

Update: the apparel industry and the economic crisis

What is happening in the Americas?

Maquila Solidarity Network

*Prepared for the MFAF Americas Working Group session,
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***Maquila
Solidarity
Network***



Questions

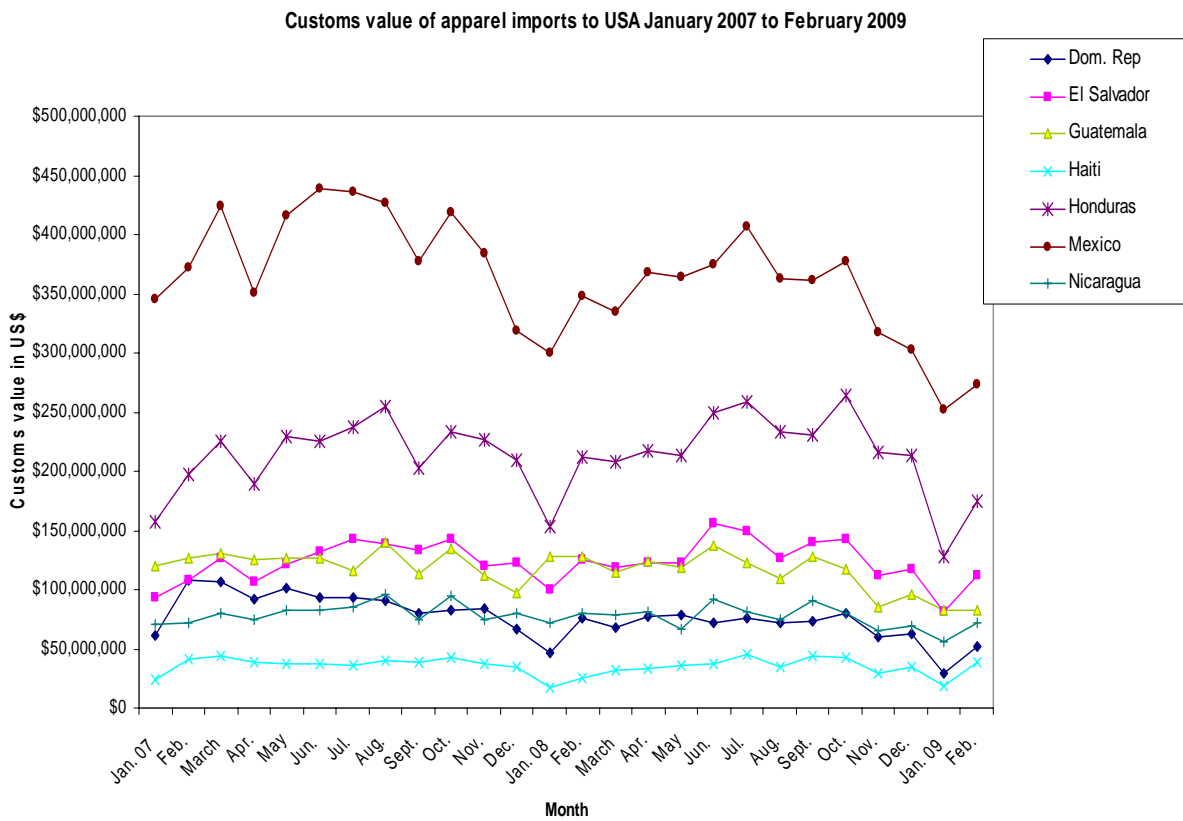
- General trends: what are the numbers suggesting?
- What is happening at the country level?
- The Brand response: Race to the bottom or to the top?

General Trends

- Total US textile and apparel imports declined for 10th consecutive month in February 2009. ⁽¹⁾
- Decline in US retail sales continued in March 09. ⁽²⁾
- In the region, Mexico, Honduras and El Salvador continue to be the largest apparel exporters to the US.

(1) *WWD*, April 10, 2009, "U.S. Textile, Apparel Imports Drop in Feb".

(2) Despite slight gains in January and February 2009, US retail sales (all sectors) declined again in March, down 10.7% from the previous year. *New York Times*, "Retail and price data show continuing economic weakness," April 14, 2009.



