

De La Salle University

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**Adjustments in the Textile and  
Garments Industries of the Philippines  
in view of the Post-Quota Regime**

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## Table of Contents

<b>Chapter 1. Introduction</b>	5
<b>Chapter 2. Industry Profile</b>	7
<i>Number of Establishments</i>	7
<i>Contribution to Employment</i>	9
<i>Compensation</i>	10
<i>Value Added</i>	12
<i>Top Textile Companies</i>	13
<i>Top Garments Companies</i>	13
<b>Chapter 3. Export Performance of the Textile and Garments Industry</b>	15
<i>Export Growth</i>	16
<i>Largest Garment Exports</i>	17
<i>Most Competitive Garments Exports</i>	18
<i>Major Export Markets</i>	19
<i>Trade Balance</i>	21
<i>World Ranking</i>	21
<i>ASEAN Ranking</i>	22
<i>Revealed Comparative Advantage</i>	23
<i>The US Market</i>	24
<b>Chapter 4. Shifts in the Global Apparel Production Network</b>	26
<b>Chapter 5. Challenges Faced by the Textile and Garments Industries in the Philippines</b>	29
<i>Effects of Quota Removal</i>	29
<b>Chapter 6. Adjustments Undertaken by the Textile and Garments Industries</b>	37
<i>Institutional Support for Upgrading Efforts</i>	37
<i>Adjustment Efforts of Firms</i>	43
<i>Survey Results</i>	44
<i>Overall Impressions</i>	48
<b>Chapter 7. Recent Developments in the Post-Quota Regime</b>	49
<i>RP's Export Performance in 2004</i>	49
<i>RP's Export Performance in the First Quarter of 2005</i>	51
<i>Safeguards Against the Chinese Onslaught</i>	53
<i>Re-Imposition of Quotas Expected</i>	54
<i>Prospects for the Philippines</i>	55
<i>Implications for an RP-US Free Trade Agreement</i>	56
<b>Chapter 8. Summary and Conclusions</b>	60
<i>State of the Industry</i>	60
<i>Prospects under the Post-Quota Regime</i>	62
<b>Chapter 9. Recommendations</b>	63
<i>Recommendations for Government</i>	64
<i>Recommendations for Garments Industry Leaders / Businesses</i>	65
<i>Recommendations for Labor</i>	65
<b>References</b>	66
<b>Appendices</b>	68
<b>Footnotes</b>	82

**List of Tables**

1. Number of Establishments of the Textile and Apparel Industries in relation to All Manufacturing Establishments, 1972, 1975, 1978, 1983, 1988-1998	7
2. GTEB Registered Firms, 2001-2003	8
3. Average Employment in the Textile and Wearing Apparel Industries in relation to All Manufacturing Establishments, 1972, 1975, 1978, 1983, 1988-1998	9
4. Compensation (in thousand Pesos) in the Textile and Garments Industries in relation to All Manufacturing Establishments, 1989-1998	11
5. Value Added of the Textile and Garments Industries in relation to All Manufacturing Establishments, 1989-1998	12
6. Top 20 Manufacturers of Textiles in the Philippines, 2002	13
7. Top 20 Manufacturers of Wearing Apparel in the Philippines, 2002	14
8. Philippine Exports of Textiles and Garments, 1984-2002 (F.O.B. value in US\$ million)	16
9. Largest Garments Exports of the Philippines, 1997-2001	18
10. Largest Garments Exports of the Philippines, 2001	18
11. Most Competitive Garments Exports of the Philippines, 2001	19
12. Exports of Textiles and Apparel (in million Dollars), By Selected Markets, 1997-2001	20
13. Foreign Trade of Textiles and Garments in the Philippines, 1997-2001	21
14. World's Largest Garments Exporters, 2001	22
15. World Exports of Textiles and Apparel of ASEAN countries, 1997-2001	23
16. Revealed Comparative Advantage in Textiles and Apparel, 2000	23
17. Source of Imports of Clothing to the USA, 1995 and 2002	25
18. Textiles and Apparel: Hourly Compensation for Selected Countries	33
19. Spinning Equipment: Number of Installed Spindles and Rotors in 2000, and Number of New Spindles and Rotors Purchased during 1992-2001, by types and by selected countries	34
20. Weaving Equipment: Number of Installed Looms in 2000, and Number of New Looms Purchased during 1992-2001, by types and by selected countries	35
21. US Apparel Imports in 2002-2004 – Volume and Value Change (Volume in square meter equivalents; value in US\$; sorted out by Jan-Dec 04 volume)	50
22. US Apparel Imports in 2002-2004 - Volume and Value Shares (Volume in square meter equivalents; value in US\$; sorted out by Jan-Dec 04 volume)	51
23. Volume Change and Volume Share of RP exports to the US (selected items); Volume in dozen; First Quarter, 2004 and 2005	52
24. Percentage Volume Change of Garments Exports of Selected Countries to the US for Selected Items (First Quarter of 2005 compared to First Quarter of 2004)	53
25. Preferential and Non-Preferential ROOs Compared	57
26. Summary of Rules of Origin of US Free Trade Agreements	58

**List of Figures**

1. Number of textiles firms in the Philippines, 1989-1998	8
2. Number of garments firms in the Philippines, 1989-1998	8
3. Average employment in textile firms in the Philippines, 1989-1998	10
4. Average employment in garments firms in the Philippines, 1989-1998	10
5. Total compensation in the textile industry of the Philippines, 1989-1998	11
6. Total compensation in the garments industry of the Philippines, 1989-1998	12
7. Total textile and garments exports of the Philippines, 1984-2002	15
8. Growth rate of textile exports of the Philippines, 1985-2002	17
9. Growth rate of garments exports of the Philippines, 1985-2002	17
10. Major markets of textile and garments exports of the Philippines, 2001	21
11. Major exporters' share of garments market of the USA, 1995	25
12. Major exporters' share of garments market of the USA, 2002	25
13. Framework of successful adjustment of firms and industry	37
14. Garments industry transformation plan, 2002-2004	41
15. GTEB devolution and spin-off plan	43
16. Major export markets of RP textiles and garments, 2004	49

## **Chapter 1**

### **Introduction<sup>1</sup>**

With the phasing out of quotas in 2005, the emergence of low-wage, low-cost countries (e.g. China, India, Bangladesh, and Vietnam), and the shift of US garments firms to Mexico and nearby Caribbean countries, garments exporters from the Philippines are faced with the difficult challenge of remaining competitive amidst tough conditions.

Recent figures indicate that the Philippines is losing out against its rivals because of its inability to compete head-on against low-wage countries, particularly China. However, some local firms have shown their resilience and their ability to retain their US markets despite stiff competition.

What factors have contributed to the successful adjustment of these firms?

Existing literature about the experiences of other countries provide us with valuable clues on how the industrial adjustment process is facilitated. Important factors include the following: (1) upgrading efforts by individual firms, exemplified by the experience of the East Asian countries (i.e., Taiwan, Hong Kong, and South Korea; (2) inter-firm cooperation, as shown by the experience of Italy with local clusters; and (3) institutional support.

This paper aims to document the experience of Filipino garments firms in undertaking the adjustment process. It will examine what local firms have done in response to the shifts in the production networks of the global apparel value chain. It will also determine whether the factors earlier discussed are present in the Philippines, and whether they are indeed critical to the industrial adjustment process.

The paper is divided into the following chapters:

Chapter 2 presents a profile of the textile and garments industries in the Philippines, showing their contribution to the economy in terms of employment, compensation, and value added, among others.

Chapter 3 examines the export performance of the sector, focusing on key export markets of the country, particularly the United States.

Chapter 4 presents a brief discussion of the shifts in the global apparel production network, which serves as an important context of the opportunities and challenges faced by the textile and garments sector in the country.

Chapter 5 presents the challenges faced by the country's textile and garments industries, with the impending expiration of the quota regime. This chapter also examines the various factors affecting the competitiveness of the textile and garments industries of the Philippines.

Chapter 6 shows the adjustments undertaken by the textile and garments industries in preparation for the opening up of quota markets in 2005. This chapter also presents the programs undertaken by government and the GTEB to enhance the productivity of local firms, and provides a glimpse of the efforts undertaken by exporting firms in the country.

Chapter 7 presents recent developments in the post-quota regime, providing some validation to earlier prognoses. This section also briefly discusses the safeguards taken by the United States and the European Union (the major markets of the Philippines) in relation to China, and how these will affect other textile and garments exporting countries. The country's prospects under the post-quota regime are likewise discussed in this chapter.

Chapter 8 contains the study's summary and conclusions.

Chapter 9 presents the study's recommendations.

## Chapter 2 Industry Profile

This chapter provides a brief description of the textile and garments industries in terms of the following measures: number of establishments, contribution to employment and compensation, and value added.<sup>2</sup> It also lists the largest textile and garments firms in the country, and provides a snapshot of their profitability, as of the end of 2002.

This chapter likewise presents the export performance of the textile and garments industries over the years, and shows their relative performance compared to other major textile and apparel exporters in the world.

### *Number of Establishments*<sup>3</sup>

The number of firms in the textile industry barely grew since the 1970s. In 1978, there were 583 textile firms, accounting for almost 7% of total manufacturing firms in the country. Twenty years later in 1998, the number stood at only 586, accounting for only 3.74% of total manufacturing firms (See Table 1 and Figure 1).

Table 1

*Number of Establishments of the Textile and Apparel Industries in relation to All Manufacturing Establishments, 1972, 1975, 1978, 1983, 1988-1998\**

Year	Textile		Wearing apparel	
	No. of establishments	% of total manufacturing	No. of establishments	% of total manufacturing
1972	226	5.05	316	7.06
1975	431	6.74	576	9.01
1978	583	6.92	815	9.68
1983	317	5.53	436	7.61
1988	546	4.75	1,556	13.54
1989	537	5.29	1,391	13.70
1990	537	5.14	1,550	14.84
1991	567	4.96	1,776	15.54
1992	592	5.03	1,861	15.82
1993	575	5.23	1,722	15.65
1994	537	5.01	1,612	15.03
1995	491	4.81	1,495	14.63
1996	556	4.11	1,892	13.99
1997	583	3.96	2,003	13.59
1998	586	3.74	2,025	12.92

\* Only for establishments with more than 10 employees

Source: Philippine Statistical Yearbooks and Austria (1996) for figures before 1988

The garments industry, on the other hand, showed more dynamism, with the number of firms more than doubling from 815 in 1978 to 2,025 in 1998, accounting for almost 13% of total manufacturing firms in the country (See Table 1 and Figure 2).

Figure 1. Number of textiles firms in the Philippines, 1989-1998.

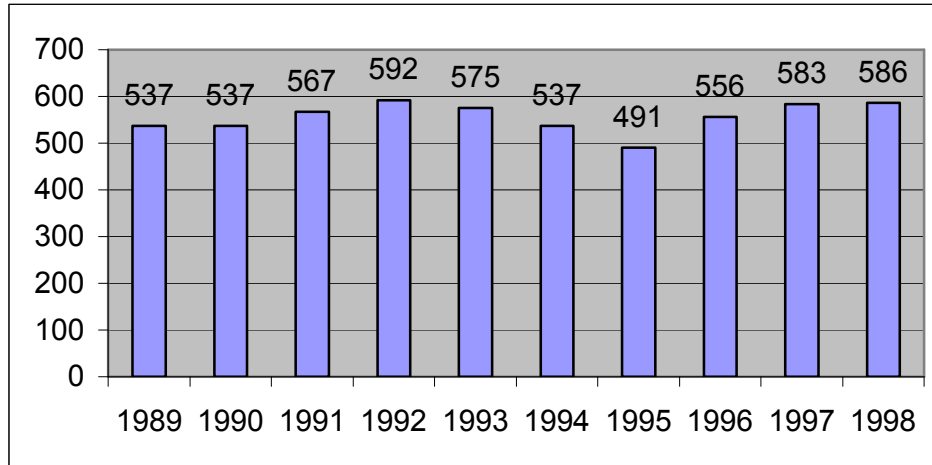
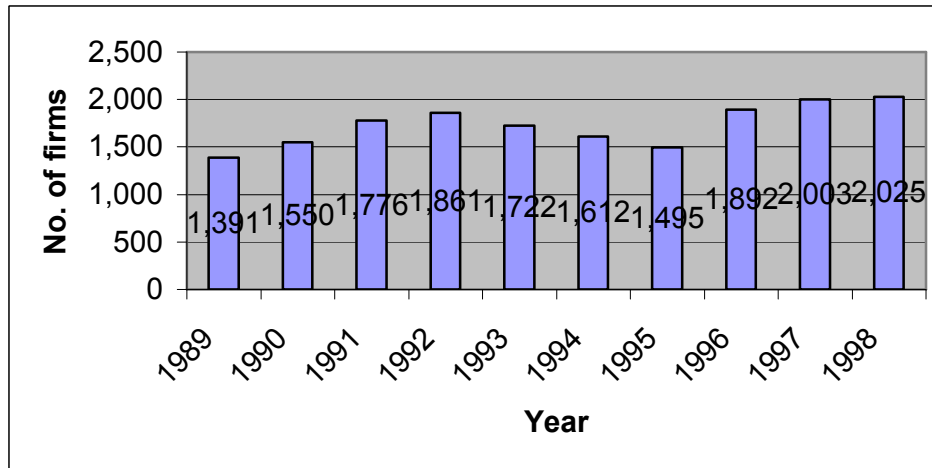


Figure 2. Number of garments firms in the Philippines, 1989-1998.



Figures of the Garments and Textile Export Board (GTEB) reveal that the number of textile and garments exporters in the Philippines increased from 776 in 2001, to 827 in 2002, and to 889 in 2003.

Table 2  
GTEB Registered Firms, 2001-2003

Size of firm	2001		2002		2003	
	n	%	n	%	n	%
<b>Small</b> (<P1M capital)	265	34.15	292	35.31	334	37.57
<b>Medium</b> (>P1M >P6M capital)	268	34.54	283	34.22	297	33.41
<b>Large</b> (>P6M capital)	243	31.31	252	30.47	258	29.02
<b>Total</b>	<b>776</b>	<b>100</b>	<b>827</b>	<b>100</b>	<b>889</b>	<b>100</b>

***Contribution to Employment***

Employment in the textile industry peaked in 1989, when the number of workers reached a total of 101,012. In 1998, total employment stood at only 53,583, accounting for only 4.6% of total employment in the manufacturing sector.

Employment in the garments industry, on the other hand, reached a peak of 192,451 workers in 1989, accounting for as much as 20.3% of total employment in the manufacturing sector. While average employment in 1998 was still substantial at 158,466, its share of employment in the manufacturing sector had dropped to 13.6%.

Together, the textile and garments industries accounted for as much as 30.91% of employment (293,463 workers) in the manufacturing sector in 1989. While their collective share dropped to only 18.23% in 1998, the total number of people employed in these industries remained substantial at 212,049.

Table 3  
*Average Employment in the Textile and Wearing Apparel Industries in relation to All Manufacturing Establishments, 1972, 1975, 1978, 1983, 1988-1998\**

Year	Textile		Wearing apparel	
	Average employment	% of total manufacturing	Average employment	% of total manufacturing
1972	60,870	13.85	19,009	4.33
1975	72,487	14.16	32,912	6.43
1978	77,181	14.61	75,749	6.25
1983	85,585	12.21	75,259	10.74
1988	89,485	10.44	142,160	16.59
1989	101,012	10.64	192,451	20.27
1990	97,596	10.46	167,676	17.97
1991	84,297	8.91	172,874	18.27
1992	79,390	8.20	177,531	18.33
1993	66,965	7.37	161,609	17.79
1994	63,954	7.14	145,980	16.31
1995	55,878	6.13	144,586	15.87
1996	53,592	5.04	155,609	14.64
1997	54,613	4.92	155,338	14.00
1998	53,583	4.61	158,466	13.62

\* Only for establishments with more than 10 employees

Source: Philippine Statistical Yearbooks, and Austria (1994) for figures before 1988

Since the aforementioned figures only reflect employment in establishments with more than 10 employees, the number of the total workforce is naturally understated. Del Rosario (2004), for example, estimated the garments industry’s workforce alone to have reached 400,000 workers.

Figure 3. Average employment in textile firms in the Philippines, 1989-1998.

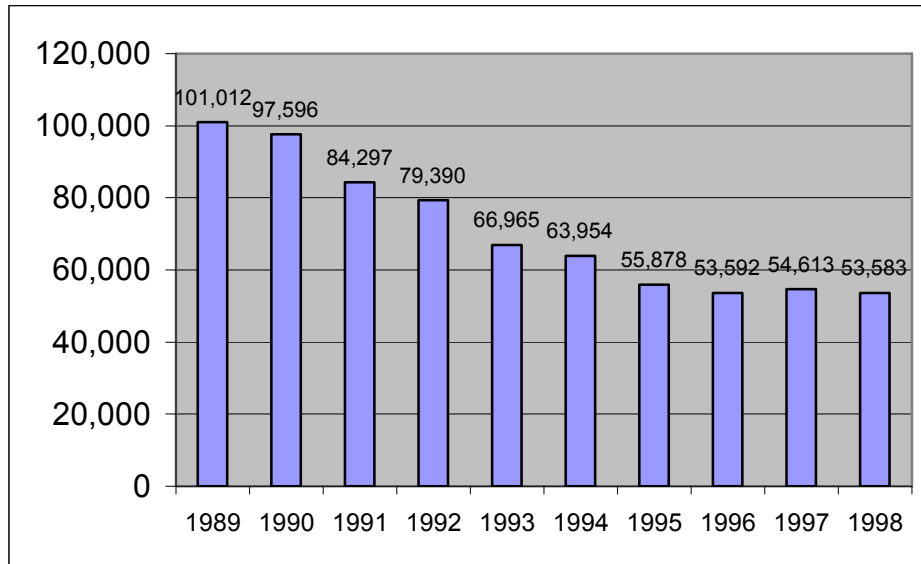
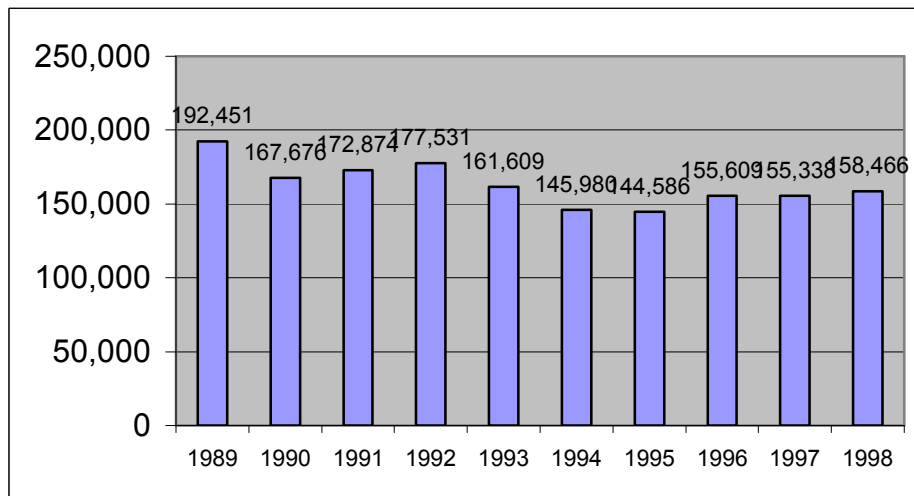


Figure 4. Average employment in garments firms in the Philippines, 1989-1998.



### Compensation

Since the late 1980s, the contribution of the textile and garments industries to total compensation has decreased in relation to the entire manufacturing sector. In 1989, total compensation in the textile industry accounted for 8.46% of compensation in all manufacturing firms. This had dropped to only 3.67% in 1998. This was also the case in the garments industry, whose share of total compensation in the manufacturing sector dropped from a high of almost 16% in 1989 to only 9.43% in 1998 (See Table 4).

In 1998, the annual compensation per employee in the textile industry was P77,388, while the annual compensation in the garments industry was P67,568. Both were below the entire manufacturing sector's average of P97,560 per employee.

Table 4

*Compensation (in thousand Pesos) in the Textile and Garments Industries in relation to All Manufacturing Establishments, 1989-1998\**

Year	Textile		Wearing apparel	
	Total compensation	% of total manufacturing	Total compensation	% of total manufacturing
1989	3,432,160	8.46	6,463,915	15.93
1990	3,623,477	7.65	6,273,581	13.24
1991	3,849,284	6.79	7,529,701	13.29
1992	4,085,728	6.32	8,795,800	13.60
1993	3,534,099	5.58	7,885,886	12.45
1994	3,856,869	5.52	7,897,869	11.30
1995	3,738,620	4.94	8,504,736	11.23
1996	3,635,349	4.01	8,935,462	9.85
1997	4,065,775	4.03	9,703,589	9.61
1998	4,124,569	3.67	10,607,444	9.43

\* Only for establishments with more than 10 employees

Source: Philippine Statistical Yearbooks

Figure 5. Total compensation in the textile industry of the Philippines, 1989-1998.

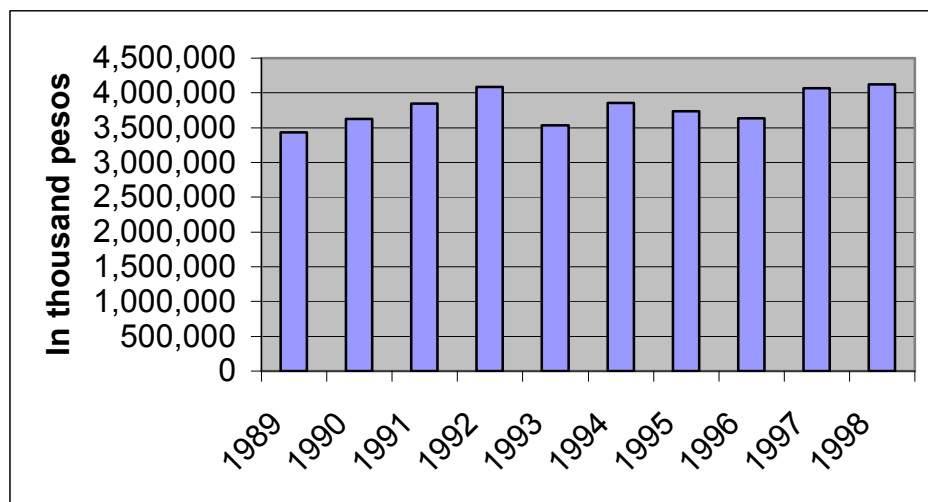
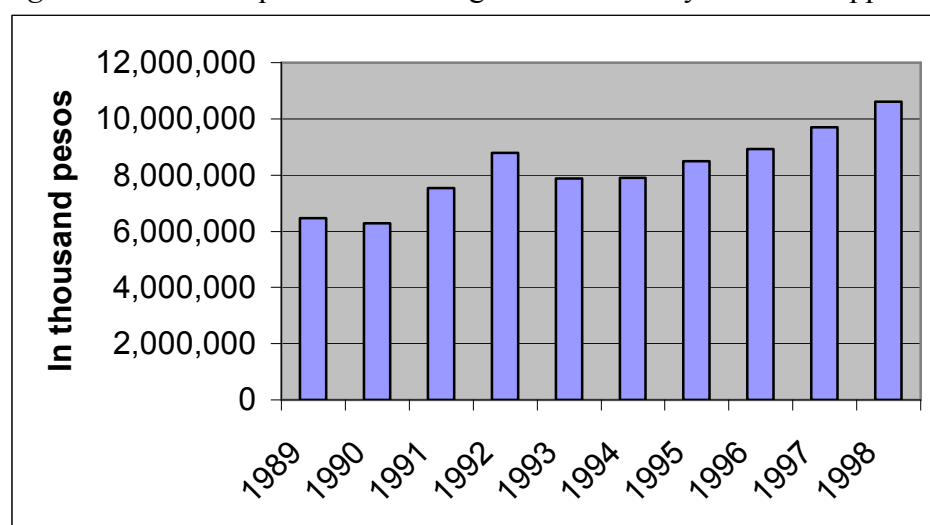


Figure 6. Total compensation in the garments industry of the Philippines, 1989-1998.



