



MFA Forum Briefing: Impacts of the Global Economic Crisis

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Key take-aways

This briefing outlines current situation in the global apparel supply chain to support discussions by MFA Forum Participants at their meeting on April 7th.

- **The global credit, employment and consumer confidence crunch is affecting the apparel business**, with sales and exports falling. Luxury and mid market fashion brands have been suffering most and retailers and brands are not only cutting orders but negotiating price cuts, reducing order times, extending payment schedules, and consolidating their supply base to reduce risk and costs.
- **Global apparel exports are down.** US apparel imports offer the most recent figures and for February were down 18% in year on year volume- taking trade levels back to 2004 levels and effectively wiping out the whole of the US's post-quota expansion in imports. This is affecting both previous winners and losers from global garment trade shifts. Imports from 'not China' to the US fell by 0.79% in 2006, 3.49% in 2007 and 4.41% in 2008. But the real change in the last year was in trade with China which went from double digit growth to stagnation. Other previous winners such as Bangladesh are also seeing trade growth slowing.
- **The loss of apparel sector employment is pushing many people back into poverty.** Trade unions, NGOs, manufacturers associations, buyers and local media are reporting factory closures and lay-offs, in some cases with factories shutting without notice, leaving workers short of back wages and severance pay. Labor disputes and protests over lost back wages have surged.
- **The pattern of factory closures and lay-offs is still emerging, but cannot be explained simply by the drop-off in export demand at a national level.** Increasingly expensive debt, luckless currency hedge and difficulty in obtaining working capital as well as delayed and in some cases defaulted payments by customers have turned previously solid suppliers into failing businesses. Price cuts and reduced order times also put pressure on manufacturers profitability and labor standards.
- **National level trade data is of limited predictive value.** While the national level trade data on which this briefing is based is the most readily accessible and comparable source of information, and is useful for assessing what has happened, securing viable supply chains and mitigating the negative impacts of the downturn on workers will depend on better early warning about which factories are in danger of closing, which are planning lay-offs and which will remain viable.

Introduction

This briefing outlines current situation in the global apparel supply chain, based on publicly available data from the EU EUROSTAT and US International Trade Commission and OTEXA monthly reports, as well as a rapid review of analyst, NGO and local media reporting.¹ It was prepared by the MFA Forum Secretariat to support discussions by MFA Forum Participants at their meeting on April 7th.

The recession sparked off by the US sub-prime lending has led to a downward spiral of reduced liquidity, employment and consumer confidence which is affecting business around the world. Global industrial production declined by 20 percent in the fourth quarter of 2008 and according to predictions by the World Bank Global GDP will decline this year for the first time since World War II.² 2009 is expected to see the first yearly decline in world trade volumes since 1982, the largest decline in 80 years. Advanced country imports are projected by the IMF to contract by 3.1 percent in real terms, and further downward revisions may be forthcoming. They predict that emerging and developing economies will see an unprecedented decline (of close to 1 percent) in exports, with the sharpest losses in East Asia, reflecting a combination of falling volumes, price declines, and currency depreciation.³

Poverty is on the increase. In developing countries, unemployment, wage cuts and declining remittance flows from migrant workers, are projected to increase poverty by around 46 million people in 2009. So far, the most affected sectors appear to be those that had been the most dynamic, typically urban-based

exporters, construction, mining and manufacturing. Migrant workers are particularly vulnerable to job losses. The recession will see workers shifting out of dynamic export-oriented sectors and back to lower productivity activities in the informal sector and in rural areas. The World Bank notes that while labor markets in the developing world will take a while to experience the full effects of the on-going global contraction, there is already clear evidence of the fall-out. The ILO forecasts that global job losses could hit 51 million.⁴

Employment in the apparel and footwear industries is threatened. While the automotive, financial and construction sectors have been initially hardest hit, clothing and footwear has also started to be affected by the downturn. This sector is particularly important as a major entry-level employer and export earner for many emerging economies. Widespread layoffs and closures are already being reported.

Little is certain, and much is confused. Conflicting reports and predictions on trade and employment abound, as different interest groups seek support for their own preferred public policy responses. 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.”⁵*

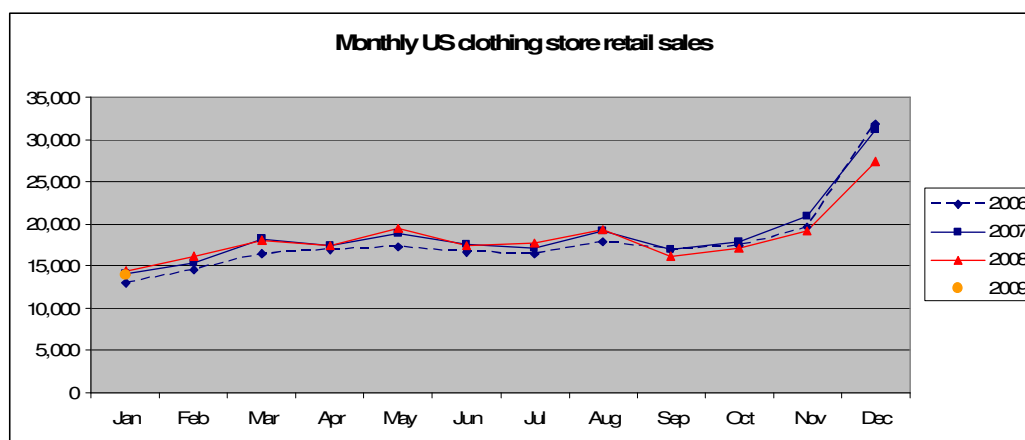
What has happened?

Retail sales and apparel imports - falling

Clothing retail sales have been falling in the US since September 2008, with the 2008 holiday season the worst in nearly four decades. However, this does not mean that sales have plummeted; overall US garment retail sales were down 2.1% in 2008 (following a 4.5% increase in 2007). The EU does not report aggregate clothing retail sales, but it is likely to be

a similar picture. General EU retail sales have been falling for seven months, and in the UK for example non-food sales were down 3.2% in December to January this year.⁶

Figure 1: US Retail sales



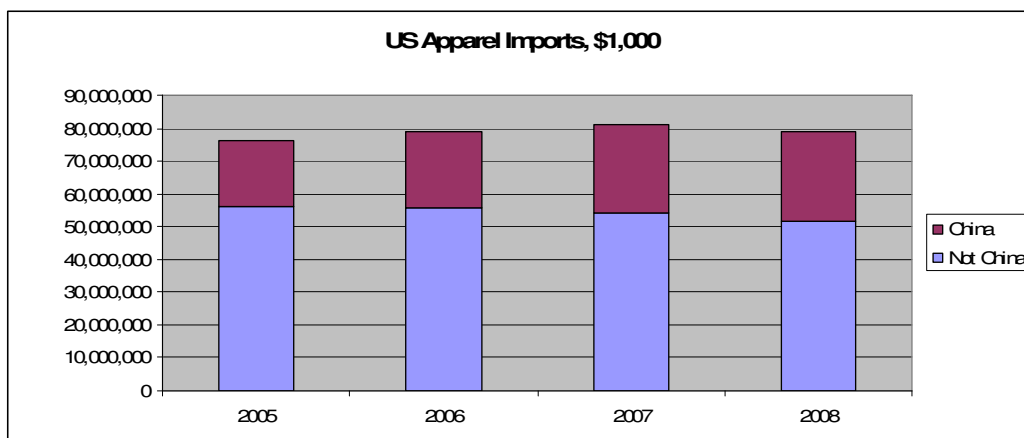
Source: US Census Bureau, Service Sector Statistics <http://www.census.gov/mrts/www/mrts.html>

Luxury and mid market fashion brands have been suffering most. In North American Gap Inc. saw a 12% decrease in December sales and a 19% drop in January; Abercrombie and Fitch saw a 24% decrease in December sales; The Limited saw December sales decrease 10% and January sales decrease 5.4%; and American Eagle Outfitters saw a decrease of 17% in December and 15% in January. Low-cost and discount chains have fared better but even Inditex and H&M have reported a dramatic slowdown in their growth. Wal-Mart saw its anticipated 2.8% increase in sales in December turn out at 1.7% increase, although by February this had climbed to a 5.1 %

percent improvement in same-store sales.

