1 The global garment industry: organizational and geographic features and trends

The history of the industrial production of garments dates back to the early nineteenth century. Since then there have been few truly revolutionary changes: the basic principles in the organization of garment production have remained unchanged, and fashion and a dichotomy between retailers and manufacturers continue to characterise the industry. However, market-related aspects became much more pronounced in the last decades of the twentieth century. In fact, sales and marketing now play a dominant role in clothing. The most notable evidence of this trend is the proliferation of brands and labels on clothing. Several of these brands and labels have a global reach and are both sold and produced around the world. The fact that the global success of these highly advertised brands and labels is often based on a global manufacturing strategy in which low-wage countries – and especially the most sensitive segments of the labour force in those countries – perform the lion’s share of production, is characteristic of the past decades. It has also caused the industry and many of its high-profile firms to be at the centre of both academic and popular polemic. This chapter does not take sides in this moral debate, but gives an overview of the basic organizational and geographical features and trends that underlie the current structure of the global garment industry.

This chapter highlights the industry’s distinctive characteristics. It also sketches the most important dynamics over the past decades, based on a synopsis of existing garment studies. The aim is to outline the global industrial environment within which the local garment industry in La Laguna is operating, as well as the challenges posed by that environment. The focus of the first section of the chapter is on the organization of production. It uses the garment production process as a stepping stone for a brief and broad introduction to the basic structural and organizational characteristics of the garment industry. Also, the most basic organizational principles in garment production – viz. vertical disintegration and subcontracting – are discussed. Likewise, the progressive dominance of sales and marketing over manufacturing, the emergence of new actors and strategies and shifts in existing power balances are introduced. All of these phenomena are affecting and transforming organizational practices and structures in the industry.

The second section of this chapter focuses on the geography of garment production. It shows the garment industry to be a truly omnipresent industry, displaying high mobility on a global scale. Within the broad globalisation pattern, a number of sub-patterns can be noted: for example, the decline in garment production in developed countries is paralleled by growing participation of a greater number of developing countries. There is little doubt that simple production techniques and the labour-intensive nature of the garment production process are pushing the relocation of garment production to low and middle income countries (LMICs). However, developing countries on the periphery of the main market appear especially
successful. The resulting patterns and their underlying strategies are highly complex, dynamic and even volatile.

1.1 Characterising the industry

The garment industry is part of the textile-apparel production complex, as illustrated in Figure 1.1. The individual parts of this complex – the clothing/garment, apparel and textiles industries – are common subjects of industry studies. Because of their interlinkages and partial overlap they are quite commonly grouped together and even [mistakenly] treated as one. To avoid confusion, Figure 1.1 highlights the subject of this study: the shaded area is the garment or clothing industry as defined here. As such, the garment industry produces only clothing and no other sewn products (see also Spinanger, 1992). In this study, two terms are used as synonyms for the garment industry: the clothing industry and the wearing apparel industry.

One of the first characteristics of the garment industry that deserves attention is that it is highly segmented. There are numerous clothing categories, with segmentations, among others for types of consumers (children, men, women), product categories (e.g. casual clothing, work wear, sportswear) and market segment (low-end vs. high-end). Each product category unites a number of particular product types with specific characteristics, which in turn are reflected in the nature of the production process. Also, in most literature on the garment industry a very broad distinction is made between fashion and standardized, mass-produced garments that are generally believed to have slightly different characteristics and dynamics (Taplin, 1994; Dicken, 1992, 1998; Mody & Wheeler, 1987).

The garment production process consists of three broad groupings of production activities: the pre-assembly, assembly and post-assembly production phases (see Figure 1.2). Pre-assembly involves grading and marking patterns, and cutting fabric into individual pattern pieces.
Assembly is the sewing together of these pattern pieces. The traditional garment assembly process is called the ‘bundle system’, since it involves the sequential transportation of bundles of about thirty garment pieces along sewing lines of specialist, one-task operators. Post-assembly is in most cases a synonym for finishing and consists of such activities as re-screening, trimming, pressing and packaging. Only few types of garments, most notably jeans, require laundry as part of the post-assembly process. Each phase of the production process has distinct labour requirements and specific capital-labour ratios, which opens up different possibilities for new technology and plant locations for each phase. Prior to the manufacturing or production process, which runs from pattern making to packaging, product development takes place. Product development and sales and marketing are generally carried out close to the final market.

The production column in Figure 1.2 depicts the production process for clothes as a continuous sequence. In the old days, most garments were produced domestically or by tailor shops, and the production process was integrated; pre-assembly, assembly and post-assembly processes were carried out in one location. However, since the establishment of the first clothing ‘manu-factory’ in the early nineteenth century – which started the industrialisation of garment production – vertical disintegration of the production process was introduced (Dickerson, 1995). Mass production and the vertical disintegration of the production process became standard practice in Western garment production (Jernigan & Easterling, 1990; Dickerson, 1995; Berry et al., 1976). At that time, urbanisation and factory-based industrialisation caused an increase in demand for mass-produced garments. With the concentration of production in factories, the possibilities for specialization increased. Specialization and flexibility advantages associated with vertical disintegration led to the emergence of an institutionalised division of labour. In the USA, for example, jobbers close to the main market in New York performed design and marketing activities, while manufacturing was often done by contractors in rural locations in the Northeast or in southern parts of the country (Hall, 1959; Jernigan & Easterling, 1990; Taplin, 1997). Production was coordinated through subcontracting/contracting linkages between these two types of specialist garment firms. Over time, vertical disintegration and subcontracting have become the rule rather than the exception (Hall, 1959; Taplin, 1994, 1997; Dickerson, 1995; Dicken, 1992, 1998; Elson, 1988). Specialization is also reflected in the scale of operation of garment firms. Overall, the garment industry is a comparatively fragmented, small-scale industry, consisting primarily of small production units (Hall, 1959; Dickerson, 1995; Dicken, 1998).

Inter-firm production networks, based on the above-mentioned specialist subcontracting linkages, have long been the backbone of the industry. These networks have recently become characterized by deeper specialization. Bull et al. (1993) also note this: ‘...variegation in products and processes leads to effective specialization opportunities, which in turn make intra-industry linkages more important’. Within these networks small- and medium-sized contractors generally take care of the lion’s share of manufacturing. However, very large and modern ‘lead’ firms play a central role in these networks. Increasingly these lead firms derive their strong competitive position from global retailing strategies based on mass marketing and the creation of global brands and labels. While they handle very large volumes they are often not involved in manufacturing but instead coordinate and control manufacturing activities as carried out by the contractors in their networks.
One of the interesting aspects of Figure 1.2 is that its basic elements have hardly changed over time. The modernisation of products and processes has been limited, undergoing only fairly humble changes. One of the reasons is that, compared to other industries, automation options are limited. The few technological innovations that have taken place have had the most impact on the pre-assembly activities of design and cutting (Hoffman, 1985; Mody and Wheeler, 1987; Smakman, forthcoming).

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**Figure 1.2: The garment production column**

**Product development**
- Market research
- Design

**Pre-assembly**
- Pattern making
- Sampling
- Costing
- Input procurement (fabric, buttons, zippers, thread)
- Grading
- Nesting and printing of large markers (detailing pattern pieces for various sizes of the garment)
- Spreading the fabric
- Cutting

**Assembly**
- Sewing
- Buttonholing
- Attachment of trim and accessories (zippers, buttons, rivets, etc.)
- Embroidery
- Rescreening
- Trimming (of thread)
- Laundry
- Chemical treatment
- Pressing/ironing
- Final quality inspection

**Post-assembly**
- Attachment of labels and tags
- Sorting
- Packaging
- Boxing for transport

**Sales and marketing**

*Source: after Smakman (forthcoming)*
OTA, 1992; Audet, 1996; Wyatt, 1989) and on distribution. By contrast, assembly technology has changed little: conventional sewing machines, only slightly more sophisticated than those of several decades ago, still dominate factory floors. The soft, limp nature of the fabric limits the advancement of automation in assembly (OTA, 1992; Taplin, 1994; Dickerson, 1995). Thus, the few advances that have been made are mostly geared towards the mechanised transportation of garment pieces on the factory floor and to the automation of specialized operations (such as buttonholing, pocket setters and collar attachers). In other words: ‘the one operator/one machine link has not been broken’ (Hoffman, 1985, p. 378). As a consequence, garment production is highly labour-intensive: estimates of the relative importance of labour cost in total manufacturing cost vary between 25 and 35 percent (Scheffer, 1992; Jernigan & Easterling, 1990). Also, compared to other industrial sectors, garment production requires skilled workers (Berry et al., 1976; Alexander & Gibson, 1979; Audet, 1996; Taplin, 1997; Dicken, 1998). Much of the speed and quality of production depends on the sewing skills of the operators, who turn flat, one-dimensional fabric into three-dimensional garments. Sewing skills can be passed on relatively easily through on-the-job training (Spinanger, 1992).

The generally low technology levels in garment manufacturing lead to low barriers to entry, which is reflected in the earlier mentioned fragmentation and the presence of a multitude of small- and medium-sized firms. Combined with general improvements in telecommunications and transportation technology, it also facilitates the globalisation of the garment industry through the incorporation of garment firms in developing countries into global garment production networks. Thus, low barriers to entry and high labour intensity of the production process make the garment industry a common first stepping-stone for LMICs into the industrialisation process. Producers in LMICs are becoming more and more involved in garment production for export: the share of LMICs in garment imports of the main Western markets is increasing (Audet, 1996; WTO, 1994, 2000). Moreover, an increasing number of LMICs are participating in this development. As will be explained in more detail in the second section of this chapter, certain patterns can be discerned with regard to the involvement of LMICs in garment export. Though overall low levels of technology and high labour intensity characterise the garment industry, it is important to recognise, as mentioned earlier, that each phase of the production process has distinct capital-labour ratios. The assembly phase is the most labour-intensive, which is why assembly is especially amenable to international relocation to LMICs. The internationalisation of garment production thus commonly involves a geographical separation between the pre-assembly and the assembly stages of production (Fröbel et al., 1980; Dicken, 1998; Audet, 1996; see also section 1.2.2).

