

Oxfam Hong Kong Briefing Paper

April 2004

Turning the Garment Industry Inside Out

Purchasing Practices and Workers' Lives



INTRODUCTION

The Make Trade Fair Campaign

Oxfam International (OI) launched its Make Trade Fair Campaign in 2002 to raise public concern on how unfair global trade is increasing poverty and hindering development. The campaign has aroused significant attention around the world by presenting many cases of unfair trade practices. In the course of the campaign, we have highlighted Trade Related Intellectual Property Rights (TRIPS) and public health in developing countries, the collapse of the coffee market and the deteriorating livelihoods of millions of farmers, the ineffectiveness and unfairness of World Trade Organization negotiations, and the unfair agricultural trade policies of developed countries.

Oxfam now wants to draw attention to how unfair global trade practices impact the livelihoods and rights of workers. OI research across 12 countries has found that business practices of a relatively small number of dominant global corporations are causing sweeping inequalities and abuses in different countries and within different sectors, such as the US\$1 trillion-a-year clothing industry. Changing these practices is essential to improving working conditions and livelihoods, reducing poverty, and realizing the positive potential of global trade.

This report explores in more depth the purchasing practices in garment production and trade. Hong Kong's garment companies are important regional players, either as agents in the global supply chain, as upstream suppliers, or as retailers and brand name owners. We want to demonstrate how these companies' purchasing practices are impacting workers' lives. We will

show how these practices generate hidden costs to workers, costs for which governments and companies should be responsible. We also propose ways that private companies, organizations and government departments can make changes in Hong Kong.

This report is based on research conducted by Oxfam Hong Kong since 2000 in Hong Kong, Guangdong (China) and Phnom Penh (Cambodia) on workers' conditions in garment factories, the hidden costs for women workers, and the purchasing practices in the industry. We interviewed workers, merchandisers, factories, companies, academics and government sources. Although all the research involves Hong Kong companies in Hong Kong, Guangdong and Phnom Penh, the conclusions are relevant far beyond these geographical boundaries: Hong Kong garment companies have a strong presence in Asia and the world.

We also draw our analysis and recommendations from the experiences of workers, their organizations, and non-government organizations who have been actively responding to and contesting these unfair practices for many years. We call on private companies, governments, as well as the general public to, act – we each have our role to play.

Oxfam sees that changes in purchasing practices, stronger government policy, better practice of 'corporate social responsibility', and a wider public recognition of the value of workers, will benefit us all.

Garments – a Classic Case of the Global Supply Chain

According to traditional Chinese wisdom, clothes are one of the four basic daily necessities: “clothes, food, a home, transportation” (衣食住行).

Just like many basic commodities, clothes are produced in a globalized production chain involving a wide variety of companies.

Tracing a T-shirt on sale in a shop, it is likely to have passed through a retailer, a brand name company that worked out its design, import and marketing strategies, and sometimes through a wholesale importer. Trading companies, sourcing or buying agents may also play a middle role between markets and production sites to coordinate the design and ordering, sample-making, materials purchasing, production scheduling and arranging other logistics in various countries. Finally, upstream, there are supplier factories in which workers do the actual cutting, trimming and sewing.

Some companies perform several functions within the chain – for instance, the popular brand The Gap has its regional office in Hong Kong which directly places orders to supplier factories in the region, while others may have very specific functions such as Li & Fung which is mainly a sourcing company. In addition, some garment production chains extend further to draw in

production capacity from other factories through a subcontracting network among supplier factories. Further still, an increasing number of home-based garment workers are in many countries that rely on garment production for export growth.

The garment industry is one of the earliest to globalize its supply chain. Factories once located near designers and retailers in the USA and Europe, began relocating to Asia in the 1960s and have since been established on every continent, now providing valuable exports to a wide range of countries. As sewing machines are relatively inexpensive and mobile compared to other manufacturing items, buyers and suppliers readily shifted their orders and factories in search of the most competitive locations. The fluidity of the globalized production structure is also explained by its labour intensiveness: companies always seek the cheapest labour, wherever it is, but primarily in developing countries.

All these factors present a classic case of a global supply chain in this era of globalization. While businesses and economists may be mostly interested in its management and efficiency, workers' organizations and NGOs such as Oxfam are concerned with how workers' rights and livelihoods are affected.

THE GARMENT INDUSTRY

It is a big industry

In 2000, the world's consumers spent around HK\$8 trillion buying clothes, with about one third of sales in Western Europe, one third in North America and one quarter in Asia.¹

According to the United Nations, "Clothing remains an important component of world trade,


















rising from 2.4 to 3.1 per cent of world imports (from US\$41 to US\$174 billion) during the period 1985-2000. It accounted for 20 per cent of low-technology non-resource-based manufactures in 2000 (up from 17 per cent)."²

It is important to developing countries

Being labour-intensive and low-tech, garment production is a major entry industry for developing countries: at least 50 countries export garments and rely on it for a substantial portion

of their foreign exchange. The textile and garment sector is the single largest source of manufactured exports from developing countries by value.³

TABLE 1: Exports of Clothing 1995-2002

Country	Export Value in 2002 (HK\$ million)	% of National Merchandise Export	● 1995	● 2002
China	 322,156		16.2%	12.7%
Hong Kong	 64,787		31.9%	45.5%
Macau	 12,854		69.0%	70.0%
Taipei, Chinese	 17,137		2.9%	1.6%
Indonesia	 30,771		7.4%	6.9%
Thailand	 26,278		8.9%	4.9%
Philippines	 20,366		13.8%	7.2%
Cambodia	 8,775 ⁽²⁰⁰¹⁾		0%	81.7%
India	 42,767 ⁽²⁰⁰¹⁾		13.0%	12.4%
Bangladesh	 32,222		52.7%	67.8%
Sri Lanka	 18,143		46.3%	49.5%
South Africa	 1,997		0.6%	0.9%
Mexico	 60,458		3.4%	4.8%
Dominican Rep	 21,154 ⁽²⁰⁰¹⁾		45.5%	50.9%
Honduras	 3,705		24.5%	37.4%
Morocco	 18,821		16.9%	30.4%
Romania	 25,358		17.2%	23.4%

Source: http://www.wto.org/english/res_e/statis_e/its2003_e/section4_e/iv70.xls, 17 December 2003.

It is easy to start up, and easy to fold

Not only is the garment industry relatively easy to start up, it is also easy to fold. This fluidity of the industry creates a lot of instability for both a country's economy as well as for workers' livelihoods, especially of women who make up most of the workers. Taiwan and Korea benefited from garment production and trade in the 1960s, but then suffered significant restructuring and unemployment in the 1980s for its predominantly middle-aged women workers. The Philippines, one of the earliest Asian countries to house garment production, recorded a 13.8 per cent export value in 1995, which fell to 7.2 per cent in 2002, forcing many of its women workers into unemployment, unpaid work in the home, or low-paid and unstable jobs in the informal sector. Thailand has also recently experienced this. Countries such as Cambodia, Bangladesh and

Mexico quickly established themselves as the new production sites; but without proper support to the sector or backward linkages to the other sectors of the local economy, it is hard to envision that the industry will contribute to positive long-term development in these countries.

Hong Kong is not exempt from this phenomenon. In fact, this has been a major issue for workers for more than 20 years now. Since the relocation of factories to China in the 1980s, many women workers have become unemployed, or been pushed into unstable jobs in the service sector (Box 1). In Cambodia and Bangladesh, workers are now well aware of this problem and have started voicing out their concerns and recommendations to the government and the private sector.

It is a trade that is easily manipulated

Even if the garment industry may have the potential as a base for developing countries to build a strong manufacturing sector, the industry is highly manipulated by trade agreements in which developed countries almost always have the upper hand.

The garment trade has been strictly regulated since the 1950s, with quota restrictions imposed by developed countries to protect their own markets. For instance, Japan was pressed by the US in the 1950s to impose "voluntary export restraints" on cotton textiles; the UK then imposed similar measures on Hong Kong, India and Pakistan. In the 1960s and early 1970s, as numerous Asian countries began to develop their garment industry, industrialized countries saw the need for more encompassing restraints; and in January 1974, the Multi-Fibre Agreement (MFA) allowed industrial countries to place bilateral quotas on the imports of various textiles and garments.

While the MFA was originally applied to put quantitative restrictions on products that caused, or threatened to cause, serious damage to the industries of importing countries, it also seriously limited the opportunities for developing countries to expand their garment manufacturing sector. Like many other bilateral agreements, the imbalance in power among countries rendered such agreements tools of manipulation and protectionism. As in the case of Cambodia, while its garment sector did boom under an import agreement with the US, the dependence of its national economy on garments put it in a vulnerable position in further negotiations with the US.

Supposedly a short-term arrangement to give producers in the North time to restructure and adapt to competition from cheap imports from the South, the MFA was, in fact, renewed a total of five times. During the negotiations for the establishment of the World Trade Organization

Box 1: Story of Mei-chun, a Garment Worker in Hong Kong

Mei-chun and her husband, Ah Leung, aged 43 and 45 respectively, are from the post-war generation of Hong Kong, who started their work life in factories at a very young age. To meet her family's needs, Mei-chun started working in a garment factory after finishing primary school. She worked as hard as she could at the sewing machine to earn enough for her family, even skipping trips to the toilet. Due to her heavy workload, Mei-chun developed chronic ailments in her legs and cannot stand on her feet very long these days. Managing to continue her studies at an evening school, Mei-chun said she could hardly concentrate on her classes because of frequent overtime at the factory and her fatigue. It was at the school that she met Ah Leung, and they were married in 1983.

