

The apparel industry and the economic crisis

How is the crisis affecting apparel production and garment workers?

Maquila Solidarity Network

Presentation at *The Global Economic Crisis and the Promotion of Labor Standards in the Apparel and Footwear Sectors* – Fair Labor Association Forum

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OBVIOUS IMPACTS

The global economic crisis has hit the apparel industry primarily in the form of lower consumer demand in the North American and European markets, which has driven down order volumes for many apparel suppliers around the world as brands cut back on new production and use up existing inventories. European, US and Japanese clothing sales have been suffering since the last quarter of 2008. Overall the global garment trade fell by 0.5%. That trend continues.

Obvious impacts of the crisis are:

- Declining retail sales;
- Declining order volumes; and
- Factory closures and job losses in exporting countries.

BENEATH THE SURFACE

When you examine each of those more closely, we see less obvious, related impacts that may have an even more profound impact on workers in this industry:

- Retail sales may be declining overall, but common wisdom says discount and fast-fashion retailers are doing better than specialty brands – even though the reality is more complex – and this belief could reinforce the drive to lower prices;
- Order volumes may be lower, but exports from the lowest-wage countries are in some cases increasing;
- Workers on the whole are losing employment, but women may be hit harder by job losses and have a harder time finding new employment;
- Some companies are using layoffs to target union supporters; and
- Factories are closing, but many others are on shorter hours or temporary shutdowns, with huge impacts on workers' wages, which were already so low, with workers depending on overtime to survive.

In response to this situation, brands and manufacturers can take a “high road” or a “low road” approach to the economic crisis in the apparel industry. Too many companies and governments are choosing the low road. In fact, we're not clear who – if anyone – is taking the high road.

INTENSIFYING NEGATIVE TRENDS

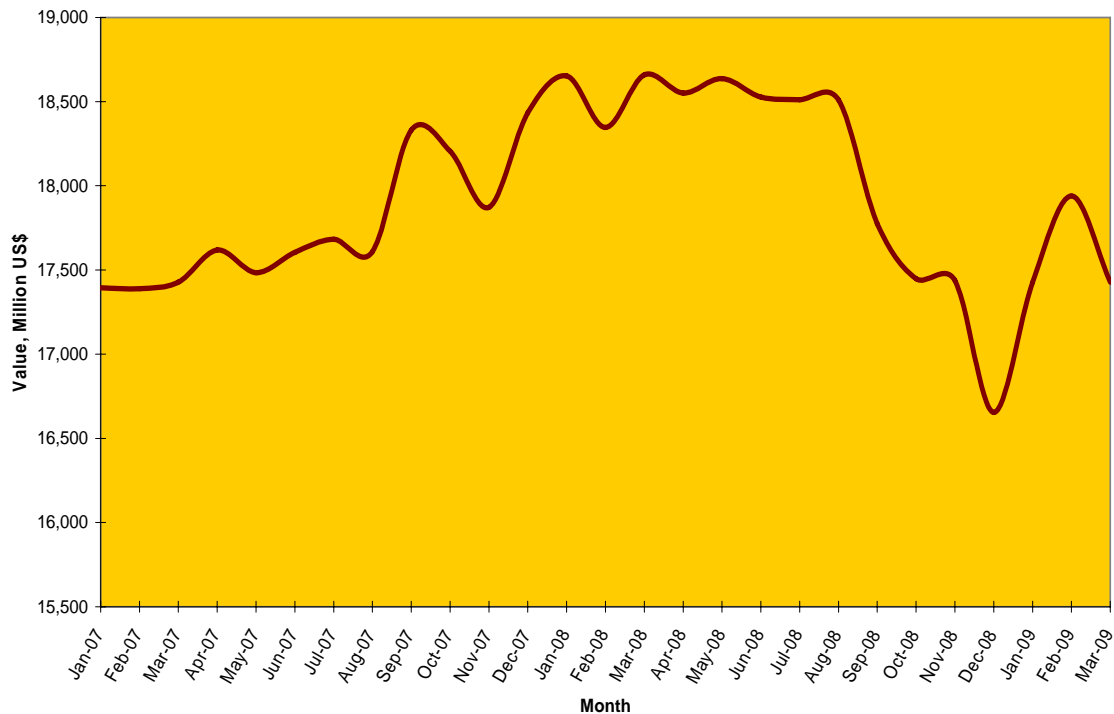
What we do know is that the economic crisis has intensified negative trends which were already taking place:

- Closures, with non-payment of wages and/or severance;
- Increasing use of short-term contracts, third-party employment agencies, false apprenticeship schemes, etc.; and
- Attacks on organized labour and those who attempt to form unions.

