



LABOUR RIGHTS IN A  
CHANGING GARMENT INDUSTRY

# Is There a Future for Brand Sourcing in the Americas?

Interviews with Apparel Brands  
about Trends in Global Sourcing

**I**N THE SUMMER OF 2008, THE MAQUILA SOLIDARITY NETWORK (MSN) CARRIED OUT interviews with apparel companies about changes in their sourcing practices since the demise of the import quota system at the end of 2004, as well as possible changes in the next five-year period. Interviewees were also asked what changes in production practices and/or government policy would encourage them to maintain or increase orders to Central America and/or Mexico.

Of the 18 companies contacted, 10 agreed to be interviewed and eight either failed to reply or refused to take part in the survey. Eight of the 10 companies interviewed were brands or specialty retailers, one was a major discount chain and one a North America-based manufacturer.

Company compliance and sourcing staff participated in the interviews under the condition that their companies would not be named in the final report and that information from their interview that would identify the company would not be shared with anyone beyond MSN staff.

About half of the interviews were with or included sourcing and/or other production staff. The rest were done with compliance staff only. Not surprisingly, there were differences in emphasis in the responses provided by sourcing staff and compliance staff, with sourcing staff generally giving more weight to price as a major determining factor in sourcing decisions and less weight to labour standards compliance.

The interviews were carried at a time when oil prices were rising significantly and before the full weight of the US, and now international, financial crisis was felt. As a result, the interviews may overemphasize the importance of proximity to market as a competitive advantage.

However, despite the recent drop in oil prices and the likelihood that they will continue to fluctuate in the near future, the carbon footprint issue raised by a number of companies in the interviews will likely continue to be a prominent feature of brand CSR initiatives.<sup>1</sup> At the same time, the financial crisis will make the price of production an even more important factor in sourcing decisions than the interviews would indicate, resulting in increase pressure on suppliers to meet buyers demands on price and flexible labour.

The most obvious impact of the financial crisis will be more plant closures and retrenchment in response to decreasing consumer demand in developed countries, though this is unlikely to result in major geographic shifts in where orders are placed.

The views expressed in this document are those of the companies interviewed and do not necessarily reflect the views of MSN.

## Interview Findings:

BECAUSE SOME OF THOSE INTERVIEWED were unwilling or unable to share hard data on increases and decreases in sourcing by country, the findings are not as precise as we had hoped. However, there are some obvious trends emerging from the interviews.

Almost all the companies interviewed had ceased placing orders with at least one country since the end of quotas, however, there was less consistency in those countries than we had expected. In fact, some countries, El Salvador and Honduras for example, experienced increases in orders from some companies while experiencing country exits or decreases in orders from others.

Nor was there evidence of a significant decrease in the total number of countries from which the companies sourced. There was much more evidence of companies consolidating and reducing orders to some countries while increasing them to others.

At the same time, almost all the companies interviewed said that since the end of quotas they had reduced the number of their suppliers and were developing deeper, longer term relationships with fewer suppliers.

One company had reduced the number of its supplies by 50%, but noted that the closure of several of its divisions because of the current state of the US economy was also an important factor leading to an end to business relations with suppliers of those products.

A second company said the number of their suppliers has decreased from about 3,000 in 2000-2001 to about half that number today. They also noted that the direct suppliers that remain are now producing more for their company as a percentage of the suppliers' total volume.

A third company confirmed that it was using a smaller number of suppliers doing a larger percentage or a consistent volume of the orders.

A fourth company said they were using about 40 fewer suppliers for

the 2009 season than they were for 2006, but noted that the numbers are now stabilizing or even growing. "Generally the remaining suppliers are large companies; the big guys are very big," they said.

One company provided figures that seemed to contradict this industry trend, showing that the number of its vendors decreased from 1,000 in 2002 to 600 in 2005, but increased to 780 in 2006 and 790 in 2007.

The fact that most buyers were using fewer suppliers didn't necessarily mean that they were using fewer factories, since those suppliers owned and/or used multiple facilities. However, one company said that in 2004 they began using fewer factories to do more work, and that these reductions were planned for in order to reward "good" factories. Another company said that there has been a reduction in the number of factories used—from 3,009 in 2003 to 2,053 in 2005. The company did not provide figures for next two years in the post-quota transition period.

