

The Impact of  
Covid-19 on  
Manufacturers  
and Workers  
at the Bottom  
of Garment  
Global Supply  
Chains

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FMM 24<sup>th</sup> annual conference: The Corona Crisis:  
Macroeconomic Implications and Policies for  
Sustainable Recovery

30 October 2020.

# Overview

I: The pre-Covid global supply chain squeeze: causes and consequences.

II: March 2020 buyer response to Covid and lockdowns: cancellations.

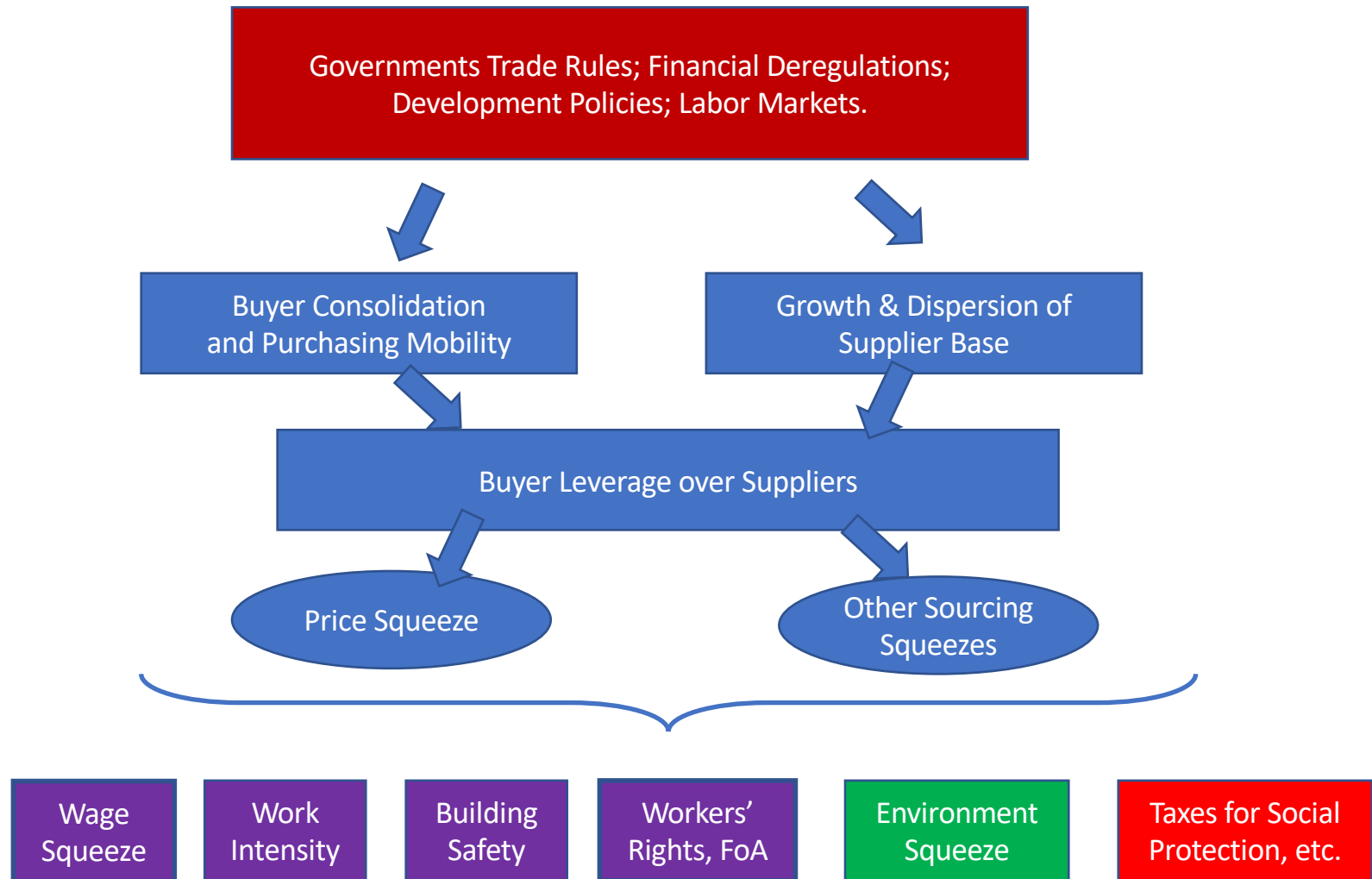
III: Current Crisis: Declining orders, squeeze on prices, uncertainty.

IV: Building more sustainable GSCs: public and social governance.

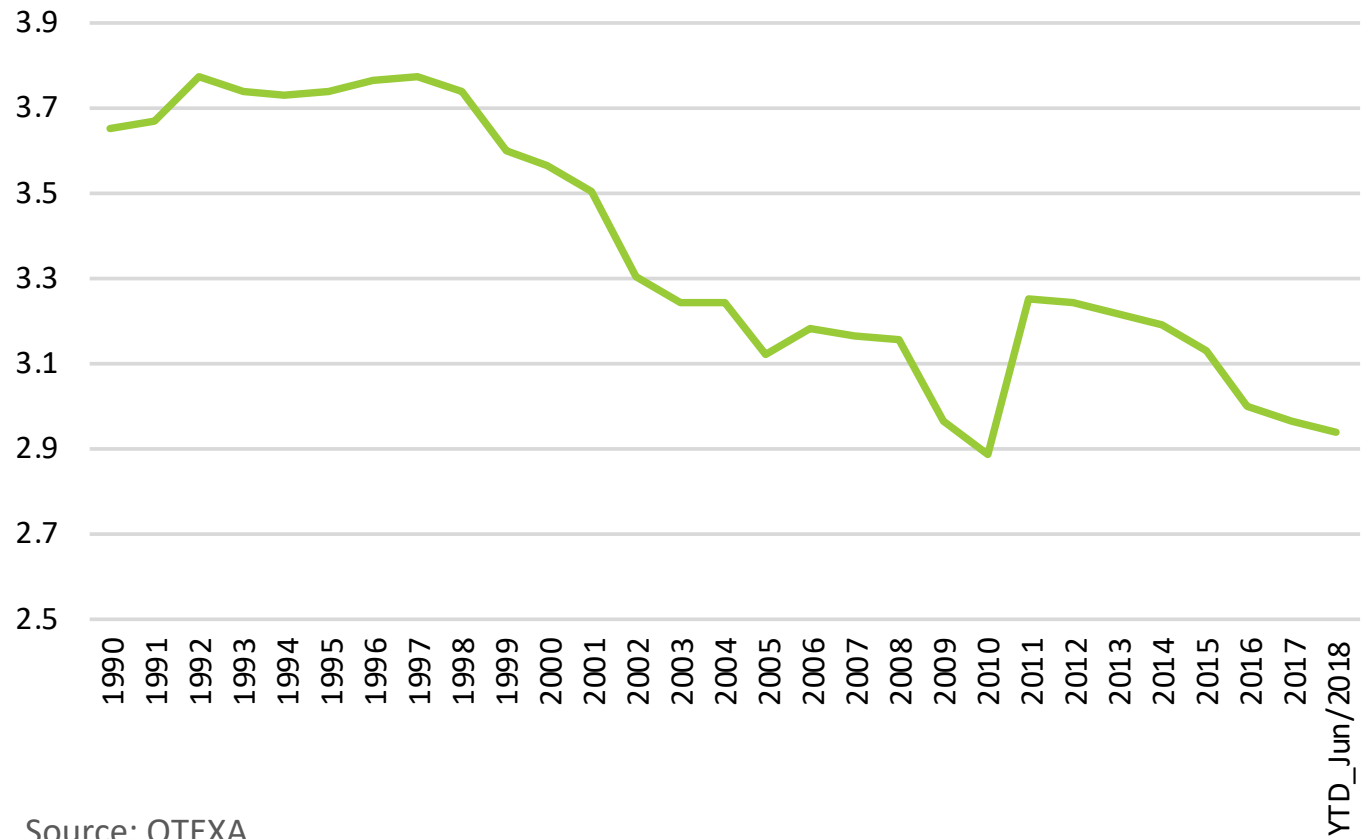
A thin vertical black line is positioned to the left of the text.

