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Brave new market

'China has the potential to become the biggest luxury goods market in the world.'

The glowing jade numbers flash up on the screen of the cash register: 615 Hong Kong dollars. Even with my poor grasp of arithmetic, I can work out that I'm about to pay less than £45 for two pairs of jeans, a leather belt and a sweater. And far from being a bargain-basement seconds outlet, the store where this transaction is taking place is part of a young, modern retail chain called Giordano, which resembles Gap in almost every respect – apart from the price.

I suspect my label-conscious new Hong Kong friends – who prefer Dior, Prada and Louis Vuitton – might sneer at the functional Giordano. But I rather like the idea of buying a brand of jeans that does not exist back home – we all have our own version of snobbery. In any case, it's a handy metaphor, as the conflict between cheap clothing from China and luxury labels from Europe will soon be played out on a much bigger scale, and it will have a profound effect on the future of the fashion business.

I'm in town for a luxury branding conference called The Lure of Asia, organized by the *International Herald Tribune*. Everyone who is anyone in the luxury business is here: Bernault Arnault of LVMH; Matteo Marzotto of Valentino; Umberto Angeloni of Brioni; Ferruccio

Ferragamo; Ralph Toledano of Chloé; Santo Versace. . . I could go on. The doyenne of fashion journalism, Suzy Menkes – who is hosting the two-day event – describes the line-up as 'brand royalty', and she is by no means exaggerating.

So what has brought these busy, glamorous chief executives all the way from Europe to Hong Kong? What's the big attraction? Well, let's just say it's no coincidence that this chapter begins with an image of a cash register.

Even more than Shanghai, Hong Kong is considered the gateway to the most important emerging market for luxury brands. There are others, of course, contained within the acronym the fashion industry uses to describe its juiciest targets: BRIC – Brazil, Russia, India and China. But it's telling that, during a conference that is supposed to be identifying opportunities for luxury brands in Asia as a whole, everyone wants to talk about China. Trade barriers have been lowered and the rule that required foreign companies to partner with local businesses has been scrapped, leaving the market wide open. Dickson Poon, the Hong Kong entrepreneur who owns Harvey Nichols, says, 'China definitely has the potential to become the largest luxury-goods market in the world.'

With a population of 1.3 billion and an ever-growing middle class, China makes retailers' pulses quicken and their palms sweat. Poon says that the number of Chinese with the wherewithal to buy mid-priced consumer goods has reached 300 million. The market is already worth an estimated US$550 billion. The new wealth is clustered around Beijing, Shanghai, Guangzhou and Shenzhen; but there are also rich citizens in so-called 'second-tier' cities such as Chengdu, Dalian and Shenyan. And these people frequently travel – not only to Hong Kong, but also further afield. In Paris, luxury stores are advertising for sales assistants who speak Mandarin. China, effectively, is the new Japan.

While retail developments are undoubtedly progressing apace in Shanghai – notably the luxury emporium Three on the Bund – Hong Kong's lust for upmarket brands is dizzying. The fear that accompanied the SARS outbreak in 2003 was nowhere to be seen when Dior opened its two-floor flagship store in Hong Kong the following year, fireworks popping over the heads of local VIPs. Not a sign, either, of the gnawing doubt that lingered after the handover to China in 1997. Today, Western brands cluster around classic Hong Kong shopping districts Causeway Bay and Central like bright tropical fish nibbling a coral reef: Armani, Prada, Jean-Paul Gaultier, Chanel, Louis Vuitton, Hermès, Tod's. On the waterfront, the soaring IFC (International Finance Centre) is the location of the revamped Lane Crawford, venerable Hong Kong department store turned superbrand paradise.

The fashion titans are using Hong Kong as a base for their push into mainland China. Armani plans to open up to 30 new stores in China by 2008. Prada is reportedly investing US$45 million in the country, opening at least 30 outlets. Louis Vuitton has long been committed to the market. During the *IHT* conference, LVMH chairman Bernard Arnault said, 'We believe we can double in size and profitability over the next five years, because we have taken time to invest in markets with potential.'

Smaller designer brands have also begun looking hopefully at China. In November 2004, a group of French designers including Stéphanie Coudert, Anne-Valérie Hash and Marc Le Bihan embarked on a mini trade delegation to Beijing, with an eye to 'raising their profile and making contacts'. ('*La Chine recrute*', *Le Figaro*, 30 November 2004.)

