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Tier 1 Firms in the Global Garment Industry: New Challenges for Labour Rights Advocates

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ABSTRACT

The garment industry can be considered an archetypal global sector in which production processes have been transnationalized since the late 1960s. The possibility of fragmenting and outsourcing production across a spatially dispersed network of manufacturers has 'freed' global buyers from the surveillance of their production processes, helped reduce costs and, ultimately, relieves them of the organizational requirements associated with mass labour processes. The role of branded companies and retailers in the garment industry has been studied extensively over the last two decades. However, much less attention has been paid to those companies that have appeared as their mirror image, namely the emergence of a number of Asian garment manufacturers—or tier 1 firms—that have also expanded their businesses significantly over the last few decades, but have little or no control over end-consumer markets. This paper seeks to map and discuss the importance of, and commonalities between, tier 1 companies in the actual production of garments, and discusses their main characteristics. Special attention is paid to the consequences for labour strategies focused on improving working conditions at these companies' factories.

INTRODUCTION

The garment industry can be considered an archetypal global sector in which production processes have been transnationalized since the late 1960s. The possibility of fragmenting and outsourcing production across a spatially dispersed network of manufacturers has 'freed' global buyers from organizing their own production processes, thus helping to reduce costs and ultimately relieving them of the organizational requirements associated with mass labour processes, which end up being outsourced to specialists in the manufacturing sector, operating in low-wage countries. These specialist manufacturers, in turn, take on the task of controlling large workforces. This results in a functional split between global buyers (brands and retailers) on the one hand and manufacturers on the other.

Proponents of the global value chain approach, for example, argue that manufacturing (e.g., the labour-intensive, or assembling, aspects of production) basically represents a 'lower order' or 'dead end' function. Manufacturing is subordinate to the agents that control 'higher-order' factors such as proprietary technology, product differentiation, brand reputation, consumer relations and constant industrial upgrading (see Raikes et al., 2000: 5–6). It is assumed that most of the profits are captured by companies controlling end-markets, either through their control over the technological and innovative processes of production *or* through their control over the intangible processes associated with design, branding and marketing. In contrast, intense (price) competition in the area of the tangible and labour-intensive phases of production—the *cut-make-trim* phases in garment production—makes it difficult for the garment manufacturing companies to grow and expand their areas of expertise (see, eg, Bair, 2005: 165; Raworth and Kidder, 2009).

While this scenario is basically correct, the global processes involved in the restructuring of production is also accompanied by the emergence of manufacturers —mostly located in East Asian countries— that have successfully specialized in the organization of predominantly export-oriented, low-skill, low-wage, labour-intensive, and high-volume manufacturing, across a range of industries, including the garment, footwear and electronics sectors (see, eg, Appelbaum, 2008; Lüthje, 2002; Merk, 2008). These companies have become increasingly focused on producing either high-quality components or finished products, often for several (competing) brand-name retailers, mostly with European or US backgrounds. They have been referred to as 'production transnationals' (Sluiter, 2009), 'giant transnational contractors,' (Appelbaum, 2008), 'indispensable contractors' (Huang and Lim, 2006), and (more generally) as 'Asian Transnational corporations (TNCs)' (Chang, 2005). Others have typified them as 'tier 1 companies' (Hurley, 2005: 97). The latter term, which I use in this paper, refers to the fact that these companies have *direct* supply relations with major brands and retailers, even though not all of them have emerged as transnational companies (something that the other descriptions suggest). In either case, tier 1 companies are the ones that bind the supply chains for brands such as Nike, Gap and H&M, and retailers such as Wal-Mart, Tesco and Carrefour, with whom they have built intimate relations. They may also play a key role in distributing work to smaller production units (tier 2), to labour contractors, and to little-known subcontracted factories and workshops (tier 3), which, in turn, may subcontract this work out again to hard-to-track, home-based workers (Hurley, 2005: 101–4).

For labour rights advocates, tier 1 manufacturers call into question some of the presumed power dynamics in the global production of garments, where brands and retailers are often seen as the most powerful players, ultimately able to dictate terms to the (presumed) captive suppliers. Trade unions and allies active in the garment industry have identified tier 1 manufacturers as a primary target for various (cross-border) union strategies and anti-sweatshop campaigns (see, e.g., Chang, 2005; Miller, 2004; Play Fair 2008). This paper seeks to map and discuss the importance of, and commonalities between, the various tier 1 companies in the garment industry, and the challenges they pose in terms of labour rights. The first section discusses the role of tier 1 firms in the actual production of garments, and their main characteristics. In the second section, I turn to employment relations, working conditions, corporate social responsibility and trade unions. In the final section, I briefly discuss two contrasting scenarios regarding the question of whether the emergence of large Tier 1 garment manufacturers will aid or hinder strategies by labour rights activists to improve working conditions.

METHODOLOGY

A combination of sources has been used to compile evidence for the arguments presented in this paper. Part of the argument is based on a review of the available literature on tier 1 companies in the garment industry. In addition, the paper draws on information provided by labour groups from Indonesia, Sri Lanka, India, Bangladesh and Cambodia. In total, seventeen company profiles were compiled. In the context of this research, three meetings with labour rights activists (active in trade unions, labour NGOs, and women's organizations, etc) were organized to discuss the importance of tier 1 firms in the local, Asian and global garment industry. In total, forty-five people participated in these meetings. Nevertheless, much of the argument is tentative and exploratory. The aim is to stimulate discussion and set a research agenda on the role of tier 1 manufacturers in achieving decent working conditions in the global garment industry. The assumption is that their role has neither been fully understood *nor* analysed in the context of labour issues. I also draw on my own experiences of working for the Clean Clothes Campaign, a European-based, anti-sweatshop organization.

