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ARTICLE

Global Monopsony, Contracting Practices and Labour Outcomes: A Study of Garment GVCs in India

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Abstract

This is a study of the contracting practices of lead firms, who are buyers of garments, in the global market. Based on a survey of garment manufacturers in three clusters in India it reveals the trend to falling margins, reduced lead times, etc. for these contracted suppliers. These contracting practices are shown to connect, often directly, with labour outcomes, such as low wages, high workloads and forced overtime, in supplier factories. Within a joint but differentiated responsibility between lead firms and garment manufacturers, it argues for the prime responsibility of lead firms to provide for adequate wages and reduce the pressure for forced overtime in supplier factories.

Keywords Contracting practices · Monopsony · Wages · Garment industry · India

JEL classification D42 · D43 · J42 · J58 · L11

1 Introduction

Monopsony is the use of power by a single or few buyers in the market for inputs (Robinson 1933). This is the other side of monopoly, which is the use of power by sellers in the market. Monopsony operates in the input market, which can include suppliers of various material inputs, and labour and even environmental services. Monopsony can also be a two-stage relationship—from lead firm buyers to supplier firms and, in turn, to their workers (Manning 2003).

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In this paper, we are concerned with a two-stage monopsony, that is garment brands or retailers with the manufacturers of the garments and market and, in turn, the manufacturers with their workers. Specifically, our research question is: what are the contracting practices of global monopsony capital of brands and retailers, in short, lead or headquarter firms in garment global value chains (GVCs), with their manufacturers? What are the impacts of these contracting practices on supplier firms, their workers and the provision of environmental services in supplier economies? We are focusing on a policy question, related to the analysis of global monopsony capitalism, to identify policies that could lead to accountability in garment GVCs.

This study of the contracting practices of monopsony capitalism was carried out in garment GVCs in India. Our findings and analysis are, however, relevant both to garment GVCs in other countries and to GVC-type manufacturing in other products with high levels of monopsony power. The hypothesis is that the monopsony power of headquarters firms is higher with a lower knowledge intensity of the GVC segment and, consequently, lower entry barriers for would be manufacturers. This would make monopsony power high in low-knowledge tasks, such as in the production of garments, shoes, or agricultural raw material; intermediate monopsony power in medium-knowledge tasks, such as electronics assembly; and low monopsony power in high-knowledge tasks, such as the production of IT (information technology) software services (Nathan 2021).

After this introduction, we set out the broad ways in which global monopsony operates. This is followed by a discussion of monopsony practices in the garment industry, including analysis of findings from the primary survey of contracting practices. These contracting practices are then linked to specific labour and environmental outcomes in garment manufacturing. This is followed by a discussion of the differentiated responsibilities of lead firms and manufacturers in the garment GVCs. The main policy implications are summarised in the concluding section.

2 Creating Zones of Monopsony

In understanding the garment, or any other value chains, we need to see that monopsony is a strategic choice of brands. This means that monopsony is created, and is not just a condition of the market. In garment, as in other value chains, monopsony is created at two levels: firstly, between brands and suppliers; and secondly, between suppliers and workers.

Brands, particularly, the major brands which have substantial monopoly power in the product market, have a choice in setting up relations with suppliers. They can set up a supply structure with many suppliers with short-term contracts, or they can set up a structure with a few dedicated suppliers. As pointed out, albeit in the context of the Unites States of America (US) automobile industry, "There is a conflict between selecting suppliers who offer the best terms at any given point (a strategy that requires a high ability to exit from current relationships) and developing vendors with improved capabilities (a strategy that requires a long-term commitment and the

development of mechanisms for technical assistance and other types of administrative coordination) (Helper 1991: 823).

Garment brands have chosen the first type of supplier relations, fostering high levels of competition among suppliers (contract manufacturers), rather than partnerships that develop capabilities. This strategic choice of brands could itself be traced back to the chosen goal of maximising shareholder value based on quarterly returns compounded by financialisation. That garment GVCs are organised to maximise competition among manufacturers is seen the major brands, such as Zara, H&M and M&S, each have about 1000 contracted suppliers. This large number of suppliers creates excess capacity among contracted suppliers, thus fostering competition among them. This offers only baseline efficiency, characterised by precarious employment scenarios, outdated production processes and poor environmental outcomes (Paul et al. 2022).

At the same time, there is also collusion among brands as they work on basically the same type of contracts with suppliers—short-term contracts leaving open exit options for the brands. Competition among contract suppliers is utilised by brands to extract as much as they can from even any investments suppliers might make to reduce costs. As discussed in detail in (Nathan et al. 2022), show that investments in technological upgrading did not lead to an increase in margins, which tend to remain in the 8 to 12 per cent range. Our analysis further showed that larger units did not benefit from higher profit margins but increased their volumes. Further, Anner (2020) showed that garment manufacturers faced a "pricing squeeze", with the average price per unit paid to manufacturers decreasing over the last decade.

