Global Production
The Apparel Industry in the Pacific Rim

EDITED BY
Edna Bonacich, Lucie Cheng,
Norma Chinchilla, Nora Hamilton,
and Paul Ong

Temple University Press / Philadelphia
1994
Chapter 3

Power and Profits in the Apparel Commodity Chain

Richard P. Appelbaum and Gary Gereffi

The current restructuring of the global economy, in which commodity production and sales are spatially dispersed and integrated to an unprecedented degree, requires a reexamination of the ways in which surplus is extracted. In the traditional world-systems approach, core economic activities—defined as those in which a surplus is realized—were generally presumed to be located in core national economies. Similarly, peripheral economic activities—from which the surplus is extracted—were regarded as constituting peripheral national economies. Semiperipheral economic activities (and hence semiperipheral national economies) were thought to occupy an intermediate position, one from which surplus is both extracted (by core nations) and realized (from peripheral nations). Within this framework, nation-states were treated as the primary analytic units, providing an analysis of the global stratification of place based on the nation-state system (Emmanuel 1972; Wallerstein 1980; Smith and White 1990).

Global Commodity Chains and Economic Surplus

This traditional stratification system is being overlaid by the growth of core and peripheral relations within nations, as networks of global commodity chains alter the ways in which surplus is extracted and realized in a global economy. The notion of a global commodity chain offers a means of understanding production as a dynamic set of processes among firms, rather than as a static property of nations.

A commodity chain may be defined most simply as “a network of labor and production processes whose end result is a finished commodity” (Hopkins and Wallerstein 1986:159). The global commodity chain consists of “nodes,” or operations that comprise pivotal points in the production process: supply of raw materials, production, export, and marketing—taking us “across the entire spectrum of activities in the world economy” (Gereffi 1992, 94). Each node is itself a network, connected to other nodes concerned with related activities. Such export networks are increasingly important in the contemporary global manufacturing system, resulting in a new logic of transnational integration based on geographical specialization and tightly linked international sourcing (Gereffi and Korzeniewicz 1990).

The global commodity chain approach argues that surplus accrues to different nodes in the commodity chain, depending on how they are organized and controlled, rather than accruing in a single (core) country. The analytic distinction between “core” and “periphery” might be more fruitfully applied to nodes in the global commodity chain than to countries in general. In this formulation, core activities in the commodity chain are those in which the principal surplus is realized; core nations (or, more likely, regions within nations) are those where the core activities are spatially concentrated. In examining the profitability of particular industries, one is then led to ask, Where does the global commodity chain “touch down” geographically, why, and with what implications for the extraction or realization of an economic surplus?

Buyer-Driven Commodity Chains and Flexible Production: The Case of Apparel

Global commodity chains (GCCs) have three main dimensions: an input-output structure comprising a set of products and services linked in a sequence of value-added economic activities; a territori

the early 1970s: "producer-driven" and "buyer-driven" commodity chains (Gereffi 1994).

Producer-driven commodity chains describe those industries in which large, integrated industrial enterprises play the central role in controlling the production system (including its forward and backward linkages). This type is most characteristic of capital- and technology-intensive industries such as automobiles, computers, aircraft, and electrical machinery, which are usually dominated by transnational corporations. Buyer-driven commodity chains, on the other hand, involve those industries in which large retailers, brand-named marketers, and trading companies play the pivotal role in setting up decentralized production networks in a wide range of exporting countries, typically located in the Third World. This pattern of trade-led industrialization is common in labor-intensive, consumer-goods industries such as garments, footwear, toys, and consumer electronics.

Firms that fit the buyer-driven model, such as Nike, Reebok, Liz Claiborne, and The Gap, generally do not own any factories. They are "marketeers" (not "manufacturers") that design and market, but do not make, the products they sell. Such firms rely on complex networks of contractors that perform almost all their specialized tasks. "Profits in buyer-driven commodity chains thus derive not from scale, volume, and technological advances as in producer-driven chains, but rather from unique combinations of high-value research, design, sales, marketing, and financial services that allow the buyers and branded merchandisers to act as strategic brokers in linking overseas factories and traders with evolving product niches in their main consumer markets" (Gereffi 1994:99). Because buyer-centered commodity chains are highly sensitive to both changes in market demand and production costs, their manufacturing operations are likely to be located in areas where low-wage labor offers quick turnaround at the lowest cost. Such flexibility is often achieved through spatially dense contracting networks, permitting the manufacturer to select factories according to specific production requirements.

