INTERNATIONAL LABOUR ORGANIZATION
Sectoral Activities Programme

Sectoral coverage of the global economic crisis

Implications of the global financial and economic crisis on the textile and clothing sector

by

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Foreword

The textile and clothing industry is one of the most globalized sectors, providing employment opportunities to more than 60 million workers worldwide, mainly women and unskilled workers.

Due to its global nature, the sector has been highly affected by the current economic crisis. The alarming number of factory closures and lay-offs as a result of the crisis exposed the sector's vulnerability and may have aggravated the social conditions of millions of workers whose livelihoods depend on it. Some garment-manufacturing countries have been struck so hard by the crisis that they face a permanent cessation of business activity.

This report, commissioned by the ILO, seeks to acquire a deeper understanding of the impact of the financial crisis on all players in the textile and clothing sector – consumers, retailers, manufacturers, exporters, and workers – and to analyse the various socio-economic effects. Of special concern is the negative impact on vulnerable workers, especially women, who constitute an important force in the labour structure of the industry.

The report also analyses initial responses to the crisis by governments and several multi-stakeholder initiatives – credit and trade finance, tax cuts, subsidies, among others - and discusses measures required for a sustainable, long-term recovery strategy, especially via the ILO's Global Jobs Pact.

This study is part of a series of working papers aimed at monitoring the dynamics of the crisis in different economic sectors, understanding the implications for employment and working conditions, and developing policy alternatives for constituents in line with the Global Jobs Pact.

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Contents

Figures

1. Introduction

The financial crisis that originated in the USA has evolved into a severe economic slowdown worldwide, affecting millions of workers and their families. This paper provides an initial rapid analysis of the impacts of the recession on the apparel industry*, and of the responses to it by governments, employers, trade unions, buyers and other key players. The sector is particularly important because:

- The apparel industry has the potential to contribute significantly to economic development due to the scale and the profile of workers employed. Textiles, clothing and footwear are a large source of formal employment in the developing world. Composed predominantly of young women, the industry includes a large number of internal migrants, workers on short-term contracts and low levels of trade union representation. In some countries, garment manufacturing may be one of the only opportunities to move into the formal sector, and frequently one of the few jobs considered acceptable for women. This introductory step on the ladder of industrial development provides women with opportunities to learn marketable skills and develop financial independence. Conversely, the shockwaves created by the abrupt removal of one of the few industries that employs unskilled women is likely to have a negative ripple effect on development.

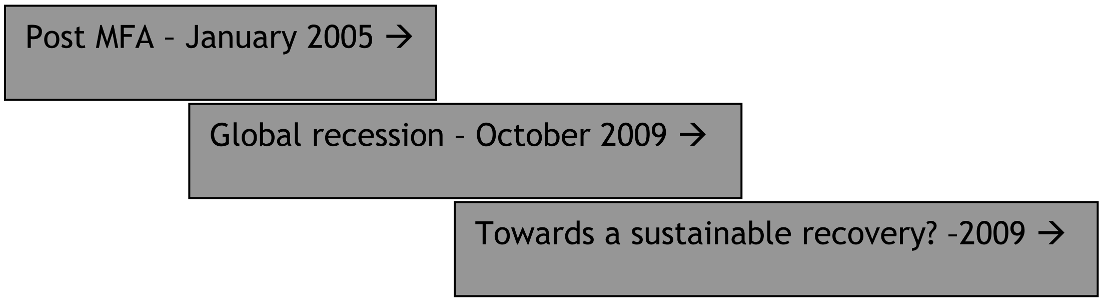
- The World Bank's initial identification of countries highly exposed to the poverty effects of the crisis includes a number - Bangladesh, Cambodia, India, Indonesia, Lesotho, Pakistan, and Vietnam - where apparel and footwear export is a major contributor to the economy. Others, such as China, Dominican Republic, El Salvador, Egypt, Guatemala, Honduras, Mexico, Nicaragua, Poland, Romania and Thailand, are considered moderately exposed.[1]

- Global apparel industry supply chains have been the focus for experimentation with new forms of multi-stakeholder collaboration, involving national and international dialogue and action focused on labour standards, industry transitions and responsible competitiveness. This may provide useful foundations for multi-sector responses to the recession and for sustainable recovery in the industry, as well as potential models for other sectors.

This paper outlines three phases of recent change in the global apparel industry:

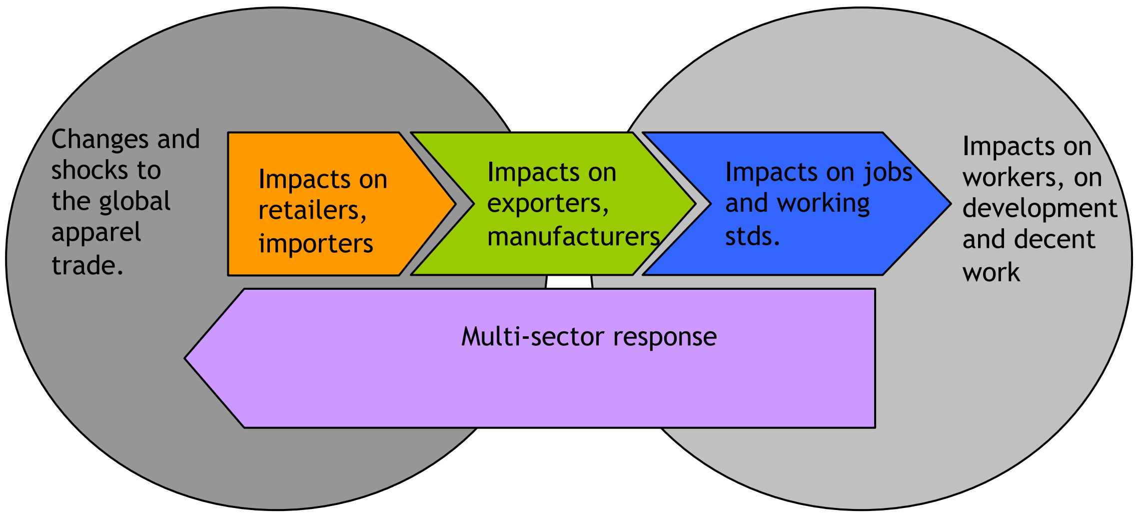
* "Apparel industry" refers throughout to the clothing, textile and footwear sectors, although in most cases trade data from the clothing sector is used to indicate export trends.

Figure 1: Three phases



The paper examines these waves of global changes and shocks to the apparel supply chain in terms of their cycle of impacts on retailers and buyers, manufacturers and exporters, and on workers, and it maps out the responses of government, industry, trade unions and multi-sector collaborations.

Figure 2: Chain of impacts



2. Post MFA: An industry in transition

Since 2005, when the Multi-Fibre Arrangement (MFA) came to an end, the global apparel and textile industry has been in transition from a system of managed trade to full-scale global competition. The table below gives a summary of the impacts and responses to these changes.

Summary: Impacts of post MFA changes in the industry		
	Impacts	**Outcomes**
Brands, retailers, buyers	Ability to make sourcing decisions on purely commercial grounds, without quota limitations.	Supply chain consolidation towards fewer countries and fewer larger suppliers. Increasing importance of strategic sourcing relationships.
Exporters, manufacturers	Rising global exports have enabled expanding production in many countries – not the "great garment massacre" some feared. Intensified competition on price, quality, speed, compliance, full package production.	Increasing two track development pathway in the industry – into high value added (& productivity, labour standards) segment and low price segment where labour and environmental standards vulnerable. Exporters in some countries struggling to compete.
Workers	Increasing employment in the sector but labour standards remain vulnerable, particularly in the commodity segment. Jobs already lost and vulnerable in countries struggling to retain competitiveness.	The industry is still an important source of formal employment and industrial development stepping stone in many countries, but labour standards remain poor. Key issues include absence of national enforcement of existing labour laws, failure to pay a living wage, excessive or compulsory overtime, and absence of adequate workers' representation with management.