Imports are down. Looking at the US, the value of apparel imports in 2008 was 2.9% less than the previous year, with most of that fall taking place in the last few months. As the chart below highlights much of this reflects a continuation of the ongoing fall in imports from 'not China' (these countries as a group saw the value of their apparel exports to the US fall by 0.79% in 2006, 3.49% in 2007 and 4.41% in 2008). But the real change was in trade with China which went from double digit growth to stagnation.

Figure 2: US Apparel imports - past four years



The news is getting progressively worse, Whilst the January sales saw a brief recovery, retail sales are continuing to fall and the most recent data show that the downturn is now really beginning to hit apparel trade volumes. Initial estimates are that US apparel imports for February were down 18% in year on year volume- taking trade levels back to 2004

levels and effectively wiping out the whole of the US's post-quota expansion in imports.⁷ The preliminary data on US imports for January 2009 show that order volumes in almost all of the 20 most important garment product categories are falling, with five categories experiencing cuts of over 10%.

High risks for suppliers and impacts on workers

“CHANG’AN, China – Wang Denggui, father of three, arrived more than a year ago in the palm-lined streets of this southern town with a single goal: toil in a factory to save for his children’s school tuition. But the plans of Mr. Wang and thousands of co-workers unraveled at noon on Nov. 1, when the Taiwanese chairman of their ailing shoe factory climbed over a factory wall to flee the country and his debts. That left several American shoe companies with unfilled orders and 2,000 workers without jobs. “He just ran without telling anyone,” Mr. Wang said.... After the shutdown of their shoe factory, , Mr. Wang and some co-workers took to the streets in protest, demanding two months of back pay, or \$440 on average. The government called in the riot police. Seven workers were thrown in jail and six were beaten.”⁸

Trade unions, NGOs, manufacturers associations, buyers and local media are reporting factory closures and lay-offs, in

some cases with factories shutting without notice, leaving workers short of back wages and severance pay. Labor

disputes and protests over lost back wages have surged.

The pattern of factory closures and lay-offs is still emerging, but cannot be explained simply by the drop-off in apparel demand. As the trade figures show, the level of global trade in apparel has only really started to seriously fall in 2009. Before that orders were still being fulfilled that had been placed earlier in the year. 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 an alarming numbers of job losses:

- In China at least 67,000 factories (across all sectors) have closed in the first half of the year - many of these have been apparel and textile manufacturers.
- The Vietnam Textile and Apparel Association reported that nearly 70% of garments and textiles export businesses, as of March 2009, are seeing a sharp drop off in new orders, which force more than 2 million workers in the sector into either unemployment or reduced hours and wages.⁹
- According to the Garment Manufacturers Association of Cambodia 73 factories were closed in 2008, making nearly 25,000 workers unemployed. But 64 new factories opened, absorbing 10,000 new workers.
- In Bangladesh reports have swung between optimistic predictions that the countries manufacturers are not being hit by the recession to more recent concerns of exports falling.
- In Bangalore, India industry sources say that one quarter of the work force are laid off on reduced wages.¹⁰
- In Sri Lanka, the Joint Apparels Association Forum say that more than 50 factories have closed with an estimated 40,000 workers laid off.

Industry analysts believe that to understand why suppliers have failed in such high numbers you need to look at the health of individual businesses and their customers, as well as overall trade trends.

Some suppliers came into the downturn with vulnerable, unsustainable business models, selling far too cheap, or dealing with unreliable clients in a desperate attempt remain competitive. Others, whilst apparently solid were encumbered by high levels of debt and luckless currency hedges, which combined with delayed, and in some cases defaulted payments by customers, pushed them into failure. Credit insurance, bank loans and customer letters of credit have become harder to secure, leaving suppliers with a shortfall of working capital and at risk of carrying the cost of retail bankruptcies.¹¹

And retailers and brands are, not only cutting orders, but negotiating price cuts, reducing order times, extending payment schedules, and consolidating their supply base to reduce risk and costs.¹²

The loss of apparel sector employment is pushing many people back into poverty. Trades Unions and NGOs warn that pushing risks and costs down the supply chain will impact on workers not only through job losses, but also in the form of increased demands for labor flexibility and pressure for reductions in wages, bonuses or other financial benefits.¹³ Workers who hold on to their jobs may face a combination of idle working days (and subsequent lower bonuses and piece-rates) interspersed with periods of high overtime. Late payment is also likely to become chronic, due to cash flow challenges. Existing compliance issues are likely to be exacerbated. Aret van van Heerden of the FLA and Ivo Spauwen of the FLF anticipate that managers are likely to be more reluctant to sign proper contracts with workers, and to violate the labor contract law and social security

payments. In an effort to reduce rent and material costs, it is likely that the quality of food served in canteens and dormitories will decline, and that restrictions will be placed on hot water and energy use. Improvements to workplace infrastructure and investment in protective equipment will be postponed.¹⁴

‘First the company reduced our pay, then we lost our jobs. They have refused to pay us severance or other benefits. Since I lost my job sometimes we eat only once or twice a day. I don’t know what to do, we are just camping in front of the factory gates, waiting for the company to pay us.’

Ms Kry Chamnan, Cambodia

‘About 1,700 people used to work here and all are unemployed now. Many women were pregnant, many are ill and are left with nothing. It’s been three months since the factory closed and we haven’t been paid anything, no severance, no social fund payments.’

Ana Ruth Cerna, El Salvador

‘My factory retrenched 150 workers including me. I’m 35 years of age and I’m too old to join another factory. I’m in deep trouble, thinking about how to live with my two children.’

Lalitha, Sri Lanka

Factories are closing everywhere - and now the women are being approached by sex traffickers asking if they want to go and work in the West.’

Jitra Kotchadet, union leader and women workers activist, Thailand¹⁵

As workers shift out of dynamic export-oriented sectors and back to lower productivity activities in the informal sector and in rural areas, poor countries and regions that have been senders of migrant workers face the double whammy of falling remittance flows and

more mouths to feed. This effect is already can already be seen, for example the ILO’s rapid assessment of garments workers in Cambodia last year found that increased living costs and decreased salary values were exposing garment workers to very high risk and that this was having a ripple down effect in rural communities where remittances decreased.¹⁶

The strain of lower productivity, higher unemployment and reduced investment may trigger sales of household or farming assets and loss of human capital, for example through taking out of high interest loans, removing children from school or placing them in orphanages.

