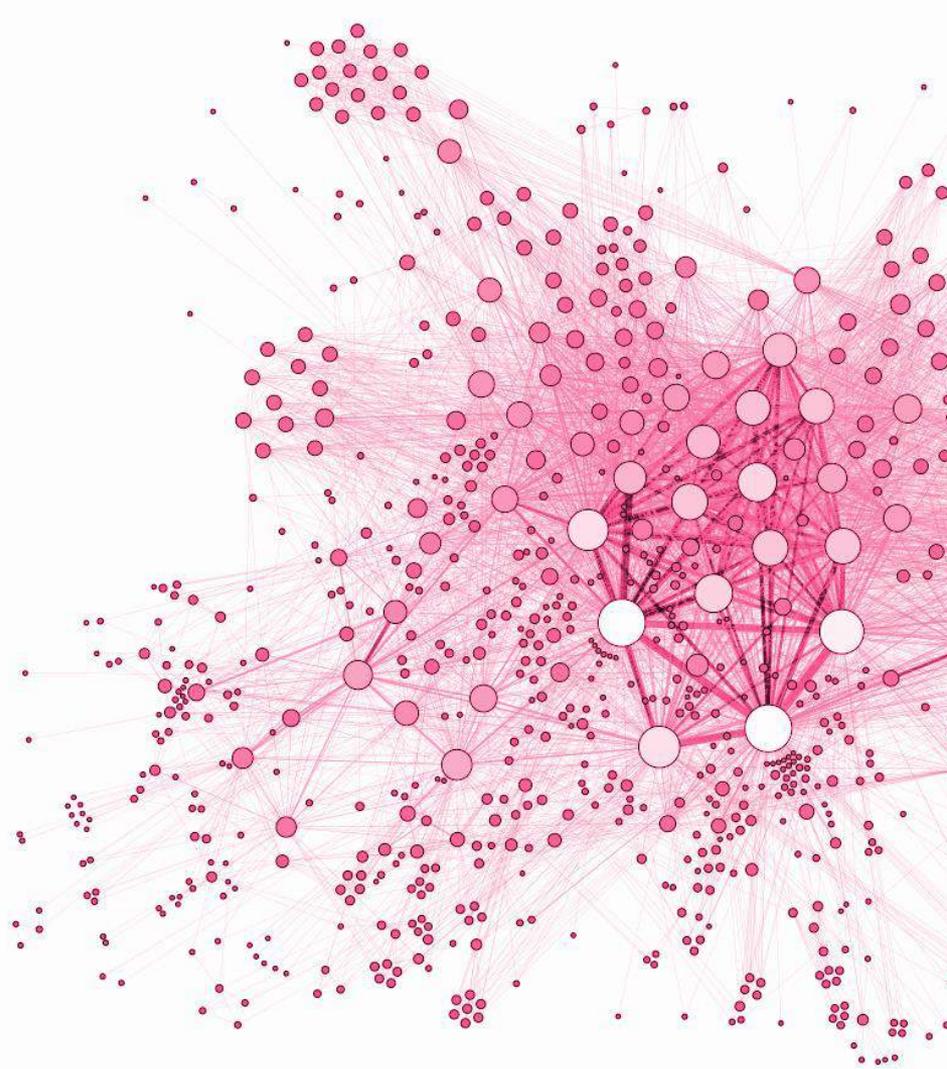


FairCademy Modul 2 25.-27.11.2016
(Hamburg)

Fashion and Trade – Trade Agreements that shape(d) the Global Garment Industry

Group Work

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Intro – The Casting of an Industry

The current faces of apparel world trade and it's social consequences aren't shaped randomly but by cause. **Trade agreements and mechanisms formed the industry heavily** since the 1960s in economical and geographical ways.

Although one can't claim that the modern style of apparel production and trade was created intentionally all the way, **economic and political interests created its foundations and framework.**

By this style we mean fragmented and globally spread supply chains, production in low wage countries, exploitation of workers, and favourable legislation such as poor labour legislation and large scale subsidies in these countries.

