

CONTEST IN THE BOUNDARIES OF CORPORATE SOCIAL
RESPONSIBILITY:
EMERGENCE OF NONGOVERNMENTAL SYSTEMS OF LABOUR
REGULATION IN THE TEXTILE AND APPAREL INDUSTRY

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ABSTRACT

CONTEST IN THE BOUNDARIES OF CORPORATE SOCIAL RESPONSIBILITY: EMERGENCE OF NONGOVERNMENTAL SYSTEMS OF LABOUR REGULATION IN THE TEXTILE AND APPAREL INDUSTRY

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The thesis investigates the reasons behind the proliferation of non-governmental systems of labour regulation in the textile and apparel industry in the USA, European Union and Turkey. The aim of the study is to identify the main structural factors, strategies and agencies which drive the process for the emergence of these systems within the confines of Corporate Social Responsibility (CSR) discourse and assess their effectiveness and sustainability as a form of regulation. The thesis concludes that the incapability of the traditional institutions to regulate and equalize labour standards throughout the buyer-driven apparel value chains played a key role in the search for new regulatory mechanisms. Among many alternatives, the contests and compromises between different strategies constrained by the current structural factors resulted in the dominance of non-governmental systems of regulation resting on the extension of regulatory authority from the public to the private institutions. However, whilst filling some gaps between the organization of production and existing regulatory institutions through transforming into more collective forms, these systems tend to supplement the traditional institutions of regulation in a period of crisis rather than replacing them, since their scope fall short for solving the

problems of standardization, equalization and generalization of the labour standards and their associated costs.

Keywords: Corporate social responsibility, non-governmental systems of regulation, textile and apparel industry, global value chains.

ÖZ

KURUMSAL SOSYAL SORUMLULUĞUN SINIRLARINDA MÜCADELE: TEKSTİL VE HAZIR GİYİM ENDÜSTRİSİNDE DEVLET DIŞI DÜZENLEME SİSTEMLERİNİN ORTAYA ÇIKIŞI

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Yüksek Lisans Tezi, Siyaset Bilimi ve Kamu Yönetimi Bölümü Ana Bilim Dalı

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Bu tez, Avrupa Birliği, ABD ve Türkiye’de tekstil ve hazır giyim sektöründe çalışma koşullarına yönelik devlet dışı düzenleme sistemlerinin ortaya çıkış nedenlerini inceler. Çalışmanın amacı, Kurumsal Sosyal Sorumluluk (KSS) söylemi dâhilinde gelişen bu sistemlerin ortaya çıkışında etkili olan temel yapısal faktörleri, stratejileri ve özneleri belirlemek ve bu sistemlerin bir düzenleme biçimi olarak etkililiğini ve sürdürülebilirliğini değerlendirmektir. Tezde, geleneksel kurumların alıcı-güdümlü küresel değer zincirleri boyunca çalışma standartlarının ve maliyetlerinin düzenlenmesinde ve eşitlenmesinde yetersizliğinin yeni düzenleyici mekanizmalara yönelik arayışta esas rolü üstlendiği sonucuna varılmıştır. Mevcut yapısal faktörlerin sınırlamaları dahilinde bir çok farklı strateji arasındaki mücadele ve uzlaşılar, alternatif mekanizmalar arasında düzenleyici otoritenin kamudan özel kuruluşlara genişletildiği devlet dışı düzenleme sistemlerinin baskın çıkmasına neden olmuştur. Ancak, her ne kadar bu sistemlerin daha kollektif biçimlere dönüşmesi üretimin organizasyonu ve mevcut düzenleyici kurumlar arasındaki bazı boşlukların doldurulmasında etkili olsa da, çalışma koşullarının ve maliyetlerinin standardizasyonu, eşitlenmesi ve genelleştirilmesi sorunlarının çözümü bakımından kapsamlarının sınırlı kalması nedeniyle devlet dışı düzenleme sistemleri bu kurumların yerini almak yerine kriz döneminde onları tamamlamak eğilimindedir.

Anahtar Kelimeler: Kurumsal sosyal sorumluluk, devlet dışı düzenleme sistemleri, tekstil ve hazır giyim endüstrisi, küresel değer zincirleri.

To my Beloved Mother, Aunt and Grandmother

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TABLE OF CONTENTS

PLAGIARISM.....	iii
ABSTRACT.....	iv
ÖZ.....	vi
DEDICATION.....	viii
ACKNOWLEDGMENTS.....	ix
TABLE OF CONTENTS.....	xi
CHAPTER	
1. INTRODUCTION	1
2. POLITICAL ECONOMY OF TEXTILE AND APPAREL INDUSTRY.....	13
2.1. History of the Industry.....	13
2.2. Organization of the Production in the late 20 th Century: Apparel Value Chains	18
2.2.1. End of the MFA and Current Situation of the Apparel and Textile Trade	23
2.2.2. Role of the Regional Trade Agreements in the Composition of the Global Sourcing Networks: NAFTA and the EU	27
2.2.3. Competitive Advantages of the Producers in the Global Sourcing Networks	29
2.3. Labour Conditions in the Industry and Governmental and Intergovernmental Labour Regulations.....	33
3. EMERGENCE OF CSR AS A MECHANISM OF REGULATION	42
3.1. Conceptual Tools	43
3.2. Drivers of Nongovernmental Systems of Labour Regulation	46
3.2.1. Labour Unions, NGOs and Social Movements and Initial Self-Regulation Attempts of Corporations.....	46

3.2.2. Rise of Nongovernmental System of Regulations in the Agenda of Intergovernmental Organizations.....	51
3.2.2. State and the Emergence of CSR as a Regulatory Mechanism.....	53
3.3. The Nongovernmental Systems of Regulation	57
3.3.1. Corporate Codes of Conduct and Internal Monitoring	57
3.3.2. External Monitoring, Independent Verification and Certification Programmes.....	58
3.4. United Nations Global Compact.....	78
3.5. European Union and Enhancement of the Corporate Social Responsibility as a Competition Strategy	82
3.6. On the Nongovernmental Systems of Regulation.....	88
4. TURKISH TEXTILE AND APPAREL INDUSTRY	96
4.1. History of the Industry	97
4.2. European Integration Process and Customs Union.....	105
4.3. End of the MFA and Current Situation of the Apparel and Textile Industry in Turkey	109
4.3.1. The Production, Employment and Trade Structures of the Textile and Apparel Industry.....	110
4.3.2. Sustaining Competitiveness as Full-Package Supplier	119
4.4. State Regulations and Labour Conditions in the Industry	122
5. CSR AND TURKISH TEXTILE AND APPAREL INDUSTRY	134
5.1. Buyers and Suppliers	134
5.2. Social Movements and NGOs	138
5.3. Intergovernmental Organizations	141
5.4. Governmental Institutions	144
5.5. Sector Organizations.....	146
5.6. Trade Unions.....	157
6. CONCLUSION	165
REFERENCES.....	184

CHAPTER 1

INTRODUCTION

Where do the boundaries of the responsibilities of corporations start and where do they end? Who are the corporations responsible to? What are the legitimate bases of the power the corporations possess? Which institutions and strategies should be used in order to regulate the corporate actions having social consequences? Corporate Social Responsibility (CSR) is a concept which can best be understood through identifying the specific settings in which various structural factors and strategies reshape the boundaries of the responsibilities of the corporations through redefining the scope of the corporate action, tools and the authority to which the corporations should be accountable for in order to legitimately undertake these actions.

The CSR as an idea first emerged in 1930s in the Anglo-American world when the separation of the ownership and control in the large corporations led to the discussions on the ‘abilities’ and limits of ‘discretionary power’ of the managers.¹ In a regulatory system, in which the managers were primarily held responsible for maximizing the profits of their shareholders, this idea brought into the agenda the possibility of widening the groups of which interests could be recognized in the decision making process of the corporations. In 1950s, the growing power of the large corporations triggered the discussions on the capabilities and limits of the managers who direct the corporations. It was Howard R. Bowen who first defined the social responsibility in respect to the power the corporations possess. Bowen’s definition stemmed from the concern that as ‘power and decision making centres’, the actions of large corporations could influence the lives of many citizens.² In his

¹ L. Whitehouse, “Corporate Social Responsibility, Corporate Citizenship and the Global Compact,” *Global Social Policy*, 3 (3) (2003): 299-318, 301.

² A. B. Carroll, “Corporate Social Responsibility: Evolution of Definitional Construct,” *Business and Society*, 38 (3) (1999): 268-295, 269-270.

book *Social Responsibilities of Businessmen*, Bowen defined the social responsibilities of the businessmen as their “obligations” to act in a way “desirable in terms of the objectives and values of the society”³ when they take decisions and implement their policies.

In 1960s, the debates on CSR concentrated on the content of the responsibilities of the businessmen. The most important characteristic of the literature on CSR in 1960s was the definition of ‘social responsibility’ beyond the economic and legal obligations of the corporations. It was Keith Davis, who contributed to the debates on CSR through defining the boundaries of social responsibility “beyond the firm’s direct economic or technical interest”⁴. Davis defined social responsibility as the obligations of business executives to consider the consequences of their decisions on society at large through taking into account the needs and interests of those who might be affected from corporate actions. Moreover, through underlining the need for a balance between the social power of businessmen and their responsibilities, Davis also introduced the social responsibility as the basis of social power of business which could provide long-term economic gain to the capital. It was William C. Frederick, who took the definition of social responsibility a step further in 1960s through assigning ‘private’ corporations the roles of ‘public’ entities. Frederick described the social responsibility as going “beyond narrow interest of private persons and firms” and fulfilling the “expectations of the public” through employing means of production in order to enhance “total socio-economic welfare”.⁵ In the sizeable literature produced throughout the 1960s, the agency of the

³ H.R. Bowen, *Social responsibilities of the businessman*, (New York: Harper&Row, 1953): 6, quoted in Carroll, 270.

⁴ K. Davis, “Can business afford to ignore social responsibilities?,” *California Management Review*, 2 (Spring) (1960): 70 quoted in Carroll, 271.

⁵ W. Frederick, “The Growing Concern over Business Responsibility,” *California Management Review*, 2 (4) (1960): 60 quoted in T.J. Zenisek, “Corporate social responsibility: A Conceptualization based on organizational literature,” *The Academy of Management Review*, 4 (3) (1979): 359-368, 361.

social responsibility also started to shift from individuals to corporations and the ‘voluntarism’ as an aspect of CSR started to be emphasized.

In 1970s, the outburst of many scandals in the developing countries concerning the activities of multi-national corporations (MNCs) condensed the political debate on the legitimate sources of the corporate power.⁶ As an extension of the earlier discussions on the capability of interests other than the shareholders being recognized in the decision making processes of the firms, it was Harold Johnson who first defined what these specific interest groups could be. Johnson’s definition of CSR as the ability of managerial executives to balance the interests of shareholders, employees, suppliers and local community was one of the earliest examples of the stakeholder approach which gained support in 1980s.⁷ On the other hand, as a reaction to the proliferation of the extra-economic definitions of social responsibility in 1960s, Milton Friedman also published his article *The Social Responsibility of Business is to Increase Profits* in New York Times Magazine in 1970. In this article, as a response to the earlier conceptions of CSR, Friedman claimed that the sole responsibility of the managers was to increase the profits of the firms’ shareholders. According to Friedman, firms were economic actors and all non-economic activities for which corporate resources were utilized for some kind of social good were derived from the ‘agency’ problem, that is, the desire of managers to advance their personal agenda such as promoting their self-image.

Starting from the 1970s, there proliferated many approaches built on the previous definitions of CSR which either attempted to separate or balance the economic interests of the corporations and their social responsibilities to the groups other than their shareholders. For instance, while Davis reformulated his definition through excluding not only economic but also legal requirements from the realm of CSR, Archie B. Carroll introduced his famous four-leg definition of CSR as the economic,

⁶ Whitehouse 2003, 302.

⁷ Carroll 1999, 273-274.

legal, ethical and discretionary/voluntary/philanthropic expectations of the society from the corporations in 1970s.⁸

On the other hand, through defining CSR as a strategy for maximizing the profits of the shareholders, the agency problem of Friedman was managed to be solved. In this regard, just to name a few theoreticians and researchers among others, Fombrum and Shanley claimed that social activities benefitted firms through improving their reputations, while McWilliams and Siegal showed that CSR could improve competitive advantage of the firms through cause-related marketing.⁹ These approaches gained many supporters from public relations and marketing departments and CSR started to be incorporated into ‘cause related marketing,’ ‘social branding,’ ‘brand royalty,’ and ‘employee royalty’ approaches as means for profit maximization. According to these instrumental approaches, which are still widely supported by the CSR practitioners of the corporations, the main criterion for CSR activities has been their profitability for the shareholders of the firms.¹⁰

Furthermore, in 1980s, as an attempt to integrate economic, moral and political concerns regarding the corporate actions, the Stakeholder Theory was developed. According to this theory, in order to attain long-term sustainable growth and legitimacy, corporations were required to take into consideration the social demands and be responsible to their stakeholders that included not only their shareholders but also consumers, customers, suppliers, employees and nongovernmental organizations (NGOs). This perspective moved the definition of CSR from a precautionary to a proactive position in many fields from labour rights to environment.

⁸ Ibid., 273-284.

⁹ A. McWilliams et al., “Corporate Social Responsibility: International Perspectives,” Social Science Research Network, <http://ssrn.com/abstract=900834> (accessed February 18, 2007): 6.

¹⁰ E. Garriga and D. Melé, “Corporate social responsibility theories: Mapping the territory,” *Journal of Business Ethics*, 53 (2004): 51-71, 53.

Moreover, starting from late 1970s, the debates on CSR enriched with the proliferation of conceptual tools such as social obligations, corporate social performance, social responsibility, corporate responsibility, public responsibility, business ethics, social responsiveness, corporate citizenship and corporate accountability.¹¹ These concepts were designed for either hardening or softening the voluntary and obligatory aspects of the CSR or define the response mechanisms of firms to the social issues either as proactive or responsive.¹² The proliferation of such concepts further complicated the definition of CSR, as it turned into an ‘umbrella concept’ which accommodated all these different positions regarding the ‘business-society relations’.¹³

The condensation of the debates on CSR in the realm of ideas has been also accompanied with the proliferation and sophistication of tools and strategies associated with CSR practices. In reference to Archie Carroll’s four-leg definition of CSR, the ‘philanthropic’ practices of firms turned into long term projects on education, health, poverty, environment or other problems of the communities in which they operate. Complex public, private and NGO partnerships began to be developed in which the corporations went beyond charity and sponsorship and actively involved in the implementation processes. On the one hand, the corporations began to increasingly involve in CSR activities as a tool for enhancing their public image. On the other hand, new approaches and tools such as United Nation Development Program’s initiative of ‘growing inclusive markets’ linked the economic notion of CSR with the poverty reduction through promoting pro-poor goods and services.¹⁴ These new approaches blurred the boundaries between ‘economic’ and ‘voluntary’ responsibilities of the firms more than ever.

¹¹ C. Valor, “Corporate Social Responsibility and Corporate Citizenship: Towards Corporate Accountability” *Business and Society Review*, 110 (2) 2005:191-212, 193-196.

¹² For an account of different conceptions associated with CSR Cf. Zenisek 1979 and Carroll 1999.

¹³ D. Matten, and J. Moon, “‘Implicit’ and ‘Explicit’ CSR: A conceptual framework for a comparative understanding of corporate social responsibility,” *Academy of Management Review*, 33 (2008): 404-424, 405.

¹⁴ The initiative on “Growing Inclusive Markets” which is built on the promotion of business models that position the poor on supply side as employees as well as demand side as customers was

On the other hand, in terms of the ‘ethical’ and ‘legal’ responsibilities of the firm, new tools were developed to define the responsibilities of the corporations and monitor their compliance to these responsibilities. Starting from 1980s, the regulatory power to constrain the corporations started to shift from the state to the non-state actors in the name of CSR.¹⁵ The initial instruments being developed for the self-regulation of companies or industries through softer voluntary approaches were followed by more ‘socialized’ systems of regulation as the NGOs, trade unions and other stakeholders began to assume the regulatory authority.¹⁶ To the extent that this new line of CSR activities embraced regulatory actions in the forms of standard setting, monitoring and applying sanctions which are undertaken by nongovernmental actors in order to ensure that the corporations undertake their legal and ethical responsibilities, the rise of this particular form of CSR discourse can be associated with the rise of the ‘nongovernmental regulation’¹⁷.

Despite nongovernmental systems of regulation that define standards for responsible business proliferated in almost every industry including forestry, coffee, diamonds, textile, apparel, footwear, financial services, energy, electronic equipments and chemical, there have been considerable differences between the issues being addressed in these sectors.¹⁸ For instance, in an extensive survey conducted by the

established by the UNDP and supported by the private sector and NGOs in 2006. For detailed information on Growing Inclusive Markets framework, see UNDP Growing Inclusive Markets, <http://www.growinginclusivemarkets.org>.

¹⁵ P. Utting, “Rethinking Business Regulation: From Self-regulation to Social Control,” *UNRISD, Programme on Technology, Business and Society Programme Paper* 15 (2005), 1.

¹⁶ D. O’Rourke, “Outsourcing Regulation: Analyzing Nongovernmental Systems of Labor Standards and Monitoring,” *Policy Studies Journal* 31 (1) (2003): 1-29. V. Haufler, “New Forms of Governance: Certification Regimes as Social Regulations of the Global Market,” in *Social and political dimensions of forest certification* in ed. E. Meidinger et al. (2003), <http://www.law.buffalo.edu/eemeid/certsem/Haufler.pdf> (accessed March 6, 2009): 237-247.

¹⁷ O’Rourke 2003, 1.

¹⁸ D. Vogel, “The Private Regulation of Global Corporate Conduct,” *Working Paper*, (Center for Responsible Business, University of California, Berkeley, 2007), <http://www.escholarship.org/uc/item/8g66g3hf> (accessed June 12, 2009), 10.

OECD in 2001, it was revealed that the codes of conduct being developed within the textile and apparel industry primarily concentrated on the labour relations, while the extractive industries (mining, petroleum products and natural gas), forestry and chemical industries were rather inclined to focus on more than one issue areas despite developing more detailed standards on environment. The survey also assessed the distribution of different issues in the codes of conduct. In this respect, it was revealed that the majority (148 out of 246) of the codes of conduct being examined in the survey concentrated on labour standards, while environmental standards were the next highest in frequency (145 out of 246).¹⁹ Those most frequently addressed issues were followed by consumer protection with an amount of 117 codes. On the other hand, the bribery, which was the most frequently cited fourth issue, was addressed only in 56 codes of conduct. The survey also underlined many differences between the codes of conduct of the most widely concentrated two issue areas, environment and labour. In this respect, it was revealed that whereas the environmental codes primarily included general principles such as compliance with national law (67.6%) and openness to community concerns (40%), the labour codes rather included more detailed provisions on specific issues such as working conditions (75.7%), discrimination and harassment (60.8%), compensation of overtime (45.8%) and child labour (43.2%) in addition to compliance with laws (65.5%).²⁰ On the other hand, the survey also set forth the differences between two types of codes in respect to their addressees. While only 35% of codes covering environmental issues concentrated on obligation of suppliers and contractors, this rate was higher (41.2%) in the codes related to the labour standards.

What are the reasons for these differences in the practical and discursive realms of the CSR? This thesis is built on the assumption that the CSR is a floating phenomenon and contested concept of which content varies in respect to the interrelation of different structural factors and the strategies of different agencies in particular settings. In this regard, the thesis investigates the reasons behind the

¹⁹ OECD, "Codes of Corporate Conduct: Expanded Review of Their Content," *Working Papers on International Investment, Number 2001/6*, (2001): 8.

²⁰ OECD 2001, 9-10.

proliferation of a particular form of CSR that is nongovernmental systems of labour regulation, in the textile and apparel industry through elaborating the roles and strategies of a wide range of actors including manufacturer, supplier and buyer companies, governments, intergovernmental organizations, labour unions, employer associations, social movements and NGOs. While keeping in mind the role of ideas summarized above, investigating the structural factors and contexts provided by the industrial, national and international political economies constitute an important part of the thesis to the extent that it is these contexts that condition the strategies of these actors and render the CSR its particular forms as a regulatory system. In this regard, the thesis elaborates different drivers of CSR in two leading textile and apparel importers in the international trade, which are the USA and EU and one of the world's leading textile and apparel supplier, Turkey.

There are mainly two reasons for choosing the textile and apparel industry as the object of inquiry in this thesis. Firstly, the textile and apparel has historically been one of the most widely regulated sectors in the international trade. Playing a key role in the accumulation of capital for further industrialisation, the textile and apparel industry has been driven by the development strategies of the developing countries as well as the protectionist strategies of the developed ones for many years. Secondly, the textile and apparel is the leading sector among the manufacturing industries having the largest number of corporate codes of conduct as regulatory tools.²¹ Moreover, the codes of conduct in the textile and apparel industry have many peculiar characteristics in respect to their scopes and addressees. Unlike other sector codes, the codes of conduct developed in the textile and apparel industry has rather been focused and elaborate.²² Besides, the link with existing intergovernmental regulations is much stronger in this industry than the other

²¹ In addition to the leadership of textile and apparel sector among all the sectors in terms of code of conduct, it is also the leading industry on labour codes. Cf. OECD 2001, 7 and M. Urminsky, "Self-Regulation in the Workplace: Codes of Conduct, Social Labeling and Socially Responsible Investment," (Genova: International Labour Office, 2001), 15.

²² For instance, according to the OECD, whereas only 29.7% of overall inventory being examined in the survey touched upon the freedom of association, nearly 50% of the apparel codes emphasized this civic right. See, OECD 2001, 20.

sectors.²³ Lastly, these codes are primarily developed to regulate the working conditions in the suppliers and contractors of the corporations rather than regulating the activities of the main corporations.²⁴ In this regard, through investigating the factors and strategies which shaped the nongovernmental systems of regulation in this most elaborate form in relation to the previously existing instruments of regulation, it is aimed to provide the CSR literature with an account on the sustainability and effectiveness of the CSR as a mechanism to regulate current regime of accumulation.

The research method, which is employed in the thesis, is a combination of textual methods and empirical studies. In the level of desk studies, the texts were subjected to the discourse analysis in order to reveal different perceptions, discourses and strategies on CSR as well as on the trends in the textile and apparel industry in Turkey, EU and USA. These texts included bulletins, reports, books, journals, newspapers and websites which are produced by the state institutions, academia, intergovernmental institutions, business associations, trade unions and NGOs. In the level of the field research, the organizations to be investigated were restricted to those which led the process for the dissemination of nongovernmental systems of regulation in the textile and apparel industry in Turkey, while the organizations which actively involved in the dissemination of CSR in Turkey were also investigated in order to locate the position of textile and apparel industry and nongovernmental systems of labour regulation within the wider trend of CSR in Turkey. In this regard, half-structured in-debt interviews were conducted with the key informants from the trade unions, sector organizations, intergovernmental institutions, suppliers, subcontractors and NGOs who actively involved in the determination of strategies and discourses of their organizations in respect to the CSR. Strategic informants were selected after the investigation of reports, websites, newspaper articles, and bulletins of the organizations and through the snowball

²³ OECD 2001, 20.

²⁴ According to the survey of the OECD, whereas overall 35% of labour codes were addressed to the suppliers and contractors, this rate was reaching up to 81% in the apparel codes. See, OECD 2001, 21.

interviewing technique. The interviews continued until all the organizations and informants referred by the interviews were exhausted. While not being restricted to those, the interviews with the organizations related to the textile and apparel industry mainly covered the following issues:

- Main events and processes that influenced current situation of textile and apparel production and trade;
- Perception and strategies on competitiveness;
- Labour standards in the industry;
- Relations with other organizations and stakeholders;
- Perception and strategies on CSR;
- Perception and strategies on different systems (governmental, privatized, collaborative, socialized) and tools (codes of conduct, laws, inspections, internal monitoring, external monitoring, independent monitoring, appeal systems, etc.) of regulation;
- Content of the CSR activities of the organization;
- Drivers of CSR: role of different institutions and processes;
- Benefits and shortcomings of existing state of CSR in respect to the strategy of the organization;
- The perception regarding the role of the CSR in the betterment of the labour conditions.

The list of interviewees and their position are presented in the following table:

Interview 1SO	Executive in sector organization
Interview 2SO	Specialist in sector organization
Interview 3SO	Executive in sector organization
Interview 4SO	Former executive in sector organization
Interview 5TU	Executive in trade union
Interview 6TU	Executive in trade union
Interview 7CS	Executive in apparel supplier company / Responsible from CSR and labour standards

Interview 8CS	Executive in apparel supplier company / Responsible from CSR and labour standards
Interview 9CC	Executive in apparel sub-contractor company / Responsible from CSR and labour standards
Interview 10CT	Executive in a textile supplier company / Responsible from CSR and labour standards
Interview 11NG	Executive in NGO
Interview 12NG	Member of Directory Board in NGO
Interview 13NN	Executive in international organization

In the following chapter of the thesis, the structural features of the textile and apparel industry and trade are going to be identified through investigating the transformations in the labour processes and regulatory institutions. After presenting the history of the industry, particular characteristics of current textile and apparel production and trade are going to be elaborated in reference to the “global value chains” (GVC) approach. Then, the factors shaping the sourcing networks in the apparel are going to be presented. In this regard, first of all, the impacts of the elimination of the quota system on the world textile and apparel trade are going to be investigated. Secondly, the role of the trade agreements in the composition of the supplying networks is going to be elaborated. Lastly, the competitive advantages of the countries in respect to the previously discussed issues are going to be investigated. This chapter is going to be finalized with a discussion on the impacts of the transformations in the labour processes and regulatory institutions on labour conditions in the industry.

In the third chapter, the main agencies and strategies which shape the CSR agenda in the textile and apparel industry are going to be identified in relation to the context presented in the second chapter. In this regard, after presenting the concepts and methods associated with the nongovernmental systems of regulation, the emergence of different systems of nongovernmental regulations, i.e, privatized, collaborative and socialized, in the US and EU are going to be presented through investigating the roles of NGOs, companies, trade unions, social movements, governments and

intergovernmental institutions. Thirdly, different institutional arrangements on nongovernmental systems of regulation including certification schemes, learning platforms, external and independent monitoring initiatives, their composition and regulatory tools are going to be presented. Finally, the similarities and differences between all of these systems and the role of strategies of different agencies in this process are going to be evaluated.

In the fourth chapter, the structural features of the Turkish textile and apparel industry are going to be presented in relation to the larger national, regional and global transformations. After investigating the history of the industry, current trade and production structure as well as the competitive advantages of Turkey in the international trade are going to be discussed. Finally, the labour conditions in Turkey are going to be presented in respect to the above-mentioned transformations and state regulations.

In the fifth chapter, the strategies and agencies which shape the CSR agenda of Turkish textile and apparel industry are going to be identified. In this regard, the discourses and practices of the buyers, suppliers, sector organizations, trade unions, social movements, NGOs, government and intergovernmental organizations are going to be presented in relation to the wider context and strategies.

In the last chapter, after summarizing the structural factors shaping the CSR agenda in the USA, EU and Turkey, differences and similarities between the strategies and agencies shaping the CSR agenda in different societal settings are going to be elaborated. Finally, the sustainability and effectiveness of the nongovernmental systems of labour regulation as mechanisms to mediate the relations of different agencies and constrain the accumulation regime are going to be discussed.

CHAPTER 2

POLITICAL ECONOMY OF TEXTILE AND APPAREL INDUSTRY

As clothing is a basic necessity, the history of the production and trade of fibre and cloth is nearly as old as humanity itself. On the other hand, the emergence of the modern textile industry dates back to the 17th century as one of the forerunner industries of the capitalism while it achieved real growth after the invention of spinning machine in the middle 18th century. From the middle 19th century onwards, the textile industry has played a key role in the industrialisation process of many countries through providing basic capital and knowledge accumulation. The mechanisation of the textile production was led by Britain, whereas the continental Europe and the USA began to develop their own industries in the early 19th century and followed by India and Japan in the second half of the same century.²⁵ Together with the development of man-made fibres in the 20th century, the textile industry grew further together with many related and supporting industries in chemicals and machinery. On the other hand, the apparel industry began to live its heydays after the 1st World War and undergone significant transformations in terms of its labour processes since then. Due to the sufficiency of low skilled labour force and low capital for initiating the industry and high added value, employment and export gains it provided in return, the apparel quickly assumed an important role in the industrialisation strategies of the nation-states.

2.1. History of the Industry

The development of the national textile and apparel industries has been closely related with the broader trends of integration and disintegration of the international economy. Even as early as the establishment of the industry, the textile sector was

²⁵ J. Singleton, *World Textile Industry*, (London: Routledge, 1997), 13.

dependent on the international linkages from the production of the raw materials to the consumption despite the severe restrictions of the mercantilist era. In the 18th century, the complex triangular trade relations linking Europe, Africa and America were established for the cotton textiles by Britain.²⁶ However, together with the outburst of Napoleonic Wars in the early 19th century, the export oriented textile production and import oriented textile consumption came to an end due to the blockage of trade routes. As a result of the protectionist barriers, the import-substituting cotton textile factories emerged in the continental Europe and the America, the owners of which later emerged as a powerful group to lobby for further protectionist measures.²⁷ In the second half of the 19th century, the textile trade was once again liberalised with the bilateral trade agreements among western countries. This process was reinforced with the dramatic decline in the transportation costs due to the technologic advancements associated with the steam power. After the following periods of restrictions, the free trade ideals once again endorsed after the 2nd WW by the Western countries as a part of the wider trend for establishing the international order.

The countries gathered in the Bretton-Woods Conference for the regulation of the international trade and monetary order decided to establish an organization for the regulation of trade. This regulatory body, which was initially designed to be the International Trade Organization (ITO), failed to be realized in 1950. As a result, the General Agreement on Tariffs and Trade (GATT), which was signed in 1947 in order to reduce the barriers to international trade through reducing tariff barriers, quantitative restrictions and subsidies, remained as the main institution to regulate international trade. After the enforcement of the GATT, the reduction of the trade barriers in 1950s resulted with the entrance of many developing countries into the textile market through utilising their low cost labour force and offering other

²⁶ K. O'Rourke, "Globalization in Historical Perspective" in *Globalization and Unemployment*, ed. H. Wagner, (New York: Springer, 2000), 40.

²⁷ Ibid., 41.

incentives to the textile traders.²⁸ As GATT permitted the implementation of import substituted industrialisation (ISI) strategy, most of those countries primarily developed their textile industry through utilising quantitative restrictions and establishing state enterprises. However, the entrance of “too much” countries to the market put an end to the liberal trade environment foreseen by the GATT in a short period of time.²⁹ In 1960s, the intensification of 'competition' in the textile trade led to the overcapacity and overproduction problems for the developed countries.

In order to safeguard their industries, developed countries initially utilized unilateral restrictions against cotton textile imports from developing countries. Then those restrictions turned into voluntary export restraints guaranteed through bilateral agreements. The first agreement after the GATT, which aimed to restrain textile and apparel import from developing countries, was introduced by the USA in 1960 and covered only cotton textile products.³⁰ On the other hand, the USA had been already using a series of restrictions against Japanese imports through *ad hoc* bilateral arrangements which were all against non-discrimination principle of GATT.³¹ In order to provide a basis for such kind of bilateral agreements in international arena and protect national industries against “market disruptions”, Short-Term Cotton Agreement was signed in 1961, which was succeeded by Long-Term Cotton Agreement in 1962. These agreements were revised many times and prolonged until 1973 and paved the way for the Multi Fibre Agreement (MFA).

As the overcapacity problem was further reinforced in 1970s by the decrease in demand due to the consecutive oil crisis, the international regulatory framework was revised with a long-term multi-lateral agreement known as the MFA. The purpose of the MFA, which was initially signed by 50 nations in 1974, was stated as: “To

²⁸ E. İlyasoğlu and L. Duruiz, *Turkish Clothing Industry*, (Istanbul: Turkish Clothing Manufacturers' Association. 1991), 34.

²⁹ İlyasoğlu and Duruiz 1991, 137.

³⁰ N. Kanoğlu, N., and Ç. Öngüt, *Dünyada ve Türkiye'de Tekstil-Hazır Giyim Sektörleri ve Türkiye'nin Rekabet Gücü*, (Ankara: DPT İSKGM, 2003), 27.

³¹ İlyasoğlu and Duruiz 1991, 137.

achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries.”³² In practice, while it served for the reduction of customs tariffs and quantitative restrictions and opened the way for new comer countries, the MFA also limited the share of newly industrialised countries in the world apparel and textile trade.³³ The quantity restrictions prevented any developing countries to dominate the trade and dispersed the shares of the textile exports among several countries. The MFA also enlarged the coverage of restricted products from cotton textile products to synthetic, woollen and man-made fibres and their derivative products due to the increase in the imports of those products from the developing countries.

After the MFA, the value of the world textile and apparel trade significantly rose. The MFA could not prevent the decrease in the shares of the developed countries in the textile exports despite they continued to be among the leading exporters in the following decades. On the other hand, starting from the late 1970s, the apparel's share in the international trade significantly increased and the textile exports began to largely originate from the developing countries. Whereas in 1963 the share of the apparel trade was 2.2 billion dollars in the world trade 80% of which originated from the developed countries, in 1988 the total value of the apparel trade reached up to 89 billion dollar only 36% of which emanated from the developed world.³⁴ The increasing shares of the developing countries in the apparel production and trade mostly resulted from the shift of the strategies of the developing countries to the export oriented industrialisation (EOI) in late 1970s due to the balance of payment

³² GATT 1974.

³³ Kanoğlu and Öngüt 2003, 28.

³⁴ İlyasoğlu and Duruiz 1991, 36-37.

deficits and resulting debt crisis.³⁵ It was the East Asian countries including Taiwan, Hong Kong and South Korea which initially relied on the expansion of the exports of the manufactured products including apparel to gain the foreign exchange. These countries emerged as leading apparel exporters in 1970s. Together with the support provided to export oriented strategy by the IMF and WB, many other developing countries concentrated on the apparel sector since the barriers to entrance to the world textile and apparel trade were low and reliance on the abundance of unskilled large labour force resulted from rapid urbanisation was enough for developing the sector.

Intensifying in late 1980s, the world entered into a new phase of integration of the international economy which is commonly defined as ‘globalization’. In this phase, the market and state relations began to be restructured in accordance with the principles of the Washington Consensus.³⁶ The reform packages of the IMF and the WB began to concentrate on liberalization of finance and trade, privatization of the state enterprises and deregulation of the social policy and labour market policies. In this regard, the developing countries started to concentrate on strategies for attracting foreign direct investment (FDI).³⁷ Moreover, through decreasing the demand through fiscal discipline, many more countries began to integrate into the global economy with the export oriented industrialisation strategies. All those policies led to an increased scope for foreign direct investments and sub-contracting activities all of which transformed the production and trade structures of the textile and apparel industry. When combined with the innovations in transportation and communication technologies, the reduction of barriers before capital rendered the corporations in the labour intensive industries with the power to “control production

³⁵ G. Gereffi, “The Organization of Buyer-Driven Global Commodity Chains: How U.S. Retailers Shape Overseas Production Networks” in *Commodity Chains and Global Capitalism*, ed. G. Gereffi and M. Korzeniewicz, (London: Praeger Publishers, 1994), 100.

³⁶ D. Rodrik, “Goodbye Washington Consensus, Hello Washington Confusion?,” (2006), http://www.hks.harvard.edu/fs/drodrik/Lessons%20of%20the%201990s%20review%20_JEL_.pdf, (accessed 29 October 2009), 1.

³⁷ R. Jenkins, “Corporate Codes of Conduct: Self-Regulation in a Global Economy,” *UNRISD, Technology, Business and Society Programme Paper 2* (2001), 18.

over large distances without exercising ownership”.³⁸ Even though the expansion of production beyond national boundaries is not a recent phenomenon, the new phase of globalization has been characterized with novelties such as international dispersion and functional integration of production activities which are encapsulated in the “buyer driven global value chains.” As a result, the labour intensive processes of the apparel began to be increasingly outsourced to the lower cost locations and started to be coordinated by the commercial capital.

2.2. Organization of the Production in the late 20th Century: Apparel Value Chains

A value chain can be defined as a network of labour and production processes mainly composed of a series of activities from design and production to distribution and marketing of which end result is a finished commodity.³⁹ The global value chains (GVC), on the other hand, refers to the “sets of interorganizational networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world economy”⁴⁰. From late 1970s onwards, two types of GVCs began to co-exist in the capitalism: the producer-driven GVCs and the buyer-driven GVCs in the former of which the industrial capital coordinate the industry while in the latter the complex production networks dispersed around the world are set up and coordinated by the commercial capital. The structure of these networks has been closely related with the specific labour processes and distribution of profits within the production systems. Whereas it is the production patterns which shape the demand in the producer-driven forms of capitalist industrialisation, it is

³⁸ Jenkins 2001, 7.

³⁹ While Gereffi uses the concept “global commodity chains” in his earlier studies, recently he prefers to use the concept “global value chains”. Cf. Gereffi et al. 1994., and, G. Gereffi, “Outsourcing and Changing Patterns of International Competition in the Apparel Commodity Chain,” Paper presented at the conference on Responding to Globalization: Societies, Groups, and Individuals, Boulder, Colorado, April 4-7, 2002. and, G. Gereffi and O. Memedovic, *The Global Apparel Value Chain: What Prospects for Upgrading by Developing Countries*, (Vienna, UNIDO: 2003). And, B. Neidik and G. Gereffi, “Explaining Turkey’s Emergence and Sustained Competitiveness as a Full Package Supplier of Apparel,” *Environment and Planning A*, 38 (2006): 2285-2303.

⁴⁰ Gereffi et al. 1994, 2.

the demand which determine the organization of production system to a large extent in the buyer-driven ones. Accordingly, the producer-driven value chains mainly rest on mass production and are identified with the capital and technology intensive industries such as automobile and computer, whereas the buyer-driven chains rest on flexible specialisation for responding to the variety of demands and are widespread in the labour intensive industries such as apparel and consumer electronics. Finally, in the buyer-driven value chains, the profits are mainly derived from marketing, distribution, design and financial services which are acquired by financial and commercial capital.⁴¹

While the textile is mainly characterised with the large, capital intensive firms, the apparel which also contains the textile production in its chain is a buyer-driven commodity chain which is characterised with many small and labour intensive factories. From the raw material to the garment on the shelves, there can be identified 5 parts in the global apparel value chain which consists of “raw-material supply, including: natural and synthetic fibres; provision of components, such as the yarns and fabrics manufactured by textile companies; production networks made of garment factories, including their domestic and overseas subcontractors; export channels established by trade intermediaries; and marketing networks at the retail level”⁴². On the other hand, the apparel industry is also fragmented in itself in terms of the production processes. Whereas the production of standardized garments such as jeans and t-shirts in the apparel industry rest on mass production, it is the fashion-oriented segments of the apparel that are mainly characterised by the small scale, flexible production units. In any case, in the global apparel value chain, the transnational commercial capital which is composed of retailers, marketers and branded manufacturers control the industry, while the industrial capital which is composed of producers mainly from the developing countries have limited power to control the chain and acquire profit.

⁴¹ Gereffi 1994, 96-104.

⁴² Gereffi and Memedovic 2003, 6.

In the global apparel value chain, the commercial capital is composed of retailers, branded marketers and branded manufacturers which are able to control large supply chains around the world. The *retailers* are characterised with the low price and product differentiation they offer for the customers. From 1980s onwards retailers started to increase their market shares in the apparel and textile industry in the developing world.⁴³ In 1995, five of the largest retailers (Wal-Mart, Sears, Kmart, Dayton Hudson Corporation and JC Penney) constituted 68 per cent, while 29 biggest retailers constituted 98 per cent of the total apparel sales in the US.⁴⁴ The retailers have also obtained significant share in the EU market, albeit in a slower phase. In 1992, five biggest apparel retailers (C&A, Quelle, Metro/Kaufhof, Kardstadt and Otto) made up 28% of the total sales in Germany. Similarly, Marks&Spencer and the Burton Group as two of the largest retailing firms in the UK reached up to 25% of the market in the country. The retailers' search for lower costs ended up with high level of imports from the developing world. In mid-1990s, half of the imports in the US and EU was carried out by retailer firms. While the retailers used to rely on the products manufactured under the label of other firms, in recent years they started to sell their own branded products. This led to a transformation in the functions of the retailers' overseas offices from buying to product design, monitoring of the contracted factories and fabric selection.