In the four years following the end of the quota system commercial considerations have overtaken international trade rules in determining competitiveness. Alongside the end of the MFA, the rise of "fast fashion" and improved inventory control means that buyers are increasingly seeking suppliers that can source materials, coordinate logistics and collaborate on creative development, as well as operate in locations that lend themselves to shorter delivery cycles. Brands and retailers have therefore been consolidating towards larger suppliers and fewer countries.

Major buyers are increasingly shifting away from sourcing a multitude of small firms, and from old-style "cut, make and trim" sewing facilities, to pursuing relationships with a smaller number of "strategic suppliers" – either manufacturing groups or agents who manage production across multiple factories and international locations, sharing financial liability, providing greater value-added services and retaining a larger share of profits from the garment trade.

Brands increasingly do not make sourcing decisions on a country-by-country basis, but select firms to work with. In many cases it is these first tier suppliers, not the retail buyers, who are making decisions about production location decisions. At a national level, technology, skills and local logistics have become as important as wage rates in driving competitiveness, while the advantages of remaining trade preferences have become less important. While the feared ‘‘winner takes all” scenario did not materialize, there have been clear country-level “winners and losers” as buyers shifted their supply chains towards more competitive vendors and locations.

Figure 3: Post MFA winners and losers

Percentage change in value of exports to US and EU between 2004 and 2007

Winners	
China	+73%
Macedonia	+56%
India	+45%
Cambodia	+45%
Indonesia	+30%
Bangladesh	+28%
Pakistan	+13%
Sri Lanka	+13%
Turkey	+8%
Morocco	+4%

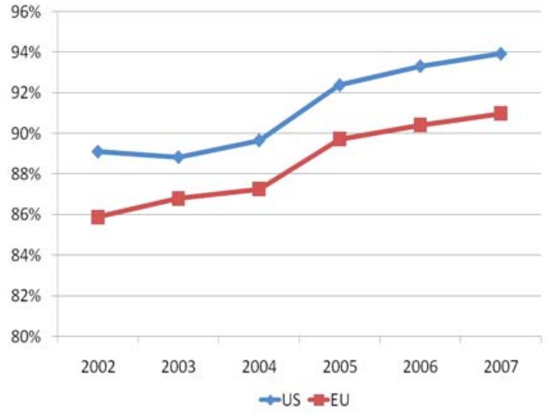
Losers	
South Africa	-75%
S. Korea	-61%
Dominican Rep.	-48%
Mexico	-31%
Romania	-28%
Guatemala	-25%
Mauritius	-16%
Lesotho	-16%
Philippines	-12%
El Salvador	-12%
Honduras	-6%
Thailand	-3%
Tunisia	-1%

NB: China including Hong Kong.

Source: EUROSTAT and USTIC database SITC Category 84, analysis by AccountAbility

Figure 4: Market share of largest suppliers

EU and U.S. market 2002–2007



Source: USTIC and EUROSTAT databases, imports of SITC Category 84 – Analysis by Nathan Associates

Large exporters (exporting over US$500 to the United States or €500 million to the EU in 2004) gained greater market share than both the EU and US (see figure 2), while small countries exporting less than this generally experienced the steepest declines. However, some smaller exporters such as Egypt, Haiti, Morocco, Tunisia and Botswana managed to maintain competitiveness and export growth. Some previous apparel exporters such as South Africa and Nepal saw their industries all but wiped out, while many others saw their exports fall. In the Dominican Republic employment fell by 50,000 in the 18 months following the end of quota, as exports to the US dropped by 35per cent and over 60 factories closed.[2]

Overall the global apparel and textile trade continued to grow up to 2009, absorbing new young workers into the industry each year. This expanding market combined with continuing trade restraints on China, and buyers' desire for supply chain diversity has meant that consolidation of supply chains to fewer countries has not taken place as quickly as was expected. Many buyers say that they were still in the midst of ongoing supply chain consolidation when the recession hit.

However the industry is increasingly split between divergent pathways, with value added manufacturers producing high quality, premium products, organized around the benefits of being close to market and emphasizing productivity and technical innovation, and commodity manufacturers who compete on price to produce lower quality, cheaper products. Fierce price competition in this environment means that labour and environmental standards are vulnerable. Below these is a largely illegal and informal but vibrant sweatshop industry producing low-quality products for both domestic and export markets.

Sustained efforts by global brands to promote adherence to the rule of law and additional voluntary standards have met limited success, and penetrated only a narrow segment of the total industry. Key system-wide issues in the industry continue to be: absence of national enforcement of existing labour laws, failure to pay a living wage, excessive or compulsory overtime, and absence of adequate workers' representation with management.

The apparel industry has been the focus of a number of national and international multi-sector collaborative initiatives which initiated since the 1990s to address concerns about poor labour standards. While many of these initiatives were initially focused on developing factory level standards ("codes of conduct") and auditing and assurance systems, ongoing learning about the limitations of audit based systems, and the looming challenge of the end of the MFA system prompted many of these initiatives to expand their focus to considering how to enable broader responsible transition across the industry and to align competitiveness with decent work.

Multi-sector response	**International multi-sector apparel industry initiatives**	
	Description	Response to the pressures brought about by industry transition.
Better Work	ILO initiative, with the IFC and BSR.	Launched after the end of the MFA to improve labour standards and competitiveness in global supply chains. Initially working in Jordan, Vietnam and Lesotho.
Ethical Trading Initiative	Companies, trade unions and NGOs, focused on 'learning by doing' around the ETI's Base Code of Labour Practice (all consumer goods, not just apparel)	Engaging with brands on how their purchasing practices impact on labour standards. Supporting the development of social dialogue in factories in China.
Fair Labour Association	US colleges and universities, civil society organizations, brands focused on accrediting factories and brands to the FLA Workplace Code of Conduct	Working in some countries (e.g., Dominican Republic) to promote multi-stakeholder collaboration towards promoting and protecting workers rights in the post-MFA environment. In 2006 developed guidance on retrenchment for FLA affiliated companies.
MFA Forum	Open network of brands, manufacturers, government and development bodies, trade unions, NGOs.	Established in early 2004 to address key concerns that were predicted with the end of the Multi-Fibre Arrangement. Working in Bangladesh, Lesotho, Morocco and Central America to enable multi-sectoral response to industry challenges.

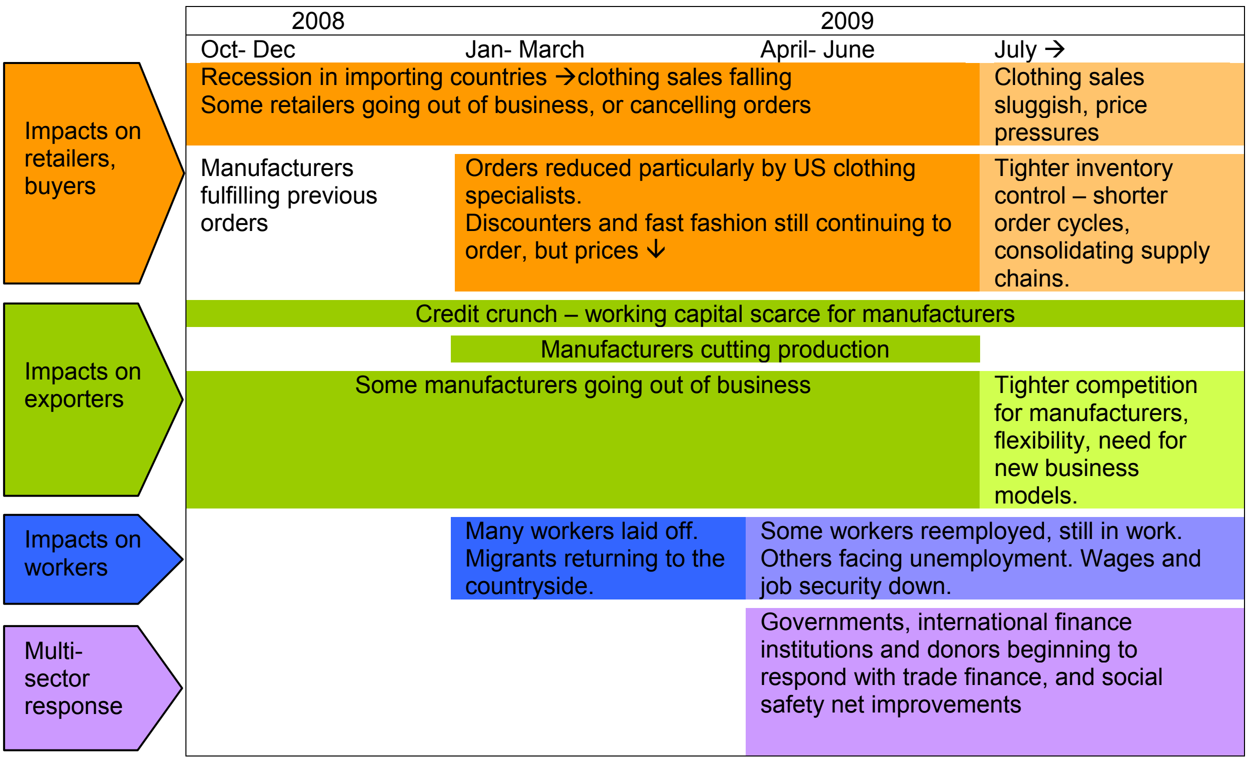
In addition to these international collaborations, there have been a number of national level initiatives, often bringing together governments, donors and manufacturers associations (although rarely other stakeholders) to develop the productivity, skills, competitiveness and labour conditions of the apparel and textile industry. Examples include the USAID-funded Garment Industry Productivity Centre in Cambodia, and the GTZ-supported work of the Bangladesh Garment Manufacturers and Exporters Association on competitiveness improvement.

