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WHAT HOPE FOR "ETHICAL" TRADE IN THE GLOBALISED GARMENT INDUSTRY?

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In the autumn of 1999, a major UK garment retailer joined the Ethical Trading Initiative (ETI) just as the media were announcing the loss of thousands of jobs in its UK factories. Joining the ETI means a commitment to the promotion of labour standards as embodied in ILO Conventions. Yet British workers' jobs are rapidly being lost to countries in Asia and Eastern Europe, where companies know that people are employed in conditions far below these standards. Companies overcome this apparent contradiction between pronouncement and practice by expressing their commitment in terms of the progressive implementation of a code of conduct rather than an immediate guarantee of acceptable standards. However, in the case of the garment industry, the implications of global restructuring are such that the hope of achieving this objective seems increasingly remote.

The Development of "Ethical Trade"

The Ethical Trading Initiative is a UK-based response to the growing public demand for corporate codes of conduct on labour standards. This demand has spread throughout North America and Europe on such a scale that it can be seen as one of the significant social movements of the 1990s. Public concern has grown over time as the media has revealed that reputable companies are selling everyday consumer goods made by exploited workers. One of the first scandals was revealed in 1992 when a report appeared in the *Washington Post* about the production of Levi jeans

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by Chinese prison labour on the island of Saipan. Levi Strauss immediately reacted by drawing up a code on labour standards for all its overseas suppliers. Walmart, the biggest retailer in the US, drew up a similar code in 1993, and soon almost all leading US garment retailers followed suit. Although European companies were slower to respond, many are now publishing codes. In the UK this includes C & A, Littlewoods, Next, Marks and Spencers, Burton, Pentland, Monsoon, the Co-op, Grattan, John Lewis, River Island, Tesco and Asda (now owned by Walmart). Some have drawn up their own codes; others have adopted the ETI base code.[1] The crucial question facing campaigners has been whether these company codes indicate real commitment or are merely public relations exercises.

The ETI initially developed out of an attempt by NGOs (non-government organisations), such as the Fairtrade Foundation and Oxfam, to formulate collectively agreed procedures for ensuring the implementation, monitoring, and verification of company codes. It is now a tripartite institution involving companies, trade unions, and NGOs as equal partners. Most of the member companies are either supermarket chains or garment retailers. The ETI's purpose has been to agree on a common code and to learn from members' experiences of putting codes into practice. Collaboration has focussed around pilot monitoring exercises in selected countries.

The practical problems facing the ETI are enormous, and no one is under the illusion that they can be easily solved. Despite this, those involved strongly believe that such initiatives have the capacity to bring about real improvements in labour conditions. The pressures of immediate problem solving leave little time to explore the more fundamental question of whether this approach is really able to counteract the negative impacts of globalisation. In a globalised economy, the central driving force for most companies is the maintenance of profit levels in the face of intense competition. In labour-intensive industries such as garments and food processing, this translates into a need to cut back on labour costs. The key question is whether it is possible for ethical trade policies to be implemented in the context of such strong downward pressures on labour conditions.

The Changing Face of the Garment Industry

The pressures of globalisation are particularly strong in the case of the garment industry. The changing rules of world trade mean that more and more countries are integrated into a global market and encouraged to compete for exports. There has been massive relocation of garment production over the past 30 years, and more is predicted as the Multi-Fibre Arrangement (MFA) is phased out by January 2005.[2] Northern retailers and brand-based companies maintain overall control of the industry whilst shifting their production sites from one location to another. This has been made possible by the development of information technology which enables information, designs and orders to be communicated around the world twenty-four hours a day.