With her mother taking care of her first son who was born in 1987, Mei-chun continued to work for an income of HK\$3,000 to \$4,000 a month (approx. US\$385 - 515 a month), though occasionally she had to take time off to take care of her son. When her second son was born in 1989, and more and more garment factories were being relocated to Shenzhen, China, Mei-chun's income became very unstable and she decided to stay home to take care of her children, especially her second boy, who was sickly. In 1991, the year their daughter was born, the jewelry factory where Ah Leung was working also started investing in China and began laying off workers - only the high-end processing parts of the factory work remained in Hong Kong. Luckily, he was able to keep his job, along with ten other workers, but with smaller pay. To take care of the growing needs of his family, Ah Leung got a night-time job in a restaurant in 1994.

Seeing the burden and decreasing income of her husband, Mei-chun got two part-time jobs, a cleaner in a supermarket during the day, when her children were at school, and a garbage collector for a housing estate at night. Mei-chun's legs gave her considerable pain because of all this work, as well as higher blood pressure and overall poor health. However, what worried Mei-chun the most was not her health, but her husband's relationship with the children – they had very little time together.

Even with their four jobs, they fell below the poverty line for a family of five and were thus eligible to receive an income supplement from the government's Comprehensive Social Security Assistance Scheme (CSSA). Mei-chun was afraid of the social stigma of receiving the support, especially on the self-image of her children, but said, "It's not a problem of just one family. The government has the responsibility to help workers. I can't see any social policies to help families like us."

Mei-chun's younger sister, who sees herself as having benefited from Mei-chun's hard work when they were both children, is now an organizer of an NGO focused on women workers. She said she wanted to look for a collective solution with all her 'sister' workers.

Source: Translated and rewritten from, Wong, H. (ed.) **Oral History of Hong Kong Marginal Workers**, Hong Kong: Oxfam Hong Kong, 2002. (Published in Chinese.)

(WTO), the Agreement on Textiles and Clothing (ATC) was established to provide a transitional timeframe for phasing out the MFA and the quotas in the industry by 2005. However, progress has remained slow; and governments have not

done much to prepare for the phase-out. Even though quotas are seen as unfair trade practices, Bangladesh has been calling for their extension, warning people of an unemployment crisis if the phase-out pushes through.

It is dominated by brand names and retail companies

Due to restructuring and a concentration of corporate interests, the garment industry and its globalized supply chain, like many other sectors of the global economy, are dominated by brand names and retail companies. The biggest retailers have become even bigger: from 1977 to 1992, the top five US garment retailers doubled their market share to 18 per cent.⁴ And by the late

1990s, multiple-store retailers captured 70 per cent of the market in Western Europe, and 85 per cent in the US.⁵

There is also a restructuring and concentration happening in the middle links of the supply chains. In Hong Kong, trading companies are growing bigger and smaller ones are being

squeezed out of the markets. At the same time, some retailers or brands have been absorbing the roles of agents by setting up their own regional offices and sourcing directly from factories, thereby becoming 'full package' suppliers themselves.

Today, with more countries involved in producing garments, and with many suppliers and a limited number of big buyers, there is fierce competition

for factory orders within a country and among countries. There is also a huge imbalance in the negotiating power between buyers and suppliers, and this forms an important basis for our analysis of purchasing practices and their impacts on workers.

Before we move forward, let us take a closer look at the picture in Hong Kong.

Box 2: Retailers' Dominance and Full Package Providers

"Barriers to entry are low on the production side of garments, in comparison to complex technology-and-scale-intensive industries like electronics and automobiles. However, there are high entry barriers in marketing in the garment industry. Buyers therefore occupy an important place in global value chains and dominate the industry. There is an ample supply of capable garment makers, and it is relatively easy to create new ones by providing design inputs and some technical assistance. Thus, the fragmentation of the production process is very advanced."

Source: UNCTAD (2002), p.129.

General retailers like Wal-Mart, Sears Roebuck and J.C. Penney, as well as garment specialty retailers like Liz Claiborne, The Gap and Limited Brands, both design and market clothing but do not make the products they sell. These companies are controlling a growing share of the United States market: in 1977, the top 50 apparel and accessory retailers held 28 per cent of the market and the top 5 held 9 per cent. By 1992, the share of the top 50 had risen to 53 per cent and that of the top 5 to 18 per cent. Continued success for buyers in the garments industry depends, to a significant degree, on identifying and contracting the best supplier networks."

Source: UNCTAD (2002), p.130.

"Li & Fung Limited is an example of a worldwide trading company that manages a global logistics chain for its retailer clients and partners. It is a full-package provider that brokers high-volume garments and fashion accessories. The firm is headquartered in Hong Kong, China, and is listed on its stock market. It has an annual turnover of about US\$4.2 billion, employing about 5,000 people worldwide. In 2001, 72% of the turnover was in the garments segment; regionally, orders came mainly from North America (75%) and Europe (21 %).

The firm's specialty is supply-chain management within its global supply network. It does not own any production facilities, but manages the "full package": product development, product sourcing and product delivery, including quality control and on-time delivery."

Li & Fung presides over a large network of contract suppliers in China and other Asian developing countries, notably Bangladesh, India, Pakistan and Sri Lanka, as well as in Egypt, Madagascar, Morocco and South Africa. The firm generally takes between 30 to 70 % of a factory's output – less would not give it the clout to secure orders or reserve production capacity for incoming orders, and more would make it over-dependent on the supplier. In sum, the company's transnationalization process is based not on the possession of domestic assets that can be exploited abroad (as was the case for many conventional TNCs), but on linkages, tapping into the resources of partners and sharing the risk with them."

Source: UNCTAD (2002), p.131.

THE HONG KONG GARMENT INDUSTRY AND TRADE

Historical Background

The garment industry in Hong Kong started in the 1950s with the influx of garment family businesses from Shanghai. The political turmoil in China and the embargo imposed during the Korean War in the 1950s, coupled with the transfer of manufacturing from the West to Asia, kicked off Hong Kong's industrialization process. The transfer of technology and production from Japan to places like Hong Kong, Taiwan and later South Korea, matured in the 1960s and 1970s, with Hong Kong becoming one of the most important production bases for a number of labor-intensive industries, including the garment industry. The industry was, from the beginning, export-oriented, starting from manufacturing low quality garments to contracting OEM (original equipment manufacturing) production from western companies, and then moving on to ODM (original design manufacturing) production as a survival strategy and to utilize the existing quota for Hong Kong exports. The economic reforms in China in the 1980s also triggered the re-positioning of Hong Kong in the supply chain.

Before British colonization, Hong Kong was an import-export centre, trading products between China and the West. Trading firms such as Li & Fung started business as early as 1906 in Guangzhou, with the garment trade being one of its core businesses. In the past, trading firms made use of Hong Kong as the meeting point to trade raw materials and indigenous products in China for western manufactured products. Today, the firms help western companies source cheap production bases and manufactured products, as the global production cycle has shifted manufacturing to developing countries such as China and retained only non-production activities. Li & Fung, and other similar firms, act as "virtual factories": they do not necessarily own any production facilities but assist their customers, through global sub-contracting, to manage the global supply chain, and source and assemble products.

