

# Pursuit of Product Quality and Ethical Correctness in Developing the Garment Industry (Chapter 7)

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# Background

- ▶ Garment industry as a typical “starter” industry and the first entry point into global value chain (GVC) for low-income countries (Gereffi 1999; OECD/WTO/IDE-JETRO 2013; Fernandez-Stark et al. 2011).
  - Highly globalized VC, governed by a buyer-driven structure (foreign buyers & lead firms).
- ▶ Growing emphasis on social & environmental compliance (esp. Western consumers)—in addition to conventional requirements for QCD (esp. Japan).
  - SDGs, BBB for post-pandemic recovery
- ▶ Latecomer countries are required to satisfy **twin global standards—economic/industrial upgrading and social & environmental upgrading**—to successfully participate in the apparel GVC and sustain partnership with buyers & lead firms.
  - Risks of leading to “the race of the bottom” or “stacking at the bottom”...
- ▶ **Key questions: (i) how are today’s latecomers and their garment firms coping with the global twin standards?; and (ii) what are the remaining challenges?**

# Main Issues (Chapter 7)

1. Economic and social upgrading in the garment GVC
2. Standards and regulations for quality and sustainable GVC
3. International development cooperation
4. Comparison of five garment exporting countries
  - ▶ Bangladesh, Vietnam, Ethiopia, Sri Lanka, and Myanmar
5. Implications for latecomer garment producers

