

A WORLD UNRAVELS

# Clothes Will Cost Less, but Some Nations Pay

**Consumers gain when textile quotas end and jobs move to China and India. Poor countries lose out.**

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As a poor nation struggling to compete in an increasingly globalized economy, Cambodia has little to offer factory owner Leon Hsu.

Electricity is erratic. Traffic along the road to the port of Sihanoukville includes the occasional elephant. If a truckload of men's shirts doesn't reach the port on time, it may be days before another vessel departs for Singapore, where goods are transferred to a larger ship for the voyage to the United States.

None of that much mattered over the years, because international quotas guaranteed Cambodia the chance to sell clothing and textiles to retailers in rich, developed nations. Designed to protect manufacturers in North America and Europe from foreign competition, the import quotas ended up working as a global version of Head Start, an affirmative action program for countries that had large, unskilled workforces and not much else.

The last provisions of the 30-year quota system disappeared at the beginning of the month, leaving Hsu few reasons to stay in Cambodia. Beckoning him are far more efficient venues — chief among them China — with modern factories, highways and ports, prolific workers and all the fabric, thread and buttons he could want.

Miss a shipping date out of southern China, and another vessel is leaving soon, often within 24 hours. And it's a direct shot to Los Angeles or Rotterdam, Netherlands.

"I'll be happy to go," Hsu said.

When he does, he won't be alone. The end of the quotas has triggered what trade experts

believe could be one of the largest migrations of production in history, jeopardizing Cambodia's 220,000 apparel jobs. Hundreds of thousands more are threatened in Bangladesh, El Salvador, Lesotho and other countries that prospered under the quota system.

The massive manufacturing shift will be a windfall for billions of people, bringing huge savings to consumers and accelerating the transfer of jobs to engines of low-cost production in China and India. But it could cripple economies across Latin America, Africa and Asia.

Relative newcomers to the international commerce club risk losing their claim to an industry that lets them play in the big leagues. Millions of people whose jobs sewing knit shirts or jeans have meant schooling for their children or roofs over their heads could slide further into poverty.

In Africa, where manufacturers supply employees with condoms and healthcare, the battle against AIDS could be weakened. Illegal immigration from Latin America to North America may rise. Efforts to improve the economic position of women in predominantly Muslim countries are threatened.

The quota system "has been an extremely cost-effective method of bringing social and political stability to a very needy part of the world," said Peter Craig, a Washington-based trade commissioner for the Indian Ocean island nation of Mauritius, which has lost 20,000 apparel jobs since 2003. When the full effects of its end are felt, "it'll be horrendous."

Already, the unleashing of free-market forces has begun to shake the foundation of a trading scheme that brought undreamed-of prosperity to millions and helped create the corporations that dominate international commerce. Now that the rules have changed, those corporations are likely to become even more powerful, and some of the poorest will see their short-lived gains slip away.

"Very few people understand, or they're just starting to understand, what this means," said Mark Levinson, a U.S. apparel union economist who estimates that as much as \$40 billion of production will be transferred to China from the developing world. "It's going to be chaos in the global economy."

Advocates of free trade see it all very differently. They argue that the quotas' demise should be celebrated. In their view, governments no longer protected by quotas will be forced to get rid of the corruption and inefficiencies that, in fact, have held them back.

"This isn't punishment for those countries" that are losing factories and jobs, said Dean Spinanger, a senior researcher at the Kiel Institute for World Economics in Germany and an expert on the quota system. Instead, "it will make them aware that they have to shape up."

Supporters also point out that the full effect of the phaseout isn't likely to be felt immediately, because Washington has the right, under World Trade Organization rules, to reimpose restrictions on Beijing through 2008 if the United States is swamped with too many Chinese imports.

China has responded to the global angst. Last month, officials in Beijing said they were going to try to control their growth by imposing a small tax on apparel and textile exports and monitoring their factories' output.

For his part, David Spooner, the U.S. trade official in charge of textile policy, believes that the elimination of quotas will be far less disruptive than many predict. A small nation, he said, might be able to develop a niche market and flourish. In any event, he added, a lot of the anxiety is unnecessary, because not all the big buyers of cut-rate T-shirts and jeans will abandon their longtime suppliers and rush to China.