Probably the most significant factor in determining the direction of shifts in production sites is the relative cost of labour from country to country. During the first phase of relocation in the 1960s and '70s, European and US companies outsourced to countries such as Hong Kong, Singapore, and South Korea. Production was then relocated to lower wage economies, such as the Philippines, Indonesia, Thailand, and Mexico. Now it has shifted to Bangladesh, Central America, and more recently Vietnam and, above all, China. Sometimes workers from these countries are taken to other locations, e.g., from China to Mauritius and from South Asia to the Middle East. Companies in the more developed Asian economies have maintained a stake in the garment trade partly through subcontracting labour-intensive production processes to even lower wage economies: for example, Hong Kong and Taiwan are the main investors in China, and Korea has focussed on Indonesia and Central America. This has produced a system of "triangular manufacturing" under which companies take orders from Europe and the US, contract them out to lower wage economies, and then ship the finished goods back to the buyers.

The shifting of production sites has been accompanied by other changes in company strategy. Internationalisation initially consisted of Northern manufacturers setting up similar factories in the South. However, there has since been a move towards outsourcing to independently owned factories. The extent of this shift is demonstrated by the emergence of "manufacturers without factories," companies such as Nike and Adidas which have built their success on the promotion of brand labels. They concentrate on increasing profit through design and marketing whilst reducing costs and risk through outsourcing. Meanwhile, major retailers have changed their buying policies. Since the 1970s they have bypassed importers by sending their own buyers overseas. More recently, they have also begun to compete directly with brand-name manufacturers by promoting their own labels. They outsource the production of these labels; they may design the goods themselves or may contract out the design as well.

The changing demands of the fashion industry have also played their part in altering patterns of production. New technology at the point of sale has enabled retailers to monitor trends closely and to look for a quick response from manufacturers. The traditional two-season cycle has broken down, and design, fabric, and colour changes are being made more frequently. For manufacturers this means short lead times, short runs and the need for flexible production. To some extent this has acted against international sourcing, enabling some small domestic clothing manufacturers in higher-income countries to survive. Whereas basic goods can be easily produced in low-income countries, fashion items at the top end of the market may be supplied most efficiently in the country of sale.

Intense international and local competition, combined with the demands of the fashion industry, has meant that the garment industry of the 1990s has been characterised by a massive increase in subcontracting. Typically there are different levels of subcontracting. Buying companies contract major manufacturers who subcontract to smaller production units, who in turn increase their flexibility by bringing in temporary workers and putting work out to homeworkers. Homeworkers play a key role in these production chains, not only in low wage economies but also in industrialised countries of Europe, North America and Australia.

The advantages of subcontracting to manufacturers are fairly clear. Local manufacturers produce to order and the demand can fluctuate enormously. Later arrival of material, or last minute changes in fabric or colour, can also cause production delays. By reducing the regular factory workforce and using subcontractors, employers can react to these changes but keep costs to a minimum. Employers are also absolved from any responsibility for workers; indeed, subcontracting is sometimes used in response to worker demands for improved wages and conditions. There is evidence that subcontracting can enable manufacturers to reduce their labour and overhead costs by more than half. In some countries, such as the Philippines, up to 75% of output is contracted out (Green, 1998).

Downward Pressure on Labour Conditions

These changes in the garment industry have had the overall effect of increasing downward pressure on working conditions. As consumers shop around for the best buys, retail companies are in constant competition to maintain their profit margins. Contractors, agents, and trading companies feel the pressure to produce lower-cost goods. Meanwhile, with the increasing number of countries involved in export production, local manufacturers are locked into fierce competition for orders. Middlemen who have to meet the cost demands of the buying company maximise their own profits by squeezing manufacturers. Rather than turn down an order, local manufacturers accept unprofitable deals and make them work by increasing pressure on their own workforce through forced or unpaid overtime and by subcontracting to small workshops and to homeworkers, the lowest-paid workers at the end of the chain.

This growing pattern of international subcontracting means that the whole industry works on the basis of flexibility, short-termism, competition and insecurity. It is therefore no surprise that workers themselves are faced with these problems. As production is moved to cheaper locations, millions of workers in industrialised countries are losing their jobs, not only in Europe and North America but also in the newly industrialised countries of Asia. Even in low wage economies there is the constant threat of further relocation. The end of the MFA phaseout threatens to bring on a period of even more intense competition, increasing this feeling of insecurity.

