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by LADB Staff
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New year in, Multi-Fiber Agreement (MFA) out. On Jan. 1, the MFA, a system of quotas that protected textile production in Central America and in other poor countries around the world, expired. Among the first effects of the expiration, Korean owners of the CSS Guatemala maquila left the country during the New Year holidays with no notice to employees, looting the factory of its equipment and owing workers a total of US$257,000.

The MFA was part of the World Trade Organization (WTO) Textile and Clothing Agreement. That agreement governed the elimination, over time, of import quotas on clothing items coming from emerging nations and destined for the US, Canada, and Europe. The Jan. 1 expiration means that megaretailers in these countries are now bound only by price in determining where apparel items sold at Wal-Mart and similar firms will come from. That, in turn, means that China, with over 25% of the world's textile factories, might easily drown manufacturing midgets like CSS and effectively drive Guatemala and countries like it out of the industry.

China's labor costs are 61% below those of Honduras, the region's largest producer of these goods. China mushrooms, India burgeons, Pakistan expands Reports show that, during 2004, in anticipation of the MFA's expiration, the textile industry in China grew 26% to capture US$86 billion of the market. More than 90% of Chinese textile manufacturers have expanded. And China is just one of several countries positioned to gnaw on the bleaching bones of the maquilas (see NotiCen, 2001-12-20).

India has shown a 33% increase in textile production since 2003, reflecting a 66% increase in exports to the US. India and Pakistan pay among the lowest wages in the world to their workers. India's apparel sector has the potential, according to Business India, of doing US$85 billion in business by 2010. Its share of the market, spurred by the quotaless environment, could reach 6% of world production by that time. Added to its low-wage advantage, India also produces an abundant cotton crop.

Textiles Minister Shankarshinh Vaghela said to capitalize on these advantages the country must upgrade its technology and improve quality. The country also boasts an almost limitless skilled work force, design expertise, and large production of raw materials, all comparative advantages lacking in Central America.

Pakistan has already begun to prepare for survival in the industry, having invested more than US $2 billion since 2000 to modernize factories. Pakistan expects to increase its textile exports from the current US$8 billion to US$13 billion within three years. The US is geared to facilitate the flood

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from the East, further spurring Asian growth not only to the detriment of the maquilas, but to US manufacturers as well.

Business Week reported one designer, Helen Morley, is shifting 75% of her production to China and will have her US$3,000 dresses flown in by UPS, which is expanding in China by buying into the state-owned Sinotrans Ltd. Thus does exponential growth occur. Morley, obviously, is not alone in planning shifts away from the formerly protected manufacturers. She anticipates a 50% reduction in production costs. "All the designers are looking to China now," she said. "The small-business ties to Chinese industry are going to explode."

The MFA's demise will affect 30 million jobs worldwide. The WTO estimates that, within five years, China and India will account for 65% of clothing imports in the US, a tripling. For Central America, the result could be mass unemployment. "The developing countries are doomed," said Clyde Prestowitz, president of the Economic Strategy Institute, a Washington think tank. CAFTA to the rescue or not Advocates of the Central America Free Trade Agreement (CAFTA) have seized on the predicament to fuel the troubled pact's trajectory toward passage. Tariffs, now in the 16% to 36% range, would drop to zero, assuming the use of US or locally made fabric and yarn. That would give Central America a competitive edge.

Said Jesus Canahuati of the Asociacion Hondurena de Maquiladores (AHM), "Everything depends on CAFTA approval (see NotiCen, 2005-01-06)." In this case, "everything" is 140,000 jobs in Honduras. That prognostication may be overblown. The Koreans have already voted with their feet in Guatemala, and the experience in Mexico, where a similar trade pact, the North America Free Trade Agreement (NAFTA), has been in place for years, is not encouraging. Since 2000, Mexico has lost a third of its maquila jobs, most to China, where garment workers earn a third of what Mexicans are paid.

In the end, Central America could get more help for survival from an exercise in restraint from China and a US retreat from free-market bluster than from trade pacts. Responding to fears of market dominance expressed by both the US and the European Union (EU), China's Trade Ministry has announced it will impose export tariffs on some of its clothing manufacturers. The duty will be imposed on the export of underwear, sleepwear, coats, dresses, blouses, and others items. Although tremors have already been felt, some in the industry in Central America expect it will take some time for the wave to hit the beach.

Juan Pereira, director of the trade-promotion organization Pro-Nicaragua, said, "According to what the big brands have told us, there won't be a great change immediately, but, in the medium term, we will start to lose orders." He said it would take one to two years for the full force to be felt. Nicaragua has 45,000 of Central America's 250,000 textile jobs on the line. Even if the best hopes for CAFTA are realized, Caglar Ozden, a World Bank economist, foresees that the region's maquilas "will be squeezed with the elimination of the quotas, just as Mexico has been." He said that clothing prices would fall 20% in the US, an ominous prospect for an industry that has been operating on 15% margins.

Rethinking the model to survive

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Costa Ricans, meanwhile, are trying to prepare. Said Consejo de Cuotas president Miguel Shyfter, "There is going to be an earthquake in the textile industry of all the countries of the world. Not only is the competition with China, but with [other parts of] Asia, India, Bangladesh, and Turkey." Shyfter said the survivors would be those who find secure market niches and have fashionably up-to-date products that can be delivered rapidly, faster than China can produce and deliver.

Under those circumstances, Maria Aminta Quirce, president of the Camara Textil Costarricense, said the industry there could survive by concentrating on short-turnaround production runs that would enable US retailers to make smaller, more frequent orders. She said to do this, capital would be needed to develop beyond the maquila model.

Ruben Mendez, who manages operations for Sara Lee in Costa Rica, said that, for survival, "we will have to lower manufacturing costs, reorganize the structure, and implement better processes, as well as obtain prime materials from Central America and Asia at more competitive prices." The country has so far lost about 1,500 jobs and US$50 million in exports to China. Textiles are the country's second export after bananas and are especially important because they employ women and female heads of households. The possibility that all is not lost for Central America is held beyond the region.

Gary Gereffi, a professor at Duke University and an apparel-industry expert, agrees that the isthmus has some structural advantages. "The Central American garment industry has relied on Asian brokers to act as intermediaries between the United States (sic), and many of them have made investments in the region and supplied sophisticated knowledge of the world market," he said. "In addition, Central America still has a geographical advantage over Asia when dealing with US importers." He added that those brokers are not likely to abandon their investments or their successes in facilitating trade with Asia and the US.

Gereffi views Central America's position as "precarious," but holds out the possibility that, if CAFTA emerges with strengthened provisions on labor issues, "as more US companies are pressured to get their foreign subcontractors to meet higher labor standards, Central America could be well-positioned and more palatable to US companies with CAFTA."

Also seeing a qualified bright spot for the region, Stephen Coates with the US Labor Education in the Americas Project said, "Most big textile importers around the world are not going to put all their eggs in one basket and move all manufacturing operations to China. But we still don't know how fast and how big the impact will be in Central America."

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