China is particularly attractive to elitist brands, because its consumers have not yet developed the cynicism that is beginning to infect shoppers in the west. Bernard Arnault believes China's middle class identifies with European notions of luxury: 'European products still make people dream, whether it's fashion and fancy leather goods from France and Italy, wine and spirits from Bordeaux, Cognac and Champagne, or whisky from Scotland. People from all around the world still flock to the beaches of the Riviera and the slopes of the Alps.'

The Economist notes, 'In China, attitudes to luxury have changed dramatically from just a few years ago, when any form of ostentation was frowned upon. Today's Chinese, above all, love to flaunt their status. . . [They] favour prominent logos that shout, "Look, I'm rich."' ('Luxury's new empire', 19 June 2004.)

When I compliment a friend's charm bracelet over dinner, she tells me not merely that it is 'vintage', but specifically that it is 'vintage Céline'. During the same evening, I ask a group of people if there's a sport that Hong Kong citizens enjoy above all others. They answer in unison: 'Shopping'.

A PROMOTIONAL TIGHTROPE

The likes of Armani, Prada and Vuitton are by no means the first Western brands into the Chinese market. Pierre Cardin has been selling branded goods in China for years, having organized the first fashion show in Beijing in 1993. Hugo Boss opened its first store in 1994 and now has more than 60 outlets there. At a different level, Etam has no fewer than 1,200 points of sale. Esprit, which started life as an American brand, is now headquartered in Hong Kong.

A similar story lies behind a brand called Ports 1961. Unlike Esprit, it is little known in Europe, but it's very familiar to the Chinese. Launched in Canada over 40 years ago, the brand hit hard times in the 1980s, when it was bought by a Hong Kong family. It is now one of the most popular fashion outlets in China, with stores in all major cities.

Alfred Chan, managing director and CEO of Ports Design, has a realistic view of the market. 'China's per capita income is less than US$200 a month in cities – much less in rural areas,' he observes. 'Many of our customers regard our products as a "once-in-a-lifetime" purchase. For this reason, it's very important that we spread the message of the brand as widely as possible.'

This is no easy task. Ports runs poster and print campaigns featuring international supermodels, but fashion magazines in China have a circulation of around 100,000, which, as Chan points out, 'is a drop in the ocean in a market of this size'. So, alongside these activities, it sponsors television broadcasts that some Western consumers might regard as sexist and out of date – tacky, even. The Miss Universe China competition, for example, featured prominent Ports branding. Think what you like about this, but the broadcast reached 25 million viewers.

Dickson Poon agrees that marketing to Chinese consumers is tricky: 'Irrespective of how liberal China may be with its financial reforms, I believe it will maintain strong control over the press and the media for a long time to come. This means. . . one will not be able to buy into the market through effective and appropriate advertising. Therefore, even if the market may not yet be totally ready, the opening of shops may still be the best way to introduce and to educate the Chinese consumers about the image, lifestyle and products of a luxury brand.'

He points out that the Chinese are no strangers to luxury goods: 'Excavations have uncovered gold pendants and earrings dating back to over 3,000 years ago, and luxury products from China, such as silk, would travel west on camel caravans via Persia as early as the seventh century.'

Handel Lee, co-chairman of Three on the Bund in Shanghai, suggests that, with this in mind, approaches to shopping in China are different from those in the west. In his view, 'Aspiring Chinese do not necessarily embrace the ways [foreign] retailers are presenting themselves: it is too formulaic, too condescending. That's why we've designed our space as a sort of art gallery, displaying fashion items as beautiful objects. We're not overtly trying to get our customer to buy an item – we encourage them first to look at it, savour it, and appreciate it. We believe they'll buy something not because of the superficial satisfaction of the label, but because they are in some way touched by it.'

And quality will not go unnoticed. It's worth remembering that the Chinese are skilled at producing fake versions of luxury goods that are, at least to an untrained eye, indistinguishable from the real thing. (For more on this, see Chapter 20: The faking game.)

Simple respect for cultural differences can pay dividends. Recalling his first forays into a similar market, Japan, in the early 1980s, Paul Smith recalls, 'Many people were going into Japan during that period, but their attitude was generally disrespectful. But I went there, personally, and I loved it. I got involved in the culture, I opened an office there. . . and my business was successful because I was good at communicating. We've been in Japan since 1984 and now we have 200 shops there and wholesale sales of £161 million.'

