Crisis and Long Terms Challenges:

Responsibility in the Global Apparel Industry

Prof. Dr. Michiel Scheffer, Saxion Universities, Enschede – The Netherlands

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Edited by: Marlous Vennegoor op Nijhuis
Kenniscentrum Design en Technologie
Saxion Hogescholen, Enschede
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m.r.scheffer@saxion.nl

About the author:

Michiel Scheffer *is Professor in Textile Economics at* ***Saxion Universities****. Saxion offers textile education since 1854. The University has 17000 students of which 400 in textiles. He is born in 1964 in Manchester, in a family engaged in textiles since 1925. He studied Economic Geography in Utrecht (NL) and at the London School of Economics (UK). He completed his PhD on globalisation of clothing production with a Cum Laude mark in Utrecht in 1992. Between 1991 and 2000 Scheffer, as staff member and deputy-director of FENECON (now Modint),he was member of the Trade Policy Committees of ECLA, Comitextil and EURATEX. Scheffer is member of two expert groups of the European Technology Platform on Textiles and Clothing. He was involved in setting up the Fairwear Foundation. He is founder/director of* ***Noéton Policy in Innovation BV*** *since 2000 and was involved in organising innovation projects with a combined size of over € 50 Mln. He is part time professor since 2004. Scheffer is involved in Dutch politics. He was Chairman of the Election Programme Committee of the social-liberal party* ***D66*** *and was an unsuccessful candidate for the 2002 parliamentary election. He is member of the Board of Internal Democratic Initiative and Chairman of D66 Nijmegen.*

Concerns and Approaches

There is much concern about the current crisis. Indeed the fall in consumption in developed countries is steep, anything between 15 to 25% over the first months of 2009 in most countries. This is double the decline of sales in previous recessions. However to this cyclical crisis and concerns two new concerns are being added. The first new concern to fashion , mainly amongst retailers and brands, is related to their impact on manufacturing in developing countries and to the employment and social conditions of workers. The second concern new to fashion, which is broadly shared amongst industries, is that after the crisis more structural changes in consumption will happen.

I shall start my analysis with a cynical comment. While the concern of retailers and brands for manufacturing and employment in developing countries is sympathetic, it contrasts with the carelessness of the same companies when they sent orders off-shore and affected manufacturing in developed countries with the destruction of many jobs. These jobs were fully complying with ILO (International Labor Organization) standards and had indeed been paying living wages since 1950. With the shift of most mass production of textile, clothing and sporting goods from developed to developing countries being completed, it was to be expected that the impact of the next cyclical downturn would largely be felt in developing countries. And since these countries never developed the job protection and social security systems that are in place in developed countries, it is likely that the current downturn would have a more brutal human impact. Both the shift of manufacturing jobs from developed to developing countries and the current recession led to human suffering from Tennessee to Sri Lanka. Both the global shift of manufacturing and the recession obey economic rules, therefore both phenomena equally deserve a proper understanding and empathy.

I have personally never been a great fan of protectionism, or of the theory that there is an intrinsic benefit of having industrial activities in developed countries. I have always been concerned by the motives behind globalization. I am concerned that many decisions for shifts in sourcing and manufacturing are made to optimize a section of the supply chain, instead of looking at the effectiveness of the supply chain as a whole. In financial terms, the decisions are often made on the basis of a budget ex-ante and not on the basis of the impact on the ex-post P/L and the balance sheet. Finally, many firms have shifted manufacturing or reverted to sourcing and by losing their industrial base they also lost the viability of their brand and product. In relation to that, the companies also lost control over the exclusivity of the product and/or control over the skills required to make a quality product.

I have always advocated an approach to look at the model of industrialization of textiles and clothing at a global level and not in terms of local benefits. However, ultimately the effects are local and as a professor in textile economics I am funded by the Dutch industry and bound to serve it, hence ultimately the health of the Dutch fashion and textile industry is close to my concerns. However an industry in an individual country may be competitive by networking with competences in other countries. The innovativeness of the Italian textile industry has been instrumental in the rise of many fashion brands and designers. The low cost of linen spinning in China has enabled the flax cultivation in Northern France and Belgium to survive. My concern is then that on a global level, skills are maintained and developed and that a premium on incremental and radical innovation remains. The exac erbated focus on costs (associated with the globalization of manufacturing) entails the risk of banalisation of the sector and net losses in skills and knowledge.

