The global clothing production system: 
commodity chains and business networks

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Abstract The global organization of the clothing industry has been the prime example of buyer-driven commodity chains. However, previous empirical studies to substantiate Gereffi’s assertion have been highly Western centric and predominantly based on the empirical evidence of American retailers and brand name companies. In this article I demonstrate that any clothing commodity chain has various influential factors, such as the national and global regulatory framework, the societal context of the leading firm, the fashion context of the products, as well as the actual brand ownership. Thus, the organization of clothing firms in the global economy can develop diverse intra-sectoral commodity chain coordinations. Using a hypothetical clothing commodity chain as an example, I attempt to identify the individual commodity chains within which Indonesian clothing firms are embedded. Furthermore, I outline the ways in which Indonesian clothing firms were affected by the economic crisis of the late 1990s.
Markus Hassler

substitute labour with technology and the demand of flexible production to facilitate quick responses to market changes, there has not been a major relocation of clothing production back to advanced economies (Scheffer 1992).

This is largely a result of the fact that the assembly process has been a stage of major resistance towards any integration of automation technology, because of the difficulty of handling the limp fabric pieces in a way to maintain the precise shape of it during the sewing and subsequent transfer process. Up to 60 per cent of the operator’s time is spent on handling the material (Mody and Wheeler 1987: 16). Therefore, any improvements in this regard would drastically reduce the labour intensity of clothing production. However, most research projects into the development of robots and automation machinery to reduce the handling time during the assembly process have seen little evidence of rejuvenation in the industry to maintain its competitiveness in developed countries (Scheffer 1992). The manufacture of clothing remains essentially a sequence of related manual operations, which are by definition highly labour intensive. Indeed, the sewing and assembly stages account for up to four-fifths of all labour costs in the industry. Labour cost variations are therefore one of the most important factors in explaining the changes of the global structure of clothing production.

These production specific requirements have often led to a situation in which clothing production becomes one of the first industrial activities in a developing society, which was the case in Indonesia. In fact, the growth of the clothing industry has been a major facilitator of Indonesia’s transformation from a national economy dominated by natural resources and agriculture to a second-generation Asian NIE (Aswicahyono 1997). In addition to these production-related aspects, the implemented national economic policy framework and an overall increasing global demand had a highly supportive effect on the growth performance of this industrial sector. Export promoting policies helped to integrate Indonesian firms into global production networks (Dicken and Hassler 2000; Hill 1991, 1992; Pangestu 1997), while the import substituting protectionist policies facilitated the growth of domestic marketing networks (Hassler 2003, 2004). Furthermore, clothing products that are part of the indigenous cultural identity, such as batik and embroidered clothing, created a unique factor to support the local growth of clothing production in Bali (Cole 1998).

In this context, my aim in this article is to establish the role of Indonesia’s clothing industry in the global economy. Although this study has a strong focus on the microeconomic, firm-specific interrelationships at the local, national and international level, it is also related to the national, macro-economic policy framework and the most recent economic development processes of this country. This is particularly important in the onset of the economic crisis in 1997, which unveiled the structural weakness of the Indonesian economy (Yeung 2000a, 2000b). A highly deregulated but weak banking sector and massive accumulated private sector debts of more than $60 billion (Backman 1999) resulted in a drastic devaluation of Indonesia’s national currency, the rupiah, and a serious finance problem for Indonesian clothing firms. Thus, the article is organized in four sections. In the first part, I will develop a hypothetical clothing commodity chain, based on the recent debate of this theoretical framework. In the second part I will identify the commodity chain coordinations within which the Indonesian clothing industry is embedded. In the third part I deal with the economic crisis and its impact on Indonesian clothing companies. In the fourth and final part, I
make some concluding comments in relation to the applicability of the commodity chain framework on the Indonesian case, as well as to the future prospects of the Indonesian clothing industry.

**Global commodity chains in the clothing sector**

The clothing sector has been the prime empirical example to describe the impacts of cost variations on production within buyer-driven commodity chains. In addition to these global cost variations, the global clothing commodity chain has been facilitated by dual changes in the regulatory and institutional frameworks on the supply and demand side of the chain. Each side of the market mechanism of the global clothing commodity chain has been affected by various policy and structural changes at national and international levels (Gereffi 1994). On the supply side, the global dispersion of the clothing commodity chain has been supported by changes of industrialization and trade regulatory policies. Export oriented industrialization strategies of developing countries created a framework for local entrepreneurs to establish export manufacturing, while the liberalization of global trade, basic to the General Agreement on Tariffs and Trade (GATT) enabled developed country importers easier access to these products. The demand side facilitated the emergence of a buyer-driven clothing commodity chain through a shift of power from manufacturers to retailers, as a result of an increasing concentration of retailing (Harvey 1998; Wrigley and Lowe 1996). The consolidation of the market power of retailers and brand name companies in developed countries created a shift of power from the production, supply side to the consumption, demand side of the chain. Thus, the global clothing commodity chain is driven by the demand side of the market and governed by buyers rather than producers (Gereffi 1994, 1999). In fact, the clothing sector is seen as ‘a prototypical buyer-driven commodity chain’ (Gereffi 1999: 40).