Source: USITC

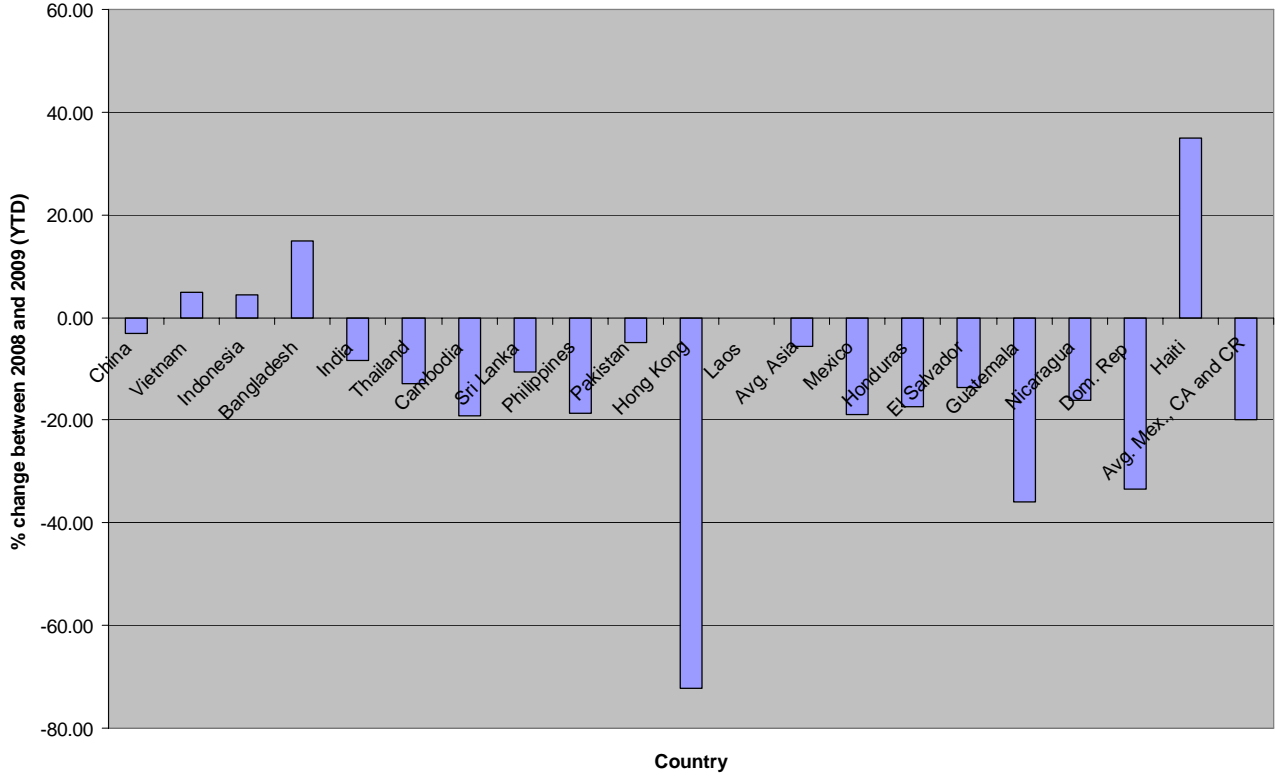
(3) In terms of \$ value, Mexico is still the largest apparel exporter to the US in the region, with Honduras following and then El Salvador. Whereas several countries (Honduras, Guatemala, El Salvador, Nicaragua) actually saw increases in the \$ value of their exports for Jan-Feb 2008 compared to the same period in 2007, all countries with the exception of Haiti have seen decreases in 2009 (compared to 2008).

Asia vs. the Americas: 2008-2009

- Although major apparel exporting nations in Asia have seen a 5.5% decline in their shipments to the US in 2009 compared to 2008, there has been a more significant decrease in the Americas.
- Mexico, Haiti, the Dominican Republic and Central America - average drop 27%.
- A few countries are “bucking the trend” – most in Asia (Bangladesh, Vietnam, Indonesia and Haiti).