Contracting means that the so-called manufacturer need not employ any production workers, run the risk of unionization or wage pressures, or be concerned with layoffs resulting from changes in product demand. Through its own buying offices or commercial trading companies, the manufacturer can acquire the necessary production capability for a particular product run, externalizing many of the costs and risks associated with the labor process.

In the post-Fordist view, such "flexibilization" provides the manufacturer with a competitive edge, as a result of the externalities created by the physical presence of numerous suppliers and producers concentrated in geographically interdependent networks of small firms, factories, and specialized local labor markets (Porter 1990; Scott 1988; Scott and Kwok 1989; Storper and Christopher 1987; Piore and Sabel 1984). Spatial concentration enhances the flow of information through family connections, personal relationships, and professional and community-based ties. "Flexibilization" also affects the distribution of the surplus, since the contracting nodes in the buyer-centered global commodity chains are likely to be those where the least amount of surplus is realized. In Marxist terms, contracting ensures that labor will truly remain variable capital, whose quantities and costs can be made congruent with the needs of the production process. In the language of world-systems theory, peripheral economic activities are externalized through contracting, while core economic activities remain internal to the firm. The districts where such contracting occurs are thus often relegated to the economic periphery, even if located within core countries.

The apparel industry is an ideal case for examining the dynamics of buyer-driven commodity chains. The relative ease of setting up apparel firms, coupled with the prevalence of developed-country protectionism in this sector, has led to the unparalleled diversity of garment exporters in the Third World. Furthermore, the backward and forward linkages from garment production are extensive and help to account for the large number of jobs associated with a flourishing apparel industry (Taplin 1993; Appelbaum, Smith, and Christerson 1994).

The apparel commodity chain is organized around five main segments: raw material supplies, including natural and synthetic fibers; the provision of components, such as the yarns and fabrics manufactured by textile companies; production networks made up of garment factories, including their domestic and overseas subcontractors; the trade channels established by export intermediaries; and marketing networks at the retail level (Figure 3.1). Each of these segments encompasses a variety of differences in terms of geographical location, labor skills and conditions, technology, and the scale and
types of enterprises. These characteristics affect the distribution of economic surplus throughout the commodity chain.

The Profit Squeeze: Recession, the Generation of Surplus, and Globalization

Concentration has become a fact of life in the once-fragmented U.S. apparel industry. In 1981 there were five billion-dollar apparel companies: Levi Strauss (US$4.9 billion), Sara Lee (US$4.1 billion), VF Corporation (US$3 billion), Liz Claiborne (US$2 billion), and Fruit of the Loom (US$1.6 billion) (Table 3.1). These five giants accounted for 23 percent of the U.S. apparel industry's total wholesale volume for all its sales and profit gains, while the rest of the industry struggled through a second consecutive year of recession. Whereas net income in the apparel industry hovered near 5 percent of sales from 1987 to 1989, this figure plummeted to 3.4 percent in 1990 and to 3.2 percent in 1991 (KSA 1992c, 8). In the opinion of Kurt Salmon Associates, a leading consulting firm for the apparel sector, "a disproportionate amount of the profits needed to reinvest in the industry lies in the hands of only a few companies" (KSA 1992c, 1).

The fashion side of the apparel industry—that is, the women's

<table>
<thead>
<tr>
<th>Table 3.1</th>
<th>Sales and Profitability of Top Ten U.S. Apparel Companies, 1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
<td>Company</td>
</tr>
<tr>
<td>1</td>
<td>Levi Strauss</td>
</tr>
<tr>
<td>2</td>
<td>Sara Lee</td>
</tr>
<tr>
<td>3</td>
<td>VF Corp.</td>
</tr>
<tr>
<td>4</td>
<td>Liz Claiborne</td>
</tr>
<tr>
<td>5</td>
<td>Fruit of the Loom</td>
</tr>
<tr>
<td>6</td>
<td>Leslie Fay</td>
</tr>
<tr>
<td>7</td>
<td>Crystal Brands</td>
</tr>
<tr>
<td>8</td>
<td>Kohl's</td>
</tr>
<tr>
<td>9</td>
<td>Phillips-Van Heusen Co.</td>
</tr>
<tr>
<td>10</td>
<td>Russell Corp.</td>
</tr>
</tbody>
</table>