Hong Kong Garments Export & Re-export

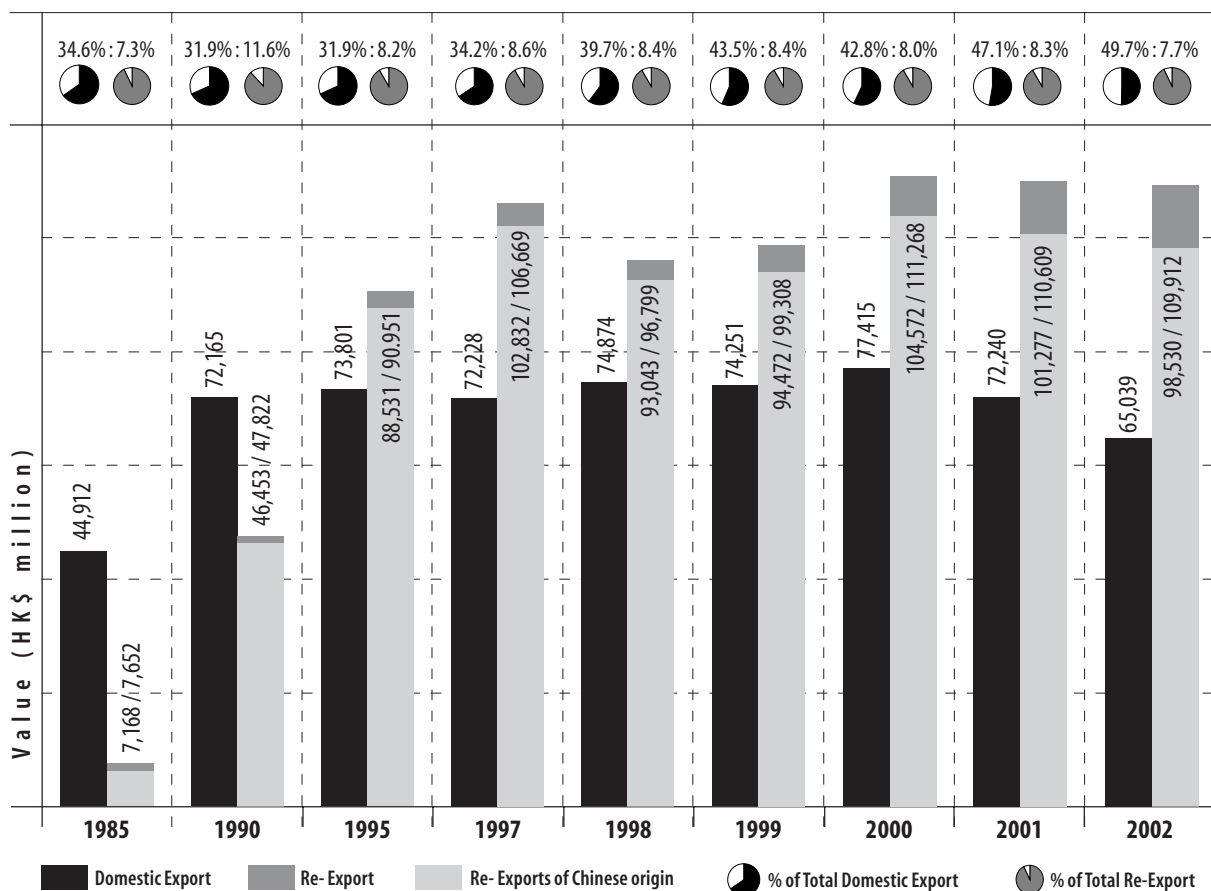
Contrary to the common view that Hong Kong no longer has any significant home industries, the garment industry still occupies a big part of Hong Kong's exports. Even during the trend of de-industrialization, the domestic garments export value rose from HK\$45 billion in 1985 to HK\$72 billion in 2001 (Table 2). It is also the leading earner in terms of domestic exports, at 49.7 per cent of total domestic exports in 2002,⁶ and Hong Kong's largest manufacturing employer, with 1,668 employers hiring 32,808 workers as of March, 2003.⁷

Although the Hong Kong garment industry lost its momentum after China's economic reforms in

the 1980s, it has managed to survive because of the quota systems in world trade.

Of course, in terms of overall importance, garment production in Hong Kong can no longer claim the same status it had in the economy during the 1970s and 1980s. However, if we include trade re-exports, a significant portion of the Hong Kong's GDP (14 per cent in 2002) is still related with garments and, according to WTO figures, would rank Hong Kong as second in global garment exports. The fact however, is that domestic garment production has been overtaken by the trade in garments since 1995.

Table 2: Domestic exports and re-exports



Source: Census & Statistics Department, HK Annual Digest of Statistics, 1995, 2000 & 2003 Edition.

From Manufacturer to Multi-business Trader

Starting from the 1980s, Hong Kong was not only a leading production centre but also a hub for global garment sourcing - involving a total of 16,403 employers and 91,754 workers,⁸ representing 7.7 per cent of Hong Kong's total re-export value in 2002⁹.

These figures do not take into account the fact that some garment manufacturing and trading companies, while based in Hong Kong and managing the regional supply chain in several countries, do not have their products going

through Hong Kong as exports or re-exports. The Hong Kong Trade Development Council estimated in a survey in 2000 that Hong Kong handles such offshore trading valued at HK\$1,427 billion, nearly the same size of Hong Kong's total re-exports.¹⁰

It is also worth noting, that some Hong Kong companies are now also moving towards building their own brand names and getting involved in garment retail.

Hong Kong Garments Business in the Region: Cambodia and China

Of the 223 garment factories in Cambodia in 2001, up to 28.1 per cent were solely or partly owned by Hong Kong companies – the largest group of foreign investors.¹¹

In 2002, there were about 9,000 garment factories in China employing 130 million workers. Of the

3,000 garment factories in Guangdong Province, around 50 percent are Hong Kong manufacturers, employing nearly 500,000 workers.¹²

These figures point to Hong Kong as an important player in the global garment market.

PURCHASING PRACTICES¹³

“Purchasing practices” are the buying relations and behaviours between all the different members of the global supply chain (see Figure 1). Given our specific concern for the impacts of such practices on workers, we focus on the practices around pricing, delivery time, ordering seasons and ordering amounts.

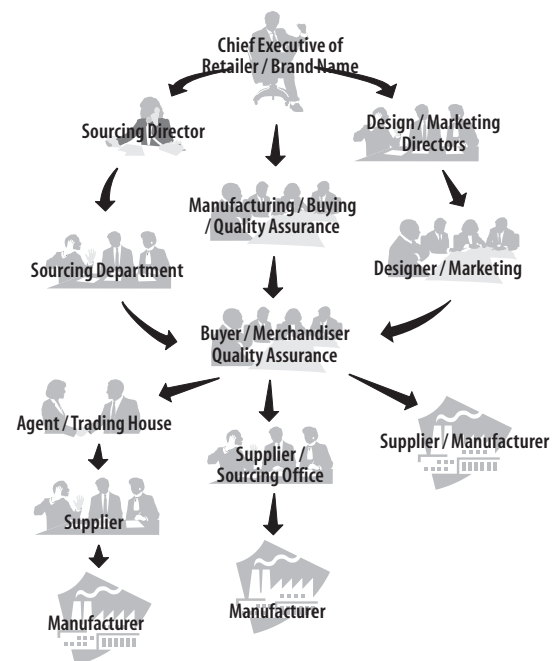
It is worth mentioning here that a company’s compliance team, which mostly monitors conditions of production sites, usually has no links with the purchasing functions of the same company.

The Structure of the Global Supply Chain

Today’s garment supply chain can be divided into three basic levels. The first level involves the retailers, brand name companies and importers which may house functions such as marketing, retailing, design, sourcing and merchandising. The middle level is comprised of the agents, trading houses and sourcing companies whose core functions are not manufacturing. The third level includes the suppliers who carry out manufacturing and subcontracting production functions.

However, different companies keep different functions in-house and rely on other companies for some functions. Some ODM manufacturers have their own designers in-house to produce goods for brand names, while some retailers have their own regional sourcing offices to communicate directly with suppliers in other countries instead of going through trading houses.

Figure 1: A Simplified Garment Buying Model



Source: Cunliffe, L. (2003) “The Garment Sector Business Model for Purchasing Practices Throughout the Supply Chain”, <http://www.connectconsultancy.com>, April 2003. (Slightly revised.)

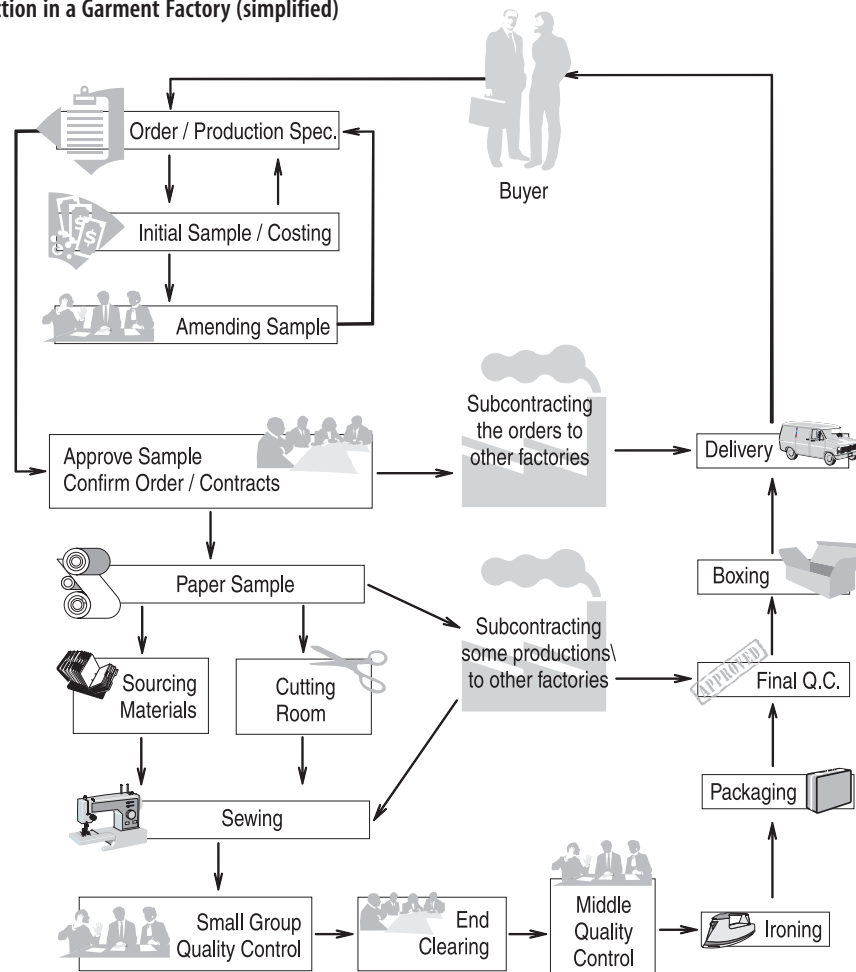
The Production Flow of Suppliers

Production orders are usually confirmed after back-and-forth negotiations on product specifications, samples, size grading, sourcing materials, price, delivery time, etc.