It would certainly be foolish to patronize Chinese consumers, no matter how brand-crazy they might seem. Nike came unstuck with a television spot featuring basketball player LeBron James laying waste to an array of animated combatants, including a white-bearded kung fu master and a pair of dragons – considered sacred figures in China. Chinese regulators banned the ad, saying that its depiction of violence against cultural symbols 'caused great anger among viewers' and that Nike had violated broadcasting rules with its 'blasphemous' disrespect for 'national dignity and Chinese culture'. ('Nike kowtows over LeBron ad in China', *New York Post*, 10 December 2004.) Given the apparent sophistication of Nike's marketing department, it's surprising that they did not see this coming.

Nike, Adidas and Reebok are pushing hard in China in the run-up to the Beijing Olympics in 2008. But Western companies can also assume they will be in competition with home-grown brands. One of Nike's greatest rivals in China is Li-Ning, which sells US$200 million worth of sports shoes a year. It takes its name from its founder, Li Ning, a former gymnast and winner of several Olympic gold medals. Its scything logo is as dynamic as the Nike Swoosh, and its slogan is 'Anything is possible'. Its advantages are that it is a trusted local brand, and that its products are not beyond the pocket of the average Chinese consumer.

In response to the influx of foreign names, Li-Ning has started producing Nike-style products such as the Free Jumper, boosted its investment in marketing, and recruited Chinese athletes for endorsement campaigns. Abel Wu, Li-Ning's marketing director, comments, '[Western brands] have a good image. They have lots of sports stars as sponsors. However, they don't know how to survive in these tough conditions.' ('China shoe firm tries to fit in at home', *Los Angeles Times*, 1 January 2005.)

FROM CHINA WITH CLOTH

Just as sweeping changes to trade regulations have given Western fashion brands unfettered access to China, they have also allowed Chinese textile merchants to import their goods to Europe in even larger quantities than before.

Midnight on 31 December 2004 saw the end of the 30-year-old Multifibre Agreement, a quota system maintained by the World Trade Organization to protect textiles industries in developed countries from overseas competition. China, with its huge supply of cheap labour and easy access to raw materials, was already the world's biggest exporter of textiles before the scrapping of the agreement. Ironically, investment from Western brands has enabled its factories to modernize machinery, increase output and experiment with desirable new fibres. Euratex, the European Apparel and Textile Association, says that since China became a member of the WTO in 2001, imports have soared and prices have plummeted. Now China threatens to dominate the world market, increasing its share from 20 per cent in 2002 to as much as 50 per cent before the end of the decade. India, another large textile producer, also stands to benefit from the end of the quota system, but the change may be devastating for producers in smaller markets, notably Bangladesh

– previously a frequent recourse for importers when India reached its quota limits – Poland and Turkey.

Shortly after the Multifibre Agreement ended, the Chinese government attempted to calm the situation by saying that it would impose its own taxes on exports, charging by volume. This would lessen the bulk of material coming out of China, while ensuring higher quality.

In the meantime, China's competitors would do well to play the quality card. For the time being, the label 'Made in China' does not exactly equal prestige, either in terms of fabric or design. The standards of the latter are set to change, however; several sources in Hong Kong told me that China was luring talented young designers from fashion schools in London and Paris with the promise of a bountiful job market. It may not be long before China is producing its own designer brands.

For Western fashion companies, the situation benefits only those with the strongest brands. Mid-market chain stores are feeling downward pressure on their prices, thanks to the increased availability of cheap merchandise in the form of cut-price casualwear sold in supermarkets. Upmarket labels, however, can continue charging high prices for their name and logo, while reaping the rewards of higher profit margins. At the top end of the market, luxury brands will continue to emphasize their use of local 'artisans' and the finest materials. In other words, they'll employ the same brand-positioning techniques that they'll use to seduce a new generation of rich Chinese consumers.

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The faking game

'The biggest factory of fakes in the world.'

There are two good reasons to visit the Temple Street night market in Hong Kong. The first is the steamed prawns with garlic sauce and fried noodles at the Tak Kee Seafood Restaurant. The second is to marvel at the vast array of counterfeit branded goods on sale (without actually buying any of them, of course). Bags bearing the Louis Vuitton monogram and the Burberry check are everywhere: lined up in neat rows on aircraft carrier-sized trestle tables, or hanging from hooks on fences of wire mesh. There's plenty of Dior, too; not to mention Gucci, Fendi and Coach. When I finger some 'Omega' watches on one stall, a young man hands me a ring-binder full of photographs – a catalogue of fake luxury timepieces.