It has been argued by Ashok Kumar (2020) that large suppliers can change the balance of power between brands and suppliers in favour of the latter. To this, we would add that this seems to work when the large suppliers develop a hard-to-replicate knowledge and scope, such as with Arvind Fashions in the case of denim manufacture.

Another possible way to somewhat change the balance of brand-manufacturer power is by suppliers combining, through their associational power. This was seen in Bangladesh (Kumar 2020) during the Covid-induced recession, when this associational power resulted in dues being paid by brands that did not do the same in India, where manufacturers are not so organised.

Similar to brands promoting excess manufacturing capacity, manufacturers also build workforces with surplus labour for periods when there are larger orders. The volatility of these larger orders promotes such excess workforces, often in informal workshops or as homeworkers. In addition to this, manufacturers deliberately employ workers who have weaker bargaining positions both socially and politically. For instance, migrant workers, including those who do not know the local language, are preferred as they are weaker, socially. Women again are preferred as weaker and generally less organised and have both social and political vulnerability. They also prefer lesser-educated workers. All of the above factors, migration status, gender and education, create a workforce with weak bargaining power. In addition, there is the blatant tied workforce of young women housed in dormitories, subject to strict control and forced to work whenever required.

Before proceeding, we would reiterate the point that creating a supply system with many suppliers and uncertain, short-term orders is a strategic choice of brands. There are a few counter-examples to show that there is a strategic choice. Amengual and Greg (2019) point out that GAP has given orders for five years. Kuruvilla, Li and Jackson give the example of Patagonia, which has both reduced the number of suppliers and given them commitments for orders for 3 years (Kuruvilla et al. 2021: 202). Then there are examples of brands, usually medium or small-sized, working with the Fair Wear Foundation who have contracted orders on a living wage basis (FairWear 2014). Orders for a longer period would enable manufacturers to plan technological upgrades; while labour costs on the basis of living wages with tenurial security would benefit workers well-being and firm-level investment in building their capabilities.

3 Relations between Headquarter and Manufacturing Firms

The brand-supplier relation is between different independent firms, brands and suppliers. Firstly, it is a relation of contracted production, quite different from arms-length purchase in the market. Secondly, the production is carried out on technical specifications provided by the brand. Thirdly, the product cannot be sold by the manufacturer on the market. All of this makes the relation between brand and supplier one of contracted production, rather than just a buyer–seller relation as in arms-length purchase. Consequently, the brand-supplier is not one of buying practices but of contracted manufacturing. In a sense, the manufacturers are outsourced manufacturing departments of the brands, with the qualifications that the manufacturers are legally independent firms, not branches, and that they often manufacture for more than one brand.

Thus, we use the term '*contract manufacturing practices*' in place of the commonly used buying practices. This is not the only usage of the term contract or contracted manufacturing for production in GVCs. In the electronics industry, for instance, the term contract manufacturers are used for what would be called suppliers in the garment industry (Raj-Reichert 2018).

In terms of Indian labour law,[1] the term contract labour applies to work that is done on-site for the principal employer or brand, while it does not apply for work that is performed off-site. Our argument would be that Indian contract labour law needs to be extended to include manufacturing or related services performed off-site. This would mean that the principal employer, or brand in the case of garment industry, for whom the manufacturing is being carried out should also be held for responsible for employment and work conditions as is the case with tasks carried out on-site. This does not imply that the employment conditions, such as wages,

[1] Specifically Contract Labour (Regulation & Abolition) Act, 1970 defines contract labour *"as a workman shall be deemed to be employed as "contract labour" in or in connection with the work-of:-an establishment when he is hired in or in connection with such work by or through a contractor, with or without the knowledge of the principal employer."*.

would be same on-site in the brands' own offices and off-site in the manufacturing sites. Rather, that the same human rights principles of, say, living wages should hold in both on-site and off-site locations.

4 Contracting Practices in the Garment Industry

The base of monopsony power is an inelastic supply of labour and other inputs in relation to price changes. This is analogous to the condition for monopoly power being an inelastic demand in relation to price. If maintaining higher prices is a mark of the business practice of monopolies, what are the business practices of monopsonies?

We will have to find similar business practices that restrict supplier firms' rights in GVCs and workers' rights in these supplier firms as markers of monopsony. A study by the ILO (Vaughan-Whitehead & Caro 2017) of purchasing, or more appropriately, contracting practices in global supply chains,[2] tells us something of how monopsonies utilise their power in dealings with suppliers. The study covered 1454 suppliers from 87 countries in most manufacturing industries, including garments, food, chemicals, and metals. It covered five areas of contracting practices between brands and suppliers: contract clauses, technical specifications, order placement (and lead times), prices and market power, and requests for social standards.

As would be expected, many suppliers depended on a very limited number of brands. 54 per cent depended on one brand for at least 35 per cent of their production, which Vaughan-Whitehead and Caro define as high dependency risk. Interestingly, 54 per cent of suppliers with a high dependency risk were from countries with low Human Development Index (HDI), while just 20 per cent of suppliers from countries with a high HDI faced dependency risk.