The Crisis…

The current crisis was anyway bound to happen, both at a macro-scale and specifically in its impact on consumption and then on manufacturing. Much has been written about the financial crisis. I would like to add that the impact of the crisis on manufacturing of textile products was likely to be severe. In the first place, the years of economic growth were characterized by a consumption stimulated through cheap credit and banking on asset inflation of real estate. A recession would thus likely lead to a much more severe decline in consumption as households would have to deleverage their credit positions. In the second place, developed economies have gradually squeezed profits out of manufacturing and have become service economies. Hence competitiveness in developed countries relies no longer on manufacturing but on services. The current recession affects mainly services, but manufacturing has no longer the potential to offer an alternative growth model.

Since the phasing out of the MFA a substantial expansion of fibre, textile and clothing manufacturing occurred. This expansion, in the realm of 20-30%, was not in tune with expansion of global demand. Hence an adjustment was going to happen, if not in 2009, then in 2011 or 2012. It was however difficult to discern the cyclical growth from structural growth over the period 2000-2010. USA textiles and clothing production had already downsized substantially by 2000, in Europe the decline in the old EU member states was compensated by growth in the new member states until 2005. So the growth of manufacturing in developing countries was only partly linked to a further global shift of manufacturing. Moreover substantial shifts have occurred between developing countries, with China as the main beneficiary but also with growth for Bangladesh (children's wear), Vietnam (sportswear), Sri Lanka (lingerie), Pakistan (bed linen). But since 2005 it was no longer the developed countries that were the only carriers of growth of consumption. An emerging middle-class in China, India, Brazil and Russia fuelled a new conspicuous consumption, mostly of brands.

In the current recession a number of surprising elements stand out: in the first place no single country escapes downsizing. Even China experiences a decline that is in line with the global average. Since 2005 it is clear that all competition is between established countries. Since Cambodia emerged as a supplier around 2000 no new manufacturing country has emerged. The promise of Africa, even ;with the AGOA, has not materialized. There is no geographical escape, for the first time this is a global manufacturing crisis. What the recession does, however is to expose the current growth model of consumption and production and lay bare the limitation of the factors of competitiveness.

Loss of Competitiveness

I would like to start the analysis, in relation to the loss of competitiveness, by examining retailing. Many observers agree that over the last 40 years a shift of power from manufacturers to retailers has occurred. In 1970 most people would mention DuPont as the most powerful firm in the supply chain. About twenty years ago the most powerfull firm was Levi's and nowadays this title probably goes to Nike. With the shift in power came a shift in profit. While wholesale gross margins were around 15-20% in 1970 they have grown to around 35-40% in 2008. And while retail gross margins were around 35-40% in 1970 they stand now in a range of 55-60%. This means that the total material cost of products in normal retail price has dropped from 50% to 30% in developed countries. The cost of fibres, the primary material, is now often less than 2%, a share close to the costs of shop furniture. The labour costs involved in making the product is often less than the labour costs in the (retail) store. Marketing, design and branding costs can be up to 20% of the retail value.

This shift can be attributed to several mechanisms. It is an expression of the dematerialization of goods. Immaterial activities confer more value than material sequences. Indeed, design costs are now substantial in any branded company. The investment in a store in a premium location entails a bigger outlay for Hugo Boss than the money needed to build its first class manufacturing facility near Izmir. The success of brands is derived more from branding and marketing than from intrinsic product qualities. Two positions could be taken here: since the consumer has many choices, branding is needed to guide the consumer in his decision. Moreover markets have become fragmented, subsequently the consumers have become unpredictable and therefore strong brand identities are required. However one could also say that many brands do not have intrinsic or technically distinguishable features, hence branding (life styles etc….) are the only "unique attributes". A brand can even hide a materially undistinguishable product. A Louis Vuitton bag is made of a PVC coated cotton, not much better than a truck tarpaulin. A Ralph Lauren Oxford shirt has no distinct material properties that stand out from another casual shirt other than the embroided horse and jockey. This means that branding is only a cover-up for the technical inability to develop and launch more fundamental product innovations.

