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THE GLOBAL GARMENT SUPPLY CHAIN IN THE TIME OF COVID PANDEMIC

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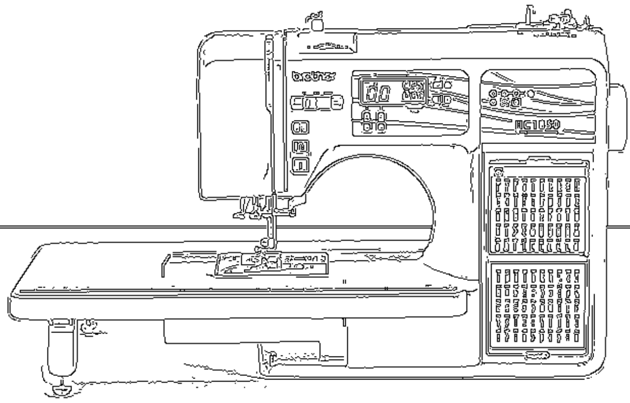

THE GLOBAL GARMENT SUPPLY CHAIN IN THE TIME OF COVID PANDEMIC

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Abstract

Garment manufacturing is a large employer of workers in Karnataka, with a large proportion of the sector catering to garment exports. Much of the sector continues to manufacture from factories in Bengaluru. During the Covid pandemic, the sector was severely impacted with many workers losing employment; workers migrating to work in the sector from surrounding rural hinterland leaving cities. Many large garment manufacturers closed production in the city during the period, either consolidating facilities or moving production outside to smaller towns. The vulnerability of workers during the pandemic allowed the employers to evade regulatory requirements in their downsizing production in the city. This restructuring allowed manufacturers to reduce costs. The restructuring exercise was not limited to garment manufacture, but extended to the operations of the major brands in reaching their products to consumers. Both the garment manufacturers and brands were able to retain profitability through much of the pandemic affected period, and put in place measures to reduce costs; In all this exercise the most affected were the workers, both in manufacturing sector in the global South, and in the retail end in the North.

Background

Supply chains in industry represent another stage in capital's constant search to reduce costs and decrease liability. They operate in many ways to achieve these ends. First, through contracting and outsourcing production, they introduce labour flexibility, leading to reduced fixed cost on labour. Second, they divest themselves of a major chunk of capital cost and make their operations asset light, in effect pushing the responsibility of investment down the supply chain. Third, by using techniques such as 'just in time production' they push down the supply chain cost of inventory, and the risks of inventory obsolescence. Fourth, they also push down the supply chain many issues of compliance, including compliance on labour and environment regulation.

Global supply chains are a further refinement of this model, taking advantage of wage and cost differentials and differences in legal compliance regimes across countries. Typically, they move poor quality and low wage operations from the developed global North to the less developed global South. The global garment supply chain is an extreme example of this form of production structuring, with much of the production of apparel consumed in the USA and Europe shifting to China and developing countries in Asia. In the USA by the year 2003, according to the American Apparel and Footwear Association, estimated 96.6 percent of apparels available in the market were manufactured outside the country[1]. Employment in the sector declined from 1.4 million in 1974 to around 313000 workers by the year 2003[2]. Most of the workers in the sector today would be employed in garment retailing, and not in garment production.

[1] Rees Kathleen and Hathcote Jan (2004), The U.S. Textile and Apparel Industry in the Age of Globalization, Global Economy Journal, Volume 4, Issue 1, Article 4, 2004.
[2] ibid

The following calculations can help understand the advantage to big garment brands in the North through the global supply chain in garment manufacture. In the USA, while the demand for a USD15 per hour minimum wage has been gaining ground, the Federal Minimum Wage remains at USD 7.25 per hour, unchanged since July 2009. In 2021, the Minimum Wage in various States in the USA varied from USD 14 per hour in California and USD 12.50 per hour in New York to USD 8.80 per hour in Ohio and USD 8.65 per hour in Florida[3]. The corresponding median wage in India is around Rs.400 per day[4]; at the current exchange rate of Rs.75 to a USD, this is around USD 5.33 per day[5]. In dollar equivalent terms the garment worker in India receives only a tenth of the wage of an American worker at the Federal Minimum Wage; the ratio becomes one-thirteenth when we compare the Minimum Wage in a low paying Southern state like Florida with the Indian Minimum Wage. In purchase power parity terms (PPP) the US Dollar was worth Rs.21.20 in the year 2020[6]. Factoring in the PPP value as representing the real difference in exchange levels, we still find the Indian garment worker gets only around a fourth of the American worker.

In a study done with the Garment and Textile Workers Union (GATWU) and the Centre for Workers Management in 2015, the ratio of labour cost in garment factories in Karnataka to the marked price on the label for garments manufactured for export to developed countries, mainly to the USA, the EU and Japan, varied from around 1 percent for T shirts to 3 percent for men's shirts and cargo shorts[7]. Assuming the same ratios today, the labour cost for a shirt marked at USD 20 would be around 60 cents when made in India (3 percent of the marked price); the same labour would

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[3] https://www.usnews.com/news/articles/best-states/minimum-wage-by-state

[4] The unskilled garment worker in Bengaluru city Karnataka has a statutory Minimum Wage of Rs.381 per day. We discuss later in this paper how most of the industry pays workers less than this wage.

[5] World Bank (2021), Official exchange rate (LCU per US Dollar period average); the average for the year 2000 was Rs.74.10 per US dollar, https://data.worldbank.org/indicator/PA.NUS.FCRF

[6] World Bank (2021), PPP conversion factor, private conversion (LCU per International Dollar), https://data.worldbank.org/indicator/PA.NUS.PRVT.PP

[7] Centre for Workers Management (2015), Wage and Work Intensity: Study of the Garment Industry in Greater Bangalore, cwm.org.in

cost 12 times, or around USD 7.20 if production of the shirt were to take place in the USA. The marked price for the shirt would therefore increase to around USD 27, or a 35 percent increase over the existing price.

Supply chains are not static structures. They constantly innovate and change in the search for lower costs, higher profits and greater market shares; and search for lower degrees of regulation. Every crisis becomes an opportunity to innovate. Any innovation is also essentially an exercise of increasing the competitive advantage of the Brand, therefore resulting in declining bargaining strength and wage share for the worker. The Covid pandemic was one such global crisis that gave opportunity for the global garment sector to innovate along the supply chain.