RETAIL SALES

According to the US Census bureau, total US retail and food sales for March, April and May 2009 were down about 10%, compared to the same months in 2008. As the following chart shows, US clothing and clothing accessories stores' sales followed a similar pattern, down 6.9% for the first five months of 2009 (compared to 2008)¹ – however it should be noted that sales in 2008 had been elevated above historic levels prior to the crash.

US Retail Sales: Clothing & Accessories 2007-09



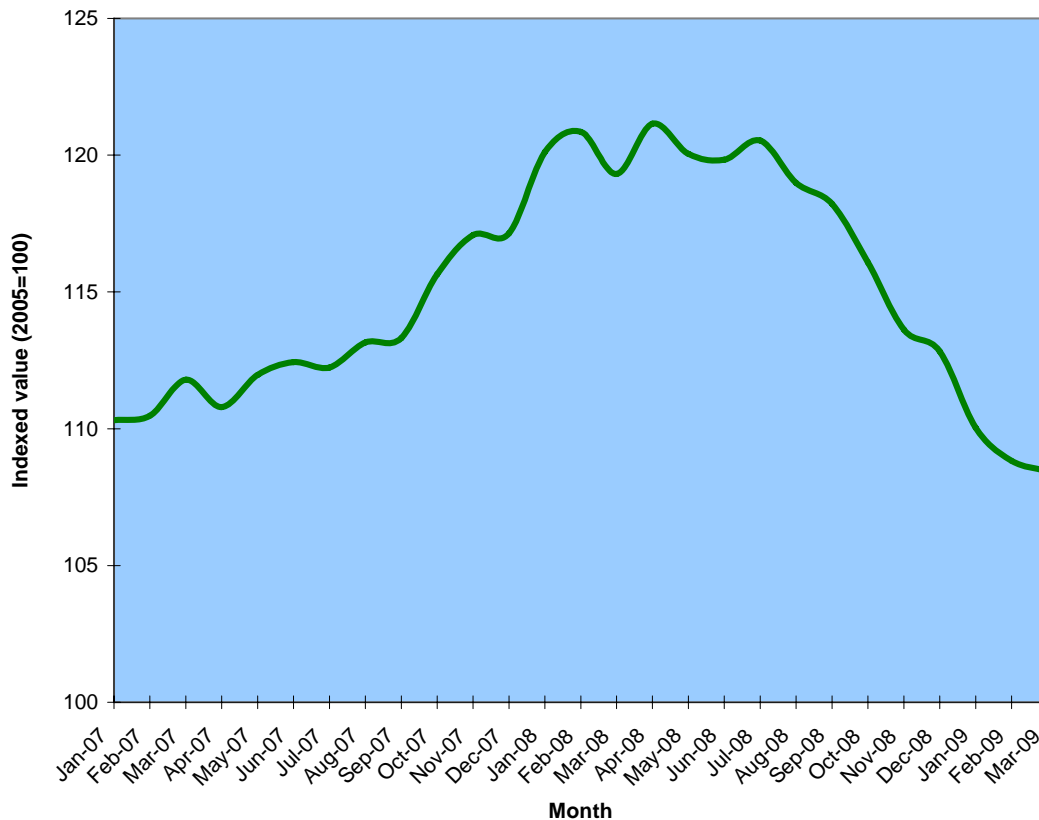
The European market (EU27) shows a similar pattern generally including a spike in sales in 2008 followed by a sharp drop for the first few months of 2009. In April 2009, compared with April 2008, the European retail sales index dropped by 1.4%.² European (EU27) retail sales of textiles, clothing and

¹ *New York Times*, "Retail and price data show continuing economic weakness," April 14, 2009 and US Census Bureau, "advance monthly sales for retail trade and food services – May 2009" available at: http://www.census.gov/marts/www/marts_current.html.

