International
Labour
Organization

Supply chain cooperation:

A chance for the garment industry

Dr Mark Anner
Associate Professor of Labor and Employment Relations & Director,
Center for Global Workers’ Rights, Penn State University

and

Tandiwe Gross
Consultant, ILO Liaison Office for Myanmar

The garment industry in Myanmar, which represents the second biggest export item, is an important driver of economic growth. The development of the sector is significant: the value of garment exports increased from US$582 million in 2011 to US$2 billion in Fiscal Year 2016-2017 (Impactt 2016; Htet 2017) and reached US$ 2.58 billion in Fiscal Year 2017-2018 (Nyein 2018). In June 2018, the industry is estimated to count around 500 garment factories employing roughly 500,000 workers, a number which the Myanmar Garment Manufacturers' Association (MGMA) strives to increase to 1 to 1,5 million workers by 2024 (MGMA 2015).

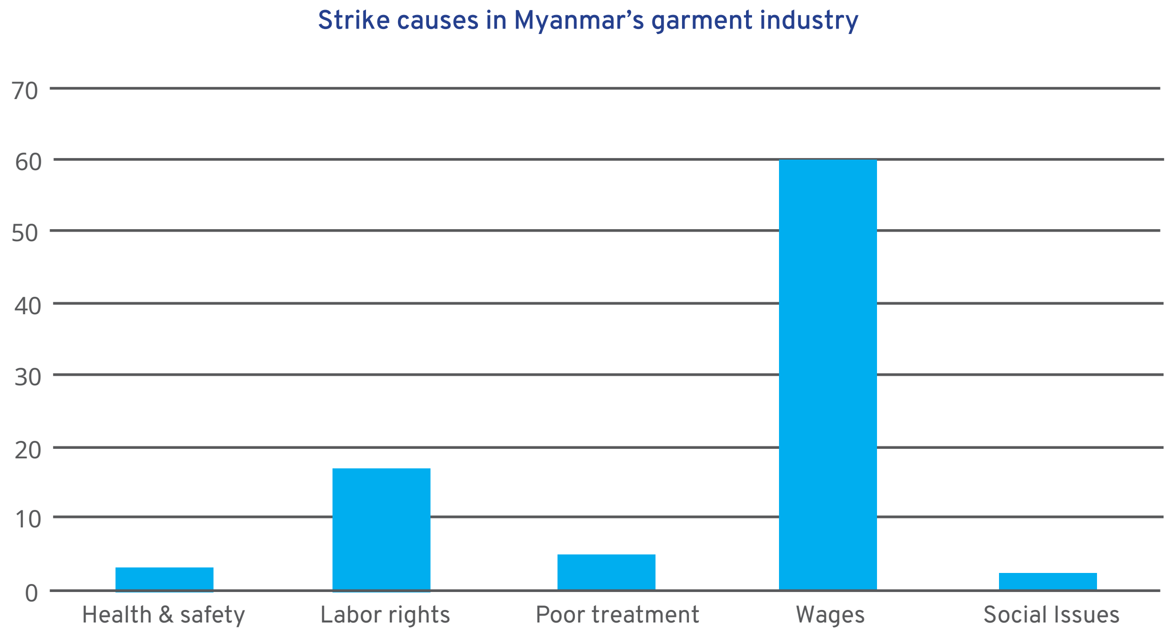
The competitiveness of Myanmar's garment industry on the global market has been described as being primarily based on low wages (Ko Ko and Chern 2018). In 2016, Myanmar was highlighted as one of the regions' last "low-cost production frontier for factory relocation" (HKTDC 2016). However, many factory owners see the 2018 minimum wage increase with concern, pointing to high costs of garment production lines and the difficulty in paying a higher minimum wage in the context of thin margins (Aung and Phyo 2018).

Overtime pay represents a significant part of workers' take-home pay, as workers work long hours in order to cover basic living expenses. This implies risks not only for workers' long-term health, but also for productivity as the latter typically reduces towards the end of long shifts.