Source: KSA 1992c.
NA = Not available.
side—is especially vulnerable to market weakness. One of our respondents characterized the women’s side of the industry as far more vicious, cut-throat, competitive, and exploitative than the men’s side (Kurtzman 1992). The apparel recession has been accompanied by a retail recession, in which net income has declined steadily, from 3.3 percent in 1988, to 3.0 percent in 1989, 2.3 percent in 1990, and 2.0 percent in 1991 (KSA 1992b, 8). The current economic recession in both retailing and apparel highlights the downward “profit squeeze” in the apparel commodity chain.

As the market puts pressure on retailers’ profits, the retailers respond by reducing the price they pay to manufacturers (or holding the cost at “price point,” which, in an inflationary environment, amounts to the same thing). The manufacturers, in turn, hold the line on their contractors, reducing the margin they are willing to pay. That leaves the contractor with a simple strategy: reduce costs. Costs can be reduced by lowering standards (a simpler stitch, one fewer pocket) or by squeezing labor. Squeezing labor takes many forms: increased homework, a reduction in wages or piece rates, and further subcontracting to lower-cost factories. The third practice includes producing all or part of a garment “across the border” (Mexico in the case of Los Angeles, the People’s Republic of China in the case of Hong Kong) or drawing on illegal factories that come and go with the night, leaving unpaid workers and unpaid rent. The very structure of the industry invites such abuses: virtually all physical labor is conducted through elaborate contracting networks, which shield the retailers and manufacturers from responsibility (and legal liability) for working conditions.

We review these points on the commodity chain, examining the nature of the profit squeeze at every step. We also consider other strategies, such as the elimination of overseas agents and buying offices (which take a cut of the surplus) or the consolidation of retailing and manufacturing (and hence the surplus generated by both) into a single operation. First, however, let us examine the impact of the current retail recession on the overall structure of the industry.

The garment industry has been aptly characterized as one of peaks and valleys. Stanley Hirsch, a major property owner in the Los Angeles garment district, expressed it graphically: “In the industry you can make a fortune or lose your ass. It’s like a crap game. You either do something or float like a cork” (1992). The current recession has affected every company in the industry, enabling department stores to demand more quality at a lower price. This recession is the third downturn in twenty years, and—as in the previous recessions—it is leading to a restructuring of the industry.

The recession of the early 1970s forced many manufacturers offshore in search of low-cost contracted labor, fueling the growth of the industry in Hong Kong, Taiwan, and South Korea. A decade later the combination of recession, inflation, and oil shocks hurt manufacturers and retailers alike and contributed to a growing concern with inventory control. The retailers that survived wanted smaller orders, quicker delivery, and far shorter shelf life for garments. The move to multiple fashion “seasons,” as many as six per year for larger brand-named companies such as Liz Claiborne, meant that racks might be cleared in weeks rather than months. That, in turn, put enormous pressure on manufacturers to find contractors who could respond to changing fashions and fluctuating orders.

The current retail recession, which began at the end of 1990, contributed to the bankruptcy of major retailers, often the casualties of excessive debt incurred as a result of leveraged buyouts. The present economic climate has also reduced the willingness of banks and other institutions to lend money (Morse 1992). For many manufacturers, there is thus a shortage of both demand from retailers and investment capital.

Those manufacturers who survive are the ones that are able to maintain quality at a given price, while ensuring reliable, on-time delivery (Randall 1991). Paradoxically, shorter turnaround times often translate into a longer global reach in search of labor and quota. As the vice-president and general manager of Manhattan Industry’s Hong Kong buying office put it, “I have to go farther and farther to make [the buyer’s] price point” (Ng 1991). Sometimes the trip is to Latin America—to factories in Mexico, the Caribbean, and Central America. Sometimes, particularly if manufacturers move down the apparel chain, it is to such low-wage countries as Bangladesh or Mauritius. And sometimes the trip is back home, to the factories of Los Angeles or Orange County, where a growing supply of low-wage immigrant labor, combined with the obvious response advantage of being close to the home market, has proved to be increasingly attractive to American manufacturers.