Unlike the retailers, the *branded marketers* have always been characterised with global sourcing. The branded marketers are specialized in design, procurement and marketing, while they outsource all their production activities to other companies. The sportswear companies such as Nike and Reebok are some of the branded marketers which have widely dispersed production networks.⁴⁵ Lastly, the *branded manufacturers* are those corporations that still involve in the production activities despite being specialized in design and marketing. Similar to their competitors, the branded manufacturers also involve in large amount of sub-contracting activities

⁴³ Ibid., 8.

⁴⁴ Idem.

⁴⁵ Ibid, 10.

especially in the assembly stage. In recent years, these firms began to focus on the production of intermediary inputs, while they outsource the assembly stages to the low-cost countries. In addition to all those, as it is going to be discussed in the next sections, starting from the 1980s onwards, there has been a shift to lean retailing and fast fashion, which began to affect the sourcing decisions of all the buyers.

The international production system, on the other hand, is mainly composed of assembly, original equipment manufacturing (OEM) and original brand name manufacturing (OBM) in which the share of value added increase from assembly to OBM.⁴⁶ The *assembly* is a form of industrial sub-contracting in which the contracted companies undertake the sewing function while the fabric and design are provided by buyer firms. The assembly is the stage of apparel value chain with relatively small share of value added. The *Original Equipment Manufacturing (OEM)*, on the other hand, is a form of commercial sub-contracting in which supplier firms engage in full package production. While the samples are designed and provided by the buyer firms, the OEMs undertake all the production processes and the products are sold with the buyer's brand. Lastly, the *Original Brand Name Manufacturing (OBM)* is the stage of production system in which the producer firms involve in full-package production according to their own designs. Although these firms develop their own collections and brands, they still mostly rely on sub-contracting activities with buyers.

In terms of the sourcing networks, the branded manufacturers mostly engage in assembly sourcing activities in regional level. In this regard, they largely rely on regional trade agreements for assembly sourcing. On the other hand, retailers and marketers mostly rely on either full-package sourcing networks or multilayered sourcing networks.⁴⁷ The full-package sourcing networks imply supplying from one country which undertakes all the production process and provides buyers with ready-to-wear apparel, whereas multilayered sourcing networks depend on the

⁴⁶ Ibid, 3-5.

⁴⁷ Gereffi 2002, 2.

dispersion of production process among more than one country, while one manufacturer country coordinates all the full-package production process. Multilayered sourcing is a more recent phenomenon which came into the scene as a result of increases in the costs of formerly low-cost countries. While most of the newly industrialised economies utilises their expertise in terms of OEM and OBM, they tend to delegate assembly process to the surrounding low-cost locations either through direct investments or sourcing.⁴⁸ In addition to the considerations regarding to low costs, benefitting from the quota surpluses of the surrounding countries also played a key role in the FDIs undertaken by the textile and apparel manufacturers in these countries.

Starting from the 1970s, there has been many displacements of production and migration of global sourcing networks among different countries. Taiwan, Hong Kong and South Korea started to dominate textile and apparel exports throughout 1970s and early 1980s. In 1980s, another shift occurred with the displacement of production from those countries to China, Indonesia, Thailand, Malaysia, Philippines, Sri Lanka and Turkey. In the 1990s, the supply chains more widely dispersed as a result of the emergence of new suppliers in Latin America and South Asia.⁴⁹ The implementation and abolition of the quota system, the innovations in transportation and communication technologies, the ‘race to the bottom’ resulting from the government strategies regarding the EOI and related weakening of the regulatory framework of the nation-states as well as the regional trade agreements played key role in these shifts and compositions of the sourcing networks. In the following sections, first of all, the impacts of the elimination of the quota system on the world textile and apparel trade are going to be discussed. Secondly, the role of the trade agreements in the composition of the supplying networks is going to be elaborated. Lastly, the competitive advantages of the countries resulting from the EOI and technological developments are going to be presented.

⁴⁸ Gereffi and Memedovic 2003, 4.

⁴⁹ Gereffi and Memedovic 2003, 11.

2.2.1. End of the MFA and Current Situation of the Apparel and Textile Trade

In 1994, the Agreement on Textiles and Clothing (ATC) introduced the end of the MFA and termination of all quantitative restrictions between the members of newly established World Trade Organization (WTO) after the end of the ten-year transition period on January 1, 2005. When combined with the application of China for membership to the WTO in 2001, the subjection of trade in textile and clothing products to normal WTO/GATT rules brought into the agenda the possibility of shifting of buyers' sources of supply to the lowest cost locations such as China.⁵⁰ In order to decide on the validity of this argument, first of all, it is necessary to elaborate current situation of the apparel and textile trade.

In 2007, the total value of only 15 leading exporters in textile exports amounted 217.62 billion dollar, whereas the total value of clothing reached up to 298.1 billion dollar (Table 2). Together with the finalization of the ATO in 2005, there remained no multilateral quantitative restriction to regulate the distribution of the export gains among countries. As it is seen in Table 1, since the EU and the USA keep the leading position in the world textile and apparel trade and the developed countries are still the leading importers in the apparel industry, taking shares in these markets continue to be the leading priorities of the exporters.

⁵⁰ Cf. F. H. Abernathy et al., "The future of the apparel and textile industries: Prospects and Choices for Public and Private Actors," *Environment and Planning*, 38 (2006): 2207-2232; Cf. J. Bair, "Regional trade and production blocs in a global industry: Towards a comparative framework for research," *Environment and Planning*, 38 (2006): 2233-2252; Cf. Kanoğlu and Öngüt 2003, *passim*.

Table 1: Leading importers of textiles and cloathing, 2007

	Value (Billion \$)	Share in world imports (%)				Annual percentage change			
	2007	1980	1990	2000	2007	2000-07	2005	2006	2007
TEXTILE									
European Union (27)	84.21	-	-	34.4	33.7	6	-2	7	10
extra-EU (27) imports	27.31	-	-	9.7	10.9	8	2	11	14
United States	24.09	4.5	6.2	9.6	9.6	6	9	4	3
China	16.64	1.9	4.9	7.7	6.7	4	1	6	2
Hong Kong, China	13.56	5.2	9.4	8.2	5.4	0	-2	1	-3
Retained imports	0.60	3.7	3.8	0.9	0.2	-12	14	5	1
Japan	6.30	3.0	3.8	3.0	2.5	4	4	6	2
Turkey	5.98	0.1	0.5	1.3	2.4	16	6	6	28
Mexico	5.66	0.2	0.9	3.5	2.3	0	5	-2	-5
Viet Nam	4.94	...	...	0.8	2.0	20	17	16	24
Canada	4.46	2.3	2.2	2.5	1.8	1	5	2	2
Russian Federation	4.41	-	-	0.8	1.8	19	25	26	22
Korea, Republic of	4.14	0.7	1.8	2.0	1.7	3	5	10	6
United Arab Emirates	4.10	0.8	0.9	1.2	1.6	10	1	10	15
Brazil	2.28	0.1	0.2	0.6	0.9	12	13	38	42
Morocco	2.28	0.2	0.3	0.8	0.9	8	-1	7	19
Thailand	2.16	0.3	0.8	1.0	0.9	4	8	4	5
Above 15	172.25	-	-	70.0	68.9	-	-	-	-
CLOATHING									
European Union (27)	162.8	-	-	39.7	45.5	10	5	10	13
extra-EU (27) imports	84.2	-	-	19.2	23.5	11	9	13	13
United States	84.9	16.4	24.0	32.1	23.7	3	6	4	2
Japan	24.0	3.6	7.8	9.4	6.7	3	4	6	1
Hong Kong, China	19.1	1.6	6.2	7.6	5.4	3	8	2	2
Retained imports	...	...	...	...	...	...	...	...	...
Russian Federation	14.5	-	-	1.3	4.1	27	23	2	79
Canada	7.6	1.7	2.1	1.8	2.1	11	14	14	12
Switzerland	5.2	3.4	3.1	1.5	1.4	7	2	5	11
United Arab Emirates	5.0	0.6	0.5	0.4	1.4	29	7	72	64
Korea, Republic of	4.3	0.0	0.1	0.6	1.2	19	6	29	15
Australia	3.7	0.8	0.6	0.9	1.0	10	17	5	13
Mexico	2.5	0.3	0.5	1.7	0.7	-5	-2	0	-2
Singapore	2.4	0.3	0.8	0.9	0.7	4	-5	17	-3
Retained imports	0.9	0.2	0.3	0.3	0.2	7	7	12	16
Norway	2.3	1.7	1.1	0.6	0.6	9	11	7	16
China	2.0	0.1	0.0	0.6	0.6	7	6	6	15
Saudi Arabia	1.9	1.6	0.7	0.4	0.5	13	25	13	18
Above 15	323.1	-	-	91.8	90.3	-	-	-	-

Source: WTO International Trade Statistics 2008

On the other hand, the shares of the countries in the world textile and apparel exports changed significantly after the initiation of the quota phase-out process. Even during the transition period, the removal of a limited number of quotas in 2002 under the third stage led to a major distraction in the balance of international textile and apparel trade. For instance, in the USA, China's market share in the apparel categories released from quotas on January 1, 2002, jumped from 9% in 2001 to 65% in 2004.⁵¹ On the other hand, as it is seen in Table 2, the total share of China in the world textile exports increased from 6.9% in 1990 to 10.3% in 2000 and reached up to 23.5% in 2007. The change has been more significant in the apparel trade than the textile. The share of China in the world apparel exports highrocketed from 8.9% in 1990 to 33.4% in 2007 and positioned the country as the number one exporter in the world apparel trade. Nevertheless, while the shares of the previously leading exporters in the developing countries such as Hong Kong, Thailand and Mexico significantly dropped in this period, the shares of Vietnam, Indonesia, Turkey and Bangladesh in the apparel exports also increased in the same period of time.

Table 2: Leading exporters of textiles and apparel, 2007

	Value (Billion \$)	Share in world exports (%)				Annual percentage change			
	2007	1980	1990	2000	2007	2000- 07	2005	2006	2007
TEXTILE									
Exporters									
European Union (27)	80.62	-	-	36.2	33.9	5	-4	5	9
extra-EU (27)	23.72	-	-	9.9	10.0	6	-3	5	10
China	55.97	4.6	6.9	10.3	23.5	19	23	19	15
Hong Kong, China	13.42	3.2	7.9	8.6	5.6	0	-3	1	-4
domestic									
exports	0.46	1.7	2.1	0.8	0.2	-12	-12	-12	-13
re-exports	12.95	1.6	5.8	7.8	5.4	1	-3	1	-3
United States	12.39	6.8	4.8	7.0	5.2	2	3	2	-2
Korea, Republic of	10.37	4.0	5.8	8.1	4.4	-3	-4	-3	3
Taipei, Chinese	9.72	3.2	5.9	7.6	4.1	-3	-3	1	0
India	9.45	2.4	2.1	3.6	4.0	8	13	7	7

⁵¹ Summit on Fair Trade in Textiles and Clothing, (2004), <http://www.fairtextiletrade.org/newsroom/prbrussels02.pdf>, (accessed 13 February 2009).

Turkey	8.73	0.6	1.4	2.3	3.7	13	10	7	15
Pakistan	7.37	1.6	2.6	2.9	3.1	7	16	5	-1
Japan	7.11	9.3	5.6	4.5	3.0	0	-3	0	3
United Arab Emirates	4.02	0.1	0.0	2.0	1.7	4	-24	29	36
Indonesia	3.83	0.1	1.2	2.2	1.6	1	13	8	6
Thailand	3.11	0.6	0.9	1.2	1.3	7	8	4	8
Canada	2.32	0.6	0.7	1.4	1.0	1	1	-4	-2
Mexico	2.21	0.2	0.7	1.6	0.9	-2	3	3	1
Above 15	217.67	-	-	91.7	91.4	-	-	-	-
CLOTHING									
China	115.2	4.0	8.9	18.2	33.4	18	20	29	21
European Union (27)	103.4	-	-	28.4	29.9	9	3	7	13
extra-EU (27) exports	24.8	-	-	6.5	7.2	10	5	10	19
Hong Kong, China	28.8	12.3	14.2	12.2	8.3	2	9	4	1
domestic exports	5.0	11.5	8.6	5.0	1.4	-9	-11	-7	-26
re-exports	23.8	0.8	5.7	7.2	6.9	8	18	8	10
Turkey	14.0	0.3	3.1	3.3	4.1	12	6	2	16
Bangladesh	10.1	0.0	0.6	2.6	2.9	10	19	28	4
India	9.7	1.7	2.3	3.0	2.8	7	26	10	2
Viet Nam	7.2	...	...	0.9	2.1	22	10	19	29
Indonesia	5.9	0.2	1.5	2.4	1.7	3	16	16	2
Mexico	5.1	0.0	0.5	4.4	1.5	-7	-2	-13	-19
United States	4.3	3.1	2.4	4.4	1.2	-9	-1	-2	-12
Thailand	4.1	0.7	2.6	1.9	1.2	1	3	4	-4
Pakistan	3.8	0.3	0.9	1.1	1.1	9	19	8	-3
Morocco	3.6	0.3	0.7	1.2	1.0	6	-6	14	11
Tunisia	3.6	0.8	1.0	1.1	1.0	7	-5	-3	18
Sri Lanka	3.3	0.3	0.6	1.4	1.0	2	4	6	8
Above 15	298.1	-	-	79.2	86.3	-	-	-	-

Source: WTO International Trade Statistics 2008

While the increase in the shares of low cost locations such as Vietnam, China, Indonesia, Pakistan and Bangladesh in the textile and apparel exports between 2000 and 2007 may verify the argument concerning the sufficiency of low prices in the competitiveness, a closer look at the annual percentage changes between 2005 and 2007 reveal the fact that after an initial increase in the exports of the low cost locations, the changes tend to fluctuate and decrease in most of the countries. On the other hand, despite being a middle cost location, the rise in Turkey's exports in this period of time reveal the fact that while playing important roles, the quota restrictions within the framework of MFA and low-costs are not enough to explain the flows of textile and apparel imports and exports.

In this regard, while the MFA had served as the mechanism which regulated the flows of large amount of imports and exports of the textile and apparel products among countries, it has never been the only instrument to regulate these flows. With the elimination of the quota system, tariffs as well as anti-dumping measures and quantity restrictions which can be utilized by a country if it is deemed that exports start to threaten local production remained as the most important weapons for countries to protect their textile and apparel industry. For instance, after the end of the quota system, the EU and USA postponed the quota phase-out for Chinese textile and apparel products in 10 and 34 sensitive categories respectively until the end of 2008 through utilising anti-dumping rule of the WTO due to the growing pressures from the industrial capital. On the other hand, bilateral and regional trade agreements come to be more important than ever in shaping the global sourcing networks as they decrease policy costs through tariff reductions. Moreover, together with the emergence of the apparel as a buyer-driven value chain in which the production and other phases are detached, the considerations other than the low costs began to influence supplying decisions of the buyers regarding the countries in different levels of the production system which resulted in the emergence of different factors as the competitive advantages of the countries. Finally, dovetailed in all these processes, the labour standards came into the scene as a factor which began to regulate the flows of capital in recent years. Before going into the detail of this last factor to which the rest of this work is dedicated, main factors which shape the supplying decision of the buyers in the post-quota world order are going to be presented in the following sections.

2.2.2. Role of the Regional Trade Agreements in the Composition of the Global Sourcing Networks: NAFTA and the EU

The regional trade agreements like NAFTA and EU have allowed privileged trade relations between the countries in order to increase the competitiveness of those regions as a whole. In an environment characterised with trade restrictions, these trade regimes resulted in the emergence of complex supplying relations between the countries in these regions and their preferential partners, while some of the

arrangements under these agreements still keep their significance in the post-quota world order.

Signed in 1994 between the governments of the US, Canada and Mexico, the North American Free Trade Agreement (NAFTA) eliminated the tariff and quota restrictions on most of the apparel products between the member countries provided that the yarn of the fabrics used for assembling the products originate from one of the member countries. This agreement primarily benefitted Mexico through the shift of production of the North America based retailers, brands and marketers to this country. Whereas only 17% of the apparel exports were realized within the region in 1990, this amount reached up to 41% in 1999 as a result of the NAFTA.⁵² In this process, Mexico managed to transit from assembly to OEM production.⁵³ However, as Mexico's infrastructure for full-package supplying is quite limited, it began to lose its preferential position in the USA and Canada markets after the elimination of quota system.

On the other hand, the trade arrangements undertaken by the EU has developed the most complex supplying networks in the world. Firstly, the European Single Market was completed in 1993 and eliminated all quantitative restrictions and customs duties within the European Community. However, even before the completion of the integration of the European market, the member countries have been implementing common commercial policies regarding the third countries which resulted in the development of the sourcing networks between the EC and other countries. Among those, the outward-processing trade (OPT), which has been implemented since 1982 until 1997, permitted the European branded manufacturers to export fabrics to the third countries for processing and their re-importation as finished products with tariffs charged on the value-added by foreign labour. This tariff regime provided the European corporations with the advantage of benefitting from the low labour costs. In this regard, primarily Italy, Germany, France and the UK based branded

⁵² Kanoğlu and Öngüt 2003, 8.

⁵³ Gereffi and Memedovic 2003, 13.

manufacturers established networks with companies from North Africa, Southern, Eastern and Central Europe to undertake assembly stage of their production. Moreover, in 1995, there was established Euro-Mediterranean partnership between the EU and 10 countries in the Mediterranean region in order to promote the regional integration of the apparel commodity chain.⁵⁴ The partnership rested on the preferential trade agreements between all these countries with identical rules. In order to meet the pan-Euro-Mediterranean rule, a product was required to be produced only with the raw materials and intermediary goods produced by the countries participating in the partnership. In addition to this partnership, the EU also extended the generalized system of preferences (GSP), which is going to be elaborated in the 3rd section of this chapter, to the textile and apparel products after the end of the MFA. In addition to all those, the Customs Union Agreement being signed between Turkey and the EU provided Turkey with preferential access to the EU market which played a key role in the development of Turkish apparel sector as full-package supplier (Chapter 4).

2.2.3. Competitive Advantages of the Producers in the Global Sourcing Networks

Considering the complexity of the production systems emerged in late 1970s, the classical form of competition based on the cost advantages is no more enough to perceive the advantages of the firms, countries and regions. The survival of the exporters rather rest on the ability to climb up to higher value added stages in the production system since the competitive advantage of the exporters of the basic products and the assembly producers are quickly challenged by the newcomers. In this regard, in addition to the classical factor costs, it is necessary to investigate the impacts of new technological developments as well as remaining policy costs on the supplying decisions of the buyers.

Regarding the price of the products, most of the developing countries took advantage of the currency policies as well as incentives provided by the states in the

⁵⁴ Bair 2006, 2246

EOI regimes. However, in addition to those, the availability of the factors of production plays a key role in the competitive advantage of countries. In this regard, the abundance of the raw materials such as cotton in a country primarily provides it with the opportunity to develop its own textile industry as it was the case in China and Turkey, while the proximity to cotton textile manufacturer countries is also an advantage for the apparel manufacturers to reach fabrics and yarns as well as fibres with cheaper costs. On the other hand, the invention of the man-made fibre in the 20th century provided the industry with raw materials other than the cotton. Accordingly, in the second half of the 20th century, the developed countries began to invest on technology to develop their textile industry and to provide new products such as bio textile, techno textile and eco-textile for the market.⁵⁵ In this respect, while the developed countries continue to have high shares in the capital and skill intensive textile production and exports, the proximity of the apparel manufacturers to these industries as well as developing their own textile industry is an important factor for a country to emerge as a full-package supplier and climb higher in the apparel value chain.

As apparel is a labour intensive sector, the wage rates play a more significant role in the supplying decisions of the buyers than it was the case in the textile. The state policies regarding the welfare provisions as well as labour standards in the factories play a key role in the determination of the labour costs. This issue is going to be discussed in detail in the following section. In here, it is suffice to say that, the amount of the labour required for manufacturing products vary in respect to the type of the product as well as the relevant production processes. In this regard, the basic products such as t-shirts require less labour than the more complicated products such as jeans. On the other hand, the assembly process is the most labour intensive stage in the apparel industry, whereas the pre-assembly (design, grading, marking and cutting) is the most capital intensive one.⁵⁶ Accordingly, the high wages in the

⁵⁵ Kanoğlu and Öngüt 2003, 25

⁵⁶ F. H. Abernathy et al., “Globalisation in the apparel and textiles industries” in *Locating Global Advantage. Industry Dynamics in the International Economy*, ed. M. Kenney and R. Florida, (Stanford: Stanford Business Books, 2004): 23–51.

developed countries constitute the main reason for the shift of the assembly stage of the production to the low wage countries, while many developing countries acquire competitive advantage in this regard through decreasing labour costs with the deregulation of the labour markets. That's why, the low wage rates continue to affect the supplying decisions of the manufacturers which outsource especially the assembly stage of the production.

The shipping cost, on the other hand, is another major factor cost that effect the product prices and supplying decisions in the value chains. The proximity to the major markets plays the key role in reducing shipping costs. However, the proximity has been a more pressing issue in recent years in the sourcing decisions of the buyers due to the growing importance of the short lead times resulted from the emergence of 'lean retailing'⁵⁷ and transformation of the fashion culture from ready to wear to 'fast fashion'⁵⁸ thanks to the technological developments. The lean retailing refers to the form of retailing in which the replenishment products are ordered to the suppliers by the computer inventory systems just in time rather than stocking the products in the warehouses. This form of retailing requires quick response by the suppliers which necessitate proximity to the world's markets overall as well as the skills and experience to coordinate the organization and transmission of the products as these processes are handed over to the suppliers by the retailers. On the other hand, the fast fashion is a phenomenon which began to be widespread among the branded manufacturers, retailers and marketers in 1990s. Whereas the products used to be ordered for 2 seasons at most (summer and winter) in a year, the periods for changing the collections and product ranges have been much more shortened in recent years due to the technological advancements. As the number of collections ordered and sold in a year can reach up to 10 for some brands, the involvement of producers in the design as well as the delivery of quality products within the short delivery times began to be important for fast fashion brands such as

⁵⁷ For a detailed study on lean retailing, see: Abernathy et al. 2006, 2216-2218.

⁵⁸ For a detailed study on the role of fast fashion, see: N. Tokatli and Ö. Kızılgün, "From Manufacturing Garments for Ready-to-Wear to Designing Collections for Fast Fashion: Evidence from Turkey," *Environment and Planning A*, 41 (1) (2009), <http://www.envplan.com/abstract.cgi?id=a4081>: 3-6.

Zara, Topshop, H&M and Mango.⁵⁹ In this regard, beside the proximity to the major markets, the suppliers of these brands began to primarily consist of the OEMs as well as OBMs which can provide design services and quality products within short delivery times.

Lastly, the policy costs continue to become a major factor in shaping the supplying decisions of the buyers. As it is discussed above, in the pre-2005 trade order, the quotas played the key role in shaping the apparel supply networks and production systems. In addition to the regional and bilateral trade agreements with partner countries which provided some countries with preferential access to the world's largest markets, the countries with excess capacity of quotas became the new sources for supplying and investments of the surrounding full package suppliers.⁶⁰ On the other hand, despite quotas were eliminated in 2005, the duty rates continue to be important policy costs which highlight the importance of regional and bilateral trade agreements more than ever in the shaping of supplying networks. In this regard, for instance, Mediterranean countries as well as the least developed countries likely to keep their advantageous position in the supplying networks of the EU based buyers in the post quota world order.

In addition to all those factors, the compliance with the labour and environmental standards have come to be another major factor which shape the supplying decisions of the buyers which shifted the competition in the global value chains to non-price social factors such as compatibility of production with labour rights.⁶¹ As Dara O'Rourke puts it: "Supplier firms in the developing countries increasingly see compliance with new labor standards as a prerequisite to entry into global supply chains. Today contractors have to perform not only to world-class standards on quality and price but also on labor and environmental standards. Meeting these new standards can mean greater market access, closer ties to global buyers, and in some

⁵⁹ Tokatli et al. 2008, 10.

⁶⁰ Abernathy et al. 2006, 2215.

⁶¹ E. Öngüt, "Türk Tekstil ve Hazır Giyim Sanayii nin Değişen Dünya Rekabet Şartlarına Uyum," (Uzmanlık Tezi, DPT, 2007), 23.

cases price premiums.”⁶² How labour standards come to influence the supplying decisions of the big buyers is going to be discussed in the next chapter. It is sufficed here to say that, in recent years there arose 4 main factors affecting the full-package sourcing networks: price (including both factor and policy costs), delivery times, quality and labour standards. Among other factors, price is the most classical factor that affects the decisions of the buyers, while delivery times and quality come to be more pressing issues in recent years as a result of growing importance of lean retailing and fast fashion which necessitate shorter delivery times and further specialization in sample making and quality. Before going into the detail of the growing importance of labour standards in the supplying decisions of the buyers in the next chapter, labour conditions in the industry and existing governmental and intergovernmental labour regulations are going to be discussed in the following section.

2.3. Labour Conditions in the Industry and Governmental and Intergovernmental Labour Regulations

Initiated with the dissemination of the EOI strategy in the East Asian countries in 1970s and intensified with the dissemination of the neo-liberal ideology in late 1980s, the interlocked processes of the retrenchment of the nation states from the labour and trade regulation and the growth of the global buyer-driven value chains associated with the flexible employment and production resulted in the devastating working conditions for the workers in the textile and apparel industry.⁶³

The rise of the buyer-driven commodity chains, which is associated with a divide between the “organisation of the production” and “organisation of the consumption” resulted in the extrication of the retailers and brands from the material production

⁶² O’Rourke 2003, 4-5.

⁶³ Cf. S. Christopherson and N. Lillie, “Neither Global nor Standard : Corporate Strategies in the new era of Labour Standards,” *Environment and Planning A*, 37 (2005), passim; Cf. R. Pearson and “G. Seyfang, New Hopes or False Dawn?: Voluntary Codes of Conduct, Labour Regulation and Social Policy in a Globalizng World,” *Global Social Policy* 1 (48) (2001), passim.

processes.⁶⁴ The ability provided to the capital to access dual labour markets through outsourcing the labour intensive stages of the production such as assembling, while keeping the skill required processes such as design and marketing in in-house resulted in an increased division between the ‘privileged’ and the ‘marginalized’ workers.⁶⁵ Through outsourcing the labour-intensive processes from the high wage organized sectors of the labour market in the developed countries to the low wage less organized sectors in the developing countries, the brands and retailers also transmitted the burden of the social reproductive needs of the labour while still keeping the ability to organize and control the labour processes. On the other hand, the neo-liberalisation of the regulations in the manufacturer countries resulted in the inability or unwillingness of the states to enforce regulations concerning the workers’ rights as well as decreases in the welfare provisions and minimum wages.⁶⁶

As a result, low wages, piece-rate systems, long working hours, unsafe and unhealthy working conditions and discrimination against especially women are among the most prominent characteristics of the suppliers which tend to ignore reproductive needs of the labour for the sake of delivering orders on time and increasing the output.⁶⁷ At worst, utilising forced labour and employing children in the sweatshops have also come to be among the methods that the manufacturers use in order to decrease the labour costs. Moreover, while the short-term contracts, part-time works and restriction of wages and rights led to the informalisation of the workforce working in the formal sector, the desire to avoid governmental regulations to reduce prices also enhanced a growing informal sector in the apparel value chains.⁶⁸

⁶⁴ J. Merk, “The Structural Crisis of Flexibility: Strategies and Prospects for Transnational Labour Organising in the Garment and Sportswear Industries,” *Clean Clothes Campaign*, (May 2008), 5.

⁶⁵ Cf. A. Amin, “Post-Fordism: Models, Fantasies and Phantoms of Transition,” in *Post-Fordism: A Reader* ed. A. Amin, (Oxford: Blackwell, 1995), 23.

⁶⁶ A.M. Özdemir et al, “Rethinking the informal labour market in Turkey: A possible politics for the trade unions.” *EER-South-East Europe Review for Labour and Social Affairs*, 03 (2004a): 79-92.

⁶⁷ Merk 2008, 13.

⁶⁸ Özdemir et al. 2004a, 79-82.

The reliance of the apparel production on small-scale, flexible production units in order to respond to the fluctuating orders as well as short delivery times in the global value chains can be regarded as the main factors which reinforce the flexible and informal employment relations and prevent the suppliers from investing on workforce. On the other hand, the barriers to the organization of the labour resulting from the governmental policies which limit or prohibit trade unions as well as anti-union attitude of the employers, flexible nature of employment and informalisation also prevent the betterment of the labour conditions in the apparel manufacturer countries.⁶⁹

Whereas the regulations in the national scale fall short for enforcing labour standards in the global supply chains not only because of their unwillingness, but also due to the transcendence of the scale of production to the regulatory boundaries of the nation-states, the post-war international regulatory system was also devoid of any institutions to regulate and equalize the labour standards in the business activities. While the International Trade Organization (ITO) originally included provisions regarding the control of restrictive businesses, these provisions perished together with the idea of ITO itself in 1950.⁷⁰ On the other hand, established in 1919 and articulated into the UN system in 1946, the International Labour Organization (ILO) has been the only intergovernmental institution responsible from the labour rights and “equalization of levels of social protection between countries”⁷¹.

The ILO is a tripartite agency which is composed of the governments, employers and workers. Two government delegates, an employer delegate and a worker delegate represent each member state in the annual International Labour Conference in which the international labour standards are discussed and adopted. Today, ILO has 183 member countries and 187 conventions on the issues ranging from the

⁶⁹ Merk 2008, 6-8.

⁷⁰ Jenkins 2001, 1-2.

⁷¹ F. Weiss, “Trade and Labor” in *The World Trade Organization. Legal, Economic and Political Analysis*, vol.2, ed. P.F.J. Macrory et al. (Verlag: Springer, 2005), 576.

forced labour to the part-time work and collective bargaining.⁷² However, there is only an indirect link between the ILO conventions and business activities to the extent that when a member state ratifies a convention it is in its responsibility to enforce the convention. Moreover, ratification of the ILO conventions (except the core standards) is voluntary and the organization does not possess any enforcement power.

On the other hand, as a response to the growing power of the MNCs, the ILO developed the voluntary and not binding Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration) in 1977. The Declaration included sections on employment promotion, equality of opportunity and treatment, security of employment, training, wages, benefits, minimum age, safety and health, freedom of association, the right to organize and collective bargaining. There was also established the Committee on National Enterprises for addressing the disputes. However, the Committee's power was limited with the interpretation and clarification of the Declaration rather than settling the disputes or applying sanctions.⁷³

In addition to the ILO's MNE Declaration, the OECD also adopted the Declaration on International Business on International Investment and Multinational Enterprise in 1976. The Declaration, which was subscribed by all of the OECD countries, included a Guideline for Multinational Enterprises being voluntary and not legally binding. The guideline included sections regarding to not only employment, but also protection of environment, combating bribery, consumer interests, science and technology, taxation and competition.⁷⁴ The Employment and Industrial Relations section of the Guideline included issues like freedom of association, right to organize, child labour, forced and compulsory labour and discrimination. In case of the violation of the guideline, the complaints can be presented to the Committee on

⁷²International Labour Organization: www.ilo.org

⁷³ Jenkins 2001, 4.

⁷⁴ OECD, "Guidelines for Multinational Enterprises," (2008), <http://www.oecd.org/publishing/coorigenda>: passim.

International Investment and Multinational Enterprises. However, these complaints end up with clarification of the guideline.

As none of these guidelines and conventions is binding, connecting “labor with trade the same way that the capital is connected to trade”⁷⁵ became a pressing issue in recent years. While most of the countries and especially EU apply sanctions in case of ‘social dumping’ which is related with working conditions, the issues which can be associated with social dumping is very limited. On the other hand, two major markets of the apparel and textile products, which are the EU and USA, have undertaken some initiatives to establish these links in the trade agreements. First of all, in order to improve working conditions and living standards in partner countries and to encourage cooperation among the countries to achieve this end, the NAFTA included a side agreement on labour standards which is called North American Agreement on Labor Cooperation (NAALC). The agreement basically requires the countries to enact and enforce high labour standards in their labour regulations. While the general content of the agreement is vague, the only commitment of the countries is to promote 11 principles in their legislation which include freedom of association and protection of the right to organize, the right to collective bargaining, the right to strike, prohibition of forced labour, labour protections for children and young persons, minimum employment standards, elimination of employment discrimination, equal pay for women and men, prevention of occupational injuries and illnesses, compensation in cases of occupational injuries and illnesses and protection of migrant workers.⁷⁶

In case of violation of any core principles of the NAALC by any of the member countries, the individuals, trade unions, employers, nongovernmental organizations or other private parties may file public communications to the National Administrative Offices (NAOs) being set in each country. While the NAOs have the autonomy to establish their own procedures to handle the appeals, they generally

⁷⁵ Weiss 2005, 572.

⁷⁶ Secreteriat of the Commission for Labour Cooperation, “Objectives, Obligations and Principles,” <http://www.naalc.org/index.cfm?page=148> (accessed 18 October 2009).

demand a report from the organization submitting the appeal. According to the evaluation of the report, the NAO decides whether or not the review is necessary. If the NAO decides for a review, the process generally proceeds with the information gathering, court-like public hearings and consultation among all three NAOs.⁷⁷ If the NAOs accept the claim, they either propose a solution which the parties to the dispute are free to accept or reject, or recommend a ministerial consultation in case of which the labour ministers of three countries deliberate and propose a solution to the problem. If the problem can not be solved at this level, any of the ministers can demand the establishment of the Evaluation Committee of Experts to resolve the issue unless it is related with the right to collective bargaining, freedom of association or freedom of strike. The Committee prepares a report to resolve the dispute. If the dispute can not be solved at this level too, the issue comes to the Arbitral Panel which prepares an action plan obliging the relevant country to change the implementation method of the labour principles. If the action plan is not implemented, the Arbitral Panel can fine the country up to \$20 million or abolish some of the benefits of NAFTA membership. In practice, none of the appeals have been presented to the Arbitral Panel yet. The public communications were either rejected at the level of review or generally solved by the NAOs, whereas in only some of the cases, the resolution was achieved in the level of the ministerial consultation.⁷⁸ On the other hand, the NAALC does not permit the Arbitral Panel to examine the cases related to the right to collective bargaining, freedom of association or right to strike, which leaves the NAALC powerless to enforce sanctions in case of members' violation of civic rights of the labour.

Most of the early cases submitted to the NAO were about the violation of the freedom of association by Mexico. These were either submitted by small labour organizations or campaigns from the USA and Mexico in order to break the monopoly of the dominant and state-sponsored trade union confederation CTM in

⁷⁷ P. Teague, "Labour-Standard Setting and Regional Trading Blocks: Lessons Drawing from NAFTA Experience," *Employee Relations*, 25 (5) (2003): 428-452, 432.

⁷⁸ Secreteriat of the Commission for Labour Cooperation, "Public Communications Update," http://new.naalc.org/public_communications/Publiccommunicationsupdate.htm, (accessed 18 October 2009).

Mexico and provide a regulatory environment for the proliferation of small independent unions.⁷⁹ However, the NAALC has not led to any systemic transformations in the labour regulations of any of the partner countries including Mexico.⁸⁰ Moreover, the reactions of the American and Canadian trade unions against NAFTA stemming from their concerns for capital flows and deindustrialisation reinforced with the agreement resulted in their avoidance to participate in the public communication process of NAALC also.

Secondly, both the EU and the USA incorporated the labour rights into their generalized systems of preferences (GSP). The GSPs which provide exemption from the most favoured nation principle of the GATT/WTO for the developing countries was fully put in force in 1979 as a part of the Washington Consensus on the promotion of the export oriented development strategies. The GSP programmes which are implemented by the developed countries primarily grant developing countries with unidirectional tariff reductions in sensitive products or duty free access for non-sensitive ones. However, the system was not applied to the textile products up until the entrance of these goods to the coverage of the GATT together with the end of the MFA, while some countries still does not include most of the apparel and textiles products in their GSP programmes.

The US started to implement its GSP scheme in 1974 and linked the GSP with labour rights a decade later. In 1984, the eligibility for the GSP was conditioned with the ‘respect for internationally recognized labour rights’ which included “the freedom of association, the right to organize and bargain collectively, prohibition of forced or compulsory labour, prevention of child labour, and acceptable conditions with respect to minimum wages, hours of work, and occupational safety and health”⁸¹ However, as the US continues to restrict GSP for almost all the textile and

⁷⁹ Teague 2003, 432.

⁸⁰ Ibid, 433.

⁸¹ G. Tsogas, “Labour Standards in the Generalized Systems of Preferences of the European Union and United States,” *European Journal of Industrial Studies*, 6 (3) (2000), 352.

garment products, its GSP programme has not influenced the textile and apparel supply chains yet.

Unlike the USA, the textiles and apparel has the largest share in the EU's GSP imports with a share of 22 per cent as of 2007.⁸² Currently, the EU executes three different kinds of GSP programmes: the standard GSP, GSP+ and Everything but Arms Arrangement. The EU first linked the GSPs with the labour rights in 1994 through granting special incentives to the countries enforcing ILO conventions on freedom of association, right to organize and minimum age for employment. However, it re-formulated this scheme in 2008 as GSP+ and launched the first period of the programme in 2009. The GSP+ provides additional tariff reductions for the 'vulnerable' countries which has ratified and effectively implemented 27 specified international conventions in the fields of human rights, core labour standards, sustainable development and good governance.⁸³ Among those the relevant ILO conventions extended the coverage of 1994 reform and included the conventions on Minimum Age for Admission to Employment; Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour; Abolition of Forced Labour Convention; Forced Compulsory Labour Convention; Equal Remuneration of Men and Women Workers for Work of Equal Value Convention; Discrimination in Respect of Employment and Occupation Convention and Freedom of Association and Protection of the Right to Organise Convention. For the period 2009-2011, there are 16 beneficiaries of the GSP+ including Armenia, Azerbaijan, Bolivia, Colombia, Costa Rica, Ecuador, Georgia, Guatemala, Honduras, Sri Lanka, Mongolia, Nicaragua, Peru, Paraguay, El Salvador and Venezuela.

In the case of the violation of any conventions required by the EU GSP system, the member states, natural or legal persons or any association which is not endowed

⁸² European Commission Trade, "The EU Scheme of Generalized Preferences," http://trade.ec.europa.eu/doclib/docs/2009/march/tradoc_142662.pdf, (accessed 02 November 2009).

⁸³ European Commission Trade, "Generalized System of Preferences," <http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/>, (accessed 02 November 2009).

with legal personality can appeal to the European Commission for total or partial withdrawal of the benefits.⁸⁴ As some of these countries such as Sri Lanka, El Salvador and Honduras largely rely on textile and apparel imports from the EU, their withdrawal from the GSP+ can impact the economies of these countries to a large extent. In this regard, in 2008, the withdrawal of Sri Lanka from GSP came into the scene due to the human rights violations. However, despite the investigations after the appeal confirmed the human rights violations in the country, Council of the EU decided to support Sri Lanka for the solution of the problems rather than withdrawing the GSP.⁸⁵ However, the Commission is still in charge of following up the implementation of the relevant conventions in the country.

Despite these agreements provide examples for linking the labour standards with trade, they fall short to better the working condition in the developing countries *per se*, since their range is limited with a few countries. Moreover, all of these agreements target at states without limiting the power of buyers in the system. As a result, the main sources of the problem prevail as the structural features of the production system which force the suppliers to violate labour rights cannot be prevented.

⁸⁴ Tsogas 2000, 360.

⁸⁵ Council of the European Union, “Council Conclusions on Sri Lanka,” http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/gena/110803.pdf, (accessed 02 November 2009).