In both developed countries and LMICs the garment industry is typically seen to employ the most vulnerable or sensitive segments of the labour force (Dicken, 1998). On average, 80% of garment workers are female (Spinanger, 1992). Unsurprisingly, there are many studies of seamstresses in LMICs concerning their position in the factories and households (Benerfa & Roldán, 1987; Robert, 1983; Wilson, 1993; Lawson, 1999; Peña St. Martin & Gamboa, 1991; Estrada Igúnziz, 2002). Especially in LMICs, garment workers are often young, have a low educational level and only limited working experience. Skills are often the result of on-the-job training and are not easily transferable to jobs in other industries. In industrialized countries, and also in LMICs, immigrants typically make up a large share of the workforce. Several studies document the employment of immigrants in sweatshops and semi-underground factories in large metropolises (Glasmeier et al., 1992; Taplin, 1994; Ross, 2002; ILO, 1996; Hartog & Zorlu,
1999; Kumcu, 2001), resulting in ‘an international division of labour within developed countries’ (Scheffer, 1992, p. 15). At the same time, garment employment is also present in rural areas, where it may be a dominant factor in the local economy (Jernigan & Easterling, 1990; Glasmeier et al., 1992; Estrada Iguíniz, 2002; van Dooren & Zarate Hoyos, 2003; Simmons & Kalantaridis, 1996). Overall, the garment industry is notorious for its bad labour conditions, low wages and low unionisation levels, whether in underground sweatshops, in factories in export processing zones in LMICs, or the hired-and-fired homeworkers or outworkers (Fernandez-Kelly, 1983; Wilson, 1993; Benería & Roldán, 1987). Generally, instead of receiving a set wage, garment workers are paid a rate for each piece completed (Jernigan & Easterling, 1990; Taplin, 1997). This is called ‘piecework’ or the ‘piece rate system’.

The following section expands on this first introduction by examining the two most basic and interlinked characteristics of the organization of garment production: vertical disintegration and subcontracting. The section after that deals with aspects of the garment industry that have been latently present for a very long time but became especially pronounced in the 1970s to 1990s. Attention is paid to the increasing power of retailers, the increasing prominence of segmentation and fashion as drivers of the garment market, and the increasing prevalence of branding and labelling as tools for product differentiation. The final section looks ahead and examines incipient and expected changes in the garment production arena as a consequence of the recent market dynamics.

1.1.1 Organizational cornerstones of garment production

Vertical disintegration

As discussed above, early and pervasive vertical disintegration lies at the root of the current organization of garment production. Here, vertical disintegration is understood as the splitting off of parts of the production process to separate firms or establishments, or the externalisation (buying) – as opposed to internalisation (making) – of certain production activities or services of the production process (see Figure 1.3). A business firm’s decision concerning what to make and what to buy is central to industrial organization. Since the 1930s, transaction costs have played a determinant role in answering this question. The basic contention was that a firm will internalise transactions ‘until the costs of organising an extra transaction within the firm become equal to the cost of carrying out the same transaction by means of an exchange on the open market’ (Coase, as quoted in Yeung, 1998, p. 105).

While still a valid observation, in the context of today’s global economy Coase’s insights can be seen as economically deterministic (see also Yeung, 1998). Such criticism is prompted by the fact that new and multiple competitive pressures on business enterprises during the last decades of the twentieth century have complicated the ‘make or buy’ dilemma. Most noteworthy in this respect is the need to become more flexible. One way to achieve flexibility is by corporate restructuring aimed at specialization or emphasising/re-emphasising core competencies and the outsourcing of other production and service activities (Porter, 1980; Dicken, 1998). As such, since the 1980s and 1990s flexibility has often been obtained through specialization and vertical disintegration (Piore & Sabel, 1984; Best, 1990; Malecki, 1997; Dicken, 1998; Storper, 1997).
Figure 1.3: Vertical disintegration and subcontracting arrangements

- **Product development**
  - market research
  - design

- **Firm A**
  - pattern making
  - sampling
  - costing
  - input procurement (fabric, buttons, zippers, thread)
  - grading
  - nesting and printing of large markers (detailing pattern pieces for various sizes of the garment)
  - spreading the fabric
  - cutting
  - sewing
  - buttonholing
  - attachment of trim and accessoires (zippers, buttons, rivets, etc.)
  - embroidery
  - rescreening
  - trimming (of thread)
  - laundry
  - chemical treatment
  - pressing/ironing
  - final quality inspection
  - attachment of labels and tags
  - sorting
  - packaging
  - boxing for transport

- **Firm B**
  - grading
  - nesting and printing of large markers (detailing pattern pieces for various sizes of the garment)
  - spreading the fabric
  - cutting
  - sewing
  - buttonholing
  - attachment of trim and accessoires (zippers, buttons, rivets, etc.)
  - embroidery
  - rescreening
  - trimming (of thread)
  - laundry
  - chemical treatment
  - pressing/ironing
  - final quality inspection
  - attachment of labels and tags
  - sorting
  - packaging
  - boxing for transport

- **Firm C**
  - grading
  - nesting and printing of large markers (detailing pattern pieces for various sizes of the garment)
  - spreading the fabric
  - cutting
  - sewing
  - buttonholing
  - attachment of trim and accessoires (zippers, buttons, rivets, etc.)
  - embroidery
  - rescreening
  - trimming (of thread)
  - laundry
  - chemical treatment
  - pressing/ironing
  - final quality inspection
  - attachment of labels and tags
  - sorting
  - packaging
  - boxing for transport
In the garment industry, vertical disintegration pre-dates the flexibilisation trend of the late twentieth century. For example, textbooks on economic geography written several decades ago (Hall, 1959; Berry et al., 1976, 1987; Alexander & Gibson, 1979) trace the separation of production from design and marketing in the US garment industry back to over a century ago. In recent decades the division of labour has become more complex and fine-grained: a great variety of garment firms – such as retailers, marketers, jobbers, vendors, buying agents/traders and manufacturers – have sprung up, each performing a part of the production process. Vertical disintegration in the garment industry is facilitated by the fact that the garment production process is easily segmented into separate production activities or nodes, each of which has a different capital-labour ratio (see section 1.1).

Subcontracting

With vertical disintegration and increasing specialization in garment production, subcontracting relations have become an integral part of the production organization. Here, subcontracting is understood as the production of components or finished products by one firm for another firm based on the latter’s specifications. A commonly used synonym for subcontracting is ‘sourcing’. Such an intermediate, ‘neither purely firm-like nor purely market-like’ (Casson, as quoted in Malecki, 1997, p. 114) coordination mechanism allows lead garment firms to maintain the flexibility associated with vertical disintegration (Holmes, 1986; Crewe & Davenport, 1992; Crewe, 1996). On the other hand, through tight coordination embedded in subcontracting relations, lead garment firms still have control over their subcontractors and are able to dictate prices and impose product specifications, quality and delivery standards (Humphrey & Schmitz, 2000; see also Chapter 2). In reference to subcontracting relations, the firm placing the order or contract is generally called the ‘principal firm’. The division of labour in subcontracting arrangements is such that the principal firm has total control over the marketing of the product.

Several types of subcontracting may be distinguished on different grounds. For this research, the most appropriate, broad distinction is between industrial and commercial subcontracting (Dicken, 1998; see Visser, 1996; Holmes, 1986; Hayter, 1998, for alternative approaches). In industrial subcontracting arrangements, either components or processes may be contracted out. Dicken (1998) further subdivides industrial subcontracting into largely self-explanatory types: speciality subcontracting, cost-saving subcontracting and complementary subcontracting. Between the three types of industrial subcontracting, not only does the principal firm’s reason for involvement vary, but so too does the extent of its and the subcontractor’s involvement in the production process. In Figure 1.3 the shift of assembly from firm B to firm C is an illustration of an industrial subcontracting arrangement.

In commercial subcontracting, the contractor produces a finished product. In the garment industry, commercial subcontracting is a central notion and is commonly referred to as ‘full package’ production (Gereffi, 1997). In full-package production arrangements, subcontractors purchase all the material inputs and use these to produce a finished garment in accordance with the specifications of their principal firm, to which the garment is subsequently sold. Since the insertion of LMIC contractors in the production networks of Western lead firms often starts with pure assembly activities, full-package production is seen as an important step in a development trajectory, in which LMIC contractors gradually extend their command over the production process (Gereffi, 1999). As will be further discussed in Chapter 3, full-package production features especially prominently in recent studies on the Mexican garment industry.
The shift of the entire manufacturing process from firm A to firm B in Figure 1.3 is an example of commercial subcontracting or full-package production.

In all subcontracting arrangements, marketing is the sole responsibility of the principal firm. In the case of garments, this latter observation is often taken to an extreme as the role of the principal (or ‘lead’) firm is increasingly assumed by retailers whose only involvement is with retailing and marketing. As will be discussed in the following section, their leading role is based on the fact that they have slowly gained power and have come to hold and consolidate a position of power over manufacturing firms.

1.1.2 Changes in the garment market

For a long time, a fairly clear and deep dichotomy based on the separation of manufacturers and retailers characterised the wearing apparel industry. The division of labour between them was fairly clear-cut: manufacturers took charge of the production, and often also the design of garments which they sold to retailers, who in turn sold them to the final consumers. Nowadays, the situation is not as straightforward. Sophisticated marketing has become an essential element in the strategies of all successful lead garment companies. In fact, the overwhelming importance of marketing is the basis for an entirely new type of garment firms, the ‘marketers’ or ‘manufacturers without factories’. These marketers have built their business on marketing without getting involved in manufacturing (Glasmeier et al., 1992; Gereffi, 1994a). They compete directly with retailers and branded manufacturers. Currently, all three types of garment firms are combining manufacturing and retailing strategies and adopting more hybrid forms of organization. As a consequence, it has become hard – certainly in the US – to clearly distinguish retailers from marketers and branded manufacturers; all are involved to some extent in retailing as well as in manufacturing or the coordination of manufacturing. Meanwhile, garment retailing has changed dramatically as such marketing tools as brands and labels are used to segment the market and for the frequent introduction of new fashion elements.

Product differentiation through brands and labels

As mentioned, garment manufacturing is characterized by fragmentation and small- or medium-sized companies. Only a few manufacturers, viz. those that are known as ‘branded manufacturers’, have managed to distinguish themselves from this small- and medium-sized enterprise (SME) manufacturing army by building a strong brand image. Traditionally, their garment brands were attached to only a few models of one type of standardized commodity garments such as jeans, socks or tee-shirts. Well-known brand examples are Lee, Wrangler, Levi Strauss, and Fruit of the Loom. These brands are owned and managed by branded manufacturers, whose main preoccupation for decades was the manufacturing of garments worthy of their brand, and less with the marketing side of their business and the brand. Nevertheless, the success of brands inspired retailers to develop their own private labels.