Some informants stressed the “flexibility” of Asian production, in
contrast to the mechanistic, standardized, "cookie-cutter mentality" of Europe and North America. Brent Klopp, senior vice-president for production and planning for Bugle Boy, contrasted this attitude with the "soldier mentality" of Asian producers, who "do what they're told to do, and don't ask questions" (1991). On the other hand, growing world competition for production in Asia, quota costs, fabric quality, and the difficulty of ensuring product delivery all encourage production closer to the home market.

Retailing: Strategies for Survival

There is considerable competition among diverse retail channels for growing shares of the U.S. apparel market. In 1991 department stores (Saks Fifth Avenue, Neiman-Marcus) accounted for 24 percent of U.S. apparel purchases; specialty stores (The Limited, The Gap), for 21 percent; national merchandise chains (Sears, J.C. Penney, Montgomery Ward), for 14 percent; discount chains (Wal-Mart, Kmart), for 19 percent; and off-price stores, factory outlets, mail-order houses, and so on, for the remaining 22 percent (KSA 1991, 4). The 1990s are expected to show further segmentation of consumer markets by age, income, geography, and other factors. By the end of the decade, retailers that are not solidly entrenched in one of these distinct niches—low price values, unique merchandise, or high service levels—are unlikely to survive (KSA 1990).

Discount and mass-merchandising companies account for the lion's share of retail sales in the United States (Table 3.2). But it was the apparel specialty stores in 1991 that turned in the highest gross profits (34.4%), operating earnings (6.3%), and return on inventory (18.7%) of any of the segments in the retail sector (KSA 1992b, 3). Nevertheless, the future seems to lie with the retail juggernauts. Between the early 1990s and 2000, Kurt Salmon Associates estimates that the ten big retailers (Wal-Mart, Dayton-Hudson, Melvile's, Price Company, The Limited, Costco, Dillard's, Nordstrom, The Gap, and Spiegel) will grow two to three times faster than the rest of the retail industry and take almost 60 percent of public-company sales (compared to 34% in 1991) (KSA 1992a). Obviously, this trend will increase the already considerable economic clout exercised by large retailers.
The retailer, as stated succinctly by Laura Paine, production manager for Gotta Sportswear, "calls the price shots" (1991). It typically does a "keystone plus," doubling the price from the manufacturer and adding several dollars. The "plus" is then removed after a couple of weeks, leading consumers to believe they are getting a bargain. The large merchandising chains can afford to squeeze hard: they have the purchasing power and can always find copy-cat manufacturers who "knock off" low-fashion items. Stanley Hirsch provides an example: "I know a guy who makes pants to sell to Kmart for $6. Then Kmart comes to him with identical pants from Korea that cost $6 but also have a pocket, and says to him, either take a 25-cent cut for your pants, or add a pocket, or I'll drop you. The stores with big buying power can squeeze hard" (1992).

Hirsch offers a colorful commentary on recent changes in apparel retailing.

The department stores tucked up, and they're eating it now... When I bought Alex Coleman [a Los Angeles manufacturing company] in 1981, they were moderate. I bought it up when they were going broke. We produced for the May Company. One day the May Company comes to us and says they're trading up; they want more fashion in the store. They chased Alex Coleman out of the store, meaning they lost all those customers. So those customers switched to Wal-Mart and Kmart. The shills from Harvard Business School raped the industry, trying to make more money for the CEOs... Take Bullocks, once the epitome of a good department store; Bullocks used to be the best store in Los Angeles. They had a 40 percent markup. Then they chased out their customers, and offered higher CEO salaries. They kept offering sales; taking off, off, off from the price. The customers wised up and wouldn't buy at regular prices, and turned to the discounters. The customers no longer trust the department stores. The drop in sales is only partly because of the recession; customers have lost confidence because of this overly aggressive discounting in the department stores...

... Retailers used to deal exclusively with particular manufacturers. Now the retailers aren't loyal. And the manufacturers don't trust the retailers.