# I: The Pre-Covid Global Supply Chain Squeeze

# Pre-Covid Supply Chain Situation

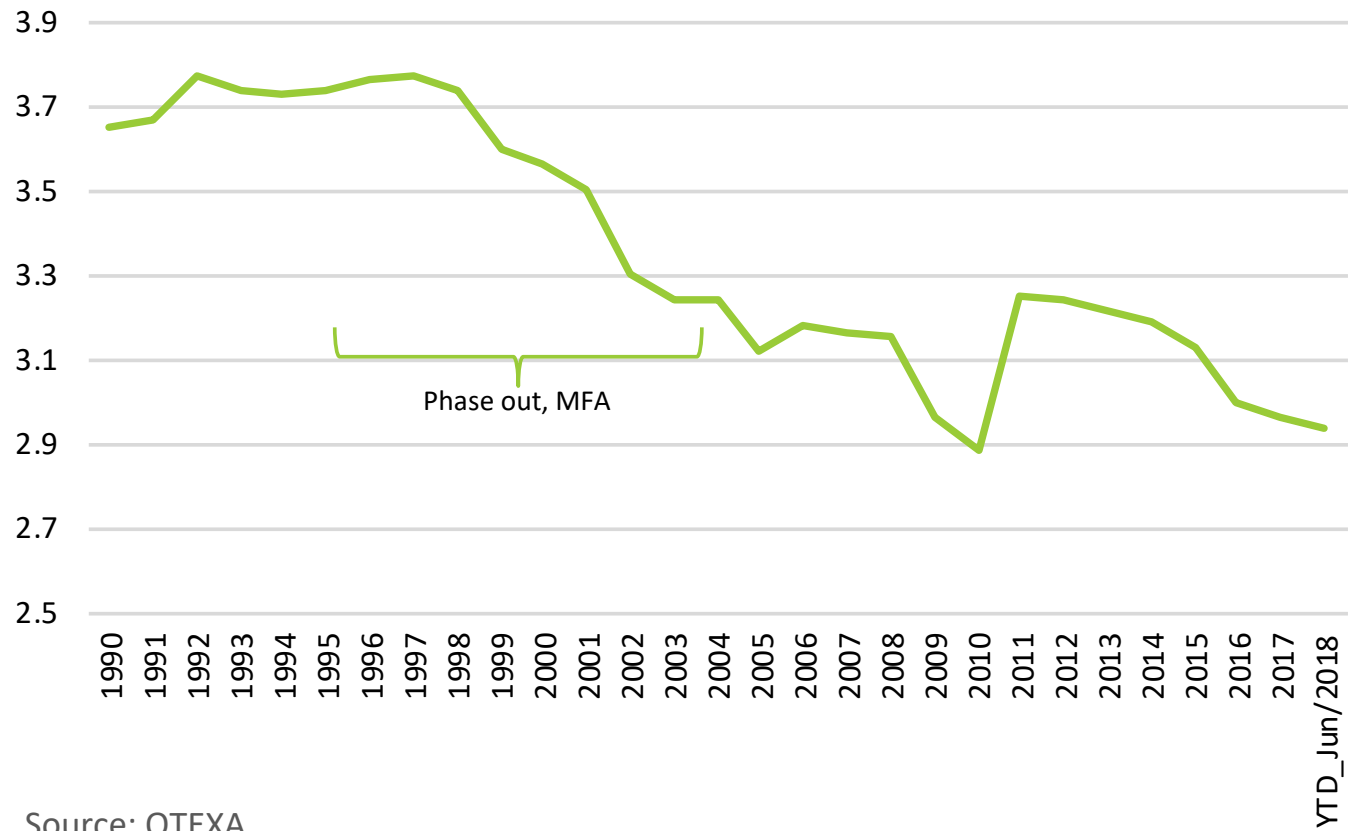


## US Apparel Imports, USD/Square Meter



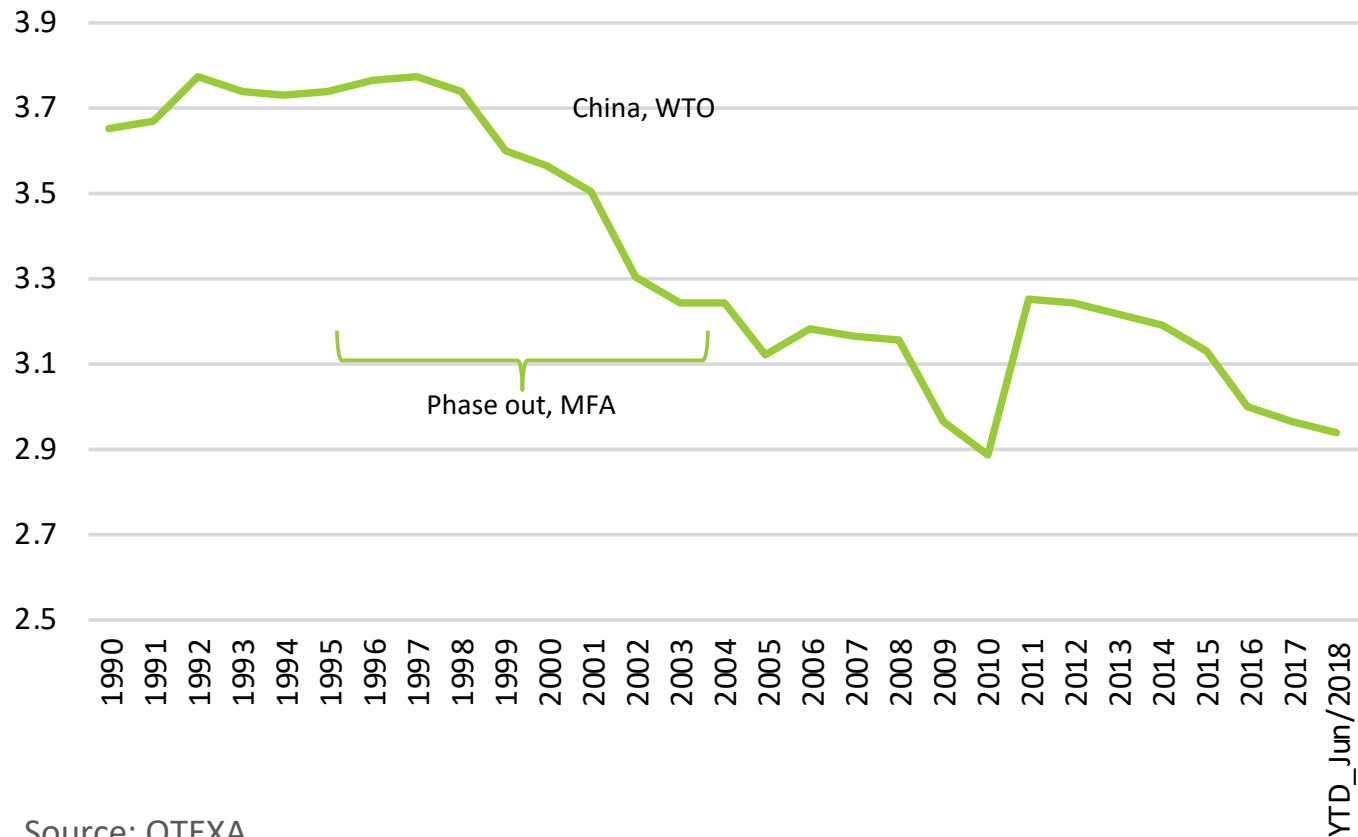
Source: OTEXA