This paper seeks to analyse the differential impact of restructuring along the supply chain on the various stakeholders, based on the experience in the garment sector in Karnataka and the export markets and major brands it caters to. In the sections below we briefly give an overview the response of the garment export sector to the pandemic in Karnataka, focussing primarily on Bengaluru city. We focus attention on company responses and the impact of the pandemic on company finances through looking at four of the largest companies in garment exports in Karnataka, Shahi Exports Ltd., Gokaldas Exports Ltd., Texport Industries Ltd., and Arvind Ltd. We also look at the response of two major global garment brands, H&M, a European brand and GAP Inc., an American brand. The overview on the response of industry in Karnataka was primarily based on a study done by the trade union Garment and Textile Workers Union (GATWU) and the research organisation Alternative Law Forum (ALF) in Bengaluru; it also benefitted from several discussions with the leadership of GATWU on the issue. The company analyses were based on internet search, along with analysis of Annual Reports for Gokaldas Exports Ltd. and Arvind Ltd., both companies listed on the Indian stock exchanges. The analysis of international brands also examined the respective Annual Reports and other company financial reports.

Impact of Covid on Garment Employment in Karnataka

The garment supply chain was severely impacted by the Covid pandemic, with disruption in production and trade. Disruption to trade included logistics related issues, issues of sales decline and order cancellations, and requirement of the industry to adjust to new trade requirements brought about by the movement to on-line business. Trade forecasts suggested 13 to 32 percent decline in trade volumes[8].

A strategic industrial response to the pandemic was the reorganisation of business across the global garments supply chain; these highlighted the asymmetric relationship of power between stakeholders. While all players across the industry suffered temporary setbacks, clearly there was unequal sharing of pains of the pandemic; workers as the most vulnerable were forced to bear the brunt of the restructuring costs.

As per government data from the Department of Factories and Boilers, Government of Karnataka, the state has 951 factories employing 402155 garment workers (Table 1). The large proportion of these factories manufacture for the garment export market. 80 percent of these factories are in Bengaluru Urban district, employing around 70 percent of the total workforce. Interestingly, the average employment per factory outside Bengaluru Urban is nearly 5 times the average factory employment in

[8] Teodore A and Rodriguez R (2020), Textile and garment supply chains in times of COVID-19: challenges for developing countries 29 May, 2020 , https://unctad.org/fr/node/3024

Bengaluru Urban. This might be the result of the movement of the sector outside Bengaluru, with much of recent investment in new capacity occurring outside the capital city; the new manufacturing facilities typically are large factory complexes. The large factories are possible because of the availability of sufficient numbers of women workers ready to join the employment market in regions where traditional forms of rural employment are declining.

Garment manufacturing in Bengaluru started in the early seventies. The city housed early investment in the sector, with small factories, operated by small capitalists. The industry in the city witnessed substantial expansion after the dismantling of the garment export quota regime in December 2004. Investment in modernisation and expansion among existing large industrial houses, and new companies entering the field increased turnover and employment in the industry. Given rising real estate costs and increasing cost of living for workers, the industry also sought green-field sites around Bengaluru. Many garment workers in Bengaluru were migrants into the city from rural Karnataka, including single women; safe housing and transport were important demands of these workers. Table 1 gives the basic statistics of employment in the garment sector in Karnataka. The majority of workforce in the sector continue to work in Bengaluru Urban district; the factories outside Bengaluru represent the new growth of the sector with larger factory size in terms of employment. Note the numbers of workforce for Bengaluru and outside Bengaluru add up to more than the total state employment numbers in the Table. This probably represents error in classification of date by the State Departments.

Table1: Employment in garment factories in Karnataka[9]

	Factories	Workforce	Average factory size
State wide	951	402155	423
Bangalore Urban district	766	282265	368
Outside Bangalore Urban	115	189890	1651

Discussions with trade union activists in GATWU underscored this gradual exit of the sector out of the city, starting even before the advent of the pandemic. The pandemic resulted in increasing vulnerability of migrant workers in cities, and further reduced labour availability, particularly when factories tried to restart work. The circumstances made it easier for industry to move out to where workers were more easily available locally. Workers were seeking to leave cities; the state machinery was willing to turn a blind eye at legal regulation, giving the pandemic as reason for exigent support to industry.

It is not surprising, therefore, that during Covid, in the financial years 2019-20 and 2020-21, factory closures and downsizing happened among garment factories in Bengaluru. In a statement to the Karnataka Legislative Assembly on March 17th 2021, the Karnataka Labour Minister said over one lakh workers lost their jobs because of closure of garment factories during Covid[10]. While smaller factory owners might have been unable to carry on business, given disruptions in production and orders, the large corporates

[9] Shivanand s and Prathibha R (2021), Forced Resignations, Stealthy Closures: A study of losses faced by garment workers in Bengaluru during the pandemic, Report by Garment and Textile Workers Union and Alternative Law Forum, March 2021. The report used Government data obtained from the Department of Factories and Boilers, Government of Karnataka

[10] Akram Mohammed, "One Lakh Women Lost Jobs Due to Covid-19 Pandemic: Karnataka Labour Minister," Deccan Herald, March 18, 2021, Online edition, https://www.deccanherald.com/state/top-karnatakastories/one-lakh-women-lost-jobs-due-to-covid-19-pandemic-karnataka-labour-minister-963448.html

probably found in the pandemic an opportunity to restructure their operations. With economic uncertainty, many workers became easy prey to management pressure to resign, accepting minimum closure dues and any compensation offered to them[11]. The low trade union coverage in the sector also prevented any possibility of workers coming together, to resist what were essentially illegal closures. In all this the Labour Department was at best only a mute spectator, unwilling or unable to play their regulatory role. We will discuss later one experience of struggle by unionised workers in a factory outside Bengaluru to resist factory closure.

A study by GATWU and the Alternative Law Forum (ALF)[12], details some of the closures and downsizing among garment factories in Bengaluru Urban district. In a survey of 25 factories in the city, during Covid, the study found out of a combined employment of 30000 workers, over 18000 workers, representing 61 percent of the workforce lost their employment[13]. In itself, this sample represented attrition of 6.4 percent of the total employment in the sector in Bengaluru Urban district. The sample of 25 factories surveyed had only five factories with workforce strength less than 500 workers. It is likely that factory closure or partial layoff of workers among the smaller factories would have been significantly higher, given the more precarious finances for these small factories. Further, closure of factories with less than 100 workers would have drawn much less regulatory attention. If we were to include small factory closures in the reckoning, it is likely that overall proportion of employee attrition during Covid in the sector could have been even as high as 10 percent, the figure suggested by GATWU activists. The smaller factories however are unlikely to have been part of the garment export sector.