Several studies of the clothing industry, applying the GCC concept, have empirically underpinned this thesis (Appelbaum et al. 1994; Bair and Gereffi 2001; Bonacich et al. 1994; Gereffi 1994, 1996, 1999; Taplin 1994). However, by emphasizing this homogenous sectoral pattern of clothing production, the approach has been largely based on developed countries or even just the USA. Empirical evidence has been largely drawn from the American experience of clothing and sportswear firms such as Liz Claiborne, Nike and Reebok and retailing organizations such as The Gap, JC Penney, Wal Mart and The Limited. Furthermore, similarities and/or differences among global competitors of different institutional and societal contexts have been little emphasized within the current empirical work. However, ‘characterizing an entire sector in terms of a single type of firm is fraught with difficulties’ (Whitley 1996: 419). In fact, besides the potential variations of clothing commodity chains in relation to the institutional background of the firm, this particular sector has several variables, such as the fashion content of the products and brand name ownership, which influence the particular organizational behaviour and interrelationships of firms.

Clothing products can be distinguished in terms different fashion segments, which are characterized by a dependency on either economies of scope or scale. It could be generally argued that the higher the fashion standard, the shorter are the product life cycles of the garments and the higher is the dependency on achieving economies of
scope to maintain competitiveness. High fashion products belong to designer clothes and are defined by strong seasonal fashion fluctuations. They are therefore manufactured in small production lots to achieve a high degree of flexibility. This is also influenced by the elasticity of demand since they are high priced and therefore sold in rather small quantities in boutique style, specialized retail organizations. High fashion clothing usually creates the basis for the trickle down process of consumption patterns to the medium fashion segment (Curran 1995; Eckert 1997). Products of medium fashion standards belong to popular brands and are manufactured for the fashion conscious mass market. The reactive, rather than active, trend behaviour of the market participants, in addition to the main distribution channels for the products within this market segment, results in larger production lots. They are primarily distributed and marketed in medium priced department stores and retail chains, which are able to generate larger volume orders because of their sole size of organization. In contrast, low fashion or standardized products, such as T-shirts and underwear, have few fashion inputs. They have the potential to achieve economies of scale because there are fewer changes in the product styles and consequently in the production processes. This is largely a result of the main characteristic of clothing production, namely that the assembly process is divided into individual operations for each worker who performs a repetitive factory activity in which the improved flow of the product offsets the labour costs (Froud et al. 1999). Furthermore, manufacturing standardized fashion products has the potential to substitute labour with technology/production equipment because of long production runs and fewer style changes. The implementation of single purpose machinery for specific production processes therefore allows for relatively high economies of scale.

These economic principles of production can change the small-scale production of high fashion products into medium and large-scale production. High fashion competitors can build up high volume production by heavily promoting the brand and by cutting prices. However, because the quality standard of the garments remains an important input into defining the degree of fashion content and image of the brand label, production costs will remain higher in this segment despite similar economies of scale as competitors in standardized fashion segments. The constant relationship between the symbolic meaning of goods and their physical content creates a strong affinity between these product aspects (Fine and Leopold 1993). For example, high fashion garments are usually associated with a higher product quality and complexity, for these aspects play a crucial role in achieving a certain level of brand image. This results in the input of higher quality raw materials, while the manufacturing process demands a relatively more skilled labour force to incorporate the distinct design features. Furthermore, the complexity of the product and its impact on the number of production sequences lead to a higher time intensity of production and therefore higher production costs than clothing of lower fashion segments. In consequence, the aspects of product complexity and product quality have impacts on the production processes within each fashion standard in characteristic ways.