More than four-fifth (81%) of the suppliers reported to have sold their products below cost of production and among those a large majority has been forced to do so by the brands or their agents. There is pressure from competition in the supply market, but brands clearly use that competition to force down prices, even below the cost of production.

In addition to contracting below costs, 75 per cent of brands refused to adjust prices for increases in the legal minimum wage. In Bangladesh, this went up to 83 per cent of brands refusing to adjust prices for legal minimum wage increases. As the authors point out, this contracting position of most brands went counter to their public statements asking for an increase in national minimum wages in Bangladesh and Cambodia (ibid).

A feature of contracts over time is mandated reductions in lead times. Only 17 per cent of suppliers thought that their orders had sufficient lead times. Unwritten contracts are a way for a brand to insist on interpretations that are favourable to itself. There were some forms of unwritten contracts in 35 per cent of suppliers; the incidence was higher in Bangladesh (38%) and South Africa (46%) and lower in China

[2] The ILO prefers to use the term global supply chains in place of global value chains.

Table 1 Distribution of firms by size across the clusters

Firm Size	Bangalore (%)	NCR (%)	Tiruppur (%)	Total (%)
Micro	0	0	14	4
Small	30	10	29	22
Medium	20	50	14	30
Large	50	40	43	44

Source: Primary Data $n=27$

(25%) and India (23%). Only 45 per cent of contracts specify who would be responsible for costs incurred when there are changes in order specifications. In this, small suppliers with weaker bargaining positions did worse than large suppliers. The large suppliers with more than 1000 workers had clauses with brand responsibility for changing orders. There have been instances of brands changing the colour scheme in garment orders with medium to small suppliers—and refusing to bear the extra costs, even where suppliers had already purchased the fabric (interviews with Indian suppliers in 2018–19).

Many of the contracting practices of brands had consequences for workers. Suppliers who are "bullied by brands" (Vaughan-Whitehead & Caro 2017: 21) to sell below costs, pay 11 per cent lower wages. Wages were 20 per cent higher for buyers with diversified brand portfolios rather than single buyers. A brand's dominant position is associated with a 23 per cent increase in temporary workers. Imposing prices below production costs also results in a 20 per cent increase in temporary workers. The authors conclude that their study "highlights the fact that the relationship between brands and their suppliers helps to explain wages and working conditions at the end of the supply chains in terms of the high number of working hours, stressful work rhythms and also low wages" (Vaughan-Whitehead & Caro 2017 p. 21).

We see above that brands utilise their monopsony positions to impose various kinds of what are often described as "unfair business practices" or "unfair contracting practices". These range from forcing suppliers to contract below cost, not paying for cost increases due to changes in contract specifications or due to increases in the legal wage suppliers must pay workers. These "unfair contracting practices" depend on the power of brands. They can be labelled the business practices of monopsonies, with the frequency and intensity of their occurrence varying with the extent of monopsony power of the brands.

5 Features of Contract Manufacturing Practices in India

In order to understand the current scenario with regard to contract manufacturing practices in the export garment industry in India, CIVIDEP conducted a survey of these practices. Data on these practices were collected through an individually administered questionnaire survey with owners or senior executives with 27 manufacturers, distributed among the three clusters of Bangalore (10 interviews), Tiruppur (7 interviews) and the National Capital Region (10 interviews). Using the

Table 2 Type of product by clusters (Multiple choice)

Type of Product	Bangalore (%)	NCR (%)	Tiruppur (%)	Total (%)
Basic	90	10	86	59
Fashion Basic	80	50	100	74
Fashion	40	100	14	56

Source: Primary Data $n = 27$

standard official definitions of firm size,[3] the distribution of firms interviewed by size in the different clusters is given in Table 1. Of the firms interviewed 44 per cent were large, which is quite likely higher than in the industry. On the premise that larger manufacturers are likely to have more bargaining power than medium or small units, we can say that our results are quite likely more positive than in the industry as a whole. We can be confident that our study does not overstate the incidence of negative practices.

The firms were classified by the knowledge intensity of the type of products they manufactured (a) basics (e.g., T-shirts) of low-knowledge intensity, (b) fashion basics (e.g., ladies' tops) of intermediate knowledge intensity, and (c) fashion garments (e.g., major garment brands) of high-knowledge intensity. From Table 2, we can observe that the NCR cluster has a sample involved in manufacturing fashion garments, while Tiruppur is mainly in the basic and fashion garments, and Bangalore falls in between the two, with more fashion and specialised fabric garments than Tiruppur but less than the NCR. This being the nature of the sample, is also a feature of the industry, where Tiruppur is a hub which produces predominantly t-shirts, Bangalore is more into shirts, trousers which are mid-value garments and Delhi NCR is dominantly involved in garments with embellishments, designs or specific fabrics.

The classification of data by size of firm and knowledge intensity or complexity of product allows us to discuss whether these two factors, size and complexity of product, could work as countervailing factors in offsetting the monopsony power of brands. We will take up this discussion after setting out the broad contours of contract manufacturing practices as revealed by our sample study.