² http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/4-04062009-AP/EN/4-04062009-AP-EN.PDF

footwear at specialized (as opposed to general retail) stores were down 10.86% comparing March 2009 to March 2008, though they still remain above earlier (2005) levels.³

EU27: Retail textile, clothing, footwear & leatherwear 07-09

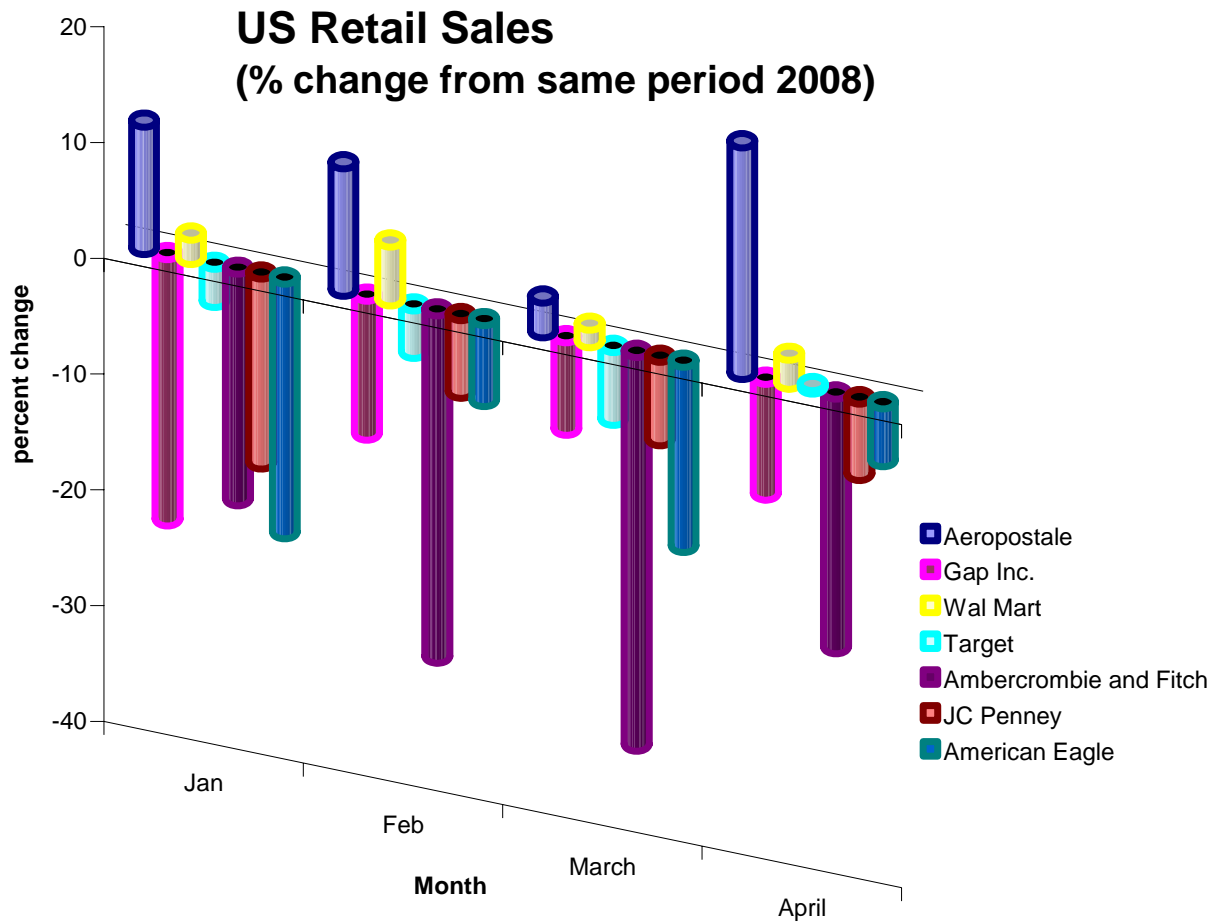


BRANDS AND RETAILERS

- Common wisdom is that discounters and fast fashion retailers will prosper, while specialty and branded retailers will do poorly. That's not necessarily true across the board:
 - While most specialty retailers have seen declining sales in 2009 compared to the same months in 2008 (Abercrombie & Fitch down 22%, GAP down 10%, American Eagle down 5% in April '09 compared to April '08), Aeropostale's sales, for example, went up every month including a 20% rise in April 09 compared to April 08.⁴
 - While discount retailers like Wal-Mart have risen every month and were up 2.5% again in April, Wal-Mart's competitor Target was down every month this year except for a .3% increase in April over last year.
- In Europe - The two largest "fast-fashion" retailers Inditex (Zara) and H&M posted similar drops of about 15% in their 09 first quarter profits, however both rebounded in April. Inditex's sales rose 9% between early May and June, whereas H&M's April same store sales rose 8%.

