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Philippine Garments in the Post-MFA Era: Seeking Protection via Free Trade?

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Abstract: The Philippine garments industry grew rapidly under the quota system of the MultiFiber Agreement (MFA). However, in the post-MFA environment, the industry has been shrinking continuously. One solution being pursued by the government is the development of a bilateral sector-focused free-trade between the United States and the Philippines. This means the assembly of duty-free American-made textiles in the Philippines and their re-export, also duty free, as Philippine garments destined to the American market. The author argues that this proposed arrangement is not necessarily a solution to the Philippine garments crisis given the realities in the global garments market and the weaknesses of the Philippine garments industry. The author concludes that the absence of a strategic industrial policy supportive of an integrated program of industrial development and upgrading is what contributed to the earlier collapse of the Philippine textile industry. This is also the main reason for the present crisis of the country's garments industry.

Keywords: industrial policy, Philippines, post-MFA, save our industries act

JEL Classifications: F13, F14, L32, L67

1. Introduction

The Philippine garments industry was predicted as one of the likely losers in a liberalised post-MFA global environment (Sajhau, 2005; de Jonquieres, 2004). The main explanation for this was the overwhelming dependence of the industry on the market quotas provided by the MFA from the mid-1970s up to the mid-1990s. Hence, the end of the MFA in 2005 meant the end of a sure market for Philippine apparel exports.

This paper gives an overview of the state of the Philippine garments industry six years after the quota phaseout. It seeks to assess the strengths and weaknesses of the industry survival program being pursued by the government. The paper also discusses other survival and development options for the industry, before concluding with a brief discussion of the status of the laid-off garment workers and prospects for the industry in coming years.

2. Philippine Garments Industry: From One Million to 100,000 Workers

Six years after the end of the MFA's quota system, the once-robust Philippine garments industry looks like a dying industry. In 1995, the Philippines was the 5th largest exporter of garments to the United States, the world's biggest market for garments (see Table 1). In 2009, or 15 years later, the Philippines slipped down to 14th, overtaken by the new Southeast Asian exporting nations of Cambodia and Vietnam. The Philippines is also hardly mentioned today in the numerous Asian forums on the garments industry – either as a garments export platform or as an investment destination for garments producers.

Table 1: Top Garment Exporters to the US, 1995, 2000, 2005, 2009
(Value of Exports to US in $US million; Exports to US as Percentage of World's Total Export Value)

Country	1995		2000		2005		2009	
	Value	%	Value	%	Value	%	Value	%
China	6,170	14.9	8,924	13.3	21,138	26.4	28,201	39.1
DR-CAFTA	*4,920*	*11.9*	*9,341*	*13.9*	*9,413*	*11.8*	*6,405*	*8.9*
Vietnam	--		--		2,911	3.6	5,332	7.4
Indonesia	1,376	3.3	2,333	3.5	3,163	4.0	4,154	5.8
Mexico	*2,904*	*7.0*	*8,809*	*13.1*	*6,374*	*8.0*	*3,580*	*5.0*
Bangladesh	1,142	2.8	2,279	3.4	2,537	3.2	3,580	5.0
India	1,379	3.3	2,157	3.2	3,376	4.2	3,126	4.3
Cambodia	--		--		1,818	2.3	1,950	2.7
Thailand	1,209	2.9	2,276	3.4	2,351	2.9	1,765	2.4
EU-15	2,003	4.8	2,644	3.9	2,535	3.2	1,646	2.3
Pakistan	--		--		1,447	1.8	1,467	2.0
Sri Lanka	1,029	2.5	1,609	2.4	1,796	2.2	1,319	1.8
Malaysia	1,253	3.0	1,380	2.1	--		1,300	1.8
Philippines	*1,685*	*4.1*	*2,037*	*3.0*	*1,949*	*2.4*	*1,071*	*1.5*
Jordan	--		--		--		791	1.1
Hong Kong	4,566	11.0	4,808	7.2	3,738	4.7	--	
Korea	1,923	4.6	2,591	3.9	1,319	1.6	--	
Taiwan	2,261	5.5	2,285	3.4	--		--	

Source: Extracted from Table 2 of Gereffi, G. and Frederick, S. (2010).

The steep decline of the industry is reflected in the dramatic drop in the number of workers involved in it. During its boom years in the early 1990s, the industry employed over 300,000 factory workers and around 700,000 piece-rate home-based workers, the latter doing mostly embroidery and other outsourced jobs under a complicated sub-sub-contracting system (Ofreneo, 2009). Today, the Department of Trade and Industry (DTI), in its website[1] put the number of workers remaining in the industry at around 100,000.[2] This website is part of the DTI's campaign for the passage in the US Congress of a bill entitled "Save Our Industries Act", a measure aimed at securing a market for Philippine garments using American-made textiles.