Intro – *The Casting of an Industry*

The following trade agreements and mechanisms framed the industry heavily, albeit not the only ones:

Multi Fibre Agreement - MFA (1974 – 1995)

Agreement on Textiles and Clothing - ATC (1995 – 2005)

Generalised System of Preferences - GSP

Outward Processing Trade - OPT

By analyzing these mechanisms we could also try to predict the impact of future trade agreements on the apparel industry, namely the **Transpacific Partnership Agreement TPP**.

Task – Group Work

Please form 4 groups, read these texts which focus on one of the mechanisms and try to answer the questions of the following slide. Take your time and make notes. Record your insights on flipcharts which shall be presented to the audience afterwards.

| MFA & ATC | GSP | OPT | TPP |
|---|--|--|--|
| Wick, Ingeborg (2009): Soziale Folgen des liberalisierten Weltmarkts für Textil und Bekleidung. Strategien von Gewerkschaften und Frauenorganisationen, Otto-Brenner-Stiftung, pp: 5-12 | Herz, B.; Wagner, M. (2010): The Dark Side of the Generalized System of Preferences, Working Paper 02/2010, German Council of Economic Experts. | Pellegrin, J. (2001): The Political Economy of Competitiveness in an Enlarged Europe, Palgrave: New York. | Office of the United States Trade Representative. TPP Final Table of Contents, Available at: https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text |
| Ferenschild, Sabine; Schniewind, Julia (2016): Folgen des Freihandels. Das Ende des Welttextilabkommens und die Auswirkungen auf die Beschäftigten, Otto-Brenner-Stiftung Frankfurt am Main, pp: 7-22 | European Commission (2015): EU's Generalised Schemes of Preferences (GSP), Available at: http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/ | Begg, Bob; Pickles, John; Smith, Adrian (2003): Cutting it: European integration, trade regimes and the reconfiguration of East-Central European apparel production. In <i>Environment and Planning A</i> 35, pp. 2191–2207. | The New York Times (2017): What id the TPP? Behind the Trade Deal that Died, Available at: https://www.nytimes.com/interactive/2016/business/tpp-explained-what-is-trans-pacific-partnership.html?_r=1 |

Task: Group Work

Questions

1. What are the main features of the agreement or mechanism you are working on?
2. What are/where the influences of the different trade agreements/schemes of the garment industry?
3. Who are the beneficiaries of the agreements/schemes?



Thinking.. Please wait

Results

Group 1: Multi Fibre Agreement – MFA

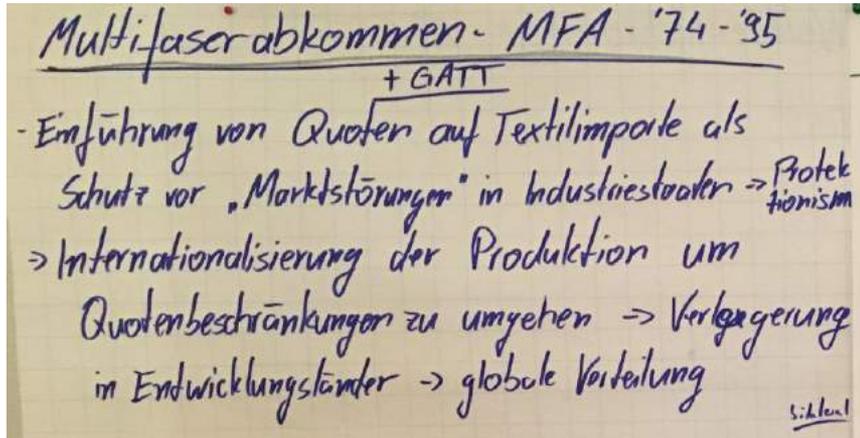
MFA was put into place in 1974 by the industrialised countries in GATT (General Agreement on Tariffs and Trade) → as a short-term measure **in order to protect their textile and garment industry and employment** from „social dumping“ by industrialising countries → These countries had **labor cost „advantages“ in this very labor-intensive industry**. The MFA followed the similar Cotton Textile Agreement.