The experience of previous downturns, and of factory closures following the end of the MFA quotas has been that in some countries young women in urban areas unwilling or unable to return to their home villages may turn to the informal sector and sex work, at high risk to their own health, social acceptance and future prospects. Factories that close without due respect for the rule of law - without severance payments and often with social security arrears leave workers particularly vulnerable to taking this path

There is also a fear is that workers welfare will become less of a priority for consumers, retailers and suppliers alike, as each become more concerned with their own survival. At a conference organised in London last year by the Ethical Trading Initiative (ETI), Phil Wrigley, executive chairman of the New Look fashion chain, made the point: *“In this uncertain market, the recession squeezing consumers, and many businesses under very real pressure, it is easy to imagine that the commitment to ethical trading might slip.”*¹⁷

Assessing country by country risk

The World Bank's initial identification of countries highly exposed to the poverty effects of the crisis include a number of countries where apparel and footwear export is a major contributor to the economy such as Bangladesh, Cambodia, India, Indonesia, Lesotho, Pakistan, and Vietnam. Others such as China,

Dominican Republic, El Salvador, Egypt, Guatemala, Honduras, Mexico, Nicaragua, Poland, Romania and Thailand are considered moderately exposed.

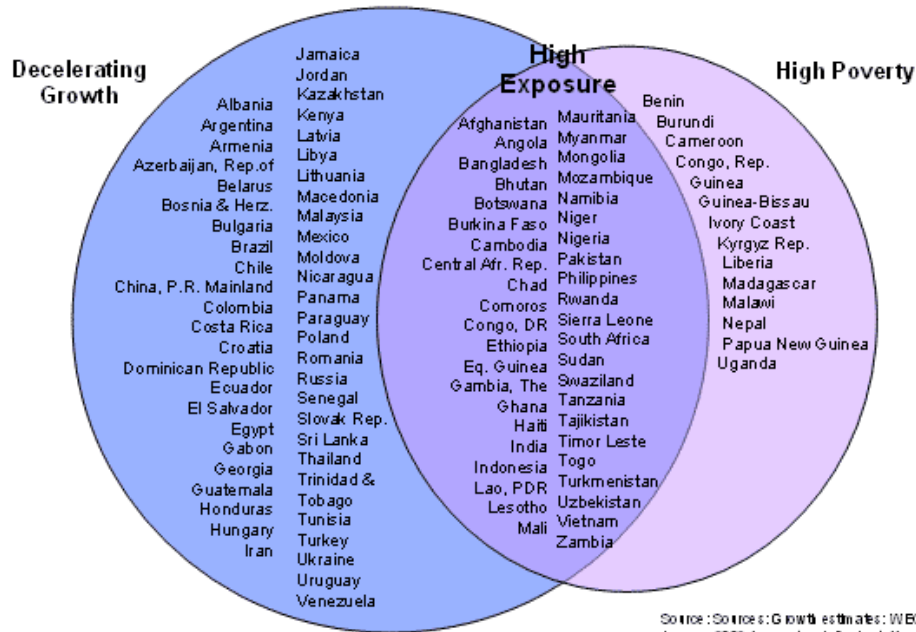


Figure 3: World Bank's Identification of Countries with high exposure to poverty risk

While the end of apparel quotas led to predictions about winners and losers, it is clear that the global credit crunch and downturn in demand will see only losers.

"The global garment industry is in terrible trouble, but the pecking order seems little affected" This is the conclusion of industry commentator David Birnbaum at the beginning of this year. Looking at US import data (which provide the most up-to date picture of global trade trends) we can see that this is true.

Figure 4: US Market share % change 2007-2008

In 2008, countries that had done well in the post quota environment such as Vietnam, Bangladesh, Indonesia, and Cambodia continued to gain market share while the countries such as Mexico, Philippines, Korea, Sri Lanka, Thailand, Jordan, Sub-Saharan Africa continued to lose it.¹⁸

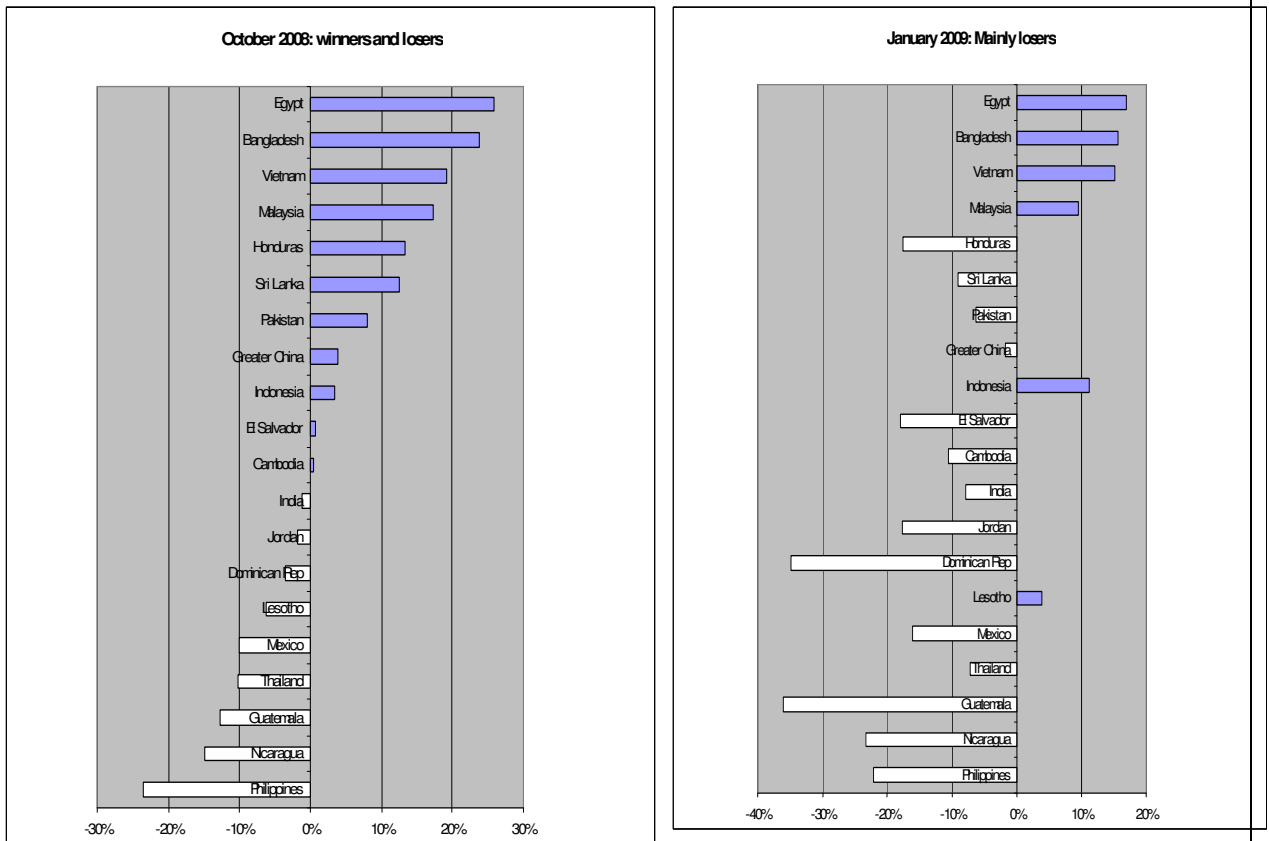
All Garment Products			
Market Share in Units - 11 08			
	2007	2008	% +/-
G.China	37.3%	36.5%	-2.1%
CAFTA	14.2%	14.9%	4.9%
Vietnam	5.4%	6.7%	24.3%
Mexico	5.2%	4.6%	-12.3%
Indonesia	4.5%	4.8%	6.4%
India	3.7%	3.9%	3.8%
Bangladesh	5.8%	6.3%	8.5%
Cambodia	3.7%	4.0%	6.9%
Thailand	2.2%	2.2%	-3.7%
Sri Lanka	1.7%	1.7%	-4.6%
Philippines	2.0%	1.7%	-13.4%
Pakistan	3.0%	3.0%	1.3%
ANDEAN	0.8%	0.7%	-13.5%
Jordan	1.1%	1.0%	-6.5%
SSA	1.4%	1.3%	-6.4%
Egypt	0.9%	0.9%	5.2%
Korea	0.9%	0.8%	-12.0%
Haiti	1.1%	1.0%	-8.8%
Total	94.8%	95.8%	1%