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[11] Discussion with leadership of the Garment and Textile Workers Union (GATWU)

[12] Shivanand s and Prathibha R (2021), Forced Resignations, Stealthy Closures: A study of losses faced by garment workers in Bengaluru during the pandemic, Report by Garment and Textile Workers Union and Alternative Law Forum, March 2021. The report used Government data obtained from the Department of Factories and Boilers, Government of Karnataka

[13] ibid

Of the factories in the GATWU-ALF study, 14 were from four of the largest garment manufacturing companies in India, Shahi Exports, Gokaldas Exports, Arvind Limited and Texport[14]. These factories each employed more than 100 workers, therefore subject to regulation under Section 25 (N) and (O) of the Industrial Disputes Act, requiring permission from the State Government for factory closure or retrenchment of workers. The closures and downsizing in these factories were likely to have been part of a planned corporate strategy to consolidate factory size, optimise on capacity utilisation, and larger organisational restructuring including moving operations out of the city. The downsizing could also have been a temporary shedding of employment to match demand reduction – in effect moving towards labour as a variable instead of a fixed cost.

These actions by some of the largest garment exporting companies in India were thus in violation of the existing Indian labour laws. They therefore also violated Brand codes, all of which demand that laws in the host country should not be violated by their suppliers. The actions of the management in these factories, coercing workers to resign, were clearly exploitation of the adverse economic conditions and vulnerability of workers during Covid. This forced denial of work can be seen as another form of un-free employment conditions; these again are opposed by Brand codes. We will discuss industry violations of employment relations and Brand culpability in greater detail later in this paper.

While forced attrition of workers represented one part of the industry's response to the pressures brought on it by the Brands, passing down the pains of pandemic induced business impacts, another response was to use the pandemic as the excuse to demand wage austerity. The industry was able to gain both effective postponement of the Minimum Wage revision due by 2019 after five years of the previous revision, and to prevail on the

[14] ibid

Labour Department to defer the payment of the inflation linked annual DA to all workers. These illegalities were carried out across the industry, affecting wages of the around 4 lakh garment workers –a form of wage theft profiting the employers.

Covid and Wage Theft

In March 2020, the Karnataka government issued the new Minimum Wage notification, increasing the Dearness Allowance (DA - neutralising the inflation impact on real wage). As per its notification, the wages of garment workers in Bengaluru had to be increased by Rs.16 per day; this represented roughly a 4 percent wage increase. However, garment manufacturers persuaded the Karnataka government to postpone the DA increase till the year end to help industry deal with Covid time losses. On a challenge by trade unions, the Karnataka High Court stayed the action of the Government, in effect denying the industry plea to postpone the inclusion of DA in the wage. However, in violation of the High Court ruling, the industry continued to pay wages without including DA. The non-payment of the March 2020 DA has continued since April 2020, for a total of 19 months. The manufacturers were in contempt of law in their action.

The wage arrears add up to Rs.7098 per worker[15], without including the interest due on these arrears. For Bengaluru district as a whole, with over 2.8 lakh workers, this wage theft adds to around Rs.200 crores (around USD 30 million); for the state as a whole, the wage theft is estimated around USD 40 million.

[15] Press Release from the Garment and Textile Workers Union dated 04-10-2021. The Press Release annexed to the report gives the estimation of per worker dues.

Box 1: Minimum Wage violation and the garment sector

This form of wage theft is not new in the garment sector in Karnataka. We have previous examples of the sequential Minimum Wage notifications of 2001 and 2009. The Minimum Wage Act mandates that a fresh notification should be brought out every 3-5 years. Real wage benefits accrue to workers only with a fresh notifications, as in the interim, workers only get the benefit of the DA to neutralise inflation effects on wage. However, these notifications were made seven years apart. The 2009 notification gave workers some increase in real wage. However the industry refused to comply with it for a year. Instead of challenging this legal violation, the Labour Department issued a new notification in March 2010, diluting the provisions of the 2009 notification, claiming a “clerical error”. It is interesting that in 2001 also, the Labour Department countermanded its earlier notification with a fresh notification, claiming a “clerical error”. On a challenge from GATWU, the Karnataka High Court in 2013 gave its judgment holding the Labour Department’s ‘corrective notification’ of 2010 as illegal; it however did not offer any corrective wage benefit to workers. It was only with the new Minimum Wage notification of 2014 that workers received any further benefits. The Brands were well aware of this violation, but preferred to keep quiet about it.

This form of violation of the Minimum Wages Act is not limited to Bangalore. In the neighbouring state of Tamil Nadu, on industry challenge, the Madras High Court stayed the Minimum Wage notifications of 1994, and of 2004; as a result there was no wage revision for nearly two decades. Both the Labour Department and Brands allowed this blatant subversion of law to continue unchallenged.

The Brands are aware of this non-payment of DA by manufacturers. This was not the first time the industry in Karnataka has seen violation of the

Minimum Wage Act[16]; however, as in the past, they have refused to act on this violation. Some have taken refuge in the plea given by manufacturers that while the DA matter has been stayed by the High Court, it has not yet decided on the matter; further, if manufacturers are forced to pay additional wages for DA, they would have no way to recoup the money from workers if the High Court rules in their favour. This argument can be played back to manufacturers and Brands. In an industry where workers are forced to leave employment for various reasons, where the Labour Minister reported in the Assembly that over a lakh job losses among garment workers during Covid, these workers would be cheated permanently of their legal DA dues in the event the High Court decides in their favour. Several global ready-made Brands voiced concern for the plight of workers during the pandemic, however failing to match actions to their rhetoric in this situation.

There have been some exceptions to this industry-wide refusal to pay DA. Factories belonging to Page Industries complied with payment of wages and arrears to workers upon the High Court order. The Aditya Birla Group factories paid the arrears of DA as an advance to workers, which they said they would deduct from future payments if any High Court order maintained the relief to industry[17]. We can see particularly in the Aditya Birla Group example how the industry can comply with the High Court stay order and make DA payments, while retaining the option to recoup payment if the Court decided in its favour.

How did the manufacturers in the sector fare during Covid? What was the strategic response of the Brands, and how did they fare? We need to examine these to come up with a comprehensive analysis of the behaviour of the garments global supply chain during the pandemic. The following sections take forward this discussion.