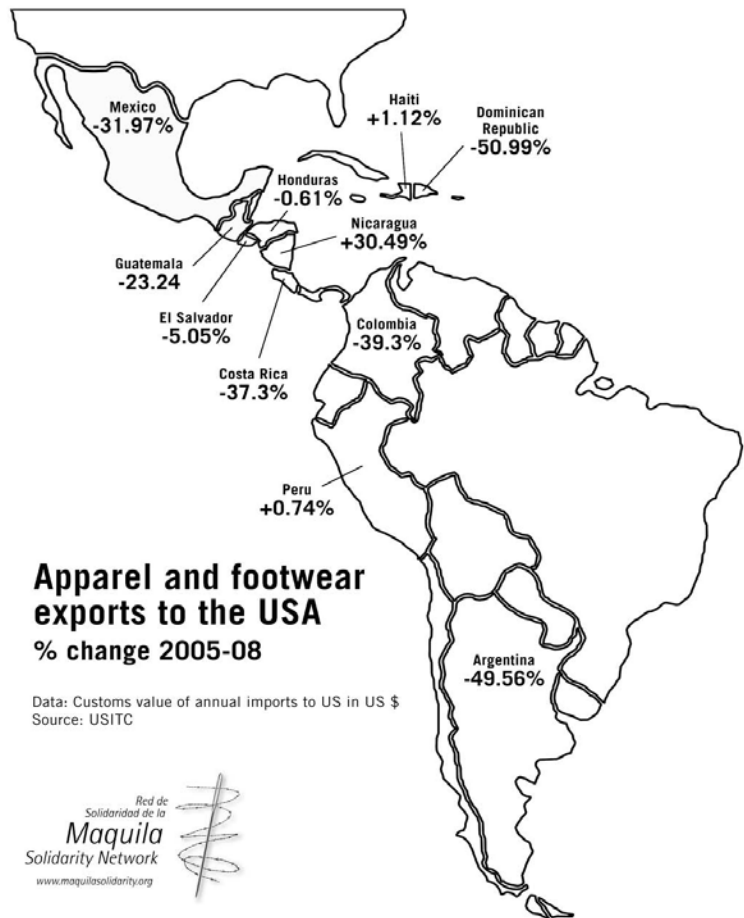
Source: USITC

Comparison of % change in US imports from 2008 to 2009 (YTD by US \$ customs value) from selected countries in Asia, Mexico Central America and the Caribbean



Source: USITC

Looking at the map post-MFA quotas, many countries have had a significant decline from 2005-08 while a few have gained...



* Countries like Argentina, Peru, Colombia, and Mexico produce large amounts of apparel for their own and/or regional markets that are not reflected in these figures.

(4) Although the phase out of the MFA quotas did have a significant impact on the apparel industry, predictions of mass exits of buyers from certain countries in Asia and the Americas and orders shifting to a few larger Asian countries proved exaggerated. In preparation for an MSN-hosted seminar in Honduras in October 2008, MSN interviewed a number of brands and retailers about their sourcing strategies. At that point it seemed that Mexico and Central America's proximity to the US market in a period where oil prices were rising could result in continued sourcing from the region.

You can access the MSN report: *Is There a Future for Brand Sourcing in the Americas? Interviews with Apparel*

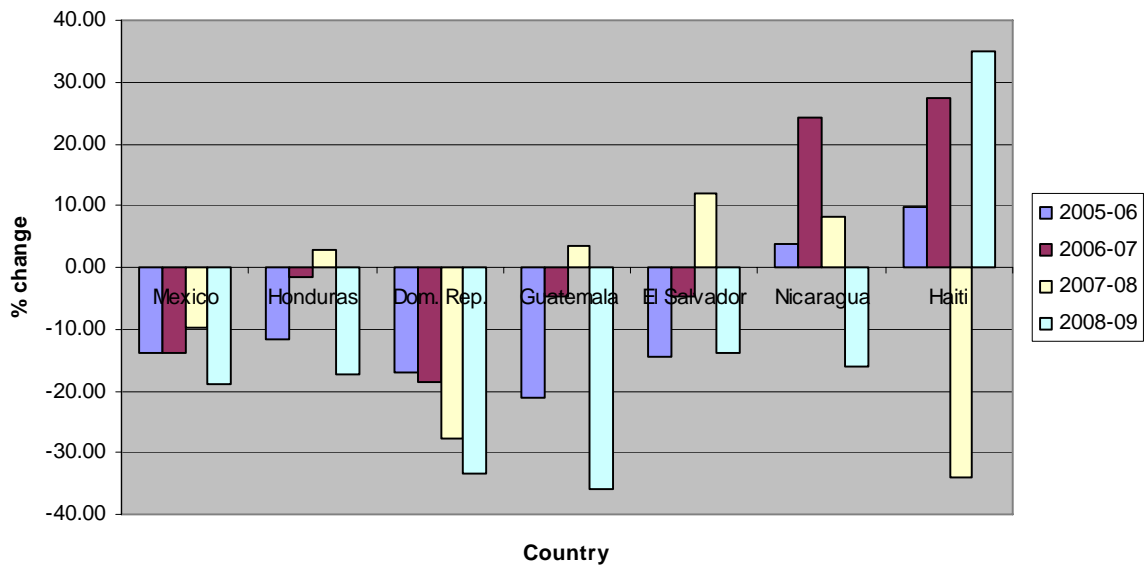
Brands about Trends in Global Sourcing (September 2008) at:

<http://en.maquilasolidarity.org/sites/maquilasolidarity.org/files/MSN-MFA3-BrandInterviews-2008-11.pdf>

Presentations, resource materials and the seminar report from *MFA+3: Labour Rights in a Changing Garment Industry* are available at: <http://en.maquilasolidarity.org/mfa3/report>

The financial crisis, however, has caused a far more rapid and dramatic decline in US apparel imports ...

