

THE RISE OF THE GARMENTS AND TEXTILES MANUFACTURING
INDUSTRIES IN HONDURAS: EAST ASIAN MANUFACTURERS' INVESTMENT
IN HONDURAS

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THE RISE OF THE GARMENTS AND TEXTILES MANUFACTURING
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IN HONDURAS

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Over the past two decades, one of the most significant developments in the garments and textiles industries has been the rise of the global manufacturing triangle, consisting of American and Western European retailers and distributors, East Asian contractors, and Caribbean manufacturers.

This study examines East Asian garments and textiles manufacturing investment in Honduras, as an increasing number of East Asian firms have relocated their production units in Export Processing Zones in Honduras.

Data was collected from personal interviews with government officials and East Asian manufacturers in Honduras and various statistical sources.

The study argues that East Asian manufacturers have invested in Honduras not only for lower wages and its proximity to the US market but also for the Honduran government's business friendly policies and the import quotas imposed by the US government. Helped by East Asian manufacturers' investment, Honduras has emerged as a global production site of garments and textiles.

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Chapter 1- Introduction

Over the past two decades, a focus on the development of the garments and textiles manufacturing industries throughout the world has given rise to the global garment manufacturing triangle, consisting of US and Western European retailers and distributors, East Asian contractors, and Caribbean garments and textiles manufacturers. Major factors in the formation of this triangle include wage differences at the international level, developing countries policies to develop and promote the garments and textiles industries, and the import quotas imposed by US and European governments. In addition, political stability in the Caribbean has helped attract American clothing firms and their East Asian contractors seeking to take advantage of the proximity between the US market and Caribbean production sites.

Although there is extensive literature concerning the shift of the garments and textiles manufacturing industries to newly industrialized countries in East Asia, little research has been done examining the transfer of garments and textiles production from the East Asian manufacturing firms to the Caribbean, specifically Honduras. Honduras has come to be the third largest exporter of garments and textiles to the US after China and Mexico, and it has become increasingly common to see “Made in Honduras” apparel in the US.

This study examines 1) what factors have led East Asian garments and textiles manufacturing firms to relocate their production units in Honduras; 2) how Honduran government policies have created a business climate friendly towards East Asian manufacturers; and 3) what effects the increase in East Asian manufacturers’ investment have had on the Honduran garments and textiles industries.

In order to answer these research questions, it was necessary to conduct field research in San Pedro Sula, the industrial capitol of Honduras, in the summer of 2004. Honduras is host to approximately 50 East Asian garments and textiles manufacturing firms, many of which are located in the Sula Valley and the surrounding area ([refer to Map 1](#)). While in San Pedro Sula, several interviews were conducted with representatives from the Foundation for Investment and the Development of Exports, the Honduras Apparel Manufacturing Association, and an East Asian textiles manufacturing company that had recently established production near San Pedro Sula. Statistical data such as labor costs, the number of manufacturers investing in Honduras and their origins, and the value of exports from Honduras and the other Central American countries was collected from the offices of the Foundation for Investment and the Development of Exports, the Honduras Apparel Manufacturers Association, and the US Department of Commerce.

This thesis is organized into six chapters. Chapter 2 examines the global shifts of the garments and textiles industries from developed countries to East Asia and, now to the Caribbean. Chapter 3 examines recent changes in the Honduran economy. Chapter 4 focuses on the Honduran government's policies to attract foreign investment in Honduras and how economic reform has enabled Honduras to become a major global player in the production and export of garments and textiles. Chapter 5 examines the reasons for East Asian manufacturing investment in Honduras and specifically discusses the operations of an East Asian textiles manufacturing company located in Honduras. This research concludes in Chapter 6 with implications for the future of the garments and textiles industries in Honduras.

Map 1 Honduras

Source: Honduras, map, 30 March 2004
<<http://geography.about.com/library/cia/blchonduras.htm>>.

Chapter 2- Global Shifts in the Garments and Textiles Industries

A. Globalization of the garments and textiles industries

Clothing manufacturing has come to be one of the most global industries due to low-cost labor, international trade arrangements, the ease at which manufacturing sites can be established and moved, and its importance as the typical starter industry for developing countries beginning to transition to export-oriented production. With the greatest geographic coverage of all industries, the clothing industry officially employs more than 20 million people in both the developing and developed world, the majority of who are young females or ethnic minorities.¹

The garments and textiles manufacturing industries are the most labor-intensive industries in the world, with labor accounting for 80% of production costs, resulting in the cost of labor being the primary consideration of manufacturers.² Dicken notes that the cost of labor has led to the outsourcing of production to the developing world where wages can be as low as 22 cents per hour in Vietnam as compared to over \$10 per hour in the US. Firms tend to use young females (80% of workers in the garments industry and 50% of workers in the textiles industry) and ethnic minorities in the developing world, taking advantage of the workers lack of education and geographic immobility.³ Often, jobs in the urban garments and textiles factories are preferable to an even smaller income in a rural environment enticing the poor in the developing countries to accept the meager

¹ Peter Dicken, Global Shift: Reshaping the Global Economic Map in the 21st Century (New York, NY: The Guilford Press, 2003) 317.

² Jane L. Collins, "Mapping a Global Labor Market: Gender and Skill in the Globalizing Garment Industry," Gender and Society 16.6 (2002) 932.

³ Peter Dicken, Global Shift: Reshaping the Global Economic Map in the 21st Century (New York, NY: The Guilford Press, 2003) 332.

wages. As long as labor remains the greatest cost of production in the garments and textiles industries, manufacturers will continue to place a high priority on the cost of labor when seeking to establish new production sites.

Along with wage variations at the international level, government policies have played an important role in globalizing the garments and textiles industries in developing countries. Due to the manufacturing of garments and textiles as the typical starter industries for countries beginning the transition to export-oriented industry, governments of developing countries have created minimal barriers of entry in order to attract foreign investment. Governments tend not to be involved in the actual production process but instead, help to create an environment friendly for investment through infrastructure development, and laws establishing Export Processing Zones (EPZs) and Free Zones (FZs) in which investors can begin to develop low-cost production sites. “An EPZ can be defined as a geographic zone that has been established outside the customs territory of a particular country, where products can be stored, processed and manufactured without the payment of import duties, and with the intention of exporting most of the output.”⁴ Other incentives firms choosing to establish production inside an EPZ or FZ may receive include tax breaks on exports, easy customs clearance of goods designated for export, and repatriation of most or all profits. In some countries, the entire country has been declared an EPZ or FZ, meaning that firms can establish production anywhere in the country and still have access to all of the benefits offered in EPZs and FZs.

⁴ Mauricio Jenkins, Gerardo Esquivel and Felipe Larrain, “Development Discussion Paper No. 646: Export Processing Zones in Central America,” Harvard University (1998) 30 March 2004 <<http://www.incae.ac.cr/ES/clacds/investigacion/pdf/hiid646-cen113.pdf>>.

The creation of EPZs and FZs, combined with low cost labor throughout Asia, allowed for the rapid development of the garments and textiles industries in the region. However, the establishment of the Multi-Fiber Arrangement (MFA) in 1973, created to protect the garments and textiles industries in the US and Western Europe, deterred production of garments and textiles in the Asian economies. The MFA established quotas, individually negotiated, on the imports of garments and textiles coming from East Asian countries to the US and Western Europe. Unable to compete with the low cost of labor found off-shore, the US and Western European countries argued that they needed time to restructure their industries in order to remain competitive.

The quotas on the East Asian garments and textiles industries, implemented in the form of voluntary export restraints, were designed to stimulate the garments and textiles industries in the US and Western Europe. As exports of garments and textiles to the US and Western Europe were limited, garments and textiles manufacturers in these countries were able to increase production. In the East Asian newly industrialized countries (NICs), the implementation of the voluntary export restraints led to a decrease in the production of garments and textiles due to manufacturers no longer having unlimited access to the US and Western European markets. The increase in production in the US and Western Europe caused an upward shift in the domestic price of apparel in the US and Western European markets and resulted in a decrease in demand for these products ([refer to Appendix A](#)).

The implementation of this quota system has been instrumental in the development of outsourcing practices in the manufacturing of garments and textiles. According to Paul Charron, chairman and CEO of US garments company Liz Claiborne,

“Fifty percent of every sourcing decision today is a function of quotas.”⁵ As export quotas to the major markets were being reached by manufacturers in the East Asian countries, they began to search for new production sites from which they would have a greater or even unlimited access to the US market as well as sites with lower costs of production, especially low-cost labor. Increased imports of garments and textiles would also be beneficial to US and Western European retailers by increasing the demand for apparel.

As the political climate throughout the Caribbean was beginning to stabilize, the MFA encouraged Caribbean countries to begin focusing on attracting foreign investment in the garments and textiles industries. East Asian manufacturers began to relocate production throughout the Caribbean, realizing that not only could they enjoy duty free access to the US market as a result of the Caribbean Basin Initiative (CBI) but could also respond quickly and efficiently to rapidly shifting demands in the US market due to the proximity of the region to the US.

The CBI is a general term used to refer to the Caribbean Basin Economic Recovery Act of 1983 (CBERA), the Caribbean Basin Economic Recovery Expansion Act of 1990 (CBERA Expansion Act), and the US - Caribbean Basin Trade Partnership Act of 2000 (CBTPA), collectively. The original Caribbean Basin Economy Recovery Act of 1983 was enacted by the US government in order to spur economic development in the Caribbean by offering trade incentives and increasing economic aid in order to attract foreign investment to the region.

⁵ Scott Malone, "End of Quotas in 2005: Industry Execs Predict 15% Plunge in Prices," *Women's Wear Daily* (2004) 23 Feb. 2004 <http://www.somo.nl/html/paginas/pdf/5_Phase-out_multifiber_arrangement_2004_EN.pdf>.

An important benefit to nations that have been granted CBI status is eligibility for duty free entry into the US for certain goods. In 1986, a CBI textiles program allowed member countries to negotiate Guaranteed Access Levels in order to ensure access to the US market of textiles products assembled from fabric made in the US.⁶ CBI status has helped enhance the attractiveness of Caribbean countries as manufacturing sites for East Asian firms due to the accessibility of the US market.

The creation of the global manufacturing triangle, consisting of US retailers and distributors, East Asian contractors, and Caribbean garments and textiles manufacturers, in the past two decades is too often attributed simply to the availability of low-cost labor in developing countries. As more and more countries transitioned to export-oriented industry, global competition increased, and investment incentives became more dynamic.

International trade arrangements soon followed promoting manufacturing growth in the Caribbean while stifling growth throughout Asia. These factors meant that manufacturing firms needed to begin looking at more than the cost of labor. Investment incentives, quota systems and access to markets, and the ability to meet rapidly shifting demands in the major markets quickly and efficiently have all become critical points in the decision on where to establish production in the garments and textiles manufacturing industries.