## US Apparel Imports, USD/Square Meter



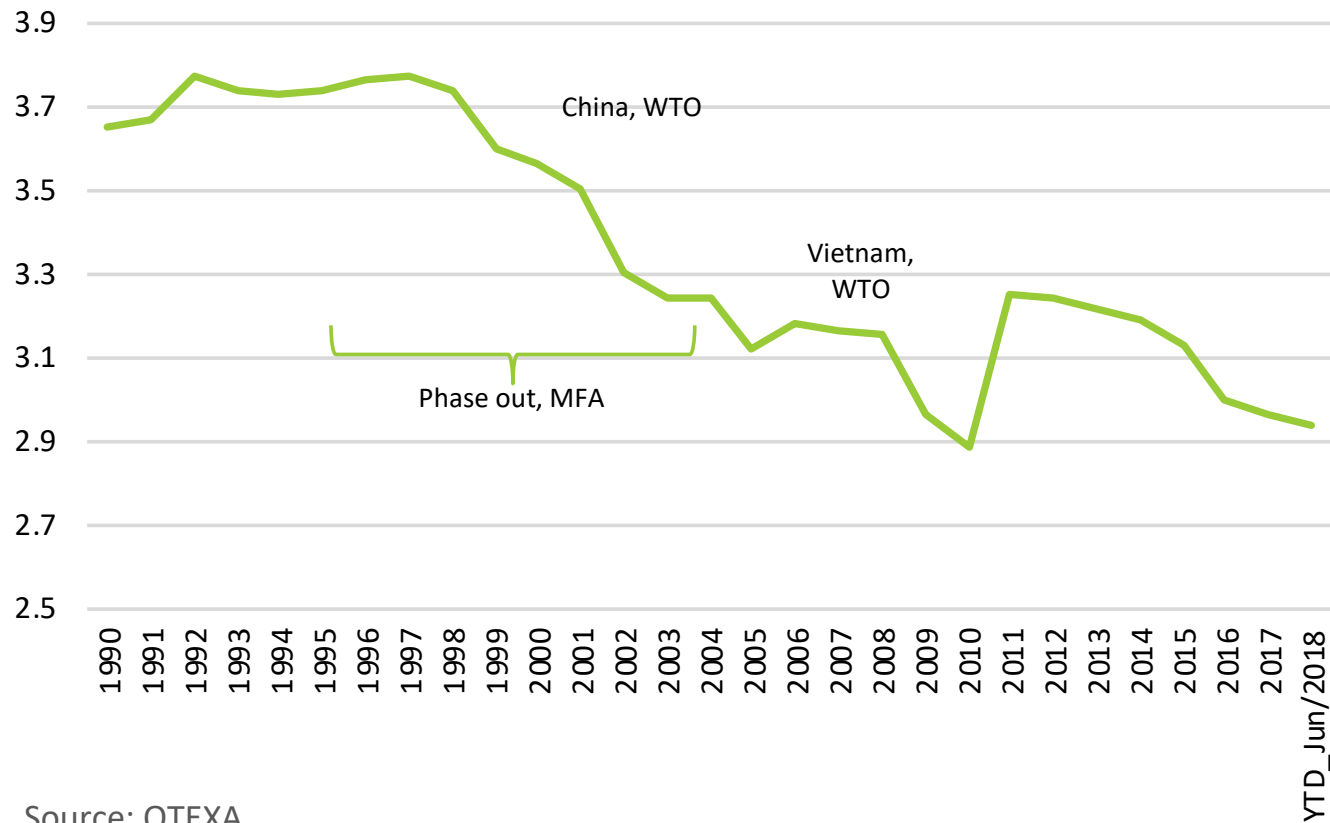
Source: OTEXA

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Source: OTEXA

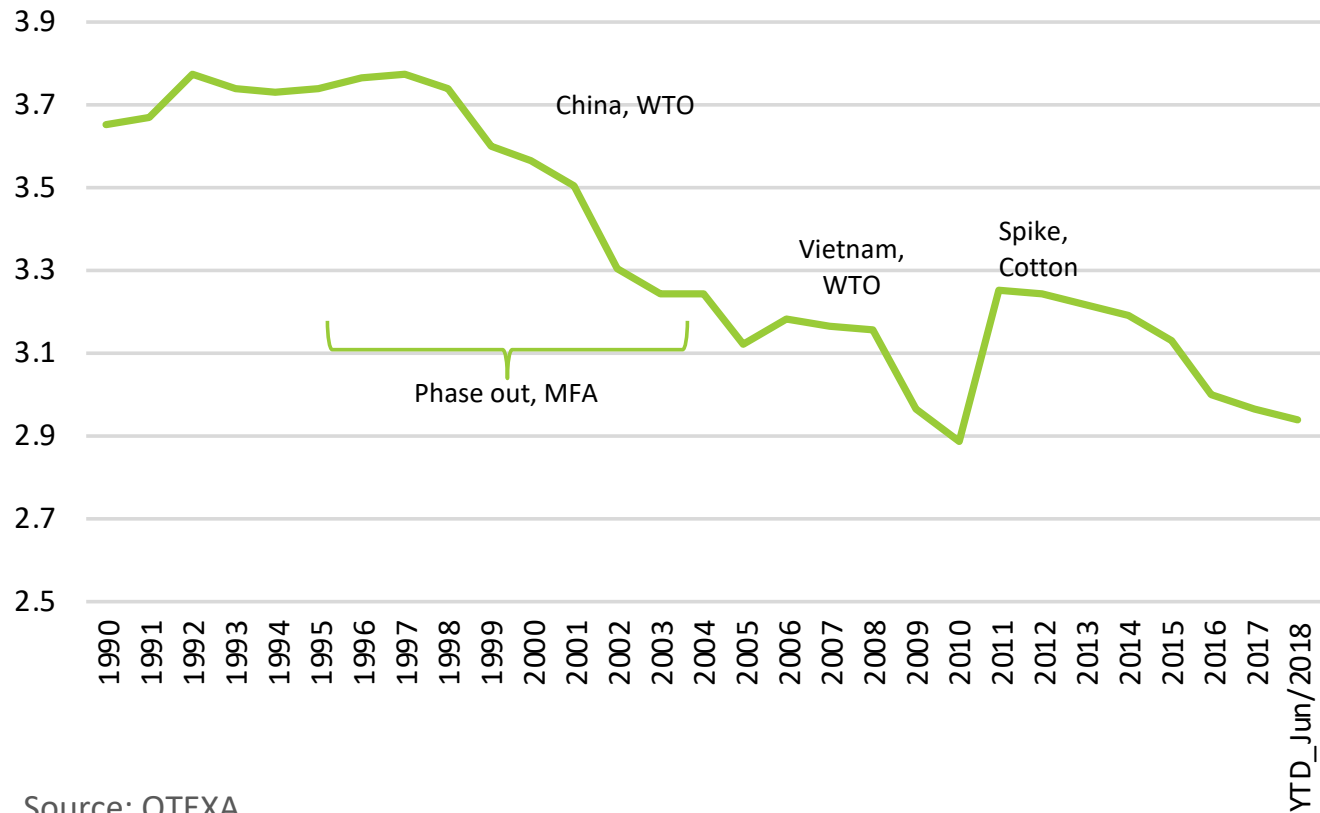
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Source: OTEXA