US Apparel imports from Mexico, CA and CR- % change from 2005-2009
(Jan-Feb YTD by US\$ Customs Value)
Source: USITC



ECLAC predictions for Latin America & the Caribbean (LAC) ⁽⁵⁾

- -3% economic growth rate for 2009
- First contraction in 6 years
- Official unemployment rate for region predicted to grow to 9%; up from 7.5% in 2008
- Mexico will be country worst hit, with predicted GDP growth of -2%, partly due to high trade dependence on the US

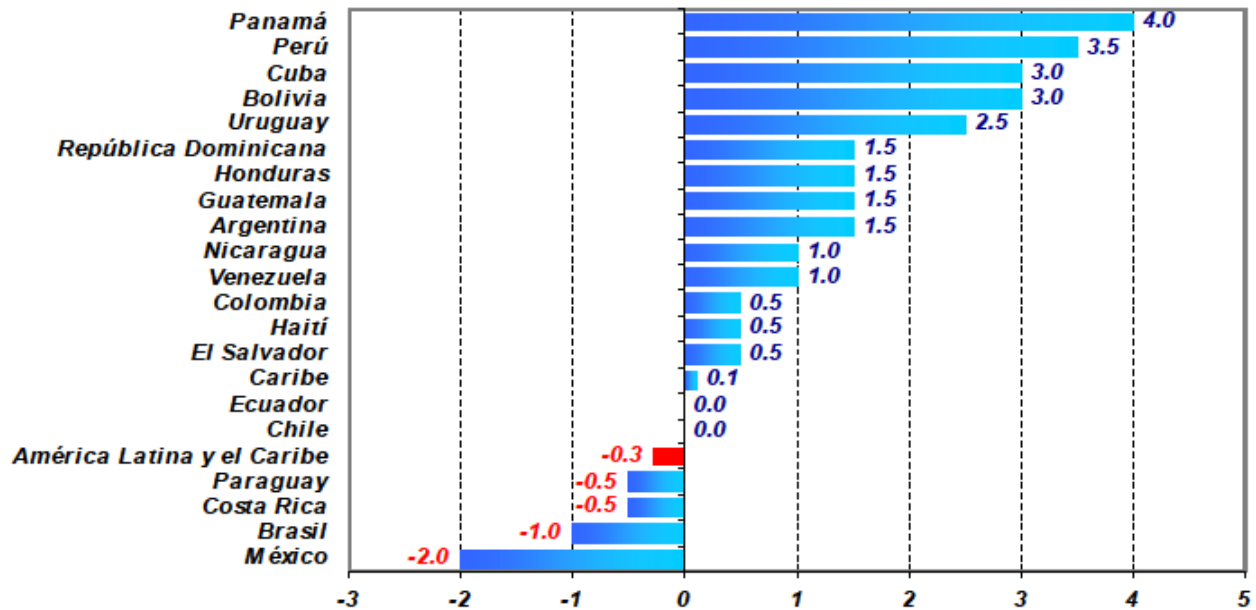
(5) ECLAC (Economic Commission on Latin America or CEPAL, in Spanish), "Crecimiento de America Latina y el Caribe retrocedería a -0.3% en 2009, según la CEPAL", April 1, 2009.



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CEPAL

AMÉRICA LATINA Y EL CARIBE: CRECIMIENTO ESTIMADO PARA EL 2009 (%)



Fuente: CEPAL

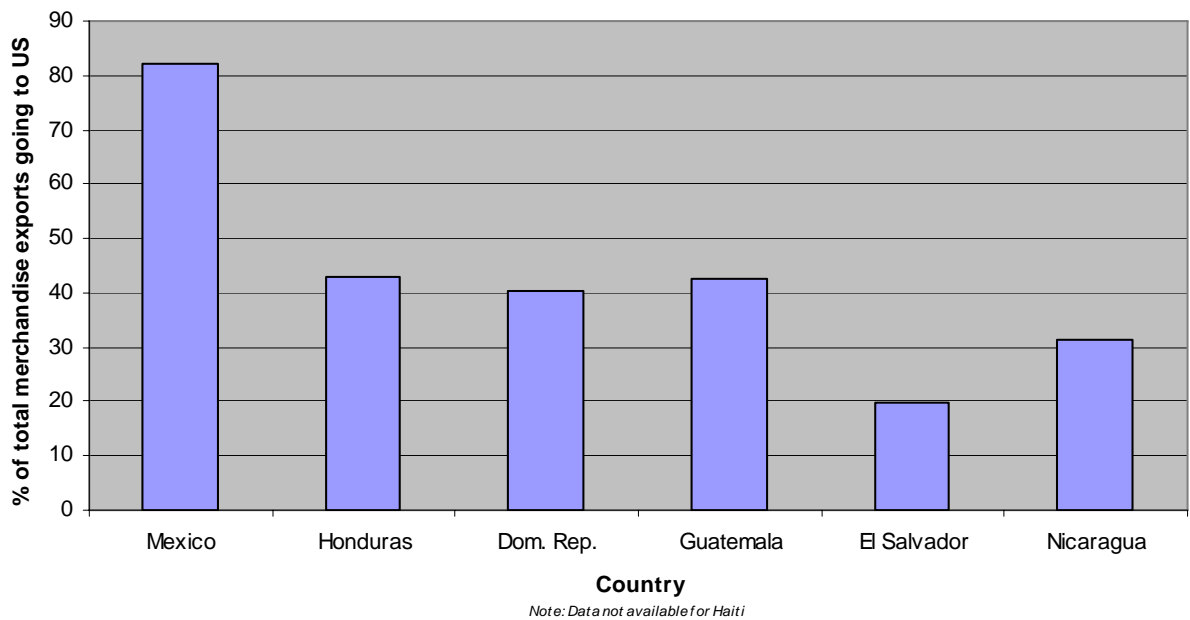
(6) Chart and press release available at:

