FREE TRADE AND UNEVEN DEVELOPMENT

The North American Apparel Industry after NAFTA

EDITED BY GARY GEREFFI, DAVID SPENER, AND JENNIFER BAIR

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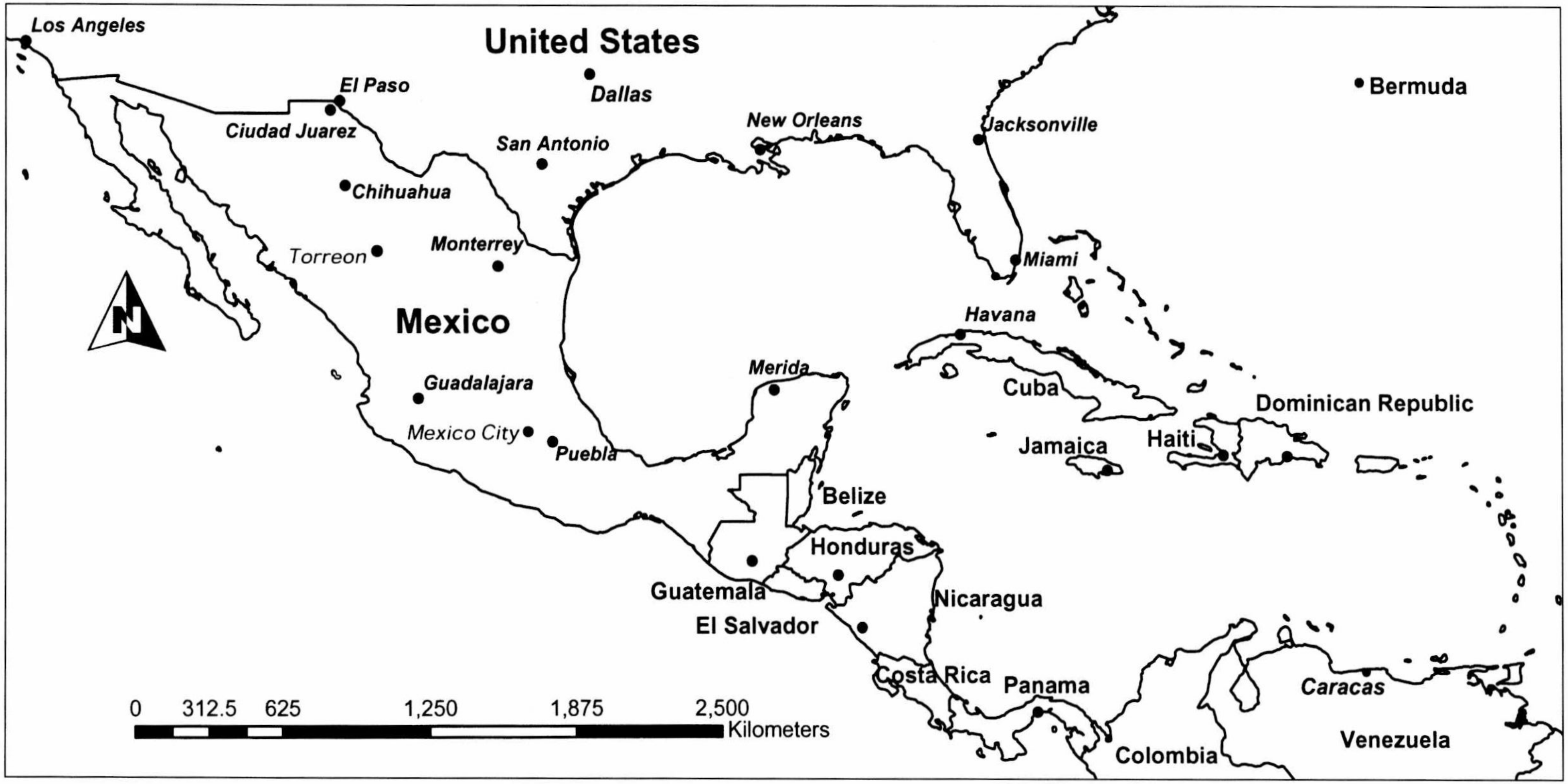

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Part I

Analytical Overview

David Spener, Gary Gereffi, and Jennifer Bair

1 Introduction: The Apparel Industry and North American Economic Integration

The economic and social consequences of international trade agreements have become a major area of inquiry in development studies in recent years. As evidenced by the energetic protests surrounding the Seattle meeting of the World Trade Organization (WTO) in December 1999 and the controversy about China's admission to the WTO, such agreements have also become a focus of political conflict in both the developed and developing countries. At issue are questions of job gains and job losses in different regions, prices paid by consumers, acceptable standards for wages and working conditions in transnational manufacturing industries, and the quality of the environment. All these concerns have arisen with regard to the North American Free Trade Agreement (NAFTA) and can be addressed through an examination of changes in the dynamics of the apparel industry in the post-NAFTA period.[1] In this book, we examine the evolution of the apparel industry in North America in order to address some of these questions as they pertain to North America, with an eye toward the broader implications of our findings. We also consider the countries of the Caribbean Basin and Central America, whose textile and apparel goods are now allowed to enter the U.S. market on the same basis as those from Canada and Mexico (Odessey 2000).