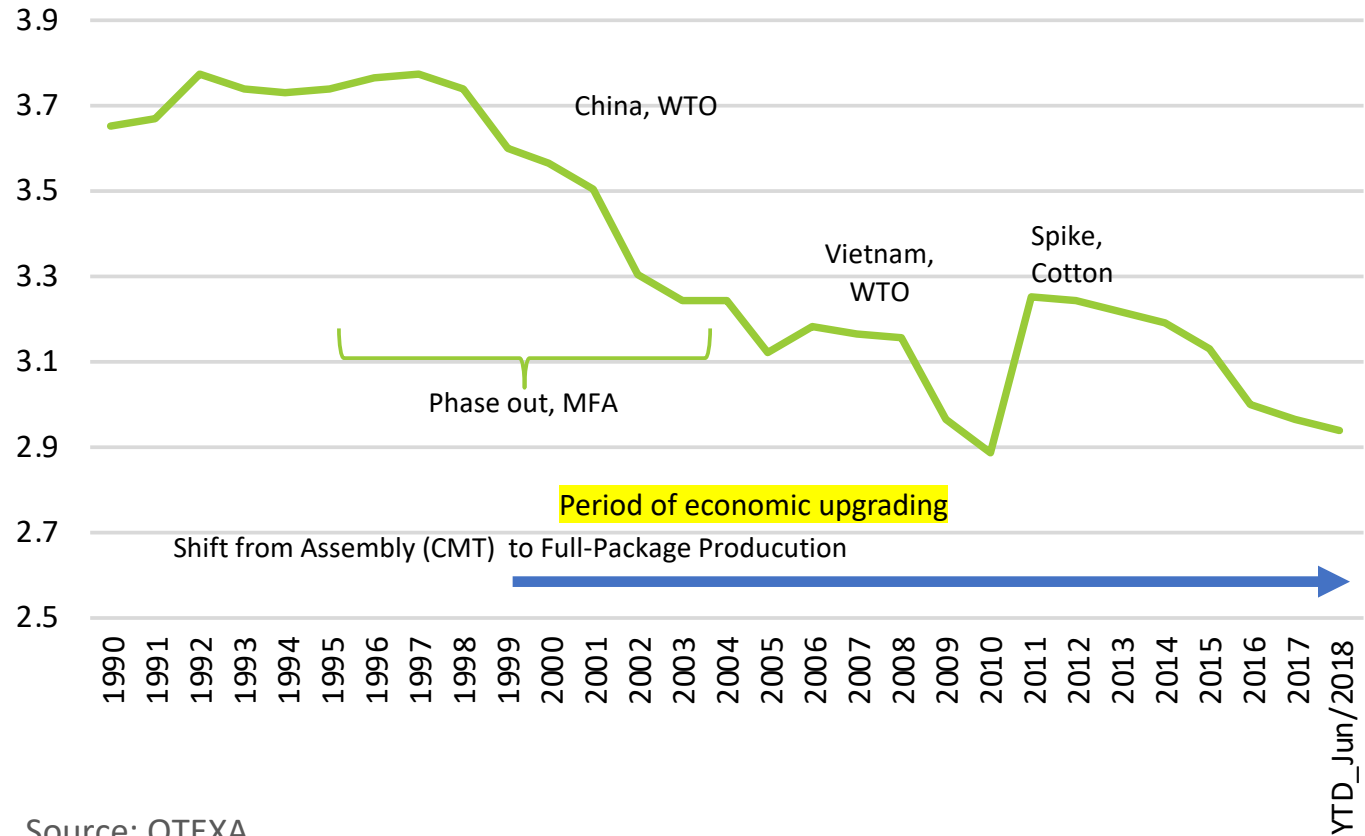


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Source: OTEXA

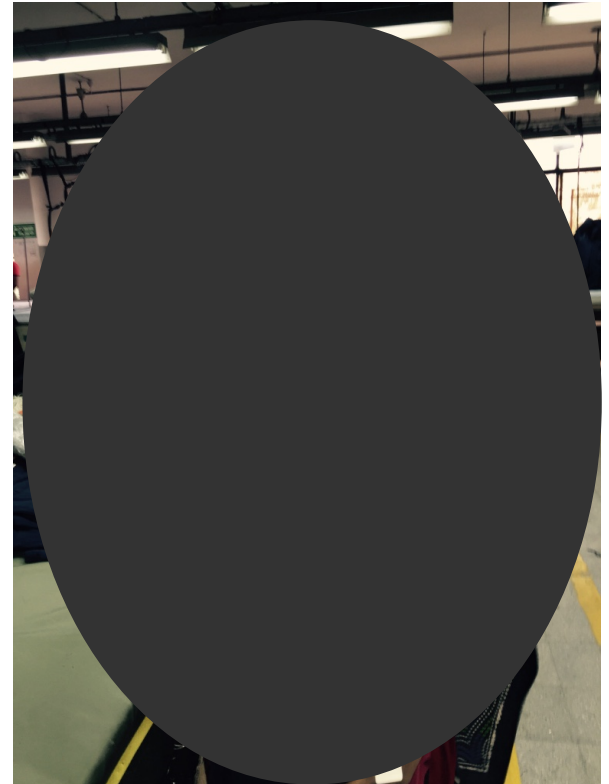
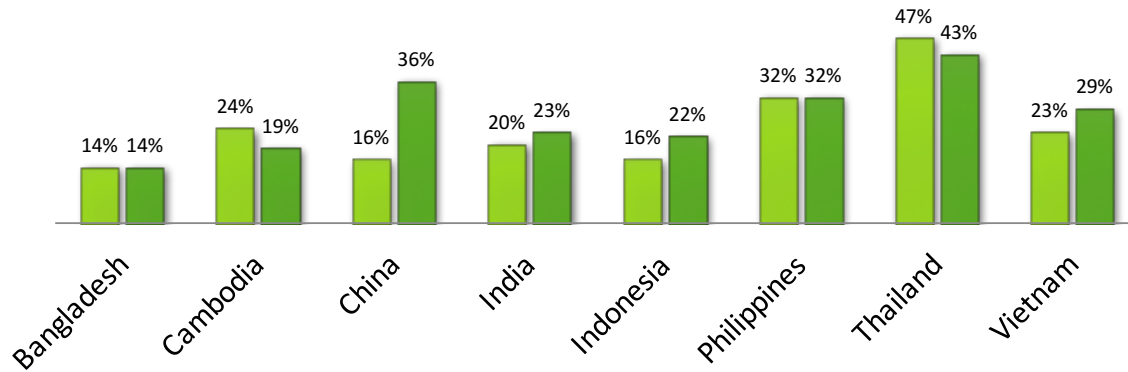
As prices decline,  
respect for workers' rights declines



# Impact on Wages

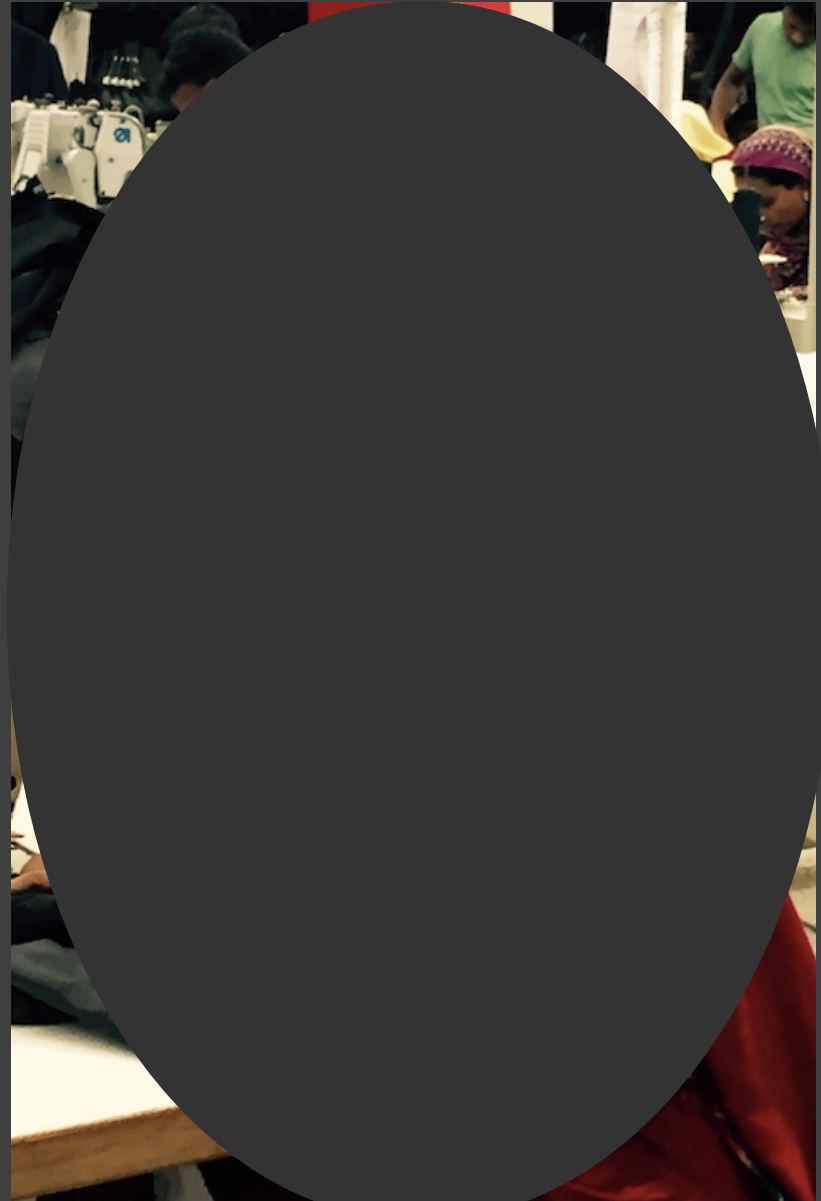
Prevailing Wage as a Percent of Living Wages

