

# **A market systems analysis of working conditions in Asia's garment export industry**

Prepared by the LAB team – ILO

Shelvy Arifin, Callie Ham, Auret van Heerden, Ba Lam Nguyen and Matt Ripley

## **Executive Summary**

This report is part of a regional scoping analysis of decent work in the garment sector supply chains in Asia, conducted by the ILO in partnership with The Swedish International Development Cooperation Agency (Sida).

## From obligation to opportunity

### A market systems analysis of working conditions in Asia's garment export industry

#### Executive Summary

The Lab ([www.ilo.org/thelab](http://www.ilo.org/thelab)) carried out an analysis of the garment supply chain in Asia to understand the dynamics of value addition and the market incentives to provide better working conditions<sup>1</sup>. This report, along with a complementary industrial relations assessment, feeds into the design of a regional Swedish International Development Agency (Sida) programme for improvements in decent work, environmental sustainability and gender equality in the garment sector.

Export-oriented apparel production is the quintessential global value chain. Different stages of production - as raw materials are transformed into retail products - are carried out in different countries, involving complex and fast-changing buyer demands and drawing on diverse industries such as agriculture, textiles, and footwear<sup>2</sup>.

The global value chain structure helps link local producers to international markets, facilitating knowledge spillover and new skills for workers. For emerging economies, garments are considered a gateway to globalised manufacturing exports<sup>3</sup>. The sector is also a critical absorber of low-skilled labour: On average, garment production accounts for half of manufacturing employment in the main clothing exporting countries in Asia<sup>4</sup>. For poor labourers, it is often the most attractive industry after agriculture. Garments are also an important driver of economic empowerment, with women accounting for a larger share of the workforce compared to other sectors<sup>5</sup>.

However, working conditions in Asia's factories remain a key concern. The nature of the modern garment industry —relying on labour-intensive inputs with short lead times—carries a high risk of human rights and environmental violations. While employment conditions vary greatly across countries and companies, instances have been reported of child labour, discrimination, forced labour, work-related injury and ill health, violations of the right of workers to establish or join a trade union and to bargain collectively, non-compliance with minimum wage laws, and wages that fail to meet basic needs of workers and their families<sup>6</sup>. The production process and materials used in

---

<sup>1</sup> The research was conducted by an ILO Lab team made up of Shelvy Arifin, Callie Ham, Auret van Heerden, Ba Lam Nguyen and Matt Ripley. The views presented in this paper are those of the authors and do not necessarily represent those of the ILO.

<sup>2</sup> EPRS (2014)

<sup>3</sup> World Bank (2016)

<sup>4</sup> An average of 40% across SAARC countries (World Bank, 2016). Includes both garment and textile sectors.

<sup>5</sup> World Bank (2016), p.19

<sup>6</sup> OCED (2017)

garment manufacturing also increase the risk of environmental hazards, including dangerous chemicals, excessive water consumption, water pollution and greenhouse gas emissions.

The sector has received significant international attention, in large part due to a series of high-profile media stories concerning industrial disasters and serious labour violations<sup>7</sup>. Numerous initiatives have been launched by governments and development agencies to try and promote a more sustainable garment industry, including through ‘top-down’ policy channels, ‘bottom-up’ interventions on the factory floor, and ‘outside-in’ campaigns seeking to leverage public and consumer pressure.

This report uses a market systems approach to identify the set of actors and factors that influence how garment factories behave. A market systems analysis seek to identify the ‘systemic’ constraints to pro-poor sector growth, such that new business innovations can spread and be sustained across an industry – and not just confined to the few firms that development programmes partner with<sup>8</sup>. It recognises that no enterprises exist in isolation: Rather, their commercial and social performance relies on an ecosystem made up of many interconnected market actors, from suppliers to buyers, and a range of supporting services such as access to appropriate technology, capital and know-how<sup>9</sup>.

The **first part** of the report focuses on the regional context. Based on desk research, it synthesises key existing documents and data to present region-wide challenges, production trends, purchasing practices, and the role of intermediaries. It includes a mapping of the chain from primary producers to end users, setting out where value is created at each stage. Special attention is paid to issues of gender equality and environmental sustainability.

The **second part** takes a deeper dive into the drivers of poor working conditions. It is informed by market systems scans in Vietnam and Indonesia, where primary research was undertaken to investigate the under-performing functions and rules which inhibit both better working conditions *and* improved business performance. The aim was to identify strategies that not only encourage companies to better comply with core human and labour rights, but also help them realise that good working conditions can often be good for business. In short to see decent work as an opportunity, not just an obligation.

The identified systemic constraints are:

- *Shortfalls in public and private regulation* are caused by an inability to monitor complex supply chains, and mis-aligned incentives. Despite significant progress over the past decade, both regulation and ‘beyond compliance’ mechanisms are hindered by hidden sub-contracting and (a lack of) supply chain transparency. As a result, many sub-contractors and lower tier suppliers are ‘sandwiched’ between complying with labour standards, and meeting the time-pressured orders of international brands. Brand social responsibility teams are often structurally removed from the sourcing decision-makers in their company whose buying behaviour increases the risk of unauthorised sub-contracting.
- *Sub-optimal human resource strategies and inefficient in-factory management practices* constrain both business performance and improved labour standards. However, the link between productivity and better working conditions is neither automatic nor uni-directional. Efforts to build a ‘business case’ for manufacturers to improve working conditions have focused on demonstrating the ‘returns’, but not on the investment and risks side of the equation. Given slim factory margins that can be eroded to selling at cost, there are questions about how receptive the majority of factories will be to the opportunity argument.

