After Sweatshops?
Apparel politics in the circum-Caribbean – July/August 2009[1]

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On Monday mornings, the free trade zone in Santiago de los Caballeros is populated by groups of women and men who make almost ritual rounds looking for jobs at fewer and fewer factories. The sounds of trouser presses and Dominican *bachata* emanate from increasingly isolated islands of production, subsumed by the idled space around them. Between the closure of twenty-three garment factories and the suspension of another four, this trade zone, like many in the Dominican Republic (DR), has a spectral character. Lone security guards sit outside vacant factories, many still housing machines embargoed by creditors or in the process of sale; old presses draped in blue tarps sit on silent loading docks; dust-caked lunch tables stand empty next to dented lockers. "It's not a trade zone," a would-be worker explains, "It's a cemetery."

While many workers worldwide are experiencing similar hardships, the downturn in Latin America's *maquilas* predates and prefigures the employment impacts of the current crisis. The Dominican Republic is the most dramatic example of an overall contraction in garment exports to the U.S. from the circum-Caribbean and Mexico. This decline is due in large part to the implementation of the World Trade Organization-brokered Agreement on Textiles and Clothing, which eliminated long-standing import quotas on trade in textile products in 2005. Since then, apparel exports from the region have been in more direct competition with exports from Asia for a slice of the still lucrative, although increasingly flat, U.S. market. The outcomes of this seismic shift in the global garment trade for Latin American exporters were largely predicted, but the *realpolitik* surrounding the apparel industry in the circum-Caribbean, and the connection between global liberalization and regional integration has yet to be explained.

The Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) was signed just six months before the end of garment quotas. It was sold in the region as the only solution to protect jobs in the trade zones and *maquilas*, jobs largely dedicated to producing garments for export to the United States. In exchange for maintaining tariff-free access to the U.S. market, DR-CAFTA countries submitted to intellectual property and investment rules favoring foreign companies, and followed Mexico down the precarious path of liberalizing agriculture. Although the agreement's boosters argued that it would provide the region with a much-needed advantage in the soon-to-be liberalized garment trade, it has so far failed to shore up the region's exports.

Thinking through the contradictions of a free trade agreement that was signed largely to protect jobs in a manufacturing sector that was about to undergo major, well-documented structural changes suggests a number of critical questions about the political economy of regional integration in the Americas and how it intersects with the dynamics of global garment production. Furthermore, the seismic shifts affecting apparel workers throughout the region highlight the challenges of promoting labor rights in the global garment trade, and, we argue,

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[1] A revised version of this article was published in the July/August 2009 edition of *NACLA Report on the Americas.* Available at https://nacla.org/node/5937.

[2] This is a fully collaborative project. We are grateful to the participants who attended the MFA+3 Encuentro in San Pedro Sula last October, and especially to the two NGOs that organized the event, the Maquila Solidarity Network and the Equipo de Monitoreo Independiente de Honduras. Thanks also to Raphie Kaplinsky for comments on an earlier draft.

underscore the need to reconsider a transnational labor politics mobilized around shop floor abuses.

"Industrial Monocropping": Export-oriented garment production in the circum-Caribbean

For more than four decades, governments of the circum-Caribbean have sought to leverage their proximity to the United States into foreign investment, revenue generation, and employment creation via export promotion of basic manufactured goods. During the economic crisis of the 1980s, a reinvigorated strategy of export-led growth became the centerpiece of capitalist development in the region. The garment and textile industry have been fundamental to this effort since 1987, when President Regan passed trade legislation that promoted the growing practice of bi-national "production sharing." Countries party to Regan's Caribbean Basin Initiative (CBI) could now export virtually unlimited quantities of clothing to the U.S. market as long as the apparel contained fabric and thread manufactured in the United States. Although this so-called Special Access Program inhibited the development of a local textile and supplier base, it not only reduced tariffs on clothing exports from the region, but also allowed Caribbean Basin countries to bypass the quantitative restrictions on trade in textile products established by the Multifiber Arrangement (MFA).[3] The Special Access Program had the desired effect of stimulating manufactured exports, thereby reducing dependence on primary commodities. For example, by 1990 agricultural exports (principally, sugar, coffee, cocoa and tobacco) accounted for less than 20% of Dominican exports by value.[4] However, this apparent diversification masked what was in reality a high degree of dependence on one particular category of manufactures—apparel—for exports and employment, fostering a kind of "industrial monocropping."[5]

During the 1990s, garment exports from the CBI countries continued to post impressive growth rates (see Table 1). However, the combined effect of the North American Free Trade Agreement (NAFTA) and the devaluation of the Mexican currency soon impacted the relative positions of circum-Caribbean exporters in the U.S. import market. Within the first six years of NAFTA, Mexico's apparel exports to its northern neighbor increased six-fold, and it edged past China to become the world's largest supplier of clothing to the United States.