<http://www.eclac.org/cgi-in/getProd.asp?xml=/prensa/noticias/comunicados/7/35627/P35627.xml&xsl=/prensa/tpl/p6f.xsl&base=/prensa/tpl/top-bottom.xsl>

Trade dependence on US (7)

% of total merchandise exports destined to the US in 2007

Source: WTO

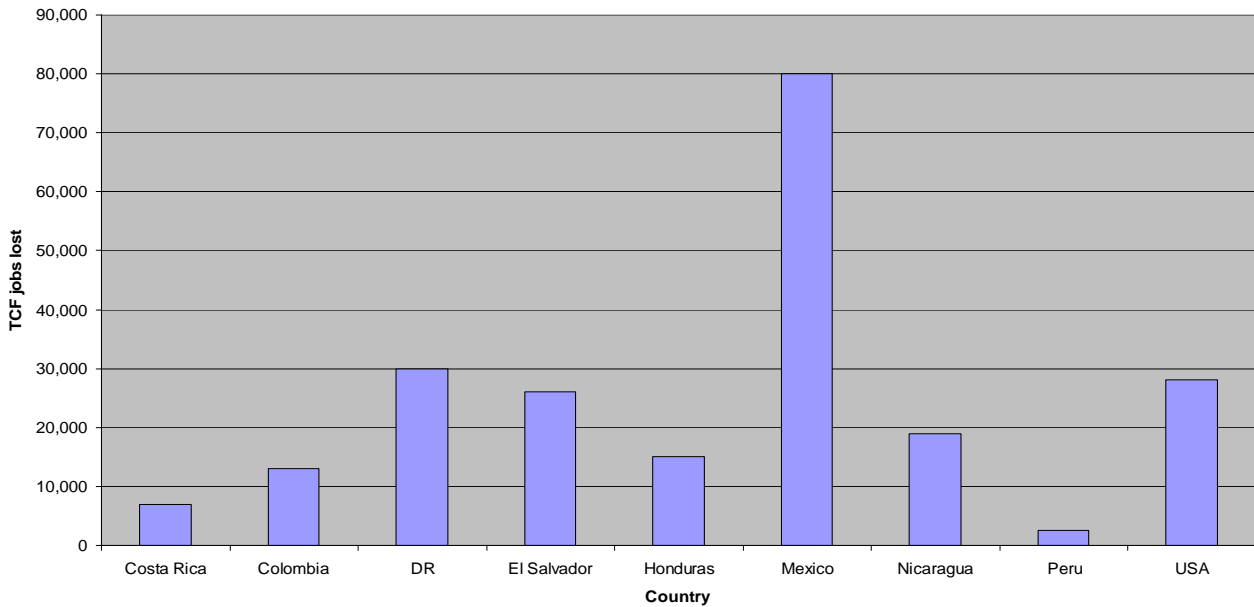


(7) Countries who export primarily to the US will be particularly impacted by the crisis. 82% of Mexico's exports go to the US. The percentage is approximately 43% for Guatemala and Honduras and 40% for the Dominican Republic.

