Threads of Labour

Garment Industry Supply Chains from the Workers' Perspective

Edited by
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Women Working Worldwide

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The Changing Face of the Global Garment Industry

Jennifer Hurley with Doug Miller

Introduction

This chapter explores the operation of the global garment industry and current developments in the sector. It sets the scene for the material in much of the rest of the book that draws on WWW research, taking a 'bottom-up' or 'worker's-eye' view of the industry. The major trends identified and explored in this chapter were borne out by the research on the ground, but the research also revealed some new information about the local end of global supply chains, which will be reported in greater detail in Chapter 5. By linking the garment industry at the global level, in this chapter, with the research findings at the local level, in Chapter 5, we open up and explore the complex interrelationship between the more abstract elements of the industry—such as international regulations and company sourcing decisions—and the very concrete impacts that these decisions have on the daily lives of individual women working in the garment industry.

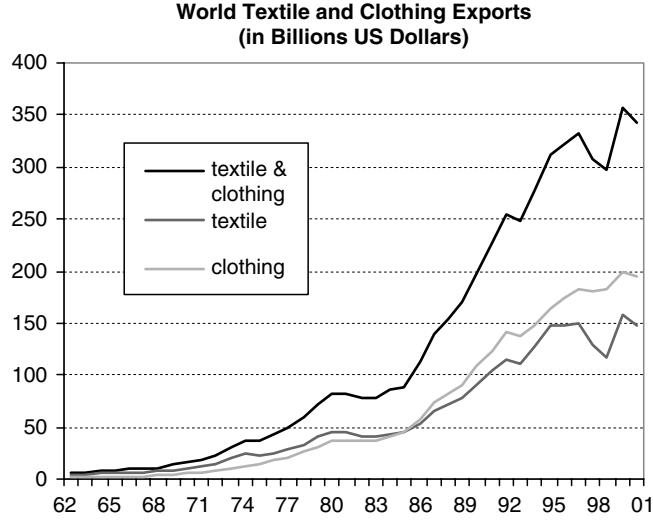
To set the scene at the global level, this chapter first describes the nature of the global textile and garment industry. We use a supply-chain approach that allows us to link business decisions at a global level to the experiences of individual women workers at the local level. Drawing on a case study of the Gap's supply chain, we illustrate the complexities of subcontracting that are explored in greater detail in Chapter 5. This chapter then examines contemporary trends in the garment industry, looking specifically at lean retailing and e-commerce, which are altering its structure and, as the research findings show, intensifying the pressure on workers at all levels within it. Finally, the chapter looks at the way in which the regulation of trade affects the industry and provides another

case study to highlight the ways in which such regulation has shaped industry practices and in turn impacted on workers.

Making Sense of the Global Garment Industry

As a relatively low-cost labour-intensive activity, export garment assembly is one of the few industries in which developing countries can offer comparative advantage in manufacturing, particularly through labour costs. For the governments and entrepreneurs of developing countries, the industry has been seen as a development lynchpin, opening doors to foreign investment, bringing in foreign exchange earnings and, ideally, acting as a gateway to more value-added industries and services. Garment industry investment opportunities have been viewed as the first step into the international trading arena and the path to export-led economic growth. Many developing countries have attempted to make full use of the industry's potential and developing countries now account for 70% of world exports of clothing (Diao and Somwaru 2002:129). Although the global garment sector accounts for only 3.2% of world manufacturing exports, the world apparel trade has increased some 128-fold in the last 40 years (Someya, Shunna and Srinvasan 2002). With a current value of US$201 billion (2002), and a prognosis that, on present trends, the world's five major markets (US, EU, China, India and Japan) will more than double in the next decade, it is understandable why many buyers and potential sellers are keen to invest in this business (Flanagan 2003:23; see figure 2.1).

Advocates of globalisation point to the contribution which the industry can make in terms of exports, employment and value added. In Bangladesh, clothing accounts for 75% of the country's total export earnings; in Mauritius the figure is 64%, in Sri Lanka 50%, and in Tunisia 40% (Appelbaum 2003:17). In terms of employment, Bangladesh has 1.6 million workers, almost 65% of its total workforce, engaged in the clothing sector. In Tunisia and Morocco, 40% of the national labour force are employed in textiles and clothing. In Turkey, the figure is 34% (Someya, Shunnar and Srinvasan 2002). The share of apparel in the total added value of merchandise exports is also considerable in certain countries—in Bangladesh the percentage is 55%, in Turkey 28%, in Pakistan and Morocco 20% (Applebaum 2003). On the face of it, such statistics might appear to underpin this orthodox 'development model' of the globalisation process, but they mask the specific structural conditions that determine and 'rig' the global apparel market in favour of the buyers.



Source: WTO (2002)

Figure 2.1 World textile and clothing exports

The garment industry can be seen as manifesting the classic pattern of 'global shift' in manufacturing as production bases move from one country to another country and from one region to another region: from high-cost to low-cost production locations (Dicken 2003). However, this shift does not operate in a free market. The economic and political forces that structure the global garment industry favour the strongest actors, and this impacts on the global distribution of the industry.

Using a supply chain approach

The past three decades have seen significant changes in the structure and organisation of the industry. At the global level, there has been increased consolidation of power among the biggest players—the retailers, branded manufacturers and marketers—accompanied by the development of more complex networks at the local level (Gereffi 1994). Attempting to conceptualise such a diverse, complex and internationally dispersed industry presents serious theoretical challenges. As outlined in Chapter 1, however, one approach that has shown the flexibility necessary to capture the complexity of developments is the supply chain or commodity chain approach (Gereffi and Korzeniewicz 1994;