The development by retailers of their own private label lines marks an important change in the marketing of garments as well as a shift in the relation between various actors in the industry. Private label lines are manufactured for specific retailers and sold exclusively in their stores (Dickerson, 1995). For retailers, these lines have two clear advantages. Firstly, they give retailers direct control over the types of garments sold in their stores, enabling them to seek variety and exclusivity as a way to differentiate themselves from the competition. Secondly, private label...
products are generally sourced directly from LMIC manufacturers at low prices, allowing for higher mark-ups – certainly compared to domestic sourcing (Dickerson, 1995). In the USA, retailers started to develop private labels during the 1960s and 1970s as a means to maintain profits in a market characterized by stagnant sales, stable and homogeneous prices, and the consumer demand for greater product-mix variety. Typical examples of private labels are Kmart’s ‘Route 66’, JC Penny’s ‘Arizona Jeans’ and ‘Canda’ by C&A. Generally, private labels are positioned in the lower-priced segments of the market. The private-label strategy has been highly successful. Inspired by the success of manufacturers’ brands they are now means to compete with them (Palpacuer, 2002). So much so, that instead of being the main clients of domestic manufacturers, retailers have become important competitors of garment manufacturers, especially as they are developing direct relationships with overseas producers.

The development of private-label lines by department stores and other traditional retailers is not an isolated phenomenon. Besides brands and private labels, the 1970s also saw the birth of ‘designer labels’. These are owned by marketers or designers such as Calvin Klein, Ralph Lauren, Zara, Gucci, and Mexx (Dicken, 1998; Palpacuer, 2002). They are similar to private labels but have a more exclusive image and predominate in the middle- to high-price segments.

The general aim of brands, private and designer labels is to differentiate between largely similar products. Though applied throughout the industry, brands and labels are most effectively used as marketing tools in the mid to high segments of the clothing markets.

The branding and labelling strategy has been so successful that it has been taken one step further in a process that has been called ‘horizontal brand stretching’ (Gibbon, 2000). Horizontal brand stretching involves the sourcing and marketing of non-clothing items under brands or labels. Stretching into non-clothing items such as furniture, wristwatches, perfumes, jewellery, and bed- and bath linens (Gibbon, 2000; Speer, 2001a) turns clothing ‘styles’ into ‘lifestyles’. This phenomenon is becoming more and more common; marketers of designer labels are particularly proactive in this respect. Furthermore, marketers and designers engage in internal brand differentiation, through the development of slightly differentiated, often sound-alike brands (Gibbon, 2000), such as ‘Liz’, ‘Liz Claiborne Casual’ and ‘Claiborne Men’ by Liz Claiborne Inc. Similarly, ‘GapKids’, ‘BabyGap’ and ‘GapBody’ are spin-off labels of Gap Inc..

Clearly, brands and labels provide the retailers, marketers and branded manufacturers behind them with a powerful marketing tool. Through the consistent association of a brand or label with a certain style and/or with other product characteristics, such as price or quality, its owners seek to manipulate and control the garment market. They try to win consumer loyalty by segmenting the market and stimulate sales through frequent fashion changes.

Market dynamics: segmentation and ‘fashionisation’

The garment industry is also characterized by high levels of segmentation (section 1.1). Segmentation may be based on the final consumer (man, woman, child), type of garment (bottoms/tops, outerwear/underwear) or price/exclusivity (cheap, mass-produced/expensive, exclusive), etc. After massification in garment marketing and production during the 1960s and early 1970s (Griffin et al., 1971; Crewe & Davenport, 1992), the 1980s saw a renewed tendency towards segmentation of the mass market for garments. Current market segmentation is based on the creation of specific clothing styles that correspond to consumer profiles and the use of brands or labels to achieve consumer recognition and loyalty. During the 1990s, consumption patterns for clothing became highly opaque, as price, fashion, brands/labels and
style played a role in determining garment sales. The dualism between ‘cheap and cheerful, throw-away fashion’ and higher value, quality clothes appears to have become less absolute. In attempting to maintain garment sales and gain control over fickle and stagnant consumer demand (Audet, 1996), the creation of clear and popular clothing styles is an increasingly important instrument. The aim is to identify or even create discrete segments of the consumer market – or discrete consumer profiles, such as skaters, female professionals and young urban professionals – for which a specific style, often under a separate brand or label, can be developed.

Besides the segmentation of the garment market into a greater number of specific styles, the greater importance and faster-paced nature of fashion change is dynamising the garment market. Though pinpointed as a trend many decades ago (Hall, 1959; Berry et al., 1976), nowadays fashion change is seen by some as the main motor behind the continued consumer demand for clothing (Dicken, 1998; Dickerson, 1995; Crewe & Davenport, 1992), which would otherwise be hampered by clothing’s negative elasticity of demand and a saturation of Western mass markets (Audet, 1996). Across the various segments, fashion changes are frequent and multiple fashion collections cater for such changes as well as stimulate sales. Six or even eight fashion seasons a year has become the rule rather than the exception. It is important to note that this applies to the industry as a whole. Fashion trends are incorporated into most garments, from cheap lower-end to expensive and exclusive (OTA, 1992). Even garments such as jeans, tee-shirts and underwear, which are traditionally characterized by a high degree of standardisation, have increasingly had to incorporate fashion elements in order to maintain market share (Gibbon, 2000).

Brands and labels are important tools in the segmentation of the market and they have become key assets. Manufacturers, designers and retailers concentrate efforts and capital investment on the creation of a global brand or label image. The capital investment necessary to launch and maintain a successful mass advertised, global image have contributed to strengthening the barriers to entry in garment retailing. As will be discussed next, the branding and labelling trend has re-enforced the power of lead firms that are successful in this segment over other garment firms.

Lead garment firms: examining the positions of retailers and manufacturers

In recent literature on the garment industry, one general trend stands out above all others: the increasing dominance of retailers over manufacturers (Clairmonte & Cavanagh, 1981; Scheffer, 1992; Taplin, 1994; Dickerson, 1995; Elson, 1988; Dicken, 1998; Jernigan & Easterling, 1990; Gibbs, 1988). In more general terms, there has been a shift of core competencies away from manufacturing towards the marketing and design phases of the production process. Strong design and marketing competences, rather than manufacturing skills, are the keys to success in the garment industry today. Changes have been especially dramatic in the UK, where the phenomenon has been referred to as a ‘retailing revolution’ (Crewe & Davenport, 1992; Scheffer, 1992). Similarly, in reference to the USA, Dickerson (1995, p. 453) speaks of ‘power retailers’.

Concentration in retailing has increased. Nowadays fewer retailers enjoy larger market shares and increased purchasing power over manufacturers (Crewe & Davenport, 1992; Scheffer, 1992; Dickerson, 1995; Gereffi, 1994a). Retailers increasingly exercise command and control over the
products in their stores as well as over the manufacturers that produce these clothes. Many retailers occupy the position of lead firm in garment production networks. Traditional general retailers, including mass merchandisers, department stores and mail-order companies, are participating in this shift, as is the new type of retailer, the marketers. The result appears to be a general power shift from manufacturers to retailers.

However, manufacturers have not been passive bystanders: especially branded manufacturers (that have a long history of working with brands) have adapted their business strategies to be able to confront the competition from retailers (see also Box 1.1). In most cases their strategic reorientation has involved the increased promotion of existing brands and/or the acquisition of new brands, whilst de-emphasising their production activities. Most have not completely divested out of manufacturing, but have opted for a combination of in-house production and subcontracting. Several branded manufacturers have integrated forward into retailing mostly through the establishment of ‘outlet stores’. Based on the success of such and other strategies, several branded manufacturers are able to maintain a position of power and control over their ‘filière’ or production column and production network. Smaller manufacturers that do not produce under their own brand are generally finding it hard to carve out a niche for themselves. They occupy a dependent position vis-à-vis retailers and other lead firms and may be threatened as the latter internationalise their sourcing networks (see also section 1.2).

As lead garment firms become more hybrid and business strategies converge, retailers, marketers and branded manufacturers are commonly grouped together under the broad denominator ‘buyers’. This nomenclature points to the homogenisation of their strategies and the declining relevance of the manufacturing or retailing ‘roots’ of individual buyers. More importantly, it also underscores the general importance of buying or sourcing as part of the strategy of all lead firms. Increasingly, lead firms in the main Western markets have strong sales and marketing competencies, and outsource manufacturing responsibility to a large and often international production network. They orchestrate the production of their clothes by tightly coordinating and controlling these networks and participant producers.

**Box 1.1: The dynamics of garment marketing: the case of blue jeans**

Though they have an image of being quintessentially American, blue jeans have a very international background: their inventor, Levi Strauss, was a German immigrant from Bavaria; ‘jeans’ is derived from Genoa (‘Genes’ in French) in Italy where local sailors were the first to wear jeans; and ‘denim’ comes from Nimes, the French town where the fabric for the first jeans was bought (Knight, 1999). Since their invention, jeans have only become more internationalised; they are now as international as any other type of garment. In addition, they have lost their status as the uniform of the blue-collar worker and the American cowboy and – after what appears to have been a brief identity crisis – are moving towards the centre stage of fashion. All in all, jeans provide an excellent illustration of the dynamics of the garment industry in general.

Branding and market segmentation feature prominently in the strategies of blue-jeans producers nowadays. Evidence to this is a Levi Strauss press release in which the company announces the launch of a new Levi Strauss & Co. brand, Levi Strauss Signature™.
‘Entering the mass channel in the United States with a new brand is a natural next step for us as we continue to broaden our product availability through a portfolio of brands. We’ve segmented the marketplace by consumer types, product, price and retail channel. For example, consumers will easily see the difference between the jeanswear lines within the Levi Strauss Signature(tm) and Levi’s(r) brands. Each brand will have differentiated products in distinctive fabrics and finishes at various price points [...] but they will all be rooted in what we stand for – originality, quality and style. (Company press release, 30 October 2002)

Levi Strauss’ most direct competitor – VF Corporation – appears to be following a more aggressive strategy to broaden its portfolio of brands, in which the acquisition of existing brands plays an important role. Currently (2003), VF owns and manages sixteen brands, including Lee, Wrangler, Rustler and Gitano, as well as non-jeans brands such as East Pack, The North Face and JanSport.