The markup from manufacturer to retailer is typically 55 to 60 percent, although large-lot sales to a single retailer (thirty thousand units or more) may reduce this margin to as low as 30 percent or even less. Markups vary considerably with the item and the circumstances. Profits, which depend heavily on rapid turnover from manufacturer to retailer, also vary considerably; informants provided general estimates of 3 to 7 percent.

Despite the seeming diversity of fashion today, in recent years there has been a convergence of style, except perhaps at the very top. This trend is partly due to the growing oligopolistic power of the large retail chains and mass merchandisers, which "cherry pick" from the lines of different manufacturers to maximize their chances of moving goods off the floor (Klopp 1991). Whereas in the past a manufacturer might sell a wide variety of fashions to a single department store, now it is common to place a much narrower range of items in competing stores, with the retailers determining that range. Thus the same products are sold in a wide array of retail outlets, giving many department stores a similar look and feel. A second reason for fashion convergence, particularly in the youth market, is television: MTV was described as "the great globalizer," standardizing products across the United States and even the world (Klopp 1991). As George Randall, president of Yes! Clothing Corporation, put it, "there are no Japanese kids, German kids, or U.S. kids. There are only kids fifteen to thirty-five."

A principal survival strategy for retailers has been to cut out the manufacturer altogether, by taking over the manufacturing end and selling a private label. The Limited was the first major retailer to do its own manufacturing, a lesson that was quickly learned by other retailers, such as The Gap. The large chain department stores have also followed suit; Wal-Mart has been especially successful in eliminating the middleman. This route can be risky, however, because even major retailers are ill-equipped to deal with the complexities of global apparel manufacturing. Also, in the view of some industry insiders, the practice has been extremely bad for American retailing. David Morse, former managing partner of the California Apparel Mart, offers a somewhat different view of Wal-Mart: "Wal-Mart has been a big success, but they have killed Main Street. And they have squeezed out the middleman. Walton is seen as a hero by many, but I see him as having destroyed American business. Sam Walton is raping the land, changing the character of cities."

The Gap, the most popular and profitable specialty-apparel chain in U.S. retailing today, is an excellent example of a highly successful retailer-turned-manufacturer. Originally a Levi's outlet, The Gap was...
in economic difficulties in the mid-1980s. Levi’s was not producing sufficiently diverse products to sustain consumer interest in the stores. After a corporate shakeup and restructuring, The Gap developed its own garment lines. The Gap is vertically organized, having internalized virtually all activities in the commodity chain, including its own retail outlets, except for direct labor. This strategy results in reduced risks, because The Gap controls much of its operations, ensuring on-time deliveries—an essential accomplishment, as Gap stores rely on high-tech just-in-time global production to change their inventory and “look” every six weeks (Mitchell 1992). Quick response is seen as vital to success in marketing today. In the words of James Cunningham, The Gap’s Far East vice-president for offshore sourcing, “the best retailers will be the ones who respond the quickest, the best . . . where the time between cash register and factory shipment is shorter” (1991). It seems unlikely that these trends will reverse themselves; if anything, the buying cycle will likely continue to shorten in coming years (Morse 1992).

Manufacturing

While large retailers are price-makers, today’s apparel manufacturers are price-takers. Wholesale prices have been flat since the late 1980s, despite rising production costs. Miguel Campos (1991), production manager for Bongo Clothing, a US$40 million company that sells moderately priced jeans and activewear, reports that a US$32 jean jacket wholesales for US$15, US$3 less than three years ago. Paul Tsang, former general manager of Unimix, one of Hong Kong’s largest garment factories, laments that garments are no longer costed out in a negotiation between buyer and manufacturer; the latter simply gets prices (1991). He points out that a John Henry basic shirt has retailed for US$32 in the United States since the early 1980s, yet costs have gone up markedly during that same period. According to Tsang, even moving to Malaysia—which reduces his production costs 40 percent—did not substantially increase his profit margins, because retailers responded by lowering their prices to him. Despite these professed difficulties, it seems clear that apparel manufacturers continue to realize substantial surplus. The top executives and managers in garment manufacturing, along with their best designers, enjoy extremely high salaries if their products are successful.