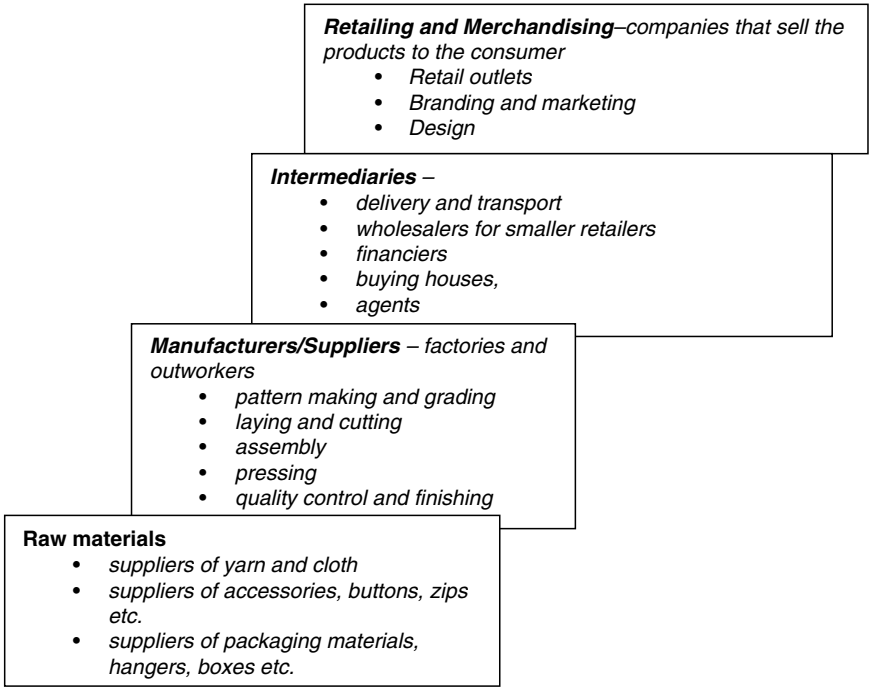


Figure 2.2 Simplified functions of a garment supply chain

Sturgeon 2001). This approach provides a framework not only for mapping out the different players in globalised industries, but also for revealing the significance of negotiations between firms and individuals at different stages of the chain (Wood 2001). The garment industry does not operate through anonymous markets but through political and economic relationships at every level from global trade negotiations through to the employment of homeworkers.

At the most basic level, supply chains are made up of all the stages involved in the production and sale of a specific product, from sourcing the raw material to its final destination in a shop. The chain can be broken down into four key functions: raw material supply, intermediary roles, manufacturing and retail. Within each of these functions are different roles and tasks, as illustrated in Figure 2.2.

There is frequently a great deal of separation between the various tasks and actors in any such chain, with each stage being carried out by different companies or individuals. One firm may weave textiles, while

another firm organises logistics, and an agent may source trimmings, such as buttons and thread. The strength of the supply chain approach, however, is that it does not just see these players—whether they are individuals, governments or multinationals—as independent, free-floating agents, but as actors who are linked through complex networks and legislative and financial ties, as well as across space.

Though it lacks a well-defined theoretical framework (Gereffi et al 2001:3), the supply chain approach provides useful concepts that enable cross-border networks to be explored from a variety of perspectives. The work of Gereffi is particularly useful for our analysis, because of his focus on the significance of power relationships within the chain. The garment industry is portrayed as a 'buyer-driven' chain and his approach involves looking at how 'lead firms'—like Gap—govern their supply chains and how relationships are organised within such chains (Gereffi 1994, 1999; Humphrey and Schmitz 2001). In buyer-driven chains (as distinct from producer-driven chains) it is the retailer that buys the clothes from the manufacturer that has the power to dictate turnaround times, prices and quality (Gereffi 1994:55). This means that large buying companies are more likely to have greater power in the supply chain. They get this power from their position in the market—literally, how big they are—and how much their marketing activity contributes to the profit they make. For example, jeans sold with Levi's brand name cost more than jeans with a generic brand name, so Levi's gain power from the profit they are able to make from their brand name.

Supply chain analysis has also been adopted by those looking at the industry from a developmental perspective. Here the focus is on the potential for industry upgrading, and, in particular, the extent to which smaller developing-world manufacturers can become more self-sustaining and move further up the chain (Gereffi 1999; Kaplinksy 2000). Work has also been done on understanding the linkages between various points in the chain, the 'drivers' that help generate success and the barriers that block progress in the chain (Dicken and Hassler 2000; Hassler 2000). If the industry can be upgraded, adding more value through production in any one place, this has major implications for wealth creation and further economic and social development.

This approach frames much of the argument in the rest of this book. We can use it to examine the role of multinationals or lead firms in structuring chains, the use of power and the patterns of governance in these chains, the impact of technology, the importance of gender in providing flexibility within chains and the impact of national governments and international regulation.

The changing structure of garment supply chains

In the past decade, there has been a noticeable restructuring in garment supply chains, which has increased the power and profits of lead firms. Mergers and acquisitions among the biggest players have given these companies greater power to shape the industry. Wal-Mart, for example, the world's largest multinational has an annual turnover of nearly $118 billion. Together Wal-Mart and K Mart (turnover p.a. $32 billion) outsell all department stores combined, and their purchasing decisions shape much of the apparel industry (Retail Forward Inc 2003). With the ten largest clothing retailers accounting for nearly two-thirds of all apparel sales in the US, this consolidated buying power vastly increases retailers' ability to put more pressure on the manufacturers in their chains. They have used this power to push down prices and insist on fast turnaround times for delivery to the market. A significant development has also been the rise of private labels owned by the retailer. While retailers typically keep 50% of the price of brand-name garments, they are able to keep 80% of the price of their own private-label products (Sweatshopwatch 2003).