B. East Asian manufacturers in the global garment manufacturing triangle

The past two decades have produced a vast amount of literature concerning the geographical shifts in the garments and textiles industries with a primary focus on the East Asian NICs (Chan et al., 2003; Dicken, 2003; Gereffi, 2002; Gereffi and

⁶ Ana T. Romero, "Export Processing Zones: Addressing the social and labour issues," International Labour Organization (1995) 10 Oct. 2004 <<http://transnationale.org/pays/epz.htm>>.

Korzeniewicz, 1994; Gereffi et al., 2002; Gereffi and Wyman, 1990; Kim et al., 1998; Klein, 2000; Knutsen, 2003). These four countries, also known as the Asian Tigers, are Hong Kong, Singapore, S. Korea, and Taiwan. The literature has focused on the transformation of the East Asian garments and textiles manufacturing firms from being assemblers in the global commodity chain to original equipment manufacturers (OEMs) and, in some cases, original brand-name manufacturers (OBMs).⁷ Learning from the production techniques of firms in the developed world, the East Asian garments and textiles manufacturing firms have been able to begin producing their own brands, often for the local market, and do not have to rely on producing solely for the developed world. This transition to production independence has played a significant role in the economic growth throughout the East Asian countries.

The East Asian NICs have been noted for their rapid development from assemblers to OEM and OBM producers. Prior to the 1960s, the East Asian NICs had been highly dependent on US aid to generate foreign exchange. However, the announcement of the phase-out of US aid forced the NICs to switch economic strategies, resulting in a transition to export-oriented production.

An initial focus was put on the garments and textiles industries, the typical starter industries for countries beginning to concentrate on export-oriented production. The garments and textiles industries are strong starter industries for several reasons, the most attractive being that these industries are difficult to automate and can serve as a major

⁷ Gary Gereffi, "The International Competitiveness of Asian Economics in the Apparel Commodity Chain," ERD Working Paper Series No. 5, Asian Development Bank (Feb. 2002) 1.

employer for countries with an abundance of low-cost labor.⁸ To help with the development of the garments and textiles manufacturing industries and to generate much needed foreign exchange, EPZs and FZs were established enticing multi-national corporations (MNCs) to begin contracting garments and textiles production to East Asian manufacturers.

As East Asian garments and textiles manufacturers developed more efficient production techniques, they began to allocate resources to research and design of their own brand name clothing lines. More efficient production and an improving East Asian economy led to an increase in wages, and garments and textiles manufacturers began looking off-shore for cheaper means of production.

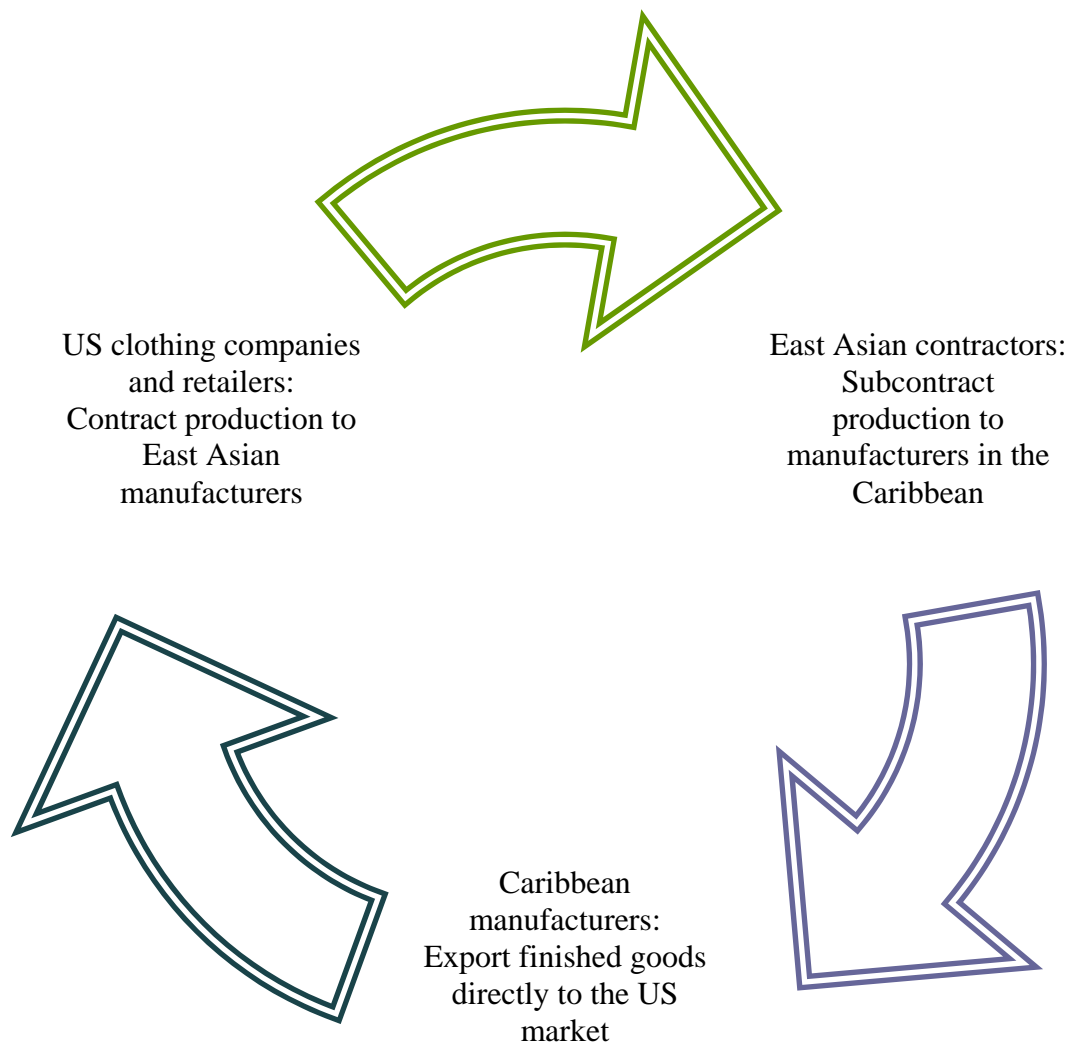
The economic progress within these countries and limitations placed on the East Asian manufacturers by the MFA has helped create the “manufacturing triangle” that is now prevalent throughout the global garments and textiles industries. Triangle manufacturing changes the status of East Asian manufacturers from established suppliers for US retailers and designers to middlemen in buyer-driven commodity chains.⁹ This triangle consists of the western firms no longer producing garments or textiles, but rather, contracting production to the developing world, usually East Asia. As the East Asian firms have become increasingly independent of US retailers and experienced economic growth, they have gone in search of cheaper methods of production in order to complete the manufacturing triangle.

⁸ Hege M. Knutsen, “Globalisation and the Garment Industry in Sri Lanka,” Journal of Contemporary Asia 33.2 (2003) 232.

⁹ Peter Dicken, Global Shift: Reshaping the Global Economic Map in the 21st Century (New York, NY: The Guilford Press, 2003) 317.

The newly emerging East Asian manufacturers, along with the existing American firms, have been finding the cheapest means of production throughout Southeast Asia and the Caribbean. Figure 2.1 shows how the global garment manufacturing triangle works. US clothing companies and retailers contract production to the East Asian manufacturers. The East Asian manufacturers then subcontract production to manufacturers in the Caribbean. From this region, finished goods are exported directly to the US market. Case studies from the following countries provide examples of the rise of the garments and textiles industries in developing countries: Sri Lanka (Knutson, 2003), Malaysia (Rasiah, 1993), Indonesia (Dicken and Hassler, 2000), Mexico (Bair and Gereffi, 2001; Collins, 2002; Hanson, 1996), and Peru (Visser, 1999).

Figure 2.1 The global garment manufacturing triangle



Source: Adapted from: Peter Dicken, Global Shift: Reshaping the Global Economic Map in the 21st Century (New York, NY: The Guilford Press, 2003).

C. Global commodity chains in the garments and textiles industries

The triangle manufacturing in the garments and textiles industries has been examined in the framework of global commodity chains. “A commodity chain refers to the whole range of activities involved in the design, production, and marketing of a product,”¹⁰ and is often characterized as consisting of three dimensions. The first dimension includes value adding activities that make up the final product. Sourcing can be considered a part of this first dimension. Territoriality, the second dimension, refers to the dispersion of the activities taking place between the different types of enterprises. Territoriality can affect how the power relations work. The third dimension is the governance structure that explains the relationships between firms and how they operate with each other. Power relations in the third dimension are what determines where production is going to be located and how production is going to be carried out. Researchers Gereffi and Korzeniewicz explain that, “It is the governance structure of global commodity chains that is essential to the coordination of transnational production systems.”¹¹

Global commodity chains can be categorized into two types of chains; producer-driven commodity chains and buyer-driven commodity chains. Producer-driven commodity chains are characterized as industries in which MNCs or other large industrial enterprises play the central role in controlling the production system of higher value products including automobiles and electronics. Buyer-driven commodity chains are

¹⁰ Gary Gereffi, “Outsourcing and Changing Patterns of International Competition in the Apparel Commodity Chain,” United Nations Industrial Development Organization (2002) 18 April 2004 <<http://www.colorado.edu/ibs/PEC/gadconf/papers/gereffi.pdf>>.

¹¹ Gary Gereffi, and Miguel Korzeniewicz, eds., Commodity Chains and Global Capitalism (Westport, CT: Greenwood Press, 1994) 97.

characterized as industries in which large retailers, brand-name merchandisers, and trading companies become “manufacturers without factories,”¹² controlling the manufacturing process of firms located in developing countries. Common in buyer-driven commodity chains are labor-intensive, consumer-goods industries such as garments and footwear. The specifications are supplied by the buyers and branded companies that buy the goods. The main job of the core companies in buyer-driven chains is to make sure all of the pieces come together to form the finished product. Profits come from high-value research, design, sales, marketing, and financial services that link producers with market niches overseas.¹³

The global commodity chains concerning the garments and textiles industries are made up of two forms of production systems: the assembly and the OEM models. The assembly model merely focuses on the assembly of garments and textiles with little involvement from the buyer. The OEM model consists of the buyer having a much greater role in the assembly process. Gereffi explains how the OEM model works in three steps: “The supplying firm makes a product according to the design specified by the buyer; the product is sold under the buyer’s brand name; and the supplier lacks control over distribution.”¹⁴ The strong involvement of the buyer gives the manufacturer an opportunity to learn and develop more effective production techniques by learning

¹² Hege M. Knutsen, “Globalisation and the Garment Industry in Sri Lanka,” Journal of Contemporary Asia 33.2 (2003) 229.

¹³ Gary Gereffi and Miguel Korzeniewicz, eds., Commodity Chains and Global Capitalism (Westport, CT: Greenwood Press, 1994) 99.