Manufacturers respond in various ways to wholesale price pressures from retailers. Moving down the value-added chain is one strategy. The Gotcha Corporation, a US$60 million California activewear company that specializes in tee shirts and the “beach look,” has dropped its prices in an effort to reach a larger if somewhat lower-end market (Paine 1991). On the other hand, Bugle Boy, a Simi Valley–based company whose sales have grown to US$700 million in fourteen years, is determined to “maintain price point” even though its expenses and overhead have doubled since the company’s sales took off.

Bugle Boy has pursued a second strategy, that of bypassing the retailer altogether and opening mall-outlet stores. The company has sixty-two of its own retail outlets, enabling it to display a much wider range of its products than would be possible in a department store (Klopp 1991). Some other major manufacturers have also taken this step (Van Heusen, Liz Claiborne), but for most manufacturers it is unlikely to prove viable (Morse 1992).

A third method for eliminating the retailer (one we have not pursued in our research) is the direct mail-order catalog. Spiegel, which pioneered the catalog sales of apparel 125 years ago, boasted nearly US$1.7 billion in annual revenue in 1989; J. Crew, a fast-growing newcomer, reached US$300 million in 1990. Other major mail-order apparel companies include L. L. Bean, Land’s End, Eddie Bauer, Clifford & Willis, Tweeds, and Fingerhut. Even major retailers are beginning to sell by catalog; examples include Bloomingdale’s, Saks Fifth Avenue, Bergdorf Goodman, Neiman-Marcus, I. Magnin, Victoria’s Secret, Rich’s, and Banana Republic.

A fourth strategy is vertical integration of fabric and clothing manufacturing, an approach favored by some Korean companies (as well as The Gap). Vertical integration enables the manufacturer to reduce costs and shorten turnaround times (Hirsch 1992).

A fifth method consists of revenue enhancement through licensing programs, allowing lesser-known companies to pay for the use of one’s label. For example, Cherokee, a major Los Angeles manufacturer, boasts “a fabulous licensing program,” accounting for a significant portion of its sales, under which such diverse goods as
watches, jewelry, swimwear, and luggage are sold under the Chero-
kee label (Glass 1991).

Finally, a sufficiently capitalized company can always branch out
of direct-apparel manufacturing, realizing a surplus through a vari-
yety of enterprises. The Hong Kong–based Wing-Tai Corporation is an
interesting example of an apparel company that has not limited itself
to apparel manufacturing. Wing-Tai is a self-described “diversified
multinational corporation,” employing eight thousand people
throughout Southeast Asia in the production of more than thirty
million garments annually. According to company literature, Wing-
Tai is seeking to build “a global apparel trading and manufacturing
network,” involving more than twenty different apparel products
from nightgowns to heavy winter jackets (Wing-Tai Corporation
1991). The company has production facilities in Singapore, Malay-
sia, Hong Kong, and China, and it wholesales and distributes
through companies it has spun off in the United States and Europe.
Its recent acquisitions include British-based Polly Peck, as well as a
30 percent share of the European-based Campari. A short-lived joint
venture with Mast Industries, a subsidiary of The Limited, was to
have provided Wing-Tai with access to The Limited’s U.S.$5 billion
U.S. apparel market. Finally, Wing-Tai boasts substantial real estate
operations in Hong Kong, Singapore, Malaysia, and the United
States. These include large-scale housing developments (such as a
three-thousand-family project in Malaysia), architectural and engi-
neering consulting; project management; construction; manufactur-
ing, distribution, and marketing of building materials and office
furniture; and “venture-capital schemes.”

Contracting

Contractors are the intermediary between the manufacturer and the
human hands that produce the garments, effectively shielding the
manufacturer from responsibility for labor conditions. As Mitch
Glass, vice-president of production for Cherokee, candidly states, “I
only deal with licensed contractors; I’m not the sheriff” (1991).