The shocking decline in the number of employed garments workers – from one million to 100,000 – was not surprising given the one-sided dependence of the industry on the MFA quotas. The industry grew rapidly in the quota period, from 1976 to 1995. The Philippine quota users even included "quota refugees" from the Asian NICs (South Korea, Taiwan and Hong Kong), which either located in the country's export processing zones (EPZs) or in the bonded warehousing manufacturing units (BWMUs). The latter are manufacturing outfits licensed to import raw materials duty-free on the condition that the assembled garments are fully re-exported (Ofreneo, 1993).

And yet, the steep employment decline was not severely felt in the labour market since the factory closures and the consequent layoffs were spread out over a period of one and a half decades, from the mid-1990s up to the end of the first decade of the new millenium. In short, the industry contracted gradually from 1995, which was the beginning year for the ten-year phasing out of MFA quotas as provided for by the Agreement on Clothing and Textiles (ACT) of the World Trade Organisation (WTO), up to the post-MFA period starting in 2005.

The closures hit almost all the big unionised factories, most of which were not really losing when they shut down. They simply wanted to transfer to more profitable or conducive sites where labour is presumably cheaper, more docile and non-unionised. Thus, in 1995, the first garments company to close down its Philippine operations was Aris Philippines, a subsidiary of Aris New York, a division of Sara Lee New York. A producer of dress gloves, ballet shoes, hats and scarves, Aris was a pioneer garments producer in the Philippines (established in 1962) and was the biggest garments exporter (value-wise). It employed around 8,000 workers, most of whom were covered by the collective bargaining agreement (CBA) negotiated by the Confederation of Free Workers (CFW). Aris Philippines was relatively profitable and yet Aris New York still decided to phase out Philippine operations in favour of relocation to China and other countries (Andoyo and Orendain, 1997).

Aris was followed by a series of factory closures in the second half of the 1990s up to the early 2000s. In the last two years of the MFA, the closures accelerated, with the list of 1,200 manufacturers and 1,150 sub-contractors registered in 2002 shrinking to 887 manufacturers and 780 sub-contractors in 2004 (Sajhau, 2005). In 2006, or a year after the onset of the quota-less period, the remaining large and unionised factories closed down – Karayom (with 2,000 plus workers), Novelty (with 2,300 plus workers, from a high of 10,000-plus in the 1990s) and Gelmart (with over 14,000 workers). In 2008, the world-famous Levi's closed down its own factory, followed by some of its contractor Filipino factories. In 2009, the equally world-famous Triumph, with 1,600 plus workers, shut down.

As a result of the foregoing, the membership of big labour federations like the Associated Labour Union (ALU), Federation of Free Workers (FFW), National Federation of Labour (NFL) and National Association of Free Labour Unions (NAFLU) shrank drastically. For example, ALU claims that it used to have at least 20,000 union members in the garments and textile industries – today, it has less than 2,000.[3] The Alyansa ng mga Manggagawa sa Garments at Textiles (ALMAGATE), an alliance covering several labour federations, had over 30,000 members in the 1990s – today, it has less than 1,000 workers covered.[4]

2.1 Demise of the Textile Industry

The crisis in the Philippine garments industry was preceded by the earlier collapse of the Philippine textile industry. A researcher of the Philippine Congressional Planning and Budget Office, Elsie Gutierrez (2009), virtually repeated the same findings as Ofreneo (2009) on the causes for the collapse of the textile industry. The industry had around 300 firms in the early 1970s – today, it has a handful of struggling firms. The reasons for the collapse include, among others, the following: the failure of many ageing textile firms (mostly organised in the 1950s utilising Japanese second-hand mills) to modernise; the failure of the World Bank-supported textile modernisation program to take off in the 1980s; the amazing absence of productive linkages between the home-oriented textile industry and the export-oriented garments industry; the non-development of a local fiber industry (natural and synthetic); the displacement of the locally-made textiles by the "surplus" imports made by the duty-free garments producers; the unchecked smuggling of untaxed imported textiles and yarns; and the general lack of preparedness of the local textile producers to the Philippine trade liberalisation program of the l980s and l990s. The last was part of the Philippine commitment to the World Bank's "structural adjustment program".

As a result of the foregoing, even the relatively new and modern textile mills set up in the 1980s such as Solid Mills and Litton Mills folded up at the turn of the millenium, and joined the old giant textile firms such as U-Tex and Eastern Textiles in the textile graveyard. Some of the bankrupt spinning, weaving and finishing textile firms even managed to sell some equipment and tools that are still serviceable to Vietnam and other countries in the region. The few remaining textile firms which have survived the "hollowing out" of the industry are import-dependent companies engaged in narrow activities such as the dyeing of imported textiles or the production of threads which the imports are unable to cover.[5]

3. Shrinking Garments Industry in a Post-MFA Environment

On the whole, the Philippine garments industry is a shrinking industry. Its decline started in the mid-1990s and is continuing in the post-MFA era.