TIER 1 COMPANIES

Over the last few decades, control over the global garment production system has shifted away from 'manufacturers' and towards companies designed mainly to trade in the production of others. The role of brands and retailers in shaping global value chains in the garment industry has been much discussed and is well known (see, eg, Dicken, 1998; Gereffi and Korzeniewicz, 1994; Ross, 2004). The importance of large manufacturers vis-à-vis their smaller peers varies from country to country. In Cambodia, over 85 per cent of the 300 garment factories are foreign controlled, mostly by Chinese, Taiwanese, Singaporean and Malaysian investors, who moved to the country in the 1990s to take advantage of the low-cost labour market and the country's quota-free access to US and EU markets. These factories form part of a business network of overseas Chinese, often family-controlled, firms (Dicken and Hassler, 2000: 269; Yeung, 2006). They are mostly large, garment factories, employing thousands of workers. Most of the input materials (over 90 per cent) are imported and there is little to no investment in backward or forward linkage industries. The Cambodian Institute for Development Study (2007: 4) notes that 'despite growth over the years, the sector continues to have little horizontal integration into the economy and has contributed little to the broadening of the economic base'. In Sri Lanka, four large manufacturers—MAS holdings, Brandix, Polytex and Hirdaramany—alone account for about 25 per cent of total Sri Lankan apparel export earnings, while employing 75,000 workers out of a total garment workforce of 230,000.[1] In the Philippines, 'five firms out of 1,500 registered garment firms, control 20% of the garment industry' (Hurley, 2005: 97). In Africa and Central America, the dominance of the garment industry by large Asian manufacturers is equally well documented (see, e.g., De

[1]Contrary to the situation in Cambodia, most of the Sri Lankan tier 1 companies are locally owned.

Haan and Van der Stichele, 2007; Gibbon, 2003; Wong, 2006). In other countries, however, the role of large manufacturers is less pronounced. In China, approximately one-third of the country's exports of textiles and clothing is controlled by foreign investment (UNCTAD, 2005: 12). In Bangladesh—where the industry employs over three million workers—the authorities have sought to protect their national producers and so less than 15 per cent of the firms are controlled by foreign investment (ibid). However, these factories are generally larger and more capital intensive than locally controlled plants (Kee, 2005: 5). For example, the largest exporter in Bangladesh is Youngone Holdings, a South Korean manufacturer, which operates seventeen factories and employs over 36,000 workers in Dhaka and Chittagong. The company also manages production sites in China, Vietnam and El Salvador. In India, the role of factories controlled by foreign investment is rather limited. However, some home-grown companies have emerged as large and successful manufacturers. Gokaldas Exports, a leading tier 1 company from Bangalore, employs over 50,000 workers in various factories around the city. Other large Indian tier 1 factories include Shahi Export House, which employs 15,000, and the TNC and Pearl Global which operate factories in Bangladesh, Vietnam and Indonesia.

The emergence of large Tier 1 garment manufacturers can be seen, in part, as a 'normal' process involving the concentration and centralization of capital. Successful companies squeeze their weaker competitors out of the market or simply purchase them. Others have expanded their operations by establishing strategic partnerships with industry leaders. However, growth can also occur in a more organic way. 'As the brands have grown over the years', one manager at a tier 1 company in India explains, 'we have grown with them'.[2] Tier 1 companies are, in general, profitable companies. They are capable of raising the capital needed to build full-package factories, or to take over smaller companies.

The first Asian-controlled garment multinationals emerged in the 1980s, and came from countries such as South Korea, Taiwan, Hong Kong, Singapore and Malaysia, but more recently they have begun to emerge in countries such as Thailand, Sri Lanka and China (UNCTAD, 2005, 2006; Van Grunsven and Smakman, 2005; Yeung, 2006). These manufacturers have internationalized their activities to sustain and expand their competitive position in the global garment industry (Aykut and Dilip, 2004; UNCTAD, 2006: xxvi, 171–

[2] Information based on the Tier 1 research by Indian labour research group , p.13, unpublished research on file

2). Access to low-cost labour is one important perk; other important reasons for internationalization include the desire to diversify the risks associated with producing in a single country (foreign exchange and political risks), and the availability of attractive investment conditions (infrastructure, tax concessions and incentives, etc). Until 2005, the need to circumvent quota restrictions imposed by the Multi Fibre Arrangement (MFA) was an important driver behind overseas investment: manufacturers from quota-full economies such as Hong Kong, South Korea and Taiwan, went off-shore to countries with under-utilized quotas (Gereffi, 1999: 57–60).

From the global buyer's side, purchasing departments often place the majority of their orders with a relatively small number of key suppliers. For example, a key 20 per cent of contracted factories account for approximately 80 per cent of Nike's total merchandise volume (Nike, 2009: 42). This trend has been accelerated by the cessation of the MFA in 2005. Many global buyers have decided to drastically reduce the number of suppliers they use and consolidate their orders in fewer countries and with fewer suppliers. To minimize logistics costs and turnover time, retailers increasingly source from countries that can produce *both* textiles and clothing. Other researchers have also observed that '[p]roduction sites already began concentrating over the last few years as part of the trend towards "leaner" production of textiles and clothing, with small and medium-sized factories being closed in favour of big ones' (Wick, 2009: 11). For instance, in the years 2005–2006, sportswear company Puma eliminated 107 suppliers, while GAP eliminated 615 factories (ibid: 11; Appelbaum, 2008). This process of consolidation is likely to benefit the larger manufacturers, as global buyers increasingly concentrate their orders based on cost and quality, and decrease the number of suppliers to increase efficiency, speed-up turnover time, etc. In addition, consolidation at the point of retail by companies such as Wal-Mart, Target and K-Mart, also plays an important role; they prefer to place orders with large suppliers capable of handling large volumes (CCC, 2009; Hurley and Miller, 2005; UNCTAD, 2005: 10).