Some of the companies interviewed also produced footwear, which was not affected by the 2005 demise of the import quotas system for apparel products. They noted that there was less change in the number of footwear suppliers they used since 2005 than in apparel suppliers during the same period. This would seem to indicate that the reduction in apparel suppliers was related to the end of quotas.

Countries where more than one brand or manufacturer has ceased production included Guatemala, Canada and the Philippines. Countries where more than one brand or manufacturer had significantly decreased orders included Mexico (5), El Salvador (2) and Sri Lanka (2). Two companies said there were reductions in orders to Central America or Latin America as a whole.

A number of brands noted that decisions to leave countries were not always theirs, but rather those of suppliers/vendors or factory owners who closed factories and moved production to other countries. One com-

pany claimed that decisions about which countries to place orders with were made solely by their suppliers, though they were fully informed of where production of their goods was taking place.

Countries that more than one brand identified as new sourcing locations included Haiti (5), Vietnam (4), Cambodia (2), Nicaragua (2) and Egypt (2). One company said that they hadn't entered many new countries because they don't move to new countries very quickly and that they develop a comprehensive plan before entering a country. For instance, they have not yet begun to place orders with suppliers in Nicaragua, despite the relatively low cost of production in that country.

Countries where there were significant increases in orders from more than one company included Vietnam (5), India (3), and China (3).

One company noted that the current economic climate in the US and globally has resulted in a reduction of overall sales of at least some major apparel brands, which has contributed to the reduction in orders to some countries. That company anticipated that the overall reduction in sales will be more extreme in 2008. However, this could also mean that consumers are purchasing more apparel from discount chains and less from higher-end specialty retailers, which would likely result in increased competition between suppliers and countries on the price of production.

## China the Final Destination?

BASED ON THE INTERVIEWS, IT would appear that China is not the final destination for the garment sector. While some companies noted an increase – or a significant increase – in orders to China since 2005, others spoke of no increase or a small decrease in their company's orders to that country and an increase in orders to neighbouring countries,

such as Vietnam, Cambodia, Bangladesh and/or India. Others mentioned that production in China was shifting from the Southeast coastal region to the interior of the country.

One company reported that while sourcing from China increased from 16% of global units of apparel in 2003 to 20% in 2005, it only increased by an additional 2% between 2005 and 2007. This same company reported a slight increase in the percentage of global units made in the US from 2% in 2006 to 3% in 2007. Another company said there was a 5% increase over the last three years in their licensed products made in China.

Although the end of the US safeguards on apparel imports from China at the end of 2008 could lead to a further increase in sourcing from China, the companies interviewed did not anticipate major increases. Reasons given included the increased price of production in China, particularly in the Southeast coastal region, and increased oil prices and their impact on transportation costs.

## Any Surprises?

ASKED IF THERE WERE ANY SURPRISES about the outcomes of the end of quotas, most answered, “No”.

One company said that the industry in **Nicaragua** hasn't grown as quickly as they had expected, suggesting that while the price of production is low in Nicaragua, the quality and the types of products the country is currently able to manufacture is also low.

Another interviewee expressed surprise at the rapid increase in orders to **Vietnam**, the return of some orders to **Indonesia**, and the small reduction in their company's orders to South Asia.

One company said it was a surprise that some countries like Lesotho hadn't suffered as much as anticipated and that some buyers

had returned to that country after initial reductions.

A few of the companies that had increased production in China emphasized that much of it was for the **domestic market**. One company commented that they were surprised at how quickly their retail business in China is growing, noting that China has almost surpassed the US as their #1 market.

## Price the Major Factor?

ALMOST EVERYONE INTERVIEWED agreed that price is the single most important factor in sourcing decisions, and sourcing staff stated this more emphatically than did compliance staff. “There is no loyalty to suppliers,” said one interviewee. “The key issue is price; if a supplier can do it cheaper or for the same cost as 5-10 years ago, that's where they will go.”

“The most significant driving factor is price,” said another company. They noted that even when they continue to place orders in specific regions, they will place the orders in countries with the lowest price in that region.

Compliance staff of two specialty stores noted that the difficulties their companies face in the US consumer market today are increasing the emphasis on lowering the cost of production. As a result of price deflation in the US, some specialty retailers are doing better with licensed products for discount retailers than with their products sold in own stores.

Related to price, exchange rates and the value of local currency in producer countries were also noted as important factors in sourcing decisions.