According to interviews with merchandisers and factory managers, the negotiation and sampling time can last from seven days to half a month before an order for production is confirmed. While most processes of communication and negotiation can now be done quickly through the Internet, time is needed for the actual making of samples and for the courier to deliver them. Factory managers also say that Internet auctions among several suppliers is sometimes practiced.

Within the overall production flow, the largest time buffer would be the sewing section. The sewing time largely depends on the amount of orders, the number of workers, the amount of overtime they can deliver that can be drawn from flexible production capacity such as temporary workers, or subcontracting to home-based workers or other factories. Given an increasingly shortened delivery time and the growing instability of orders (both in terms of time and amount), suppliers tend to stretch workers' work time, while at the same time suppressing their wages.

Figure 2: Production in a Garment Factory (simplified)



Source: Liu (2003).

PROBLEMATIC PURCHASING PRACTICES

1. Shortened Delivery Times

- ⇨ Six out of the eight factories interviewed reported that over the past two years, buyers have been requesting shorter delivery times.
- ⇨ The average delivery time has decreased from 3 months in 2001 to 2 months in 2003. Some buyers request as little as 15 days for a delivery.

Retailers and brand name companies tend to reduce their sales risks by ordering items 'just in time'. They plan styles closer to, or even during, the relevant season and demand delivery just in time to sell the goods in the shops, right in line with the latest fashion trends. This speed also cuts out warehousing costs and minimizes the cash needed. According to a factory owner in Sri Lanka:

*"Last year the deadlines were about 90 days ... [this year] the deadlines for delivery are about 60 days. Sometimes even 45 ... They have drastically come down."*¹⁴

Poor planning by brand name companies and retailers further increases the pressure for factories: while they frequently delay sending samples to make last-minute changes, they still demand that the goods are completed on time.

Impact

Factory managers found that shortened delivery time made production planning and projection more difficult. They have had to push workers to work overtime, and hire temporary workers at peak production times instead of hiring more workers to be stationed in the factory. A manager admitted that pushing workers to work overtime has led to lower quality, more waste and more compensation to buyers after-delivery due to low quality; however, he could not afford the risk to hire more workers for unforeseeable orders.¹⁵

Merchandisers interviewed also acknowledged that buyers demanding short delivery time is the main cause of excessive overtime among workers.

2. Suppressed Prices

- ⇨ All factories reported that buyers have cut prices.
- ⇨ Prices have fallen between 10 per cent to 30 per cent in the last three years.
- ⇨ In some cases, 20 per cent of a factory's orders made no profit, some orders even lost money.

Merchandisers confirmed that there is a 10 to 20 per cent drop in export prices in the last 3 to 5 years. Researches by Oxfam International¹⁶ in other garment producing countries reflected a similar picture:

Morocco: 30 per cent decrease in recent years.

Sri Lanka: 35 per cent decrease in the past 18 months.

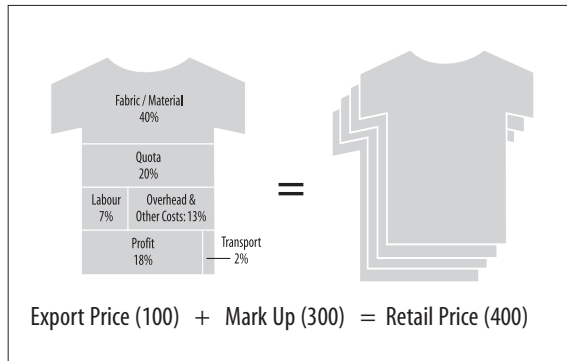
Honduras: 23 per cent decrease in the last three years.

Philippines: 20 per cent decrease from 1997-1998.

The drop in prices and sales is common knowledge in the business. The Hong Kong Trade Development Council acknowledged that this trend in the industry is not limited to low-end and mid-end segments.¹⁷ In the US, garment retail prices have lagged behind inflation since 1982 and have been falling since 1999. Price-cutting strategies are led by 'high volume, low price retailers like Walmart and Target, and their market share is growing. They protect their profit margin by cutting the prices offered to the supply chain.'¹⁸

Merchandisers estimated the value chain in garments in Table 3.

Table 3: Value Chain of Garment



In addition, retailers squeeze profits by requiring fees from suppliers. 'Marketing contributions', for example can be levied on suppliers to pay for shop display space or for a place in a catalogue. When profits drop, some retailers send buyers out to get 'profit contributions' from suppliers.¹⁹

Impacts

It is astonishing to learn that labour costs in developing countries are only 1 per cent to 5 per cent of the overall retail price.²⁰ So, some business analysts argue, a slight increase or decrease in the wages paid to workers will not affect the price competitiveness.²¹

However, it still is true that there is a big difference between the division of the value acquired by suppliers and retailers and the dominance of the retailers in the supply chain. If suppliers are subcontracting from another middle agent, they will be left with a small margin to control.

Though small, workers' wages is one area that suppliers can control. So, wages are often being squeezed at the factory level through the piece-rate system; the denial of rest, holiday, maternity and sick leaves; violations of minimum wage, legal overtime limits and overtime pay; and non-payment of health and social insurance.

3. More Fashion Seasons, Smaller and More Unstable Orders

- ⇒ Two or three fashion 'seasons' each year was once an industry standard. Now, the norm is six to eight seasons.
- ⇒ Order amounts were in the tens of thousands, but they are much smaller now, in the thousands or hundreds.
- ⇒ Buyers divide one order into several smaller orders and request different delivery times.

A retailer-led market has also led to a shorter product cycle for profit return, and hence, more fashion seasons. Oxfam International researches confirm this; for example, one Spanish brand, Zara, can put together a clothing range in 7 to 30 days.²² For the factories, more seasons means quicker changes in style and smaller amounts for each order.

Impacts

Factory managers say that more fashion seasons and smaller orders can lead to less efficiency, as they have less time to become familiar with a particular product. Workers also complain that frequent changes in styles have led to a loss of earnings, as they need time and practice to sew each particular item, and as they are paid per piece, each adjustment means less earnings.

To reduce their commitment and risks, some retailers now follow a purchasing practice with a small initial order, and after they see the market response, a re-order. A factory manager reflected that although this secures some stability of orders over a period of time, if the product does not sell well, buyers of course will cut orders. This leads to a material loss for the factory.²³

Quicker changes and smaller and more unstable orders also create difficulties and uncertainties in production planning, which in turn, lead to fewer incentives for further investments or

improvements. A factory director in Shenzhen, China, said:

*"I am a typical Hong Kong entrepreneur. Hong Kong businessmen won't invest huge money to wait for luck in the future. There is no point to wait for returns beyond five years' time."*²⁴

This short-term outlook also makes commitments to and compliance with labour standards problematic. Currently, costs of compliance are borne mostly by the suppliers,

instead of the buyers who normally ask for it. Seeing uncertainty in long-term returns, suppliers present few or no incentives to improve standards. One factory owner in Thailand said that:

*"I spent three years getting up to compliance with the SA8000 standard and then the customer who had asked for it in the first place left and went to China."*²⁵

As seen in the next section, some suppliers find an 'alternative' strategy: faking it!

FACTORY RESPONSES AND IMPACTS ON WORKERS

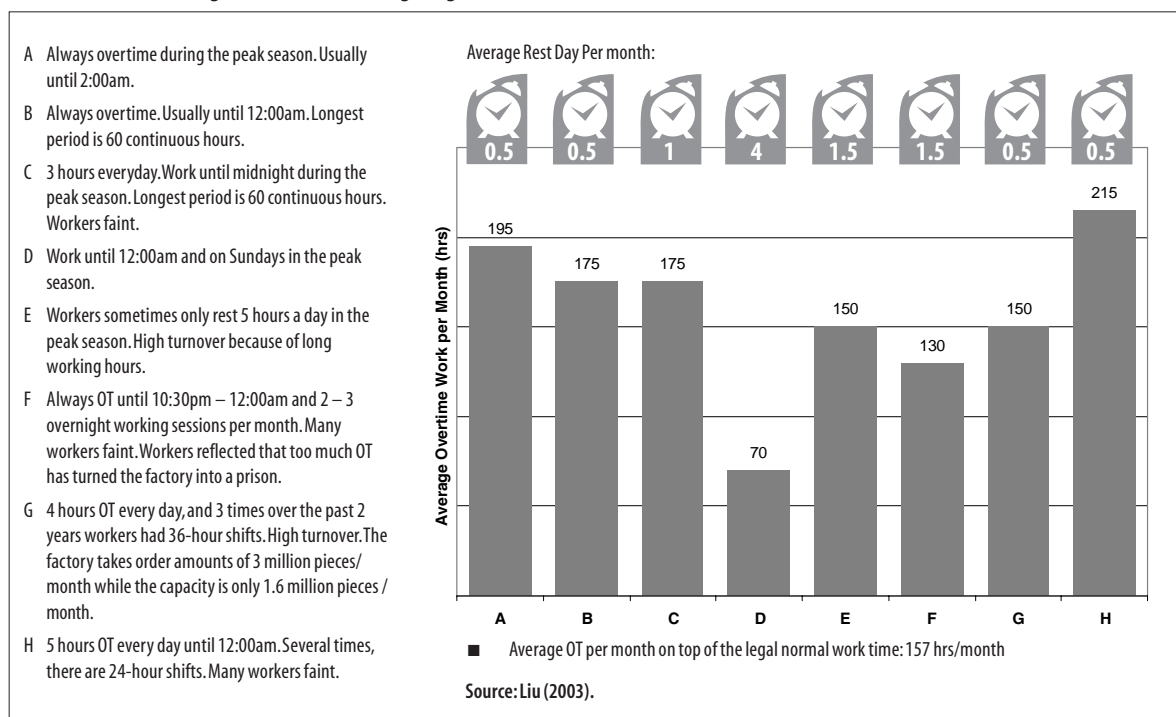
1. Overtime

- ⇒ 150 hours of overtime per month.
- ⇒ Violation of China's Labour Law which limits overtime to 36 hours per month.

