The Employment Challenge of the Agreement on Textiles and Clothing: Scenario and Strategies for Pakistan

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### Abbreviations

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<th>Abbreviation</th>
<th>Definition</th>
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<tr>
<td>APTMA</td>
<td>All Pakistan Textile Mills Association</td>
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<td>ATC</td>
<td>Agreement on Textiles and Clothing</td>
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<td>EU</td>
<td>European Union</td>
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<td>FES</td>
<td>Friedrich-Ebert-Stiftung</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>ICTSD</td>
<td>International Centre for Trade and Sustainable Development</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>ITGLWF</td>
<td>International Textile, Garment and Leather Workers' Federation</td>
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<tr>
<td>LDC</td>
<td>least developed country</td>
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<td>MFA</td>
<td>Multi-Fibre Arrangement</td>
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<tr>
<td>NGO</td>
<td>non-governmental organisation</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>R&amp;D</td>
<td>research and development</td>
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<td>SDPI</td>
<td>Sustainable Development Policy Institute</td>
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<tr>
<td>T&amp;C</td>
<td>textile and clothing</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>USITC</td>
<td>United States International Trade Commission</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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The Employment Challenge of the Agreement on Textiles and Clothing: Scenario and Strategies for Pakistan

Karin Astrid Siegmann

Abstract

In January 2005, the quota system for imports of textiles and clothing was phased out and gave way to more liberalized global trade in textiles and clothing. The T&C industry is Pakistan’s main export engine. It is also a major industrial employer, and one of the few sectors that provide paid employment to female workers.

The policy paper highlights the potentially negative impact of the phase out of the textile quota regime on employment-intensive garment production in Pakistan. This sub-sector also provides most employment for women workers. It demands mitigation of the expected social costs, for example, through skill upgrading, consistent implementation of existing labor laws and their extension to informal sector workers, as well as proactive policies that link Pakistani garments’ market access abroad with special regard for working conditions at home.

1. The Employment Challenge of the Agreement on Textiles and Clothing

“The expiration of textile and clothing quotas in January 2005 will exacerbate disruption in the global marketplace. This will lead to a catastrophic transfer of wealth and the loss of at least 30 million direct jobs, mostly in developing and least developed countries. The heaviest burden will fall on women, who represent the majority of employment in this sector.”

(Global Alliance for Fair Trade in Textiles and Clothing, 2004)

In January 2005, the quota system for imports of textiles and clothing was phased out, giving way to more liberalized global trade in textiles and clothing1. The Multi-Fibre Arrangement (MFA), established in 1974, defined quotas for textile imports that were to be gradually phased out under the Agreement on Textiles and Clothing (ATC), launched under the World Trade Organization (WTO) in 1995. The above quotation summarizes some of the main concerns regarding the ATC expiry. It is the employment intensity of the textile and clothing (T&C) industry in the developing countries - particularly involving female workers – that makes the running out of the quota regime in January 2005 a hotly debated issue for human development.

The T&C sector is Pakistan’s biggest exporter and its largest industrial employer. It is, therefore, highly relevant to explore the implications of the ATC expiry for Pakistan, and develop strategies how to mitigate potentially adverse employment effects.

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1 Textiles are woven or knit fabric, made from natural or synthetic fibres, filaments or yarns, suitable for further processing into apparel (Oxfam International, 2004). Clothing relates to made-up articles, wholly or chiefly of textile materials, commonly to be worn on a human body.
The policy paper gives an overview of the employment relevance of the T&C industry globally, and particularly in Pakistan (sections 2 and 3). The likely global employment effect of the ATC expiry will be sketched in section 4. The probable gendered consequences of the end of the quota regime for Pakistan will be discussed in section 5. The final section suggests policy reactions to the employment challenge posed by the ATC.

2. Global Employment Relevance of the Textile and Clothing Industry

The labor-intensive production has been the main driving force of the export-oriented model in the developing countries during the past 20 years. The employment-intensive textile and clothing sector has been particularly the classical start-up industry for the developing countries to export on their own. The sector’s low research and development (R&D) intensity favored the engagement of domestic companies. It means, even in a context where capital is scarce and sophisticated technology and skills are not available, T&C units can be established (UNCTAD, 2004; Joekes, 1995).

Overall, about 27 million workers are employed in the T&C industry globally. Whereas employment in the textiles sub-sector has stagnated around 16 million workers since 1980, clothing has grown considerably to a workforce of 11 million in 1998 (ILO, 2000).

Since the 1970s, a huge transfer of employment in the T&C industry has taken place from the industrialized to the developing countries, as can be gauged from Table 2.1.

