Development in Practice,
Volume 14, Numbers 1 & 2, February 2004

REVIEW ESSAY

Gereffi, Gary, David Spener, and Jennifer Bair (eds.)
Free Trade and Uneven Development: The North American Apparel Industry after NAFTA
Philadelphia, PA: Temple Press, 2002, ISBN: 1 5663 9968 8, 368 pp.

Introduction

Free Trade and Uneven Development is a collection of articles that centre on the North American textile and apparel sectors since the passage of the North American Free Trade Agreement (NAFTA) in 1994. The articles, focusing on the USA, Mexico, Central America, and the US–Mexico border areas, explore the ways that trade policy changes have led textile and apparel firms to adopt new production and marketing strategies. The book's central argument is that NAFTA led to the emergence of an integrated regional economy that has restructured the dynamics of production of the North American textile and apparel industry with consequences for firms and labour.

To address the new regional dynamics of production under NAFTA, the contributors adopt a firm-centred approach that focuses on networks. The premise is that through textile–apparel supply chains, large leading companies are determining how, who, and under what conditions smaller domestic firms and workers participate in production, in the context of an increasingly interdependent and complex North American production and trade landscape. The network approach focuses on:

1. Strategic decision-making and organisational behaviours that 'lead firms' in the textile and apparel commodity chain adopt to respond to changes in regional trade policy.
2. Modes of insertion into the apparel commodity chain among small-scale garment enterprises; whether or not small- to medium-scale firms that participate in cross-border networks in specific locations in the USA and Mexico establish certain types of cooperation links or enter into joint ventures that might benefit both sides.
3. Dynamics of local industrial districts, especially the cross-border links between subnational regions in Mexico and the USA and their impact on labour.

The book's network approach builds on previous work by Gary Gereffi on commodity chains and global capitalism,[1] a multi-dimensional view of production in which networks link households, enterprises, and states to one another within the world economy. A commodity chain encompasses the whole range of activities involved in the design, production, and marketing of a product. The global commodity chains approach consists of inter-organisational networks clustered around one commodity or product, and focuses on the nature of input–output structures, territoriality of production, and distribution networks, as well as governance structure and power relations of transnational corporate coordination.[2] Gereffi also builds on Michael Porter's work on value chains, conceived as a set of activities necessary to bring a product from a concept stage to marketing and consumption of end products.[3]

Free Trade and Uneven Development documents how firms in the textile–apparel complex have responded to changes in trade policy by adapting new production and marketing strategies, and contributes to the understanding of the rise (or fall) of specific sectors or regions by identifying how trade liberalisation has affected the ability of firms to create innovative production arrangements (in the case of lead firms) and adapt to their new requirements (in the case of smaller firms in the supply chain).

Regional trade liberalisation and uneven development: the Mexican textile and apparel industry under NAFTA

The opening of the Mexican economy in 1985 and the implementation of NAFTA in

ISSN 0961-4524 print/ISSN 1364-9213 online 010286-05 © 2004 Oxfam GB
DOI: 10.1080/0961452032000170866 Carfax Publishing

1994 have had multiple effects on the Mexican textile and apparel industry. In 2000, Mexico became the number one exporter of apparel to the USA, supplying more than 10 per cent of that market. Gereffi, Martínez, and Bair argue that, while 'a verdict on the consequences of NAFTA for Mexico has yet to be reached' (p. 203), it is clear that the agreement has created winners and losers. Several contributors find that NAFTA has deepened the division of labour within North America, and that the agreement has had mixed consequences for firms and workers.

Firms

Trade liberalisation in Mexico has created a split between a small set of firms with cutting-edge technology and manufacturing methods that are able to compete in a global market, and a larger group of firms catering to domestic demand which have been negatively affected by the opening of markets.

The book outlines the challenges and opportunities facing the Mexican apparel industry under free trade. Mexican producers have confronted the double challenge of the penetration of Asian imports and the shrinking of the domestic apparel market caused by Mexico's access to GATT in the 1980s and the 1994 devaluation of the peso. Most Mexican producers have shifted production to supply the US market in order to survive and work as subcontractors for US-based manufacturers and retailers or for larger Mexican producers. Carrillo, Hualde, and Almaraz note that trade opening has not produced a uniform effect on textiles and apparel in Mexico. While a good number of firms disappeared, many have thrived and even new ones have been created (p. 182). These authors conclude that, contrary to the predictions of development theory, firms participating in networks without local backward linkages tend to be more flexibly competitive in the new free trade environment, while locally linked firms tend to suffer from a number of disadvantages, including technological and organisational limitations and a lack of forward linkages to the international market.