¹⁴ Gary Gereffi, “Outsourcing and Changing Patterns of International Competition in the Apparel Commodity Chain,” United Nations Industrial Development Organization (2002) 18 April 2004 <<http://www.colorado.edu/ibs/PEC/gadconf/papers/gereffi.pdf>>.

“the preferences of foreign buyers, including international standards for price, quality, and delivery of export merchandise.”¹⁵

During the 1970s and 1980s, the East Asian NICs were able to become world class exporters by mastering the techniques of the OEM models in the buyer-driven commodity chains. The key to success for the East Asian manufacturers was to move from the mere assembly of imported inputs to the more higher-value added form of full-package supply or OEM production exporting. Some companies in East Asia even managed to go from OEM producers to OBM producers, combining their production expertise with the design of their own branded merchandise to produce for the local market.¹⁶ As the garments and textiles manufacturing industries continued to develop, the East Asian companies began to look off-shore for cheaper production methods.

D. The garments and textiles industries in the Caribbean

In the early 1990s, when East Asian garments and textiles manufacturing firms were beginning to dramatically shift the global landscape of the clothing industry, Caribbean countries became the dominant hosts of the East Asian firms. As the region stabilized politically and transitioned towards export-oriented industry, the Caribbean governments recognized the importance of capitalizing on the availability of low-cost labor and their proximity and access to the US market. The enactment of the CBI in 1983 gave the region duty free access of apparel exports to the US giving garments and textiles manufacturers relocating to the Caribbean an advantage over manufacturers located in

¹⁵ Gary Gereffi, “Outsourcing and Changing Patterns of International Competition in the Apparel Commodity Chain,” United Nations Industrial Development Organization (2002) 18 April 2004 <<http://www.colorado.edu/ibs/PEC/gadconf/papers/gereffi.pdf>>.

¹⁶ Gary Gereffi, “Outsourcing and Changing Patterns of International Competition in the Apparel Commodity Chain,” United Nations Industrial Development Organization (2002) 18 April 2004 <<http://www.colorado.edu/ibs/PEC/gadconf/papers/gereffi.pdf>>.

countries affected by the MFA. Of the five Central American countries, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, all were able to attract East Asian manufacturing firms.

When looking at investment strategies established by Central American governments from the mid-1980s through the mid-1990s, all five governments enacted an Export Processing Zone law and/or a Free Zone law designed to attract foreign investment. Differences arose however, in the amount of time companies were able to enjoy the incentives offered by the laws.¹⁷

Costa Rica granted foreign investors tax exemptions from income and imported goods but the exemptions expired 10 years after production had been established and the exemptions were completely abolished in 1992. In El Salvador and Nicaragua, tax exemptions were also permitted on income but again, only for a period of 10 years. In Nicaragua, these exemptions included municipal taxes and taxes on imported goods. After the 10 years, only 40% of income would be taxed. In Guatemala, a 10 year exemption on income was granted for industrial firms and only a 5 year exemption for commercial firms. In Honduras, firms operating under the EPZ law or the Free Zone law were and continue to be granted a permanent tax holiday on income and the importing of raw materials.

By 1997, resulting from the Central American countries transitions to export-oriented industry supported by laws offering investment incentives, approximately 911

¹⁷ Mauricio Jenkins, Gerardo Esquivel and Felipe Larrain, "Development Discussion Paper No. 646: Export Processing Zones in Central America," Harvard University (1998) 30 March 2004 <<http://www.incae.ac.cr/ES/clacds/investigacion/pdf/hiid646-cen113.pdf>>.

manufacturers had established production within the EPZs and FZs.¹⁸ The majority of these firms established garments and textiles manufacturing factories. Out of 911 investors establishing factories in Central America, 538 of the firms came in the form of garments and textiles manufacturing firms, accounting for 59% of total manufacturing investment. Figure 2.2 provides data showing the distribution of the types of manufacturers relocating production to the region relating to each of the Central American countries as of 1997. Although Costa Rica and Guatemala have had the greatest number of firms establish production in the EPZs and FZs, the majority of garments and textiles manufacturers have chosen Guatemala and Honduras. Guatemala led the region by hosting 263 garments and textiles manufacturers while Honduras became host to 131 garments and textiles manufacturers.

Figure 2.2 Industry distribution of export-oriented firms in Central America (1997)

	Garments/Textiles	Electronics	Other	Total
Costa Rica	87	35	113	235
El Salvador	40	1	9	50
Guatemala	263	2	203	468
Honduras	131	1	8	140
Nicaragua	17	0	1	18
Total	538	39	334	911

Source: Mauricio Jenkins, Gerardo Esquivel and Felipe Larrain, "Development Discussion Paper No. 646: Export Processing Zones in Central America," Harvard University (1998) 30 March 2004 <<http://www.incae.ac.cr/ES/clacds/investigacion/pdf/hiid646-cen113.pdf>>.

Figure 2.3 provides data on the origins of manufacturers establishing production in the EPZs and FZs in Central America by country as of 1997. East Asian

¹⁸ Mauricio Jenkins, Gerardo Esquivel and Felipe Larrain, "Development Discussion Paper No. 646: Export Processing Zones in Central America," Harvard (1998) 30 March 2004 <<http://www.incae.ac.cr/ES/clacds/investigacion/pdf/hiid646-cen113.pdf>>.

manufacturers had invested heavily in Guatemala followed by Honduras and El Salvador. In all of the countries, except Costa Rica, East Asian manufacturing investment accounted for a significant amount of the total manufacturing investment. In Honduras East Asian investment accounted for over 29% of total manufacturing investment, while in Guatemala East Asian investment accounted for close to 40% of total manufacturing investment in the EPZs and FZs.

Figure 2.3 Ownership of export-oriented firms in Central America (1997)

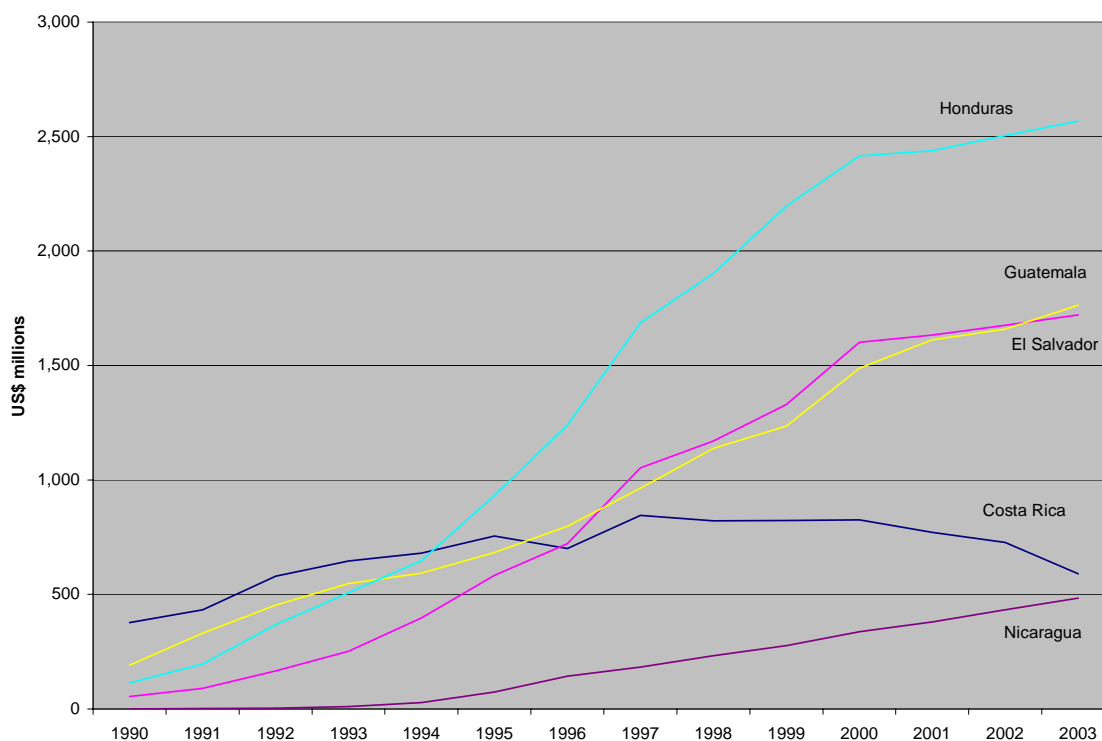
	Asian	US	Domestic	Other	Total
Costa Rica	4	84	28	35	151
El Salvador	22	15	10	2	49
Guatemala	96	20	95	9	220
Honduras	41	70	15	14	140
Nicaragua	8	6	2	2	18
Total	171	195	150	62	578

Source: Mauricio Jenkins, Gerardo Esquivel and Felipe Larrain, "Development Discussion Paper No. 646: Export Processing Zones in Central America," Harvard University (1998) 30 March 2004 <<http://www.incae.ac.cr/ES/clacds/investigacion/pdf/hiid646-cen113.pdf>>.

The EPZs and FZs have enabled all five of the Central American countries to experience fast growth in their manufacturing sectors, particularly in the garments and textiles industries. In turn, this investment has allowed the Central American countries to greatly increase the amount of apparel exports going to the US market. Figure 2.4 provides data showing the value of apparel being exported from the five Central American countries to the US from 1990-2003, as the garments and textiles industries continued to develop throughout the region. Honduras has not only become the regional leader in the export of apparel products to the US market, but has also become one of the global leaders in the production and export of apparel products. Apparel exports to the

US from Honduras have risen dramatically in the past two decades from US \$112 million in 1990 to over US \$2.5 billion in 2003.