Another effect are high turnover rates, as workers move from factory to factory looking for higher wages. According to industry experts, high turnover is one of the key challenges in the industry, affecting not only efficiency but also the prospects for successful upskilling, which would require a more stable workforce.

Wages has also been recorded as the number one reason for strike action (Figure 1). While comprehensive comparative strike data is lacking, the Ministry of Labour, Immigration and Population has noted 447 strikes in the garment sector between 2012 and 2014 (ITUC 2015).

Figure 1: Reasons cited by Workers for why they go on Strike



Source: Authors' calculations based on Impactt (2016).

After a wave of strikes in 2015 and a relative decline in 2016, many industry observers indicated an increase in the number and duration of strikes in 2017.

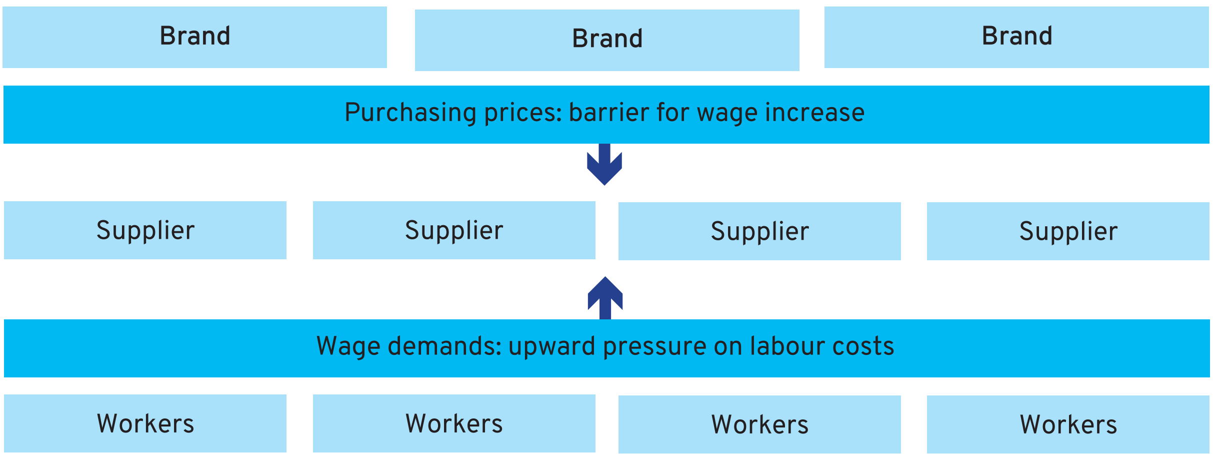
While social dialogue is progressing in many areas, spontaneously erupting conflicts and strikes have been noted to remain a challenge in 2018.

In terms of cases recorded under the country's dispute settlement mechanism in Yangon, statistics by the Ministry of Labour show that 53% of all cases in 2016 related to termination of employment, followed by wages accounting for 21% (CESD 2018).

The supply chain dilemma

While upward wage pressures by workers are likely to continue and increase in the future with rising inflation, fierce global competition acts as a barrier for wage increases. This conflicting pressure– for higher wages on the one hand, and continuously low prices on the other hand – can be described as the supply chain dilemma (Figure 2), which suppliers in internationally integrated "buyer-driven supply chains" (Gereffi 1994) are facing.