There are other markets like this in Hong Kong – and, indeed, in other major Chinese cities – where Western visitors snap up copies of luxury goods, half-hoping that they might pass muster back home. They see it as a bit of fun, one of the obligatory tourist experiences. In the past, I doubt that the sight of all these fakes would have bothered me. The trouble is that, just a few hours earlier, I'd been listening to some of the leading names in the luxury market debating how to stamp out counterfeiting.

The global counterfeit goods market is worth €500 billion a year, according to the International Chamber of Commerce. Interpol puts the figure at US$250 billion. (Both sums are based on what the goods would be worth if they were sold at full retail price.) And the problem is growing. In 2002, investigators seized 85 million articles in the European Union alone. A year later, the figure had topped 100 million.

It's thought that between 80 and 90 per cent of all the world's fakes are made in China. Luxury brands are watching closely for concrete proof that the Chinese government intends to back up its promises to stamp out counterfeiting. Judging by my visit to the night market at Temple Street, any existing crackdown hasn't yet begun to bite.

The previous morning, at the *International Herald Tribune*'s luxury branding conference, I'd heard LVMH boss Bernard Arnault confirm that crushing the counterfeiters is one of his group's biggest challenges. Louis Vuitton has its own anti-counterfeiting squad, and in conjunction with various police forces around the world it claims to have staged more than 4,000 raids in 2004, leading to almost 1,000 arrests. It spends an estimated €15 million a year on its copyright protection efforts.

Arnault stated, 'Counterfeit goods now represent 10 per cent of world trade. Such fakers live off the hard work and creativity of others. As well as working with the police to stop counterfeiting at its source, we are calling on [the media] to send out the message that when you buy a counterfeit product, you are funding crime, misery and hardship.'

As the traditional home of luxury goods, France has long been a victim of the counterfeit trade. Associations such as the Union des Fabricants, established way back in 1877, and the more recent Comité Colbert, founded in 1954 (its glittering list of members runs from Baccarat through to Yves Saint Laurent), have battled to raise international awareness of the problem.

It seems ironic that China, the country that luxury brands so dearly want to penetrate, is causing them such a headache. But in developing countries, high import taxes encourage the production of fake luxury goods. And by marketing their products to consumers who can't afford them, the brands themselves may be exacerbating the problem. A familiar conspiracy theory suggests that, while brands are forced to tackle counterfeiting, they are secretly aware that it has certain advantages: it means that their logo carries a cachet, and the fakes act as moving billboards, all the while provoking a desire for the real thing. This comment is only ever whispered.

During the conference, Tan Loke-Khoon, international partner at the legal firm of Baker & McKenzie – which helps brands to combat the theft of intellectual property – said, ‘Counterfeiting can tarnish the image of a brand for ever. Companies need to factor the cost of fighting fakes into their businesses. They also need a strong long-term strategy.’

He described China as ‘the biggest factory of fakes in the world’. Counterfeiting had not been a small-scale business for some time, he added. Sometimes, the same factories that produced legitimate branded goods during the day would pump out copies after hours. This rise in expertise has led to the ‘super fake’, an item almost identical in quality to the real thing. He went on to say that investigators frequently went missing.

Apart from the tourists in places like Temple Street, who’s buying all these fakes? Not all the purchasers live in developing markets. According to a report by the WGSN News Service (‘Counterfeiting and luxury goods’, 20 October 2004), Italy is a major market. The Italian consumers’ association Intesa dei Consumatori says the country consumes an annual €3.13 billion worth of fake clothing and footwear. Luxury brands have occasionally sent teams to airports to warn travellers that they will be fined if they return with fake branded goods. But Italy is a production centre, too; counterfeit items made up 20 per cent of all clothing produced in Italy in 2003.

Consumers of fake goods are occasionally innocent dupes. In markets where brands have their own stores, this is rarely the case. In countries where items are sold by third parties, there is less certainty that shoppers are getting the genuine article. But the truth is that most purchasers of fakes know exactly what they’re doing.

Interpol says counterfeiting is generally perceived by society as a victimless crime. And it’s true that buyers of fakes are often proud of their acquisitions, having got one over on Big Brand. They see it as a form of bargain-hunting. Interpol would disagree, as it says professional counterfeiters belong to criminal organizations that are involved in drugs and prostitution, and may be funding terrorist groups.