The **MFA imposed quotas on the amount of specific textile and garment products** which countries of the Global South and East could export to countries of the North. Export growth rates were incorporated – but at a low level → Although GATT promoted global free trade, this mechanism can be described as **protectionism by industrialised countries**.

 As a consequence, **the industry spread from countries which already fulfilled their quota to countries which didn't achieve their export volumes until then**. Hence industry shifted from countries such as the USA, Greece, Portugal and the „Four Asian Tigers“ to North Africa, Eastern Europe, China etc.

Group 1: Multi Fibre Agreement – MFA

The **economic development wasn't accompanied by social development** in terms of working conditions and labor legislation in the countries which were “new” to the industry



Wick (2009), 5: “Die forcierte Internationalisierung der Produktion von Textil und Bekleidung in den letzten 40 Jahren ist eine Folge des Quotenregimes von GATT [...] und WTO. Um den Handelsbeschränkungen des [Baumwollabkommens, des Multifaserabkommens und des ATC] auszuweichen, die in diesem Zeitraum für den Welttextilmarkt galten, hatten viele Hersteller die Produktion in immer mehr Länder verlagert, die ihre Quoten noch nicht ausgeschöpft hatten.”

Group 1: Agreement on Textiles and Clothing - ATC

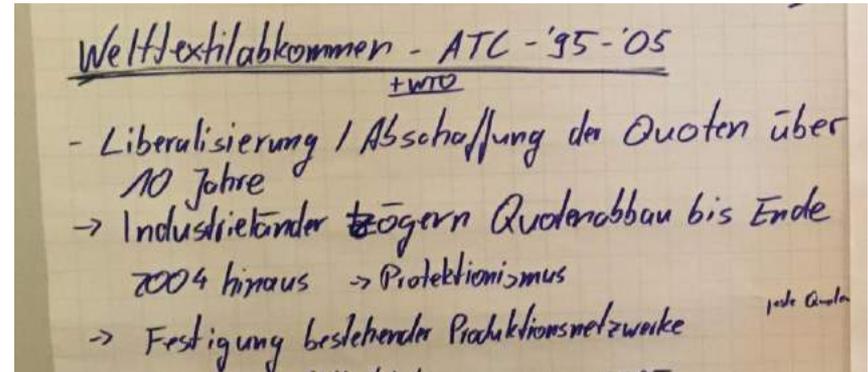
When GATT was merged into the WTO in 1995, **it was decided to end the long phase protectionism of the garment industry** → The ATC was designed to phase out the quota regime until 2005.

China, India, Mexico, Turkey and other industrialising countries have **profited heavily from the regime and were able to develop large-scale garment sectors and profound knowledge** in this business → At the same time labor costs were still low.

Countries of the Global North feared to lose the rest of their textile sectors due to liberalisation by the ATC and **kept on protectionism and stalled quota reduction**.



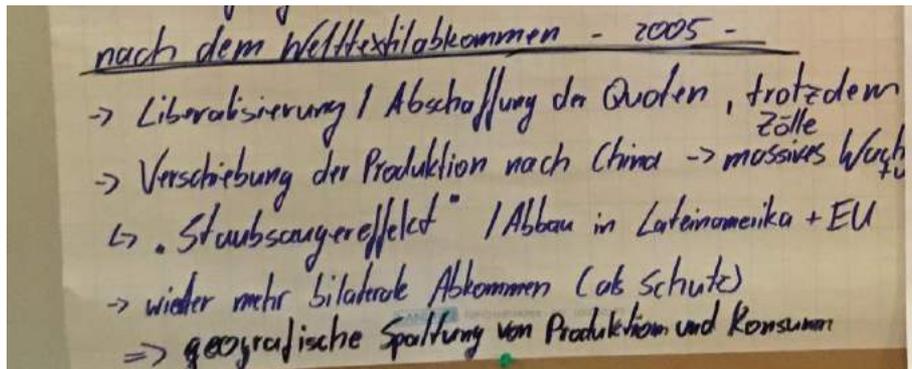
In return, the global players in the South (**now core countries of global garment production**) **kept on outsourcing production to „cheap“, least developed countries** such as Bangladesh, Thailand, Cambodia or Central America **to circumnavigate the quotas** → This was and is done by setting up subsidiaries and suppliers.