CHAPTER 3

EMERGENCE OF CSR AS A MECHANISM OF REGULATION

50 years ago, CSR connoted individual responsibilities of the managers. 15 years ago CSR started to connote voluntary self-regulating activities of the corporations. Today, to the extent that adoption of social standards includes standard setting, monitoring and sanctions, voluntary standards signifies the shift of CSR from sporadic, non-systematic and mostly philanthropic activities to a mechanism of regulation. Adoption of voluntary labour standards was initiated in early 1990s by a small amount of firms as a process of ‘self-regulation’ through which corporations embraced ‘self-prescribed’ and ‘self-monitored’ codes of conduct and then evolved into a ‘socialized’ form of regulation in which various stakeholders mostly led by NGOs set standards and monitor the corporations and implements sanctions in case of non-compliance.⁸⁶

While the nongovernmental systems of regulation in general can be regarded as a response to the growing imbalance between the power of the MNCs and national and international regulations resulted from the interrelated processes of liberalisation of trade and labour market and expansion of buyer driven value chains, the conflict and compromises between the motivations and strategies of different actors drove the process for the emergence of different systems of nongovernmental regulation to re-regulate the global economy.

In this chapter, first of all, the concepts and methods associated with the nongovernmental systems of regulation will be defined. Secondly, the roles of the big buyers, NGOs, labour unions, social movements, governments and intergovernmental institutions in the emergence of different nongovernmental

⁸⁶ Utting 2005, 2.

systems of labour regulation is going to be elaborated. Thirdly, different institutional arrangements on nongovernmental systems of regulation are going to be presented. Finally, the similarities and differences between all of these systems and the role of strategies of different agencies in this process will be evaluated.

3.1. Conceptual Tools

The nongovernmental systems of regulation can be defined as a series of mechanisms basically developed to regulate MNCs across their supply chains through setting voluntary standards (usually embodied in codes of conducts), monitoring compliance and applying sanctions and incentives in the cases of non-compliance or compliance.⁸⁷ Different nongovernmental systems of regulation can be differentiated in terms of the regulatory authority granted for setting the standards and monitoring the process as well as the parties to which the companies are held accountable. Before clustering different nongovernmental systems of regulation, it is crucial to clarify the regulatory tools which are utilised in nongovernmental systems of regulation. These tools include code of conduct, monitoring, verification, certification, social labelling, reporting and stakeholder dialogue and learning about best practices:

The *Codes of Conduct (CoC)* lie at the heart of the nongovernmental systems of regulation. They are the codified voluntary social standards which define the norms and rules according to which the performance of a company is evaluated.⁸⁸ The standards in a code of conduct can be self-prescribed by the companies themselves, developed by an organization such as an inter-governmental institution, sector organization, labour union or NGO or set by multiple stakeholders including some or all of the above-mentioned organizations.

The *monitoring* refers to the process in which the level of compliance to the defined code of conduct is investigated by the company itself or other stakeholders. The

⁸⁷ O'Rourke 2003, 2.

⁸⁸ Ibid, 6.

monitoring may not necessarily rely on periodical audits conducted in the field but may also be triggered by complaint and appeal systems. In respect to the party conducting the audits, the monitoring can be differentiated as internal, external or independent. The internal compliance monitoring systems are developed and implemented by the brands and retailers in order to monitor the compliance of the producers within their supply chains to a particular code of conduct. The external monitoring is conducted by third-party organizations in order to monitor the compliance to the codes of conducts across the supply chains. The cost of external monitoring is either paid by the producers or brands and manufacturers. Finally, the independent monitoring or verification relies on the independent evaluations of the results of the above mentioned monitoring systems. The costs of the independent monitoring are not paid by the parties being monitored.

The *reporting* is one of the most widely utilised regulatory tools in the realm of CSR. Through reporting, the companies disclose their achievements, outcomes as well as their progress in the realm of CSR. The company reports can be prepared by the company itself or by the external monitors or verifiers. The scope and the targeted audience of the reports function as significant determinants of the level of transparency and accountability of the corporations. Whereas most of the companies publicly disclose their reports on CSR, the audit and monitoring reports are generally disclosed to a particular group. However, there are also some companies which prefer to publicly disclose their audit reports.

The *certification and social labelling* schemes refer to the incentives provided to the compliant firms as a result of external monitoring or verification processes. The certification and labelling institutions define their own standardized codes of conduct which are usually based on ILO Conventions and the audits are conducted by the accredited third-party auditors in respect to those codes of conduct. Moreover, the certification or labelling can be provided to the individual production sites or brands.

Finally, the programmes and initiatives targeting at *stakeholder dialogue and learning about best practices* generally target at building the capacities of corporations on social standards through creating platforms for learning, sharing experiences and involving in dialogue. These platforms usually define an ideal code of conduct achievement of which is targeted through developing the process with experimental methods and learning from each other.⁸⁹

The above-mentioned regulatory tools do not substitute but generally supplement each other. Closely related with these instruments, the nongovernmental systems of regulation can be differentiated in respect to their regulatory authority and methods of regulation. In this regard, Dara O'Rourke clusters different regulatory systems as privatized, collaborative and socialized regulation.⁹⁰ The "privatized regulation" includes internal monitoring systems which are developed and implemented by the brands and retailers themselves (also called as self-regulation) as well as the private sector programmes in which various brands and retailers delegate regulatory authority to an organization directed by the representatives of the sector. The "collaborative regulation" refers to the supplementation of the privatized forms of regulation with standard setting, external and independent monitoring, reporting, certification, stakeholder dialogue and learning about best practices programmes in which multiple stakeholders including NGOs, labour unions and governments actively participate. Finally, the "socialized regulation" refers to the programmes and initiatives, in which regulatory authority is assumed by the NGOs, workers and multi-stakeholder initiatives through setting the standards and monitoring the systems via appeal and complaints systems and independent monitoring in which workers actively participate. Before presenting some examples from Europe and the USA to different nongovernmental systems of regulation, the historical development of these systems are going to be presented in respect to the roles of different organizations in the following section as well as the context discussed in the previous chapter.

⁸⁹ Utting 2003, 5.

⁹⁰ O'Rourke 2003, 23.

3.2. Drivers of Nongovernmental Systems of Labour Regulation

3.2.1. Labour Unions, NGOs and Social Movements and Initial Self-Regulation Attempts of Corporations

The initial social movements in the Western world against the MNCs were launched in 1970s as a response to the growing power of corporations which began to go beyond so-called economic terrain. One of the most significant linchpins in this regard was the ITT scandal, in which it was revealed that the US based corporation involved in attempts to overthrow Allende government in Chile.⁹¹ Throughout 1970s, many questionable payments and bribery issues in which especially US based corporations got involved came into the agenda. It was the first time that the growing pressures from the public were responded by the corporations and business associations through adopting codes of conducts. In 1972, the International Chamber of Commerce prepared the first code of conduct to regulate the relations of corporations with other stakeholders. This Guideline for International Investment was followed by many corporate codes of conduct based on the guideline.⁹² However, the codes of conduct could not prevent the governmental regulation in 1970s and the USA Government enacted the Foreign Corrupt Practices Act in 1977 in order to prevent the bribery of foreign government officials by American firms.⁹³ As a result of the pressures from the USA government, the OECD also required its members to adopt similar regulations in 1999.

On the other hand, the widespread campaigns in the developed countries against the devastating labour conditions in the sweatshops of the MNCs were initiated in 1990s. What brought this issue at the top of the USA's agenda was the NBC TV's exposure of children making clothes in Bangladesh for the USA based retailer Wal-

⁹¹ Jenkins 2001, 2.

⁹² Idem.

⁹³ R. Jenkins, "Globalization, Corporate Social Responsibility and Poverty," *International Affairs*, 81 (3) (2005): 525-540, 526.

Mart in 1992.⁹⁴ The campaigns which were led by groups such as National Labor Committee, Global Exchange Campaign for Labor Rights and apparel workers unions started to target many USA based MNCs in the apparel industry. Soon after Wal-Mart, the labour conditions in the supplier factories of Nike and The Gap in Latin America and Southeast Asia were also subjected to widespread “naming and shaming” campaigns.

The anti-sweatshop movement in the USA has been led and widely supported by the consumer organizations and student groups.⁹⁵ In the mid-1990s, the Sweatshop Watch and United Students against Sweatshops were formed by the university students against the devastating working condition in the supply chains of the brands which produce goods bearing the universities’ logos, while the consumer organization, Consumer League, initiated one of the most influential anti-sweatshop campaign in the USA, known as the Stop Sweatshop Campaign, together with the trade union UNITE.

Although the student groups played a minor role, the situation was not much different in Europe in 1990s. To name some of the campaigns against the European based companies, another giant retailer Sweden based IKEA became the target of widespread media attention and campaigns in 1992 as a result of the exposure of the forced child labour in the Indonesian suppliers of the corporation. In the UK, the poor working conditions of the suppliers of leading four supermarkets, Tesco, Sainsbury, Sainsbury, Sainsbury and Asda and retailers Marks&Spencer, Next and Topshop became the target of extensive media reports and NGO and union campaigns such as that of the Labour Behind the Label Group, Christian Aid and CAFOD in late 1990s.⁹⁶ In Germany, the violation of the labour rights in the suppliers of the large retailers and brands such as Otto, Karstadt and Adidas also started to be exposed and

⁹⁴ T. Bartley, “Certifying Forests and Factories: Sates, Social Movements, and the Rise of Private Regulation in the Apparel and Forest Product Fields,” *Politics Society*, 31(3) (2003): 433-464, 445

⁹⁵ A. Hughes et al., “Organisational geographies of corporate responsibility: a UK–US comparison of retailers’ ethical trading initiatives,” *Journal of Economic Geography*, (2007): 1-23, 11.

⁹⁶ Hughes et al. 2007, 7.

targeted in the naming and shaming campaigns by labour unions and NGOs in 1990s.

While there may be identified some national differences between the parties actively involved in these campaigns, in reality all of these campaigns were multi-national in character. In this respect, the developments in the communication and information technologies which played a key role in the emergence of the buyer driven value chains, also played the key role in the emergence of the ‘global civil society’.⁹⁷ These technologies not only provided the anti-sweatshop movements with the instruments to monitor and publicize the labour rights violations in the supply chains, but also linked the movements in different countries with each other. On the other hand, it was the global character of the production which required alliances between the workers’ rights movements from different countries for two main reasons. Firstly, the detachment of the “organisation of the consumption” from the “organisation of the production” also led to the divide between the workers and consumers as most of the garments have not been consumed within the countries they were produced. Secondly, as the manufacturers in the developing countries generally tend to undertake production for the buyers from different countries, this resulted in the dispersion of the goods produced in one country to several sites of consumption. Accordingly, these divides required alliances between the sites of the consumption in the developed countries and sites of consumption in the developed ones.

Among those alliances, one of the earliest, most comprehensive and influential one has been the Clean Clothes Campaign. The history of the organization dates back to a campaign initiated by the solidarity and women’s organizations from the UK and Netherlands in 1989 against the UK based clothing supplier William Baird and Dutch clothing retailer C&A due to the dismissal of women workers for demanding their legal minimum wage in one of the subcontractors of these two companies in the Philippines.⁹⁸ Despite the conflict resolved in a very short period of time, the

⁹⁷ Vogel 2007, 9.

⁹⁸ Merk 2008, 14.

issue of women's rights and MNCs' responsibilities managed to attract the attention of the public as a result of which the alliance received reports about many similar cases in Bangladesh, India and Western Europe and many more organizations from different countries began to join it. As a result, the campaign for clean clothes was launched in order to take up the demands of the women's and labour organizations from the developing countries. The CCC's main aim was determined as giving a "face" and a "voice" to the women in the developing countries being integrated into the global commodity chains.⁹⁹ Throughout early 1990s, the movement managed to reveal the regulatory gap in the global supply chains and expose the devastating working conditions in the suppliers of many brands and retailers through its close connections with the workers in the producer countries. From mid-1990s onward, the CCC enlarged its scope from woman workers' rights to each and every kind of workers' rights violations. In 1995, the campaign turned into a coalition of NGOs and unions from the UK, Belgium, Germany and France. In 1999, Spain, Sweden, Switzerland and Austria also joined the coalition, while the connections of the campaign in Asia, Central America, Caribbean and Eastern Europe were slightly expanded to cover most of the apparel producer countries. In 2008, the CCC managed to establish 12 national coalitions in 11 European countries. The activities of the campaign were also extended from media directed efforts to the formation of an urgent appeal system, public campaigns and worker education programmes. In respect to the urgent appeal system, the CCC established a network in which the local unions and NGOs alert the campaign in case of labour rights violations in the supply chains and the CCC responded through press releases, protest letters or street actions. The CCC also initiated a workers education programme for training the workers in the developing countries on their rights.

Despite the companies targeted by all the campaigns discussed above ranged from sportswear brands to the home textile retailers and supermarkets, their common characteristics were their dependence on outsourcing for the production and high investments on the brand images. Accordingly, the emergence of the buyer driven

⁹⁹ Ibid, 15.

global value chains in which the brands and retailers primarily specialize in brand building and marketing made them primarily vulnerable to the public criticisms which can adversely affect their reputation.¹⁰⁰ As a result, these companies immediately responded to these widespread campaigns and protests, which led even to the shareholder resolutions, through adopting corporate codes of conducts that set labour standards for their contractors and sub-contractors. By the end of the 1990s, most of the major apparel manufacturers and retailers had adopted codes including “statements about working conditions, occupational health and safety, child labor, and wage levels”¹⁰¹.

In time, codes of conducts self-prescribed by the corporations also became the target of contentions as the social movements began to condemn those as symbolic documents detached from the realities of the working conditions in the factories. Those criticisms of the social movements brought the ‘accountability’ and ‘monitoring’ issue into the agenda of the corporations and movements. While the MNCs developed several methods for internal compliance monitoring throughout the 1990s, most of those were questioned by social movements in terms of their credibility. To the extent that this method was also questioned by activists, the necessity for ‘external monitoring’ to verify the conditions in the contractors and sub-contractors emerged. Among the various experiments in this regard, the most notable was Nike’s commissioning of the accounting firm Ernst&Young for monitoring its suppliers. This experiment resulted with another scandal as one of the reports prepared by the auditors of the firm leaked to the press and revealed partiality of the auditors.

In short, the corporations’ initial attempts to suppress the discontent of the social movements rested on corporation based self-regulation which was quickly delegitimized by the activists. Accordingly, self-prescribed codes of conducts, internal and external monitoring activities could not function as the only mechanisms for mediating the relations between the corporate power and the social forces. On the

¹⁰⁰ Jenkins 2001, 8.

¹⁰¹ Bartley 2003, 445.

other hand, the non-business organizations also began to develop model codes of conduct in mid-1990s in order to set examples for the corporations. In this regard, the draft code of conduct prepared by the International Confederation of Free Trade Union (ICFTU) in 1996 provided the basis for many codes of conducts developed by the labour unions and NGOs. Moreover, the International Textile, Garments and Leather Workers Federation (ITGLWF) also involved in development of a code of conduct together with the European Textile and Garment Employers (EUROTEX). In 1996, the CCC developed a code of conduct named “Code of Labour Practices for the Apparel Industry including Sportswear” which has been supported by international labour unions, Asian organizations and over 200 NGOs from all around Europe.¹⁰² The code, which specifically designed for the apparel sector, was based on the model code of the ICFTU. However, as both ICFTU and the CCC were devoid of mechanisms to enforce their standards, they could only rely on pilot projects in order to promote institutionalised verification systems. This situation led to a search for other systems of regulation on which both parties could compromise.

3.2.2. Rise of Nongovernmental System of Regulations in the Agenda of Intergovernmental Organizations

As it is elaborated in Chapter 2, throughout the 1970s, the OECD and ILO developed guidelines for MNEs. However, as both of the attempts were devoid of any sanctions and included very weak monitoring mechanisms, these initial attempts fell short of regulating labour standards in international level.¹⁰³ On the other hand, in 1990s, the social movements concentrated their activities on linking the trade with labour standards in the international level.

In 1994, the social movements initiated a large campaign for the articulation of a ‘social clause’ in the GATT. This clause was based on ILO’s core principles and proposed to be administered by the WTO. However, the campaign could not end up with success and inclusion of such a clause in GATT was dismantled by the

¹⁰² For the details of the code of conduct, see Wick 2005, 89-91.

¹⁰³ Jenkins 2001, 4.

participants of the Uruguay Round since linking trade with labour standards was deemed by many developing countries as a protectionist tool in the hands of developed world.¹⁰⁴ While the issue has continued to come to the agenda of the WTO over and over and discussed under labels social clause and workers or labour rights, a direct link between the labour rights and trade has not been made by the WTO.¹⁰⁵ On the other hand, while the GATT continues to constrain the use of trade restrictions in reference to domestic working conditions, its loopholes concerning the utilisation of labelling and certification on labour standards in trade relations as well as GSPs and regional agreements led many western governments to concentrate on these instruments for the betterment of labour conditions in their supplier countries.¹⁰⁶

The labour standards in the GSPs of the USA and EU and the shortcomings of this method were discussed in the previous chapter. In respect to the labelling in the international level, the Clinton Administration presented a proposal to the ILO for the development of a system of labelling in the apparel industry in order to promote the enforcement of labour standards in 1996. While initial proposition of the US was based on labelling the firms which comply with the labour standards, the proposal was revised by ILO as certifying countries rather than individual firms. During the discussion of proposal in the ILO Conference in 1997, developing countries led by Egypt once again reacted to the proposal as a “disguised form of protectionism” and dismantled the labelling idea altogether.¹⁰⁷ However, in 1998 ILO core principles were accepted to be mandatory for all members.

These failures were largely due to the neo-liberal context surrounding intergovernmental organizations throughout 1990s. In this context, labour and environmental standards were deemed as barriers to trade especially by developing

¹⁰⁴ Bartley 2003, 450.

¹⁰⁵ Weiss 2005, 577.

¹⁰⁶ Vogel 2007, 21.

¹⁰⁷ Bartley 2003, 450.

countries. As a result of the failures to guarantee the enforcement of labour standards, the agenda of the intergovernmental organizations also shifted towards nongovernmental forms of regulations in early 2000s. In this regard, the initiatives of the UN and EU, which are going to be discussed in the last section, have been particularly significant.

3.2.2. State and the Emergence of CSR as a Regulatory Mechanism

In the USA, UK and Germany, the governments played key roles in the proliferation of nongovernmental systems of labour regulations in the textile and apparel industry. Firstly, in the USA, many failing attempts of Department of Labour to enforce wage and hour laws in the apparel industry are quite old in the resolved with an indirect solution in 1990s.¹⁰⁸ As the officers could not manage to make a new law to be enforced, they relied on one of the provisions of the Fair Labor Standard Act which was issued in 1938. The provision permitted to keep the products made in violation of wage and hour laws out of interstate trade. However, due to the cuts in the state expenditures, the Department did not have enough inspectors to enforce this provision as a result of which the Department agreed to sign compliance agreements with the manufacturers for them to internally monitor their own contractors. As a result, the inadequacy of the government regulation mechanisms in the USA led to the emergence of a labour monitoring industry.

In the mid-1990s, under Clinton administration, the best and worst retailers and manufacturers according to the results of the monitoring programmes started to be publicized as a response to the pressures coming from the apparel workers' union UNITE.¹⁰⁹ However, this initiative was criticized by many corporations due to the non-existence of any subsistent criteria for adding or removing the firms. As a result, in July 1996, Fashion Industry Forum, which was composed of representatives of public institutions, retailers and manufacturers, was convened to discuss the methods for enforcement and monitoring. Self-monitoring, external

¹⁰⁸ Ibid, 448.

¹⁰⁹ Ibid, 449.

monitoring and labelling were among the alternatives discussed in the Forum. Later that year, representatives of apparel companies, unions and NGOs were brought together under Clinton's leadership in order to develop a compromised method for labour regulation. The discussions of this initiative, later to be called as Apparel Industry Partnership (AIP), initially concentrated on the development of a common workplace code of conduct. As it was the case in ILO, Department of Labor's proposal for a social labelling system was quickly dismantled in the early discussions of AIP. In time, two monitoring and certification initiatives emerged out of AIP. The Fair Labor Association (FLA) as a direct extension of AIP was founded in 1998 in order to conduct monitoring and certification for AIP. The other group known as Council of Economic Priorities Accreditation Agency (CEPAA) was formed for standardizing all the auditing efforts. In time CEPAA changed its name to Social Accountability International (SAI) and developed its own certification programme under the name of SA8000.

The state's leading role in the development of nongovernmental systems of labour regulation in the USA has also been evident in the financial support provided by Clinton Administration to the monitoring and certification programmes. In 1999, Clinton Administration launched a grant scheme and allocated \$4 million for the NGOs working on global labour issues. Both FLA and SAI benefitted from those grants. In following years, many multi-stakeholder initiatives being composed of unions, NGOs and big buyers emerged in the USA in order to set standards, monitor compliance and implement sanctions or incentives across the supply chains of MNCs. Moreover, the US Government also supported many projects for the proliferation of nongovernmental systems of regulation throughout the supply chains among Join Initiative for Corporate Accountability and Workers Rights (Jo-In) project, which was co-funded by the European Commission, ICCO (Interchurch Organisation for Development Co-operation), multi-stakeholder initiatives and brands, was one of the most significant one. This project is going to be discussed in the following section.

In the UK, as it was the case in the USA, the government primarily concentrated on the development of “collaborative regulation” in line with the “third way” discourse of Tony Blair. In mid-1990s, as a response to the criticism and campaigns, large retailers in the UK decided to institutionalise recommendations for responsible trading in collaboration with the NGOs and trade unions.¹¹⁰ Accordingly, the representatives of some of the most influential unions and NGOs including the Trades Union Congress (TUC), the International Textile, Garment and Leather Workers’ Federation (ITGLWF), the International Confederation of Free Trade Unions (ICFTU), Oxfam, CAFOD, Save the Children, the World Development Movement and the New Economics Foundation established the “Monitoring and Verification Working Group”. The idea was later endorsed by the Department for International Development (DFID) of UK Government which did not only provide sponsorship to the initiative but also directly involved in the decision making processes. The group was institutionalized and established as Ethical Trade Initiative (ETI) in 1998. Between 1998 and 2001, the DFID provided the ETI with a grant amounted \$850,000 for the work of secretariat and funded 50% of the costs for the implementation of the pilot studies.¹¹¹ Moreover, between 2002 and 2004, the department granted the initiative with an additional budget amounted \$951,534.

However, the most comprehensive project for the proliferation of nongovernmental systems of regulation in the supply chains of country based retailers and brands have been supported by the government of Germany. In 2003, the German Federal Ministry for Economic Coordination and Economic Development’s implementing organization German Society for Technical Cooperation (GTZ) initiated a project called “Introduction of a Model for the Improvement of Social Standards in Import Markets Catering to the German Retail Trade” also known as “Round Table-Social Standards” in partnership with Foreign Trade Association of the German Retail Trade (AVE) and co-financed by the Ministry. The initiative aimed at introduction of social standards in the main suppliers of German brands and retailers in order to

¹¹⁰ Hughes et al. 2007, 7.

¹¹¹ Wick 2005, 52.

achieve “a greater balance between social progress and economic growth”¹¹². In the framework of the project, AVE members (including Otto Group, Karstadt/Quelle, C&A, Deichmann, Metro and Peek&Cloppenburg) developed a common code of conduct entitled "Social Responsibility in Global Trade" together with GTZ. While the code of conduct was mainly based on the core labour standards defined by ILO, the AVE's social responsibility programme was a follower but softer version of SA8000. In the context of the project, the compliance of the suppliers were monitored in 11 main supplier countries to German retailers including Turkey, Bulgaria, Bangladesh, China, India, Indonesia, Pakistan, the Philippines, Romania, Thailand, and Vietnam, trainings were delivered and consultancy was provided for those suppliers failing to meet the standards. Moreover, national round tables were established on social standards and social dialogue in which representatives of governments, industry associations, unions and NGOs have come together for the betterment of working conditions. In this regard, there has been realized 7 sensitisation and information workshops, 97 audits and 4 roundtable meetings with the participation of the Ministry of Labour and Social Security, Undersecretary of Foreign Trade, ILO, Istanbul Chamber of Industrialists (İSO), TEKSİF, TÜTSİS, Öz-İplik İş and İTKİB in Turkey. However, despite its emphasis on social dialogue in the supplier countries, Social Responsibility in Global Trade programme has been a primarily private sector and government endeavour without any meaningful place defined for unions and NGOs in its leading structure and verification processes.¹¹³ However, the AVE/GTZ initiative provided a base for another privatized regulatory scheme in the European level called Business Social Compliance Initiative (BSCI) that is going to be discussed in the next section.

Another significant government initiative for improving the social standards in the supply chains of the big buyers has been the “social label” initiative of the Belgian

¹¹² Germany Federal Ministry for Economic Cooperation and Development, “Promoting Corporate Social Responsibility,” <http://www.bmz.de/en/issues/wirtschaft/sozialstandards/unternehmensfuehrung/index.html>, (accessed 29 June 2009)

¹¹³ Wick 2005, 93.

government. In 2002, the Belgian Parliament approved a law on voluntary social label for the products of which entire production chain comply with 8 fundamental principles of ILO conventions.¹¹⁴ The authority for labelling was delegated to the Ministry of Economic Affairs with a binding decision of the Committee for Socially Responsible Production which is composed of representatives of NGOs, government, business federation consumers and social partners and responsible from the implementation of the programme on monitoring of all the sub-contractors of the applicant corporation throughout the supply chain.

In short, the governments played key roles in the emergence and proliferation of different nongovernmental systems of regulation. In this regard, the model was first developed in the USA later dispersed to Europe. In the following sections, some of the most influential institutional arrangements regarding different systems of regulation are going to be presented

3.3. The Nongovernmental Systems of Regulation

3.3.1. Corporate Codes of Conduct and Internal Monitoring

As discussed above, many global retailers, manufacturers and marketers started to develop their own codes of conducts and to monitor compliance in their supply chains in early 1990s. While in some of the firms, monitoring labour standards was incorporated into already existing supply chain evaluation and management systems, some others developed entirely new systems for internal monitoring. The Gap, Nike, Adidas and Reebok are among those firms which establish internal compliance divisions. Nike, as the first company which developed a code of conduct for its supply chain, currently executes two programmes to monitor its supply chains. Those are SHAPE (Safety, Health, Attitude of Management and People Investment and Environment) audit and MESH (Management, Environment, Safety, Health)

¹¹⁴ Clean Clothes Campaign, "Belgian Social Label," <http://www.cleanclothes.org/resources/coc/corporate-accountability/code-implementation-a-verification/480>, (accessed in 17 May 2009).

programme which allows the incorporation of monitoring of codes of conducts into broader management and capacity development strategies of the firm. Internal evaluation of supplier's compliance to Nike's code is conducted by specialized Nike staff and then reviewed by external firms. As an FLA affiliated firm, Nike's suppliers' compliance to the codes is also verified by the FLA. Reebok also developed a system called "Human Rights Production Standards Factory Performance Assessment" also known as Reebok's Human Rights, while the German brand Adidas's program is executed with the name of "Standards of Engagement." Levi's and Wal-Mart in the US, C&A, Otto Versand and Karstadt in Germany and the H&M and Pentland Group in the United Kingdom are among other corporations which developed their own codes of conducts and internal monitoring systems in the mid 1990s.

While the codes of conducts of the corporations were initially different from each other, they started to resemble each other in time through merging around core ILO standards. However, the sanctions in case of non-compliance vary between corporations.¹¹⁵ In all of the corporate code of conducts, there are defined some major and minor criteria the non-compliance to which result in different sanctions. While the zero-tolerance policy applies in case of non-compliance to the major criteria, improvements are requested and monitored in case of non-compliance to the minor criteria. Although the child labour, minimum wage and safety requirements such as fire exits are among the most commonly referred major criteria, the contents of these criteria differ between the corporations. On the other hand, the general tendency of the corporations can be defined as the exclusion of civil rights such as freedom of association and collective bargaining from their codes of conduct.

3.3.2. External Monitoring, Independent Verification and Certification Programmes

Worldwide Responsible Apparel Production (WRAP)

¹¹⁵ Interview 7CS and 8CS.

The WRAP is a primarily private sector initiative founded in 1998 by the American Apparel Manufacturers Association (now the American Apparel and Footwear Association - AAFA). It implements a factory-based certification programme of which fee is paid by the factory owners. Accordingly, the WRAP certification is primarily designed to be used by the factories in their negotiations with the brands and retailers.¹¹⁶ In this regard, the WRAP highlights its certification programme as a source of competitive advantage for the buyers.¹¹⁷ Moreover, the WRAP facilitates this process through bringing its clients together with the buyers seeking for certified suppliers in the fashion shows or other organizations.

The Board of Directors of the WRAP consists of academicians, retired US Department of Labour officers and brand representatives. The WRAP developed its own code of conduct called “WRAP 12 Principles” in 1998. As of October 2009, 22 national sector organizations from the Netherlands, USA, Dominican Republic, Guatemala, Honduras, Colombia, El Salvador, Haiti, Mexico, Costa Rica, South Africa, Nicaragua, Philippines, Hong Kong, Turkey (Istanbul Textile and Apparel Exporters’ Association-İTKİB), Jamaica, Mauritius and Sri Lanka participated in the WRAP and endorsed WRAP Principles.

Although WRAP defines itself as the largest facility certification system, it is not clear how many facilities have been certified or monitored by the initiative up to now. However, the organization declares that over 1700 factories from around 60 countries participated in the certification programme in 2008 alone.¹¹⁸ The countries in which the WRAP certified the most facilities are listed as China, Mexico and Dominican Republic.¹¹⁹ In addition to its certification programme, the WRAP also

¹¹⁶ D. O'Rourke, “Multi-stakeholder regulation: Privatizing or socializing global labor standards?” *World Development*, 34 (5) (2006): 899-918, 902.

¹¹⁷ Worldwide Accredited Responsible Production, “The WRAP Report,” 7 (October 2009) <http://www.wrapcompliance.org/wrap-report>, (accessed 08 November 2009).

¹¹⁸ Worldwide Accredited Responsible Production, “Why WRAP Certification?,” <http://www.wrapcompliance.org/certification-program>, (accessed 08 November 2009).

¹¹⁹ O'Rourke 2006, 903.

conducts internal auditor trainings to clarify WRAP principles and buyer's social compliance requirements for the facility managers.

Code of Conduct

The WRAP Principles are widely accepted as the weakest social standards among these systems.¹²⁰ It demands little more than the compliance to the local laws and do not refer to ILO conventions. However, unlike the other codes of conducts, it includes special articles regarding security controls and customs compliance over shipment and suppliers:

- Compliance with Laws and Workplace Regulations
- Prohibition of Forced Labor
- Prohibition of Child Labor (age limit is 14 years old or under the minimum age established by law for employment, whichever is greater, or any employee whose employment would interfere with compulsory schooling)
- Prohibition of Harassment or Abuse
- Minimum wage (required by the national law)
- Hours of Work (the limitations of the national law)
- Prohibition of Discrimination
- Health and Safety
- Freedom of Association and Collective Bargaining (lawful rights of free association and collective bargaining)
- Environment
- Customs Compliance
- Security

Method

The WRAP Certification Board accredits firms to conduct external monitoring for the facilities. The facilities are audited by these firms which are paid directly by the facilities being audited. The monitoring firms present reports to the Certification Board which gives the decision either for or against the certification. The

¹²⁰ Ibid, 902.

certification is valid for 6 months or 1 year. The facilities are required to develop an internal audit system and undergo self-assessment. The audits are generally pre-announced to the facilities.

The WRAP is also regarded as the least transparent monitoring and certification programme.¹²¹ Firstly, it discloses neither the audit reports nor the names and locations of the certified facilities unless the firm authorizes. Moreover it does not define any place for NGOs and trade unions in the monitoring and verification processes.

Social Accountability International (SAI)

The Social Accountability International (SAI) was established by the Council on Economic Priorities (CEP) which is a research institute specialized at CSR in the US. In 1997, within the framework provided by the Apparel Industry Partnership (AIP), the CEP founded the predecessor of the SAI, that is, CEPAA and developed the Social Accountability 8000 (SA8000) standard. The SA8000 was designed as a “cross-industry standard for workplace conditions and system of verification” primarily intended for the producers/suppliers (Wick 2005, 39-41). The SAI defines its target as “to promote development that is sustainable, upholding the human rights and the dignity of each individual”¹²². Similar to the WRAP, SAI also implements a factory-based certification programme of which fee is paid by the factory owners.

SA8000’s advisory body consists of representatives from business and non-business organizations with a balanced distribution. The non-business organizations in the SA8000’s board are universities, NGOs such as National Child Labour Committee, World Wildlife Fund (WWF), SAI, the trade unions such as Union Network International (UNI), United Food and Commercial Workers International Union and socially responsible investors from the USA, Netherlands, Belgium, China, Switzerland, Canada and Brazil. Moreover, the Foreign Trade Association (FTA)

¹²¹Idem.

¹²² Social Accountability International, “SAI’s Partnerships,” <http://www.sai-intl.org/index.cfm?fuseaction=page.viewPage&PageID=473&d:\CFusionMX7\verity\Data\dummy.txt>, (accessed 13 July 2009)

which is the founder of the BSCI Programme is also in the advisory board of the SA8000. The representatives of business in the advisory board of the standard currently include brands such as Otto (based in Germany), Gucci (based in Italy), Gap Inc. (based in the USA) and other corporations from India, Switzerland and France.

The board of directors of the SA8000 is also composed of the business, trade unions and NGOs. It is significant to note that there are 6 business representatives, 2 NGOs including SAI and 1 trade federation in the board now. Moreover, beside the retailers and brands, the business representatives in the board is also composed of consultation, auditing and law firms which serve to the brands and retailers on labour standard issues. The most distinctive feature of the SA8000 from other US based multi-stakeholder initiatives is the presence of a trade union in its advisory board and board of directors. As of June 2009, there were 2010 suppliers in 64 countries and 66 industries with 1,119,145 employees certified by SAI, a significant amount of which was from textile and apparel industry operating in Italy, India and China respectively.

The SAI certifies individual production sites rather than brands. However, the activities of SAI are not limited to certification. The retailers, brand manufacturers and brand producers become “SA Explorers” or “SA Signatories” within the framework of Corporate Involvement Programme (CIP). The Programme includes trainings for workers and managers of suppliers and buyers and technical assistance for reporting and auditing. The SA Signatories are held responsible for promoting SA8000 certification in their supply chains. Some of the SA signatories with large supply chains can be listed as Otto Versand from Germany, Gucci from Italy, Carrefour from France and the Gap from the USA. Moreover, SAI also involves in many projects to promote standards in the supply chains and partnerships for the development of other standards.

Code of Conduct

The SA8000 is one of the most comprehensive and strict standards which is based on ILO Conventions, the Universal Declaration of Human Rights, the UN Convention to Eliminate all Forms of Discrimination Against Women (CEDAW) and the UN Convention on the Rights of the Child.¹²³ The standard includes the following requirements:

- Prohibition of forced labour
- Prohibition of discrimination
- Prohibition of child labour (age limit is 15 years old or above in accordance with the national law. However, the age limit is 14 in the countries where developing country exception of ILO Convention 138 applies)
- Freedom of association
- Right to collective bargaining
- Living wage
- Hours of work
- Occupational safety and health
- Disciplinary Practices

Method

The SA8000 concentrates on the integration of social responsibility into the management systems and highlights best practices. However, the SA8000 is mainly a certification programme which is built on auditing and consultancy for improving social standards. The accredited certification bodies which work in partnership with SAI can grant the suppliers and manufacturers with the status of applicants for 2 years until their statuses are verified by SAI's accredited auditors. The audits are realized by specially trained local auditors who conduct interviews with not only workers and managers in the individual production sites but also with NGOs and unions. Moreover, the auditors also check the records of the companies. The auditing process of SA8000 is coordinated by the Social Accountability Accreditation Services (SAAS). It is crucial to note that since SAI system rests on the certification of individual production facilities, the companies are not held

¹²³ Wick 2005, 41

responsible for the conditions in their sub-contractors but encouraged to improve their working conditions.

In recent years, the SAI changed some of its regulatory tools as a response to the criticisms from the non-business groups. First of all, it started to publish the list of the certified companies in its website. However, the SAI still does not publicly disclose the results of the audits. Nevertheless, the local auditors pass the auditing outcomes to the local unions and other parties involved in the audit procedures. Moreover, the SAI has developed a Complaints and Appeals Process according to which accredited and applicant certification bodies, certified organizations or other stakeholders can present their appeals to SAI as a result of which SAAS conducts investigations and if the complain is found valid decide either the withdrawal or sustenance of certification with corrective measures. The complaints and their results are publicized in the website of SAAS. However, the complaint procedure of SAI is still criticized due to the restrictions for reaching the audit results.

Business Social Compliance Initiative (BSCI)

The BSCI was formed in 2004 in Brussels in order to utilise one common system for monitoring the suppliers of the European retailers and brands.¹²⁴ The BSCI refers to the outsourcing process of labour intensive goods to the developing countries, the poor working conditions in these countries and the risk of damaging reputation of retailers and brands when defining the necessity for improving labour standards in the producing countries, while it emphasizes the problems of “inefficiency” and “high costs” resulting from the “mushrooming” of individual codes of conduct and monitoring systems in order to justify the necessity for “consistency and harmonization” through creating a “common European monitoring system for social compliance”¹²⁵ which is in match with EU’s recent policies on CSR that are going to be discussed in the next section.

¹²⁴ Ibid, 93.

¹²⁵ Business Social Compliance Initiative, “Our History,” <http://www.bsci-eu.org/index.php?id=2011>, (accessed 13 July 2009).

The BSCI was established by the Foreign Trade Association (FTA) which is the association for European commerce lobbying in trade issues. It is crucial to note that FTA's strategy regarding the CSR has always been against the development of binding rules and protectionist barriers. The 'regular membership' in the BSCI is restricted to the retailers, brands, trading and importing companies with an active role in the supply chain. The regular members are held responsible from the integration of their suppliers into the BSCI auditing and qualification process. As of November 2009, the BSCI had more than 400 regular members from all over Europe. The other companies, associations and institutions without an active role in the supply chain are regarded as 'associate members' and support the initiative but do not implement the BSCI process. The Supervisory Board of the BSCI is composed of the FTA and representatives of the business including Switzerland based supermarket COOP, Germany based Otto Group, France based apparel retailer Celio and Spain based department store El Corte Ingles.¹²⁶ On the other hand, Stakeholder Board of the BSCI consists of representatives of European Commission, NGOs, trade unions, suppliers, consumer organizations and academia. Currently, representatives from the Istanbul Textile and Apparel Exporters' Association (İTKİB), SAI, European Commission, Solidaridad, Test-Achads, UNI Global Union, International Textile and Clothing Bureau (ITCB) are in the Stakeholder Board of the BSCI.

The BSCI's activities mainly focus on China, India and Turkey as those are the three most important supplying countries of the BSCI members.¹²⁷ However, the BSCI also involves in activities in many other parts of the world. It provides standardised management tools and guidance documents to its members for the implementation of the BSCI code of conduct. It conducts 'awareness raising workshops' to introduce the suppliers to the BSCI monitoring process and its requirements, 'advanced workshops' to provide the middle management of the suppliers with the knowledge, skills and the tools to successfully fulfil the BSCI requirements typically after an

¹²⁶ Business Social Compliance Initiative, "Our Governance," <http://www.bsci-eu.org/index.php?id=2010>, (accessed 13 July 2009).

¹²⁷ Business Social Compliance Initiative, "Annual Report 2008," <http://www.bsci-eu.org/index.php?id=2035>, (accessed 15 July 2009).

audit has been done and ‘worker training sessions’ to increase workers' knowledge about their social rights. Moreover, it realizes round table meetings together with the stakeholders in the supplying countries in order to improve the working conditions in those countries.