Figure 2: The Supply Chain Dilemma

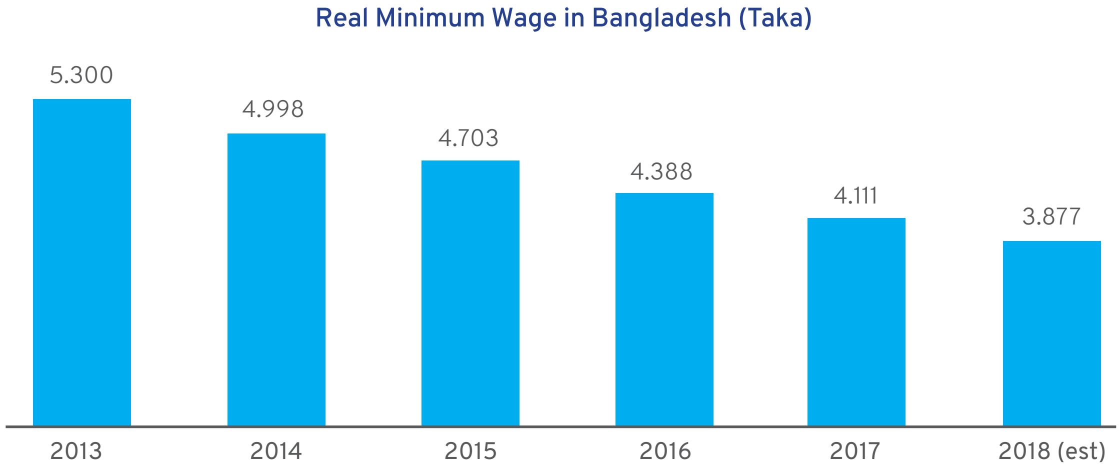


Source: Authors' design

In Bangladesh, garment constitutes the largest export category. Research has shown that the price paid by brands to supplier factories in Bangladesh has declined by 13% between 2013 and 2017 (Anner 2018). It was found that this decline could not be explained by changes in the price of cotton or exchange rate fluctuations. One explanation could be increased price pressure under strong global competition.

In this context, strategies of suppliers to stay in business include increasing productivity by investing in new technologies, improving logistics and production processes or by requiring workers to work faster (i.e. through increasing hourly production targets). These productivity gains can translate into higher wages or increased profits of suppliers. Or they can be distributed between international brands and consumers in the form of lower prices at the top of the supply chain.

Figure 3: Real Minimum Wage Development in Bangladesh



Source: Authors' calculation based on Bangladesh Ministry of Labour and Employment; World Development Indicators/World Bank; Central Bank of Bangladesh.

In the case of Bangladesh, as the price paid by lead firms to supplier factories declined by 13 per cent from 2013 to 2017, the real minimum wage (which takes into account inflation) declined by 22% by 2017 (Anner 2018). During roughly the same period (2011 to 2016), profit margins of supplier factories in Bangladesh have decreased by 13.3% (ibid.).

ILO (2017) research covering over 1.400 suppliers across sectors in 87 countries has found "extreme pressure on supplier price quotes", with the price pressure being most pronounced in the garment industry.
In this situation, purchasing practices by global brands play a role as the third, 'invisible' party in the relations between workers and employers at national level. The globalized model of fast fashion, however, places brands themselves under heavy price competition on consumer markets. This points to a systemic nature of the price problem which may require a coordinated solution.

Each national context, of course, is different. Labour laws and enforcement practices vary. Infrastructure may be well developed or very limited. Some countries are large and have an expansive network of domestic suppliers, whereas other countries are small and have a very limited supplier base, requiring them to import most inputs needed in the production process. However, despite these differences, all countries face the impacts of competition that have characterized industrial garment manufacturing since the development of the sewing machine in the 1800s. Then as now, most garments are made by women sitting behind individual sewing machines. This means that garment factories can be very large or very small. It also means that production can very easily be sub-contracted from large factories to small workshops. And, then as now, those who design, market, and sell the garments do not have to make the garments. That can be done through outsourcing, be it domestic outsourcing as was common in the 20th century, or it can be done via international outsourcing, as is the norm today.

