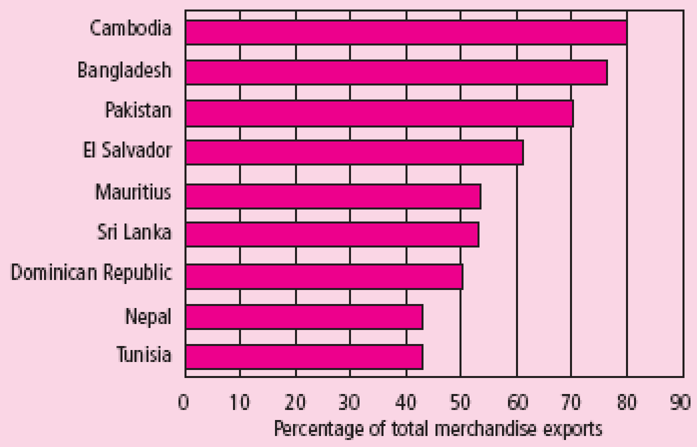
The worldwide garment industry: winners and losers

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

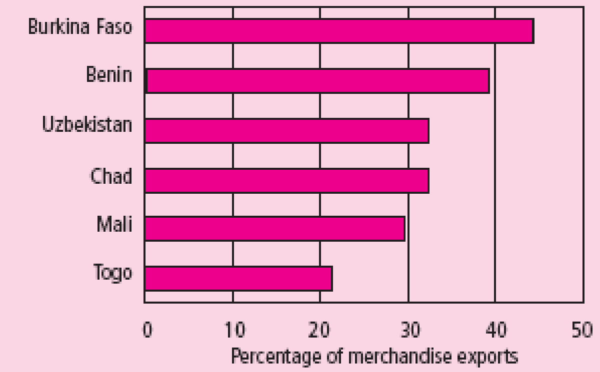
The clothing industry employs some 40 million people worldwide, most of them in developing countries. It accounts for trade worth about $350bn. a year. Asian countries are the largest exporters, and their largest markets are consumers in the US and EU. From the 1950s onwards, trade barriers have been in place, to protect the clothing and textile industries in Western economies, fearful of being undermined by cheaper Asian imports. In particular, import quotas restricted access to Western markets. However, an agreement stemming from the Uruguay Round of trade negotiations spelled the end of import quotas at the end of 2004. This global industry is therefore undergoing massive restructuring, but who will be the winners and losers?

China and India are set to be the biggest winners in the industry's reshaping. China, already accounting for a quarter of global exports, is in an especially strong position, with its large-scale, low-cost production, which it is able to expand to meet new demand. India, too, is expected to gain, but its firms are less advantageously placed. Indian factories are smaller, as those which employ over 100 people are subject to inflexible labour laws which make it almost impossible to shed workers. Electricity and raw materials are both considerably more expensive in India than in China: electricity costs about 30 per cent more, and India's cotton farmers achieve yields two-thirds smaller than their Chinese counterparts. To compete with China, India's garment industry needs restructuring and the infrastructure needs to be improved.



Dependency on clothing and textile exports
Source: de Jonquières, 19 July 2004.

Garment and cotton workers in over 40 other countries, mostly poor developing countries, have benefited from the import quota system, known as the Multifibre Arrangement. As major exporting countries hit their quota ceiling, production would migrate to smaller producing countries which had quota to spare, in a system of 'quota-hopping'. Globalized production has therefore reached many poor countries such as Mauritius and Bangladesh (see figure above), whose industries would not have been able to compete in open markets. Now, in a seemingly ironic twist, both have lobbied the WTO to preserve the barriers. These small producers cannot match China's manufacturing capabilities. Survival for the garment industry in these instances will depend on finding niche markets, diversifying or moving upmarket. Honduras is fearful for the future of its garment industry, as about 80 per cent of its production is simple products like T-shirts. It is aiming for vertical integration, producing materials, using computer-aided-design to cut the cloth and stitching shirts in a quick turnaround time. In Columbia, the local textile industry is confident that shorter transport times to US markets will compensate for the fact that wages in Columbia are 50 per cent higher than in China. New production methods in the Columbian textile industry are enabling it to deliver quality products for brands such as Tommy Hilfiger and Pierre Cardin.



Dependency on cotton exports of developing countries

Source: Boffes (2004).

For the poorest developing countries, mainly in Africa, the outlook is bleaker, as readjustment is harder, diversification possibilities are minimal and creating new jobs for displaced workers is too costly. However, the phasing out of subsidies to cotton farmers in the US in particular, should benefit West and Central Africa's 10 million cotton farmers. Cotton is the main export product in some of the world's poorest countries, including Benin, Burkina Faso, Chad, Mali and Togo (see figure above). Farmers have seen cotton prices halve between 1997 and 2002, resulting in the loss of an estimated $1bn. annually in foreign earnings, while the US has paid $3.3bn. annually to its 25,000 cotton farmers (de Jonquières,11 September 2003).

Sources: Boffes, J. (2004) 'Cotton: Market Setting Trade Policies, and Issues', World Bank Policy Research Working Paper No. 3218, February 2004 (Washington, DC: World Bank); Williams, F. and de Jonquières, G., 'US fights plea by Africans over cotton', Financial Times, 11 September 2003; Morrison, K., 'Low-cost cotton producers to pick up business as era of subsidies unwinds', Financial Times, 6 August 2004; Lapper, R., 'Garment companies fight back for share of market', Financial Times, 27 July 2004; de Jonquières, G., 'Clothes on the line: the garment industry faces a global shake-up as quotas end', Financial Times, 19 July 2004; Marcelo, R., 'India's garment industry needs to be retailored', Financial Times, 22 July 2004; UNDP (2003), Human Development Report 2003 (New York: Oxford University Press).

Case questions

Which countries stand to benefit from the end of import quotas and which will lose out?

What are the effects of opening markets for the poorest developing countries?

@ A page devoted to the textile and clothing industry can be found on the ILO's website at www.ilo.org. It is under 'industries and sectors'.