However, it remains important to recognize that the vast majority of the world's garment workers are employed by small, locally-owned (tier 2 and tier 3) enterprises, which enjoy very little or often no legal protection at all. These factories are often run with a minimum of management skill and thus find it difficult to compete internationally in terms of price, quality and delivery time, while their profit margins are typically very small. For example, India's apparel industry consists of an estimated 27,000 domestic manufacturers, 48,000 fabricators (job contractors) and only 6 per cent of the overall garment industry is controlled by large, organized players (Shah, 2005: 15). In the border region of Mae Sot, Thailand, where over 100,000 Burmese migrant workers are employed, regulations are extremely lax and unions are basically nonexistent (Arnold and Hewison, 2005). Meanwhile, social auditing systems set up by global buyers typically fail to detect and monitor these workplaces (Barrientos and Smith, 2007; Hensman, 2005).

Commonalities Among Tier 1 Firms

Case studies will of course show that each tier 1 company has its own unique characteristics, follows its own particular accumulation strategies, distinguishes itself in its organizational capacities from its overseas peers, and operates under specific market conditions, institutional contexts and production regimes. However, a review of the literature, as well as discussions with Asian labour groups, produced the following four common characteristics.

Stable Commercial Relations

Firstly, tier 1 companies normally produce for multiple brands and retailers. This can range from a handful to dozens of buyers. They will no doubt have short-term relations with some of their clients, while, with others they will end up building relatively stable, long-term relations of five years or longer. This was confirmed by the company profiles produced by the groups participating in this research, which showed that many companies had held stable relationships of up to twenty years with key buyers. These longer relationships are often validated by the granting by global buyers of 'preferred vendor' status or perhaps by various awards, such as the 'Wal-Mart International Supplier of the Year' or 'Nike's Best Vendor Award'. One manufacturer from northern India perceived the existence of longer relationships with buyers as the 'secret behind their stable growth and success'.[3] These long-term relationships place the companies in an advantageous position compared to manufacturers just starting out in the industry, because these newer companies are exposed to greater market uncertainties, have fewer possibilities to engage with global buyers, and often end up acting as tier 2 or tier 3 companies (Dicken and Hassler, 2000).

[3] Information based on the Tier 1 research by the Indian research group, p.16, unpublished research on file.

Multiple Production Sites

Secondly, tier 1 companies run multiple production sites, either domestically or overseas. One of the firms identified by the Indonesian research team—PT Busana—runs fourteen manufacturing facilities in different provinces, and employs 16,000 workers. It has a sourcing office in Beijing, but the company has yet to establish any factories across borders, although it has developed plans to build factories in India and Egypt. Meanwhile, some other tier 1 companies internationalized their activities decades ago, through foreign direct investment in other low wage countries. For example, Hong Kong's Esquel Group transnationalized its activities in the early 1980s. The company now employs 47,000 at its manufacturing sites in Sri Lanka, China, Vietnam, Malaysia and Mauritius. The Yee Tung group, also headquartered in Hong Kong, produces over eighty million units of knitwear products annually, in fifteen different manufacturing locations.

The organizational capacity of tier 1 manufacturers has been crucial in the spatial reorganization of the sourcing networks that provide global buyers with access to low-cost production sites. Through relocation, tier 1 companies can succeed in keeping (labour) costs down (UNCTAD, 2006: 150). While offshore production sites are created for cut-make-trim activities, the more technologically advanced—or higher value-added—activities remain in the home country. This pattern has been described by Gereffi as 'triangle manufacturing' (1999: 60), a term that refers to a spatial organization of production in which branded corporations or retailers place their orders with manufacturers from which they have sourced in the past, which in turn disperse these orders to offshore factories in low-cost countries. The triangle is complete when the products are shipped to the places of consumption. For example, the mostly Asian foreign investment in Africa was driven primarily by textile quotas and preferential market access to the US under the African Growth and Opportunity Act (AGOA). Meanwhile, many governments of Southern countries seek to attract manufacturers by offering them corporate tax holidays, duty free imports, exemption from sales tax, free repatriation of profits, and other benefits. The enormous growth in export processing zones since the 1960s is testimony to this policy.

