The Apparel Industry in the Dominican Republic After the MFA: Report and Recommendations of an FLA Mission

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Executive Summary

In the past eighteen months, the Dominican Republic has lost an estimated 50,000 jobs in the apparel sector. Declining employment and numerous plant closures reflect the weakening position of Dominican exporters in the U.S. market: Between 2004 and 2006, apparel exports from the Dominican Republic to the United States fell by nearly 25%. Although the current value of the national currency against the U.S. dollar exacerbates the competitive pressure on Dominican exporters, the underlying cause of this decline is the restructuring of the global apparel industry in the wake of the phase-out of the Multifiber Arrangement (MFA). Fundamental changes in the regimes governing trade in apparel products have occurred at both the global and regional levels, and these regulatory shifts, combined with the changing sourcing practices of foreign brands, are eroding the viability of the traditional model of assembly subcontracting in the Dominican Republic under Sections 807/9802 of the U.S. Tariff Schedules.

The quota phase-out and China's entry into the World Trade Organization (WTO) have brought far-reaching changes to the global apparel industry, and this period of transformation has created an atmosphere of uncertainty among garment exporters in the Dominican Republic, as in many other countries. While understandable in light of recent developments, this uncertainty nevertheless constitutes a barrier to the kind of decisive and effective action that is necessary if the future of the industry is to be secured. Halting the decline that has occurred over the past eighteen months will depend on the ability of private and public actors to, first, jointly identify a destination for where the local industry is going, and second, to outline a set of actionable plans as a road map for how to get there. This will require a substantial reorientation of the industry towards higher value-added production, including the provision of pre- and post-production services for foreign clients, and a better integration of Dominican manufacturers into the regional supply chain in order to take advantage of an expanding textile base in the Caribbean Basin. Also critical for success will be the government's ability to address a number of issues external to the apparel sector that negatively impact the industry's competitiveness, including energy and transport costs.

Introduction to the FLA Mission

This report has it origins in an invitation extended by the Vice President of the Dominican Republic, The Honorable Rafael Alburquerque de Castro, to the Fair Labor Association (FLA) in early 2007. Vice President Alburquerque asked the FLA to assemble a group of experts who would conduct an assessment of the Dominican apparel industry and identify possible opportunities for improving the situation. As a multi-stakeholder, non-governmental organization committed to securing the labor rights of workers around the world, the FLA has followed closely recent developments in the apparel industry worldwide regarding the phase-out of quotas and resulting shifts in production and employment. Since the FLA works to secure a fair and equitable global apparel industry that is capable of providing quality employment to workers, the organization shares the government's concerns about the dislocations that recent shifts in the global garment trade have caused to workers in the Dominican Republic, their families and their communities. The FLA welcomed the invitation from the Dominican government to examine the situation in the country's export-processing zones, to explore the challenges that firms and workers there are confronting, and to reflect on possible strategies for reversing the decline of the industry. Thus, the FLA organized a small mission to the Dominican Republic in May 2007.

The FLA mission was composed of three members with different backgrounds and areas of expertise, both academic and professional, in the apparel industry: Jennifer Bair, a sociologist at Yale University who has studied and written about the textile sector at both the global and regional level; Antonio Baliarda, a textile industry consultant based in Barcelona, Spain, who has extensive experience working in factories around the world; and Franklin Chavarria, the Fair Labor Association's Regional Manager for the Americas, who has also worked on labor compliance issues for leading clothing and footwear brands. This group spent ten days in the Dominican Republic, dividing their time between Santo Domingo and Santiago. During this period they met with representatives of industry associations, labor unions, and NGOs, as well as managers and owners of factories, and they also visited several textile and apparel plants. The goals of the mission were threefold: first, to understand the major competitiveness challenges confronting the industry in the Dominican Republic; second, to analyze the Dominican experience in the context of regulatory changes at the global and regional levels; and third, to make a series of recommendations to both public- and private-sector actors regarding the possibilities for sustaining an apparel industry that is capable of meeting the needs of global clients while also providing quality employment to workers.

In preparing this report, the team was able to collect and draw on the data it gathered during ten days of interviews in the Dominican Republic. However, we also sought to make use of the very substantial insights and knowledge of the local experts we met with, and we drew from a range of secondary materials, including comprehensive analyses of the apparel industry and the export-processing sector in general prepared by professional consultants. Upon completion of the mission, the team drafted this document to summarize what we learned and offer our proposals regarding possible courses of action. However, the FLA is aware that any document based on such limited research is bound to offer a partial perspective on a complex set of issues, so our conclusions should be understood less as a set of definitive proposals for action, and more as a set of reflections designed to provoke discussion among the set of private and public sector actors who are ultimately responsible for charting a course for the future of the country’s apparel industry.

The remainder of this report is divided into four sections: In Section I, we provide a very brief description of the enormous changes which are occurring in the geography and organization of the global garment industry; we also underscore the implications of these shifts for producers in Latin America. Section II gives an overview of trends in the apparel industry in the Dominican Republic over the last ten years, while Section III discusses the set of factors we feel are most salient in accounting for recent developments. In Section IV, the final section, we sketch out our recommendations regarding possible strategies for confronting these challenges and securing a future for the Dominican Republic’s apparel industry in an increasingly liberalized and competitive environment.