Globalization and Regionalization of the Apparel Industry

As Michael Mortimore notes in Chapter 14, the apparel industry has served as a crucial stepping-stone in the economic development of all the advanced industrialized nations and it has also been an important engine of growth for the successful newly industrializing economies of East Asia. Apparel manufacturing is traditionally one of the largest sources of industrial employment for most countries. In addition, apparel is a quintessential global industry. It exemplifies, more than any other industry, the process by which firms have relocated their labor-intensive manufacturing operations from high-wage regions in the advanced industrialized countries to low-cost production sites in industrializing nations.

Traditional low-tech forms of production are linked with advanced communications and information technologies in a complex postmodern web of design, manufacturing, marketing, and distribution.

The internationalization of garment manufacturing began earlier and has extended further than that of any other industry. Since the 1960s, the newly industrializing economies, led by East Asia and followed more recently by Latin America, have seen a massive increase in export-oriented production (Appelbaum, Smith, and Christerson 1994; Bonacich et al. 1994; Christerson and Appelbaum 1995; Gereffi 1994, 1999; Mittelhauser 1996, 1997; Murray 1995). World apparel exports grew from a modest $3 billion in 1965, with developing countries accounting for just 14 percent of the total, to $119 billion in 1991, with developing countries supplying 59 percent (Murray 1995). The U.S. market was the recipient of the largest share (around one-third) of apparel exported by the newly industrializing economies (Murray 1995), and U.S. apparel imports grew from just $1 billion in 1970 to nearly $22 billion by 1990 (Bonacich and Waller 1994, 24). By 1998 the world market for apparel exports was valued at $200 billion, and U.S. apparel imports represented more than one-quarter ($54 billion) of the world total (see Tables 2.1 and 2.2 in Chapter 2).

By 1995 imported garments accounted for over half of apparel purchases in the United States (Mittelhauser 1996). More than any other industry, apparel manufacturing has exemplified the emergence of a new international division of labor, as the rise in Third World imports has been accompanied by massive declines in employment in advanced industrial countries such as the United States. Table 1.1 documents the resulting employment shifts in the North American apparel industry. U.S. apparel employment peaked at around 1.4 million workers in 1974. By 1990 around a third of those jobs had either disappeared or been transferred to overseas production sites (Bonacich and Waller 1994; Mittelhauser 1996, 1997; Murray 1995), and this trend of increasing import penetration coupled with massive job loss continued through the end of the twentieth century. By 1998 garment employment in the United States had fallen to just over 750,000 workers (American Apparel Manufacturers Association 1999), while garment imports had risen to nearly $50 billion, more than double their 1990 level (U.S. Department of Commerce 1999).

Canadian apparel employment has been more uneven throughout this period. The Canadian industry suffered its greatest decline in the late 1980s, following the implementation of the Canadian-U.S. Free Trade Agreement. The industry has since rebounded under NAFTA, with apparel employment in Canada increasing from 82,800 in 1994 to 93,700 in 2000 (see Table 1.1).

Whereas the Northeast Asian economies once dominated developing-country apparel exports to the United States, since the mid-1980s the countries of the Caribbean Basin and Mexico have risen to prominence. In 1990 the Northeast Asian economies (China, Hong Kong, Taiwan, South Korea, and Macao) exported a total value of $13.7 billion worth of garments to the United States, accounting for more than half of total U.S. imports. By 2000, however, these economies' share of total U.S. garment imports declined to less than 30 percent. Meanwhile, garment exports from Central America,[2] the Caribbean, and Mexico skyrocketed from $2.7 billion in 1990 to over $18.4 billion in 2000, accounting for nearly 30 percent of U.S. total apparel imports. Particularly dramatic was Mexico's rise to become the top-ranked garment exporter to the United States at the end of the century, as its exports grew from just $709 million in 1990 to over $8.7 billion in 2000 (see Table 2.2 in Chapter 2).