[16] Box 1 traces some of the earlier violations of Minimum Wage payment in the garment sector in Karnataka
[17] Discussion with GATWU leadership

The Impact of Covid on Manufacturers

The pandemic impacted the garment manufacturing sector because of demand side constraints from order cancellations and slowing of new orders, as Brands pushed down the supply chain the adverse Covid impacts; and supply side constraints from periodic lock-downs, We have examined in the foregoing how the manufacturers responded by closing/ downsizing production in Bengaluru; and used the pandemic as the reason to deny workers legally due wage increase to cover inflation. In all this, the industry used the argument of business affected by the pandemic to justify their actions. We seek to analyse here the real impacts of the pandemic and the reasons behind the company actions. We use for this analysis company data for four of major garment manufacturers, Shahi Exports, Gokaldas Industries, Arvind Limited and Texport Industries.

Shahi Exports

Shahi Exports is the largest vertically integrated fabric and apparel manufacturing company in India. It employs over 100000 workers in 65 garment factories and 3 processing mills, across nine states in the country[18].

According to a report in 2019 by the rating agency India Ratings and Research Limited, Shahi Exports had strong financial fundamentals and business outlook. The company achieved turnover of Rs.6540 Crores in FY 2019, up 10 percent from the previous FY 2019 turnover of Rs.5950 Crores. Its debt service coverage ratio was comfortable at 2.5 times [19]. The rating agency also found the company had policy measures to manage labour

[18] https://www.shahi.co.in/

[19] https://www.indiaratings.co.in/PressRelease?pressReleaseID=36929

relations. It had put in place its strategy to gradually move manufacturing from metros to suburbs, to decrease labour attrition and reduce costs[20]. New manufacturing facilities include factories in Srirangapattanam near Mysore, drawing on rural workforce with some experience of garment factory work in the region.

As per reports, Shahi Exports performed reasonably well through the pandemic years. Financial estimates in 2020 indicated company's operating revenues had grown by 8 percent in the previous two years; the Earnings before Depreciation, Interest, Tax, and Amortisation (EBDITA) also increased by 8 percent in the same period. The net profit for the period increased by more than 25 percent[21].

Gokaldas Exports

The Gokaldas Exports Investor Presentation 2021 showed the company had maintained its profitably despite lower production during FY 2021. Table2 below summarises its financial performance for the three period FY2019 to FY 2021[22].

Table 2 : Gokaldas Exports: Financial performance FY 2019 to FY 2021

Year	**FY 19 (Rs.Crores)**	**FY 20 (Rs.Crores)**	**FY 21 (Rs.Crores)**
Total Income	1196.19	1387.22	1222.93
EBDITA	83.47	102.09	113.69
EBDITA Margin (%)	7.0%	7.4%	9.3%
PBT before exceptional Items	31.34	10.44	26.61

[20] ibid

[21] https://www.emis.com/php/company-profile/IN/Shahi_Exports_Pvt_Ltd_en_2650482.html

[22] https://www.gokaldasexports.com/wp-content/uploads/2021/09/Investor-Presentation_05.09.2021.pdf

We see the company was able to increase profit margins continuously through the two years of the pandemic. While the total income dropped during FY2021 from the previous year, it was still higher than the income for FY 2019. The company's pre-tax profit (PBT) was higher for FY2021 than for the previous year despite the lower revenues, because of improved profit margins.

In terms of physical production, Gokaldas Exports shipped 23.4 million pieces at a realisation of Rs.463 per piece in FY 2019; 24.9 million pieces at a realisation of Rs. 515 per piece in FY 2020; and 19.2 million pieces at a realisation of Rs.596 per piece in FY 2021[23]. While the pandemic might have affected production, the company was able to get much higher price realisation for its production.

The Investor Meeting presentation also discussed the company's strategies addressing the Covid challenge. The strategic responses included:

Initiated structural correction

- Realigned capacities to market demand.
- Brought down fixed cost.

Right-sized operations

- Regulated operations and support infrastructure as per business needs

During the pandemic, Gokaldas Exports instituted a layoff of all workers at its ECC 2 Factory in Srirangapattanam along the Bengaluru-Mysore Road. This was an exception to the trend of most factory closures and layoffs happening in Bengaluru city, with new capacity addition in non-metro

[23] ibid

neighbouring districts. The company reported "lower orders" as the reason for deciding to close operations at ECC-2.

Box 2: Factory closure in Srirangapattanam

The "Gokaldas Exports Limited Q4 FY2020 Earnings Conference Call" of June 29, 2020[24] reported that there was only problem of "lower orders from various customers in that factory" while referring to layoff in the Srirangapattanam factory (page 8 of Investor Report). It also clearly stated that this was the only company factory where all 1450 workers were laid off. (page 10 of Investor Report).

1450 workers represent just 6% of the total 25000 employees of the company[25]. The restructuring could have been simpler if the sole purpose as claimed in the Investor conference was employee rationalisation to meet the temporary demand crisis because of the pandemic. The company could have spread worker reduction across factories; this would also have helped in social distancing and better Covid compliance. According to a company report (undated) by NDTV Profit, the company has 48 factories[26]. If the company were to spread its labour restructuring over all the factories, it would have meant only laying off around 30 workers per factory. Evidently the purpose for closure of production in Srirangapattanam does not seem guided by only the need to rationalise manpower.

The Investor report also suggested a change in practice to subcontracting/ taking capacity on lease from competitors (page 8 of Investor Report).

[24] https://www.gokaldasexports.com/wp-content/uploads/2021/06/Q4-%E2%80%93-Transcript-of-the-Investors-concall_170521.pdf
[25] https://www.gokaldasexports.com/
[26] https://www.ndtv.com/business/stock/gokaldas-exports-ltd_gokex/reports

The Srirangapattanam factory was a dedicated unit for garment supply by Gokaldas Exports to H&M. It is evident that the imputed reason by the factory for closure was reduction in demand from H&M during the pandemic. We will discuss this exceptional rationalising of production later in the report. It is interesting that Shahi Exports was able to benefit from this closure, as the workers became available for employment in its new factory in the same region.