Asked if the prices paid to their suppliers had decreased in recent years, most of the companies interviewed were either unwilling or unable to share that information. One interviewee said that while they couldn't say if there as been a

decrease in the price their company pays, there hasn't been an increase in prices. They noted: “Sometimes buyers will offer an increase in volume of orders in exchange for a decrease in price. Because of price pressure and instability of orders, factories always overbook. It's a feast or famine mentality.”

Another company that wasn't willing to say whether the prices they pay have declined answered, “Deflation in the apparel industry is a reality.”

## Other Key Factors

WHILE ACKNOWLEDGING THAT price is the most important factor in sourcing decisions, all companies noted that price isn't the only important consideration, and in some instances other factors become more important than price – including speed, quality, proximity to market, ability to provide multiple services (full package), lean manufacturing, flexibility to manufacture a variety of styles, capability to do premium products, and reliability (ability to meet deadlines) and transparency.

A number of brands pointed to the importance of suppliers being vertically integrated and providing full package services. One company said that for their direct sourcing they only work with suppliers that provide full package, and that vertical integration and/or the ability of suppliers to provide services through established relationships with their own suppliers of fabric and other materials are crucial to the buyer's sourcing decisions.

Another company stated: “Successful suppliers will offer multiple services – hold inventory, ability to deal with shorter lead times, do product development, meet speed to market demands.” A second company also mentioned the ability of suppliers to do product development, and the ability to do different washes and after treatment.

## Impact of Trade Agreements

TWO IMPORTANT INTERRELATED issues that impact on the geography of sourcing decisions are trade agreements and availability of textiles and other goods used in the manufacture of the products. All those interviewed said that trade agreements and availability of textiles and other inputs were extremely important factors in sourcing decisions.

Current and potential trade agreements and policies identified as important included DR CAFTA, AGOA (US/Sub-Saharan Africa), HOPE Act (US/Haiti), US/Jordan (because of duty-free access to Chinese textiles), US/Egypt, and the ending of US safeguards against China at the end of 2008.

One company stated that uncertainty concerning the US/Colombia trade agreement had led to some factory closures in Colombia. Another company mentioned as important the 2007 trade agreement between the US and Korea, and noted that a US trade agreement with Malaysia will be important if it moves forward. Another pointed to agreements with Bangladesh and Sri Lanka as important.

One company noted that countries involved in the Mercosur, such as Brazil and Argentina, produce largely for other countries in that free-trade region, and that inputs might come from any country in the region. They noted that EU trade agreements are also important, such as agreements that affect the EMEA (Europe Middle East Africa) region.

Another company noted that trade agreements can undermine or cancel each other out each. For instance, a LDC trade agreement would have an impact on DR CAFTA, as would the HOPE Act. How NAFTA and CAFTA interact is also important. One company said that the signing of CAFTA has made NAFTA less important.

Concerning the cumulation provision in CAFTA, which allows Mexican textiles to be sewn in

Central America for export to the US, few of those interviewed thought Mexico was positioning itself to take advantage of this trade provision. One company note, “the Mexican government tends to see itself as separate from Central America, prioritizing trade agreements with other countries, rather than looking at possible advantages of the cumulation provision of CAFTA.”

Only one of the 10 companies interviewed mentioned that Mexico continued to be a major sourcing country, and that company is in the denim sector in which Mexico is strongest in textile production.

Most of the companies interviewed saw DR CAFTA as “essential if the industry is going to survive in the region,” but questioned whether it will be enough in itself to make Central America and the Dominican Republic globally competitive.

## Access to Fabric and Accessories

ALL OF THOSE INTERVIEWED agreed that availability of fabric and other materials locally or regionally is extremely important. One company said while it wasn't the number one factor, it was number two. That same company said that if fabric were available regionally in the CAFTA countries, the region would have a 28-32% tariff advantage over Asia for polo shirts.

A number of companies noted that shipping costs, not just for the finished product, but also for the fabric and accessories, are very important. Also important are the quality and variety of fabric available and how access to fabric and other materials affects turn around time.

One company said that proximity to market for the final stage of production is not sufficient, since access to textiles and other materials also determines speed to market. According to this company, despite its proximity to the US market, Central America is too slow in shipping products to the US.

Another company noted, “Access to raw materials, delays in delivery, problems with customs – all of these are key issues. The first instinct is to go to the facility with the lowest price, but if they have problems with access to raw materials and/or meeting delivery dates, the company won't stay with them.”