Figure 2.4 Value of apparel exports from Central America to the US (1990-2003)

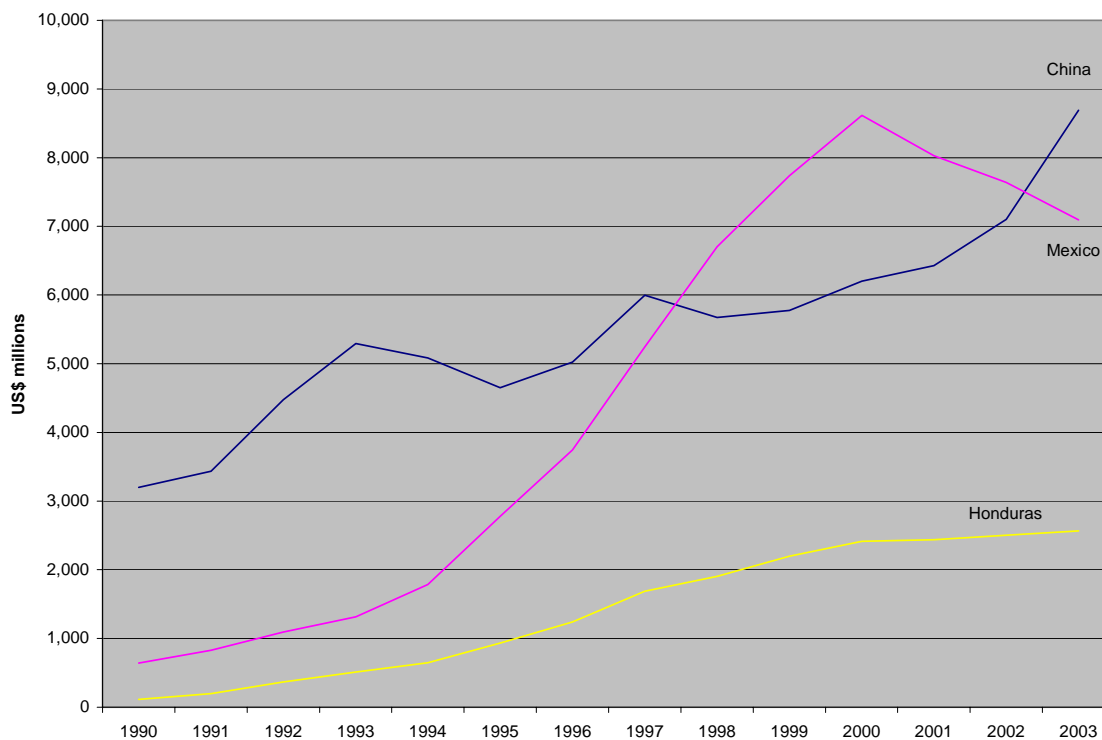


Source: U.S. Department of Commerce, "Trade Statistics," 10 Nov. 2004
<http://tse.export.gov/>.

It is clear that the foreign investment over the past two decades has had a positive impact on the region in terms of apparel production and exports. With all five Central American countries benefiting from foreign investment in the garments and textiles manufacturing industries, Honduras has clearly emerged as the regional leader in the export of apparel. Taking advantage of the unending tax breaks not offered in other countries, unlimited access to the US market, and access to the closest deep water shipping port to the US located in Puerto Cortes, approximately 50 East Asian garments

and textiles manufacturers have chosen to relocate production in Honduras. Foreign investment has not only allowed Honduras to become the number one exporter of garments and textiles to the US in the Caribbean but also the number three exporter of garments and textiles to the US in the world, behind only China and Mexico. Figure 2.5 provides data showing the value of apparel being exported from China, Mexico, and Honduras to the US from 1990-2003.

Figure 2.5 Value of apparel exports from China, Mexico, and Honduras to the US (1990-2003)



Source: U.S. Department of Commerce, "Trade Statistics," 10 Nov. 2004
<http://tse.export.gov/>.

Chapter 3 examines how political stabilization in Honduras has created a business environment friendly towards East Asian investment and how economic reform has enabled Honduras to become a major global player in the production and export of garments and textiles.

Chapter 3- The Honduran Economy

A. Honduran political and economic reforms

Besides East Asian firms' search for cheaper production sites, the Honduran government's policies have helped shape the triangle manufacturing in the global garments and textiles industries (Anderson, 1988; Bowman, 2001; Calvert, 1994; Millett, 1987; Ruhl, 1996 and 1997). Despite regional civil war and political instability, Honduras has managed to develop a stable setting for foreign investment. Until the early 1980s, Honduras had been viewed as a country of high risk for foreign investment due to political instability.¹⁹

Beginning in the 1950s, prior to the Honduran military rise to power, the US became involved in Honduras as a result of, what the US government considered, a socialist presence in neighboring El Salvador, Guatemala, and Nicaragua. The US, which encouraged militarization in Honduras despite the public outcry it created, wanted to use Honduras as a base for protection against the spread of socialism throughout Central America. US economic and military aid to the country allowed the Honduran military to attain political power that lasted several decades.²⁰

In the early 1980s, despite continued US influence in Honduras, the political climate was considered stable for foreign investment as the military began yielding control to the civilian government.²¹ This set the stage for the government to begin working on improving economic conditions, that included the development of industrial

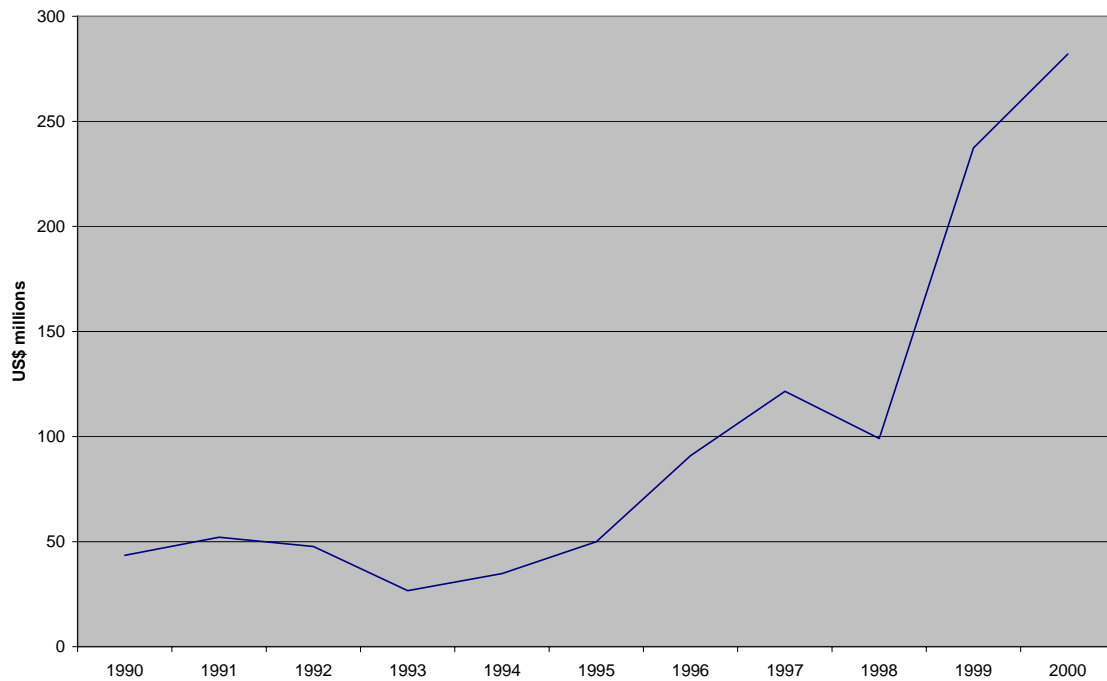
¹⁹ Thomas Anderson, "Politics and the military in Honduras," Current History 87.533 (1988) 425.

²⁰ Kirk Bowman, "The Public Battles Over Militarisation and Democracy in Honduras, 1954-1963," Journal of Latin American Studies 33.3 (2001) 546-555.

²¹ J. Mark Ruhl, "Redefining civil military relations in Honduras," Journal of Interamerican Studies & World Affairs 38.1 (1996) 34-44.

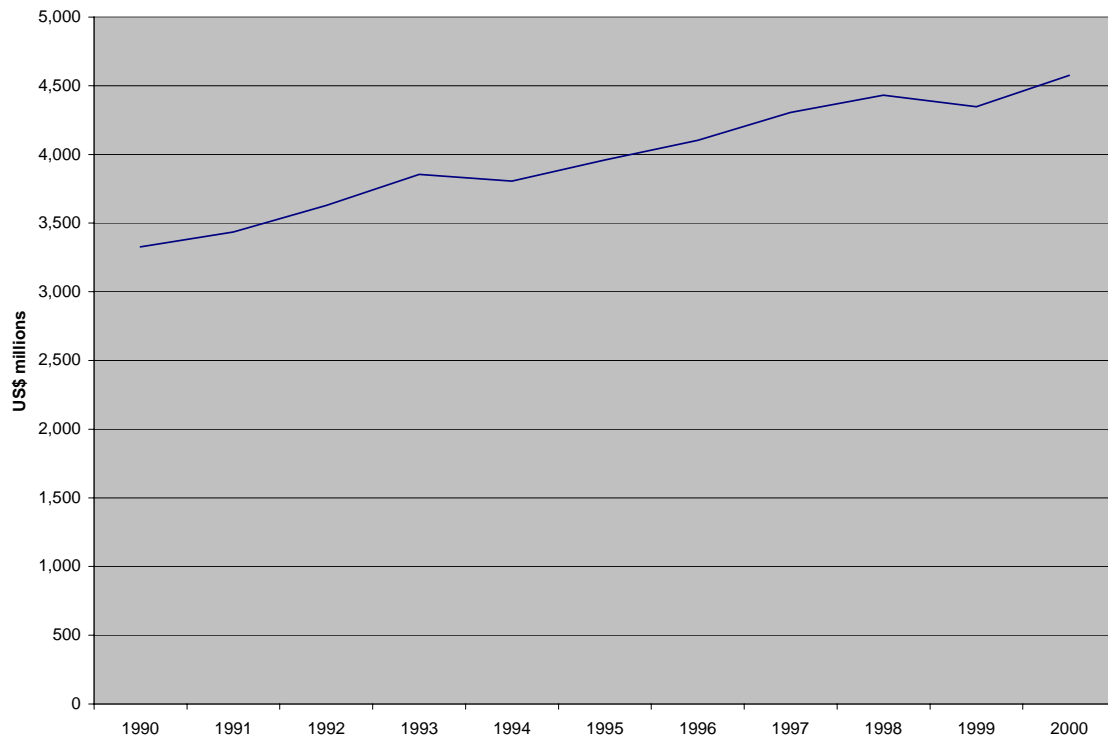
parks and the establishment of the Export Processing Zone and Free Zone laws offering investment benefits to foreign manufacturers, and, with assistance from multilateral and bilateral creditors, has been able to strengthen the infrastructure in order to attract foreign investment, primarily in the garments and textiles manufacturing industries.

Political stability has aided in creating a business climate friendly towards foreign investors and, as a result, foreign direct investment in Honduras experienced a sharp increase beginning in the 1990s. Figure 3.1 provides data showing the growth in FDI in Honduras during the 1990s. As of 1990, the net worth of FDI in Honduras was approximately US \$43.5 million. By the end of the 1990s, the approximate net worth of FDI in Honduras was US \$282 million. The declines in FDI in 1993 and 1998 both resulted from hurricanes that severely damaged the Caribbean region but Honduras was able to recover quickly and FDI growth in the country continued at a rapid rate. However, with the threat of the expiration of the MFA and investment opportunities available in China, FDI in Honduras has started to decline in recent years.

Figure 3.1 Foreign Direct Investment in Honduras (1990-2000)

Source: World Development Indicators Online database, 15 September 2004
<<http://www.library.ohiou.edu:2442/dataonline/>>.