All Garment Products			
Market Share by Value - 11 08			
	2007	2008	% +/-
G.China	35.2%	35.5%	1.0%
CAFTA	10.6%	10.6%	-0.3%
Vietnam	5.8%	7.3%	25.0%
Mexico	6.1%	5.6%	-8.6%
Indonesia	5.3%	5.6%	5.0%
India	4.3%	4.3%	-0.1%
Bangladesh	4.2%	4.8%	14.0%
Cambodia	3.3%	3.4%	3.1%
Thailand	2.4%	2.3%	-2.3%
Sri Lanka	2.1%	2.0%	-3.6%
Philippines	2.3%	1.9%	-18.5%
Pakistan	2.0%	2.1%	1.8%
ANDEAN	1.7%	1.6%	-2.5%
Jordan	1.6%	1.4%	-12.7%
SSA	1.7%	1.6%	-9.5%
Egypt	0.9%	1.0%	8.8%
Korea	0.9%	0.7%	-16.2%
Haiti	0.6%	0.6%	-6.4%
Total	91.0%	92.2%	1%

However, while the distribution of market share has not seen major shifts, the overall size of the market is shrinking and by early 2009 it was becoming clear that the downturn in global garment trade was unlikely to leave *any* winners.

US trade figures for January show that there are many more losers, and even those countries that have been competitive are seeing growth start to slow.

Figure 5: Month by month change in export value to the US



[Year-on-year % change in \$ imports to the US, Cat 84 SITC]

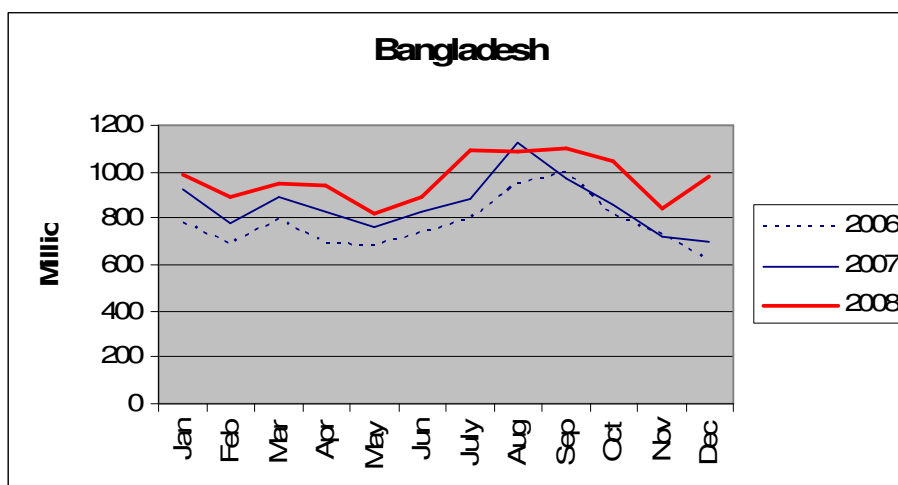
The following section provides more detailed information on the export performance and reported social impacts of the downturn in the countries where the MFA Forum is currently actively working, and also of other major developing country exporters.

Bangladesh - growth in exports slowing?

Bangladesh was an unexpected winner after the end of the MFA, becoming a key destination for sourcing low cost products for customers such as H&M. Ready made garments are responsible for 65% of Bangladesh's exports, with its main customers being US, Germany, UK, and

France. Over the past year, according to the BGMEA 300,000 more workers have been employed in different garment factories and now the total number of RMG workers stands at 2.8 million, with further employment in spinning and weaving.

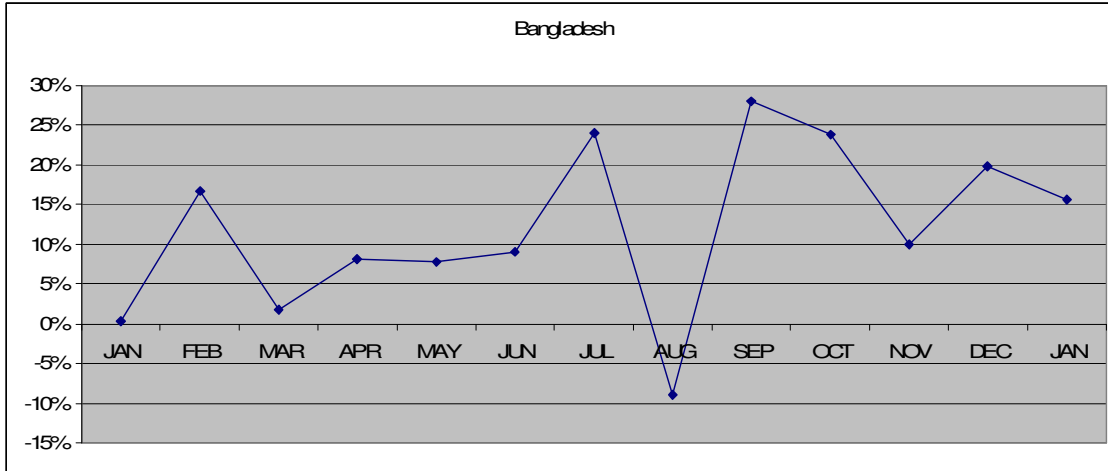
Figure 6: Bangladesh: sales to EU and US, \$M



As a low-cost supplier Bangladesh has so far weathered the recession better than most, even seeing an unseasonal rise in orders in December. It is still seeing ongoing investment in the industry, for example from the Japanese vertically integrated clothing company Uni-qlo. But the future remains uncertain and recent reports and predictions from Bangladesh veer between the wildly optimistic and the downright gloomy. In part this reflects efforts on the part of the

industry on the one hand to talk up its prospects, and on the other to bid for government support (including a proposal to cut the minimum wage). The World Bank believes that Bangladesh will not be able to sustain the growth rates it has seen over the past few years. However, while exports to the US do indeed show a some slow down in recent months it is far from a nose dive and at present the industry appears to be still growing (albeit more slowly).

Figure 7: Bangladesh year-on-year percentage change in exports to the US by value 2008-2009



Bangladesh's top four products exported to the US are men or boys suits, jackets, trousers, women or girls suits, skirts, trousers, dresses, men or boys shirts and sweaters/ pullovers. In these categories the most recent (January and February) preliminary figures from the US show that sales by volume are still going up. For example men's coats are up 48%, men's cotton trousers are up 31%, dresses up 11%, and shirts up by 6%.

There have been some reports of closures; for example on February 23rd H&M reported on that they had been

informed by their supplier, House of Sunshine, that their factory was closing. As reported in local media there has also been some unrest at the factory as a consequence of this decision. H&M say that they are worried about the current situation and their local office is in dialogue with the management about closing down in a responsible manner, ensuring all workers their legal compensation in connection with the closedown.