“Availability of local fabric is very important in meeting the ‘go-to-market calendar’,” said another company. “Access to fabric and other inputs affects delivery time of the final product, makes the approval process quicker and reduces transportation costs. It also lessens the inventory of the suppliers. So it reduces both cost and time between when the order is placed and when the finished product is delivered.”

A fourth company pointed to the importance of suppliers having long-term relationships with fabric producers close by, rather than using multiple producers in various locations. “This makes it easier to solve fabric defect problems,” said the company. They noted that fabric costs are a huge proportion of what buyers pay for. In woven apparel, it can represent approximately 50% of the cost paid to suppliers.

Another company stated that local control of fabric sourcing is so important that they have set the following requirements for their suppliers:

- 80-85% should be sourced in-country;
- 95% should be a maximum of 7-day transit; and
- 99% should be a maximum 14-day transit.

One company noted that the ability to source a variety of fabrics from a region is not only a transportation cost issue, but it also allows the buyer to make decisions on fabric later on in the process. This was seen as a major advantage for countries like China and India where a variety of textiles are available locally. “Almost anything can be made in China,” said one company. “In China, suppliers can offer 30-50

fabric options that are specific to our company,” said another.

In contrast, a variety of fabric is not currently available in the Americas, so fabric often has to be shipped from Asia.

Some of the companies pointed to a “slow but steady increase in fabric available in the Americas.”

## Do Labour and Environmental Issues Matter?

ASKED HOW IMPORTANT LABOUR standards compliance and environmental issues are, most companies gave more importance to the carbon footprint question, which were linked to issues surrounding rising energy costs.

However, one brand noted that labour standards becomes a bigger issue when they are evaluating new countries where they might place orders in which labour standards enforcement is weak. They felt that there is currently too much reliance on brands for ensuring compliance and that governments need to improve on enforcing their labour laws.

A competitor also pointed to the need for more effective government regulation. “In Central America, there needs to be enforcement of regulations prohibiting pregnancy testing and anti-union discrimination,” said the company.

“Government has to take on its responsibilities.” A third company said, “More involvement of governments in Central America and Mexico in enforcement of labour regulations would be welcome.”

One company pointed to new labour regulations in China as a positive step. Another company said that China would improve its overall performance if it made changes to adapt to CSR programs and “was more open to relationships with NGOs of the world.”

Another company noted that external factors, such as the killing of trade unionists in Guatemala or

political instability in Bangladesh, could affect their sourcing decisions.

## Oil Prices and Carbon Footprint

ALL OF THE COMPANIES INTERVIEWED agreed that energy costs and carbon footprint issues are or will become extremely important for their company. Only one company said they haven’t focused much on the carbon footprint issue to date.

A number of companies noted that rising oil prices are making Asia less attractive for US buyers, and Central America should become more competitive as a result. “However, if you have to ship fabric from the Far East to Central America, that advantage is lost.” They also noted that transport by vessel versus by air is obviously a big issue, so meeting order deadlines is increasingly important so that you don’t have to ship by air. “Imported textiles and accessories also increase energy costs and carbon footprint,” said another.

“It takes 36 days to ship from Indonesia to Los Angeles and only three days to ship from Central America,” said one company. “If the rest of the costs of doing business were equal, Central America would have a big advantage.” They noted that materials costs are rising in Asia as much as they are in Central America, and Central America and Mexico have a lead time advantage.

Another company noted that they are already getting complaints from suppliers that the price negotiated isn’t adequate because of increased energy and transportation costs, as well as the decline in the US dollar.

Another company spoke about the problem of samples being sent by air around the globe. “Samples are constantly being FedEx’ed overnight. Why? Purchasing practices are the reason. This reflects badly on the brands.” The same company suggested that ways of communicating without travel costs should be

explored, such as video conferencing, virtual samples, etc.

One company noted that moving production closer to the point of sale doesn’t necessarily mean all production will be moving closer to North America and Europe, since their company has growing markets in countries like China, Russia and India.

A number of companies said that supplier will need to find ways to become more efficient while expending fewer resources. The manufacturer we interviewed said that their company is working on producing their own energy and improving their production processes to become more efficient and less costly. “Green house emissions and environmentally friendly practices are becoming increasingly important,” they said.

Another company noted that these are not just cost issues, but also reputational, environmental and social responsibility issues. “Nor are they restricted to the assembly stage; they’re also about practices at the mill level, such as water quality issues that affect communities. They will definitely affect sourcing practices in the future.” They also said that greater transparency will be needed on these practices, and that their company will be calling for better enforcement of legislation on these issues.