The growth of retailers margins could also be a sign of growing inefficiency, or the inability to control the costs of its own operations. To be fair, retailers are faced with costs that are subject to inflation, such as rents, store personnel costs, security and logistics. Some of these costs have been controlled by resorting to younger store personnel, deskilling buyers and outsourcing logistics. Moreover increased rents may have been compensated by higher turnover per surface. Nevertheless some indicators are worrying. The conversion ratio of traffic to sales has not increased between 1985 and 2005. The share of products sold at a markdown has remained stable between 1996 and 2008 at around 35-40%. The share of products not sold at all has remained static at 10-15%. Despite all investments in IT, the basic effectiveness of retailers has stayed depressingly static. Even the reasons for this lack of progress are depressing: the main dissatisfaction of consumers with retail offer is the absence of the right size, or the misfit of the size. This is a wide problem, present in the USA and most of Europe. The sector works with size statistics of 1970, this while the average American has shrunk by two inches and gained half a stone, making these statistics hopelessly outdated.

Another important trend is that over a 25 year period, the retailers have not been able to tap into the growing ageing population. There has hardly been a growth in spending in the age group 45+. This may be caused by resilient historical, social, cultural and economic factors but seems odd when one has the perception of a baby boomer generation that has been lured by fashion in the 1960's and 1970's and still desires to be fashionable. One may stress factors such as costs of education of the kids or higher health expenses, but it remains interesting to examine the option of a mismatch between offer and demand in this age bracket. It would be worthwhile exploring the theory that retailers and brands have kept focused on the 20-30 year age bracket, but have not shifted in fit, product design, store environment and shop floor service to the over 40's. There is much anecdotal evidence of unfulfilled demand of consumers, especially in the older age groups.

More fundamental is the basic model of an industry based on making-for-stock instead of making-to-order. The industry works on a push model; pushing products with mark downs as arbitrator. While the supply chain has made considerable progress in reducing lead times, especially in developing countries, the speeding-up of manufacturing has only compensated for the shift of manufacturing from nearby to far away. Fast fashion has come up, but hardly represents a fundamental improvement, since the main purpose of this concept is to launch new offers and to seduce the consumer with new attire. Fashion is also a model to increase the rotation of capital, and the sector has certainly succeeded in doing so. From an average rotation factor of 2,5-3,0 in 2000, it has increased to around 3,5-4,0 in 2007[1]. However this speeding up has mainly happened by speeding up the made-to-stock/mark down logic, and much less through a logic of replenishment and customization.

It is important to point towards countervailing trends. The first trend is one in the growth of non-store sales. These sales now represent close to 20% compared to less than 5% in most developed countries 10 years ago. Internet has now become a major (non-store) distribution channel, but there are also other channels like Tupperware parties, garage sales

[1] Ongoing research based on data of 107 USA and European retailers and brands.

etc…. Another growing trend within non-stores sales, which is still a niche, is made-to-measure and customized garments. In men suits it is a major trend in Germany and the Netherlands, and it represents a renaissance of tailoring in Italy. It is surprising that a tailored made-to-measure suit is often cheaper than the mass-made article of the same fabric. But the fastest growing form of retailing is outlet stores, hence selling at a discount is attractive but also attacks the price integrity of products in the eyes of consumers.