Group 1: After ATC

Quotas were removed in 2005. Until then countries of the Global North, especially western EU countries kept a good share of textile production (esp. technical textiles) as a result of their protectionism → **Now tariffs and bilateral agreements on garment imports took the place of the quotas.**

As China has established a massive garment sector with huge capacities and got rid of quotas, Ferenschild and Schniedinger (2016) speak of a **vacuum effect to set in: garment production is concentrated within reach of Chinese companies in Asia** → Latin America and the EU lost portions of their production to this effect.



Ferenschild/Schniedinger (2016), 62f.: „Die Textil- und Bekleidungsindustrie Bangladeschs ist ein Kind des Multifaserabkommens: Weil andere Länder ihre Zugangsquoten zu den Hauptabsatzmärkten ausgeschöpft hatten, wurde Bangladesch als Produktionsland interessant. Gewachsen im Schutz des Quotensystems, ist die bangladeschische Bekleidungsindustrie interessanterweise aber zugleich auch eine der Gewinnerinnen der Liberalisierung; sie hat Millionen von Arbeitsplätzen geschaffen und bestreitet den größten Teil der Exporte Bangladeschs.“

Group 2: Generalised System of Preferences – GSP

The Generalized System of Preferences (GSP) was established to **promote exports of low-income countries to industrialized countries in order to facilitate their economic growth and development** → Developed countries offer reduced or zero tariff rates for selected products originating from developing countries. Least developed countries (LDCs) receive further preferential treatment for a wide range of products → During the 1970s, the first GSP schemes were granted to low-income countries.

Nowadays **there are three GSP programs** involving more than 40 industrialised countries and around 200 countries beneficiaries of import reliefs:

General/standard arrangement - duty reductions for ca. 66% of all EU tariff lines for **GSP beneficiaries**

"GSP+" - Special Incentive Arrangement for Sustainable Development and Good Governance

Everything But Arms, or **"EBA"** - special arrangement for the Least-Developed Countries (**LDCs**) - **full duty-free, quota-free**

Group 2: Generalised System of Preferences – GSP

The goods and countries that are included in the agreement are revised depending on the **institutional changes** within the EU, **economic performance** of the LDCs, and **changes in the global markets** which affect the competitiveness of the specific product or country.



European Commission (2015), 9: „Some developing countries **still have low per capita income** but have **extremely successful export sectors** for many industries. These industries (e.g., **textiles, chemicals, leather products**) are competitive worldwide at the highest level. They also do not need preferences to successfully penetrate world markets.”

Therefore products are either excluded from the start or they go through the **process of graduation** → which is the case of the textile and leather products.



European Commission (2015), 9: „**Graduation** means that imports of particular groups of products and originating in a given GSP beneficiary country lose GSP preferences. Under the current scheme, graduation applies when the average imports of a section from a country exceed 15% of GSP imports of the same products from all GSP beneficiary countries during three years (the trigger is 12.5% for textiles and clothing). **It concerns therefore imports that are competitive on the EU market and so no longer need the GSP to boost their exports to the EU.**”

Group 2: Generalised System of Preferences – GSP

Excursus: Rules of Origin *(applied in most of the preferential trade agreements)*

Origin is the "economic" nationality of goods in international trade. There are two kinds, non-preferential and preferential.