6 Setting and Modifying Prices

Pricing is obviously a key part of contracting manufacturing. In setting prices, garment suppliers are asked to submit not a lump-sum price but to breakdown prices by costs of various inputs, called open costing. Here suppliers are required to submit detailed cost breakdowns. As a supplier had earlier remarked to one of us a few

[3] Ministry of Micro, Small & Medium Enterprises. (n.d.). *Know about MSME*. Retrieved December 1, 2024, from https://msme.gov.in/know-about-msme.

years ago, they found this cost breakdown very invasive and he characterised it as, "The brands want to get into your bedroom." Almost three-fourths (70%) of firms in the sample reported having to submit detailed and open costing (Table 8.1 in the Appendix).

7 Cost Changes after Contracting

Once contracts have been signed, do brands take account of cost changes that might take place even while production is going on? For instance, legal minimum wages might increase during the period of a contract, do brands then account for that or make changes for that? All suppliers told us that brands do not adjust for any increase in legal minimum wages, which suppliers have to comply with (Table 8.4 in the Appendix). Nor do they adjust prices for any inflation which could increase input prices (Table 8.5 in the Appendix). However, suppliers are expected to secure a contracted supply of inputs, which would be done at fixed prices right after securing the order. So, inflation in input prices is not something for which adjustment would be expected. It has to be emphasised that an increase in the minimum wages which suppliers have to legally comply with, is something for which brands do not make any price adjustment.

What about changes in product specifications, such as the colour schemes? Such changes in product specifications would have an impact on production costs since materials would have been contracted and those contracts would need to be renegotiated. But, even in this situation, which is surely the making of brands ordering practices, 70% of suppliers said that brands do not make an adjustment in supply contract prices (Table 8.6 in the Appendix). Thus, for 70% of suppliers, a cost increase due to changes in brand orders is pushed onto suppliers by the brands.

On the other hand, some brands were quick to reduce dollar prices when the Indian rupee devalued. Almost one-fourth (22%) of suppliers said that brands reduced prices when the Indian rupee devalued (Table 8.7 in the Appendix). We remember a discussion with the then President of the Tiruppur Exporters' Association (TEA). He pointed out that despite instructions from the TEA some suppliers succumbed to brands' demands to reduce dollar prices on devaluation. This reflects the weakness of suppliers who must rely on these brands to remain in business.

All suppliers said that brands do not reduce prices when the suppliers on their own reduce costs of production (Table 8.8 in the Appendix). Of course, this would not occur within a contract period. But with open costing the reduction in costs would surely enter the open costing requirements in the next round of contract discussions. Brands, with their local offices, are quite aware of technological and process changes made by suppliers and can use this knowledge to check on open costing quotations.

In discussions regarding contracts, 81 per cent of suppliers said that they faced what can only be called underhand tactics by brands (Table 10.3 in the Appendix), that is asking quotations based on a large order and then reducing the actual order. Expecting that a large order would increase the overall profit volume, the supplier

would quote a price possibly with a smaller margin. Then, they would be informed that the order would be much smaller. Obviously, the supplier was trapped with a lower price than what would have been quoted for a smaller order.

8 Impact of Contracting Practices on Production Processes

Unlike in the ILO study (Vaughan-Whitehead & Caro 2017), there were no reports of working without contracts (Table 5.5 in the Appendix). 74 per cent of firms interviewed were preferred suppliers. Preferred suppliers can expect to get repeat orders. All preferred suppliers basically get orders for a season (Table 5.3 in the Appendix); though 37 per cent did also get just batch orders. But, all said that being preferred suppliers did help them to invest in increasing productivity.

Lead times have generally been falling with the adoption of 'fast fashion' methods of rapidly changing styles. Overall, average lead times have fallen from 112 days five years ago to 79 days now, a decrease of 33 days, or 30 per cent, in lead times (Table 5.4 in the Appendix). There were penalties for being late, as revealed by almost all (96%) of suppliers (Table 6.1 in the Appendix). However, 38 per cent of firms also held that quality checks were not fair (Table 5.4 in the Appendix).

A feature of monopsony practices is that the buyers do not support suppliers in building technological capabilities. All the firms in our sample said that brands did not provide any support in investing in or developing technologies for production (Table 5.7 in the Appendix). This was left entirely to suppliers. On top of that, brands did not contribute to waste disposal mechanisms (Table 5.8 in the Appendix). This refusal to accept any responsibility for environmental sustainability is part of the strategy of reducing supply prices by externalising environmental costs on supplier economies.

9 Impact of Contracting Practices on Employment Outcomes

Wages were generally (74% of firms interviewed) set at minimum wages in the contracts (Table 6.2 in the Appendix) though some 24 per cent said that they paid more than minimum wages. This was in the form of incentive payments or higher wages for skilled workers. But this was something the suppliers did on their own. At the same time, we know that wage costs are calculated based on a 10-h working day, and not the usual 8-h working day.