Garment workers also face the daily insecurity of having their employment determined by fashion trends and market fluctuations. Even in larger factories, many employers have adopted ways of removing their responsibility for their workforce when work is scarce. Workers may be employed on a casual, part-time, temporary basis, and agencies that supply contract labour are being used more frequently. At the same time, competition between local manufacturers to reduce costs and complete orders results in an increase in work intensity. This is manifest in increased working hours, and reductions in the numbers of workers on production lines. Work intensity is at its highest when a particular production deadline has to be met, and workers are typically kept in the factory until the order is complete. Employers may even persuade workers that this is in their interests, since jobs will be lost if orders are not completed.

The irony of this downward pressure is that companies at the top of international subcontracting chains are themselves creating the conditions that operate against attempts to implement codes of conduct. If the demand for flexibility translates into insecurity and periods of intense overtime, it is unrealistic to expect standards on working hours and proper working contracts to be adequately implemented. If competitive pressure is such that costs have to be cut, it may be impossible for local contractors to increase wage levels and bring health and safety measures up to international standards without going out of business. In any case, if they have no long-term stake in the business, their aim will be short-term profits rather than investment in improved working conditions. All these issues need to be addressed by any company genuinely committed to promoting ethical business practice.

The Challenge of the Supply Chain

Companies seeking to overcome these dilemmas also face practical problems associated with increasingly complex subcontracting chains. The first problem is actually knowing where their goods are produced. Most companies operate through agents, trading companies, or local contractors. These middlemen increase their power by providing as little information as possible. Often overseas companies do not know the names or locations of factories from which they are buying, and this information can change rapidly from one week to the next. Even if the factory itself is known, it is highly unlikely that local contractors will reveal the extent of outsourcing to smaller production units and homeworkers. Most companies buy from a range of local suppliers; even if the companies can locate these suppliers, it will be impossible to monitor them all. One US retailer is estimated to have over 13,000 suppliers who in turn source from up to 78,000 subcontractors (Kearney, 1999).

As part of their commitment to ethical trade, some larger companies insist that their own representatives visit at least some of the factories from which the companies source. Some are also setting up their own buying operations and establishing more direct relationships with local manufacturers. This is sometimes accompanied by a dramatic reduction in the number of suppliers. Such a closer working relationship does provide greater opportunity for monitoring the implementation of company codes by those particular companies. However, what are the implications for workers in the production units that are no longer used, and for homeworkers at the end of subcontracting chains? And what about workers who supply less responsible companies?

For companies the exercise is inevitably one of ensuring that their own house is in order, rather than of striving for any overall improvement of working conditions. However, trade unions and NGOs must have a wider agenda. The real issue is whether codes of conduct are an appropriate instrument for addressing the overall threat to labour standards in globalised industries. Is it even conceivable that codes of conduct could be made to apply to workers as a whole, and if so, how can this be achieved? Even if all companies agreed to respect codes of conduct, can there ever be appropriate and sufficiently resourced procedures for monitoring their implementation? Is enough known about the ways in which the attempt to achieve this is impacting on workers themselves? Unless such issues are addressed, we cannot be sure that in the end it will be workers and not companies who will gain most from this exercise.

Ethical Trade Means Involving Workers

Another irony of the ethical trade movement is that, although it is fundamentally about workers' rights, workers themselves have not been part of the process. Codes are not negotiated between employers and workers, but are introduced in a top-down fashion by the employers themselves. Sometimes this occurs in consultation with NGOs and trade union officials, but this typically happens in the country where a given company is based, far removed from the actual workplace. In short, codes of conduct are being introduced on behalf of workers without their knowledge or consent. It is simply assumed that workers will see this initiative as being in their interest.