³ Eurostat database: Wholesale and retail trade turnover and volumes of sales - monthly data - (2005=100)

⁴ <http://retailindustry.about.com/od/statisticsresearch/a/samestoresalescomparison.htm>



LOW PRICE IS NOT THE ONLY OPTION

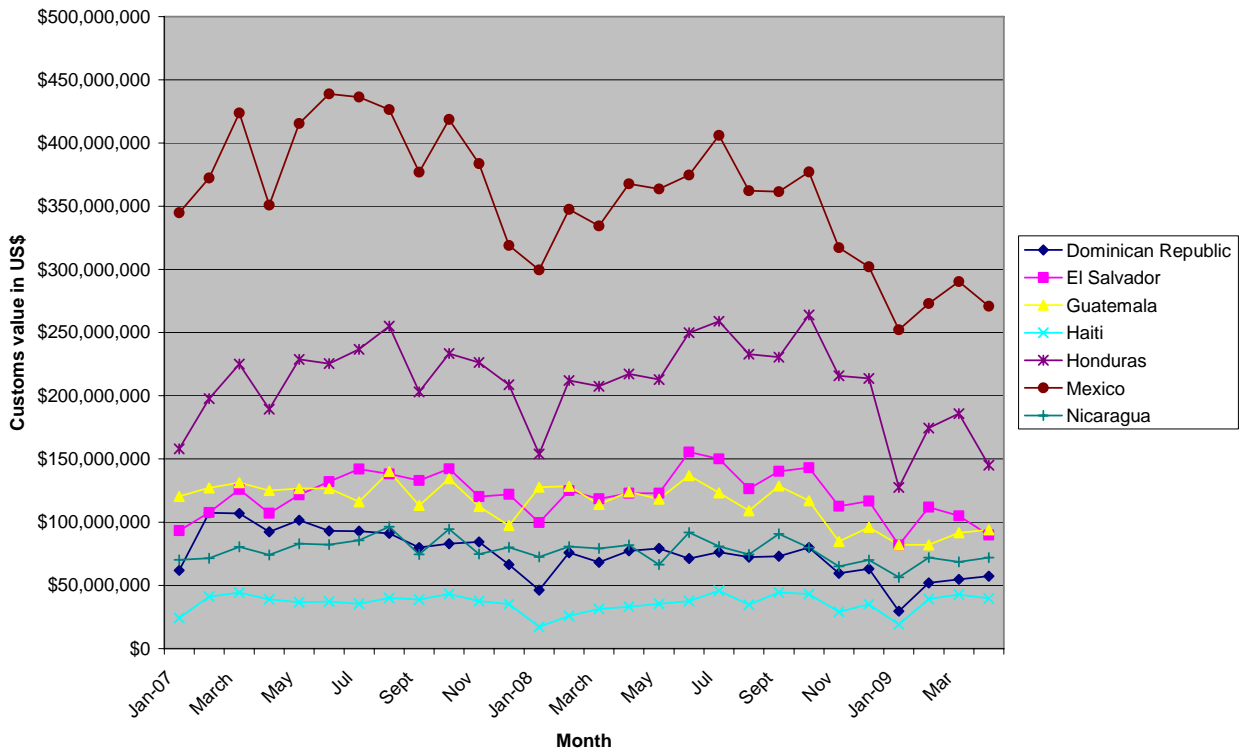
What these statistics suggest is that the retail environment is actually more complex, and that ruthlessly focusing on lower prices is not the only, nor even the most successful, pathway through the economic crisis.

We're not experts on retail sales strategies. What we do know is that whenever there is an effort to reduce prices across this industry, its effects are almost always felt by workers at the bottom of the chain, who need decent wages and working conditions now more than ever.