The United States has a big problem with counterfeit goods. According to the International Anti-Counterfeiting Coalition in Washington, DC, fakes cost the country’s businesses US$350 billion in annual sales. There have been frequent raids on New York’s Canal Street, which resembles a black-market bazaar. And yet any visitor to the city will see fake Burberry scarves and Prada bags spread across the sidewalk on blankets, which are swiftly bundled up and whisked away when a cop appears. Such scenes normally take place just a few blocks away from Barney's or Bergdorf Goodman. Elsewhere 'purse parties' have replaced Tupperware parties as a leisure pursuit, with women buying counterfeit bags from dealers and selling them in suburban homes at a profit.

The internet has been a boon for fakers and their customers. As well as sites aimed at those who are looking specifically for fakes, goods are traded over e-commerce and auction sites. Research from internet monitoring company Envisional suggests that, of all spam measured worldwide, 23 per cent relates to the sale of counterfeit goods.

WGSN says counterfeiters have devised various elaborate ploys to send fakes through the mail undetected. One involves camouflaging counterfeit Louis Vuitton bags with zip-up vinyl covers, which can be removed when they reach their destination. Mostly, though, rip-off goods arrive in bulk. In May 2004, Italian customs investigators found 9,000 fake Nike shoes (around €800,000 worth) on a Chinese container ship.

What all this highlights, of course, is the pervasiveness of branding in fashion. Heavily logo-ed items, such as bags from Coach, Gucci, Burberry and Louis Vuitton, seem to be begging to be copied. It's much harder to fake a Bottega Veneta bag, whose authenticity is announced via its supple woven leather rather than any visible logo. (Indeed, the brand's marketing mantra is 'When your own initials are enough'.) Louis Vuitton claims that it seeks to stay ahead of the fakers through constant product innovation, but only a customer with the highest degree of loyalty could keep track of every single model it releases.

The prevalence of fakes is one – although by no means the only – factor that is nudging fashion away from logos. Rather than making any Naomi Klein-inspired gesture, the self-proclaimed stylish have eschewed branded products simply because they are afraid of looking cheap.

For a real fashion snob, God now lies in the details that only initiates can detect. Martin Margiela's labels are simply numbers, although each signifies a specific line. Udo Edling's jackets are identifiable to aficionados via a series of visual codes: one pocket (on the right), darts above the shoulder blades, and the reverse of the collar in Alcantara microfibre rather than in felt (a different colour each season). Let the mass brands and the fakers play their games, these designers are saying to their customers; we'll just keep ourselves to ourselves. Despite the migration of 'luxe' to 'mass' – and vice versa – fashion is still not entirely democratic.

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Behind the seams

'The shops always need to be full of new designs.
We pull out all the stops to meet the deadline.'

The possibility that their factories in developing markets might be knocking out fakes on the side should be of minor concern to the fashion brands, in the light of a more serious problem. When I told a friend that I was going to write a book about fashion, he asked, 'So what's the angle – gorgeous models; or underpaid women in sweatshops?'

Although the labour issue has been discussed ad infinitum, it is one that no writer on fashion can afford to ignore. Those who have gone before me have done a good job; brands are so worried about the PR repercussions of the word 'sweatshop' that they now have extensive 'codes of conduct', designed to reassure their customers that they are closely monitoring the situation.

The reality is far from edifying, as two separate reports from the anti-poverty and aid organization Oxfam suggest. The original exposés of exploitative labour practices at the end of the 1990s particularly targeted the sportswear companies. Nike and its rivals have since worked hard to give the impression that they are tackling the issue. But Oxfam's report *Play Fair at the Olympics* (www.fairolympics.org) is unequivocal: 'If labour exploitation were an Olympic sport, the sportswear giants would be well represented among the medal winners. Whilst the industry can boast its commitment to some impressive principles, enshrined in codes of conduct, its business practices generate the market pressures that are in reality leading to exploitative labour conditions.'

As with the counterfeiting problem, the labour controversy has been caused by the brands' own marketing strategies. The voracious, constantly changing nature of fashion means that it does not lend itself to heavy mechanization, because the costs involved in updating the machinery would be untenable. What fashion boils down to, then, is lines of women at sewing machines: lots of them. In China's Guangdong province, one of the world's fastest-growing industrial areas, Oxfam claims, 'young women face 150 hours of overtime each month in the garment factories – but 60 per cent have no written contract and 90 per cent have no access to social insurance'.