Greater China - Growth slowed, government taking action to protect jobs

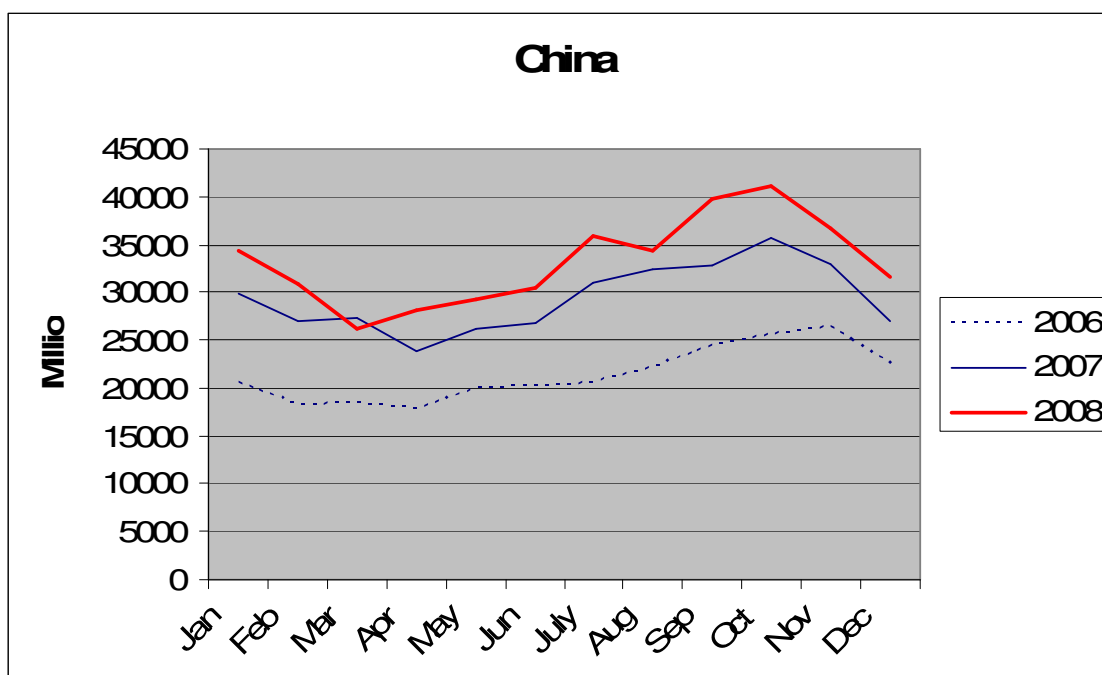
Over recent years, fears that Chinese prices would increase with rising wages, new labour laws, worker shortages and currency appreciation led many buyers to diversify away from China. Therefore while the country was a clear winner from the end of the MFA quotas and its growth has been a large part of the expansion in world trade in garments it has not been the single dominant force predicted, and its export growth has slowed over the past year.

an appreciating currency and tougher legal, tax and environmental requirements. Twenty percent of China's apparel manufacturers were responsible for 94% of the profits in 2007 according to a report by the China Textile Industry Association. With so many already marginal producers, when the credit crunch took hold, prompting export orders to fall and bankers to curtail loans, many operations were pushed over the edge.

Even before the global financial crisis, factory owners in China were struggling with rising labor and raw-material costs,

Widespread factory closures and layoffs are reported, often with owners fleeing their debts.

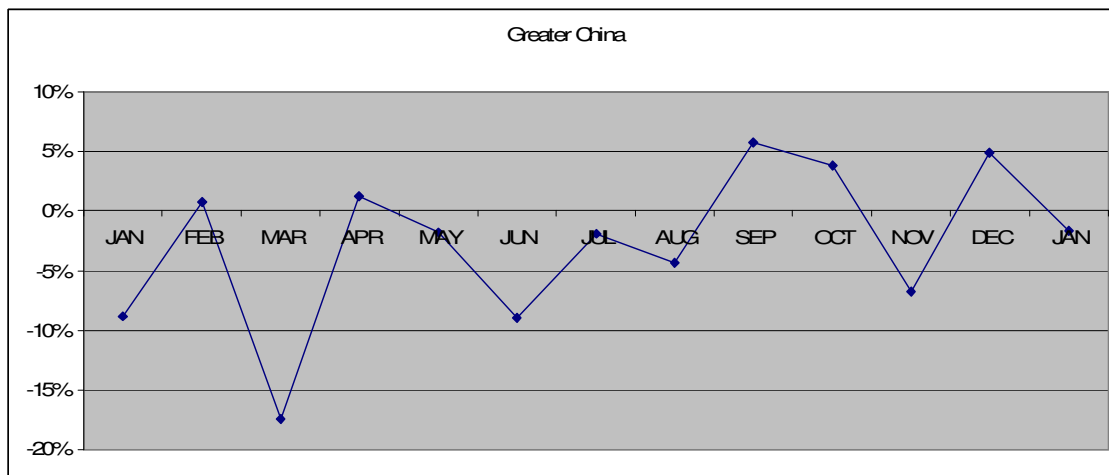
Figure 8: China: sales to EU and US, \$M



US Figures from 2008 and early 2009 show that export growth from China to

the US was stagnant to falling for much of the year.

Figure 9: China year-on-year percentage change in exports to the US by value 2008-2009



Amongst China's top apparel exports to the US preliminary data on January and February exports are mixed; women's cotton coats are down 32%, men's coats down 41%, cotton blouses down 21%. But cotton sweaters are up 27%, women's cotton trousers are up 46% and men's cotton trousers up 65%.

There are no official, up-to-date data available for garment factory closures, but the Netherlands based Fairwear Foundation reports anecdotal feedback that factory orders and production have dropped 30-50% in recent months. The local experts they consulted with say there has been a considerable increase in garment factory closures, but predict that although there will be more closures it is unlikely that these will match the high rate observed in China's toy, furniture - or even textile - industries in

the past year. Dr. Kai-Ming Liu of the Institute for Contemporary Observation in Shenzhen believes that more than 20% of garment factories will close in the next two months. Most of these will be small sub-contracting factories of 100 or fewer workers.¹⁹

The Chinese government has attempted to stave off closures, job losses and civil unrest by restoring VAT rebates on clothing and textile exports, freezing increases in minimum wages, suspending deposits on raw material imports, directing state-owned businesses not to fire staff, and providing unemployment benefit to support retraining of laid off workers while still at work. They have also instructed, and underwritten banks to lend against apparel and textile invoices to ensure that companies have enough working capital to keep going.

Central America: still suffering

Under the Dominican Republic-Central American Free Trade Agreement, Central American-made clothing using regional inputs are allowed free access to the U.S. market. This means that the health of the industry is tied to US demand. In some Central American countries, nearly 100 percent of apparel exports go to the US. Although in recent years Mexico's exports to the EU (as well as its domestic apparel consumption) have risen considerably.

In general Central American manufacturers have struggled to compete on price and quality with manufacturers in Asia, and their sales and employment have fallen in recent years. Employment

in the Mexican textile and apparel industry for example fell from nearly 750,000 in 2001 to less than 500,000 in 2007. The global recession looks likely to bring only more pain, although in 2008 Honduras and Nicaragua actually saw volume increases in their exports to the US.

The figures on trade (by value) with the US show that while Honduras, El Salvador and Nicaragua were showing some export growth in the first three quarters of last year, by October they were all contracting.