Non-preferential origin confers an "economic" nationality on goods. It is used for determining the origin of products subject to all kinds of commercial policy measures (such as anti-dumping measures, quantitative restrictions) or tariff quotas. It is also used for statistical purposes

Preferential origin is conferred on goods from particular countries, which have fulfilled certain criteria. The privileges granted are in the form of tariff benefits (entry at a reduced or zero rate of duty) on goods traded between countries which have agreed such an arrangement or where one side has granted it autonomously. The criteria that needs to be fulfilled are laid down in the origin protocol of the agreement. They are related to the products that will be traded and it means that goods must either *'(1) be manufactured from raw materials or components which have been grown or produced in the beneficiary country or, should that not be the case, (2) at least undergo a certain amount of working or processing in the beneficiary country. Such goods are considered to be "originating"*.

Source: European Commission (2017). *Taxation and Customs Unions*, Available online at: http://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/introduction_en

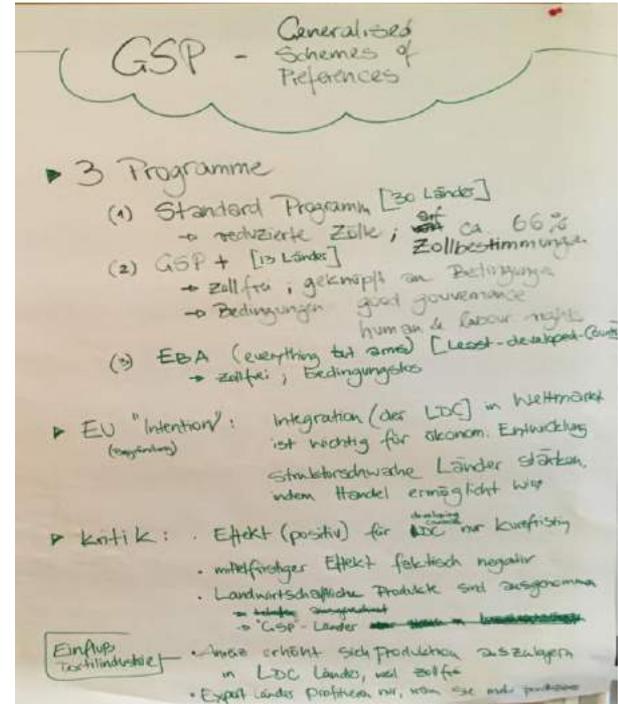
Group 2: Generalised System of Preferences – GSP

Outcomes: By excluding textiles and leather from the preferential agreements the **EU protects its internal market** based on the argument that the producing countries are already endowed with a high competitive advantage. Nevertheless, their advantage rests on the outsourcing mechanism of production engaged by companies based in EU countries. Therefore, while protecting the internal market, they rip as well the benefits from subcontracting looking in countries in the lower value added segment of the global production of garments.



EU member countries are **the biggest beneficiaries** of the GSP

Herz and Wagner (2010), 5: "...not so much an instrument to promote the exports of developing countries but more the means to improve the trade position of industrialized countries."



Group 3: Outward Processing Trade – OPT

Emerged in the 1970s and mostly **developed between Germany and Yougoslavia**. Since the 1990s between the EU and Central, Eastern, South Eastern European Countries + Turkey (→ CESEC countries)

The OPT refers to:

An industrial process: Takes place **when some phases of the textile and clothing production chain - typically: the sewing phase - are carried out by foreign subcontractors**. They use fabrics provided (and owned) by the lead firm which are temporarily exported towards the processing country under an EU tariff exemption regime.