Successful examples of addressing the 'supply chain dilemma'

In the early 20th century, the garment industry in New York relied increasingly on a contracting model in which companies called "Jobbers" - in today's terms the brands - designed and sold garments produced by independent contractors. The contractors manufacturing the clothes, similar to today's suppliers, found themselves in a fierce price competition as the "Jobbers" could easily move orders from one contractor to the next. For the workers employed by the contractors to make the garments, low wages and excessive working hours were the norm, and the contractor earned a low margin. In order to produce at a low price point, contractors used old, unsafe buildings with low rent. Among many other incidents, this resulted in a factory fire in New York City that killed 146 workers in 1911, one of the deadliest industrial accidents in the US. In response, a US garment workers' union - the International Ladies Garment Workers Union (ILGWU) - argued that buyers and contractors were jointly responsible for wages and working conditions.

Although a formally independent unit, the buyers' power to set prices influenced how much the contractors could pay in terms of wages. The solution was a coordinated model of supply chain cooperation between buyers, contractors and the trade union linking wages and working conditions to the buyer's purchasing prices. The local trade union first reached an understanding with buyers to ensure the prices paid to contractors would be sufficient to cover increased wages costs and other features. In the second step it negotiated collective bargaining agreements with the contractors reflecting those provisions. These Jobbers' Agreements transformed the industry by guaranteeing contractors stable orders at fair prices which allowed for wage increases, better working conditions and higher productivity. It was universally recognized as a successful model, with a conservative U.S.-American Senator commanding "order coming out of chaos" and "unions creating profits for businesses which were unable to produce profits" (Anner et al. 2013). What he meant by this is that when the buyers, the suppliers and the unions negotiated 'jobbers agreements,' they created stability for the industry, and with stability came predictability. Suddenly, suppliers could plan for the long-term. And when they could plan for the long term, it made good business sense to invest in worker training, which increased productivity. The Jobbers Agreements ensured that productivity gains would be more equally shared among buyers (brands), workers, and suppliers. Greater income for suppliers meant they could invest in better equipment, which also contributed to productivity gains.

A recent example of successful cooperation within a global supply chain is the Bangladesh Accord on Fire and Building Safety ("Bangladesh Accord"). Established after the Rana Plaza Building collapse in 2013, killing 1,134 workers, the Bangladesh Accord was set up to improve workplace safety in a sustainable, collaborative manner. It is a bilateral agreement between close to 200 global garment brands and retailers, two global union federations and eight Bangladeshi garment worker federations. 1,620 factories are covered by the Accord, with an overall progress rate of 85 per cent in remediating safety hazards (Accord 2018). Successfully extended in 2017, the Accord is the first agreement in the global garment supply chain which includes a binding provision for signatory brands to "negotiate commercial terms with their suppliers which ensure that it is financially feasible for the factories to maintain safe workplaces" (Accord 2018a). Beyond the particularities of each country and industry, the Jobbers' Agreement and the Bangladesh Accord share a number of core elements:

- Binding commitments from all sides – trade unions, manufacturers and buyers
- Provisions on the responsibility of buyers to accommodate agreed higher costs (for wage increases or remediation of workplace safety hazards)

- Provisions to stabilize sourcing relationships
- Internal transparency on designated suppliers
- Binding arbitration case of disputes over the application of the agreements.

A model for modern and resilient garment production

The Jobbers Agreements addressed a broad range of industrial relations issues at a particular period of US-American history. The Accord was designed to address one issue area, building safety, in one country with its own particular history and governance gaps, Bangladesh. However, the general principles of the Jobbers Agreement and the Accord are relevant today for a variety of issue areas and in a range of countries producing for global garment supply chains. These principles include:

1. The need for a negotiated solution that involves buyers, suppliers and labour;
2. The need for a cost-sharing approach that ensures the price paid for production covers expenses associated with decent work;
3. The need for some form of co-governance involving buyers, suppliers and labour;
4. The need for a binding mechanism to address impasses should they occur.

Irrespective of time (20th vs. 21st century), the level of international integration or size, productivity and technological level of the garment sector, the garment industry in the U.S., Bangladesh and Myanmar share notable characteristics: a) a relatively small number of powerful buyers, b) in comparison to the small number of buyers a larger network of suppliers and c) strong competitive pressure. Considering the success of earlier supply chain cooperation in the case of the U.S. and Bangladesh, it appears worthwhile to discuss the potential value of a supply chain agreement in addressing some of the key challenges confronting Myanmar's garment industry today.