### *Value Added*

Up to the first half of the 1980s, the textile industry accounted for a relatively bigger percentage of value added in relation to the entire manufacturing sector. In 1978, for instance, the textile industry accounted for 10.67 percent of manufacturing value added as compared to only 2.48 percent contributed by the garments industry. In the second half of the 1980s, the situation had been reversed. Together, the textile and garments industries still accounted for about 10 percent of manufacturing value added in the early 1990s, but their total contribution had gone down to only about six percent by the end of the decade.

Table 5

*Value Added of the Textile and Garments Industries in relation to All Manufacturing Establishments, 1989-1998\**

Year	Textile		Wearing apparel	
	Value added	% of total manufacturing	Value added	% of total manufacturing
1989	7,828,152	4.89	13,619,225	8.51
1990	9,463,755	4.59	11,503,712	5.57
1991	9,359,654	3.91	15,374,634	6.42
1992	9,463,592	3.52	15,558,204	5.78
1993	10,146,979	3.39	17,409,516	5.82
1994	10,068,466	3.10	20,344,170	6.26
1995	12,393,688	3.15	18,632,161	4.73
1996	10,265,521	2.06	19,918,892	4.00
1997	11,923,449	2.13	22,687,843	4.06
1998	11,591,138	1.73	28,499,054	4.26

\* Only for establishments with more than 10 employees

Source: Philippine Statistical Yearbooks

### *Top Textile Companies*

The largest textile manufacturer in the country in 2002 was Litton Mills, Inc., which generated total sales of P2.175 billion, but ended up losing more than P83 million in the same year. Other top textile manufacturers in 2002 include Indo Phil Textile Mills, Inc., Solid Development Corporation, Indo Phil Cotton Mills, Inc., Universal Weavers Corporation, Kewalram Philippines, Inc., Chung Nan Textile (Phils) Corporation, Monaco Manufacturing Corporation, Yarn Ventures Resources, Inc., and Penn Philippines, Inc. Out of the top 20 textile firms, five registered losses in 2002, and 13 experienced a decrease in profitability over the previous year.

Table 6  
*Top 20 Manufacturers of Textiles in the Philippines, 2002*

<b>Rank 2002</b>	<b>Name of company</b>	<b>Sales (000)</b>	<b>% change from '01</b>	<b>Profits (000)</b>	<b>% change from '01</b>	<b>Profits as % of sales</b>
257	Litton Mills, Inc.	2,175,348	7.2	-83770	-155.7	-3.9
488	Indo Phil Textile Mills, Inc.	1,101,578	1.0	25076	3.4	2.3
549	Solid Development Corporation	980,065	12.4	117756	1669.7	12.0
559	Indo Phil Cotton Mills, Inc.	957,910	-2.1	29845	-6.1	3.1
631	Universal Weavers Corporation	831,871	-10.1	88727	-36.3	10.7
737	Kewalram Philippines, Inc.	703,168	-5.1	-41122	-47.9	-5.8
832	Chung Nan Textile (Phils) Corp.	611,382	-1.9	1512	-45.1	0.2
891	Monaco Manufacturing Corp.	571,931	24.7	5399	122.8	0.9
898	Yarn Ventures Resources, Inc.	567,796	3.2	-24347	-504.3	-4.3
967	Penn Philippines, Inc.	532,994	1.0	5552	-79.8	1.0
1074	Indo Phil Acrylic Manufacturing Corp.	479,295	-6.8	31723	1	6.6
1139	Phil. Carpet Manufacturing Corp	449,920	0.8	37764	-18.9	8.4
1201	Laws Textile Phils. Ltd., Inc.	419,585	35.1	12346	-14.5	2.9
1217	Tyme Products International Corp.	413,484	4.7	1233	9.6	0.3
1233	Filspin, Inc.	409,287	-3.4	5488	-5.2	1.3
1305	Cavite Socks Philippines, Inc.	378,701	14.7	36021	0.2	9.5
1333	Manila Bay Spinning Mills, Inc.	365,371	-29.4	4206	-41.4	1.2
1453	Cannon Textile, Inc.	330,248		15366		4.7
1621	Texland Texturizing Corporation	283,858	81.0	-71194	-7262.4	-25.1
1884	Canlubang Spinning Mills, Inc.	272,529	-9.2	-54373	-1836.4	-20.0

Source: Top 7500 Corporation – 2003 Edition

### *Top Garments Companies*

The largest garments manufacturer in the country in 2002, on the other hand, was Fil-Pacific Apparel Corporation, which generated sales of P2.165 billion and a net profit of about P20.7 million. It was followed by Leader Garments Corporation, which generated sales of P1.995 billion and a net profit of P65.8 million. Only four of the top 20 firms registered a loss in 2002, but ten suffered a decrease in profits as compared to the previous year.

Table 7  
*Top 20 Manufacturers of Wearing Apparel in the Philippines, 2002*

<b>Rank 2002</b>	<b>Name of company</b>	<b>Sales (000)</b>	<b>% change from '01</b>	<b>Profits (000)</b>	<b>% change from '01</b>	<b>Profits as % of sales</b>
258	Fil-Pacific Apparel Corporation	2,165,595	16.3	20775	22.30	1
274	Leader Garments Corporation	1,995,048	17.9	65802	-19	3.3
278	Crismina Garments, Inc.	1,973,366	8.9	16250	-3.4	0.8
451	A-Grade Garments Mfg. Corporation	1,209,294	24.4	-50505	-183.3	-4.2
462	Triumph International Phils., Inc.	1,174,025	12	-45704	-1521.3	-3.9
474	Tristate Industrial Company, Inc.	1,136,853	-12.5	5388	244.2	0.5
521	Authentic American Apparel, Inc.	1,031,668	17.1	13743	67.6	1.3
530	Capital Garments Corporation	1,013,580	-7.5	79194	-6	7.8
555	Diamond Apparel Manufacturing, Inc.	970,868	159.5	106591	453.6	11
558	California Clothing, Inc.	962,300	109.7	5127	13.1	0.5
603	Champan Garment Corporation	875,294	6.1	9341	8.4	1.1
612	Levi Strauss (Phils), Inc. II	860,632	-4.1	37345	-38.6	4.3
637	Jenny's Garments, Inc.	824,106	-21.3	10010	30.4	1.2
657	Diversion Industries, Inc.	796,742	116.1	14057	54	1.8
658	Marfi's Garment Corporation	795,431	15	1925	-67.7	0.2
687	Mode International, Inc.	756,965	25.8	3321	-45.9	0.4
788	Formostar Garment (Phils) Co., Inc.	655,123	17.2	-1703	-198.1	-0.3
799	D&A International Corporation	645,203	143.7	-2317	36.7	-0.4
805	Suyen Corporation	638,220	0.4	317	24.3	0
840	Golden ABC, Inc.	607,528	10.2	10112	-32.9	1.7

Source: Top 7500 Corporation – 2003 Edition

## Chapter 3

### Export Performance of the Textile and Garments Industry

Total exports of the textile and garments industries reached \$2.638 billion in 2002, accounting for 7.49% of total exports. Of this amount, garments contributed \$2.391 billion, accounting for 91% of total exports of textile and garments of the country.

The garments industry's share of total exports of the Philippines over the past 20 years had been significant, although it has steadily declined since the early 1990s, when it contributed as much as one-fifth of the total exports of the country. In 1995, the value of garments exports reached \$2.570 billion, a level that has not been equaled or surpassed since then. In 2002, the garments industry accounted for 6.79% of the country's total exports, down from 7.46% registered the previous year. Articles of apparel and clothing accessories, however, continue to rank second to electronic products in terms of total value of exports of the Philippines.

On the other hand, the country's textile industry's relative share to total exports is rather small, although it still contributes a significant amount of foreign exchange to the country. In 2002, the value of textile exports reached \$247 million, accounting for less than one percent of total Philippine exports. According to Austria (1996), the country's textile industry has always been uncompetitive in the world market even if the Philippines pioneered the industry among ASEAN countries. The protection that the industry received from government discouraged the export of textiles "because of the seemingly high domestic profit."

Figure 7. Total textile and garments exports of the Philippines, 1984-2002.



Table 8

*Philippine Exports of Textiles and Garments, 1984-2002 (F.O.B. value in US\$ million)*

Year	Value of textile exports	% share of total exports	Annual growth rate	Value of garments exports	% share of total exports	Annual growth rate	Total RP exports
1984	39	0.723	-	603	11.185	-	5,391
1985	39	0.843	0.000	623	13.459	3.317	4,629
1986	44	0.909	12.821	752	15.531	20.706	4,842
1987	68	1.189	54.545	1,098	19.196	46.011	5,720
1988	71	1.004	4.412	1,317	18.617	19.945	7,074
1989	87	1.112	22.535	1,575	20.138	19.590	7,821
1990	93	1.136	6.897	1,776	21.696	12.762	8,186
1991	100	1.131	7.527	1,861	21.052	4.786	8,840
1992	121	1.231	21.000	2,140	21.772	14.992	9,829
1993	118	1.037	-2.479	2,272	19.974	6.168	11,375
1994	173	1.283	46.610	2,375	17.615	4.533	13,483
1995	208	1.192	20.231	2,570	14.730	8.211	17,447
1996	252	1.227	21.154	2,423	11.795	-5.720	20,543
1997	299	1.185	18.651	2,349	9.311	-3.054	25,228
1998	242	0.820	-19.064	2,356	7.988	0.298	29,496
1999	219	0.625	-9.504	2,267	6.470	-3.778	35,038
2000	249	0.654	13.699	2,563	6.731	13.057	38,078
2001	226	0.703	-9.237	2,403	7.474	-6.243	32,151
2002	247	0.702	9.292	2,391	6.791	-0.499	35,208

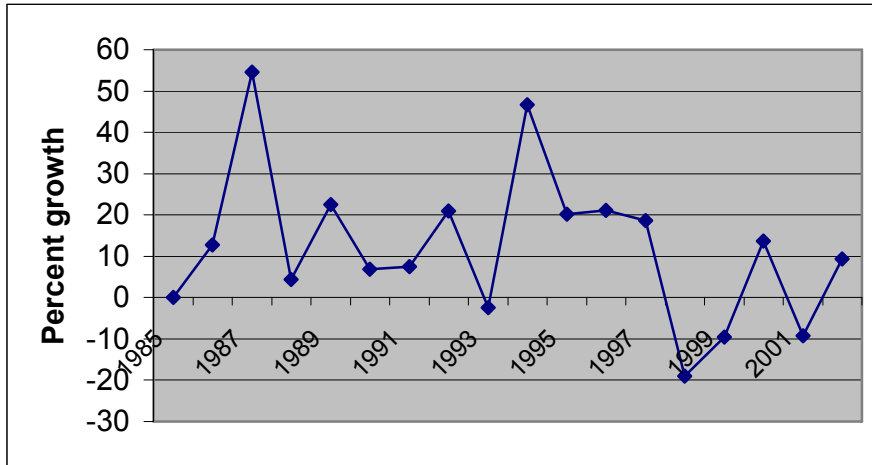
Source: Philippine Statistical Yearbook

***Export Growth***

Textile exports had consistently grown since the mid-1980s except for 1994. Growth rates were particularly strong from 1995 to 1998 before experiencing declines in 1999 and 2000. The relatively rapid growth rates starting 1995 could probably be attributed to the government's rehabilitation program, which had been meant to upgrade and modernize existing textile mills through the introduction of new equipment and technology. According to Cororaton (1997), the program did not offer any financial support, but offered the following incentives:

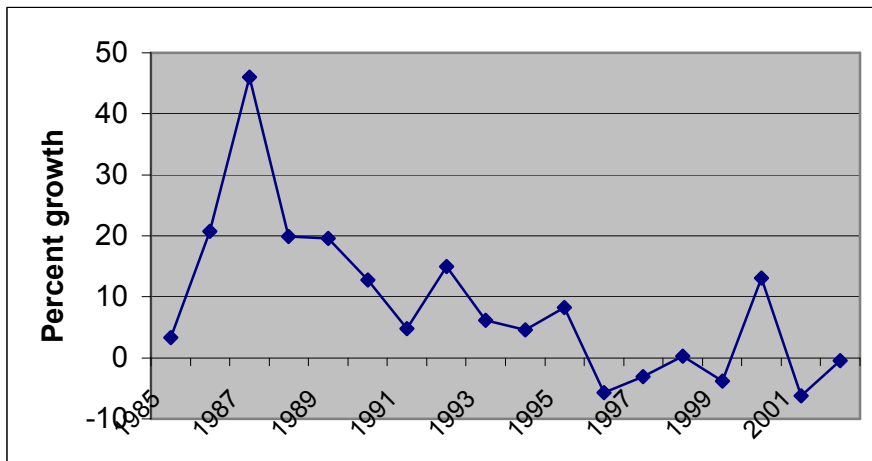
- Duty free importation of capital equipment until December 31, 1994
- Tax credit on domestic capital equipment (duty portion) until December 31, 1994
- Unrestricted use of consigned equipment
- Exemption from duties on imported spare parts and supplies for consigned equipment or those imported tax and duty-free provided these are brought in under the firm's bonded manufacturing warehouse.

Figure 8. Growth rate of textile exports of the Philippines, 1985-2002.



Garments exports, on the other hand, grew dramatically in the mid-1980s, growing by as much as 46% in 1987 and in double digits until 1991. Growth tapered off in the early 1990s, and then suffered declines in the late 1990s, during the Asian financial crisis. Exports rebounded in 2000, growing by 13%, but went down again in 2001 and 2002.

Figure 9. Growth rate of garments exports of the Philippines, 1985-2002.



### ***Largest Garment Exports***

For the period 1997-2001, the largest garments exports of the Philippines were women's / girls' dresses of synthetic fibers (not knitted), men's / boys' shirts of man-made fibers (knitted), women's / girls' jackets of synthetic fibers (not knitted), women's / girls' cotton blouses and shirts (not knitted), and men's / boys' trousers and shorts of synthetic fibers (not knitted).

Table 9  
*Largest Garments Exports of the Philippines, 1997-2001*

Product code	Product description	Five-year total export value (US\$)
620443	Womens/girls dresses, of synthetic fibres, not knitted	305,798
610520	Mens/boys shirts, of man-made fibres, knitted	291,516
620433	Womens/girls jackets, of synthetic fibres, not knitted	262,484
620630	Womens/girls blouses and shirts, of cotton, not knitted	241,094
620343	Mens/boys trousers and shorts, of synthetic fibres, not knitted	235,330
611120	Babies garments and clothing accessories of cotton, knitted	234,293
610510	Mens/boys shirts, of cotton, knitted	225,825
620462	Womens/girls trousers and shorts, of cotton, not knitted	214,321
610610	Womens/girls blouses and shirts, of cotton, knitted	213,962
611020	Pullovers, cardigans and similar articles of cotton, knitted	213,018

For the year 2001, the Philippines' largest garments exports were women's / girls' dresses of synthetic fibers (not knitted), men's / boys' trousers and shorts of synthetic fibers (not knitted), women's / girls' cotton blouses and shirts (both knitted and not knitted), women's / girls' cotton trousers and shorts (knitted), and babies' garments and clothing accessories of cotton (knitted).

Table 10  
*Largest Garments Exports of the Philippines, 2001*

Product code	Product description	Export value (US\$)
620443	Womens/girls dresses, of synthetic fibres, not knitted	62,231
620343	Mens/boys trousers and shorts, of synthetic fibres, not knitted	59,144
620630	Womens/girls blouses and shirts, of cotton, not knitted	59,067
610610	Womens/girls blouses and shirts, of cotton, knitted	58,096
620463	Womens/girls trousers and shorts, of synthetic fibres, not knitted	57,695
611120	Babies garments and clothing accessories of cotton, knitted	56,608
620462	Womens/girls trousers and shorts, of cotton, not knitted	54,709
620342	Mens/boys trousers and shorts, of cotton, not knitted	53,404
611020	Pullovers, cardigans and similar articles of cotton, knitted	51,988
620433	Womens/girls jackets, of synthetic fibres, not knitted	51,666

### *Most Competitive Garments Exports*

Among the garments exports of the Philippines, however, the products with the greatest revealed comparative advantage (RCA) in relation to other garments product exports are babies' garments and clothing accessories (not knitted), followed by men's / boys' shirts (knitted), and then women's / girls' slips and petticoats; night dresses and pyjamas; panties, bathrobes, etc. (not knitted).

Table 11  
*Most Competitive Garments Exports of the Philippines, 2001*

<b>Product code</b>	<b>Product description</b>	<b>RCA figures (2001)</b>
6209	Babies' garment and clothing accessories, not knitted	17.7346
6105	Men's / boys' shirts, knitted	11.0155
6208	Women's / girls' slips and petticoats; night dresses and pyjamas; panties, bathrobes, etc., not knitted	6.5130
6111	Babies' garments and clothing accessories, knitted	6.2483
6116	Gloves, mittens and mitts, knitted	5.6226
6106	Women's / girls' blouses and skirts, knitted	5.0793
6205	Men's / boys' shirts, not knitted	4.2157
6204	Women's / girls' suits, ensembles, jackets, dresses, skirts, trousers and shorts, not knitted	4.1045
6212	Brassieres and parts; girdles, panty girdles and parts; corselettes, corsets, braces, etc.	3.8074
6207	Men's / boys' underpants and briefs; nightshirts and pyjamas; bathrobes, dressing gowns, etc., not knitted	3.7254

### *Major Export Markets*

Most of the textile and apparel exports of the Philippines went to quota countries, particularly the United States, the European Union, and Canada. In 2001, a total of 47 percent of textile exports and 90 percent of apparel exports went to quota markets. Major non-quota markets include Japan, Hong Kong, and Taiwan.

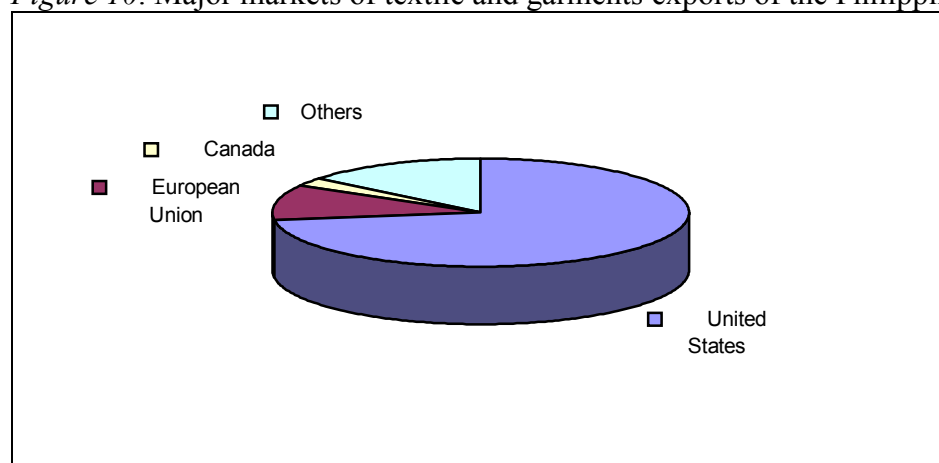
Table 12

*Exports of Textiles and Apparel (in million Dollars), By Selected Markets, 1997-2001*

<b>Item and market</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Textiles (SITC 65)</b>					
Quota markets:					
United States	72	87	92	103	85
European Union	43	39	28	28	26
Canada	3	3	1	2	2
Subtotal	118	129	121	133	112
All other:					
Japan	10	7	12	16	20
Hong Kong	33	29	28	26	16
Taiwan	12	15	22	20	14
Other	140	88	58	86	77
Subtotal	194	139	120	148	126
<b>Grand total</b>	<b>313</b>	<b>269</b>	<b>241</b>	<b>281</b>	<b>238</b>
<b>Apparel (SITC 84)</b>					
Quota markets:					
United States	1,568	1,740	1,754	1,976	1,866
European Union	332	279	265	310	261
Canada	54	51	51	64	65
Subtotal	1,953	2,070	2,069	2,350	2,192
All other:	418	302	230	245	251
<b>Grand total</b>	<b>2,371</b>	<b>2,372</b>	<b>2,299</b>	<b>2,595</b>	<b>2,444</b>
<b>Textiles and apparel</b>					
Quota markets:					
United States	1,640	1,827	1,846	2,079	1,951
European Union	375	319	292	337	287
Canada	58	54	52	66	67
Subtotal	2,072	2,200	2,190	2,483	2,305
All other:	612	441	350	394	377
<b>Grand total</b>	<b>2,684</b>	<b>2,641</b>	<b>2,540</b>	<b>2,877</b>	<b>2,682</b>
<b>Share of exports going to quota markets:</b>					
			<b>Percent</b>		
Textiles	38	48	50	47	47
Apparel	82	87	90	91	90
<b>Average</b>	<b>77</b>	<b>83</b>	<b>86</b>	<b>86</b>	<b>86</b>

Source: Compiled from United Nations data, as cited in USITC, 2004

Figure 10. Major markets of textile and garments exports of the Philippines, 2001.



### Trade Balance

Over the years, the Philippines has been a net importer of textile products, but is a net exporter of garments. Textile imports declined by 12 percent from 1997 to 2001, while apparel imports declined by 18 percent over the same period to \$68.9 million in 2001. The country registered a trade balance of \$1.4 billion for both industries, as of the end of 2001.