Excessive overtime in factories has become a major concern in China for government, unions and concerned organizations. Factory managers

in China and merchandisers in Hong Kong admit a direct link between shortened delivery times and more overtime. Overtime is also adopted as a strategy to compensate for the drop in prices. This can explain the frequent violation of the legal limit of 36 overtime hours per month in addition to the legal normal working hours of 40 per week.

Table 4: Overtime in Eight Factories in Guangdong, China



This issue has attracted government concern. A survey by the Guangdong Province Department of Labour and Social Security revealed that 85 per cent of the approximately 26 million migrant workers in the province work about 10 to 14 hours daily, nearly half of them have no day off, and most are not paid for overtime. (See Box 3)

Women workers in Cambodia also experience forced and frequent overtime work of 70.9 hours per month, on average. Though the working conditions are less serious when compared to

women workers in China, the women report that working until 10 pm, or working on Sundays is common, as are occasional overnight shifts. Similarly, they are not paid the legal overtime rates.²⁶

Excessive overtime also poses threats to occupational health and safety. Back pain as a long-term and hidden occupational disease is well documented among garment workers everywhere.

Box 3 Companies Urged to Allow Trade Unions

2003-08-14 / China Daily

The All-China Federation of Trade Unions (ACFTU) yesterday urged private and foreign companies to allow the establishment of trade unions in order to safeguard the legal rights of their employees.

Some private and foreign companies in China have been trying to prevent their employees from establishing trade unions, which are playing an increasing role in protecting workers' legal rights, according to the federation.

"Parts of such companies, especially the branch operations of transnational companies, refuse to set up trade unions," said Guo Wencai, director of the ACFTU Grassroots Organization Department.

Wang Ying, a division director of the department, said the United States-based leading international retailer Wal-Mart was refusing to allow the establishment of unions in its Chinese branch operations.

"We've made increased efforts for several years but failed," said Wang.

Sources at the headquarters of Wal-Mart's China operations, based in South China's Shenzhen, admitted there were no trade unions in its stores in several Chinese cities.

"We have no trade unions and have never seen any explanation why no such unions exist," said a public relations officer surnamed Huang reached by China Daily via telephone.

She said no senior Wal-Mart officer was available for comment as they are on holiday.

But ACFTU official Wang Ying said Wal-Mart's official explanation was that the multinational company did not allow the formation of trade unions in any of its global operations.

Wang said some owners of foreign-funded enterprises do abide

by China's laws and regulations and encourage their employees to join unions.

But she also said more work needs to be done to inform foreign investors of China's laws on trade unions.

The latest ACFTU statistics indicated that China has 400,000 foreign companies, but only one-fifth have set up trade unions. About 40 per cent of two million private enterprises have set up trade unions.

"And workers need unions more than ever to represent and protect their interests," said Wang.

Guan Binfeng, another ACFTU division director, said infringement of employee's legal rights frequently took place in foreign and private companies without trade unions.

A survey conducted by the provincial Department of Labour and Social Security of China's economic powerhouse of Guangdong revealed that 85 per cent of about 26 million migrant workers in the province have to work for 10 to 14 hours every day and nearly half of them have no rest day, and most of them are not paid for overtime.

The Chinese Government has stipulated that the maximum working day is eight hours and that the working week should not exceed 40 hours. Employers must double or triple wages paid for extra hours.

Since last year, several State Council departments have joined hands with the ACFTU to deal with payment arrears problems.

Unions are essential to protecting the interests and rights of workers and resolving worker-management relations, and the number of trade unions should be increased particularly in non-State-owned enterprises, said Guan.

Source: http://www1.chinadaily.com.cn/chinagate/doc/2003-08/14/content_254835.htm, downloaded on 4/9/2003.

2. Wages

As discussed earlier, although wages and other benefits comprise a small portion of overall costs for suppliers, these are the areas that are frequently cut or reduced. Our research found the following problems:

- ⇨ Arbitrary piece rate.
- ⇨ Wages below the legal minimum wage.
- ⇨ Wages declining in the last 3 years.
- ⇨ Reduced or non-existent insurance, OT rate, sick leave, maternity leave.

Because most workers are paid by the piece rate system, and most factories do not make unit prices clear in advance, workers only find out their income at the end of the following month when the previous month's wages are settled. Factories constantly vary unit prices at the end of the month such that workers' income level (that is, factory's wage expense) remain more or less the same regardless of their output. Thus longer working hours and higher production efficiency do not result in increased incomes for workers.

None of the factories surveyed paid the mandatory overtime pay.²⁷ Although workers' overall income are above the legal minimum wage, after deducting the overtime pay they should have received, 15 per cent to 50 per cent of workers in each factory did not receive the local legal minimum wage.

Workers reported that although overtime work had increased over the last three years, incomes still fell. Some management staff confirmed this by indicating that production orders and numbers of workers had increased over the last three years, but that there had been no corresponding increase in total expenditure on wages.

Factoring in the non-payment of maternity leave and insurance payments and benefits, wages for workers still fall far below the legal standards.

All the factories surveyed effectively denied workers maternity leave. It was only under buyers' pressure that two factories introduced a 90-day maternity leave. However, most of the women workers could not afford medical and childcare expenses without medical insurance and childcare services; so in the end, most of them return to their home provinces to give birth, and stay home for about one year to take care of the child, then return to Guangdong to work again.

We find similar violations of minimum wage standards in Cambodia. From a survey in 2001, only 36 per cent of the workers interviewed earned the minimum wage of US\$45 (or US\$40 for those still on probation).²⁸

3. Faking Codes of Conduct

Our research shows a significant contrast between the general impression of buyers' good will and social responsibility by adopting Corporate Social Responsibility (CSR) as part of their routine business practice and the actual situation at the factory level.

In the face of price and delivery time pressures arising from existing purchasing practices and seeing no long-term commitment from their buyers, suppliers create their own 'counter strategies' to handle factory inspections instead of following the Codes of Conduct imposed by buyers.

Some factories were found to have produced falsified documents for their meetings with inspectors: work time records, wage records, factory rules and contracts. Some factories even produce various sets of fake documents to meet expectations from different buyers.

Workers also recounted how they were sometimes coached to give certain replies to inspectors' questions. Some workers reported that they were paid 50 to 100 RMB to lie. The costs and risks of this behaviour were acknowledged by some

management staff, who, however, felt there was not much they could do about it.

In Thailand, a pregnant worker described what her personnel manager said to her before an inspection visit:

*"He said the customer will ask 'Do you work overtime?' and we have to say 'No!'. But in reality, pregnant workers work overtime and on Sundays as well. We sometimes work until two in the morning or until dawn, but we have to say that we work overtime only until eight in the evening... If we lie, we will get paid four hundred baht (two days wages)."*²⁹

Both workers and management staff questioned whether buyers were genuinely concerned with workers' rights: they mentioned the limited time that inspectors spend in the factory, their limited knowledge of labour laws, carelessness in checking documents, and that interviews with workers were not conducted privately or that there are no interviews with workers at all.

HIDDEN COSTS

"I would like the people who buy these clothes to know their real price, in terms of the sacrifices we make to produce them."
– Marta, 34, a former garment worker in Honduras

Besides being paid lower wages and having fewer benefits, workers also often bear long-term costs which are largely hidden and not usually covered by employers or governments.

Occupational Health and Safety

As jobs in the garment industry demand great dexterity as well as great repetition, many women

The merchandisers we spoke to agreed that there is no integration between social compliance and merchandising, and frankly admit that profit is a more important concern than labour rights, pointing out that overtime work is the only way orders can be delivered on time.

Some merchandisers who are actually responsible for social compliance monitoring admit that codes of conduct are only showcases which actually do not affect the decision on where to put their orders.

The different approaches between merchandisers and inspectors was also noticed by some factory management. Merchandisers tend to give excuses for factories as long as they can keep prices low. This leads us to challenge the existing CSR monitoring being focused only on factory conditions, instead of including the buyers' own purchasing practices, which greatly influence factory situations.

suffer such ailments as back, leg and shoulder pain, and joint injuries. Poor ventilation in lint-filled rooms can also lead to debilitating respiratory diseases.

In 1993, the Kader Factory fire in Bangkok and the Zhili Factory fire in Shenzhen sparked off regional and international campaigns that posed challenges to the responsibilities that buyers shoulder in compensating injured workers and their families. (See also Box 6.) Workers' organizations and NGOs around the world saw the imbalance between the considerable power TNCs have in the supply chain and their relatively few responsibilities towards workers. The

inadequate legal protection for workers and the fact that TNCs infringe on workers' rights to save costs have left workers to themselves shoulder the costs of accidents, such as medical bills and the difficulties that their loss of livelihood brings.