The implications of Mexico's post-NAFTA dynamism were not lost on the Caribbean Basin countries, which immediately began lobbying the United States for additional tariff relief. These appeals for "NAFTA parity" resulted in the signing of the Caribbean Basin Trade Partnership Act in 2000 (CBTPA). However, the CBTPA fell considerably short of parity: While Mexico enjoyed both tariff- and quota-free access to the U.S. market for all apparel products assembled with materials made in *any* one of the three NAFTA countries (including Mexico), the CBTPA granted tariff- and quota-free access *only* to those garments assembled in Caribbean Basin countries from inputs manufactured in the United States.[6]

Following the implementation of the CBTPA, the region's share of the U.S. import market held more or less steady at around 15%. This was due largely to modest increases in shipments from the lower-wage Central American countries of Honduras, El Salvador, Guatemala and Nicaragua, while exports from the countries that had hosted the first generation

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[3] In 1988, the same arrangement was extended to Mexico, where it was known as the Special Access Regime.

[4] Diego Sanchez-Ancochea, "Development Trajectories and New Comparative Advantages: Costa Rica and the Dominican Republic under Globalization," *World Development* 34, no. 6 (2006): 996-1015.

[5] Raphael Kaplinsky, "Export Processing Zones in the Dominican Republic: Transforming Manufactures into Commodities," *World Development* 21, no. 11 (1993).

[6] Jennifer Bair and Enrique Dussel Peters, "Global Commodity Chains and Endogenous Growth: Export Dynamism and Development in Mexico and Honduras," *World Development* 34, no. 2 (2006): 203-221.

of apparel EPZs—Jamaica, Costa Rica, and the Dominican Republic—either stagnated or declined. The threat posed by NAFTA, however, was replaced by an even more ominous one: The Multifiber Arrangement, which had regulated global trade in textile products for more than three decades, was set to expire on January 1, 2005. Imminent quota expiry led garment producers to scramble for any advantage that could provide protection against the anticipated deluge of post-MFA exports from China. It was in this context that a free trade agreement with the U.S. emerged as an urgent opportunity to shore up the region's chief manufactured export.

Table 1: Apparel Exports Total and as Percentage of Total Merchandise Exports

	1990[a]	% total	1995	% total	2000	% total	2005	% total	2007	% total
Dominican Rep.	782	36.0	1,721	45.5	2,555	44.5	1,905	31.1	1,367	18.9
Costa Rica	54[b]	3.7	50[b]	1.4	660	11.2	473	6.7	379	4.1
Guatemala	24[b]	n/a	n/a	n/a	49[b]	1.8	1,506	28.0	1,390	20.1
El Salvador	184	31.6	700	42.4	1,673	56.9	1,856	56.9	1,830	46.0
Honduras	64[b]	7.7	299	24.5	2,275	68.0	2,790	59.9	2,693	48.1
Mexico	587	1.4	2,731	3.4	8,631	5.2	7,306	3.4	5,150	1.9

Source: WTO International Trade Statistics, various years. Annual reports available at http://www.wto.org.
[a] In USD millions. [b] Figures likely exclude maquila/EPZ exports.

Export Associations and the DR-CAFTA Lobby

From the vantage point of the United States, DR-CAFTA arose in the context of frustrated and failed attempts to consolidate a Free Trade Area of the Americas (FTAA). Like the war in Iraq, the piecemeal bilateral and multilateral agreements pushed by the U.S. since the failure of the FTAA represent a "coalition of the willing" on U.S. strategic trade policy. While the reconfiguration of the Caribbean trade area is due to a complex set of factors, it is not a coincidence that, excepting Costa Rica, all of the partners depend significantly on apparel exports for foreign exchange.