Table 13

#### Foreign Trade of Textiles and Garments in the Philippines, 1997-2001

	1997	1998	1999	2000	2001
<b>Exports</b>					
Textiles (US\$ million)	312.6	268.9	240.9	281.2	238.4
Apparel (US\$ million)	2,371.1	2,372.1	2,299.3	2,595.3	2,443.7
Total (US\$ million)	<b>2,683.7</b>	<b>2,641.0</b>	<b>2,540.0</b>	<b>2,876.5</b>	<b>2,682.1</b>
<b>Imports</b>					
Textiles (US\$ million)	1,314.8	1,194.1	1,237.1	1,249.0	1,151.6
Apparel (US\$ million)	84.4	69.7	66.5	74.0	68.9
Total (US\$ million)	<b>1,399.2</b>	<b>1,263.8</b>	<b>1,303.5</b>	<b>1,323.0</b>	<b>1,220.5</b>
<b>Trade balance</b>					
Textiles (US\$ million)	-1,002.2	-925.2	-996.2	-967.8	-913.2
Apparel (US\$ million)	2,286.7	2,302.4	2,232.8	2,521.3	2,374.8
Total (US\$ million)	<b>1,284.5</b>	<b>1,377.2</b>	<b>1,236.7</b>	<b>1,553.5</b>	<b>1,461.6</b>

Source: Compiled from United Nations data, as cited in USITC, 2004

### World Ranking

According to PC-TAS (1997-2001), augmented by figures from the report of the U.S. International Trade Commission, the Philippines ranked 20<sup>th</sup> among the biggest exporters of apparel in the world, and 10<sup>th</sup> among Asian economies in 2001. China topped the list, followed by Italy, Hong Kong, and Mexico.

Table 14  
*World's Largest Garments Exporters, 2001*

Rank	Country	Exports to World (in million dollars)
1	China	36,108
2	Italy	13,596
3	Hong Kong	9,222
4	Mexico	8,571
5	Germany	7,416
6	Turkey	7,336
7	France	6,697
8	India*	6,682
9	Bangladesh*	5,153
10	Indonesia	4,589
11	Belgium	4,489
12	South Korea	4,369
13	United Kingdom	3,820
14	Thailand	3,362
15	Romania	2,811
16	Netherlands	2,660
17	Honduras	2,559
18	Taiwan*	2,428
19	Sri Lanka	2,413
20	Philippines	2,407

Source: PC-TAS 1997-2001

Note: Portugal's total exports in 2000 reached US\$ 3,604,412; which already exceeded the exports of 2001's No. 14 – Thailand.

\* Figures for India, Bangladesh, and Taiwan were based on figures released by the US International Trade Commission (USITC, 2004), which cited United Nations data.

### ***ASEAN Ranking***

According to the report of the U.S. International Trade Commission (2004), the Philippines ranked fourth behind Indonesia, Thailand, and Malaysia (among ASEAN countries), in terms of total exports of textile and apparel products. Together, these four countries accounted for about three-fourths of total exports in 2001. Vietnam and Cambodia, however, are two of the world's fastest growing exporters of textiles and apparels. U.S. imports from Cambodia, for example, went up from only \$1 million in 1995 to \$1.1 billion in 2002. Vietnam's exports to the U.S., on the other hand, increased from only \$49 million in 2001 to \$952 million in 2002.

Table 15

*World Exports of Textiles and Apparel of ASEAN countries, 1997-2001*

Country	1997	1998	1999	2000	2001
<b>Indonesia</b>	5,218	5,032	6,936	8,316	7,803
<b>Thailand</b>	5,707	5,318	5,294	5,735	5,492
<b>Malaysia</b>	3,627	3,390	3,366	3,518	3,112
<b>Philippines</b>	2,684	2,641	2,540	2,877	2,682
<b>Singapore</b>	2,729	2,284	2,453	2,728	2,358
<b>Vietnam</b>	1,642	1,619	1,765	2,073	1,959
<b>Cambodia</b>	291	585	969	1,215	1,434
<b>Myanmar</b>	218	271	397	782	876
<b>Brunei</b>	93	147	225	329	375
<b>Laos</b>	111	109	118	121	128
<b>TOTAL</b>	<b>22,320</b>	<b>21,397</b>	<b>24,064</b>	<b>27,694</b>	<b>26,220</b>

Source: USITC, 2004

*Revealed Comparative Advantage*

In the year 2000, the Philippines' revealed comparative advantage (RCA) in textiles is 0.41, while its RCA in apparel is 1.97, showing its relative strength in garments exports. However, the Philippines' RCA in apparel pales in comparison to other countries, such as Macao (19.97), Bangladesh (18.63), Cambodia (18.06), Sri Lanka (14.36), Nepal (11.66), Laos (11.59), Hong Kong (10.09), and Macedonia (7.46). Countries such as China (3.64), India (3.90), Pakistan (6.53), and Vietnam (3.70) have relatively smaller RCAs partly because of the binding quotas imposed on them.

Table 16

*Revealed Comparative Advantage in Textiles and Apparel, 2000*

Country	Textiles	Apparel
Argentina	0.28	0.09
Armenia	0.25	0.31
Azerbaijan	0.88	0.00
Bangladesh	8.74	18.63
Belarus	1.46	1.02
Bosnia Herzegovina	0.76	3.25
Brazil	0.54	0.12
Cambodia	8.84	18.06
China	3.18	3.64
Croatia	1.50	2.80
Egypt	5.44	2.20
Georgia	0.03	0.09
Hong Kong	4.87	10.09
India	4.67	3.90
Indonesia	1.98	2.04
Kazakhstan	0.02	0.01
Korea, Rep.	2.49	0.70
Kyrgyzstan	0.56	0.32
Laos	4.70	11.59
Macao	8.02	19.97
Macedonia	1.51	7.46
Moldova	1.03	4.59

Country	Textiles	Apparel
Mongolia	5.83	5.43
Malaysia	0.36	0.39
Nepal	10.37	11.66
Pakistan	18.35	6.53
Peru	2.18	1.09
Philippines	0.41	1.97
Russian Federation	0.13	0.07
Singapore	0.32	0.32
Sri Lanka	4.61	14.36
Taiwan	2.44	0.48
Thailand	1.16	1.33
Turkmenistan	1.65	0.24
Ukraine	0.25	0.87
United Arab Emirates	0.46	0.55
Uzbekistan	2.89	0.23
Vietnam	1.12	3.70

Source: USITC, 2004

### *The US Market*

The principal market for the Philippines' exports of textiles and apparel is the United States, which accounted for 73 percent of the total in 2001. Another 13 percent of the Philippines' sector exports went to the other quota markets—the EU (11 percent) and Canada (2 percent). In each of the quota markets, apparel dominated with shares of 96 percent for the US, 91 percent for the EU, and 97 percent for Canada.

During 1997-2002, U.S. imports of textiles and apparel from the Philippines peaked in 2000 at 929 million square meters equivalent (SMEs), and then declined by 12 percent to 817 million SMEs, valued at \$2.0 billion, in 2002. In 2002, apparel accounted for 67 percent of the quantity (551 million SMEs, but 89 percent of the value at \$1.9 billion) of total U.S. sector imports from the Philippines; textile products accounted for the remainder. Major apparel products imported from the Philippines during 2002 were babies' apparel; cotton underwear and nightwear; cotton and manmade-fiber dresses; women's and girls' cotton woven trousers; and men's and boys' cotton woven shirts.

In the textiles products area, manmade-fiber handbags and luggage were also major imported textile products, with imports totaling 69 million SMEs in 2002; however, this was almost one-half the amount imported by the US during the previous year. The quota on this category of products was eliminated in 2002 as part of the quota phaseout under the Agreement on Textiles and Clothing (ATC). The decline in imports of these handbags and luggage reflected a shift in trade to China.

Among the garments suppliers of the United States, the Philippines ranked 6<sup>th</sup> in 1995, accounting for about 5% of total garments imports of the United States. In 2002, it ranked only 8<sup>th</sup>, losing ground to Indonesia, India, and Bangladesh. Its share in 2002 dropped to only 3% of the total garments imports of the USA. China increased its share of the US garments market from 15% in 1995 to 16% in 2002.

Figure 11. Major exporters' share of garments market of the USA, 1995.

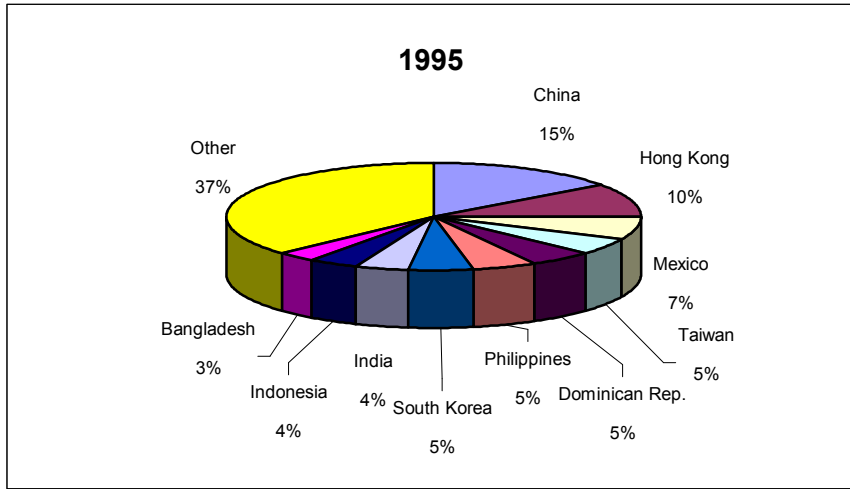


Figure 12. Major exporters' share of garments market of the USA, 2002.

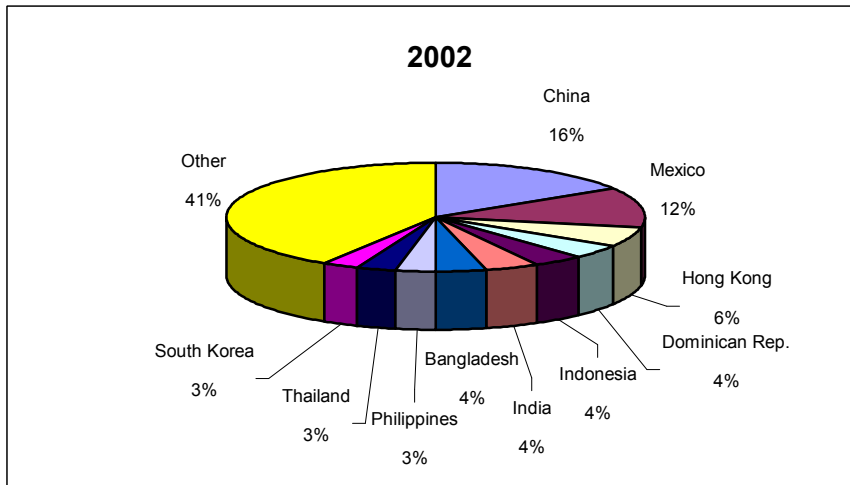


Table 17  
Source of Imports of Clothing to the USA, 1995 and 2002

Country	Share of exports to USA (1995), %	Country	Share of exports to USA (2002), %
China	15	China	16
Hong Kong	10	Mexico	12
Mexico	7	Hong Kong	6
Taiwan	5	Dominican Rep.	4
Dominican Rep.	5	Indonesia	4
Philippines	5	India	4
South Korea	5	Bangladesh	4
India	4	Philippines	3
Indonesia	4	Thailand	3
Bangladesh	3	South Korea	3
Other	37	Other	41

Source: Comtrade database, as cited in USITC, 2004

## **Chapter 4**

### **Shifts in the Global Apparel Production Network**

There have been several shifts in global apparel production over the past half-century. In the 1950s and the 1960s, global apparel production shifted from Europe and the USA to Japan, which then offered lower production costs. During the 1970s and 1980s, Hong Kong, Taiwan, and South Korea took the lead in textile and garments production as Japan moved up to more advanced products.

In the 1990s, production facilities shifted again to other low-wage Asian countries and some Latin American countries, even as the Asian NIEs continued their dominance in the industry by moving into the midstream and upstream activities, and by turning themselves into full-service providers for buyers from the industrialized countries.

A major factor that led to the rise of the global apparel value chain is, ironically, the protectionist measures undertaken by the industrialized countries to protect their domestic textile and garments industries. When cheap imports from Hong Kong, Taiwan and Korea started to overwhelm the domestic markets in the US, Canada, the UK, and other European countries, these industrialized countries imposed quantitative limits on imports of textiles and garments through the Multi-fiber Agreement (MFA)<sup>4</sup> in order to allow their domestic industries to adjust to foreign competition.

Industrialized countries also granted preferential tariffs to certain countries, particularly those that belong to their regional trade blocs. The United States, for example, imposed much lower tariffs on products coming from Mexico and the Caribbean Basin. These countries belong to the North American Free Trade Agreement (NAFTA). This was also the experience of countries that belong to the European Union.

Combined with quota restrictions, these preferential tariffs resulted in a major shift in global sourcing dynamics. In the East Asian newly industrializing economies (NIEs), for example, these quotas and preferential tariffs, coupled with domestic supply-side constraints (i.e. labor shortages, high wages, and land prices), sparked the internationalization of the textile and apparel network. Quotas determined when the outward shift of production began, while preferential access to overseas markets and social networks determined where firms went. In this division of labor, skill-intensive activities, which provided relatively high gross margins, such as product design, sample making, quality control, packing, warehousing, transport, quota transactions and local financing in the apparel industry, stayed in East Asia and labor-intensive activities were relocated (Gereffi & Memedovic, 2003).

Hereunder are illustrative examples as documented by Gereffi (1999):

- In Hong Kong, internationalization was triggered by textile import restrictions imposed by the United Kingdom in 1964. This led Hong Kong manufacturers to shift production to Singapore, Taiwan and Macao, where the Chinese population had cultural and linguistic affinities with Hong Kong investors. Macao also benefited

from its proximity to Hong Kong, while Singapore qualified for Commonwealth preference for imports into the United Kingdom.

In the early 1970s, Hong Kong apparel firms targeted Malaysia, the Philippines and Mauritius. This second round of outward investment again was prompted by quota restrictions, coupled with specific host-country inducements. For example, Mauritius established an export-processing zone in an effort to lure in Hong Kong investors, particularly knitwear manufacturers who directed their exports to European markets that offered preferential access in terms of low tariffs.

- In South Korea, garment firms lacking sufficient export quotas set up offshore production in quota-free locations like Saipan, a United States' territory in the Mariana Islands. More recent waves of internationalization were the result of rising wages and worker shortages at home, and saw large numbers of Korean companies moving to Latin America and Southeast and South Asia. The Caribbean Basin (the Dominican Republic, Guatemala, Honduras, etc) is attractive because of its proximity to the United States and easy quota access, while the pull of Asian countries such as Indonesia, Sri Lanka and Bangladesh is their wage rates, which are among the lowest in the world.
- Confronted with binding quotas, Taiwanese firms also moved offshore in the early 1980s, even when wages in the late 1970s and early 1980s were still relatively low, and quota rents were high. Firms had to buy product-specific quotas (whose value in secondary markets fluctuated widely) in order to expand their exports. These caused a fall in profitability for firms without sufficient quota. This led to a growing emphasis on non-quota markets by textile and apparel exporters.

Quota markets (the United States, the European Community and Canada), which accounted for more than half of Taiwan's textile and apparel exports in the mid-1980s, accounted for only about one-third of Taiwan's exports in 1991. The main non-quota markets, which absorbed nearly two-thirds of Taiwan's textile and apparel exports in the early 1990s, are Hong Kong, Japan, and Singapore. Hong Kong, now Taiwan's leading export market, is mainly a conduit for shipping yarns, fabrics, and clothing to China for further processing and re-export.

The experiences of the "Big Three" Asian producers – Hong Kong, Korea, and Taiwan – showed that trade, rather than domestic consumption, had been the driving force behind the rapid growth of the textile and apparel sector in these countries. Unlike apparel producers in developed countries, which rely heavily on their home markets, producers in many developing countries depend on export markets for growth. At their peak in the early 1980s, the Big Three supplied almost 30% of world apparel exports. In 2001, their share had fallen to 8 percent. The relative decline of the Big Three partly reflected growing competition from a then-new generation of low-cost exporting countries led by China, India, Pakistan, Indonesia, the Philippines, Thailand, and other Asian countries (USITC, 2004).

Because of increasing production costs, the downstream sectors (clothing and accessories) in the apparel commodity chain of the Big Three lost international competitiveness

relative to midstream (textiles) and upstream (fibers) sectors. In both Taiwan and South Korea, for example, textiles have displaced apparel as the export leader in the apparel commodity chain. However, these textiles are primarily destined for affiliated downstream producers in China, Southeast Asia, and South Asia, which allow the Big Three to play central roles in the region's triangle manufacturing system.

According to Gereffi (1999), the essence of triangle manufacturing, which was initiated by the Big Three in the 1970s and 1980s, is that U.S. buyers place their orders with manufacturers from the Big Three, from whom they have sourced in the past. These manufacturers, in turn, shift some or all of the requested production to affiliated offshore factories in low-wage countries (e.g. China, Indonesia, or Vietnam). The triangle is completed when the finished goods are shipped directly to the foreign buyer under the U.S. quotas issued to the exporting nation. Triangle manufacturing thus changes the status of manufacturers of the Big Three from established suppliers for U.S. retailers and marketers to "middlemen" in buyer-driven commodity chains that can include as many as 50 to 60 exporting countries.

Gereffi (1999) noted that companies in the "Big Three" economies have a different set of preferred countries where they set up their new factories. Hong Kong and Taiwan have been the main investors in China and Southeast Asia; South Korea has been especially prominent in Indonesia, Guatemala, the Dominican Republic, and North Korea. Singapore, another newly industrialized economy (NIE), is a leading force in nearby Malaysia and Indonesia. These production networks are explained in part by social and cultural factors (e.g. ethnic or familial ties, common language), as well as by unique features of a country's historical legacy (e.g. Hong Kong's British colonial ties gave it an inside track on investments in Mauritius and Jamaica).

Firms in Hong Kong, Korea and Taiwan, along with the global trading companies in Japan and many, mostly large apparel companies and retailers in the United States and the EU, have provided developing countries in Asia and other regions with capital and technical assistance to produce finished goods for export. They have also lessened the financial risks inherent in global trade by providing materials, coordinating production, and marketing the finished goods (USITC, 2004). However, as the volume of orders expands in new low-wage production sites, the pressure grows for the large buyers, particularly those in the USA, to eventually bypass their East Asian intermediaries and deal directly with the factories that fill their orders (Gereffi, 1999).

## **Chapter 5**

# **Challenges Faced by the Textile and Garments Industries in the Philippines**

With the phase out of quotas on January 1, 2005, as required by the Uruguay Round Agreement on Textiles and Clothing (ATC), textile and garments manufacturers and exporters in the Philippines expect to encounter stiff competition in the world market, particularly from low-cost, low-wage countries like China, India, Bangladesh, and Vietnam. Only those who are able to significantly improve production efficiency and respond quickly to the shifting requirements of their buyers are expected to survive, and thrive, under a quota-free business environment.

### *Effects of Quota Removal*

On September 16, 2002, the U.S. International Trade Commission (USITC) instituted investigation No. 332-448, Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market under section 332(g) of the Tariff Act of 1930. The report, as requested by the United States Trade Representative (USTR), assessed the textile and apparel industries of certain foreign suppliers to the U.S. market with respect to their competitiveness and other factors pertinent to their adjustment to the final completion of the phase out of quotas on January 1, 2005.

According to the report, the factors that affect the competitiveness of textile and apparel industries of countries include the following: (a) a country's business climate, (b) infrastructure conditions, (b) proximity and preferential access to major world markets, (c) access to a reliable supply of competitively priced raw materials, (d) availability of low-cost skilled workers and effective management, and (e) the level of supplier service and reliability. Although the relative importance of each factor may differ across buying firms, the key criteria likely to affect sourcing decisions in a post-quota world are cost and availability of labor; cost, quality and availability of raw materials; and the efficiency and flexibility of suppliers to meet changing fashions and retailer demands (USITC, 2004).

Using the above-mentioned analytical framework, the USITC identified the following key changes that are likely to occur in the global pattern of textile and apparel production and trade following the quota elimination in 2005:

1. China is expected to become the "supplier of choice" for most U.S. importers (i.e., large apparel companies and retailers) because of its ability to make almost any type of textile and apparel product at any quality level at a competitive price. However, the extent to which China continues to expand its shipments following quota elimination will be tempered by the uncertainty over the use by the United States and other importing countries of the textile-specific safeguard provisions contained in China's WTO protocol of accession.

2. To reduce the risk of sourcing from only one country, U.S. importers plan to expand trade relationships with other low-cost countries as alternatives to China, particularly with India, which also has a very large manufacturing base to produce a wide range of textiles and apparel at competitive prices and a large supply of relatively low-cost skilled labor.
3. Over the long term, exports from China and India could be affected by their strong economic growth, which is likely to increase domestic demand for textiles and apparel, as well as for labor and capital to make these products.
4. One or two other low-cost exporting countries in South Asia – Bangladesh or Pakistan – are expected to emerge as major suppliers for a narrower but still significant range of goods, such as mass-produced basic knit cotton tops and woven cotton shirts and pants (Bangladesh) or men’s and boys’ cotton apparel (Pakistan).
5. Some U.S. buyers would consider Caribbean Basin Economic Recovery Act (CBERA) beneficiary countries, particularly those located in Central America, as a major source of supply if a Central American or hemispheric free-trade agreement is negotiated that permits the use of regional (e.g., Mexican) fabrics or third-country (e.g., Asian) fabrics.
6. Among the member countries of ASEAN, the only countries considered competitive as major alternate suppliers to China or India are Vietnam and, to a lesser extent, Indonesia. However, although both countries have an abundant supply of low-cost labor, Vietnam will not be eligible for quota elimination until it becomes a WTO member, while Indonesia is considered somewhat risky because of its political and social unrest.
7. Although many countries may see their share of the U.S. market decline, there will likely be exceptions to these trends, especially at the firm level, reflecting the importance of longstanding relationships between U.S. apparel companies and retailers and their foreign suppliers, as well as the efficiency, flexibility, and experience of foreign suppliers in producing certain articles.
8. A large number of countries will likely become major “second-tier” suppliers to U.S. apparel companies and retailers for niche goods or services. As U.S. firms seek to balance cost, flexibility, speed, and risk in their sourcing strategies, they will likely look to the second-tier suppliers to meet those needs that are not met by the first-tier suppliers.

A detailed assessment of the Philippines’ competitiveness is presented below:

***Business climate, infrastructure, and proximity and access to markets.***

According to the USITC (2004), a number of political and policy issues have been identified as increasing costs or exacerbating uncertainty regarding supply in some ASEAN countries. In the Philippines, the main issue has to do with domestic security concerns. Some firms also complain that corruption has led to substantial cost increases.

Geographical location is considered a critical factor. For instance, shipping times from ASEAN countries to the west coast of the United States average 45 days. Cargo shipping from Indonesia to the United States reportedly takes about 55 days (with a transit in Singapore), while shipping from the Philippines can take as little as 20 days (through Taiwan).