Texport Industries

According to the rating agency ICRA, in its report dated October 20, 2020[27], while the company's financial performance was adversely impacted in FY 2020 and Q1 of FY 2021due to the pandemic, there was steady volume recovery in the subsequent months. The interest coverage ratio for FY 2021 was therefore expected to be around 3.5 times. The company had recorded a steady compounded 5 percent turnover growth over the last five fiscals, and given its wide customer base, it was expected to have steady growth barring for the period disrupted by the pandemic. For FY2020, the company had an estimated operating income of Rs.780.44 Crores, with an EBDIT to income ratio of 7 percent.

The company followed the industry practice of moving out of Bengaluru for expansion of its production base. Some of the recent expansions were in Hindupur in Andhra Pradesh, where it commenced operations in 2018, and has 3 factories, employing 4000 workers. In October 2020, workers in the Hindupur factories were on strike, alleging they were paid only Rs.6000 per month, the lowest among the various factories of the company[28].

[27] https://www.icra.in/Rationale/ShowRationaleReport?Id=98699
[28] https://www.newsclick.in/andhra-thousands-textile-workers-texport-industries-hindupur-strike-demanding-minimum-wages

Arvind Limited

The company made substantial recovery after its production and financial performance were adversely affected by the pandemic. According to the company's "Arvind Limited Q1 FY22 Earnings Conference Call" of August 5, 2021[29], the sales for Q1 in FY 2022 was Rs.1430 Crores, 140 percent higher than sales for Q1 of FY 2021. At this sales volume the company had achieved break-even volume. The EBIDTA margin was +7.1 percent for the quarter, against (-) 4.8 percent for Q1 of FY 2021. Export demand remained high, and the company had secured price increase in most of its segments. The company's readymade garments business is not core, but viewed as supportive to its fabric business. Therefore the company does not pay as much concern to the bottom-line on this business [30].

The company faced severe supply side constraints through the first quarter of 2021, with factory closures in South India, and with its factories in Ahmedabad facing high levels of absenteeism due to the pandemic effects[31].

The Annual Report of the company for 2019-20 showed the company increased its physical shipping of garments by nearly 25 percent, from 34 million pieces in FY 2019 to 42 million pieces in FY 2020. The consolidated turnover increased from Rs.7142 Crores in FY 2019 to Rs.7369 Crores in FY 2020; the operating profit (PBDITA) declined slightly from Rs.800.43 Crores in FY 2019 to Rs.747.63 Crores in FY 2020[32]. While the company pursued modernisation and expansion of capacity in Bengaluru and Karnataka, it also set up new production in greenfield sites in Ranchi and Ahmedabad[33]. In FY 2021, the garment shipments declined from the FY 2020 figure of 42

[29]https://www.arvind.com/sites/default/files/field_quarterly_reports_file/Q1-FY22-Conf-Call-Transcript-Arvind-Limited%20%20(1).pdf
[30] ibid
[31] ibid
[32]https://www.arvind.com/sites/default/files/field_annual_reports_file/Annual%20Report%20-%202019-20%20-%20Arvind%20Limited.pdf
[33] ibid

million pieces to 32 million pieces in FY 2021[34]; around the same level as in FY 2019 before the pandemic. During the year the company also stabilised its production facilities implemented in the previous year, while shutting down/consolidating some of the less utilised assets[35].

Brands and Covid

The pandemic had significant adverse impact in the early period on retail trade in the global North. According to McKinsey & Company, in North America alone the apparel, fashion and beauty industry had an annual turnover of around USD 600 Billion, employing around 4 million workers. Around 75 percent of listed companies in the sector faced a situation of negative EBDITA three months into the pandemic[36]. The response of brands was placing increasing reliance on on-line sales, while effecting closure/rationalising of stores leading to reduction in retail staff. These changes in industry appear to be there to stay as a long term industry strategy, and not a temporary blip driven by the pandemic.

We seek to understand in this section the impact of Covid on two major global brands, the European brand H&M, and the American brand GAP Inc., and their response, both within the market place and the supply chain. They can be seen as bell-weather brands for industry action in the global garment industry. Both brands also have strong buyer presence in the garment manufacturing sector in Karnataka and India.

[34] https://www.arvind.com/sites/default/files/field_annual_reports_file/Arvind%20Limited%20-%20Annual%20Report%20-%202020-21.pdf

[35] ibid

[36] Baum C et al (2020), Perspectives for North America's Fashion Industry in a time of crisis, https://www.mckinsey.com/industries/retail/our-insights/perspectives-for-north-americas-fashion-industry-in-a-time-of-crisis, March 26, 2020 accessed on 15-11-2021

H&M

The financial performance of H&M over the past four financial periods is summarised in the Table 3. During the period, the company's employee strength increased from 120191 in FY 2017 to 126376 in FY 2019, and declined to 110325 employees in FY 2020; it shed around 9 percent of its employees during the pandemic. The company had increased its physical stores across the globe by 109 in FY2019; the number of stores declined by net 58 in FY 2020 and the company plans a further reduction of 250 stores in FY 2021. By FY 2020 28 percent of global sales were online.

Table 3: H&M Financial performance FY 2017 to FY 2020

Financial year	**2020**	**2019**	**2018**	**2017**
Net sales (million SEK)	187031	232755	210400	200004
Operating profit (million SEK)	3099	17346	15493	20569
Operating margin	1.7%	7.5%	7.4%	10.3%
Net sales change	-18%	6%	3%	3%

Source: H&M Annual Report FY 2020

The cost of goods sold by H&M increased slightly from 47.2% in FY2019 to 49.9% in FY 2020[37]. This might partly reflect the need to stock more inventories during the pandemic. The Annual Report FY 2020 mentioned opportunity to conduct physical checks in supplier factories declined during

[37] H&M Annual Report FY 2020

the pandemic and the company had to rely on third party audits. The Annual Report also mentioned strategies to combat production and distribution disruptions through moving production to alternative sourcing markets in low risk areas.

The recovery from Covid impact was visible for H&M from the beginning of FY 2021, even while the globe was still struggling to contain repeat waves of the pandemic. In the six month period January – June 2021, sales revenue increased by 4 percent; in Q2 (April to June 2021) the revenue increase was 62 percent higher than the previous year Q2[38]. The first half yearly gross profit margin increased from 49.4 for FY 2020 to 50.9 percent in FY 2021; for Q2 alone the gross margin in FY 2021 was 53.9 percent. The company increased its on-line sales further to 38 percent of global sales[39].

The company was also able to improve on its inventory management. The stock in trade at end of Q3 of FY 2021 reduced by more than 10 percent from FY 2020[40].