ORDER VOLUMES: MEXICO AND CENTRAL AMERICA ARE LOSING BIG TIME

- Total US apparel imports were down by about 10.8% for 2009 to date (Jan-Apr), compared to the same period in 2008.⁵
- For the same period, imports from CAFTA-DR countries have dropped by about 24%, imports from Mexico are down about 19.5%, whereas imports from the major Asian apparel producing nations are down about 14%.
- Mexico and Central America have been heavily impacted by the crisis. Due to heavy dependence on trade with the US, as well as the importance of the apparel industry in overall exports, the region is being heavily impacted.

Customs value of apparel imports January 2007 - April 09

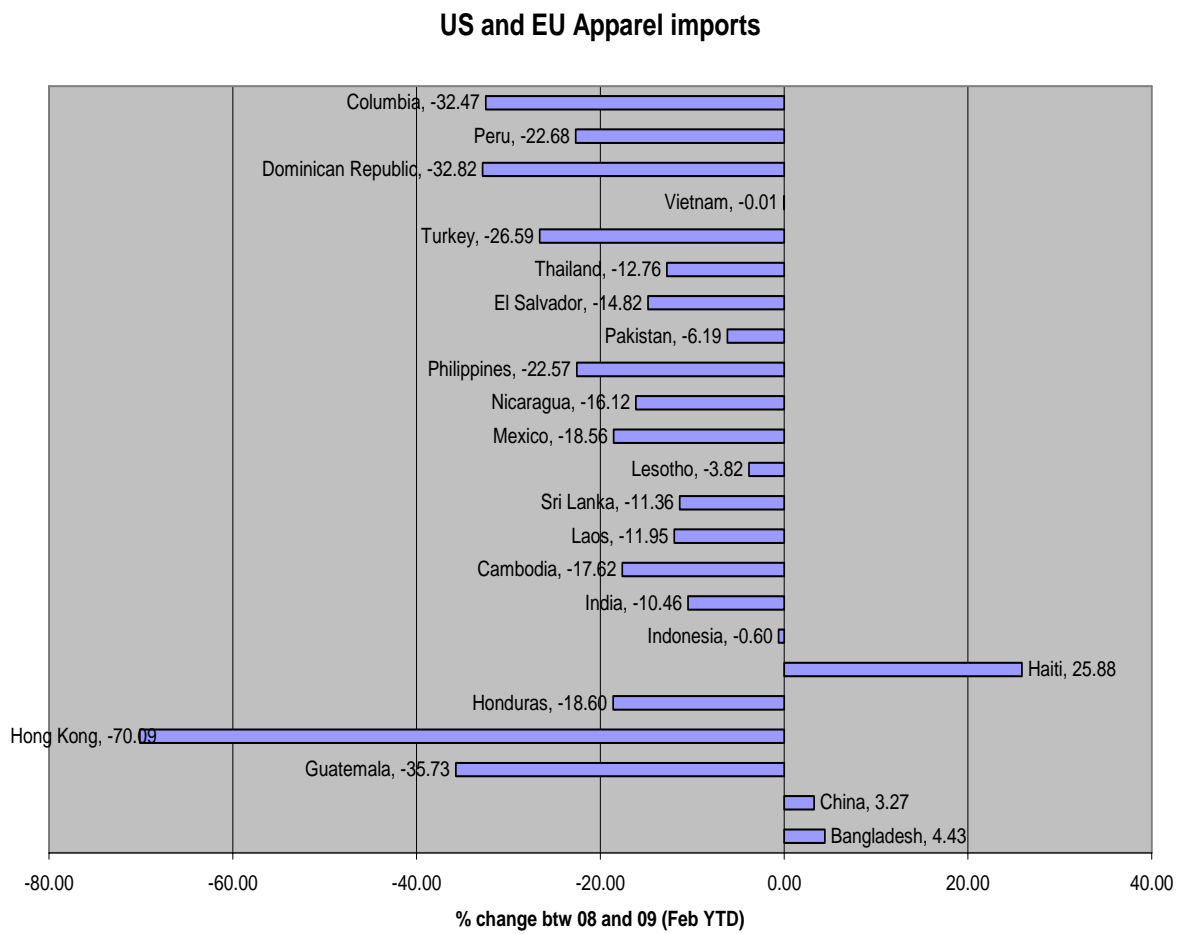


⁵ USITC trade data

LOWER WAGE COUNTRIES ARE “BUCKING THE TREND”

The crisis has intensified a growing gap in exports between lower- and higher-wage countries.