The apparel boom in the circum-Caribbean since the late 1980s had the effect of consolidating well-organized, local manufacturing associations. While the bulk of profits from the garment trade were made by U.S.-based brands and retailers, manufacturers accrued considerable wealth and power through this model, especially as the industry consolidated into larger firms during the 1990s. The case of the Dominican Republic is exemplary in this respect. Although employing just over 5% of the country's workforce, the trade zone sector (of which garment exports represent half of production and three-quarters of employment) made up 15% of the country's net foreign exchange income in the early 2000s. According to one United Nations report, this income amounted to $1.78 billion in 2003. Of this, $810 million was spent on local costs, leaving $970.5 million. Even after subtracting additional expenses such as in-country transportation and managers' salaries, from the remaining $970.5 million, the sum still suggests a mark up on costs approximating 100%.[7] Throughout the region, these substantial

[7] Programa de las Naciones Unidas para el Desarrollo (United Nations Development Programme), *Informe Nacional Desarrollo Humano* (Santo Domingo: PNUD, 2005): 94. Net income is calculated as total trade zone exports minus total trade zone imports (FOB value). Local costs include wages for workers, supervisors, administrative staff and engineers, and payments for electricity, social security, water, training and telecommunications.

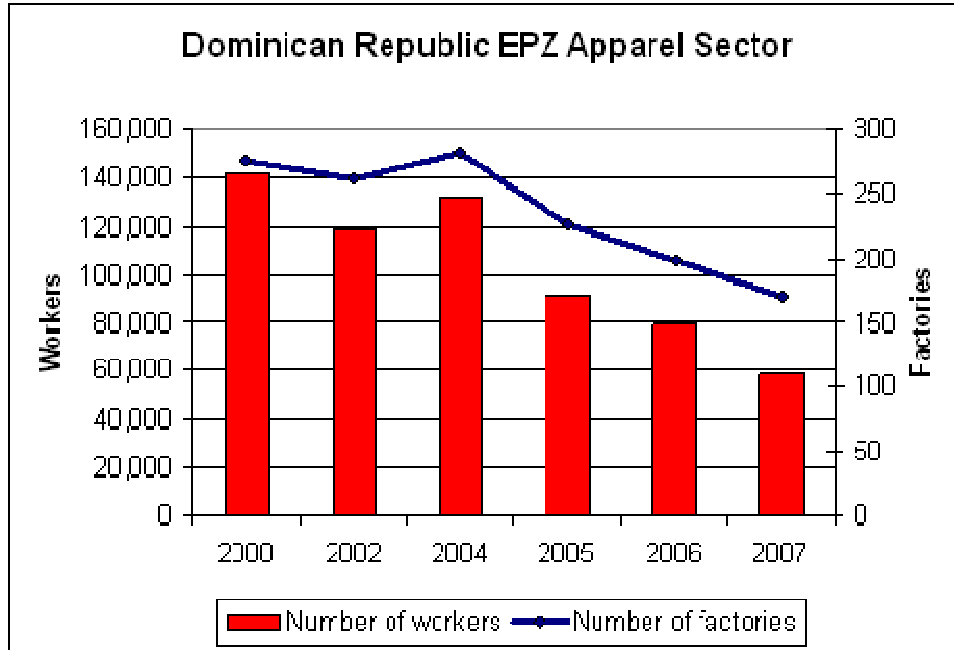
revenues underwrote the formation of nationally powerful manufacturing associations that made preservation of U.S. market access a central refrain in their lobbying efforts of U.S. and regional governments.

In the lead up to the negotiations for the DR-CAFTA, *maquila* and trade zone associations constituted the most organized voices advocating for the new free trade agreement. The most prominent members of the pro-CAFTA lobby in the Dominican Republic gained their status as industry leaders through subcontracting arrangements with U.S. companies like Levi's and Hanesbrands since the early 1990s.[8] In Honduras, the CAFTA lobby was led in part by two sons of the reputed father of the Honduran *maquila*, Juan Canahuati. Canahuati is the owner of the largest Honduran textile and apparel conglomerate, Grupo Lovable, a main supplier to U.S. apparel giants Vanity Fair and Russel Corporation. While his son Mario Canahuati facilitated trade negotiations as Honduran ambassador to the U.S., his other son, Jesus Canahuati, led the CAFTA lobby as head of the Honduran Maquila Association.[9] Other connections abound. The former Vice President of El Salvador, whose party was defeated in elections in March 2009, worked for ten years at USAID promoting non-traditional exports.[10] The current President of Guatemala, Álvaro Colom Caballeros, is well-known for leading the early efforts of Philips Van-Heusen to establish the first *maquilas* in rural Guatemala.[11] While the map of interests that led to DR-CAFTA is surely multi-dimensional, what is equally clear is that garment exporters were dominant players.