Code of Conduct

The BSCI Code of Conduct is based on UN and ILO Conventions and very similar to the SA8000. However, the BSCI is less strict than the SAI on the wages and freedom of association:

- Legal Compliance (including ILO and UN Conventions, and any other relevant statutory requirements whichever requirements are more stringent).
- Freedom of Association and the Right to Collective Bargaining
- Prohibition of Discrimination based on gender, age, religion, race, caste, social background, disability, ethnic and national origin, nationality, membership in workers’ organisations including unions, political affiliation, sexual orientation, or any other personal characteristics
- Minimum wage
- Working Hours
- Workplace Health and Safety
- Prohibition of Child Labour (age limit is 15 years old or above in accordance with the national law. However, the age limit is 14 in the countries where developing country exception of ILO Convention 138 applies)
- Prohibition of Forced Labour and Disciplinary Measures
- Environment and Safety Issues
- Management Systems

Method

Similar to the AVE/GTZ programme, the BSCI is mainly an external monitoring body responsible from the monitoring of the “supply chains” of its members rather than an independent monitoring or certification programme. The costs of the monitoring can either be paid by the members or their suppliers which depends on the agreement between two parties. Similar to the SA8000, the BSCI rests on

auditing and capacity building. In order to be accredited to the BSCI, the auditors have to get the lead auditor training delivered by the SAI. The BSCI members and suppliers are held responsible from the adoption of the BSCI Code of Conduct and self-assessment. Firstly, the members of the BSCI requests self-assessment from their suppliers. Secondly, the initial audit is undertaken by the BSCI which is repeated in every 3 years. In case of non-compliance, a corrective action plan is prepared and implemented. The BSCI actively involves in the remediation process. After the implementation of corrective action plan, the BSCI re-audits the companies.

In regards to the transparency, the audit reports are restricted to only BSCI members in order to prevent duplication of monitoring. The BSCI only publicly discloses the list of its regular and associate members and its own annual report. Similar to AVE/GTZ programme and the WRAP, the BSCI offers limited role for the unions and NGOs in its monitoring structure. The Stakeholder Board which is composed of EC, NGOs, unions, sector organizations and other relevant stakeholders are solely responsible from issues related to the budget, internal organisation and general policies of BSCI. While the BSCI conducts regular meetings in the supplying countries with key stakeholders including representatives from the government, trade unions, employee associations, academicians and NGOs, the BSCI has not developed any appeal and complaint system for the stakeholders..

Fair Labor Association (FLA)

Similar to SA8000, FLA was also established within the framework of AIP in 1998. However, unlike SA8000, FLA's standards concentrated on the improvement of working conditions in the apparel and sportswear industry and other sectors producing for universities. As such, FLA can be regarded as an initiative which is initiated primarily in response to student movements. However, when FLA was established, all the unions, NGOs and universities participating in AIP refused to join the association as they deemed its standards and verification system as full of serious deficiencies.¹²⁸

¹²⁸ Wick 2005, 54.

In 2002, the FLA revised its programme and monitoring procedures in order to increase transparency, scope and independence.¹²⁹ The board of directors of the FLA consists of representatives from NGOs, business and universities. As of October 2009, there were 6 universities, 5 NGOs and 6 companies including major sportswear brands US based Nike and Liz Claiborne and Germany based Adidas and Puma in the directory board of the FLA.¹³⁰ Unlike SAI, the trade unions are not represented in the board of the FLA.

As of October 2009, the FLA has accredited 30 brands including major ones such as Nike, Liz Claiborne, Adidas, Puma and UK based H&M and 12 suppliers from Vietnam, Hong Kong, China, Sri Lanka, South Korea, Singapore, Thailand, Pakistan and El Salvador. In 2008, the FLA affiliated companies were producing in more than 4,500 factories in 83 countries the largest supplier among which was China with more than 1,700 companies.¹³¹

Moreover FLA encourages the participation of NGOs and trade unions in the monitoring, reporting, verification, training and complaint procedures as FLA affiliated members. Colleges and universities also join the FLA to promote fair and decent working conditions in the production of goods including their logos. Currently, there are more than 200 universities and colleges affiliated with FLA.¹³²

Code of Conduct

- Prohibition of forced labour

¹²⁹ Idem.

¹³⁰ Fair Labor Association, "Board of Directors," http://www.fairlabor.org/about_us_board_directors_d1.html, (accessed 14 July 2009).

¹³¹ Fair Labor Association, "2008 Annual Report," http://www.fairlabor.org/images/WhatWeDo/2008_annualpublicreport_100dpi.pdf, (accessed 14 July 2009).

¹³² Fair Labor Association, "Colleagues and Universities," http://www.fairlabor.org/fla_affiliates_d1.html, (accessed 15 July 2009).

- Prohibition of child labour (age limit is 15 years old or 14 if the national law permits)
- Prohibition of harassment or abuse
- Prohibition of discrimination on the basis of gender, race, religion, etc.
- Provision of a safe and healthy working environment
- Freedom of association
- Right to collective bargaining
- Minimum wage
- Hours of work and overtime compensation

Method

Unlike SA8000, FLA is a brand rather than production site accreditation programme and it applies for all the facilities of the company, its subcontractors, suppliers and licensees with the exception of those which produce for less than 6 months for the company or the facility's production for company does not exceed more than 10% of its annual production. However, the companies are also prohibited from realizing more than 15% of their production in these facilities.

The FLA is funded by the participating companies, colleges and universities and their licensees and grants. It does not directly receive payment for its monitoring activities from the audited companies. The FLA accredits third-parties for external monitoring. FLA members are held responsible from their internal monitoring, external monitoring and betterment of the conditions in their supply chains. In their first years, the companies are supposed to internally monitor 50% of their facilities, while in the second year they have to cover all. The FLA conducts unannounced visits to the facilities associated with the accredited companies in order to externally monitor the compliance to the code of conduct. In its audits, FLA investigates company's compliance records, programmes implemented for remediation and conducts field visits.

The FLA revised its regulatory tools in favour of more transparency and accountability in recent years as a response to the criticisms from the non-business

organizations. It began to implement a complaint procedure called “Third Party Complaint Procedure”. In this procedure, the FLA also receives unanimous complaints, involves in remediation process if the complaint is found valid and informs only the complaining party for the results. Moreover, as an important step towards transparency and accountability, it began to publicly disclose the results of the audits and lists of all the facilities associated with the accredited companies in the mid-2000s.

Ethical Trading Initiative (ETI)

Unlike SAI and FLA, ETI is a stakeholder forum based on collaborative learning and promotion of best practices in the implementation of codes of conduct rather than a certification scheme. It was established primarily for developing the working conditions in the supply chains of the companies in the Britain markets through a base code on social standards, experimental and research projects, monitoring member companies’ performance, capacity building activities and other projects to promote the compliance to the codes of conducts in the supply chains.

The board members of the ETI include representatives from the business, trade unions and NGOs with equal membership. As of October 2009, the business representatives in the board include some of the largest fashion distributors in the world including UK based Next, US based the Gap and Spain based Inditex Group (Zara, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home) and one representative from the cut flower industry. In parallel with the power of business representation, the trade unions are also represented by ITUC, ITGLWF, TUC and IUF. Moreover, NGO members of the board also include major international NGOs such as Oxfam, Homeworkers Worldwide, Women Working Worldwide, Women in the Informal Economy, Globalising and Organising (WIEGO). The Department of International Development is also granted with the observer status in the board of ETI.

Recently, the ETI has 57 member companies including supermarkets, fashion retailers, department stores and stone sourcing companies, as well as major suppliers

to retailers of food and drink, flowers, apparel and shoes industries including some other major fashion retailers and brands such as Marks & Spencer, Pentland Group (Ellesse, Lacoste, Berghaus, Spido, etc.) and Tesco beside Inditex, the Gap and Next. The ETI also has a Council of Global Unions with 8 members across from different industries and 15 NGOs specialized in the issues labour rights, development and fair trade.

The ETI primarily involves in researches on the effectiveness of its programme, realize trainings for employers and workers and conducts round table meetings, seminars and conferences to disseminate best practices.

Code of Conduct

The ETI Base Code is mainly the combination of ILO Conventions and based on following requirements:

- Prohibition of forced labour
- Prohibition of child labour (age limit is 15 years old or above in accordance with the national law. However, the age limit is 14 in the countries where developing country exception of ILO Convention 138 applies)
- Freedom of association and right to collective bargaining
- Safe and hygienic working conditions
- Prohibition of harsh or inhumane treatment
- Prohibition of discrimination on the basis of race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation, union membership or political affiliation.
- Working hours
- Living wage
- Regular employment

Method

The ETI does not have strict demands for the transparency and enforcement of its code of conduct. Accordingly, it does not mandate its members to make its Code of

Conduct a part of the agreements with sub-contractors. However, it encourages them to communicate these principles in their supply chains.

After finalizing its code of conduct, ETI undertook many projects and tested experimental methods of monitoring and independent verification in South Africa, Zimbabwe, China, Costa Rica, Sri Lanka and India in which many different parties were held responsible from these processes. However, as the role of auditing in the improvement of working conditions started to be questioned by its members, the ETI began to concentrate on the development of best practices regarding the involvement of workers in the process of code implementation and remediation processes.¹³³ In terms of reporting, the members of ETI are held responsible from presenting an annual report to the initiative. However, they are not required to disclose their reports to the public.

Fair Wear Foundation (FWF)

The FWF was established in Netherlands in 1999 by the business associations, unions and NGOs in order to promote decent working conditions and workers' rights in the supply chains producing for Dutch markets. The Dutch CCC was the organization which led the process. The main activities of the FWF are built on the implementation of its code of conduct in the factories supplying for Dutch brands and manufacturers. However, the FWF also publishes background studies, annual reports, and newsletters, realize trainings for and builds networks of unions, business organizations and NGOs in the countries where the members of FWF operate. So far, the FWF is active in Turkey, Indonesia, India, China, Bangladesh, Macedonia, Romania, Poland and Tunisia.¹³⁴ In 2009, there were 48 companies affiliated with FWF among which there were also companies not only based in Netherlands, but also in the UK, Sweden, Germany and Belgium.¹³⁵ Turkey is the second biggest supplier of the FWF affiliates.

¹³³ Hughes et al. 2007, 9.

¹³⁴ Wick 2005, 34.

¹³⁵ Fair Wear Foundation, "Brands," <http://fairwear.org/?w=fair-wear-brands>, (accessed 15 July 2009).

The executive board of the FWF consists of 1 representative from employers' organizations for the garment suppliers, 1 representative from employers' organizations for garment retailers, 2 representatives from trade unions and CCC and CSR Platform.¹³⁶ Unlike SAI, FLA and ETI, there is not any brand in the executive board of the FWF.

Code of Conduct

The FWF code of conduct is based on IFCTU's model and includes the following issues:

- Prohibition of forced labour
- Prohibition of discrimination
- Prohibition of child labour
- Freedom of association
- Right to collective bargaining
- Right of living wage
- Prohibition of excessive overtime
- A healthy and safe work place
- A valid labour contract

Method

The FWF is not a certification body but employs more socialized instruments such as employee complaint procedures and independent audits to monitor and verify working conditions in the supply chains of the retailers and brands and to upgrade the working conditions gradually. The FWF adopts an integrative approaches and work for the integration of social responsibility into the management systems of the companies. The member companies are held responsible for monitoring the working conditions in their supply chains in respect to the FWF code of conduct, employ corrective action plans, train the staff and publish annual reports in their websites and FWF verifies the process. Beside the unannounced factory visits, the

¹³⁶ Fair Wear Foundation, "Organisation," <http://fairwear.org/page/organisation>, (accessed 15 July 2009).

verification system of FWF primarily rests on workers' complaints. The monitoring teams of the FWF are composed of many stakeholders. The FWF conducts training for the education of workers on codes of conducts in order to make them effectively utilize complaint procedure and networks. The member corporations are held responsible for the implementation of corrective plans in case of non-compliance with FWF code of conduct.

Workers Right Consortium (WRC)

The WRC was established in 2000 in order to institutionalize "United Students against Sweatshops (USAS)" in the USA. The main goal of the initiative is to improve working conditions in the supplier factories of sportswear brands which produce licensed goods for US universities. The WRC verifies the compliance to the social standards to ensure that the licensee products being sold in the campuses of member universities and colleges are produced under decent working conditions. In this regard, with its focus on sportswear sector producing for a particular market, the WRC has the narrowest scope in terms of its sector orientation among the multi-stakeholder initiatives listed in this section.

The WRC is governed by a governing body which is composed of 3 main bodies of the WRC. The Governing Board of WRC is composed of 5 representatives of the University Caucus, 5 representatives of independent labor rights experts representing the WRC Advisory Council and 5 representatives of the United Students against Sweatshops. Unlike other initiatives, there is no brand, supplier, trade union or NGO representative in the governing board of the WRC except the USAS itself. As of October 2009, the total number of college and university affiliates of the WRC was 174.

In 2006, the WRC initiated the Designated Suppliers Programme according to which the licensees are required to supply most of its university logo apparel from the producers that are determined beforehand by the universities as a result of monitoring realized by WRC. This is one of the most significant incentives provided to the suppliers which invest for improving labour standards. Moreover,

the programme also provides a remedy to the problem of assuming of social costs by the producers through defining obligations to the licensees:

In order to make it possible for factories to achieve and maintain compliance, licensees are required to meet several obligations to their suppliers. Licensees are required to pay a price to suppliers commensurate with the actual cost of producing under applicable labor standards, including payment of a living wage; they are required to maintain long-term relationships with suppliers; and they are required to ensure that each supplier factory participating in the program receives sufficient orders so that the majority of the factory's production is for the collegiate market. Licensees may bring any factory they choose into the program, provided the factory can demonstrate compliance with the program's labor standards.¹³⁷

Moreover, in recent years the problems between WRC and FLA started to be resolved mostly due to the membership of many universities to both of the initiatives and two initiatives began to work together to deal with complaints from the factories producing for licensees.

Code of Conduct

The WRC prepared a Code of Conduct in 1999 which is not mandatory for its member universities and colleagues. However, the members are required to include following requirements in their codes of conduct and contract agreements:

- Prohibition of forced labour
- Prohibition of child labour
- Freedom of association and right to collective bargaining
- Living wage
- A working week not more than 48 hours
- Overtime compensation according to the national law
- Occupational safety and health
- Prohibition of harassment and abuse
- Prohibition of discrimination
- Women's rights

¹³⁷ Workers Rights Consortium, "The Designated Supplier Program," (September 2006), <http://www.workersrights.org/dsp/Designated%20Suppliers%20Program%20-%20Revised.pdf> (accessed 17 July 2009).

Method

The WRC is not a certification body, but it encourages universities and colleges to enforce contract provisions requiring the licensee companies to respect labour standards listed and it mainly concentrates on independently monitoring the labour conditions in the factories producing apparel and other products bearing university logos on behalf of its university affiliates. The licensee companies are held responsible from the implementation of WRC Code of Conduct and internal monitoring. Moreover, the companies are also required to publicly disclose all their production facilities for verification.

The WRC mostly relies on its Worker Complaint System to monitor the activities of the producers. Similar to the FWF, the WRC also educate workers about codes so that they can report code violations to local NGOs or the WRC. The WRC realizes investigation in direct response to the worker complaints and realize spot-check verification rather than a comprehensive verification. Moreover, it also issues reports on the working conditions of the factories and involves in remediation processes. In terms of reporting, the licensees are held responsible from presenting reports to the WRC. The WRC publicly discloses these reports. In case of failure of reporting or false information, the sanctions can include termination of the contracts.

Join Initiative for Corporate Accountability and Workers Rights (Jo-In) Project

The Join Initiative for Corporate Accountability and Workers Rights Projects (Jo-In) which was funded by the European Commission (DG Employment), the US State Department, ICCO (Interchurch Organisation for Development Co-operation) and multi-stakeholder initiatives and two of the brands involved in the project, can be defined as the first attempt to unite leading code of conduct organizations in a collaborative programme. Within the context of the project, there was established a Multi-Stakeholder Codes Initiative which was composed of six leading code of conduct initiatives from US and Europe: Social Accountability International (SAI), the Clean Clothes Campaign (CCC), the Fair Labor Association (FLA), the Ethical

Trading Initiative (ETI), the Fair Wear Foundation (FWF) and the Worker Rights Consortium (WRC). The rationale of the Project was defined as follows:

Codes of conduct have been an important part of efforts to improve labour standards in global supply chains. Over the last ten years these codes and systems for their implementation have proliferated. Brands and retailers are faced with multiple industry standards and suppliers are confused by the numerous codes and initiatives. Local organizations are frustrated by the many initiatives making demands on their time. Better co-ordination and co-operation is essential to address this confusion. It is also important to develop a shared understanding of the ways in which voluntary codes of conduct contribute to better working conditions.¹³⁸

The Jo-In project particularly concentrated on issues of wage, hours of work, collective bargaining and freedom of association. Turkey was selected as the country to undertake the trial phase of the project. For this phase of the project, seven multinational buyers including Adidas, Gap Inc., Hess Natur, Marks and Spencer, Nike, Patagonia and Puma joined to the initiative. Moreover, Otto Versand also supported to the project through encouraging its suppliers to involve in the project. First of all, there was prepared a common code of conduct called Jo-In Code of Labour Practice by the initiative, meetings were realized with NGOs, trade unions, suppliers, buyers, government organizations and sector organizations in order to determine the critical needs in Turkey, a background study was prepared on Turkish textile and apparel industry and the code of conduct was revised in regards to the needs assessment. The experimental trials were initiated after selecting the suppliers and stakeholders to be involved in the project. The aim of the trial project was to determine the best methods for monitoring, remediation and resolution of complaints. In this regard, various approaches employed by the partner multi-stakeholder initiatives including stakeholder consultation and involvement, the buyer leverage for ensuring supplier's compliance with the code, training and education of workers and management on code of conduct, complaints systems and industrial relations systems (i.e. collective bargaining and negotiation mechanisms), independent monitoring, internal monitoring, external monitoring and public disclosure of audit reports.

¹³⁸ Joint Initiative on Corporate Accountability and Workers Rights, "The Pilot Project in Turkey," <http://www.jo-in.org/english/trprojesi.html>, (accessed 13 January 2009).

At the second phase of the project the baselines in the determined factories were assessed, various regulatory tools were tested in respect to the baseline studies, a remediation plan was prepared for each facility together with the relevant multi-stakeholder initiative and the remediation plan was implemented with support of buyers and technical assistance. At the last phase of the project a final report was prepared to evaluate the results of the experimental trials.

The Jo-In has been the most comprehensive attempt to unite and harmonize different nongovernmental systems of regulation through testing all their approaches. However, after the project was finalized in 2007, no progress could be achieved in this direction. Moreover, the final report of the project for the evaluation of different systems was not publicly disclosed.

3.4. United Nations Global Compact

Throughout the 1970s, the UN's position towards the MNCs was rather confrontational. While the agenda of the organization concentrated on the ways to regulate the operations of the MNCs, it established the Centre on Transnational Corporations and developed a draft Code of Conduct on TNCs in 1974.¹³⁹ In 1980s, the UN business relations underwent a significant transformation. In accordance with the neo-liberal context, the developing countries, which used to be hostile towards TNCs and demand restrictions, reversed their strategy in favour of the FDI. This situation resulted in the shelving of the UN draft code and other initiatives for the regulation of the business activities. In 1990s, the UN business relations entered into a new phase as the UN's agencies began to develop partnership projects with the private sector. This initial contact of the UN with community based CSR was followed by the launch of the world's largest collaborative regulation scheme.

In 1999, at the Davos World Economic Forum, the UN Secretary General Kofi Annan called the business to take responsibility in the fields of the human rights,

¹³⁹ Haufler 2003, 240.

environment and labour rights through signing a Global Compact. The Global Compact (GC), primarily rested on the voluntary commitment of the individual corporations and business associations to 10 principles¹⁴⁰ which were derived from the Universal Declaration of Human Rights, ILO's Declaration on Fundamental Principles and Rights at Work, Rio Declaration on Environment and Development and United Nations Convention Against Corruption. The labour standards of the GC (Principle 3 to 6) included freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.¹⁴¹

The GC initiative is coordinated by the UN through the GC Office located in New York. The UN agencies and especially United Nations Development Programme (UNDP) are charged with supporting the Office for the dissemination of the GC and internalization of principles by the business. A multi-stakeholder board provides strategic and policy advice to the initiative. However, the GC is primarily designed as a business platform in which the business participants take the initiative and direct the GC through GC Leadership Forum and Local Networks. In this regard, the Local Networks are entrusted with key duties to disseminate the GC within a particular country or geographic location. However, contrary to the expectations, in many countries, the private sector could not take the initiative for establishing the local networks, as a result of which the UN agencies such as UNDP, UNIDO or UNEP involved in the process to establish the local networks and disseminate the

¹⁴⁰ The GC initially included 9 principles. An additional principle on anti-corruption was later embraced.

¹⁴¹ The GC consists of 4 headings on human rights, labour standards, environment and anti-corruption. The remaining principles of the GC are as follows: "Businesses should support and respect the protection of internationally proclaimed human rights; and make sure that they are not complicit in human rights abuses; Businesses should support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies; Businesses should work against corruption in all its forms, including extortion and bribery." For additional information, see: <http://www.unglobalcompact.org/>

GC in these countries.¹⁴² Today GC is the largest CSR initiative in the world with over 7700 corporate participants and stakeholders from over 130 countries.¹⁴³

All the corporations as well as NGOs and trade unions can sign the GC without any prior investigation undertaken by the GC office. Being signatory of the GC does not mean that the corporation achieved all the principles. It is rather a commitment at the level of CEOs to achieve them. While the requirements of the GC used to be very loose, the policy change in 2009 required the business participants to ‘annually’ report their progress on achieving the GC principles through Communication on Progress (COP) which are publicly disclosed in the website of the GC and to address at least two principle issue areas in their annual COPs during the first five years of participation. In this regard, the participation status of a corporation drops if and only if it fails to meet these requirements. Apart from that, the GC has neither a complaint procedure in case of violation of the principles nor mechanisms to validate the information presented in the reports. In this regard, the GC mainly serves as a platform for stakeholder dialogue and learning about best practices. Moreover, as a collaborative system of regulation, it requires its participants to be accountable through publicly disclosed reports. However it leaves the monitoring and sanctions in case of non-compliance to the civil society. In this regard, while the GC is much stricter than the ILO’s MNE Declaration and OECD’s Guideline, it is frequently criticized because of its weak mechanisms to ensure the companies’ compliance to the principles.¹⁴⁴

Moreover, the attempts in the level of UN for hardening the regulations on business are still going on. In 2003, the UN Sub-Commission on the Promotion and Protection of Human Rights adopted a new draft norm on the Responsibilities of TNCs and Other Business Enterprises with Regards to Human Rights, which was mainly based on the international law applied for the states. The draft was submitted

¹⁴² Interview 13NN.

¹⁴³ UN Global Compact, “About,” <http://www.unglobalcompact.org/AboutTheGC/>, (accessed 08 November 2009).

¹⁴⁴ Whitehouse 2003, 309.

to the Commission on Human Rights to become international law in 2004. In 2005, rather than approving the code, the Commission decided to appoint a Special Representative of the UN Secretary General (SRSG), to continue the dialogue on the issue.¹⁴⁵ In this regard, Prof. John Ruggie¹⁴⁶ was appointed as SRSG. In 2008, SRSG proposed a policy framework to the Commission for business and human rights, which included three core principles: “the State duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect human rights; and the need for greater access by victims to effective remedies”¹⁴⁷. While the proposal was welcomed by the Commission, it renewed the mandate of SRSG for three years and requested the operationalization of the framework on how to strengthen the duties of states to prevent human rights abuses of TNCs and other enterprises, to elaborate the scope and content of CSR to respect all human rights and to enhance the access of victims of human rights abuses to the remediation mechanisms through closely working with Human Rights Working Group of the Global Compact, and other relevant international bodies, offices, departments and specialized agencies as well as with all stakeholders, including NGOs, states, TNCs, other business enterprises, employers’ organizations and workers’ organizations, and vulnerable groups. While the final content of the framework has not been operationalized yet, it seems to suffer from the weaknesses of the ILO Conventions to the extent that it primarily rests on state enforcement. However, depending on the final report of SRSG, the framework may harden the scope and content of the CSR through making reporting or other tools of CSR mandatory.

¹⁴⁵ Utting 2005, 7.

¹⁴⁶ Ruggie, who introduced the concept ‘embedded liberalism’ in order to explain the post-war international order, later utilized this concept to explain the rise of CSR and GC. For a detailed article on the Global Compact and embedded liberalism, see J. R. Ruggie and G. Kell, “Global Markets and Social Legitimacy: the Case of Global Compact,” paper presented at an international conference: Governing the Public Domain beyond the Era of the Washington Consensus? Redrawing the Line Between the State and the Market, York University, Toronto, Canada, 4-6 November 1999, also available in http://www.yorku.ca/robarts/archives/pub_domain/pdf/apd_ruggiekellfin.pdf, (accessed 15 November 2009)

¹⁴⁷ Office of the United Nations High Commissioner for Human Rights, “Transnational Corporations,” http://www2.ohchr.org/english/issues/trans_corporations/index.htm (accessed 30 November 2009).

3.5. European Union and Enhancement of the Corporate Social Responsibility as a Competition Strategy

In the late 1990s, the agenda of the EU also shifted to the nongovernmental systems of regulation. The development and utilisation of regulatory tools such as code of conduct, monitoring and verification to regulate the activities of the European based MNCs across their supply chains was first adopted by the European Parliament with the resolution on EU Standards for European Enterprises Operating in Developing Countries: Towards a European Code of Conduct on 15 January 1999.¹⁴⁸ In the resolution, the Commission was asked to work on the establishment of a common European Monitoring Platform with the collaboration of stakeholders (NGOs, trade unions, consumer groups, employee and trade associations) from both South and North to conduct independent monitoring and verification of the working conditions in the suppliers of the Europe based MNCs. The resolution also recommended the promotion of social dialogue and inclusion of an appeal and complaint system in the monitoring mechanism.

The regulatory tools defined in the resolution of the European Parliament were later tried to be incorporated into the CSR framework of the European Commission which was developed in parallel with its competition strategy. Despite the history of the contact of the EC with the CSR dates back to 1990s, when the European Commission President Jacques Delor called the business to action for supporting the struggle of the EU against social exclusion¹⁴⁹, the role for the CSR was re-defined and extended with the Lisbon Summit in 2000. In the Summit, the EU determined its new strategic goals as “to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion”¹⁵⁰. In accordance with this strategy, the EC

¹⁴⁸ O. DeSchutter, “Corporate Social Responsibility: European Style,” *European Law Journal*, 14 (2) (2008): 203-236, 211.

¹⁴⁹ This call resulted in the establishment of the leading business network in Europe on CSR, which is called CSR Europe, in 1995.

¹⁵⁰ DeSchutter 2008, 206.

appealed to the business once again to utilise CSR in order to develop best practices for work organization, social inclusion, lifelong learning, sustainable development and equal opportunity in order to enhance competitiveness of the EU. In this regard, the EC emphasized the existence of ‘business case’ for CSR. In 2001, the EU published a Green Paper called “Promoting a European Framework for Corporate Social Responsibility”, in which the CSR was defined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”¹⁵¹ In the paper, the role of CSR in enhancing competitive advantage, improving reputation and productivity was strongly emphasized. Moreover, when defining the European framework for the CSR, the public authorities and EC were assigned with the duties to develop broad principles, criteria, tools and methods for the implementation of the CSR and promotion of best practices. In the investigation of the Green Paper for the methods in order to implement CSR in Europe, the British Chamber of Commerce and the European Round Table of Industrialists strongly opposed to the idea of standardisation of the reporting of social performance on the ground that regulations would hinder the creative force behind the CSR.¹⁵² On the other hand, the paper’s voluntary approach to CSR was widely criticised by NGOs and trade unions as they deemed this approach insufficient to protect the rights of workers and citizens.¹⁵³

In May 2002, the European Parliament voted for new legislation to require companies annually report their social and environmental performance and to enforce sanctions against the European companies’ abuses in the developing world.¹⁵⁴ A few months later, the European Commission published the Communication on Corporate Social Responsibility: A Business Contribution to

¹⁵¹ European Commission, “Promoting a European Framework for Corporate Social Responsibility,” *Green Paper* (2001), http://eur-lex.europa.eu/LexUriServ/site/en/com/2001/com2001_0366en01.pdf, (accessed 19 July 2007).

¹⁵² De Schutter 2008, 207.

¹⁵³ C. Bichta, “Corporate Social Responsibility: a Role in Government Policy and Regulation,” *Research Report 16*, (University of Bath: Centre for the Study of Regulated Industries, 2003), 46.

¹⁵⁴ Wick 2005, 99.

Sustainable Development in which it rejected the Parliament's regulatory approach to the CSR. In the paper, the CSR was once again defined beyond the legal obligations of the corporations and the utilisation of regulatory tools such as compulsory reporting or labelling was rejected. However, the Commission defended the need for a common framework by the fact that the proliferation of different CSR instruments such as standards, labelling, certification and reporting result in confusion and could be a source of market distortion. Accordingly, the European Commission emphasized the necessity for enhancing transparency and developing common tools and defined the general framework of CSR as adherence to international agreements including ILO conventions and OECD Guidelines. The Commission also addressed the necessity for integration of the CSR into the management strategies of the corporations and it defined the role of EU in this process as facilitating the dissemination of CSR through supporting activities for raising the awareness on CSR and promoting means of best practice regarding the CSR. Moreover, the role of social and environmental responsibility in the competitiveness was emphasized once again. This time, the Commission particularly concentrated on the SMEs and it was declared that the pressures on SMEs for CSR were mainly exerted by the big buyers and it defined a role for large corporations to build the capacities of SMEs in this regard. In this regard, the Commission's role was defined as to facilitate this relation between SMEs and large corporations.¹⁵⁵ The Commission also formed a European Multistakeholder Forum in order to promote convergence and transparency of CSR practices and instruments through exchanging best practices, establishing and exploring the areas in which the additional action is needed. In this regard, the concrete proposals of the Commission to the Forum were the development of a common EU approach, investigation of different regulatory tools and development of a social labelling scheme based on ILO Conventions and a common guideline including criteria for measurement, assurance and reporting. The Forum was composed of representatives from the business, trade unions, consumer groups and NGOs under the EC's chairmanship. In this regard, the recommendation of the European Parliament for the establishment of

¹⁵⁵ De Schutter 2008, 209.

a European Monitoring Platform was transformed into a platform for the dialogue of various stakeholders together with the European Multistakeholder Forum.

In fact, after the publication of the Green Paper on CSR, the stakeholders participating in the Forum had already come together in several round table meetings and reached consensus on several issues including the voluntary aspect of the CSR. Therefore, one of the first decisions of the Forum, was to abandon the article concerning ‘the exploration of the areas in which the additional action is needed’ from the mandates of the platforms. Accordingly, the Forum did not work on any recommendations necessitating legislative action even regarding the issues of transparency and coherence of the voluntary initiatives. As a result, while the Forum was assigned with the mission of developing common regulatory tools, it deprived itself from the power to recommend any legislative action to European Commission in this regard. The nongovernmental systems of regulation in this regard remained as the only tools the Forum could develop its recommendation on. In 2004, the forum published its final report in which the voluntary aspect of the CSR was once again emphasized and the market-led initiatives including multi-stakeholder initiatives were promoted for the convergence of CSR tools. In terms of the legislation, the proposal of the forum was limited to the promotion of a legal framework to allow companies to benefit from the CSR by the public authorities. However, the report did not specify what the contribution of the EC could be in this regard. The final report of the Forum was criticised by many non-business groups including the ones participating in the Forum itself because of its promotion of the market-led initiatives.¹⁵⁶

In 2005, after the mid-term review of the Lisbon Strategy, the strategy of the EU started to shift from the sustainable development and social cohesion to the economic growth and job creation. In 2006, the EC published its communication regarding the CSR with a 2 years delay. In line with the recommendations presented in the final report of the Forum, the communication rejected any additional

¹⁵⁶ Ibid, 210.

requirements and obligations regarding the CSR which could be imposed by the EU and positioned the business as the main actors which should steer the process. In the communication, the role for the EC was defined as working together with the business in this direction. As an outcome of the communication, a business-led initiative similar to the Global Compact was established with the name of the European Alliance on CSR. The initiative defined its purpose as “mobilising the resources and capacities of European enterprises and their stakeholders in the interests of sustainable development, economic growth and job creation”¹⁵⁷ in line with the new strategy of the EU. The Alliance has been coordinated by the CSR Europe, Business Europe and the European Association of Craft, Small and Medium-sized Enterprises (UEAPME) and 230 companies and organization all around the Europe supported the Alliance.¹⁵⁸ The alliance can be regarded as an agreement between the EC and the business according to which the EC will provide a business-friendly environment in return of CSR activities aiming at job creation, sustainable development and economic growth. While the Alliance was built on 10 principles, it included 3 principles directly related with the labour conditions in the supply chains of the EU based companies.¹⁵⁹ Those were “Assisting enterprises to integrate social and environmental considerations in their business operations, especially those in the supply chain;” “Improving working conditions, also in cooperation with the supply chain” and “Operating outside the borders of the European Union in a socially and environmentally responsible way as companies do inside the European Union”.

¹⁵⁷ European Commission Enterprise and Industry, “European Alliance for CSR,” http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/european-alliance/index_en.htm, (accessed 03 December 2009).

¹⁵⁸ CSR Europe, “Who Supports the Alliance,” <http://www.csreurope.org/pages/en/supporters.html>, (accessed 03 December 2009).

¹⁵⁹ The other principles of the Alliance are as follows: Fostering innovation and entrepreneurship in sustainable technologies, products and services which address societal needs; Helping SMEs to flourish and grow; Improving and developing skills for employability; Better responding to diversity and the challenge of equal opportunities taking into account the demographic changes alongside the rapid aging of the European population; Innovating in the environment field with a special focus on integrating eco efficiency and energy savings in the product and service creation process; Enhancing pro-active dialogue and engagement with all relevant stakeholders; Further addressing the transparency and communication challenge to make the non-financial performance of companies and organisations more understandable for all stakeholders and better integrated with their financial performance. For detailed information, see: <http://www.csreurope.org/pages/en/priorityareas.html>

The Alliance primarily concentrated on awareness raising activities, enhancing open coalitions of cooperation and ensuring an enabling environment for the CSR in order to achieve these principles. Moreover there was developed a toolbox for the internalization of the principles. The responsible supply-chain management constituted one of the priorities of the Alliance. However, the concrete initiatives of the Alliance in this regard have been limited to the establishment of a portal including tools and approaches on CSR in order to support the companies to develop their own management system on CSR. To sum up, the process opened in the EU in 1999 for the development of more hardened, ‘socialized’, standardized and inclusive instruments and tools for CSR and regulation in the European level resulted with the establishment of an exclusively business platform which limited its activities with raising the awareness on CSR and sharing the best practices.

Despite the EC has not managed to introduce a common framework on regulation tools, it supported many initiatives for the dissemination of nongovernmental systems of regulation and standardization of regulatory tools. To name some of these initiatives, in addition to Jo-In project which targeted at the harmonisation and standardisation of CSR instruments in the textile and apparel sector, the European Commission – DG Employment and Social Affairs also supported the CERFE, an Italian research centre, and many other organizations for the development of guidelines for the dissemination of CSR among European SMEs. Moreover, the EC is also a participant of the Stakeholder Board of the BSCI as it is mentioned above. Despite the BSCI does not exactly match the recommendations of the European Parliament on the establishment of the European Monitoring Platform as a socialized regulation system with a complaint system and directory board consists of the representatives from the trade unions, NGOs and employee associations from both North and South, it still serves for the promotion of social dialogue between the stakeholders and the establishment of a common external monitoring system for the European based MNCs. Moreover, it is also expected that the BSCI is going to harden its regulatory instruments and evolve from the privatized to the collaborative

system of regulation and expand its scope to environmental issues in 2010 mostly as a result of the recommendations of the EC.¹⁶⁰

Moreover, despite Lisbon strategy was revised in 2005, the EU's strategy on CSR is still built on the promotion of the CSR as a tool for enhancing competitive advantage and social cohesion. For instance in 2007, the EU supported a UNDP project on "accelerating CSR practices in the new EU member states and candidate countries as a vehicle for harmonization, competitiveness and social cohesion in the EU."¹⁶¹ The project, which was implemented in Poland, Lithuania, Hungary, Slovakia, Bulgaria, Macedonia, Croatia and Turkey, concentrated on the preparation of the country baseline reports, enhancing social dialogue, building the awareness and capacities of the stakeholders to make them engaged in the CSR agenda and increasing the competitiveness of local business through promoting the CSR as a tool for integrating the local business to the European market.

3.6. On the Nongovernmental Systems of Regulation

To some up this section, it is vital to compare the nongovernmental systems of regulation with traditional regulatory systems as well as defining the similarities and differences within these systems. One of the common defining features of the nongovernmental systems of regulation discussed above is that their "legitimacy, governance and implementation" are not derived from the "public authority" but based on "soft law".¹⁶² Moreover, in difference with the state regulations which concentrate on individual production sites within the boundaries of a country, the nongovernmental systems of regulation focus on multiple sites in a global value chain.¹⁶³ Whereas, state regulations rest on state sanctions to enforce standards, nongovernmental systems of regulation largely rely on social and market forces

¹⁶⁰ Interview 3SO.

¹⁶¹ Accelerating CSR in Europe, "Project Summary," <http://www.acceleratingcsr.eu/en/about/140>, (accessed 14 January 2009).

¹⁶² Vogel 2007, 5.

¹⁶³ O'Rourke 2003, 6.

through effecting brand reputation, supplying decisions or consumer preferences. Finally, unlike the state regulations, all the nongovernmental systems of labour regulation include multiple actors at multiple levels of regulation. However, the nongovernmental systems of regulation are not “free” from the state regulations to the extent that they all emphasize the obligation of firms to obey host countries’ laws and they primarily rely on at least ILO core standards. On the other hand, despite their linkages with national laws, the nongovernmental systems of regulation signify the extension of “regulatory authority” from the nation states to nongovernmental actors and reflect the ‘growing public role’ of the private organizations.¹⁶⁴

Among the nongovernmental systems of regulation, more complex institutional arrangements emerged in recent years. While the voluntary and multi-stakeholder initiatives discussed above were initially quite diverse from each other, they began to use similar regulatory tools and standards in time as a response to the criticisms put forward by the trade unions, NGOs, consumer groups and even by the business itself. In terms of the standards, the codes of conduct which have been developed by the nongovernmental initiatives started to converge around the core issues such as prohibition of forced and child labour, protection of health and safety of the workers, wages and working hours. However, there are still considerable differences in the content of these standards especially with respect to the working hours, freedom of association (unions or workers’ representatives) and wages (minimum, prevailing or living wage). In this regard, the codes of conduct of the SA8000, FWF and WRC are stricter than the others, while WRAP is the weakest one. Moreover, the regulatory tools utilised by these systems also began to overlap albeit their content and effectiveness differ. Most of the initiatives discussed above established some kind of monitoring and appeal and complaints procedure and started to involve in the capacity building activities.

¹⁶⁴ Cf. Vogel 2007, *passim*. Cf. S. Picciotto, “Regulatory Networks and Global Governance,” paper presented in W.G. Hart Legal Workshop, the Retreat of the State: Challenge to the Law and Lawyers, Institute of Legal Studies, University of London, 27-29 June 2006, available in http://eprints.lancs.ac.uk/232/1/Reg_Networks_&_Glob_Gov.pdf, *passim*.

The last but not least, the above mentioned initiatives also differ in terms of their accountability, the investigation of which reveals the subjects possessing the real regulatory power beneath the complex chains of standard setting, monitoring, verification and reporting. In this regard, when these initiatives are located in a spectrum of the regulatory system, the “privatized” end of the spectrum can be set with the European Alliance on CSR, while the WRC occupies the other “socialized” end. The other initiatives are dispersed between these two ends with their different levels of accountability and transparency. The European Alliance on CSR is a platform based on learning from best practices and does not include any means to ensure the accountability of its members. On the other hand, the WRAP and the BSCI can also be identified as examples of the system of “privatized regulation” to the extent that both of these initiatives are mainly accountable to those being audited. These initiatives provide limited role for the NGOs, consumer groups, trade unions and workers in the standard setting, monitoring and verification processes. Those are mainly external monitoring schemes of which impartiality is mostly debated due to the fact that the costs of the audits are paid by the parties being audited, the audit results are not publicly disclosed and the Directory Board of both of the initiatives are solely composed of business representatives. Moreover, they do not have any appeal and complaint systems provided for third parties. However, the BSCI is closer to the collaborative system of regulation than the WRAP to the extent that it provides trainings to the workers on their rights, realizes local stakeholder meetings and includes a Stakeholder Advisory Board.