3. Impacts of the crisis

The end of the MFA quota regime was a time of extreme uncertainty in the industry. Wide disparities between predictions reflected different assumptions and vested interests as well as a lack of good information (particularly about factory capacity and employment numbers). This situation has not changed. As Apparel Industry commentator Michael Flanagan points out, accurate information has been an early casualty of the recession: “The exaggerations are the result of bad reporting, mistranslations, deliberate lying and frequent confusion. But, as attitudes get gloomier, really bad news - whether true or made up to promote a cause - finds it easier to get reported than the more complex reality that some people are doing better than others.”[3]

As the crisis has unfolded at different speeds, and different interest groups seek support for their own preferred public policy responses, there has been a mass of conflicting reports and predictions surrounding the impacts of the financial crisis on the sector. While anecdotal reports of factory closures are widespread, robust data on employment, including factory closures and new factories expanding, remains difficult to find.[4] Nevertheless, a clearer picture is now emerging of how the financial crisis has been playing out in the apparel and textile sector over the past few months.

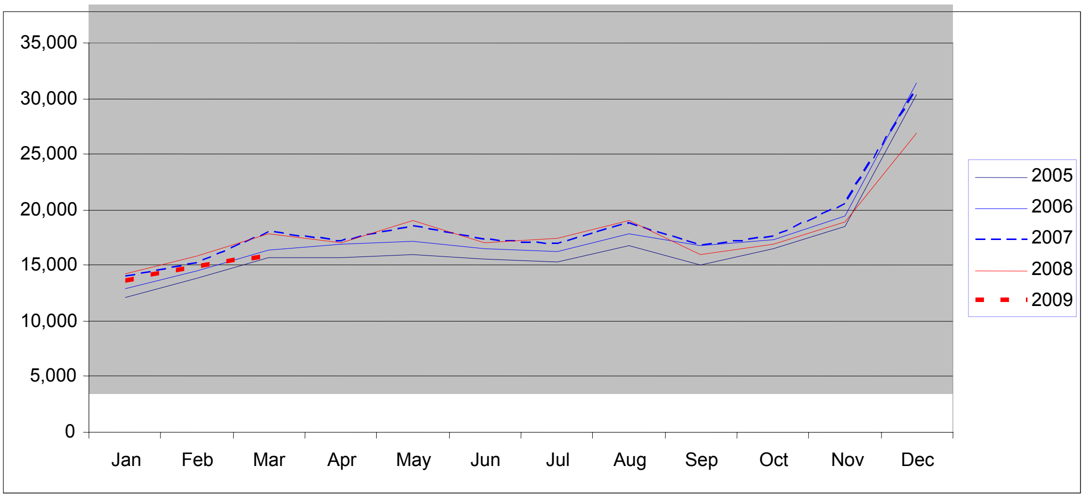
Figure 5: Charting the progression of the financial crisis in the T&C Sector



3.1 Impacts on retailers and buyers

Sales in the textiles and clothing sector fell after it was struck by the global credit crunch, collapse in consumer confidence and employment losses. European, U.S. and Japanese clothing sales have been suffering since the last quarter of 2008. US garment retail sales were down 2.1 per cent over the whole of 2008 (following a 4.5 per cent increase in 2007), and in the first three months of 2009 were 5.1 per cent lower than in the previous year, taking like-for-like retail sales overall - to roughly the level of March 2006.

Figure 6: US retail sales



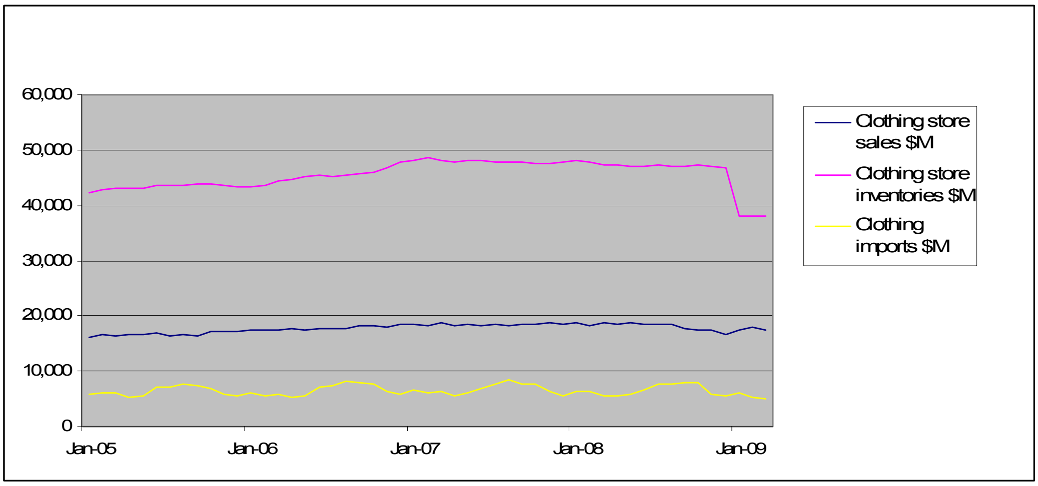
Source: US Census Bureau, Service Sector Statistics http://www.census.gov/mrts/www/mrts.html , Analysis by AccountAbility

The EU does not report aggregate clothing retail sales, but general EU retail sales have been falling and non-food sales in the Eurozone were down 1.9 per cent in the 12 months up to March 2009.[5] Feedback from vendors and buyers shows that European sales have generally not been as badly hit as in the US, but prices are being cut more sharply.[6] In the UK, for example, March sales in clothing specialists were up 8.4 per cent by volume compared to last year, but sales values were down 5.5 per cent.

Discounters and fast fashion retailers are outperforming mainstream clothing specialists and department stores. Wal-Mart, the world's largest clothing retailer, has been reporting rising sales volumes (although US dollar sales were down by 1.6 percent in 2008), while in the three largest non-US retailers Inditex (Zara), H&M and outlets of Li &Fung, sourcing also saw sale rises of 10 per cent, 11 per cent and 14.5 per cent, respectively.[7]

The chart below shows the trend in clothing sales, inventories and imports. While these figures do not measure exactly the same trade flows (sales and inventories are seasonally adjusted and refer only to specialist clothing stores, while imports include all clothing imports) they do show the time lag between sales falling in late 2008, and imports which really began to fall in 2009. They also highlight that the biggest driver of falling imports has not been falling sales but clothing retailers' efforts to reduce inventories, which in the year to date have been cut by 20 per cent.

Figure 7: US clothing store sales and inventories, and clothing imports



Source: Source: USTIC and US Census Bureau, Service Sector Statistics http://www.census.gov/mrts/www/mrts.html , analysis by AccountAbility.