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<tbody>
<tr>
<td>Japan</td>
<td>1713</td>
<td>576</td>
<td>-1137</td>
<td>-66</td>
<td>China</td>
<td>3281</td>
<td>5270</td>
<td>1989</td>
<td>61</td>
</tr>
<tr>
<td>US</td>
<td>2277</td>
<td>1161</td>
<td>-1116</td>
<td>-49</td>
<td>Bangladesh</td>
<td>131.7</td>
<td>679.7</td>
<td>548</td>
<td>416</td>
</tr>
<tr>
<td>UK</td>
<td>982</td>
<td>258</td>
<td>-724</td>
<td>-74</td>
<td>Indonesia</td>
<td>146.7</td>
<td>637.7</td>
<td>491</td>
<td>335</td>
</tr>
<tr>
<td>Germany</td>
<td>880</td>
<td>285</td>
<td>-595</td>
<td>-68</td>
<td>Sri Lanka</td>
<td>26.8</td>
<td>130.3</td>
<td>103.5</td>
<td>386</td>
</tr>
<tr>
<td>France</td>
<td>816</td>
<td>241</td>
<td>-575</td>
<td>-71</td>
<td>Malaysia</td>
<td>14.8</td>
<td>103.3</td>
<td>88.5</td>
<td>596</td>
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Source: OECD (2005); Ferenschild and Wick (2004)
Note: *Figure for 1980

The much lower labor costs in the developing countries was one factor triggering this transfer, along with the production in the shadow of the quota regime of the MFA, which in 1995 was replaced by the ATC. Thus, the MFA, and later the ATC, originally designed to protect industrialized countries’ employment facing damage from increasing imports, particularly from developing countries, also became a factor in transferring employment to them. Some countries, such as Bangladesh, managed to develop a T&C industry protected by the quota. In Nepal, the T&C industry grew as a direct result of quota constraints on Indian exports (UNDP, 2005).

The T&C sector absorbs a high share of female employment globally. Employment in T&C
accounts for almost one-fifth of the total world female labor force in manufacturing (Joekes, 1995). Overall, they represent 30% of the workforce in the textiles and 75% in the clothing sub-sectors, respectively (Ferenschild and Wick, 2004). This is mirrored in figure 2.1. Pakistan and India display a relatively low relative female employment in the industry due to a more significant textile, rather than the garment production, in the two countries. The feature will be discussed in more detail in the next section.

3. Employment in the Pakistani Textile and Clothing Industry

The large-scale textile and clothing sector now caters for 9% of Pakistan’s gross domestic product (GDP), 46% of manufacturing activity, and 68% of export earnings (Ministry of Finance, 2004). The focus of Pakistan’s T&C sector is on early stages of processing, i.e. ginning, spinning, and weaving. The number of apparel production units is estimated at about 5,000, (Ministry of Finance, 2003), mainly located in Karachi and Lahore. Roughly 80% of it is cottage industry (USITC, 2004).

Figure 3.1 illustrates that in international trade as well, the stress is on early stages of textile processing. Cotton fabrics and cotton yarn are the largest portions of Pakistani textile exports. Knitwear and made-ups also have a significant share in the export composition. This is reflected in the comparative performance of Pakistani T&C exports. The share of Pakistani cotton yarn in world trade is about 30%, and its portion of coarse cloth trade globally is 8%. However, the country’s overall share in T&C exports is about one percent only due to the poor performance of the clothing sub-sector that creates a comparatively higher value-added (Federal Bureau of Statistics, 2004).

Figure 3.1: Major exports of cotton manufactures, 1995-2003 (USD million)

Pakistan’s T&C industry employs 38% of industrial sector workers. According to estimates, the total workforce in the T&C industry, including informal employment, totalled 2.3 million in 2000 (Azam,
In the companies investigated during a survey conducted by the Sustainable Development Policy Institute (SDPI), the largest share of the workforce was employed in stitching. Another large portion of the workforce is employed in cottage weaving units (Siegmann, 2004).

The T&C industry is the largest employer of female workers in Pakistani manufacturing. An estimated 30% of the sector’s workforce is female compared to a national average of 15% (Federal Bureau of Statistics, 2003). Relative female employment in stitching is considerably higher, ranging from 75% to 41% of the total workforce in the respective units. Employment in spinning, weaving, and processing was found to be exclusively male.

Due to social seclusion of women, commonly practised in Pakistan, female labor market participation is relatively low. Against this background, the strong representation of women in the T&C industry makes the ATC a gender equality issue – potentially impinging on one of the few sectors that provides paid employment to women in Pakistan.