I. The Textile and Apparel Industry in Global Context

Largely because the textile and apparel sector has been an important source of manufacturing employment in virtually all modern economies, and because the emergence of this industry is considered a key phase in the industrialization process of developing countries, the regulation of trade in textile products has long been a highly contentious and contested issue in the international economy. For over three decades, global trade in garments was regulated by a series of regimes that were intended to afford a measure of protection to developed-country firms in the context of ongoing, if gradual trade liberalization. The most significant of these was the Multifiber Arrangement (MFA), which began in 1974 and continued until it was replaced with the Agreement on Textiles and Clothing (ATC) in 1995. The goal of the ATC was to incorporate trade in garments fully into the WTO framework, and it established a four-stage phase-out of quantitative restrictions on clothing imports that was to secure the complete elimination of quotas on textile products by January 1, 2005.

It is difficult to overestimate the implications of the quota phase-out, especially since this more or less coincided with the entrance of China—the number one exporter of apparel to the U.S., Japanese, and European markets—into the WTO. Much of the research conducted in anticipation of the phase-out predicted that a few countries, especially China and India, would emerge as big winners from the worldwide restructuring that was expected after January 1, 2005, while countries that had benefited the most from the quota regime were expected to be the big losers. Overall, trade liberalization would also facilitate a consolidation of the industry into a smaller number of countries, since brand-name retailers and marketers could now rationalize their global sourcing practices and make decisions about where to place orders on the basis of cost, quality, and delivery time, instead of the need to manage quotas across a range of different countries.

It is still rather premature to assess the full impact of this most recent and far-reaching phase in the liberalization of the global garment trade, partly because buyers and suppliers are still adjusting to the new regime, and partly because the WTO-approved safeguards that the United States and the European Union have imposed on clothing imports from China have limited that country’s growth in global import market share. Yet even with these safeguards in place, China’s meteoric rise among leading exporters to the U.S. market is striking. As illustrated in Table 1 and Graph 1, China’s exports to the

U.S. market grew 70% in value terms between 2004 and 2006, while those of every Latin American country declined during the same period. Other Asian countries registering strong growth between 2004 and 2006 include Indonesia (53%), Cambodia (50%), and Bangladesh (47%).

Table 1
U.S. Apparel Imports from Leading Suppliers, 1996-2006

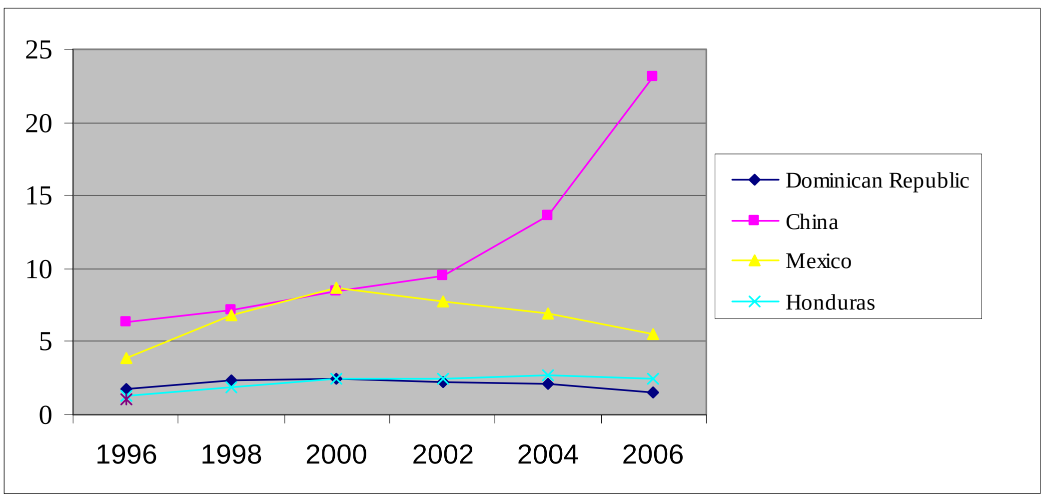
	1996	1998	2000	2002	2004	2006
Dominican Republic	1.773	2.358	2.443	2.177	2.064	1.553
China	6.298	7.133	8.473	9.539	13.568	23.112
Mexico	3.849	6.811	8.73	7.732	6.948	5.529
Honduras	1.241	1.905	2.416	2.503	2.745	2.518

In US$ billions.

Apparel defined as SITC 84, U.S. Imports for consumption, customs value.