It could be argued that the higher the fashion content the higher the barriers to market entry, for the fashion content defines the extent of necessary marketing and advertising campaigns to build up the aspired image of the brand label. Brands are generally described as creating a world of signs, identities and meanings in which ‘marketers and advertisers attach images to goods’ (Lash and Urry 1994: 15). In other

516
The global clothing production system: commodity chains and business networks

words, branding is ‘the use of a name, term, symbol or design – or some combination, thereof to identify a product or a service’ (Franceschini 1994: 40). In this context, it has been argued that brand name ownership defines the critical factor in the construction of the clothing commodity chain because the principal profits within buyer-driven commodity chains are realized in marketing, retailing and design rather than in manufacturing (Appelbaum et al. 1994). The driving force in clothing commodity chains is the owner of the brand name under which the garment is sold and marketed, rather than the manufacturer of the garments. These core companies ‘are extracting “monopoly rent” based on their ownership of brand names and trademarks and their expertise in both design and manipulations of consumer tastes through advertising’ (Appelbaum et al. 1994: 188).

Hence, the organizational structure of brand name ownership is far from homogeneous. Earlier studies on the organization of the clothing commodity chain almost deny the existence of, or even the possibility of, manufacturer owned brands. In fact, with the exception of the retailer brands, firms with previous manufacturing experience or that are still partly engaged in production own most of the contemporary global clothing brands. Following Whitley’s (1996) argument about what societal contexts lead to variations in capitalism, it could be suggested that manufacturers are particularly likely to own brand names in societies in which clothing production still plays a dominant role in the national economy. Furthermore, the types of brands follow strong variations, since virtually all garments carry a trademark. Some of the labels are well known, while others are there only because a garment without any label could not be sold and looks suspicious (Franceschini 1994). There are brand names that enjoy global awareness and others that might be used just for a single season in a very small market.

Despite the clothing industry generally being driven by the demand side of the chain and, as Gereffi indicated, the majority of global clothing trade being conducted by retailers and brand name companies, there are various possible intra-sectoral forms of the brand name ownership that also include the manufacturer owned brand. Furthermore, branding is not exclusive to the finished garment and could be used as a marketing tool for inputs, such as raw materials, at all stages of the chain. Each form of brand name ownership creates specific coordination systems of intra- and inter-firm relationships resulting in characteristic ways in which the clothing commodity chain operates. In this respect, the emphasis on the dualistic governance of commodity chains, of either buyer-driven or producer-driven structures, simplifies the richness and varying spectrum of intra-sectoral power relationships and inter-connections between firms (Dicken et al. 2001; Gibbon 2001; Raikes et al. 2000; Smith et al. 2002). The origin of the brand name ownership could be an indicator of whether the clothing commodity chain has a tendency towards a buyer-driven or a producer-driven structure. Retailer brands are similarly organized to brand named companies and operate a network of externalized (buyer-driven) transactions, while the commodity chains of manufacturer owned brands are shaped by vertically integrated systems and fulfil therefore some aspects of producer-driven chains.

In general, every clothing commodity chain consists of a set of production stages and processes that are not related to the fashion segment and brand name ownership of the garment. These production stages can be broadly divided into (a) product development, (b) production and (c) distribution. Each of these stages is key to the
intra-sectoral variations of clothing commodity chains and consists of a set of pro-
cesses; product development includes design and sample making; production consists
of production coordination and raw material procurement, and the assembly processes
of cutting, sewing, finishing and quality control; while distribution has the key com-
ponents of logistic, retail distribution and marketing. The whole production process
follows a certain sequence in which all stages interact with each other. Information
flows and logistical distributions of the semi-finished and finished products to the
various processes create an interacting, sector- or firm-specific network. The whole
production process is organized by production coordination, which is a central link to
most information flows. The processes of these three stages have varying forms of
gration according to the firm-specific organizational behaviour. They can be either
internalized or externalized processes, whereby the degree of integration within the
intra-firm business structure defines the correlation to the brand name ownership.

Gereffi (1994, 1999) defines the clothing commodity chain of retailer brands or
brand name companies as being buyer-driven because a firm without integrated pro-
duction facilities controls the decisive nodes (Figure 1). Instead, the brand name
owner concentrates on the processes at both ends of the chain of product design and
the entire marketing activities. All manufacturing processes, including sample mak-
ing, are externalized, while the manufacturer has the sole responsibility for the
procurement of the raw materials according to the specifications of the brand owner in
terms of quality and design. This accumulates all risks of production on the producer
of the garments. Further deepenings of the network structure are possible, whereby
partial or entire production processes are subcontracted to additional manufacturers.
Within this kind of brand name ownership, the inter-firm relationships are
characterized by structures that are relatively loose, short term and with low levels of
‘goodwill’ trust (Sako 1992) because both producers as well as locations can be
switched very easily to more favourable ones. The emergence of retailer brands is
primarily a sign of increasing retailer power, although the advantage of own labelling
to establish quality standards was a further factor in encouraging retailers to adjust
their strategic behaviour (Harvey et al. 1999: 29).