Wal-Mart Stores Inc., for one, says it isn't planning any dramatic moves. But of course Wal-Mart already is the leading U.S. importer of goods from China; it's expected to bring in \$18 billion of goods this year. Spokesman William Wertz said the company expect to remain a major player in other countries such as Bangladesh, at least "until we see how things sort out."

The chief purchasing executive for J.C. Penney Co., Peter McGrath, said he couldn't imagine the giant retailer's supplier base falling below a dozen countries, in large part because it doesn't want to be too dependent on any one region.

On the other hand, J.C. Penney has in the last three years slimmed down its supply network from 5,000 manufacturing plants in 51 countries to about 1,800 in 23, which McGrath reckons will reduce import costs as much as 18%.

J.C. Penney's purchasing freedom had been curbed by a 1974 trade pact called the Multifiber Arrangement, or MFA. Its members — the United States, Canada and 13 countries in Europe — used quotas to regulate access to their clothing and textile markets.

The quota system was a bureaucratic headache. Every year, the United States and others in the MFA parceled out their quota allocations to various governments around the world, and those rights were distributed to companies that wanted to produce the goods covered by a particular quota. Manufacturing work was spread all over the world.

The MFA's network of quotas began to be phased out in 1995, and now buyers can shop wherever they like.

Oddly enough, many of the countries fretting about the consequences, such as Mexico and Egypt, were the very ones that pressured the WTO to do away with all the restrictions on trade in textiles and clothing.

Armed with huge pools of cheap labor, these countries figured they could grab even bigger shares of the North American and European markets if the J.C. Penneys of the world were not constrained.

What many failed to foresee was that the dynamics of global competitiveness would be turned upside-down with the emergence of China and India as economic powerhouses.

Within their vast borders, the two countries — the most populous in the world — can offer the low wages of poor nations along with the efficiencies of modern economies. The advantages are perhaps most evident in the textile and apparel industry, which requires large pools of unskilled laborers but also depends on fast delivery and the ability to change production specs on a dime.

What's more, global trade has come to be dominated by huge multinationals such as Wal-Mart or Carrefour of France that can make or break entire economies with their orders.

Wal-Mart, for example, buys as much as one-third of the clothes made in Bangladesh, a major producer of men's dress shirts and khaki pants. In Cambodia, making clothes for Gap Inc. and other leading U.S. and European retailers accounted for one-third of gross national product in 2003.

Big retailers have always been able to leverage their huge orders into lower prices for raw materials, production and shipping. But now that they aren't bound by import quotas, it's far easier to funnel orders to the factories that produce the most, the fastest and the cheapest.

Yves Robert Lamusse, director of Palmar International Ltd., a struggling apparel factory in Mauritius, said it was impossible for a remote island nation to compete now that a "dictatorship of retailers" was pushing prices lower and lower.

"My generation, I don't know what war is," said the fifth-generation Mauritian, who recently invested in two factories in Mozambique because labor costs there are 15% lower than in his native land. "My kid's generation, they don't know what war is. But we are in a war."

The case of Cambodia illustrates how hard it can be to compete for clothing contracts against the likes of China, where the apparel and textile industry employs at least 15 million people and entire towns are devoted to the production of socks or neckties.

During the murderous reign of Khmer Rouge leader Pol Pot in the late 1970s, Cambodia lost its business and intellectual elite, along with a generation of potential managers and entrepreneurs, when more than 1 million people were slaughtered.

Foreign investors have been reluctant to put money into a country plagued by political unrest and illiteracy. The cash-strapped government can't afford to build new highways, upgrade the energy grid or modernize the Sihanoukville port, where inspectors tracking

container traffic use pens and stacks of paper layered with carbon paper in a flashback to pre-photocopier, let alone pre-computer, days.

Cambodia certainly doesn't boast the multilane freeways and high-speed telecommunications lines prevalent in the exporting zones of China. That infrastructure was paid for, in part, by the \$52 billion in direct foreign investment China received in 2003 — compared with Cambodia's \$251 million.