The main reason for its decline is weak competitiveness. Philippine garments can not compete with those produced by other Asian countries in terms of pricing, quality and delivery (just-in-time) of export garments. The end of the quota system or the end of a sure market means the industry has to slug it out in a more open global market. This is the reason why competitiveness has been the perennial subject of the numerous industry dialogues, from the early 1990s up to the present post-MFA era. On the one hand, as far back as the early 1990s and in anticipation of the MFA phaseout, the DTI's GTEB openly espoused the idea of an industrial "transformation" or "restructuring" program. On the other hand, the National Capital Region of DOLE organised tripartite meetings in 1995 and 1996 to goad the three parties (garments industry, unions and government) to get their act together in support of an industry competitiveness program (Ofreneo *et al*., 1996).

However, national competitiveness can not be built overnight nor can it be developed on the basis solely of a tripartite unity declaration nor on the back of a hollow or rhetorical government commitment toward industrial upgrading, variedly called "modernisation", "transformation", "diversification" and "restructuring". This upgrading proposal has not been translated into a concrete action programme with measurable targets and results, although there was no shortage of ideas on what should be done to make the industry competitive.

Some of the "doables" were identified as far back as the 1980s. For example, the National Census and Statistics Office, in an industry situationer (NCSO, 1980), identified the following "most pressing" problems facing the industry: dependence on imported raw materials; lack of financing (especially for the small producers); lack of modern machinery and limited textile-garment integration. These were issues that kept cropping up throughout the 1980s and 1990s. And yet, they were never decisively addressed as illustrated by the collapse of the domestic textile industry.

3.1 The Wage Conundrum

In the mid-1990s, when participation in the global market by other Asian producers such as Vietnam became more visible, the industry began complaining about the "high" Philippine wages and cited this as the main reason for the "departure" of a number of garments investors-locators. In 1995, GTEB even came up with comparative wage data (see Table 2) showing that Philippine garment industry wages were much higher than those of the surging Asian producers like Bangladesh, China, India, Indonesia, Myanmar, Pakistan, Sri Lanka and Vietnam. The response of some garment producers to the wage issue was to avoid unionism and to place their employees on short-term or "casual" employment arrangements in order to reduce the workers' wage bargaining power (Ofreneo *et al*., 1996). Accordingly, high Philippine wages and labour militancy are "competition killers".

Table 2: Hourly Labour Cost, Garment Industry, Selected Far East countries, 1995 (in US$)

Country	*Hourly Cost*	*Rank*
Japan	20.95	1
Australia	9.98	2
New Zealand	6.91	3
Taiwan	5.18	4
Hong Kong	4.32	5
Singapore	4.01	6
Korea	3.29	7
Malaysia	1.59	8
Thailand	1.11	9
Philippines	*0.72*	*10*
Sri Lanka	0.41	11
Indonesia	0.33	12
India	0.29	13
Pakistan	0.29	13
Vietnam	0.29	13
China, P.R.	0.25	16
Bangladesh	0.20	17
Myanmar	0.13	18

Source: Ofreneo *et al*., 1996.

However, with China's wages in the coastal provinces now higher than those of the Philippines and other neighbouring countries, it is abundantly clear today that industry competitiveness is not a mere case of having cheaper wages and weaker unions. In the liberalised global garments industry, other competitive factors come into play such as the availability of affordable infrastructures, supplier reliability, availability of reasonably-priced quality raw materials (especially of cost-effective yarns and fabrics), conducive business climate (e.g., good customs procedures) and efficient logistics, all of which contribute to lower production costs and more competitive export products (van der Meulen Rodgers and Berik, 2006). Compared to China, the Philippines is obviously weak in these areas.

Moreover, the Philippines has been stuck in one area of garments production – assembly or the cutting and sewing of garments based on imported raw materials. It has failed to become a "full-service" or "full package" producer, meaning an integrated garments-textile producer which has the capacity to develop a whole range of products and services (e.g., designing, sourcing, cutting, sewing, assembling, labelling, packaging and shipping) across the production-marketing value chain (Duvillier, 2005; UNCTAD, 2005). As Gereffi and Frederick (2010) pointed out, the large global retailers and brand owners prefer to outsource these interrelated activities to full-package producers, meaning producers able to go beyond simple assembly work and are capable of doing a series of value-adding activities such as the "design, branding, and marketing of the products". Not surprisingly, Gereffi and Frederick classified the Philippines as one of the "past-prime" garments producers.