There are three basic types of lead firm in garment industry supply chains: retailers, marketers and branded manufacturers (Gereffi 2001:1625). A glance at the top twenty clothing companies (Table 2.1) reveals that they are all headquartered unsurprisingly, in the world's major clothing markets—the US, EU and Japan. Virtually all are now best described as *merchandisers*. This means they are brand owners that either do not own any production or are in the process of divesting their manufacturing in favour of outsourced offshore production. Benetton, Nike, Adidas, Tommy Hilfiger, Liz Claiborne, Polo Ralph Lauren are classic merchandisers with centralised marketing, design and finance functions at their headquarters. Companies such as Vanity Fair Corporation and Levi Strauss are examples of branded manufacturers that own some manufacturing capacity but are in the process of cutting back on this. As an example, Vanity Fair owns Wrangler and Red Kap and runs factories in Central America, although most of its original manufacturing in the US has been closed down. Levi Strauss, with 501 suppliers worldwide (Fair Labor Association 2003) has embarked on a strategy of closing down its remaining owned facilities in the US, Canada and Europe, and now has just a handful of factories left worldwide (Payne 2002). Triumph International is an example of a multinational which has long maintained its own manufacturing but has increasingly outsourced

Table 2.1 Major clothing companies in the industrialised countries

Ranking	*Company*	*Country of Origin*	*Product*	*Turnover in 2001 Million €*	*Turnover in 2002 Million €*	*% Change*
1	Sara Lee Corp Brand App	USA	Knitwear	8672.0	6826.0	−21.29
2	VF Corporation USA	USA	Jeanswear	6162.4	5376.0	−12.76
3	Jones Apparel Group Inc	USA	Womanswear	4547.90	4590.60	0.94
4	Levi Strauss & Co	USA	Jeanswear	4484.90	4384.60	−2.24
5	LVMH-Gruppe Clothing	France	Prêt-à-Porter	3612.0	4194.0	16.11
6	Zara-Ind Dis. Text.	Spain	Menswear	3249.9	3974.0	22.28
7	Liz Claiborne USA	USA	Clothing	3850.5	3931.40	2.1
8	Fast Retailing	Japan	Clothing	3143.50	2624.0	−16.53
9	Ralph Lauren—Polo	USA	Clothing	2485.20	2499.70	0.58
10	Shimamura	Japan	Womenswear	2228.30	2339.60	4.99
11	Kellwood Co	USA	Clothing	2547.8	2331.60	−8.49
12	Adidas Salomon AG	Germany	Activewear	2212.0	2288.0	3.44
13	Onward Kashiyama Co	Japan	Menswear	1894.20	2231.10	17.79
14	Tommy Hilfiger	USA	Menswear	2095.5	1998.7	−4.62
15	Benetton Clothing	Italy	Knitwear	2097.6	1991.8	−5.04
16	World Apparel	Japan	Womenswear	1574.40	1972.0	25.25
17	Marzotto-Abbigliamento	Italy	Menswear	1410.0	1700.0	20.57
18	Triumph International	Switzerland	Clothing	1655.1	1625.0	−1.82
19	Warnaco Group—Clothing	USA	Underwear	1866.1	1578.8	−15.4
20	Five Fox Group	Japan	Clothing	1541.7	1524.0	−1.15

Source: Euratex Bulletin 2004

production, as well as acting as a contractor to private labels such as Marks and Spencer and C&A and brands such as Esprit and Adidas. Overwhelmingly, the trend is towards the 'new economy' merchandiser business model, whereby focus is placed on the development of brand image through marketing and design, while production, packaging and delivery are left to other companies (Klein 2000).

Big global companies have gradually reduced their manufacturing to refocus their core business on service-related functions (Gereffi 2001:1627). While subcontracting the labour-intensive and competitive activities of production, packaging and transportation, they have also streamlined their businesses in order to focus on the areas of the garment industry that generate the highest profit levels, most notably design, marketing and retail; the so-called 'intangibles.' The growth of private

labels is one aspect of this, and the US-based market information company NPD estimates that private label sales now represent 51% of apparel sales in the mass merchandise segment of the retail market (Barrie 2003:20).

As the major retailers/merchandisers no longer have their own manufacturing bases, they are dependent on other manufacturers for their production needs. However, the way in which they source their products is in constant change. In line with the move towards streamlining their business focus, these key global players are now also downsizing the number of manufacturers with whom they do business in an attempt to make their supply chains shorter, as well simplifying and centralising the co-ordination and management of the manufacturing process. As a result, pressure has built up from the global retailers, marketers and branded manufacturers for large multinational manufacturers to provide a 'full-package' service, where the contractor—the manufacturer—co-ordinates all functions of the chain, from sourcing raw materials, project management, delivery and distribution (Bair and Gereffi 2001; Flanagan and Leffman 2001; Gereffi 2001; International Labour Organisation 2000; see also Chapter 7, this volume). The top lead firms globally are developing more long-term partnerships with these transnational manufacturers who are increasingly providing a 'one-stop shop' solution (International Labour Organisation, 2000:88). The design is done by the lead firms, and the orders are then passed on to the manufacturer who is responsible for all aspects of production. As a result, the lead firms appear to have 'flat' supply chains involving relatively few contractors (Gereffi 2001:1627).

However, this 'flattened' supply chain is only the tip of the iceberg. While the relationship between the lead firm and one of their 'lead manufacturers' appears clear and uncluttered, below this are complex supply chains to other garment producers that present a far more complex and intricate picture. The research outlined in Chapter 5 confirmed that consolidation at the top of the pyramid has been accompanied by a lengthening and diversification of the supply chain below the level of the transnational manufacturer. Since these levels of the supply chain are hidden, the structure is best characterised not as a pyramid but an iceberg, a model developed with Stephanie Barrientos during the course of a WWW seminar on both garment and horticulture supply chains (Women Working Worldwide 2004). The dense and complex webs at the bottom end of the chain are invisible not just to outsiders such as government monitors, but also to the retailers that issued the order and sometimes even to the manufacturers that subcontracted the order (see Figure 2.3).