A second important trend is often referred to as verticalisation: the integration of branding and retailing. The trend started with an increased control of retailers of the supply chain, as retailers engaged in branding and design. It was followed by brands (without manufacturing) who felt pressured by retailers in terms of prices and meagerly rewarded in terms of shelf space. More actual is the trend of manufacturers who engage in retailing in order to control brand recognition, margin and operational flexibility. Extreme cases are ECCO: integrated from cow skin trade all the way through to retailing. Another example is Loro Piana who controls goat herding in Mongolia but also the boutiques and the entire manufacturing cycle of spinning, weaving, knitting and making clothing. Own manufacturing is even a major trend in the top end of the market: Louis Vuitton, Hermes, Hugo Boss, Falke for example, have all invested in integrated manufacturing and control over materials supply.

The causes…

I would like to stress the theory of an uncompetitive retail sector that has been able to shift the consequences of its uncompetitiveness to its suppliers, as indeed retailers gross margins have kept increasing. This position of combined uncompetiveness and control must be explained since it seems an illogic proposition. Crucial for this position is the relationship to real estate. Rents have become the largest component in the retail price of fashion goods, and real estate prices, especially at prime locations, have increased above inflation in the last 30 years. Rents have also increasingly been linked to turnover, hence they have become variable costs instead of real costs. What is important is that real estate investments have become important sources of revenue of institutional investors, fashion is a major avenue in providing that revenue. Large developers and owners of shopping malls and prime urban locations have consistently favoured renowned chain stores on their locations thereby installing an oligopoly of retailers in locations with the most traffic and making retailers major gate-keepers.

The second factor is that retailers and brands are the most integrated in the financial economy with over 200 publicly listed companies (compared to less than 50 in each upstream step of the supply chain), and have had easier access to private equity and lending facilities. Traditional retailers are ideal targets for asset stripping involving disposal of real estate and warehouses, reduction of costs by giving space to concessions, increasing turnover of capital and reduction of capital while increasing gearing, recruiting more flexible labour and squeezing profits out of suppliers as well as extending payment terms, hence having the suppliers provide working capital. Retailers and brands do also enable a different logic - by opening new stores and extending brand lines rapid growth could be attained. By doing so, fixed assets are converted into floating assets, and growth in turnover and profit creates a rapid increase in company value and an attractive exit for equity owners.

There is only one risk in operating within this model and that is the depreciating value of inventory because of fashion change. Here fashion acts as a hedge in that one has to start with sufficient gross margin to afford a mark down, and with a high rotation of products in order to mark down as rapidly as possible to free working capital for the next cycle. Overall this logic has led to increased volatility and uncertainty in the basic business model, an uncertainty that retailers have increasingly pushed up the supply chain in terms of price, holding stock and payment conditions. On the other side the consumer has grown accustomed to the arbitrage provided by mark downs. If a good is not exclusive and desired, one is able to wait. A collateral damage of the high gross-margin – mark down logic is that the consumer has lost a sense of value.

Although, it looks as if this discourse is a moral judgement – as if these trends are a matter of choice, I would argue that they are the consequence of a form of capitalism that has developed over the last twenty years. An important generic factor is the changing relation between income out-of-labour and income out-of-capital. This relation between the proportion of income out-of-labour and income out-of-capital has gone from around 90/10 in most developed countries in 1980 to 75/25 in 2006. This is partly the effect of growing deferred income for pensions, but also of an increased financialization of the economy. This trend is expressed in the emergence of the 15% return on investment bench mark entrenched by the mid-1990's. However the share of income out-of-capital in fashion also encompasses commercial financing (e.g. the growth of factoring), rents and real estate, depreciations of fixed assets (e.g. store interiors, warehouses, EDP facilities) and goodwill for acquisitions. The share of capital costs for retailers and brands has also increased consistently since 1990 while the share of labour has declined.