Another company added that suppliers that can show what they are doing to reduce the carbon footprint from the field to the store will have an advantage in the future. “A shift in thinking is needed to take advantage of this concern.” Another company agreed that dying and water use and disposal are also big carbon footprint issues, and that not enough attention is currently being paid to those issues.

One company noted that in countries like China, coal-generated electricity is an issue. “We need greener raw materials, less petroleum-based products, reduced impact of pollution-generating processes. Suppliers who will deliver on these issues will have a definite advantage.”

A number of companies pointed to the growing importance of organic cotton. One company said they were interested in eco-friendly denim and are working to develop a product to launch in 2009. The same company noted that they starting to develop an environmental program to audit factories against. They are also developing a country risk assessment, looking at environmental, political stability, and human rights issues. A second company mentioned that it has been and will continue to monitor factories on environmental practices, and that they evaluate country-risk for political stability, human rights, rule of law, corruption, and other issues before making final sourcing decisions.

## Where Is the Industry Headed?

LOOKING AHEAD TO THE NEXT five years, two companies interviewed were not willing to speculate as to which countries would be winners and which losers. The eight remaining offered a variety of answers. There was general agreement that Nicaragua and Vietnam would do well in the next five years. However, one company said the jury is still out on Nicaragua because while labour costs are lower than in Guatemala, productivity is also lower.

Two companies said that the Nicaraguan government seems committed to making the garment industry viable and is welcoming foreign investment, though one of the two companies raised concerns about a transport strike in Nicaragua and the other about the ALBA agreement and other relations between the Sandinista government and Venezuela,<sup>2</sup> suggesting that investors, and US-based companies in particular, might be scared off by “Chavez intervening in the region and causing instability.” The same company raised concerns about the possible direction that might be taken by left-wing

governments in Nicaragua and potentially in El Salvador.

Two companies singled out El Salvador as a country that “looks positive.” One of those companies gave the following reasons: “The government is relatively sensitive and responsive to the needs of the industry. The industry is moving to vertical and full package production, and there is relatively good management and a skilled labour force. As well, a Brazilian company is investing in a synthetic fabric mill that will provide fabric that had to be sourced from Asia in the past.”

The same company called the future of the industry in Honduras and Guatemala “unclear”, while acknowledging that there is vertical integration in Guatemala. They also noted that we may see fewer US companies and more local ownership in Honduras. Three other companies were more positive about the future of the industry in Honduras, but said the industry would have to move beyond doing basics.

One company said that because of the increase in the cost of oil there would be a shift back to the countries closer to the North American market, with more production in Central America, though not in Mexico. However, another company predicted that for the next year or two there will be less production in the Americas and more in Asia, though there would also be some drift to Africa. The same company predicted that there could be more stability in the industry as a whole in a few years.

Of the eight interviewees who were willing to speculate about which countries might experience declines in orders in the next five years, four singled out Mexico’s garment export industry as one that would continue to decline. One company suggested that there wasn’t much of a future for textiles in Mexico, and that the auto and other sectors will be more important. Another said that the Mexican industry hasn’t made an effort to move to full package and vertically integrated

production, and will probably lose orders as a result.

However, a former sourcing staff person for one of the brands observed that the Mexican industry is becoming more cohesive and flexible. “Companies pass on orders to others when they can’t do a particular product, which results in the industry being able to do a greater variety of styles with a variety of fabric.” Another company said there may be some opportunities for Mexico because of proximity to market and increased transportation costs globally, though the financial stability of the factories will be an important factor.

Surprisingly, a number of brands anticipated that there would be consolidation and/or a small decline in orders to China over the next five years, despite the end of US and EU safeguard measures. One company expressed uncertainty about both China and Vietnam, and another pointed to the soaring inflation rate in Vietnam’s overheated economy. A third company thought there would be a further decline in orders to the eastern coastal region of China.

Other countries identified by at least one company as doing well in the future included: Haiti, Bangladesh, Cambodia, Egypt and Indonesia. However, one company called Cambodia’s future uncertain, and pointed to the local industry’s (GMAC’s) current negative attitude toward the ILO monitoring program as a factor that could limit its success.

Other countries identified by at least one company as doing poorly in the future included: Costa Rica, the Dominican Republic, Korea, Turkey, Sri Lanka, Thailand and the Philippines. One company commented that the government of the Dominican Republic seems to have given up on the industry and is focussing on other sectors, such as tourism and call centres.