Increasingly, intermediaries like representative offices or agents link brand owners
in this type of clothing commodity chain to their external production networks. Each
form of intermediary is basically a communication link between buyer and manufac-
turer to control the brand owner’s product standards in terms of quality, delivery
schedule and price. However, while representative offices are internal company inter-
mediaries, agents are independent and operate on the basis of commissions. In
particular, the role of agents has been emphasized within the commodity chain
literature. Gereffi (1994, 1996) argues that first generation NIE clothing companies
increasingly fulfil a role as intermediaries or agents between buyers of advanced
countries and producers of developing countries in East and Southeast Asia. He calls
this business structure ‘triangle manufacturing’, which is basically an extension of the
nodal concept of GCCs and its territoriality and follows the distinction between core,
semi-peripheral and peripheral nodes. In this context, the buyer (core node) originates
from an advanced economy, the intermediary is of a first generation NIE (semi-
peripheral node), while the clothing producer (peripheral node) is located in a
developing country. The triangular nexus is complete when the products are directly
exported from the places of production to the final consumer market.
Figure 1: A clothing commodity chain: retailer brand and brand name company

Source: Dicken and Hasler 2000: 271.
It has been argued that the emergence of competitive clothing industries in Asian developing countries has led to a changing role of clothing companies located predominantly in first generation Asian NIEs, such as Hong Kong, South Korea and Taiwan within global production and trade networks (Gereffi 1995b, 1996; Khanna 1993). Further, manufacturers from these countries follow an internationalization strategy of their production activities to offset increasing locational disadvantages such as high labour costs and limited trade quotas in their home country. They establish production networks of wholly or partly owned subsidiaries, or initiate cooperation with independent, locally owned operations within countries of East and Southeast Asia. Since international buyers have no business experience with these newly emerging production locations they prefer to continue their cooperation with their long-term business partners in the first generation NIEs. Therefore, the transformation of these clothing companies into intermediary roles is basically a way of reconstructing a level of certainty, trust and knowledge of outcomes for the buyers. However, according to Gereffi’s (1996) argument, as the volume of production activities increases brand owners start to bypass the intermediary and operate directly with the newly established producer.

In contrast with the organizational structures of retailer brands and brand name companies, clothing commodity chains of manufacturer owned brands have all the processes of product development, production and distribution vertically integrated into the firm’s internal organizational structure (Figure 2). This kind of brand owner operates a specific intra-firm network of wholly or partly owned production facilities. However, every internalized process can be externalized to specialized subcontractors. In accepting that it is highly unlikely that one would find clothing firms without external company production networks, this kind of brand name ownership is based
The global clothing production system: commodity chains and business networks

on the previously mentioned fact that most established brand owners started their business activities with their own production facilities and tend to maintain at least a partial ‘in-house’ manufacturing of their products. Superior product qualities of delicate and complex styles, as well as quicker responses to market changes, are the key motives for operating this kind of structure (Scheffer 1992).

Hence, branding is not exclusive to clothing brands and can also exist at the supplier end of the commodity chain. While raw material suppliers usually produce to design and quality specifications required by the owner of the clothing brand, there are some exceptions in the role of suppliers within clothing commodity chains. Raw material marketing used only to be a factor in the early stages of the commodity chain between fibre producers, weavers and clothing manufacturers. However, fabrics such as Gore-Tex and Sympatex are marketed throughout the chain and have reached the status of consumer brands where the actual garment brand has almost a subordinate role (Ashton and Rigby 1996). Branding at this early stage has advantages for raw material suppliers and for the owner of the actual garment brand. A combination of two brands leads to a higher image for the product and consequently to higher sales prices. Raw material branding is also beneficial for the consumer in knowing what quality standards and distinctive features are to be expected from a certain fabric used for the garment. This is particularly relevant for the garment types of outerwear and trekking gear, where these materials are predominantly used. The handling of some of these sophisticated raw materials requires a very specific process technology and R&D is highly human capital intensive. The input of high-tech fibres and fabrics into the clothing commodity chain shows a distinct dependency on consumption from production and that production can shape the character of demand, which is a clear feature of the producer-driven commodity chain.

The Indonesian clothing industry: theoretical implications

Embedding the clothing commodity chain

These hypothetical clothing commodity chains show that several factors related to both product and society can influence intra-sectoral variations of production systems. In addition, the national policy framework affecting clothing production and trade has an important impact on the shape and structure of specific commodity chain coordinations. This has particularly been the case for the Indonesian clothing industry. The initial change of the national policy framework from overall import substitution to export orientation (Booth 1992; Karseno 1997) created an institutional framework that helped the growth of the Indonesian clothing industry in the 1980s. During this time, the growth of export production was in particular facilitated by currency devaluations and incentive schemes with built-in subsidies. However, it was the duty exemption and drawback facility for imported raw material inputs that affected the clothing industry the most (Hill 1991, 1992, 1997; Pangestu 1997). This legislation permitted the use of foreign products under duty free conditions. As a result, the previously favoured and protected domestic inputs could be substituted with cheaper and more competitive foreign raw materials. Therefore, manufactured products for export markets became cheaper and more competitive to produce.