An important corollary of the declining share of labour in the value of industrial products is the globalization of production. Globalization of production is often explained as an irremediable shift of manufacturing towards low cost countries. I have never liked this argument. It is as if the lure of low wages was the single factor pulling manufacturing to countries which had at that time high political risks, communication and cultural difficulties, poor infrastructure and low industrial skills. The simple neo-liberal theory of comparative costs hides the fact that it was never brilliant marketing on behalf of Chinese, Tunisian or Honduran companies that attracted retail buyers. To the contrary, it was the pioneering spirit of these buyers – often middle-age men looking for adventure – seeking higher gross margins that set globalization in motion. Ever since my PhD in 1992 I have highlighted the push factors. These push factors were in the first place stagnant consumption and pressure on prices. However with the rise of consumption and of prices in the 1990's and with a better assessment of the growing gross margins of retailers, I have increasingly seen global sourcing as a consequence of a flawed business model of retailing and as an element of the integration of retailing in post-moderrn capitalism. Whereas I thought until 1995 that the transfer of manufacturing to developing countries was a condition for the survival of an industry, I increasingly consider the further shifts from Indonesia to China and from Poland to Moldavia as behavior to satiate the ever increasing demands of remuneration of capital.

And its consequences…

The fundamental instability and uncompetetiveness of modern branding and retailing and its negative overspill on the upstream supply chain has four consequences:

1. Retailers have placed a permanent pressure on prices on their suppliers, leading to industrial regression based on a labour intensive industrialization model.
2. Suppliers have no long term visibility on their future and are unable/reluctant to invest in specific technologies, so reinforcing the industrial regression.
3. The risk of going beyond incremental innovation has increased. No new fibre has emerged since 2000, nor any breakthrough in process technologies.
4. The dominant model of retailing and industrialization has increased the assault on the sustainability of the planet as it has enforced a fix on the least sustainable fibers: cotton and synthetic fibers such as polyamide and polyester.

The growth of the clothing industry model in the past twenty years has been one of a constant shift to lower cost countries and regions and to lower skilled and younger workers. This is a trend on a global scale that extends the shift of the clothing industry from New York to the southern states or from London to Northern England in the 1950's. The pace of shifts has increased since it is no longer related to directly owned factories that are closed and rebuild elsewhere, but simply to the discontinuation of contracts. The model of growth is to enlist new regions of production, new factories, new workers and then to maintain a logic of short training, high labour turnover and little multiskilling and upgrading of the work force. It has also led factory owners to cash-in quickly: low capital lay out, reaping of profits and a move to other higher-value assembly industries (car parts or electronics).

Industrial regression is the most pervasive trend. On average clothing factories are less sophisticated than 20 years ago, with lower levels of mechanization and lower specialization of people and equipment. There has hardly been any growth in the use of automatic cutting equipment since 2000. The most sophisticated factories were in countries with wages above 500 euro per month. Fashion was an industry on its way to becoming capital intensive and instead it has gone back to a more labour intensive stage. Moreover the need to control labour costs by mechanization leads to specialization of factories in specific products. However with more volatile markets, investing in product specific technology is dangerous. The result is a mass of textile and clothing manufacturers with little competitive advantage in price and service (the ability to deliver rapidly). What did grow were technologies of marginal differentiation such as embroidery, screen printing and the application of all kind of whiskers, stretch marks and signs of pre-programmed product degradation. However the grinding of a seam or the scrubbing-off of a layer of dye on a pair of jeans requires little more than a Black&Decker, a sandstone and some permanganate of potassium, athe work is often applied by casual workers, paid by the day, without any training and little prospect for permanent employment.

It is likely that the pattern of extensive industrialization shall come to an end in the next decennium. The first major factor is the demographic shift, the current decline in fertility in most developing countries. This means that the number of workers available for the textile industry will decline, labour turnover will fall and be replaced by pressure for higher productivity and the upgrading of workers skills. The second factor is that there are very few regions that are still not integrated in the global economy. Asia has few untapped countries left. Vietnam, Laos and Cambodia have reached full capacity, Pakistan has political risks and Bangladesh has natural risks. Myanmar is the last available zone, and North Korea is the only country of further possible expansion, but both countries are political pariah's, hence problematic. Africa lacks the infrastructure and the raw materials and will probably never reach the bench mark in service and quality required by modern retailing.