To conclude, wages alone did not make the Philippine garments industry less competitive compared to other Asian countries. The culprit is the failure of the government and industry to push for what they have been saying since the 1980s and 1990s – the need for modernisation, transformation, diversification and restructuring, all of which did not happen. The government did not have the will to walk the talk, so to speak, while industry, dependent as it is on foreign investors and on a system of international sub-contracting, is even less willing.

The best illustration of the resulting poor competitiveness of the Philippine garments industry is its inability to compete right within the Philippine domestic market. Even during the quota market days, Philippine-made garments could not compete against the "ukay-ukay", which are imported smuggled garments sold in virtually all nooks of the country (Ofreneo, 2009).

4. Save Our Industry: The Survival Solution?

What then is the government's response to the post-MFA garments crisis?

The answer is a three-letter acronym – SOI, which stands for the "Save Our Industry" Act. As pointed out, the DTI has a website dedicated to SOI, a proposed US legislative measure seeking to establish a "free trade" arrangement between the United States and the Philippines in the textile-garments sectors. The idea is for "wholly-owned" American textiles to be exported to the Philippines duty-free and to be re-exported back to the United States duty-free after being assembled as Philippines garments. The premise for this arrangement is seductively simple and seemingly logical – the United States textile industry has been losing out in the global and US market and has been shedding jobs in the process, while the Philippine garments industry has also been faltering in the global garments market. So why not save jobs for the US textile industry and the Philippine garments industry through a mutually beneficial free-trade arrangement between the two seemingly complementary industries of the two countries?

Armed with this logic, the DTI and the Confederation of Garments Exporters of the Philippines (CONGEP) have been campaigning for a sectoral (textiles-garments) "free trade" between the two countries since 2005, utilising for this purpose part of the GTEB savings[6] in order to pay for the expenses of Philippine garments "trade missions" to the United States and the legal services of American lobby and legal groups. The DTI and garments exporters eventually found some champions in the two chambers of the US Congress, who filed House Bill No. 3030 and Senate Bill No. 3170 similarly entitled "Save Our Industries Act of 2009" or "Save Act". Immediately, the DTI set up an SOI website targeting the large Filipino-American (Fil-Am) community in the United States, asking them to write to their respective US Representatives and Senators to support the Save Act. Even the popular Filipino boxer, Manny Pacquiao, has been recruited to lend a face in the mobilisation of the Fil-Am community in support of the SOI campaign. The campaign has two seemingly contradictory features – an appeal to the Fil-Am's sense of patriotism to their country of origin and an appeal to the American legislators to recognise the historic "special relations" between the two countries that has developed, based on the Philippines' past colonial relations with the United States. Accordingly, the "United States maintains special preference trading relations with all its former colonies", and yet, the same privilege is supposedly not extended to its former colony in the Far East, the Philippines.

Under the proposed legislation, if the eligible garment's "essential character is comprised of US-made fabrics and yarns and is cut and wholly assembled in the Philippines",[7] then it would qualify to re-enter the United States free of duty. However, other garments that are partly based on US yarn or materials may be given preferential treatment at 50 per cent of MFN duty. Accordingly, on the one hand the Save Act will allow American textile manufacturers to "have a meaningful opportunity to compete in Asia in the higher end fashion market" since it is in the sewing of high-value garments that the Philippines excels compared to American garments partners in the "Western hemisphere", meaning the Caribbean countries. On the other hand, the passage of the SOI is predicted to help the Philippine garments industry create 400,000 new jobs in the two years alone of an SOI-led garments recovery (Banal, 2010).

4.1 Save Our Industry Uncertainties

Will the Philippine garments industry really experience a re-birth under the SOI?

The answer is not clear. In the first place, there are uncertainties that have to be addressed by those intensively campaigning for the SOI's passage. First, the passage itself of the SOI into an American law is uncertain. In 2010, the campaign suffered a setback when the last US Congress' (111th US Congress) failed to act on the SOI bill that was originally filed in 2009. Thus, the bill is now slated for re-filing in the 112th US Congress.

The problem is that the present US Congress is fiercely divided, with the Senate controlled by a slim majority of Democrats, while the House is dominated by the anti-subsidy-oriented Republicans. The passage of a bill that will give preferential treatment to a particular sector (American textile industry) and a trading partner (Philippines) is likely to undergo close scrutiny by and fierce debates among the cost-wary American legislators and their staff. The 2011 debates on the US budget, which nearly shut down government operations, show how much divided the US Congress is on economic, trade and fiscal issues.