A trade regime: In 'Economic OPT' additional specific quota are applied to OPT transactions (similar to MFA and ATC). In 'Tariff OPT' tariffs on re-imports are suspended either partially or in the case of CESECs entirely (similar to GSP)



Group 3: Outward Processing Trade – OPT



Outcomes: in 1990s it helped **revitalising the textile and garment sector of the CESECs** (important contributing industry to economic growth of these countries) by:

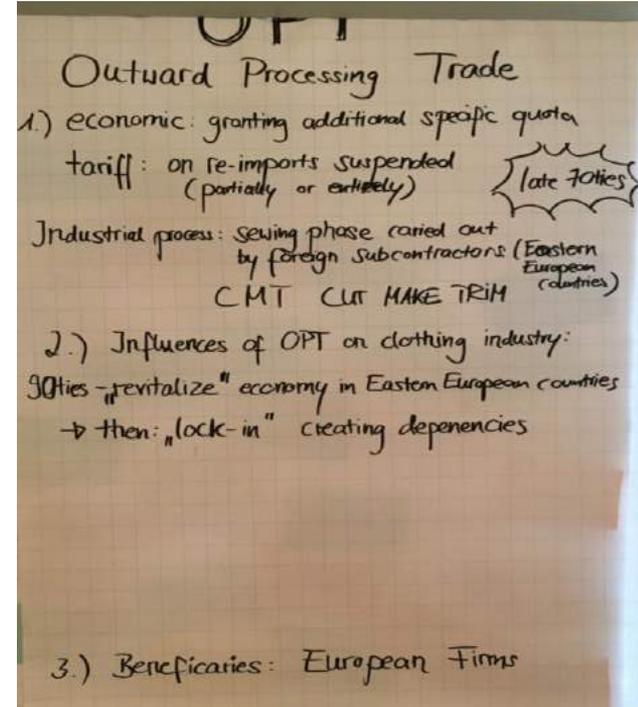
- 1) Helping to lift often huge production capacities,
- 2) Offering a solution to the shortage of good quality input,
- 3) Facilitating the CESECs' access to EU markets,
- 4) Providing a straightforward solution to the lack of managerial experience in the field of international relations.

Group 3: Outward Processing Trade – OPT



Outcomes: then...even after some countries gained a full membership to the EU a **‘lock-in’ effect emerged** which includes:

- 1) Domestic firms are dependent on their foreign partners regarding inputs (material, financing) and markets for the outputs,
- 2) Specializing of countries’ industry mostly in labour-intensive goods,
- 3) Limited transfer of technology and know-hows to OPT-countries
- 4) Strengthening regional inequalities.



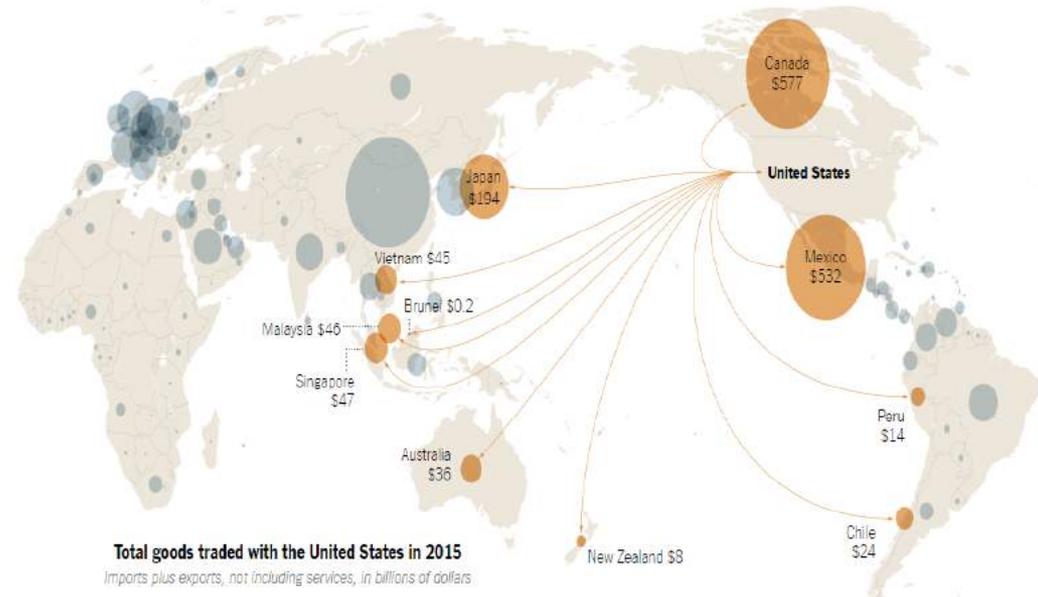
Group 4: Trans-Pacific Partnership – TPP

Considered a new type of trade and investment agreement but not yet ratified and passed.