GAP Inc

Table 4 summarises the financial performance for GAP Inc for the years 2017 to 2020 and the first two quarters of FY 2021. The company retained its profitability through the pandemic period. It regained sales volume comparable to pre-pandemic period by Q1 of FY 2021. The net sales of USD 4.2 Billion was the highest second quarter sales in a decade, up 20 percent from Q2 of FY 2020[41]. Further, the efficiency measured as Cost of Goods to

[38] H&M Group Six-month Report (1 December 2020 – 31 May 2021)
[39] ibid
[40] ibid
[41] GAP Quarterly Financial Summary, https://investors.gapinc.com/financial-information/default.aspx

Sales Ratio (CGSR) improves to better than the pre-pandemic levels. Q2 CGSR was 5 percentage points better than the ratio for FY 2017.

Table 4: Financial performance of GAP Inc. FY 2017 to 2020 and FY 2021 Q1 and Q2

Account head	**FY 2017 (milion USD.)**	**FY 2018 (milion USD.)**	**FY 2019 (milion USD.)**	**FY 2020 (milion USD.)**	**FY 2021 Q1 (milion USD.)**	**FY 2021 Q2 (milion USD.)**
Net sales	15855	16580	16383	13800	3991	4211
Cost of goods sold and occupancy	9789	10258	10250	9095	2361	2386
Gross profit	6066	6322	6133	4705	1630	1825
Cost of goods to sales ratio	62%	62%	63%	66%	59%	57%

Source: GAP Inc. Quarterly Financial Summary Q2 2021

During the pandemic year FY 2020, the company decreased physical sales, moving to on-line sales. The number of stores declined by 5.2 percent during FY 2020, as compared to 6.9 percent increase in stores during FY 2019. The strategy of moving to on-line sales evidently was driven by exigencies of the pandemic, leaving the company leaner in its operations. Store closures helped reduce occupancy rental costs, while increasing cost associated with bringing goods directly to customers through on-line sales. Store closure also reduce employees in sales and allied activities, bringing down fixed employee cost. Between FY 2019 and FY 2020 the company reduced employment by 10 percent, from 129000 to 117000 employees[42]. The company plans to close 350 of its stores (30 percent) by the beginning of

[42]Number of GAP Inc. employees worldwide from 2008 to 2020, https://www.statista.com/statistics/257076/number-of-the-gap-inc-employees-worldwide/ accessed on 15-11-2021

2024, with 80 percent of revenues expected to come for e-commerce and off mall locations[43].

The company reported temporary store closures during Covid have led to excess inventory levels. To strategically manage this excess inventory, select seasonal product are being carried at distribution centres for introduction into the market during FY 2021[44].

International Responses

The ILO brought out a call for a 'Covid-19: Action in The Global Garment Industry', sent out on 22nd April, 2020. The Call for Action, supported by the ITUC and IndustryALL, also had the support of major brands, Adidas, C&A, H&M Group, International Apparel Federation, Inditex, PVH Corporation, VF Corporation, and Zalando SE[45]. The range of actions brands and retailers were called to support included: "a. Paying manufacturers for finished goods and goods in production. b. Maintaining quick and effective open lines of communication with supply chain partners about the status of business operations and future planning. c. Should financial circumstances permit, direct support to factories can also be considered." All brands with framework agreements with IndustryALL, including H&M and Inditex were signatories to the call. These brands were also signatories to joint statements with IndustryALL on cooperation to support recovery of the garment supply chain in the aftermath of the pandemic. The joint statement signed by H&M specifically affirmed that "IndustriALL and H&M also will make efforts and will actively use its possible leverage with suppliers and unions to remedy violations of workers' rights involving un unlawful layoffs

[43] GAP, the quintessential mall retailer, is racing to get out of them, https://www.nytimes.com/live/2020/10/22/business/us-economy-coronavirus accessed on 15-11-2021
[44] GAP Inc 2020 Annual Report
[45] SLCP supports call to social action in the global garment industry (undated), https://slconvergence.org/updates/slcp-supports-call-to-action, accessed on 15-11-2021

/ redundancies, closure and denial of trade union rights[46]." (emphasis added)

Twenty global garment brands including the brands with framework agreements were members of the global initiative of IndustryALL called ACT, which ACT called "a ground-breaking agreement between trade unions and both global brands and retailers to transform the garment, textile and footwear industry and achieve living wages for workers[47]." Specific actions of ACT during Covid included facilitating dialogues in Bangladesh resulting in a joint working group of the BGMEA, IndustriALL, IndustriALL Bangladesh Council and ACT brands sourcing from Bangladesh[48].

The new agreement, the International Accord for Health and Safety in the Textile and Garment Industry was signed by several global garment brands who earlier signed on the original Accord in the aftermath of the Rana Plaza disaster in 2013, covering brand activities in Bangladesh. The agreement was also signed by representatives of UNI Global Union and IndustriALL[49]. According to Valter Sanches, General Secretary of IndustryALL, "The agreement maintains the legally binding provision for companies and most importantly the scope has been expanded to other countries and other provisions, encompassing general health and safety"[50].

The expansion and extension of the Accord done after much negotiation was an important progress in better regulation of the global garments supply chain, achieved during the pandemic. However, the new Accord also exposed

[46] Joint Statement By H&M Group And Industriall Global Union, http://www.industriall-union.org › SWITZERLAND accessed on 15-11-2021
[47] ACT on Living Wages, https://actonlivingwages.com/ accessed on 15-11-2021
[48] From Covid 19 to Living Wages (2020), https://actonlivingwages.com/app/uploads/2021/04/From-COVID-19-to-Living-Wages-ACT-Report-2.pdf accessed on 15-11-2021
[49] Paul R and Waldersee V (2021), Retailers agree to extend Bangladeshi garment workers' safety pact, https://www.reuters.com/business/retail-consumer/exclusive-retailers-unions-extend-legally-binding-worker-safety-accord-2021-08-25/ accessed on 15-11-2021
[50] International Accord: tentative agreement on expanded workers' safety programmes (2021), http://www.industriall-union.org/international-accord-tentative-agreement-on-expanded-worker-safety-programmes, August 25, 2021 accessed on 15-11-2021

starkly the continued weakness in the supply chain to push for positive changes benefitting manufacturing workers: several of the largest American garment brands, including Walmart, Target, VF Corporation and GAP were not signatories to the new Accord[51].