The increase in FDI in Honduras resulting from political stabilization has had a positive effect on the GDP of the country. In 1990, the GDP was approximately US \$3.05 billion and had risen to approximately US \$6 billion by 2000. Figure 3.2 provides data showing how the level of GDP increased in Honduras during the 1990s.

Figure 3.2 Gross Domestic Product of Honduras (1990-2000)

Source: World Development Indicators Online database, 15 September 2004
 <<http://www.library.ohiou.edu:2442/dataonline/>>.

B. Maquila development in Honduras

Similar to the cases of the East Asian NICs, the development of EPZs, FZs, and industrial parks were the initial projects implemented to begin attracting garments and textiles manufacturing firms to Honduras. In Honduras, EPZs and FZs include all of the territory within the country meaning that companies can establish production anywhere in Honduras and have access to the benefits offered by an EPZ or FZ. Industrial parks built in EPZs and FZs have traditionally been a part of encouraging the growth of the garments and textiles manufacturing industries throughout the developing world. This strategy was

an integral part of the East Asian NICs in the development of their own manufacturing industries.

Specific to Honduras, the Export Processing Zone law and the Free Zone law are two laws that have been established for companies primarily concerned with exporting goods manufactured in Honduras. The laws state that any company operating in an EPZ or a FZ does not have to pay import or export duties for material, equipment, or office supplies required by the manufacturing plant, companies are exempt from paying income and city taxes, 100% repatriation of currency is permitted, profits are 100% exempt from taxation, there is minimal paperwork required for incoming and outgoing shipments and the products being exported can be cleared by customs agents on-site.

In Honduras, the establishment of EPZs and FZs has resulted in the construction of 28 industrial parks nationwide that have helped to enhance the government's continued focus on economic development. All industrial parks are national investments, owned and operated by persons of Honduran nationality. According to a representative from the Honduras Apparel Manufacturers Association, "Zones work by local investors purchasing the land, then applying to the Ministry of Commerce and Industry for authorization to operate an EPZ. Upon authorization they are to secure the perimeter of the zone by fencing in all infrastructure, drains, terraces, streets, and avenues. They then construct buildings which they rent to investors."²²

Investors establishing production within an industrial park are free to either rent building space or to construct their own buildings on-site. Renting space is very cheap, costing only US \$3.50 - US \$5.50 per square foot. Many facilities include water and

²² Jorge Interiano, Personal interview, 20 July 2004.

power, security, waste collection and cleaning services, legal services, in-house customs, employment agencies, health clinics, cafeterias, and banks. If building their own facilities, companies can expect to pay a minimal annual fee to the Ministry of Industry and Trade and the Internal Revenue Service.²³

Honduras now has industrial parks located in areas all around the country including Amarateca, Bufalo, Choloma, Comayagua, El Progreso, La Ceiba, La Lima, Naco, Potrerillos, Puerto Cortes, Rio Nance, San Pedro Sula, Tegucigalpa, and Villanueva, giving investors multiple sites in which to set up their manufacturing plants. Establishing production in many of these areas means that products designated for export are not more than one and one-half hours from Puerto Cortes, which is host to the closest deep water shipping port to the US in the region.

The port in Puerto Cortes has been important in the growth of exports going from Honduras to the US. As a result of the development of the port facilities, Honduras is the best equipped country in Central America to handle the export of goods. Due to the ease of the customs facilities the port provides, the majority of garments and textiles manufacturers, as well as manufacturers of other products for export located not only in Honduras but the rest of Central America, choose to ship products from their host country to Puerto Cortes, where access is easily gained to the US market. From Puerto Cortes goods can reach the US market in 48 hours by ship, as opposed to the possibility of 43 days by ship from East Asia.²⁴ If going by air, goods can reach the US market in 2 hours from the international airport in San Pedro Sula, only 45 minutes from Puerto Cortes.

²³Jorge Interiano, Personal interview, 20 July 2004.

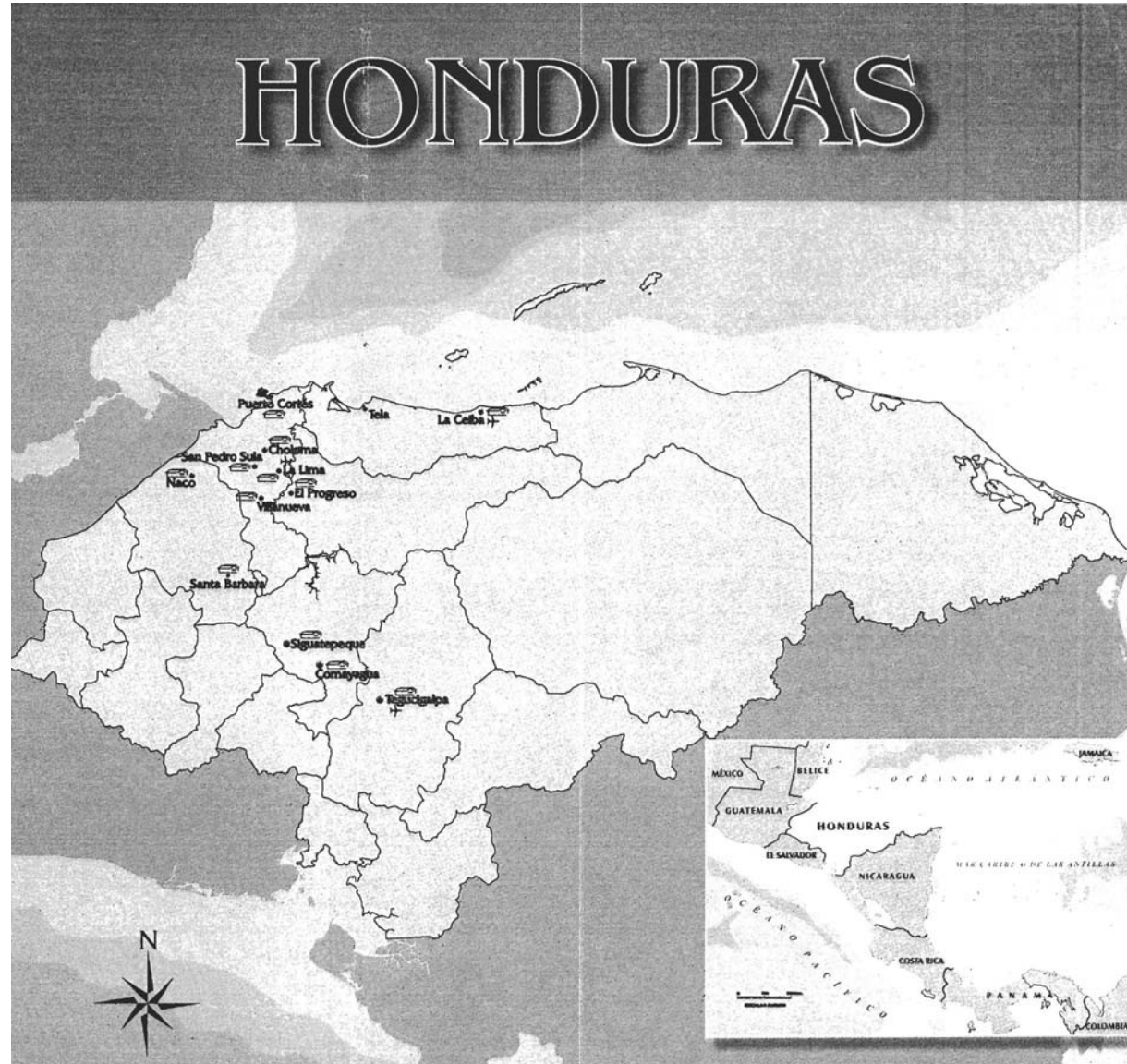
²⁴Manuel Alvarenga, Personal interview, 22 July 2004.

Companies exporting goods by air are offered the same easy customs process that is offered at the port in Puerto Cortes.

Those areas that are further than an hour and one-half from Puerto Cortes are all located within an easy drive of either Tegucigalpa or La Ceiba. Both of these cities are host to international airports and companies exporting products from these airports are offered the same efficient customs process as companies exporting out of Puerto Cortes.

After the decline of military political power and a return to democracy, the Honduran government was able to focus on economic reform and sought to create an environment friendly towards foreign investors. The incentives offered by the EPZ and FZ laws, the availability of low-cost production sites found in the 28 industrial parks, and the accessibility of the US market from Puerto Cortes have attracted numerous foreign manufacturers to Honduras. Chapter 4 looks specifically at the garments and textiles industries in Honduras and focuses on the Honduran government's policies to attract foreign manufacturers in the garments and textiles industries in Honduras.

Map 2 Location of EPZs and FZs in Honduras



Source: "Honduras Apparel Manufacturer's Association," HAMA (2004).

Chapter 4- The Honduran Government's Promotion of the Garments and Textiles Industries

As the political power of the Honduran military declined and democracy was restored, the government was able to focus attention and resources on improving the economic conditions throughout the country. An initial focus was and continues to be placed on the garments and textiles manufacturing industries, the typical starter industries for the industrialization of developing countries.

The enactment of two investment laws in the 1980s, the Export Processing Zone law and the Free Zone law, and the availability of industrial parks gave foreign garments and textiles manufacturers numerous benefits when establishing production in Honduras as well as low-cost production sites. In order to compliment these laws, the Honduran government has overseen the establishment of two organizations that are designed to build relationships with foreign investors, assist foreign investors in the setting up of their companies in Honduras, and to provide continued assistance and information for as long as the foreign companies utilize Honduras as a production site. These two organizations are the Foundation for Investment and the Development of Exports (FIDE) and the Honduras Apparel Manufacturers Association (HAMA).

A. The Foundation for Investment and the Development of Exports (FIDE)

The Foundation for Investment and the Development of Exports (FIDE) is a private, non-profit organization that was established in 1984. The aim of FIDE is to “promote investment in Honduras, support export development and work closely with the government and other private organizations to promote and design new legislation aimed

at improving the country's business climate.”²⁵ FIDEs mission is to promote the sustainable development of Honduras by encouraging investment and exports through steady improvements in the international competitiveness of the country and its businesses. The FIDE office is responsible for setting up numerous programs that are aimed at helping both local and foreign businesses develop and expand exports and to develop business contacts.²⁶ These programs and services include the Investment Promotion program, the Commercial Information Center, the Export Registry service, the Eurocentro Honduras program, and the National Competitiveness Program.²⁷

FIDEs Investment Promotion Program has been key in helping to secure foreign investment. The Program provides volumes of trade and investment information to possible investors who are able to weigh the competitive advantages of investing in Honduras and can then make the decision to visit the country. Once the decision to visit has been made, the Promotion Department takes care of all aspects of the visit. This includes picking up possible investors at the airport, arranging and accompanying investors to meetings with officials from industrial parks, shipping lines, and banks, government officials, and local authorities.²⁸

The Investment Promotion program has played an important role in connecting East Asian manufacturers to Honduras over the last two decades as a result of the establishment of a FIDE office in Taiwan. The Taiwan FIDE office serves as a network for Asian business contacts creating possible investment opportunities for Asian manufacturers seeking to move production off-shore. The Taiwan FIDE office has been

²⁵ “Honduras info,” FIDE, 20 Feb. 2004 <<http://www.hondurasinfo.hn/esp/main/home.asp>>.