The Philippines also has to contend with high shipping costs and high power rates, both of which increase the cost of doing business in the country.

According to one source, shipping costs for a 40-foot container range from \$1,800 to \$2,000 between Manila and Cebu, whereas the cost from Manila to Hong Kong is around \$1,500. Domestic vessels also pay higher fuel oil, insurance, taxes, and interest costs than their foreign counterparts.

While Manila has the lowest port costs in the Asia-Pacific region, the total port and cargo handling costs are higher than in other ASEAN countries because of underdeveloped port facilities. For example, the Port of Manila North Harbor reportedly lacks a large cargo handler to load and unload cargo speedily, and ships must remain in port longer and incur higher total cargo costs (ESCAP, 2002).

Expensive interisland shipping and cargo handling in ports discourage investors from locating projects on more remote islands of the Philippines. For example, Mindanao has abundant low-cost labor and significant potential for export-based industries. However, cabotage laws require that exports from provincial ports must first be shipped to a major domestic port (e.g., Manila) on domestic carriers before being transferred to an international carrier. Moreover, international shipments are frequently directed to foreign feeder ports (e.g., Hong Kong or Singapore) because Philippine ports have limited ability to handle containerized cargo. Such shipping patterns and port inefficiencies contribute to slower turnaround time than in other Asian countries.

High electricity costs, previously the second-highest in Asia, have a significant adverse impact on the competitiveness of Philippine export-based industries. As a result, energy intensive textile production, such as woven fabrics for most shirts and blouses, are too expensive to manufacture in the Philippines, and must therefore be imported.

### ***Raw material inputs.***

The Philippines is at a disadvantage, compared to other countries with a fabric industry, because it sources most of its raw materials abroad. Thus, lead times are longer when U.S. buyers purchase apparel from the country. Moreover, customs delays for importing fabrics into the Philippines, combined with high port and shipping costs, can greatly extend lead times and total costs.

The Philippines produces small quantities of fiber crops, including cotton, abaca, and silk. Abaca and silk (but not cotton) are exported in both their raw and processed forms. Cotton production declined from the 1970s through the late 1990s, and today is virtually abandoned

largely due to lack of financing and technical assistance. Cotton growers never produced more than 25 percent of the country's requirements, and by the late 1990s, provided no more than 5 to 10 percent of domestic spinning needs. Import duties were raised on fabric and spun yarn in 1999 to encourage development of local fabric markets.<sup>5</sup>

### ***Labor and management.***

The Philippines has an abundant supply of skilled and semi-skilled production workers. According to a 2001 survey of 81 multinational corporations (MNCs), "a large pool of educated, English-speaking, and highly trainable manpower" is a primary reason that the Philippines remains a "location of choice" for many MNCs.<sup>6</sup> Similarly, U.S.-based employers praised the country-wide quality of secondary education, and noted that most young Filipino workers can read and speak English well enough to use English training materials and instructors in the first phases of new production.<sup>7</sup>

However, another report found that while the Philippines ranked first in the ASEAN region in terms of lowest unit labor costs in the manufacturing, it ranked last in terms of labor productivity. Companies operating in the country attributed low labor productivity to the lack of modern equipment, poor training, and high levels of contractual labor.<sup>8</sup> Moreover, a GTEB report estimated Chinese labor to be three times more productive than Filipino labor. Moreover, Chinese workers reportedly having a learning curve of 2 to 5 weeks, versus 6 to 8 weeks in the Philippines.<sup>9</sup>

The skills of the workforce are relatively high, ranking along with Hong Kong, Korea, and Taiwan.<sup>10</sup> However, manufacturing MNCs reported that they tend to spend more on worker training in the Philippines than in Malaysia, but less than in Indonesia, Singapore, Taiwan, and Thailand. Companies operating in the Philippines reported that they "experience more difficulty recruiting managers and professionals than in recruiting clerical, sales, services and production personnel."<sup>11</sup> To a certain extent, overseas employment drains the domestic economy of technical workers.<sup>12</sup>

Although labor costs in the garments industry in the Philippines are among the lowest in the ASEAN countries at \$0.76 per hour, they are, however, higher than that for Indonesia (\$0.27 per hour), as well as other major apparel manufacturers, including India, Pakistan and Bangladesh. Total compensation packages for skilled workers and mid-level managers, however, were reportedly lower than that for many other countries. While some manufacturers have expressed interest in expanding their operations to gain access to local labor in Mindanao and other islands, where the minimum wage is 20 to 50 percent lower than in Manila, peace and order concerns has discouraged investment in Mindanao (USITC, 2004).

Table 18  
*Textiles and Apparel: Hourly Compensation for Selected Countries*

Region or country	Textile industry	Apparel industry
<b>East Asia</b>		
China	\$0.41 (in non-coastal areas) / \$0.69 (coastal China)	\$0.68 / \$0.88 (for factories producing moderate to better apparel)
Hong Kong	6.15	(*)
Korea	5.73	(*)
Taiwan	7.15	(*)
<b>South Asia</b>		
Bangladesh	0.25	0.39
India	0.57	0.38
Pakistan	0.34	0.41
Sri Lanka	0.40	0.48
<b>ASEAN countries</b>		
Indonesia	0.50	0.27
Malaysia	1.16	1.41
Philippines	(*)	0.76
Thailand	1.24	0.91
<b>Mexico</b>	2.30	2.45
<b>CBERA countries</b>		
Costa Rica	(*)	2.70
Dominican Republic	(*)	1.65
El Salvador	(*)	1.58
Guatemala	(*)	1.49
Haiti	(*)	0.49
Honduras	(*)	1.48
Nicaragua	(*)	0.92
<b>Sub-Saharan Africa</b>		
Kenya	0.62	0.38
Madagascar	(*)	0.33
Mauritius	1.33	1.25
South Africa	2.17	1.38
<b>Andean countries</b>		
Colombia	1.82	0.98
Peru	1.63	(*)

Note: Figures include wages and fringe benefits; (\*) Not available

Source: Data for the textile industries compiled from Werner International Management Consultants, "Spinning and Weaving Labor Cost Comparisons 2002," Reston, VA; and data for the apparel industries compiled from Jassin-O'Rourke Group, "Global Competitiveness Report: Selling to Full Package Providers" (New York), November 2002, as cited in USITC, 2004

### ***Technology.***

The textile industry in the Philippines lags behind those of many other Asian countries in the use of state-of-the-art technology, with many of its textile mills being either obsolete (as evidenced by the low percentage of installed machines shipped in the past 10 years) or underutilized. In a recent survey of technology utilization, the Philippines ranked ahead of Indonesia and Vietnam, but behind Hong Kong, Korea, Malaysia, Singapore, Taiwan, and Thailand.<sup>13</sup>

Figures released by the International Textile Manufacturers Federation (as cited in USITC, 2004) show that has fallen behind in terms of purchase of new spinning equipment. Among the countries that have aggressively invested in new spindles and open-end rotors from 1992 to 2001 are China, India, Turkey, Indonesia, Pakistan, Bangladesh and Thailand. The Philippines lagged behind even its ASEAN neighbors, purchasing only 160,112 short-staple spindles, 2,032 long-staple spindles, and 14,049 open-end rotors from 1992 to 2001.

Table 19

*Spinning Equipment: Number of Installed Spindles and Rotors in 2000, and Number of New Spindles and Rotors Purchased during 1992-2001, by types and by selected countries*

Country	Installed capacity, 2000			Cumulative purchases 1992-2001		
	Short-staple spindles	Long-staple spindles	Open-end rotors	Short-staple spindles	Long-staple spindles	Open-end rotors
World	156,913,000	15,372,000	8,284,700	30,257,491	3,316,120	2,530,091
United States	3,331,000	628,000	860,000	787,236	63,488	529,844
European Union	5,493,500	4,449,000	496,700	1,681,338	686,518	303,653
Canada	305,000	51,000	40,000	67,920	5,984	26,603
Mexico	3,500,000	227,000	100,000	814,328	102,820	96,840
Asia, total	111,904,500	6,881,000	2,230,700	21,481,335	1,756,282	726,389
China	34,435,000	3,600,000	623,800	2,005,480	961,610	208,363
Hong Kong	48,000	24,000	20,100	96,672	12,676	16,739
Korea	1,803,000	676,000	13,700	409,820	90,708	14,384
Taiwan	2,716,000	339,000	85,700	710,872	66,652	33,105
Bangladesh	2,469,000	15,000	55,900	929,376	2,520	25,616
India	37,698,000	990,000	453,100	11,041,023	233,164	162,083
Pakistan	8,567,000	35,000	149,500	1,351,632	0	8,604
Sri Lanka	246,000	0	0	35,616	0	160
Indonesia	8,500,000	103,000	56,000	1,419,912	90,948	19,247
Malaysia	650,000	35,000	6,000	437,614	21,900	5,451
Philippines	950,000	13,000	50,000	160,112	2,032	14,049
Thailand	3,719,000	65,000	58,500	893,324	61,042	41,609
CBERA countries	489,000	3,000	28,600	77,948	5,280	13,745
Andean countries	1,900,000	148,000	54,500	165,536	58,140	20,287
Sub-Saharan Africa	391,000	70,000	20,200	127,864	10,752	14,064
Other:						
Egypt	2,600,000	98,000	41,000	148,936	66,000	1,976
Turkey	5,554,000	743,000	430,400	2,646,076	299,768	402,513
Share of world total accounted for by Asia (%)	71	45	27	71	53	29

Source: International Textile Manufacturers Federation, *International Textile Machinery Shipment Statistics, vol. 24/2000*, as cited in USITC, 2004

In terms of weaving equipment, the Philippines again lags behind other Asian countries. For the period 1992-2001, the country purchased only 841 new shuttleless looms and 95 shuttle looms. China, on the other hand, purchased 144,994 shuttleless looms and 67,720 shuttle looms.

In the ASEAN region, Indonesia, Thailand and Malaysia purchased more looms compared to the Philippines.

Table 20

*Weaving Equipment: Number of Installed Looms in 2000, and Number of New Looms Purchased during 1992-2001, by types and by selected countries*

Region or country	Installed capacity, 2000				Cumulative purchases 1992-2001	
	Shuttleless looms	Shuttle looms	Filament weaving looms	Wool weaving looms	Shuttleless looms	Shuttle looms
World	635,680	1,424,620	553,810	128,250	461,586	104,602
United States	51,560	2,870	(*)	860	22,883	22
European Union	50,850	9,720	21,190	32,070	57,602	100
Canada	3,100	0	(*)	350	982	0
Mexico	14,500	35,000	0	1,150	5,992	0
Asia, total	247,560	1,072,250	507,740	46,930	313,091	101,146
China	60,930	594,500	196,440	24,000	144,994	67,720
Hong Kong	4,670	370	0	0	6,198	407
Korea	2,200	0	76,340	880	49,541	4,772
Taiwan	20,890	1,220	24,950	620	32,614	8
Bangladesh	3,200	4,700	0	0	1,724	1,324
India	7,500	115,500	1,500	7,300	7,866	10,983
Pakistan	16,000	7,200	50,000	0	5,044	1,855
Sri Lanka	1,300	11,000	0	0	29	60
Indonesia	27,000	200,000	34,000	0	18,684	10,258
Malaysia	4,000	1,200	0	0	5,992	15
Philippines	2,500	7,000	0	0	841	95
Thailand	21,000	61,000	50,000	0	7,067	276
CBERA countries	1,490	8,000	0	0	810	0
Andean countries	6,430	17,500	0	0	1,419	1
Sub-Saharan Africa	1,850	2,440	1,420	400	1,480	592
Other:						
Egypt	2,600	8,000	0	1,230	2,034	28
Turkey	16,000	30,000	3,000	6,250	17,552	2
Share of world total accounted for by Asia (%)	39	75	92	37	68	97

\* Filament weaving looms included with shuttleless looms on cotton system

Notes: Asia, total also includes a number of countries in Oceania, including Australia and New Zealand; In Bangladesh, there were approximately 30,000 powerlooms and 500,000 handlooms in the non-mill sector; In India, there were approximately 1.4 million powerlooms in the decentralized sector on the cotton system in 1996, of which 3,000 were shuttleless, and 700,000 powerlooms in the non-mill sector for filament; In Pakistan, there were approximately 200,000 powerlooms and 80,000 handlooms in the non-mill sector; In Indonesia, there were approximately 30,000 handlooms in the non-mill sector.

Source: International Textile Manufacturers Federation, *International Textile Machinery Shipment Statistics, vol. 247/2000*, as cited in USITC, 2004

Overall, the USITC report anticipates a negative result for the Philippines, saying that its share of U.S. apparel imports “is likely to decline, as has already occurred in goods for which quotas were eliminated (e.g., babies’ apparel)”. The strong points for the Philippines are its English-speaking, skilled labor force, and the foreign-trade zones on former U.S. military bases that provide modern infrastructure. The factors that reduce its competitiveness include high wage rates, high production costs, dependence on imported yarns and fabric, and political and social unrest.

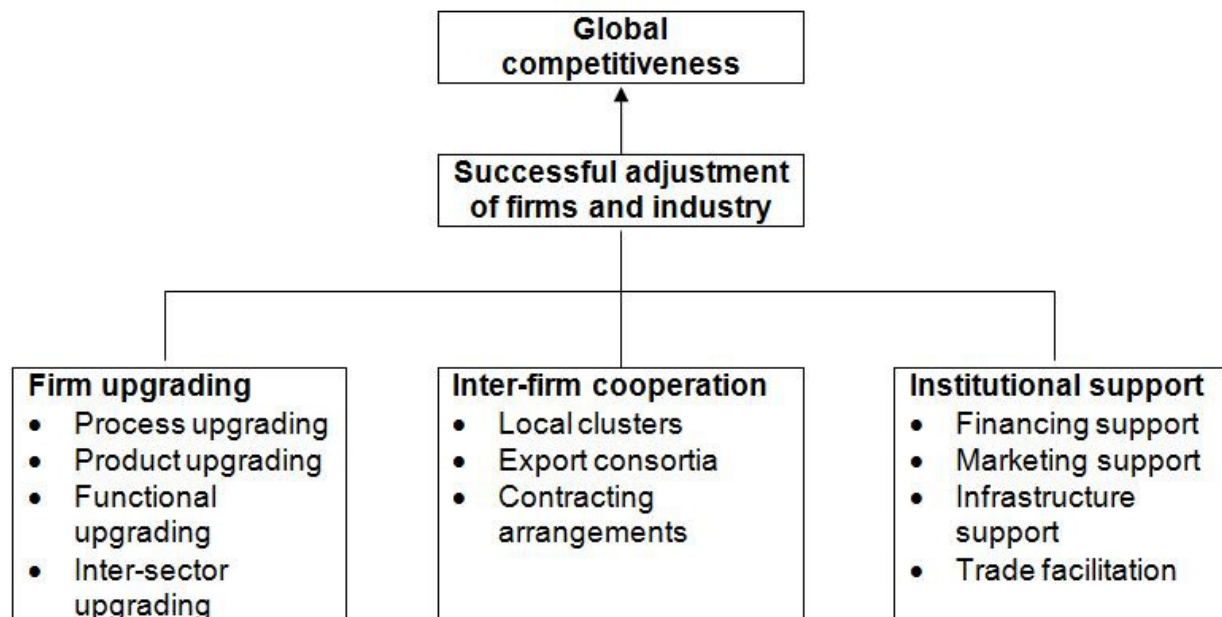
## Chapter 6

### Adjustments Undertaken by the Textile and Garments Industries

A survey of literature has shown that successful industrial adjustment depends largely on the ability of firms to undergo upgrading and innovation. However, the upgrading process cannot proceed smoothly without the institutional support from government and from the industry itself (through the industry association or through local clusters).

Worth noting are the experiences of the East Asian countries (i.e., Hong Kong, Taiwan, and South Korea), which successfully moved up into higher value activities of the global apparel value chain (Gereffi, 1999); and the experience of Italy, which managed to sustain its lead in the textile and apparel industries through inter-firm cooperation among SMEs, credit guarantee cooperatives, and export consortia (Baldoni, Belliti, Miller, Papini, & Bertini, 1998).

*Figure 13.* Framework of successful adjustment of firms and industry.



#### *Institutional Support for Upgrading Efforts*

In anticipation of the phase out of the MFA quota regime, the government took steps to redefine the Garments and Textile Export Board (GTEB) from a regulatory and quota-administering body to a promotional and service-oriented agency for enhancing the competitiveness of the country's apparel industry. While the GTEB has ceased to exist and its functions had been devolved to various government agencies as of June 2005, it is worth recounting what its role was in supporting the industry, especially during the past few years.

In March 2002, the GTEB launched the Philippine Garment Industry Transformation Plan and Assistance Package. One of the projects under the Plan is the "Incentive Programs for

Quality and Productivity Training for the Garments Industry”, which was designed to assist garment exporters to become more competitive in order to meet the challenges of a quota-free business environment by 2005. It was implemented in coordination with the Philippine Trade Training Center (PTTC) and included a package of incentives for garment exporters to enable them to avail of practical and timely training seminars and programs focused on improving their overall quality and productivity. The objective of the program is:

*to improve the export potentials of the garments industry in a globalized trade scenario by addressing issues, concerns, and other gaps of the industry in the areas of quality and productivity improvement, technology upgrading, and work attitude thereby bringing about positive changes in the operations and in the mindset of workers and owners of garment companies.*

The components of the project were as follows:

1. *Quota Incentivization Scheme.* Under this scheme, the GTEB granted a quota incentive to garments companies that invested in the accredited quality and productivity programs of GTEB-PTTC. Seminars were conducted in-plant / in-house, and were offered to GTEB-accredited garment exporters.
2. *Scholarship / Subsidized Training Scheme.* GTEB subsidized the training fee to be paid by companies that participate in GTEB-PTTC accredited courses. The subsidy, which was applicable to both PTTC public seminars and in-plant / in-house courses, was set at a maximum of 50% or P2,500 / person / seminar, whichever was lower. Target beneficiaries were GTEB-accredited garment exporters and subcontractors.
3. *Regional Seminars.* GTEB and PTTC also provided training / seminars in garment centers located outside of Metro Manila, at very reasonable rates. The course offerings under this scheme were based on the results of the Training Needs Analysis for the garments industry conducted in 2001. Target beneficiaries included GTEB-accredited garment exporters and subcontractors.
4. *Special Projects.* These were made up of special activities such as Consultancy Programs and Productivity Benchmarking missions organized by GTEB-PTTC for the garments sector.

In addition to these, the Transformation Plan also included the following: (1) a 30-percent reduction in fees charged for export authorizations, which was estimated to save apparel exporters approximately \$2.0 million annually; (2) development assistance for productivity enhancements, trade facilitation, market and product development and promotion, and (4) financial assistance for firms seeking ISO 9001 certification.

Board-sponsored productivity enhancing measures included investment in capital equipment and production systems and trade promotion. In 2002, the Board formalized a partnership with the British firm General Sewing Data, Ltd. to use its motion time system technology. GTEB began suggesting early in 2002 that domestic small and medium-size

producers merge and consolidate their operations to provide foreign buyers with Philippine suppliers capable of providing a wide range of products with flexible production capabilities and faster turnaround time. A “big buyers” program was established to provide additional quota flexibility to companies serving major global brands. GTEB also implemented an electronic data interchange system in 2000 to reduce processing time of export documents and to permit electronic approvals for certain quota applications.

To promote Philippine apparel abroad, GTEB sponsored exhibits of apparel collections developed by clusters of Pro-Filipino (Profil) companies twice annually in Europe. Initiated by GTEB in 1998, Profil aims to establish the country’s niche in the midrange to high-end markets.

The Philippines Export-Import Bank (Philexim) began in 2002 to provide financing specifically to help Philippine apparel exporters prepare for the phase out of the MFA quota system. Philexim’s \$19-million standby guarantee facility is intended to encourage banks to lend to small and medium-size apparel firms that are creditworthy but otherwise lack sufficient collateral. Its \$4-million direct lending window offered working capital to firms that needed pre-shipment as well as medium- and long-term financing for plant expansion, equipment modernization, and other production-capacity improvements.

To reduce sector reliance on imported inputs, GTEB and other government agencies also encouraged research and development of domestically produced natural fibers and fabrics. The GTEB also took steps to guarantee that the country will be free from social accountability issues such as child labor, workplace hazards, and unfair trade practices. This program, which was overseen by independent monitors, made the Philippines one of the first Asian countries to undertake a social compliance program for its apparel sector. As of October 2002, more than 340 apparel companies had been certified to be in full compliance. This number increased to 440 firms as of March 2005.

### ***Other government measures.***

The government also implemented additional measures to encourage domestic production of textile and apparel products. In January 2001, used-apparel imports were prohibited in response to domestic textile producers’ concerns that sales by local second-hand apparel stores undercut domestic sector growth. That order was expanded in February 2002 to cover used apparel donated to non-government organizations in the country.

The government also continues to explore ways to reduce smuggling. Of particular concern are imports meant for re-export being diverted to the local market. In March 2002, the “Buy Filipino” program was amended to require all government agencies (i.e., military, police, public schools, and government-controlled corporations) to source all of their textile and apparel requirements locally.

The Department of Labor and Employment (DOLE), on the other hand, has focused its efforts on livelihood and job placement assistance and support, loan and loan guarantees, retraining, and entrepreneurial skills training for affected workers (Mendoza, 2004).

Among the more recent moves by government as revealed during the “Technical Workshop on Industrial Adjustment and Upgrading for Globalization and the RP-US FTA” held July 4, 2005 at the DLSU-CSB Angelo King International Center are the following:

- The BOI has listed fashion / branded garments in the Investment Priority Plan (IPP), which means that garments produced in the Philippines, whether for domestic or international consumption, can avail of investment incentives (e.g., import of capital equipment, tax incentives, etc.). The guidelines, according to Mr. Raul Angeles of the BOI, are being finalized.
- The Bureau of Customs (BOC) is currently undertaking a project (funded by a \$500 million grant) to computerize its operations so as to reduce corruption and red tape, particularly in importing raw materials and other export components into the country. The computerization will not only cover import procedures, but also the whole system. One of the goals of this project is to enable businesses to lodge certain export-import transactions through the cell phone, and it will be automatically processed.
- According to Ms. Emma Mijares of the Export Development Council (EDC), the EDC is advocating for an increase in the budget for export promotion, and is soliciting suggestions for a comprehensive export promotion plan, which will benefit all export industries, including garments.

#### ***Availment of GTEB programs.***

While the objectives of the GTEB Transformation Plan and Assistance Package are laudable, its impact seems to have been muted by the lukewarm response of the industry. For example, only 10 firms had availed of the support for ISO 9001:2000 certification; only 10 firms had availed of the WRAP certification; and only one worked for an SA8000 certification, as of the first semester of 2004. By March 2005, one more firm received an ISO certification, while three more firms availed of the WRAP certification.