2001 2011



# Impact on Work Intensity

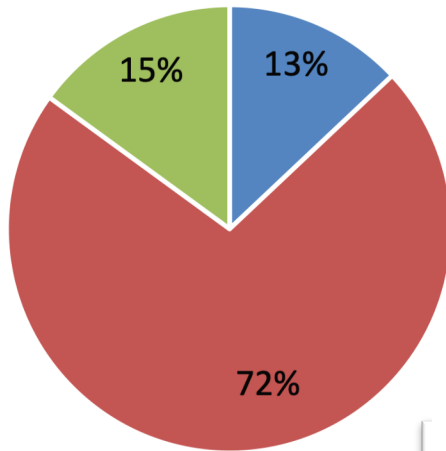
- Hourly worker production targets.
- Going from 60, to 80, to 100 operations per hour.
- Verbal abuses: 64% of workers say they are yelled at for not meeting production targets.



## II: The March '20 Buyer Response to Covid and Lockdowns: Abrupt cancellations

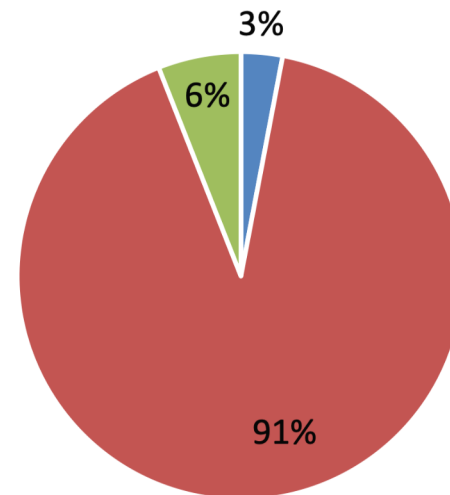
## After Cancellations, Buyer Pay for Raw Material Costs?

■ Yes ■ No ■ Some cases

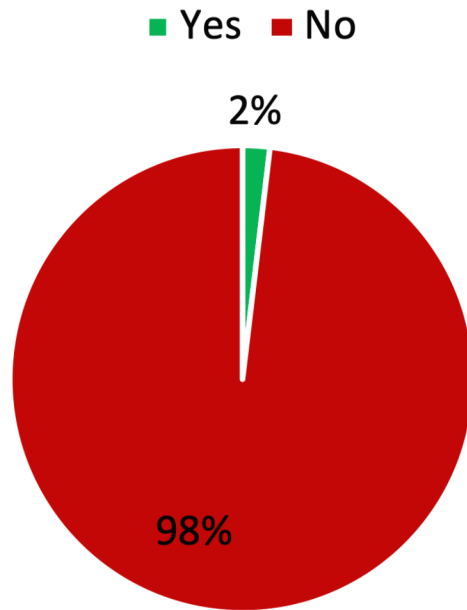


March 2020 survey  
findings, Bangladesh

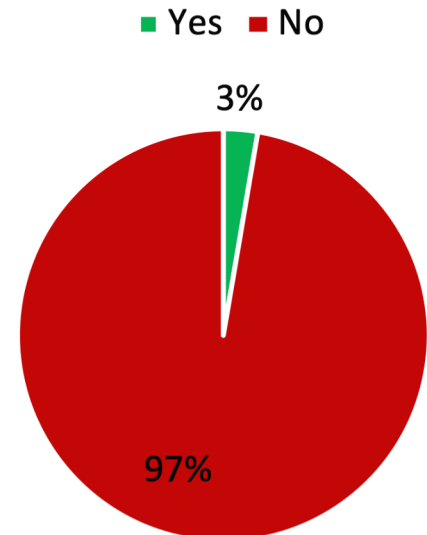
## After Cancellations, Buyers Pay for Production Costs?



## After Cancellations, Buyers Help with Furlough Worker Pay? Costs?

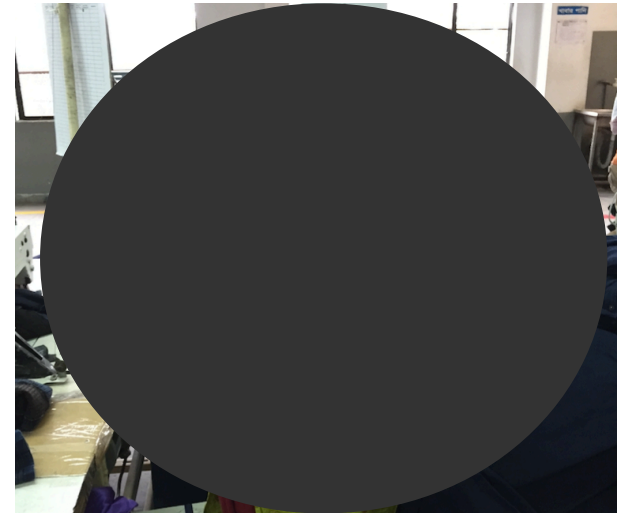
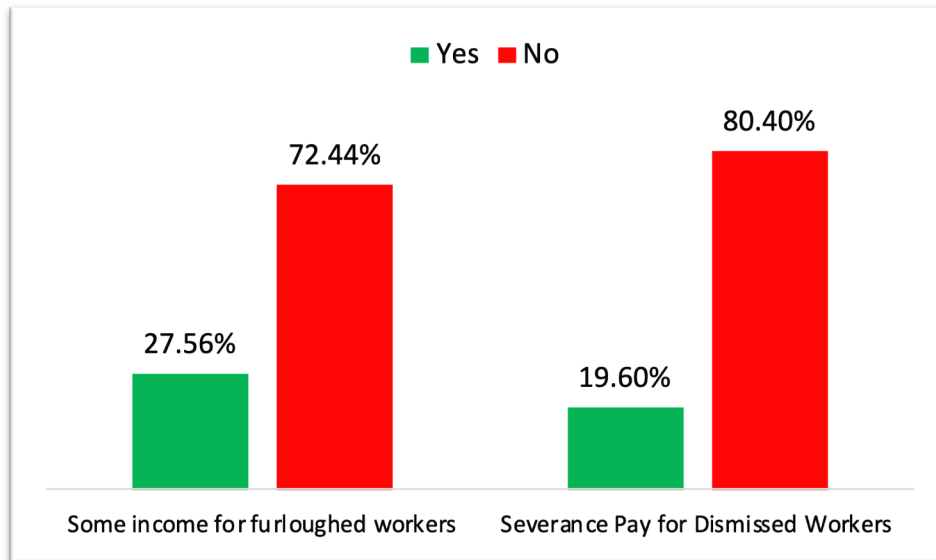


## After Cancellations, Buyers Help with Severance Costs?





# Impact on Supplier Ability to Pay Workers



1 million workers adversely affected in Bangladesh

# Impact of #payup campaign

- Of USD 40 billion in canceled orders,
- now, at least USD 22 billion paid up globally.