Source: United States International Trade Commission

Graph 1
U.S. Apparel Imports, 1996-2006



In addition to changes in the global regime regulating trade in textile products, the last decade has brought important changes to the various regional trade initiatives affecting Latin American exporters, who have long relied heavily on the U.S. market as the principal destination for their products. Much of the apparel exported from Mexico and the countries of the Caribbean basin historically entered the United States under Sections 807/9802 of the U.S. Tariff Schedules: This is the so-called production-sharing provision of U.S. trade law, which provides preferential access to goods assembled abroad from U.S. components. Because of the benefits provided by the 807/9802 regime, many regional exporters specialized in a form of assembly subcontracting that involved sewing pieces of pre-cut fabric into garments, sometimes in facilities owned and operated by foreign manufacturers. Since the mid-1990s, the general 807/9802 regime has been superseded by several new agreements specifically affecting hemispheric exporters. The first of these is the North American Free Trade Agreement (NAFTA), which was implemented in 1994 and which initiated free trade among the signatory countries (Canada, United States, and Mexico) for all products that meet NAFTA's North American rules of origin. In a sense, NAFTA trumps the 807/special regime because while the latter is designed to protect the U.S. textile industry by granting preferential access only to those garments assembled in Mexico from U.S. fabrics, the former established new rules of origin specifying that a garment sewn in North America is eligible for duty- and quota-free treatment under NAFTA as long as it contains yarn and fabrics produced in any of the signatory countries.

Apparel manufacturers in the Caribbean Basin feared that their exclusion from NAFTA would hurt the competitiveness of their garment exports, which were, unlike Mexico's, still subject to the value-added tariff. The first attempt at providing the region with NAFTA parity was the United States-Caribbean Basin Trade Partnership Act (CBTPA) in May 2000. The CBTPA provides both duty- and quota-free treatment for most apparel products exported from the Caribbean Basin countries that meet one of the following criterion: garments made from fabric that is both cut and formed in the United States, or garments made from U.S.-formed fabric (which may be cut in the assembling country) and assembled using U.S.-made thread. However, some specific categories of garments are still subject to quotas under the CBTPA, which is slated to extend until 2008. Shortly after the CBTPA was passed, negotiations for a U.S.-Central America Free Trade Agreement (CAFTA) were launched, although the Dominican Republic did not join the negotiations until 2004, the same year in which they concluded. The DR-CAFTA was approved by the U.S. Congress in late July 2005, and although it was initially scheduled to go into effect on January 1st of the following year, there were delays in implementation. On March 1, 2007, the Dominican Republic implemented the DR-CAFTA. In contrast to the CBTPA, which essentially extended the traditional 807/9802 regime, the DR-CAFTA creates new rules of origin governing trade in textile products. Under these rules of origin, all processes from the spinning of the yarn forward must occur in one of the signatory countries in order for the final garment to receive duty-free access to the final destination (de facto, U.S.) market. Since these rules of origin give the DR-CAFTA countries strong incentives to use qualifying inputs in their exports to the United States, it is imperative to strengthen the regional supply chain for these materials, especially yarn and fabric. We return to this theme below.

While these regulatory shifts at both the global and regional level have important implications for where apparel is made, it is also important to note changes in *how* clothing is being produced for export. Consolidation in retail, the development of private label (store brand) lines, and the secular decline of domestic apparel manufacturing in the United States have increased demand among buyers for off-shore suppliers that offer "full-package" production. In contrast to the cut, make and trim model of subcontracting, full-package exporting is a more integrated model of manufacturing that involves various pre-production (sourcing, financing and inspecting fabric, pattern marking and grading) and post-production (laundering and finishing, labeling, packing) activities. Although the precise mix of activities bundled in the full-package concept varies across countries and clients, this model of exporting is generally more difficult and more costly than traditional subcontracting; It is also increasingly demanded by foreign buyers who prefer to focus on their core competencies of design, marketing and brand-development, while leaving much of the manufacturing process in the hands of competent suppliers. For apparel exporters that are not subsidiaries of foreign firms, the development of full-package capabilities is critical. Indeed rather than being a more profitable route to export success, it is increasingly seen as a prerequisite for competing in today's apparel industry.

Of course, these changes in the regulation and organization of global apparel production are affecting all countries, not just the Dominican Republic. However, we do believe that this broader context is necessary for making sense of recent developments in the Dominican industry and that a global perspective must be part of any search for sustainable strategies to respond to current challenges.

II. Overview of the Dominican Apparel Industry

Over the last five years, the Dominican textile sector (consisting primarily of garment manufacturing as opposed to fabric production) has experienced a steady decline in terms of employment and shipments, and the rate of that decline has accelerated markedly since 2005. In terms of employment, exports, and number of plants, the Dominican industry peaked in the late 1990s. Employment fell from a high of over 132,120 workers in 1997 to less than 91,500 in 2005, with the number of apparel establishments declining 17% over the same period, from 272 to 226 plants.

Table 2
The Dominican Republic's Export-Oriented Apparel Industry, selected indicators 1995-2006

	1995	1997	1999	2001	2002	2003	2004	2005	2006
Number of apparel (EPZ) factories	295	272	277	262	262	269	281	226	NA
Number of apparel (EPZ) workers	108,599	132,120	125,783	121,895	118,652	119,101	131,178	91,481	NA
Exports to the U.S. (current US$)[a]	1.75	2.23	2.36	2.29	2.18	2.13	2.06	1.85	1.55
Exports (constant 1995 US$)[a]	1.75	2.11	2.16	1.99	1.85	1.80	1.67	1.49	1.18
Rank among leading suppliers	6	4	4	6	6	8	9	10	15

[a]In US$ billions.