The first – and probably most important - effect could be the alleviation of conflicting pressures for higher wages (by workers) and low prices (by brands and retailers) faced by manufacturers today. Ring-fencing labour costs during price negotiations would allow manufacturers to pay workers a collectively negotiated wage supported by the purchasing practices of international buyers.

Secondly, a binding agreement could support the development towards higher value-added FOB production systems by providing manufacturers with the security required to undertake capital investments. With lower turnover due to higher wages it would be worthwhile to invest in skill trainings for developing a well-trained, modern workforce.

Thirdly, better social dialogue with trade unions at the workplace can help to address the efficiency challenge. Research on social dialogue and productivity in different parts of the world has shown that trade unions' voice can improve company performance and productivity gains (Black and Lynch 1997, Kleiner et al. 2002, Metcalf 2002, Grimshaw et al. 2017). Furthermore, improved social dialogue is likely to prevent and reduce industrial unrest and strike action, in particular if a dedicated dispute resolution mechanism at the factory level is included in a negotiated agreement between Myanmar trade unions and employers supported by global buyers.

Sharing responsibility – sharing the costs

Unlike conventional compliance requirements operating through a top down approach, the Bangladesh Accord and the Jobbers' Agreements recognize the shared responsibility of buyers and suppliers for the conditions of workers in global supply chains. This paradigm shift towards shared responsibility is notable in the area of due diligence. The UN's Office of the High Commissioner for Human Rights notes "changing product requirements for suppliers at the eleventh hour without adjusting production deadlines and prices, thus pushing suppliers to breach labour standards in order to deliver" as an example of a contribution to human rights violations in the supply chain (OCHR 2012: 17).

The responsibility of buyers to avoid "contributing" to human rights violations is also reflected in the recently updated ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (2017), the OECD Guidelines for Multinational Enterprises (2011), the sector-specific OECD Guidance in the Garment and Footwear Sector (2017) and the general OECD Due Diligence Guidance for Responsible Business Conduct (2018).

The globalized nature of today's garment industry requires a global response. The two examples explored above, the Jobbers Agreements in the US and the Accord in Bangladesh, show that the cooperation between supply chain actors, binding commitments, and shared responsibility for bearing the costs of wage increases can transform the industry for the benefit of manufacturers, workers, governments, and buyers.

Bearing in mind the country-specific needs, supply chain cooperation based on the ILO's founding principle of social dialogue may hold the potential for developing Myanmar into an attractive destination for long-term investment based on stability, predictability and sustainable development.

Bibliography

Accord (2018): Statement issued by the Steering Committee of the Accord , available at http://bangladeshaccord.org/2018/05/statement-issued-steering-committee-accord/ (accessed 5 June 2018).

Accord (2018a): Accord on Fire and Building Safety in Bangladesh, available at: http://bangladeshaccord.org/wp-content/uploads/the_accord.pdf (accessed 5 June 2018).

Anner (2018): Binding Power: The Sourcing Squeeze, Workers' Rights, and Building Safety in Bangladesh since Rana Plaza. Centre for Global Workers' Rights: Penn State University, available at: http://ler.la.psu.edu/gwr/documents/CGWR2017ResearchReportBindingPower.pdf

Anner, Mark; Bair, Jennifer and Blasi, Jeremy (2013): Towards Joint Liability in Global Supply Chains: Addressing the Root Causes of Labor Violations in International Subcontracting Networks. In: Comparative Labor Law and Policy Journal 35(1): 1-43.

Aung, N.L. and Phyo, P.T. (2018): Government sets new daily minimum wage at K4800. In: Myanmar Times, 06.03.2018, available at: https://www.mmtimes.com/news/government-sets-new-daily-minimum-wage-k4800.html.