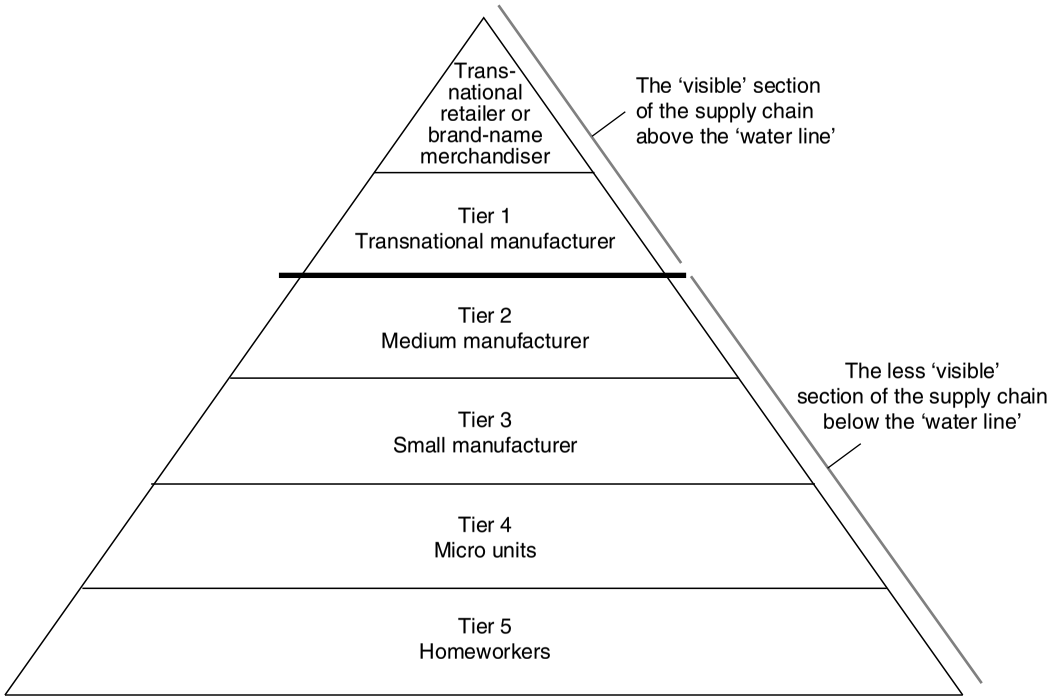


Figure 2.3 The pyramid/iceberg model of the supply chain

Source: Women Working Worldwide (2004)

Taking the iceberg model it is possible to look more closely at how the supply chain operates. Above 'sea level,' the global retailers/merchandisers are creating long-standing alliances with a limited number of large multinational manufacturers. These alliances are tightly structured, relatively stable, long-term relationships characterised by a simple structure and clear communication channels. The manufacturers in Tier 1 are multinationals in their own right and have the capacity to provide the extended services required by the retailers and brand marketers. They supply many international clients, have production bases in a number of different locations, and some have a vertically integrated supply chain. As an example, Nien Hsing is a Taiwanese-owned denim and jeanswear manufacturer that supplies major brands and retailers such as Lee, Levi Strauss, K-Mart, J C Penney, and Bugle Boy, from factories in Nicaragua, Mexico, Taiwan, Lesotho and Swaziland. Similarly, Ramatex Berhad, a Malaysian-owned multinational manufacturer, supplies knitwear to major customers in Europe and the USA, such as Nike Puma, Adidas, Otto Versand, Target, Wal-Mart and Sears Woolworth (Mollet 2001). Likewise, Ramatex is an example of a multinational which runs a vertically integrated operation producing its own yarn and knitted fabric and assembles garments in China, Malaysia, Namibia, Brunei, Cambodia and Mauritius. This company provides a full-package service for multinational buyers.

The complexity of garment sourcing at Tier 1 is illustrated by the following quote from the chairman of Li and Fung, a multinational trading house (Magretta 1998:108):

> Say we get an order from a European retailer to produce 10,000 garments. For this customer, we might decide to buy yarn from a Korean producer but have it woven and dyed in Taiwan. So we pick the yarn and ship it to Taiwan. The Japanese have the best zippers and buttons but they manufacture them mostly in China. So we go to YKK in Japan, but we order the right zippers from their Chinese plants. Then we determine that, because of quotas and labour conditions, the best place to make the garments is Thailand. So we ship everything from there. And because the customer needs quick delivery, we may divide the order across five factories in Thailand. Effectively, we are customising the value chain to best meet the customer's needs. Five weeks after we have received the order, 10,000 garments arrive on the shelves in Europe, all looking like they came from one factory.

Whilst receiving orders from buyers, the large multinational manufacturers in Tier 1 frequently subcontract out these orders to smaller subsidiaries as well as to other factories that are harder to trace.

In numerous cases, the subcontracting is illegal in that the buying firms are unaware that their contractor has subcontracted out part of their order. Below Tier 1 the relationship between different levels of the supply chain alters radically, with a sharp increase in downward pressure in relation to price and turnaround times. This pressure pushes down through the different tiers in the chain to medium and small units, and to homeworkers. There are so many firms competing for business at lower levels that employers are willing to take on work that is badly paid. The further down the chain the work goes, the greater the pressures, bringing associated problems of excessive overtime and sub-minimum wages. These differences in the experiences of workers at different tiers of the supply chain are explored more fully in Chapter 5.

In order to illustrate the complexity of these networks we have used information from the research to build up a picture of the Gap supply chain (see Box 2.1). Gap was not a specific focus of the research, but many researchers found that they consistently met with workers who were part of Gap supply chains. The information supplied by workers

Box 2.1 Gap supply chain

Like many large retailers, Gap has regional and national sourcing offices. Its Asian Regional Sourcing Office is based in Singapore and there are national sourcing offices in key countries, including India, Pakistan, the Philippines and Bangladesh. An order comes through the regional sourcing office and is allocated to a national sourcing office. The national office passes the order on to one of the large manufacturers in Tier 1 with which it works, and that manufacturer is then the primary contractor.

In our example, the Tier 1 manufacturer is Blue Textile and Garment Manufacturing (see Figure 2.4). There are many manufacturers supplying Gap. However, according to employees working in Gap International Sourcing, the company tries to build up long-term relationships with 10–20 large manufacturers, depending on the country. These manufacturers are often multinational companies that have textile and manufacturing factories across the world. It is easier for Gap to work with companies that also produce textiles because it is cheaper and reduces the production turnaround time, not least because the company can co-ordinate their schedules so that production can be planned more efficiently.

Although Blue Garments produces textiles, it does not have the capacity to supply all Gap's needs, so Gap also orders textiles from large mills that do not have manufacturing capacity, represented in our diagram by Orange Textiles. When the textiles are ready they are sent to Blue Garments to be made into clothes.

Although Gap does not like factories to subcontract work out to smaller factories, this does happen. Blue Garments may send work out to (a) subsidiaries, (b) independent manufacturers and (c) agents. In the diagram these are 'Blue medium factory', 'Purple small factory' and 'agent' respectively. In some cases, Blue Garments will complete all the work for Gap in its own factory, but subcontract work for other brand names to Tier 2 manufacturers. Each Tier 2 manufacturer may then subcontract out to even smaller manufacturers, or home-workers, producing long, complex supply chains that Blue Garments know very little about.

