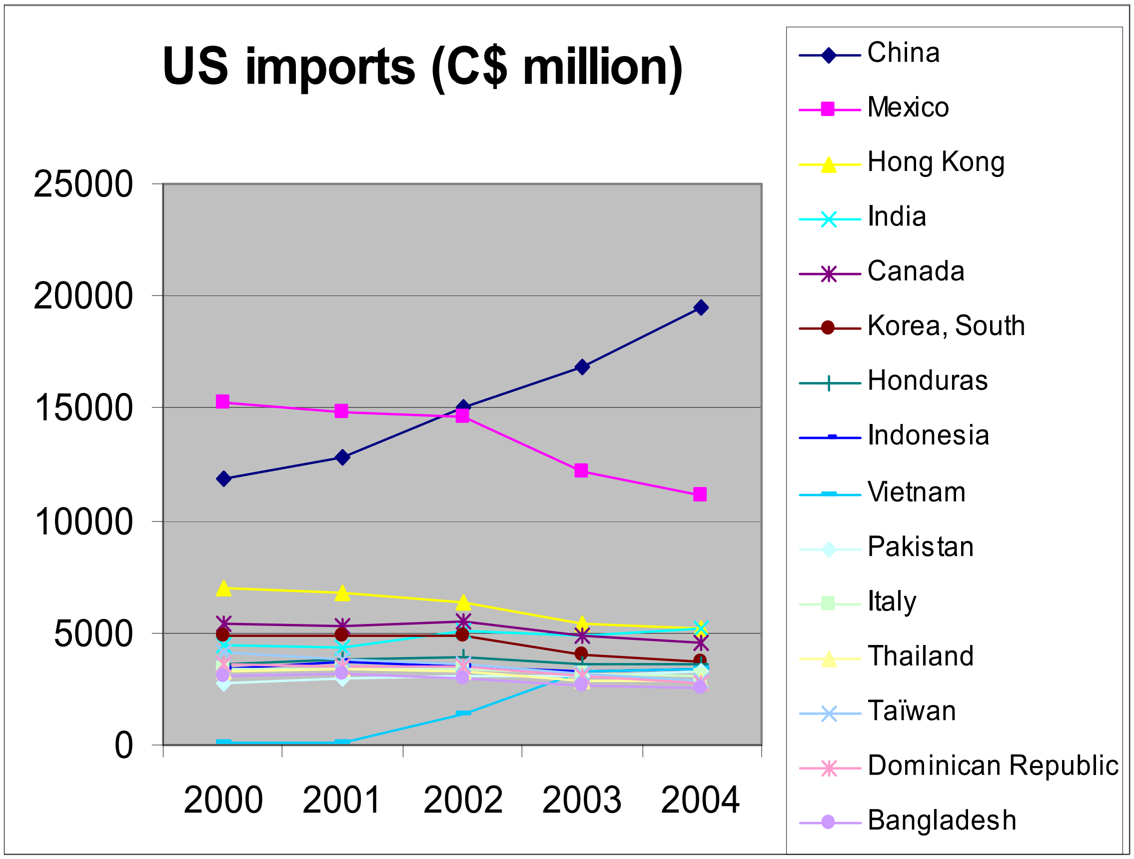

Chart VI