Source: Data on number of factories and workers from CNZF annual statistical reports, various years, available at http://www.cnzfe.gov.do/informaciones_estadisticas.htm; Export data and rankings from U.S. import data for apparel (SITC 84) customs value, available at U.S. International Trade Commission dataweb, available at http://dataweb.usitc.gov/; Value of exports in constant 1995 US$ calculated using the Consumer Price Index Inflation Calculator.

Since 2005 the pace of the decline has increased sharply, however, with an estimated loss of around 50,000 jobs in the past eighteen months. Equally striking is the decline in the Dominican Republic's apparel exports to the U.S. market, the principal destination for the country's shipments, accounting for over 90% of apparel exports in recent years. Between 2004 and 2006, U.S. imports from the Dominican Republic fell by about 25%, from US$2.06 billion to US$1.55 billion; this was the second largest decline in value terms among top suppliers to the U.S. market, surpassed only by Hong Kong, whose exports fell 28% over the same two-year period. The downward trend is starkly reflected in the Dominican Republic's precipitous drop among leading exporters of apparel to the United States. While as recently as 2002 the Dominican Republic was the United States' sixth largest supplier of garments, it fell to a rank of 15th in 2006. Exports from the

Caribbean region overall have also declined in recent years, though two other regional exporters have surged ahead of the Dominican Republic in the rankings: Honduras (ranked 8th in 2006) and Guatemala (ranked 13th).

As noted above, many of the difficulties confronting the Dominican apparel industry are not unique. Virtually all exporters are grappling with the implications resulting from the final phase-out of the Multifiber Agreement and the advent of the quota-free trade regime on January 1, 2005. However, the Dominican Republic is among those countries that are most impacted by the recent liberalization of the global garment trade because of the structure of its export profile in terms of the leading apparel products being produced in the island's export processing zones. As reported by Nathan Associates in its 2004 report on the Dominican apparel industry for USAID, 92% of the Dominican Republic's exports were in quota-constrained categories in 2003. Furthermore, more than 55% of the country's exports were in three categories for which quotas were then in effect for China, and India: cotton trousers, cotton underwear, and knit shirts. The implications of this kind of head on competition with China are suggested by the fact that in the first quarter of 2005, U.S. imports of cotton trousers from China increased by 1,000%!

On the ground, the impact of declining export competitiveness is most visible in the number of empty factories found in some of the country's export-processing zones. Not surprisingly, the initial round of plant closures affected primarily small and- medium-size companies, many of which served as sub-contractors to larger ones. However, many of the people we interviewed remarked that the spring 2007 closure of the country's second largest apparel manufacturer, Interamericana, generated considerable alarm in the industry, since it implies that there is little job security even for those employed by the biggest and best-established manufacturers; Before finally shuttering its factories in February of this year, Interamericana employed as many as 11,000 workers. During the ten days of our mission, we heard about several new closures, including three sewing plants owned by Hanesbrands (formerly Sara Lee) in Itabo, and the factory of RK Fashion, a full-package manufacturer in La Vega. Several people estimated that closures announced in the two to three week period of late April-early May would mean a loss of another 10-15,000 jobs.

We also learned of several positive steps that the Dominican government has taken in response to these developments. The government announced that rent for tenants in the country's export-processing zones will be lowered 20%, and that this reduction will be in effect for one year. In addition, the government has created a fund of 1,200 million Dominican pesos to guarantee loans taken by companies in the apparel industry. Prerequisites for businesses wishing to benefit from this fund include origin of capital (must be Dominican-owned) and operating status (must be actively producing). Companies meeting these criteria may apply to the National Free Trade Zone Council (CNZF), which is responsible for vetting applicants. Participating companies then contract loans individually with private banks, but the government guarantee on the loan lowers the interests rate for borrowers by several percentage points (e.g., from 14% to 8%).

Several people that we spoke with mentioned the "época de oro" when the Dominican Republic was called "la isla de los Dockers." As was abundantly clear from our conversations with people in the industry, there is a general understanding that this period has passed. Indeed even if efforts to halt the industry's decline were successful, it is nevertheless very unlikely that the apparel industry will regain the levels of employment and profitability that were reached during the 1990s. Furthermore, in a post-MFA environment there is no future for the old 807/9802 model of cut and sew assembly that was the Caribbean Basin's bread and butter for the last two decades.

However, it is also important to note that when the dust from the current shake-up of the global garment trade settles, there will continue to be a textile and apparel industry in Latin America. The brands and retailers that have shifted much of their production to Asia will nevertheless continue to source from hemispheric suppliers, and if the Dominican Republic is to secure a place among the Caribbean basin's leading exporters, it must focus on maximizing its primary advantage: proximity to the U.S. market. In order to capitalize on its potential geographic advantage, local manufacturers must offer the full range of full-package services that buyers want, entailing the development of new competencies such as logistics management and fabric sourcing. This will require a significant reorientation of the industry and a concerted effort between the public and private sector to address several of the critical challenges affecting the industry, which we describe in the following section.

To summarize, the situation of the Dominican apparel industry is grave, and reversing the current trend will require a sustained, substantive, and coordinated effort. Therefore, it is critical to evaluate the commitment of various actors to undertake this task. If indeed there is collective agreement among the public and private sectors that salvaging the industry is a worthy objective, swift and strategic action is necessary.