The SA8000, on the other hand, marks the beginning of the collaborative systems in the spectrum. While the SA8000 is similar to the privatized systems in terms of the involvement of the brands in its Board of Directors, the payment of the costs of the audits by the workplaces being audited and non-existence of the public disclosure of the reports, it has developed a Complaints and Appeal Process being open to the third-parties, includes workers’ representatives in the auditing and compliance processes, shares the audit results with all the parties who involved in the auditing process and provides trainings to the workers on their rights. Moreover, the trade unions and NGOs are represented in the Board of Directors of the SA8000. In this

regard, despite primarily being a monitoring and certification scheme of which fees are paid by those being audited, the penetration of the multi-stakeholder mechanisms into SA8000's monitoring scheme make it closer to the "collaborative" systems. On the other hand, in recent years, it can be argued that the FLA was transformed from a privatized to a collaborative system through utilising a complaints and appeal procedure for the third parties and publicly disclosing its audit reports and list of the suppliers of its members. The increase in the transparency of the scheme provided the NGOs and trade unions with the power to penetrate into the supply chains and mobilise the consumers and other stakeholders in case of non-compliance. The ETI can also be exemplified within the collaborative systems due to its efforts to empower workers in the standard setting and monitoring process. Similarly the Global Compact can also be listed under the collaborative systems due to its strict public disclosure requirements. Lastly, the FWF also rests on workers' complaints in the verification process and require its member to publicly disclose their progress report.

Finally, the WRC is the most socialized effort which primarily rests on workers' involvement in the monitoring process. First of all, unlike the other initiatives discussed here, the WRC's board does not include any representatives from the brands, retailers or manufacturers which the initiative monitors. This provides the WRC with space for independence. Secondly, despite undertaking some unannounced audits, the WRC primarily rests on the complaints and appeals from the workers, NGOs, consumer groups and trade unions which function as an alarm mechanism for the audits. Accordingly, the WRC focuses its activities on training workers to effectively utilise its appeal and complaints system. In addition to these initiatives, the CCC is one of the most comprehensive efforts to empower workers in the nongovernmental systems of regulation and socialize the regulation process. However, despite developing a code of conduct, the CCC does not have the necessary institutional arrangement to make the corporations adopt these standards. As a result, rather than a regulatory body, the CCC is positioned as a watchdog in the nongovernmental systems of regulation. On the other hand, in addition to its

confrontational strategy, the CCC also provides support to the collaborative systems as it was the case in FWF and Jo-In.

The collaborative and socialized systems of labour regulations which are utilised by the multi-stakeholder initiatives can be regarded as the hardened systems of regulation when compared with early attempts of self-regulation, since they increase the accountability of the corporations through developing mechanisms for the penetration of the system by the trade unions, NGOs and consumer groups, involve these groups in the decision making and monitoring processes and scale the standards up from working conditions to civic rights such as freedom of association and right to collective bargaining. In this regard, the proliferation of the collaborative and socialized forms of the nongovernmental systems of regulation in the developed countries such as the USA, UK, Germany and Scandinavian countries can be regarded as the outcomes of the interactions of the confrontational and/or collaborative regulatory strategies of the NGOs, unions, governments, intergovernmental organizations and business associations in a context structured by the material conditions of the global supply chains and neo-liberal ideology.¹⁶⁵ The discontent of the NGOs, consumer groups and trade unions stemming from the social consequences of the MNCs' actions and their initial confrontational regulatory strategies against the famous brands and retailers has triggered the search for alternative methods of regulation. In this regard, it is hard to argue that the reasons for the demands of the social movements for improving the labour standards were limited with the desire for bettering conditions for the workers in the developing countries. These movements were also derived from the motivation of the labour unions to protect domestic employment.¹⁶⁶ However, the role of agencies and strategies in shaping the CSR agenda has not been limited with the civil society. Rather, the MNCs also played a key role in the emergence of the nongovernmental systems of regulation through supporting or leading these initiatives. The underlying reasons for this support can be explained once again in reference to the neo-liberal

¹⁶⁵ Cf. Utting 2005, *passim*.

¹⁶⁶ Vogel 2007, 30.

framework and structural features of the global value chains. In this regard, first of all, the growing importance of the intangible assets such as brand value in the buyer-driven value chains made the buyers vulnerable to the social pressures which required them to respond to the social discontent.¹⁶⁷ On the other hand, the retrenchment of the state in the neo-liberal context permitted the development of self-regulatory solutions by the corporations at the expense of the state regulations.

However, the reasons for the adoption of more hardened forms of nongovernmental systems of regulation cannot be simply explained with the desire of the capital to avoid state regulation. In this respect, first of all, the counter strategy of the social movements to de-legitimize the self-regulatory strategies of the corporations forced the corporations to embrace more hardened systems of regulations since validating the conditions in their supply chain to the multi-stakeholder initiatives or third parties provided the firms with a more legitimate basis. Secondly, the competitiveness strategy of the commercial capital has also played a key role in the shift of the MNCs' strategies from self-regulatory solutions to more hardened systems of regulation. In this regard, the labour standards turned out to be a source of competitive advantage in time as a result of which the corporations began to use CSR as a marketing strategy. However, as apparel and textile is a high competitive industry in terms of price, it has been a disadvantage for the companies to invest on social and environmental standards unless their competitors also do the same. In this regard, it has been hard to ensure whether the CSR is a simple public relations tool or include real investments on improving the labour condition since the movements on labour rights violations mostly concentrate on sector leaders. Accordingly, it has been in the interest of the sector leaders to create common programmes and platforms to enforce social standards in order to make sure that their competitors also meet the same requirements.¹⁶⁸

¹⁶⁷ M. Conroy, "Can Advocacy-led Certification Systems Transform Global Corporate Practices? Evidence and Some Theory," *University of Massachusetts, Political Economy Research Institute, Working Paper Series*, 21 (2001), 11.

¹⁶⁸ Jenkins 2001, 9.

Weak power of the state institutions to enforce regulations resulting from the neo-liberal structuring and providing common standards for protecting competitiveness have also played key roles in the strategies of the governmental and intergovernmental organizations to support the emergence of nongovernmental systems of regulation. Firstly, as a result of the neoliberal reforms which reduced the public expenditures and resources of public institutions, state labour agencies in many countries were faced with problems of resource and personnel to enforce the existing labour regulations. In this context, the strategy of the governments has been to enhance nongovernmental systems of regulation as a way to ensure compliance without increasing their budgets or staffs.¹⁶⁹ Secondly, together with the end of the MFA, the international order has been devoid of any institutions to regulate the flows of trade and prevent the race to the bottom. While the transnational commercial capital highly benefitted from this situation, the national industrial capital in the middle and high cost countries were threatened by the growing imports from the low cost locations. Squeezed between these two fractions of the capital and the pressures from the working class and the social movements, the western governments initially attempted to link the trade with common labour standards in the ILO and WTO in order to prevent the advantages derived from wage costs and protect national industries. However, the neoliberal context also prevented these attempts. In this context, in addition to the trade agreements and GSPs, the certification schemes and other multi-stakeholder initiatives have remained as the only instruments the governments could utilise in order to standardize the labour conditions in the supply chains. On the other hand, as it is the case in the EU's strategy on CSR, not only the desire for protecting national industries, but also the strategy for enhancing competitiveness through utilising nongovernmental regulatory instruments also resulted in the support for nongovernmental systems of regulation by the governmental and inter-governmental organizations. Lastly, attaining social cohesion as well as stability in the global supply chains through commonly agreed standards and institutions in order to secure the conditions for long-term capital accumulation has also played a key role in this process.¹⁷⁰ The Jo-

¹⁶⁹ O'Rourke 2003, 4.

¹⁷⁰ Cf. Utting 2005, 14.

In project, which was supported by the EC, USA Government, NGOs and brands, has been the most comprehensive attempt in this regard to develop agreed, harmonized and standardized labour standards in the supply chains.

As a result of all those interactions between intergovernmental organizations, governments, social movements, unions, NGOs and firms, the more sophisticated privatized, collaborative and socialized systems of nongovernmental labour regulation emerged in order to stabilize, control and regulate the global supply chains. This situation resulted in the emergence of the labour standards as a source of competitive advantage in the supply chains of the big buyers.

CHAPTER 4

TURKISH TEXTILE AND APPAREL INDUSTRY

From the establishment of the Republic to the recent times, Turkish political-economy has gone through many stages all of which significantly re-shaped the production structure, trade regime and labour market of the textile and apparel industry. While the protectionist policies implemented in the early years of the Republic led to the development of the capital intensive textile sector, the export oriented industrialisation and neo-liberal policies initiated in the 1980s resulted in the emergence of apparel industry in Turkey. Starting from 1980s, Turkey was articulated into the global apparel value chains through supplying and sub-contracting activities. As a result of the existence of a strong industrial base for the textile sector, Turkey's apparel production and trade structure quickly transformed into full package supplying. In addition to domestic policies which provided Turkish apparel sector with competitive advantage in terms of price and quality, this process was further reinforced by the MFA and Customs Union process with the EU. However, the rise of Turkish textile and apparel industry began to stagnate in recent years due to the transformations in these regional and global regulatory institutions which necessitated the strengthening of the Turkey's position as a full-package supplier as a survival strategy. On the other hand, all of these transformations significantly affected the labour condition in Turkey. Accordingly, in this chapter, first of all, the development of the textile and apparel industry is going to be presented in the light of national and regional transformations. Secondly, the current trade and production structure of the industry and the competitive advantages of Turkey in the international trade are going to be discussed. Finally, the condition of labour in Turkey is going to be presented in respect to the above-mentioned transformations and state regulations.

4.1. History of the Industry

Early Years of the Republic: Developing the Base of the Industry

In the early years of the Republic, the highest priority of the state was to enhance accumulation of capital and to create the national bourgeoisie. However, since new republic handed over a substantial percentage of the foreign debts from the Ottoman Empire, the need of the state for foreign currency prevented immediate protectionist policies.¹⁷¹ In line with the agenda set up in the Izmir Economic Congress, a moderate protectionist approach was followed in the country throughout 1920s in order to encourage foreign and domestic capital. While many services were nationalized and state monopolies were constituted in these years, the trade barriers were loosened and many incentives such as tax exemptions were granted to the private enterprises to accumulate necessary foreign currency.

In the late 1920s, after the finalization of the foreign debt payments, more protectionist policies started to be pursued. The foreign exchange regime was tightened and customs tariff system was adapted by the Turkish government. Moreover, as the Great Depression of 1929 resulted in declining imports of Turkey emanated from low export prices imposed on Turkish raw materials, the regulations over imports and exports were further tightened in order to protect economy from such kind of external disruptions. These protectionist policies were followed by strengthening the role of the state in the market and nationalization of many foreign industries.

In 1933, the initial experiment of state-led industrialisation was initiated in the country with the preparation of the First Development Plan. In the First Development Plan, the textile was determined as the industry with first priority. This was largely due to the availability of vast amount of labour and high-quality cotton in Turkey for the yarn production. Together with the establishment of the state owned enterprise Sümerbank, all the outdated textile factories and workshops left over from Ottoman Empire were merged together. As a result of the training

¹⁷¹ İlyasoğlu and Duruiz, 20.

opportunities and infrastructural investments provided by Sümerbank, this process provided the necessary human resources and infrastructure for the development of the industry. In the following years, Sümerbank led the mass production, while there emerged many family owned small and medium enterprises which specialized in different articles.

After further restrictions imposed on the market throughout the Second World War, Turkey participated in the free trade movement initiated in the post-war period. An outward oriented industrialization strategy with trade liberalising measures and foreign investment put in force. Import regulations were eased through considerably reducing import quotas and protectionist barriers. In these years, Turkey joined International Money Fund, World Bank, OECD and started to receive foreign aid and credit in connection to Truman Aid and Marshall Doctrine.

In late 1940s and early 1950s, in order to realize Turkey's integration to the world economy, the restrictions on foreign capital were loosened with the Law of Encouragement of Foreign Capital Investment and the Law of Encouragement of Foreign Capital Inflow. As it was the case in the earlier years of the Republic, the agricultural production and export were again positioned as the drivers of the economy. Although, the Korean War resulted in the rise in the agricultural prices, even higher rise in the imports led to foreign trade balance deficit which tried to be covered with foreign credits. As a result of the decreases in the exports of the agricultural goods after the end of the Korean War and increases in the foreign deficit, protectionism came back to the agenda of Turkey.

In mid 1950s, the Turkish Lira was devaluated by the government as a remedy for increasing foreign trade deficit and foreign debts. While the foreign trade deficit was managed to be decreased, the growth rate stagnated in this period. Towards the end of 1950, import substitution industrialization (ISI) started to be utilized as a remedy for the economy. Throughout the years ISI strategy was implemented, the state provided the private sector with basic products sold below their production prices. This strategy succeeded in the encouragement of the production of intermediate

goods. It was producer driven commodity chains such as basic metals, petrochemicals, machinery and textile which benefitted at most from the state's restrictive import policy.¹⁷²

After the establishment of the State Planning Organisation (SPO), the First Five Years Development Plan in Turkey was initiated in 1963. In this first plan, the public investments and public enterprises were positioned as the drivers of the economic growth, while in the second and third Five Years Development Plans the state was positioned as the supporter of the private sector. In late 1960s and 1970s, widespread incentives and subsidies were provided for the private sector investments.

The state-led industrialisation and ISI policies pursued in the early years of the Republic primarily benefitted the textile industry through equipping the sector with low cost raw material, necessary human resources and infrastructure. Moreover, the industry began to be handed over from the state to the private sector in these years. Starting from the 1950s, the private sector started to lead the development of the industry in Turkey. Between 1952 and 1962, the share of private sector in the industry increased from 23% to %70.¹⁷³

Growing Deficit of Balance of Payments: the Opportunity for the Emergence of Apparel Sector

In early 1970s, the ISI strategy in Turkey was further strengthened through intensifying the substitution of the intermediary and basic consumption goods and increasing the tariffs and tightening the quotas in the exported goods which competed with the national products. However, as a result of the ISI strategy, Turkey began to face with growing balance of payment deficits due to the low level of exports resulting from the accord of foreign exchange regime to the import substitution and high level of imports in the capital goods as the substitution of those

¹⁷² N. Tokatli, "Globalization and the Changing Clothing Industry in Turkey," *Environment and Planning A*, 35 (2003): 1877-1894, 1887.

¹⁷³ Neidik and Gereffi 2006, 2293.

goods became much slower. In order to solve foreign trade deficit problem, the SPO began to provide investment incentives for foreign exchange earning establishments. This resulted in an increase in cotton yarn plants which were technologically more advanced. The number of spindles doubled between 1973 and 1977.¹⁷⁴ Together with the rise of cotton yarn production and export incentives, cotton yarn based knit and woven apparel production emerged as new sectors in these years.

Although these policies led to the development of textile and apparel industry, they could not be enough for closing the foreign trade deficit. As it was the case in many other developing countries, the oil crisis outburst in 1973 and 1974 worsened the deficit and resulted in the increases in the foreign debts of Turkey. As the crisis became more severe in 1977, the foreign trade deficit of Turkey reached up to 4 billion USD and the economy ended up with recession in late 1970s.

In 1980, after the military coup, Turkey left the inward-oriented ISI model and started to move towards the export-led model of industrialisation. In parallel with the worldwide neo-liberal transformations discussed in Chapter 2, 1980s witnessed the deregulation of Turkey's trade, finance and labour markets in order to integrate into the world economy, all of which resulted in further transformations in the employment, production and trade structures of the textile and apparel industry.

Export Oriented Policies: Incorporating into Global Apparel Value Chains

The initial post 1980s stage of Turkey's integration to the international economy was characterized with the liberalisation of trade, fiscal discipline and control over capital. Starting from 1982 up until 1988, as a response to the foreign exchange crisis experienced in late 1970s, the export from the country was promoted through initiating another wave of depreciation of the Turkish Lira and providing subsidized credits and tax discounts to the manufacturing exporters.¹⁷⁵ Another important instrument in order to promote export in these years had been to reduce the labour

¹⁷⁴ İlyasoğlu and Duruiz, 52.

¹⁷⁵ Yeldan et al. 2000, 4.

costs through suppressing wages with continuous price inflation. The suppression of the wage incomes in this period did not only reduce the share of wage in value added but also diminished the domestic demand for manufacturing goods which in turn created exportable surplus.¹⁷⁶ While commercial capital strengthened its power in this period, the production started to shift from producer-driven to buyer-driven industries.¹⁷⁷

The market-oriented and outward looking policies of 1980s primarily provided benefit to the buyer driven commodity chains which rely on intensive labour and small and medium scale firms. While the share of capital intensive textiles in both employment and output started to fall in the post-1980s period, the labour intensive apparel sector started to increase its share in these regards.¹⁷⁸ The share of textile in total exports decreased from 11.8 percent in 1980 to 11.1 percent in 1990, whereas the share of apparel exports increased from 4.5 per cent to 25.7 percent between the same years.¹⁷⁹ As a result of the depreciation of TL, low labour costs and export credits and incentives, apparel exports high rocketed from 130 million USD in 1980 to 3.3 billion USD in 1990. Although export-oriented policies of the state provided apparel sector with the opportunity to increase its exports, what apparel industry primarily benefitted in these years was the existence of the industrial infrastructure for the development of the sector. Thanks to the ISI and other state incentives and protectionist measures pursued in the preceding decades, a strong textile sector was already developed to support the engagement of apparel sector in the full-package production. Accordingly, through utilising already existing managerial and industrial skills, many of the largest full-package apparel suppliers in Turkey emerged out of the textile producers in 1980s.

In the macro level, despite these strategies of the state empowered commercial capital and buyer driven industries in Turkey, they could not give way to adequate

¹⁷⁶ Idem.

¹⁷⁷ Tokatlı 2003, 1888.

¹⁷⁸ Tokatlı 2003, 1889.

¹⁷⁹ Kanoğlu and Öngüt 2003, 14

level of investments on manufacturing. Moreover, in this period, the informal economy started to widen in order to evade taxation, while the state strategically preferred to avoid enforcement of tax laws in order to provide ground for capital accumulation. As a result, low investments and growing unregistered economy made the state unable to cover public expenditures. The consequent fiscal gap resulted in increase in the foreign debt. While the private sector substantially benefitted from the inflation and depreciation of TL in this period, these gains could not be transferred to the public sector and once again resulted in high level of foreign debt. When these fiscal crisis combined with the pressures of organised labour the classical mode of surplus accumulation through wage suppression ended in Turkey in 1988.

Liberalisation of Capital and Post 1994 Crisis Period: Strengthening of Turkey as a Full Package Supplier

Beginning from 1989, as a response to the popular pressures, the wages started to increase and the public expenditures started to be shifted to social infrastructures in Turkey. All these policies led to a further increase in the public expenditures and the costs of the private sector as a result of which new instruments were utilised to finance the public expenditures and to provide the private sector with new venues to extract surplus. In line with the global trend, the liberalisation of the capital flows was initiated in Turkey which in turn led to the dominance of the financial institutions over the economy.¹⁸⁰ The deregulation of the foreign capital transactions and transition to the full currency convertibility in 1989 were thought to provide finance for public expenditures, decrease the inflationary pressures and increase the investments in real sector through reducing the import costs.¹⁸¹ However, the deregulation of capital and supplementary instruments the state utilised for guaranteeing profits of the private sector could not be sustainable and resulted in 1994 financial crisis. The requirement of public sector for borrowing resulted in high interest rates and overvaluation of Turkish Lira. While appreciation of the

¹⁸⁰ Ü. Cizre-Sakallıoğlu and E. Yeldan, "Politics, Society and Financial Liberalisation: Turkey in the 1990s," *Development and Change*, 31 (2000): 481-508, 486.

¹⁸¹ Boratav et al., "Globalization, Distribution and Social Policy: Turkey 1990-1998" *CEPA Working Paper Series I*, (New York: Center for Economic Policy Analysis, 2000), 6.

currency provided incentive for productive investment, the high interest rates countervailed this tendency through encouraging speculative short-term capital. In parallel with this, complete deregulation of the finance led to the inflow of 'hot money' which was based on short-term financial gain rather than long-term investments in real economy. Consequently, in 1994 the sudden withdrawal of short-term funds resulted in the shrinkage of the production capacity. In 1990s, rather than creating investments in real sector and employment, the reliance on domestic financial market and the international capital led to striking decline in employment, industrial output and real wages.¹⁸² Following the IMF packages for fiscal and monetary disciplines and the depreciation of TL, increase in the exports and inflows of foreign capital into the economy were ensured in the second half of 1990s.¹⁸³

It was once again apparel exporters who benefitted from the post-crisis period. As a result of depreciation of exchange rates in the second half of 1990s, apparel manufacturers gained a huge competitive advantage in the global markets. As it is going to be discussed in the following section, when combined with Turkey's preferential supplier status in the EU, these policies led to the intensification of Turkey's articulation into the global apparel supply chains as a full-package supplier having close relations with many European based retailers, brand manufacturers and marketers. In here it suffices to say that in the late 1990s, full-package exports constituted 90% of total apparel exports of Turkey.¹⁸⁴ In 2000s, many foreign big buyers such as Karstadt, C&A, Otto and Neckermann started to open buying offices in Turkey. Furthermore, a few branded manufacturers and retailers such as the Gap established their regional offices in Turkey.

Throughout the 1990s, the export oriented apparel production started to shift from small scale production units to large integrated factories. Rather than relying on subcontractors, some full package manufacturers began to establish integrated

¹⁸² Cizre-Sakallıoğlu and Yeldan 2000, 487.

¹⁸³ Z. Öniş, "Beyond the 2001 Financial Crisis: the Political Economy of the new Phase of Neo-Liberal Restructuring in Turkey," paper presented as part of the ISA annual Convention, San Diego, California, 22-25 March 2006, 5.

¹⁸⁴ Neidik and Gereffi 2006, 2286.

factories which involve a variety of production steps from knitting to delivery.¹⁸⁵ These investments resulted from a series of considerations all of which were derived from the necessity to develop the capacity of firms to cope with the demands of the buyers. Firstly, the manufacturers wanted to guarantee the availability of supply of fabrics in order to shorten the lead times. Secondly, they wanted to secure the quality of the products through exercising more control over the whole production process. Thirdly, the manufacturers desired to increase their capacity to cope with large amount of orders with better prices. However, this tendency did not put an end to subcontracting activities. The subcontracting of the labour-intensive stages of the apparel production continued to be the case for many full package manufacturer firms for decreasing labour costs and meeting the orders in times of high demand.

The liberalisation of capital also resulted in the transformation of some of the large corporations from industrial to commercial sector. Hot money investments and high inflation and high real interest rates provided large manufacturing firms with nonoperational profits. As Tokatlı puts it, the large corporations and especially commercial firms in the apparel industry in Turkey largely took advantage of speculative money markets through acting as rentiers.¹⁸⁶ Albeit few in number, these apparel manufacturers which managed to transform from industrial to commercial and financial capital climbed further on the global value chain through functioning as retailers and branded manufacturers and involving in consumer finance.

While those were the governmental policies which supported Turkey's inclusion in the global supply chains and emergence as a full-package apparel supplier country, at international level relations with EU granted Turkey with preferential access to one of the world's largest markets. However, untypical characteristic of the relations with EU also resulted in many problems for Turkish textile and apparel industry. Furthermore, elimination of quota system in 2005 when combined with world crisis challenged Turkey's competitive advantage. Before assessing current production, employment and trade structure of Turkish textile and apparel industry, it is

¹⁸⁵ Neidik and Gereffi 2006, 2294.

¹⁸⁶ Tokatlı 2003, 1891.

necessary to elaborate the impacts of the relations with EEC and later EU on the industry.

4.2. European Integration Process and Customs Union

50 years long relations of Turkey with EU was initiated with the application of Turkey for the associate membership to the European Economic Enterprise in 1959, which led to the signing of the Associate Agreement (also known as Ankara Agreement) in 1963. In order to prepare Turkey for the free market conditions of the customs union, three stages integration process was anticipated as preparatory, transitional and final stages. Since Turkey was applying ISI strategy in the preparatory stage, EEC granted unilateral concessions to Turkey. Accordingly, since 1963, Turkey started to benefit from “preferential supplier” status in the European markets.

The Additional Protocol was signed between EEC and Turkey in 1970 in order to transit from preparatory to transition stage. In 1971, the EEC eliminated all tariffs and quotas on industrial imports from Turkey except the petroleum products and raw silks. While the abolition of trade restrictions did not cause any problems in the early 1970s due to the insignificant amount of exports from Turkey, disagreements with EEC began in 1976 as a result of the major increases in the exports of cotton yarns from Turkey due to the incentives provided by the SPO.¹⁸⁷ In late 70s, the EEC raised many claims of market disruption caused by Turkish apparel exports. Those claims were either based on the clauses of Multi Fibre Agreement or Ankara Agreement, all of which were rejected even to be negotiated by Turkish government. At last, voluntary export restraints started to be utilized in trade relations between Turkey and EU.

The EU-Turkey Customs Union Agreement, which came into effect in 31 December 1995, implied not only bilateral liberalisation of trade between EU and Turkey, but

¹⁸⁷ İlyasoğlu and Duruiz, 156.

also Turkey's adoption of EU's commercial policy with regard to common rules for imports and administration of quotas and harmonisation of external tariffs toward third countries.¹⁸⁸ Furthermore, Customs Union also required Turkey's adoption of Community legislations on the protection of competition, removal of technical barriers to trade and protection of property rights.¹⁸⁹

As a result of Customs Union, Turkey eliminated all customs duties and charges having an equivalent effect on industrial imports from the EU. Since the EU had already eliminated all the tariffs and quantity restrictions against all the industrial imports from Turkey except the textile and apparel products, the most important repercussions of the Customs Union on Turkey were predicted to be in the textile and apparel industries. Accordingly, due to the governmental policies summarized above and specific incentives granted to the textile and apparel industries for encouraging exports to EU, major investments on those industries were realized in 1995 and 1996. Turkey's share in the EU apparel imports increased in an annual rate of 3 per cent in 1997 and 11 per cent in 1998. Despite Turkey significantly benefitted from the elimination of trade restrictions on textile and apparel industries for nearly 10 years through gaining advantage over its competitors, the investments also led to the overcapacity problems in those sectors.

As a result of the exaggerated expectations from Customs Union, the investments on textile and leather machines to Turkey reached up to 6 billion dollars between 1990 and 1995, which resulted in the listing of Turkey as one of the largest importers of those products in the world.¹⁹⁰ However, the actual increase in the exports could not meet the expectations. When combined with the stagnation in European markets and depreciation of euro against dollar and rising production costs in late 1990s, the capacity utilization ratio for the textile industry dropped from 81% in 1995 to 77%

¹⁸⁸ S. Ülgen, and Y. Zahariadis, "The future of Turkish-EU Trade Relations: Deepening vs Widening," *Turkish Policy Quarterly*, 3 (2004), 18.

¹⁸⁹ Idem.

¹⁹⁰ B. Tan, "Overview of Turkish Textile and Apparel Industry," *Harvard Center for Textile & Apparel Research* (2001): 9.

in 1998, while the capacity utilization ratio for the apparel industry dropped from 90% in 1995 to 80% in 1998.¹⁹¹

EU's common policies regarding the Customs Union and third party relations also had significant effects on the industry. Firstly, as a result of Common Commercial Policy (CCP) and Common External Tariffs (CET), Turkey was obliged to tune its tariff rates and quotas with EU for the third countries. As a result, the average tariff rates fell from 26% to 6% which made Turkey a favourable market for low cost countries.¹⁹² Despite CCP also required Turkey to apply quotas on the third countries that it had not applied quotas since 1981, the reduction of tariff rates resulted in an unfavourable position for Turkey since the tariff rates of most of the basic product producer countries such as India and Pakistan remained higher than Turkey. While enabling the consumption of basic clothing and textile in the country, this situation led to the reduction of domestic apparel production from 30% to 10% in the first year of the application of CET.¹⁹³ This situation resulted in a conflict between apparel importers and producers in Turkey which condensed together with the elimination of the quota system.

Another significant repercussion of the Customs Union on Turkish textile and apparel sector has been the emergence of multilayer sourcing networks of Turkish apparel firms. As a part of Common Commercial Policy, Turkey was also required to adopt all trade agreements that EU signed with its preferential partners. Turkey finalized this adoption process with European Free Trade Area (EFTA), Central and Eastern European Countries (CEEC) and the Mediterranean Countries in 2001. These agreements granted Turkey with liberalized access to the member countries which in turn did not only increase the volume of trade between the regions but also led to the relocation of apparel production to these countries. As a trend which was initiated in late 1990s and intensified in 2000s, some of the largest Turkish full-

¹⁹¹ Idem.

¹⁹² İKV, *Gümrük Birliği'nin Türkiye Ekonomisine Etkileri*, (İstanbul: İKV, 2004), 85.

¹⁹³ İKV 2004, 85.

package apparel manufacturers started to develop multi-layered production networks in Eastern Europe.¹⁹⁴ The triangle manufacturing arrangements were mostly realized with Romania and Bulgaria and took the form of either direct investments or sub-contracting relations. The main reason for the increasing relocation of the production was to rescue from the quota restrictions implemented by the US. Despite the fact that the same restrictions were also applied to these countries by the US, these countries were not able to fulfil their quota limits. As a result, Turkey based companies shifted their production to these countries in order to enjoy the surplus quotas. Moreover, abundance of low cost skilled labour in these regions also functioned as a driver for the relocation of investments to these regions.

On the other hand, one of the most important repercussions of the Customs Union for the improvement of labour conditions and the proliferation of nongovernmental regulation mechanism in Turkey has been the requirements for the harmonization of social standards and technical barriers to trade (TBTs). Beside the mechanisms to protect environment and health through TBTs, the social dumping regulations of the EU which frequently applied against Turkish manufacturers obliged the exporter companies to conform with EU standards on working conditions and health and safety of the workers which resulted in increases in the costs. As EU is one of the strictest markets against the violation of these standards, the controls regarding the health and safety regulations resulted in the inability of the workplaces which violate these standards to directly export to the EU market.¹⁹⁵ On the other hand, one of the most important shortcomings of the Customs Union Agreement regarding the TBTs and working conditions, have been its articles regarding the conformity assessment tools. While the Agreement highly concentrated on the standard setting process through which standards are developed and adopted, it remained vague how the conformity of a product to the requirements of standards would be assessed and certified.¹⁹⁶ This conformity assessment problem also prevailed for working

¹⁹⁴ Neidik and Gereffi 2006, 2296.

¹⁹⁵ İKV 2004, 90.

¹⁹⁶ Ülgen and Zahariadis, 31.

conditions which led to the nongovernmental efforts for developing standards and certification schemes which blend environment, health and labour standards. In this regard, Turkish Clothing Manufacturers' Association developed the Charter of Social Responsibility, which will be discussed in the following chapter.

Despite the fact that the Customs Union in itself had significant impacts on the production and trade structure of Turkey and improved labour conditions, the real transformational power of EU on the political, economic and legal structures of Turkey started to be felt after the announcement of Turkey's candidacy to the EU at the Helsinki Summit in December 1999. After getting over the immediate economic and political crises in 2000 and 2001, Turkey's integration process to EU was accelerated in 2002. The requirement of Turkey to fulfil the provisions of the *acquis communautaire*, resulted in changes in the labour regulations of Turkey which are going to be discussed in the final section of this chapter

4.3. End of the MFA and Current Situation of the Apparel and Textile Industry in Turkey

Throughout 1980s and early 1990s, Turkish textile and apparel industry utilised low foreign exchange rates, informalisation of labour and preferential agreements with the EU and third countries in order to increase its share in the world textile and apparel industry. However, transformations experienced in recent years decreased the competitive advantages of Turkey in these areas. Due to the end of the MFA, Turkey came into a position to lose its advantages of low tariff barriers and quantitative restrictions in the European market. Moreover, the eliminations of the quota restrictions before the low cost locations resulted in the further withdrawal of Turkish manufacturers from the production and export of basic product categories. As a result, the survival of Turkish apparel and textile industry in the international trade started to depend much more on the ability to produce value-added products and climb higher in the global value chains. In this section, firstly, the impact of those transformations on the production and trade structures of the textile and apparel industry in Turkey is going to be presented. Secondly, the current situation

of Turkish textile and apparel industry in respect to the factors influencing the competitiveness of full package suppliers in the global value chains, i.e. price, delivery, quality and labour standards, is going to be assessed.

4.3.1. The Production, Employment and Trade Structures of the Textile and Apparel Industry

Trade

According to the 2008 International Trade Statistics published by the WTO, Turkey is the 4th biggest clothing supplier and 8th biggest textile supplier in the world. As it was illustrated in Table 1, the share of Turkey in the world textile export increased from 0.6% in 1980 to 1.4% in 1990 and to 2.3% in 2000. In 2007, Turkey's share in the world textile trade reached up to 3.7%. On the other hand, Turkey's share in the world apparel export increased much more significantly between 1980 and 2007 from 0.3% to 4.1%. In parallel with the emergence of Turkey as a full package supplier primarily to European based big buyers, the most significant rise in this regard was experienced in 1990 with 3.1 per cent. On the other hand, in recent years, Turkey has also emerged as one of the biggest textile importers in the world. While Turkey's share in the world textile imports was 0.5% in 1990, it raised up to 2.5% in 2007. The major increase in terms of the value of textile exported from other countries has been between 2006 and 2007 with a 28% rise largely due to the increasing imports from East Asian countries.

After the leap textile and apparel exports realized within total manufacturing exports throughout 1980s and early 1990s, the share of textile and apparel exports in total manufacturing started to decline from 1998 onwards. As it is seen in Table 3, the share of textile and apparel export within manufacturing exports dropped from 43.7% in 1998 to 18.23% in 2008. In fact, this situation is the outcome of development of other industries in Turkey rather than the decrease in the value of textile and apparel exports. In this regard, it can be argued that Turkish textile and apparel industry began to lose its leading role in Turkish manufacturing and exports since late 1990s.

Table 3: The Share of Textile and Apparel on Total Manufacturing Exports

	Manufacturing (Thousand \$)	Textiles and Apparel (Thousand \$)	Share of textile and apparel in total manufacturing (%)
1996	20 525 761	8 647 525	42.1
1997	23 312 800	9 892 255	42.4
1998	24 064 586	10 509 620	43.7
1999	23 957 813	9 827 731	41.0
2000	25 517 540	10 031 218	39.3
2001	28 826 014	10 341 006	35.9
2002	33 701 646	12 147 991	36.0
2003	44 378 429	14 995 060	33.8
2004	59 579 116	17 338 211	29.1
2005	68 813 408	18 667 453	27.1
2006	80 246 109	19 440 859	24.2
2007	101 081 800	22 599 461	22.4
2008	125 185 258	22 827 402	18.2

Source: TÜİK Foreign Trade Statistics and own calculations

As it is seen in Table 4, the amount of textile and apparel exports showed a tendency to increase throughout the late 1990s and early 2000s. The only time Turkey faced with a drop in the exports was 1999. Many factors such as earthquake in Izmit, economic problems in Turkey and in the world markets played their roles in such a decrease while the depreciation of euro against dollar was one of the most important factors among those. On the other hand, Turkey experienced the smallest rate of growth in 2008. Turkey's textiles and apparel export managed to increase only 1% between 2007 and 2008.

Table 4: Annual Change of Total and Textile and Apparel Exports

	Total Export (Thousand \$)	Annual Change (%)	Textiles and Apparel (Thousand \$)	Annual Change (%)
1996	23 224 465		8 647 525	
1997	26 261 072	13.1	9 892 255	14.4
1998	26 973 952	2.7	10 509 620	6.2
1999	26 587 225	-1.4	9 827 731	-6.5
2000	27 774 906	4.5	10 031 218	2.1
2001	31 334 216	12.8	10 341 006	3.1
2002	36 059 089	15.1	12 147 991	17.5
2003	47 252 836	31.0	14 995 060	23.4
2004	63 167 153	33.7	17 338 211	15.6
2005	73 476 408	16.3	18 667 453	7.7
2006	85 534 676	16.4	19 440 859	4.1
2007	107 271 750	25.4	22 599 461	16.2
2008	132 024 528	23.1	22 827 402	1.0

Source: TÜİK Foreign Trade Statistics and own calculations

If the annual change in the textile and apparel exports is investigated separately, it can be seen that the apparel industry has a bigger share in this drop when compared with the textile industry. The total apparel exports of Turkey decreased by 2.1% while textile exports increased by 3.9% between 2007 and 2008 (Table 5 and 6).

While the EU countries as the largest market in the world continues to be the leading market for Turkey, the textile exports to EU dropped by 3.5% and apparel exports decreased by 2.2% between 2007 and 2008. However, Turkey managed to increase the amount of textile exports in other regions such as Post-Soviet and Middle East countries. The following tables illustrate the changes in the amount of exports in Turkey's leading export markets between 2007 and 2008.

Table 5: Leading Export Markets for Turkish Textile (2007-2008)

	2007 (Thousand \$)	Share on total Textile	2008 (Thousand \$)	Share on total Textile	Rate of Change
EU Countries (All 27)	3 498 473	53.4	3 376 011	49.6	-3.5
Other OECD Countries (USA, Canada, Switzerland)	306 875	4.7	307 674	4.5	0.3
Other European Countries(Macedonia, Northern Cyprus)	167 804	2.6	196 868	2.9	17.3
Old USSR Countries	874 034	13.3	1 099 2911	16.1	25.8
Middle-Eastern Countries	401 416	6.1	514 838	7.6	28.3
African Countries	433 702	6.6	518 991	7.6	19.7
Other Asian Countries	242 748	3.7	237 920	3.5	-2.0
Other Countries	628 998	9.6	556 238	8.2	-11.6
Total Textile Export Record	6 554 050	100.0	6 807 831	100.0	3.9

Source: İTKİB 2008 Textile Report

Table 6: Leading Export Markets for Turkish Apparel (2007-2008)

	2007 (Thousand \$)	Share on total Apparel	2008 (Thousand \$)	Share on total Apparel	Rate of Change
EU Countries (All 27)	12 775 234	79.5	12 496 543	79.5	-2.2
Other OECD Countries (USA, Canada, Switzerland)	1 151 450	7.2	902 877	5.7	-21.6
Other European Countries(Macedonia, Northern Cyprus)	225 658	1.4	151 019	1.0	-33.1
Old USSR Countries	425 091	2.6	516 467	3.3	21.5
Middle-Eastern Countries	335 315	2.1	424 348	2.7	26.6
African Countries	255 398	1.6	284 415	1.8	11.4
Other Asian Countries	53 238	0.3	63 011	0.4	18.4
Other Countries	838 474	5.2	883 823	5.6	5.4
Total Apparel Record	16 059 858	100	15 722 503	100	-2.1

Source: İTKİB 2008 Apparel Report

While Germany and England continue to be the leading markets for Turkey's apparel and textile exports, the amount of textile and apparel exports to these countries decreased in 2008. On the other hand, the exports of Turkey to France, Italy, Belgium, Greece, Austria and the USA increased in the same period of time. The following tables illustrate the change in Turkey's apparel and textile industry in the EU and US on the country basis.