Fashioning a Trade Deal to Save Garment jobs?

While the DR-CAFTA agreement underwent the ratification process, the jobs that the agreement was purportedly supposed to save began to evaporate. The decline has been most dramatic in the Dominican Republic (see Graph 1). Exports have fallen by more than half since the beginning of the decade, from $2.44 billion in 2000 to $1.06 billion in 2007—a precipitous drop which has eroded the country's rank among leading exporters to the United States from fifth to twentieth. While the proportion of the more than 70,000 women and men that have been laid off in the sector is nearly the same, and the prospects for formal employment are slim overall, women's chances for finding work are far fewer. Jobs remain deeply segmented by gender and the unemployment rate for women is three times that for men.

[8] Andrew Schrank, "Ready-to-Wear Development? Foreign Investment, Technology Transfer, and Learning by Watching in the Apparel Trade," *Social Forces* 83, no. 1 (2004): 123-156.
[9] Oscar Musibay, "Loving Textiles: Honduras' second-largest employer stays at the top by making modernization and diversification his top priority". *Latin CEO: Executive Strategies for the Americas*. (January-February: 2000); available at http://findarticles.com/p/articles/mi_m0OQC/is_2_1/ai_100541544.
[10] See http://www.usaid.gov/locations/latin_america_caribbean/country/el_salvador/elsal_vp.html.
[11] Edna Bonacich et al. *Global Production: The Apparel Industry in the Pacific Rim* (Philadelphia: Temple University Press 1994), p. 300; AVANCSO, El significado de la *maquila* en Guatemala (Guatemala: Asociación para el avance de las ciencias sociales, 1994).



Source: CNZFE annual reports, various years. Available at http://www.cnzfe.gov.do.

Though the downturn started earlier and has been more pronounced in the Dominican Republic than elsewhere in the region, exports have fallen from almost all of the CAFTA countries since the phase-out of the Multifiber Arrangement: Between 2005 and 2007, exports to the United States were down 19.8% for Guatemala, 12.5% for Costa Rica, 8.3% for El Salvador, and 3.7% for Honduras.[12] The exception to this general decline is Nicaragua, which has posted the region's only increase in apparel exports, up from $715.7 million in 2005 to $967.8 million in 2007. Not surprisingly, 2008 offered little in the way of recovery; in the context of a contracting U.S. import market, garment exports from the CAFTA countries fell an additional 3.8% from 2007 levels.

The composite picture emerging for Latin America's garment exporters in the post-MFA era is one of stagnation, with this general trend masking a precipitous downturn for the most negatively impacted countries, such as the Dominican Republic and Mexico. Overall, the share of the U.S. import market claimed by the six CAFTA countries (plus Haiti, which was included in the agreement by way of a provision allowing apparel to be assembled on the Haitian side of the border from CAFTA-consistent inputs) has declined from 15% to 10% over the past five years. Mexico, the CAFTA countries' erstwhile regional competitor, has experienced an even more extreme reversal of its exporting fortunes. Since the peak of its post-NAFTA dynamism, Mexico's share of the U.S. import market has fallen by more than half, from 14% in 2000 to 6% in 2007.

As garment exports from the circum-Caribbean have leveled off or fallen, national business sectors throughout the region have looked for ways to reduce labor costs. Since 2003, Guatemala, Honduras and El Salvador have introduced new wage categories in order to attract or maintain investment in export-oriented production. This strategy, of creating a separate, lower minimum wage for the *maquila* sector, was pioneered by the Dominican Republic in 1990, where today the *maquila* minimum wage is currently a full third less than the minimum wage that applies to non-*maquila* manufacturing. Honduras has taken the most drastic approach to

[12] United States International Trade Commission (U.S. imports for consumption, customs value, SITC 84; data available at http://www.dataweb.usitc.gov).

dropping the wage floor in the hopes of being able to compete with its southern neighbor, Nicaragua. In February 2007, the country's tripartite commission on wages approved a "differential wage" for five provinces designated as economically depressed. Four of the five provinces run along the southern border with Nicaragua and have no current *maquila* production. The fifth province, however, is next to the traditional center of the industry, the area around San Pedro Sula in the north, which was home to 11,000 jobs in the sector in 2006. Factories have already begun to move the twenty kilometers south from San Pedro Sula to benefit from the new wage, which is 23% below that prevailing outside this "differential wage zone." Wage reductions come during a period when inflation is creeping up and remittances from the United States are facing downward pressures.