Industrial Upgrading

Thirdly, tier 1 manufacturers often achieve their status by offering a full range of services to their customers, which includes designing, product development, sourcing, manufacturing, quality control, and timely delivery. They are typically referred to as ‘total-service providers’, ‘end-to-end apparel solutions’, or ‘one-stop-shops’. Meanwhile, some companies have established their own design centres to work more closely with global brands. For example, the Sri Lankan-based Hirdaramani group has implemented the 3D Virtual Sample Development Process, which makes it possible for buyers to provide design samples in digital formats (Wijayasiri and Dissanayake, 2008: 21). Other manufacturers have established in-house lab facilities to test garments, fabrics and trims, while others have set up facilities that manufacture various components, such as labels, tags, elastics, cords and woven tapes. The aforementioned Esquel Group is a totally vertically integrated company that provides services such as growing cotton, spinning yarn, weaving fabric, cut, make and trim processes, logistics, and trading services (Wong, 2005: 97). These mega-facilities, sometimes advertised as ‘supply chain cities’,[4] can significantly speed up the overall production process, and significantly reduce lead times, for global buyers. These tier 1 manufacturers represent success stories of *industrial upgrading*. That is, they have not only acquired the capacity to produce more complex goods, but also introduced more complex technologies and production systems (see, e.g., Kaplinsky and Morris, 2001: 76–93). Upgrading typically requires tier 1 firms and their clients to collaborate closely throughout the various phases of the production process, for example, to identify areas where costs can be reduced by re-engineering the product or the sourcing of materials. This, in turn, implies a different, more complex, inter-firm governance system (Fichter and Sydow, 2002; Frenkel and Kim, 2004; Gereffi et al., 2005).

No Access To End-Markets

Fourthly, industrial upgrading for most manufacturers remains restricted mainly to functions within the productive circuit and they have not as yet succeeded in breaking into end-consumer markets. Little control is exercised over (retail) market outlets in Western countries. The tier 1 firm remains, so to speak, ‘dislocated from the mainstream international markets it wishes to supply’ (Hobday, 1995, cited in Humphrey and Schmitz, 2001: 23). Except for a few well-known companies, such as Hong Kong’s Esprit, most of these manufacturers

[4] Luan Thai, company website http://www2.luenthai.com/ [last accessed 14 March 2011].

produce garments for export that are distributed and sold under the contractor's name. A few others have tried to gain access to consumer markets by acquiring Western brands. This is precisely what the Fang brothers did, with their company Knitting, when they bought the Scottish luxury sportswear brand, Pringle. More common, however, are the manufacturers that attempt to move into original brand manufacturing, by launching their own brands for local markets or by moving into the local retail business sector, sometimes by obtaining distribution rights for Western brands. MAS Holdings, a Sri Lankan tier 1 factory, launched its own Amante label, which develops, markets and designs underwear in South India (Wijayasiri and Dissanayake, 2008: 16). This might create two, rather 'distinct value chains', one associated with global brands and retailers and one producing for national or regional and (unbranded) markets. In Lesotho, for example, it has been noted that Taiwanese garment manufacturers differ from their South African peers in terms of 'investors' motivation, governance structure and firm set up, export markets end products, perceptions on main challenges, as well as with regard to their implications for upgrading, local linkages and skill development' (Staritz and Morris, 2011: 10). The expanding middle classes in countries such as India, China, Brazil, etc, are likely to provide new opportunities for garment manufacturers seeking commercial outlets outside of the established consumer areas, which are increasingly dominated by 'giant retailers' such as Wal-Mart and Carrefour (Appelbaum, 2008: 81; CCC, 2009).

SOCIAL RELATIONS OF PRODUCTION

Tier 1 companies have thus built stable, long-term relations with a set of global buyers; they often operate multiple factories in several countries; they have upgraded many of their business tasks and are relatively profitable. At the same time, we have seen that few tier 1 companies have been able to actually move into areas such as marketing, branding and retailing. With no access to end-consumer markets, these companies have specialized in the labour-intensive aspects of production. Unlike the branded corporations, which are highly visible in high streets and mass media advertising, these companies remain invisible to consumers. However, they play an increasingly important role in deciding where, and under what conditions, apparel is manufactured. This is evident when we see the large workforces they employ, with, often, thousands of labourers working at a single production site. For example, the Malaysian company Ramatex employs 25,000 workers, spread across twelve production sites located in four countries. The South Korean Ha-Meen group employs 26,000 workers in Bangladesh, with its largest factory employing 10,000 workers. However, even smaller tier 1 companies often employ a few thousand workers, which is still large by garment industry standards, with many workplaces still only employing a few dozen workers to stitch garments.

Tier 1 companies oversee large workforces and thus face numerous challenges in finding the right quantity and quality of (un)skilled labour. They must also figure out how to ensure that the employees they hire perform satisfactorily within the context of the workplace (i.e., are as productive and compliant as possible); they must also ensure the successful reproduction of labour power, which is immediately linked to broader social and institutional questions, associated with education, child rearing and health (Peck, 1996: 26–40). This means that the management of these companies must not only ensure the efficient allocation of tasks with respect to the technical nature of the production process, and maintain strict regulations governing the discipline of the workforce (in relation to the speed and quality of work); they must also formulate a strategy to deal with individual and collective resistance against these workplace regulations (Gough, 2003: 31).

The management can follow an array of different control strategies with regard to these issues, from a cooperative standpoint at one end of the continuum to a coercive one at the other. However, the *functional split* in the garment industry implies that it is the manufacturer who must shoulder most of the responsibility in formulating a strategy of control (Friedman, 1986). Tier 1 firms, contracted to manage large workforces, must internalize the risks that the global buyers seek to externalize, namely, the task of recruiting and disciplining a workforce that is 'flexible enough and cheap enough to absorb required changes in production, that is, to *externalize to them* possible costs of adjustment' (De Angelis, 2007: 119; Wills, 2009). This means that the harmful impacts of global sourcing—in terms of poor, precarious, unsafe, lowly-remunerated working conditions—fall upon the mostly female workers and their families. Despite the wide geographical variety of institutional, economic and political circumstances under which tier 1 companies operate, it is possible to (briefly) distinguish a number of clear trends.