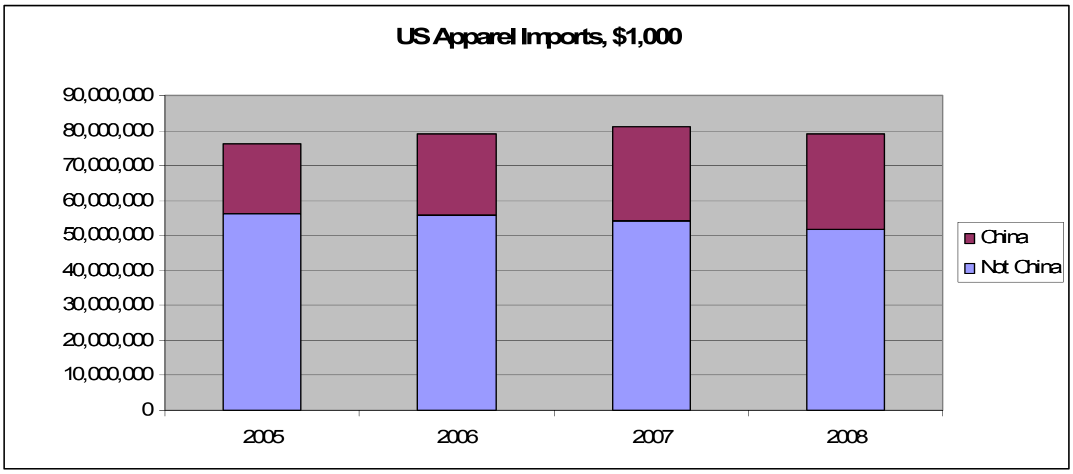
3.2 Impacts on manufacturers and exporters

Overall the global garment trade fell by 0.5 per cent in volume in 2008. In general the post-MFA picture of winners and losers has continued, with many countries accelerating their share loss. "The global garment industry is in terrible trouble, but the pecking order seems little affected," concluded industry commentator David Birnbaum at the beginning of this year.

China, the main Asian exporters, and Honduras increased their share of exports to the US, Europe and Japan. Other Central American exporters, Cambodia, Africa, and most of Europe's neighbours lost market share through the year. The most spectacular growth (albeit from a very small base) occurred in the new sourcing destinations, Algeria and Laos, reflecting apparel buyers' continual search for "the next sourcing destination," despite consolidation.[8]

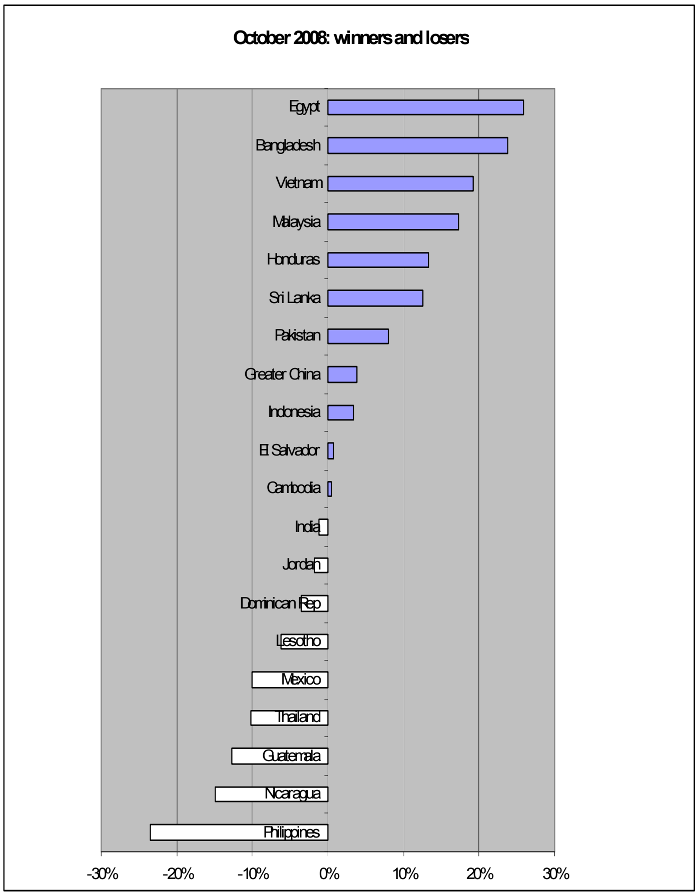
As the chart below illustrates, exports to the US from countries other than China are accelerating in their decline (these countries as a group saw the value of their apparel exports to the US fall by 0.79 per cent in 2006, 3.49 per cent in 2007 and 4.41 per cent in 2008), while exports from China went from double-digit growth to stagnation.

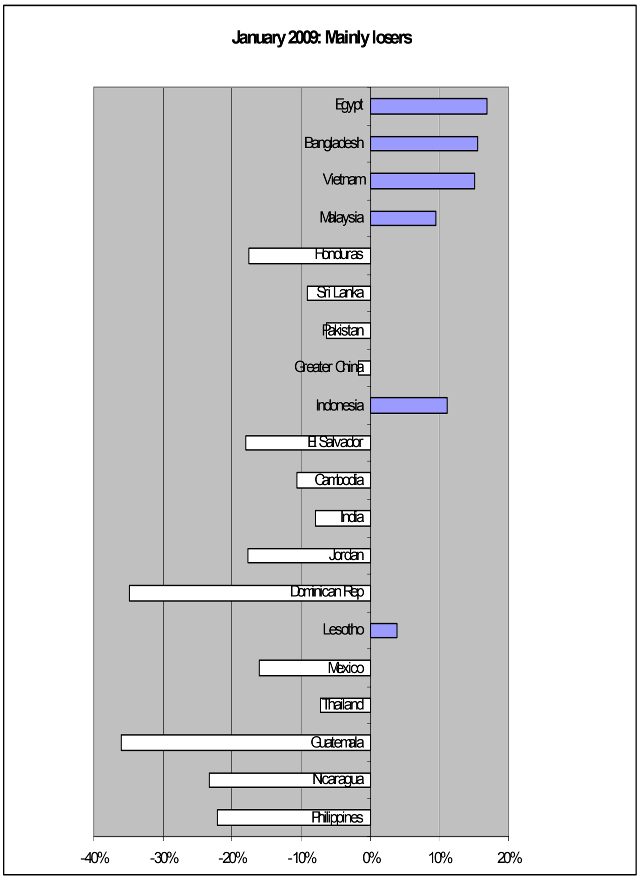
Figure 8: **US apparel import trend**



Imports are continuing to fall – with trade values dropping faster than volumes. In the first three months of this year exports to the US fell by almost 10 percent in value and 5 percent in volume compared to the same time last year, effectively wiping out all of the post-quota growth in trade. In May US imports fell by 14 percent in volume (compared to May 2008). Imports from the top five Asian exporters (China, Vietnam, Indonesia, India and Bangladesh) are recovering but import figures for other countries show an accelerating decline reaching 30 percent. Even those countries that are maintaining their export volumes are experiencing price falls. Vietnam, for example, reported a 5 percent fall in textile and garment earnings from US exports in the first half 2009, in spite of strong volume growth.

Figure 9: Change in export value to the US





Source: USTIC Year-on-year % change in $ imports to the US, Cat 84 SITC, Analysis by AccountAbility

Buyers and industry commentators say the recession is not so much changing the nature of the apparel industry as accelerating existing structural trends that were already in play, in particular:

- Extreme vulnerability of apparel manufacturing businesses based on low margins and high risks;

- Consolidation of supply chains, making it harder for small countries and small producers to remain viable in the global apparel market;

- Divergent pathways between value-added and commodity segments. Growth in sales during the recession is occurring mainly in the discount and fast fashion sectors, while broad price cuts are exacerbating the vulnerability of the industry to low labour standards and downward wage pressures.