Analysis

The foregoing sections showed major garment manufacturers in Karnataka were affected by the pandemic; however the impact on the established garment manufacturers was temporary, and the companies were able to weather the pandemic impact quickly. While Arvind Limited suffered some losses in FY 2021, the other three companies continued to be in the black, even during the pandemic affected years. In the case of Gokaldas Exports, the company maintained a rising trend for operating profit (EBTIDA) from FY 2019 to FY 2021. Shahi Exports maintained a rising trend in revenue and profits from FY 2019 to FY 2020; Arvind Limited increased shipments of garments by nearly 25 percent, while remaining profitable for its consolidated operations from FY 2019 to FY 2020.

All four companies had embarked in systematic restructuring of manufacturing activities even before the pandemic, focussed on diversifying production to greenfield sites. This was explicit in the analysis of Shahi Limited by India Rating and Research which referred to the company strategy to gradually move manufacturing from metros to suburbs, to decrease labour attrition and reduce costs; in the Investor Presentation of Gokaldas Exports which specifically referred to strategic response to the Covid challenge through structural corrections to realign capacities to market demand and right-sized operations; in the move by Texport to set up new capacity in greenfield site in Hindupur in Andhra Pradesh; and Arvind Limited setting up new capacity in greenfield sites in Ranchi and

[51] ibid

Ahmedabad, while shutting down/ consolidating existing assets in Bengaluru and Karnataka.

The closure/downsizing of production in Bengaluru during the pandemic therefore was evidently a continuation of this restructuring process. While the pandemic might have served to catalyse some cost saving measures, it would also have given the opportunity to companies to shut down capacity without attracting much opposition from workers or the government, thus reducing transaction costs.

In the context, the closure by Gokaldas Exports of its factory ECC-2 in Srirangapattanam along Mysore Road represented a departure from the industry practice of closure of factories in the metro city. The company claimed the sole reason was low orders from various customers in that factory. As the factory manufactured garments almost solely for H&M, the reduction in orders would point to H&M. However, as explained in the Box 2, there were options available to the company not requiring the complete lay-off of all workers, risking the goodwill of the community where the company had built stable presence including a stable workforce; in a region where the company also had other manufacturing facilities. It could well have tided over a temporary demand crisis by transferring order from other factories.

As it played out, the mass lay-off of workers resulted in the workers rallying under the call of the GATWU who had a strong union membership and presence in the factory. The workers sat on strike for fifty days, forcing the management to offer a settlement package higher than the statutory minimum closure compensation. Further, as the union carried on the struggle even after the strike on the ground was exhausted, the factory suffered considerable loss of international publicity and goodwill, and was finally forced to settle agree to further compensation and concessions to the workers. Some 1300 workers got enhanced settlement, costing the factory an estimated Rs. 8 Crores; workers with ten years of experience received on average enhanced settlement compensation of Rs.1 lakh, and those with five years of experience Rs.50000 over the statutory minimum closure compensation[52].

Why did the company resort to the drastic measure of factory closure outside the metro city, in a factory where it had invested in building stable workforce and a stable product demand from a premier brand? The company's claim of business exigencies might not have been the sole consideration. GATWU claimed this was patently an act of union busting. It could appear more than a coincidence that the only factory Gokaldas Exports sought to close down completely was one with a strong union presence.

Why do companies in the garment sector so vehemently resist strong trade union presence, and refuse to engage in collective bargaining? The simple explanation that management in this industry is ideologically opposed to unions might not be sufficient. Strong unions enforce a measure of regulation, particularly against factory efforts to treat their workforce as variable cost elements, rather than as a fixed liability, with right of tenure and protection against arbitrary dismissal. They push bargaining from individual grievance redressal to collective demands, including demands in the economic sphere. It is of interest that in the Investor meeting where the company Chief Executive explained the decision to close down the ECC-2 factory, he also discussed the company policy to look for subcontracted/leased capacity to respond to demand surges, rather than invest in new capacity entailing permanent liability[53]. Covid probably taught the garment manufacturers the benefits of asset-light and employee-light

[52] Discussion with GATWU union leaders.
[53] Gokaldas Exports Limited Q4 FY 2021 Earnings Conference Call (2021), https://www.gokaldasexports.com/wp-content/uploads/2021/06/Q4-%E2%80%93-Transcript-of-the-Investors-concall_170521.pdf, accessed on 15-11-2021

operations, as a means to de-risk business strategies when faced with uncertain markets.

The post Covid circumstances in the garment industry in Karnataka brought out the weakness of privatised regulation mechanisms, including Brand Codes and Brand audits. The garment industry was able to leverage temporary work stoppages to gain several financial sops; it also leveraged the fear of the pandemic leading to job losses to get away with impunity in violation of laws. While Brands were aware of these regulatory violations, as in the case of non-payment of DA, they were content to accept the plea of manufacturers that the matter was sub-judice. It finally required trade union action to involve the judiciary, and get rulings in favour of employee claims.

The weakness of Brand oversight was evidenced from another aspect of the ECC-2 case. The factory shed was covered with an asbestos roofing, making the shed very hot and uncomfortable to work in[54]. Asbestos is also accepted as a health hazard. H&M approved the factory premises for selection as a dedicated supplier, despite the asbestos roof. The various post Covid violations of workers' rights in the garment sector highlight the inadequacy of voluntary Brand Codes and Brand audits to bring about lasting changes in the sector.

Why did companies not face resistance in Bengaluru to their actions of downsizing and complete lay-off of workers in factories? How did they get away with a patently illegal action, in some instances not even paying the workers the minimum legal dues in full[55]? One possible explanation is that many garment workers in the city are migrants from the surrounding rural

[54] Discussion with GATWU leaders brought out the issue of poor working conditions in the factory, including the asbestos roofing of the production shed.
[55] Discussion with the GATWU leadership suggested several factories where workers might not even have fully collected their minimum legal dues.

hinterland. They would not have the same resilience as workers in non-urban locations. These workers are also more footloose, with the option to get alternative employment, either in other garment factories or other sectors of informal work. The precarity and vulnerability of these works only got accentuated during Covid disruption of production and employment. This is one reason given by the manufacturers for shifting out production from Bengaluru; that it is increasingly difficult to get a stable workforce in the garment sector in the city.