Also, the non-passage of the SOI in 2010 by the US Congress was due to some labour and intellectual property rights (IPR) complaints lodged against the Philippines, as reported by the US Trade Representative (USTR). Under the American trade system, the USTR is empowered to evaluate not only the provisions of all bilateral, regional and global trade agreements the United States has entered or is entering into but also to monitor compliance by trading partners with the labour and IPR standards recognised by the United States. In the case of the Philippines, the country has been the object of a 2007 complaint filed by the Kilusang Mayo Uno (KMU) with the ILO's Committee on Freedom of Association. The complaint arose out of the reported forcible and violent break-up of the workers' strikes in 2006 at the Chong Won Garments and Phil Jeon Garments, two EPZ-based Korean garments exporters (ITUC, 2007). The USTR also reported about rampant Philippine IPR violations, specifically in the distribution of unlicensed software programs and varied electronic products (Manila Bulletin, 2011).

It should also be noted that to date, the US Congress has been timid in touching any bills or proposals promoting free trade. To illustrate, it has not given the Obama Administration the traditional Trade Promotion Authority (TPA), a fast-track authority needed by an American President and the USTR in negotiating free-trade agreements. This is one reason why the prospects for the conclusion of the long-delayed Doha Round of the WTO are indeed dim. The only trade bill under consideration by the US Congress is the enabling law for the Korea-US (KORUS) Free Trade Agreement, which was negotiated in 2007 by President George Bush before the expiry of his TPA authority. The point is that the mood in the present US Congress is obviously not in favor of any new free trade proposal, especially a bilateral sectoral one like the SOI.

However, assuming that the SOI proponents will be able to muster the necessary affirmative votes in both chambers of the US Congress, there is no assurance that the Philippine garments industry will indeed fly again despite the glossy projections being made by the SOI campaigners. This is amply illustrated by the experience of the garments-exporting countries covered by two SOI-style free trade agreements – the North American Free Trade Agreement (NAFTA) and the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA).

When NAFTA became operational in 1995, Mexico's garment exports to the US market surged. American investors-buyers set up factories right along Mexico's *maquila* borders with the United States, thus facilitating the entry of American-made textiles and raw materials and their re-entry as Mexican-assembled garments. However, in recent years, Mexico has been eased out by China as the number one exporter to the US market even if China does not enjoy duty-free NAFTA privileges (see Table 1). In a powerpoint presentation, Gary Gereffi (2006), a well-known global garments trade analyst, explains that while it suffers in terms of additional transport and tariff costs, China is still able to topple Mexico as number one in the US market because China is "a lower-cost producer overall". This is due not only to China's lower labour cost but also because of China's greater efficiency and "coherent and multidimensional upgrading strategy" involving production diversification and focusing on "high value activities". Also, China became a full-pledged member of the WTO in 2001, meaning its entry into any national market cannot be restricted except by safeguard tariffs which can be overcome by China through cheaper production.

Similarly, the DR-CAFTA countries (Dominican Republic, Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua) have seen declining export shares in the US market despite the SOI-style trading arrangement that was enacted into law by the US Congress in 2005. An ILO study (Forstater, 2010), shows that the Dominican Republic, Guatemala, El Salvador and Honduras are among the post-MFA losers, along with Mexico and the Philippines. In the case of the Dominican Republic, the biggest DR-CAFTA garments exporter, employment fell by 50,000 in the 18 months following the end of the MFA quota, "as exports to the US dropped by 35 per cent and over 60 factories closed".

All this goes to show that a preferential trading arrangement alone is not a guarantee of market success, especially in the post-MFA environment. Cheaper and more efficient global exporters can overcome the duty-free advantage of the less competitive exporters. In this context, the study by Duvillier (2005) for the International Textile, Garments, Leather and Footwear Federation (ITGLF) on the weaknesses of the Philippine garments industry should serve as a fair warning to the SOI enthusiasts that SOI, should it miraculously pass the 112th US Congress, is not a sure-fire solution to the garments crisis. The following passages from Duvillier (2005) are worth repeating:

> ... Aside from being increasingly unable to compete on the basis of low wages, the Philippines is often perceived to have failed in developing full-service garments industry. By focusing mainly on the assembly operation at the expense of its design capabilities and logistics efficiency, the industry seems to have neglected to move its supply chain into higher value-added areas and more profitable products. Only a few garment manufacturers have entered the more differentiated branded markets Duvillier (2005: 5).

> According to a Manila-based company selling to the American brand Gap, producing the same garment item can cost 50 per cent less in China mainly because of relatively high labour and n-labour costs such as water, electricity and communication rates in the Philippines. Compared to Thailand, the Philippines also suffers from a longer lead time which reflects its lack of locally-produced raw material and poor vertical integration. Poor logistics, slow turnaround time, inefficient supply chain, declining productivity, high transaction costs, and high reliance on one single market are the most commonly identified issues that put the Philippine products at a disadvantage Duvillier (2005: 3).