In addition to the export oriented policy measures and the liberalization of the import legislation for raw material inputs, the domestic market continued to be a
highly regulated and protected market space (Hassler 2004). Although the initial reorientation of the national policy focus affected in particular the growth performance of the clothing industry during the 1980s, existing protectionist measures geared towards the domestic consumer market are also a major factor in the growth of the clothing production in the 1990s. The overall economic growth of Indonesia and the consequent increase of disposable incomes during this period can be seen as the salient factors creating domestic growth in demand.

These macro economic factors have generated distinct regulatory frameworks with consequences for micro economic organizational practices. In turn, this has important implications for theorization of GCCs. The organization of production networks in the Indonesian clothing industry and their embeddedness in global production networks certainly substantiates in general terms Gereffi’s argument that the clothing industry is predominantly a buyer-driven production system. However, while accepting the general thrust of Gereffi’s argument it is necessary to exemplify the complex manner in which these business networks operate in Indonesia. In particular, the shape and the drivers of the company specific production chains within the clothing sector of Indonesia are highly dependent on the market environment the individual firms are serving.

In the case of Java, the usual specialization and segmentation of clothing manufacturers in terms of fashion standard and product quality is extended into geographical markets (export and domestic). Very few companies serve both markets because the specific way each market operates creates the need for a particular strength and expertise in the different stages of the clothing production chain. While serving export markets requires strength in the organization of production processes to stay competitive globally, the domestic market requires expertise in the processes of product development and distribution in order to sell garments to a highly heterogeneous, developing society. In addition to a geographical market segmentation of the Javanese clothing firms, a distinctive product type specific specialization can be found in Indonesia, according to the regional origin. Javanese firms deal predominantly with standard mainstream clothing, while the Balinese clothing firms have a strong business focus on batik and embroidered products.

This market and product type specific segmentation of the Indonesian clothing industry results in various forms of firm specific commodity chains. A major finding is that there are indeed strong intra-sectoral variations of commodity chain coordinations in relation to their institutional context. The example of Indonesia’s clothing industry and its global market integration substantiates Whitley’s (1996) claim that variable compositions and structures of global commodity chains can be found within a specific industrial sector. The influence of the national and local remains an enduring determinant, whereby the outcome can be far from homogenous.

**Exports to Europe and the USA**

The export oriented Javanese clothing industry operates within organizational structures that basically comply with Gereffi’s definition of a buyer-driven commodity chain (Dicken and Hassler 2000). The driving force is the international buyer, while any other developing country producer could basically substitute the role of the Javanese manufacturer. International buyers and brand owners operate in the core
The global clothing production system: commodity chains and business networks

nodes of product design and marketing, while Indonesian firms are involved in the peripheral node of clothing production. The buyer and brand owner and not the manufacturer generate the core profits. The clothing manufacturers’ role is clearly defined by original equipment manufacturing (OEM) within the trajectory of global market integration (Gereffi 1995a). They are responsible for interpreting the provided designs, sourcing the raw material inputs and satisfying the buyer’s demand in terms of quality, price and on-time delivery.

In addition, the inclusion of intermediaries is an aspect that corresponds to the triangular commodity chain Gereffi (1994, 1996, 1999) defined. However, it is the way triangle manufacturing is organized that reveals distinct variations of clothing commodity chains in relation to the national origin of the buyer and the target market they are serving. The role of agents has been emphasized in Gereffi’s (1994, 1996) concept of triangle manufacturing, but it entirely neglects representative offices. Indeed, only North American buyers predominantly integrate agents as intermediaries, while Western European buyers, by contrast, tend to operate with representative offices (Dicken and Hassler 2000). Therefore, organizational variations can be found in relation to the buyer’s national origin even within the relatively homogeneous global commodity chain coordination in which the export oriented clothing firms are embedded. This is in contrast to Gereffi’s clothing commodity chain and highlights his analytical emphasis on the organizational and strategic behaviour of North American buyers and consumer markets.