²⁶ Export Directory, FIDE (2004).

²⁷ “Honduras info,” FIDE, 20 Feb. 2004 <<http://www.hondurasinfo.hn/esp/main/home.asp>>.

²⁸ Annual Report, FIDE (2003).

in operation for over 13 years. The Program has also established an office in Miami, FL, helping to build and maintain relationships between US and East Asian companies and US companies that have invested directly in Honduras.

The Investment Promotion Program continues to encourage growth in the garments and textiles manufacturing industries and FIDE representatives hope that continued success in these industries will allow diversification of the types of foreign investment made in the country. The goal is to attract new industries that will serve to add more highly skilled jobs to the economy and will encourage a greater transfer of technology.²⁹

The Commercial Information Center, located in Tegucigalpa, and the Honduran Registry and Directory of Exporters provides information on companies operating in Honduras and has helped generate business for participating companies. These services allow businesses to place and consult companies via the internet on FIDEs webpage at www.hondurasinfo.hn. Direct links to company websites are offered for all participating members allowing members to promote and advertise their products through a global and easily accessible medium. More than 80% of companies participating in this service have been contacted for business opportunities with foreign companies.³⁰ Members also have the ability to access the latest trade statistics, market information, and research and legislative news.³¹

²⁹ Annual Report, FIDE (2003).

³⁰ Annual Report, FIDE (2003).

³¹ Export Directory, FIDE (2004).

B. Honduras Apparel Manufacturers Association (HAMA)

The Honduras Apparel Manufacturers Association (HAMA) is an organization that has been established to promote the garments and textiles manufacturing industries in Honduras. “The Honduran Manufacturers Association has been designed to promote and develop exports of apparel goods, to serve its members and represent them before public and private institutions, at national and international levels.”³² HAMA provides numerous services to possible investors as well as businesses that have already set up production in Honduras. Services offered by HAMA include providing statistics about the Honduran manufacturing industry, institutional support to facilitate customs and immigration procedures, legal and technical assistance, and help with training programs. Membership is inexpensive making it easily affordable for investors to access the services offered through HAMA. Costs include a US \$1000 application fee and a US \$110 monthly fee.³³

Similar to FIDE, HAMA representatives have also traveled to Taiwan in order to develop relationships with and attract the interest of potential Asian investors. In discussing these relationships, a HAMA representative said that, “We have strengthened ties at the national level, with the government of Taiwan, as well as at the level of private sector maquilas in Taiwan.”³⁴

³² “Honduras Manufacturer’s Association,” HAMA, 25 Feb. 2004 <<http://www.ahm-honduras.com> >.

³³ “Honduras Manufacturer’s Association,” HAMA, 25 Feb. 2004 <<http://www.ahm-honduras.com> >.

³⁴ Antonia Martínez, Personal interview, 26 July 2004.

C. Garments and textiles firms in the EPZs and FZs

Both FIDE and HAMA have had and continue to have significant influence in the development of the garments and textiles manufacturing industries in Honduras. The efforts of these two organizations along with the enactment of investment laws and other benefits including low-cost production sites, low-cost labor, and the proximity of Honduras to the US have helped Honduras become successful in creating an environment friendly towards foreign garments and textiles manufacturers.

By 1997, 140 companies had established a manufacturing factory in either an EPZ or a FZ in Honduras. Of the 140 factories, 125 factories were a result of international investment. East Asian companies accounted for 41 of the factories or, approximately 30% of the total investment in the EPZs and FZs. Also, East Asian firms accounted for approximately 28% of total employment in the EPZs and FZs. Figure 4.1 provides data showing the ownership distribution and employment distribution by owner of manufacturing firms located in the EPZs and FZs in Honduras as both the total number and as a percentage of the total.

Figure 4.1 Ownership distribution of EPZ and FZ firms in Honduras (1997)

	# of Firms (% of Total)	Employment (% of Total)
US	70 (50.0)	39,509 (57.2)
Honduras	15 (10.7)	4,350 (6.3)
East Asia	41 (29.3)	19,753 (28.6)
Hong Kong	6 (4.3)	3,530 (5.1)
S. Korea	26 (18.6)	12,892 (18.7)
Taiwan	9 (6.4)	3,331 (4.8)
Other	14 (10.0)	5,419 (7.9)
Total	140 (100)	69,031 (100)

Source: Mauricio Jenkins, Gerardo Esquivel and Felipe Larrain, "Development Discussion Paper No. 646: Export Processing Zones in Central America," Harvard University (1998) 30 March 2004 <<http://www.incae.ac.cr/ES/clacds/investigacion/pdf/hiid646-cen113.pdf>>.

Of the 140 manufacturing companies that had established production in either an EPZ or a FZ in Honduras, 131 were garments or textiles manufacturing firms. Figure 4.2 provides data showing the industry distribution and employment distribution by industry of EPZ and FZ firms that established production in Honduras by 1997. Garments and textiles manufacturers accounted for 93.6% of the total investment in the EPZs and FZs as well as 98.2% of total employment in the EPZs and FZs.

Figure 4.2 Industry distribution of EPZ and FZ firms in Honduras (1997)

	# of Firms (% of Total)	Employment (% of Total)
Textile	131 (93.6)	67,793 (98.2)
Electronics	1 (0.7)	750 (1.1)
Machinery/Metal	1 (0.7)	15 (0)
Commercial	1 (0.7)	11 (0)
Other	6 (4.3)	462 (0.7)
Total	140 (100)	69,031 (100)

Source: Mauricio Jenkins, Gerardo Esquivel and Felipe Larrain, "Development Discussion Paper No. 646: Export Processing Zones in Central America," Harvard University (1998) 30 March 2004 <<http://www.incae.ac.cr/ES/clacds/investigacion/pdf/hiid646-cen113.pdf>>.

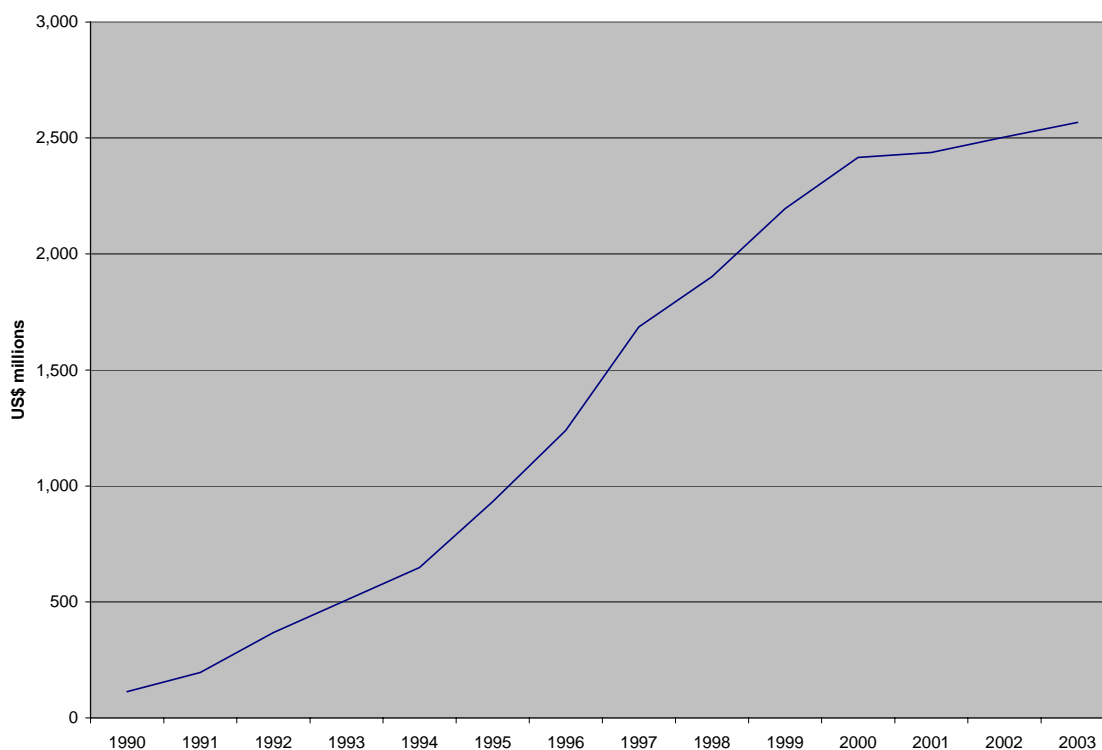
D. The Honduran garments and textiles industries

Over the past two decades, supported by investment laws, the development of industrial parks, an abundance of low-cost labor, organizations designed to attract foreign investment, and the development of the closest deep water shipping port to the US, Honduras has risen to be one of the global leaders in the export of garments and textiles to the US.

As East Asian garments and textiles manufacturers continued to pour into the region, and utilized the Honduran port at Puerto Cortes to gain quick and efficient access to the US market, apparel rose to become the number one product exported from

Honduras to the US. From 1990 to 2003, Honduran apparel exports to the US grew from approximately US \$112 million to over US \$2.5 billion. Figure 4.3 provides data showing the growth in apparel exports from Honduras to the US from 1990-2003.