In short, even if a Philippine garment product enjoys duty-free privilege vis-a-vis a Chinese item that is levied 17 per cent tariff at the trade border, the former is still bound to lose if the latter costs only half to produce. Further, one must not forget the stringent requirements of the American Rules of Origin (ROO), which can cost exporters precious time and energy since ROO means compliance with strict reportorial and inspection rules. Even a small item in a garment product such as a garment pocket or lining can disqualify the said product from the category of a "wholly-owned" American/Philippine product. In a fast-moving assembly industry used to sourcing raw materials and parts from China and other countries, the ROO in an SOI arrangement can be problematic.

In sum, the SOI is not exactly a magic wand that can solve the problems of the crisis-ridden garments industry overnight. Given the realities in the global garments trade and the industry's faltering Philippine performance in the last two decades, one is inclined to support the view of Macasaet (2010: A3), a business editor-publisher, who wrote that SOI will not succeed in turning around a "dead garments industry" because it is "not a manufacturing industry" but a "contractor". He said that any Philippine official

> Who thinks that a law, a US law for that matter, will beat China or at least come close to where it is in garments is a dreamer of the biggest kind.

5. Where Have the Laid-off Workers Gone?

Where have the laid-off garments workers gone? As summarised earlier, there has been a series of factory closures from 1995 to the present, with the industry work force downsized to about 100,000 today, from a high of a million in the early 1990s, over 300,000 of whom held formal factory jobs.

Neither DOLE nor DTI is able to give statistics and details about the 900,000 or so who lost their jobs in the last one and a half decades. However, the labour representatives in the Clothing and Textile Industry Tripartite Council (CTITC) – Nelia Vibar of ALMAGATE, Flor Cabagtingan of ALU-TUCP, Annie Adviento of ITFLF Philippines and Angel Mendoza of the Garments and Textile Council (GARTEX) – all agree on the following:[8]

- Most of the young workers (below age 30) who lost their garments jobs ended up as casual or short-term hires in other manufacturing and service industries. The most common short-term hiring arrangements include the "5-5" probationary hiring[9] (terminated after five months of work as "probationary" workers), project hiring (appointment for a specific job within a specified time period) and agency hiring (a manpower, acting as the alleged employer, deploys the worker in different job sites). Since most of the garments workers are semi-skilled (skilled only in sewing) and have no college education, they usually end up in the low level of the formal labour market.
- Those who were laid-off at age 30 and above had a more difficult time finding jobs, since the formal labour market generally discriminates against older workers. They usually end up as informal sector workers, taking on odd jobs or going into micro informal livelihood activities just to get by. There are anecdotal stories about how some workers, after getting separation pay, went into tricycle or jeepney transport business or set up small neighbourhood stores with varying degrees of success.
- As to the numerous home-based workers who lost their embroidery and the piece-rate jobs provided by subcontracting firms and agents, adjustments vary. But in general, most of the job choices for them are confined to the huge informal economy. A few re-focused their efforts toward the production of garments, handicrafts and fashion accessories

for the domestic market. However, incomes and markets are limited, with many home-based producers complaining about the flood of cheaper goods from China and other countries even in low-category products.

In general, the government has no clear post-industry job adjustment program for the workers, although DOLE has a small livelihood support program[10] for displaced workers seeking to build new businesses through cooperatives and mutual aid projects. Beerepot (2009) tried to document three cases of small women's cooperatives set up by displaced garments factory workers to do small-scale subcontracting work for some garments traders. The main findings were that incomes of the participating cooperators are marginal and the quality of job is also poor.

As to the "middle people" – supervisors and factory managers, there is very little documentation about the post-factory job routes they have taken. However, in 2010, I discovered that some of these supervisors and managers have joined their employers when the latter relocated the garments business to Bangladesh, Sri Lanka and other countries. Apparently, there is a shortage of line supervisors and factory managers in some exporting countries such as Bangladesh, Sri Lanka and Cambodia.

6. Development Choices for the Philippine Garments Industry

The Philippines has lived up to the original global forecast – it is bound to lose in a post-MFA environment. With the SOI, there is still no assurance that it will recover and grow.