International brand response to the pandemic globally suggested two strategies. First, both H&M and GAP managed to control input and inventory costs, pushing down the sourcing cost as proportion of sales to pre-pandemic levels by the second quarter of FY 2021. This would have required reduction in sourcing cost; with stringent sourcing control enforced through 'just in time' delivery of sourced goods to minimise inventory holding. The costs associated with production and inventory were therefore increasingly passed on to the manufacturers in the sourcing countries, pushing them to increase cost cutting. Brands also resolved problems of demand failure and market disruption during the pandemic by cancelling and with-holding orders to suppliers. Effectively the costs of the pandemic were pushed down the supply chain ladder, to be passed on at the lowest level to the workers, reflecting in greater insecurity of work and downward pressure on wages. Today, while the markets have bounced back and demand for garments are at levels higher than prior to the pandemic, wages of workers continue to be sticky in rebounding, as evident in the continuing situation of unpaid DA to garment workers in Karnataka.

Second, both companies moved away from physical stocking of goods to on-line display and merchandising. The strategy to close stores and move to on-line business followed by H&M and GAP surely reflects changing customer preferences during the pandemic; it would also be influenced by the need to reduce the fixed costs associated with sales and distribution, to make the brands' operations more flexible to fluctuating marketing conditions. The post pandemic organisation for the brands can be expected to move in the direction of a more employee-light and asset-light structure. The retail worker would consequently get pushed to accept poorer wages and more precarious work conditions. A further consequence of increasing on-line sales is the insulation of the Brands from actions by trade unions and activist organisations targeting consumers.

The pandemic brought out the limitations of international trade union pressure on enforcing better working conditions along the supply chain. Many large European brands, including H&M, had framework agreements with the international federation for garment workers, IndustryALL; consequently they were also signatories to Covid response initiatives of the ILO. H&M was a signatory to Joint Statements with IndustryALL on Covid response; the statement specifically mentioned: "remedy violations of workers' rights involving un unlawful layoffs / redundancies, closure and denial of trade union right"[56]. It is significant that while several factories in Bengaluru, including those manufacturing for H&M, faced unlawful closure and lay-off, ECC-2, was the only factory that could claim some significant closure benefits to workers, even while not being able to prevent factory closure. The factory manufactured garments solely for H&M. The trade union in the factory GATWU claimed this factory closure was an act of trade union busting. It was the struggle on the ground of workers, backed by GATWU and the affiliating federation NTUI and IndustryALL, that forced H&M to bring pressure of Gokaldas Exports to enhance lay-off compensation to all workers in the factory. Evidently, even framework agreements are only as strong as the willingness of factory workers to rally together and struggle.

[56] Joint Statement By H&M Group And Industriall Global Union,

http://www.industriall-union.org › SWITZERLAND accessed on 15-11-2021

Covid starkly brought out the relative indifference of the state to uphold rights of workers and hold capital responsible to even abide by the law. The 'mantra' of ease of doing business determines most state responses. The state position was evident in India in the manner in which the four Labour Codes were pushed through the Parliament during the pandemic, to minimise public scrutiny. It was evident in the state of Karnataka, where the Government turned a blind eye to violations of the Industrial Disputes Act in the numerous factory closures and retrenchment of workers in the garment sector in Bengaluru, even while the Labour Minister acknowledged in Parliament the large scale disruption of employment in the sector; it allowed industry wide violation of the Minimum Wage Act in the sector. The experience emphasised strongly the weakness of the rule of law in the absence of strong trade union presence.

The weakness in international accords mediated from the top was evident in the manner in which garment sourcing from Bangladesh went back to business as usual after the dust settled down on the Rana Plaza disaster, despite the backing of the Accord. Consequently, the new the International Accord for Health and Safety in the Textile and Garment Industry seeking extension of the mandate for the agreement, with legal enforceability, and extension of the agreement to another country beyond Bangladesh is a sign of hope in international solidarity, even while exposing the deep divisions among brands, with North American brands refusing to join in signing the Accord.

Finally, gains to workers based solely on international campaigns and accords can only be short lived, and cannot result in lasting changes. Top-down mediations from non-trade union pressure groups can only play supporting role, when led by strong trade union struggle. Ground level union power has to be the leading edge of struggles to find lasting solutions. This was evident during the pandemic, when capital was able to effect long term advantage of restructured business even while companies faced short term losses; the restructured business model further pushing workers in the global South and North in the garment sector to greater precarity.

Conclusions

It would appear from the foregoing that the crisis of the pandemic resulted in major restructuring of the global garments supply chain. In the manufacturing sector in Karnataka the smaller companies were forced to shut operations, while larger companies responded with selective factory closure, and shifting of production out of Bengaluru city, the pandemic giving them a window of opportunity to effect closures and redundancies without significant cost or resistance. A similar restructuring appeared with global brands; for instance the large Texas based global garment retailer in the USA filed for bankruptcy in 2020 [57]. Other brands used the opportunity to restructure business, shedding workforce in retail trade while increasingly going on-line for garment sales; streamlining the global manufacturing supply chain.

The immediate impact has been on the workforce in manufacturing companies in the South. In Karnataka the industry has used this to deny workers their statutory Minimum Wage. We might see another push for lower costs and a race to the bottom.

There are, however, limits to this race to the bottom. Today an unskilled worker in the garment sector in Bengaluru is paid Rs.365 per month. This wage might not be sufficient to attract and retain large numbers of workers. In the Bengaluru-Mysore region, rural wages for women varied from Rs.200-

[57] Hirsch L (2020), JC Penney files for bankruptcy as coronavirus crushes hopes for a quick turnaround, https://www.cnbc.com/2020/05/15/jc-penney-bankruptcy-filing.html, May 15. 2020, accessed on 15-11-2021

250 per day, often with lunch provided, for around 5 hours of work. The wages during harvest activities were higher, ranging up to Rs.500 per day[58]. The work did not come with intense supervisory pressure, and workers could commute from their own homes. These workers might not see benefit joining factory work in cities, or even in their rural neighbour, given prevailing garment factory wages. The scarcity of workers was not limited to cities, but also affected factories relocated in rural areas.

Where there was organised workers' resistance, companies were forced to pay higher compensation, even while the unions were not been able to prevent factory closures. Workers are willing, as evident in the ECC-2 struggle, to join action if there is credible trade union organisation. The pandemic on the one hand will make organisation more difficult and can weaken workers' ability to bargain for better rights; on the other hand, it will also bring pressure on the supply chain to bring in safer working conditions and better facilities for factories to be able to attract and retain workers.

[58] Discussions with GATWU activists