The third factor is that the entire supply chain has regressed into incremental innovation. We have witnessed almost no new fibers being introduced since 2000 (PLA being the exception) nor fundamental modifications of fibres (such as Coolmax, for example). Innovating new fibres and bringing them to an acceptable level of performance takes less time than 50 years ago, but the patience of investors and clients to accept lead times of 10-15 years between invention and acceptance has vanished. Moreover the low level of acceptance rarely enables new fibres to reach the large scale production and price levels of cotton/polyester. Large fashion and sportswear brands/retailers are not the launching pads for fundamental innovation as they lack the commitment, the patience and the price differentials. It is hardly surprising that the most innovative textile firms are now outside fashion. Technical textiles, most notably in military uses thanks to the so-called 'war on terror', and now 'water filtration and energy systems', are the more promising areas. Firms in these sectors have clients who think in the long term, can protect innovation through patents and are faced with less competition due to higher barriers to entry.

PLA has only been able to advance as far as it has because of the personal patronage of the Cargill family. The re-emergence of nettle fibre was only possible because of the patience of the Crébas family. However chemical groups, that were at the forefront of innovation from 1940 till 1990, have disinvested from fibres. DuPont has sold its fibres business to bulk petrochemical mogul Koch. Akzo, ICI, Hoechst, Rhone-Poulenc and Monsanto all spun-off their fibre businesses. The up-and-coming producers like Reliance and Indorama (India), Hyosung (Korea), Huolon (Taiwan) do not have the same drive for innovation and marketing as the 1930 fiber giants had. Other innovations have also stalled. The world has been waiting since 1990 for a breakthrough in enzymatic scouring, since 1995 for plasma treatments or CO2 dyeing and finishing, since 2000 for digital printing. All the companies involved in these innovations have had a hard time and will struggle to ever reap a profit. Their major problem is the shift of technology to industrialization and market acceptance. However in apparel, we have witnessed little progress on materials, and thus a fix on incremental changes and recycling of old techniques.

This would not be essential but for another reason. Mankind used some 72 million tons of fibre in 2007. This compared to a global consumption of 77 million tons of steel, 230 million tons of plastics (incl. non-wovens) or 380 million tons of paper. Fibre consumption is 11 kg/head, with the American consumer making the largest footprint with over 32Kg/head. The Turkish or Mexican consumer stands at 10 kg/head, Indian and Chinese consumers at 3-5 Kg/head. Global fibre consumption has been increasing at a rate of 7-10% a year between 2002 and 2007, and even in developed countries it is still growing, thanks to fast fashion. At the current rate of demographic and economic growth, global fibre consumption will have reached 110 million tons by 2020. Mankind cannot sustain this growth for a range of reasons.

In the first place, textiles are at the bottom of the league in terms of recycling. While 80% of steel is recycled, 65% of paper and 30% of plastics, recycling of textiles stands at 15-20%. In the second place, textiles require indirect inputs such as water (200 liters to a kg of synthetic fibres and 8000 liters to a kg of cotton), energy (100 liters of petrol to one kg of fibre) and land. An American or European consumer requires around 600 M2 a head to satisfy their annual fiber needs. Cotton requires irrigation, takes water away from human consumption and with a high use of pesticides it contributes to the pollution and salinization of soil. More than 60 million tons of textiles annually are sent to landfills or burned. In the third place, because of the fragmentation of globalization of supply chains, a reduction of the environmental impact of production and disposal is much harder to organize than for the more concentrated steel, plastic of paper industries. Therefore the transformation of textiles into a sustainable industry is harder to attain through voluntary agreements, collective covenants, levies or regulation.

In the fourth place, the shortage of materials will lead to increasing fibre prices, possibly from the current level of € 1,60/kg to around € 3,00/kg. Cotton will compete for land with other agricultural crops, mainly food crops that use less water and/or provide higher yields. Higher fibre prices shall create more room for alternative (more expensive) fibres such as PLA or flax. Higher fibre prices will also provide incentives for more efficient processing methods. New finishing methods such as CO2 dyeing or digital coating also foster higher environmental efficiency. The most important is the development of low temperature enzymatic/catalytic scouring and bleaching of cotton. Finally, higher prices create incentives for recycling. An environmental agenda should be composed of a fibre shift (reducing addiction to cotton/polyester), improving environmental efficiency of the supply chain (involving breakthrough innovations) and incentives for sustainable consumption (easy care and recycling).