## Inditex, 4 More Fashion Firms Stick to Bangladesh Commitments—While Cancellations Mount

By Tara Donaldson



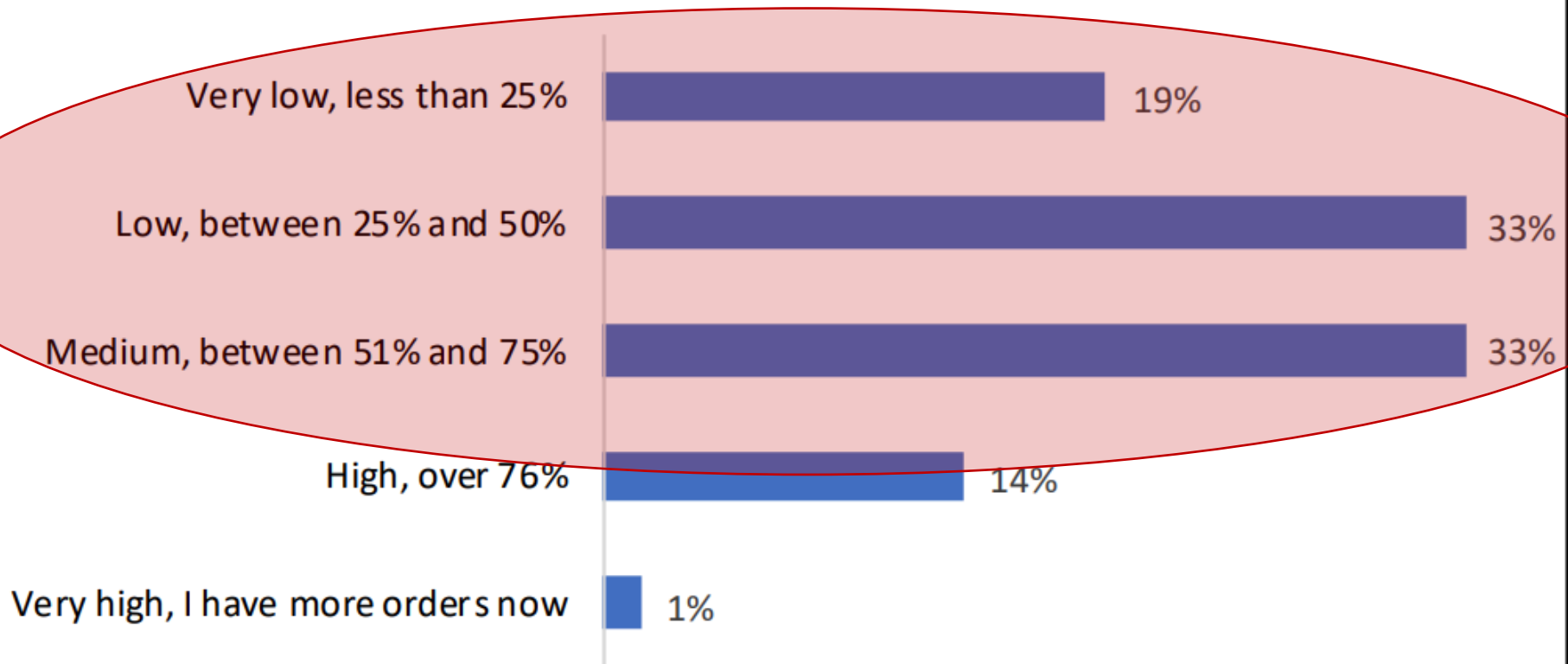
Spanish textile retail giant Inditex' Executive Chairman, Pablo Isla (C), chairs the general meeting of shareholders in the town of Arteixo, La Coruna, northwestern Spain, 16 July 2019. Inditex is the largest fashion group in the world, and owns brands such as Zara, Bershka, Massimo Dutti, Pull and Bear and others. Inditex is aiming to become globally sustainable by 2025. Inditex general meeting of shareholders, Arteixo (La Coru?), Spain - 16 Jul 2019

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## Part III:

The Current Crisis:  
Declining orders, squeeze  
on prices, uncertainty.

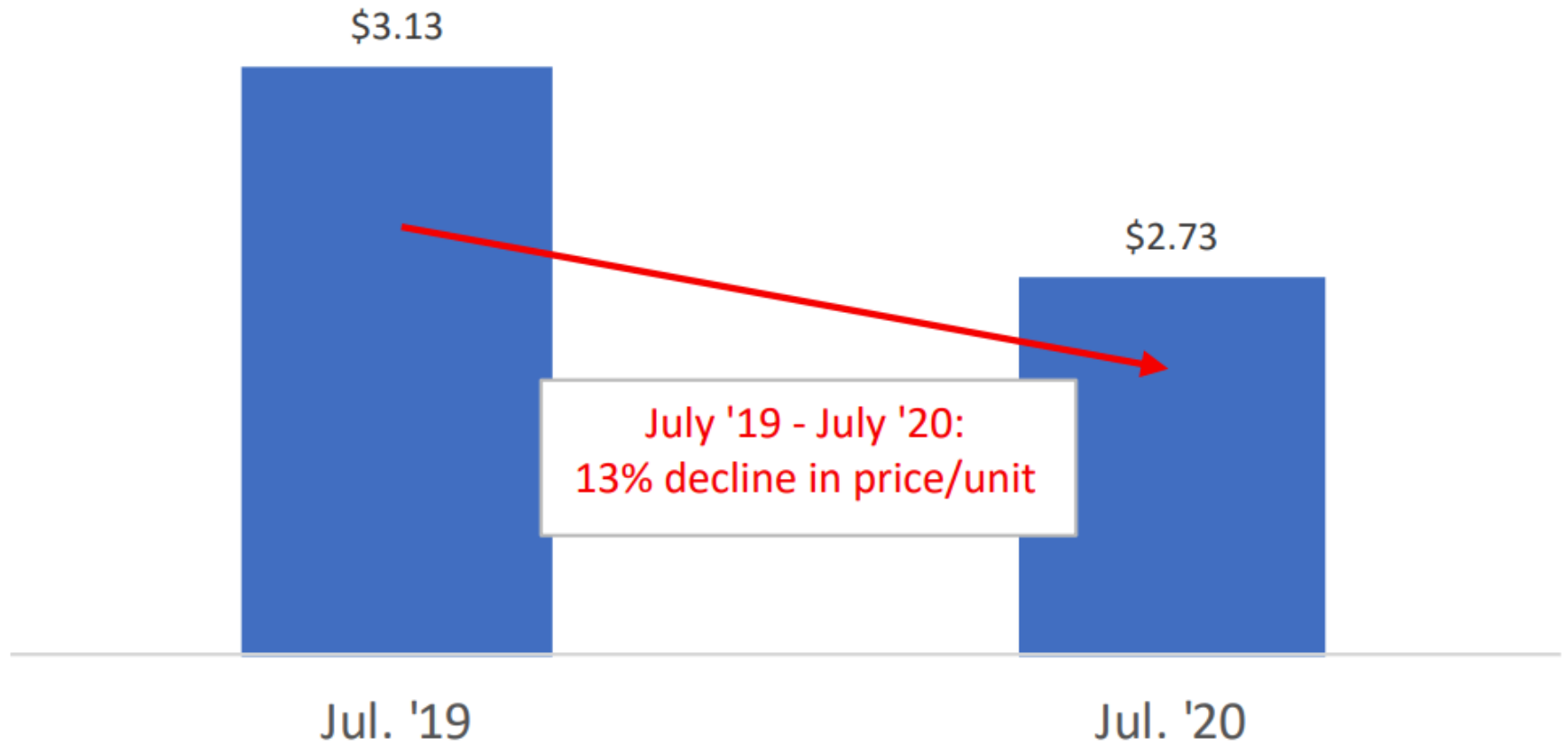
## Comparison of Order Volume (Summer 2019 to Summer 2020)



Source: Anner, Summer 2020 Supplier Survey.