Poor Working Conditions

The garment industry is known for its poor working conditions and tier 1 companies are no exception. Most tier 1 companies operate in countries where national labour laws provide little protection or remain unimplemented. In this situation, workers are always vulnerable to unhealthy working conditions, unfair dismissal, illegal wage practices, and other abuses. The absence of a state-guaranteed safety net—such as unemployment benefits, severance payments and pensions—creates a situation where workers have few escape options, particularly when labour markets are tight.

However, many believe that the conditions in tier 1 companies are usually slightly better than in lower tier companies (see, e.g., Barrientos et al., 2003; Hurley, 2005; Posthuma, 2010). Tier 1 companies generally operate comparatively modern, safe and well-managed factories. At first glance, therefore, they may not look like a typical 'sweatshop', which usually conjures up images of overcrowded, unsafe, workplaces, with loose electric wiring, barred windows and locked fire escapes, dirty bathrooms and (under-age) workers toiling in badly ventilated, humid conditions, etc. If we apply a more restrictive, or legalistic, definition of a sweatshop, as a 'multiple labour law violator', the picture begins to change (Ross, 2004: 26–7). A survey of 122 tier 1 suppliers by the Fair Labor Association (FLA), a monitoring initiative in which major brands such as Nike and H&M participate, found that 61 per cent of their (tier 1) suppliers cheated workers on overtime payments, while 20 per cent reported a starting wage that was 'below the official national, province or city minimum wage' (Vaughan-Whitehead, 2011: 11–12). This figure, the researcher notes, is likely to be underreported due to double bookkeeping. The survey also points out that the majority of the enterprises have working hours that exceed the legal sixty hours per week (ibid: 16). A large study by the International Textile Garment Leather Workers Federations on working conditions at eighty-three tier 1 factories in Indonesia, Sri Lanka and the Philippines also found irregularities with regard to payments and excessive overtime (ITGLWF, 2011). The report also found widespread abuse of temporary contracts (partly to dismiss workers who joined unions), gender discrimination and violations of the right to organize (which will be discussed below). These observations are not isolated incidents. They confirm a broader picture of wrongdoings that have been widely documented in academic, journalistic, trade union, business and NGO publications (see, e.g., Barrientos, 2008; Barrientos and Smith, 2007; CCC, 2009; Connor and Dent, 2006; Gap, 2004; ILO, 2000; Play Fair, 2008).

Corporate Social Responsibility (CSR)

Besides geographically rooted practices and institutions, labour standards are also shaped by their integration into transnational production processes (Ngai and Smith, 2007). While brands and retailers have directly and indirectly profited from the manufacturers' capacity to exploit labour, using their own capacity to control commercial outlets, the scandals surrounding sweatshop working conditions have come back to haunt some major brands, as news stories have begun to damage their image and reputation. Many global buyers have responded by trying to eliminate the more egregious factory management methods through the implementation of CSR strategies that have tended to concentrate on compliance with a rather basic set of internationally recognized labour standards and national labour laws. They have often prioritized the implementation of their ethical programmes by their 'indispensable contractors'. Over the past decade, it has especially been the large tier 1 firms that have been increasingly subjected to social auditing processes, CSR training programmes, and multi-stakeholder initiatives. They in turn have adopted various strategies in response to these CSR initiatives. Some companies have reluctantly implemented these programmes, or sometimes even actively sought to mislead buyers, while others have preferred a more collaborative approach, or even adopted their own CSR strategies.

The first group of companies view social audits mainly as a short-term test they must pass to obtain a contract. To succeed they have honed the sophisticated art of 'counter-compliance' (Hilton, 2005). This is not an isolated practice: the aforementioned FLA survey found that 48 per cent of the 122 suppliers operated double or triple bookkeeping records to misled auditors (Vaughan-Whitehead, 2011: 10). Others have been found to attempt to deceive auditors by maintaining a 'model factory' where auditors are received and welcomed, whilst dispersing the bulk of production among other factories with poorer conditions. These kinds of tactics can be explained in part by noting that many of these manufacturers are based in countries where their 'practices are not subjected to the same level of public scrutiny that has raised the level of awareness of CSR issues elsewhere' (UNCTAD, 2006: 232). At the same time, as Chiu (2007: 444) argues, their role as producers implies that they are 'more concerned with managing costs than about public image'. While brands focus on consumers (i.e., image, reputation etc), manufacturers are concerned with minimizing production costs. Some manufacturers fear that the implementation of ethical practices would make them less competitive, given ‘the costs incurred in improving social and environmental performance’ (World Bank, 2003: 28). Others feel they are ‘being cheated’ by buyers who try to create a good impression through their ethical policies but refuse to share the costs associated with these policies. As one manager from Sri Lanka’s Brandix Lanka explained, ‘[r]etailers have been pushing the concept of sustainability and ethical manufacturing but when it comes to buying, they only look through the lens of price’ (cited in Samaraweera, 2011).

However, it would be wrong to depict codes of conduct and CSR as processes purely driven, or imposed, by Western buyers. A growing group of manufacturers have adopted their own ethical and sustainability programmes. Others have applied for SA8000[5] or WRAP[6] certification or have joined CSR initiatives such as the FLA or Global Compact. These CSR programmes often appear rather charitable, focusing on community projects, women’s initiatives and education. Manufacturing associations have also introduced a number of national initiatives, which promote decent working conditions. A number of Sri Lanka’s large manufacturers have together launched the *Garment without Guilt* initiative, with the aim of producing a label distinguishing Sri Lankan garments produced under decent conditions. The China National Textile and Apparel Council has launched the Social Compliance 9000T, while the Thai government has launched the *Thai Labour Standard 8001*. While there are important differences between these programmes in terms of methodology, impact, scope, credibility among labour rights advocates and other factors, they are similar in that they all try to link the nation in question’s competitiveness in the world market to the observance of labour standards.