Figure 10: Central America exports to the US



The downturn in orders is hitting producers and employees in Central America hard. Carlos Arias president of Koramsa, one of the largest apparel makers in Central America which has made blue jeans for such labels as Levi's, Abercrombie & Fitch, Gap and Banana Republic, says that orders from the United States declined swiftly, tumbling as much as 50 percent. The company

went from making 250,000 pairs of pants a week and employing 9,000 workers to laying off all but a handful. In February 2009 it sold its plant and equipment to a US cotton cooperative which plans to resume production under a new name, Denimatrix. They are hiring 200 people in March and hoping to build up to 1,500 workers by the end of the year. By next year, Denimatrix hopes to be making

150,000 pairs of blue jeans a week with 3,500 workers.

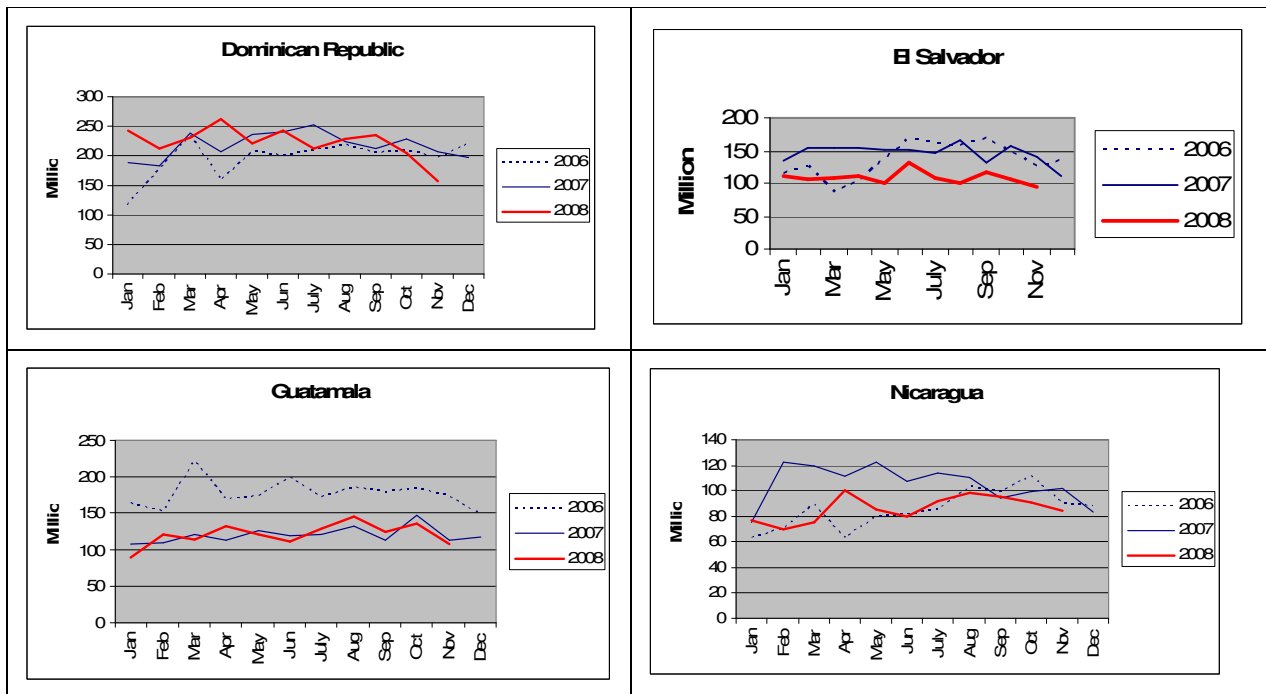
In Nicaragua, at least 19,000 apparel and textile workers lost their jobs last year, according to the Nicaraguan Apparel and Textile Association. Most of those were in a free-trade zone dominated by the Taiwanese denim and blue-jeans maker Nien Hsing, which closed four factories last summer after producing in Nicaragua for years. The closures resulted in 14,839 workers losing their jobs. Late last year, the Mexican company C & C announced it would buy three of Nien Hsing's factories. But initially, it will only employ about 3,000 people.

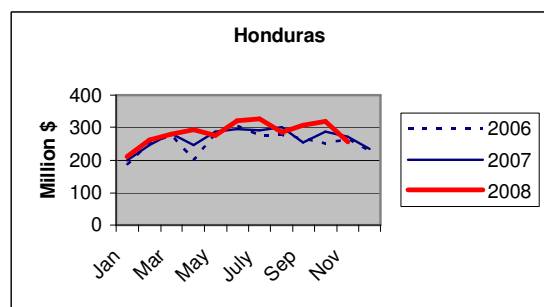
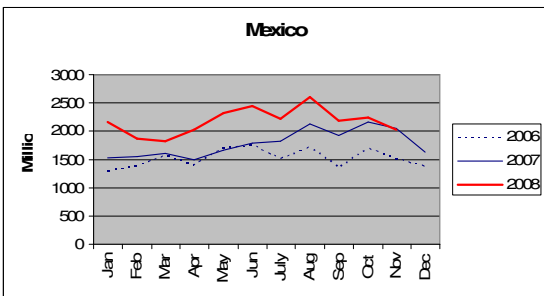
In November 2008 four factories in El Salvador closed down and another 10 were cutting their staff due to falling orders. 4,000 people lost their jobs, and more job losses are expected soon.

Tight credit is also a factor in Central America; in Guatemala, Polar Industrial, which for nearly 15 years made polo shirts, knitted sportswear and uniforms, ceased operations in July after the bank called in the owners' debt on its textile mill and yarn spinning business. 700 workers were laid off although the owners have set up a new operation making the same products, just fewer of them, with 200 workers.

One source of optimism is that the trend for buyers facing uncertainty are cutting inventory of 'replenishment goods' and focus on getting smaller orders of seasonal and fashion items more quickly. This could favour Central American producers through their proximity to the US.²⁰

Figure 11: Central America: EU and US imports combined, \$million



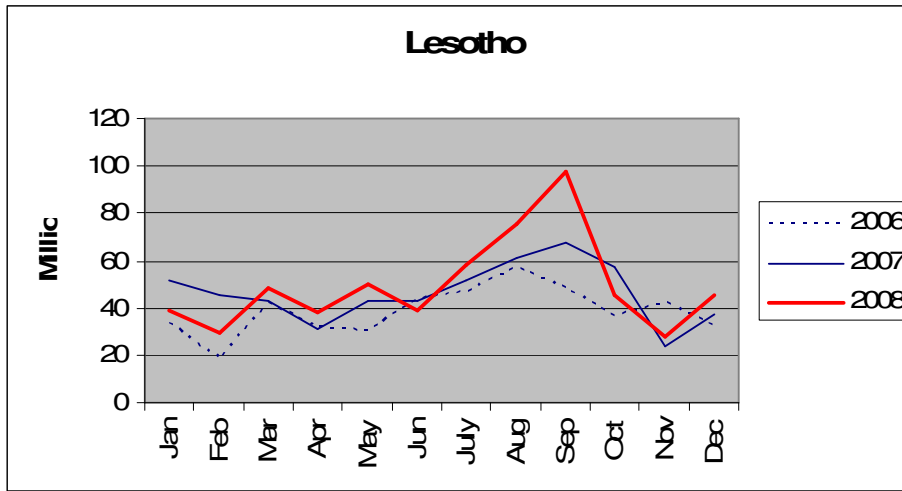


Lesotho: managing to hold steady?

Lesotho's garment industry was started in the early 1980s by South African investors and since the 1990s has expanded through investment from Taiwan and preferential trade opportunities created by the US

African Growth & Opportunity Act (AGOA). Lesotho is the largest Sub Saharan exporter of apparel to the US. Its main products are jeans and knitted garments.