It is unclear that wage reductions will stem the tide of closures that these countries have experienced in recent years. While it is common for garment firms to close and re-open in order to take advantage of new tax exemptions or to illegally stifle union organizing efforts, the current wave of shutdowns sweeping the region since the end of 2005 is far more intense. As Teresa, a Dominican worker who was left jobless after 13 years sewing pants for a Levi's subcontractor explained, "Before, when there was a reduction in personnel, you used to turn the corner and find another job. That's not possible anymore."

Labor rights groups, local unions, and Northern organizations working in solidarity with them, have had the unenviable task of dealing with the numerous legal complications, social dislocations, and economic hardships that arise from some of the worst kinds of plant closures. One NGO working in San Pedro Sula, Honduras reported handling 38 closures, affecting 18,000 workers, between 2005 and March 2008. These included incidents in which factory owners failed to comply with existing laws regarding severance benefits and back wages, or cases in which workers were not provided with the documentation necessary to access social security. In many cases, workers themselves have organized directly in the face of closures to secure their livelihoods, sometimes occupying factories or seizing goods and equipment until their severance is paid. In cases where severance is not forthcoming, workers try to sell this equipment or material to recuperate earned but unpaid wages and/or benefits. These developments are reported sporadically in the press but the overall process of downsizing and its effects is difficult to document. When they are reported, factory closures are frequently seized upon by trade zone associations as evidence for the need to reduce labor costs, either through a devaluation of the currency or a change in labor laws or both.[13]

Conclusion: Transnational labor politics after sweatshops?

We began by asking why the six southern signatories of DR-CAFTA signed an agreement in large part to protect their textile and apparel sector on the eve of a significant restructuring of the global garment trade that was widely expected to negatively impact the same sector.[14] This rather straightforward story of profits, power and interests does not mean these outcomes were inevitable or that future steps toward regional integration must take place along the same inequitable lines. This history does underscore, however, the serious limitations of the transnational strategies of the 1990s that targeted brands and retailers in order to address the most egregious labor conditions occurring on factory floors during the industry's boom period.

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[13] See, "En La Laguna sobreviven 23 maquiladoras de confección," *Milenio.Com*, October 21, 2008; "Sector ZF sugiere modificar Código de Trabajo del país," *Listin Diario*, July 27, 2007.

[14] We are not lamenting the end of the Multifiber Arrangement, which was intended to protect textile and apparel industries in the North. The elimination of quotas on textile products was a change in world trade rules long advocated by countries in the global South as part of their efforts to liberalize import markets in the global North.

The campaigns organized by concerned consumers and U.S. unions were undoubtedly important in reintroducing the issue of labor rights into the discussion of globalization, and several enduring alliances between Northern and Southern groups reflect the potential of the anti-sweatshop movement to foster critical solidarity around issues of trade and labor. Yet as more and more activists and analysts of the garment industry have come to argue, a politics of shop floor compliance divorced from a politics aimed at transforming the industry's basic structure will fall far short of lasting improvements for working people and their communities.[15]

What is less clear is how such a change should be effected. As the pace of factory closures has increased in the region, some participants in innovative regulation strategies like independent monitoring and brand campaigning have witnessed the deep contradictions of voluntary regulation. Martiza Paredes of the Honduran Independent Monitoring Group (EMIH), for example, was monitoring a factory for a major U.S.-brand when the factory closed. The group investigated the causes of the closure and found that the same company that had hired them to monitor the factory had dropped the contract price of the product so low that the factory owner decided to close down. The Canada-based Maquila Solidarity Network (MSN) has had a similar experience. When workers reported that management of a Hanesbrand facility in Monclova, Mexico required them to sign documents renouncing various rights to compensation prior to closing the plant, the group worked with its local partner in Mexico, Centro de Apoyo a la Trabajadora de la Laguna (CETRAMAC) to pressure the company to stop the practice. Part of the agreement between the groups and the U.S.-based manufacturer was that the 1,700 laid-off workers would be given first-hire preference at its nearby Madero facility. Hanesbrand closed the Madero facility less than one year later.[16]