- Lack of long-term vision and supporting data in the industry. Lack of information about garment sector employment and lack of early warning about factory vulnerability make it difficult to secure viable supply chains and mitigate the negative impacts on workers.[9]

The alarming number of factory closures and lay-offs reported in the first phase of the recession exposed the vulnerability of the industry. The pattern of these closures and lay-offs cannot be explained simply by the drop-off in export demand experienced at that point. As the trade figures show, the fall in the level of global trade in apparel occurred seriously in 2009. Before that, orders placed earlier in the year were still being fulfilled. However, even the relatively modest reduction in export growth experienced in 2008 was accompanied by a more widespread, and largely unexpected, collapse of suppliers and loss of jobs.

To understand why suppliers have failed in such high numbers, industry analysts point to the health of individual businesses and their customers, as well as overall trade trends and the drying-up of sources of working capital. Some suppliers entered the downturn with vulnerable, unsustainable business models, selling far too cheaply, or dealing with unreliable clients in a desperate attempt to remain competitive. Others, whilst apparently solid and expanding, were encumbered by high levels of debt and luckless currency hedges which, when combined with delayed or defaulted payments by customers, pushed them into failure. In some cases, orders cancelled by buyers at the last minute left exporters carrying unsustainable losses.[10]

Company-by-company: how the recession is affecting some manufacturers in Vietnam

Tran Thanh Lam, the director of a garment export company in Vietnam, signed FOB contracts with three partners from the US, UK and Canada for making 130,000 pairs of women's trousers and 50,000 jackets. The orders were semi-complete when two of the three partners asked to reduce their ordered volumes by 30-40 percent.

"Our company has suffered heavy losses from the contract, as we spent money on importing materials before," Lam said. Meanwhile, tens of workers of his company have been laid off due to the order cuts, while Lam still has to pay them 70 percent of their salaries. Lam said that he dare not refuse the foreign partners for fear of losing them.

La Kien Ban, Director of Dat Thanh Garment Trade and Production Company, said that garment companies are all running perfunctorily, trying to retain clients rather than make profit. The profit gained in the last few months was sufficient only to cover production costs and pay workers, Ban said. Meanwhile, other companies complain that their revenues cannot maintain production, as small orders and low output do not even cover production costs

Nahnoom Company in Dong Nai province, which specializes in jackets, has declared bankruptcy. Importers repeatedly cut orders and the company's workers, who earned money on the volume of their products, left to find other jobs. As a result, the company had to hire other garment workshops to complete the orders at very high fees. Despite these fees, the quality of the products was poor, which caused the company to lose partners. The repetition of this scenario resulted in bankruptcy.

Le Ngoc Duc, Director of Van Thanh Garment Company, said that newly-established companies with large-scale operations and substantial numbers of workers have suffered the most. If orders continue dwindling, the companies may not survive this difficult period.

Source: Dong-Nai Industry (2008), Orders Waning, Garment Companies Suffering 10-16-2008 http://www.dongnai-industry.gov.vn/etintuc.asp?code=4745

3.3 Impacts on workers

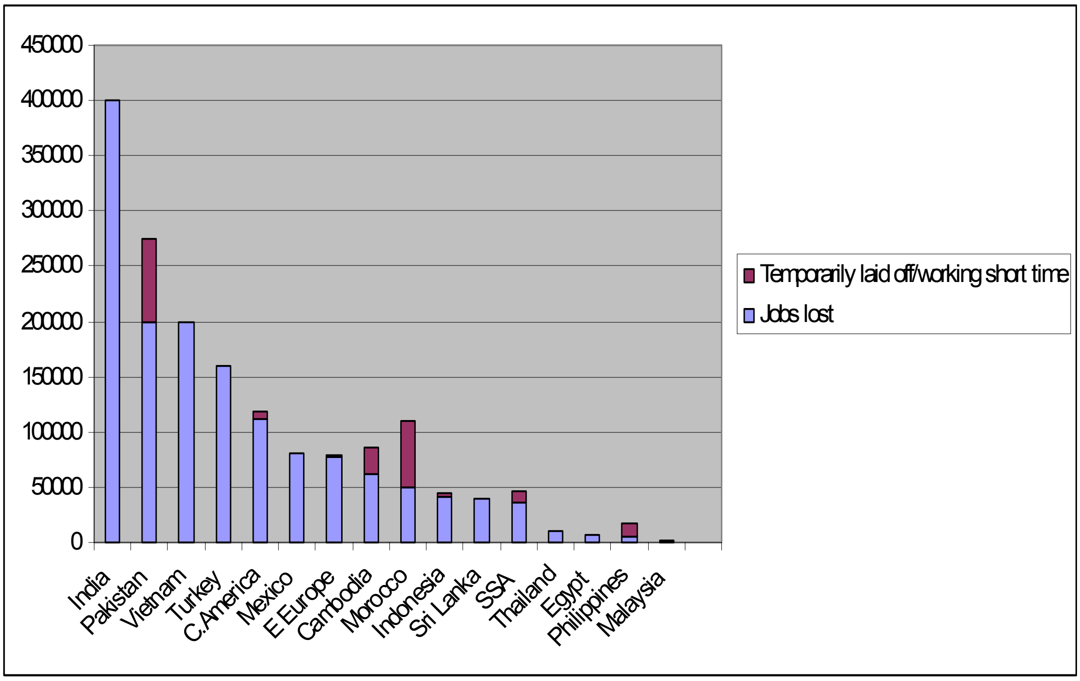
Trade unions, NGOs, manufacturers associations, buyers and local media have all reported factory closures and lay-offs, in some cases with factories shutting without notice, leaving workers short of back wages and severance pay. Combined with the downturn across sectors which impacts on alternative employment options, this is making workers more vulnerable, and reversing development progress.

The key reported impacts on workers are summarized below.

<table>
<tr><td colspan="4">Impacts on workers</td></tr>
<tr><th colspan="2">Impacts</th><th>Extent?</th><th>Outcome</th></tr>
<tr><td rowspan="3">Unemployment</td><td>Cyclical: mass unemployment caused by economic recession and fall in demand.</td><td>Strong evidence of cyclical unemployment in almost all apparel exporting countries, due to drop in demand and credit crunch. Migrant workers in particular are facing retrenchment.</td><td rowspan="7">These trends have a direct impact on the ability of factory workers to meet basic needs such as food, healthcare, children’s education and housing.</td></tr>
<tr><td>Frictional: temporary unemployment caused by people transitioning between jobs.</td><td>Some evidence of frictional unemployment (e.g. in China where manufacturing is moving inland) and in countries in East Asia where uncertainty in the industry is leading to workers staying at home.</td></tr>
<tr><td>Structural: mismatches between skills and workers due to the structure of the economy changing.</td><td>The recession is accelerating supply chain consolidation and magnifying structural unemployment in countries where the apparel industry was already in decline (e.g. in Central America)</td></tr>
<tr><td colspan="2">Loss of formal job opportunities</td><td>There are widespread reports of re-ruralisation and informalisation of the workforce laid off from the industry. Anecdotal reports of women workers remaining in cities turning to sex work and other hazardous occupations.</td></tr>
<tr><td colspan="2">Lower income (loss of overtime, benefits, bonuses)</td><td>This appears to be widespread, although in some countries manufacturers are cutting the workforce and maintaining wages.</td></tr>
<tr><td colspan="2">Lay-offs not carried out according to the law, loss of severance pay and owed wages.</td><td>There have been anecdotal reports of this, and some instances have become quite high profile, due to brand involvement and/or labour disputes ensuing. However, at national and international level there is no good monitoring of the extent of this problem.</td></tr>
<tr><td colspan="2">Working conditions and labour rights vulnerable</td><td>Anecdotal reports of increasing pressure on labour standards. Certainly production and employment appears to be holding up most strongly in the low-price/commodity segment where working conditions are poorest.</td></tr>
</table>

An ITGLWF survey of its national affiliates found that some 8,000 textile, clothing and footwear production units in emerging economies have closed since June 2008, with more than 11 million jobs lost and a further 3 million workers on short-time, out of a globally estimated apparel and textiles workforce of 60 million. An estimated 1.6 to 2.5 million jobs are under threat, a likely understatement due to exclusion of the informal part of the industry. Estimates of job losses and jobs under threat by industry groups and manufacturers associations are often even higher than the trade union estimates.[11] (see Annex I)

Figure 10: Reported job losses since the start of the recession



NB: Not including China.
Source: Based on figures from the ITGLWF.