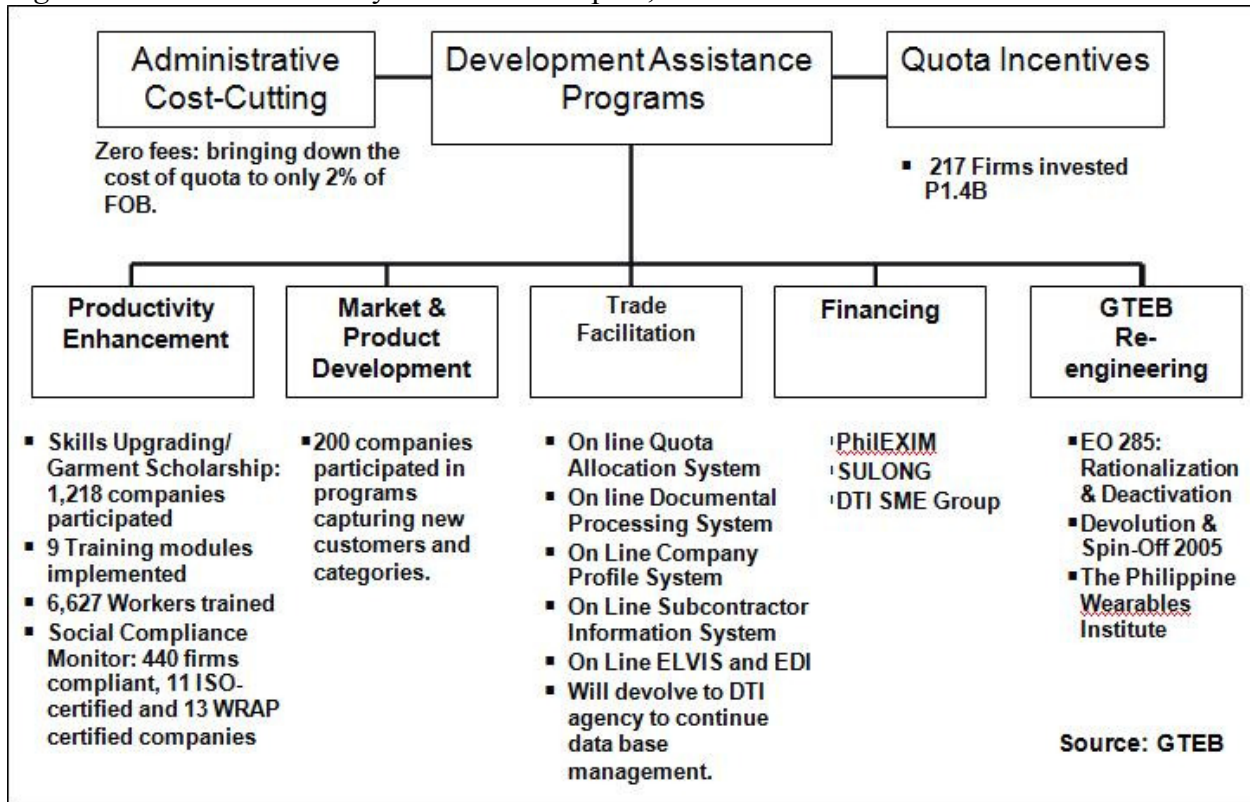
Those that availed of the ISO 9001:2000 certification are Design Apparel Industrial, Golden Dragon Apparel, Glorious Sun Fashion, L&T International Guay Phils., Apparel Technology Industrial, Kewalraz Phils. Inc., Candice Apparel Inc., Advance Fashion, Starcar Garment, and Josefina Manufacturing. Those that availed of WRAP certification are Design Apparel Industrial, Gelmart Industrial Phils., L&T International Guay Phils., Du-Win Garments International, Apparel Technology Industrial, Maxglory Apparel Inc., Candice Apparel Inc., Tyme Product International, Pagoda Knitting, and Allentson International Inc. Only Metro Index Garments had an SA8000 certification.

According to GTEB records as of the first semester of 2004, only 135 firms availed of the Productivity Improvement programs, 52 participated in the Big Buyer program (i.e., a quota incentivization program for exporters that enter into the top 30 buyers per country on a per category basis), and three (3) were involved in its trade promotional activities. Moreover, only

two companies (brand names: Maripaz, So-en) participated in the Development of New Philippine Brand Names Program. These companies are Bergarac and Josefina.

As of March 2005, however, GTEB Executive Director Serafin Juliano reported that 1,218 companies have participated in the Skills Upgrading / Garment Scholarship, and that 6,627 workers were trained under nine training modules. Also, 200 companies have participated in programs meant to capture new markets and product categories (see Figure 14).

Figure 14. Garments industry transformation plan, 2002-2004.



Mr. George Sy, President of the Confederation of Garments Exporters of the Philippines (CONGEP), acknowledged that very few companies availed of the programs of GTEB because “for many of them, it came a little late.” Only the bigger companies, he said, were able to avail of some of the incentive programs, upgrade their machineries, attend marketing programs, and train their workers. According to him, smaller companies that were already experiencing financing problems were in no mood for training programs. And when small companies wanted to avail of the financing programs, they often got rejected once GTEB had examined their financial statements.

This financing problem faced by small garments manufacturers was affirmed by Ms. Diana Santos, former President of the Garments Business Association of the Philippines (GBAP) and currently member of PHILEXPORT, who said that small companies could not get loans

from local banks, especially if they did not have collateral and if they posted losses for the past three years.

***GTEB devolution.***

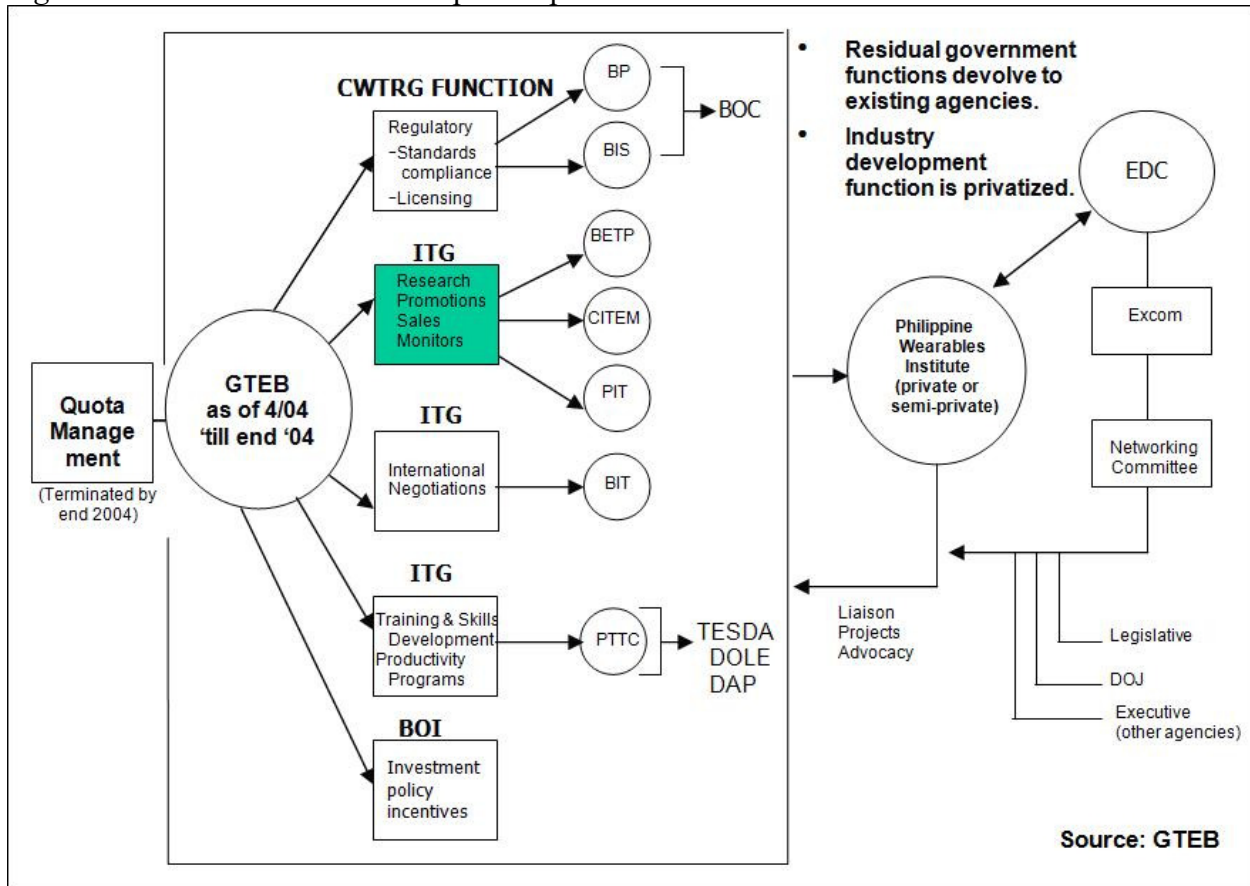
Aside from administering export quotas and processing import-export documents, GTEB was supposed to develop and implement policies and strategies to grow the industry, to undertake bilateral and multilateral negotiations for garments and textiles, and to conduct promotional and developmental activities to optimize quota use. Upon the expiration of the quota regime, GTEB has been mandated (through E.O. 285, dated February 23, 2004) to transfer its export promotion functions to appropriate units of the Department of Trade and Industry (DTI). By June 2005, it should have administered its Special Separation Package (SSP) for its employees, closed its book of accounts, disposed of its assets and funds, and completely devolved its functions to relevant government agencies.

Even with the devolution of GTEB's functions, however, government still intends to sustain an enabling environment for the industry with a strategic objective of establishing "profitable Philippine business participation in the global value chain at sustainable growth within the context of regional and global integration." In fact, it has set the following targets: (1) grow revenue stream (merchandise & services) at +10% YOY in the next 5 years; and (2) transition and grow labor force at +2% YOY net growth in the next 5 years.

The idea is for government to continue providing services through its existing agencies. For example, the Bureau of Export Trade Promotion and CITEM will continue providing research services and sponsoring promotional activities for Philippine garments, even as the PTTC continues to provide training and skills development, with the help of the Department of Labor and Employment (DOLE), the Technical Education and Skills Development Authority (TESDA), and the Development Academy of the Philippines (DAP).

Industry development efforts, however, will be largely led by the private sector through a proposed Philippine Wearables Institute, which will be funded by the retained earnings of the defunct GTEB. The legal basis for such a body, however, is still under discussion.

Figure 15. GTEB devolution and spin-off plan.



**Adjustment Efforts of Firms**

To get a sense of the adjustment efforts being undertaken in the industry, we conducted a survey among garments exporters in Metro Manila, Cavite, Laguna, Rizal, and Batangas. The questionnaire used for the survey had questions that asked about the profile of the firm (e.g. capitalization, years of operation, number of employees, etc.), their upgrading strategies, and whether they availed of the programs offered by the GTEB.

**Sampling design.**

Based on the directory retrieved from the web site of the GTEB, there are 1,043 registered garments and textile exporters in the Philippines. Out of this number:

587	(56.3%)	have offices within Metro Manila
105	(10.1%)	have offices within Cavite
62	(5.9%)	have offices within Rizal
44	(4.2%)	have offices within Laguna
11	(1.1.%)	have offices within Batangas

A total of 234 (24.4%) have offices elsewhere in the Philippines, and were not anymore considered for the survey.

Out of the total 809 firms in Metro Manila, Cavite, Rizal, Laguna, Batangas, 565 (69.8%) maintain garments as their main product line, which, in turn, is about half (54.1%) of the total number of registered garments and textile exporters in the Philippines. These 565 firms served as the population of the survey. Given a confidence level of 90%, and a margin of error of 0.10, we came up with a sample size of 61 firms, which were distributed proportionally as follows:

<b>Geographic area</b>	<b>Sub-population</b>	<b>Sample size 90%, 0.10</b>
Metro Manila	$N_1=401$	$n_1=43$
Cavite	$N_2=81$	$n_2=9$
Rizal-Laguna-Batangas	$N_3=83$	$n_3=9$
<b>TOTAL</b>	<b><math>N=565</math></b>	<b><math>n=61</math></b>

### ***Response rate.***

We sent the questionnaires to the selected firms either through e-mail or through fax, but encountered various problems in data collection due to the fact that some firms have closed down or could not be contacted through their listed telephone numbers. Even though substitutions were made to replace firms that could not be contacted, we failed to reach the desired number of 61 either because many of the firms refused to participate in the survey or because the desired respondents were not available (i.e., in the province or abroad). The survey results are thus based on the responses coming from only 26 firms.

### ***Survey Results***

The firms are small- to medium-scale with capitalization ranging from P2 million to P26 million (based on the 10 firms that revealed their capitalization). Of the 26 firms, seven have 100 or less employees, seven have 101 to 200 employees, and three have more than 200 employees; three did not respond. Most of the firms have a majority of female employees.

The firms are involved in different product lines, ranging from men's and boys' pants, shorts, vests, and jackets; men's wind shirts; ladies' and girls' pants, jackets, skirts and blouses; knitted t-shirts, knitted sweatshirts, polo shirts, denim wear, sportswear, hospital wear, children's clothing, infant wear, and ladies' lingerie. As expected, the firms' major markets are buyers from the United States (16) and Europe, particularly the United Kingdom (7). Other major buyers come from Canada and Japan.

Most of the firms source their raw materials abroad, particularly from Hong Kong, China, Taiwan, South Korea, and Japan. Other suppliers include Indonesia and Pakistan. They chose foreign suppliers, primarily because fabrics from other countries are cheaper and are of better quality. Moreover, buyers usually nominate suppliers from abroad. Several firms cited the

unavailability of fabrics and other raw materials in the Philippines. One company mentioned that its mother company “requires that raw materials be imported from Japan”; another company receives raw materials that are already cut and ready from sewing from its buyers’ (Guess) branch in Hong Kong.

The companies have been operating anywhere from two to 34 years. Many of the companies have been in the industry for quite some time: seven have operated for more than 20 years; and six have operated for more than 10 years, but less than 20 years.

When asked to compare their sales volume in 2003 compared to that of the previous year, 12 firms said that they experienced an increase in volume, 10 reported a decrease, and three said it was the same. Two did not respond. When asked about the results of their operation in 2003, 13 said they made a profit, six claimed to have incurred a loss, and six said that they broke even. Two did not respond.

***Response to quota phase out.***

Fourteen of the 26 firms said that they will be significantly affected by the phasing out of quotas by 2005 since many of them are dependent on buyers from the United States. One firm, in fact, revealed that it experienced a decline in the quantity of orders in 2003. Another has already stopped exporting to the United States, and has shifted its attention to the local market, fulfilling the orders of Shoe Mart.

There were seven firms, however, who are not worried about the removal of quotas. One firm, which produces children’s clothing and knitted products, said that the quota phase out would be favorable since it would result in “unlimited quantity of orders”. A company that produces ladies’ lingerie is confident about its prospects in a quota-free business environment, claiming that “there are only few manufacturers of the company’s product” and that it competes through “quality and on-time shipment.” Still another company, which produces knitted garments, says that it will not be seriously affected because its products “do not fall in the mainstream.” Another company supplies buyers from Japan, which is not a quota market.

When asked what their plans are in response to the phasing out of quotas, 12 will keep the status quo, six will expand their product line, and five will shift their production facilities elsewhere. Two intend to cut down prices, and two will shift to the domestic market.

Those who intend to keep the status quo are mostly adopting a wait-and-see attitude since orders are still coming, and because it is uncertain whether there will be a shift in demand. One company knows that it will lose some buyers, but is confident of getting other buyers. After some time, whatever the company loses will be offset by what it gains.

Other garments exporters, however, are adopting a more proactive stance. Some are engaging in more aggressive marketing efforts, particularly in non-quota markets. Several are upgrading their facilities and equipment to be more efficient and to reduce the cost of production. Some companies have started to target more specific, higher-end markets as the Philippine

cannot compete with mass-producing countries because of higher cost of wages and raw materials. In short, companies are shifting from cheap items to high-end items “because there is less competition in expensive items.” In fact, one company produces mostly for high-end customers that patronize boutiques and specialty stores. The same company is looking for markets with no quota restrictions as well as regions where climactic seasons differ from the company’s main market (i.e. from US / EU, which has the same summer / winter cycle, to Australia / New Zealand). Other companies have shifted, or are planning to shift their operations to other countries, including China, India, and Vietnam.

### ***Upgrading efforts.***

Thirteen of the firms that responded to the survey have invested in newer and faster machines, including some state-of-the-art machinery, to increase productivity. Several firms have bought specialized machines to be able to satisfy their buyers’ specific requirements.

Consequently, companies also invested in the training of their workers, who must be able to operate the specialized machines. For example, a medium-scale firm that produces tops (polo, shirts, blouses) for Levi’s and Dockers hired technical consultants, who conducted in-house training on pattern-making and quality management processes for the company’s 180 employees. Another firm that has 487 employees, and that exports jackets, vests, and wind shirts to a variety of buyers in the United States, avails of the scholarship programs / subsidized training offered by the GTEB. Still another firm that exports children’s apparel to several buyers in the US and Europe now selects computer literate staff for office work (e.g. accounting, marketing, purchasing), especially since it intends to purchase an integrated computer system soon.

These upgrading efforts, according to the firms, were triggered by the stiff competition and the impending quota phase out. One respondent complained about decreasing export prices of its products and the increasing productivity of other Asian countries. Another respondent emphasized the need “to be competitive in terms of being compliant to buyers’ standards”

Ten respondents did not mention any factor that hindered their companies’ upgrading efforts; four mentioned financial constraints; two referred to the “uncertain future”; five did not respond.

### ***Institutional support.***

When asked whether they received any support from government for their upgrading efforts, nine cited the training subsidy / training programs offered by the GTEB-PTTC. Three mentioned financial support, particularly from the Small Business Guarantee Finance Corporation (SBGFC) and TIDCORP. It seemed that most of the firms had the financial means to fund their upgrading activities.

It is revealing to note that the firms did not receive much support from the industry association. One mentioned the endorsement made by the Foreign Buyers Association of the

Philippines (FOBAP) to one of the financial assistance programs of SBGFC. Two others mentioned the seminars and conventions / trade expositions sponsored by the Confederation of Garments Exporters of the Philippines (CONGEP). One credited the Garment Business Association of the Philippines (GBAP) for providing it with information on industry and GTEB rules and regulations and quota standing. Another firm cited the Information Technology Association of the Philippines (ITAP), which sent invitations to its expositions, and the Philippine Chamber of Commerce in the Philippines (PCCI), which provides updates on new developments in business, and sends invitations to participate in group meetings with foreign investors.

In contrast, there seemed to be more support given by the firms' buyers themselves. Levi's / Dockers, for example, provided technical upgrading on sewing process and on quality management to its Philippine supplier. Gap and Old Navy, on the other hand, provided seminars on safety and production to the 200 employees of a Filipino firm that supplies it with pants. The US and UK buyers of another firm receives information updates on latest fashion trends, and information on new specialized equipment. One other firm received advanced payments or loans from its buyers, who also procure raw materials (at their own expense), and send them over to their Philippine supplier. One particular buyer invested in fabric inspection machinery, which it gave to the company, who shouldered a small portion of the expense.

Only one of the firms that participated in the survey is a member of a local cluster. Its operations are in Subic, where firms help each other out in terms of transport facilitation. Usually, the company's operations are hampered by truck ban regulations, but the Subic Bay Metropolitan Authority (SBMA) issues exemptions as long as requirements are completed. Not one firm was a member of an export consortium either.

A substantial number of the firms (13) was aware of the GTEB's Transformation Plan and Assistance Package, although three did not avail of any of the programs. Of the ten who availed of the various programs, four expressed satisfaction with the GTEB Scholarship Program / Subsidized Training, which they said contributed to increased worker productivity; however, two did not find the training programs helpful at all. Four participated in the trade fairs / sales blitzes organized by GTEB in the US, Europe, and non-quota markets, three of which expressed satisfaction in the program. In fact, one company reported that it served as a good sales entry point because several inquiries were made, some of which translated into actual sales. The two firms that availed of the Green Lane at the Bureau of Customs, were pleased because of the speedy release of cargo.

One of those who did not avail of the programs assailed the GTEB, which he accuses as "a source of corruption", saying that it does not do anything to catch violators that use the Philippines as a transshipment point for their products, so as to get around quota restrictions. One firm already firmed up its plans of moving out of the Philippines (because of "discouraging" government policies) so it did not bother to avail of GTEB's programs.

### ***Overall Impressions***

Given the relative deficiencies and weaknesses of the Philippines in terms of certain factor endowments, e.g., high wage costs, low labor productivity, dependence on imported raw materials (as cited by the U.S. International Trade Commission), the only way to overcome these challenges is through a concerted effort involving government and the industry players themselves.

However, it seems that the GTEB Transformation Plan and Assistance Package, which was intended to enhance the competitiveness of the industry, has failed to encourage the greater majority of textile and garments firms in the country to upgrade their technology and processes.

Very few firms also availed of the support offered by the different industry associations (e.g., GBAP, CONGEP). As indicated by our survey, very few firms are also members of local clusters or export consortia, which could help in pooling valuable resources and in facilitating services for the its members.

A probable conclusion is that firms are undertaking upgrading efforts on their own, and are likely to be supported by their mother companies (i.e., if they are subsidiaries of multinational companies) or by their major buyers. Unfortunately, upgrading efforts seem to be limited to a few firms who are strategically located in the global value chains.

For many firms, upgrading is limited to process upgrading, or to efforts to improve the efficiency of their operations. Some are engaged in product upgrading, or coming up with differentiated products to satisfy alternative markets. Functional upgrading, or moving into the higher value activities of the chain, does not seem to be a common occurrence among garments exporters in the Philippines. This supports evidence provided by literature, which says that functional upgrading is difficult to attain because of the captive relationship that exists between the major global buyer that comes from a developed country and the exporter that comes from a developing country. This relationship seems to be also true for major manufacturing firms and its various subcontractors in the country.

## Chapter 7

### Recent Developments in the Post-Quota Regime

This section presents the export performance of the textile and garments industries in the post-quota regime. The results provide some validation to the prognoses that were earlier presented in this paper, and provide some bases for judging the effectiveness of the adjustment efforts undertaken by firms and the support provided by government and other concerned sectors.

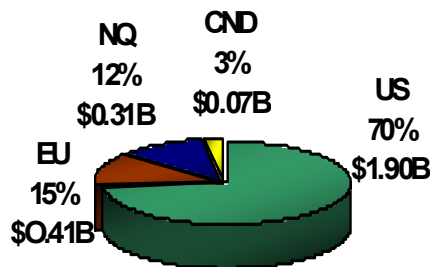
This section also briefly discusses the safeguards taken by the United States and the European Union (the major markets of the Philippines) in relation to China, and how these will affect other textile and garments exporting countries. The country's prospects under the post-quota regime are likewise discussed in this section.