Only a few countries – China, Vietnam, Bangladesh, and Haiti – appear to be “bucking the trend,” registering increases in apparel exports to the US and EU in 2009.⁶

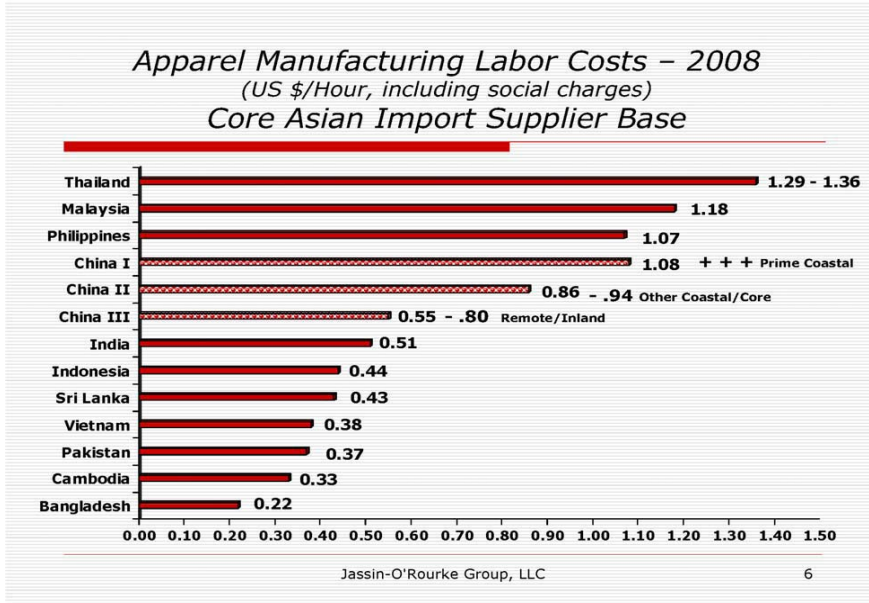


⁶ Sources: Eurostat and USITC trade data

BANGLADESH AND HAITI:

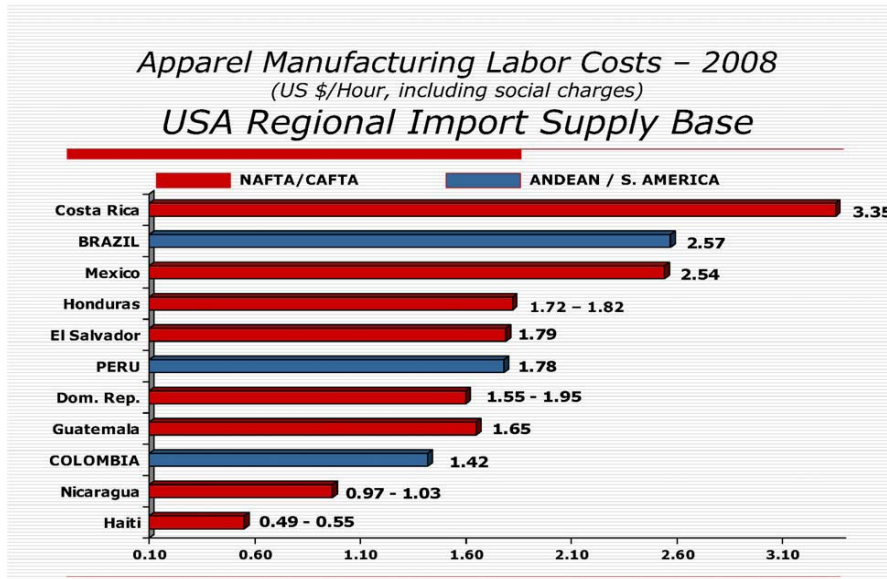
The countries with the greatest increases in apparel exports to the US market are Haiti and Bangladesh – the two lowest wage countries in their respective regions.

Bangladesh, which has the lowest wages in Asia, has seen a rise in its exports to the US of about 12% for 2009 compared to 2008.