ITGLWF has calculated that a total of 220,517 jobs have been lost in the Americas since June 2008 (8)

Number of textile, clothing and footwear (TCF) jobs lost in the Americas since June 2008

Source: ITGLWF

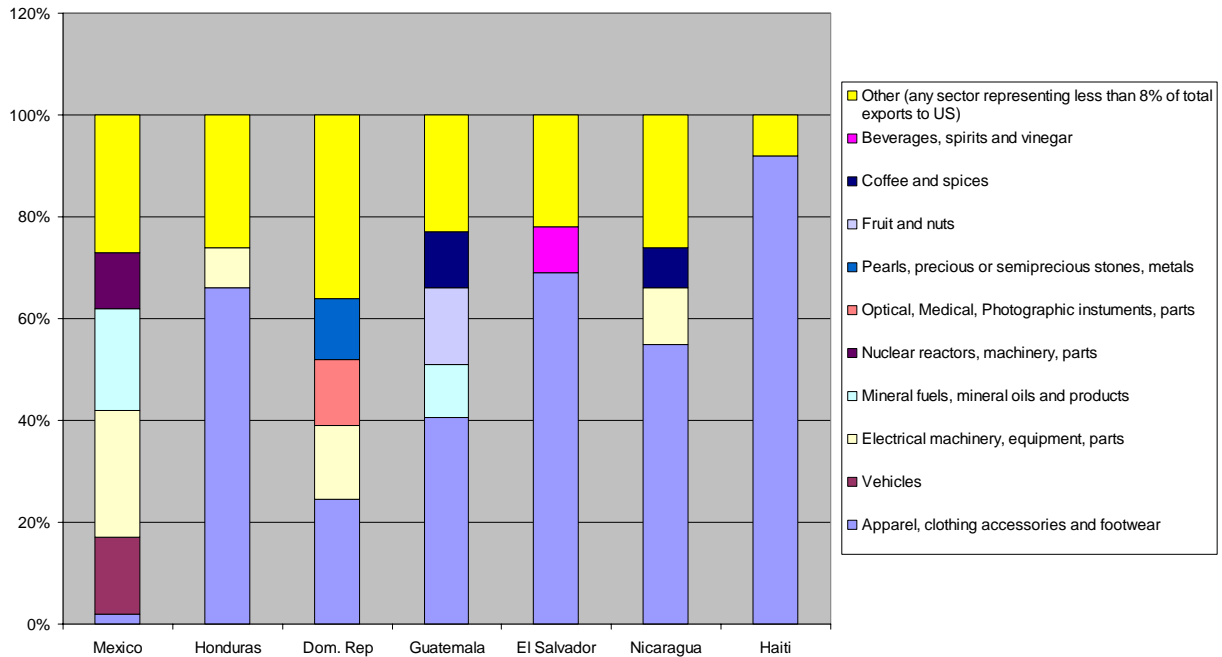


Note: No data available for Guatemala or Haiti

(8) 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 Guatemala or Haiti. Figures gathered from ITGWF affiliates, government announcements and media reports.

Dependence on apparel exports to US by country for 2008 ⁽⁹⁾

Exports from Mexico, CA and CR to the US
Source: USITC



(9) In Haiti, El Salvador and Honduras, the apparel sector makes up the largest share of total exports to the US.

What is happening at the country level in the apparel sector?

- Decline in orders from brands, closures, temporary stoppages and layoffs at the factory level.
- Workers bearing brunt of the crisis, through increased flexibilization, wage freezes, and unemployment
- Women are paying a particularly heavy price, as many of the jobs lost have come from export manufacturing, where most of the workforce are women (10)

(10) For further information on how the economic crisis is affecting women in the developing world, see the Oxfam International Discussion Paper, "Paying the Price for the Economic Crisis," March 2009.

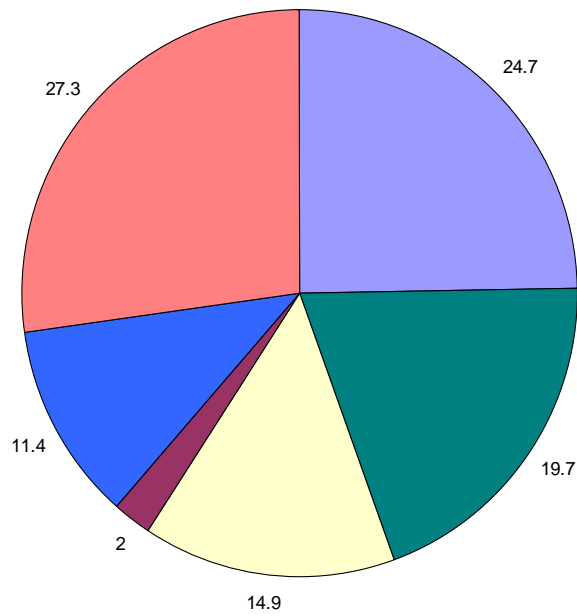
Available at: <http://www.oxfam.org/en/policy/women-workers-pay-price-global-economic-crisis>

Mexico

- Although Mexico is the largest apparel exporter to the US in the region, the industry only represents about 2% of Mexico's total exports to US (in \$ value)
- Other important export sectors are auto, auto-parts and electronics

Major exports to the US (2008)

Mexico (%)



- | | |
|--|--|
| ■ Electrical machinery, equipment, parts | ■ Mineral fuels, mineral oils and products |
| □ Vehicles | ■ Apparel, clothing accessories and footwear |
| ■ Nuclear reactors, machinery, parts | ■ Other (any product representing less than 8% of total exports to US) |