# Two Types of Requirements: Quality vs. Ethical Correctness

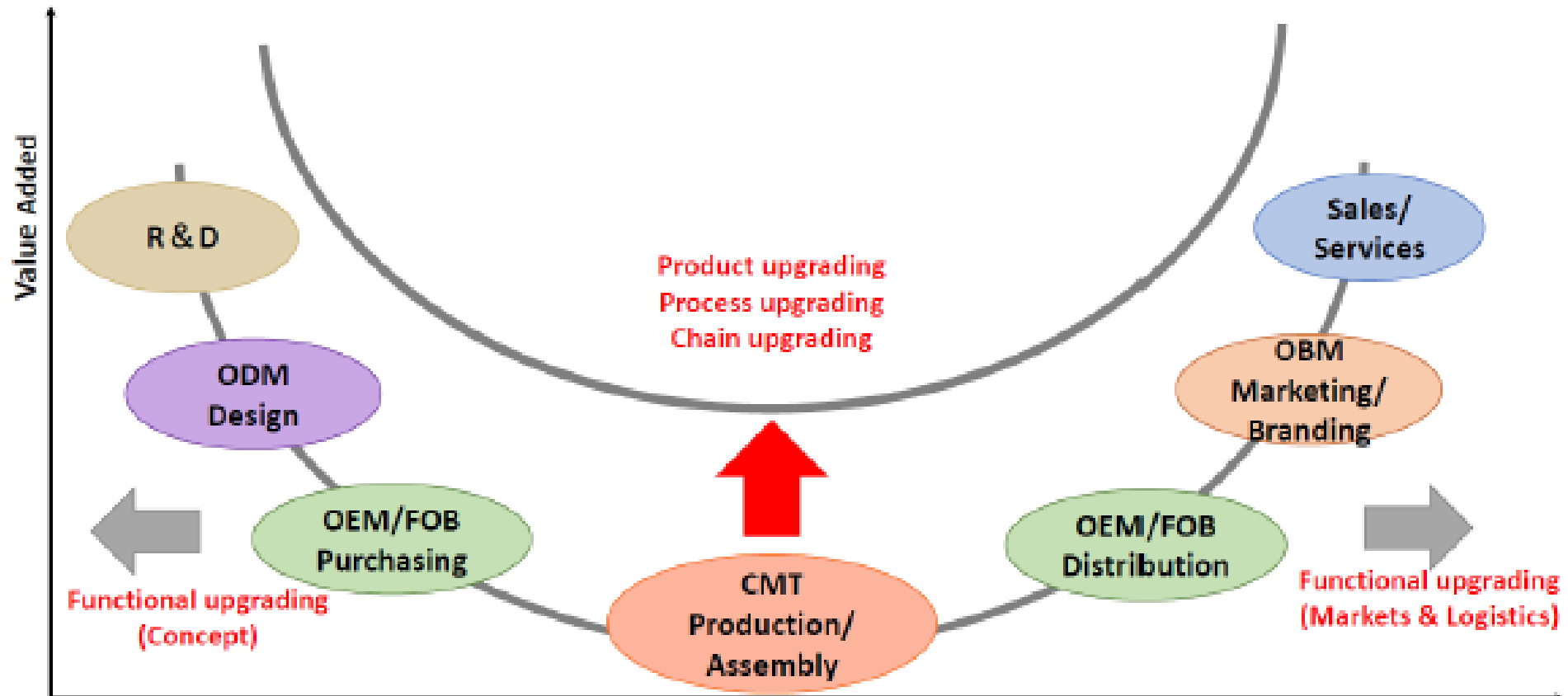
## ▶ Economic/industrial upgrading

- Move from low-value to higher-value activities in global production networks; aimed at enhancing the quality of products and competitiveness of firms.
- Process upgrading, functional upgrading, chain upgrading, product upgrading (Gereffi et al. 2001, 2005; Humphrey & Schmitz 2002; Kaplinsky & Morris 2001)

## ▶ Social upgrading

- Improvement in the rights of workers and enhancement of the quality of their employment (wages, working hours, health & safety, employment security, freedom of association, collective bargaining, gender equality, non-discrimination, etc.)
- Also, green/ climate-friendly industrialization

# The Curve of Value Added Stages in the Apparel GVC



Source: elaborated by the authors based on Fernandez-Stark et al. (2011).

## Selected Social Standards that Regulate GVCs in Developing Countries

Standards	Organizational features
<b>Social Responsibility and Sustainability</b>	
IndustriALL European Trade Union	Originally, European Trade Union of Textiles, Clothing and Leather (ETUF/TCL); renamed in 2012.
SA 8000 (by SAI: Social Accountability International)	US-based NPO (with participation of private sector, govts, NGOs, labor unions, academia).
Ethical Trading Initiative (ETI)	UK-based NPO. Created by private sector NGOs, trade unions, with the support of DFID.
Initiative for Compliance and Sustainability (ICS)	France-based initiative; members of French Federation of Commerce & Distribution (multilateral retailers & brands).
SEDEX Members Ethical Trade Audit (SMETA)	UK-based, non-profit membership organization.
ISO 26000	ISO as a worldwide federation of national standards bodies.
<b>Textile &amp; Apparel Industry-specific</b>	
Worldwide Responsible Accredited Production (WRAP) certification	US-based NPO with global network. Certification program for apparel, footwear and sewn products.
Global Organic Textile Standard (GOTS)	Germany-based. Founding members are four organizations from Germany, Japan, US, and UK.
Better Cotton Standard System (by BCI: Better Cotton Initiative)	Switzerland-based. Global coalition of NGOs, cotton industry organizations, retailers and brands. Also supported by donors (mainly Europe & US).
Sustainable Apparel Coalition (SAC)	Netherlands-based. Global, multi-stakeholder non-profit alliance for fashion industry (brands, retailers, suppliers, service providers, trade associations, NGOs, academia).

## Examples of International Development Cooperation

<b>Economic upgrading:</b>
- Japanese conventional PPPs: supporting industry development, Kaizen, TQM, Lean Management (JICA, AOTS, JPC, etc.)
- Germany (TVET): GIZ, SEQUA, chambers of commerce
<b>Social upgrading:</b>
- ILO/IFC: "Better Work Programme" (labor standards), supported by Australia, Denmark, Germany, Netherlands, the US, etc.