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Haiti has the lowest wages for the apparel sector in the CAFTA-DR region. It's now the only country in the region which increased its apparel exports to the US in 2009 from 2008, up about 31% to date (Jan-Apr)



⁷ Source: Global Apparel Manufacturing Labor Cost Analysis 2008, Jassin-O'Rourke Group

CAMBODIA

- Even Cambodia, which has been celebrated for its Better Factories Cambodia partnership between the IFC and the ILO, has seen its exports drop dramatically by 20% in the first two months of 2009 compared to the same period in 2008, and its economy is expected to shrink by 1% in 2009.
- At least 63,000 Cambodian garment workers have lost their jobs so far – representing almost 20% of the industry's workforce nationally – and more than 70 factories have closed.
- Why is a country whose worker rights program is lauded globally by apparel brands suffering a 20% decrease in orders and employment while a country like Bangladesh that has no such program – and has according to media reports been seeing factories cut wages by 20-30% in recent months, along with significant delays in paying workers altogether⁸ – is seeing a rise in its exports?

Note: Recent ILO study noted that a living wage in Cambodia would be \$US93 per month. The current average industry wage (including overtime) is approximately \$US79 per month. Without overtime the wage drops to approximately \$US67 – far less than is needed to meet basic needs.⁹

NICARAGUA

- Nicaragua is the lowest wage country in Central America. The minimum wage for a garment worker in the free trade zone in Nicaragua is about US\$118, as compared with US\$176 in Guatemala, US\$173 in El Salvador, and \$US164 in Honduras.¹⁰
- After years of not increasing the minimum wage, in June 2007 tripartite negotiations resulted in an increase of 18%. That was followed by two increases in 2008 (15% in January and 18% in September).
- Even with these increases, salaries in Nicaragua remain the lowest in the region, with the minimum wage still significantly below the estimated basic cost of a basket of goods for a worker and their family¹¹, which according to the Nicaraguan Central Bank, costs about US\$417.¹²
- The response from the maquila business community was that wage increases would destroy the industry. Major Taiwanese investors have since left the country.
- The fear of losing orders and investment, particularly in the wake of the economic crisis, appears to be having an effect. In May 2009, the Nicaraguan government announced a three-year tripartite agreement which would exclude the free trade zones from the bi-annual wage

⁸ Agence France Presse. "Protesting Bangladesh workers torch factory", June 28, 2009

⁹ Joint Statement on Living Wage for Cambodian Garment Workers, 21 May 2009, <http://www.betterfactories.org/ILO/news.aspx?z=4&c=1>

¹⁰ From a Maria Elena Cuadra (MEC) presentation entitled, "Comportamiento del empleo en las empresas textil vestuario de zona franca frente a la crisis económica y el impacto en la vida de las mujeres," April, 2009.

¹¹ The *canasta básica* is a list of the price of 53 food products, household goods, basic services and clothing products in quantities required by a family of six to meet their basic needs. It also includes rent. The *canasta básica* is used by public institutions, NGOs and other organizations as a point of reference.

¹² <http://www.bcn.gob.ni/estadisticas/indicadores/2-13.htm>

negotiations, and instead fixed wage increases: 8% in 2009,¹³ which barely keeps up with inflation,¹⁴ and 12% for 2010. The increase in 2011 is not yet set.¹⁵

WHAT'S THE MESSAGE?

- Countries with lowest-wages – like Haiti and Bangladesh – who are doing nothing to ensure respect for labor rights are being rewarded by increasing orders;
- Countries – like Cambodia – where programs are in place to promote compliance are not being rewarded; and
- Governments and manufacturers are getting the message that they must roll-back or freeze wages in order to gain orders.

“CONSOLIDATION” – WHO? WHERE? HOW?

We have been hearing a lot from brands about more consolidation occurring during this period of crisis, however, there is still too little information available.

Brands may be consolidating – moving towards longer-term partnerships with a smaller number of core vendors or suppliers – but that doesn't mean suppliers themselves are using fewer factories.

Strategic partners and large suppliers may themselves be using a large number of factories with which they have short-term and precarious arrangements. While brands can point to a trend towards consolidation and stabilization, there is also a trend towards flexibilization lower down the supply chain, especially at the factory level.

Brands have also been pushing these core suppliers to take over more responsibility for supply chain management and code compliance. If fewer suppliers assume more responsibility, buyers must demand transparent reporting on where production of orders is taking place at any given time, as well as evidence that proactive steps are being taken in all supplier facilities to ensure code compliance, such as steps to ensure respect for freedom of association, the elimination abuse of short-term contracts, and address the problem of poverty wages. Buys must also ensure that the prices paid to suppliers are sufficient to allow for payment of wages that meet basic needs.