Geographical Outlook

When it comes to the future, predictions are a hard gamble. The usual trick, most in use by trend watchers, is to predict a sufficient number of trends so that a certain number are bound to come true. The difficulty in predicting is the problem of distinguishing between what could happen (under certain conditions), what should happen (because of interests or ideology), what may happen (as an extrapolation of current trends), or what must happen (because of insurmountable obstacles). The other difficulty in predicting is the assumption that the future is the outcome of a myriad of individual acts, or the result of collective action. The fact that there is a Fair Labour Association and that the MFA Forum was recently formed testifies to the potential of concerted action in an industry that is normally prone to follow the logic of market forces and the volatility of fashion.

But there are some certainties. Unless the world economy remains in a long term global recession consumption is likely to grow again from 2010 onwards. Most growth will be in mid-income countries, such as China and Brazil with even larger growth in low-income countries such as India. Growth shall to some extend be in luxury markets but even more in fashionable basics at 40-50% of developed country price levels. It is unlikely that there will be much growth in developed countries. Deleveraging of personal debts shall take its toll on personal budgets and increasing costs for health and retirement is likely to reduce the share of disposable income available for consumption. It is widely expected that consumers will be more cautious in spending, favouring investment over consumption, functionality over image. It is also to be expected that consumers will act more as citizens and thus assess more consciously the impact of their buying decisions. In Europe or America, reclaiming the dream for their children and a passive (and largely undefined) concern for the future of the planet is more and more coming to the foreground. Hence CSR (corporate social resposibility) is not a fad but firmly in the minds of consumers.

My prediction regarding the location and organization of production is that we have come to the end of the race to the bottom. Last year a buyer from Victoria Secret asked me, while on Safari in Sri Lanka, what the next upcoming country was. None, I replied, because the geographical stock has been exhausted - there are no green pastures, no virgin lands left. Moreover, China has now reached a share of 50% in US and EU imports and no country could ever build up a similar capacity, both for lack of labour and lack of infrastructure. If new regions are developed it is merely because of industrial investment, not sourcing. One area of unused potential is cotton processing nearby its cultivation. Ghana and Benin are good candidates for such backward integration.

A classic question is the balance to be struck between sourcing nearby or far away, that is in the Euro-Mediterranean Zone versus Asia for Europe and the Caribbean versus Asia for the USA. The comparison is not entirely fair since Europe still has a substantial textile industry compared to the USA and Eastern Europe has recognized skills in tailored products. The balance will be determined by the pattern of lean manufacturing required by buyers. This shall be different if the focus is on re-actualisation (new collections every eight weeks), replenishment (refilling stock of identical merchandise) or customization. The latter two forms clearly foster sourcing nearby and there are clear indications that Morocco and Turkey are important production countries for replenishment and customization. Reactualisation does require good logistics but does not require nearness. I expect that the balance has tilted too much towards Asian sourcing (currently 75/25) and I expect a correction, linked to the need for shorter financial lead times as credit is squeezed. I do expect that uncertainty will incline brands with strong product and service propositions to tighten control over manufacturing. In general periods of uncertainty in a supply chain there has been more vertical integration. This also fosters production nearby to major product development.

Save for shifts to India, Indonesia and inside China, the global sourcing map is more or less set. Geographical escapism is over. The logic now is no longer to change suppliers but to improve effectiveness with the current suppliers. Whether such an improvement will occur is a matter of debate. While a number of conditions for improving the effectiveness of the supply chain do exist, it will not happen under the current governance of the supply chain. This will require a long term vision by buyers of the requirements of the supply chain but I have seen no comprehensive policies of buyers yet, rather collections of philosophies and requirements. If we are to witness a shift from more labour intensive industrialization to lean and intelligent manufacturing methods, this shall involve substantial investments in technology and skills on behalf of suppliers. When buyers require their supplier to implement a specific policy (lean manufacturing, zero emissions production) they rarely supply the appropriate guidance. The effectiveness of implementation therefore depends on the availability of the local technology and education base. In most countries such infrastructure is not present and it requires a joint effort of the social partners and government to develop it. Only China and India have an adequate education, research and consulting infrastructure. The Hong Kong Polytechnic is the last centre enabling implementation of state of the art manufacturing methods. There is much to do here, with a strong multi-stakeholder commitment over a longer period of years. I am skeptical here as well, as in the run up to the liberalization of textile trade very few countries were able to develop, let alone implement, an adjustment plan.