Anti-Trade Union

Despite the fact that a growing number of brand- and retailer-initiated CSR programmes recognize international standards on freedom of association and collective bargaining, many of these manufacturers remain ‘notoriously anti-trade union’ (Barrientos and Smith, 2007; De Haan and Van der Stichele, 2007; Miller, 2008: 175; UNCTAD, 2005). The repression of political rights and trade unions in some important garment-producing countries, such as China and Vietnam, undermines the workers’ capacity to freely organize. However, even when these rights are formally recognized by law, enforcement is often lacking, while

[5] Social Accountability 8000.
[6] Worldwide Responsible Apparel Production.

bureaucratic delays and legal manoeuvres make it difficult for unions to register and claim their rights. On the factory floor, employers often use discriminatory tactics against union members or workers suspected of engaging in organizing activities. This can range from promotion denial to intimidation or outright violence. These aggressive anti-organizing tactics are also used by companies that have enthusiastically endorsed CSR programmes or have sought certification for their ethical practices. A Sri Lankan trade unionist, commenting on industrial relations in tier 1 firms, pointed out that:

> Yes… their salaries are a little better, workers get a transport allowance, and lunch. They also try to maintain, to a certain extent, to adhere to the [buyers'] code of conduct. So, indeed, the situation is a little better compared to smaller companies. This does not count, though, with regard to industrial relations issues. Whenever workers try to unionize, the middle management takes the law into their hands, they forget the code of conduct, and dismiss organizers…[7]

This anti-union strategy has been very successful: after nearly two decades of organizing efforts, the total number of unionized workplaces with a collective bargaining agreement in the Sri Lankan Free Trade Zones can still be counted on two hands. Unions are basically only active at three branches of Polytex, a large Hong Kong-owned tier 1 company, which was the site of intense social struggles in the early 1980s

A wide gap exists between labour laws and industrial relations practices in producing countries. In general, opportunities for trade unions to engage in collective bargaining, either on the factory floor or at a sectoral level, are very limited (ILO, 2000: 65; Miller, 2004, 2008). The management often simply refuses to negotiate with elected worker representatives. As an Indonesian researcher, referring to a unionized tier 1 factory, noted, '[w]hen there was a demand for [increased] wages the corporation refused to accept it arguing that there was already a minimum wage'.[8]

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[7] Information based on the tier 1 research by the Sri Lankan research group, p. 7, unpublished research on file.
[8] Information based on the tier 1 research by the Indonesian research group, p.13, unpublished research on file.

TWO SCENARIOS

Traditionally, respecting workers' rights has primarily been the responsibility of the immediate employers, either through complying with national labour laws or through collective bargaining agreements. The anti-sweatshop movement has long argued that, under globalized production, brands and retailers also share responsibility for ensuring respect for workers' rights. Some accounts, however, portray suppliers solely as victims of the unfair sourcing practices of brand-name corporations. This downplays the responsibility that manufacturers have in shaping and respecting decent working conditions. It is precisely because tier 1 corporations occupy such an important place in the global product chain that they could potentially play an important role in the implementation of workers' rights (Play Fair, 2008). Labour rights activists have discussed how the role of tier 1 companies can be dealt with more effectively and what options exist to pressure them to improve their working conditions, to recognize unions, to enter into collective bargaining agreements, to increase wages, etc. From my discussions with labour rights advocates, two views can basically be distinguished: one highlights the challenges that unions and activists face while the other emphasizes the possibilities for increased regulation.

Negative Scenario

The first, rather negative, view argues that working conditions will probably continue to deteriorate because these types of companies have a vested interest in keeping wages low and working days long, and opposing any independent organizing efforts by unions in the countries in which they operate. The relations of production, at this node in the global production chains, are likely to further consolidate, since manufacturers will continue to treat labour 'as a sponge to be squeezed for maximum output at minimum (subsistence) costs' (Frenkel, 2001: 533).

In this scenario, substandard working conditions 'are not mere by-products of ... investment but inevitable results of it' (Chang, 2005: 19). Poor working conditions are not a result of the 'moral ignorance on behalf of [Southern] employers or society at large', but instead, as Braun and Gearhart note, they 'can be traced back to employers who see no reason to increase productivity' (2005: 216–7). Very little progress has been made in introducing productivity-enhancing technologies, which would boost the value generated per labour hour (see, e.g., Dicken, 1998: 297). Instead of investing in technology, manufacturers basically maintain their international competitiveness by relocating labour-intensive, cut-make-trim operations to areas with large labour reserves, minimal labour regulations and subsistence wages. Rising labour costs (including wages), in other words, have not been an incentive for garment factories to improve productivity; instead, they have encouraged them to search for a 'spatial fix' to restore profitability (Harvey, 2003: 115; Merk, 2011). Relocation gives management access to a 'green' workforce that has no experience of organizing or trade union policies (Gough, 2003: 175).