It is imperative, therefore, that the country strategises other survival and development choices for the industry, if it wants to retain and promote this industry as a pillar of industrialisation and as a major job generator. In 2006, I presented to the Philippine CTITC and then to GTEB the following survival programs (Ofreneo, 2009: 1; see also Rasiah and Ofreneo, 2009): 1) seeking competitiveness through reliance on cheap labor; 2) cooperating with the member countries of the Association of Southeast Asian Nations (ASEAN) in the development of an "integrated ASEAN supply chain"; 3) pursuing the DTI-CONGEP US-Philippine "free-trade" arrangement; 4) integrating and modernising the twin industries (garments and textiles); 5) moving toward the higher value-adding chain through transformation/restructuring; and 6) replicating the ILO's Cambodia experiment which has placed this country under the Code of Conduct audit by the giant US retailers in exchange for greater market access for Cambodian garments.

Obviously, the main preoccupation of the DTI has been with the free-trade proposal via the SOI. This campaign is now in its 7th year. And yet, there is still no assurance of the SOI passage nor a guarantee that SOI, should it be enacted by the US Congress, will be able to turn around a declining Philippine garments industry.

As to the other survival programs, some appear to be non-solutions. Reliance on the cheap-labour approach is a low-road path. It is divisive and is simply not sustainable. A number of garments operators adopted it in the 1980s and 1990s only to close down later. China has also shown that it can continue to grow even if wages are rising above those of its neighbours, including the Philippines.

On the ASEAN project, this is problematic because most of the ASEAN countries are, in fact, competing with one another.

As to the development of a modern and integrated textile industry supporting a modern and integrated garments industry, this is problematic because of the high cost and the huge time lag involved. This is an option which the Philippines tried in the early 1980s through the textile modernisation programme. However, this programme failed to take off. Incidentally, the Department of Agriculture has been maintaining a cotton industry development office since the 1970s.

Going higher value-added or full-package in the garments value chain is desirable and has a nice sound bite. However, this is easier said than done. In the first place, there are numerous problems (as summarised by Duvillier above) that must be overcome before the Philippines can catch up with the global leaders such as China, India and even Vietnam in this area. There are difficult infrastructure and logistics issues that must be addressed, not to mention the fact that the Philippines has no reliable textile industry and has to import virtually all its raw material requirements.

A more realistic choice is to go niching on specialty products or go into partial full-package production and develop Philippine capabilities in the value chain. To a certain extent, this is what some of the garments survivors are already doing. For example, Luen Thai, the biggest apparel manufacturer in the country today, has been utilising skilled Filipino workers and managers in producing prestige and value-adding products such as Polo Ralph Lauren and transforming the Philippines operations as an integral part of an Asia-wide Luen Thai network (with its hub in Hong Kong) that is able to deal directly with the big global buyers and retailers (Alvarez, 2004). Following this, the CONGEP idea of developing a "garments city" in the Clark Development Corporation to meet the needs of the industry in the most flexible manner probably makes some sense (Domingo, 2008). However, one must still address the "n-labour costs" mentioned by Duvillier such as water, electricity, communication and so on.

As to the labour-based approach a la Cambodia, I formally recommended to the CTITC, GTEB and other industry stakeholders in 2006 that the Philippines promote itself as a labour-friendly site for garments production that should enjoy the support of the big buyers. With a well-developed body of labour laws and a long tradition of unionism, the Philippines is in a good position to negotiate for more market access for its garments exports in exchange for good industrial relations practices. The so-called industrial strifes in the industry can be minimised if the tripartite partners will work together for these good practices and if the investors-locators and government will abandon the obsession to maintain competitiveness through reliance on cheap labour. In line with this proposal, I suggested to DTI that labour trade missions also be organised for the express purpose of holding dialogues and even negotiating with the following: the big buyers in New York and Paris, most of whom are supporters of the UNDP's Global Compact Initiative (GCI) and the Social Accountability (SA) program of the International Standard Organization (ISO); the big consumer groups such as the Clean Clothes Campaign in Amsterdam and the Fair Labour Association in Washington (which spearheads the No-Sweat Campaign in American universities); and with the International Labor Organisation in Geneva. Sadly, the idea has yet to gain currency with the DTI, which has chosen to focus instead on the SOI campaign.

Also, one development option that has been neglected in the Philippines is the promotion of the industry by boosting domestic consumption of locally-made garments. The global financial crisis of 2008-09 has shown that many countries, in their efforts to rebuild their domestic industry, have directed their stimulus spending on the consumption of local goods. And yet, the Philippines has an old "flag law" promoting consumption of Philippine-made goods by government agencies (Fair Trade Alliance, 2006). If the Philippine military, school system and government agencies were to buy all their uniforms from local producers, this would be a big boost to local garments production. If a population of 100 million were fully developed as a market for the local producers, this could certainly save and expand the faltering garments industry.

However, in a CTITC meeting held on 11 April 2011, I discussed the SOI Issue again and mentioned the desirability of going local. The CONGEP representatives in the CTITC pointed out that their experience in going local is not inspiring. Specifically, they mentioned the problem of delayed payments. Hence, foreign buyers continue to pay for actual deliveries on time, while local retailers and distributors usually pay between 120 to 150 days after.