Executive rights of customs institutions in other TPP countries, e.g. Australia's in Vietnam

Investment protection which will most likely prefer firms from “rich countries”, e.g. Canada, which invest in “poor countries” in terms of severance payments for “contra investment behavior”

Trans-Pacific Partnership Countries



Source: The New York Times ,2017.

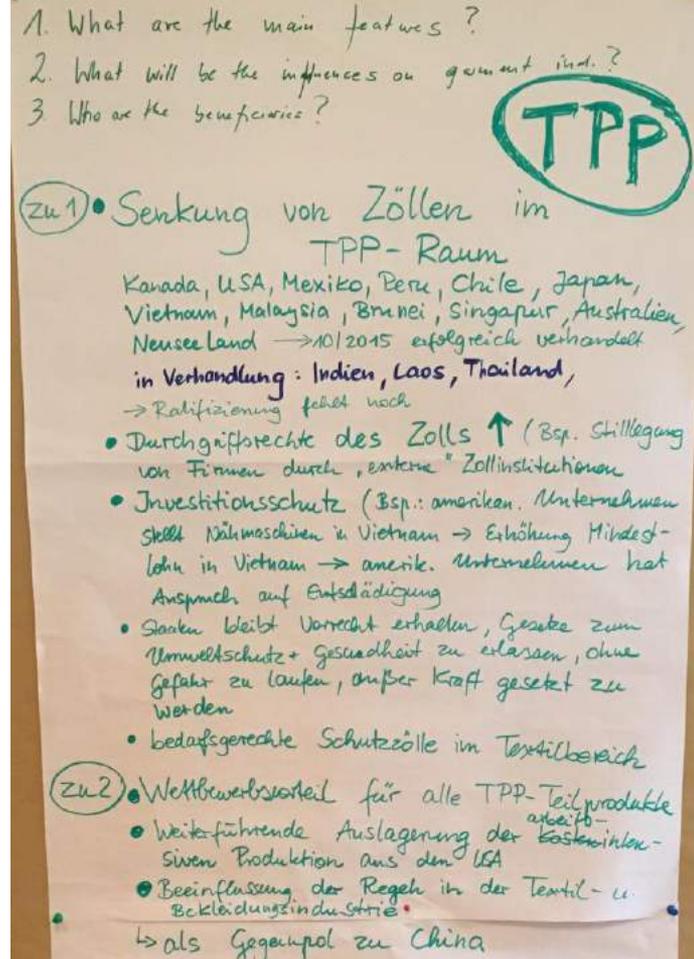
Group 4: Trans-Pacific Partnership

A “yarn-forward” approach that requires use of yarns and fabrics from TPP countries in end products which qualify for **preferential treatment under TPP**.

Will eliminate tariffs on exports of textiles and apparel to the other TPP markets

Possibility of individual protective tariffs on garments and other products

Pro: countries' legislations have to adopt to minimum social and environmental standards prior to TPP taking effect



Conclusions

Industrialised and least developed countries **are engaging ever more into free trade agreements** which shape the overall configuration of production of garments.

In all the examples **countries of the Global North are the initiators of the agreements** outlining the rules of adherence for the other member countries.

Trade agreements **strengthen the trade position of industrialised countries** while hampering the real possibilities for economic growth for the countries of the Global South/LDCs.

The main beneficiaries are the already developed countries while **the production countries, i.e. LDCs, in a long term, represent the losers of these agreements.**

The garment sector in the developing countries is confined within labour-intensive production and low skilled workers, hence **restricting the possibilities of upgrading within the production network.**

THANK YOU



FOR YOUR ATTENTION