These types of 'efficiency-seeking investments', as they are euphemistically called (UNCTAD, 2006: 160), make it possible for the current trend toward super-exploitative and oppressive labour practices to continue. While labour rights may improve in the home countries (as has happened in South Korea and Taiwan, for example), working conditions at the 'run-a-way' factories are likely to remain poor. Triangular manufacturing confines production sites to an 'implanted enclave economy with [a] very low chance for the host economy to participate beyond [acting as a] cheap labour supply' (Cheng, 1996: 276; De Haan and Van der Stichele, 2007). Indeed, with manufacturing, branding and retail controlled by foreign firms, the contribution of garment exporting countries such as Cambodia, Lesotho, Laos, Haiti and Nicaragua, to name just a few, is basically limited to 'supplying' low-wage 'hands', with no or very few rights. These plants can be relocated quickly if investment, trade or (labour) market conditions change. As one manager, referring to a factory in Lesotho, pointed out, 'it looks exactly the same as the ones in Central America and mainland China. Our objective has been that we could pack it up and unpack it wherever we needed…' (cited in Gibbon, 2003: 1823).

Meanwhile, the possibility of shifting production between a number of different production sites, either overseas or nationally, provides management with a weapon they can wield against union-organizing efforts. If a union emerges at a particular facility, the factory can shut it down relatively easily and redirect orders towards non-unionized workplaces. The mere threat of relocating production may often be sufficient to dissuade workers from organizing unions. Even if workers *do* succeed in exerting a considerable amount of counter-pressure to defend their rights, and this is then translated into higher wages and better working conditions, such victories may not be sustained over time. This was the case with the Gina Bra Factory (Thailand) and the BJ&B garment factory (Dominican Republic), owned by the

South Korean Yupoong Company, which relocated orders to production facilities in Vietnam and Bangladesh. In these cases, local trade unions struggled long and hard to gain recognition and were supported by large transnational campaigns. However, a few years after winning their struggle, the factories closed down (sometimes through a strategy of gradual disinvestment). Asian tier 1 firms played a key role in both cases (for case studies and discussions, see, eg, Armbruster-Sandoval, 2005; Connor and Dent, 2006; Play Fair, 2008; Ross, 2006; Traub-Werner and Cravey, 2002; USAS and SLD, 2007).

Meanwhile, these factory closures send a strong warning signal to workers in neighbouring factories: do not organize if you want to keep your jobs. This dynamic makes organizing even more difficult for trade unions. After all, if workers' organizations are unable to improve working conditions and provide higher wages through political struggle and collective bargaining, it becomes even less attractive for workers to join unions in the first place. The threat of relocation makes it difficult to come up with successful counter-strategies on a national level.

The relative invisibility of these firms makes them elusive targets for NGOs and trade unions compared to the (mostly) Western brand-name companies that depend on their brand images and ultimately the satisfaction of end-consumers. Anti-sweatshop organizations have largely focused on pressuring the companies that currently dominate market share in the centres of consumption. The underlying assumption is that these well-known brands and retailers are in a good position to exercise substantial amounts of leverage to improve conditions at their suppliers' factories. Tier 1 manufacturers are usually invisible to end-consumers because they do not sell branded merchandise to consumers themselves. This 'invisibility' makes it more difficult for (Northern-based) labour advocates to campaign against them. So-called 'name and shame' campaigns usually have little impact on these companies (De Haan and Van der Stichele, 2007).

Ultimately, the growing power of tier 1 factories may challenge the very notion of how effectively globally-sourcing companies such as Nike, Gap, or H&M can exercise any significant influence over their suppliers. Experiences from the past few years involving labour rights conflicts at various tier 1 company production sites indicate that some of them have indeed firmly resisted all forms of code implementation and/or remediation efforts. For example, the union made countless attempts to enter into bargaining discussions with the management of PT Daejoo Leports, a South Korean-owned manufacturer of sportswear that operates a factory in Indonesia, but encountered significant threats as a result. While the buyers—Adidas and VF Corporation—played a positive role in urging factory management to negotiate with the union, and further expressed their intentions to continue buying from the company, the company closed its doors and moved its production facility to China (Connor and Dent, 2006: 41–2). It has also been observed that 'in the wake of the phase-out of import quotas under the MFA, transnational suppliers have closed factories in certain countries despite the apparent willingness of brand buyers to continue sourcing goods from those factories' (Play Fair, 2008: 17). In other cases, such as the Sri Lankan firms mentioned earlier, factory management discursively endorses CSR policies but refuse to respect trade unions at their facilities.

Positive Scenario

In contrast, the positive scenario argues that the tendencies toward consolidation and concentration may actually provide an objective context for addressing substandard working conditions. The aggregation of large numbers of workers at particular production sites and clustered within the export processing zones may, some argue, eventually accommodate industrial action by workers and provide opportunities for local collective bargaining strategies (Appelbaum, 2008: 81). Large orders, strict time schedules and severe penalties for late or non-delivery leave these companies increasingly vulnerable to organized production disruptions. Their significant investments in factories, warehouses and dormitories, as well as the acquisition of specific knowledge regarding the recruitment of their workforce and the politically expedient relations they create with local authorities, meanwhile, leaves them vulnerable to organized protests and demonstrations. Their production facilities are less easily relocatable if they are confronted with organized opposition, because their sizable investments serve as a substantial obstacle to capital's spatial (cut-and-run) strategies.

In addition, the long-term relationships between brand-name corporations and retailers and tier 1 companies actually make the latter more vulnerable to consumer pressure regarding their labour standards, which may further aid the process of collectivization and unionization in these factories. This may ultimately provide increased opportunities for local collective bargaining strategies. For example, the Asia Floor Wage Alliance (AFWA), a group of trade unions and labour NGOs campaigning for a minimum living wage, argues that the 'growing interconnection and formalisation of relationships between buyers and manufacturers across the supply chain is in fact becoming increasingly more evident. … All these factors further increase the accountability up the global chain, and improve the possibility for viable collective bargaining structures' (2005: 11–2).