III. Key Factors Affecting the Competitive Position of Dominican Producers

There are three sets of factors that are negatively impacting the competitiveness of the Dominican industry: regulatory shifts, country-level factors, and plant-level factors.

Regulatory Shifts

- Global: Phase-out of the MFA (discussed in Section I above)
- Regional

DR-CAFTA: There are several relevant issues at stake: (1) The Agreement's yarn-forward rules of origin encourage the DR-CAFTA countries to use North American-made fabrics in apparel exports to the U.S. market. In many cases, these originating textiles are significantly more expensive than similar fabrics made in Asia, which can affect the competitiveness of the Dominican Republic's exports vis-à-vis those from countries such as China or India; (2) Similarly with regard to the regional fabric base, there has been a lack of clarity regarding the implementation of the agreement's cumulation provisions, which allow a certain quantity of fabric made in the NAFTA countries to be used in CAFTA-qualifying exports; and (3) The CAFTA grants a Tariff Preference Level (TPL) to Nicaragua of 100 million square meter equivalents, which enables manufacturers in that nation to use fabrics from any country in the world in their exports to the U.S. market. Insofar as this relaxes the rather restrictive CAFTA rules of origin, the TPL increases Nicaragua's competitiveness relative to the Dominican Republic

Haitian Hemispheric Opportunity Through Partnership Encouragement Act (HOPE) of

2006: This U.S. legislation, ostensibly designed to give "CAFTA parity" to apparel exports from the poorest country in the hemisphere, was implemented only in March 2007. The rules of origin for HOPE differ from the CAFTA rules of origin, however, in that third-country inputs can be used in Haiti's clothing exports, as long as half the material and processing costs originate in Haiti. This benefit, combined with Haiti's significantly cheaper labor costs, increases incentives for manufacturers to relocate production to Haiti, and while this poses a threat to Dominican garment workers, HOPE may also offer possibilities for mutually beneficial production-sharing between the Dominican Republic and Haiti. In fact, some Dominican manufacturers have already attempted to realize these potential synergies by establishing assembly operations in Haiti.

Country-Level Factors

These are listed in the order that they were prioritized by the private and public sector informants that we spoke with during the course of our mission.

- Exchange rate: Many private sector actors complained about what is widely perceived to be an overvalued Dominican peso, which increases production costs for local producers who pay these costs in local currency, but are paid by their clients in U.S. dollars.

- Energy costs: When benchmarked internationally, the cost of electricity in the Dominican Republic is extremely high, and this was repeatedly identified as a critical factor inhibiting competitiveness. Electricity in the Dominican Republic costs three times as much as in Mexico and 23% more than in Honduras. As a result, electricity costs represent one third (over 30%) of the cost of garment assembly in the Dominican Republic, as compared with 10-15% in most other countries. Furthermore because of periodic disruptions in the power supply, most manufacturers also rely on generators for their plants. The relatively high cost of the fuel (combustible) that is used to power the generators further exacerbates this problem.

- Transport: The cost of inland transportation is reported to be very high. In addition, exporters in the country's apparel-manufacturing center of Santiago complained that because of security concerns, they are unable to use the relatively close facilities at Puerto Plata to ship their products to the United States. Thus manufacturers must transport product by land from the Santiago area to Santo Domingo so that exports can be shipped from the capital city's port facilities instead of Puerto Plata. This entails an increase in shipping costs of US$400 per container. In addition to this monetary cost, problems with infrastructure also impact competitiveness by adding additional delays in shipment and delivery times—a particular problem for exporters trying to maximize proximity to market as their primary competitive advantage.

- Labor: In the context of the global apparel industry, the Dominican Republic is a medium-cost country, with wage rates that are significantly higher than those found in countries such as China, India, and Vietnam, thus reflecting the higher relative cost of living. Even among apparel-exporting countries in the hemisphere, labor costs in the Dominican Republic are relatively expensive: Haiti, Nicaragua, El Salvador, and Guatemala all offer lower labor costs than the Dominican Republic. Dominican labor costs are about on par with Mexico's and lower than Costa Rica's. While most of the people we interviewed recognized that the Dominican Republic will not be able to compete with many Asian countries, or even the less-developed countries of the region, on labor costs alone, there is a belief that future increases in wage rates must be accompanied by productivity increases if they are not to negatively impact competitiveness. In addition, some people described a situation of uncertainty regarding the implementation of the country's labor law, especially in light of the Supreme Court's recent ruling that the pervasive practice of giving workers severance pay (liquidación) at the end of the year, and rehiring them in January, is in violation of that law.

- Lack of local textile base: This was a concern that was raised less frequently in the course of our research by the people that we spoke with, but we consider it a critical factor that must figure prominently in any viable strategy to strengthen the industry. Although it is understandable that the immediate cost pressures associated with the exchange rate are foremost in the minds of the country's manufacturers, the issue of access to high quality, cost-competitive textiles may well be more critical for the medium and long term sustainability of the industry. Although there are some textile mills in the country producing knit fabrics, no woven fabrics are manufactured in the Dominican Republic, despite the fact that the country's most significant export product is pants made from woven cotton fabrics. As noted above, this is especially problematic given the DR-CAFTA's yarn-forward rules of origin, and disadvantages the Dominican Republic vis-à-vis other regional exporters, such as Honduras and Nicaragua, where textile production is expanding.