However, there was some disagreement about some of these countries as well. One company said that Thailand could stabilize due to the availability of good raw materi-

als. Another saw their company reducing orders to Bangladesh. One company noted, “Turkey will remain a competency centre, but sewing is migrating to countries in Eastern Europe, such as Albania and Macedonia.” Another noted that there is good quality production in Turkey, but the industry is like to subcontract elsewhere, and Turkish manufacturers could invest in Egypt.

A few companies also predicted that there will be a move back to Africa, with Kenya, Madagascar and Mauritius mentioned as possible destinations. Quality and compliance issues, as well as the future of AGOA provisions on duty-free access to Asian textiles, were noted as factors that would affect the decision to source from Africa. Corruption and a lack of infrastructure were also identified as important factors. One company predicted that South Africa could become an exporter of apparel products.

## Competitive Factors

KEY FACTORS THAT WERE IDENTIFIED as to which countries and suppliers will do well in the future included:

- Countries where suppliers invest in key fabric and other supplier relationships and where the countries invest in stabilizing the industry and training the workforce.
- Suppliers that offer multiple services – hold inventory, ability to deal with shorter lead times, do product development, meet speed to market demands.
- Capacity to “chase” orders and ability to produce styles that are popular at any given time.
- Must be sustainable – socially, economically, environmentally responsible.

- Transportation costs and proximity to market.
- In some countries, there will be more production for the local market.
- Price and profits remain the main factors, though quality and on-time delivery are also crucial, since they affect profits as well.

On the price issue, one company stated the following: “Buyers will always be chasing price. If prices go up in China, they will move to other countries or deeper inland. It’s a moving target; a country can be the flavour of the month, but new factors will encourage movement elsewhere.”

## Survival Strategies for Central America and Mexico

ASKED WHAT CHANGES COULD be made by suppliers and/or governments in Central America and/or Mexico to maintain and increase orders, the companies interviewed were generally critical of the current performance of suppliers in the region.

Almost all the companies stated that suppliers in Central America and Mexico must improve their ability to meet order deadlines and their transparency in reporting when they are unable to meet deadlines and why. “Suppliers need to improve on meeting delivery dates and communicating quickly and frankly when there are problems with production or delivery of inputs that will affect their ability to meet delivery dates,” said one company.

A number of companies reported instances in which suppliers, for whatever reason, did not inform the buyer when they were not going to meet order deadlines. In one instance, a buyer placed an order with a supplier in Central America and the order never arrived. The buyer reportedly only learned second

hand that the factory had closed.

The Americas as a whole needs more transparency on production and sourcing issues, said one company. “Shipping dates come and go without the buyer being informed why or how long it’s going to take. Delivery can be delayed an additional month.”

One interviewee noted that the problem isn’t just about the assembly process; it’s also about access to inputs. Another company said that suppliers need to stop pointing fingers at each other when there are problems between the raw materials supplier and the manufacturer, and focus instead on how to improve on meeting order deadlines and/or quality inspections.

The companies recommended improved strategic planning by suppliers, as well as more education and training on basic management techniques.

Related to this question of meeting order deadlines, was the issue of transportation infrastructure and bureaucracy. “Shipment from factory to shore is still too slow,” said one company. “There are too many bureaucratic obstacles that slow down shipment; it’s not a seamless process.”

Most of the companies interviewed also pointed to the need for sufficient raw materials suppliers in the region – both yarn and fabric – to gain flexibility re fabric and styles and cut transportation time and costs. “The lack of textile mills and dye houses in the region is a real problem that must be overcome,” said one company.

In addition to access to raw materials, the companies also pointed to the need for greater efficiency, flexibility and ability to innovate. Some emphasized the move to lean manufacturing, vertical integration, full-package services, including local capacity to do product development. “The region was built on basics – t-shirts, 5-pocket pants. It needs to be able to produce more complex products,” said one company.

“Companies could have their own sample rooms, provide virtual sam-

ples, have quality control on the ground,” said one interviewee. “They need to make use of their proximity to the US market and sell themselves on quality and speed.”

## What Could Government Do?

ON WHAT ROLE GOVERNMENT could play, one company said that they need to attract investment in textile production. They pointed to the Cone Mills plant in Nicaragua and the Brazilian knit mill in El Salvador as good signs.