# Comparison of Five Garment Exporting Countries: Bangladesh, Vietnam, Ethiopia, Sri Lanka and Myanmar

## Key Indicators for Garment Industry

	Bangladesh	Vietnam	Ethiopia	Sri Lanka	Myanmar
GNI per capita <sup>1/</sup> (current US\$, 2020)	\$2,010	\$2,660	\$890	\$3,720	\$1,260
Textiles and clothing exports	\$28,332,567 (2015)	\$39,428,374 (2019)	\$60,174 (2018)	\$5,208,801 (2017)	\$5,095,427 (2019)
Export product share <sup>2/</sup>	89.3% (2015)	14.9% (2019)	3.9% (2018)	44.4% (2017)	28.1% (2019)
Main export destinations	US, Germany, UK, Spain,	US, EU, Japan, China, Korea	US, Italy, Germany, China	US, UK, Italy, Germany	Japan, EU, Korea, US
Preferential schemes (2020)	(developed under MFA), EU-GSP	GSP	AGOA, EU/EBA	(developed under MFA), GSP +	EU/EBA
Value-added stages of production	CMT, OEM, ODM	CMT, FOB/limited	CMT	ODM/OBM	CMP→gradual move to OEM

Source: Elaborated by the authors based on the data from World Bank (\*1) and World Bank-WITS (World Integrated Trade Solution)(\*2).

## Survey Questions

- ▶ Quality and social compliance standards required by buyers and implemented by firms;
- ▶ Nature of interaction with buyers, governments and industry association (such as inspection, document submission, guidance, technical support, training); and
- ▶ Ongoing efforts to meet buyers requirements and any challenges with meeting both quality and social compliance standards

# Bangladesh

Hossain (2021): 30 firms (25 domestic, 1 JV, 4 FDI)

- ▶ Triggered by JV btw. a local firm (Desh Garments) and Daewoo Corporation (SK) in the 1970s. Desh workers received intensive training; subsequently, started many garment companies or became garment traders.
- ▶ Economic upgrading:
  - End of MFA quota (in 2005) urged industry associations (BGMEA & BKMEA) to take measures for productivity enhancement with donor support.
  - Most member companies follow quality-related standards (e.g., ISO 9001, ISO 14000, TQM, ASTM International, AQL required by buyers)
- ▶ Social upgrading:
  - High priority on the workplace safety (the 2013 Rana Plaza collapse)
  - Accord (EU) and Alliance (US) as legally-binding agreement btw. brands and trade unions to address electrical & building safety standards; from 2020, RMG Sustainability Council (in BGMEA) as a national mechanism.
- ▶ Challenges of meeting different standards & compliances requirements set by buyers. No uniformity in the social & environmental standards (BSCI, OEKO-TEX, WRAP, SEDEX, GOTS, Higg index...).



# Vietnam

VDF survey (2021): 31 firms (21 domestic private, 5 FDI, 5 ex-SOEs)

- ▶ Significant differences in awareness of and compliance with quality, environmental & social standards btw. export-oriented local firms and the others.
  - Exporting firms satisfy both quality standards (ISO 9001) and CSR principles (ISO 14001), eco-labeling standards, SA8000, WRAP.
  - Small local garments firms rarely pay attention to global standards.
  - Quality: Buyers often provide on-site quality controllers (QCs) or hire an independent outside inspector of product quality in local factories
  - Social standards: Becoming *de facto* mandatory (firms cannot export with non-compliance).
- ▶ Different emphasis on types of standards & compliance by the nationality of buyers (in relative terms).
  - Nordic & Western Europe: strict on CSR (working conditions, living standards, working time, gender equality...)
  - Japan and US: very demanding (esp. Japanese needle detector test)
- Industry associations (VITAS & LEFASO) offer basic information and CSR requirements to suppliers.

# Ethiopia

PSI survey (2021): 4 domestic & 6 FDI firms out of the 30 firms surveyed

- ▶ Early stage of obtaining international standards and certificates (due to the country's relatively short history of joining the apparel GVC).
- ▶ Social standards and compliance seem to be more observed than quality standards. There exists general recognition that twin standards contribute to firm performance.
  - 5 of the 6 factories and some local firms have joined ILO's Better Work Programme, SEDEX, WRAP.
  - Quality: 2 of the 6 foreign firms are in the process of getting ISO 9000; nearly half of local firms have obtained ISO 9000.
- ▶ Implementing several standards creates a trade-off btw. costs and capacity (esp. local firms).
- ▶ Many firms responded that they have not received support from the government or industry association on quality standards.
  - Although we understand that government institutions (e.g., ETIDI, IPDC, EKI) assume capacity development; some donors provide technical assistance, and AACCSA sometimes support firms...