Table 7: Turkey's Apparel and Textile Export to EU Countries

	2007 (Thousand \$)	Share on total Apparel and Textile	2008 (Thousand \$)	Share on total Apparel and Textile	Rate of Change
Germany	4 189 381	18.5	4 182 972	18.6	-0.2
England	2 935 562	13.0	2 365 782	10.5	-19.4
France	1 281 003	5.7	1 330 046	5.9	3.8
Holland	1 184 807	5.2	1 161 212	5.2	-2.0
Spain	1 233 941	5.5	1 219 920	5.4	-1.1
Italy	1 460 118	6.5	1 505 623	6.7	3.1
Denmark	561 303	2.5	511 083	2.3	-8.9
Sweden	325 142	1.4	322 770	1.4	-0.7
Belgium	411 470	1.8	419 206	1.9	1.9
Greece	422 576	1.9	437 196	1.9	3.5
Austria	195 714	0.9	227 048	1.0	16.0
Ireland	120 734	0.5	107 515	0.5	-10.9
Finland	56 124	0.2	50 812	0.2	-9.5
Portugal	107 537	0.5	104 961	0.5	-2.4
Luxembourg	8 602	0.0	6 177	0.0	-28.2
EU Countries (15) Total	14 494 014	64.1	13 952 423	61.9	-3.7
New EU Countries (12)	1 779 693	7.9	1 920 131	8.5	7.9
EU Total	16 273 707	72.0	15 862 554	70.4	-2.5
Total Apparel Export	22 613 908	100.0	22 530 334	100.0	-0.4

Source: İTKİB 2008 Textile Report and İTKİB 2008 Apparel Report (own calculations)

Table 8: Turkey's Apparel and Textile Export to US

	Textile		Apparel	
	2007	2008	2007	2008
USA (1000\$)	218 229	219 251	812 034	552 651
USA % on Turkey's Apparel/Textile Export	3.3	3.2	5.1	3.5
Turkey's total Apparel/Textile Export (1000\$)	6 554 050	6 807 831	16 059 858	15 722 503
USA % on Turkey's Apparel and Textile Export	2007		2008	
	4.6		3.4	

Source: İTKİB 2008 Textile Report and İTKİB 2008 Apparel Report (own calculations)

As the world economic crisis significantly affected the international trade, it is hard to assess whether these fluctuations in annual change of textile and apparel exports will continue or not. In the fourth quarter of 2008, the leading market for Turkey's exports, that is EU economy contracted by 1.3 %, while the US economy shrank at a 6.3% rate in the same quarter.¹⁹⁷ The global stagnation also infected Turkey and resulted in significant drops in industrial production and foreign trade due to the decreasing amounts of domestic and foreign demand. In comparison with the fourth quarter of the previous year, Turkish economy contracted by 6.2% in the fourth quarter of 2008, while overall the economy grew 1.1% in 2008. However, the data is not yet available to fully assess how textile and apparel production and employment structure is really affected from this recent crisis.

In this regard, it is much more certain that the elimination of quotas primarily affected the basic product categories in Turkey.¹⁹⁸ There were experienced significant increases in the amount and decreases in the export unit costs of the basic products imported from China to the EU and USA.¹⁹⁹ In this context, while the total amount of textile and apparel exports of Turkey has not decreased significantly,

¹⁹⁷ İTKİB, "Hazırgiyim ve Konfeksiyon Sektörü 2009 Ocak-Mart İhracat Performans Değerlendirmesi," http://www.itkib.org.tr/ihracat/DisTicaretBilgileri/raporlar/dosyalar/2009/konfeksiyon_performans_raporu_mart2009.pdf, (accessed 17 May 2009), 2.

¹⁹⁸ Interview 1SO, 2SO and 3SO.

¹⁹⁹ Ç.E. Öngüt, *Türk Tekstil ve Hazır Giyim Sanayiinin Değişen Dünya Rekabet Şartlarına Uyumu*, (Ankara: DPT Publications, 2007), 87.

there were experienced decreases in the amount of low cost basic product exports. This situation is especially evident in the production and employment.

Production and Employment

Owing to the fact that a significant amount of the firms operating in the textile and apparel industry is unregistered, it is significantly difficult to picture the real production and employment structure of the industry in Turkey. While it is estimated that 20% of the textile companies are unregistered, this amount reaches up to 50% in the apparel sector.²⁰⁰ In the General Census of Industry and Business Establishments conducted by TÜİK in 2002, while it is stated that the textile industry provides employment for more than 410 thousand people, the number of employees in apparel industry is cited as more than 311 thousand people. However, according to the 9th Development Plan Textile, Leather and Apparel Specialization Commission Report prepared in 2006, it is estimated that in reality the textile and apparel industry provide employment for nearly 2 million people. The reasons and outcomes of the unregistered economy are going to be discussed in the next section.

Table 9: Number of Enterprise and Employment by Economic Activity Branches

Textile	Employment
Preparation and spinning of textile fibres	98 159
Textile weaving	123 964
Finishing of textiles	48 854
Manufacture of made-up textile articles, except apparel	41 371
Manufacture of other textiles (rag, cordage, rope, nonwovens, etc)	49 144
Manufacture of knitted and crocheted fabrics	8 504
Manufacture of knitted and crocheted articles	40 102
Total Textile	410 098
Apparel	
Manufacture of leather clothes	11 908
Manufacture of other wearing apparel and accessories (workwear, outerwear, underwear, etc.)	297 425
Dressing and dyeing of fur; manufacture of articles of fur	1 772
Total Apparel	311 105

Source: TÜİK 2002 General Census of Industry and Business Establishments

²⁰⁰ Öngüt 2007, 113-4.

Turkish textile and apparel industry is largely composed of small and medium scale enterprises (SMEs) as a result of widespread subcontracting activities and necessity for flexible production due to the integration into the global value chains. According to the TÜİK 2002 General Census of Industry and Business Establishments, the average number of workers is 18 in the textile industry, whereas this number is as low as 9 at the apparel industry.²⁰¹ The enterprises with less than 50 employees constitute 97.2% of the apparel industry and 94.9% of the textile industry, while the share of enterprises with more than 250 employees is 1.3% for the textile and 0.5% for the apparel industry.

The assembly production for the full-package manufacturers is the most common form of production among the SMEs functioning in the apparel industry. It is estimated that 80% of the apparel sector involve in assembly production. However, some of the SMEs also produce for and directly export their products to the boutiques located in the Middle East, Post-Soviet and EU countries. The production units being dispersed all around Turkey mainly produce for the buyers located in the Marmara Region and especially in Istanbul which embraces nearly 77% of the total apparel exports of Turkey. It is estimated that overall 70% of Turkey's apparel production is exported to other countries.²⁰²

Table 10: Exports of Apparel by Region of Origin

Exports of Apparel by Region of Origin				
	2007 (1000\$)	Share %	2008 (1000\$)	Share %
Istanbul Garment and Ready-made Gar. Exp. Assoc. (ISTANBUL)	12,462,270	77.6	12,077,854	76.8
Denizli Garment and Ready-made Gar. Exp. Assoc. (DENIZLI)	1,123,438	6.9	1,132,507	7.2

²⁰¹ Öngüt 2007, 90.

²⁰² Joint Initiative on Corporate Accountability and Workers' Rights (Jo-In), "Background Study on Turkey," (Version 2004-1), <http://www.jo-in.org/pub/docs/JoIn-turkBackgndStudy-2004-07.pdf>, (accessed 16 December 2008).

Aegean Garment and Ready-made Gar. Exp. Assoc. (IZMIR)	1,219,590	7.6	1,104,170	7.0
Uludag Garment and Ready-made Gar. Exp. Assoc. (BURSA)	725,214	4.5	672,419	4.3
Eastern Anatolian Exp. Assoc.(garment records)	135,039	0.8	302,796	1.9
Mediterranean Garment and Ready-made Gar. Exp. Assoc.	185,278	1.1	194,582	1.2
Southeastern Anatolian Exp. Assoc.(garment records)	149,488	0.9	172,966	1.1
Others	40,106	0.2	45,273	0.2
Antalya Exp. Assoc. (garment records)	19,423	0.1	19,931	0.1
Black Sea Exp. Assoc. (garment records)	12	0	5	0
Total	16,059,858	100	15,722,503	100

After the finalization of the quota phase-out process, the number of apparel firms diminished by nearly 12% between 2004 and 2009. In this regard, while there were nearly 46,000 apparel firms in 2004, this number dropped to 42,439 in 2005. In the first quarter of 2009, the total number of apparel enterprises is estimated to be 40,628. It is estimated that this drop largely emanated from the close down of the price competitive basic product manufacturer SMEs which are not able to compete with the prices offered by basic product manufacturer Asian countries such as China, Vietnam and Indonesia.

Table 11: Enterprise and Employment Level in Textile and Apparel Industry

	Number of Enterprise			Number of Persons Employed		
	Textile	Apparel	Total	Textile	Apparel	Total
2003	21 098	34 778	55 876	398 627	348 559	747 186
2004	24 503	45 936	70 439	407 489	393 840	801 329
2005	26 148	42 439	68 587	409 128	379 793	788 921

Source: TÜİK Business Statistics

As the immediate impacts of the elimination of the quotas revealed the impossibility of competing with China and other low cost countries in terms of basic product categories in the post-quota world order, the competition strategies of the manufacturers shifted much more from cost-based, volume-oriented contractor business to value-added activities such as design and product development.²⁰³ While employer associations and chambers emphasize the necessity for brand building for the industry, this option seems to be far as it necessitates huge investments and time to build a brand. Moreover, it is also striking to note that the most famous brands in Turkey such as Mavi Jeans and Sarar still allocate most of their production for big buyers. In this regard, priority of the most of the large corporations continues to be to secure their position as full package suppliers for multinational retailers, marketers and brand manufacturers. In the following section, the current situation of the textile and apparel industry in respect to the main factors, influencing the competitiveness of full package suppliers in the global value chains, i.e. price, delivery time, quality and labour standards, is going to be assessed.

4.3.2. Sustaining Competitiveness as Full-Package Supplier

As it is discussed in the previous chapter, apart from the policy costs, there emerged mainly four requirements that a supplier have to meet in order to function as full-package supplier. Those are listed as price, delivery, quality and labour standards. Owing to being the sixth biggest cotton producer in the world, Turkish textile and apparel industry largely relies on domestic inputs.²⁰⁴ However, as a result of high demand for this raw material Turkey was also ranked as the second biggest cotton importer in the world in 2000.²⁰⁵ Although cotton production falls short to meet the demand, the availability of the high quality cotton in Turkey and the existence of a developed cotton textile industry provide Turkish apparel firms with a competitive advantage over its main competitors.

²⁰³ Ajans 1, “Kotaların Kalkmasıyla Birlikte Çin Dünya Hazır Giyim Piyasasının Yarisini Ele Geçirecek,” (07 November 2004) http://www.ajansbir.com/haber-4056---Kotalarin_kalkmasiyla_birlikte_Cin_dunya_hazir_giyim_piyasasinin_yarisini_ele_gecirecek.html, (accessed 22 November 2008).

²⁰⁴ Öngüt 2007, 93.

²⁰⁵ Kanoğlu and Öngüt 2003, 35.

As it is demonstrated in Table 12, hourly wages in Turkey are quite lower than the European countries, USA and Japan, but much higher than its main competitors. According to the data provided by ILO, average labour cost in Turkey was 1.15 USD/hour in 2001, while it was 0.36 USD/hour in China and 0.49 USD/hour in India. As a result of the valuation of TL and rise in the minimum wages, the average labour cost in Turkey was calculated as 2.44 USD/hour in 2005.²⁰⁶ It is important to note that the high level of labour costs in Turkey stems from the social security premium and tax cuts, rather than the amount of wages. While these cuts constitute 23.6% of the labour costs in the EU countries and 22.9% in the US, they amount to 44% of the total labour costs in Turkey.

Table 12: Labour Costs by Countries

Country	Year	Labour Costs (USD/Hour)
Germany	2002	19.06
USA	2002	15.75
Spain	2003	13.37
Italy	2001	13.21
S. Korea	2001	6.44
Mexico	2003	3.26
Turkey	2001	1.15
Bulgaria	2002	0.96
Romania	2002	0.89
India	2001	0.49
China	2001	0.36

Source: ILO Yearbook of Labour Statistics 2004

Turkey is also among the countries with highest energy costs. In 2000 the electricity prices for the industry was 4 cent/kwh in Indonesia, 4.1 cent/kwh in Germany, 4.4 cent/kwh in Romania, 5.2 cent/kwh in South Korea and 8 cent/kwh in Turkey. In 2004 the electricity prices in Turkey reached up to 10 cent/kwh. As constituting 5-

²⁰⁶ Öngüt 2007, 96.

10% of total production costs, the high level of energy costs also diminishes the competitiveness of Turkey in terms of price.

When compared with its main competitors, Turkey is in a disadvantaged position in terms of factor costs. However, it is in a more advantaged position in terms of quality and short delivery times which seem to compensate for high wage and energy costs. First of all, as being a long-term producer and supplier of textile and apparel products, Turkey accumulated enough level of knowledge and experience to produce quality products. Beside the quality standards of the big buyers, the European Union's requirements on process quality also played a significant role in the development of the capacity of textile and apparel manufacturers in Turkey.²⁰⁷ Secondly, as the low transportation costs and meeting delivery times are also important factors in the supplying decisions of buyers, the geographical location of Turkey with its proximity to the European, Middle East and Post-Soviet countries provides manufacturers with an important advantage in this regard. While nearly 30 days are spent in the marine transportation from China to Europe, the products can be transported within a week from Turkey to Europe via highways.

Due to the growing importance of the fast fashion and lean retailing, the lead times started to be much shorter and stricter in recent years. While the lead time amounts to 6 to 7 months in the first order and 3 months in the repeat order in China, the lead times can be met within 3 to 6 weeks in Turkey in both first and repeated orders.²⁰⁸ Beside its geographical proximity to buying countries, Turkey also utilises the availability of cotton and textile in domestic markets to meet tighter delivery dates. As a result of the advantage of Turkey in meeting tighter delivery times, the tendency of the buyers in the post-quota world order has been to place high volume long-term orders to East Asian countries, while placing repeated orders as well as fast fashion products to Turkey in order to benefit from the low prices of East Asia

²⁰⁷ Tan 2001, 47.

²⁰⁸ Ibid, 45.

and delivery times and quality of Turkish manufacturers.²⁰⁹ As the final requirement of sustaining the position of Turkey as full package supplier, the labour standards in Turkey will be assessed in the next section.

4.4. State Regulations and Labour Conditions in the Industry

In comparison with many other supplier countries, the labour law in Turkey is much more elaborate partly as a result of relatively long history of industrialisation, partly due to the EU integration process. Beside the requirement of adoption of social standards in the Customs Union integration process, the new labour law was ratified in 2003 and amended further in the following years through incorporating the provisions of the relevant *acquis* in order to fulfil the provisions of the *acquis communautaire*.

The new labour law includes many provisions enhancing flexibility of the labour market such as the rights granted to the employers to dismiss workers in financial crisis and use of extensive part-time and temporary labour.²¹⁰ While these provisions were encountered with controversy, the law also offered many benefits such as the extension of the maternity leave of civil servants and expansion of the workplace regulations to the home-based workers and upgraded the regulations regarding the issues such as child labour and overtime work. However, the law still has many shortcomings including the issues of freedom of association and collective bargaining when compared with the *acquis*. Accordingly, as it was the case in many other laws and regulations, the labour law in Turkey is also still in the process of adjustment. Keeping this result of the EU integration process in mind, in this section, firstly, the impacts of the neo-liberal policies pursued throughout 1980s and 1990s on the labour market in Turkey will be elaborated around the issues of unregistered workers and unionisation. Secondly, current labour regulations on child labour, discrimination, health and safety, wages and overtime will be investigated.

²⁰⁹ Neidik and Gereffi 2006, 2294.

²¹⁰ Jo-In Background Study on Turkey 2004, 24.

Unregistered Economy and Informalisation of the Labour Market in Turkey

In addition to the military coup which suppressed the power of labour unions, the impacts of trade and financial liberalisation processes on labour became quite devastating in 1980s and 1990s through pushing the labour force into the non-union, low-wage employment opportunities and informal sector. Throughout the 1980s, labour wage suppression was utilised as one of the tools in order to induce export-oriented industrialisation. In addition to the suppression of the trade unions and the wages, the rights of waged labour were also minimised in the formal sector in this period of time. The increase in real wages in 1989 could survive up until 1993 and 1994 crisis put an end to the wage expansion period while the increase in labour costs in this short period of time has been enough for the acceleration of the “intensification of the marginalized labour force”²¹¹. On the other hand, throughout the 1990s, the regulations concerning the flexible employment relations and weaknesses in the enforcement of labour regulations further worsened the working conditions in Turkey.

Due to the intensification of the integration of Turkish apparel sector to the global commodity chains, the level of unregistered (so-called *merdivenaltı*) workers and workplaces started to increase in Turkey in parallel with the proliferation of sub-contracting activities.²¹² The growing unregistered sector has been basically composed of small-scale family enterprises that primarily engage in export and characterised with flexible employment that can easily adjust to changing market conditions.²¹³ These SMEs, which function as sub-contractors for suppliers, tend to hire and fire workers depending on the amount of orders being placed by the buyers. Moreover, home-based work, which is mostly undertaken by women and characterised with low wage, has also been a very common practice utilised by those

²¹¹ Boratav et al. 2000, 6.

²¹² A.M. Özdemir, G.Özdemir-Yücesan, “Living in Endemic Insecurity: An Analysis of Turkey's Labour Market in the 2000s,” *SEER-South-East Europe Review for Labour and Social Affairs*, 02 (2004b): 33-41, 33.

²¹³ Cizre-Sakallıoğlu and Yeldan 2000, 499.

SMEs.²¹⁴ Throughout the 1990s, these enterprises mostly celebrated as “Anatolian Tigers” primarily benefitted from low labour costs through employing unskilled and unorganised workers.²¹⁵ Today, it is estimated that 75% of the workforce in the textile and apparel sectors are employed in the unregistered workplaces with a monthly wage between 174 and 290 USD (Table 13).

Table 15: Average Wages, Labour Costs and Employment Structure in Textile and Apparel Industry in Turkey

Workers employed in		Employment (estimated)	Share in total textile and apparel employment (%)*	Average wage (monthly) (3)	Average wage (hourly) (3)	Average labour cost (monthly)	Average labour cost (hourly)
Registered-Unionised Workplaces (1)	Textile	60.000	%2	449 - 493	2,00 - 2,19	817 - 890	3,63 - 3,96
	Apparel			420 - 464	1,87 - 2,06	768 - 842	3,41 - 3,74
Registered-nonunionised Workplaces (1) Group-1	Textile	30.000	%1	362 - 406	1,61 - 1,80	670 - 743	2,98 - 3,30
	Apparel			348 - 391	1,55 - 1,74	645 - 719	2,87 - 3,20
Registered-nonunionised Workplaces (1) Group-2	Textile	60.000	%2	319 - 362	1,42 - 1,61	596- 670	2,65 - 2,98
	Apparel			306 - 348	1,36 - 1,55	544 - 645	2,42 - 2,87
Registered-nonunionised workplaces only applying "legal minimum wage" (1)		450.000	%15	306	1,36	544	2,42
Unregistered/Clandestine workplaces ("sweatshops") (2) Group-1 (mainly the companies located in İstanbul)		2.250.000	%75	290 - 348	0,97 - 1,16	290 - 348	0,97 - 1,16
Unregistered/Clandestine workplaces ("sweatshops") (2) Group-2 (mainly the companies located in other big cities)				232 - 290	0,77 - 0,97	232 - 290	0,77 - 0,97
Unregistered/Clandestine workplaces ("sweatshops") (2) Group-3 (mainly the companies located in small cities/towns)				174 - 232	0,58 - 0,77	174 - 232	0,58 - 0,77

²¹⁴ Jo-In Background Study on Turkey 2004, 23.

²¹⁵ Cizre-Sakallıoğlu and Yeldan 2000, 500.

Unregistered/Clandestine workplaces - employing children and/or illegal foreign immigrant workers (2)	150.000	%5	116 - 174	0,39 - 0,58	116 - 174	0,39 - 0,58
*It is assumed that the total employment in textile and apparel sectors is around 3.000.000 (registered + unregistered).						
1. All the costs and expences are included into labour cost (taxes, social security premium, other legal payments, expences for workers' meal and transportation etc.). 2. According to the Turkish Labour Legislation, legal working time in a month is 225 hours. But in the informal sector (in the unregistered/ clandestine workshops), monthly working time is around 280-320 hours. In the calculation, it is assumed that monthly working time is 300 hours in the informal sector. 3. If it is available, bonus and social allowances are included on monthly base, including tax reduction for a single worker						

Source: Teksif Union Research Department

The desire for evading taxes, social security payments and other state regulations such as working hours in order to decrease costs and increase the level of production in short delivery time zones constitute another reason for the expansion of the unregistered workforce and workplaces in Turkey. However, this process is further reinforced by the weaknesses in the enforcement of Turkish labour law and inspections stemming from the constant understaffing and red-tape in the Ministry of Labour.²¹⁶ It can be argued that these issues summarised up to now including the expansion of sub-contracting and flexible production system together with the weakness of state departments to enforce the existing laws constitute the basic reasons for the labour rights violations in Turkey. In the following sections, the labour conditions in Turkey are going to be elaborated in respect to these facts and existing state regulations.

Freedom of Association and the Unions in the Textile and Apparel Sector

As one of the earliest manufacturing industries, the history of the unionisation in the textile is as old as the history of unionisation itself in Turkey. The first textile union in Turkey, Teksif (Textile, Knitting and Clothing Industry Workers' Union of Turkey) which is associated with the Türk-İş (Confederation of Turkish Trade Unions), was established in Istanbul in 1951 and acquired national representation in

²¹⁶ Interview 5TU, 6TU, 7CS and 3SO. Cf. Jo-In Background Study on Turkey 2004, 17.

1961. In fact, the establishment of Teksif is earlier than the Türk-İş which underlines the fact that textile sector played a key role in the unionisation in Turkey.²¹⁷ In 1962, as a response to the growing power of the worker unions, Turkish textile employers were also organized around the TÜTSİS (Turkish Textile Employer's Association) in parallel with the establishment of TİSK (Confederation of Employers' Union of Turkey) in order to defend the interests of the member employers and conclude collective agreements. On the other hand, the Confederation of Progressive Trade Unions of Turkey (DİSK), which was associated with leftist-revolutionist line, was established in 1967 and it also included a textile union called DİSK/Textile. In following years many other unions in the related sectors of textile such as Öz-İplik İş joined to the unionisation movement albeit in a lesser degree. Throughout 1970s, Teksif and DİSK/Textile were the two leading unions mobilising workers in the textile and apparel sectors up until the military coup of 1980 as a result of which the DİSK/Textile was outlawed and later re-established in 1991.

Together with the amendments undertaken in 1995 and 2003, the constitution of Turkey guarantees the workers' right to form labour union, grants the workers and employers with the right to collective bargaining and permits strike if a dispute arises during the collective bargaining. Moreover, current labour law prohibits the dismissal of workers because of union membership. However, as it is evident in Table 16, the level of unionisation significantly dropped in Turkey throughout the 1990s.

Table 16: Percentage of Unionised Workers to Social Insurance Institute Covered Workers

	Total Unionised	Public Unionised	Private Unionised
1990	42.5	93.3	22.7
1992	36.0	80.6	18.8
1994	28.1	71.9	13.4
1995	24.5	79.3	10.3
1999	16.3	59.7	6.4

Source: Social Insurance Institute (Adopted from Özdemir et. al. 2000b, 38)

²¹⁷ U. Çakmakçı, "The Political Economy of Governance: An Integral Economic Analysis of Textile and Apparel Sectors in Turkey," (PhD diss. Lancaster University, 1997), 307.

In addition to the policies pursued throughout the military regime, the flexible production system with the rise of small-scale enterprises also resulted in weakening of the power of the unions. This process is again reinforced by the weaknesses of the existing state regulations. The current trade union law requires the registered employment in order to be able to participate in or establish a union which makes it almost impossible for the unregistered workers to be unionised.²¹⁸ The workers are also required to join a trade union at a notary public during the working hours which obliges the workers to take permission from the employer for the leave and undertake costs for the operation. Moreover, the existing law still does not permit the home-based workers to establish a union or join the existing one.

The limitation of the state regulations is also evident with respect to the collective bargaining. The law permits only the trade unions which represent 10% of the total workforce and 50% of the workers employed in the workplace to negotiate a collective bargaining agreement. This leaves only 3 out of 9 unions in the sector with the right of collective bargaining.²¹⁹ Moreover, the collective bargaining agreements can either be negotiated at the factory level between the labour union and the relevant employer or between the employer and labour unions. In both cases the agreement binds only relevant parties (the member workplaces of the employer unions in case of the latter) rather than the whole sector. In addition to all those, the law grants the right to strike to the unions only if an agreement cannot be reached in the collective bargaining process.

In order to complete the EU integration process, Turkey is required to respect to the trade unions rights in line with the EU standards and relevant International Labour Organisation (ILO) conventions, particularly in regards to the rights to organise, to strike and to bargain collectively. Despite there is a pending law in this regard, no progress has been achieved on the above mentioned issues. Moreover, Turkey has not also accepted Article 5 (“right to organise”) and Article 6 (“right to bargain collectively” including the right to strike) of the European Social Charter. The

²¹⁸ Jo-In Background Study on Turkey 2004, 17.

²¹⁹ Ibid, 19.

concerns on the above mentioned shortcomings of the existing laws, together with the necessity to develop the administrative capacity of the Ministry of Labour and Social Security and its affiliated institutions are continuously emphasized in the progress reports of Turkey since 2000.

Child Labour

The child labour is among the most significant problems in Turkey. The labour law of 2003 increased the age of employment to 15. Moreover, the law also prohibits night work for children under 18. On the other hand, the children who complete the age of 14 and their primary education can be employed in the light works that will not hinder their physical, mental and moral development. The working hours for children are also limited by the law to 7 hours daily and 35 hours a weekly. Moreover, the children and young workers should also be medically examined and certified as being physically fit for the job before being employed and should be subject to this medical examination in every 6 months during the employment.

Despite the law is strict on child labour, these apply only to the formal sector. In practice, under-age child labour is still widely used in the unregistered workplaces and small enterprises in the textile and apparel sector. Moreover, it is also a common practice to employ children in night shifts, engage them in over-time work and not follow the training requirements in the apprenticeship program which require the child apprentices to receive 8 to 10 hours of education per week.²²⁰

Health and Safety

New labour law requires the workplaces to take all the necessary precautions and maintain necessary tools for the occupational health and safety. The employer is also obliged to inform and train employees on the risks and measures that must be taken as well as their legal rights and obligations. It is required in the establishments with more than 50 workers to establish a health and safety board composed of employee and employer representatives and safety inspectors to which the workers can apply if they face with a danger to their health. The decisions of the board should be

²²⁰ Ibid., 26.

implemented by the employers. Moreover, there should be employed a physician together with an engineer or technical staff at the establishment for the workplaces in which more than 50 employees are employed.

The regulation on occupational health and safety in temporary or fixed-term employment which was published in May 2004 include detailed fire regulations, specifications on machinery safety, toilets, security personnel, dining rooms, storage, hallways, elevators, staircases, drinking water, etc. However, despite the detailed regulations provided by the law, these fail to be implemented in most of the workplaces due to the inefficiency and inadequacy of government inspections and overwhelming majority of the unregistered workplaces.²²¹

Non-Discrimination

The labour law in Turkey prohibits discrimination based on language, race, sex, political opinion, philosophical belief, religion and sex or similar reasons and provides that race, colour, sex, marital status, family responsibilities, pregnancy, birth, religion, political opinion and similar reasons should not constitute a valid reason for termination. On the other hand, the law prohibits the employment of women in underground or underwater works and in the night shifts under certain circumstances.

Despite these regulations, the discrimination against especially recently married and pregnant women in terms of remuneration, promotion and termination is quite common in the textile and apparel sector in Turkey. Moreover, the sex-based discrimination of wages in general is also a commonly held practice especially in the unregistered workplaces (Jo-In Report, 35).

Working Hours

In accordance with the new labour law, the standard workweek is 45 hours with one day off in Turkey. The law also provides the employers with the flexibility to choose any day in the week for the day off and disperse the working hours in an unequal

²²¹ Ibid., 29.

manner over a period of two weeks. However, the daily working time is restricted to 11 hours in any case. The law requires the employers to allow employees a rest break approximately in the middle of the day, the duration of which can change between 15 minutes for 4 hours or less work and one hour for the work more than seven and a half hours. The law specifies the cases in which the employer can demand compensatory work from the employee. The compensatory work is limited to 3 hours daily and with maximum daily working time. The employer can shorten weekly working hours or suspend work due to economic crisis or force majeure only with the approval of the Ministry of Labour and Social Security.

According to the law, the employers can demand overtime in order to ‘increase output.’ In case of overtime, the wages for each hour of overtime should be paid with an amount more than 50% of the normal hourly wage. If the employee wishes he/she can use a free time of one hour and thirty minutes for each hour worked overtime instead of receiving overtime pay. Moreover, according to the labour law, the total overtime is limited to 270 hours in a year. On the other hand, the law requires 14 days annual leave with pay for the employee has been working between 1 and 5 years in the establishment. The duration of the annual leave reaches up to 26 days for the employees working more than 15 years. Moreover, the workers under the age of 18 and above the age of 50 are entitles to annual leave with pay not less than 20 days. Despite the regulations of labour law on working hours are in accordance with the international standards to a large extent, these standards are not enforced in unregistered workplaces as it is the case in above mentioned labour regulations.

Wages and Benefits

In Turkey, the Ministry of Labour and Social Security sets minimum wage generally two times in a year. The minimum wage is determined by the Minimum Wage Commission which is composed of representatives from the government, unions and industry according to the pre-determined parameters. Moreover, all the registered workers in Turkey are required to be enrolled into the social insurance system of which costs are shared by the employer and employee and pay their income taxes.

As of July 2009, the monthly gross minimum wage was determined as 471.43 USD (693 TL) for workers over age 16, and 401.02 USD (589.50 TL) for workers under the age of 16. However, taxes and insurance premium to be paid by the employees constitutes nearly 21% of the gross minimum wage, while nearly same amount is also paid by the employer as a result of which the total cost of 471.43 USD gross minimum wage to the employee reaches up to 572.79 USD (842 TL), while the net wage of the employee is limited to 371.76 USD.

Table 17: Net and Gross Minimum Wage

01.07.2009-31.12.2009 Period	Above the age of 16	Under the age of 16
Net minimum wage	\$371.76	\$321,31
Social insurance premium (worker share - 14%)	\$66.00	\$56.14
Unemployment insurance premium (worker share - 1%)	\$4.71	\$4.01
Balance income tax (minimum income discount - 15% of the income)	\$26.13	\$17,15
Stamp tax (0.6%)	\$2.83	\$2.41
Total cuts	\$99.67	\$79.71
Gross minimum wage	\$471.43	\$401.02
Social insurance premium (employee share – 19.5%)	\$91.93	\$78.20
Unemployment insurance premium (employee share - 2%)	\$9.43	\$8.02
Social insurance premium difference	-	\$23.59
Unemployment insurance premium difference	-	\$2.12
Total employer share	\$101.36	\$111.92
Total cost for the employer	\$572.79	\$512.94

The prevailing minimum wage, social insurance premium and tax system are frequently criticized because of the high costs for the employers and inadequacy of the net minimum wage for the employees. The unions in Turkey advocate for a living wage and continuously recommend new methods for measuring minimum wage.²²² However, these recommendations have not been accepted by the minimum wage commission yet. On the other hand, while the existence of a social security system is an achievement for workers, the payment of the insurance premiums by the workers and employers without the contribution of the government together with the high income tax rates being imposed upon registered workers contribute to the

²²² Ibid., 46.

expansion of the informal sector. While the employers prefer informalisation for decreasing costs and increasing profits through avoiding taxes, many low paid workers also prefer to work in the informal sector in order to avoid taxation and insurance premiums and receive a part of this amount as wage.²²³ On the other hand, falsification of the wage records in order to decrease taxes and insurance premiums is a common practice in the formal sector.²²⁴ In addition to all those, the labour law also entitles workers with four annual bonuses and non-wage benefits such as food and transportation allowances which further increase the gap between the compliant and incompliant firms.

On Labour Standards

Turkish labour law and related regulations meet the requirements of most of the corporate codes of the conducts, monitoring and certification schemes. The only differences between governmental labour regulations in Turkey and the strictest labour standards (such as that of SAI, ETI, FWF and WRC) originate from the standards on wage, overtime work and minimum age. While these codes of conducts require living wage, the labour regulations in Turkey set a minimum wage limit. On the other hand, in terms of the overtime work, while the labour law in Turkey defines working week as 45 hours, most of the codes of conduct define it as 48 hours. Despite this standard is higher in Turkey, the difference between codes of conduct and Turkish labour law rest on the definition of overtime. Whereas the codes of conduct limits the overtime weekly and monthly, the labour law limits it daily and yearly, which provide more flexibility to employers than the codes of conduct. Finally, Turkish law permits the employment of children who complete the age of 14, whereas the strict codes of conduct require the completion of the age of 15 to be employed. On the other hand, despite not contradicting with the codes of conduct through permitting the freedom of association and right to collective bargaining, current trade union law still includes important barriers to the unionisation, strike and collective bargaining.

²²³ Interview 7CS, 3SO, 1SO, 2SO, 5TU and 6TU.

²²⁴ Fair Wear Foundation, "Countries," <http://fairwear.twokings.eu/?w=fair-wear-countries>, (accessed 30 October 2009).

On the other hand, Turkish labour law is stricter than the codes of conducts of many of the MNCs. Accordingly, in most of the cases abiding the corporate codes of conducts can be defined as just as a matter of abiding the law. However, in practice Turkish textile and apparel industry is characterised with widespread labour rights violations resulting from the weaknesses in the enforcement of the existing regulations, weak power of trade unions and structural features of the production processes in the apparel value chain. This situation results in a huge discrepancy between the formal and informal sectors in Turkey both in terms of working conditions and wage costs.

CHAPTER 5

CSR AND TURKISH TEXTILE AND APPAREL INDUSTRY

The CSR as a nongovernmental mechanism of labour regulation came into the agenda of Turkish suppliers in such a context in which the survival of Turkish textile and apparel manufacturers began to depend much more on their ability to climb higher in the value chains as a result of the end of competitive advantages in terms of low wage costs, exchange rates and trade agreements with the EU as well as the increase in Turkey's imports from the low cost locations since late 1990s. In this regard, while assembly and basic product production have been largely damaged from these processes, the sector began to concentrate on involving in the full package sourcing networks of the buyers.

In this chapter, the roles of the buyers, sector organizations, worker unions, social movements, government and intergovernmental organizations in respect to the “corporate social responsibility” “social standards” “labour standards” and “fair trade” issues are going to be identified in relation to their wider strategies in this context.

5.1. Buyers and Suppliers

The voluntary labour standards were brought into the agenda of Turkish textile and apparel suppliers in 1998 by the USA based sportswear marketers. Nike and Reebok were the first firms which introduced the issue to Turkish suppliers simultaneously and started to monitor compliance to their codes of conducts.²²⁵ The early auditing activities of these firms in Turkey were carried out through intermediary agencies. In early 2000s, both Nike and Reebok established in-house teams to monitor compliance issues in all supplier countries including Turkey. Turkey was also

²²⁵ Interview 7CS and 8CS.

positioned as the centre for supervising the monitoring activities of these companies being carried out in Europe, North Africa and the Middle East. On the other hand, the Gap, Otto, Karstadt, C&A, Espirit, Marks&Spencer, H&M and Zara, which supply high amounts of apparel from Turkish market, were among some of the other corporations which began to demand compliance to their codes of conducts in early 2000s. Today nearly all the apparel brands, retailers and branded manufacturers from Europe and the USA is claimed to demand compliance to their labour standards. As one of the interviewees from the apparel sector puts it: “Social responsibility has become a very important phenomenon in the international competition. Social responsibility is the fourth leg, just like labour cost, lead times, geographical location and quality. Those standards have to be fulfilled, because none of the brands want to harm their images anymore”²²⁶.

On the other hand, as a result of the proliferation of the customers with codes of conduct in 2000s, the textile manufacturers and suppliers started to encounter problems with the integration of all of those codes into their management strategy and frequent audits conducted by different parties.²²⁷ As a result, albeit very limited in number, some Turkish manufacturers began to adopt certification systems such as WRAP and SA8000 throughout 2000s as a strategy to cope with the proliferation of demand.

In this context, the leading full package manufacturers and textile producers were among the first companies which began to adopt the codes of conducts of their customers. In time, as the monitoring activities were expanded from the full package to the lower levels of the value chain, the labour standards have also come to influence the subcontracting and supplying decisions of the manufacturers. Rather than working with many small scale subcontractors, the major suppliers started to prefer to involve in in-house production or establish permanent relations with a small amount of medium sized enterprises which can meet or have the potential to

²²⁶ Interview 8CS.

²²⁷ Interview 7CS and 10CT.

meet the requirements of the buyers.²²⁸ Facing with the fierce price competition from the unregistered workplaces in the domestic market, low cost locations and fluctuation of orders, one of the subcontractors describes their motivation for adapting social standards as follows: “We are working with full package suppliers in order to ensure continuity in the production. In order to do that, we have to satisfy customers. For customer satisfaction the followings are must: time, price, quality and social compliance. If one of those is absent, it does not work.”²²⁹ On the other hand, there are still many assembly producers which are loosely connected to the system as the suppliers tend to work with these producers on an *ad hoc* basis in time of large orders.

Moreover, the labour standards have also come to influence the supplying decisions of the full-package suppliers in regards to the textile articles such as yarn and fabric.²³⁰ In this regard, the full-package suppliers began to supply from the textile manufacturers in reference to their customer portfolio (whether they work with leading brands and retailers) and certificates (WRAP, SA8000, etc.). However, the impact of labour standards on the supplying and subcontracting decisions of the full-package suppliers mostly depend on the level of strictness of the buyers and tend to change in respect to their customer portfolio.

In this regard, both how far the monitoring extends in the supply chain and whether the betterment of the working conditions guarantee the continuity of the orders tend to change among the brands and retailers supplying from Turkey as well as the multi-stakeholder initiatives they are affiliated to.²³¹ It is claimed that while some of the buyers demand the dissemination of the labour standards throughout the supply chains, some others are contented with the level of compliance in the first layer that is the supplier. On the other hand, as it is discussed in Chapter 4, the standards and

²²⁸ Interview with 7CS, 8CS and 9CC.

²²⁹ Interview 9CC.

²³⁰ Interview 10CT and 6TU.

²³¹ Interview 7CS, 8CS, 9CC, 6TU, 3SO, 2SO.

instruments for compliance insurance vary to a considerable degree among the buyers and among the schemes they are associated with. Moreover, in respect to the weight of the compliance issues in supplying decisions of the buyers, the betterment of the labour standards is said to not guarantee the continuity of the order from all of the buyers. In this regard, the buyers which integrate social compliance with their management strategy in order to increase the productivity and efficiency and empower their suppliers accordingly are claimed to differentiate from the buyers which positions social compliance as a side issue.²³² Accordingly, as the buyers from the first cluster, which is mostly composed of the leaders of the sector, make important investments to build the capacities of their suppliers for integration of social compliance into their management strategies; those are claimed to be less inclined to relocate their sourcing networks than the second cluster.

In this respect, the customer portfolio of the suppliers is also claimed to increase especially after working with leading brands and marketers, adapting certification schemes and adjusting the labour standards to their codes of conduct.²³³ However, while the buyers play a key role in the adoption of labour standards by the suppliers, subcontractors and textile manufacturers, the betterment of working conditions are also associated with a series of benefits for the company itself. First of all, providing workers with social benefits are cited as factors which decrease the circulation of the workforce and result in the accumulation of experience. Those together with the prevention of the overtime work are said to benefit company through increasing the level of the productivity of workforce and quality of the products.²³⁴

On the other hand, it can be argued that the manufacturers and suppliers which adopt labour standards are rather inclined to be in favour of state regulation.²³⁵ The representatives of the corporations tend to criticize the absence of any deterrent state sanctions in the domestic market against the non-compliant firms and the

²³² Interview 7CS, 8CS, 9CC, 6TU.

²³³ Interview 7CS, 8CS, 9CC, 10CT.

²³⁴ Interviews 7CS, 8CS, 9CC, 10CT.

²³⁵ Interviews 7CS, 8CS, 9CC, 10CT.

concentration of the government investigations on big companies which already abide the law since this situation results with disadvantage in terms of price for the firms which invest on workforce.²³⁶ In this regard, despite regarding the role of CSR in the supplying decisions as an incentive for the companies to abide the law, the compliant companies are rather in favour of the systems which ensure the standardization and compliance of all the firms.