When each manufacturer has finished its quota, it sends the finished garments back to the factory that subcontracted the work to it. All finished garments eventually come back to Blue Garments to be distributed to the stores. In the largest Tier 1 companies, distribution is done in-house: in some cases the company has a department that co-ordinates freight and distribution and, in other cases, large manufacturers like Blue Textiles and Garments have logistics companies as subsidiaries to which they subcontract the work.

The finished goods may be sent to the Gap national office or the regional office but it is more usual for Blue Textiles and Garments to send the garments straight to Gap's regional distribution centres: Gap-USA, Gap-Canada, Gap-Europe and Gap-Japan, from where they are shipped to the stores. The benefit for Gap is that Blue Textiles and Garments must pay the price of transport, distribution and administration, thereby saving Gap time and money.

It is not uncommon to find Gap clothes for sale in the department stores, malls and flea markets of the country where they were manufactured. This happens when too many garments are produced, an order is cancelled or the garments did not pass quality control. As these clothes are sold very cheaply, they force down the prices of clothes that are made for the domestic market, creating additional challenges for the smaller manufacturers that normally supply the domestic market.

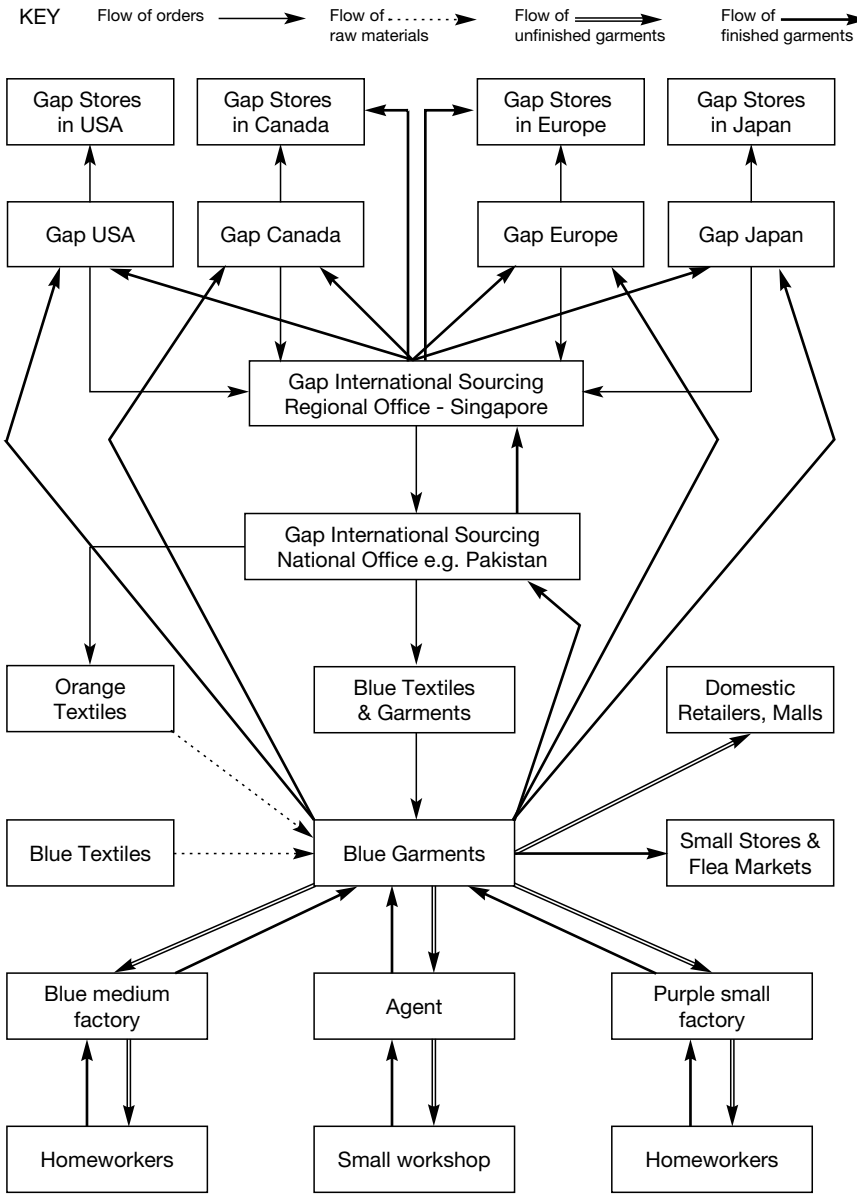


Figure 2.4 A Gap supply chain

was used to build up a picture of the more hidden levels of the chain. The names of companies in the chain have been changed as the purpose is to provide a model of how a garment industry supply chain operates in practice rather than to expose particular firms.

Basic Trends in Supply Chain Management

The garment retail industry can be broadly divided into seven segments: designer products at the high-fashion end of the market (Gucci, Dolce & Gabbana, Armani), top-quality high-priced brands (Burberry's, Diesel, Boss, Nike, Adidas) specialty stores with brand names (Rohan, a Children's Place, JJB Sports), mass merchandising (Nike, Adidas, Wrangler, Levis), discount chains (Wal-Mart, K-Mart), small retailers and the rapidly growing used or second-hand clothing market. These different segments share some common sourcing trends, which have helped to create a global production hierarchy. This hierarchy is based on closeness to the market and the value added to the garments, resulting in the geographic clustering of higher- and lower-value-added production in different locations.

In terms of volume, 'basic' clothing, which is typically sold through discount stores and specialty stores at the lower end of the market, accounts for nearly half of all garments sold. Demand fluctuates very little so the retailers source these high-volume products in distant low-labour-cost countries, and they are prepared to endure long lead times, particularly where low-cost transportation is used. In these segments the typical sourcing scenario might entail high-volume use of CMT (cut, make and trim) factories, where the value added is very low. This has resulted in the clustering of low-value-added manufacturing in South Asia (Gopal 2002) and, increasingly, in Central America and parts of Southern Africa (de Haan and Phillips 2002). As a result of these regions being confined to producing goods for export to the mass merchandising and discount markets, the garment industry is not proving to be a lynchpin industry in their economic development.