TABLE 1.1. Employment in the North American Apparel Industry, 1985–2000 (thousands of workers)

	1985	1988	1991	1994	1995	1996	1997	1998	1999	2000
Canada	89.9	95.8	64.3	82.8	85.5	89.9	87.4	91.9	91.1	93.7
United States	1,120.4	1,085.1	1,106.0	974.0	935.8	867.7	823.6	765.8	690.1	633.2
Mexico[a]	146.8	196.4	221.3	231.3	263.2	395.6	454.9	761.9	607.0	557.0

Sources: Statistics Canada, *Employment, Earnings and Hours;* U.S. Bureau of Labor Statistics; INEGI, *Censos Economicos.*

[a]Mexico's figures in this table include maquiladora and non-maquiladora apparel employment. The 1999 and 2000 employment figures are estimates based on data from the Camara Nacional de la Industria del Vestido and *Apparel Industry Magazine,* respectively.

The movement of garment production to the Caribbean Basin and Mexico has been promoted by U.S. government policies, including:

- provisions of the U.S. tariff code that have encouraged the growth of production in maquiladoras, which are plants that assemble U.S.-made components that are then exported back into the United States, with tariff paid only on the value added in the exporting country;
- the Caribbean Basin Initiative (CBI), which gave preferential access to U.S. markets to the countries of Central America and the Caribbean beginning in the 1980s;
- the progressive lifting, since the late 1980s, of U.S. quotas limiting apparel imports from developing countries; and, most recently,
- the North American Free Trade Agreement, which, together with the 1994–95 peso devaluation, has cemented Mexico's position as "the low-cost manufacturing center of North America" (Martin 1995).

These policy changes have substantially altered the conditions that confront garment manufacturers who wish to produce for the U.S. market. Particularly dramatic has been the effect of NAFTA on Mexico's garment production for export. In 1994, the first year that NAFTA was in effect, 412 maquiladoras employed 82,500 workers sewing garments (Figure 1.1). By December 2000 there were more than 286,000 workers sewing garments in 1,119 maquiladoras in Mexico.[3] The number of maquiladora workers fell in 2001 to 276,700, though the number of maquiladora plants dedicated to apparel production increased to 1,125. Despite this dip in employment, the number of workers employed in apparel maquiladoras in 2001 was more than three times greater than in 1994 (INEGI 2001). The expansion of the maquiladora sector is evidence of Mexico's impressive NAFTA-era export dynamism in the apparel industry. Although exports from the Caribbean Basin countries have also been strong in recent years, these economies were disadvantaged by the region's exclusion from NAFTA. The passage of the Trade and Development Act of 2000 by the U.S. Congress extends a weak version of NAFTA parity to the region, but it is too early to tell what impact it will have in increasing the CBI's export dynamism relative to Mexico.

In addition to the quantitative boom in Mexico's apparel exports in the post-NAFTA period, production in this economic sector is undergoing a qualitative transformation. Beside the growth of maquiladora sewing operations Mexico has witnessed the emergence of cutting, laundering, and finishing operations, as these parts of the production process are moved south of the U.S. border to various sites that are undertaking "full-package" production. This upgrading of Mexico's productive capacity has, in turn, attracted a number of

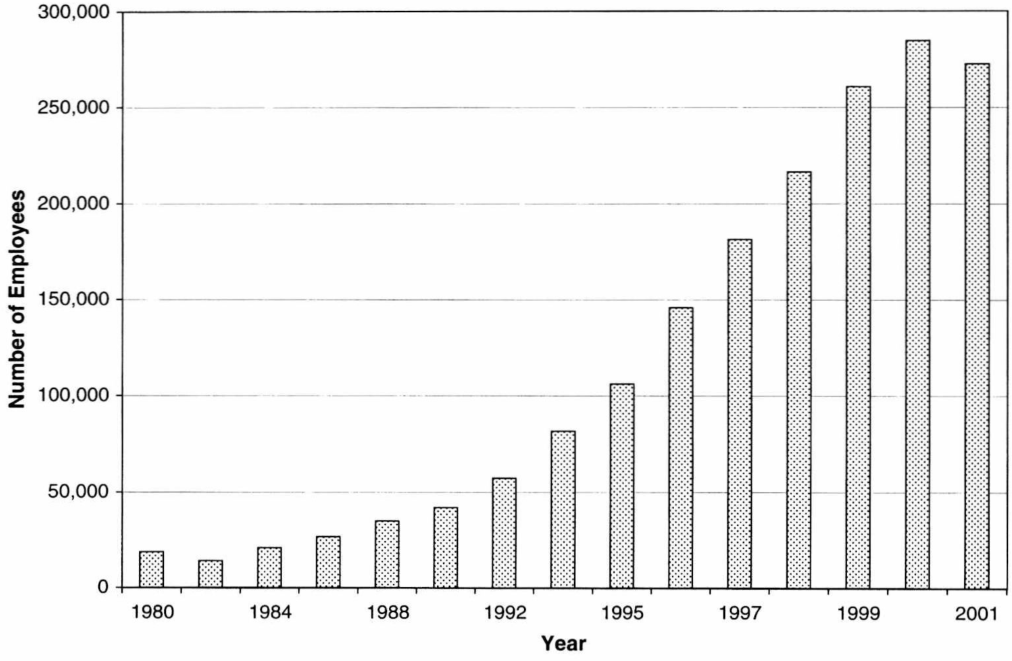

FIGURE 1.1. Employment in Mexico's Apparel Maquiladoras, 1980–2001
Source: INEGI, "Banco de información económica," data available at <http://www.inegi.gob.mx>.

large textile producers, including Burlington Industries and Cone Mills, which alone or in concert with Mexican firms have opened plants in Mexico's interior for the production of fabrics.