**Figure 2**

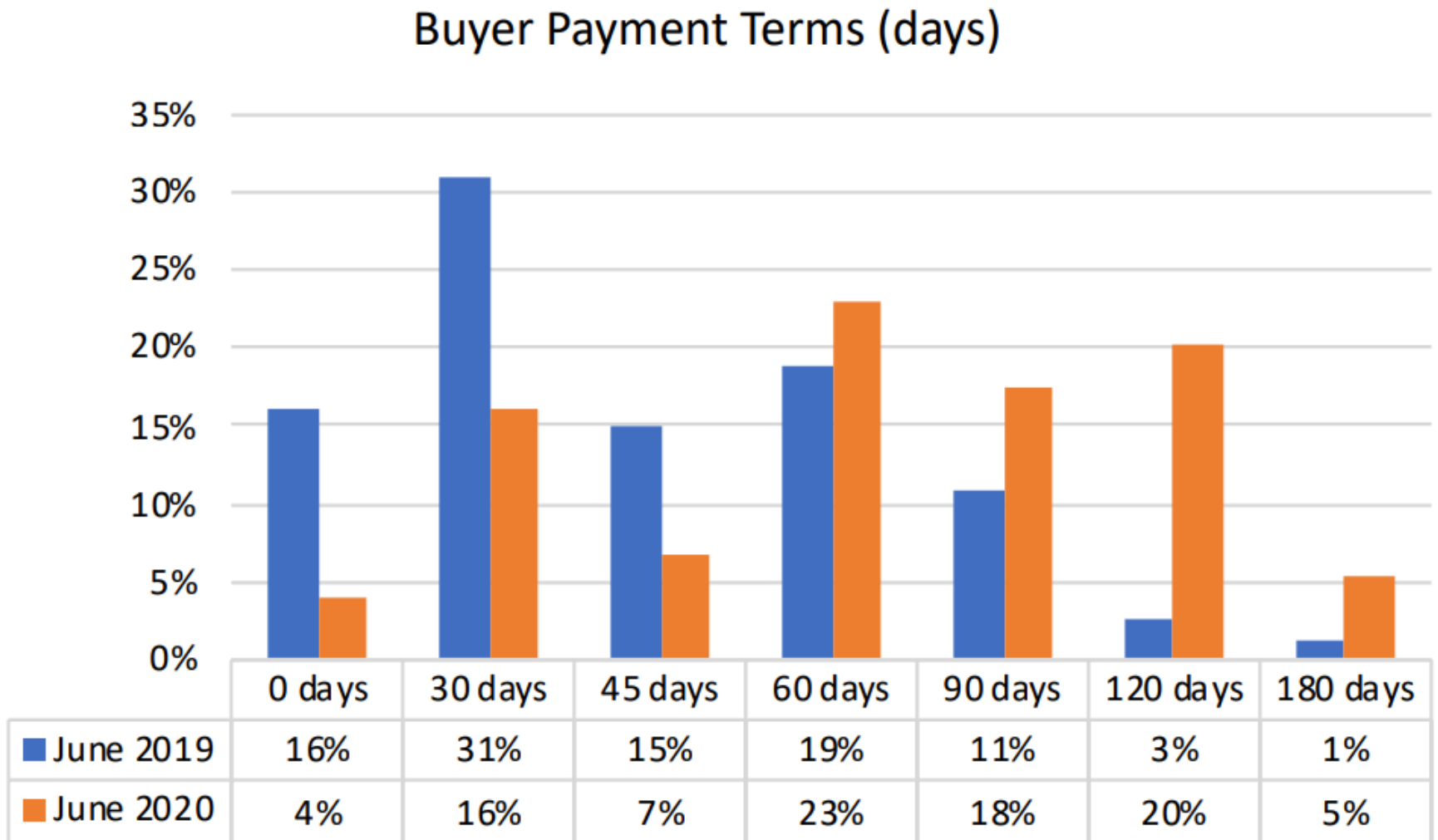
## US Apparel Imports (USD/Unit)



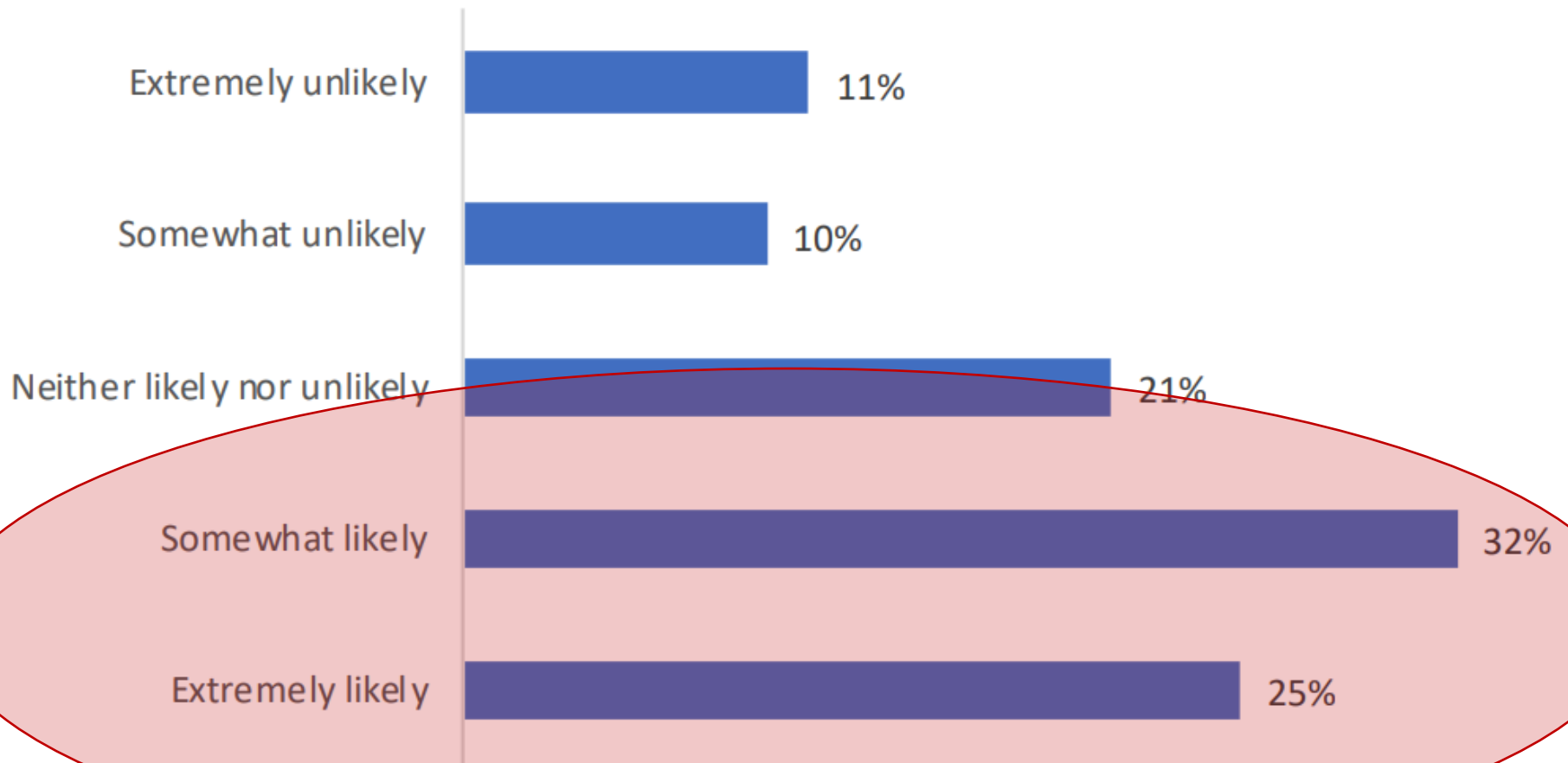
Source: Anner, calculations based on OTEXA data