In contrast, higher-value-added production has tended to be concentrated nearer major markets. In the higher-profit retail segments dominated by the designer and speciality brand names, 'fashion-forwardness'—that is the degree to which garments follow the latest trends and fashions—has become a prominent feature. This has meant a distinct shortening of the product life cycle and a proliferation of garment types which, in turn, has created increased demand uncertainty in the

textile, garment and retail industry. Consequently, many of the manufacturers producing higher-value-added garments are located in or near developed countries.

All segments of the garment industry are highly competitive and in order to maintain their position in the market, retailers and merchandisers, particularly in the fashion and sportswear segments, have been engaging in three key practices: lean retailing, e-commerce and co-sourcing, all of which increase pressure down the supply chain.

Lean retailing

To avoid the risk of carrying inventory of increasingly unpredictable items, some companies place advance orders for small quantities of each garment and replenish stocks regularly, in some cases on a weekly basis. In order to operate in this manner, near vertical control from production to distribution with the elimination of middlemen and wholesalers, has been taking place. Such vertical networks can now be found in Wal-Mart, Uniqlo, Mango, H & M, C&A and Zara (for more on Zara, see Chapter 5, this volume). This reflects the streamlining of business structures, discussed earlier in the chapter. However, rather than shortening their supply chains by concentrating on key manufacturers, these companies are creating vertical networks that extend beyond the first manufacturing tier.

As an example, Zara, the fashion subsidiary of the Spanish multinational Inditex, is viewed very much as the industry pioneer. Zara rotates stock 5 times a year leading to faster cycle times, which places considerable demand on its suppliers and their workers. Such a policy inevitably has three key employment impacts.

Firstly, suppliers need to be close to fabric and trim supply, which may result in the relocation of production, which in turn undermines job security. Historically, Inditex had a policy of sourcing primarily from within Spain using 24 different manufacturing subsidiaries. But more recently it has begun to broaden its supply base as part of its global retail expansion plans and now sources from over 2000 factories in Europe, Asia and Latin America (Lyne 2002; see Chapter 5, this volume). Secondly, 'just in time' ordering inevitably begets 'just in time' production. Factories may be informed about quantity adjustments on the day of delivery, overtime may be immediately demanded and forced on workers (Raworth 2004:48-55). And, thirdly, in the mass discount market, sourcing companies may switch suppliers from one season to the next,

looking for the best quality at the lowest prices. Suppliers deal with such unpredictability by opting for a flexible workforce, which is predominantly female and characterised by casualised work on a variety of short-term contracts. In larger factories, casual staff work alongside permanent staff, but have little or no access to whatever social benefits the permanent full-time staff have secured. This then creates additional tensions within the workforce (Dhanarajan 2004; and for more information, see Chapter 5, this volume).

E-commerce

With the advent of the Internet, apparel buying and selling has started to move on line with a proliferation of B2C (business to customer) and B2B (business to business) supplier networks (Hammond and Kohler 2000). B2B is having a significant impact on the supply chain. In Germany, for example, where 30% of all garment retailers and manufacturers engage in e-purchasing, under the new technique of RFP/RFQ (request for price/quote) buyers invite suppliers to bid on line for contracts, thereby generating downward pressure on prices which fail to reflect real labour costs (Ethical Trading Initiative 2003:51).

By 2000, a number of major retailers were already collaborating in on-line B2B exchange networks. As an example, in March 2000, 17 international retailers founded the World Wide Retail Exchange (WWRE) to enable participating retailers and manufacturers to simplify, rationalise, and automate supply chain processes. Currently the WWRE represents 64 companies including: Auchan, C&A Europe, El Corte Ingles, Galeries Lafayette, Gap Inc., J C Penney, Kingfisher, Kmart Corporation, Marks & Spencer, Meijer Inc., Otto Versand, Target Corporation, Tesco and Woolworths (Hammond and Kohler 2000:17). In such a climate of concentrated buying power, it is unsurprising that FOB (free on board[1]) prices for garments have been falling generally since 2000 (Clothesource 2003).

Co-sourcing

A further development in supply chain management is the emergence of what can be described as co-sourcing. Here the prime contractor, for example Levis, specifies on quality grounds the exact type and brand of fabric and/or components, such as thread or zips to be used by the

subcontractor (De Coster 2004). This practice has had a major impact on jobs within the textile sector. As weavers and component manufacturers seek to negotiate global contracts for their products with garment manufacturers/merchandisers, they are compelled to ensure that their product follows the manufacturing locations from which these companies source their product. Coats plc, for example, a UK-based supplier of Levi Strauss and Nike, has developed a strategy of pursuing 'global key accounts' with retailers and merchandisers in an effort to ensure that their thread is a required component of any garment manufactured on behalf of those clients. Having progressively divested themselves of their last remaining clothing subsidiaries, Coats plc has opted to focus solely on the production of thread and zips and reorganised its production into bulk units in Hungary, Romania, China, India and Brazil, which are located near garment assembly zones. To meet demand and cope with market fluctuations, the company has also developed smaller units to provide customer service in local markets with shorter runs with specialist colours (Coats 2002). Understandably, this has had major implications for the relocation strategy within the company, impacting particularly severely on West European manufacturing facilities and their workers.

All these recent developments serve to increase the downward pressure that buyer-driven garment supply chains exert on employment terms and conditions in the industry. There is ceaseless pressure on costs and turnaround time and these pressures are felt most acutely by more than 11 million clothing workers who work for supplier firms (International Labour Organisation 2000:13). It is no accident that the major centres of garment manufacture are located in those parts of the world where wage costs are lowest, as Table 2.2 indicates.

Changes in the Regulation of Trade and Investment

The pressure on retailers and merchandisers to pursue the holy grail of high-quality, low-wage, 'one stop shop' sources of product is currently fuelled by the changing trade agenda, including the establishment of preferential trading and investment conditions under bilateral and regional trade negotiations in different parts of the world. And we explore the particular relationship between multinational capital, the global trade regime and the processes involved in foreign direct investment (FDI) in developing and less developed countries in the garment industry below.