Unionization efforts have been successful in a number of factories controlled by Asian garment producers that supply global brands to Mexico, Thailand, the Dominican Republic and Lesotho. In these cases, local trade union struggles were supported by US- and EU-based unions and NGOs who, in turn, put public pressure on branded companies sourcing from these manufacturers to intervene to allow the formation of independent unions. The CSR departments of several major brands played a positive role in settling the industrial disputes (see, eg, Merk, 2009; MSN, 2005; Palpacuer, 2006).

The consolidation of production at large tier 1 manufacturers, in combination with stable commercial relationships, may also facilitate better compliance with workplace standards. Some scholars have emphasized the distinction between *transactional contracting* and *relational contracting* (Frenkel and Kim, 2004: 12). Transactional contracting refers to specific, discrete economic transactions based on an explicit contract. These types of purchasing practices tend to undermine the capacity of the supplier to comply with labour standards. For example, demanding short lead times may result in excessive or forced overtime. Or, when the brand or retailer constantly changes its orders, suppliers may end up feeling that there is no incentive to make the required improvements. Price competitiveness among contractors, which is controlled by global buyers, also creates incentives to pursue a low-road strategy based on minimized wages, long working hours, precarious work and the suppressing of independent labour organizations. In contrast, relational contracting reflects a 'high level of interdependence with a small number of suppliers that extends over time' (ibid. 11). The relational (or network) form of governance is generally seen as a more 'viable context for establishing acceptable labour standards at the micro-level of the workplace' (Fichter and Sydow, 2002: 376). More equitable relations between global buyers and manufacturers may also create market conditions that favour better working conditions. As Burawoy (1985: 89) argues, when producers gain some measure of control over the chaotic state of the markets, space may eventually be created for more humane forms of factory politics. At the same time, more equitable relationships allow manufacturers to pass some of their increased costs, associated with decent production, on to the buyers.

Finally, and in relation to the above scenarios, this has resulted in various buyer-driven attempts to improve worker productivity and/or increase factory efficiency. While these efforts include a sound business dimension, such as shorter lead times, higher quality etc, major brands and retailers such as Asda, M&S, New Look and Nike have also argued that changes in the way the work itself is organized would generate the extra revenue needed to achieve decent working conditions, including a living wage (for an overview and discussion of such claims, see LBL, 2011). Labour rights advocates have generally been wary of these projects as companies have as yet been unable to convincingly show that efficiency gains are actually passed on to workers in terms of better working conditions and higher wages (Brown and O'Rourke, 2007; LBL, 2011; Play Fair, 2008). In fact, these types of projects may actually have a negative impact on working conditions. For example, if bonus systems are put in place that encourage workers to work even harder, their already high stress levels could increase. This is especially true in the absence of worker representatives capable of negotiating ways to organize and distribute the benefits of productivity-enhancement efforts. At the same time, however, it is hard to imagine worker rights issues being addressed without some kind of change in how the labour process is organized.

CONCLUSION

This paper has highlighted the role that large tier 1 companies play in the actual production of garments. These manufacturers, which are sometimes as large as the branded TNCs they supply, have begun to play an increasingly important role in organizing the labour-intensive aspects of production for Western garment brands and retailers that source apparel from low-wage countries. While much of the academic literature is often quick to emphasize their subordinate position within global production chains, here we have highlighted some Asian tier 1 manufacturers that have actually been rather successful in internalizing the tasks associated with the labour-intensive aspects of production. Despite a wide range of CSR practices, working conditions remain substandard, while unions continue to be repressed or even find it difficult to gain the opportunity to enter into collective bargaining at all.

We have contrasted two scenarios that describe what the growing importance of tier 1 firms means for labour rights strategies. While both positions are presented in a black-and-white fashion, they *do* represent opposite ends of the continuum of possibilities. At the darker end, we have seen that many tier 1 firms have specialized in labour-intensive production practices based on long working days and poverty wages, workers are subjected to unhealthy working conditions and management harassment, unions are repressed, etc. Tier 1 firms can fairly easily pursue this ‘low-road’ strategy precisely because many global buyers benefit from doing business with them. Many buyers have yet to seriously integrate labour standards into their purchasing decisions. Instead, their CSR practices are, at best, only introduced to prevent the worst PR disasters, namely those associated with child- and bonded labour.

The positive scenario suggests that the ‘rising power’ of tier 1 firms may also provide opportunities for improving working conditions and developing trade union strategies. Increased collaboration between global buyers and manufacturers on different aspects of the production process, as well as labour rights issues, impinges on the competitive universe of private capital. This provides space for dialogue and, possibly, a more positive climate for trade unions. One strategy includes pressurizing brands to facilitate the signing of union access agreements between factory management and local unions in the sector. This would grant union representatives the right to access workplaces to discuss union activities with the workers and emphasize the advantages of union membership. At the same time, campaigners could also put pressure on brands to adopt policies whereby they grant preferential placement of orders to unionized factories, or provide a premium on the unit prices they pay to factories with collective bargaining agreements (Play Fair, 2008: 49). While the negative scenario stresses the practice of relocation as a strategy to keep labour costs low and resist unionization efforts, the positive one (cautiously) highlights the potential for productivity increases to improve working conditions. These efforts should be negotiated with the interested parties—the workers and their representatives—to ensure that the efficiency benefits will be utilized to actually improve working conditions (rather than simply boosting profits, for instance).

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