We have no direct data on the surplus realized by contractors,
although our impressions are that the retail recession has severely
cut into contractors’ profits, increasing pressures on them to reduce

labor costs further. This profit squeeze, predictably, has contributed
to a variety of labor abuses in the United States, as well as exploi-
tative practices in countries where labor standards are either not en-
forced or nonexistent. In Hong Kong, for example, regulations exist
concerning fire, ventilation, first aid, and working conditions that
might lead to illness; their administration, however, is carried out
through a nongovernmental organization (the Health and Safety
Council), which is funded by the businesses it is supposed to over-
see. Enforcement, needless to say, is minimal. “Health and safety is
very backwards” (Leung 1991). There is no minimum wage in Hong

Kong, no employment security, no pension plan, and no unemploy-
ment compensation. There is no legal right to collective bargaining;
even in a fully unionized factory, the employer need not comply
with the unions’ demands.

The contracting system, which maximizes the flexibility of manu-
ufacturers, is often based on friendship and kinship networks that
reduce the workers’ sense of the need for an explicit contract. This
situation is particularly a problem with subcontracting from one fac-
tory to another, or for homework, a practice that appears to operate
with equal force in Los Angeles and Hong Kong (Lui 1991). Hong
Kong factories, for example, frequently subcontract for cuffs, collars,
and similar items that can be produced at home and brought into
the factory for final assembly (Leung 1991). Interestingly, Hong Kong
garment factories are in decline, just as Los Angeles’s factories seem
to be on the increase. The Hong Kong garment industry currently
employs some two hundred thousand people in about nine thousand
factories, many with fewer than ten workers; the total manufacturing
labor force dropped from 40 percent of the work force in 1971 to 27
percent in 1991, although in absolute terms (because of population
growth) the number of manufacturing workers has dropped only
from nine to seven hundred thousand workers (Sung 1991).

Hong Kong’s largest garment factories are rapidly laying off em-
ployees as production shifts to China and other low-wage countries.
The Unimix factory, for example, employed three thousand workers
when it was acquired by Wing-Tai in 1987; that work force has been
cut to two thousand and is slated to “lean out” at fifteen hundred
(Tsang 1991). Los Angeles, on the other hand, has as many as one
hundred twenty thousand workers employed in five hundred facto-
ries, if we include estimates of the underground economy. According
to official California Employment Development Department (EDD) estimates, employment in apparel grew by nearly one-fourth (23.2 percent) from 1985 to 1990, reflecting a sharp acceleration in an uneven growth pattern going back at least two decades (Bonacich and Hanneman 1992).

Tales of hardship abounded in our interviews with factory managers and owners in both Los Angeles and Hong Kong. Lawrence Ma, who owns the Ridgeway factory in Hong Kong, suggested, “If you want to take some revenge against your enemy, try to convince him or her to have a garment business in Hong Kong” (1991). Ma claims that more than ten of his friends have lost their factories in recent years, particularly those specializing in large-sized, standardized orders, for which Hong Kong—with its rising labor costs—is no longer competitive. Ma attributes such problems to China’s open-door policy, which has left Hong Kong with the quota but without cheap labor. Unimix, drawing on its size and capital resources, has thrived by moving into higher value-added products, “to higher and higher floors of the department store” (Tsang 1991). Whereas Unimix used to make for jobbers on London’s cut-rate Commercial Street, it now sells high-end items to Calvin Klein, the Chelsey Group, Home Brothers, the Burton Group, Structure, British Home Stores, Marks and Spencer, The Gap, Yves St. Laurent, Perry Ellis, and Nino Cerutti. The Gap, whose reliance on a global network of more than five hundred factories arguably prosages one future for the industry, employs a research and development staff that generates a waiting list of “tested” potential factories; “we pull the trigger when we’re ready” (Cunningham 1991). Production can be shifted virtually anywhere, any time that the requisite mix of labor, quality, and turnaround time can be found.

Foreign Trading Companies and Offshore Buying Offices

Foreign trading companies are responsible for purchasing garments for manufacturers and retailers. For some, their “claim to fame is their address book” (Cunningham 1991). They are solely import-export offices. They generally do not perform design services, employ sewers, or manufacture fabric. They make their money strictly on commissions and quota, charging the factory price (plus commis-

sion) to their clients. This strategy works well for manufacturers who cannot afford to open offshore offices.