Table 2.2 Hourly wage rates for selected countries, 2002

Region or country	*Apparel industry*
	US Dollars
East Asia:	
China	$0.68[(1)]/$0.88
Hong Kong	[(2)]
Korea	[(2)]
Taiwan	[(2)]
South Asia:	
Bangladesh	0.39
India	0.38
Pakistan	0.41
Sri Lanka	0.48
ASEAN countries:	
Indonesia	0.27
Malaysia	1.41
Philippines	0.76
Thailand	0.91
Mexico	2.45
CBERA countries:	
Costa Rica	2.70
Dominican Republic	1.65
El Salvador	1.58
Guatemala	1.49
Haiti	0.49
Honduras	1.48
Nicaragua	0.92
Sub-Saharan Africa:	
Kenya	0.38
Madagascar	0.33
Mauritius	1.25
South Africa	1.38
Andean countries:	
Colombia	0.98
Peru	[(2)]
Other countries:	
Egypt	0.77
Israel	[(2)]
Jordan	0.81
Turkey	[(2)]

(1) Reflects labour compensation for factories in China producing moderate to better apparel.
(2) Not available

Source: Jassin-O'Rourke (2002)

As global trade in textiles and apparel has increased, a complex and unique regime has emerged for managing the political and economic problems associated with increasing international competition. During the 1960s and 1970s excess capacity in production led to intense and difficult global competition as producers in the developed countries attempted to protect their markets from imports from low-wage countries through complicated quota rules and high tariffs, while developing countries responded with efforts to protect their industry using import substitution measures and bans. Eventually bilateral, country-by-country, trade policies began to emerge which culminated in the Multi-Fibre Agreement (MFA) of 1974. This agreement ratified countries' rights to impose quotas on trade within this sector, limiting trade in categories of apparel and textiles imports between countries. This was intended to be a temporary measure, to give rich countries time to restructure their industries before opening them up to competition from those countries with low-wage comparative advantage. In practice, however, the MFA became a major driver in the shifting geography of the sector, since the existence of quotas represented a de facto carving up of global manufacturing potential across the countries of the world. To tackle the inequalities of this quota system and the way in which it tended to protect production in developed countries, an international agreement, known as the Agreement on Textiles and Clothing (ATC) (for further information, see Chapter 9, this volume), was signed at the Uruguay round of trade talks in 1994, committing signatories to phasing out quotas according to an agreed timetable with a final date set for December 2004.

Since 1994 the restructuring of the textile and clothing industries of the US and the EU has continued apace. In the US, the American Apparel and Footwear Association estimates that 89% of clothing sales are from imports. The Japan Textile Importers Association now estimates that 87% of clothes on sale in Japan are now imported (Flanagan 2003). Production has continued to migrate to low-cost offshore locations in Asia, Africa and Central and Latin America, and there have been major jobs shake-ups in many parts of the world. The US clothing and textile industry, for example, has lost 316,000 jobs since 2001 (Barrie 2003:8). Similarly, the European textile and clothing sector lost nearly a million jobs between 1990 and 2000, and the challenges on the horizon make further job losses highly probable (European Commission 2003). Whilst thousands of jobs have been lost in the sector in the 'western' economies, similar tendencies have appeared and are accelerating in the industries of those countries to which apparel production originally migrated.

In 2003, Mexico lost over 100,000 jobs in the sector as merchandisers and manufacturers decided to switch production to China (Kearney 2003a; see Chapter 7, this volume).

A glance at the detail of the MFA and the ATC would lead one to conclude that the global trade in garments is heavily regulated, but this masks the way in which capital in the sector is able to pursue the maximisation of profit in an unfettered way. In practice, trade agreements have been used to cement the position of US- and EU-headquartered multinationals in the hierarchy of the value chain in the industry. The negotiation of bilateral trade agreements between national governments and the US and the EU, alongside the expansion of export processing zones (EPZs) to create cheap and attractive locations for multinationals 'regime shopping' in the sector, have increased the power of those at the top. In EPZs, the enforcement of national labor laws is lax and, in some cases, the outright repression of worker organisation is promised (International Confederation of Free Trade Unions 2003; see Box 2.2).

Box 2.2 Export processing zones

Export processing zones (EPZs) are one of the most controversial features of the globalising economy. Known by several different names—for example, free trade zones, *maquiladora* in Central America and special economic zones in China—EPZs share a set of distinctive features. Formally, EPZs are sites where imported materials can be worked on and then re-exported without incurring the usual taxes and duties. This formalistic definition, however, obscures many of the more pernicious aspects often associated with EPZs, including poor working conditions and trade union repression. The latter is widespread as the battle to attract multinationals to EPZs has led many host countries to suspend or curtail not just customs and tax regulations, but also employment rights, including the right to organise.

Although EPZs are largely a developing-world phenomenon, the modern export processing zone was actually pioneered at Shannon airport in Ireland. In 1960, the airport, which had been threatened by the advent of the transatlantic jet, was declared a tax-free production zone for value-added goods. This was seen by the government to be a cheap means of creating jobs. Here, as in the EPZs that emerged later, the zone was physically demarcated by high fences. Ostensibly, the

(*Continued*)

Box 2.2 (*Continued*)

purpose of the fences was to prevent tax-free goods from being smuggled into the regular economy. However, as Naomi Klein (2000) has argued, the fences also came to play an important role in maintaining control over the workforce.

EPZs emerged during the 1960s and 1970s as a key economic development strategy of many developing world governments and international organisations such as the IMF, World Bank and UN. That said, in 1970 only ten countries had established EPZs. By 1986, however, there were over 175 such zones across 50 countries and by the mid 1990s over half of the world's countries had EPZs. According to the latest International Labour Organisation figures, 42 million workers in 106 countries are employed in EPZs (International Labour Organisation 2003), with 30 million in China alone. Depending on the country, between 60% and 90% of these workers are women, most of whom are under the age of thirty.