Job losses amongst major apparel and textile workforces			
	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%

Source: Based on figures from the ITGLWF, ILO and media reporting Annex 1 includes more a full list of job losses reported by the ITGLWF, manufacturers associations and media reports.

Some say the ITGLWF's estimates are conservative; 15 million is a more likely figure. Others, however, question whether the extent of the job losses has been overestimated.

Looking at the ITGLWF's headline figure for jobs lost or temporarily laid off, 85 per cent of these are in China, and are based on a media report of 10 million jobs lost in the sector. Although unemployment has certainly risen in China, this figure has not been confirmed and is open to question. In early 2009 Chinese government officials estimated that 20 million migrant workers had been made unemployed by the recession. Apparel and textiles make up around 20 per cent of China's manufactured exports, and although exports fell in 2008 it has not been precipitous. Furthermore, China's domestic clothing sales grew by 20 per cent during the year, meaning that production output actually rose. It therefore seems odd that fully half of migrant worker jobs lost would be in the apparel and textile sector. Local government officials in Guangdong, the heart of the apparel industry, reported that around 10 million of the city's 19 million migrant workers went home for the Lunar New Year holiday in 2009, and around 9.5 million had returned by the end of February. Of these, 460,000 had not found jobs by the end of March, putting unemployment amongst migrant workers at around 2.4 per cent.[12]

Why is it so difficult to assess the level of employment and job losses in the textile and clothing industry?

Employment in the textile and clothing industry includes both large, formal sector enterprises and smaller, unregistered factories. Many workers are employed on short-term contracts. Figures are few for the total number of factories operating and people employed in the sector in many developing countries, let alone the number of jobs lost. Often it has been difficult to assess how many workers are unemployed and how many are temporarily laid off, or on extended seasonal leave.

It is therefore hardly surprising that widely divergent figures have been circulated. For example, in India the Textile Ministry and sector trade unions broadly agree on job losses at around three to five hundred thousand. However, the Confederation of Indian Industries estimated that one million jobs had been lost (based on an estimated 3 per cent drop in production).

The difficulty in determining the extent of job loss and job creation in the industry makes it equally difficult to assess the extent to which job losses and factory closures are resulting in cyclical, structural or frictional unemployment. Anecdotal evidence points to each of these factors in play. For example, many East Asian countries report job losses at the same time as new factories and job openings. Indonesia reported the creation of 50,000 new jobs in the sector in 2008.[13] Some employers are even reporting hiring difficulties. In some cases this is attributed to skills shortages and in others to uncertainty in the industry, exacerbating frictional unemployment as workers who have returned to the countryside for annual leave are reluctant to move back to jobs that may prove temporary. In India, for example, where demand has picked up, the manufacturers association is concerned that deliveries may be delayed because of labour shortages. In Viet Nam, the Employment Service has reported continuing difficulty in finding enough workers to fill the vacancies.[14] The Indonesian Textile Industry says that the industry needs an additional 60,000 trained workers.[15] The vice-president of the Thai Garment Manufacturers Association said that the Thai garment industry alone has a shortfall of 12,900 workers to meet its export growth projections.

Within countries, major buyers are reporting that the recession is accelerating their shift from small suppliers to larger ones, with job losses amongst small firms being partly offset by increased employment by larger factories.[16]

The biggest losers from the recession are those that were already struggling to maintain competitiveness, such as suppliers in Central America, Eastern and Central Europe, and Pakistan. Job losses in these countries are likely to result in a combination of cyclical and structural unemployment, as factories were already closing or contracting before the recession.

In China, there is certainly cyclical unemployment across the economy, however both the oft- quoted figure of 20 million unemployed and ITGLWF's estimate of 10 million apparel sector job losses are difficult to confirm. However, some apparel sector unemployment may be frictional or structural – reflecting the ongoing shift of manufacturing from coastal cities to the interior.[17]

While many of the available numbers remain disputed, widespread job losses are undisputed and their development impacts are well documented. For many, the alternative is to return to rural villages at a time when commodity prices are low or to slip into the shadow economy. In Cambodia, for example, the Cambodian Labour Federation says that 60 to 70 per cent of workers have returned to their home provinces, 10 to 20 per cent, found new garment factory jobs or other jobs, and the rest remain unemployed or run micro-businesses in the cities. Young laid-off migrant workers are vulnerable to various forms of risky employment, exploitation, unsafe migration and trafficking.

The social impacts of the downturn are likely to be pernicious and long-lived. Labour markets tend to recover only four to five years after an economic recovery. This is because long-term unemployment, labour market informalization and large-scale reverse migration from urban to rural areas are trends that are very difficult to reverse. Persistent cyclical unemployment can give rise to structural unemployment in this way as skills become "rusty" and obsolete and people fall into negative cycles of poverty and asset loss. As the ILO points out, "if these trends take root, the negative effects of the crisis will be long-lasting, thus yielding significant social hardship and depriving the economy of valuable resources."[18]

Even though the apparel industry has always suffered from poor enforcement of workers rights, the sharp economic downturn has strongly exacerbated the negative impacts to workers. In many apparel-producing countries, strong social protection schemes that provide government-backed unemployment support are absent.

There have been many reports of factory closures not carried out in accordance with legal procedure. This has resulted in chaotic situations in which workers have tried to obtain compensation for loss of income by seizing factory assets and appealing for Government intervention. The spread of information on these situations has resulted in mistrust between the remaining workers, unions and manufacturers, which is damaging overall workplace morale in many countries, leading to situations whereby even minor workplace issues are resulting in sit-ins, strikes and suspicion of foul play.[19]

Migrant workers are often prioritized for retrenchment, as they present higher overhead costs. They also have less access to social safety net support. Migrant workers are therefore compelled to take whatever work they can find, often accepting substandard pay and abusive conditions. Declining remittances and migration opportunities undermine poverty gains in their home countries and regions. Workers instead must depend on employers meeting their individual obligations to make severance payments. Not surprisingly, the manufacturers who are unable to stay in business are usually also unable to meet their severance obligations.[20]

The ILO notes that recessions affect women and men differently. In lower income households in particular, the loss of women's income may have greater long-term negative implications than a similar loss in men's income. And for children, the negative impact on their future health and education can be dramatic – trapping families in persistent poverty. With fiscal austerity measures tending to affect the quality and availability of public services, families, and especially women and girls, shoulder greater care responsibilities.[21]

For those that remain employed within the industry, the value of their job is decreasing. Factories are cutting bonuses, overtime and other key components that represent large percentages of their previous total compensation. As a report by the

Fair Wear Foundation on the impact on the crisis on workers in China highlighted, “Factories that seek to remain in business despite the crisis would likely hold onto a core workforce and try to weather the storm. While this means that fewer workers will lose their jobs, it presents a significantly different work environment for them. For instance, overtime is likely to be less pronounced now, because there are too few orders to require longer hours. Yet, factories will have a smaller workforce so in the event that an order arrives above a factory’s current capacity, the workers will be at their machines 18 hours a day. When these efforts to maintain workforce levels mix with decreasing orders, it can lead to the opposite of overtime: idle hours for workers. In China, where the practice of piece-rate is very common, cuts in work can spell real losses for workers. So the minimum wage laws will apply more than ever. Wages that were previously not in jeopardy of dipping below minimum wage now may well be at risk. Wages for less experienced workers have already declined significantly in several regions. The traditional issue of late payment will now be chronic in the industry, due to cash flow challenges that currently plague it.”[22]

Growth at the bottom end of the market means that jobs saved and created are likely to be those which do not offer decent work. A survey amongst garment workers in Kalyanpur in Bangladesh found that no garments job losses had been reported in the past few months; workers reported that as many, and probably more, jobs were available. However, Oxfam noted that “new openings did not appear to be predominantly in higher quality factories where management is stricter about compliance with buyer requirements relating to health and safety, child labour and other labour standards. Instead, in late February and early March 2009, workers were reporting employment was readily available in poorer quality factories, including in small ad hoc sub-contractor units.”[23]

The crisis is worsening labour relations in many countries, with strikes and conflict flaring in Bangladesh and threatened in Cambodia. However, although the crisis is leading to deteriorating labour relations in many places, there are examples of social dialogue leading to resolution of disputes. For example, in Malaysia a dispute over severance pay at the Tai Wah Garments plant was resolved following the intervention of the main customer, Nike, and negotiations between the management and trade unions.