As a member of the NGO group of the ETI, Women Working Worldwide (WWW) has argued that codes of conduct can only have a significant impact if workers understand them and are able to use them as negotiating tools. WWW carried out a small research and consultation exercise with its partner organisations in Indonesia, the Philippines, Sri Lanka, Bangladesh, Pakistan, and India. This exercise clearly demonstrated that workers knew nothing about codes of conduct even when they were working in factories supplying well-known companies that had such codes, such as Nike and the Gap. When the concept was explained to them they showed a high level of scepticism, based on a distrust of anything introduced by management and on widespread experience of corruption. Many felt that even attempting to find out whether their companies had codes could lead to victimisation or dismissal. Nevertheless, they were curious to know more and they welcomed the WWW's suggestion of an educational programme on the issue of codes.

Workers demonstrated their willingness to explore the potential of codes by their involvement in this subsequent education programme. They gave up their few hours of leisure time for the programme; many feared victimisation so that the sessions were sometimes held in secret. At times Indonesia was in a state of political turmoil and Bangladesh was under floodwater. Nevertheless, groups in all six countries reported that the programme had been positive and productive. In part this was because the discussion of codes opened up more general issues such as the place of workers in international supply chains. Few workers had previously questioned where their products went after leaving the factory, and many became enthusiastic about using brand labels as a way of tracing supply chains. They began to see that codes of conduct could be a useful tool in confronting some of the problems of organising in the context of globalisation. They provided a link to workers working for the same company in other countries and to consumer campaigns in Europe and North America. As Shirin Akhter from Karmojibi Nari in Bangladesh reported, "Workers became aware that foreign consumers are trying to do something good for them. They have got the feeling that they are not alone. As a result their level of awareness and sense of their rights was raised" (Hensman and Hale, 1999:26).

However, the educational programme made it clear that workers did not see company codes as a solution to the struggle for workers' rights, even in factories that directly supplied the world market. There was a strong feeling that the impact of codes would be limited unless workers had proper work contracts and the right to organise. Although some codes might include these rights, workers had no confidence that these would be implemented unless workers themselves were in a position to act collectively. All groups viewed as crucial that workers representatives be involved in the implementation and monitoring of codes. It was felt that ideally this should be done through trade unions. However, most workers had limited experience of trade unions, except as remote and sometimes corrupt organisations. (Unions are banned in most Free Trade Zones, and rarely operate in smaller subcontracted units.) Nonetheless, everywhere the struggle for genuine trade unionism was seen as more important than the promotion of company codes.

Ultimately, only workers themselves can monitor the conditions in which they work and ensure that their rights are not being violated. Workers' own awareness and organisational ability is therefore essential to any attempt to improve labour conditions through codes of conduct. The problem is that the same processes that operate against the implementation of codes of conduct in the garment industry also operate against effective worker organisation. International subcontracting not only creates huge gaps between workers and their ultimate employers; it also divides workers from each other. Traditional forms of trade union organising based on secure factory employment will not work in the context of a casualised and dispersed labour force. And yet globalisation does provide new opportunities for international alliances between workers themselves, as well as between workers and those organisations that are campaigning on their behalf. There is an urgent need for new ways of organising that take into account the realities of global subcontracting chains and at the same time recognise the potential for action at an international level. Only then will the movement for ethical trade begin to have a significant impact.

References

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Hensman R., and A. Hale (1999) Women workers and codes of conduct: Report of educational programme in Asia. Manchester: Women Working Worldwide.

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Notes

1. The ETI base code was drawn up by representatives of member companies, NGOs and trade unions. It consists of a set of standards, based on core conventions of the ILO, which relate to health and safety, forced labour, maximum working hours, living wages, discrimination, child labour, regularisation of employment, and freedom of association and collective bargaining.
2. The MFA is a quota system set up in 1974 to protect the garment and textile industries of Europe and North America. Under the new Agreement on Textiles and Clothing, the MFA is being phased out to bring trade in textile and garments in line with WTO rules. Trade in garments will then be more determined by market forces, and it is predicted that whilst certain countries such as China and India will gain, other developing countries are in danger of losing their entire garment industry.