This organizational distinction is a result of different business strategies and could even be interpreted as different levels of commitment to Indonesia as a sourcing location. The establishment of representative offices emphasizes a rather stronger commitment to Indonesia as a sourcing location, for it involves a higher capital involvement by the buyer. The potential for quicker communications with the manufacturer and the possibility of acquiring a stronger role in the quality control process are the key motives for establishing this form of buyer representation. This is also reflected in the buyer’s intention to establish local sources of raw materials. By contrast, the integration of agents as intermediaries in clothing commodity chains is a relatively loose form of buyer engagement within Indonesia. Buyers dealing with East Asian agents transfer all sourcing responsibilities to their intermediary to find the cheapest and most competitive producers, wherever they are. The buyer has no interest in developing any form of business relationship with the suppliers. Instead, the inclusion of agents allows a high degree of flexibility to switch production from one country to another if the locational business framework is changing. This could occur, for example, if labour costs are increasing or in cases of insufficient quota availability.

The domestic market and Indonesian clothing brands

The most distinctive variations on the classic buyer-driven chain structure are highlighted by the commodity chain coordinations of Javanese firms dealing with the domestic market and of clothing firms originating from Bali. For example, the case of the domestic market demonstrates the impact of retail distribution on the organization and driver of a sector specific commodity chain. In contrast to Gereffi’s defining characteristic of a buyer-driven chain structure in relation to the brand name owner-
Markus Hassler

ship of retailers and brand name companies, it is the provider of the sales space that determines the driver of the domestic Indonesian clothing commodity chain. The way domestic production and marketing networks are governed and organized shows a distinct dependency on the retail distribution network within which they operate. The cooperation with department stores results in a strongly buyer-driven organization. This is despite the fact that almost all Indonesian firms supplying the domestic market operate production facilities that are an integral part of the company structure. Therefore, the very dominant market position of department stores within Indonesia has led in many cases to the integration of retailing into the clothing firm’s internal business organization. Thus, since retailing and manufacturing are a vertically integrated part of the company’s structure, it could be argued that these specific commodity chain coordinations represent producer-driven rather than buyer-driven organizational forms, for all decisive power is concentrated at a single point within the chain.

However, clothing firms generally design and produce their goods in relation to contemporary market demands. This leads to the assumption that all clothing commodity chains are largely defined by a demand driven organization. This is also reflected in the way some Indonesian brand owners are dealing within consumer markets in East and Southeast Asia and the Middle East (Hassler 2003). Despite the achievement of the most advanced form of global market integration in the form of original brand name manufacturing (OBM), products are adjusted to the special demands and preferences of the targeted market. Local representatives and buyers coordinate and transfer the market data to which the products are adjusted and manufactured. Therefore, the export business of Indonesian brand owners is also characterized by buyer-driven structures, which, however, vary significantly from those of OEM producers dealing with the North American and western European consumer markets.

Balinese batik and embroidered products

A basically demand driven commodity chain is also true for Balinese clothing production. International buyers are endowed with the decisive power to approve the final design of the manufactured goods. However, in contrast with the OEM business of Javanese companies in which the international buyers provide all product specifications, the Balinese clothing company has a very important role within the product development process. In fact, the Balinese organization of clothing production fits the definition of neither OEM nor OBM, since the Balinese firm basically designs the products but they are sold under the buyer’s brand name. This case represents a rather intermediary stage of global market integration in between the two most advanced export stages. This is mainly an outcome of the products these clothing firms supply to the global markets. The competitive advantage of Balinese clothing firms is clearly defined by their production and design specific knowledge of batik and embroidered garments. This unique and highly location-specific knowledge results in some form of market power vis-à-vis the international buyer because patterns of production shape the patterns of consumption. The correlation of production and consumption patterns is a characteristic of producer driven chains. Furthermore, the partial integration of domestic retail distribution within the company’s internal structure to supply the domestic market results in a further producer driven characteristic.
In addition to the product specific influences on this specific clothing commodity chain coordination, the Balinese clothing business also demonstrates the impact of labour relations on the organization of chain structures and provides insights into the exploitative character of home production. The combined organization of labour and production capital within non-obligatory, external production clusters of home workers creates work relationships of very low commitments by the clothing company. In fact, the finance capital loans for the workers to buy the machinery create a framework of highly dependent contractor relations. Home workers have to provide their labour whenever the companies that lent them the money demand it. The chances of working for other contractors at times of low demand from the core contractor, however, are likely to be remote because similar patterns of demand affect the entire Balinese clothing trade. Despite this concentration of risk and responsibility, home workers have very little bargaining power. Instead, wages do not even include social benefits and often bypass the government imposed minimum wages. Hence, there are few employment alternatives for the labour involved in the production networks of rural home industries. The only alternatives are agricultural work or employment in the tourist industry, both of which demand temporary migration, which is an unviable option for most of the workers concerned. In consequence, these structural specifications of clothing production networks in Bali put the clothing firm at the organizational centre of this special type of clothing commodity chain.