#### *RP's Export Performance in 2004*

According to the Garments and Textile Export Board (GTEB), textile and garments exports in 2004 reached a total value of \$2.692 billion compared to only \$2.615 billion in 2003. Textile exports decreased by about eight percent from \$136 million in 2003 to only \$125 million in 2004. Apparel exports increased by three percent from \$2.290 billion in 2003 to \$2.371 billion in 2004. Finally, non-apparel exports increased by about four percent from \$188 million in 2003 to \$195 million in 2004.

The Philippines' major export market remained to be the United States, which accounted for about \$1.9 billion or approximately 70% of total textile and garments exports of the country. This was followed by the European Union, which accounted for about 15%. Canada, another quota country, accounted for 3%, while the non-quota countries accounted for the remaining 12% of the country's textile and garments exports in 2004.

*Figure 16.* Major export markets of RP textiles and garments, 2004.



Source: An Update on the Garments and Textile Export Industry and the Garments & Textile Export Board (GTEB) TURNING POINT, Winding Down Team Conference, March 29, 2005

*US exports.*

The Philippines registered a 20-percent increase in volume and a 34.41-percent increase in value of its garments exports to the United States in December 2004, the last month of the quota regime. On a year-to-year basis, however, the Philippines suffered a 5.88-percent decline in volume and a 3.67-percent drop in total value of its exports in 2004 compared to those of the previous year. The major gainers in 2004 (in terms of export value) are China (22.97%), Cambodia (15.27%), Macau (12.03%), Indonesia (11.33%), Pakistan (11.30%), India (10.66%), and Guatemala (10.49%).

Table 21

*US Apparel Imports in 2002-2004 – Volume and Value Change (Volume in square meter equivalents; value in US\$; sorted out by Jan-Dec 04 volume)*

	2003 Volume Change	2004 Volume Change	Dec 04 Volume Change	2003 Value Change	2004 Value Change	Dec 04 Value Change
	%	%	%	%	%	%
World	9.32	4.18	5.95	7.37	5.16	6.94
China	46.32	29.74	13.06	29.75	22.97	7.02
Mexico	-8.34	-4.72	-4.97	-7.01	-3.48	-1.68
Honduras	5.66	-4.72	-4.21	2.58	0.74	-1.73
Bangladesh	-1.58	2.56	36.80	-1.86	6.68	38.62
El Salvador	10.18	-8.68	3.57	2.69	-4.85	-3.44
Dom. Rep	3.00	-2.05	-3.01	-2	-5	-2.56
Vietnam	134.38	5.10	45.50	165.29	7.91	33.22
Hong Kong	-4.36	-5.97	-7.05	-4.53	3.95	4.34
Cambodia	19.97	20.27	29.58	18.92	15.27	27.34
Indonesia	3.92	13.69	20.68	5.70	11.33	17.26
Guatemala	7.03	12.33	12.72	6.25	10.49	14.69
Korea	-11.44	8.40	-5.87	-12.41	0.12	-20.26
India	4.59	14.27	13.41	5.26	10.66	10.29
Thailand	1.20	6.82	12.49	-0.40	4.83	13.87
Taiwan	2.61	-3.21	-26.14	2.21	-3.87	-18.16
Macau	17.83	18.85	24.78	11.82	12.03	27.44
Pakistan	16.11	16.17	16.99	15.61	11.30	10.73
<b>Philippines</b>	<b>-0.90</b>	<b>-5.88</b>	<b>19.98</b>	<b>2.11</b>	<b>-3.67</b>	<b>34.41</b>
Sri Lanka	0.29	5.03	10.95	1.60	7.89	25.59
Turkey	7.80	-18.04	2.07	5.68	-7.18	9.11
Costa Rica	-8.19	-8.67	11.68	-18.74	-12.64	5.73
CBI C.	5.56	-3.83	0.95	1.48	-0.18	2.08
Sub-Sahara	43.85	10.37	18.09	37.66	16.25	22.62
Andean C.	34.21	22.14	2.59	40.00	25.42	17.81

Source: EmergingTextiles.com (1998-2005), based on compiled data from the US Department of Commerce / OTEXA

As a result, the Philippines' share of the US market in 2004 dropped from 2.89-percent to only 2.61-percent in terms of volume, and from 3.03-percent to only 2.78-percent in terms of value, compared to the figures in 2003 (see Table 22). The countries that increased their share of

the US market (in terms of value) are China (from 11.87% in 2003 to 13.88% in 2004), Bangladesh (from 3.02% to 3.07%), Vietnam (from 3.88% to 3.98%), Cambodia (from 2.03% to 2.22%), Indonesia (from 3.53% to 3.74%), Guatemala (from 2.88% to 3.03%), India (from 3.27% to 3.44%), Macau (from 2.10% to 2.23%), Pakistan (from 1.66% to 1.76%), and Sri Lanka (2.35% to 2.41%).

Table 22

*US Apparel Imports in 2002-2004 - Volume and Value Shares (Volume in square meter equivalents; value in US\$; sorted out by Jan-Dec 04 volume)*

	<b>2003 Volume Share %</b>	<b>2004 Volume Share %</b>	<b>Dec 04 Volume Share %</b>	<b>2003 Value Share %</b>	<b>2004 Value Share %</b>	<b>Dec 04 Value Share %</b>
World	100.00	100.00	100.00	100.00	100.00	100.00
China	12.14	15.12	14.64	11.87	13.88	12.66
Mexico	10.48	9.59	9.04	11.29	10.36	10.22
Honduras	6.11	5.59	6.49	4.09	3.92	4.66
Bangladesh	4.84	4.77	4.73	3.02	3.07	2.89
El Salvador	4.54	3.98	5.03	2.81	2.54	3.12
Dom. Rep	3.98	3.74	4.50	3.47	3.13	3.77
Vietnam	3.92	3.95	3.69	3.88	3.98	3.01
Hong Kong	4.16	3.76	3.24	6.05	5.98	5.47
Cambodia	2.80	3.23	3.44	2.03	2.22	2.43
Indonesia	3.28	3.58	3.28	3.53	3.74	3.40
Guatemala	2.36	2.54	3.02	2.88	3.03	3.64
Korea	3.05	3.17	2.56	2.95	2.81	2.25
India	2.82	3.09	2.50	3.27	3.44	2.85
Thailand	2.63	2.70	2.99	2.80	2.79	3.16
Taiwan	3.13	2.91	2.26	2.63	2.41	2.14
Macau	1.99	2.27	2.53	2.10	2.23	2.41
Pakistan	2.35	2.62	2.50	1.66	1.76	1.59
<b>Philippines</b>	<b>2.89</b>	<b>2.61</b>	<b>2.40</b>	<b>3.03</b>	<b>2.78</b>	<b>2.80</b>
Sri Lanka	2.09	2.11	2.45	2.35	2.41	2.96
Turkey	1.98	1.56	1.58	2.06	1.81	1.84
Costa Rica	1.76	1.54	1.90	0.96	0.80	0.94
CBI C.	20.78	19.18	22.86	15.71	14.92	17.85
Sub-Sahara	2.11	2.24	2.48	2.47	2.73	3.20
Andean C.	1.09	1.27	1.36	1.72	2.05	2.52

Source: EmergingTextiles.com (1998-2005), based on compiled data from the US Department of Commerce / OTEXA

### ***RP's Export Performance in the First Quarter of 2005***

The Philippines textile and garments exports for the first quarter of 2005 reached a total value of \$587.170 million (preliminary figures). This was a 1.08-percent increase over the \$580.888 million registered over the same period the previous year. Garments exports accounted for 90.34% of the total amount, while textile exports accounted for the balance.

Total exports for March 2005, however, decreased by 17.26% from \$202,522 million to only \$167,575 million. Specifically, garments exports decreased by 16.63% from \$179.009 million in March 2004 to only \$149.231 million, while textile yarns / fabrics registered a decline of 21.98% from \$23.513 million in March 2004 to only \$18.344 million in March 2005.

### *US market.*

Figures released by Emerging Textiles (2005) for the first quarter of 2005 showed that the Philippines suffered a decrease in its volume share of the US market for certain products, but registered minor gains in certain items such as cotton trousers (from 2.48% to 2.54%) and cotton and man-made fiber (MMF) dressing gowns (from 1.94% to 2.29%). It suffered a decrease in US market share for cotton and man-made fiber woven shirts (from 2.81% to 2.44%), man-made fiber knit shirts (3.32% to 2.58%), cotton and man-made fiber brassieres (4.59% to 3.64%), and man-made fiber trousers (from 3.03% to 2.67%).

Table 23

*Volume Change and Volume Share of RP exports to the US (selected items); Volume in dozen; First Quarter, 2004 and 2005*

<b>Selected Items: Category</b>	<b>1<sup>st</sup> Q 04 Volume</b>	<b>1<sup>st</sup> Q 05 Volume</b>	<b>1<sup>st</sup> Q 04 Volume Share</b>	<b>1<sup>st</sup> Q 05 Volume Share</b>
Cotton / MMF Woven Shirt (M&B): 340/640	292,046	309,799	2.81%	2.44%
Cotton Trouser: 347/348	1,015,995	1,215,642	2.48%	2.54%
MMF Knit Shirt: 638/639	631,642	515,355	3.32%	2.58%
Cotton and MMF Brassiere: 349/649	529,558	467,397	4.59%	3.64%
Cotton and MMF Dressing Gown: 350/650	49,818	66,154	1.94%	2.29%
MMF Trouser: 647/648	467,818	427,299	3.03%	2.67%

Source: EmergingTextiles.com (1998-2005), based on compiled data from the US Department of Commerce / OTEXA

The Philippines' export performance, however, is better appreciated when compared to the performance of other countries. Table 24 shows how the country's export performance pales compared with other major Asian exporters to the United States. A clear beneficiary of the quota-less regime is China, which registered huge increases in its volume of exports in several categories. For example, China gained as much as 1,521% volume increase in cotton trousers, and 1,257% volume increase in cotton knit shirts. Other major gainers are India and Bangladesh, which registered major increases in several categories. Even Indonesia and Thailand outperformed the Philippines in the three areas it registered some gains.

Table 24

*Percentage Volume Change of Garments Exports of Selected Countries to the US for Selected Items (First Quarter of 2005 compared to First Quarter of 2004)*

<b>Selected Items: Category</b>	<b>China %</b>	<b>Bangla %</b>	<b>India %</b>	<b>Indon %</b>	<b>Phils %</b>	<b>Thai %</b>	<b>Viet %</b>
Cotton Knit Shirt: 338/339	1,257.87	Na	129.44	na	na	na	-28.26
Cotton / MMF Woven Shirt (M&B): 340/640	284.12	28.18	28.47	39.50	6.08	-17.72	29.71
Cotton Trouser: 347/348	1,521.04	75.93	na	56.46	19.65	na	11.39
Underwear: 352/652	308.07	11.12	56.16	-1.81	na	38.79	na
MMF Knit Shirt: 638/639	331.19	-20.29	na	-22.39	-18.41	-7.34	na
Cotton and MMF Brassiere: 349/649	34.53	-45.86	64.91	5.51	-11.74	25.55	Na
Cotton and MMF Dressing Gown: 350/650	36.86	80.05	-44.15	54.60	32.79	161.86	-11.67
MMF Trouser: 647/648	269.16	24.09	-16.23	9.81	-8.66	14.38	1.12

Source: EmergingTextiles.com (1998-2005), based on compiled data from the US Department of Commerce / OTEXA

Na – figures not available

First quarter figures clearly show that the Philippines is losing out to other countries that are able to take advantage of their low production costs, even if it is able to maintain its hold of certain niche markets.

GTEB Executive Director Serafin Juliano, however, citing figures from OTEXA.com, which measures imports into U.S. territory, pointed the shift in the garments trade patterns of the Philippines with its biggest export market. According to him, “we have grown in terms of quality of business” as proven by the 59% increase in exports of wool apparel (from \$5 million to \$9 million), and 105% increase in exports of apparel made of silk and natural fibers (from \$12 million to \$24 million), which constitute the high-end garments products. Garments made of cotton, which constitute the bulk of RP exports to the USA went down slightly from \$373.5 million last year to only \$372 million as of April this year. Exports of apparel of man-made fiber, however, suffered declines because of the strength of Chinese exports.

### ***Safeguards Against the Chinese Onslaught***

China, which was expected to largely benefit from the removal of quotas, has clearly asserted its dominance in the first quarter 2005. This has prompted the United States and the European Union to initiate moves to limit the entry of Chinese-made garments in their respective territories.

Under the China WTO Accession Protocol, the following provisions apply to trade in textiles and clothing products until December 31, 2008:

“In the event that a WTO Member believed that imports of Chinese origin of textiles and apparel products covered by the ATC as of the date the WTO Agreement entered into force,

were, due to market disruption, threatening to impede the orderly development of trade in these products, such Member could request consultations with China with a view to easing or avoiding such market disruption. The Member requesting consultations would provide China, at the time of the request, with a detailed factual statement of reasons and justifications for its request for consultations with current data which, in the view of the requesting Member, showed: (1) the existence or threat of market disruption; and (2) the role of products of Chinese origin in that disruption.”

This is what the US government used to initiate safeguard proceedings to investigate if the surge in imports from China was disrupting the US market. First quarter US trade figures showed that imports of cotton trousers from China were up 1,521%; imports of cotton knit shirts rose by 1,257%, while imports of man-made fiber underwear increased by 309%.

### ***Re-Imposition of Quotas Expected***

Emerging Textiles.com reported that new quotas were expected to be re-imposed as of May 2005 after consultations are officially requested with China. Under WTO’s rules, the level for the following 12-month period will be set at 7.5% above the amount of imports entered into the United States during the first 12 months of the most recent 14 months.

According to Emerging Textiles.com, in its category analysis dated 14 April 2005, a decision by the United States to reimpose quotas on apparel from China “would boost exports from a small number of low-cost countries, especially Asia and the Americas.” Since new US limits would be very rapidly filled, US buyers are expected to shift to other sources other than China. Those expected to benefit, depending on categories, are India and Bangladesh, followed by Sri Lanka and Central American countries such as Honduras, El Salvador and Guatemala.

### ***China-EU agreement.***

China and the European Union, on the other hand, recently signed a deal to limit growth of Chinese exports of 10 textile and clothing products to the European Union to eight-12.5 percent a year. The deal covers the period from 2005-2007. In return, the EU agreed to stop its investigation into Chinese exports of 10 textile products to Europe, including cotton cloth, T-shirt, flax yarn, bed sheets, table-cloth and trousers.

Guidelines are currently being drafted by Chinese officials. According to Wang Yu, secretary-general of the China Chamber of Commerce for the Import and Export of Textiles, the new guidelines will work like a quota distribution system and will balance the needs of textile enterprises all over China (Agence France-Presse, 2005). The state-run China Daily, commenting on the China-EU deal, said: "In an era of accelerated economic interdependence, it is consultation, not confrontation, that leads to solutions to trade standoffs which are in the interests of all sides." This statement is clearly made to highlight the contrasting approach taken by the United States, which unilaterally re-imposed quotas on several categories of apparel from China.

### *Prospects for the Philippines*

According to the USITC Report (2004), although many countries might suffer a decrease in their share of the US market, “there will likely be exceptions to these trends, especially at the firm level.” This is where the importance of longstanding relationships between U.S. apparel companies and retailers and their foreign suppliers come in. Philippine-based firms that have a track record of efficiency, flexibility, and quality are, therefore, in a position to keep the confidence of their U.S. customers.

Moreover, a large number of countries will likely become major “second-tier” suppliers to U.S. apparel companies and retailers for niche goods or services. As U.S. firms seek to balance cost, flexibility, speed, and risk in their sourcing strategies, they will likely look to the second-tier suppliers to meet those needs that are not met by their first-tier suppliers (USITC, 2004). This is a probable reason that the Philippines is able to maintain its export sales levels in certain product categories even with the onslaught of China, and other low-cost countries like Bangladesh and India.

CONGEP President Mr. George Sy said that some big companies “are getting orders that are bigger than ever” partly because the US “has not totally opened its doors to China and is putting certain restrictions in certain places and in many categories.” However, while total shipment has gone up a little compared to the previous year, prices have been dropping, according to him. This was confirmed by a GTEB official, who said that there has been a 30 percent increase in purchase orders in the first quarter of 2005, but at 10 percent less price.

GTEB Executive Director Serafin Juliano is optimistic about the prospects of Filipino businessmen under the quota-less regime, citing several positive developments as of the first few months of 2005:

- A local factory that produces American Eagle registered a 285% increase in its orders for March to October 2005 (from \$4.5 million to \$12.8 million);
- Orders received by a factory supplying Levi’s and Gap increased by 143% of the whole year for business of only up to September this year;
- Gap, as part of its business strategy is reducing its product execution from 25 to just three, and one of these three is Gap’s women corporate wear (coordinates or ensembles for women ages 40 and above), which is exclusively made in the Philippines;
- Adidas, whose exports grew by 11% in the first quarter of 2005 produces its golf apparel portfolio in Cebu;
- The Philippines continues to supply the European branches of Liz Claiborne, which opened 37 new sites in Europe, and whose business expanded by 10%.
- Philippine garments exports outside the US, as of the first four months of 2005, increased by 35%

Juliano pointed out that the net investments of new companies reached P1.04 billion from 2001 up to the end of the first semester of 2004, the last years of the quota regime. According to

GTEB figures, 388 new manufacturing facilities started operations compared to 269 factory shut-downs. This means that there was a net gain of 119 manufacturing facilities over the said period. In terms of employment, 44,031 new workers were hired compared to 42,128 layoffs, resulting in a net gain of 1,903 workers. This was confirmed by Sy, who said that small factories that close down are being replaced by other small factories that provide subcontracting services to larger factories.

The figures reveal that there are roughly 30 percent more new factories as compared to only five percent new jobs over the said period. The disproportionate ratio, Juliano explained, means that “we are hiring less for each new factory.” The significance of this fact is not that employment in the industry is not growing as fast, but that there is an increasing reliance on technology. This means greater productivity and efficiency for garments firms, and consequently increased competitiveness in the world market.

Under the post-quota regime, according to Juliano, business has become largely customer-driven; the behavior of businesses during the past (under largely rule-based conditions), does not anymore apply to the present. Businesses must, therefore, become more creative in dealing with challenges.

Juliano stressed the need for businesses to change their mindsets. Now, it is a matter of understanding opportunities and of responding to the rapidly changing demands of the market. He said that “anybody who is willing to manage change and to think out of the box will benefit; anybody who refuses to manage the changes will die.”

### ***Implications for an RP-US Free Trade Agreement***

Entering into a free trade agreement (FTA) with the United States provides some opportunities for the textile and garments industries of the Philippines. An FTA could be beneficial in the sense that tariff preferences could be accorded to certain products that the Philippines sells to the US, which is the country’s largest export market.

In an FTA, tariffs and quotas are eliminated on goods originating in and traded between countries who are parties to the agreement. This is reflected in the rules of origin (ROO), which is used as the basis for granting preferential tariff treatment under bilateral or multilateral trade agreements, particularly for goods that are exported by developing countries (e.g. footwear, textiles, garments, etc.).

ROOs fall into one of two main categories: preferential rules of origin, and non-preferential rules of origin.

Table 25  
*Preferential and Non-Preferential ROOs Compared*

<b>Preferential ROOs</b>	<b>Non-preferential ROOs</b>
Determine whether or not products are eligible to receive beneficial access (i.e. lower tariffs or no tariffs) to a certain market	Pertain to those which are used to identify an imported product's country of origin for reasons other than the granting of tariff preferences
Employed in preferential trading agreements to define the conditions under which the importing country will regard a product as originating in an exporting country that receives preferential treatment from the importing country	Used to distinguish foreign from domestic products for the purpose of applying other trade policy instruments, such as anti-dumping and countervailing duties, safeguard measures, origin marking requirements, discriminatory quantitative restrictions or tariff quotas, and / or rules on government procurement

Sources: Australian Chamber of Commerce and Industry, Estevadeordal and Suominem (2003), and Madarang and Gatdula (2005).

ROOs often require the majority of a good's value to be added in the country of export in order for preferences to be obtained, as can be seen in the free trade agreements entered into by the United States with North American countries, Australia, Singapore, and Chile.

Under the general rules of the North American Free Trade Agreement (NAFTA), for example, the following products can avail of preferential treatment: (a) goods produced in a NAFTA-member country, the components of which are wholly sourced from a member country, (b) goods with non-North American content, but were processed in a NAFTA member country and had undergone a change in tariff classification, and (c) goods produced from yarn that was made or formed in a NAFTA country (or the yarn-forward principle).

However, products that are made from certain imported fabrics, yarns and fibers that are cut and sewn in NAFTA countries, can still qualify for preferential tariff treatment under the condition that they are identified under an *a priori* short supply list. This criterion is also referred to as "single transformation" (Madarang and Gatdula, 2005).

The other free trade agreements entered into by the United States basically contain the same provisions on rules of origin, especially those referring to goods that are "wholly obtained or produced" and to the yarn-forward rule. There are certain differences, though, and some exceptions as summarized in the following table.

Table 26  
*Summary of Rules of Origin of US Free Trade Agreements*

Criteria	NAFTA	US-Australia	US-Singapore	US-Chile
“Wholly obtained or produced”	Yes	Yes	Yes	Yes
Change in tariff classification	Yes	Yes; should also satisfy applicable regional value content	Yes	Yes
Yarn-forward rule	Yes	Yes	Yes	Yes
Fiber-forward rule	Applied to cotton, man-made staple fiber yarns and threads, to some woven and knit fabrics of cotton or man-made staple fibers, and to non-woven fabrics of man-made filament or man-made staple fibers	Applied to cotton and man-made fiber spun yarns and knitted fabrics	Applied to cotton and man-made knit fabric	
Short supply list; single transformation criterion	Yes		Yes	
Special provisions		Exceptions for certain products; textiles/apparels that are not originating (for certain fibers that do not meet the yard-forward criteria) and do not undergo the necessary adjustment in tariff classification may still avail of preferential treatment provided that the total weight of non-originating materials (used to produce the good) does not exceed 7% of the total weight of the product.	Exceptions for certain products; trade preference levels for certain non-originating goods; exemption of certain quantity of apparel exports from Singapore from the yarn-forward rule for 8 years	Cotton or man-made fiber fabric goods that are wholly formed in the territory of a Party from yarn spun in the territory of a Party from non-originating fiber are considered originating goods, up to a total annual quantity of 1 million SME; also cotton or man-made fiber apparel goods that are cut or knit to shape & otherwise assembled in the territory of a party from non-originating fibers, up to a total annual quantity of 2 million SME in the first 10 years, and 1 million onwards

It is not unreasonable to expect that the rules of origin of an RP-US free trade agreement will be aligned with free trade agreements of the U.S. with other countries. This will likely involve the “yarn-forward rule”, which will require that the yarn produced in the production of garments must come from either the Philippines or the US, or both. This is problematic for the Philippines since most of the raw materials used by local garments exporters are imported from other countries.