Women shoulder hidden costs

Our research shows that women workers in China are frequently denied maternity leave even though the law entitles them to 90 days of paid leave. Instead, they are forced to leave their jobs. Such a violation of rights leaves the women shouldering the costs which employers should pay for.

Migrant workers coming from rural areas in China are also not entitled to existing services that their fellow residents in cities can use, such as child care, health care and basic education. Many women workers choose to leave their children behind with other family members in their home village. If they bring their children with them, they face expensive fees for private school tuition (as they cannot attend public schools, since they are not registered as residents). These concerns are rarely addressed by factories or buyers.

Short work lives cover long-term costs

Hong Kong's garment industry was built up from the 1960s through the 1980s. Many women workers from that time are now, in their old age, unemployed, or engaged in part-time or casual work, and generally quite poor. As a pension system was not in place in Hong Kong before the mid-1990s, most middle-aged and elderly women workers have little or no protection for their last years.

It is discouraging to see a similar thing happening with women workers in China. While there is an old age pension system in place, its implementation is administratively divided among different cities and provinces. For a migrant worker in Guangdong, contributions to the system are not transferable back to the hometown, where the workers would live after retirement, so most migrant workers disregard it or are reluctant to contribute. Some factories in Guangdong use this as an excuse not to pay employers' contributions.

In Cambodia, workers also worry about how long garment factories will stay once the Multi-Fibre Agreement is phased out. There have been projections that, without the niche of available quotas, most factories will relocate to China where other costs are more competitive.

ADDRESSING THE PROBLEMS

Governments: Labour Laws & Social Policies

Governments have the primary responsibility for protecting the rights of its workers, but this is often times ineffectual. The problem is not always a lack of good legislation. Many governments have good labour laws, but weak enforcement.

Governments also have a responsibility to shoulder the social costs of precarious employment in the global supply chain, which are currently being borne predominantly by women workers and their families. Long working hours, exhaustion, poor nutrition and a lack of adequate sick or maternity leaves mean that the women and their families pay heavy social costs in the short and long term. The working life of these women is often short, and the lack of adequate health insurance or pensions means that they are likely to be left with poor health, few savings and a life of chronic poverty. Governments must ensure that employers provide a reasonable work schedule, stable employment, a living wage and a healthy and safe working environment.

To enable women workers to cope with family obligations, they must ensure there is adequate maternity, sick and family leave provisions, and child care facilities for women with young children. Governments must also provide proper health and unemployment insurance schemes. Retrenched workers must be provided with meaningful vocational and re-employment training, and not be treated simply as disposable and transient parts of the workforce. They must also bear the burden of the long-term costs to women after they cease to be employed workers – which means adequate pension schemes.

Unfortunately, the opposite is the trend.

Governments tend to reduce support for the protection of workers and former workers through pensions, leave provisions, and other basic employment benefits.

Some of the costs of providing these benefits should be borne by employers, through increased contributions to health, social security and pension schemes. Sourcing companies – those that do not employ the workers but buy the products that they make, and therefore benefit from their labour – should also contribute to the costs either directly or indirectly.

One of the problems faced by workers is that labour-intensive industries tend to move from country to country to avoid organized labour or higher labour costs. In some cases, it is the investors that move; in others, it is the buyers who reduce orders in one country and begin sourcing somewhere else. The result is always the same: factory closures leave behind unemployed workers, usually with little or no severance pay or other compensation. In the long term, this trend of relocations has to be addressed, as it is a major factor undermining the bargaining power of workers, even in places where workers are organized.

In the short term, governments have an obligation to ensure that when factories close, the companies involved provide adequate severance pay, and that retraining and other assistance is available for retrenched workers. More affluent governments should also provide funding to help regions that are particularly negatively affected.

Hong Kong

In Hong Kong, there is no legal protection on maximum number of working hours. In addition, government has refused to establish a minimum wage. Another significant loophole identified by unions and NGOs is how factories avoid paying workers severance pay by keeping the number of work hours to just within the legally-defined minimum. This has led to a significant drop in wages since workers work under a piece-rate system. With such reduced wages, workers then opt to resign on their own, hence losing the severance pay they deserve.

The lack of a proper retirement system has also led to poverty among today's middle-aged and elderly workers. They do not benefit from the Mandatory Provident Fund (MPF) introduced in 2000, after many factories had moved to China. Furthermore, allowing companies to offset MPF payments with severance pay reduces workers' benefits.

China

China released its first labour law in 1995. Generally regarded as satisfactory, the law remains weak on various labour standards and on implementation methods; because of this, provincial, county and local governments and courts have a lot of room for interpretation. Inconsistency is therefore the norm. Unions, NGOs and academics have also identified several barriers to redress on labour violations, such as the long legal proceedings and the fact that cases have to be filed within 60 days of the violation. Like many other developing countries that are

strengthening their labour laws, China also lacks the capacity and basic infrastructure for implementing, enforcing, and monitoring the law. The widespread violations of work time restrictions clearly reflect this. Besides filling in legal loopholes and strengthening enforcement and monitoring, legal education is critical.

As stated by the Chinese Central Government itself, the overall social security system urgently needs reform to address the country's changing economic and social environment.

Cambodia

Similar to the situation in China, workers' organizations and NGOs in Cambodia also acknowledge that the labour law is good but weakly enforced. Violations of wage standards, forced overtime and denial of sick leaves are common. In addition, women workers coming from the rural areas bear the heavy social stigma of having to work in city.

In the US-Cambodia trade agreement, the quota for exports to the US are contingent on compliance with labour standards, as monitored by International Labour Organization. This exerts some pressure on the industry and the government to improve implementation. However, workers' organizations and NGOs find the mechanism vulnerable to protectionism by the US.

Box 4: Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises

In the 1970s, the governments that make up the OECD agreed to establish a set of international voluntary guidelines or standards that its member governments would promote among the companies in their respective countries. In 1976, the OECD adopted a Declaration on International Investment and Multinational Enterprises. Within this was a set of guidelines for the multinational enterprises of OECD countries. In June 2000, as a result of a comprehensive review, a revised version of the Guidelines for Multinational Enterprises was adopted by the OECD to include all the rights set down in the core ILO Conventions, protect the 'whistleblowers', and implement the 'precautionary principle' in regard to environmental impact. They also made it clear that OECD governments expect companies to respect the Guidelines wherever they do business and not just in OECD member countries.

Although providing a useful framework, the Guidelines are still insufficient. They are not binding or legally enforceable on companies, and lack an effective monitoring and verification mechanism. Nevertheless, unions and other organizations have attempted to use the Guidelines as a mechanism for protecting

workers rights by making complaints against companies that they feel are not compliant. There are several problems with this approach, including: (1) the absence of any clear timeframe for dealing with complaints, (2) the lack of transparency, and (3) the failure to conduct proper investigations.

There is a need and scope for supporting and strengthening this mechanism. The OECD can encourage governments to take a systematic approach to operationalizing it, so as to ensure that complaints are dealt with openly and effectively, and that both the substance and the process of the complaint are made transparent.

An effective way of using the Guidelines is for them to be a pre-condition for companies to receive government contracts or assistance. In the Netherlands, for instance, companies which want to be eligible for export credit support are obliged to sign a statement that they have taken note of the OECD Guidelines and will implement them to the maximum extent possible. If companies breach the Guidelines, they lose government support.

Private Sector: Corporate Social Responsibility and Codes of Conduct

Given the previous discussions, it is clear that companies must change their way of doing business. Some are already doing so through initiatives in Corporate Social Responsibility (CSR) and Codes of Conduct (CoC). Many issues remain, however. For instance, the monitoring of companies' Codes of Conduct mostly relies on corporate staff or specialized monitoring bodies. Workers, however, who best know the factory situations, are rarely involved. Unions, NGOs and consumer campaigns have been calling for their active participation as well as for more transparency of monitoring exercises, including releasing of reports and disclosing lists of supplier factories.

Some governments have attempted to impose standards on companies that operate overseas through legislative means. There have been

attempts to introduce legislated Codes of Conduct into some Northern parliaments for companies operating in the South; however, none have been successful. Among other things, they tend to run into problems in the courts regarding jurisdiction for offences committed outside their national boundaries.

Less ambitious but more achievable in the short term is legislation that requires companies to report regularly and publicly on their performance with respect to basic labour rights (and other standards) to their home government. The method and reliability of that reporting should be independently assessed by the home government. Penalties for non-compliance might include the withdrawal of access to government contracts and assistance.

Box 5: A Background of Corporate Social Responsibility (CSR) and Codes of Conduct (CoC)

Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large to improve their quality of life.

– World Business Council for Sustainable Development

Source: **Corporate Social Responsibility: The WBSCD's Journey**. Downloaded from <http://www.wbcsd.ch/DocRoot/wYlpnLQLjiKQfQ3Ik00j/csr2002.pdf>, 22nd December, 2003.

Beginning in the early 1990s, companies involved in the manufacture or marketing of brand-name goods produced internationally, often through outsourcing, began to formulate and adopt codes of conduct covering labour practices that were meant to apply to their subcontractors and suppliers. These unilaterally adopted company codes of international labour practice are the new codes of conduct. Codes of conduct for business are not new – businesses have been using them for years to address various public concerns such as consumer rights, product safety, or environmental protection. Often businesses apply ethical behaviour codes to their employees. Codes of conduct for international business activity are not new either. In the 1970s, concern over the growing power of multinational companies led two international organizations to adopt codes for international business: the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy and the OECD Guidelines for Multinational Enterprises. These international instruments sought to protect the sovereignty of countries by defining the responsibilities, including the social responsibilities, of international business.