Two companies noted that if governments are interested in the survival of the garment industry they will need to invest in stabilizing the industry and support training for management and workers. One interviewee suggested that some attention should be paid to “localized trade agreements” for markets in the region. They noted that, as in Africa, there is a problem with imported second-hand clothes that makes the creation of local or regional markets difficult.

Although few of the companies interviewed identified labour standards issues as being among the most important factors in sourcing decisions, and one company stated explicitly that labour practices are of less concern than carbon footprint issues, five of the 10 companies interviewed did comment on the need for improvements in labour practices and labour standards enforcement in Central America and Mexico.

One company called for “more effective government regulatory agencies on both environmental and labour issues.” They noted that there

is an increased trend to tie labour standards provisions to trade agreements, and while the US hasn’t been as effective as it might be in enforcing these, there is increasing attention to this issue. They went on to say, “Ministries of Labour and Health need to enforce workers’ rights.”

“Governments need to update their labour laws and enforce them,” said another company. “Some industry associations don’t yet recognize that labour standards compliance is as important as price and quality. They need to retrain and retain workers rather than viewing them as a commodity that is easy to replace.”

“Labour standards compliance is an issue, but part of a package of issues – lack of predictability on order delivery times, poor quality, higher costs, etc,” said a third company. “They have to address this issue. If a government is collaborating with manufacturers to get union supporters fired, that won’t encourage buyers to stay. Non-enforcement of laws and a lack of interest in addressing persistent compliance problems do not help.”

On what government and industry in Central America and Mexico should do to address environmental issues, one company said there will be more concern about carbon footprint at each step in the production process. Another pointed to a lack of waste water treatment facilities in dye houses in Central America. They said that the new fabric mill in El Salvador will be one positive exception. A third company said there is a great deal of inefficiency and waste in the production process in Mexico and Central America that need to be addressed.

## Summary of the Interview Findings:

ALTHOUGH 10 COMPANIES IS NOT a large sample, the fact that all ten are major players in the global garment industry does provide some insights into the various considerations motivating sourcing decisions in the post-quota transition period.

Based on the interviews, we are able to make the following general observations:

- There have been significant changes in where brands are placing orders, with countries with lower production costs generally gaining more orders and those with higher costs losing orders. This is happening globally and within geographic regions. However, these changes have been less dramatic than anticipated.
- Most of the brands interviewed have left some higher cost countries entirely, or have failed to shift orders to other factories in those countries when their suppliers decided to close factories or cease producing in those countries.
- During the same period, most of the brands interviewed have begun to place orders in lower cost countries where they were not previously sourcing. As a result, the overall number of countries from which those brands are sourcing has not changed significantly.
- More significant than country exits have been decisions to decrease orders to higher cost countries and increase orders to lower cost countries. This has had a dramatic impact on the garment industry and garment workers in countries like Mexico and the Dominican Republic where there has been a significant reduction in orders.



- In many cases, bilateral and regional trade agreements have played a significant role as the end of quotas in motivating companies to source from particular countries and regions.
- Leading up to and after the end of quotas, most of the brands interviewed have significantly reduced the number of suppliers with which they have direct relationship and are establishing deeper, longer-term relationships with those large suppliers. However, this does not necessarily mean they are using fewer factories, nor that they are using fewer indirect suppliers. In many cases, the remaining suppliers are large companies that have their production done in a number of wholly owned or subcontract facilities in a number of countries.
- Proximity to market and local or regional access to textiles and other materials are extremely important for buyers, and potential competitive advantages for some medium cost countries and suppliers.
- Other key factors in sourcing decisions include: speed; quality; lean manufacturing; full-package services, including product development; flexibility to produce a variety of styles with a variety of fabrics; ability to meet order deadlines and transparency to report promptly when and why orders will be delayed; infrastructure and efficiency for rapid transport from factory to market.
- Rising energy costs and increasing public concern about carbon footprint issues are becoming much more important in brands' sourcing decisions, and countries and suppliers that can successfully address these issues, and demonstrate that they are doing so, could enjoy a competitive advantage over other countries and suppliers that are not.
- As a result of rising energy prices and carbon footprint issue, proximity to market, access to local or regional textiles and other inputs, and speed to market become all the more important. In the future, brands will demand environmentally sound practices at every stage in the process from field to market.
- While labour rights issues are not currently viewed by most buyers as being as important as environmental issues, brands do evaluate these factors as part of the whole picture, particularly when making decisions about whether to enter countries. As well, major violations of human rights and/or political or social instability can impact on sourcing decisions.
- Brands clearly want governments in producer countries to improve on environmental and labour standards regulations and their enforcement.
- According to the company's interviewed, countries in Central America and the Caribbean could gain some degree of competitive advantage over Asia countries with relatively lower production costs, if they meet the challenges described above.
- Proximity to market and rising energy costs, as well as the cumulation provision of DR CAFTA<sup>3</sup>, should offer opportunities for the Mexican apparel and textile industries to survive, if not grow, however, the companies interviewed were less optimistic that Mexico will take advantage of these opportunities.