The Indonesian case of global clothing production and marketing networks highlights the potential variations of the inter-sectoral commodity chain structures. Gereffi’s emphasis on the governance structure is far too simplistic to explain the structural components and organization of an entire industrial sector. Instead, the inter- and intra-firm relationships within the clothing sector are far from homogeneous, whereby firms within specific clothing commodity chains can exert forces that are neither purely buyer nor producer driven. National and local institutional characteristics, cultural specifications and historic legacies remain important forces in creating sectoral commodity chain coordinations of highly heterogeneous organizations.

Impacts of the economic crisis

In addition to these organizational preconditions within which the Indonesian clothing firms are embedded and operate, a very significant market factor has been the recent economic turmoil and financial crisis since mid-1997. Theoretically, the massive decline in the value of the rupiah to four-fifths of its initial value should have given export-oriented clothing manufacturers located in Indonesia a huge competitive advantage to sell in global markets. Indeed, sales in 1997 had been buoyant compared with the previous year. But, since most orders are placed several months before shipment, the crisis had no initial impact on the clothing industry’s performance in that year. Indonesia’s improved export performance can mainly be accredited to the upgrading of production and the relatively long-term embeddedness in global and regional production networks. However, as the crisis has intensified, the short- and possibly medium-term future of Indonesian export clothing manufactures becomes uncertain and strongly depends on the company’s internal financial structure.

Foreign exchange earnings reduced drastically the proportion of the rupiah paid
labour costs of the overall production costs. However, the currency crisis has also revealed the weakness of the liberal Indonesian banking system. The extremely high interest rates and the fact that many banks are on the edge of bankruptcy, resulted in serious difficulties for many clothing firms trying to generate necessary finance capital. Therefore, this economic crisis has resulted in a distinct situation within the export-oriented clothing sector. Companies with low debts have experienced increases in profits while there are many firms in difficult situations. These firms are finding it virtually impossible to raise the liquid capital needed to purchase the necessary material inputs to manufacture clothing. In some cases the major international buyers are able to assist in this process. However, the problem is especially acute for firms that have accumulated large debts they can no longer service. In consequence, the weak banking system seems to be the major obstacle to taking full advantage of the currently very cheap labour costs. If the banking problem could be solved, the future of the Indonesian export business would be very bright. At the moment, that country has both one of the lowest labour costs by global comparisons and yet the industrial framework exists. In addition, many firms employ a relatively experienced labour force. The Indonesian economic crisis has basically only affected the supply side of the export oriented clothing companies. The demand side looks very buoyant at the moment. Currently, Indonesia is one of the most competitive global clothing production locations for firms that are both already integrated into global production networks and are well endowed with finance capital.

However, clothing companies targeting the domestic market are affected on both sides of the market mechanism – supply and demand. The banking problem and the increasing production and procurement costs for raw materials affect the domestic market producers in the same way as the export oriented firms. However, their prime concern is the drastically reduced domestic demand for short life consumer goods. Basic demand for clothing has dropped drastically because of the decreasing buying power and disposable income of individuals. Consumers hesitate to spend money on short life consumer goods, such as clothing, in times of increasing prices even of basic foodstuffs. This has put companies that are embedded in domestic marketing networks in a very difficult position.

The situation of global marketing organizations is far less critical than that of Indonesian brand owners. The local firms have fewer financial resources and the markets for low to medium fashion segments that most of these companies are serving are even harder hit by the crisis than high fashion brands. Large groups of the target consumers of these lower segments have either already lost their jobs or are living in fear of losing their jobs. These developments reduce hope for an early recovery of the market. Furthermore, the peculiar consignment-based organization of retail distribution within department stores has put many firms in a difficult financial situation. The product ownership is transferred at a very late stage and extends the demand of working capital within a very problematic financial environment and infrastructure. Only an extension of the company internal commodity chain could solve this problem because there are hardly any alternative company external distribution channels besides department stores. However, to build up a company internal distribution network demands relatively large amounts of long-term investment capital. This is currently a high risk venture because of the high interest rates and the unknown outcome of the crisis.
The Balinese batik and embroidery industry is the segment of the Indonesian clothing industry least affected by the crisis. This is largely the result of two factors: on the one hand, it has a very high export orientation, while on the other hand the invested finance capital is relatively low. Almost 90 per cent of the outputs are exported, which results in high foreign exchange earnings for these firms. In addition, mainly domestically procured raw materials and a high input of manual labour distinguish the product content. In particular, the high product content of manual labour has significant impacts for the clothing firms in times of crisis. First, it is a fact that the majority of value added is generated by rupiah based labour costs. Second, the production process itself and the peculiar organization of production demand of the clothing firm little long-term investment capital for machinery because the provision and ownership of the production equipment is transferred to the production networks of home industries.