Mexican expansion? (11)

- Despite daily press coverage of temporary and permanent closures in the maquila sector some predict expansion, in electronics and even auto (12)
- Examples: Eurocopter to invest \$550 million in Queretaro; Lenovo plant opening in Monterrey to make Think Pads; Chrysler to invest \$570 million for new engine factory in Coahuila (13)

(11) According to the ITGLWF, 80,000 jobs have been lost since June 2008 in the textile, clothing and footwear industries. Another 500,000 jobs (in all sectors) are predicted to be lost in the first half of 2009 alone. Most of the jobs lost have been from the five Border States, which mostly consist of factories producing for export to the US. This is also where the majority of the *paros tecnicos* have been concentrated.

(12) According to *Business Week*, this is partly as a result of the large drop in the peso against the dollar, also to an extent due to "subtle but steady shift" in strategy to near-shore options. There has been some talk that Mexico is gaining at China's expense, with one industry study finding that companies planning to expand in Mexico outnumbered those planning to cut back by 5 to 1, whereas in China this ratio was only 2 to 1.

(13) Other examples: Mexican exports of aerospace products have nearly tripled, to US\$ 3 billion, since 2003; Jabil Circuit has more than doubled its staff in its Guadalajara plant, shifting some assembly of its BlackBerry phones from China; Skyworks Solutions, a US maker of semiconductors for mobile phones is taking 100 jobs previously in Maryland and adding them to its factory in Mexicali; Honeywell recently opened a \$40 million center to run simulations for next-generation aircrafts; Godrick Aerostructure recently opened an aircraft parts plant in Mexicali.

Sources: Pete Engardio and Geri Smith, "The Other Mexico: A Wave of Investment" in *Business Week*, April 9, 2009; Erika Duarte, "Se perdieron casi 300 mil empleos en la frontera norte" *La Jornada*, April 9, 2009. For other interesting analyses of Mexico's current challenges and opportunities see the Economic Policy Institute Briefing Paper "Invest in America: Essential policies needed to secure U.S. jobs and broadly shared prosperity in the auto industry" (April 2009) available at: http://epi.3cdn.net/c490c26a27c92c8fa7_nbm6bhndc.pdf

Mexican government response to crisis ⁽¹⁴⁾

- Feb 09: The federal government announced its “**Program for the preservation of work,**” *where qualifying companies can obtain funding to pay workers’ salaries during a paro tecnico as an incentive to avoid full factory closure.*
- Only auto, auto-parts, machinery and electronics sectors eligible - apparel and textile factories not covered
- VW among first of companies to enroll ⁽¹⁵⁾

(14) The government has committed about US\$150 million (2 billion MXN pesos) to pay for up to 1/3 of the salaries of qualifying workers from companies enrolled in the program. The government claims that it has distributed 200 million pesos thus far but at the same time has admitted that more than half of companies who apply into the program do not qualify, and that only about 10% of total funds spent had gone to workers. Labour leaders have criticized the program saying that very few companies are eligible and for those who qualify, funds arrive late and then are held by management and not distributed to workers.

(15) VW has now surpassed GM as the largest vehicle producer in Mexico. Although they have had several *paros tecnicos* in 2009 and on April 27 announced another two week stoppage lasting into May, the company predicts the current stoppage will be the last for the remainder of 09.

Sources: La Jornada, *Se perdieron casi 300 mil empleos en la frontera norte*, April 9, 2009; La Jornada de Oriente, *17 Empresas de autopartes estan en paro: FROC-CROC*, April 14, 2009. La Jornada, *VW suspenderá dos semanas su producción en planta de Puebla*, April 27, 2009.

Will there be a revision of NAFTA?

- In visits to both Canada and Mexico, Obama has suggested NAFTA be *revisited* to strengthen labour and environmental clauses and to improve enforcement.
- He was quoted in Mexico with the provision that this “*would have to be done in a way that does not disturb trade.*” (16)

(16) Inside US Trade, *Obama, Calderon Vow To Address NAFTA Labor, Environment Fix Cautiously*, April 17, 2009.

Honduras

- Heavily dependent on apparel exports (about 66% of total exports).
- 15,000 jobs lost since June 08 (ITGLWF) and 14 maquilas closed. ⁽¹⁷⁾

(17) Recent examples: Russell has closed two factories: *Productos San Jose*, laying-off 2,800 workers, and *Jerzeez de Honduras*, with 1,464 workers; Huggar de Honduras closure, 1,200 workers; Vision Tex closure; Hanesbrands has also announced closure of one of its sewing plants; Anvil announced 403 temporary layoffs at its Star facility.