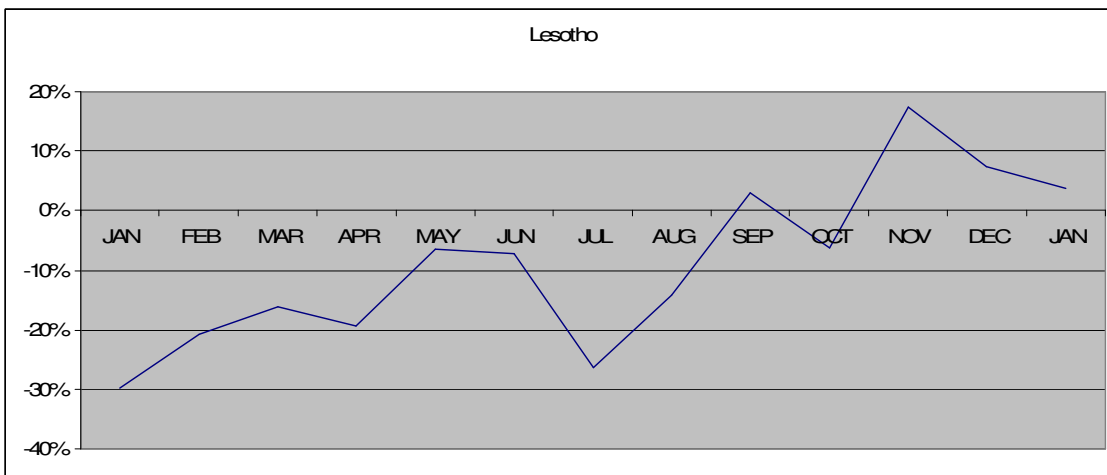
Figure 12: Lesotho: EU and US apparel imports combined, £million



Despite losing ground following the end of the MFA, Lesotho's exports have been holding steady in recent years. However, the most recent figures for US imports show cause for concern. Men's cotton

trousers (including Lesotho's staple jeans) are down 5%, women's knit blouses are down 31% and men's shirts 21%.

Figure 13: Lesotho year-on-year percentage change in exports to the US by value 2008-2009

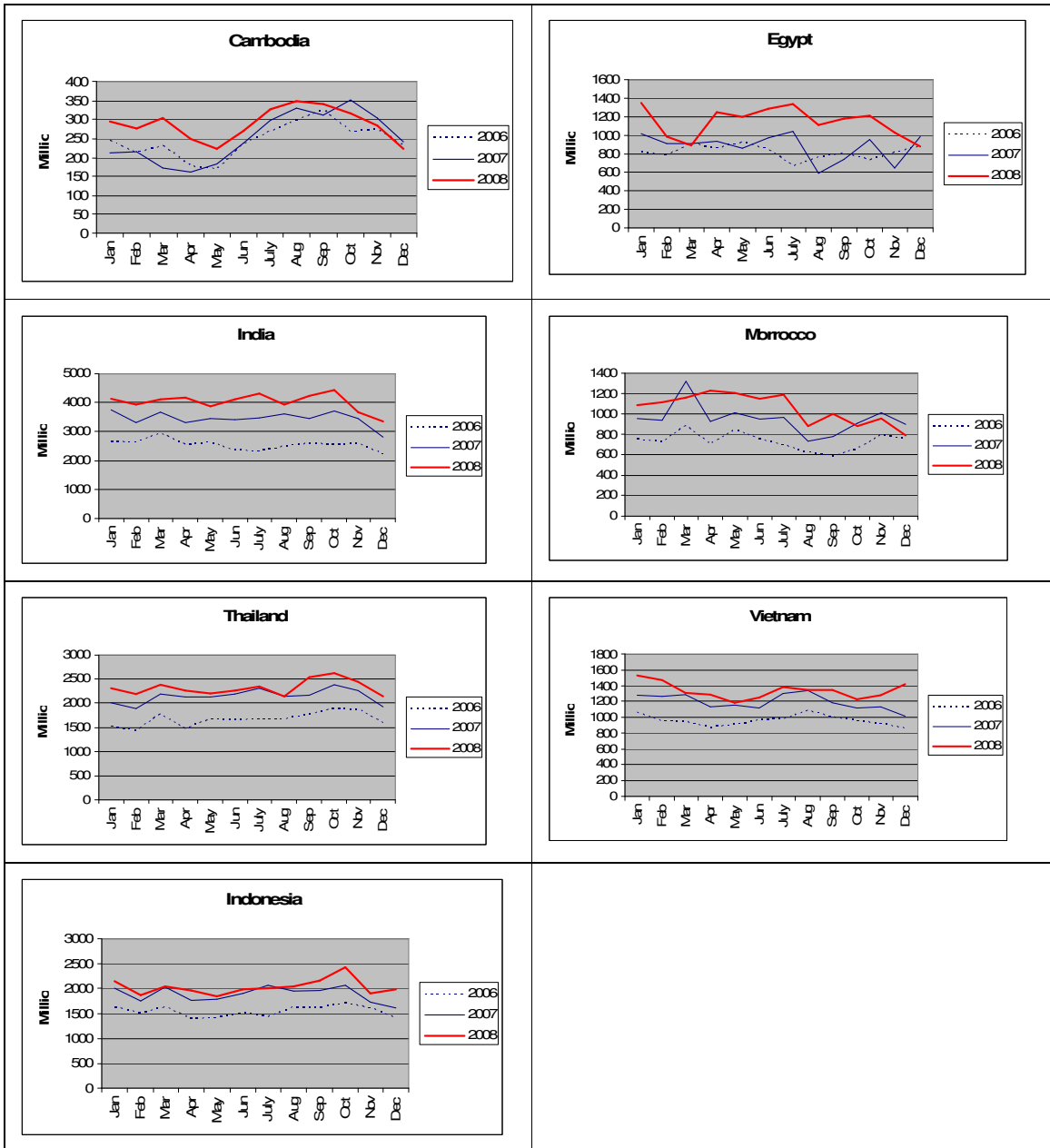


Major exporters: losing business

Other major exporters, including Cambodia, India, Egypt, Thailand and Morocco that had been experiencing year-on-year growth in exports over the last couple of years all began to see a

slowdown or even fall in orders by the end of 2008. Indonesia and Vietnam did see some pick-up in December, but few think there is any cause for optimism.

Figure 14: Other major exporters: EU and US exports combined



Early figures for 2009 are mixed, but in the main do not make for comforting reading. For example in Cambodia in January and February 33% fewer pairs of women's trousers and 24% fewer men's trousers were shipped to the US than in the previous years. In Egypt the figures were 20% and 7% down respectively. In India 28% more pairs of cotton underwear

and 11% more women's dresses were shipped, but 12% fewer knit shirts. In Thailand knit shirts were down 18%, but cotton underwear up 17%. Vietnam shipped 6% fewer knit blouses and 3% fewer men's coats, but 25% more women's coats (these products represent major export categories for each exporter).

Making predictions and monitoring developments

This briefing brings together current data and viewpoints on how the global economic crisis is affecting the textile and garment sector and its workforce, in order to support Forum participants in determining the best course of collective action.