## Endnotes

1 See "Wal-Mart's Ethical Push in China," Evan Clark, Women's Wear Daily, 23 October 2008.

2 The Bolivarian Agreement for the People of Our America (ALBA) was initiated by the Venezuelan government as an alternative to the Free Trade Area of the Americas (FTAA). To date, Venezuela, Cuba, Nicaragua, Bolivia, Honduras and Dominica have signed onto the agreement, which focuses as much on development issues as trade.

3 Under the cumulation provision, woven garments made in one of the CAFTA countries that contain materials (yarn or fabric) produced in Mexico will be treated as if the materials came from the US or one of the CAFTA countries.

## What does MSN think about what the brands are saying?

ALTHOUGH THE BRAND INTERVIEWS provide a general sense of future directions for the global garment industry, the companies interviewed were unable to provide sufficient information on their future sourcing plans to make it possible to predict whether they will continue to place sufficient orders in specific countries and regions to make it worthwhile for governments and national industries to invest in industry upgrading.

Clearly more transparent reporting on the brands' sourcing strategies and plans is essential if governments and national industries are going to make investments in the future of their industries.

The interviews do identify a number of changes that are being demanded by brands before they will make "deeper, longer-term commitments" to suppliers, however, these demands will likely have contradictory impacts.

While an upgrading of the industry could bring higher value production processes (which generally pay higher wages) to at least some countries in the Americas, greater demands on suppliers to meet brands' ever-changing product needs in order to stay in the game could have some negative impacts for workers.

These include increased flexibilization of labour, increased pressure to meet production targets and work overtime whenever needed, and increased downward pressure on wages due to the combined impacts of intensified price competition and increased production costs associated with industry upgrading.

It is also important to note that this promise that industry consolidation would result in longer term, more stable relations with suppliers does not necessarily mean a commitment to longer term more stable relationships with specific factories. While a few multi-national manufacturers may benefit from industry consolidation, workers may not. And, as consumer demand wanes during the current financial crisis, there are also widespread fears of more factory closures and worker layoffs, which could undermine any predicted stabilization from consolidation, and further fuel the drive to flexibilization and precarious employment in the industry.

The interviews also clearly show that labour rights is a consideration for brands, particularly at the moment they are entering countries or approving new supply factories, but it would appear to be much less of a concern than environmental and carbon footprint issues closely linked to oil and other energy prices.

At the time of the interviews, rising oil prices were identified as an important factor in sourcing decisions, which appeared to give at least some countries in the Americas a competitive advantage over Asia, and to make locally or regionally manufactured apparel products competitive in some national markets. Since the interviews, the growing financial crisis has resulted in a relative decrease in oil prices; the competitive advantage of the region's proximity to market over the coming period is therefore increasingly difficult to assess.

What we can safely predict, especially in light of the current decrease in consumer demand, is that price will continue to be the most important driver of sourcing decisions.

The concerns expressed by brands with carbon footprint and other environmental issues could present an opportunity to push for gains on environmental, worker health and safety and community health issues, not only in garment factories and laundries, but also in textile mills. However, it is not clear in the current financial environment whether the promise of action on these issues can be accommodated within a narrowing price structure. One likely possibility is that buyers will attempt to download the costs involved in addressing these issues to manufacturers and local governments, and ultimately to the workers who make the products.

Although respect for workers' rights does not appear to be a major factor in sourcing decisions, the concerns expressed by the brands interviewed about governments' failure to enforce labour laws and regulations could open up possibilities to enlist the brands' support in pressuring governments for improved labour standards and improved enforcement of those standards. In recent years, MSN and other labour rights organizations have had some success in convincing brands to speak out in favour of better and more consistent enforcement of labour laws and regulations, and this strategy should be explored further.

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