The upsurge in private labelling has also affected the blue-jeans segment. One of the companies seen to have initiated this trend in the 1970s was Gap Inc. (Knight, 1999), a company that moved from retailing Levi jeans to becoming the marketer of its own private-label lines. At that time jeans sales were at an all-time high and both retailers in the lower segments of the market and designers for the higher segments began to launch private-label jeans. By the beginning of the 21st century, Arizona Jeans (by JC Penney), Route 66 (Kmart), Guess, Diesel, Polo and many others were firmly established names in blue jeans.

Finally, blue jeans have not escaped the fashionisation trend, so that now one can distinguish fashion jeans from basic jeans, where the former are progressively taking over market share from the latter. This change was not made overnight, certainly not by the main players, the branded manufacturers such as Levi Strauss and VF Corporation. The laggardly attitude towards fashionisation of the segment’s traditional leaders – most notably Levi Strauss, which as a consequence suffered great losses in market share – as well as the uncertain direction and success of this fashionisation trend caused a number of industry watchers to publish alarming reports on the ‘disappearance of jeans’ (Tubantia, 1999). The initial narrow focus on standardized 5-pocket jeans of many of these reports to some extent explains the overly dramatic picture they paint. Furthermore, efforts were made to recover the lost market share, most notably by increasing the design efforts in jeans. New fashion elements were incorporated not only by retailers and marketers, but also by the branded manufacturers. This appears to have paid off: the street scene of today shows that jeans have by no means disappeared. A considerable share of the loss incurred by 5-pocket jeans is being balanced by growth in fashion denim products. Thus, once the classic example of a mass-produced, standardized garment, the progressive but cautious incorporation of fashion elements during the 1990s and the active participation in the generation of new trends around the turn of the new century have radically changed the face of blue jeans. Reports in industry magazines bearing titles such as ‘Denimwear is hotter and more fashion forward than ever’ (Swedberg, 2002) confirm this trend. The range of denim fabrics has expanded dramatically over the past years, especially with regard to stretch fabric and new types of weaves, but finishing techniques now determine the look of jeans. Low-rise jeans are popular and these are treated with finishing techniques such as sand-blasting, hand-sanding (creating faded patches on thighs and seat) and ‘whiskering’ (artificial creases at the crotch and knees). These and other treatments with chemicals, dyes or abrasives determine the appearance and popularity of a pair of jeans.
1.1.3 Changing to face new challenges

From the above it is clear that non-price aspects have become crucial to building and maintaining a strong position in the wearing apparel market. Besides price, garment sales are now determined by brand reputation, which amongst other things depends on product quality, styling, advertising, and rapid and accurate response to fashion trends (Richardson, 1996). The garment marketing arena has witnessed fairly radical changes leading to the progressive subordination of production to marketing and a more central position of retailers in garment production networks. However, this is just one step in a sequence of changes that is transforming garment production networks and organizational processes as well as manufacturing firms. This section connects recent developments in the industry with the production organization in order to highlight incipient and expected changes in garment networks and firms.

Technological innovations and rapid progress in computer technology are transforming the competitive dynamics of the industry by allowing the easy and low-cost collection, processing and dissemination of consumer sales data (Abernathy et al., 1995; Dicken, 1998). Similarly, the internet is affecting the organization of garment production, mainly by facilitating fast and direct business-to-business (B2B) contact and data exchange between geographically distant participants in a production network. The result is an ‘information-integrated channel’ (Abernathy et al., 1995)10.

The industry-wide fashionisation trend creates a push for short delivery or turn-around times. It also diminishes the predictability of sales and discourages the issuing of predictable bulk orders, which is reflected in an overall reduction of order sizes and the break-up of orders into a large initial order complemented by smaller replenishment orders. The resulting pressures on garment manufacturers and contractors to become more flexible are paramount (Audet, 1996; Malecki, 1994). At the same time, greater variety, volatility and uncertainty in the market pose considerable risks to retailers. Risk minimisation or aversion is achieved by ‘lean retailing’: the direct transfer of risk – most notable in inventory management – and responsibility to manufacturers and contractors. It is also achieved by closer cooperation between buyer and manufacturer.

Risk minimisation is also important with regard to control over suppliers in the sphere of labour conditions and environmental standards. Consumer pressure and boycotts based on concerns over labour conditions and/or pollution can easily blemish the reputation of brands or labels. The reputation of brands has proven to be vulnerable, and malpractices – or allegations thereof (Berron, 1999) – can have a notable negative impact on sales. Following a number of labour condition scandals involving, amongst others, Nike and Gap Inc., many buyers have formulated corporate codes of conduct (see Annex 2). Nowadays the codes of conduct of most garment buyers specify the labour condition and environmental requirements with which factories that produce for them need to comply (Hale, 2000)11.

These very broad changes affect the production organization in a number of ways. First, to reduce inventories and make production correspond more directly to sales, retailers are building closer working relationships with manufacturers. These retailer-manufacturer partnerships are especially needed in the fields of inventory control and product development (Abernathy et al., 1995; Palpacuer, 2002; Wyatt, 1989). The formation of these relationships goes hand in hand with a streamlining and rationalisation of the production networks, in which
those manufacturers are favoured that can meet not only price and quality requirements but can also offer high flexibility and responsiveness to market changes and retailer demands. Abernathy et al. [1995, p. 176] note that:

‘...lean retailing strategies place pressure on apparel manufacturers to adapt information systems, order fulfilment practices, distribution practices and related services that allow them to fill retailers’ orders rapidly, efficiently and flexibly ... the long-term competitive performance of the firms responsible for the production and distribution of apparel products will therefore be shaped by their capabilities to respond rapidly to consumer demand while minimising exposure to inventory risk. This fact potentially places a premium on such characteristics as geographic proximity to market, technological sophistication in planning, distribution and production, and investment in closer, longer term relationships with the other players in the channel.’

The pattern of regionalisation of sourcing mentioned by Abernathy et al. will be dealt with in the second section of this chapter; here the focus is on the organisational transformation of production networks. In that respect, close and strategic buyer-supplier cooperation combined with the large production volumes involved explains the concentration on fewer but larger and more capable manufacturers as ‘key suppliers’ in the networks.

Which manufacturers or suppliers are in the best position to attain a key supplier position? Such a position requires more than investment in technology, the transformation and adaptation of the organization of production in order to shorten delivery times, and more flexibility. Common elements of what in the industry is known as a ‘quick response’ strategy are better communications between buyer and manufacturers [based on electronic data interchange (EDI), which may go as far as the direct transmittance of point-of-sale data to the manufacturer] and improved inventory tracking. However, flexibilisation of the production process on the factory shop floor may also be needed [AAMA, 1988; KSA, 1988; Bailey, 1993; Dicken, 1998]. The traditional bundle system is typically Taylorist in its focus on high specialization of workers – whose earnings are based on piece rates – and promotion of individual productivity. The downsides of the system are tremendous amounts of in-process inventory (several bundles each comprising thirty garment pieces may be awaiting each operator) and complicated quality control. This implies quality risks, long throughput times and inflexibility. The installation of a unit production system [UPS] – a rail transportation system that transports individual garments or garment pieces on a hanger between operators – is one way to reduce in-process inventory. Module systems, in which workers have more responsibilities and each garment piece is immediately handed from one operator to the next, are thought to be a good alternative, especially because they bring dramatic reductions in in-process inventory and in throughput time [Bonacich & Waller, 1993; Bailey, 1993]. The flexibility gains associated with the module system are great: lead times may be reduced from several days to a few hours [see KSA, 1988]. However, its implementation may be complicated, not in the least because it requires a new division of tasks and a departure from many typically Taylorist features of the production organisation [Bailey, 1993].

All in all, the responsiveness and flexibility on the shop floor as well as in the relations with others in the network require key suppliers to implement strategic management and to make capital investments. These are great challenges, especially to new manufacturers, and the stakes are high. Key suppliers may serve as gatekeepers between retailers and the rest of the production network, where they monopolise the information exchange with retailers. They translate retailer demands into the practical programming and organization of production and
exercise control over the army of other subordinate contractors/subcontractors in the production network. The result is a hierarchy of suppliers in which the position of key supplier is highly desirable, not in the least because it ensures direct access to the market and to strategic information.

1.2 Garments: straddling the globe

The characteristics and trends presented in the first part of this chapter are only one part of a broader overview of developments in the garment industry. The discussion in this chapter would be far from complete without an examination of the main geographical shifts and patterns in garment production and trade over the past decades. This will be done in this section.

For most of its existence, the garment industry has served local, regional or – at most – national markets. Until the 1960s, garment producers in most countries were oriented towards the domestic market. In that decade, Japan initiated extensive international subcontracting in Asia. This indirectly stimulated the first-generation of newly industrialising countries [NICs] – viz. Singapore, Hong Kong, Taiwan and South Korea – to make their first garment exports [Dicken, 1998]. They soon established themselves as major players (see Table 1.1) and caused great concern and protest in Western Europe and the US (Dickerson, 1995; Bonacich & Waller, 1994b). Garment sales in these markets were largely stagnant and the growth of exports from LMICs was largely at the expense of domestic production in the importing countries.

This pattern of shrinkage of the industry in most industrialized countries – even in some traditionally highly competitive producers and exporters such as Italy, Germany and the UK – and the growth and export success of LMICs caused much upheaval, involving labour unions, an influential lobby of industry representatives and government officials (Dickerson, 1995). Growing garment exports from LMICs were perceived as a serious threat to the traditional producer countries. The characteristics of the garment labour force added to the concern, since those in highly sensitive segments of the labour force stood to lose their job and become unemployed. In response to these concerns, in 1974 an international regulatory framework for the clothing industry was established. This framework – the Multi Fibre Agreement (MFA) – was meant to curb and contain the growth of garment production for export in LMICs, and more specifically to limit their penetration of the main Western markets. In practice, however, it did the reverse: it stimulated rapid sophistication of the industry in a number of NICs. MFA

Table 1.1: Annual growth (%) in value added in garments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrialized countries</td>
<td>2.1</td>
<td>0.2</td>
<td>-0.6</td>
<td>-1.4</td>
</tr>
<tr>
<td>Eastern Europe and the former USSR</td>
<td>6.7</td>
<td>5.2</td>
<td>1.7</td>
<td>N/A</td>
</tr>
<tr>
<td>All developing countries</td>
<td>5.8</td>
<td>4.2</td>
<td>2.6</td>
<td>-0.3</td>
</tr>
<tr>
<td>Asia</td>
<td>4.8</td>
<td>5.6</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>1st generation NICs</td>
<td></td>
<td></td>
<td>2.2</td>
<td>-3.5</td>
</tr>
<tr>
<td>2nd generation NICs</td>
<td></td>
<td></td>
<td>5.5</td>
<td>7.1*</td>
</tr>
</tbody>
</table>

Source: Scheffer (1999); UNIDO (International Yearbook of Industrial Statistics)

* refers to 1990-1993; no data are available for 1998
also caused the industries’ further proliferation and global dispersal (Glasmeier et al., 1992; see Table 1.1 and section 1.2.1). As decades went by, the increasing volumes of LMIC garment exports as well as the growing number of LMICs involved in it proved irreversible trends, despite – or possibly stimulated by – the strict international regulatory framework.