Along with this, almost all (96%) firms said that they paid overtime wages at twice the usual wage rate (Table 8.3 in the Appendix). However, from studies of workers, we know that required quotas often require working more than 8 h. This means that what is regarded as overtime is time after the day's quota has been completed. They all also said that they paid equal wages to men and women. But the way gender inequality operates is through unequal categorisation, with women tailors, for instance, being categorised as semi-skilled workers, while more men are categorised as skilled workers.

Table 3 Chi-square analysis of contracting practices and size of firms

Contracting Practices	P Value
Open costing	0.637
Costing based on minimum wages	0.326
Take advantage of devaluation	0.756
Sell below the cost of production	0.076
Adjust the costs for changing product specifications	0.362
Changes in order size	0.852
Technology sharing for waste management, etc.	NA
Adjust for increases in minimum wages	NA
Adjust the cost for inflation	NA
Brands contribute financially to environmental measures,	NA

Source: Primary Data, $n = 27$

Table 4 Chi-square analysis of contracting practices and type of the product

Contracting practices	Sig.
Open costing	.430
Costing based on minimum wages	.639
Take advantage of the devaluation	.063
Sell below the cost of production	.859
Adjust the costs for changing product specifications	.057
Changes in order size	.895
Technology sharing for waste management	NA
Adjust for increases in minimum wages	NA
Adjust the cost for inflation	NA
Brands contribute financially to environmental measures,	NA

Source: Primary Data, $n = 27$

Contracting practices, including short lead times and uncertain orders, could have impacts on suppliers' employment practices. Only 15 per cent of suppliers said that permanent workers were more than 50 per cent of their workforce; while as many as 52 per cent acknowledged that permanent workers were less than 10 per cent of their workforce (Table 7.1 in the Appendix).

When there were sudden surges of orders, which can often happen with fast fashion, 63 per cent of suppliers said that they increased the share of contract workers and 67 per cent said that they increased overtime work (Tables 7.2 and 7.3 in the Appendix). Worse, 78 per cent said that they increased the quotas workers had to fulfil on a normal working day. None, however, said that they sub-contracted work (Table 7.4 in the Appendix).

Table 5 Gross profit margins (%)—Headquarter (Europe and USA) and supplier (India) firms

Name of the Corporation	Profit Margin
Europe	
Zara/Inditex	60.1
H&M	52.8
Adidas	50.2
L&V	68.9 (2022)
C&A	48.13 (2022)
USA	
Ralph Lauren	66.7
Levi's	58.3
India–Garment Manufacturers	
50 Garment Manufacturers	10–12 (2016–17)

Source: Headquarter firms from various websites. India manufacturer's data from Nathan et al. (2022)

10 Countervailing Power?

We started with the hypothesis that the firm's size and product complexity could both serve as a form of countervailing power. We carried out a statistical analysis to assess whether contracting practices are different with (a) size of suppliers; and (b) complexity of product type (Tables 3, 4, 5).

The above Chi-square analysis of the selected contracting practices across the size of the firms, which are classified into Large Enterprises and Micro, Small and Medium Enterprises (MSMEs),[4] will let us see whether there is a significant difference between the contracting that these two groups of firms face. Do large firms get a better deal? We have not used all the contracting practices we covered in the questionnaire survey, but we chose 10 of those practices. The statistical test tells us that there are no significant differences between Large firms and MSMEs among the above-listed contracting practices. Further, the last four contracting practices have only one response across all the firms in the survey, meaning that there is absolutely no variation in practices based on the size of the manufacturer or the complexity of the product, for that matter.

The same analysis was carried out for the selected contracting practices across types of garment products classified into fashion and basics. Two practices, taking advantage of devaluation to seek a reduction in dollar prices and adjusting for costs on changing product specifications—in these two practices the difference between fashion and basics is almost significant and would be so if we had chosen the 0.10 criterion, rather than the 0.05 criterion more appropriate for a small sample size.

Our conclusion from this analysis is that while the complexity of the product could make some difference in contract manufacturing practices, mere size does not

[4] Ministry of Micro, Small & Medium Enterprises. (n.d.). *Know about MSME*. Retrieved December 1, 2024, from https://msme.gov.in/know-about-msme

seem to make that possible. Besides, on matters like adjusting for changes in legal minimum wages, sharing technology, adjusting for inflation, or contributing to environmental measures, there is no difference in either the complexity of the product or the size of the supplier. As another analysis has shown (Nathan et al. 2022), what has served as a countervailing power that could modify monopsony contracting practices is the possession of what is called choke point technologies, as in the case of some components in automobile manufacture.

11 Collusion between Headquarter Firms?

The firm survey revealed a new development. Some brands are asking suppliers' prices to be landed cost, as against the earlier method of FOB (free on board). Landed cost adds any duties and border fees and charges to the cost suppliers must bear. The firms mentioning the change in the method of costs said that their margins have gone down as a result of this change and that they now get barely enough to survive.