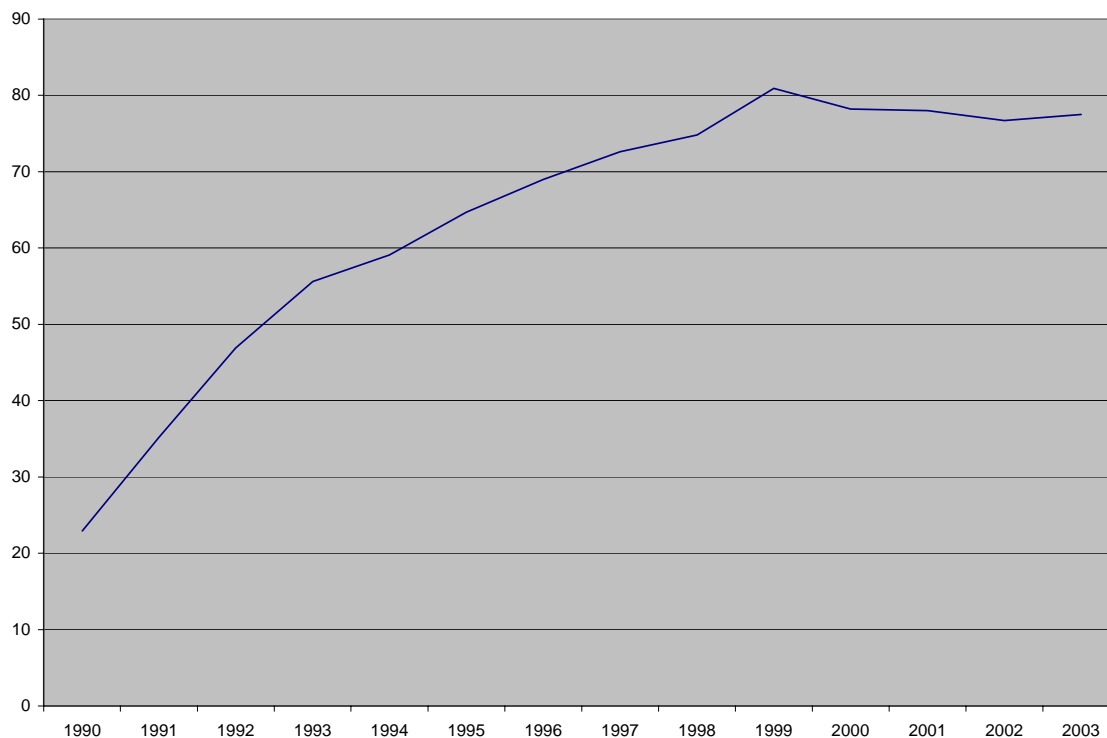
Figure 4.3 Apparel exports to the US from Honduras (1990-2003)



Source: U.S. Department of Commerce, "Trade Statistics," 10 Nov. 2004
<<http://tse.export.gov/>>.

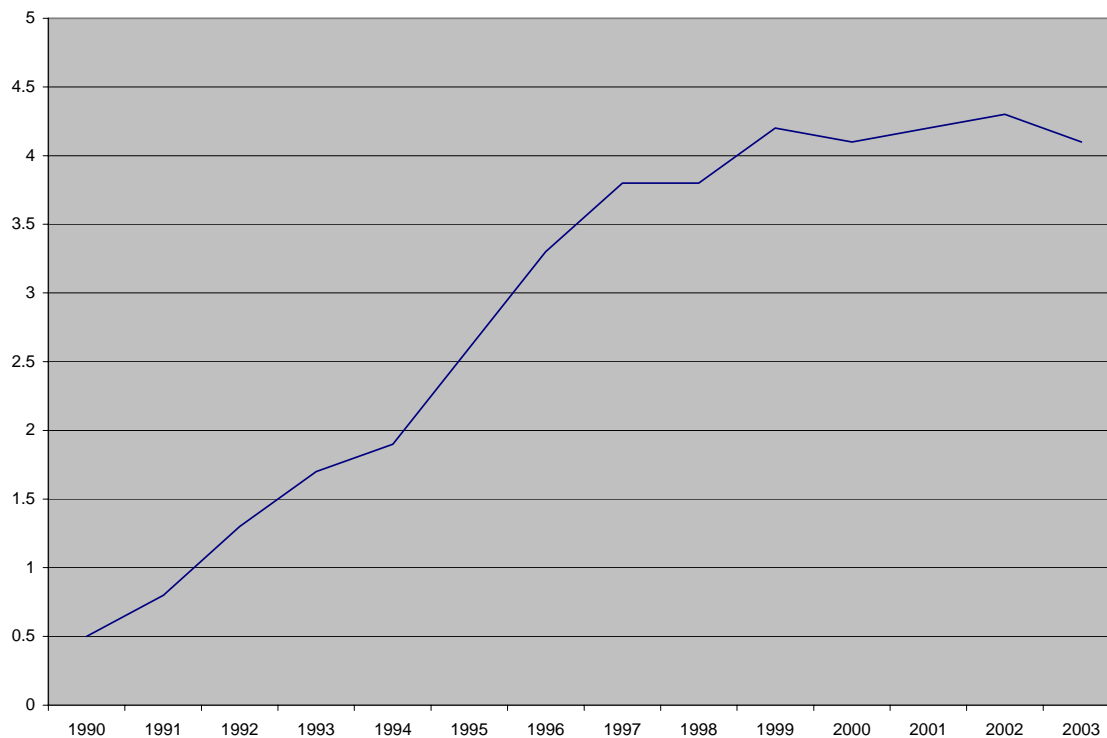
In 1990, apparel exports accounted for over 22% of all exports from Honduras. As of 2003, apparel exports had risen to account for 77.5% of total exports from Honduras to the US. Figure 4.4 provides data showing the rise in apparel exports as a percentage of total exports from Honduras to the US.

Figure 4.4 Apparel exports as a % of total exports from Honduras to the US (1990-2003)



Source: U.S. Department of Commerce, "Trade Statistics," 10 Nov. 2004
<<http://tse.export.gov/>>.

Figure 4.5 provides data showing the amount of apparel exports from Honduras to the US as a percentage of total world apparel exports to the US. In 1990, Honduras accounted for only 0.5% of the total world exports of apparel to the US. By 1999, Honduras accounted for 4.2% of the total world apparel exports to the US and has continued to account for between 4.1%-4.3%.

Figure 4.5 Honduras's share in US apparel imports (1990-2003)

Source: U.S. Department of Commerce, "Trade Statistics," 10 Nov. 2004
<http://tse.export.gov/>.

This compares to over 13% of total world apparel exports to the US coming from China and over 11% coming from Mexico, the world's leading apparel exporters to the US.

The Honduran government, with the help of FIDE and HAMA, continues to work to build relationships with investors in East Asia and to attract foreign manufacturers in the garments and textiles manufacturing industries in order to remain competitive as a leader in the export of apparel products to the US.

E. Cost of labor in the Honduran garments and textiles manufacturing industries

The cost of labor accounts for 80% of production costs in the garments and textiles manufacturing industries and thus, is one of the most important factors looked at

when manufacturers seek to establish a factory.³⁵ Along with the other benefits already mentioned, the price of labor in Honduras has been an important factor in attracting East Asian manufacturers in the garments and textiles manufacturing industries. A FIDE representative provided information detailing what a foreign investor can expect to pay a work force when establishing a manufacturing factory in Honduras. Figure 4.6 provides information on salaries for administrative personnel employed by garments and textiles manufacturing companies in Honduras. Figure 4.7 provides wage information based on a garments and textiles factory operation with 200 workers operating in Honduras.

Figure 4.6 Salaries for administrative personnel in Honduran garments and textiles manufacturing factories

Classification	Average Monthly Rate \$US
General Manager	Minimum \$2000
Human Resource Manager	922
Plant Engineer	800-1100
Personnel Manager	574
General Accountant	667
Receptionist	217
Customer Service	340
Payroll Assistant	205
Marketing/Sales Manager	680
Salesperson	623
Unskilled Factory Worker	105

Source: Figures are based on FIDE research (2004).

³⁵ Jane L. Collins, "Mapping a Global Labor Market: Gender and Skill in the Globalizing Garment Industry," *Gender and Society* 16.6 (2002) 932.

Figure 4.7 Estimated direct labor cost analysis for garments and textiles manufacturing factories operating in Honduras (200 employees)

Gross Man-Hours (44hrs/wk x52 wks x 200 employees)	US\$	457,000
Vacations In Hours (10 days x 8 hrs. x 200 employees)		16,000
Holidays (11 days x 8 hrs. x 200 employees)		17,600
Total Vacations and Holidays In Hours		<u>33,600</u>
Net Direct Labor Hours Available		424,000
Direct Labor (424,000 hrs x 0.60)		254,400.00
Fringe Benefits:		
Vacations (16,000 hrs x 0.60)		9,600.00
Holidays (17,600 hrs x 0.60)		10,560.00
Saturday's Afternoon (200x 4 hrs x 52 wks x 0.60)		24,960.00
Attendance Incentive (200 x 8 hrs x 52 wks x 0.60)		<u>49,920.00</u>
Total Payroll		349,440.00
Fringe Benefits Cont.		
Social Security (22 x Lps.4,800 x 12 months x 7%)		43,619.36
Government Training School (1% of total payroll)		3,494.40
13 Month Pay (Christmas Bonus) (200 x 56 hrs x 52 wks/12 mos.)		29,119.99
14 Month Pay (Paid in June) (200 x 56 hrs. x 52 wks/12mos.)		29,119.00
Educational Bonus (Paid First Quarter/Each School Year)		<u>9,604.48</u>
Total Direct Labor Cost		464,458.22
Fully Loaded Labor Cost Per Hour		1.09
Source: Figures are based on FIDE research (2004)		

Much of the success Honduras has had in the past two decades in attracting foreign garments and textiles manufacturers can be attributed to East Asian manufacturing firms. Chapter 5 examines the reasons for East Asian manufacturing investment in Honduras and specifically discusses the operations of an East Asian textiles manufacturing company located in Honduras.

Chapter 5- East Asian Garments and Textiles Manufacturers in Honduras

A. East Asian investment in Honduras

East Asian investment has played a significant role in helping Honduras become the number one exporter of garments and textiles to the US in Central America as well as being the number three exporter of garments and textiles to the US in the world, third only to China and Mexico.³⁶ According to FIDE statistics, as of 2004, East Asian manufacturers accounted for approximately 30% of total investment in the garments and textiles manufacturing industries. Of the 49 East Asian garments and textiles manufacturers locating production in Honduras as of 2003, 31 originated in S. Korea, 9 originated in Hong Kong, 7 originated in Taiwan, and 2 originated in Singapore.³⁷

East Asian garments and textiles manufacturers that have been attracted to Honduras as a result of political stabilization and to take advantage of the incentives offered through investment laws, low-cost labor, and proximity to the US include Global Fashions', Wonchang Industriales, Joy Apparel, MJ Honduras, King Star Garment Honduras, Dragon Maya, Yangtex, and Kit Manufacturing.

According to a FIDE representative, there are three main reasons for the increase in East Asian garments and textiles manufacturing investment.³⁸ The main reason East Asian manufacturers choose to relocate production in Honduras has been the relatively low cost of labor that is found in Honduras. It was acknowledged that the Chinese garments and textiles manufacturing industries offer cheaper labor. However, the proximity of Honduras to the US market was given as a crucial second reason, with

³⁶ "Honduras Manufacturer's Association," HAMA 25 Feb. 2004 <<http://www.ahm-honduras.com/html/statistics.html>>.

³⁷ Export Directory, FIDE (2004).

³⁸ Antonia Martínez, Personal interview, 26 July 2004.

Honduran exports able to reach the US market in 2 hours by air and 48 hours by ship.

The export process has been enhanced due to the quick and efficient processing of products that takes place in Puerto Cortes, the location of the closest, deep-water shipping port to the US. The third reason offered were the benefits and flexibility that foreign companies can enjoy when investing in one of the many already established industrial parks located throughout the country.