Black, S. E. and Lynch, L. (1997): How to Compete: The Impact of Workplace Practices and Information Technology on Productivity, NBER Working Paper No.6120, available at: https://doi.org/10.3386/w6120.

CESD (2018): Changing Structure of Myanmar's Econonomy. Presentation at the Workshop on Labour Market Reform hosted by MOLIP and CESD, 20 September 2018, Nay Pi Taw.

Gereffi, Gary (1994): The organization of buyer-driven global commodity chains. In G. Gereffi and M.Korzeniewicz (Eds.) Commodity chains and global capitalism. Westport, Conn: Greenwood Press. pp. 95–122.

Grimshaw, D.; Fagan, C; Hebson, G., and Tavora, L. (2017): Making work equal: A new labour market segmentation approach, Manchester University Press: Manchester.

HKTDC (2016): Myanmar Rising: The Garment Sector Takes Off, available at: http://hkmb.hktdc.com/en/1X0A6IQS/hktdc-research/Myanmar-Rising-The-Garment-Sector-Takes-Off (accessed 5 June 2018).

Htet, K. (2017): Myanmar's garment sector second biggest exporter. In: Global New Light of Myanmar, 06.10.2017, available at: http://www.globalnewlightofmyanmar.com/myanmars-garment-sector-second-biggest-exporter/.

ILO (2017): Purchasing practices and working conditions in global supply chains: Global Survey results. ILO: Geneva, available at http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_556336.pdf

ILO (2018): The Rana Plaza Accident and its aftermath. ILO. Geneva, available at https://www.ilo.org/global/topics/geip/WCMS_614394/lang--en/index.htm.IMF (2017): Myanmar. IMF Country Report No. 17/30, available at: http://www.imf.org/~/media/Files/Publications/CR/2017/cr1730.ashx

Impactt (2016): From Boycott to Boom? A Socio-Environmental Map of Myanmar's Garment Industry in 2016, commissioned by C&A Foundation, available at: https://impacttlimited.com/wp-content/uploads/2017/01/CA-Foundation-Myanmar-Report-From-Boycott-to-Boom-Issue-5-HM.pdf.

ITUC (2015): Foreign direct Investment in Myanmar: What impact on human rights? Available at https://www.ituc-csi.org/IMG/pdf/ituc-burma.pdf.

Kleiner M., J. Leonard & A. Pilarski (2002), How industrial Relations affect plant performance: the case of commercial aircraft manufacturing, Industrial and Labour Relations Review, 55 (2), January, pp. 195-219

Ko Ko, T. and Chern, K.W. (2018): Garment industry must raise value proposition to stay sustainable. In Myanmar Times, 02.01.2018, available at: https://www.mmtimes.com/news/garment-industry-must-raise-value-proposition-stay-sustainable.html

MGMA (2015): Myanmar Garment Industry. 10-year strategy 2015-2024, available at: http://www.myanmargarments.org/wp-content/uploads/2015/09/Myanmar-garment-industry-10-year-strategy-Aug-2015.pdf.

Metcalf D. (2002): Unions and Productivity, Financial Performance and Investment: International Evidence, Centre for Economic Performance, London School of Economics and Political Science

Nyein, Z. (2018): Chinese investors eye garment sector, in: Eleven Myanmar, 05.07.2018, available at: http://www.elevenmyanmar.com/business/13872.

OCHR (2012): The Corporate Responsibility to Respect Human Rights: an interpretative guide. UN: Geneva, available at: https://www.ohchr.org/Documents/Issues/Business/RtRInterpretativeGuide.pdf

This publication is a product of the ILO Improving labour relations for decent work and sustainable development in the Myanmar garment industry (ILO-GIP) which receives funding support from the Swedish International Development Agency (Sida), H&M and, more recently M&S. For more information, visit: https://bit.ly/ilo-gip

The International Labour Organization
Liason Office in Myanmar
No. 1 [A] Kanbae (Thitsar) Road, Yankin Township,
Yangon, Myanmar
email: yangon@ilo.org
Website: www.ilo.org/myanmar