But for a few decades, the textile and apparel quotas let Cambodia be a contender.

Hsu, a native of Hong Kong, moved to Phnom Penh in the early 1980s and opened four factories. He counted among his customers J.C. Penney and Wal-Mart.

Because they were forced to order clothing from factories in more countries than they would have liked, Cambodia benefited. Another boon was a U.S. initiative that linked expanded import quotas to improved labor rights.

Then came the phaseout. At the end of 2002, quotas on nightgowns and baby clothes expired. J.C. Penney, which had bought \$600,000 of baby clothes from Hsu's Cambodian factories in 2001, cut its order by two-thirds the next year and to zero in 2003.

Wal-Mart, a buyer of women's nightgowns, told Hsu in 2003 that it wouldn't order from him unless he could lower his price to \$5.95 a gown from \$6.20. Hsu said he couldn't afford to say yes.

"I lost 20% of my business right there," he said. "It's all gone to China."

Wertz, the Wal-Mart official, said he couldn't confirm the details of that transaction. But he said Wal-Mart was still buying nightgowns and other apparel from Hsu's Cambodian factories.

J.C. Penney spokesman Tim Lyons said his buyers couldn't find any record of business dealings with Hsu's factories in Cambodia.

Although Hsu sees all the business heading to China, there are other nations benefiting from the quota elimination. New business is going to India and Pakistan, for instance, because of their homegrown cotton supply and reputations for high-quality linens.

China, though, is drawing the bulk of the post-quota work.

Although retailers claim that they won't risk placing all their eggs in one basket, experts figure that China could capture at least half of all apparel production — and a far greater share of the U.S. market — within a few years. India could take much of the rest of the \$681-billion global apparel market.

That could create a dangerous divide within the developing world, if China and India are

seen as flourishing at the expense of their neighbors, said Aurret van Heerden, president of the Fair Labor Assn., a coalition of leading retailers, nongovernmental organizations and activists interested in improving working conditions.

"You could end up with hundreds of thousands if not millions of people who start to question the basis of this new global economy," he said. And because the United States was a leading architect of the new trading system, "it would be naive not to anticipate a rise of anti-Americanism."

For the United States, the quota system was a useful foreign policy tool. The quota system gave Washington some leeway in divvying up its market every year, and the government used that — along with tariff rates — to bolster poor countries or reward those that were geographically or politically strategic.

By opening the doors wider for Lesotho in 2000, for instance, the United States sent the apparel industry in that African nation into overdrive. Since then, exports of clothing to U.S. buyers such as Gap, Wal-Mart and K-Mart have more than tripled to \$400 million from \$120 million.

In the 1980s, the Reagan administration had done the same for countries in Central America and the Caribbean, which today supply two-thirds of the imported cotton undershirts, briefs, boxers and panties that Americans put on each day and 80% of the foreign-made cotton T-shirts cluttering U.S. closets.

But for its part, the Bush administration isn't fretting over the policy implications of the end of quotas. The White House, and other supporters of the phaseout, contend that the system simply exacted too high a price to be maintained, propping up uncompetitive producers.

What's more, it cost Americans \$50 billion to \$60 billion annually — an average of \$500 per household — in higher clothing prices, according to the International Trade Commission. Part of the higher costs came from fees associated with the quota system.

"Quota charges are essentially a tax paid by American consumers on imported goods," said Skip Kotkins, president of Skyway Luggage Co. in Seattle, who moved all of his production in Thailand to a giant new factory complex in southern China when quotas were removed from luggage in 2002. Kotkins said his costs had been trimmed by as much as 20%.

The costs to the countries that are losing clothing and textile contracts have only begun to be counted. Many trade specialists see the post-quota era as every bit as potentially destructive as the unrestrained capitalism of the late 19th and early 20th centuries that spawned sweatshop conditions and price-fixing monopolies.

Already, gains in wage levels and working conditions are starting to unravel. In Lesotho, the government has agreed to give apparel and textile factory owners an exemption from

paying a mandatory cost-of-living increase. Business leaders in El Salvador want to reduce the nation's \$5.04-a-day maquiladora minimum wage in rural areas to stay competitive with China and its lower-cost neighbors in Central America.