Table 1.1 shows that the pattern of selective growth and decline extends into the 1980s and 1990s, the era of the extensive use of protective measures. During the 1980s rapid and widespread growth in LMICs was accompanied by the considerable decline of the industry in industrialized countries (see also Dicken, 1998; Dickerson, 1995; Audet, 1996). For the 1990s the overall pattern in Table 1.1 is less clear, but the most important figures stand out clearly: the decline in value added in garments in the industrialized countries continued in a more dramatic manner than in the previous decade. The overall value added for garments in LMICs eroded, but only slightly. This erosion, however, is the result of two opposite trends: decline in the first-generation NICs and rapid growth in the second generation. The decline of the first-generation NICs appears in part to have been a result of the successful continuation of their industrialization process (see also Box 1.2). They are now competing in a wider array of industries and are de-emphasising garment manufacturing activities.

How much impact has this pattern of selective growth and decline based on world trade had on the actual pattern of clothing production across the globe? Where are garments produced? Which are the main producing countries? By presenting garment employment figures across the globe, Figure 1.4 gives a broad indication of the location of garment production worldwide. First and foremost, the figure shows the garment industry to be omnipresent, on every continent in a very large number of countries. The very large numbers of garment workers in China, and throughout most of Asia, is one of the first features in the map that stands out. The predominance of Asia vis-à-vis other LMICs is the result of an early start in garment production, sustained regional growth rates, and significant intra-regional trade. Similarly noteworthy, however, is the continuing importance of the industry as an employer in the US and most European countries. Much of the current writing on and concern with the globalization of the industry and its growth in LMICs, might cause one to forget that the largest garment producers are still the industrialized countries that have a very long history in this industry (see also Table 1.2). They are now competing in a wider array of industries and are de-emphasising garment manufacturing activities.

The data presented in Figure 1.4 concern overall garment employment, without distinguishing between production for export and that for the domestic market. Although some domestic market production takes place in LMICs, its relative importance in most of these countries is limited. Increasing shares of garment production of LMICs are destined for export rather than the domestic market. As a consequence, world trade in clothing is still expanding: the global garment trade grew by 6% a year in the period 1990–1999 (WTO, 2000).

In order to provide a more detailed understanding of global garment production and trade, Table 1.2 lists the top ten global garment producers, exporters and importers of the late 1990s. It clearly confirms the still very strong position of the US, Japan and several European countries in garment production (Figure 1.4). In fact, the only LMICs in this top ten are Brazil and China. The exceptional position of both these countries is based on the combination of a large domestic market and significant exports. The table, however, also indicates the overwhelming...
export position of China built up during the 1990s, whereas Brazil’s large production volumes appear to be largely sustained by and destined for the countries’ enormous domestic market.

Interestingly, columns 1 and 2 in Table 1.2 consist of mostly the same Western countries: most of the leading garment producers are also the largest importers. Sizeable domestic production – part of which is exported (as indicated in column 3) – is clearly insufficient to satisfy domestic demand in these countries. In fact, large import volumes cause many of these countries to maintain a negative trade balance in clothing (WTO, 2000). Overall, garment imports and production are highly concentrated and dominated by just a few countries.

Of special interest in Table 1.2 is the list of the top ten garment exporters. Although half of this list coincides with the lists in the first two columns of the table, the other half is occupied by LMICs that are not amongst the largest producers, nor amongst the largest importers. The main LMIC exporters as listed in the table may hardly be a surprise, given the broad trends and shifts outlined above: with the exception of Mexico, all LMICs in the list are Asian countries. Despite international trade limitations, China, Hong Kong and other Asian countries have successfully penetrated the world market, in a sense doing so against all odds.

Overall, the concentration of garment exports is less pronounced than that of production and imports. This confirms the successful participation in world exports by a larger number of LMICs. More and more new countries are becoming active participants in garment production and export. For example, several African countries are garment suppliers for the US and European markets. Building on different backgrounds and linkages, Mauritius/Madagascar (Gibbon, 2000), Kenya (McCormick, 2001) and South Africa/Lesotho (Gibbon, 2002) are amongst the African newcomers. Many LMICs rely relatively heavily on garment exports. The share of
clothing in world trade in manufactured goods was almost 6% in 2002 – up from 3.3% of total manufactured exports in 1973 (Spinanger, 1992). However, for Africa, clothing made up 18%, for Latin America 10.7% and for Asia 10.3% of their total manufactured exports (WTO, 2000). For individual LMIC economies, dependence of clothing may be much more pronounced still: clothing accounts for 75% of Bangladesh’s, 64% of Mauritius’ and 50% of Sri Lanka’s export earnings (EC, 2003). These figures underline the importance of clothing production in the early stages of industrialisation.

The position of Mexico is noteworthy, not only because it is the subject of this study, but also because of its surprisingly prominent presence in Table 1.2. Just a decade ago, Spinanger (1992, p. 91) ranked Latin America – and more specifically Mexico, Brazil and Colombia – next to Africa because of their poor export performance in garments. Now, however, Mexico is the only non-Asian LMIC amongst the top ten garment exporters and the only LMIC in the importers list. Its unique position can be explained by the importance of production sharing arrangements between Mexico and the USA. As will briefly be discussed in the following section, this type of production is limited to assembly or cut-make-trim (CMT) processes using imported materials. In these arrangements, Mexico imports pre-cut fabric from the USA for assembly, and then re-exports it to the USA (see Chapter 3 for a more detailed case discussion).

NAFTA combined with Mexico’s proximity to the US provides a solid and unique base for Mexico’s position as ‘the industrial backyard’ of the US. However, the strong ties between the two countries also point to the more general importance of regional trade patterns as part of aggregate, global trade flows. An examination of the sourcing patterns for the main garment markets in the world – viz. Western Europe, the US and Japan (see Figure 1.5) – reveals clear regional patterns. For the Western European market as a whole, most clothing imports come either from within Western Europe or from Eastern Europe. For Japan, 86.3% of total garment imports are sourced from other Asian countries. For the US, Asia is still the most important source of garment imports, but Latin America is second and is catching up.

Table 1.2: World-leading garment producers, importers and exporters (in US$ value)

<table>
<thead>
<tr>
<th>World-leading producers in 1998</th>
<th>World-leading importers in 1999</th>
<th>World-leading exporters in 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Share (%)</td>
<td>Country</td>
</tr>
<tr>
<td>USA</td>
<td>24.7</td>
<td>USA</td>
</tr>
<tr>
<td>Japan</td>
<td>12.2</td>
<td>Germany</td>
</tr>
<tr>
<td>Italy</td>
<td>11.5</td>
<td>Japan</td>
</tr>
<tr>
<td>France</td>
<td>3.7</td>
<td>UK</td>
</tr>
<tr>
<td>UK</td>
<td>3.6</td>
<td>France</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.2</td>
<td>Italy</td>
</tr>
<tr>
<td>Germany</td>
<td>3.2</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Spain</td>
<td>3.0</td>
<td>Belgium</td>
</tr>
<tr>
<td>Canada</td>
<td>2.8</td>
<td>Mexico*</td>
</tr>
<tr>
<td>China</td>
<td>2.7</td>
<td>Spain</td>
</tr>
<tr>
<td>Total</td>
<td>70.6</td>
<td>73.1</td>
</tr>
</tbody>
</table>


* includes significant shipments through processing zones

clothing in world trade in manufactured goods was almost 6% in 2002 – up from 3.3% of total manufactured exports in 1973 (Spinanger, 1992). However, for Africa, clothing made up 18%, for Latin America 10.7% and for Asia 10.3% of their total manufactured exports (WTO, 2000). For individual LMIC economies, dependence of clothing may be much more pronounced still: clothing accounts for 75% of Bangladesh’s, 64% of Mauritius’ and 50% of Sri Lanka’s export earnings (EC, 2003). These figures underline the importance of clothing production in the early stages of industrialisation.

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Regional sourcing has been stimulated by a number of trade regulations that favour sourcing from nearby countries; these regulations are discussed in the following section. They support the internationalisation of domestic manufacturers to nearby countries as a way to lower total production cost and remain competitive vis-à-vis Asian competitors. On the basis of these trade benefits, existing import linkages between Western Europe and North Africa, Eastern Europe and the Mediterranean were consolidated and expanded. For the US, a large share of clothing imports originate from the Caribbean, Mexico and Central America. Recent market changes and trends, mentioned in the first part of this chapter, also firmly underpin regional sourcing. The pressures in the direction of shorter order cycles and quick response provide a powerful stimulus for the increased regionalisation of trade flows (Gereffi, 1997; Dicken, 1998; Dickerson, 1995; Scheffer, 1992; Audet, 1996; EC, 2003).

This is also beginning to be reflected in trade statistics. For example, recent WTO statistics confirm the regionalisation of US sourcing, as imports from Latin America – most notably Mexico – are growing much more than those from Asia are. At the same time, for Western European markets intra-European imports are shrinking, and imports from nearby sources

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**Box 1.2: Asia – the making of a garment giant**

‘Asia has been a powerhouse of growth’ (Dickerson, 1995, p. 147). Interestingly, a common element in the economic success of Japan and Asian NICs such as Hong Kong, Taiwan and South Korea is their emphasis on export-oriented industries, most notably textile and apparel production. The development strategies of the NICs mirror Japan’s economic development strategy and the central role the state and textile production played in it. Though there are differences between the industrialisation paths of individual NICs, with regard to the garment industry a number of common elements stand out.