Source: Wick, I (2003) **Workers' Tool or PR Ploy? – A Guide to Codes of International Labour Practice (3rd Revised Edition)**, Friedrich-Ebert-Stiftung & SUDWIND Institute for Ökonomie and Ökumene.

The root causes for the emergence of codes of conduct lie in the failure of governments and multilateral agencies to harness excessive and formidable excesses of transnational capitalism. TNCs have made huge profits by exploiting the cheap labour in the export processing zones (EPZs) in Asia and the free trade zones in Central America, where repressive governments stifle unrest and labour organizing in order to attract foreign investments. The high fluidity of transnational capital, especially in labour intensive, low-tech industries, has resulted in a global "race to the bottom" of plunging wages. In 1991, the mega US jeans maker Levi-Strauss was reported to use young female labour in near-prison working conditions and, in an attempt to salvage its stained public image, it responded by drafting the first corporate code of conduct. Since then, human rights activists, trade unions and other non-government organizations in Northern America and Europe have strategically launched many consumer campaigns. Kathy Lee, the Gap, Nike, Reebok, Disney and Wal-Mart, in addition to many other labels, have all been targeted, and many corporate codes came into being because of scandals exposing TNCs' labour exploitation in Asian and Central America. However, the effectiveness of such codes is questionable, as investigations continue to unveil exploitative practices in many companies' production processes; the codes seem to work largely as public relations tools for the TNCs. A heated debate has emerged in the last couple of years about adequate ways to monitor compliance with codes: consensus concludes that without adequate monitoring and verification, codes of conduct remain superfluous.

Source: Labour Rights in China (1999) **No Illusions: Against the Global Cosmetic SAB000**, Hong Kong.

Consumers

Consumer campaigns have increasingly demonstrated the power of consumers telling the brand name companies that they should radically improve their business practice. Consumers are

increasingly mobilizing their purchasing power to exert collective influence on companies' policies and practice.

Workers

"I used to think that a union was not important but after I got involved and met workers and unions in other factories, I realized how important it is to protect workers' rights. If a worker has a problem, they don't know what their rights are. The union can advise them and help them solve it. I have gained lots of experience and now I know about the law. If I don't use it to help the workers, who will?"³⁰

Workers everywhere have an increasing awareness of their rights and assert this in numerous ways: publicly or privately, individually or collectively. As the ones who know best about what he or she needs and wants, workers should be further encouraged and empowered to participate in building a just and sustainable social and economic system.

In Hong Kong, the workers' movement in the garment sector has been one of the most active

and organized. Bringing together mostly women workers, the movement has been contributing by making policy and labour law proposals regarding such issues as maternity leave, retirement schemes, work stoppage and lay-off compensation, labour protection and social policies.

Though heavily affected by the decrease in the number of garment workers, the unions have actively responded to recent labour importation policy proposals and issues in gender inequality. Workers have also been supporting regional and international campaigns on labour rights issues. Whether now working in other sectors, unstably employed, under-employed or unemployed, women workers who had been working in garment factories in Hong Kong have shown strong affiliation to women workers organizations or unions, often sharing their experiences with women garment workers in other countries.

Box 6: The Kader and Zhili Fires and the Asia Network for Victims' Rights

In 1993, two disastrous factory fires happened in Bangkok, Thailand, and Shenzhen, China, leading to the injury or death of nearly one thousand workers. The two fires had many similarities. Firstly, workers in both factories were mostly young women (including child workers) from the rural villages who had come to work in the cities. Secondly, both factories were owned or partly owned by Hong Kong investors making toys for famous brands in US or Europe. Finally, both cases involved bribery of government officials to escape prosecution. Even after the fires, both managements were trying to find scapegoats to avoid paying compensation.

After the Kader Fire in Bangkok in May of 1993, 25 labour rights NGOs and unions in Thailand and Hong Kong responded quickly to form a Kader Fire Victims Support Group. They filed complaints to the government and the company and called for proper compensation. Actions included bringing workers and their families to Hong Kong and putting pressure on the related Hong Kong company. The movement attracted significant media coverage as well as social concern, both in Thailand and Hong Kong, and was successful in terms of putting pressure and building cross-border worker solidarity. Finally, the victims and their families were compensated.

Six months after the Kader Fire, in November, 2003, the Zhili Fire in Shenzhen generated public concern. NGOs and unions acted to build a network with NGOs and unions in Europe to place pressure on the brand, Chicco, for which the Zhili factory workers were producing goods. The Zhili Fire compensation claims lasted for years. In 2000, Chicco finally established a fund for the Zhili workers, yet claims for compensation are still under debate.

Among the lessons NGOs and unions learned in 1993 was that with the fluidity of investments and the rampant violations of labour rights, workers' safety and their livelihoods could only be properly protected with the mobilization of workers. The momentum generated in 1993 consolidated into a network of victims and concerned groups in the region to exchange experiences, share information, study policies and laws and offer mutual support, from worker education to campaigns. In September 1997, the Asian Network for the Rights of Occupational Accident Victims (ANROAV) was formally established with member organizations from Hong Kong, Thailand, Japan and Sri Lanka. Short and long term plans were developed in the annual conference while individual members also developed their own plans in respective countries, now numbering 12. In 2002, the network further extended to include a group from Taiwan.

Source: Translated from Wong, M (2003) "The 10th Anniversary of the Kader and Zhili Fires – the origin and works of ANROAV", in **Oxfam In Action** Summer 2003, Oxfam Hong Kong

MAKE TRADE FAIR: OXFAM HONG KONG RECOMMENDATIONS

Companies that own factories in developing countries

The social responsibility of business starts in the factory – and improving factory management is the first and most immediate step towards better employment and working conditions. Owners and managers should:

- ☞ Follow the labour law in the country. This is a baseline that they should never disregard.
- ☞ Commit to adopting employment and management practices that protect, rather than undermine, the rights of all workers, including short-term and sub-contracted workers.
- ☞ Recognize the right of all workers to join trade unions and bargain collectively and make full use of unions for resolving workers' concerns.
- ☞ Provide a working environment sensitive to women workers' needs including childcare facilities, lighter duties for pregnant women and breast-feeding breaks for mothers. Establish and implement policies that promote equal opportunities in the workplace.
- ☞ Work with retail and brand company buyers to rectify any non-compliance issues on labour standards.
- ☞ Work with trade unions/workers' organizations or NGOs to promote labour rights' training.

Retail, sourcing, trading and brand companies

The corporate social responsibility movement began tackling labour conditions by focusing on monitoring producers' compliance with codes of conduct. But until companies acknowledge that their own sourcing and purchasing practices are one of the root causes of poor labour standards, they will not resolve the problems.

Companies should ensure that they find ways to:

1. make respect for workers' rights integral to the company's vision;
2. integrate that commitment into sourcing and purchasing practices;
3. promote workers' empowerment to ensure that better practices result in better terms and conditions for workers.

1. Make respect for workers' rights integral to the company's vision

- ☞ Commit to ethical labour standards in the supply chain at the highest level of corporate management and ensure it is integrated throughout the company.
- ☞ Adopt a code of conduct based on international labour standards and ensure that it is interpreted with a gender perspective.
- ☞ Create an ethical trade team that is equal in corporate hierarchy to merchandisers and make addressing purchasing practices a central part of its mandate.
- ☞ Train merchandisers to be aware of the possible impacts of their negotiations on labour standards.
- ☞ Ensure that merchandisers' and managers' incentives and performance assessments are structured to reward, rather than undermine, ethical purchasing.
- ☞ Provide information to shareholders, to consumers and to civil society, about labour standards in the company's supply chains and ongoing policies to improve them.

2. Integrate that commitment into sourcing and purchasing practices

Labour standards as a key selection criterion

- ☞ Make 'good' or 'improving' labour standards a criterion equal in importance to quality and delivery in selecting and assessing suppliers.
- ☞ Work towards buying only from approved suppliers.
- ☞ Give approved suppliers - with good or improving labour standards - the status of being preferred sources.

Delivery times

- ☞ Review the company's procedures for placing orders to identify internal inefficiencies or delays – such as rush orders and sample delays or changes – that leave suppliers with inadequate production or delivery time.
- ☞ Share order planning information with suppliers to enable them to plan better.
- ☞ Repay the costs incurred by suppliers due to significant delays and changes made by buyers when placing orders.
- ☞ Agree on guidelines for the above with suppliers.

Pricing

- ☞ Ensure that pricing is compatible with the supplier meeting labour standards as set out in the code.

- ☞ Where the risk of price fluctuation is carried by the supplier, pay a price that reflects that additional risk.
- ☞ Ensure that price negotiations do not undermine the feasibility of the supplier complying with labour standards.

Commitment to working with producers

- ☞ If a supplier is improving labour standards and this raises prices, continue to source from that supplier.
- ☞ Support suppliers, where necessary, in building their managerial and organizational capacity so that productivity can be raised without placing workers under excessive pressure – and ensure that workers benefit from those productivity improvements.
- ☞ Assess the impact of the company's purchasing practices on employment and working conditions in the supply chain and ensure that suppliers can provide feedback on the pressures they face without jeopardizing their contractual relationship.