3.4 Responses to the crisis

Initial responses by governments and national industry associations have focused on addressing perceived short-term priorities to assist struggling industries to compete, and address cyclical unemployment. Key areas have been:

Credit and trade finance. The Vietnamese Ministry of Industry and Trade is piloting an export credit insurance project to assist exporters. China’s State Council is offering financial support to textile makers and encouraging financial institutions to strengthen credit loans to textile producers, especially small and medium ones. Since January, Chinese banks have been under instructions to allow loans against outstanding invoices. In Morocco the manufacturers’ association, AMITH, wants the proportion of textiles eligible for state aid to rise to over 35 per cent so that the sector’s losses can be minimized. The country’s Finance Minister has said that around 130 companies have received state aid intended to keep the economy stable and save jobs. Morocco’s government has spent nearly $100 million on a support package, whose measures include cancelling some payroll taxes and offering government guarantees to companies seeking bank loans. Indian clothing and textile makers are asking for a two-year freeze on repaying loans they have taken out and for lower taxes and lower cotton prices. Pakistan has put in place a $15 million textile and garment industry rescue package, including Research and Development support to textile and clothing firms, a 3 per cent interest rate subsidy for loans to spinners, and 100 per cent refinancing to banks against export finance schemes. However, in some cases the apparel and textile sector has been excluded from national stimulus and employment packages. For example, in Mexico the government's "Program for the Preservation of Work" only applies to auto, auto-parts, machinery and electronics sectors.[24]

Tax cuts, rebates and subsidies – China has increased export-tax rebates on textiles. Bangladesh's knitwear manufacturers are calling for a 10 per cent government subsidy. The Cambodian government extended profit tax exemption for garment factories in 2008. Egypt's Ministry of Trade and Industry is offering a cash subsidy on cotton and its Customs Council has begun a review of import duties on raw materials for exported goods.

Cost-cutting measures – Sri Lanka's Ministry of Labour has given garment factories the power to lay off workers temporarily (subject to paying part of their salaries) and to operate a five day working week in an agreement reached between factories, trade unions and government. The Vietnamese government excluded private-sector manufacturers from a recent minimum wage rise to avoid garment industry layoffs. Thailand's Hi-Tech Group, urged government to review its policy on redundancy pay, arguing that legally required payouts both hit business costs and deterred the unemployed from seeking new work. The Bangladesh Garment Manufacturers and Exporters Association has lobbied its government to extend working hours from 60 hours per week to 72. Manufacturers in Albania are lobbying the government to change tax and social security laws to take pressure off companies. In Nicaragua the government has announced a freeze on bi-annual wage negotiations in the Free Zone, setting lower, fixed wage increases due to complaints from business that salary negotiations were leading to increased production costs.

Specific support to SMEs, China has set up a special fund to help small and medium businesses to consolidate and explore overseas markets. The Vietnamese government has also developed a bank loan subsidy program to provide affordable working capital to businesses with fewer than 500 workers.

Some governments are already working to address not only enterprise vulnerability, but worker vulnerability, however this is the exception rather than the rule, and most of the impacts of the crisis on workers remain unaddressed.

Some measures being taken to address the impact of the crisis on workers	
Measures being taken	**Impacts addressed**
Donors and International Institutions are planning to step up financial assistance to help developing countries mitigate the impact of the crisis. The World Bank has set up the Vulnerability Financing Facility (VFF) to provide a dedicated facility to streamline crisis support to the poor and vulnerable. This includes the new Rapid Social Response (RSR) Program focused on social interventions including access to basic social services, scaling up of targeted safety net programs, and development of active and passive labour market policies. However, as yet it has not received funding.	Cyclical unemployment
In Guandong the Labour Bureau is setting up free job fairs in the cities and will offer subsidies for workers willing to leave the cities and go to rural areas — including free vocational classes, subsidized school fees for children and a waiver of government fees for the registration of new small businesses.	Frictional unemployment
The Bangladeshi government has put in place a programme to sell rice at concession prices to garment workers.	Lower wages (loss of overtime, benefits)
Some major brands (particularly as part of multi-sector initiatives) have put in place 'Responsible retrenchment'. Measures include giving notice to allow planned redundancies, monitoring retrenchment in their supply chains and mediating to ensure payments are made. The ILO is providing assistance to manufacturers, unions and governments in Cambodia on how to minimize negative effects of lay-offs.	Lay-offs to be carried out according to the law, loss of severance pay and owed wages.

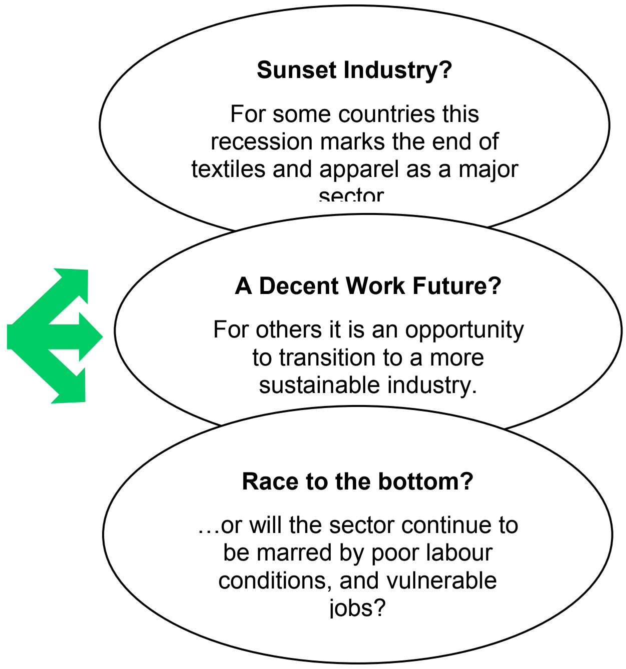
The International Textile, Garment and Leather Workers Federation says that the various stimulus packages currently being rolled out need to be increased and better targeted, putting emphasis on the retention and creation of decent jobs, noting that in this crisis, workers are being asked to make sacrifices without any guarantee of reward when economic recovery returns. They call for a collaborative approach at country level, fostered through the creation of tripartite economic and social councils for the industry in all important producing countries, aided by international institutions including the World Bank and the International Labour Office.[25]

4. Towards a sustainable recovery

Many vulnerable developing-world garment manufacturers were wiped out in the first phase of the recession. The current phase is marked by continued uncertainty, sluggish sales, shorter order times, price pressure and continued consolidation in supply chains. Ongoing structural trends (accelerated by the recession), the knock-on impacts of the down-turn and a series of longer term changes on the horizon will set the stage for the future development of the industry.

Figure 11: Longer-term industry scenarios

Current trends and drivers of change	
Ongoing structural trends	• Vulnerable business models • Consolidation of supply chains • Divergent pathways • Lack of vision and supporting data
Knock-on impacts of the recession	• Downturn in domestic demand, re-ruralisation and informalisation of the economy • Threat to social cohesion • Loss of skilled workers • Companies going out of business due to lack of access to working capital • Worsening labour relations
Longer-term changes on the horizons	• Costs of carbon, water and other ecosystem services. • Increasing importance of emerging markets. • Increasing importance of internet retail.



It is clear that some countries hold out little hope for a competitive apparel and textiles sector. This is reflected in figures from the International Textile Manufacturers Federation which demonstrate that investment in new spinning, weaving and knitting machinery was down by more than one-third in 2008, with almost all investment occurring in Asia.[26] The key priorities for these countries are responsible transitions and retraining. For others the choice is between a continued race to the bottom or a Decent Work Future for the sector. The vision of the future laid out by the ILO's Global Jobs Pact is "a fair globalization, a greener economy and development that more effectively creates jobs and sustainable enterprises, respects workers' rights, promotes gender equality, protects vulnerable people, assists countries in the provision of quality public services and enables countries to achieve the Millennium Development Goals."