First, the NICs used their successful textile and apparel production and export to spark a wider process of export-oriented industrialisation. As their industrialisation process progressed, textile and apparel production lost relative importance and employment in the industry declined. As other industries grew and began to compete for industrial workforce, the textile and apparel industries in these countries were plagued by labour shortages and rising wages. Some nations have tried to counter this trend by facilitating the incorporation of immigrant workers into the textile and apparel workforce. Nevertheless, the upward pressure on wages has continued, as has competitive pressure
from low-wage production locations in the Asian region. As a result, all NICs have at some stage become engaged in foreign investment and offshore production. Especially the Hong Kong and South Korean textile and apparel industries are active foreign investors; they have factories throughout Asia as well as in Latin America and the Caribbean.

Secondly, these industrialisation paths – including the growth and downsizing of domestic textile and apparel production – of most Asian nations did not develop without the interference of state governments. In Japan, Taiwan and South Korea, the state is especially known to interfere directly in the economy by forging linkages between the state, the financial sector and industrial sectors. In Singapore, too, the government devised measures to manipulate the local industrial environment in order to steer the national economy in the desired direction of higher value-added and capital-intensive activities (Smakman, forthcoming). In several cases, macro-economic variables were dominated by industrial priorities (Dussel Peters, 1997a, 2000). In many nations the general effect on the garment industry has been a push to upgrade to higher value-added activities and to relocate manufacturing to offshore low-wage locations. On the whole, the East and Southeast Asian economies can be characterized as developmental states: market economies with highly interventionist governments. In whatever shape or form, on the whole state intervention and strategic guidance have been fundamental factors in the transition of many Asian economies (Dicken, 1998; Gereffi, 1989). It is therefore all the more surprising that the Asian development model has been used as the case for export-oriented industrialisation, as well as for neo-liberal policy reforms and a retreat of the state in other parts of the world. In the discourse adopted by the Washington Consensus, most especially the World Bank, governments in LMICs were presented with an ‘East Asian Miracle’ model in which the role of the state was reduced to ‘getting the fundamentals/prices right’. Development was to be based on ‘hands off, export-based industrialisation’ (Dicken, 1998).

Finally, international trade restrictions have been a major influence on the development of these industries in Asia. Japan was largely unrestricted and Hong Kong obtained generous export quotas before the mushrooming of LMIC participation in the late 1960s and 1970s. This was not the case for most other Asian garment nations: those countries that began to engage in textile and apparel exports later were bound by strict MFA trade limitations (see also section 1.2.1).

The combination of labour shortages, government policies and restrictive trade regulations led to the ‘flying geese’ model of progressive relocation of industrial production in the Asian region. This flying geese pattern started with Japanese investments in offshore production locations in the NICs. As the NICs were confronted with labour shortages and restructured towards less labour-intensive industries, they relocated production to the ASEAN countries (most notably Singapore, Indonesia, Malaysia and the Philippines) and China. Later on, other newcomers such as Cambodia, Vietnam and Bangladesh were also incorporated. The resulting regional production system has been called ‘triangle manufacturing’. In triangle manufacturing, suppliers in the first-generation NICs become intermediaries that control production in many, generally Asian countries (Bonacich & Waller, 1994a; Gereffi, 1996). These triangles make use of the state-of-the-art capabilities and skills built up over decades in the first-generation NICs. Thus the continuously strong position of exports from the Asian region as a whole are based on, among other things, the coupling of industrial knowledge and capabilities built up in, for example, Hong Kong and Singapore, with the large low-cost labour reserves in their regional backyards. While both upgrading in early participants as well as low labour costs in Asian newcomers have received attention, it is the combination of the two factors that underpins the competitive position of the region as a whole.
such as Turkey and Tunisia are growing. However, working against the regionalisation stream, Asian imports into the EU are still growing (WTO, 2000). Ironically, the continuing success of Asia is at least partially also based on the regional division of labour arrangements (Gereffi, 1996; Bonacich & Waller, 1994a; see Box 1.2).

1.2.1 Regulating apparel
Since the early 1960s the garment industry has been subject to international regulations, first through the ‘Short- and Long-term Arrangements’. 1974, however, saw the introduction of the MFA, a more strict and elaborate international regulatory framework. The aim of the MFA was to liberalise international trade in textiles and clothing as well as to protect the domestic markets of importing countries through the ‘orderly’ development of international trade flows. The MFA in itself was quite general. Orderly development was to be achieved through bilateral agreements specifying a combination of tariffs and especially quota, which were set per product category (Dickerson, 1995). Thus, in practice, the MFA led to the creation of highly detailed and relatively strictly controlled listings that specified the export volume quota for each country, in each product category. Once a country had filled its quota for a certain product, no more of that product could be exported to the main markets. The MFA was originally intended to be in force for four years, but has been extended or renegotiated four times (1977, 1982, 1986, 1991), each time further restricting imports and allowing less room for liberalisation.

Ironically, the repeated extension of MFA and its increased emphasis on restriction is, in some way, the result of its own success (Glasmeier et al., 1992). The MFA was intended to limit the growth and development of manufacturers in developing countries. Soon after the MFA came into force, manufacturers in these lesser developed countries (LDCs) began to seek (and indeed, found) ways to circumvent the restrictions. They did so in a number of different ways (Dickerson, 1995; Glasmeier et al., 1992). Firstly, manufacturers illegally hid the true nature of their products, mainly through false labelling. Secondly, and more importantly, many turned to the production of other types of garments as soon as the quota for the garment they originally produced had been filled. In many cases this resulted not only in a diversification of the product base, but also in upgrading through a shift towards more sophisticated garments with higher margins. Furthermore, the agreement indirectly stimulated manufacturers to shift part of their production to nearby countries that had not filled their quota or were not bound by restrictions. Thus the above mentioned intricate webs of trade and production relations came into existence, linking especially manufacturers in Asian countries. Finally, some LMIC suppliers established FDI facilities in their main markets to circumvent quota limitations.

Within the international MFA framework, a few countries, most notably the US and Germany but also other EU countries, designed their own, additional national policies or provisions. Two types of national regulations or policies can be distinguished (Dicken, 1998): policies designed to encourage restructuring of the domestic industry, and those that stimulate/facilitate offshore assembly arrangements. Whereas the former may indirectly affect international trade patterns, the latter have had a direct impact on global production and trade patterns. Offshore assembly arrangements – also called ‘production sharing’ in the US, and ‘outward processing trade’ (OPT) or ‘traffic de perfectionnement passif’ in Europe – allow the duty-free, temporary export of fabric and material inputs for garment assembly in low labour cost countries. Though generally not restricted to certain groups of countries, in practice the logistics and costs involved in the shipment of materials and finished products means the
provisions were mostly used by Western manufacturers to shift assembly to supplier countries on the periphery of their markets. In practice, offshore assembly provisions thus underpinned the tendency towards regionalisation (Smith et al., 2002; EC, 2003). The US 807 and Caribbean Basin Initiative (CBI) programs, for example, mostly benefited Mexican and CBI assemblers (Glasmeier et al., 1993; Spener, 2002; see also section 3.2.1).

However, LMICs are not passive subjects of externally devised policies. In fact, in LMIC garment-export countries, national policies may play a very important role in the development of the industry. As mentioned, the governments of Japan, South Korea, Taiwan and Singapore for example actively stimulated the upgrading and modernisation of the industry in order to maintain its competitive position and to facilitate the switch to higher value products and processes (Dicken, 1998, Smakman, forthcoming; see Box 1.2). In many other countries, the role of the government has been more facilitative and geared to the attraction of FDI in garments. As will be discussed in Chapter 3, Mexico is an example of a country with a government that has decided to play a more facilitating role. Governments may also play a significant role at the sub-national level, especially in LMICs in the early stages of industrialisation. In decentralised political environments, state governments are actively pursuing FDI in the garment sector as a way to create employment and possibly spark a further industrialisation process within the confines of their state.

Clearly, trade policies have been a determining factor in the shaping of geographical garment trade flows for decades, and they still are. Indeed, the current trade patterns of garments are shaped largely on the basis of the existing myriad of quota and tariffs, a practice which goes directly against the spirit and agreements of the WTO. The exceptional position of garment trade has not gone unnoticed: as a result of the GATT Uruguay Round, clothing was incorporated into the WTO and a ten-year phase-out (1995-2004) of the MFA was negotiated. Existing tariffs and quotas will soon be completely eliminated, and this will no doubt have a profound impact on the global garment production landscape (EC, 2003). In this respect, especially the lifting of limitations on Chinese garment exports is causing great concern amongst garment exporters in other LDCs.

1.2.2 Production networks and strategic localisation
This section examines the interrelations between the changes in the main garment markets and lead firms, and the patterns in the garment trade as illustrated above.

As mentioned, the internationalisation of clothing production was sparked by US and European retailers and marketers that began to buy finished products (full packages) for their private label lines from overseas suppliers – mostly in Asia. After that, US and EU manufacturers began to engage in international subcontracting of assembly services. The resulting pattern of increasing participation of LMICs – on the periphery of final markets and further away – in global garment exports is not a result of arms-length trade or a reflection of independent, successful penetration by LMIC manufacturers of markets in developed countries. In large part this pattern is orchestrated by Western lead firms, or buyers (see Chapter 2). Individual firm strategies of buyers in developed countries and of their producers in LMICs, are the basic building-blocks behind this pattern.

The omnipresence of the garment industry is widely recognized. It is one of the most globalised industries, if not the most globalised industry, in the world (Bonacich et al., 1994;
Dickerson, 1995; Dicken, 1998). Following Dicken (1992, 1998), this study defines globalisation as the functional integration between internationally dispersed production activities (see also Mittelman, 1996). Vertical disintegration and international subcontracting being common practice, the garment industry has long displayed the far-reaching, kaleidoscopic organizational and spatial fragmentation of the production process regarded as characteristic of globalised industries.

Table 1.3 gives an overview of the relationships between buyers, types of orders and favoured production locations (see also Dicken, 1998; Gereffi, 1994; Toyne et al., 1984) and provides more insight into the sourcing trends that underlie the broad garment trade patterns found.

