Consortium for Development Policy Research

The Global Garments Value Chain is Changing

This policy brief, written by Fatima Habib (CDPR), is based on the paper "Garment Suppliers Beware: The Global Garments Value Chain is Changing", written by Dr. Shahid Yusuf. Chief Economist of the Growth Dialogue, George Washington University and Adjunct Professor, SAIS, Johns Hopkins University.

Garments production is a vital industrial activity in many developing countries. Moreover, it is a major export commodity for many of these countries as well. Garments manufacturing has remained an important driver of economic growth and development for countries in South and Southeast Asia, as demonstrated by the experiences of Japan, South Korea, and Taiwan. Going forward, the garments industry can continue to play this role, but firms in developing countries need to increase their value addition. Some need to become full package suppliers, and all must acquire the capacity to absorb digital technologies and to selectively harness automation. This would raise their productivity and allow them to manufacture a wider range of high value products and enlarge their profit margins.

Moving up the garments value chain is impossible without continual investment in state of the art equipment and processes but such investment is less likely to occur when uncertainty and rent seeking are rampant.

Constraints faced by garments industry

There are several weak links in the garment supply chain within developing countries that are highlighted below:

1. Poor land transport and port infrastructures and security breaches that lead to pilferage. These jeopardize the timely delivery of goods, increase costs, eat into narrow profit margins and discourage buyers.
2. Inadequate and erratic power supplies are a major constraint for garment factories throughout developing Asia. Yet, this concern has been widely neglected by governments in the face of incessant demands from producers. As a consequence, export opportunities are lost.
3. Inefficient border procedures can severely hamper the growth of trade. Prioritizing trade facilitation should be a priority. Although the mechanics of reforming trade facilitation are fairly straightforward, socio-political pressures can impede their implementation. Nonetheless, governments that want to see their firms expand their role in supply chain can find ways to tackle the problem. Those that do not run the risk of losing their share of world trade.
4. Access to finance can constrain smaller firms from exploiting forward or backward linkages. Full package business involves considerable up front purchases of raw material for which firms require a fund of working capital. In addition, firms need capital to keep abreast of advances in technology and make the necessary investments in both equipment and plant. Lack of capital, can squeeze firms out of the supply chain.
5. Low quality of workforce and inability of firms to retain qualified workers can also prevent firms from climbing up the value chain. The garments business has been viewed as a low-tech, unskilled labor- intensive activity, surviving on cheap predominantly female labor and prone to high turnover. But the industry is undergoing technological innovation and the more competitive firms will be those that harness advances in IT, improve management, introduce process innovations, and build the

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skills of the workforce

Way forward

1. Although leading garments firms in Pakistan have begun adopting new technologies, they need to improve hiring, compensation and in-house training practices as well. These steps should be complemented by public and private investment in effective vocational training facilities that impart marketable skills. Developing countries like Pakistan and Bangladesh need to learn from leading garments producers such as China and Turkey, countries that have successfully developed vocational institutes and research facilities, and tightened their links with global retailers. This would allow the developing countries to secure a larger share of the supply chain.
2. In order to maintain adherence to rules and regulations that govern workplace environment and labor rights, firms must show willingness to self-police and to cooperate with the agencies hired by buyers to check on factory environmental conditions and rules governing the labor force.
3. Urban industrial clusters can assist countries expand and upgrade their contribution to networks and value chains. Cluster formation can be assisted by policies that enhance workforce quality, strengthen the physical infrastructure and improve the business climate. Cluster formation through *glocalization* [1], triggered by participation in value chains is a means of accelerating industrialization as for instance, in Thailand.

[1] The practice of conducting business according to both local and global considerations.