Company/Plant-Level Factors

- Export profile: As noted earlier, many of the Dominican Republic's apparel exports are in categories that were quota constrained under the MFA and its successor regime, the ATC. While this specialization benefited manufacturers in the past, the phase-out of the MFA has converted it into a decided disadvantage, since it means that Dominican producers are competing head-on with highly competitive Asian exporters that benefit from generally lower labor and material costs.

- Dependence on contractors/Lack of direct linkages to brands: During the course of our fieldwork we visited some factories that are working as subcontractors for U.S.-based manufacturers (as opposed to being either subsidiaries of foreign companies, or producing for U.S. brands or retailers directly sourcing their private label apparel from Dominican manufacturers). Our selection of firms was not informed by a rigorous methodology, and we surely do not assume that the sample of plants we visited was necessarily representative of the Dominican industry in general. However, it would be worrying if this situation were pervasive for the following reason: This type of subcontracting network, in which the Dominican factory is two levels removed from the ultimate client, is a particularly precarious link to the foreign market, especially at a time of significant volatility in the global garment trade. Also of concern to us was the fact that two of these companies were dependent on a single client for all their subcontracting orders, making them particularly vulnerable to shifts in the sourcing practices of either the ultimate client placing the order with the U.S. manufacturer, or the manufacturer itself.

- Organization of production: Although most of the companies we visited are managing to produce multiple styles simultaneously, we observed problems with the implementation of modular manufacturing in some of these plants. While in theory modular manufacturing is intended to increase flexibility and allow producers to shift more rapidly between different styles and types of garments, in practice this requires carefully-designed production lines and multi-skilled workers that are willing and able to perform more than one task. In contrast, we witnessed modules where lines were not well-balanced, leading to a build-up of excess product in process. In addition to lowering overall productivity, poor line organization also hurts employees whose earnings are tied to module piece rates, since an interruption in the flow of the module can leave a worker waiting impatiently for the next garment to arrive. This also underscores the fact that productivity is a multiply-determined phenomenon, and even very hard-working operators will find it difficult to increase productivity if their efforts are frustrated by a poorly designed or poorly organized production line.

IV. Recommendations to Strengthen the Industry: Con el esfuerzo de todos

In order to maintain an export-oriented apparel industry that is capable both of providing products that can compete in the global market and of generating sustained, quality employment, the Dominican Republic must maximize its primary comparative advantage vis-à-vis other exporters: proximity to the U.S. market. This will require a substantial reorientation of local producers, away from the assembly of large volume, long run production of basic garments and towards full-package and/or flexible manufacturing designed to accommodate multiple styles and short-lead times. One company that is already pursuing such a strategy is Grupo M, which has combined the full-package production model with a lean manufacturing philosophy. However, for many of the remaining export-processing plants in the Dominican Republic that are not subsidiaries of U.S. companies (i.e., excluding the textile and sewing operations owned by companies such as Gildan and Hanesbrands), the transition to genuine full-package manufacturing will be difficult. In large part, this is due to the significant costs involved in purchasing the necessary materials (primarily fabric), exacerbated by the fact that access to affordable financing appears to be a problem for domestic manufacturers, especially given a banking sector that is weary of making loans to enterprises in what is perceived as a highly troubled industry. Nevertheless it is important to note that there are several variations on the full-package theme, and even those companies that are not able to assume the financing of raw materials for clients can and must nevertheless endeavor to acquire more of the pre- and post-production services that are being demanded by foreign buyers. These include fabric sourcing and inspection (as opposed to purchase), pattern marking and grading, cutting, finishing, packing and shipping, and logistics management.

A related imperative for the industry is the transition to flexible production, so that Dominican manufacturers can better meet the expectations of foreign buyers for quick-turn around times, rapid replenishment, the ability to manage several different products simultaneously, and the ability to switch rapidly between styles. This will require significant changes in the organization of the production process within the plants, and a shift to more genuinely modular manufacturing. Transitioning to flexible production will bring new pressures and demands for both workers and management. It is worth noting here that while the move to lean and flexible full-package manufacturing may be a necessary condition for sustaining a Dominican apparel industry and the employment that it generates, it will not necessarily or automatically result in better working conditions and higher wages for labor. Therefore it is critical that any strategy for reaching this destination opt for the "high road" to competitiveness, as opposed to a route where flexibility is pursued at the expense of workers, for example in the form of unstable employment.

The transition to full-package/flexible manufacturing is extremely difficult for traditional assembly factories to make, and in fact, local companies serving the domestic market may be equally capable, if not more so, of achieving success in this niche, since such producers are accustomed to managing all aspects of the production process. Clearly, the challenge for those manufacturers producing for the national market will be improving quality to the standards and expectations of foreign markets. Historically there has been virtually no interaction between that segment of the apparel industry oriented towards the domestic market and the one producing for export, in part because of the special legal and fiscal status granted to companies located in the country's export-processing zones. However, the upcoming transformation of the domestic regime regulating the EPZs, which is required to bring the country's practices into compliance with WTO rules, presents an opportunity to explore possibilities for integration of the domestic and export-oriented sectors of the Dominican apparel industry.