El Salvador

- Apparel and footwear represents almost 70% of total exports
- 26,000 jobs lost since June 08 (ITGLWF)

Guatemala

- Guatemala has had largest decline in its apparel exports to the US, down 35.9% in 09 compared to 08
- Large Central American denim maker Koramsa sold to US cotton cooperative Denimatrix - laying off nearly 9,000 workers in the process - due to major drop in orders (18)

(18) The company went from 9,000 employees to laying off “all but a handful.” Denimatrix plans to hire 200 people in March and to have 1,500 workers by the end of 2009. *Just Style*, “Is recession rewriting the sourcing rulebook?” March 3rd, 2009 and *MFA Forum Briefing: Impacts of the Global Economic Crisis*, March 2009, p. 16-17.

Nicaragua

- 19,000 textile and apparel workers lost their jobs in 2008 (ITGLWF), about one-fifth of all Free Zone employees.
- Majority of job losses due to pull-out of denim maker Nien Hsing, closing 5 plants (15,000 jobs).
- In 2009 (to April), MEC reports 4 full closures and 5 partial closures, affecting about 5,500 workers (19)
- International Textile Group has decided to suspend production at its Cone Denim mill – which employs 850 workers – “for an extended period of time.” (20)

(19) Movimiento de Mujeres Trabajadoras y Desempleadas, Maria Elena Cuadra, *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*, Presentation given on April 22, 2009.

(20) Just Style, *US: ITG cuts denim jobs, idles Nicaragua plant*, April 29, 2009.

Nicaragua:

Minimum wage negotiation freeze

- In March 2009, government announced it would freeze its bi-annual wage negotiations in the Free Zone.
- Instead the government set lower, fixed wage increases due to complaints from business that salary negotiations were leading to increased production costs. (21)
- Despite two wage increases in 2008, workers report that these have yet to translate in higher take home pay, and minimum wage in garment sector still remains the lowest in Central America (22)

(21) *La Prensa*, March 13, 2009.

(22) MEC presentation given April 22, 2009.

Haiti

- Lowest wages for the apparel sector in region ⁽²³⁾.
- Over 90% of its exports to the US are from apparel
- Only country in region with increase in its apparel exports to the US in 09 from 08, up about 35%
- US-Haiti HOPE program modified in 2008 to increase trade preferences ⁽²⁴⁾

(23) Jassin-O'Rourke Group, Global Apparel Manufacturing Labour Costs 2008.

(24) The provisions received through HOPE (Haitian Opportunity through Partnership Encouragement Act, (HOPE) include "duty free status, lower labor costs and significantly reduced shipping times." The Haitian Prime Minister recently also stated that they are looking at the textile and apparel industry to play an important role in the country's recovery. Currently, there are 30 garment factories employing 21,000 workers but by the end of the year, they hope Haiti will be employing 60,000 - 80,000 workers in this industry.

Source: *Women's Wear Daily*, "Haiti aims to rebuild textile sector," April 14, 2009.

Brand responses

- What effect will economic crisis have on brands' (ethical) sourcing considerations and on labour rights at the factory level?
- Mixed predictions: MFAF predicts two divergent responses... (25)

(25) *MFA Forum Briefing: Impacts of the Global Economic Crisis*, March 2009.

Race to the bottom?

- Increased focus on price as priority in sourcing, encouraging depressed labour standards
- Brands may reduce funding to CSR departments, considering it an “extra” that can be cut in hard times
- Workers less willing to organize to defend their rights due to fears of layoffs, blacklisting
- Some evidence of using crisis as an excuse for closing factories or laying off workers for union organizing activities

Race to the top?

- More focus on productivity, and some links between improved productivity and labour rights (i.e. higher worker satisfaction, less turnover)
- Consolidate suppliers, favouring established positive relationships including history of labour compliance, close to market ⁽²⁶⁾
- In difficult times, brands can't afford labour rights scandals so will continue to pay attention to issue

(26) Proximity to market was also stressed as a competitive advantage for Mexico and Central America in MSN's interviews with brands. MSN, *Is There a Future for Brand Sourcing in the Americas? Interviews with Apparel Brands about Trends in Global Sourcing*, September 2008, available at <http://en.maquilasolidarity.org/sites/maquilasolidarity.org/files/MSN-MFA3-BrandInterviews-2008-11.pdf>

Consumer response – will there be “compassion fatigue”? ⁽²⁷⁾

- Will consumers be too financially strapped to worry about ethical considerations?
- Will they focus more exclusively on price, putting less pressure on brands to source ethically?

(27) Just-Style, *Is recession rewriting the sourcing rulebook?* March 3, 2009.

On the ground there is only talk of the race to the bottom. Workers, unions and labour rights advocates have yet to see evidence of “high road” strategy.