The change in contracting terms from FOB to landed cost raises the important question of collusion between lead firms. A number of the lead firms are said to have instituted this change in contract terms. Is it just a matter of some firm initiating the change and then others following the practice? Or, is there collusion between lead firms in instituting this change?

One of the usual methods of collabouration between monopsonist firms is that of agreements such as "no-poaching" agreements. Such collusive agreements have been mentioned among firms in the US (White House 2021) and also among media or IT service firms in India. These collusive agreements are with regard to workers or employees. Here we are dealing with possible collusion on contract conditions between lead firms and their contracted suppliers. It is likely that there are no actual collusive agreements on contract terms. But the lead firms in an industry or product tend to share the same sets of consultants. These consultants could carry the message about new contracting practices across lead firms, even from one continent to another. The end result would be similar stances being taken up by all or most lead firms.

Take the case of brands and retailers virtually identical responses to the recession brought about by the COVID-19 pandemic. The high incidence of refusal to pay for what had already been delivered, and for materials that had been purchased on firm orders, and so on does point to collusive action by lead firms (AFWA 2020). These practices are illegal even in *force majeure*[5] conditions, which do not apply to materials already supplied.

[5] Encyclopaedia Britannica. (n.d.). *Force majeure*. In *Britannica*. Retrieved December 1, 2024, from https://www.britannica.com/topic/force-majeure

The decision-making role of lead firms for their actions is borne out by the fact that some of them in fact did not act like the others. It is not as though there is just one response to a change in market conditions. Our supplier respondents told us that there are noticeable differences between European and US lead firms, with the latter (with the notable exception of Target) not building longer-term relationships with suppliers. The Japanese firms are said to build even longer-term relationships with suppliers than European firms. The Japanese clothing giant Uniqlo, for instance, has fewer than 400 suppliers compared to the more than 1000 suppliers for Zara, H&M or M&S.

The varieties of capitalism literature (e.g., Hall & Soskice 2015) points to national differences between strategies as between the Scandinavian, other European and Anglo-Saxon economies. However, we observed a uniformity of contract-violating responses of brands and retailers to the Covid-pandemic-induced recession and the ongoing switch from FOB to landed cost. This calls for an investigation into the nature of collusive practices of headquarters firms in the global garment industry despite differences in national level strategies.

12 Contracting Practices and Labour and Environmental Outcomes

One obvious impact of contracting practices is that the basis of the calculation of wage costs in the contract sets a limit to the wages that manufacturers can pay. Further, when contracting practices subsequently squeeze manufacturing profits through uncompensated increases in fixed costs, manufacturers often respond by cutting variable costs, meaning cutting wages. Yet again, sudden surges in order volumes, a feature of the 'Fast Fashion' model popularised by Zara and H&M, among others, can result in forced overtime to fulfil orders (Le 2023). Similarly, non-inclusion of the costs of environmental services leads to a deterioration in their quality and also to adverse external effects on other uses of the services.

Besides responsibility for labour outcomes, it is also necessary to apportion responsibility for environmental outcomes. As the global economy moves towards combining labour and environmental issues in production, the mitigation target for production systems is clearly set at Net Zero. To this, we should add the net zero use of environmental services, such as clean water. This would involve the installation of effluent treatment plants for wastes discharged from the use of dyes and other inorganic chemicals and waste management from production processes.

Some 70% of greenhouse gas (GHG) emissions in the garment sector occur in the manufacturing segment (Peters et al. 2021). Further, setting up Net Zero garment manufacture would be accounted for in the GHG accounts of the consuming countries as contributions to these countries' commitments to move to Net Zero economies (Maubach 2023). Therefore, there is a clear case for requiring importing countries of the Global North to contribute to the costs of Net Zero garment manufacture in the Global South in the proportion in which they import these products.

13 Differentiated Responsibility

The final labour and environmental outcomes are the joint result of the strategies of lead and supplier firms. But this does not mean that both sets of actors have equal responsibility for the outcomes. Rather, within common responsibility, there can also be a differentiation of responsibilities. How can the responsibilities be apportioned between firms in a GVC? This question is analogous to the discussion in the climate change domain on common but differentiated responsibilities between the historically high GHG emitters of the Global North and current growing emitters of the Global South. We will now try to suggest some ways in which differentiated responsibility for labour and environmental outcomes in the manufacturing segment of GVCs can be dealt with.

14 Responsibilities of the Lead Firms

The first principle that could be used for apportioning differentiated responsibilities is that the firm that has the power to influence the process of producing labour and environmental outcomes should have a greater degree of responsibility (Young 2004: 381). The very term; lead firms, as usually used in GVC analysis to refer to brands and retailers points to the critical role of brands and retailers in setting the contours of the contracting relationship. Using monopsony power, the lead firms set not just technical requirements but also, as we saw above, price and supply conditions that the manufacturers have to accept or face the pain of losing business. These contracting conditions, in turn, impact on labour and employment conditions in the supplier segments of the value chains.