7. Conclusion

The story of the Philippine garments industry – and its twin textile industry – is a poignant story of industrial blindness. The garments industry somehow grew, from the 1970s to the 1990s, due mainly to the MFA quotas. With no clear industrial compass in a post-MFA environment, the industry is simply shrinking, year by year. It is in danger of collapsing like the old neglected textile industry.

To turn the industry around, the government and some industry players have focused their efforts on the enactment of a US law that will guarantee duty-free access to the US market of Philippine garments. They are seeking protection for the industry through, ironically, a free-trade arrangement. In a way, this SOI proposal is a modified revival of the MFA system. However, in a globalised and liberalised market, the SOI is not a guarantee that the Philippines will truly succeed as demonstrated by the experience of Mexico and the Caribbean countries.

Countries that are likely to succeed in a post-MFA environment are those able to produce cheap, quality and on-time products made by industries enjoying the support of a government with a clear industrial policy. Such policy requires a clear industrial road map, a road map detailing a coherent and integrated program of upgrading, diversification and modernisation for the affected industries, including the development of the necessary support systems such as efficient and affordable infrastructure, logistics systems, utilities and so on. Gereffi and Frederick (2010) have amply documented that the statist states of China and Vietnam have been successful in building up their garments industry precisely because these countries keep moving up the value chain and enhancing their overall capacity to be full-package producers. For example, in 2009, China adopted a three-year plan for its textile and garments sector, which provides, among other things, for the following: elimination of obsolete capacity; reduction of energy consumption; improvement of efficiency; shift to higher value-added products; improvement in product quality and variety; investment in more advanced technology; nurturing of 100 domestic brands and making them account for 20 per cent of total exports; boosting of domestic consumption; and improving credit access and assistance to financially-challenged enterprises.

In the case of Vietnam, its recent industry plan includes the following: relocation of textile production in industrial parks; greater garments production in the rural areas; forging of long-term relationships between big Vietnamese firms and overseas buyers; adding value to products using fashion techniques; boosting local market consumption; improving workers' quality of life; tripling of raw cotton production; production of quality woven fabrics through improved dyeing and finishing operations; training workers in management and design; increasing utilisation of local material from 36 to 50 per cent; making the industry more fashion-oriented; and developing Vietnamese fashion designers.

Clearly, to China and Vietnam, global trade competition is war. Trade war requires skills, know-how and resources needed in navigating the perilous terrains of competition. Above all, the combatants need a clear development road map. A laissez-faire-style SOI, providing the Philippines extra duty-free privileges without any accompanying upgrading program, does not guarantee victory, much less survival for an ailing Philippine garments industry.

Notes

1 See http//www.saveourindustriesact.org/
2 Since 2005, the Department of Labour and Employment (DOLE) and the DTI have not released figures on the number of workers laid off in the industry as a result of the endless garments factory closures. In 2006, the DTI also dissolved the Garments and Textile Export Board (GTEB), the agency in charge of allocating MFA quotas to Philippine-based exporters. Later, DTI established a small office called the Garments and Textile Industry Office (GATIDO).
3 Interview with Flor Cabagtingan, Head, Women's Department, Trade Union Congress of the Philippines on 4 April 2011.
4 Interview with Nelia Vibar, President of ALMAGATE, on 24 March 2011.
5 Interview with Wilson Tiu, Executive Director, Philippine Employer-Labour Social Partnership, Inc. on 5 April 2011.
6 GTEB was able to accumulate around P600 million of savings from the levies imposed on quota users-exporters during the MFA quota years. This fund was developed for the express purpose of finding ways of strengthening the competitiveness of the industry.
7 From the text of HB 3030.
8 Interview dates were as follows: Nelia Vibar, President of ALMAGATE, on 24 March 2011; Flor Cabagtingan, Head, Women's Department, Trade Union Congress of the Philippines, on 4 April 2011; Annie Adviento, Philippine Representative, ITGLFW, on 4 April 2011; and Angel Mendoza, President of GARTEX, on 4 April 2011.
9 Under the Philippine Labour Code, workers occupying jobs that are regular and necessary in the operations of a business are entitled to regularisation or permanent tenure once they have passed the probationary period. Under the law, the maximum probationary period is six months, after which the affected workers must be regularised compulsorily. However, many employers avoid this by terminating the services of probationary employees before the end of the mandatory six-month period. Hence, the term "5-5" workers.
10 Support comes in the form of a grant as a "seed" capital for cooperative or mutual aid undertakings. Depending on the proposed project, the amount ranges from P500,000 to P1 million.

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