**Figure 9**

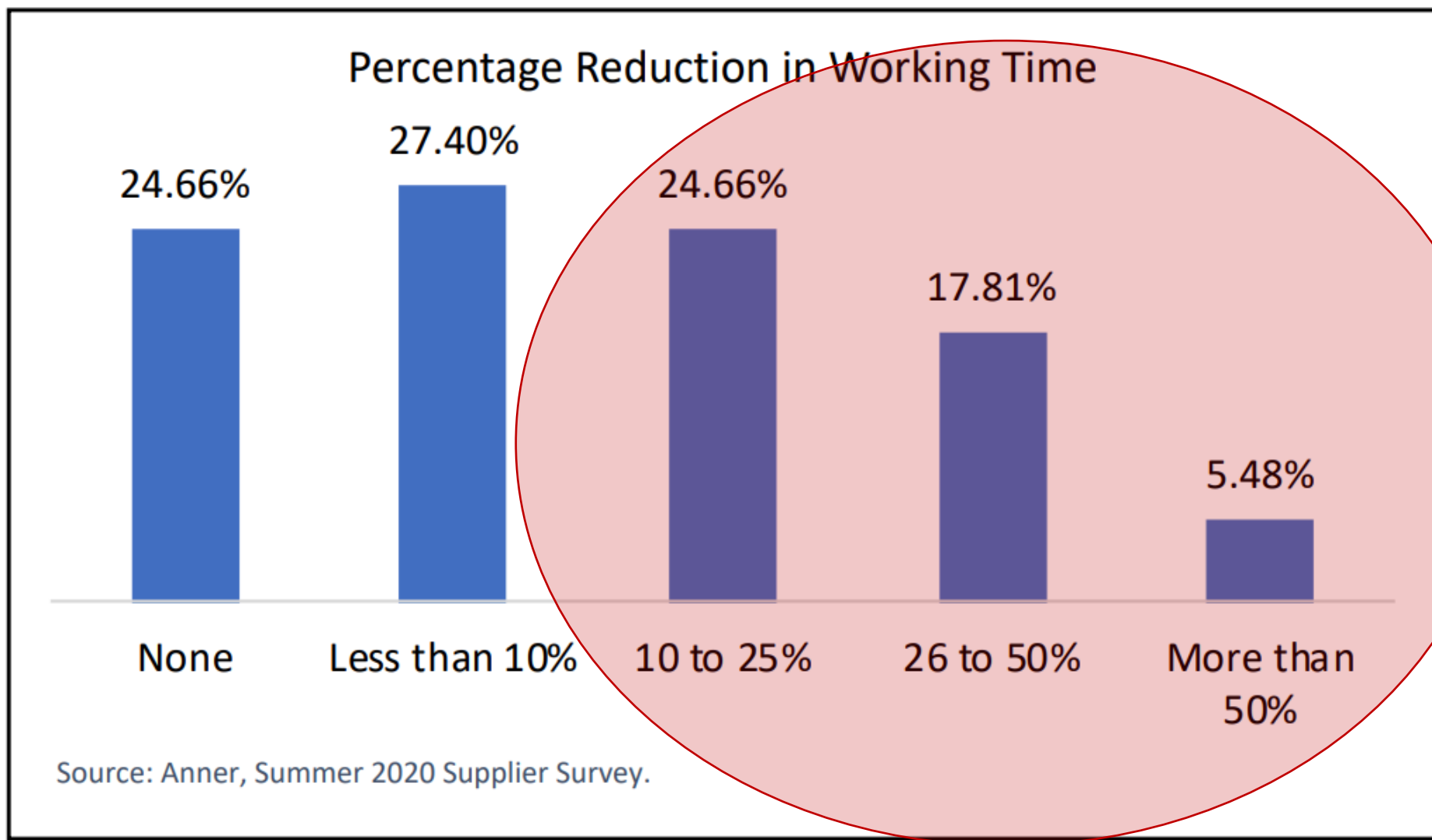
# Average payment terms: Before: 43 days. Now: 77 days.



## Likelihood of going out of business?



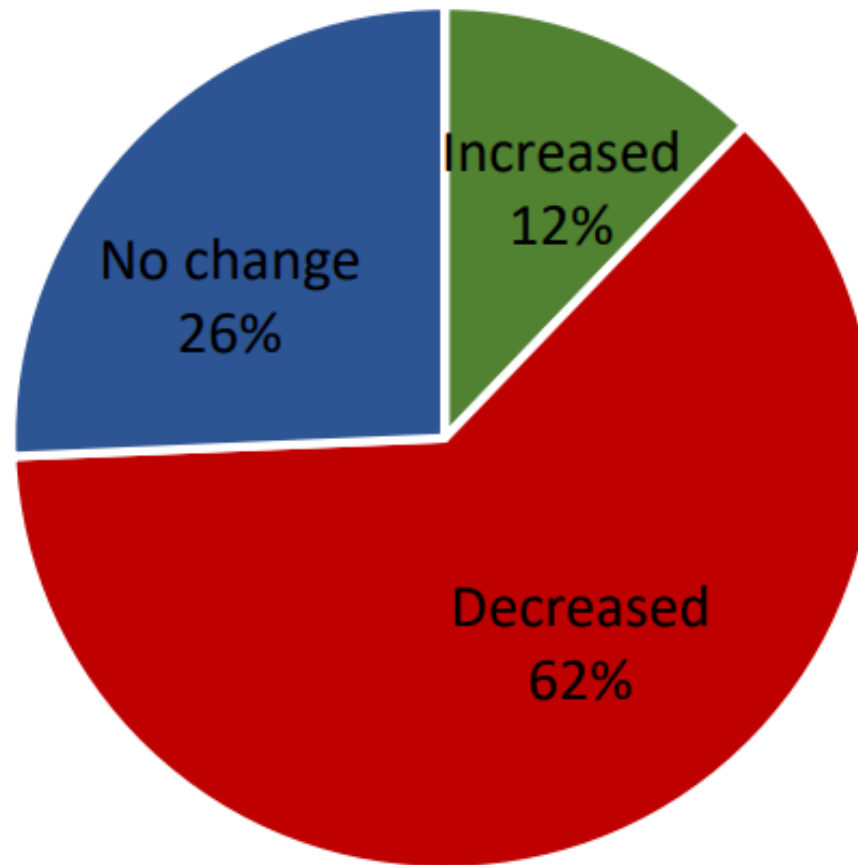
**Figure 5**



**Figure 7**



## Employment Level, Jan. 1, 2020 to June 2020



Source: Anner, Summer 2020 Supplier Survey.

**Figure 8**

Part IV:

The future of garment  
global supply chains?

# The pessimistic view of the future

- Buyers consolidate: Amazon, Walmart gain market share and control over access to the market, while others going into bankruptcy (JC Penney, Sears, etc.)
- As consumer demand stays flat, supplier competition for limited orders escalates, increasing the squeeze on price and crisis of overcapacity.
- Workers face the greatest consequences: loss of hours of work, loss of job stability (shift to temporary contracts), loss of jobs.
- State public resources remain squeezed (drop in economic activity; tax exempt/low tax export promotion) → less resources for social protection.

# View of Brand CEO on the Future

Thankfully, given a more favorable environment for input costs and excess manufacturing capacity in Asia, we are forecasting lower product costs for spring 2021. [...]

Our expectation is that product costs will be lower; we will have no plan to lower prices in the spring. [...]

We expect gross margin expansion.

-Michael Casey, CEO of Carter's

# Possible winners among suppliers

Winner, large suppliers Bangladesh & Vietnam.

- Pick up orders leaving China.
- Pick up order from SMEs that are going out of business.

Winners, push for greater speed to market.

- Nearshoring countries: Turkey for Europe.
- Latin America for the US?

Problem: Leaves many losers, especially among the 35 million garment workers (10%-35%)

# The Challenge

- In labor surplus economies --in the absence of strong, binding public governance and social governance-- the gains from economic upgrading will accrue to those at the top of garment global supply chains (e.g., brands, retailers, investors).
- What kinds of public and social governance mechanisms are needed?

# Public Governance

- Producer country public governance: labor laws & enforcement, social protection, industrial policy, tax regimes, etc.
- Consumer country public governance: bilateral trade agreements; binding due diligence laws; regulation of financial markets.
- International: multilateral trade regimes, development policies, international standards, enforcement of purchasing contracts.

# Social governance

- Trade union representation (now only 2% in some garment exporting countries).
- Industry-wide, encompassing collective bargaining (taking wages out of competition).
- International trade union coordination (addressing country level competition).
- Transnational binding agreements with labor co-governance (e.g., the Bangladesh Accord).



Thank you.