As expected based on the previous sections, Table 1.3 does not confirm the popular view of the garment industry as an industry that buys its products at the lowest prices from the poorest countries. Rather than a straightforward relocation of production to a few of the world’s lowest wage countries, the table shows considerable variation. In fact, the very least developed and lowest wage countries in the world are hardly represented in the table. The observed complexity confirms that aspects besides labour cost also matter, viz. the characteristics of the labour force, political stability, the quality of the infrastructure, business mentality and flexibility (see also Elson, 1988). The lowest wage regions in the world do not offer these basic requirements necessary for garment export industrialisation. Thus, at the very minimum, the determinant role of labour cost only works within the boundaries of certain operational requirements. While Table 1.3 illustrates a great complexity in sourcing patterns, production sites and trade flows, it is not the result of complete anarchy and random behaviour. On the
contrary, it implies a strong link between the market segment or sophistication of a product and the industrial history of the production location (Glasmeier et al., 1992). Mair (1997) called the result of such matching between product and the characteristics of the production location ‘strategic localisation’. There appears to be a general tendency with regard to strategic localisation in the industry: countries with a longer industrial tradition in garments – which often means higher wage but also skill levels – produce more complex and sophisticated clothes, often in smaller batches. Hence, buyers in the upper segments of the market source predominantly from the NICs. Gereffi (1999, p. 40) discusses this pattern in terms of organizational succession:

‘There is a clear pattern of organizational succession [...] whereby foreign buyers that occupy positions or price points in their home markets source from each of the major exporting nations in distinctive cycles or sequences. This succession drives the geographical expansion of global sourcing networks, as buyers for less expensive goods are pushed into lower-cost production sites’.

Though there is a basic truth in the pattern illustrated in Table 1.3, four complicating factors need to be mentioned. First, through smart branding and segmentation strategies many buyers – especially the department and speciality stores in the middle rows of Table 1.3 – operate in various price segments. To serve these segments, a buyer may well source from various country groupings at the same time. The all-round involvement of many buyers in various price segments with collections consisting of many different product types and operating under time pressure, means that their sourcing pattern may be highly dispersed.

Second, the importance of labour cost in relation to total cost differs per product type: the number of minutes required to produce a product determines its sensitivity to labour cost. For example, small orders of complicated garments such as suits or evening dresses may be produced in small batches in metropolitan sweatshops close to the main Western markets (Massey, 1984; Dicken, 1998; Scheffer, 1992; Taplin, 1997). Alternatively, especially when larger batches are needed, the large number of production minutes – also called ‘needle-time’ – explains their production in low-wage countries, mostly in Asia (Crew & Davenport, 1992). By contrast, basic or standardized items, such as blue jeans and plain tee-shirts, are produced in very large volumes through slightly more automated processes. Comparatively high levels of automation and short assembly time explain their lower sensitivity to labour costs and hence their location in peripheral regions in or close to the Western final markets.

Thirdly, market dynamics and the new set of retailing strategies aimed at minimising risks by adjusting the supply of garments as closely as possible to actual demand complicate matters. They favour the geographical proximity of buyer and supplier. Production countries on the periphery of the final markets benefited greatly because they represent the best of both worlds: their low-wage labour can offer quick turnaround at the lowest cost (Appelbaum & Gereffi, 1994; Dicken, 1998; Dickerson, 1995; Scheffer, 1992; Gibbon, 2000).

Finally, the extent of the involvement of LMIC suppliers in the production process may vary widely; from participating in product development and the supply of full packages to doing only assembly. Table 1.4 gives a very broad overview of garment supplier countries and their position and activities within international production networks.

A clear element within the globalised complexity of garment production, illustrated in Table 1.4, is the link between types of buyers’ orders and the capabilities of sourcing areas. Newcomers to the industry generally start off with the assembly of basic, low-cost and low-
quality clothes for small importers and discount chains. By implication, newcomer countries that rely on assembly activities need to be part of a network in which other manufacturers participate. In fact, their insertion into global garment trade flows is commonly initiated by manufacturers in more expensive locations wanting to bring down their production costs. As such, the constellation of the production networks and the sourcing strategies of participants add to the complexity by giving rise to global assembly lines parts of which may be in a number of different countries. The emerging global division of labour can be described as follows (Mittelman, 1996, p. 6):

'Within a globalizing division of labour, technological and managerial cores form specifically regional divisions and redivisions of labour and generate their own peripheries subject to both constraints and developmental opportunities. Distinct regional divisions of labour [...] provide diverse modes of coordinating capital flows but are ultimately subordinate to the globalisation process.'

One of the interesting questions – and a central theme in this study – is how such a starter’s position in garment assembly may be used as a lever for a further industrialisation and

<table>
<thead>
<tr>
<th>Position/Role</th>
<th>Characteristics</th>
<th>Geography</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure assembly contracting</td>
<td>Syn. industrial subcontracting: assembly subcontractor/contractor assembles garments from inputs supplied by its buyer, to the specifications given by that buyer.</td>
<td>Established: Mexico, CBI, Central America, China, Central &amp; Eastern Europe, Turkey, North Africa, South Asia (India, Sri Lanka); Newcomers: South Africa, the former USSR (especially Belarus &amp; Ukraine), South Asia (Vietnam, Cambodia, Bangladesh).</td>
</tr>
<tr>
<td>Full package/OEM</td>
<td>Syn. commercial subcontracting: production of finished garments by locally owned firms in LMICs. Product development, sales &amp; marketing are undertaken by the firm’s buyer.</td>
<td>Established: Central Europe, Southeast Asia; Newcomers: Mexico, China, Eastern Europe, Turkey.</td>
</tr>
<tr>
<td>ODM</td>
<td>Independent, locally-owned manufacturer in LMIC develops/designs and manufactures garments for sale to export buyers.</td>
<td>Established: US, Italy, France, UK, Japan; Newcomers: Hong Kong, Singapore.</td>
</tr>
<tr>
<td>OBM</td>
<td>Independent, locally-owned manufacturer in LMIC exports own garment under its own brand. No subcontracting relationship between manufacturer and retailer.</td>
<td>Established: US, Italy, France, UK, Japan; Newcomers: Hong Kong, Singapore.</td>
</tr>
</tbody>
</table>

The importance of such an upgrading process will be discussed in general terms in the next chapter and specifically for the Mexican case in Chapter 3.

So far, the discussion of trade and production patterns has concentrated on the global and national developments. This overlooks the fact that the garment industry displays a strong localisation tendency, favouring regions with a tradition in the manufacturing of clothing. In other words: the production of garments, like other industrial as well as artisan products and even services, tends to agglomerate into localised, specialist clusters within nations. Bull et al. (1993, p. 21) point to complex divisions of labour across various scale levels:

> ‘... different patterns and levels of interdependence [exist] within regional and national filières and in the international market place ... The wide mix of potential industrial and commercial strategies introduces further elements of variegation into the complex picture in which local, national and international comparative advantage constrain in-firm strategy formulation and lead to discrete geographical patterns of specialization.’

The analytical challenge then appears to be to do justice to the myriad of production and trade considerations and the resulting highly complex pattern, without falling into the trap of assigning a caricatural, dominant role to labour cost considerations as the one and only driving force behind spatial relocation in garment manufacturing. Ultimately, individual firm strategies shape global, regional or local division of labour patterns (Spinanger, 1992; Bull et al., 1993; Scheffer, 1992; Appelbaum & Christerson, 1997; Smakman, forthcoming; see also Box 1.3). Individual firm behaviour may be unpredictable and erratic. Therefore, the behaviour of individual firms cannot be predicted on the basis of the observed patterns, a point also made by Scheffer (1995, p. 46):

> ‘Within certain boundaries individual firms do possess a large degree of freedom and it is more often the quality of management, daily practices and opportunistic factors that determine outcomes, rather than deeper rooted structural changes [...] A given firm might opt to change its marketing strategy in order to preserve its production organization, or it might decide to retain its market position but change its allocation of production.’

Thus, relocation of garment production to and between LMICs is growing, but garment buyers have considerable room to manoeuvre. The spatial and organizational constellation of their international production networks do not necessarily always fit the theoretically ‘optimal global division of labour’ solution. As will be discussed at some length in this study, one of the reasons for the discrepancy between theoretical and actual patterns is the, sometimes overlooked, social, interpersonal aspect of business.

### 1.3 Summary

The first chapter of this study introduced the main characteristics of and trends and traits in the global garment industry. Since the industrialisation of garment production in the early nineteenth century, some of its basic characteristics have remained largely unchanged. The production process is divided into separate phases or activities, and vertical disintegration is standard practice in the wearing apparel industry. Furthermore, in the manufacturing stages of the production process, automation options are limited and, as a consequence, these are characterized by high labour intensity. The combination of specialization opportunities based on vertical disintegration and low barriers to entry caused by limited automation and low capital intensity, have laid the basis for high levels of fragmentation. Garment firms of many
Box 1.3: Illustrating diversity

In the garment industry, vertical disintegration and international subcontracting are pervasive, but by no means self-evident. The current era of quick response and rapid fashion changes – combined with the continued need to keep production cost low – may call for unorthodox measures, some of which may even go against such established best practices as vertical disintegration and internationalisation. That this applies across the board and not just to insignificant ‘odd ones out’ can be illustrated by a brief outline of the strategies of two highly successful clothing multinationals, Benetton and Zara. Both use technology to reduce design-to-delivery times as well as small workshops (many of which are on the brink of ‘informality’) in Europe and its periphery, in order to achieve flexible yet affordable manufacturing.

The Italian company Benetton was founded in 1963 and is now a large and successful multinational with a strong global brand image. Design, technology-intensive activities and a limited amount of manufacturing are undertaken by the company itself in Treviso, Italy. In line with general practice in the industry, the company relies heavily on independent subcontractors for the production – especially the assembly, finishing and pressing stages – of its garments. However, contrary to global relocation trends, most of Benetton’s subcontractors are located in Italy, not in LMICs. Its independent small subcontractors work exclusively for Benetton and even though the relations in the networks are mostly informal, production planning and coordination is tight and based on technology and effective information management systems. Sales are organised in a similar way, around a decentralised sales network with sales agents as intermediaries between the independent shops and Benetton. Benetton elaborates marketing strategies and guidelines and controls the critical resources for all the shops. Shops do not pay royalties, are completely independent and bear all the risks, but they sell only garments with the Benetton label. They are expected to forecast 80% of the season’s requirements; the remaining 20% can be requested on urgent order. Benetton’s philosophy is to hold minimal stock. Its automated systems allow the company to pick individual shop orders for over 6,000 shops dispersed across 110 countries. Orders are taken by the companies three times a day and are processed during the night to ensure that they are available for production the day after; all the production processes – from programming, material requirements, etc. to packaging – are managed by computers using highly sophisticated, tailor-made application systems. If they enter an order for restocking, the shops will receive the goods within, on average, eight days in Europe and twelve days in the USA (see also Fornengo Prent, 1992; Dicken, 1998).