---

<sup>7</sup> The Guardian Newspaper (2017)

<sup>8</sup> For more information see the BEAM Exchange (<https://beamexchange.org/market-systems/what-market-system/>)

<sup>9</sup> Kramer and Pfitzer (2016)

Instead, the carrot of efficiency improvements needs to go hand-in-hand with sector-wide upgrading strategies, particularly for those companies deploying a ‘cost control’ and survival-based business model.

- *Equitable access to finance.* Foreign investment can facilitate knowledge spillovers in the long-term, but can create closed networks based on nationality in the short-term, which limit opportunities for domestic upgrading. Local suppliers need access to growth capital, but often face significantly greater challenges to accessing affordable credit than their foreign-invested counterparts. This constrains working capital and creates a risk averse attitude towards investing in working conditions. Development and ‘impact’ finance can help bridge the gap, but significant private capital will be needed to achieve scale.
- *Over-reliance on imported inputs* can impact on lead times and create additional pressure on workers, resulting in excessive overtime and abuse. Yet there are questions about the strength of the commercial and environmental case for countries to develop backwards linkages. Textile production requires significant capital, good infrastructure and is above all is energy-intensive. However, there are proven opportunities for significant efficiency savings which can reduce the environmental impacts of textile production and free up resources to improve working conditions.
- *Slow-to-adapt skills systems.* Garment production has long been a low-skilled, low-paid, labour-intensive industry – and the source of Asia’s comparative advantage in production. High staff turnover rates are generally accepted as a ‘cost of doing business’ as labour supply has historically been plentiful, but in some countries the emergence of other more attractive sectors such as electronics is creating new pressures on factories. Skills upgrading will be vital as the industry modernises and many of the traditional entry-level jobs, held mostly by women, might be lost. The use of intelligent technologies – the so-called Fourth Industrial Revolution – means that many workers will no longer be required to control machines. Buyer demands for full service production emphasise the importance of up-skilling the workforce. However, vocational training is not widely demanded, links to industry can be poor, and the quality of supply is generally low. Professional recruitment services are not developed, and the medium-term market capacity to absorb skilled workers is uncertain.

The **third** and final part zooms back out to lay the foundations for a series of regional-level actions. Based on the study’s mandate to go beyond tried and tested tools to identify more integrated models, it thinks critically about which arguments and pressure points may lead to systemic change across the supply chain. There is a particular focus on measures to go beyond the ‘tip of the iceberg’ and reach the lower tiers of the global supply chain, which is where the most precarious working conditions can be found. The following actions are recommended, based on a framework for sector collaboration set out by the OECD:

- Pool information: Sharing information can help increase the awareness of specific risks in the sector and bring attention to emerging risks – and opportunities - more quickly than would be possible for most individual enterprises. Good data is essential to help highlight problems that several countries share, and provide the platform to explore where solutions best can be found in regional cooperation. Potential activities include:
  - *Regional statistical benchmarking.* Develop standards for comparable data on decent work in the garment sector.
  - *Share the business case.* Compile and quality control differentiated business cases for working conditions, environmental sustainability and gender equity into an open-source repository.

- *Understand the audience for evidence.* Agree on a framework to understand what evidence will be most persuasive for different types of brands and factories.
- Increase leverage: There are many reasons why individual enterprises may lack leverage on their own, such as a small size or relatively insignificant buying power. Where a single enterprise lacks leverage, a group of enterprises operating together may wield greater leverage by participating in forums or seeking alignment of their activities, timelines and follow-up measures. Potential activities include:
  - *Engage buyers on responsible sourcing.* Build the capacity of NGOs, unions and business associations to interact with sourcing teams on the buying practices that ultimately drive many of the working conditions deficits.
  - *Replicate sub-regional models.* Encourage adoption across of methods and models that have proven successful at a sub-regional- or even country-level in extending compliance to 2<sup>nd</sup> tier suppliers and subcontractors.
- Scale up successful measures: Collaboration can help play a role in scaling-up solutions (e.g. policy, training, capacity building, etc.) that have been demonstrated to be effective. Scaling-up can also crowd-in SMEs who may have more limited resources and are more risk-averse at initially investing in pilots. Potential activities include:
  - *Accelerate the journey from seed to scale.* Scan the market to see which pilot programmes are addressing systemic constraints, and provide a platform to discuss their success – then sharing and disseminating proven solutions across the region.
- Increase sector transparency: Collaboration can help facilitate the disclosure of aggregate information which increases the transparency of the sector. Making public the information about suppliers, compliance assessments, and any corrective action(s) taken not only shows how brands are making demonstrable progress, but also allows third parties to independently verify and observe how decent working conditions are improving. Potential activities include:
  - *Supercharge supply chain transparency.* Encourage the spread of common standards for the public disclosure of supplier lists and real performance data.