4.1 Emerging good practices

Initial responses by governments and industry associations have focused on addressing short-term priorities for struggling industries. Key areas have been credit and trade finance, tax cuts, rebate and subsidies and cost-cutting measures. However, the crisis has also accentuated the importance of building trust, transparency and collaborative solutions up and down supply chains. Some governments, manufacturers associations, trade unions, donors and multi-stakeholder initiatives are beginning to consider the implications of the current financial crisis and the need for a long-term sustainable development strategy for the industry:

- **Action involving factory level stakeholders and international buyers –** Some international buyers are taking action to ensure that closures and retrenchments in their supply chains occur in line with the law and good practice. For example, in Honduras, the US corporation National Mills closed its operation, leaving workers unpaid and owed severance and other payments. Phillips Van-Heusen agreed to withhold payment of outstanding invoices to National Mills until it met its obligations to the workers. A representative committee was established, including the trade union and its lawyers, as well as the former factory manager and another representative of management staff (all of whom were also owed monies). National Mills passed ownership of the plant and equipment to this committee for sale to interested buyers and, after constant pressure from PVH, agreed to use the outstanding payment to meet its commitments to the workforce. In Malaysia a dispute over severance pay at the Tai Wah Garments plant was resolved following the intervention of the main customer, Nike, and negotiations between the management and trade unions. In Bangladesh recently, coffee company Tchibo agreed to pay outstanding monies to workers left jobless after the factory owners were jailed after trying to flee the country. Tchibo and union representatives settled the payments from monies owed by Tchibo to the government. Leading brands in the industry have also begun evaluating necessary shifts in supply chain strategy that focus on a broader geographic distribution of consumption, the need for a more skilled workforce to deliver critical gains in productivity, and innovations in environmental sustainability.

- **National level dialogue and action** - Some governments are already working to address not only enterprise vulnerability but also worker vulnerability, for example, through training programmes and social safety nets. In Morocco, the employers association, Amith, and the government have signed a training agreement with retail workers, using state aid while at the same time investing in training for productivity and creativity of companies. India's government has pledged to create up to 10 million new jobs in the sector over the next five years and boost its annual growth rate from around 6 per cent to 8-10 per cent. The Government is committed to transforming an emerging, or sunrise, sector into a developed industry, including the building of world-class, state-of-the-art manufacturing capacities, and to helping SMEs become more competitive in global markets.

- **International multi-sector supply chain initiatives -** Many development agencies, donors and NGOs are already active in promoting decent work and competitiveness in the industry.[27] The ILO Better Work Programme, in partnership with the IFC and with clothing brands and manufacturers, is expanding its country operations and considering how to incorporate support for improved environmental management into its activities. DFID is also developing a challenge to support multi-sector action in the apparel and textile sector. Multi-sector initiatives such as the FLA, ETI and MFA Forum have adopted guidelines on ‘responsible transitions’ to provide best practice guidelines to ensure that the impacts of supply chain consolidation on workers is addressed. These guidelines include such measures as giving due notice of withdrawal, monitoring severance payments and engaging in dialogue with manufacturers, trade unions and government on responsible closures.

Social dialogue and the practice of tripartism between governments and the representative organizations of workers and employers are crucial for finding efficient and equitable solutions to address the consequences of the crisis, for building up social cohesion, and for preparing for a sustainable recovery. The lessons from past financial crises are that countries with strong institutions and a culture of social dialogue have managed often difficult policy adjustments while maintaining balance between the pressures of global competition and the goal of social justice. Effective social dialogue and tripartism help create the policy space in which bargains can be made, smoothing the way for the implementation of necessary adjustments.[28]

The experience of multi-sector initiatives in the apparel sector at international and national level also shows the positive role that other players, including brands, civil society organizations, consumer groups and international development agencies can play in supporting and enabling these dialogues. These initiatives and social partners are hoping that the crisis can serve as a catalyst to strengthening industrial relations and enhancing cooperation amongst tripartite actors and along supply chains. Such dialogue, they believe, is critical in order to manage change, not merely to survive it.

However, a “stakeholder sensecheck” undertaken by the MFA Forum at the end of 2008 with key international actors, concluded that there remains a lack of overall collaboration amongst actors concerned with the sector on both a local and global scale. There were strong concerns that existing organizations would be unable to address the needs of vulnerable populations, particularly women, and prevent them from becoming part of the informal sector, returning to villages for subsistence farming, or even becoming homeless in urban centres: all outcomes which would have a disastrous affect on any development gains made over the previous decade.[29]

Participants in the MFA Forum are therefore stepping into this gap by developing the Sustainable Apparel and Footwear Initiative. Decent work is its mainstay in promoting the payment of a living wage as a key tool to stimulating domestic consumption. It also promotes mechanisms to deliver urgent credit and finance coupled with raising labour standards, and combines short-term stabilization efforts with measures designed to prepare the industry for recovery and to boost competitiveness. These include support for training instead of redundancies to keep workforces intact and to use downtime to boost productivity and skills. In those locations where survival of the industry is not possible, the initiative plans for a responsible transition in which displaced workers receive their full legal entitlement to all outstanding wages, pensions and severance, access to jobs banks, and retraining underpinned by government-provided safety nets.[30]

The ILO and social partners are invited to play a leading role in the SAFI stabilization and recovery initiative and it is hoped that it will provide a mechanism for translating the Global Jobs Pact into immediate action on the ground in the textile, clothing and footwear industry. As Neil Kearney, General Secretary of the ITGLWF, told the ILO Congress in June, “The Sustainable Apparel and Footwear

Initiative is seeking a revolution in the sector using the recession to fashion a new model for the textile, clothing and footwear industry based on new global supply chains and new global consumption patterns. The broad framework outlined has been put together rapidly. The challenge is now to refine it and put it into operation, and in this the ILO is well placed to play a lead role. In the first instance trade unions want to see the ILO hosting an early round-table brainstorming bringing together the wide range of players needed to provide the oxygen for the initiative, including representatives from the entire textile, clothing and footwear supply chain - manufacturers and trade unions, brands and retailers, governments from both exporting and importing countries, and the financial institutions and the development agencies. This unprecedented range of interests would then work on how to share the tasks and would roll out the initiative in strategic textile, clothing and footwear producing countries and linked closely to the ILO's Better Work programme."[31]

Putting the ILO Global Jobs Pact into action

The ILO's Global Jobs Pact provides an international framework for a Decent Work response to the crisis. Governments have committed to cooperating with workers' and employers' organizations to contribute to its success in addressing the immediate impacts of the crisis and shaping a sustainable recovery. The strategic objective of the Global Jobs Pact is to place employment and labour market issues, together with social protection and respect for workers' rights, at the heart of stimulus packages and other relevant national policies to confront the crisis.

The Global Jobs Pact is conceived as an open and evolving portfolio of policy options for use by governments, employers and workers in national decision-making, in international coordination and in development cooperation. Tackling the crisis in a way that stimulates the sector towards a decent work pathway will require urgent measures at both the macro and micro levels which take into account the interests of all. The use of social dialogue to define and implement policies is therefore considered crucial.[32]

Key elements of the Global Jobs Pact that are likely to be most relevant to this sector include:

- Incorporating decent work considerations in macro-economic stimulus packages;
- Implementing short-term measures to assist the most vulnerable groups;
- Developing sustainable social protection systems;
- Assisting job seekers through active labour market policies, enhancing competence and resources of public employment agencies and implementing vocational and entrepreneurial skills programmes;
- Investing in skills development;
- Limiting job losses with solutions developed through social dialogue;
- Supporting creation of decent work opportunities in the face of structural unemployment exacerbated by the recession;
- Ensuring access to credit and a favourable environment for SMEs;
- Implementing a supportive regulatory environment for sustainable enterprise creation;
- Strengthening capacity for labour administration and inspection to protect workers rights;

- Including gender equality in developing stimulus and response;
- Providing international donor support to enable countries to implement the global jobs pact.

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