NAFTA-inspired firm strategies have changed the geography of apparel production in North America. NAFTA has had a developmental impact on this sector to the extent that a group of firms has undergone a significant qualitative transformation, as production has shifted from pure assembly to 'full package production' in which Mexican firms do cutting, laundering, and finishing operations. 'Lead firms' in the textile and apparel industry have been the driving force in establishing qualitatively different kinds of regional production networks in North America from those that existed prior to NAFTA. The emergence of full-package production networks in Mexico is the result of the strategies that these firms, mostly from the USA, have developed to respond to regional free trade, and to growing concerns about profitability and control of production and supply in increasingly global commodity chains.

In practice, this has entailed the creation of new links between capital- and technology-intensive US firms with diverse Mexican partners, including textile, fibre, and apparel companies throughout the country. These networks have allowed some Mexican firms to experience an industrial upgrading and to become players in the US market. As noted by Dussel Peters, Ruiz Durán, and Piore, Mexican apparel producers that have been able to upgrade their operations have done so through partnering with foreign firms. Firms that have made a successful transition to exporting have relied heavily on their relationships with foreign firms placing orders in Mexico. Vangstrup analyses the concrete case of knitwear production and finds that external links to global commodity chains have been critical in allowing Mexican knitwear companies to initiate successful export programmes. In fact, the author argues, contracts with foreign buyers were more important than the advantages provided by their membership in a local producer association or an industrial cluster.

Several chapters in this book explore the effects that NAFTA has had on Mexican industrialisation, analysing the effects on Mexican firms, their insertion in international trade, and their levels of competitiveness. Spener, Van Dooren, and Gereffi, Martínez, and Bair, show in their respective chapters how leading US firms in the textile and apparel production, distribution, and retail sectors have responded to regional free trade by relocating production from the USA into Mexico or by subcontracting parts of the production chain that used to be carried out in the USA. Gereffi, Martínez, and Bair argue that since NAFTA came into effect, some Mexican firms have started to make inroads in the higher value-added fashion industry, although most still mass-produce standardised garments. They provide the example of Mexican firms in Torreón, in the northern state of Coahuila, which had a long tradition of apparel production under import substitution and were able to make the transition into full-package production as a result of partnerships established with US firms or of customer relationships developed with them.

So it is the connection with a foreign partner that has actually determined that certain sectors of Mexico's textile and apparel industry have been able to upgrade their production capacity and maintain their competitive position in the world market. The problem has been the lack of backward linkages with other smaller domestic producers, which in fact has resulted in a wider technology gap. Vangstrup analyses the role of local and national governments in supporting these firms' activities in order to overcome this lack of backward linkages. The author examines the promotion of industrial clusters (*empresas integradoras*) and credit unions, and finds that government agencies have lacked the capacity to learn from the success and failure of export promotion programmes for small- and medium-sized firms.

Jobs

Palpacuer and Kessler argue that NAFTA has caused the elimination of direct production jobs in apparel manufacturing in the USA. The main reason for this is that US producers encouraged by US trade policies such as the Caribbean Basin Initiative (CBI) and NAFTA transferred garment production to the Caribbean Basin, Central America, and Mexico. These authors analyse employment developments in New York City (NYC) and Los Angeles (LA), respectively, the two largest garment districts in the USA and also important fashion design centres. Palpacuer assesses the impact on labour by looking at subcontracting networks in NYC. The author argues that Asian and Hispanic immigration has created new patterns of social and industrial segmentation within the New York garment industry while providing the necessary workforce for the industry. Kessler analyses the LA garment sector and finds that NAFTA winners are retailers, manufacturers, and skilled white-collar workers, while the losers are contractors, sewing operators, and low-paid blue-collar workers. Bonacich looks at the effects on union organisation where global outsourcing has resulted in membership losses in the two leading US apparel unions (ILGWU and ACTWU) and has affected most seriously workers who lack the skills to be retrained for jobs in other industries. While regional trade integration and new production supply chains have eliminated low-skill US jobs, they have also led to higher US productivity and wages in the textile sector (for those who keep their jobs). Between 1995 and 2000, the productivity of the average US apparel worker increased 11 per cent as a result of improved technology, production practices, and inventory management. Likewise, hourly wages for both apparel and textile workers in the USA also increased between 10 and 30 per cent in the same period (Bair and Gereffi, p. 44).