B. Interview with an East Asian textiles manufacturer located in Honduras

An interview conducted with a representative from an East Asian textiles manufacturing company that had recently shifted one of its production facilities from S. Korea to San Pedro Sula, but continues to oversee its global operations from its headquarter in Korea, revealed why the company had chosen Honduras as a new production site.³⁹

The representative echoed the comments of the FIDE representative saying that the company, seeking to establish itself in the textiles manufacturing business, chose Honduras because of the efficient port access allowing products to reach the US market in 48 hours by sea or 2 hours by air. The representative pointed out that to ship products from the East Asian markets to the US market can take up to 43 days by sea. Ease of communication between the S. Korean-based textiles plant and S. Korean-based garments manufacturing firms already located in Honduras was another factor in the decision to relocate production to Honduras.

The representative went on to describe how the production and export chains work in terms of delivering goods to US retailers. US retailers place orders through the

³⁹ Manuel Alvarenga, Personal interview, 22 July 2004.

East Asian garments manufacturers who have relocated production in Honduras. The textiles company receives orders from garments manufacturers located in Honduras in need of textiles for garments production. The textiles company then informs its headquarter in S. Korea of the order and awaits approval to fulfill the order. Once approval has been given, the textiles company produces and supplies the garments manufacturers with the ordered material. The garments manufacturing operations produce apparel from the textiles. The apparel is then shipped to Puerto Cortes where it is processed and shipped to the US. Once in the US the order is shipped to the US retailer who placed the original order.

When asked about how the move to Honduras has affected company profits, the representative of the S. Korean-based textiles manufacturing firm answered that the company is still too new to be making judgments on profits but added that, as a company, they must think about labor costs. The representative pointed out that in the US garments and textiles manufacturing factories a company can pay 1 one worker what they can pay 5 workers in Honduras. A company can literally operate 5 factories in Honduras as compared to 1 factory in the US.⁴⁰

According to the US Bureau of Labor Statistics, the cost of labor per hour in 2002 in the US for garments and textiles workers respectively was \$9.91 and \$11.72. Even without benefits, the wages are still much more expensive than what companies investing in Honduras can expect to pay their labor force.⁴¹

⁴⁰ Manuel Alvarenga, Personal interview, 22 July 2004.

⁴¹ Bureau of Labor Statistics, U.S. Department of Labor, "Employment and Earnings," American Apparel Manufacturer's Association (2002) 21 Oct. 2004
<<http://www.apparelandfootwear.org/data/Trends2002Q4.pdf>>.

When examining the cost of labor in S. Korea, Millman notes that, in the early 1990s, a Korean firm operating in Honduras, was paying “its 500 workers \$4 a day, about a third what it pays in S. Korea” and this was still considerably better than the local minimum wage.⁴²

This research concludes in Chapter 6 with implications for the future of the garments and textiles industries in Honduras.

⁴² Joel Millman, “Bienvenidos, tigers!,” Forbes 147.11 (1991) 191.

Chapter 6- Conclusion

As East Asian garments and textiles manufacturers have sought to establish production sites off-shore in response to wage increases in the East Asian NICs, moves towards higher-value added industry, and the establishment of the Multi-Fiber Arrangement, the global garment manufacturing triangle has been created. Due to political stabilization in Honduras, investment incentives, quick and efficient access to the US market through the port in Puerto Cortes, and duty free access of apparel exports to the US under the Caribbean Basin Initiative, East Asian manufacturers have invested heavily in Honduras. With East Asian garments and textiles manufacturers accounting for approximately 30% of the total manufacturing investment in Honduras, the Honduran economy has benefited experiencing strong growth in both FDI and GDP. East Asian investment has also contributed to Honduras becoming the number one exporter of apparel products to the US in Central America and the number three exporter of apparel products to the US in the world, behind only China and Mexico.

A. The future of the garments and textiles manufacturing industries in Honduras

Business leaders in Honduras as well as FIDE and HAMA representatives have expressed a need for the country to transform the garments and textiles manufacturing industries into full-package producers and to eventually move to higher value-added industry. With the expiration of the MFA as of January, 1, 2005, quotas will be lifted from Asian countries creating a concern for Honduras and other countries in the region that manufacturers will begin shifting production to China, where the cost of labor is the lowest in the world.

With the phase-out of quotas, the US State Department is predicting that of the 40-60 countries that currently export garments and textiles to the US, by the year 2006, this number could be down to between 20-30 and by the year 2010 the number of actual suppliers to the US could be cut in half or even one-third of MFA numbers.⁴³

B. Suggestions

Developing countries expected to remain competitive in the garments and textiles industries after the phase-out of the MFA are those countries that have already begun the move to becoming full-package producers and are planning a move towards higher value-added industry.⁴⁴ Aware of the concerns with the lifting of the MFA, solutions are being discussed as to how to maintain Honduras' competitiveness in the global garments and textiles manufacturing industries.

1. Efforts must be made to move to full package production in the garments and textiles manufacturing industries and to begin to move towards higher-value added industry. The training of a more highly skilled labor force will be necessary for this transition.
2. An emphasis must be placed on the education system at all levels. A HAMA representative noted the importance of the development of the Technological Center for Textile Training which began operations in September, 2004. The goal of the Textile Training Center is to train workers that will be able to work in an industry that produces full-package products rather than the simple assembly of garments and textiles.

⁴³ Lora Jo Foo and Nikki Fortunato Baas, "Free Trade's Looming Threat to the World's Garment Workers," Sweatshop Watch Working Paper (2003) 23 Feb. 2004
<<http://sweatshopwatch.org/global/index.html>>.

⁴⁴ Richard Applebaum, "Assessing the Impact of the Phase-out of the Agreement on Textiles and Clothing on Apparel Exports on the Least Developed and Developing Countries," Center for Global Studies, University of California Santa Barbara (2003) 23 Feb. 2004
<<http://www.sweatshopwatch.org/global/analysis.html>>.

Training must also become available that prepares a work force to operate in higher value-added industries such as the manufacturing of electronics.

According to Jacobo Kattan, owner of the largest maquila group in Honduras, improved education systems with programs that teach the research, design, and marketing phases of full-package production are needed to further industrialize the Honduran garments and textiles industries. This process will increase the value of Honduran textiles products and create higher paying jobs for workers.⁴⁵

3. The government, FIDE, and HAMA must continue to promote the proximity of Honduras to the US market and the ease and efficiency at which the US market can be reached through the port facilities in Puerto Cortes. Currently, a major highway is being built from Guatemala to San Pedro Sula, Honduras, that will simplify the shipping process for Guatemalan companies accessing the port facilities in Puerto Cortes.
4. The FIDE and HAMA offices must maintain a presence in East Asia, continuing to build relationships with East Asian manufacturers.
5. The Honduran government must continue to work diligently with the international financial community in order to reduce its debt burden. Debt forgiveness has already played a large part in the recent economic improvements in Honduras but more debt relief will be needed if the success is to continue.⁴⁶ Honduras has been accepted as a member of Heavily Indebted Poor Countries Initiative (HIPC Initiative) and continues to work with the international financial community to alleviate the debt problem.

⁴⁵ Export Directory, FIDE (2004).

⁴⁶ Gerardo Esquivel, "Central America's Foreign Debt Burden and HIPC Initiative," Bulletin of Latin American Research 20:1 (2001) 16-18.

Future research will be necessary to note the effect the phase-out of the MFA will have on the garments and textiles manufacturing industries in Honduras and whether the Honduran government will be able to make the necessary adjustments enabling the country to remain a global leader in the production and export of garments and textiles to the US market.

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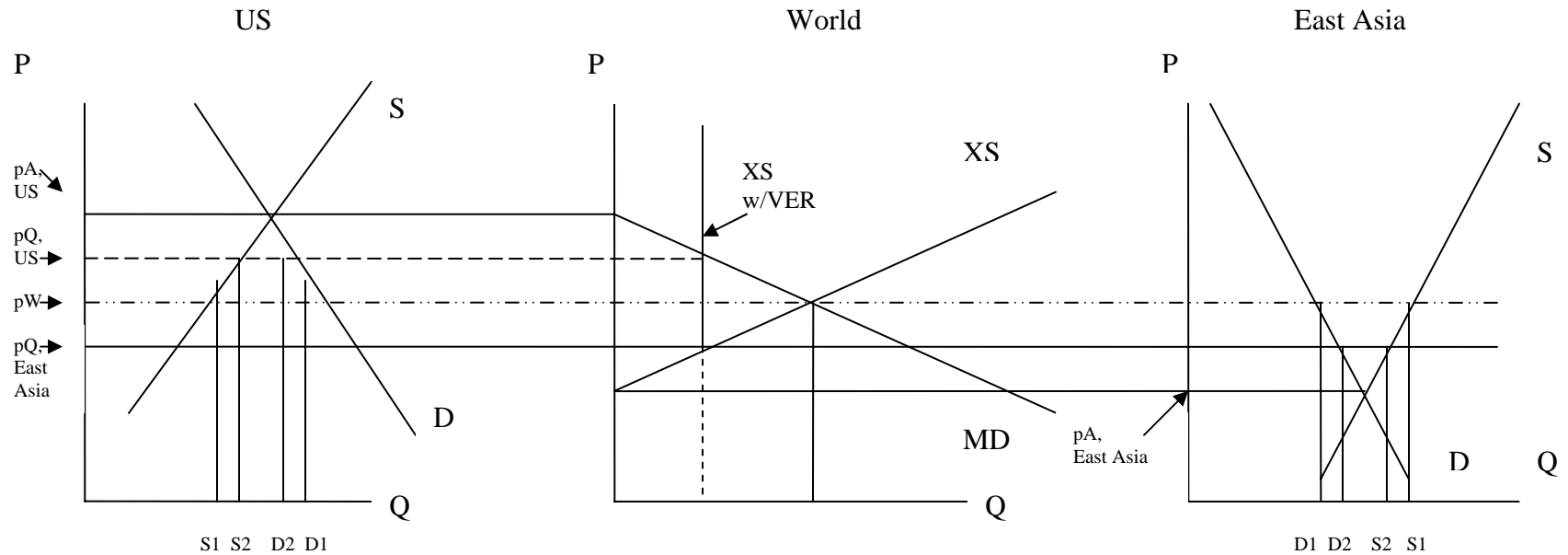
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Appendix A



A voluntary export restraint (VER) is a quota imposed at the request of the importer and is used to protect domestic industry. In the case of the Multi-Fiber Arrangement, the result was a decrease in the amount of apparel products being exported from East Asia to the US. When a VER is imposed by the US on East Asia, it causes an increase in supply (S_1 to S_2) in the US and a decrease in demand (D_1 to D_2). This results in an increase in price in the US. In East Asia, a VER causes an increase in demand (D_1 to D_2) and a decrease in supply (S_1 to S_2). This results in a decrease in price in East Asia.