Observers agree that the working conditions in Pakistan’s T&C sector, particularly health and safety conditions need substantial improvement (Aslam Zafar and Miraj, 2004; Ghayur and Zar, 1993; Taj, no date). Typical health hazards include the cotton or yarn dust inhaled by workers in spinning, weaving, sizing, and knitting. These are male-dominated production units. It may lead to asthma, tuberculosis, whooping cough, and cancer (Taj, no date). The high noise level in the units may impair their sense of hearing (Aslam Zafar and Miraj, 2004). In processing, the chemicals applied for bleaching and dyeing represent health hazards for the predominantly male workforce. Resulting health problems include chest illnesses and skin diseases.

During the fieldwork conducted, working conditions in large, composite units were found to be better than in smaller units or cottage industries (Siegmann, 2004).

Commonly workers are regular employees of their respective companies (Ghayur and Zar, 1993). The female-dominated stitching employment is an exception in this respect. In the establishments surveyed, the majority of workers in stitching are employed via sub-contractors and paid on a piece rate (Siegmann, 2004).

4. The Global Picture: Employment Losses Likely Result of ATC Expiry

As mentioned at the outset, the “Brussels Communiqué”, issued by T&C manufacturer’s associations from 47 countries in June 2004, assumed 30 million jobs to be at stake globally after the abolition of the quota regime (Global Alliance for Fair Trade in Textiles and Clothing, 2004). The figure is a very high estimate, given that the overall employment in the sector is of a similar magnitude.

However, most observers agree that a major shift in production, and thus employment to a large extent, cost-efficient producer countries, such as China and India, is likely – away from a large number of exporting countries in Asia, Latin America, and Africa (Nordås, 2004; USITC, 2004). Most of them, like Pakistan, are developing or least developed countries (LDCs). The International Textile, Garment and Leather Workers’ Federation (ITGLWF) estimates that more than one million jobs will be lost in Bangladesh. Similar figures are expected for Indonesia. In Sri Lanka, about 350,000 jobs are under threat (ITGLWF, 2005). The first months after the expiry of the quota regime have proven the apprehension right. As its imports to industrialized markets are no longer constrained by quotas. T-shirt imports from
China to the EU have risen by 187% compared to the same period in 2004. The surge replaced imports by Pakistan, Sri Lanka, and Bangladesh among others (ICTSD, 2005b).

Therefore, the LDCs requested in October 2004 that the WTO Secretariat prepare a report suggesting ways to maintain market shares in the T&C sector to ensure a smooth transition after the expiry of the quotas (ICTSD, 2005a). The final mandate for this study is considerably watered down from the LDCs’ original request. The initial focus was on social costs for the developing countries, particularly in terms of employment losses for the largely female workforce. In this context, Sri Lanka and Turkey stressed that the LDCs are not the only ones negatively affected by the ATC expiry (ICTSD, 2004b).

Overall, the WTO’s reaction to the employment challenge posed by the ATC expiry has been alarmingly low. It raises the question how serious the WTO and its members individually take the organization’s commitment to sustainable development as included in the WTO’s preamble and, consequently, to the principle of Special and Differential Treatment for developing countries, i.e. special treatment for developing countries that are WTO members.

5. **The Pakistani Perspective: Potential Employment Impact of the ATC Expiry**

The textiles and clothing industry in Pakistan prepared for the post-quota era by machinery upgrades. Overall, four billion dollars have been invested in the industry from 1999 to 2003 (Ministry of Finance, 2004). Almost half of the investment went into spinning, whereas the female-dominated clothing sector obtained less than 5% of the total. Due to the labor-saving nature of many of these investments, e.g. in weaving, knitting, and processing, capacity increases do not necessarily add to the workforce. Stitching units were found not to be the primary targets for machinery upgrades (Siegmann, 2004). However, the scope for labor-saving efficiency improvements here is limited, as one sewing machine has to be operated by one person. The expansions in these units consequently do translate into additional employment.

Textile exports between July and December 2004 declined by 2.7% compared to the previous year’s period. The three categories that are most employment-intensive, i.e. cotton fabrics, bed wear, and ready-made garments show a mixed performance. Whereas exports of cotton fabric grew by a modest 2%, the value of both bed wear and ready-made garments exports decreased by 23% and 20%, respectively (State Bank of Pakistan, 2004)\(^2\). The development is paralleled by a negative production growth of large units in such high value-added items. However, the latter two categories are the ones that display a high concentration of female workers. So far, no figures are available about the export performance after the expiry of the ATC. Anecdotal evidence demonstrates that producers of textiles experience an increased demand, whereas garment exporters are losing orders to China.