5.2. Social Movements and NGOs

Since 1990s, the human rights, environmentalist and feminist movements have been among the well organized groups with local and regional branches which managed to establish platforms and common campaigns in Turkey. In this regard, these movements provided support to the trade unions in their struggle for the betterment of the labour standards. However, the main target of most of those campaigns and platforms was to monitor the governmental reforms in the European Union accession process and influence the legislation. In late 1990s, there were initiated some campaigns against the operations of corporations in Turkey. Among those, the struggle of Bergama villagers, which was supported by the international environmental organisation Greenpeace, against the gold mining company Eurogold was one of the most influential one which brought the devastating effects of the corporate operations into the agenda of Turkey.

In terms of the labour rights, one of the most influential campaigns that succeeded in gaining extensive media coverage and support of the society at large has been against the safety standards in the shipyard industry. The struggle of Limter-İş (Union of Harbour and Shipyard Workers) against 13-14 hour working day, insufficient safety precautions, lack of insurance and the general environment of precariousness has been going on for years. Despite the devastating working conditions in the Tuzla Shipyard already led to the death of 92 workers, the issue started to be supported by human rights organizations such as Human Rights Association and society at large and attained extensive media coverage after the

²³⁶ Interview 7CS, 8CS, 9CC, 6TU

back to back deaths of 5 workers in Tuzla shipyards in 2007.²³⁷ Whereas the shipyard industry seems to be completely different from apparel industry, the base of the problems the workers faced with is strikingly similar to the extent that both of the industries are characterised with widespread practices of subcontracting and unorganized and unregistered workforce and the devastating working conditions.

In the textile and apparel industry, the only widely supported campaign has been rallied against the working conditions in the apparel sweatshops where the workers manually sandblast denim and exposed to a deathly disease called silicosis. While the disease was first diagnosed among the denim workers in 2004, the issue was recently brought to the attention of the public when the story of a former sandblasting worker appeared in the media in 2008. In time, it was revealed that hundreds of workers who worked in the unregistered denim workshops for sandblasting were exposed to the disease and waiting for death as they had no health insurance. In June 2008 Sandblasting Workers Solidarity Committee was formed. The Committee composed of doctors, lawyers, journalists and representatives of labour unions was widely supported by the NGOs such as feminist organizations like AMARGI. The Committee determined four working areas: medical support, legal support, monetary support and creating awareness in the society.²³⁸ The lawsuits were followed by a widespread campaign against wearing faded denim. At last, the sandblasting was forbidden by the Ministry of Health in April 2009. However, there has not been attained any developments concerning the struggle of workers with silicosis disease for benefitting from the social security rights.

One of the most significant characteristics of the movement was its avoidance to expose the names of any companies. This is said to stem from the difficulty in the exposure of the relationships between the workers and employers and employers and

²³⁷ Green Left Online, "Turkey: Tuzla Shipyard Workers' Struggle," (14 June 2008), <http://www.greenleft.org.au/2008/755/39013>, (accessed 11 September 2009).

²³⁸ Kot Kumlama İşçileri Dayanışma Komitesi, "Biz Kumlanmış Kot Giyiyoruz Onlar Ölüyor," also available in <http://www.scribd.com/doc/19203323/Biz-Kumlanm-Kot-Giyiyoruz-Onlar-Oluyor>, (accessed 29 March 2009).

buyers resulting from employment of the workers in the sub-contracted unregistered firms. As one of the representative of the labour unions puts it:

We consciously avoid naming the brands in our struggle for sandblasting workers. We learned the names of some of the brands. However if I expose the name of the brand or make this issue the subject of an international lawsuit, the brand is going to ask for proof. The firm is unregistered. Leave aside the main firm, you cannot even find the subcontractor itself. All those cases occurred in 1990s and early 2000s. The disease reveals itself between 2 and 3 years. How am I going to prove it?²³⁹

The problems encountered in the campaign against denim sector highlight the reasons for the weaknesses of the social movements in Turkey in the textile and apparel sector. In this regard, the existence of a huge amount of unregistered economy and widespread utilization of subcontracting activities are said to result in the inability to undertake naming and shaming campaigns against the textile and apparel companies in Turkey. Another reason for the ineffectiveness of such kind of campaign is said to stem from the fact that many products produced in those sweatshops are not sold in the domestic market.²⁴⁰

To sum up, unlike the Western countries, the unregistered economy and subcontracting practices resulted in the relative weakness of workers' rights movements to mobilize consumers through naming and shaming campaigns. Because of the inability to expose the relationships between the workers and buyers, the campaigns in Turkey concentrated on the sector at large or the government to take action rather than targeting at the corporations for responsible operations.

On the other hand, the conception of CSR as a management tool for sustainable development and competitiveness entered into the agenda of many associations such as Corporate Governance Association, TÜSİAD (Turkish Industrialists and Businessmen's Association), Turkish Society for Quality (KalDer) and the Union of Chambers and Commodity Exchanges of Turkey (TOBB). These employer

²³⁹ Interview 6TU.

²⁴⁰ Interview 6TU.

associations started to concentrate on the promotion of CSR related issues such as human rights, workers' rights, environment and anti-corruption among their members. For instance KalDer has begun to devote its Quality Congresses on CSR in recent years. In addition to those, today there are two associations in Turkey specialized on sustainable development and CSR. The first of those associations which is specialized on sustainable development in Turkey is Turkish Business Council for Sustainable Development which mostly concentrates on the activities of the state institutions. Through positioning government as the leading agency of sustainable development, the association aims at dissemination of sustainable development approach and practices. The second association is the CSR Turkey (KSSD) which was established in 2005 in order to involve in researches and awareness raising activities for furnishing private sector with tools, methodologies and resources for CSR. Associated to the CSR Europe, the KSSD has implemented many projects in Turkey most of which concentrated on research to reveal the current situation of the CSR. It also organized some roundtable meetings for raising the awareness of corporations on CSR. The KSSD is planning to establish a CSR index in the following years.²⁴¹ However, it has not involved in any activities concerning the nongovernmental systems of regulation yet. On the other hand, as the private sector and intergovernmental organizations took the leading role for the promotion of CSR in Turkey, unlike the USA and Western Europe, the CSR came into the agenda of many other NGOs as a result of a consensual rather than confrontational process. In this regard, there has been implemented many partnership projects between NGOs and private sector in Turkey.

5.3. Intergovernmental Organizations

The role of EU in the betterment of the labour standards in Turkey was discussed in the previous chapter. In the following sections, the role of the trade relations with EU on the implementation of labour standards by the suppliers is going to be discussed in respect to the strategies of the sector organizations. That's why; this

²⁴¹ Interview 11NC.

section is going to concentrate on the role the UNDP and Global Compact (GC) in the dissemination of CSR in the textile and apparel sector.

Throughout the 2000s, the United Nations Development Programme (UNDP) realized a series of activities in partnership with private sector organizations and corporations for the introduction of the CSR as a management strategy to be integrated into all the operations of the corporations. The Global Compact (GC) has been one of the most important initiatives in this regard. In parallel with other countries, the GC was first directly introduced to the private sector in Turkey in 2002. It was the UNDP, which assumed the role for the advertisement of the GC in Turkey. In partnership with the Turkish Implementation and Development Agency (TİKA), the UNDP Turkey first launched the principles of GC in a congress held in May 2002 with the participation of 50 corporations all of which signed the GC on the same day. In line with the rationale of the GC, what was expected from the launch was that the private sector in Turkey was going to take the initiative for establishing the local network and disseminate the GC. However, in contrary to the expectations, no significant progress in this regard could be achieved. In 2005, a research was conducted in order to assess the current situation of the GC in Turkey as a result of which UNDP decided to take the initiative for strengthening the local network. In partnership with the Corporate Governance Association of Turkey, a project was initiated in the same year for the mobilization of the champions of the CSR for the network, and guiding the companies in the process of the establishment of the local network. Moreover, a project office was established in Istanbul in order to develop partnerships with the private sector in the field of CSR. After the initial assessments, the roadmap for the dissemination of the GC was determined. Before expanding the number of the signatories to the GC, this time, raising the awareness of the private sector on CSR was determined as the prior goal of the UNDP since the concept was still widely unknown or mistakenly perceived as charity in Turkey. Accordingly, in this new phase, intensified public relations activities were conducted to publicize CSR, GC and UNDP. Moreover, many seminars were also conducted in Anatolia in order to introduce the concept to the local business owners.

While the initial phase of the project served for the delineation of the problems, the media campaign also resulted with hundreds of articles and news clippings. Koç Company was the first which provided intensive support to the campaign and actively involved in local network in the following years. The Quality Congress held in 2006 by KalDer constituted another turning point for the CSR in Turkey. The Congress, which was realized with the participation of Kofi Annan and Kemal Derviş arouse wide interest of the private sector. After the initial assessment and public relations period, the second phase of the project was initiated in which the directory board of the local network was established and biannual meetings started to be held. In following years, commissions were formed within the network and a CSR platform and a working group within TÜSİAD (Turkish Industrialists and Businessmen's Association) was established. Trainings were also conducted for press and businessmen.

In 2008, the UNDP started to withdraw from the activities of the GC local network. A local network representative was appointed from the private sector in 2009 and the secretariat for the network is planned to be established in 2010. Today, the GC has more than 160 signatories in Turkey from different sectors. Furthermore, UNDP has involved in many community based CSR projects in partnership with the private sector most of which have been directly related with the social impacts of the operations of the corporations.

In this period of time, the discourse of UNDP on CSR also shifted from more ethical to economic concerns. In recent years, the UNDP also started to emphasize the existence of a 'business case' for the CSR. Moreover, it started to concentrate on enhancing private sector investments which are not only pro-poor but also profitable for the business in line with its growing inclusive markets (GIM) strategy. Moreover, as a part of the "Accelerating CSR practices in the new EU member states and candidate countries as a vehicle for harmonization, competitiveness, and social cohesion in the EU" project, which was supported by the EC and implemented by the UNDP, "Accelerating CSR in Turkey" project was also implemented in Turkey by the UNDP Turkey and KSSD in 2008. In this project,

trainings on CSR were delivered for business sector and press members after the preparation of a baseline report on CSR in Turkey. However, despite all these activities, the number of GC signatories from the apparel and textile sector is quite limited. Among 162 signatories, only 4 of them are from textile and apparel industry, whereas 2 out of 4 corporations failed to provide Communication on Progress Report in current year. It is striking to note that both of the other two corporations are already involved in many CSR activities and certified by many institutions. However, the UNDP in partnership with UNIDO and ILO is about to launch its first GIM project in Turkey for the textile and apparel sector by the end of 2009. The project aims to enhance the competitiveness of SMEs in the Turkish textile and apparel industry especially in poor and vulnerable areas and integrate sustainable development, CSR principles and gender equality into their operations. The project is designed to build the capacity of SMEs in Kahramanmaraş, Adıyaman, Gaziantep and Malatya as fast fashion suppliers through developing cooperation and coordination between them and enhancing their competitiveness in terms of CSR. The project includes intensive training programmes on CSR targeting around 200 managers and 1,500 workers and the development of a CSR based management strategy for the textile and apparel industry.

5.4. Governmental Institutions

From early 2000s onwards, the CSR began to come into the agenda of the governmental institutions in relation to the European integration process and competition. In this regard, while taking part in some of the round table meetings, the only time one of the governmental institutions directly led to a CSR initiative has been with the establishment of the Corporate Governance Principles in 2003 by the Capital Markets Board. These principles, which are developed as a part of the EU accession criteria, were intended to provide joint stock companies with guidelines on corporate governance for developing competitiveness. Within the justification of the principles, the advantages of corporate governance practices are explained as follow:

Sound corporate governance practices bring out advantages for companies and countries. With respect to companies, high quality status of corporate governance means low capital cost, increase in financial capabilities and liquidity, ability of overcoming crises more easily and prevention of the exclusion of soundly managed companies from the capital markets. On the other hand, with respect to the country, sound corporate governance means improvement of a country's image, prevention of outflow of domestic funds, increase in foreign capital investments, increase in the competitive power of the economy and capital markets, overcoming crises with less damage, more efficient allocation of resources attainment and maintenance of a higher level of prosperity.²⁴²

While the implementation of the Corporate Governance Principles, which is designed mainly for joint stock companies is optional, the corporations are required to publicly disclose the implementation status of the principles in their annual reports within the “comply or explain” approach.²⁴³ The principles include sections on the rights of shareholders, disclosure and transparency, board of directors and stakeholders, whereas the stakeholder section concentrates on employee relations and social responsibility activities of the corporations. The principles regarding the employee relations include issues of anti-discrimination, social rights and professional training. However, referring to the principles concerning the employee relations is optional in the annual reports. In this regard, the Capital Market's Board's initiative falls short of making the corporations accountable in terms of labour issues.

Apart from the Capital Markets Board's initiative, the governmental institutions have not undertaken any significant initiatives to promote CSR or enacted any laws for a CSR framework in Turkey.²⁴⁴ Moreover, many initiatives of the associations for the preparation of certification and monitoring systems and for raising awareness

²⁴² Capital Market Boards of Turkey, “Corporate Governance Principles,” (June 2003, ammended in February 2005), <http://www.spk.gov.tr/displayfile.aspx?action=displayfile&pageid=55&fn=55.pdf>, (accessed 16 March 2009), 5.

²⁴³ Ibid. 7.

²⁴⁴ UNDP, “Baseline Study on CSR Practices in the new EU Member States and Candidate Countries,” (2007), available in http://www.acceleratingcsr.eu/uploads/docs/BASELINE_STUDY_ON.pdf, (accessed 04 February 2009).

on CSR in partnership with the state also failed.²⁴⁵ However, the governmental institutions indirectly involved in the CSR agenda of the textile and apparel sector in two regards: firstly, through the amendments in the labour regulations within the EU integration process (Chapter 4) and secondly, through Istanbul Textile and Apparel Exporters' Association (İTKİB), which is a para-statal organization attached to the Undersecretary of Foreign Trade.

5.5. Sector Organizations

In this section, before going into the detail of the strategies of sector organizations, it is necessary to give some information on three main sector organizations, which are TÜTSİS (Turkish Textile Employer's Association), İTKİB (Istanbul Textile and Apparel Exporters' Association) and TGSD (Turkish Clothing Manufacturers Association). As it is mentioned in the previous chapter, TÜTSİS, is an employer association, which was established in 1962 in order to defend the interests of the member employers and conclude collective agreements as a response to the growing power of the worker unions. However, in time, TÜTSİS extended this mandate. It began to involve in capacity building and lobbying activities in order to protect national industry. Established in 1976, TGSD is primarily the representative of the export-oriented apparel sector. Having more than 400 members from the sector, it undertakes lobbying activities for protecting the interest of the sector. Istanbul Textile and Apparel Exporters' Association (İTKİB), on the other hand, is a para-statal organization attached to the Undersecretaries of Foreign Trade. While the past of exporters' associations dates back to 1930s, their functions and statuses were re-defined in a decree issued by the Council of Ministers in 1993. The General Secretariat of Istanbul Textile and Apparel Exporters' Association (İTKİB) is one of the 13 general secretaries in Turkey established by exporter associations from different sectors. It is an umbrella association that comprises Istanbul Apparel Exporters' Association, Istanbul Textile and Raw Material Exporters' Association, Istanbul Leather and Leather Products Exporters' Association and Istanbul Carpet

²⁴⁵ Interview 12NG and 3SO.

Exporters' Association.²⁴⁶ As those are the largest exporters' associations in their sectors in terms of both membership and export volume, İTKİB is also the coordinator association of all textiles, apparel, leather and carpet associations established in Turkey. Since 1980s, the apparel has come to be the leading sector in İTKİB.²⁴⁷ Having a unique position between the state and the private sector, some of the functions İTKİB performs vary from consultancy, researches, information dissemination, sector-specific trainings, PR activities, inter-sectors and intra-sectors coordination functions to the operations related to the inward processing regime and receiving applications and performing evaluations for the export subsidies.

From mid-1990s onwards, as it started to become evident that the Turkish textile and apparel sector has no chance to compete in low quality products, the strategy of the sector organizations in the textile and apparel sector has been to promote the production of value-added products and develop Turkey as a full-package supplier and brand manufacturer for primarily the EU and North American markets.²⁴⁸ In this regard, TGSD and İTKİB started to concentrate on developing the capacity of textile and apparel sector in terms of quality, design and marketing, engaging in lobbying and PR activities for promoting the competitiveness of Turkish apparel sector as a world brand, developing relations with big buyers and creating trading networks for Turkish suppliers. On the other hand, while TÜTSİS also began to involve in capacity building activities for the high value-added production, it primarily concentrated on the protection of national textile and apparel sector against the pressures from Far Eastern countries.

In the mid 2000s, facing with the fierce competition as the end of quota phase-out process approached, the labour standards were articulated into the above mentioned competitiveness strategy of the sector organizations as a source of the

²⁴⁶ İTKİB, "İTKİB Hakkında," <http://www.itkib.org.tr/default.asp?CID=ITKIB&urlID=101&dropdownid=> (accessed in 14 May 2009).

²⁴⁷ Çakmakçı 1997, 111.

²⁴⁸ Interview ISO, 2SO, 3SO. Cf. Çakmakçı 1997, 50.

competitiveness of Turkish textile and apparel sector in relation to the low-cost countries like China. In this regard, the sector organizations started to involve in activities for developing the capacity of Turkish suppliers on CSR issues, promoting the linkage of trade with labour standards and lobbying against low cost countries such as China in terms of social standards. The “corporate social responsibility,” “fair trade” and “social standards” have been the main concepts articulated into the discourse of sector organizations in reference to competitiveness. The compulsory labour, child labour, safety regulations and wages in particular have come to be some of the major concepts the sector organizations championed against “unfair” practices of China and highlighted as the comparative advantages of Turkish apparel and textile industry in the international trade.

However, the issue was quite controversial for the representatives of the apparel sector to the extent that the non-registered economy and labour rights violations are still pressing issues in the sector.²⁴⁹ In this regard, whereas it is possible to refer to explicit linkages between labour standards, trade and governmental regulations in the discourse of TÜTSİS on competition, İTKİB and TGSD rather appealed to the voluntary connotations of the CSR and concentrated on activities for building the capacities of their members in the initial phase. However, in recent years, the discourse and practices of these organizations on CSR also shifted to hardened forms of CSR.

In the final stage of the quota phase-out process, the sector organizations were united around the discourse “fair trade” which mainly connoted the free market system uninterrupted by the export subsidizing practices of the governments.²⁵⁰ In 2004, İTKİB, TÜTSİS and TGSD formed an alliance, later to be called as Global Alliance for Fair Textile Trade (GAFTT), with the American sector organizations

²⁴⁹ Interview with 1SO, 2SO, 5TU and 6TU.

²⁵⁰ GAFTT, “Fair Trade for a Safer World,” <http://www.fairtextiletrade.org/fair/index.html>, (accessed in 29 March 2009).

which were united against the risk of “takeover of the textile and apparel trade by a few large countries” in the post-ATC world order.²⁵¹

The establishment of GAFTT dates back to March 2004, when the major US and Turkish trade groups were first united and released Istanbul Declaration to call the WTO to action for postponing the final quota integration stage until the end of 2007.²⁵² The American Textile Manufacturers Institute (ATMF), the American Manufacturers Trade Action Coalition (AMTAC), İTKİB, TGSD and TÜTSİS were the initial sector organizations that signed the Declaration. The main ground of the Declaration for the extension of the deadline was the change in the “circumstances” of the international trade after the agreement on timetable for the quota phase-out process in the Uruguay Round. It was argued that new circumstances brought into the scene the threat of “monopolisation” of global apparel and textile trade by a “few countries” that use “trade distorting practices”.²⁵³ While the Declaration was using a plural language to address the circumstances and the potential results of the quota integration process, its main target was “China”. The Declaration was addressing to the membership of China to the WTO as the changes in circumstances and the devastating results of the quota phase out were explained as the massive job losses and job bankruptcies in the developing economies resulted from the domination of global textile market in the eliminated categories through “unfair practices” of China such as “currency undervaluation” and “state subsidies”.²⁵⁴

After Istanbul Declaration, the textile and apparel groups from other “affected” countries were called to join the alliance “in this crucial fight to prevent the monopolization of this sector”.²⁵⁵ Immediately after the call, the supporters of the

²⁵¹ GAFTT, “About GAFTT,” <http://www.fairtextiletrade.org/about/index.html>, (accessed in 29 March 2009).

²⁵² Istanbul Declaration: available in <http://www.itkibus.org/Istanbul-Declaration.pdf>.

²⁵³ Idem.

²⁵⁴ Idem.

²⁵⁵ İTKİB Association Inc., “Major Turkish and U.S. Textile Associations Call for Action to Prevent Market Monopoly by China,” (04 March 2004), <http://www.itkibus.org/NewsreleaseMAR05.pdf>, (accessed 19 March 2009).

coalition were summoned in the “Summit on Fair Trade in Textiles and Clothing” in June 2004. In the Summit which is attended by the trade groups from 25 countries, the governments, rather than the WTO, were called to take actions not only for exerting pressure on the WTO for the extension of quota integration process, but also for the implementation of “automatic safeguard mechanisms to prevent disruptive surges of textile and clothing imports” and “expedited and effective remedies to unfair trading practices employed by certain major suppliers”.²⁵⁶ In the communiqué of the summit China was again the only explicitly named supplier claimed to undertake unfair practices. For instance, the Executive Director of İTKİB Association of New York, Ziya Sukun was describing the necessity for fair trade as follows: “We need fair trade so the global economy can be disciplined. This is not protectionism but a fight against a monopoly by China. It is critical to note that this is an international crisis. Every major region of the world will suffer substantial job losses if nothing is done about China.”²⁵⁷

As an output of the Summit, 91 trade groups from 49 countries united around the Brussels Communiqués established the Global Alliance for Fair Textile Trade (GAFTT) and started to monitor the activities and exert pressures on the governments against China. In 2005 the number of trade groups and countries associated with the alliance reached up to 97 and 55 respectively. The GAFTT publicized many press releases and communiqués targeting at the governments and WTO in 2004 and 2005 all of which emphasized the role of textile and apparel sector in the development efforts of the least developed countries and the requirement for mechanisms to safeguard the shares of the supplier countries against the “unfair” practices of China.²⁵⁸ The GAFTT finalized its activities in 2005 after

²⁵⁶ Istanbul Declaration Partners in the Global Alliance for Fair Trade in Textile and Clothing, “Brussels Communiqué,” Summit on Fair Trade in Textiles and Clothing, Brussels, June 17, 2004, <http://www.fairtextiletrade.org/newsroom/prbrussels02.pdf>, (accessed 19 March 2009).

²⁵⁷ Idem.

²⁵⁸ For some texts produced by members of the GAFTT, see: WTO Council for Trade in Goods, “Turkey’s Contribution to the Debate on Post- ATC Related-Issues,” (25 October 2004), <http://www.itkibus.org/Geneva--Turkish-WTO--oct27.pdf>, (accessed 19 March 2009); GAFTT, “Chinese Efforts to Silence Developing Countries on Textile and Clothing Quota Crisis Thwarted Heavy-Handed Tactics Decried,” (30 November 2004), <http://www.itkibus.org/Nov30-Geneva->

the postponement of Chinese textile and apparel products in 10 and 34 sensitive categories until the end of 2008 by the EU and US respectively.

The discourse of GAFTT against China was built around the concept “fair trade” which was mainly associated with the “free market” system defined as the non-intervention of the states to the market with instruments such as “currency manipulation”, “state sponsored subsidies” and “state provided non-performing loans”²⁵⁹ which are all prohibited by the rules of the WTO on dumping. In contrast to the common connotations of the “fair trade”, references to the labour and environmental standards were rather implicit in the GAFTT’s discourse. One of the representatives of the sector organizations actively participated in the GAFTT defines their main motivation for establishing the alliance as fighting against the low wages resulting from state subsidies and violation of social standards and cites the reasons for appealing such a definition of fair trade as follows: “In accordance with the WTO rules, what we can do is to emphasize fair trade in general through supporting the WTO rules on anti-dumping. Our main concern is that if these inspections [on anti-dumping] have been undertaken for Turkey, they should also be equally enforced for China. However, they do not.”²⁶⁰

On the other hand, the nongovernmental systems of regulation had entered to the agenda of the organizations much before the finalization of the quota phase-out process. One of the earliest attempts of sector organizations for enhancing the competitiveness of the sector in terms of social standards was the development of a privatized regulatory system by the Turkish Clothing Manufacturers’ Association (TGSD) and Istanbul Chamber of Commerce (İSO) in 1999. The initial rationale of this attempt was the development of a technical and social code of conduct in order

Gaftt.pdf, (accessed 19 March 2009); GAFTT, “Global Alliance Praises U.S.-China Textile Bilateral Deal Will Save Millions of Jobs Worldwide,” (10 November 2005), <http://www.itkibusa.org/Geneva-November2005/GAFTT--US%20China%20Bilateral%20Nov8%20London--PressStatement--nov10.pdf> (accessed 19 March 2009).

²⁵⁹ Brussels Communiqué 2004.

²⁶⁰ Interview ISO

to overcome the non-tariff barriers regarding the TBTs and social dumping regulations in the European market.²⁶¹ In parallel with the rise of CSR, the first draft code of conduct prepared by the organizations in 2000 later revised in 2005 and named as “Social Responsibility Development Certification”. İSO was the party responsible for the auditing and the certification which covered issues like discrimination, overtime, compulsory labour, wages, freedom of association, leave permits, health and safety and harassment mostly based on Turkish labour law. The primary target of the certification programme was to achieve international recognition in order to avoid multiple audits conducted by the MNCs and provide competitiveness in the European market for the products certified by İSO and TGSD. However, the certification programme could not achieve the international recognition it seek for because of the exclusion of unions and NGOs from the scheme. Accordingly, it did not receive enough interest and shelved as a result of entrance of widely recognized certification initiatives like SAI and BSCI into the market.²⁶²

In line with its strategy to promote the production of the value added categories in Turkey, İTKİB had also began to emphasize the importance of “corporate social responsibility” beside the quality, short delivery times, installed capacity and experience as one of the most important competitive advantages of Turkey against China as a full-package supplier before the Istanbul Declaration.²⁶³ In many speeches he delivered Süleyman Orakçıoğlu, the former Chairman of the İTKİB, declared that he did not perceive China as a competitor of Turkey, emphasized the role CSR played in the customer preferences and highlighted the competitiveness of

²⁶¹ Dünya Online, “Hazır Giyimde Sosyal Şartname Dönemi,” (26 January 2000), <http://www.dunyagazetesi.com.tr/haberArsiv.asp?id=673> (accessed 16 November 2008) and İSO, “İSO-TGSD Sosyal Sorumluluk Geliştirme Sertifikası,” http://www.iso.org.tr/tr/web/statiksayfalar/Calismalar_TGSD.aspx, (accessed 16 November 2008).

²⁶² Interview 4SO and 6TU.

²⁶³ Türkiye Gazetesi, “Çin Rüzgarı Dinecek Türkiye Yıldız Olacak,” (31 March 2004), <http://www.turkiyegazetesi.com>, (accessed 16 December 2008) and Türkiye Gazetesi, “İHKİB: Tekstilde Türk Markasının Değeri Artıyor,” (19 August 2005), <http://www.turkiyegazetesi.com>, (accessed 16 December 2008).

Turkey in this regard.²⁶⁴ For instance, just a few days after the Istanbul Declaration, in a speech he delivered Orakçioğlu mentioned that: “After a few years, the quality and trends produced by Turkey are going to make it an attraction centre for high volume orders more than ever (...) Neither the quality of China, nor the trends it produces nor is the social responsibilities it realizes in the production processes enough for responding to the demands of the West. That’s why we must concentrate on innovation and quality products.”²⁶⁵

While İTKİB’s initial attempts for developing the capacities of Turkish manufacturers on CSR was limited to awareness raising activities, it started to concentrate on the dissemination of more hardened forms of CSR in 2005 after the initiation of AVE/GTZ and Jo-In projects in Turkey. One of the most important outcomes of these project were to raise the awareness of the sector organizations and companies on the role of nongovernmental systems of regulation in the international competition through bringing the buyers together with the suppliers, subcontractors, labour unions and sector organizations from Turkey.²⁶⁶

After these projects, İTKİB started to promote certification initiatives of SAI and BSCI to enhance the competitiveness of Turkish manufacturers on social standards. Furthermore, İTKİB endorsed WRAP Principles and more importantly it joined to the Stakeholder Board of the BSCI as a representative of the business associations. In addition to the active involvement of İTKİB in the two major privatized regulation schemes of the USA and the EU, it also initiated a training project in partnership with SAI and BSCI in Turkey. The project provided trainings and technical assistance to 40 supplier and 40 sub-contractor firms in the industry. İTKİB defined their purpose for initiating such a project as to improve the

²⁶⁴ Türkiye Gazetesi (31 March 2004); Akşam, “Türk Ürünlerine AB Damgası,” (19 October 2006) <http://www.aksam.com.tr>, (accessed 16 December 2008); Türk Trade, “Türk Moda Endüstrisi’nin Beş Yapraklı Yoncası: İHKİB Başkanı Süleyman Orakçioğlu ile bir Söyleşi,” (September 2006), http://www.turktrade.org.tr/durum/durum_eylul_2006/word/SULEYMAN%20ORAKCIOGLU/Suleyman%20Orakcioglu.doc, (accessed 16 December 2008).

²⁶⁵ Türkiye Gazetesi, (31 March 2004).

²⁶⁶ Interview 6TU.

competitiveness of Turkish textile and apparel industry in the international trade through the betterment of the social standards in the exporter firms.²⁶⁷ Through introducing the certification systems in Turkey in reference to the concept CSR, İTKİB also declared that the main concern of the association was to prepare the sector for future hardened forms of regulation by the EU. In an interview, Orakçıoğlu describes their target as follows:

As İTKİB, we want to develop and disseminate the corporate social responsibility practices in Turkey via projects that will enhance competitiveness of the Turkish textile and apparel industry through bettering the social standards. In this way, the production of all the biggest buyer firms will be carried out from Turkey (...) It is considered that the corporations which comply with the corporate social responsibility standards are going to be more successful. In the draft report prepared by the EU Parliament, there were prepared articles which require all corporations to comply with the social responsibility standards. Although it is going to take time to enforce those standards in all of the countries, as textile and apparel sector, complying with those standards will provide us with nothing but advantage. Unlike a few years ago, the consumers in Europe and America want to buy quality and ethic products rather than cheap ones. I think, before Far Eastern markets realize that, we all have to recognize the concepts like CSR (social responsibility). That's why İTKİB is planning to conduct different trainings and seminars this year.²⁶⁸

In 2006, İTKİB also started to explicitly participate in lobbying activities in the international arena to develop instruments such as labelling for enhancing European suppliers' advantage in the international markets in terms of European standards and enforcement of labour regulations as trade barriers.²⁶⁹ On the other hand, in recent years, İTKİB also shifted its activities to the auditing and standard setting. As well as providing auditor trainings for SAI in Turkey, the association defines its future targets concerning CSR as creating awareness on the issue in the level of Turkish government, forming a multi stakeholder initiative, setting standards and providing the sector with consultancy on CSR issues.

²⁶⁷ Haberler, "İHKİB'den Sosyal Sorumluluk Desteği," (21 February 2007), <http://www.haberler.com/ihkib-den-sosyal-sorumluluk-destegi-haberi-yazdir/>, (accessed 16 December 2008).

²⁶⁸ Kobi Efor, "Tekstil Sıkıştı," (April 2007), http://www.kobi-efor.com.tr/haber_detay.asp?id=2119, (accessed 16 December 2008).

²⁶⁹ Akşam, (19 October 2006).

Among the sector organizations' discourse on labour standards and competitiveness, it is possible to differentiate that of TÜTSİS to the extent that the union has always concentrated on the relations between the trade and labour standards. Defining the CSR as community based activities of corporations, in the TÜTSİS's discourse, the labour standards are encapsulated into the terrain of legal obligations stemming from governmental and inter-governmental regulations. On the other hand, TÜTSİS's stance in respect to the nongovernmental systems of regulation is rather sceptical because of inexistence of consumer demand for monitoring and exerting pressures on companies in Turkey for the improvement of labour standards.

In line with the strategies of İTKİB and TGSD, TÜTSİS also concentrated on the development of Turkish apparel trade as full-package supplier for fast fashion products due to the fierce competition in basic product categories in recent years. However, as primarily representing national textile manufacturing industry, TÜTSİS is more concerned about the pressures of importers from Far Eastern countries on Turkish producers especially in the categories of yarn and fabric than the competition of the exporters in the European market. In this respect, unlike İTKİB and TGSD, TÜTSİS is more concerned with the protection of national industry. Accordingly, since mid 2000s, the unfair trade practices of China is one of the main factors TÜTSİS emphasizes beside the inexistence of regulations for imported products, non-registered economy, high energy prices, high VAT and income taxes and trade agreements with third countries all of which are claimed to damage competitiveness of Turkish producers.²⁷⁰ In respect to the social standards and competitiveness, the concerns of TÜTSİS have twofold. Firstly, the "unfair competition" in the domestic market stemming from non-registered economy and non-existence of governmental regulations for imported products from China.

²⁷⁰ Türkiye Tekstil ve Sanayii İşverenleri Sendikası, "Antalya Semineri," *Tekstil İşveren*, (May 2004), <http://www.tekstilisveren.org.tr/dergi/2004/mayis/antalya-1.html>, (26 April 2009); Türkiye Tekstil ve Sanayii İşverenleri Sendikası, "25. Antalya Semineri," (20 April 2005), <http://www.tekstilisveren.org/content/view/256/45/>, (26 April 2009).

Secondly, the “double standards” said to arise from the application of different sets of regulations by EU for Turkish and Chinese exports.²⁷¹

In relation to the former, TÜTSİS mainly targets at and exerts pressure on the government for the implementation of deterrent sanctions against the non-compliant firms and prevention of non-registered economy. While the concentration of the government investigations on companies which already abide the law is widely criticized by the union, non-existence of any trade barriers before the importers in terms of labour standards is claimed to be another factor which damages producers.²⁷² For instance, in the speech he delivered in the 25th Antalya Seminar held in 2005, Halit Narin, Chairman of TÜTSİS defined the concerns regarding importers as follows:

We are importing from China without even debating the social standards. However, Turkey is negotiating everything it does with Europe, in order to do it above the European standards and [those standards] squeeze us (...) We have been suffering too much from the Chinese Turks [i.e. importers] amongst us (...) It is not even funny anymore to import from Pakistan, India and China and giving the image of a country developed via export. What we want is to open all of our factories, to open those being shut down; the return of our workers to their works and to undertake exports (...) God forbids us from Chinese Turks.²⁷³

In regards to the latter, TÜTSİS’s discourse on EU has come to be highly critical in recent years through accusing the EU with undertaking “double standards” in terms of not implementing the social standards, which have long been applied for imports from Turkey, against China.²⁷⁴ Moreover, the low wages in the Far Eastern countries and especially in China is the main concern of TÜTSİS. For instance, in a speech he delivered, Metin Emiroğlu, the former General Secretary of TÜTSİS, defined “working with low wage without any social standards” as the most important factor

²⁷¹ Türkiye Tekstil ve Sanayii İşverenleri Sendikası, (20 April 2005).

²⁷² Idem.

²⁷³ Idem.

²⁷⁴ Idem.

“creating unfair trade relations.”²⁷⁵ Accordingly, in the international arena, TÜTSİS’s one of the main quests against China has been the GAFTT and following lobbying activities in order to reveal the subsidies provided by the state against the WTO rules and to link the trade with labour standards.

5.6. Trade Unions

As it was the case in the employer and exporter associations, the agenda of trade unions also concentrated on the repercussions of the quota phase-out process on the sector in 2000s. In this regard, it can be argued that there has been achieved a consensus between sector organizations and trade unions for the survival of the industry against the unfair trade practices of the importers from low cost countries, of the Far Eastern countries as well as the unregistered workplaces in Turkey.²⁷⁶ Moreover, as a part of the competitiveness strategy, while the sector organizations shifted their rhetoric towards the betterment of labour standards, the trade unions also shifted their strategy towards extracting pressure on government for the provision of the subsidies to the industry.²⁷⁷

Moreover, the unions have been one of the earliest organizations in Turkey which underlined the relation between the labour standards, fair trade and competitiveness. Highlighting the labour standards and production of value added categories as the basis of competitive advantage of Turkey against Far Eastern countries, the unions started to appeal to the sector organizations for abandoning the strategy of classical competitiveness based on wage costs in early 2000s. For instance, in the speech he

²⁷⁵ Idem.

²⁷⁶ 25th Antalya Seminar, conducted by TÜTSİS in 2005, can be regarded a turning point in this regard. In the seminar, all the participants from trade unions and employer associations concentrated on the requirement for the protection of the industry against the unfair practice. See, Türkiye Tekstil ve Sanayii İşverenleri Sendikası, (20 April 2005).

²⁷⁷ For instance, DİSK/Textile has recently published a press release calling the government to solve the problems of the industrialists in the textile sector. The release, which is directly addressed to the Prime Minister, included some proposals such as suspension of the social security payments for one year, 50% discount in the energy prices and decrease of tax rates over the wages. See: Tekstil İşveren, (May 2004) and DİSK/Tekstil İşçileri Sendikası, “Tekstil Sektörünü Kaderine Terk Edemezsiniz!,” *Tekstil Haber*, (May-June 2009), 22.

delivered in the annual meeting of TÜTSİS in 2004, Süleyman Çelebioğlu, the Chairman of DİSK stated that:

As we know, some countries diminish the labour costs to the lowest point through utilizing methods such as child labour, compulsory working of prisoners and sweating. We must create the advantages that we can utilize. We must create cleaner, more humane working conditions, fairer trade and business conditions. Cheap cost and cheap labour force cannot be the competitive advantage of Turkey. We must have a perception based on high valued added production and foreign trade. Rather than the populist solutions to save the day, it is necessary to enhance the implementation of worldwide valid social standards and to generate long term projects to save the future. Forthcoming issues are quite challenging. In order to overcome these challenges, we should follow a rational, planned, programmed common path. Another issue we must be careful about is that we have to implement the European Union standards not only for the final products, but in the production processes and in all areas of life.²⁷⁸

In addition to the compromise between sector organizations and trade unions on the reinforcement of labour standards as a part of competition strategy of Turkey in the textile and apparel sector, the “corporate social responsibility” was also articulated into the discourse of the trade unions in reference to various issues including the protection of employment. For instance, in the “Actions against the Economic Crisis” Report Türk-İş published in 2009, the union underlined the social responsibility discourse of the employers and called the corporations to act accordingly:

In respect to the form that is reflected to the public, the ongoing process can be defined as ‘the deepest crisis of the capitalist system’. The recent crisis should not lead to opportunism. This crisis period is the day Turkish private sector, which claims the corporate governance and knows the concept of social responsibility, acts according to this responsibility. Is the Turkish private sector going to display its social responsibility towards its employees and the society which creates and cherishes it by closing the workplaces, making the workers to go unpaid leave and dismiss them? If such, the ones who claimed that ‘the social responsibility is another commercial system and image improvement tool for the private sector’ would be justified.²⁷⁹

²⁷⁸ Tekstil İşveren (May 2004).

²⁷⁹ Türk-İş, *Ekonomik Krize Karşı Önlemler Raporu*, (Ankara: Türk-İş, 2009), 6.

However, the articulation of social standards and CSR into the unions' strategy has not been limited with these appeals in the discursive level. Rather than that, the most significant repercussion of the rise of nongovernmental systems of regulation on Turkish trade unions has been the transformation in the regulatory strategies. The trade unions in the textile and apparel industry have come to exert pressure on the supplier firms violating labour rights through collaborating with international labour organizations such as European Trade Union Federation: Textile, Clothing, Leather (ETU-TCL) and International Textile, Garment and Leather Workers' Federation (ITGLWF) and the NGOs such as Clean Clothes Campaign (CCC) and Fair Wear Foundation (FWF).