# Sri Lanka

## GDF policy mission (Oct. 2017)

- ▶ In the 1970s, Sri Lanka liberalized economy and created EPZs to receive FDI. Foreign best practices were combined with strict Sri Lankan labor code.
- ▶ In the early 2000s, FDI and JVs accounted for about 50% of the total investment; gradually, domestic manufacturers have emerged with int'l competitiveness.
  - ▶ Mas Holding (learning from American JV partner), Brandix (from UK JV partner; Hong Kong firm), etc.
- ▶ Now, Sri Lanka specializes high-end, niche, downstream and knitted garments with top performance of both quality & productivity and ethical standards; upstream cotton & textile are not prioritized.
- ▶ Faced with the end of MFA quota (in 2005), public-private partnership forum (JAAFS) was created in 2002 with the leadership of MAS chairman. Post-MFA strategy was drafted and implemented.

# Myanmar

## GDF Policy mission (Nov. 2020)

- ▶ Myanmar's garment export is still small, but was on the rise (before the 2021 military coup d'état); stays at the primary stage within apparel GVC.
- ▶ When the Myanmar garment industry was seriously hit by Western sanctions, it turned to Asian markets. In the early 2000s, Japan became the biggest market for Myanmar's garment industry (no trade sanctions).
  - Japan offered MGMA training on IE, sewing skills, quality control, O&M of machines (through the Japanese embassy, METI, JETRO).
- ▶ More recently, EU has become the largest export market. EU reinstated Myanmar into EBA in 2013, which was followed by the restoration of US's GSP in 2016.
  - EU assisted Myanmar firms in satisfying the requirements; created the Social Compliance Academy in collaboration with MGMA.
- ▶ Myanmar's export presence during the past decade in the quality-focused Japanese and Korean markets contributed greatly to improvements in the production capability of the country (El-Shahat and di Canossa 2018).

# Summary and Implications for Latecomer Garment Producers (incl. Ethiopia)

- ▶ Country variations in adopting standards and compliance measures and the degree of their implementation by garment factories.
  - Sri Lanka: best practice achieving the twin global standards.
  - Bangladesh: special focus on the fire and safety of buildings (+ accumulated expertise of quality improvement)
  - Vietnam: major differences btw. firms targeting at export markets and domestic markets.
  - Myanmar: learning quality control & technical skills from Japan; subsequently social compliance measures from EU.
  - Ethiopia: just started to learn both.
- ▶ Differences and proliferation of required standards
  - Quality standard (essential for enhancing competitiveness); social compliance (“social license to operate”).
  - Huge workloads and costs to cope with similar, but different procedures (“compliance fatigue”).
  - Somewhat different emphasis btw. European & American and Japanese consumers.

# Summary and Implications for Latecomer Garment Producers (incl. Ethiopia)

- ▶ Role of external support: buyers, lead firms, and donors
  - Importance of knowledge and technology transfer from FDI partners & buyers (Sri Lanka, Bangladesh); buyers providing on-site quality controllers in local factories (Vietnam).
  - Donor support to industry associations and local firms to help attain the twin global standards (Myanmar).
- ▶ Importance of public-private partnership and the role of industry associations
  - Sri Lanka and Bangladesh: actively working with the government to overcome industrial challenges (JAAFSL); supporting member firms for skill development, factory-based consultancy, post-Accord & Alliance national mechanism, policy discussions with the government (BGMEA/BKMEA)
  - Myanmar: organizing various training courses for skill upgrading
  - Vietnam: sharing the basic information on CSR requirements
  - **Ethiopia should learn from these experiences toward effective public-private partnership.**

# Referential Information

## Survey Reports by Partner Researchers

- ▶ Hossain, Monzur (2021, March). “Ready-made Garments Firms in Bangladesh.” Bangladesh Institute of Development Studies (BIDS). Prepared for GRIPS Development Forum.
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