Halfway around the world in the Philippines, a panel of business and government officials has proposed exempting garment makers from paying the minimum daily wage, which ranges from about \$3.75 to \$5.

It's clear to Rustam Aksam who the losers will be. "No job security, no income security," said the Indonesian labor leader, who figures his country could lose as many as 500,000 jobs.

Critics of the phaseout want world leaders to act now to ensure that the weakest countries — many of which are fragile democracies — are given the chance to reap the rewards of global trade, just as the United States acted to protect consumers in the late 1800s by passing antitrust laws to deal with the robber barons.

"Americans have short memories," said Stephen Lande, president of Manchester Trade Ltd., a Washington trade consulting firm. "To just sit idly by and let these countries take an economic shot and not do anything about it makes no sense."

Carving out space for the underdog is more complicated than it was a century ago, when Washington's major worry was that consumers would be gouged by the monopolists. Today, prices are still viewed as part of the problem — though not in the same way.

In an unregulated global market, the drive to shave costs places excessive pressure on employers to keep wages low and to jettison costly benefits, said Gary Gereffi, a Duke University sociologist who is an expert in global production systems.

"We need to find creative ways to reestablish the floor below which things aren't allowed to sink," he said.

The problem: There are no international organizations with the responsibility or power to regulate manufacturing practices or labor conditions, let alone the world's new concentrations of industrial and buying power.

The Geneva-based WTO is in charge of trade policy but has shied away from tackling contentious issues such as labor standards or environmental exploitation. The International Labor Organization, a United Nations body, has focused its limited resources on ridding the world of the most egregious abuses, such as child exploitation and prison labor, but lacks the teeth to have much effect.

"The world is sort of where it was at the end of the 19th century, when there were robber barons and ruthless competition and consolidation and then the pendulum swung back at the national level and governments stepped in to regulate capital," said Richard Appelbaum, a professor of international studies at UC Santa Barbara. "Businesses are

multinational today. What is the framework for regulating businesses globally?"

There is no shortage of ideas. Some activists have pushed for the establishment of a global living wage that would vary from country to country but would guarantee workers a subsistence salary. Labor advocates also support the establishment of global standards for workplace safety, environmental protections and worker rights.

Others would like to see the WTO or another body enact regulations to prevent large countries or companies from dominating crucial industrial sectors or key markets within the global economy.

But in addition to opposition from the business community, resistance also comes from the nations that stand to benefit. Although governments recognize the threat to their economies and workers, they are loath to give up their ability to control labor rates, working conditions or competitive practices.

Poor countries, whose workers are the most vulnerable to exploitation, have fought efforts to include tougher labor and environmental standards in trade agreements for fear they would be used by wealthier countries as protectionist shields.

In any case, clothing factories are increasingly in the control of Asian conglomerates that operate with fewer restrictions on operations at home and abroad than their U.S. counterparts.

Multilateral agencies have begun stepping in to help. The World Bank is providing technical assistance and aid for the modernization of ports and highways in countries trying to boost exports, and the International Monetary Fund is helping governments that suffer a budgetary shortfall because of a sharp shift in trade patterns.

The Bush administration is taking steps to shore up vulnerable economies in Central America and the Middle East with trade pacts that provide expanded access for apparel. The United States also faces pressure to follow Europe's lead and remove tariffs on goods from struggling Muslim economies and low-income Asian countries such as Cambodia and Nepal that face tariffs as high as 32% on certain items.

In Cambodia, with U.S. support, the government is working with the International Labor Organization on a program to improve working conditions in apparel factories.

The hope is that big name brands will stay put and pay a little extra to support fair labor standards and reduce the possibility of becoming ensnared in a sweatshop scandal. That effort has won the backing of socially conscious U.S. retailers such as Gap.

If that fails, as many experts predict, the outcome for Cambodia and others in the developing world could be bleak.

"There is nothing else for these people," said Robin Rosenberg, a Latin American trade



expert at the University of Miami. "You take away the garment industry, and it's going to be a natural disaster like Hurricane Mitch."

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*Marshall reported from Asia, Iritani from Africa and Dickerson from Latin America.*

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