Offshore buying offices, on the other hand, are typically subsidiaries of U.S. retailers or brand-name apparel companies whose job is to source production for their parent companies. They may contract directly to factories for production, or they may contract to foreign trading companies for services. Although the latter strategy adds the trading company’s commission to the cost of production, it also enables the U.S. company to avoid the costs and difficulties associated with quality control, which are assumed by the foreign trading company.

Both foreign trading companies and offshore buying offices, like the entire industry, are under increasing profit-margin pressure, because more and more U.S. manufacturers now maintain their own presence in the principal offshore regions where they contract. Foreign trading companies are learning that access to an offshore “address book” is no longer sufficient for many U.S. retail and branded-apparel companies. “Everyone today knows manufacturers [factories]; why pay money to know a manufacturer?” (Cunningham 1991). Today buying agents must be able to handle such things as product development, sourcing, and identifying emerging sites for production.

Conclusion: Future Prospects for the Garment Industry

The commodity-chain perspective sheds light on a variety of economic agents in the Pacific Rim that knit together the manufacturing, trading, and marketing functions in the global apparel industry. Economic surplus appears to be concentrated in those nodes of the commodity chain where market power is greatest. On the retail side, giant discounters, national merchandise chains, warehouse clubs, and other large buyers now account for the lion’s share of the orders in the U.S. apparel market. They use their leverage to exact compliance from domestic as well as overseas apparel manufacturers.

Unlike producer-driven industries, in which supply factors largely determine the nature of demand, in the buyer-driven apparel commodity chain the decisions made by big buyers shape global production networks (Gereffi 1994). It is important to realize, however,
that the most profitable segments of the apparel commodity chain can and do change over time. In the 1960s and early 1970s—when export-oriented garment manufacturing was expanding in East Asia—U.S. garment companies, East Asian factories, and importers all made a lot of money. As the quotas and other protectionist policies of developed nations proliferated in the 1970s, the overseas factory owners and traders who manipulated these quotas (so-called quota brokers) garnered substantial windfall profits. In the 1980s market power in the apparel commodity chain began to shift toward integrated textile companies and large retailers, with garment manufacturers caught in the middle. As garment manufacturers were squeezed, they turned up the pressure on their contractors to make clothes with more fashion seasons, faster turnaround times, lower profit margins, greater uncertainty about future orders, and frequently worse conditions for the workers.

No segment in the apparel commodity chain guarantees high profits: there are bankruptcies and failures at every level. The current retail recession has forced a further restructuring of the apparel industry, with new emphasis on regional realignments in production and trade networks. East Asian garment manufacturers are becoming retailers, with an eye toward exploiting the vast potential of China and Southeast Asia as markets rather than export platforms. Similarly, the North American Free Trade Agreement is altering the calculations of retailers and manufacturers alike about the global sourcing game, as Mexico, Central America, and the Caribbean are tied more closely to the vicissitudes of U.S. consumer demand. In this context, economic surplus in the apparel commodity chain is less likely to accrue to those who make garments than to those who market them, although today, as in the past, the gains from this industry probably will not remain in any one place for very long.

References


Campos, Miguel. 1991. Production Manager, Bongo Clothing, Los Angeles, California (interview September 16).


Glass, Mitch. 1991. Vice-President for Production, Cherokee, Sunland, California (interview August 14).


Klopp, Brent. 1991. Senior Vice-President for Production and Planning, Bugle Boy Industries, Simi Valley, California (interview October 11).


Lui, Tai-Lok. 1991. Lecturer, Department of Sociology, Chinese University of Hong Kong, Shatin, N.T., Hong Kong (interview December 4).
Ma, Lawrence. 1991. Owner, Ridewell Fashion and Sportswear Ltd., Hong Kong (interview December 5).


Ng, Ringo. 1991. Vice-President and General Manager, Manhattan Industries (Far East) Ltd., a division of Salant Corporation, Hong Kong (interview December 3).


Song Yun-wing. 1991. Senior Lecturer in Economics, Chinese University of Hong Kong, Shatin, N.T., Hong Kong (interview December 4).


Tsang, Paul C. M. 1991. General Manager, Unimix Ltd., Hong Kong (interview November 28).


Zeigler, Greg. 1991. Vice-President for Production, Quiksilver, Costa Mesa, California (interview August 15).