Up to now, there have been implemented 4 major international campaigns against suppliers of big buyers in Turkey. First of those was against Paxar Corporation's factory in Turkey. The movement was initiated with the dismissal of 11 workers shortly after their membership to Teksif in 2005. While the courts of those workers were finalized in favour of the workers, the company dismissed four more workers in late 2006. As a result, there was initiated a huge campaign against etiquette giant Paxar by CCC after the appeal of Teksif to the organization. The consumers were called to take action through exerting pressure on the clients of the firm such as Gap, Levi Strauss, Wal-Mart, Disney, Adidas, Puma and Nike. Moreover, Teksif also filled a third party complaint against Paxar in FLA as a result of which the FLA appointed a representative to assess the negotiation process in the dispute. The summary of the report prepared by the FLA representative after the investigations is as follows:

(1) Paxar avoided the opportunity to start good faith negotiations; (2) Paxar seemingly sought to promote workers' disaffiliation; (3) contrary to Paxar's interpretation, the Turkish court that ruled against the strike did not actually find that the union was non-representative; (4) Paxar was aware that the situation was attracting considerable interest from the international NGO community and its suppliers. The 2006 report went on to recommend that the global brands seeking to encourage a dialogue should address Paxar's US head-office. It noted that the headquarters' "get tough" policy, coupled with major investment losses in the local plant as a result of this dispute, might shut down the factory, with negative consequences for the workers and union-organizing in general. The report

concluded that the company should engage in good faith bargaining with the union.
280

After the publication of the report, FLA participated as an observer at the final negotiating session between Paxar and Teksif in August 2006. However, there could not be reached to an agreement in the meeting. At last, the campaign succeeded and Teksif and Paxar Turkey agreed a collective agreement and signed it on 26th of February 2007 through direct negotiation between the parties. It is striking to note that the collective agreement covered only 8 workers out of 500 workers in the factory. While the articles of the agreement were not important acquisitions in themselves, the struggle against Paxar constituted a linchpin in the integration of the trade unions in Turkish textile and apparel industry into the nongovernmental systems of regulation.

A similar campaign was initiated against the Dutch and Turkish owned factory Metraco in 2007 again as a response to the anti-union attitude of the management but against the DİSK Textile this time.²⁸¹ The unionisation activities in the factory initiated in February 2006 resulted in the reaction of the management through dismissing 18 workers and forcing 32 workers to resign from the union. In April 2006, DİSK/Textile appealed to ILO, Ministry of Labour and Social Security, Human Rights Commission and the CCC as well as providing legal support to the dismissed workers for appealing to the court. The CCC initially informed the customers of the factory on the issue. While some companies responded to the issue through contacting with the factory management, the others suspended or withdrew their orders. On the other hand, O'Neill, Gaastra, Helly Hansen, Scotch & Soda, and Pall Mall/Just Brands attempted to collectively settle the issue through the FWF and MODINT (Netherlands business association in the apparel sector which is

²⁸⁰ Business and Society Exploring Sollutions, "FLA Third Party Complaint Regarding Paxar Turkey – Reported Outcome," (February 2007), http://www.baseswiki.org/En/2-GrievanceMechanisms/EMulti-Stakeholder_Initiative_Mechanisms/International/Insert_title_of_Mechanism_Here/FLA_Third_Party_Complaint_regarding_Paxar_Turkey_-_Reported_Outcome, (accessed in 10 November 2009).

²⁸¹ Clean Clothes Campaign, "METRACO: Union Busting in Turkey," (03 July 2007), <http://www.cleanclothes.org/urgent-actions/metraco-union-busting-in-turkey>, (accessed in 28 September 2009).

represented in the Fair Wear Foundation). In November 2006, as a part of its appeal procedure, the FWF initiated an audit which confirmed the violations reported by the DISK/Textile. Some of the other buyers of the company also sent auditors to the factory. In the meantime, the company dismissed another worker for talking with the auditors and re-located its factory. Finally the meeting requests to solve the dispute succeeded in January 2007 with a meeting held between the union representatives and the management. However, the meeting did not become very fruitful due to the rejection of the factory to reinstall workers as a response to which, the CCC made the case public. Moreover, Dutch trade union FNV Bondgenoten, which is also represented in the FWF, also started to support the struggle of DISK/Textile. The protest letters were distributed and many protest actions were realized by the CCC and FNV against the Dutch owner of the Metraco, Van der Kroft. Finally, there was held a meeting with Van der Kroft and his lawyer, and Modint, FNV and CCC in September 2007 which resulted with the initiation of the negotiation process for the reinstallation of the workers.²⁸² On 24 September 2007, an agreement was reached between DISK/Textile and Metraco, which was witnessed by the ITGLWF. However, some problems regarding the reinstallation of some of the workers persisted.

The third campaign has been initiated against Menderes Tekstil which supplies for giant retailer firms such as IKEA, Wal-Mart Carrefour, Otto, Iben, and Kohl's. In 2008, Teksif Union initiated unionisation activities in the factory of Menderes which is un-famous because of health and safety conditions. These activities resulted with the forcing of the management to the workers for leaving the union or resigning. Those suspected union members who refused to resign or renounce the unions were assigned to jobs for which they were not qualified to. As a result, the workers initiated protests outside the factory in August 2008 and eleven workers went to court charging for their wrongfully dismissal because of their union activities. The issue was carried to Clean Clothes Campaign (CCC) and the European Trade Union Federation: Textile, Clothing, Leather (ETUT-TCL). The ETUT-TCL directly

²⁸² Clean Clothes Campaign, "Country Reports June 2007-February 2008," http://www.cleanclothes.org/documents/CCC_Country_reports_June07-Feb08.pdf, (accessed in 19 July 2009).

involved in the negotiations with the management of Menderes, while CCC initiated a campaign against its customers. The campaign was also supported by other labour movements such as International Labour Movement. The IKEA and Wal-Mart have been the main targets of the campaigns. While Wal-Mart was the first company which supported the campaign and started to exert pressure on its supplier, the labour movements have intensified their activities against IKEA. The campaign included a letter campaign urging IKEA to take action against its supplier and protests in front of IKEA stores in Europe. This campaign is still going on.

Beside the textile and apparel sectors, there has been launched another major international campaign against the leather company DESA in 2008, which was initiated by the Deri-İş Union and supported by the CCC once again as a result of anti-union attitude of the management. Similar to the campaigns discussed above, the movement against the working conditions in the DESA began with the union's appeal to the CCC and CCC's initial strategy has become to bring the issue to the attention of companies buying from the DESA factory, including Prada, Debenhams, Marks&Spencer, Mulberry, Aspinalls of London, Nicole Fahri and Luella. In the second stage, due to the brands' lack of interest on the issue, the support of consumers was mobilized through various activities including the tour of dismissed workers in Europe. While the Marks&Spencer has been one of the earliest companies to contact with its suppliers to raise the concerns, the Prada has been the main target of the campaign due to its brand value and unwillingness to take any action. There has been realized many protests outside the Prada stores in Europe. The campaign was finalized in 2009 after a protocol was signed between the Deri-İş and DESA for the reinstallation of the workers and authorisation for the unionisation activities in the factory.

In all these cases, the nongovernmental systems of regulation and the voluntary initiatives associated with these systems have been effectively utilised in order to defend the freedom of association and right to collective bargaining in the suppliers of the western based companies. As one of the representatives of the labour unions puts it:

When determining the unionisation targets, we started to choose among the companies which produce for the European firms and especially those on which we have power such as the members of the Fair Wear Foundation. However, if the corporation is producing for domestic market or Arab market we cannot do anything (...) What we can do is just providing legal support. We are explaining this to the workers producing for those markets: 'The unionisation is your right. However, you should know the fact that if you are unionised you will be fired and what we can do at that stage is just providing you with legal support. The lawsuit will not end before two years and in this time span your company might be closed.' However, if the company is producing for European market we can exert pressure. For instance Nike and Puma launched the lists of their producers. All those producers in their lists are our primary targets.²⁸³

To sum up, the worker unions in the textile and apparel industry such as Teksif and DİSK/Textile began effectively utilising the concepts of “corporate social responsibility” and “social standards” in their struggles for workers’ rights. Albeit still defending the governmental regulations, the representatives from both of the unions indicate that at the expense of the enforcement of governmental regulations in Turkey, the nongovernmental systems of regulation bettered the working conditions and provided labour movements with new tools for struggle.²⁸⁴ On the other hand, it should also be noted that the unions are rather critical about the privatized systems of regulation and especially in respect to the certification efforts including the SA8000 and ISO-TGSD certification programme due to their marketing aspect and minor or no role they permit for the labour unions in the monitoring and decision making process. In this regard, the unions in Turkey support and utilise the more socialized efforts in which they can actively participate in the monitoring process through appeal and complaint systems such as that of the FWF, FLA and CCC. In addition to that, the unions have utilised these systems particularly against the anti-union attitudes of the corporation up to now. This stems from the fact that the existence of a union in the factory is mostly regarded by the unions as the sufficient condition to enhance workers’ rights through ensuring the implementation of the state regulations. Finally, it should also be mentioned that the

²⁸³ Interview 6TU.

²⁸⁴ Interviews 6TU and 5TU.

trade unions have begun to collaborate with each other in order to enhance unionisation in the supply chains and utilise nongovernmental systems of regulation in recent years.²⁸⁵

²⁸⁵ Interviews 6TU.

CHAPTER 6

CONCLUSION

The textile has long been the main industry the developing countries primarily invested on for industrialisation and export gains. While the countries have long utilised protectionist barriers such as tariffs and quantity restrictions to protect their industries from their competitors at the national level, the collaborative international order after the 2nd World War enabled the adoption of a more comprehensive regime to regulate the flows of textile and clothing articles in the worldwide in order to cure the overproduction and overcapacity crisis resulting from too much entry into the world textile market in 1970s. The Multi Fibre Agreement, in this regard, served for the dispersion of the export gains among several countries through opening the way for new comers and preventing any countries to dominate the textile and apparel export. On the other hand, in late 1970s the countries in the East Asia such as South Korea, Taiwan and Hong Kong began to rely on export gains for development which resulted in the emergence of these countries as leading apparel exporters mainly subcontracting for the Western brands and retailers. In 1980s, as a result of the rise of the neo-liberal ideology in the developed countries and reform packages of the IMF and the WB which are implemented by the developing countries, the world economy entered into a new phase of liberalization of finance and trade, retrenchment of the state from the market and deregulation of the social and labour policies. In this regard, while the developing countries started to concentrate on strategies for attracting foreign capital for investment, many countries began to integrate into the international economy via the export oriented industrialisation strategy through decreasing the domestic demand with fiscal discipline. In this context, due to the low barriers to entrance into the world apparel market, sufficiency of low skilled labour force and low capital for initiating the industry and high added value, employment and export gains it provided in return, the developing countries began

to shift their resources for developing their apparel industry and trade. When combined with the innovations in transportation and communication technologies, all those policies led to an increased scope for foreign direct investments and sub-contracting activities which transformed the production and trade structure of the apparel industry and resulted in the emergence of buyer-driven apparel value chains.

In the apparel value chains, equipped with the power to control production over large distances, the commercial capital being composed of retailers, brand manufacturers and brand marketers began to set up and coordinate the complex apparel production networks consisting of assembly producers, OEMs and OBMs from developing countries. This situation resulted in the detachment of the material production from other stages of the value chain and transfer of the burden of labour issues to the developing countries. Moreover, one of the most significant characteristics of the buyer driven value chains have been the reliance of buyers to the complex sourcing networks depending on the stages they outsource. In terms of these networks, the branded manufacturers which mainly rely on outsourcing of the assembly stage of the production primarily developed supplying networks with the low cost countries. As the low cost advantages in this system of production are continuously challenged by new comers, the survival of the manufacturers rested on their ability to climb higher in the value chain. On the other hand, to the extent that the retailers and branded marketers have no production facilities on their own, they have been more inclined to source from full-package networks directed by OBMs and OEMs, which are capable of undertaking more value-added stages of the production. The competitive advantages in these full-package sourcing networks primarily rested on short delivery times, quality and design as well as price. However, in time when the suppliers in these full-package sourcing networks began to lose their advantage in terms of price, they also started to shift their production and supplying networks to the nearby low cost locations through forming multilayered sourcing networks.

For many years, the benefits provided by the trade agreements at the regional level and development strategies of the governments at the national level mainly shaped

the competitive advantages of the countries and the sourcing networks of the commercial capital within the quantitative restrictions imposed by the MFA at the global level. When the quota phase-out process was initiated, the barriers preventing the commercial capital from putting all the eggs in one basket began to be lifted. As a result, the accelerated race to the bottom resulted in the searches for alternative sources of competitive advantage and institutions to regulate the flows of trade and protect national industries in the long run.

While up to now I summarized the condition of the capital, on the other side of the coin, all those transformations resulted in devastating conditions for the labour. Through outsourcing the labour-intensive processes from the high wage organized sectors of the labour market to the low wage less organized sectors in the developing countries, the brands and retailers also transmitted the burden of the social reproductive needs of the labour to the suppliers while, at the same time, binding their ability to meet these needs.

In the macro level, the unhindered capital flows led to the decreases in the welfare provisions and minimum wages and inability or unwillingness of the developing countries to enforce regulations concerning the workers' rights in order to attract these flows. In the micro level, short delivery times as well as flexible production system reinforced the flexible and informal employment relations and prevented the suppliers from investing on workforce. All those factors cultivated informal sector, barriers to the trade unions, low wages, piece-rate systems, long working hours, unsafe and unhealthy working conditions and discrimination against especially women. At worst, utilising forced or compulsory labour and employing children in the sweatshops have also become among the methods that the manufacturers use in order to decrease the labour costs. Whereas the regulations in the national scale fall short for enforcing labour standards in the global supply chains not only because of their unwillingness, but also due to the transcendence of the scale of production to the regulatory boundaries of the nation-states, the post-war international regulatory system was also devoid of institutions to regulate and equalize labour standards in the supply chains.

Corporate social responsibility as a new form of regulation in the textile and apparel sector came into the scene in such a context in which there remained no powerful institution to constraint the tendency of the capital to shift its sourcing networks to the low cost locations and regulate the relation between capital and labour in the complex sourcing networks and supplying chains. It was social movements' campaigns which brought into the fore the labour and human rights violations in the production processes of the apparel value chain. When the vulnerability of the brand manufacturers, retailers and marketers to the public criticisms combined with the technological developments which provided the civil society with the ability to penetrate into the suppliers in large distances, to reveal workers' rights violations and to mobilize the consumers in different countries, the social movements evoked the buyers for bettering labour conditions in their supply chains.

The conflict between the capital and the social forces being embodied in the campaigns brought many alternative mechanisms for constraining the negative effects of capital accumulation into the agenda. However, while the initial attempts of social movements to guarantee the enforcement of labour standards through intergovernmental and governmental regulations were dismantled by the neo-liberal ideology, the initial solutions of firms for self-regulation were also dismantled by unions and social movements. On the other hand, the governments and industrial capital in the western countries also joined this quest for scaling up the labour standards in the developing countries in order to protect their national industries through blocking the exports resting on labour cost advantage and equalizing the labour standards in the competitor countries. As a result of the failures to guarantee the enforcement of labour standards in the intergovernmental level, the strategies of all these parties began to move towards nongovernmental systems of regulations. The western governments, especially UK and US, played a key role for the mediation of these conflicts and in the emergence of more systematic privatized and collaborative systems of regulation. These systems also accorded with the competition strategy of the leading fractions of the commercial capital to the extent that they provided common standards for the competitors to comply with and

ensured their enforcement to an extent. Despite the initiatives for providing a binding framework for the regulation of the working conditions through the intergovernmental organizations failed, the EU, UN, OECD and ILO also played their parts in the emergence of these systems through providing guidelines, models, frameworks and financial support for the voluntary initiatives. While the attempts to harden the CSR in the EU failed largely due to the pressures exerted by the European Roundtable of the Industrialists, the EU still played a key role in the dissemination of the CSR thanks to its support for the establishment of business networks for CSR and discourse resting on the promotion of the CSR as a ‘business case’. On the other hand, the reversal of the UN’s approach towards the business from a confrontational to the collaborative one between 1970s and 1990s resulted in the emergence of the GC, which provided a model for nongovernmental regulatory systems.

How did all these transformations affect Turkey as a supplier country? Which agencies and strategies have been driving the process for the dissemination of CSR as a nongovernmental mechanism of labour regulation in Turkey? From the establishment of the Republic, up until 1980s, the textile industry in Turkey largely benefitted from the state policies. As early as 1933, the textile began to be supported as the industry with first priority for the industrialisation of the country. While the state-led industrialisation provided the necessary infrastructure, the ISI policies pursued in the following years equipped the textile industry with low cost raw material and other subsidies. On the other hand, the apparel industry in Turkey began to develop in 1970s as a result of the investment incentives provided by the state for foreign exchange earning establishments in order to close the balance of payments deficits resulting from the import-substituted industrialisation. However, it has been the market-oriented and outward looking policies of the state in 1980s which primarily benefitted the apparel exporters. When the low raw material costs resulting from the existence of a developed textile industry combined with the low labour costs due to the wage suppression and the profits derived from the depreciation of TL, Turkish apparel sector quickly integrated into the apparel value chain in 1980s as a low cost supplier.

However, when the fiscal crisis emanating from the state policies in late 1980s and early 1990s combined with the pressures of organised labour, the classical sources of competitive advantage resting on low wage costs began to come to an end in Turkey in late 1980s. On the other hand, together with another wave of depreciation of TL in the post-crisis period resulting from the deregulation of capital market and transition to the full currency convertibility, apparel manufacturers gained a huge competitive advantage in the global markets in late 1990s. At the same time, starting from 1980s, Turkey's relations with EU led to the emergence of Turkish textile and apparel producers as preferential suppliers for the EU brands and manufacturers. Together with the Customs Union Agreement signed in 1995, Turkey emerged as one of the primary full-package suppliers of the EU market in the second half of 1990s. However, during the integration process, Turkish exporters have been required to adapt social and technical standards of the EU in order to export to the European markets which resulted in high costs and falling profits for Turkish manufacturers when combined with changing state policy to increase wages. In this regard, while Turkey turned into a middle cost location, it utilised the advantages of low cost inputs provided by the textile industry, quality resulted from the skilled labour and Customs Union for a long period of time as the primary supplier of many European brands, retailers and marketers. As a result, it emerged as the world's one of the leading clothing and textile suppliers in late 1990s.

However, the Customs Union did not bring good to the entire textile and apparel industry in Turkey. While benefitting the importers and full-package suppliers, increasing imports from the low cost locations resulting from the Common External Tariffs (CET) and multi-layered sourcing networks associated with the increasing relocation of the production due to the incentives provided by the Common Commercial Policy (CCP) began to threaten the textile (primarily yarn and fabric) as well as basic product and assembly producers in late 1990s and 2000s. On the other hand, due to the end of the MFA, Turkey came into a position to lose its advantages of low tariff barriers and non-restricted entrance to the European market which primarily affected basic product and assembly producers. Moreover, growing yarn

and fabric imports from low cost locations began to threaten the textile industry more than ever. On the other hand, some of the apparel manufacturers managed to secure their places in this production system through climbing higher in the global value chains as OBM and OEM producers.

Again, taking a look at the impacts of those transformations on the labour reveal the violation of workers' right in various levels in Turkey. While the labour law and related regulations are quite elaborate in Turkey partly due to the long history of industrialisation, partly due to the European integration process, in practice they are rarely implemented. The most important problem in this regard is the informalisation of the workforce. The 1980 military coup and the initiation of deregulation of the labour market in 1980s resulted in the suppression of the trade unions, the wages and rights of waged labour in the formal sector. This process further reinforced through the promotion of flexible employment relations in the following years. On the other hand, the level of unregistered workers and workplaces began to increase in Turkey in parallel with the proliferation of sub-contracting relations together with the integration of the apparel sector to the value chains. While the manufacturers exporting to primarily the EU market have been required to abide at least basic labour regulations as the cost of operating in the formal sector and passing the social dumping investigations undertaken by the EU, the violation of labour rights have tended to be higher in the sub-contractors which have been composed of unregistered workplaces (so-called *merdivenalti*) functioning outside the state regulations and enforcement. The weaknesses in the enforcement of Turkish labour law, desire for evading taxes, social security payments and other state regulations such as working hours in order to decrease costs have constituted main reasons for the expansion of the unregistered workforce and workplaces in Turkey. The problem is so striking that today 75% of the workforce in the textile and apparel sectors is estimated to be employed in the unregistered workplaces with a monthly wage less than half of the minimum wage. It is in this wide unregistered sector that the violation of the labour standards concerning freedom of association, working hours, anti-discrimination, minimum age and health and safety are widespread. Moreover, short delivery times and small

margins of profits resulting from the fierce competition in the sector also resulted in the violation of labour rights concerning wage, social security and overtime work compensation through double book keeping in the formal sector, while flexible employment relations, unregistered sector, anti-trade attitude of the employers and shortcomings in the existing trade union law have limited the unionisation in Turkey. In this context, as the governmental institutions also concentrate their inspections to the companies in the registered workplaces, Turkey's labour market is characterised with a huge discrepancy between those abiding the laws and those do not both in terms of working conditions and associated wage costs.

In this context, as the end of classical mode of surplus accumulation through wage suppression in late 1980s was followed by the culmination of state policies favouring apparel exporters in terms of currency and exchange regime and the intensification of competition in the European market with new comers, the sector organizations' strategy has become the transition of the Turkish suppliers to more value-added stages of the apparel value chain since 1990s. Whereas the apparel sector organizations initially concentrated their activities to increase the competitiveness in terms of quality, design and marketing, the labour standards began to enter to the agenda of the exporters in late 1990 together with the growing importance of the labour standards in the USA and EU market. One of the earliest attempts of sector organizations in this regard has been the development of a privatized certification scheme by the Turkish Clothing Manufacturers' Association (TGSD) and Istanbul Chamber of Commerce (İSO) in 1999 in order to overcome the non-tariff barriers regarding the TBTs and social dumping regulations in the European market. While the certification scheme could not receive the interest it seek for, the agenda of the sector organizations also began to shift from the ways to avoid the sanctions applied to Turkish manufacturers in the EU market to the application of the same sanctions towards the East Asian manufactures and especially China. In a period of time when the labour standards became a determining factor in the sourcing decisions of the buyers and the attempts to link the trade with labour standards are going on, labour standards were articulated into the competition strategy of the sector organizations in order to survive in the post-

quota world order through combining quality and proximity advantages with labour standards for compensating its disadvantage in terms of price.

In this context, in 2000s, the sector organizations began to involve in activities for developing the capacity of Turkish suppliers on labour standards and lobbying for the implementation of the labour standards as trade barriers against the countries resting on wage advantage. In this regard, the sector associations in Turkey have led the campaign against China for fair trade. However, despite the sector organizations are united in the international arena against China and agreed on the promotion of labour standards as a trade barrier to the low cost locations, there are still significant differences between different fractions of the sector in terms of their strategy to promote labour standards in the domestic market. Whereas the export oriented fractions of the sector having more close relations with unregistered sector primarily concentrated on building the capacity of the suppliers on nongovernmental systems of regulation and promote certification schemes having marketing value, the employer associations of which members have higher labour standards due to the trade union presence have been more concerned with the governmental regulations. On the other hand, while the representatives of the export oriented apparel sector have only focused on the regulations in the foreign markets; the representatives of the employer associations which are largely composed of textile producers are also concerned with the regulations regarding the domestic market and imported products in order to protect the national industry. In this respect, it can be argued that, despite the apparel employer associations made a trade off between the full package suppliers and the assembly producers which primarily function in the unregistered sector as it became evident that the labour standards are going to play a major role in the post-quota world order as the CSR regulations began to be more hardened in the EU, they have been rather cautious on governmental regulations as those producers still constitute the majority of apparel manufacturers and the workers' rights violation in the registered sector on the issues regarding the freedom of association, right to collective bargaining and overtime work are still widespread.

On the other hand, the interviews conducted for this thesis showed that similar to the employer organizations, the manufacturers and suppliers which adopt labour standards are rather inclined to be in favour of governmental regulation. The representatives of the corporations tend to criticize the absence of any deterrent state sanctions in the domestic market against the non-compliant firms and the concentration of the government investigations on the companies which already abide the law since this situation results with disadvantage in terms of price for the firms which invest on workforce. In this regard, despite the companies benefit from the competitive advantage provided by the CSR and regard these initiatives as beneficial to an extent, they are rather in favour of the systems which ensure the standardization and compliance of all the firms in the sector.

In this context, while buyers played a key role in the proliferation of codes of conduct among their suppliers in Turkey, the AVE/GTZ and Jo-In projects sponsored by the Western governments played a key role in raising the awareness of the producers on the importance of the codes of conducts in the supplying decisions and nongovernmental systems of regulation. On the other hand, while the initiatives such as FLA and FWF which monitor the supply chains of their affiliated and accredited members have long been auditing the suppliers of their members in Turkey, it has been the para-state organization, İTKİB, which has led the integration of Turkish suppliers into the privatized and collaborative systems of regulation. While the initial attempts of İTKİB for developing the capacities of Turkish manufacturers on CSR was limited to awareness raising activities, it started to concentrate on the dissemination of more hardened forms of CSR in 2005 after the initiation of AVE/GTZ and Jo-In projects in Turkey. Moreover, İTKİB also developed close relations with WRAP, BSCI and SAI. Accordingly, the buyers, external monitoring and certification schemes and İTKİB have been among the main agencies which drive the process for the integration of Turkish suppliers into the nongovernmental systems of regulation in Turkey.

On the other hand, it can be argued that there has been achieved a consensus between sector organizations and trade unions in Turkey in 2000s in terms of

competition strategy. In addition to supporting the sector organizations' quest for developing Turkey as a full-package supplier country and uniting with employers against government policies diminishing the competitive advantage of Turkey, the trade unions also concentrated on CSR for the protection of employment and betterment of working conditions against the pressures exerted by the East Asian countries. Bringing the issue into the fore in early 2000s, the trade unions began to highlight the labour standards as an alternative to the classical competition strategy based on wage cost in order to climb up in the value chain. In this regard, the primary reference point of the trade unions was the European standards. However, starting from the mid-2000s, Turkish trade unions also began to integrate into the nongovernmental systems of regulation and utilise appeal and complaints procedures especially in the case of violation of the freedom of association by the suppliers as a strategy. Paradoxically, while the integration of the manufacturers into the supply chains reinforced the informalisation of the workforce, the same process also provided the trade unions with instruments to defend the right to organize. However, while the trade unions in Turkey support the nongovernmental systems of regulation since they bettered the working conditions and provided the labour with new strategies in a period of time when the government was reluctant to enforce the regulations, it should also be noted that the unions are rather critical about the privatized systems of regulation and in favour of more socialized efforts in which they can actively participate in the monitoring process.

On the other hand, unlike the western countries, the roles of intergovernmental organizations (except the EU), government institutions, social movements and NGOs have been quite limited in the proliferation of voluntary labour standards in Turkish textile and apparel industry. Firstly, in respect to the role of the intergovernmental organizations in the proliferation of voluntary labour standards in Turkey, the UNDP played a key role in the dissemination the GC. However, the compact did not receive enough attention from the industry. On the other hand, the UN agencies are about to initiate a large project for the dissemination of labour standards among the SMEs functioning in the textile and apparel sectors. Secondly, in addition to the weaknesses of the governmental mechanisms to enforce labour

regulations, the nongovernmental mechanisms of regulations have been also widely neglected by the Turkish government. In contrast with the countries such as USA, UK and Germany in which the state encourage the development of social responsibility certification schemes through laws and financial support, the only initiative state institutions have been involved in Turkey has been the Capital Markets Board's establishment of Corporate Governance Principles. In this regard, while the Undersecretary of Foreign Trade's strategy and support to the dissemination of nongovernmental systems of regulation are evident in İTKİB's activities, this situation can be explained in reference to the strategy of the governmental institutions for not directly involving in the CSR agenda. In this regard, governmental institutions' stance has been to leave the CSR issues to the private sector, as any kinds of regulations in this regard are claimed to render CSR not different from any governmental sanctions.²⁸⁶

Finally, in respect to the NGOs and social movements, while the human rights, environmentalist and feminist movements provided support to the trade unions in their struggle for the betterment of the labour standards and involved in some campaigns against the devastating working conditions in different sectors including apparel, all of these initiatives mainly targeted at the governmental regulation and resulted in the legislative change at best. It can be argued that the inability of the social movements to undertake naming and shaming campaigns and other protests against the textile and apparel companies stemmed from the huge amount of unregistered economy and widespread utilization of subcontracting activities which rendered it difficult to expose the relationships between the workers and employers and employers and buyers. Moreover, as the production in many apparel manufacturers is primarily carried out for foreign brands which are not sold in the domestic market, this situation rendered the consumer boycotts as a strategy to be utilised in Turkey impossible. On the other hand, beside the employer associations, some of the NGOs also involved in CSR activities in collaboration with the private

²⁸⁶ CSR Turkey, "Turkey Corporate Social Responsibility Baseline Report," (First Draft: October 2009), 10.

sector. However, except from the ISO-TGSD certification initiative, none of those targeted at the betterment of labour conditions in Turkey.

In short, despite the EU integration process resulted in the betterment of labour legislations in Turkey to an extent while serving for the informalisation at the same time, it has been the weaknesses in the enforcement of the governmental regulations which primarily led to an environment in which abiding the law becomes 'voluntary' rather than 'compulsory' for the companies. In this context, the interrelated processes of trade regulations of the EU, fierce competition resulting from the elimination of quota restrictions, rise of labour standards as a regulatory mechanism in trade relations and integration of Turkey as a full package supplier to the global value chains played key roles in the proliferation of the voluntary labour standards in Turkey. While the employer associations which only represent the registered sector and those companies which adopt voluntary labour standards continue their support for the governmental regulation in this context, it has been the buyers, export oriented sector organizations and privatized regulatory institutions such as AVE/GTZ, BSCI and SAI which drove the process on behalf of capital. On the other hand, it has been collaborative and socialized institutional arrangements including FWF and CCC as well as national and international trade unions which drove the process on behalf of the labour. In this regard, whereas the export oriented organizations' strategy has been to promote labour standards in order to enhance competitiveness of the industry, the trade unions' strategy has been to appeal these standards in order to be organized. On the other hand while trade unions and sector organizations increasingly integrate into the international nongovernmental systems of regulation, lack of support provided by the NGOs, social movements and government on the betterment of working conditions through voluntary labour standards and inability of establishing multi-stakeholder initiatives in Turkey as well as the peculiar characteristics of the global value chains (the export oriented products are generally not sold in the domestic market, it is difficult to prove the relations between buyers and workers, etc) resulted in the inability to develop any domestic regulatory mechanisms such as worker complaint and appeal systems, monitoring schemes or nongovernmental sanctions such as consumer boycotts or

protests. In fact, a recent survey revealed that the apparel sector is the third mostly reputable sector in Turkey with an average of 7.2 out of 10.²⁸⁷ Moreover, in line with this level of reputation, only 6.5% of the participants to the survey deemed it necessary for apparel corporations to involve in the CSR activities. Accordingly, it can be argued that the betterment of working conditions through CSR in the Turkish textile and apparel sector largely depend on the course of contests and compromises between governmental institutions, NGOs, sector organizations, trade unions in the international realm. In this regard, the lobbying activities of trade unions and sector organizations as well as suppliers from Turkey also play a key role in determining the content of this course.

To sum up, there can be identified two main structural features which drove the process towards the shift of regulatory authority from public to the private institutions in the textile and apparel industry: the expansion of buyer driven value chain and the incapability of the traditional institutions to regulate this system. In this regard, the emergence of supply chains which are controlled by mainly the multinational commercial capital (retailers and brands) possessing the power to organize the labour processes in larger geographical scales without directly involving in the material production resulted in the handover of the burden of social reproductive needs of labour to the industrial capital mainly from the developing countries.²⁸⁸ Moreover, at the level of sourcing networks, the emergence of OBMs and OEMs specialized in more value-added stages of production also led to the emergence of multi-layered sourcing networks resting on imports from low cost locations. As the international regulatory order was devoid of institutions to regulate the flows of capital and equalize the labour standards, the race to the bottom resulted in a huge discrepancy between organized high wage labour markets and unorganized low wage labour markets. This situation revealed itself not only in the differences between low cost and high cost countries, but also in the differences between registered and unregistered sectors at the national scale as it was the case in Turkey.

²⁸⁷ S. Deren van Het Hof, Türkiye’de Kurumsal Sosyal Sorumluluk Üçgeni,” (Unpublished TÜBİTAK Report: February 2009), 42.

²⁸⁸ Cf. Gereffi 1994, *passim*. Cf. Merk 2008, *passim*.

All those factors intensified the conflict between different fractions of the capital in the EU countries and USA as well as Turkey.

On the other hand, the erosion of the constraining structures of the Fordist era, which resulted in the labour and human rights violations led to the growing demand from the civil society for the development of institutions to constrain the capital accumulation.²⁸⁹ The growing conflict between social movements and capital as well as different fractions of capital resulted in a search for new mediatory mechanisms to make the accumulation of capital compatible with social cohesion. In this context, the strategy of the industrial capital, western governments and trade unions has been to promote generalized systems of privatized, collaborative and socialized labour regulation schemes in order to regulate the system through equalizing the social protection and associated costs within the supply chains. This strategy also accorded with the strategy of leading brands and retailers within the commercial capital which have been forced to undertake the costs of betterment of the working conditions in their supply chains without guaranteeing the fact that their competitors also do the same. Moreover, emergence of these systems as a source of competitive advantage in the supply chains led to the apparel and textile exporters to embrace and promote these systems and strategies as a survival strategy.

Finally, it is crucial to elaborate the sustainability and effectiveness of the nongovernmental systems of regulation as mediatory mechanisms in respect to the strategies summarised above. In this regard, the nongovernmental systems of regulation are associated with a series of backlashes. Firstly, despite the collaborative and socialized systems of regulation provide a solution to the problem of the cost of regulation through creating collective institutions in which costs are dispersed among the members, it has not solved the so-called 'free rider' problem. In this regard, as it is the case in the customers of Turkish suppliers, in their sourcing decisions, the buyers tend to follow the leaders, who already invested on the betterment of the working conditions. This situation results in the overtaking of the

²⁸⁹ Cf. M. Aglietta, "Capitalism at the Turn of the Century: Regulation Theory and the Challenge of Social Change," *New Left Review*, 232 (1998), *passim*.

burden of investment on the workforce by the leader brands and suppliers. Moreover, the differences between codes of conducts and methods of monitoring in these systems result in differences between the labour standards which lead to the failure of these schemes to correspond the quest for equalization of the standards. In addition to those, as none of the codes of conducts specifies the level of remuneration or the value of side benefits needs to be provided to the workers but leave these issues to the requirements of national legislations, the disadvantage of high cost locations in terms of wage costs prevail. While this situation risks the compromise between governments, social movements, labour unions, industrial capital and commercial capital, the attempt to harmonize the standards in EU in general and Jo-In project in particular seems to pave the way for more hardened forms of CSR. In addition to those, most of the voluntary schemes such as certification and buyers continue to hand over the burden of betterment of the working conditions to the suppliers without guaranteeing the continuity of the orders. On the other hand, most of these schemes rest on regulation from above, without including the suppliers, workers and other local stakeholders in the code setting and monitoring process. This results in a gap between local necessities and the content of the codes which may even worsen the local conditions.²⁹⁰ Moreover, there is a growing discontent on behalf of suppliers stemming from the requirement of abiding the standards and paying their costs without involving in the decision making process.²⁹¹ All those risk the compromise between the buyers and full-package suppliers for the betterment of the labour standards to the extent that the standards do not guarantee the sustainability of the business relations and the consent of the suppliers is not secured. However, the proliferation of schemes resting on stakeholder dialogue, on the one hand, and the further integration of the CSR into the management strategy of the leading corporations on the other, seem to solve these problems to an extent. However, the only scheme which developed a programme for requiring the commitment of the buyers to the suppliers in terms of continuity of the orders has been the WRC up to now.

²⁹⁰ Jenkins 2001, 17.

²⁹¹ Interview 7CS.

Secondly, while the level of dissemination of the labour standards throughout the supply chains largely depends on the buyers, they can still regulate only those which are articulated into these systems. In this regard, the suppliers which are articulated into the nongovernmental systems of regulation tend to be in favour of governmental regulation to the extent that these voluntary systems do not have any enforcement power for those manufacturers which do not comply with labour standards. This situation is claimed to create price disadvantage for compliant firms as the labour standards do not equally weight in the supplying decisions of the buyers. On the other hand, the unregistered sector and SMEs which are loosely connected or not connected to the apparel value chains at all are completely left without any mechanisms to guarantee the labour standards.²⁹² Moreover, the inability of those firms to integrate into the supply chains because of the labour standards and their associated costs can even worsen the situation through marginalizing and excluding these firms further from the system. As such, the nongovernmental systems of regulation tend to reproduce the problems they embarked to solve.

Lastly, as these systems are voluntary and devoid of strict sanctions in case of non-compliance, everything seems to depend on the sustainability of the anti-sweatshop campaigns and the continuity of the popular interest on the subject matter in the western countries for now. Moreover, one of the most frequently cited shortcoming of the nongovernmental regulation is the risk they possess for challenging the legitimacy and efficacy of the unions and state regulations.²⁹³ In this regard, even if the international campaigns and collaborative systems resulted in the empowerment of trade unions in terms of organization, the fact that most of the brands suffice the establishment of workers councils in the supplier and subcontractor firms result in the exclusion of those from the terrain of struggle and dependency of the struggle to the strength of the pressure groups. Moreover, despite the fact that the codes of conduct either define the national legislations as the lowest denominator for the suppliers to adhere or include stricter provisions, they still possess the risk for

²⁹² Cf. Utting 2005, 18.

²⁹³ Cf. Jenkins 2001, *passim*. Cf. O'Rourke 2003, *passim*. Cf. Wick 2005, *passim*.

complete shift of the sanctions from state to market mechanisms. In this regard, while the nongovernmental systems fill the regulatory gap in case of weak government enforcement, they also possess the risk for further unwillingness of the governmental institutions to mobilise the resources for enforcing the legislation. However, it can be argued that this argument does not apply for Turkey to the extent that the nongovernmental systems rather serve for the retraction of the unregistered sector into the formal one in which the power of state enforcement is much higher.

Some of these weaknesses are attempted to be solved through hardening the regulatory tools of the CSR in the more socialized systems of regulation. In this regard, through incorporating the labour standards into the subcontracting and licensee agreements, the sanctions in case of non-compliance are made subject to the legally binding force, that is, hard law. Secondly, through empowering supplier companies, workers and other stakeholders from the local community in the standard setting and monitoring process, the consistency of these systems with local necessities as well as their legitimacy and effectiveness are tried to be ensured. Thirdly, through incorporating civic rights such as freedom of association, right to strike and right to collective bargaining into the codes of conduct, the trade unions are tried to be empowered in the supply chains. Fourthly, the withdrawal of orders from the non-compliant firms and the flight of the buyers from the local markets are prevented and the buyers are increasingly held responsible from the remediation process in their supply chains by many of the regulatory schemes and programmes in order to solve the problems of further marginalization of the companies with low labour standards and the transmission of the burden of labour costs to the producers.

Despite these efforts, the problems of generalization and equalization of labour standards still prevail for the non-governmental systems of regulation. In this regard, it can be argued that as the level of compliance of the companies to the labour standards increase, they tend to be in favour of collective regulation in order to ensure the compliance of their competitors in the market to the same standards. To the extent that there has not been able to be established any private collective institution possessing the authority for ensuring the standardization of codes of

conduct and their enforcement, the importance of governmental and intergovernmental institutions still prevail for regulation. On the other hand, while the role of western governments in the establishment of non-governmental systems, reliance of codes of conduct on national legislations and ILO conventions as well as the legal framework which guarantee or at least promote the CSR activities are taken into consideration, it can be argued that rather than replacing the traditional regulatory institutions, the non-governmental systems of regulation tend to supplement them in a period of crisis through extending the regulatory authority to the private sector and civil society.²⁹⁴ In this respect, as the debates on ‘social clause’ in the WTO and obliging and harmonizing CSR in the EU and the UN as well as in the Western countries continue, the complete integration of the CSR instruments into the governmental systems of regulation in order to regulate global value chains can be expected in near future.

²⁹⁴ Cf. Picciotto 2006, *passim*. Cf. Haufler 2003, *passim*. Cf. Jenkins 2001, *passim*.

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