One can assume these trends to bear the following implications for employment in the Pakistani T&C industry:

Employment in the units affected by labor-saving investments is predominantly male. Capacity increases have a more positive impact on employment in the units with a high concentration of female workers, as they are labor-intensive. Expansions, thus, translate into additional employment. In the short run the

\(^2\) One can assume that the drop in bed wear exports is caused by the embargo of bed wear exports by the US due to over-shipment in this category and the imposition of an anti-dumping duty on this sector by the EU (State Bank of Pakistan, 2004) and thus does not necessarily indicate a trend.
preparations for more liberalized trade in textiles and clothing might have increased relative female employment in the industry.

The long-term employment effects of the full implementation of the ATC are less clear. They depend on the structure of the industry after the abolition of the quota regime, and thus on the competitive position of the Pakistani T&C industry in the post-quota era. It will be influenced by the policy reactions of major importers and exporters in the global market for T&C\textsuperscript{3}. It is highly probable that Pakistan will not be competitive in garments, but specializes in cotton yarn and cloth. This is because of the fact that the clothing industry has not been the focus of technology upgrading, enhancement of workers’ skills, and quality improvements.

The scenario would lead to a large number of job losses, as the clothing industry is considerably more labor-intensive than earlier stages of textile processing. Given its capital-intensity, it is unlikely the textile sub-sector, apart from made-ups such as bed wear, will absorb a large number of workers. Due to the concentration of women workers in the garment sub-sector, it would also imply a significant decrease in relative female employment. This might destroy these women workers’ hopes for economic and overall empowerment, and uplifting of their families.

Apart from overall employment and the gender composition of the workforce, the regime change will affect working conditions. Increased competition in global trade in textiles and clothing will lead to downward pressure on prices, and increased demand for shorter lead times and better quality. Increased cost competition for the Pakistani T&C industry might lead to an increase in precarious forms of employment, in particular piece-rate payments in stitching. They provide more flexibility to the employer and reduce overhead costs. For the worker, such contract types imply an increase in health and safety risks as well as a decrease in fringe benefits, e.g. health insurance. Again, due to the concentration of female workers in stitching, this can be assumed to affect female rather than male workers.

6. Special Mitigation Measures Needed

The scenario implies that special mitigation strategies are needed for garment workers – most of them are female – in the sector.

The Islamabad Action Plan, developed in October 2004 by representatives of more than 20 Pakistani trade unions, federations, women’s organizations, and other labor-related non-governmental organizations (NGOs), stressed the government’s and employers’ responsibility to set up targeted social safety nets for workers who are dismissed due to the ATC expiry (FES and SDPI, 2004). They may include counseling, skill upgrading, entrepreneurship programmes, access to loans etc. A special effort should be made to reach vulnerable female workers due to significantly lower chances for alternative employment they face. Bangladesh, for example, has plans to train 40,000 garment workers to improve their skills in 2005, in a partnership with a non-profit organization (UNDP, 2005).

In order to better protect T&C workers against becoming a buffer for intensified trade after the quota expiry, the government and employers were also urged to implement existing labor laws, extend them to contract and informal sector workers, and to workers in export-processing zones. It is crucial that sanctions should be imposed for violations of workers' rights. Women workers are particularly vulnerable

\textsuperscript{3} The US has invoked safeguard measures against the surge of Chinese imports of textiles and clothing in May 2005. The EU is investigating into the use of similar measures.
due to their concentration in precarious types of work, such as piece-rate contracts and home-based work. The ILO might be able to assist the implementation of these suggestions.

Apart from these directly employment-related proposals, the government should support quality insurance in the T&C industry in order to meet international standards. It would help to enhance productivity, quality, and labor standards, and thus guarantee decent work in globally competitive jobs.

At the multilateral level, it was demanded to lobby the WTO to provide technical assistance to mitigate the social costs of the industry’s restructuring, to develop, strengthen, and diversify the country’s production and export base. It was seen as an effort to balance the biased distribution of cost and benefits of the ATC, which might benefit consumers and transnational corporations in the North while hurting producers and – in particular - their workforce in the South.

Finally, duty-free access of employment-intensive Pakistani garments to markets of industrialized countries should be included in bilateral trade agreements in exchange for special regard for labor standards.

7. References


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4 So far, Pakistan did not play a pro-active role in this respect. Until December 2004, Pakistan, besides India, and China, in particular, had blocked the approval of the WTO technical assistance and training plan for 2005. It had included regional seminars on textiles and clothing addressing the post-quota environment (ICTSD, 2004c).