With regard to product segments, Mexico is not only gaining in standardized apparel but also making inroads in the fashion sector that has traditionally been dominated by Asian firms. The emphasis is, nevertheless, still on men's sport-fashion apparel (e.g., designer jeans) rather than women's apparel (although some women's brands are being produced in Mexico for labels such as Donna Karan, DKNY, and the Limited). As a consequence, Mexico's apparel exports to the United States remain dominated by such mass-produced, standardized garments as men's trousers and shirts, women's trousers, and brassieres (U.S. Department of Commerce 1999; Gereffi 2000).

Most studies indicate that the overall impact of NAFTA on employment and wages in the United States has been quite small; implementation of the agreement, however, has contributed greatly to the elimination of direct production jobs in apparel manufacturing. Although the apparel industry accounted for just 7.3 percent of all manual jobs in U.S. manufacturing in 1998, 30 percent of the NAFTA-induced job losses documented by the U.S. Department of Labor between 1994 and 1999 were accounted for by apparel workers whose plants moved to Mexico or laid off workers in response to surging imports. Overall, apparel employment in the United States declined by 14 percent from 1993 to 1997, with the bulk of this loss occurring in states such as Tennessee and the Carolinas that, like Mexico, specialized in the mass production of standardized garments (Spener and Capps 2001).

As mass-production jobs in the industry were lost, the leading garment districts in New York City and especially Los Angeles retained jobs not only in design but also in direct production by relying on immigrant workers to sew small-batch, high-fashion garments. Indeed, although overall U.S. apparel employment declined precipitously in the 1990s, the net number of immigrant workers engaged in sewing and other direct-production tasks actually grew from 265,000 in 1990 to 296,000 by 1999, an increase of more than 10 percent. As native U.S. employees lost their apparel jobs or found better work in other fields, the immigrants' share of direct-production apparel jobs rose dramatically, from around one-quarter of the total U.S. garment workforce in 1990 to nearly one-half by 1999 (Spener and Capps 2001; see also Chapters 3 and 4 in this volume, by Florence Palpacuer and Judi Kessler, respectively).

The principal reason for the growth of immigrant employment in the U.S. apparel industry during the 1990s was Los Angeles' prominence as the leading garment district in the United States. There employment in the industry grew throughout the decade, while it declined nearly everywhere else. In 1990 more than 90 percent of Los Angeles garment workers were foreign born, the majority being Mexican, even though Mexicans made up just 9 percent of all garment workers nationwide. By the end of the decade, however, 20 percent of all garment workers in the United States were Mexican immigrants, with most of these working in Los Angeles. Thus we see that Mexico has come to play a doubly important role in the production of garments for the U.S. market, with more than 280,000 Mexicans working in apparel maquiladoras south of the border and another 128,000 sewing, cutting, and finishing garments north of it (Spener and Capps 2001).

Apparel Production in the Era of NAFTA: The Dynamics of Interfirm Networks

The purpose of this book is to document the ways in which firms in the textile-apparel complex have responded to the changed trade environment in terms of new production and marketing strategies and, in turn, to consider the implications for job creation and retention, wages, and working conditions in various regions in Mexico, the United States, Central America, and the Caribbean. Given the rapid pace of change in the geography of production in recent years, there is a great deal of room for new documentation and analysis in the academic literature on the organization of the industry. This is in itself an important task, given that the textile-apparel complex has, until recently, been the largest U.S. manufacturing sector in terms of employment and also has come to play a substantial role in the Mexican, Central American, and Caribbean economies. With this collection of essays we are able, at a minimum, to provide a useful service to readers by updating the extant literature on the global apparel industry (e.g., Bonacich et al. 1994; see also chapters on apparel in diverse edited volumes, such as Gereffi and Korzeniewicz 1994; Gereffi and Kaplinsky 2001).

Nevertheless, this book does much more than update earlier works. The emergence of an integrated North American regional economy in the latter half of the 1990s constitutes a qualitative change in the dynamics of the apparel industry that requires new forms of analysis. While a great deal can be gained by simply studying the effects of national trade policies and exchange rates on the geography of production, such an approach fails to explain the important shifts that are occurring within countries as well as the socioeconomic consequences of such subnational or local transformations. Contributors to this book