While the dust is still settling from the post-MFA restructuring of the global garment trade, there is a tentative consensus emerging that not all forecasts regarding the implications of the quota phase-out have been realized.[17] Although within the circum-Caribbean the downturn has been real, it is nevertheless difficult to separate how much of the decline is due to multilateral liberalization at the global level, and how much of what we are witnessing in the region is part of a familiar migration of production motivated by an endless search for lower costs. Of course, the "cheap needle" that is the holy grail of this migration is itself constantly being reproduced, both through currency devaluations and through specific efforts aimed at lowering wage floors to create a new gradient of relatively high-wage (Mexico and the Dominican Republic) and low-wage (Nicaragua and Haiti) countries, or, as the case of Honduras's new minimum wage reminds us, sub-national regions. Although industry analysts and consultants insist that the process of making labor cheap is insufficient to insure competitiveness in today's apparel industry, empirical evidence suggests that it may be a necessary, if still not sufficient, condition of export dynamism in the Americas.

In this sense, we are at a familiar crossroads, confronting the same dilemmas that have long plagued advocates for an ethical global garment trade. How can labor rights and improved working conditions be secured in a footloose industry when manufacturers are benchmarked on price, quality, and delivery times against a global supply base? How can some of the victories of

[15] For such an analysis, see Play Fair (Clean Clothes Campaign, International Textile, Garment and Leather Workers' Federation, International Trade Union Confederation, and Maquila Solidarity Network), *Clearing the hurdles: Steps to Improving Wages and Working Conditions in the Global Sportswear Industry*. (Play Fair, 2008). For an example of a strategy targeting industry structure, see the "Designated Suppliers Program" of the Workers' Rights Consortium, http://www.workersrights.org/dsp.asp.

[16] Mike Baker, "Hanesbrands to close 3 plants, cut nearly 2,200 jobs" *Associated Press Wire,* September 13, 2006; "Hanesbrands Inc. advances planned consolidation and globalization strategy" *Business Wire*, June 27, 2007. For details on the MSN campaign, see http://en.maquilasolidarity.org/en/actions/pastcampaigns .

[17] Munir Ahmad and Dinora Diaz, "A Reality Check of Three Years of Post-Quota Trade in Textiles and why so many predictions of doom proved unfounded." (Geneva: International Textiles and Clothing Bureau, 2008).

the anti-sweatshop movement, such as the formation of independent unions and the successful negotiation of collective contracts, be consolidated when factory flight remains a viable strategy among an emerging set of multinational textile and apparel producers that control a network of factories spanning not just multiple countries but multiple global regions? As the wave of factory closures breaking over the circum-Caribbean suggests, the quota regime was a mixed blessing for the region's manufacturers, as now many find that they are either unable or unwilling to effectively compete in a liberalized garment trade characterized by more intense pressure and less secure profits.

If there is much that is familiar about the crisis confronting the circum-Caribbean, the extent of the downturn in exports and employment illuminates in a particularly stark way the limits of existing transnational approaches for advancing the interests of workers in global apparel production. The initial skepticism expressed by many activists and analysts about codes of conduct is now reinforced by numerous studies of their limited efficacy,[18] and while some multi-stakeholder initiatives recognize the need to build labor compliance into the daily operations of garment firms, thus far their efforts appear to be stymied by the reticence of global brands and retailers to confront the relationship between how their apparel is produced and the price they pay their suppliers for it. Yet the most fundamental lesson that the current crisis can teach us is that an effective anti-sweatshop politics cannot stop at the factory gate. When solidarity is premised on a connection between consumers and the workers manufacturing the products they buy, and when the shop floor where those products are made is the main focus of organizing, then the thousands of former garment workers left unemployed by the plant closures that have devastated free trade zones like the one in Santiago de los Caballeros are rendered invisible. Given these experiences, and with new alternatives consolidating around the region, it is time to ask what a transnational labor politics in the garment sector and other export industries might look like after sweatshops.

[18] See, for example, Dara O'Rourke, "Smoke from a Hired Gun: A Critique of Nike's Labor and Environmental Auditing." (San Francisco: Transnational Resource and Action Center, 2007); Ngai-Ling Sum and Pun Ngai, "Globalization and paradoxes of ethical transnational production: code of conduct in a Chinese workplace," *Competition and Change* 9, no. 2 (2005): 181-200.