If we agree that brands and retailers have the power to influence the processes that produce labour and environmental outcomes, the next step would be to decide the basis of apportioning the costs and responsibilities of mitigation. Simple methods of apportioning costs would be based on relative profits, or relative shares of income from the GVC. The latter is often used to portray inequality in GVCs. However, the shares of income from GVCs say nothing about how much firms in different segments benefit from the GVC. Compared to GVC income shares, relative profit rates are easily accessible data. Below, we give gross profit margins for garment brands and retailers from the US and Europe, as well as garment manufacturers in India. The profit rates are in the ratio of 5 or 6 to 1, which would mean that at least 85% of mitigation costs should be borne by brands and retailers.

Overall, however, the analysis of monopsony in garment value chains argues that the benefits of lower labour and environmental costs are captured not by manufacturers but by the lead firms. The monopsonist buyers are able to utilise competition among suppliers to secure most, if not all of the benefits of lower costs. If this is so, brands and retailers should bear the entire cost of mitigation. In any case, the point of this analysis is that there should be a discussion of the methods of apportioning the costs of cleaning up global garment value chains. We would like to introduce this issue into the discussion of garment and other global value chains.

15 Responsibilities of Contract Manufacturers

We have argued that headquarter or lead firms have a responsibility to meet the costs of mitigating labour and environmental outcomes. Costing on the basis of living wages and not national minimum wages requires lead firms to finance the necessary increase in supplier prices. Net Zero manufacturing also requires lead firms or their countries to fund the necessary investments for such climate-friendly manufacturing. But there are other labour outcomes that do not require a change in supplier prices to be carried out. There will of course be costs involved in bringing about the changes. But more than costs, what is involved are labour and employment policy changes by the manufacturers. And studies show that productivity is higher in firms that institute these policies than in those that do not (ILO 2015).

For instance, one of the firm-level policies required is to end the methods of supervision through gender-based verbal, physical and sexual abuse. It has been pointed out above, that the high levels of worker output required under fast fashion do promote such abusive methods of shop-floor supervision. While arguing for an end to fast fashion and uncertain orders, it cannot be said that suppliers can do nothing in this matter. And studies under the ILO Decent Work programme in supplier factories in a number of countries (e.g., Cambodia, Vietnam, Honduras) show that factories without such gender-based abusive supervision methods fare better in productivity than factories with these abusive supervision methods (Lin et al. 2014).

Similarly, suppliers with higher proportions of workers with security of employment do better than suppliers with lower proportions of such workers in both in productivity and in adopting cost-reducing technologies. This relationship between security of employment and the adoption of cost-reducing technologies was seen in a study of 50 supplier factories in Nathan et al. (2022) and in survey data of India's Annual Survey of Industries (ASI) reported in the same book. Suppliers' adoption of such labour- and gender-positive policies will certainly be helped by commitments of brands and retailers to longer-term contracts, say, for 3 years rather than just a season. However, it cannot be held that suppliers can make the employment policy changes only after lead firms have changed their contracting strategy to providing longer-term contracts.

To summarise, the manner in which common but differentiated responsibility can be applied in garment value chains:

1. Major reforms in the pricing of inputs, for example living wages for labour, require lead firms of brands and retailers to adopt and finance living wages as the basis of labour cost calculations.
2. Similarly, the major recosting of environmental services, such as replacement cost for clean water, and effluent treatment plants for Net Zero manufacturing, should be financed by lead firms and the countries that consume the products of garment GVCs in the same proportion as they consume these products.
3. Labour and gender outcomes, such as higher security of employment and the elimination of abusive supervision methods, should be initiated by suppliers.

Since these improvements in labour outcomes are known to have cost-reducing impacts, they can be financed by suppliers through bank loans or other available financial services.

4. Such improvements in labour and gender outcomes should be supported by lead firms through increases in lead times. Longer-term order commitments by brands and retailers would also support such positive moves in labour and gender outcomes.

16 Conclusions

That headquarters firms in the Global North are responsible for labour conditions in their manufacturing firms in the Global South first came up during the Students Against Sweatshops movement in US campuses after the revelation of forced labour and other sweatshop conditions in firms in the Global South that manufactured shoes for Nike. The philosopher Iris Young (2004) formulated a theory of global responsibility for labour conditions in what we are designating as contract manufacturers in the Global South.

An Oxfam report (2006) argued that sourcing and contracting practices are one of the root causes of poor labour standards. Later, Human Rights Watch published a report on "How apparel brands purchasing practices drive labour abuses" (2019). The ILO surveyed about 3000 suppliers across a number of industries and concluded that the purchasing practices of brands and retailers impacted working conditions (Vaughtan-Whithead & Caro 2017). Allain et al. (2013) argued that child labour and forced labour must be understood as part of the business strategies of headquarter firms (2013). More recent analysis (Kumar 2020, Nathan 2021, Nathan et al. 2022) has argued that the buying practices of lead firms are a manifestation of their monopsonistic positions in the market for inputs, including final goods such as garments.