At first sight, it could be argued that the only impact the crisis has had on the Balinese clothing industry is the changing supply side of the market. The cost of raw material inputs is rising and credit is becoming more difficult to service. However, the prices of domestic raw materials (which are predominantly used) are not rising as much or as fast as imported fabrics. In addition, even if the suppliers of domestic raw materials were to demand dollar payments for the purchases, it would be relatively easy for the clothing firms to meet such requirements with their foreign exchange earnings. However, it is primarily the rural labour force of home workers who will be affected by the crisis and not the contracting firm. Their wages have hardly been increased and they still have to service the debts they incurred through the purchase of sewing machines. Furthermore, all production responsibilities are transferred to these rural small-scale home industries. In consequence, the external organization of production allows a very high degree of flexibility of the demanded production capacity for the contractor if any changes occur on the demand side of the market. Therefore, weak labour relations and low labour costs are a major factor in the low impact of the crisis on the Balinese clothing companies because basically all consequences can be instantly transferred to the home workers.

Conclusion

In this article I have tried to show that the commodity chain account of clothing production systems is weakened by a tendency to generalize from the American experience. This conceptualization of the characteristics of the global clothing industry is highly Western centric and fails to take into account evidence from developing countries. Despite the clothing industry being largely a demand driven enterprise, the organization and insertion of the Indonesian clothing industry in the global economy demonstrates the continuing variety of capitalism in the global clothing production system. Western European clothing buyers tend to organize their sourcing activities and production networks differently from those of North American origin. Furthermore, the marketing networks of brand name companies that deal with the Indonesian domestic market show the continuing importance of production activities within the internal organizational structures of clothing firms. How clothing products are distributed domestically is also an important factor in shaping clothing commodity chains within Indonesia. In addition, Balinese batik and embroidery
industries provide insight into the continuing importance of local institutional and cultural influences on how clothing commodity chains are organized within the global economy.

This is in contrast with the ‘explanatory factors and preferred types of explanation’ (Whitley 1996: 420) of specific commodity chain structures that almost solely emphasize the variations in capital intensity of production and the variations in transactions and labour costs. In other words, the global coordination of production is primarily driven by spatial variations of different kinds of costs and their impact on the processes of production. However, the exploitation of these cost reductions also depends on functional control systems to ensure dependable outputs in terms of agreed costs and quality standards. Therefore, the global coordination of production ‘depends on minimal standards of contractual compliance being met’ (Whitley 1996: 421). But, in the absence of international governing institutions, these cannot be guaranteed and remain an uncertainty for international business. As the Indonesian case demonstrated, unpredictable factors such as economic crises, corruption and changes in government policies can increase the overall costs of global coordination and limit the cost advantages of low wages. This was the case when international buyers had to help their local manufacturers raise short-term working capital as a result of problems in the banking sector. Furthermore, foreign competitors are only allowed to operate in the domestic market and gain control of their marketing and distribution activities if they invest heavily in their Indonesian operation.

However, the most significant impact on economic actors within all types of commodity chains of the Indonesian clothing industry has come from the economic crisis. In consequence, Indonesian clothing companies of all fashion segments and target markets face a large range of opportunities, threats and uncertainties. The only certainty is that global and national changes of policy and economic frameworks will demand constant adjustments of the business strategy. In this regard the longer-term position of Indonesia’s clothing industry in production and marketing networks will depend on its success in developing an even stronger and deeper base of technology and skills. However, the current national economic and political framework makes this developmental process of industrial upgrading very difficult. Indonesia’s role in the global economy as a place of production and marketing will very much depend on the government of this country, which has to stabilize economic conditions and guarantee minimal political security. All this emphasizes that production and marketing networks in the global economy are far from stable forces; they can be very fragile indeed.

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Note

1. The Indonesian population consists of more than 200 million people (the fourth most populous country in the world) and provides therefore a consumer market of enormous size. However, the buying power within this country is far from evenly distributed. This includes, for example, the geographical as well as the social distribution of economic wealth and buying power. Despite the fact that Indonesia consists of more than 17,000 islands, more than 60 per cent of the entire population lives on the island of Java. In addition, the buying power of the urban society is much higher than that of the rural population and even within urban Indonesia the social disparities are massive. These preconditions demand a detailed knowledge of the geographical as well as societal target market to serve the Indonesian consumer market successfully.

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The global clothing production system: commodity chains and business networks


