fact sheet

Multi-Fibre Arrangement

fact
sheet
1 A series on trade and labour rights in the garment industry.

• WHAT IS THE MFA?

The Multi-Fibre Arrangement (MFA) was established in 1974 to regulate global trade in textile and apparel products. Under the MFA, Canada, the US, and the European Union (EU) could set limits, called quotas, on the amount of foreign-made apparel and textiles they would allow into their countries from any specific producing country. Since 1974, import quotas have been applied to 73 countries in the global South, mostly in Asia. In 1995, the Agreement on Textiles and Clothing (ATC) came into effect, under which quotas were phased out in four stages over a ten-year period and eliminated on January 1, 2005.

January 1, 2005 marked a new era in the world garment industry.

• WHAT DOES THE END OF QUOTAS MEAN FOR THE APPAREL INDUSTRY?

Quotas were adopted to protect apparel and textile production in the North. The result, however, was the internationalization of the industry. Apparel production was set up in many different countries in Asia, Latin America and Africa that did not have restrictive quota limits on the amount of clothing that could be exported to the North. The end of quotas means a larger amount of apparel and textiles will be produced in the global South, but in fewer countries and fewer factories. Without quotas, countries and companies will be in more direct competition. This increased competition will produce three main effects:

1 **Country consolidation:** It is cheaper and more efficient for brands and retailers to source from fewer countries. One industry survey found that brands now sourcing clothes from 40-50 countries plan to consolidate production in 12-15 countries.

2 **Fewer and larger suppliers:** With open competition, suppliers will be pressured by brands and retailers to reduce costs. Multinational suppliers with large factories and "full package production" (see below) will win out over small and assembly-only factories. However, the use of small subcontract sewing facilities by the larger factories will likely continue.

3 **Drop in costs:** Brands and retailers will get more production for less money because the price of garments will no longer be inflated by quota fees and companies will be able to select those manufacturers and countries that offer the greatest efficiency for the lowest cost.

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WHAT DOES THE END OF QUOTAS MEAN FOR WORKERS?

The apparel industry has always been highly competitive and mobile. With the end of quotas, the industry will be more so, at least over the next five years. Workers in countries whose industries gained increased access to markets in the US, the European Union and Canada as a result of the quota system will be most negatively affected. Some countries unable to compete on the basis of low labour costs, hope to compete on the basis of other factors like technology, flexibility, productivity, higher-priced clothes, speed-to-market, compliance with labour standards, full package production and free trade agreements. All of these factors will affect working conditions.

Competitive Factor	What does that mean?	Possible Impact on Workers
Technology	Upgrade machines to produce apparel more efficiently. Increase investment in textiles and laundries, which are of higher value and more mechanized.	Workers must receive training to update their skills. Women workers often displaced for men, assumed to be more skilled, whether or not they have training.
Flexibility	Specializing in smaller orders that are needed more quickly.	Erratic work schedules. Possible temporary or seasonal work.
Full package production	Integrating all stages of apparel production in one location or "cluster": acquiring or spinning of cloth, buying other inputs (e.g., zippers, buttons), assembly, and packaging.	Some better paid jobs, but mostly for men.
Free Trade Agreements (FTAs)	Through the negotiation of FTAs, tariffs can be reduced or eliminated.	FTAs combine the benefits of low tariffs with many restrictions and conditions.
Compliance with labour standards	Promote certain countries as having high labour standards and compliance with those standards.	Working conditions and respect for workers' rights improve to the extent that enforcement is genuine, and not just a public relations exercise by industry.

COUNTRY “WINNERS” and “LOSERS”

Generally, the industry is expected to grow in large, low-wage countries, especially China and India. Predictions vary based on who is making them. Retailers and brands that import apparel are likely to predict milder effects than are US or European manufacturers who want to see restrictions continue.

For example, predictions on what percentage of US apparel imports will come from China after 2005 vary from 27% to 70%. Thus, there is no certain way to predict the exact location of the industry after 2005.

Countries which have been highly restricted by quota limits in many categories of clothing may see growth if they are competitive.

For example, there are 14 countries that face quotas in more than 25 categories and use up more than 50% of their limit of exports to the US: Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Philippines, South Korea, Sri Lanka, Taiwan, Thailand, and United Arab Emirates (UAE).

Countries that are most dependent on apparel exports will feel the impacts of industry shifts most deeply.

For example, there are eight countries whose apparel exports are more than 40% of their total merchandise exports: Bangladesh, Cambodia, Macao, El Salvador, Mauritius, Dominican Republic, Sri Lanka and Honduras.

To the right are descriptions of possible impact in a few countries and regions.

China

China is likely to see a lot of growth. When quotas on four categories of clothing were removed in 2001, China’s production of these goods increased by a factor of five (or 500%). The export price of these four types of clothing dropped 5-22% worldwide, but China’s price dropped 43-57%.

Under the World Trade Organization (WTO) rules, importers like the US can impose some restrictions on China until 2017. Also, there is a lot of pressure on China to make their currency worth more. If China does increase the value of its currency, its exports will become more expensive.

Mexico and Central America

Despite higher costs than Asian countries, this region benefits from close proximity to the US. Industry analysts stress that if Mexico and Central America are to compete, they will have to do more full package production and/or fast turnaround.

To remain competitive with Asia, companies that want to continue investing in the region have been shifting some assembly work to Haiti and Nicaragua, the lowest-wage countries in the Caribbean basin. Negotiated preferences through trade agreements with the US are also a factor.

Because Honduras and El Salvador are the most dependent on apparel exports, workers there will likely be hardest hit. The industry in those countries is also at a disadvantage because it produces basic clothes, has not developed much full package production and has relatively high wages compared to other countries in the region.

Bangladesh

Bangladesh is heavily dependent on low-cost clothing exports. Negotiated preferences with the US and the EU allowed the sector to grow very quickly. Although its wages are some of the lowest in the world, Bangladesh is not competitive based on productivity, the lack of domestic textiles, and poor infrastructure. Analysts predict the industry will be hard hit by the end of quotas displacing a significant number of its 2.8 million workers, 90% of whom are women.

THE END OF QUOTAS...
NOT THE END OF RESTRICTIONS ON THE APPAREL TRADE

The US and the EU can impose restrictions on Chinese apparel and textiles if they can prove that the surge in Chinese exports is causing, or threatens to cause, "market disruption." These are called safeguards and can be used to restrict imports from China until December 31, 2008 and possibly even until 2017. There are also trade preferences that are negotiated through free trade agreements, such as the Central America Free Trade Agreement (CAFTA), that will regulate import taxes (called tariffs) and where fibre, yarn and cloth must be from in order to be exempt from import taxes (called rules of origin).

Thus, the end of quotas most probably will be followed by a transition period of 3-5 years as companies adjust their sourcing patterns to freer trade: no quotas but other restrictions and preferences to consider.

The Race to the Bottom on Labour Standards

While some major apparel brands and a few national governments are discussing whether labour standards compliance could be a competitive advantage in the post-quota world, governments are also under increasing pressure to weaken already inadequate labour legislation. Here are a few examples:

- **Lesotho:** The government has agreed to exempt factory owners from paying a mandatory cost-of-living wage increase.

- **Philippines:** A panel of business and government officials is proposing that garment manufacturers be exempted from paying the minimum wage.

- **El Salvador:** Business leaders are lobbying the government to reduce the minimum wage for maquila workers in rural areas.

- **Bangladesh:** The government is considering raising the ceiling on overtime hours and weakening restrictions on night work for women.