Taking this analysis forward, this paper has both an analytical and a related policy content. We have seen that the contracting practices of global monopsony capital are manifest in: wages at the level of national minimum wages rather than living wages, using open costing to foster competition among suppliers, reducing lead times with the reigning business strategy of fast fashion, non-recognition of the costs of environmental services involved in production, refusing to compensate for increases in national minimum wages, often forcing suppliers to sell below the monetary costs of production, refusing to compensate for increases in costs due to changes in product design after raw materials have been procured, asking for quotations on a large volume and then reducing the volume.

These contracting practices have substantial impacts on both workers and the environment in supplier countries. They are risk factors for labour and human rights violations, as well as indictors of irresponsible environmental practices. The need to change contracting practices can be included within human rights due diligence frameworks.

Changes in contracting practices could make a substantial difference in mitigating labour and environmental outcomes in garment value chains. Some of them are: adopting living wages as the basis for calculation of labour costs, increasing lead times for fulfilling orders, including the elimination of workplace violence against women. How such standards can be brought into contracting practices is a question of politics, both within and between economies. What would be required to bring about a political coalition is too vast a topic to be discussed here.

However, just as headquarter firms make strategic choices, contract suppliers too make strategic choices. For instance, a squeeze in margins can be met with a reduction in the quality of employment to reduce costs. It can also be met with an improvement in employment conditions that induce improvements in productivity and thus reduce unit costs. Consequently, the labour outcomes are not the result of only headquarter firm strategies but also contract supplier strategies. However, the headquarters firm strategies dominate those of contract suppliers, in that headquarter firm strategies set limits to the strategies that suppliers can adopt.

Much needs to be done to modify monopsony contracting practices to mitigate the negative gendered labour and environmental outcomes. However, the final outcomes on both labour and environmental domains are the result of the joint strategies of both monopsony lead firms and contracted manufacturers. Thus, it is also necessary to modify the employment strategies of suppliers, such as having low levels of workers with security of employment, removing most women above the age of 35 from factory work, and so on. In this common but differentiated responsibility, the primary responsibility for the negative outcomes lies with the lead firms, which not only use monopsony power to capture the major share of profits in the garments GVCs but also have the power to make the necessary changes in their contracting practices.

Appendix

See Tables 6, 7, 8, 9, 10.

Table 6 Basic Details of Suppliers

6.1 Firm Size	
Micro	4%
Small	22%
Medium	30%
Large	44%
6.2 Type of Product	
Basic	59%
Fashion Basic	74%
Fashion	56%
6.3 Nature of Order (Multiple response)	
Season	100%
Batch	37%
Others	19%
6.4 Average Lead Time	
Lead Time- five years ago (No. days)	112
Lead Time- Present (No. days)	79
6.5 Preferred Supplier	
No	26%
Yes	74%
6.6 Share of Order to Preferred Buyers (%)	
Share of Orders	36
6.7 Support in technological Upgrading from buyers	
No	100%
6.8. Support in Waste Disposal from buyers	
No	100%

Table 7 Working Conditions in supplier factories

7.1 Share of Contract Workers	
Less than 10%	52%
10% to 20%	11%
20% to 30%	7%
40% to 50%	15%
More than 50%	15%
7.2 Increased Contract Workers due to increase in orders	
Yes	63%
No	22%
NA	11%
7.3 Increased Overtime due to increase in orders	
Yes	67%
No	19%
NA	59%
7.4 Subcontracting work due to increase in orders	
No	100%
7.5 Increase in Production Targets due to increase in orders	
Yes	78%
No	22%
NA	4%

Table 8 Contracting Practices

8.1 Brands insist of open costing	
Yes	70%
No	30%
8.2 Calculation of Wages for Cost calculation	
National minimum wage Alone	74%
National minimum wage and Others	26%
8.3 Overtime Wage in Cost Calucation	
Double Wages	96%
Single Wages	4%
8.4 Adjust cost for increase in Minimum Wages	
No	100%
8.5 Adjust cost for Inflation	
No	100%
8.6 Adjust cost for change in technical specifications	
No	70%
Yes	30%
8.7 Decreasing dollar quote with Indian Rupee Devaluation	
Yes	22%
No	78%
8.8 Adjust dollar cost for reduction in cost by supplier	
No	100%
8.9 Basis for Productivity—Standard Allowable Minutes (SAM)	
Average productivity	89%
Others	11%

Table 9 Differences in Contracting Practices

9.1 European and North American Brands	
No	19%
Yes	81%
9.2 Large and medium-sized buyers	
No	7%
Yes	93%
9.3 Large retailers and designers	
No	52%
Yes	48%

Table 10 Specific issues faced by buyers in the value chain

10.1 Suppliers are forced to sell below cost of production	
Often	11%
Sometimes	70%
Never	19%
10.2 Brands cover the costs incurred in changing product specifications	
Sometimes	15%
Always	81%
Never	4%
10.3 Buyers asked for quote on a large order and then later reduced the size of the order	
No	19%
Yes	81%
10.4 Penalties for being late	
Yes	96%
No	4%

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