JOB LOSSES

It has been notoriously difficult to chart both employment and retrenchment in this industry, and it's hard to illustrate the scale of the impacts based solely on official employment figures even where they exist. The International Textile Garment and Leather Workers' Federation (ITGLWF) recently conducted a survey of its affiliates to determine the number of jobs lost since the onset of the economic crisis. Some of their main findings¹⁶ include:

¹³ The negotiation for agriculture was a raise of 13% and for all other sectors the raise was of 11%.

¹⁴ According to the Nicaraguan Central Bank, inflation for the months of 2009 compared to the same month for 2008 have hovered between 12.45% (in January) and 4.1% (in May). Inflation was over 20% for most of 2008, effectively erasing the wage increases delivered that year.

¹⁵ La Prensa, http://www.laprensa.com.ni/archivo/2009/marzo/13/_economia/316642.shtml

¹⁶ International Textile Garment and Leather Workers' Federation (ITGLWF), *Impact of Global Economic Crisis on Textile, Clothing and Leather Industries*, March 30, 2009, Annex 1, p. 3. No job loss data currently available for

- 8,000 textile, clothing and footwear production facilities in emerging economies have closed since June 2008;
- 11 million jobs lost, and a further 3 million workers on short-time employment contracts, out of an estimated apparel workforce of 60 million; and
- In the Americas -- 220,517 jobs lost. For Asia (excluding China), 958,016 jobs lost.

In order to put that in some perspective, the MFA Forum has also produced a chart for some major apparel producing economies showing both the estimated size of the industry as well as the range of job loss figures reported so far:

Job losses amongst major apparel and textile workforces¹⁷			
	Estimated size of T&C workforce	Range of reported job losses	Percentage
India	35 million (according to Indian government figures)	300,000 – 1 million	0.9 – 3%
China	30 million	10 million (but questioned)	33%
Bangladesh	3 million	0	0%
Pakistan	2.5 million	200,000	8%
Indonesia	1 million	41,000 -100,000	4 – 10%
Mexico	0.75 million	36,000-80,000	4 -10%

While these estimates of the immediate job losses themselves are staggering, the likelihood that recovery in terms of re-employment will take a lot longer than a rebound in stock-market prices makes the situation even more disturbing.

The statistics on layoffs hide other negative impacts: the disproportionate impact on women workers; more precarious employment in jobs that remain; the wide-spread use of short-term shutdowns or decreased work-weeks (*paros tecnicos* in Mexico) and the impact of targeted layoffs and closures on freedom of association and collective bargaining.

Guatemala or Haiti. Figures gathered from ITGWF affiliates, government announcements and media reports. The ITGLWF job loss figures for China have been called into question; the 10 million jobs lost in China are based primarily on a media report.

¹⁷ Maya Forstater, Implications of the Global Financial and Economic Crisis on the Textile and Clothing Sector. MFA Forum (Unpublished Draft, June 2009). Based on ITGLWF, media and ILO figures.

A majority of workers in this industry are women. For many women, employment in a garment maquila represents their first job in the formal sector. Losing that job when there are other opportunities to move on to in electronics or other manufacturing sectors is one thing. But in a general economic crisis, the reality is that many women workers will be forced back into the informal economy and will lose whatever economic and/or social advantages they had managed to gain.

Labour rights advocates believe that some (perhaps many) employers are **using the crisis as an opportunity to rid themselves of union organizers, unions and collective bargaining agreements.** It's hard to prove that factories are being closed specifically to get rid of a union, but what messages management conveys to workers about the reasons for closure are key indicators.

All of these impacts are damaging in both the short and long term. None of these show up in the broad statistics on the crisis.

'HIGH ROAD' RESPONSE?

Taking the high road means taking seriously the proposals that labour rights groups have been promoting long before the crisis -- the demand for a living wage for workers, respect for freedom of association and collective bargaining, the ending of short-term contracts and labour outsourcing, consolidation that rewards suppliers and factories performing better on labour rights, and where necessary, responsible transitions.

A sportswear brand that is part of the FLA recently wrote to us that "because of the general lowered forecast of global demand for consumer goods ... we believe that this is not the most appropriate time to strongly campaign for living wages."

We disagree.

MSN, along with other labour rights advocates will continue to push on these central demands, which we believe are essential components to any response to the crisis and to building a sustainable industry for the future.



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