The Spanish company Zara – which is part of the holding company Inditex – was established in 1975 and owns well over 500 stores in 30 countries around the globe. One of the reasons for the company’s growing profits is its ability to respond rapidly to fashion trends. Like Benetton, its strategy is unconventional: while a part of its production is outsourced to LMICs, Zara is vertically integrated in order to retain total control of design, production and distribution. A 16-factory production complex in the Spanish town of La Coruña is the heart of Zara’s operation. The company creates, selects and cuts the fabrics treated and finished in its own mills and makes its own patterns, many of which are sewn on-site. The remainder is sewn by small ‘grey-economy’ subcontractors in Spain and Portugal. This organization has brought design-to-delivery lead times down from four to six months to a few days. Also unorthodox and in stark contrast with Benetton, Zara’s higher European labour costs are offset by spending virtually nothing on marketing or advertising (see also...
different sizes and specialisations exist next to each other. Through subcontracting/contracting relations they form inter-firm production networks, which are the basic vehicles of garment production.

While these basic features have been retained, over the past decades garment production networks have taken on a international or even global dimension. Also, the dynamic of production and the organization thereof has been changing quite dramatically over the past few decades under the influence of shifts in the wearing apparel market and/or the marketing strategies adopted to shape it. Market saturation and stagnant garment prices have led to a greater focus on consumer behaviour and demand in order to make production respond to them as accurately as possible. In fact, accurate response to or prediction of consumer demand (styling, price) has become a prerequisite for sales and success in the main garment markets. Getting a grip on these aspects and manipulating them – through the use of brands and labels and the creation of ‘lifestyles’ – has led to the growing importance of marketing and retailing and to the concentration of power in the hands of retailers rather than garment manufacturers. Facilitated by recent developments in telecommunications and computer technology, these trends are transforming the structure and organising principles of production networks of wearing apparel. Fashionisation is reflected in a greater number of seasons or collections per year and in the fact that garments, such as jeans and tee-shirts, which traditionally were highly standardized, are no longer excluded from fashion trends and hypes. Great flexibility is needed to respond to rapid and frequent fashion changes.

As a result of the recent changes, and most especially the need for increased flexibility, lead garment firms are seen to forge closer cooperation with a smaller number of, more capable suppliers. These suppliers may be internationally dispersed, but increasingly suppliers on at a shorter distance, on the peripheries of the main markets, appear to be favoured.

With regard to the geography of garment production, the most salient feature of wearing apparel production is its omnipresence. Participation in garment exports (to the main markets in the US and the EU) is spreading to an ever larger number of LMICs. While the garment industries in the US and the EU are shrinking or at best stagnating, the participation of LMICs is both growing and spreading. Two factors explain the industry’s global presence. First, trade policy has had a great impact. In response to early internationalisation of garment production, which became visible in the late 1960s, the elaborate MFA trade regulation system was designed to protect Western markets from disruptive imports. With regard to protecting Western markets, it has had mixed results at best. However, MFA has [had] a decisive impact on the current global locational pattern of garment production through stimulating still further

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CNN Online, 2001; Forbes Online, 2001. Fashion retailers spend on average 3.5% of their revenue on advertising their products, while Zara’s parent company, Inditex, spends just 0.3% (CNN Online, 2001). Like Benetton, the company decides on the contents of all its shop windows. However, contrary to the general industry trends also outlined in section 1.1.2, Zara believes they are all the advertising it needs and it does not invest in advertising campaigns. Zara shop managers report back every day to designers in La Coruña on what has and has not sold. The information is used to decide which product lines and colours will be kept or altered, and whether new lines should be created. All this happens within just a few days. The efficiency of the system means the company can keep costs down by keeping stocks low. Zara’s design team produce 11,000 different designs a year.
dispersal. Within the global MFA system, trade blocks and a variety of production sharing regulations serve to favour LMICs on the periphery of the large markets.

The second factor is a matching of a country’s or region’s characteristics and capacities with product requirements. The extent to which LMICs are inserted into garment exporting channels that feed into the Western markets appears to vary, depending on wage, industrial experience and skill levels in the LMIC. The result is a broad strategic localisation pattern that matches product types and market segments to production cost and experience. Within this pattern, few of the world’s lowest wage areas achieve significant garment production levels, while several high-wage countries have maintained considerable production levels.

Highly interesting is the development perspective that may be implied by or extrapolated from this pattern; this will be discussed in greater detail in the following chapters as it is an important theme in this study. In broad terms, it is often implicitly assumed that recent LMIC garment exporters should strive to follow the upgrading path blazed by the pioneering NICs.

Mexico is one of the popular subjects for this discussion. Its geographical proximity to the US and, more importantly, its preferential access to the very large US market put it in a position of booming newcomer in garment exports with the (theoretical) potential to use this as a lever for upgrading processes and economic development.

The organizational and geographical dynamism of the garment industry as outlined in this chapter raises the question how effective coordination and control are exercised over the complex garment production system. The following chapter presents some approaches and perspectives, and the debates surrounding them, which can be used to analyse the multifaceted dynamism of a volatile industry such as the garment industry.

Notes
1 Most of the developments, especially the changes in the garment market, described in this chapter are based on literature sources dealing with the US or the UK garment industry. In broad terms, many of the noted changes apply to most Western markets, but the timing and pervasiveness may differ considerably from country to country (see Scheffer (1992) and Broer (1977) for detailed comparisons of developments in European countries).
2 Well-known NGOs and pressure groups that represent the rights of garment workers and expose exploitation are The Clean Clothes Campaign, the Canadian Maquiladora Solidarity Network, the UK-based Labour Behind the Label and the American Press for Change.
3 Two approaches are especially common. Firstly, many studies group textile production and all apparel production (encompassing clothing, sewn household goods and sewn industrial goods) together under the broad denominator 'textiles'. Following Scheffer (1992), here it is proposed that the two industries differ so greatly in organizational structure and dynamics that they are better studied in separation. Secondly, it is also highly common to use apparel and garments as synonyms. Though they overlap greatly in subject matter, it is important to note that the term apparel is broader, and that the apparel industry produces a wider range of sewn products encompassing more than ‘just’ garments/clothing (see Figure 1.1).
4 Flexibility and specialization are the main ingredients of post-Fordist production systems. ‘Flexible specialization’ is seen as the fundamental alternative to Fordist mass production, i.e. as basic elements of post-Fordist production systems (Storper, 1997; Piore & Sabel, 1984). Piore and Sabel (ibid.) put the combination of flexibility and specialization on the map, but limited it (unnecessarily) to small firm interaction.
5 The use of the term ‘sourcing’ often implies low levels of coordination and control between buyer and subcontractor and relatively great responsibility on the part of the contractor. Another common term for subcontracting in industrial development literature is original equipment manufacturing (OEM), where subcontractors produce products designed and specified by their customers. This is distinguished from original
design manufacturing (ODM) in which subcontractors are responsible for design in addition to manufacturing. Finally, in original brand manufacturing (OBM) LMIC producers export products of own design and manufacturing under their own brand name.

6 Specialty subcontracting is the performance of a specialized function by a skilled or specifically equipped subcontractor. Cost-saving subcontracting is employed as a means to lower production cost. Complementary subcontracting is employed as a flexible way to cope with temporary surges in demand (see Dicken, 1998).

7 Subcontractors may be referred to in different sources as subcontractors, assemblers, suppliers, manufacturers or producers. The terminology is applied quite loosely, but may indicate the extent of their involvement in the production process. The terms subcontractor and assembler are generally associated with a limited role of the subcontractor. The use of the term suppliers or even manufacturers commonly implies a commercial subcontracting relation, i.e. the production of full packages.

8 This is neatly illustrated in the foreword to the analysis of the top-50 apparel manufacturers in 2001 in Bobbin Magazine (Speer, 2001a), one of the leading industry magazines in the USA. 'What is the difference between apparel manufacturers and retailers? In a nutshell, much less than there used to be (...) we have now opened up the floodgates to include apparel retailers that essentially function as manufacturers – those “vertical” retailers that design, market and source the manufacturing and merchandise the majority of products for the retail stores. Likewise, we continue to include those traditional manufacturers that have spread their wings into the retail and direct-to-consumer markets (...). While these companies may have begun at different points along the supply chains spectrum, they now hold responsibilities – and face risks and rewards – both in the manufacture of their products and their sale at retail.'

9 It is important to insert a caveat here: although national markets for clothing may be segmented in ways described in this section, the global reach of many of the largest garment buyers means they handle very large volumes. Thus, though less standardized through progressive incorporation of fashion, garment manufacturing is still a matter of mass production.

10 Textile companies are an important part of this channel. Like retailing, the textile industry has gone through a phase of concentration. Two decades ago Clairmonte and Cavanagh (1981) already characterized it as the ‘world textile oligopoly’ (see also Dicken, 1998, Abernathy et al., 1995). Global players in textiles are the British ‘Coats Viyella’ and the Japanese ‘Tory’, in denim the US ‘Cone Mills’ and ‘Burlington Mills’ lead the rankings. It is important to note the effect this has on manufacturers: they stand the risk of being sandwiched between large, powerful textile mills on the one hand, and large, oligopolistic retailers on the other.

11 In addition there are overarching, industry-wide efforts such as the Worldwide Responsible Apparel Production (WRAP) industry standards, supported by the AAMA. The Dutch NGO Solidaridad is assuming a pioneer position through the development of true fashion jeans with a fair-trade mark. These ‘Kuyichi’ labelled jeans were launched in the exclusive segment of the Dutch market at premium prices.

12 In Taylorist production systems ‘time and motion’ principles are applied to break down the production process into the simplest possible tasks which can be performed by specialist (but poorly educated) workers. Taylorism is tightly linked to Fordist mass production (Hayter, 1997).

13 Production costs in garments are generally calculated on the basis of standard production minutes or standard assembly minutes, which take into account labour productivity as well as cost. Costings per product are then calculated based on the required minutes, also called ‘needle-time’. Since the early 1990s, distance to the market or lead times are also included in these calculations (Dickerson, 1995). See Blyth (1996) for a detailed explanation of sourcing decision-making in garments.

14 This was so firmly believed to be a trend that authors and experts from different perspectives theorized about the re-location of production from developing to developed countries (Abernathy et al., 1995; Audet, 1996, Malecki, 1997; see also Scheffer, 1992, pp 14-15, for a discussion of these considerations). Scheffer (1992) has shown that reversal of the NIDL shift back to industrialized countries did not occur in Europe. Relocation back to the USA is not apparent either. The explanation is simple: the market does not reward shorter lead times with higher prices (Scheffer, 1995).