When designing a plan to secure the future of the industry, a final issue that must be addressed is the inadequacy of the local textile base. The Dominican Republic is home to very little fabric production. What is produced on the island consists entirely of knits (tejido de punto), and is largely converted by the vertically-integrated manufacturers (such as Gildan and Hanesbrands) that own the mills. There is no woven fabric (tejido plano) made in the Dominican Republic. Given electricity and water costs, further textile investment in the country, especially for woven fabrics, is unlikely. This presents Dominican exporters with the critical challenge of figuring out how to access a range of high quality, cost-competitive fabrics; for those companies wanting to take advantage of duty-free entry under DR-CAFTA, the problem is even more complicated, as they must secure high quality, cost-competitive fabrics *that also* qualify as originating under the agreement's rules of origin. Because North American mills are generally not cost-competitive with their Asian counterparts, importing those fabrics from the United States is not a particularly attractive option for most firms—although this was the goal of the yarn forward DR-CAFTA rules of origin strongly supported by the United States. Thus, it is critical that the Dominican government (preferably in a united front alliance with other CAFTA countries): (1) vigorously pursue cumulation policies allowing Dominican producers to use fabrics from countries within the region, such as Mexico; and (2) seek guaranteed access to the U.S. markets for as many non-originating fabrics as possible (i.e., by trying to secure an expansive short-supply list).

The above outlines what we propose as a vision of where the Dominican Republic should be going in terms of securing the future of the industry. Below we outline some specific proposals to begin the conversation about how to get there.

Public Sector/Government
As noted above, the government has already taken some positive steps to support the industry, but further action is needed. We offer the following proposals, in approximate order of urgency:

- Project a positive vision for the future of the country's export sector. While it is true that the "old" EPZ model of apparel assembly is no longer viable, the Dominican government must express its support for a modernized and dynamic export sector, and it should articulate a clear vision for this future. Increasing transparency and combating corruption will also strengthen the reputation of the Dominican Republic among current and prospective foreign investors and clients.

- Address the cost of electricity. While this is a complex issue with wide-ranging implications for the Dominican business community, as well as the society in general, we feel it must be mentioned here because of the direct impact that energy costs are having on the cost structure of apparel producers.

- Improve the quality of the ports so that apparel manufacturers are able to reduce shipping times, and thus maximize the advantages of proximity to their major market. Also, address the competitive situation of over-land transport.

- Improve training services to better respond to needs of the apparel industry. Although the Institute for Technical-Professional Training (INFOTEP) is in many respects a well-developed and well-funded institution, several of the people we spoke with voiced concerns about the lack of cooperation between INFOTEP and the private sector and a resulting mismatch between the needs of the industry and the services INFOTEP is offering. The perception is that INFOTEP's course offerings with regard to the apparel industry are primarily designed to support individual entrepreneurs that want to start microenterprises, and this is different from the kind of training needed to develop a modern, industrial labor force with the range of skills (including those necessary for pre- and post-production services) that existing manufacturers require.

- Extend rent relief to tenant factories in industrial parks beyond the one year deadline currently proposed, and maintain the reduced rates until the situation stabilizes.

Private Sector
- Reexamine the organization of production at the plant level, and if necessary, modify it to better realize the benefits of genuine modular manufacturing. This may be an ideal area for joint public-private sector collaboration since implementing modular manufacturing, or any other effort to improve productivity for that matter, will require new forms of operator training, and these training programs and services should be designed and implemented with input from INFOTEP as well as unions.

- Search for near-by fabric suppliers. In the last decade, there has been an expansion in the region's textile base, thanks to new investments in Mexico by both domestic and foreign industrialists after the NAFTA, and more recently in the Caribbean Basin itself. For example, Honduras hosts approximately eight textile mills producing mostly knit fabrics. While most of these mills are owned by foreign companies that are vertically-integrated forward into apparel, two of them are also producing fabric for sale to other manufacturers. Last year the International Textile Group announced plans to build a large denim mill in Nicaragua that is supposed to be operational by the end of 2007. In order to maximize the benefits of DR-CAFTA, Dominican exporters should explore these and other potential sources of regionally-produced textiles.

- Reflect carefully on the composition of production, both in terms of product mix and client base. The goal of local producers should be to transition towards higher value added products and processes, as part of a strategy to counter the downward pressure on prices exerted by brands and buyers. At the level of the firm and/or local/regional cluster, there is also a need to expand the range of services offered beyond basic production to more nearly approximate the full-package as full-service model.

Labor/Unions

- Take initiative with regard to the issue of worker training. Since unions are represented in the leadership of INFOTEP, unions can play an important role in creating more relevant forms of training that respond to the needs of companies, while also benefiting workers. Since modular manufacturing requires operators to have a range of skills, it is important that unions support collective contracts which effectively protect workers' rights without unduly compromising the kind of flexibility that modern production methods entail.

- Promote and participate in a dialogue with the government as well as with private sector actors about how to insure that workers benefit from whatever competitiveness gains they help realize, perhaps in the context of the Comisión Tripartita para el Desarrollo y Bienestar de los Trabajadores de Zonas Francas. As part of this effort to realize the mutual benefits of increased competitiveness, unions can emphasize the importance of productivity, especially in the context of wage negotiations, while also noting the critical role of management in creating conditions for workers to do their part (e.g. through effective organization of production on the factory floor).