While most are agreed that retail sales will continue to fall and prices tighten over the next year, no one can yet see the bottom. *"As unemployment rises, consumers will inevitably become more prudent in their spending behaviour"* says Marco Annunziata, chief economist at UniCredit MIB in London. Few commentators are optimistic. Stephen Robertson, Director General, British Retail Consortium, said: *"It is now clear we were right to fear January's surprise year-on-year sales rise was just a discount-driven blip. The short burst of spending unleashed by January clearances has largely vanished, replaced by sales as weak as most of last year. Food sales are proving more resilient but every non-food sector, apart from children's clothes, saw like-for-like sales down on a year ago."*²¹ US retail analyst Ken Perkins of Retail Metrics agrees *"The macro headwinds that consumers and retailers are facing right now are so stiff that we feel there are still more negative comps [i.e. same-store sales comparisons] to come as we progress through the first half of this year"*. In the longer term concerns about retail overcapacity and supply chain transport sustainability are also surfacing.

Analysts in the US estimate that 10% to 26% of all retailers are in financial distress and in danger of filing for bankruptcy. AlixPartners LLP, a Michigan-based turnaround consulting firm, estimates that 25.8% of the 182 large retailers it tracks are at significant risk of filing for bankruptcy or facing financial distress in 2009 or 2010 (compared to 4% to 7% of retailers in previous year) *"We will have a lot fewer stores by the middle of 2009,"* says Nancy Koehn,

professor of business administration at Harvard Business School. *"It's happening very, very quickly because of the financial crisis and the recession."*²²

The other thing that is clear is that the social impacts of the downturn are likely to be pernicious and long-lived. Labour markets tends to recover only four to five years after the 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. 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."*²³ This is both a critical challenge to the development prospects of vulnerable economies, and also a problem for the apparel industry at every level of its fragmented supply chain.

Prediction, however, is a notoriously difficult business. Few industry analysts are making sweeping national predictions of the kinds that were so prevalent in 2005. One reason is the huge uncertainty caused by the recession. Another is the lack of good information.

While national level trade data of the kind used in this briefing is relatively up-to-date and publicly available, it can only offer backward looking snapshots of trade movements. As factory closures are not being driven purely by falling demand these figures are a trailing indicator rather than a predictor. As Industry commentator Mike Flanagan, the spate of factory closures in China in 2008 could not have been foreseen from the trade data *"Those Chinese factories that have closed have not, generally, done so because the total volume of clothing orders have dropped: China's clothing production actually grew in 2008. Some factories have closed because they lost orders, while others saw orders grow. But most closed because they were in serious financial problems and ran out of*

cash to pay creditors. Those problems were obviously made worse by the relatively slow rate of growth in clothing orders - but mostly they were the result of excess debt, debtor bankruptcies, banks' inability or unwillingness to provide working capital and a host of other problems that amounted to businesses not having access to credit when they needed it most."

In addition to being backward looking international trade data does not allow us to assess the vulnerability of individual factories).

While national competitive difference, exchange rate fluctuations and measures taken by individual countries to shore up their clothing exports will have a

significant impact, unlike in 2005, the key question on the minds of buyers, manufacturers, investors and those concerned with workers' welfare is not which *countries* will be winners and losers, but which *factories* will remain viable, and which are at risk of closure, lay-offs of or workers rights abuses.

Industry watchers note that individual factors such as business strategy, ability to self-finance, existing productivity investments or canny currency hedging are likely to be just as important in determining winners and losers at this level than which country factories are operating in.

Key data sources

Ongoing monitoring and early warning on the impacts of the crisis on workers in apparel supply chains will have to include but go beyond regular updates on national trade trends. Key data sources to watch includes:

- Retail sales data, e.g. from the US Census Bureau
- EU EUROSTAT database - around 2 months old data on apparel imports by value and volume (square meter equivalents)
- US International Trade Commission database - around 1 month on apparel imports by value and volume (dozens)
- OTEXA preliminary data reports - bi-weekly reports of limited data on US imports of key apparel product categories by volume (SME)
- Apparel and retail trade, industry analyst and financial and local media reports
- Direct sharing of information from MFA Forum participants and networks and from industry experts.

There is a paucity of data on the performance and vulnerability of individual factories, and real sensitivity (particularly given the importance of investor and customer confidence to maintaining ongoing viability) to sharing such data.

Another source to consider may be the individualized 'watchlists' of vulnerable suppliers being developed by analysts Panjiva, using data from the bills of lading on individual shipments to the US. However there are several difficulties with drawing solid conclusions straight from this data, since all parties go to some lengths to avoid revealing potentially commercially sensitive data in this way

The briefing was written and researched by Maya Forstater, with thanks to Michael Flanagan of Clothesource, Josh Green of Panjiva and Sasha Radovich of the MFA Forum Secretariat.

¹ NB: Wherever possible this report combines EU and US trade data, but since US trade data is more up-to-date by up three months, the most recent graphs are of US imports only. The other main import market for apparel, Japan is not covered in this paper. The vast majority of Japanese apparel imports are from China, but there are indications that this may change in the future.

² World Bank (2009) SWIMMING AGAINST THE TIDE: HOW DEVELOPING COUNTRIES ARE COPING WITH THE GLOBAL CRISIS, Background Paper prepared by World Bank Staff for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, United Kingdom on March 13-14, 2009.

³ World Bank (2009) *op cit.*

⁴ *ibid.*

⁵ Clothesource (2009) "The Gloom Deepens", March 2009

<http://www.clothesource.co.uk/go/news/the-gloom-deepens>

⁶ BRC-KPMG Retail Sales Monitor February 2009 Covering the four weeks 1 - 28 February 2009

⁷ Latest figures from Otexa, released on March 12th 2009

⁸ Herald Tribune (2008)

http://www.heraldtribune.com/article/20081114/ZNYT03/811143006?Title=Factories_Shut_China_Workers_Are_Suffering

⁹ Vietnamnet (2009)

<http://www.intellasia.net/news/articles/society/111260126.shtml>

¹⁰ <http://www.hindu.com/2008/12/08/stories/2008120850460100.htm>

¹¹ Financial Week (2008) Banks rescind letters of credit, April 28, 2008

¹² FT (2009) Vendors and retailers fight dirty payments war as trade insurance , January 26 2009

¹³ How will the global financial crisis affect the garment industry and garment workers? Maquila Solidarity Network February 2009 and Oxfam (2009) *Paying the Price for the Economic Crisis*, Oxfam International Discussion Paper, March 2009.

¹⁴ Lally, A (2009) Weathering the Storm: A guide for FWF member companies sourcing from China during the global financial crisis, Fairwear Foundation,

[http://fairwear.nl/images%20site/File/Bibliotheek/ChinaReport_fairwear_march2009\(2\).pdf](http://fairwear.nl/images%20site/File/Bibliotheek/ChinaReport_fairwear_march2009(2).pdf)

¹⁵ Oxfam (2009) *op cit.*

¹⁶ ILO (2009) Report of a Rapid Assessment on the Impact of the Financial Crisis in Cambodia.

¹⁷ Apparel industry outlook for 2009 Management briefing January/February 2009

¹⁸ Just Style (2009) ANALYSIS: US apparel import data paints a revealing picture
22 January 2009

¹⁹ Lally, A (2009) *op cit.*

²⁰ Apparel News (2009) U.S. Retail Downturn Takes Toll on Central America, February 27, 2009
<http://www.apparelnews.net/news/manufacturing/U-S-Retail-Downturn-Takes-Toll-on-Central-America/print>

²¹ Bloomberg (2008) European retail sales fall for eighth month, March 13, 2009.

²² Wall St Journal (2008) DECEMBER 29, 2008, Retailers Brace for Major Change

²³ ILO (2009) "The financial and economic crisis: a Decent Work response " a paper presented to the High-level Tripartite Meeting on the Current Global Financial and Economic Crisis (Geneva, 23 March 2009)