3. Promote workers' empowerment - to ensure that better sourcing practices result in better conditions for workers

- ☞ Work with trade unions/workers' organizations or NGOs to promote labour rights' training.
- ☞ Support the creation of representative workers' organizations for workers at all levels of the supply chain.
- ☞ Conduct workplace inspections in conjunction with workers, trade unions and credible local organizations, ensuring that all types of workers are involved.
- ☞ Engage in constructive dialogue with global union federations and establish ongoing dialogue about the rights of workers in the company's supply chains worldwide.
- ☞ Ensure that inspections address terms of employment including: work time; wage; restrictions on organizing; access to paid maternity leave, sick leave and annual leave; employment status of workers on temporary contracts, home workers and sub-contracting.
- ☞ Remediation plans should address the roles and responsibilities of the producer, any mid-chain suppliers and the merchandiser in resolving problems identified.

Business associations and manufacturers' organizations

As representative bodies of the industry, business associations and manufacturers' organizations should promote socially responsible practices. They should:

- ➡ Promote (through special meetings, conferences or training for members) better CSR implementation to cover purchasing practices.
- ➡ Initiate discussions with brand name companies, retailers and international business associations on improving purchasing practices and introducing a Common Code for the industry.
- ➡ Work with trade unions/workers' organizations or NGOs to promote workers rights' training (especially on OSH and workers organizing).

Hong Kong SAR Government

The Hong Kong Government has been playing a facilitating role in regional trade and working for a better environment for businesses based in Hong Kong. It should now consider extending this role to cover social and labour rights concerns for sustainable social development in the region and the world.

- ➡ The Textiles Advisory Board should promote and facilitate better CSR implementation in the garments industry.
- ➡ The Textiles Advisory Board should initiate discussions with brand name companies, retailers and international business associations on improving purchasing practices.
- ➡ The Government should integrate considerations of labour rights (in HK and in other countries) in its trade policy formulation.
- ➡ The Government should explore the ways to monitor behavior and practices of companies based in Hong Kong but operating regionally or globally.

Hong Kong Public

As global citizens, people in Hong Kong should express their concern, take action on labour issues, and extend support to workers. They should:

- ➡ Support labour rights campaigns and show solidarity with workers, locally, regionally and internationally.
- ➡ Express concern over the conditions in which consumer goods are produced.
- ➡ Support fair trade by purchasing goods marked with a fair trade logo.

Box 7: Good Initiatives in Sourcing and Purchasing Practices

Some companies have recognized and started to tackle some of the problems created by their purchasing practices. On a wider scale, the following initiatives could help to bring significant improvements in employment and working conditions:

- ✎ **Reviewing ordering processes:** The Swedish fashion retailer, H&M, is reviewing its own ordering practices after several months of excessive overtime in two suppliers' factories in China and Turkey. *"There are so many people involved here at H&M – technicians, quality control, merchandisers and compliance – that no one in our company has the full picture of how the orders went from beginning to end"* said Ingrid Schullstrom, Manager of Corporate Social Responsibility. *"So we are reviewing what happened during those months – were there late approvals or fabric delays or quality problems? Were we part of the problem here? We need to understand the full picture and then work internally and with our suppliers towards a sustainable solution."* Marks and Spencer, a major UK retailer, is far into this process of 'critical path management' for its garment supply chains. *"One major reason for long hours in factories is poor production planning – and responsibility for that starts back with us,"* said Muriel Johnson, Head of Social Compliance. In early 2003 the company enhanced its online database for tracking the status of worldwide orders, by including key dates and responsibilities for making internal decisions, to ensure that producers' lead times are not cut short.
- ✎ **Priority to approved producers:** Premier Brands sells tea to several UK supermarkets, sourced from more than 150 estates in 12 countries. By building long-term relationships with producers and paying for the social audits, the company is moving towards buying only from approved producers. *"Five years ago, around 60 percent of our suppliers were approved – today it is almost 90 percent,"* said Michael Pennant-Jones, Ethical Sourcing Manager. *"And getting on our approved supplier list acts as a carrot for producers to raise their labour standards."*
- ✎ **Working with global unions:** In 2001, the banana company, Chiquita, signed an international framework agreement with the International Union Federation (IUF) for food and agriculture. The agreement creates a forum for addressing workers' rights violations arising in the company's worldwide operations and supply chains. *"[Most] multinational companies... refuse to accept global responsibility for industrial relations,"* said Peter Rossman, Communications Director at the IUF. *"That is why agreements like this one are a valuable tool for bringing industrial relations into the new environment of globalised production."*
- ✎ **Supply chain transparency:** In 2002, more than 20 major clothing retailers in Australia, including the Cole Myers Group (with Target and Kmart) and David Jones, signed up to a code for ethical retailers, and now provide the Australian clothing and footwear union, TCFUA, with details of their in-country suppliers, prices paid, and turn-around times demanded. Linking this to information from suppliers and producers who have likewise signed up to codes, the union now has detailed and current data on these supply chains. Although the agreement covers only clothing in Australia, it is an important precedent for greater transparency on purchasing practices.

Source: Oxfam International (2004) p.86.

ENDNOTES

- ¹ P. Gibbon (2003) *At the Cutting Edge: UK Clothing Retailers' Global Sourcing Patterns and Practices and Their Implications for Developing Countries*, Copenhagen: Centre for Development Research. Quoted in Oxfam International (2004), p.49.
- ² UNCTAD (2002), *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, New York and Geneva: UN, p.129.
- ³ Oxfam International (2002), *Rigged Rules and Double Standards: Trade, Globalization and the Fight Against Poverty*, Oxford: Oxfam International, p.107.
- ⁴ UNCTAD (2002), p.130.
- ⁵ UNCTAD (2002) Quoted in Oxfam International (2004), p.49.
- ⁶ Total domestic export value at HK\$130,926 million in 2002. Source: <http://garments.tdctrade.com/>, 19th December, 2003.
- ⁷ "Profiles of Hong Kong Major Manufacturing Industries – Hong Kong Clothing Industry", downloaded from <http://www.tdctrade.com/main/industries/ipclot.htm>, 28th November, 2003.
- ⁸ "Profiles of Hong Kong Major Service Industries – Import and Export Trade", downloaded from <http://www.tdctrade.com/main/si/spimex.htm>, 28th November 2003.
- ⁹ Total re-export value at HK\$1,429,590 million in 2002. Source: <http://garments.tdctrade.com/>, 19th December, 2003.
- ¹⁰ "Profiles of Hong Kong Major Service Industries – Import and Export Trade", downloaded from <http://www.tdctrade.com/main/si/spimex.htm>, 28th November 2003.
- ¹¹ Womyn's Agenda for Change (2002), *Labels to Wear Out: A Social Study of Women Workers in the Cambodian Garment Industry*, Cambodia.
- ¹² 中華人民共和國國家統計局 (2003) 中國統計年鑑 2003. 中國統計出版社. (China Statistics Yearbook 2003) Estimation of percentage of Hong Kong manufacturers in Guangdong by Liu (2003).
- ¹³ This section draws on researches commissioned by Oxfam Hong Kong in April 2003, each looking at purchasing practices differently, yet all focusing on getting basic knowledge of the companies' practices, any recent changes, and the impact on workers' conditions. It also draws on findings from Oxfam International's report, "Trading Away Our Rights", in which purchasing practices in the global fresh produce industry is a concern. We would like to emphasize that, although we focus on the garment industry in this paper, purchasing practices are not exclusive to this industry; they extend across the sectors and around the world.
- ¹⁴ Oxfam International (2004), *Trading Away Our Rights: Women Working in Global Supply Chains*, Oxford: Oxfam International, p.51.
- ¹⁵ Liu Kai-ming, *Research Report on Global Purchasing Practices and Chinese Women Workers*, Shenzhen: Institute of Contemporary Observation, (2003).
- ¹⁶ Oxfam International (2004), p.52, 54, & Ascoly & Zeldenrust (2003), p.24.
- ¹⁷ The Hong Kong Trade Development Council, "Profiles of Hong Kong Major Manufacturing Industries – Hong Kong's Clothing Industry", downloaded from http://www.tdctrade.com/main/industries/t2_2_34.htm, 28th November 2003.

- ¹⁸ Oxfam International (2004), p.54.
- ¹⁹ Oxfam International (2004), p.54.
- ²⁰ Ascoly & Zeldenrust (2003), *East and Southeast Asia Regional Labor Research Report*, Clean Clothes Campaign, p.25.
- ²¹ Birnbaum (2000), *Birnbaum's Global Guide to Winning the Great Garment War*, Hong Kong: Third Horizon Press, p.144-146.
- ²² Oxfam International (2004), p.51
- ²³ Liu (2003).
- ²⁴ Oxfam International (2004), p.54.
- ²⁵ Oxfam International (2004), p.57.
- ²⁶ Womyn's Agenda for Change (2002), *Labels to Wear Out: A Social Study of Women Workers in the Cambodian Garment Industry*, Cambodia.
- ²⁷ According to Chinese Labour Law, overtime pay should be 150 per cent of normal wage for overtime work from 1- 36 hrs/month; 200 per cent for overtime work above 36 hrs/month; 300 per cent for overtime work on holidays.
- ²⁸ Womyn's Agenda for Change (2002).
- ²⁹ Oxfam International (2004), p.62.
- ³⁰ Words from Prem, a union committee member in a Thai factory. Quoted in Oxfam International (2004), p.24.

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