An option for the Philippines is to negotiate for a wider range of raw materials / inputs to be included in the “short-supply” list, which will allow the Philippines to avail of preferential tariff treatment for more of its garments exports, even if the raw materials used do not originate from either the Philippines or the U.S.

Likewise, the Philippines can negotiate for a trade preference level (TPL) and / or an exemption of certain products from the yarn-forward rule for an agreed-upon period of time, similar to what Singapore was able to get in its free trade agreement with the U.S. With this rule, the Philippines can still avail of lower tariffs for its products, as long as the inputs used in their production do not exceed the quantity limits.

Another option is to widen the scope of value added qualifications for Philippine-made garments. Madarang and Gatdula (2005) proposed a 35% value-added criterion, which means that the direct costs of operations used in the processing of the exporting country should not be less than 35% of the appraised value. Philippine exporters can take advantage of this rule since they mostly produce high value-added items (e.g. embroidery) that require a lot of skilled labor.

## **Chapter 8**

### **Summary and Conclusions**

The textile and garments industries of the Philippines have been major contributors to the Philippine economy over the years in terms of manufacturing output, employment, and foreign exchange earnings.

#### ***State of the Industry***

Together, the textile and garments industries accounted for about 10 percent of manufacturing value added in the early 1990s, but their total contribution had gone down to only about six percent by the late 1990s. The combined industries accounted for as much as 30 percent of employment in the manufacturing sector during their peak years, although this has gone down to less than 20 percent towards the end of the decade. Del Rosario (2004) estimated the garments industry's workforce alone to have reached 400,000 workers, representing 14 percent of the total workforce in the manufacturing sector.

Out of the top 20 textile firms in the country, five registered losses in 2002, and 13 experienced a decrease in profitability over the previous year. Among the top 20 garments firms, on the other hand, only four registered a loss in 2002, but ten suffered a decrease in profits as compared to the previous year.

Textiles and garments accounted for about 7.5 percent of the country's foreign exchange earnings in 2002, down from as much as 22 percent about a decade earlier. Nevertheless, articles of apparel and clothing accessories continue to rank second to electronic products in terms of total value of exports of the Philippines.

Textile exports had consistently grown since the mid-1980s except for 1994. Growth rates were particularly strong from 1995 to 1998 before experiencing declines in 1999 and 2000. Garments exports, on the other hand, grew dramatically in the mid-1980s and in double digits until 1991. Growth tapered off in the early 1990s, and then suffered declines in the late 1990s, during the Asian financial crisis. Exports rebounded in 2000, growing by 13%, but suffered declines since then.

For the period 1997-2001, the largest garments exports of the Philippines were women's / girls' dresses of synthetic fibers (not knitted), men's / boys' shirts of man-made fibers (knitted), women's / girls' jackets of synthetic fibers (not knitted), women's / girls' cotton blouses and shirts (not knitted), and men's / boys' trousers and shorts of synthetic fibers (not knitted).

Among the garments exports of the Philippines, however, the products with the greatest revealed comparative advantage (RCA) in relation to other garments product exports are babies' garments and clothing accessories (not knitted), followed by men's / boys' shirts (knitted), and then women's / girls' slips and petticoats; night dresses and pyjamas; panties, bathrobes, etc. (not knitted).

Most of the textile and apparel exports of the Philippines went to quota countries, particularly the United States, the European Union, and Canada. In 2001, a total of 47 percent of textile exports and 90 percent of apparel exports went to quota markets. Major non-quota markets include Japan, Hong Kong, and Taiwan.

*Challenges faced by the industry.*

With the phase out of quotas on January 1, 2005, the Philippines is faced with the challenge of increasing its competitiveness relative to countries like China, India, Bangladesh, Pakistan, and its Southeast Asian neighbors Indonesia and Vietnam.

According to a report by the USITC, the Philippines has to contend with high shipping costs and high power rates, both of which increase the cost of doing business in the country. Expensive inter-island shipping and cargo handling in ports (due to underdeveloped port facilities) discourage investors from locating projects on more remote islands of the Philippines (e.g. Mindanao), which has abundant low-cost labor and significant potential for export-based industries.

High electricity costs, on the other hand, makes energy-intensive textile production expensive. As a result, woven fabrics for most shirts and blouses, are too costly to manufacture in the Philippines, and must therefore be imported. This places the Philippines at a disadvantage compared to other countries with a fabric industry because lead times are longer since raw materials are mostly sourced abroad. Moreover, customs delays for importing fabrics can greatly extend lead times and total costs.

The Philippines also ranks low in terms of labor productivity, even if labor costs are among the lowest in the ASEAN region. Companies operating in the country attributed low labor productivity to the lack of modern equipment, poor training, and high levels of contractual labor. In any case, labor costs in the country are still higher than Indonesia, China, India, Pakistan, and Bangladesh. While some manufacturers have expressed interest in expanding their operations to gain access to local labor in Mindanao and other islands, where the minimum wage is 20 to 50 percent lower than in Manila, peace and order concerns have prevented them from pushing through with their investments.

Overall, the USITC report anticipated a negative result for the Philippines in the post-quota period, and said that its share of U.S. apparel imports is likely to decline. The strong points for the Philippines are its English-speaking, skilled labor force, and the foreign-trade zones on former U.S. military bases that provide modern infrastructure. The factors that reduce its competitiveness include high wage rates, high production costs, dependence on imported yarns and fabric, and political and social unrest.

***Adjustments undertaken.***

To help the industry improve its competitiveness, the GTEB launched the Philippine Garment Industry Transformation Plan and Assistance Package. This was meant to improve the export potential of the garments industry by addressing issues related to quality improvement, productivity, and technology upgrading, among others. It also aimed to bring about positive changes in the mindsets of workers and owners of garment companies. While the objectives of the GTEB Transformation Plan are laudable, however, its impact seems to have been muted by the lukewarm response of the industry.

It can be said that the GTEB Transformation Plan has failed to encourage the greater majority of textile and garments firms in the country to upgrade their technology and processes. Upgrading efforts seem to be limited to the bigger firms, and to those that are strategically located in the global value chains. For many of these firms, upgrading is limited to process upgrading, or to efforts to improve the efficiency of their operations. Some are engaged in product upgrading, or coming up with differentiated products to satisfy alternative or niche markets. Functional upgrading, or moving into the higher value activities of the chain, does not seem to be a common occurrence among garments exporters in the Philippines.

Finally, very few firms availed of the support provided by the different industry associations; likewise, very few firms are members of local clusters or export consortia, which could help in pooling valuable resources and in facilitating services for its members.

***Prospects under the Post-Quota Regime***

The Philippines textile and garments exports for the first quarter of 2005 reached a total value of \$587.170 million (preliminary figures). This was a 1.08-percent increase over the \$580.888 million registered over the same period the previous year. Total exports for March 2005, however, decreased by 17.26% from \$202,522 million to only \$167,575 million.

First quarter U.S. import figures clearly show that the Philippines is losing out to other countries that are able to take advantage of their low production costs. However, the Philippines was able to maintain its hold on certain product categories, such as cotton trousers, and cotton and man-made fiber (MMF) dressing gowns. China, which was expected to largely benefit from the removal of quotas, has clearly asserted its dominance in the first quarter 2005. This has prompted the United States and the European Union to initiate moves to limit the entry of Chinese-made garments in their respective territories. These restrictions seem to open up opportunities for the Philippines in certain products, for which there is a huge demand in the States. Philippine companies continue to receive orders for certain products, but prices have been dropping, according to an industry association official.

Certain quarters remain optimistic about the prospects of Philippine garments manufacturers and exporters in the post-quota regime, given the consolidation of the industry and the increasing reliance of newly-established firms in technology. In fact, the GTEB has predicted a 10 percent growth for the industry in 2005.

## Chapter 9

### Recommendations

Before coming up with a set of recommendations, it might be useful to determine and examine what has previously been put forward by various stakeholders of the industry.

In February 2004, a cross-sectoral conference dubbed “Garments Mini-Tripartite Session” was held. During the conference, which was attended by representatives of all stakeholders in the industry, a consensus was reached for the advocacy in support of the following: (1) a customized, democratized, and universalized micro-finance for displaced workers, (2) speedy legal adjudication of labor cases at NLRC and NMCB, (3) financial transparency for garments and textile firms, (4) the release of unpaid social security benefits and unremitted premiums, (5) punishment for erring employers, and (6) a finance facility for small players, who are expected to perish in the MFA phase-out if left unassisted financially (Honculada, undated, as cited in Mendoza, 2004).

Thereafter, a workshop sponsored by the National Commission on the Role of Filipino Women (NCRFW) was participated in by some representatives of garments exporters and employers and of the government. Participants agreed on the following: (1) strengthen safety nets in lieu of abolishing subcontracting, (2) refocus the garments industry for local consumption, (3) promote corporate social responsibility among garments companies and subcontracting firms, (4) extend government subsidy for the garments industry to make their products competitive, and (5) restructure government programs by identifying viable industries, labor demands and workers’ reskilling, etc. (Honculada, undated, as cited in Mendoza, 2004).

On March 10, 2004, the Fair Trade Alliance (FTA) sponsored a garments summit dubbed “Women’s Jobs on the Brink: How Can the Garments Industry be Transformed?” The cross-sectoral representatives from all stakeholders of the industry approved and supported the advocacy of FTA’s List of Immediate and Urgent Measures, namely: (1) creation of jobs for garments union members, (2) preservation of existing jobs, (3) review of the modernization / restructuring programs, (4) niching, and (5) legislation for employers to establish a bond to cover payment for workers, separation pay, etc. upon company closure (FTA, 2004, as cited in Mendoza, 2004).

In June 2004, CONGEP, the largest garments export manufacturers association in the country, signed the Istanbul Declaration together with 78 other exporter groups from 36 developing and developed countries, and called for a three-year extension of the MFA. CONGEP has also advocated a free trade agreement between the Philippines and the US in a bid to restore the quota through a new bilateral trade agreement. CONGEP, to the chagrin of labor groups, is also pushing for a productivity-based wage policy in order to cut labor costs and to enhance the competitiveness of the industry.

Mendoza (2004) came up with a comprehensive set of recommendations for specific stakeholders of the industry, in his paper “Will there be life for the Philippine Garments Industry after the death of the MFA?” He said that the survival and development of the local garments

industry “entails a strategic refocusing of the industry to the domestic market instead of the global market.” But for this to succeed, the government, the garments industry leaders, labor, and the public “must unite, collaborate, take sacrifice, and mobilize all their respective material and human resources in a mini-Marshall Plan to save the garments industry.”

This united front, however, will only succeed if there is mutual interest among the stakeholders concerned.

Obviously, government is concerned with sustaining the industry, which contributes revenues in terms of taxes and which provides employment to a substantial segment of the population. The garments manufacturers, particularly the exporters, are concerned with lowering costs and / or increasing productivity so as to remain competitive in the world market; even domestic-oriented manufacturers must improve productivity so as to guard against the threat of cheap imported garments. Labor, on the other hand, are concerned not only about keeping their jobs, but also about getting a decent wage and decent working conditions. These various concerns can only be met by rapidly increasing the productivity of firms and by ensuring a steady market for the industry’s products.

Presented below are recommendations that draw liberally from the suggestions of Mendoza (2004), augmented by my own recommendations based on the conclusions derived from this study.

### ***Recommendations for Government***

1. Provide adequate and reliable communication and transportation infrastructure to reduce the cost of doing business in the country.
2. Lower inter-island shipping rates by improving port facilities to speed up cargo handling in ports, and by reevaluating certain provisions in the Cabotage Law.
3. Minimize red tape in dealing with the Bureau of Customs so as to speed up lead times when importing raw materials from abroad; facilitate export-import documentation.
4. Lower power rates by encouraging more investments in the power sector.
5. Provide easy access to low interest loans, especially for working capital.
6. Continue providing assistance, in terms of finding new markets and providing information about developments in foreign markets.
7. Continue providing support for displaced garments workers, in terms of livelihood assistance, job placement assistance, loan and loan guarantees, retraining, and entrepreneurial skills training.
8. Strictly enforce labor laws and standards among garments firms so as to secure the support of labor in efforts to save the industry.
9. Protect the local market against dumped imports; clamp down on smuggling
10. Guarantee market share for local garments.
11. Improve peace and order in Mindanao and in other islands so as to encourage investments in these areas.

***Recommendations for Garments Industry Leaders / Businesses***

12. Immediately design a rigorous garments industry development plan and marshal resources to drive it into motion. This could take the form of the proposed Philippine Wearable Institute, to which the retained earnings of the defunct GTEB could be channeled.
13. Invest in new machineries and productivity-enhancing technology.
14. Develop the management skills of managers and supervisors of garments firms, especially in the areas of financial management and human resource management.
15. Encourage close collaboration among firms, especially in availing of common service facilities. This could serve to reduce the capital investments made by individual firms.
16. Encourage the Big Brother-Small Brother (lead firm-subcontractors) arrangement so as to achieve significant economies of scale for the lead firms and so as to enhance the technological capabilities of the subcontractors through the help of the lead firm.
17. Provide support for certain lead firms to move up the value chain by adopting the “concept to store approach” / full production services strategies to cater to high-end segments of the market.
18. Engage the support of Filipino designers to help local firms constantly come up with creative and innovative designs.
19. Ensure a working Code of Conduct for upholding labor rights and consumer protection.
20. Consider investments in other countries so as to take advantage of proximity to raw materials and abundant cheap labor, and plow back profits into the Philippines through investments in other viable businesses.

***Recommendations for Labor***

21. Exert maximum effort to achieve optimum productivity
22. Concede flexibility in labor relations and standards
23. Forge social accords at the enterprise, territorial, or industry level, whenever necessary to provide enough space and time for the industry to stabilize

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## Appendix A

### Revealed Comparative Advantage - Garments

#### 6102-Women's/girls' overcoats, anoraks etc, of wool or fine animal hair, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	0	25,219,808	445,265	4,950,184,996	0
1998	60	29,487,001	378,672	4,938,730,249	0.0265
1999	11	35,027,037	406,242	5,112,323,138	0.0040
2000	255	38,066,035	426,890	5,696,154,789	0.0894
2001	1159	32,135,887	468,323	5,371,661,764	0.4137

#### 6103-Men's/boys' suits, ensembles, jackets and blazers, trousers and shorts, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	40,686	25,219,808	3,132,947	4,950,184,996	2.5490
1998	40,043	29,487,001	2,378,015	4,938,730,249	2.8203
1999	46,604	35,027,037	2,366,523	5,112,323,138	2.8743
2000	45,873	38,066,035	2,515,695	5,696,154,789	2.7286
2001	43,024	32,135,887	2,432,326	5,371,661,764	2.9567

#### 6104-Women's/girls' suits, ensembles, jackets, dresses, skirts, trousers and shorts, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	12,952	25,219,808	6,623,231	4,950,184,996	0.3838
1998	12,463	29,487,001	5,896,581	4,938,730,249	0.3540
1999	11,266	35,027,037	5,951,458	5,112,323,138	0.2763
2000	14,141	38,066,035	5,934,753	5,696,154,789	0.3566
2001	16,010	32,135,887	5,118,129	5,371,661,764	0.5229

#### 6105-Men's/boys' shirts, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	226,478	25,219,808	3,469,338	4,950,184,996	12.8132
1998	203,137	29,487,001	3,572,624	4,938,730,249	9.5233
1999	190,416	35,027,037	3,415,593	5,112,323,138	8.1368
2000	197,531	38,066,035	3,287,763	5,696,154,789	8.9904
2001	166,537	32,135,887	2,527,107	5,371,661,764	11.0155

## Appendix A - continued

### Revealed Comparative Advantage - Garments

#### 6106-Women's / girls' blouses and shirts, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	90,381	25,219,808	3,487,315	4,950,184,996	5.0870
1998	90,881	29,487,001	3,609,607	4,938,730,249	4.2169
1999	109,317	35,027,037	3,769,288	5,112,323,138	4.2330
2000	109,661	38,066,035	3,503,449	5,696,154,789	4.6838
2001	97,980	32,135,887	3,224,438	5,371,661,764	5.0793

#### 6107-Men's/boys' underpants and briefs, nightshirts and pyjamas, bathrobes, dressing gowns, etc., knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	4,325	25,219,808	2,414,913	4,950,184,996	0.3515
1998	2,764	29,487,001	1,848,942	4,938,730,249	0.2504
1999	1,971	35,027,037	1,830,520	5,112,323,138	0.1572
2000	4,437	38,066,035	1,754,137	5,696,154,789	0.3785
2001	5,045	32,135,887	1,473,923	5,371,661,764	0.5721

#### 6108-Women's/girls' briefs and panties, nightdresses and pyjamas, bathrobes, dressing gowns, etc., knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	43,356	25,219,808	6,098,861	4,950,184,996	1.3953
1998	40,516	29,487,001	5,126,315	4,938,730,249	1.3238
1999	38,448	35,027,037	4,724,717	5,112,323,138	1.1877
2000	42,969	38,066,035	4,404,143	5,696,154,789	1.4599
2001	44,998	32,135,887	3,873,854	5,371,661,764	1.9416

#### 6109-T-shirts, singlets and other vests, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	34,388	25,219,808	10,530,181	4,950,184,996	0.6410
1998	49,305	29,487,001	11,512,970	4,938,730,249	0.7173
1999	32,194	35,027,037	12,518,925	5,112,323,138	0.3753
2000	35,886	38,066,035	13,556,691	5,696,154,789	0.3961
2001	39,063	32,135,887	11,834,681	5,371,661,764	0.5517

## Appendix A - continued

### Revealed Comparative Advantage - Garments

#### 6110-Pull-overs, cardigans and similar articles, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	115,537	25,219,808	17,665,607	4,950,184,996	1.2837
1998	115,716	29,487,001	18,128,282	4,938,730,249	1.0691
1999	122,211	35,027,037	18,772,363	5,112,323,138	0.9502
2000	141,936	38,066,035	19,515,659	5,696,154,789	1.0883
2001	133,882	32,135,887	19,023,287	5,371,661,764	1.1764

#### 6111-Babies garments and clothing accessories, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	94,492	25,219,808	1,880,828	4,950,184,996	9.8611
1998	71,727	29,487,001	2,137,885	4,938,730,249	5.6193
1999	64,167	35,027,037	2,319,747	5,112,323,138	4.0373
2000	76,395	38,066,035	2,514,504	5,696,154,789	4.5463
2001	91,047	32,135,887	2,435,708	5,371,661,764	6.2483

#### 6112-Track suits, ski suits, men's/boys' swimwear, and women's/girls' swimwear, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	90,517	25,219,808	2,026,656	4,950,184,996	8.7666
1998	61,733	29,487,001	1,753,826	4,938,730,249	5.8954
1999	33,443	35,027,037	1,664,335	5,112,323,138	2.9328
2000	29,015	38,066,035	1,667,458	5,696,154,789	2.6038
2001	24,668	32,135,887	1,486,313	5,371,661,764	2.7742

#### 6114-Garments nes, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	12,597	25,219,808	1,295,653	4,950,184,996	1.9084
1998	11,207	29,487,001	1,338,610	4,938,730,249	1.4022
1999	11,736	35,027,037	1,383,740	5,112,323,138	1.2379
2000	23,180	38,066,035	1,281,677	5,696,154,789	2.7063
2001	11,155	32,135,887	1,331,567	5,371,661,764	1.4003

## Appendix A - continued

### Revealed Comparative Advantage - Garments

#### 6115-Pantyhose and tights, hosiery, and hosiery nes, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	7,962	25,219,808	4,404,086	4,950,184,996	0.3549
1998	16,469	29,487,001	4,336,282	4,938,730,249	0.6361
1999	12,127	35,027,037	4,368,729	5,112,323,138	0.4051
2000	13,076	38,066,035	4,281,063	5,696,154,789	0.4571
2001	18,936	32,135,887	3,993,843	5,371,661,764	0.7925

#### 6116-Gloves, mittens and mitts, knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	38,076	25,219,808	664,426	4,950,184,996	11.2482
1998	31,784	29,487,001	664,511	4,938,730,249	8.0111
1999	29,697	35,027,037	748,688	5,112,323,138	5.7893
2000	24,097	38,066,035	762,160	5,696,154,789	4.7311
2001	27,085	32,135,887	805,217	5,371,661,764	5.6226

#### 6117-Shawls, scarves, veils and the like; clothing accessories nes; parts of garments, etc., knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	4,922	25,219,808	891,488	4,950,184,996	1.0837
1998	6,462	29,487,001	1,125,365	4,938,730,249	0.9617
1999	5,383	35,027,037	1,355,437	5,112,323,138	0.5796
2000	8,730	38,066,035	1,537,313	5,696,154,789	0.8498
2001	9,697	32,135,887	1,465,732	5,371,661,764	1.1059

#### 6201-Men's/boy's overcoats and similar articles; men's/boy's anoraks and similar articles, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	32,532	25,219,808	5,033,637	4,950,184,996	1.2686
1998	23,308	29,487,001	5,119,823	4,938,730,249	0.7625
1999	20,305	35,027,037	4,507,379	5,112,323,138	0.6575
2000	28,425	38,066,035	4,420,310	5,696,154,789	0.9623
2001	36,985	32,135,887	3,966,560	5,371,661,764	1.5586

## Appendix A - continued

### Revealed Comparative Advantage - Garments

#### 6202-Women's/girl's overcoats and similar articles; women's/girl's anoraks and similar articles, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	18,349	25,219,808	3,610,749	4,950,184,996	0.9975
1998	13,403	29,487,001	3,566,755	4,938,730,249	0.6294
1999	14,065	35,027,037	3,584,918	5,112,323,138	0.5726
2000	20,785	38,066,035	3,618,970	5,696,154,789	0.8594
2001	27,091	32,135,887	3,464,423	5,371,661,764	1.3071

#### 6203-Men's/boys' suits, ensembles, jackets and blazers, trousers and shorts, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	319,279	25,219,808	20,622,804	4,950,184,996	3.0388
1998	314,174	29,487,001	21,498,274	4,938,730,249	2.4477
1999	302,703	35,027,037	20,813,054	5,112,323,138	2.1227
2000	319,581	38,066,035	21,142,273	5,696,154,789	2.2619
2001	276,928	32,135,887	18,772,850	5,371,661,764	2.4658

#### 6204-Women's/girls' suits, ensembles, jackets, dresses, skirts, trousers and shorts, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	446,429	25,219,808	21,943,192	4,950,184,996	3.9933
1998	487,654	29,487,001	23,569,487	4,938,730,249	3.4653
1999	509,295	35,027,037	23,750,242	5,112,323,138	3.1298
2000	612,267	38,066,035	24,789,383	5,696,154,789	3.6959
2001	578,593	32,135,887	23,562,837	5,371,661,764	4.1045