Textile, clothing and footwear production, along with electronics, is the dominant activity in most EPZs. This is for several reasons. Firstly, EPZs are attractive to multinationals involved in textile, clothing, and footwear production as this is a very labour-intensive sector and, therefore, the quest for a large supply of 'cheap' labour is seen as critical to profitability. Secondly, the relocation to EPZs has been aided by the fact that textile, clothing, and footwear production is not very place-bound by virtue of its low capital intensity and as workers can be trained 'on the job.' Finally, production in EPZs has been enabled by the fact that distance of production from the end market is not such an important factor since most textile, clothing and footwear goods are relatively light and can, therefore, be freighted at minimal cost.

Source: Jeremy Anderson and Eva Neitzert, drawing on International Labour Organisation (2003).

These denials of basic worker rights are combined with a series of sweeteners to foreign multinationals, whereby the host countries make no demands for majority ownership, local content requirements, or the transfer of expertise and knowledge (Foo and Bas 2003). Box 2.3 illustrates the impact of these developments in the case of Ramatex and the Namibian government.

Box 2.3 The case of Ramatex in Namibia

In Namibia, in what has been seen as the most spectacular foreign investment in the country since its independence, the Malaysian multinational Ramatex opened a massive fully integrated operation to supply the European Union, the Middle East and the east coast of the US (under the terms of Africa Growth and Opportunity Act) in 2002. Drawing in the parastatals providing water and electricity (Namwater and Nampower), as well as the Windhoek municipality, the Namibian government put together an incentive package which included subsidised water and electricity, a 99-year tax exemption on land use, as well as over N$ 100 million to prepare the site including the setting up of electricity, water and sewage infrastructure. This was justified on the grounds that the company would create 3000–5000 jobs during the first two years and another 2000 jobs in the following two years. Namibia was also a particularly attractive location given the absence of any minimum wage legislation and an exemption for any EPZ firms from the provisions of the Labour Act of 1992.

Even before Ramatex started production, concerns were raised regarding the environmental impact of the company's operations, and tensions arose in relation to the discriminatory nature of the company's selection criteria. In the first full year of operation (2003), workers went on strike over pay, public transport and conditions. An operator's starting wage was N$1.50, or 12p an hour rising to N$3 (24p) an hour, and several hundred were suspended and are still awaiting reinstatement despite the successful outcome of an industrial tribunal case (Namibian 2003). Early in 2004, the Chinese foreign workers (there are some 2000 Chinese and Filipinos in the 8500 strong workforce) downed tools in protest at canteen hygiene, payments for company-imposed medical check-ups and failure to grant leave, and when the Filipino workers petitioned their embassy to come and inspect their conditions, the company refused the Consul General access to the site.

Source: *Namibian* (2004)

Just as multinationals have sought to protect their market share by entering into co-sourcing agreements with primary contractors, whole national textile sectors have lobbied to protect their market share via so-called preferential trade agreements and legislation. Examples here are

the US African Growth and Opportunity Act (AGOA) of 2000, which provides duty- and quota-free access to apparel from sub-Saharan Africa providing it is manufactured with US/African-made fabric[2]. Likewise, the outward processing trade (OPT) rules of the EU allow the tariff-free importation of goods made in Central and Eastern Europe and the Maghreb using fabric of European origin (see Begg et al 2003).

With the expiry of all quota restrictions in the market for apparel and textiles on 31 December 2004, free trade in the sector is intended to prevail from 2005 onwards. Since World Trade Organisation (WTO) orthodoxy requires a free market there is also pressure to remove tariffs (ie, taxes on imported textiles and apparel) too. There are vastly different estimates as to the benefits that the phase-out of quota is supposed to yield. The Organisation for Economic Co-operation and Development (OECD), for example, predicts annual global welfare benefits ranging from $6.5 billion to $324 billion (Walkenhorst 2003). The views of major exporting countries are somewhat different however. A coalition of 71 apparel and textile trade associations from 38 countries is so concerned about the impact of the ATC that, in the so-called Istanbul declaration[3], it has called for a three year delay to the elimination of quotas.

Much of the talk in the garment industry has been about national 'winners' and 'losers' post 2005 (Anson 2003). While the critical factor in this competition would appear to be the availability of good textile infrastructure in national manufacturing bases, enabling suppliers to offer 'one stop shops', the decisions as to 'which workers in which countries will lose out and which will benefit from the quota phase-out is left entirely to multinational apparel corporations, whose only concern is the bottom line' (Foo and Bas 2003:9). In the end, the real winners are, as ever, the shareholders of the major multinational retailers and merchandisers in the global garment industry. Against a backdrop of such rapid and monumental change one thing looks set *not* to change and that is any prospect of decent work for the millions of women clothing workers in the sector (see Chapter 9, this volume).

Conclusion

The aim of this chapter has been to identify the major issues affecting the garment industry at the current time in order to provide the context in which to locate the research findings presented in the rest of this book. The chapter has explored the major trends identified in the garment

industry, and it provides a bridge linking theory and reality, global trends and the daily lives of workers.

The global garment industry is undoubtedly going through a period of intense change, both structurally and politically. This can been seen in the supply chains and networks in the industry. There is consolidation of power at the top of the industry with closer relationships between retailer/marketers and key manufacturers, and increasingly complex and multifarious relationships at the bottom of the chain. The operation of these chains is constantly altering with the adoption of new strategies such as lean manufacturing and e-commerce. Fundamental changes in international regulation will also affect the industry when the MFA is finally phased out sometime after 2005.

Yet behind all this change there is a paradox, for these changes are making little real difference to actors who are not already in positions of power. Powerful actors are able to use these changes to enhance their positions. Those in less powerful positions, whether they are developing nations, small manufacturers or workers, find that their situations remain the same or more fragile than ever. Constant downward pressure, particularly on prices and turnaround times, continues to be a salient features of the sector. Yet, as the following chapters illustrate, this situation is being contested and in identifying and exploring other avenues for change, we join a global discussion about how to challenge and reconfigure power relationships within the industry for the long term.

Notes

1 Free on Board refers to the price charged for a product by a supplier. The price does not include delivery and insurance for the goods.
2 AGOA does provide for fabric from so-called 'third' countries to be used in garments exported to the US from less developed countries.
3 Cf. www.apparelresources.com/defaultnextseven.asp?msg=4504&cod=newsindetail&nam=