Joint Private-Public Sector Collaboration

- Strengthen the relationship between INFOTEP, the unions, and the private sector, and enlist the participation of brands and foreign buyers in the process of improving the industry by, for example, inviting their reflections on its strengths and weaknesses. Improving the skill base of the local workforce and ultimately expanding the range of tasks and services that Dominican manufacturers offer requires collective action among all the relevant actors. While effective collaboration between the private sector and INFOTEP is critical, the unions are also in a strategic location to participate in this conversation, given their role in INFOTEP. The recently established Santiago Training Center has offered a number of technical courses since it opened in the fall of last year, and this is a positive development. However when expanding the curriculum to include new courses, it is critical to insure the active participation of the private sector, so that the services offered match the needs of local manufacturers , their workforces, and their clients. A particular emphasis should be placed on initiating a dialogue about what kinds of training modules and programs can best assist companies transitioning to flexible modular production.

- Sponsor technical consulting services at the plant level. Making external expertise and technical assistance available to local manufacturers may well help exporters realize the productivity, and thus, competitiveness benefits of modular production/flexible manufacturing, especially keeping in mind some of the issues we mentioned earlier in regard to the organization of production at the plant level. However for a single company, the costs involved in contracting for the services of technicians such as industrial engineers may well be prohibitive. For this reason, it may be more feasible and more economical for private and public sector actors to jointly sponsor a program that would enable local manufacturers to access consultancy services. The details of such a program, in terms of how and by whom it would be funded, and the kinds of technical support and services that it should offer, would need to be discussed and agreed upon by all relevant actors.

V. Conclusion

Our goal in preparing this report is to underscore both the magnitude and complexity of the challenges underlying the recent decline in the apparel sector, as well as provide some preliminary proposals regarding actions that can be taken to stabilize, and optimally, improve the situation of Dominican firms and workers. This work would not have been possible without the participation of the individuals, organizations, and companies that we interviewed in the course of the project. We are grateful to those who found time in their busy schedules to share their knowledge and experiences with us, and we hope that the use we have made of this information will provoke a constructive and sustained dialogue about the future of the Dominican apparel industry.

By way of conclusion, we want to emphasize two points. First, we believe that it is critical to take a long-term and holistic view of the industry in order to craft strategies that not only address the acute short-term pressures on manufacturers, but also support the development of sustainable sources of competitiveness. Second, it appears to us that what is most needed at this point, prior to the development of any particular strategies or initiatives, is a frank dialogue among the relevant public and private sector actors about what kind of future for the Dominican apparel sector is desirable, as well as possible. Our conversations with people in the industry revealed some concerns about what is perceived as the government's desire to move the export-processing sector away from its traditional concentration in apparel production, and in the direction of more technology-intensive or "higher value-added" activities. The pros and cons of such a strategy from a developmental perspective can be debated, but it is also important to consider the consequences of such a strategy for employment. The apparel industry has long provided the bulk of the employment opportunities generated by the export-processing sector in the Dominican economy, and the garment workers who are losing their jobs as a result of plant closures are not necessarily the same workers who might benefit from new job growth in activities like call centers. That said, it is equally important to reflect on the kinds of jobs that the apparel industry has traditionally offered workers in order to understand and better evaluate the costs and benefits of taking measures to help retain them.

To summarize, the situation of the Dominican apparel industry is grave, and reversing the current trend will require a sustained, substantive, and coordinated effort. Therefore as a very first step, it is critical to evaluate the willingness and commitment of various actors to undertake this task. If indeed there is collective agreement among the public and private sectors that maintaining the industry is a worthy objective, swift and strategic action is necessary.

Appendix: Interviews Conducted

Santo Domingo, May 7-8

5/7/2007	Confederación Nacional de Trabajadores Dominicanos
5/7/2007	Consejo Nacional de Zonas Francas de Exportación
5/7/2007	Asociación Dominicana de Zonas Francas
5/8/2007	Gildan
5/8/2007	Secretaria de Estado de Trabajo
5/8/2007	INFOTEP
5/9/2007	Centro de Investigación para la Acción Femenina (CIPAF)

Guerra, May 9

5/9/2007	Visit to Gildan textile mill and industrial park, Bella Vista Free Zone

Santiago, May 10-15

5/10/2007	Suatex, Zona France Industrial La Vega
5/10/2007	T.P.C. International Company, Zona Franca Industrial La Vega
5/10/2007	A & R International, Zona Franca Industrial La Vega
5/11/2007	Fundación Laboral Dominicana, Inc., Santiago
5/11/2007	Minikin Togs (Fishman & Tobin, Inc.), Zona Franca Industrial Santiago
5/12/2007	Dominican manufacturer producing for domestic market
5/14/2007	Executive Director, Zona Franca Pisano (Santiago Norte)
5/14/2007	Grupo M, Caribbean Industrial Park, Santiago
5/14/2007	Notions, Zona Franca Santiago
5/15/2007	Executive Director, Asociación de Industrias de la Zona Franca Industrial de Santiago