Spener explains that the US border region experienced job losses as a result of NAFTA-related dislocations, since the agreement favoured greater reliance of apparel firms such as Levi Strauss on a network of overseas contractors, especially in Mexico. By 2000, average annual employment in the El Paso textile and apparel industry had shrunk from 23,500 in 1993 to 11,800 jobs in 2000. In contrast, since NAFTA became effective in 1994, jobs in the Mexican textile and garment industry experienced a boom throughout the country. The rapid rise of the city of Torreón as an exporter of jeans, for instance, led to an employment boom in that region. By 2000, more than one million people were employed in the sector—but wages never reached US levels.

Uneven Impact of Global Liberalisation

In addition to its regional focus, the book also addresses globalisation. Garment manufacturing has been internationalised further than perhaps any other industry. Bair and Gereffi examine the global dynamics of the textile industry and explain that each region—Asia, Europe, and North America—is characterised by a division of labour between relatively high-wage and low-wage countries (p. 28). Within each region, the lowest-wage countries are attempting to consolidate their role in existing assembly networks, while relatively developed economies like Mexico and Turkey seek to expand higher value-added production. Importantly, China, although a very low-wage country, is among the latter group.

Economists agree that trade liberalisation affects firms differently, arguing that those that are inefficient will disappear, while those able to adapt to new market conditions will thrive. This book seriously modifies that argument, suggesting that the distribution of winners and losers from lower trade quotas will be entire countries, not simply firms within countries.

The phase-out of the MultiFiber Agreement (MFA) in 2005 will (in principle) result in the complete elimination of textile quotas among WTO members. This opening would appear to be an opportunity for developing countries to promote industrialisation through export growth. However, while the textile sector was a crucial stepping-stone in the economic development of developed countries as well as successful East Asian countries, full trade liberalisation in this sector has become a source of grave concern to less developed countries that are heavily dependent on their textile and apparel sector for their export activity (e.g. Asian, African, and Central American countries). Trade liberalisation and quota elimination, in fact, may increase the vulnerability of countries whose firms are not part of regional or global production networks.

This problem is addressed by Mortimore and Mathews in their respective analyses of the Caribbean and Central America. They argue that changes in trade regimes can dramatically reshape a country's competitiveness, and that the termination of the MFA poses serious challenges to countries in this area of the world. Mathews suggests that Costa Rica is unlikely to reap long-term benefits in apparel production. Because only low-value added assembly operations take place in this country, producers are not competitive with their Asian counterparts without preferential access to the US market, no significant backward linkages into local economies are being developed, and little tax revenue is being generated that the government could invest in other development projects. In addition, because of the small size of their domestic market and the lack of local textile suppliers, no Costa Rican firms have been able to move beyond *maquiladora*-style subcontracting and into full-package production, as has occurred in some Mexican locations. Mortimore's analysis of the Dominican Republic's apparel industry shows that its competitiveness is also threatened by the phase-out of the MFA and the emergence of Mexico as the Caribbean's main competitor for the US apparel market since NAFTA's implementation. As a result, he foresees significant job losses and the need to re-evaluate a development strategy based on export processing zones.

Conclusion

Free Trade and Uneven Development is an important contribution to the literature on development and globalisation, illuminating some of the contradictory dynamics posed by regional and global integration, particularly as they relate to the distribution of winners and losers. Trade liberalisation has proved to be significantly beneficial to some, but it is not sufficient to generate development on its own. Mexico, as a case in point, has relied heavily on its integration with the USA to promote employment and reduce poverty. The results, after a decade, are highly mixed. This book suggests that, in addition to pursuing more open markets, national governments need to create policies and institutions that help domestic producers adjust to liberalisation.

The book identifies an important research agenda for the future that has to do with the actual policies and/or institutions that are required to reduce the drastic effects that trade and economic liberalisation may pose, especially for the ill-prepared. In addition, those that have fared better as a result of globalisation will also require policies that allow them to maintain their position as winners and contribute with a spillover effect for growth and development through the various networks already developed.

Notes

1 See Gereffi, Gary and Miguel Korzeniewicz (1994) *Commodity Chains and Global Capitalism*, Westport, CT: Greenwood Press.

2 In Gereffi's approach, the length, depth, and density of chains reveal how pressures are resolved within the network. The apparel industry is a *dense network*, especially in the low-end production of commodities like men's T-shirts, cotton trousers, or underwear. It can also be a *long* network involving several stages along the whole supply chain before it reaches the final consumer.

3 Porter, Michael (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*, New York, NY: Simon & Schuster.

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