#### 6205-Men's/boys' shirts, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	144,149	25,219,808	7,778,835	4,950,184,996	3.6373
1998	172,543	29,487,001	8,393,597	4,938,730,249	3.4430
1999	173,512	35,027,037	7,445,282	5,112,323,138	3.4014
2000	181,173	38,066,035	7,561,692	5,696,154,789	3.5852
2001	154,485	32,135,887	6,125,335	5,371,661,764	4.2157

## Appendix A - continued

### Revealed Comparative Advantage - Garments

#### 6206-Women's/girls' blouses and shirts, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	54,621	25,219,808	6,148,552	4,950,184,996	1.7437
1998	71,422	29,487,001	6,297,426	4,938,730,249	1.8996
1999	79,136	35,027,037	5,905,241	5,112,323,138	1.9559
2000	100,199	38,066,035	5,699,282	5,696,154,789	2.6308
2001	91,150	32,135,887	4,749,455	5,371,661,764	3.2080

#### 6207-Men's/boys' underpants and briefs; nightshirts and pyjamas; bathrobes, dressing gowns, etc., not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	11,582	25,219,808	966,169	4,950,184,996	2.3529
1998	10,799	29,487,001	966,795	4,938,730,249	1.8708
1999	12,252	35,027,037	1,022,859	5,112,323,138	1.7483
2000	15,734	38,066,035	1,009,606	5,696,154,789	2.3320
2001	18,990	32,135,887	852,051	5,371,661,764	3.7254

#### 6208-Women's/girls' slips and petticoats; nightdresses and pyjamas; panties, bathrobes, etc., not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	38,356	25,219,808	2,095,484	4,950,184,996	3.5928
1998	47,480	29,487,001	2,031,812	4,938,730,249	3.9139
1999	47,198	35,027,037	1,976,643	5,112,323,138	3.4851
2000	56,207	38,066,035	1,944,405	5,696,154,789	4.3256
2001	63,871	32,135,887	1,639,236	5,371,661,764	6.5130

#### 6209-Babies garments and clothing accessories, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	154,315	25,219,808	1,011,460	4,950,184,996	29.9460
1998	138,712	29,487,001	1,112,347	4,938,730,249	20.8862
1999	112,366	35,027,037	1,070,813	5,112,323,138	15.3157
2000	117,913	38,066,035	1,154,664	5,696,154,789	15.2809
2001	111,054	32,135,887	1,046,721	5,371,661,764	17.7346

## Appendix A - continued

### Revealed Comparative Advantage - Garments

#### 6210-Men's/boys' overcoats and similar articles; women's/girls' overcoats and similar articles, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	5,878	25,219,808	2,303,384	4,950,184,996	0.5009
1998	8,369	29,487,001	2,138,989	4,938,730,249	0.6553
1999	4,666	35,027,037	2,347,822	5,112,323,138	0.2901
2000	3,575	38,066,035	2,777,298	5,696,154,789	0.1926
2001	4,240	32,135,887	2,820,501	5,371,661,764	0.2513

#### 6211-Men's/boys' swimwear; women's/girls' swimwear; ski suits; men's/boys' and women's/girls' garments, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	51,622	25,219,808	5,406,076	4,950,184,996	1.8743
1998	76,326	29,487,001	4,546,362	4,938,730,249	2.8119
1999	60,365	35,027,037	4,350,032	5,112,323,138	2.0254
2000	82,800	38,066,035	4,927,507	5,696,154,789	2.5145
2001	70,871	32,135,887	4,381,649	5,371,661,764	2.7036

#### 6212-Brassieres and parts; girdles, panty girdles and parts; corselettes, corsets, braces, etc.

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	93,301	25,219,808	3,650,144	4,950,184,996	5.0171
1998	77,633	29,487,001	3,889,103	4,938,730,249	3.3433
1999	70,660	35,027,037	4,093,540	5,112,323,138	2.5194
2000	88,171	38,066,035	4,064,011	5,696,154,789	3.2465
2001	84,417	32,135,887	3,706,160	5,371,661,764	3.8074

#### 6216-Gloves, mittens and mitts, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	373	25,219,808	323,830	4,950,184,996	0.2261
1998	1,860	29,487,001	310,941	4,938,730,249	1.0019
1999	1,394	35,027,037	296,863	5,112,323,138	0.6854
2000	1,225	38,066,035	313,495	5,696,154,789	0.5847
2001	838	32,135,887	285,394	5,371,661,764	0.4908

## Appendix A - continued

### Revealed Comparative Advantage - Garments

#### 6217-Clothing accessories, nes; parts of garments or of clothing accessories, nes, not knitted

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	1,843	25,219,808	2,032,850	4,950,184,996	0.1780
1998	1,947	29,487,001	2,400,306	4,938,730,249	0.1359
1999	2,440	35,027,037	1,935,199	5,112,323,138	0.1840
2000	2,096	38,066,035	2,002,320	5,696,154,789	0.1566
2001	4,094	32,135,887	1,869,285	5,371,661,764	0.3661

#### 6301-Electric blankets; blankets and travelling rugs

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	5,403	25,219,808	919,109	4,950,184,996	1.1538
1998	2,174	29,487,001	862,504	4,938,730,249	0.4222
1999	1,746	35,027,037	918,034	5,112,323,138	0.2776
2000	2,965	38,066,035	1,032,200	5,696,154,789	0.4298
2001	4,277	32,135,887	983,190	5,371,661,764	0.7271

#### 6302-Bed linen; table linen; toilet and kitchen linen

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	33,439	25,219,808	5,313,829	4,950,184,996	1.2352
1998	32,482	29,487,001	5,450,581	4,938,730,249	0.9981
1999	31,510	35,027,037	5,537,698	5,112,323,138	0.8305
2000	36,857	38,066,035	5,679,754	5,696,154,789	0.9710
2001	21,751	32,135,887	5,075,215	5,371,661,764	0.7164

#### 6303-Curtains, drapes, interior blinds, and curtain or bed valences

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	4,771	25,219,808	675,196	4,950,184,996	1.3869
1998	4,184	29,487,001	758,681	4,938,730,249	0.9237
1999	6,319	35,027,037	848,072	5,112,323,138	1.0875
2000	9,952	38,066,035	950,252	5,696,154,789	1.5672
2001	7,405	32,135,887	939,679	5,371,661,764	1.3172

## Appendix A - continued

### Revealed Comparative Advantage - Garments

#### 6304-Furnishing articles, nes

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	16,717	25,219,808	1,289,121	4,950,184,996	2.5453
1998	14,625	29,487,001	1,366,538	4,938,730,249	1.7925
1999	18,645	35,027,037	1,604,603	5,112,323,138	1.6959
2000	15,324	38,066,035	1,517,880	5,696,154,789	1.5107
2001	13,329	32,135,887	745,600	5,371,661,764	2.9882

#### 6305-Sacks and bags for packing of goods

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	6,117	25,219,808	1,132,726	4,950,184,996	1.0600
1998	2,926	29,487,001	1,161,936	4,938,730,249	0.4218
1999	5,436	35,027,037	1,127,753	5,112,323,138	0.7035
2000	6,845	38,066,035	1,190,538	5,696,154,789	0.8603
2001	5,041	32,135,887	1,094,442	5,371,661,764	0.7699

#### 6306-Tarpaulins, awnings and sunblinds; tents

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	8,645	25,219,808	806,159	4,950,184,996	2.1049
1998	5,929	29,487,001	863,292	4,938,730,249	1.1503
1999	4,141	35,027,037	950,689	5,112,323,138	0.6357
2000	6,088	38,066,035	953,297	5,696,154,789	0.9556
2001	5,177	32,135,887	978,287	5,371,661,764	0.8846

#### 6307-Floor-clothes, dish-clothes, dusters and similar cleaning cloths; life jackets and life belts; made up articles

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	6,927	25,219,808	2,056,403	4,950,184,996	0.6612
1998	7,382	29,487,001	2,298,533	4,938,730,249	0.5379
1999	15,624	35,027,037	2,442,018	5,112,323,138	0.9338
2000	13,772	38,066,035	2,775,423	5,696,154,789	0.7425
2001	11,696	32,135,887	2,467,309	5,371,661,764	0.7924

## Appendix A - continued

### Revealed Comparative Advantage - Garments

#### 6309-Worn clothing and other worn articles

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	1,758	25,219,808	1,220,372	4,950,184,996	0.2828
1998	946	29,487,001	1,178,111	4,938,730,249	0.1345
1999	1,398	35,027,037	1,156,594	5,112,323,138	0.1764
2000	3,823	38,066,035	1,120,959	5,696,154,789	0.5103
2001	2,794	32,135,887	1,131,789	5,371,661,764	0.4126

#### 6310-Used or new rags of textile materials

Year	Philippine Product Aggregate	Total Philippine Exports	World Product Aggregate	Total World Exports	RCA
1997	3,075	25,219,808	374,188	4,950,184,996	1.6130
1998	1,006	29,487,001	323,762	4,938,730,249	0.5204
1999	599	35,027,037	254,257	5,112,323,138	0.3438
2000	1,431	38,066,035	259,673	5,696,154,789	0.8246
2001	1,521	32,135,887	228,653	5,371,661,764	1.1119

## Appendix B-1

### Summary of anticipated effects of quota elimination in 2005 and key competitive factors – East Asia

Country	Likely effect of quota removal	Contributing factors
East Asia	U.S. apparel companies and retailers are likely to expand sourcing from the region and continue close relationships with suppliers in the region, who are major sources of textile and apparel investment worldwide	<p>Labor – Sewing skills considered the best in the world</p> <p>Inputs – Substantial manufacturing base for raw materials</p> <p>Transportation – Best shipping times to the U.S. west coast within Asia</p>
China	<p>Likely to be supplier of choice for most large U.S. apparel companies and retailers; uncertainty regarding textile-specific safeguards may temper export growth. Over the long-term, competitiveness may diminish as strong economic growth leads to greater domestic demand for textiles and apparel, and for the labor and capital to make these goods.</p> <p>Showed tremendous growth in export of goods for which it became eligible for quota-free entry in 2002</p>	<p>Labor – Per-unit labor costs very low due to low wages and high productivity</p> <p>Inputs – Produces fabrics, trim, packaging, and most other components used to make apparel and made-up textile articles</p> <p>Products – Considered by industry among the best in making most garments and made-up textile articles at any quality or price level. World's largest producer and exporter of textiles and apparel, notwithstanding tight quotas in major world import markets.</p>
Hong Kong and Macau	Initially, may continue to be suppliers of some apparel under outward processing arrangements (OPAs) with China because of uncertainty regarding textile-specific safeguards with China. There are no other compelling reasons to source most apparel from these relatively high-cost suppliers.	<p>Labor – High-cost suppliers compared with China</p> <p>Special arrangements – OPAs allow for some of the labor intensive production steps to take place in China, but remain a product of Hong Kong or Macau for trade purposes. Will not be subject to China-specific safeguards after quotas are removed.</p>
Korea and Taiwan	Likely to continue as major suppliers of fabrics to the global industry, including China. However, U.S. firms are likely to move sourcing of apparel to lower-cost countries, particularly China; may continue to source certain garments from these suppliers (e.g. men's dress shirts, dresses, and other fashion apparel).	<p>Labor – High per-unit labor costs; high labor productivity</p> <p>Products – Small, flexible sewing lines advantageous for fashion apparel; highly automated sewing lines for dress shirts; offer full-package services</p>

Source: USITC, 2004; based on interviews with representatives of U.S. apparel and textile companies, U.S. retailers, foreign textile and apparel producers and investors, and foreign government officials; a review of the literature; and testimony presented to the U.S. International Trade Commission at the public hearing and in written statements

## Appendix B-2

### Summary of anticipated effects of quota elimination in 2005 and key competitive factors – South Asia

Country	Likely effect of quota removal	Contributing factors
South Asia	U.S. firms will likely expand sourcing from South Asia with the removal of quotas in 2005	<p><b>Inputs</b> – Huge manufacturing base for yarns and fabrics</p> <p><b>Competitive position</b> – Most competitive alternative to China as a supplier, but competitiveness of each country varies widely</p>
India	<p>Likely to remain a competitive supplier to the United States when quotas are removed in 2005. Considered by many U.S. firms the primary alternative to China.</p> <p>Over the long-term, competitiveness may diminish as strong economic growth leads to greater domestic demand for textiles and apparel, and for the labor and capital to make these goods.</p>	<p><b>Labor</b> – Huge, relatively inexpensive, skilled workforce; has design expertise</p> <p><b>Inputs</b> – Among the world’s largest producers of yarns and fabrics</p> <p><b>Products</b> – Wide range of apparel; considered a competitive source for home textiles (e.g. bed linens and towels)</p> <p><b>Business climate</b> – Personal safety, security of shipments between factories and ports and bureaucratic red tape and infrastructure are issues, with many U.S. firms using agents in lieu of dealing directly with producers</p>
Pakistan	<p>Likely to continue as a supplier to the U.S. market. Considered by many U.S. firms as a competitive alternative to China, particularly for men’s apparel</p> <p>May continue to be a global supplier of cotton yarns and fabrics.</p>	<p><b>Labor</b> – Large, relatively inexpensive labor supply</p> <p><b>Inputs</b> – Access to local supplies of raw cotton</p> <p><b>Business climate</b> – The government is taking steps to ensure the global competitiveness of the textile and apparel sector; personal safety and security of shipments between factories and ports are issues.</p>
Bangladesh	The status of Bangladesh as an overall supplier to U.S. market is uncertain. Considered by some U.S. firms to be competitive alternative to China for mass-produced, low-end apparel	<p><b>Labor</b> – Very low wage rates; productivity improving, but lags China; government is working to improve labor standards</p> <p><b>Inputs</b> – Relies heavily on imports for woven fabric requirements; becoming increasingly self-sufficient in knit fabrics</p> <p><b>Special arrangements</b> – Duty-free access to major world import markets, including the EU, Canada, and Norway</p> <p><b>Products</b> – Mass-produced basic garments, including knit cotton tops and woven cotton pants</p>
Sri Lanka	Likely to see its share of U.S. apparel imports fall, but expected to be niche supplier for specialty or fashion goods, hosiery, and women’s intimate apparel such as bras and underwear	<p><b>Labor</b> – Relatively small labor pool; relatively high wage rates</p> <p><b>Inputs</b> – Relies heavily on imported yarn and fabric</p>

Source: USITC, 2004; based on interviews with representatives of U.S. apparel and textile companies, U.S. retailers, foreign textile and apparel producers and investors, and foreign government officials; a review of the literature; and testimony presented to the U.S. International Trade Commission at the public hearing and in written statements

### Appendix B-3

## Summary of anticipated effects of quota elimination in 2005 and key competitive factors – ASEAN

Country	Likely effect of quota removal	Contributing factors
ASEAN	Overall share of U.S. textile and apparel imports is likely to decline as U.S. firms reduce sourcing in all but a few countries	<p><b>Labor</b> – Costs relatively high in all ASEAN countries except Indonesia and non-WTO members Vietnam and Cambodia, which are ineligible for quota liberalization.</p> <p><b>Transportation</b> – Shipping times to the U.S. west coast average 45 days, compared with 12 to 18 days from China</p>
Indonesia	Future status as a supplier to the U.S. market is uncertain. Many U.S. firms consider Indonesia to be a competitive supplier, but indicated its political and social unrest may discourage future sourcing	<p><b>Labor</b> – Abundant supply of low-cost, skilled labor</p> <p><b>Inputs</b> – Huge manufacturing base for raw materials, especially synthetic fibers, yarns, and fabrics</p> <p><b>Business climate</b> – Frequent political and social unrest likely to deter growth in sourcing in the short term</p>
Philippines	Share of U.S. apparel imports is likely to decline, as has already occurred in goods for which quotas were eliminated (e.g. babies' apparel)	<p><b>Labor</b> – English-speaking, skilled labor force; high wage rates</p> <p><b>Inputs</b> – Relies heavily on imported yarn and fabric</p> <p><b>Special arrangements</b> – Foreign-trade zones on former U.S. military bases provide established modern infrastructure</p> <p><b>Business climate</b> – Political and social unrest</p>
Thailand	Share of U.S. imports is likely to decline, as has already occurred in goods for which quotas were eliminated (e.g. babies' apparel and luggage); may become a niche supplier of garments having complex construction or detailed sewing requirements	<p><b>Labor</b> – Highly-skilled workforce; high wages, partly because of a labor shortage</p> <p><b>Inputs</b> – Domestic supply of yarns and fabrics</p> <p><b>Products</b> – Strong needlework skills and small-scale factories enable intricately designed garments and flexibility in sourcing fashion apparel</p>
Malaysia	Share of U.S. apparel imports is likely to decline significantly	<p><b>Labor</b> – Labor shortage; wages second-highest in the region after Singapore</p> <p><b>Business climate</b> – Although government highlights importance of textile and apparel sector, investment is largely directed to other industries</p>

Source: USITC, 2004; based on interviews with representatives of U.S. apparel and textile companies, U.S. retailers, foreign textile and apparel producers and investors, and foreign government officials; a review of the literature; and testimony presented to the U.S. International Trade Commission at the public hearing and in written statements

**Appendix B-4**  
**Summary of anticipated effects of quota elimination in 2005**  
**and key competitive factors – Mexico, CBERA, and Andean**  
**countries**

Country	Likely effect of quota removal	Contributing factors
Mexico	Share of U.S. apparel imports is likely to decline further, even with NAFTA preferences. May continue to be a niche supplier for some basic apparel, particularly goods needed on short-turnaround basis	<p>Labor – Costs are relatively high; product quality and production reliability problematic; middle management responsible for running the factories is considered weak; product design expertise is limited</p> <p>Inputs – Produces knit and woven fabrics. Cost is reportedly less than that for similar U.S.-produced fabrics, but higher than similar Asian fabrics</p> <p>Products – Concentrates on mass-producing basic garments, particularly 5-pocket denim jeans, knit tops, and undergarments; limited capability for fashion apparel. Limited ability to offer full-package services</p> <p>Business climate – Additional overhead costs in providing security for shipments from factories to the U.S. border and complying with paperwork requirements for preferential treatment under NAFTA</p>
CBERA	<p>Most U.S. firms indicated they will reduce sourcing from the CBERA countries, especially if the proposed U.S.-Central America-FTA does not permit the use of regional (e.g., Mexican) or third country (e.g., Mexican or Asian) fabrics</p> <p>However, even without a regional or third-country fabric provision in the proposed U.S.-Central America FTA, the region is likely to continue to mass-produce garments having minimal labor content and make apparel for quick-turn orders</p>	<p>Products – Mass-produces basic garments, particularly those with low-labor content and few delicate sewing operations</p> <p>Inputs – Relies heavily on imported yarn and fabric from the United States, largely reflecting U.S. content rules under the CBTPA to qualify for trade benefits; U.S. and regional fabrics required to qualify for CBTPA preferences cost more than similar fabrics made in Asia.</p> <p>Transportation – Benefits from proximity to U.S. market</p> <p>Special arrangements – Duty-free access under the CBERA</p>
Andean countries	Share of U.S. imports likely to decline overall, but may continue to be a niche supplier to the U.S. market	Special arrangements – U.S. legislation enacted in August 2002 providing for duty-free treatment of apparel imports from region using regional yarns and fabrics

Source: USITC, 2004; based on interviews with representatives of U.S. apparel and textile companies, U.S. retailers, foreign textile and apparel producers and investors, and foreign government officials; a review of the literature; and testimony presented to the U.S. International Trade Commission at the public hearing and in written statements

## Footnotes

<sup>1</sup> This is part of the research project “Industrial Adjustment and Upgrading for Competitiveness for Globalization and the RP-US FTA” undertaken by the DLSU-Angelo King Institute for Economic and Business Studies (DLSU-AKI), and funded by TAPS Project of the Philippine Exporters Confederation (PHILEXPORT).

<sup>2</sup> Data presented here are based on the latest figures of the Philippine Statistical Yearbook 2003, and the 1998 Census of Establishments. Export figures come from the Philippine Statistical Yearbook, and are supplemented by data generated from the PC-TAS and COMTRADE databases of the United Nations, as well as by data released by the U.S. International Trade Commission, 2004.

<sup>3</sup> For establishments with more than 10 employees.

<sup>4</sup> There had been several agreements since the 1960s that governed trade in textiles and apparel. From 1961-1962, there was the Short Term Arrangement Regarding International Trade in Cotton Textiles (STA). This was followed by the Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA), which took effect from 1963 to 1973. From 1974 to 1994, international trade in garments and textiles was governed by the Multi-fibre Agreement (MFA). This was supplanted in 1995 by the WTO Agreement on Textile and Clothing (ATC), which will expire in 2005.

<sup>5</sup> “Government urged to raise tariffs on fabrics, yarn,” Philippine Daily Inquirer, 14 September 2001, found at [http://inq7.net/bus/2001/sep/15/bus\\_4-1.htm](http://inq7.net/bus/2001/sep/15/bus_4-1.htm), retrieved 3 January 2003, as cited in USITC, 2004.

<sup>6</sup> TESDA, Labor Market Intelligence Report, No. 20, found at <http://www.tesda.gov.ph/services/issue20.asp>, retrieved 22 January 2003, as cited in USITC, 2004.

<sup>7</sup> U.S. Department of State telegram 3553, “Philippines: 2002 Investment Climate Statement,” prepared by the U.S. Embassy, Manila, 2 July 2002, as cited in USITC, 2004.

<sup>8</sup> U.S. Department of State telegram 3553, “Philippines: 2002 Investment Climate Statement”, as cited in USITC, 2004 .

<sup>9</sup> Garment and Textile Export Board (GTEB), “Survival assistance package laid out for the Philippine garment export industry,” GTEB News, found at [http://www.gteb.gov.ph/news/02/Oct/mar\\_roxas\\_hm](http://www.gteb.gov.ph/news/02/Oct/mar_roxas_hm), retrieved 18 December 2002, as cited in USITC, 2004.

<sup>10</sup> Philippine Exporters Confederation, Inc. (Philexport). “Dressing up the world”, found at <http://www.philexport.ph/garments.html>, retrieved 3 January 2003, as cited in USITC, 2004.

<sup>11</sup> TESDA, Labor Market Intelligence Report, No. 20, found at <http://www.tesda.gov.ph/services/issue20.asp>, retrieved 22 January 2003, as cited in USITC, 2004.

<sup>12</sup> “Workers for export,” *Textile Asia*, March 2002, p.73, as cited in USITC, 2004.

<sup>13</sup> TESDA, Labor Market Intelligence Report, No. 18, found at <http://www.tesda.gov.ph/services1/issue18.asp>, retrieved 22 January 2003, as cited in USITC, 2004.