Towards a new global governance

Global jobs pacts or regional plans have been central to the agenda of the MFAF as voiced in a meeting in Washington in May 2009. In the face of over 10 million jobs being lost in the global clothing industry, the limitations and contradictions of the current economic system are clearly visible as well as the institutional barriers in the global political governance of the world economy. The globalization of trade and investment has not been matched by a social and environmental agenda nor by the setting up of regulation and oversight to create conditions of fairness. The ambitions of the MFA Forum[2] are laudable but probably too high for a short term plan. A longer term coalition or alliance is required to achieve global job pacts or regional plans. Even if they are put on the agenda in a top down fashion in a multilateral framework , their implementation in social security systems, investment plans and training schemes requires considerable design, planning and implementation capabilities.

More urgency is required on the environmental dimension of corporate responsibility. The efforts so far can best be categorized as “good housekeeping”, a range of small measures in the realm of health, safety and environment that do also improve costs. Environmentally friendly design is gaining ground, but is still at the fringes for most companies. However some are preparing for more generic approaches favouring managed cotton instead of only organic cotton and there is more interest in fibers with a broad appeal such as biopolymers (for the moment still outside apparel). Much work is still required to attain a breakthrough in clean technologies such as enzymatic low temperature scouring of cotton, or catalytic bleaching of cellulosic fibres. Digital finishing and supercritical CO_2 dying is emerging as low water functionalisation techniques but require upscaling. Overall efforts are fragmented however, fibre by fibre and technology by technology. I have already in 2001, in a meeting of the European cotton industry, proposed a formula for a new multifibre agreement in which environmental objectives are included encompassing a holistic processes for all fibres and all processes.

What should happen is better articulation of the voice of the industry and the capacity of the industry at a global level to express and project a plan for the future. The supply chain is still fragmented by segment, by material and by country. Hence global issues are not properly addressed in a holistic fashion. If there is a discussion, the power of action is limited by lack of finance and by lack of reinforcement. The last 15 years have witnessed the formation of voluntary alliances, of which FLA is one of the most respected. I was involved in the initial establishment of the Fairwear Foundation, the Netherlands counterpart of the FLA. These voluntary organizations have been instrumental in grouping the pioneers of CSR but they have been less successful in reaching out to the second league and the laggards. The MFA

[2] http://www.mfa-forum.net/aboutMFAForum.aspx

Forum has an impressive following and has been successful in linking to multilateral organizations, but it lacks the implementing ability. Traditional industry associations such as AAFM, NTC, EURATEX often have an excellent grasp of details, a close link to policy makers and a strong (but eroding) financial basis as they control sectoral funds, but they rarely have a future oriented agenda. In developing countries the quality of the agenda setting, representation and implementation is even more disparate in quality. Capacity building is required here and often demanded by the organizations themselves.

The (sole) benefit of the present time is that the option of business as usual is less tempting than it was before and that beyond a crisis of conjuncture we are in a crisis of structure in the way capitalism has worked over the last twenty years. It is also a moment of reflection about the rat-race we have been living in and a moment to return to the basic values that apparel may represent: protection, performance, identity and dignity. In that vein one needs to recall the words of Ben Kingsley in his role of Gandhi that “what is worn with love should be made with love”. There is a limit to the degree of contradictions mankind can bear and we have maybe reached these limits. Hence it is time to get some order in this madness.

Prof.dr. Michiel Scheffer

Saxion Universities, Enschede

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