In Oxfam's report on sportswear, not one of the major brands escapes criticism. In the second report, the garment industry as a whole is eviscerated. Two quotes from *Trading Away Our Rights: Women Working in Global Supply Chains* (www.maketradefair.com) bring the situation into sharp relief. One is a comment from a production planning manager at a factory in Morocco: 'The shops always need to be full of new designs. We pull out all the stops to meet the deadline. . . our image is on the line.' The result, according to Oxfam's report, is a seven-months-pregnant girl working ten hours a day, 'and as she has to make a lot of pieces per hour, her employer won't let her go to the toilet'.

The reports can be dismissed as anecdotal, but they have a ring of truth. At the head of the supply chain are a handful of global, marketing-led fashion brands under pressure from their shareholders to increase sales. The brands have in turn educated consumers to expect a fast turnaround of high-fashion, low-priced garments. With fashion cycles shortening and the demand for new items rising, the brands put pressure on their suppliers to deliver to increasingly tight deadlines. The exigencies of the clients are pushed back down the chain to the workers.

Over the past decade or so, the falling cost of sea and air transportation has made it practical for retail brands to delocalize production to Asia. In turn, Asian governments have lured foreign investors with promises of tax exemptions, investment allowances and union-free workforces. Advances such as the internet and barcode-driven stock control have drastically improved communications and efficiency. As Oxfam explains, 'When consumer purchases are tracked by barcodes, retailers can automatically re-order just enough products, just in time for restocking their shelves. . . With this just-in-time response comes the pressure on producers to deliver smaller orders, in less time, and according to tightly planned shipping schedules – or face fines for delays.'

Oxfam adds that, while brands are heeding demands that they eradicate labour exploitation, their own business methods limit the room for manoeuvre. In their quest for the cheapest and most efficient suppliers, and their desire for flexibility, they keep contracts short. Thus there is no sense of partnership or evidence of commitment. This encourages factory bosses to cut corners by insisting on unrealistic overtime, or by subcontracting work to other, less reputable suppliers.

The sportswear report quotes a Sri Lankan supplier to a major US sports-shoe company: 'I wish there was a system of compliance the other way around, that is to say a) buyers do not relocate orders to other suppliers based on a five to 10 cent difference in unit price; and b) that loyalty should be a two-way process – if we suppliers are compliant and open to meeting labour standards, than we should receive consistent orders.'

The charity admits that some leading brands are trying to address this apparent dichotomy. But, even with the best will in the world, codes of conduct are tough to enforce. Oxfam believes that suppliers, in their desperation to win and keep contracts, frequently conceal the true nature of their operations from visiting inspectors. Bosses bribe workers to lie about conditions, keep double payrolls, falsify timesheets and generally carry out a superficial clean-up of their factories before visits.

Finding and monitoring 'clean' factories in Asia for Western firms is becoming a métier in itself. Even before I'd approached Oxfam, a source at Zara told me, 'Suppliers are monitored very closely, with regular inspections to ensure that they conform to our standards. But there's always a nagging worry that you might not be seeing the full picture.'

Zara produces the bulk of its clothes at its own Spanish factories, but it sources basic items from external suppliers. According to its 2003 sustainability report, 30 per cent of its clothes are made in Asia, 5 per cent in North Africa and 3 per cent in South America. It hires social auditors to ensure that its factories comply with its code of conduct. They visit each factory and its facilities, closely question managers, and hold private interviews with employees. If breaches are detected, contracts are suspended.

H&M, the other 'fast-fashion' brand, employs 30 full-time 'code of conduct inspectors', who can drop in on its factories, unannounced, at any moment. The company believes that this is the most effective way of encouraging its suppliers to stick to the rules. Here's a quote from its social responsibility brochure (available at www.hm.cm/sr), which was handed to me on my visit to its headquarters: 'Before the Code of Conduct was produced, H&M's requirements were written on our order sheets. Unfortunately, a number of suppliers did not always bother with the finer points.'

H&M drew up its code in 1997, basing it on the UN Convention on the Rights of the Child, as well as on International Labour Organization (ILO) conventions. The brochure says, 'Child labour was an important issue to deal with – even though it was rare in the factories. . . H&M drew up its Code of Conduct. . . partially on the basis of consultation with Save The Children.' It adds, 'If the company discovers underage workers at the same factory or any of its subcontractors more than once, the cooperation is terminated immediately.' According to the document, an 'underage worker' is less than 15 years old.

Ingrid Schüllstrom, responsible for social responsibility at H&M, is also quoted within the brochure's pages: 'We needed more concrete efforts and active work on the part of H&M [at the time the code was created]. . . We have already made excellent progress. Now it is a matter of working on more specific and complex issues such as union rights.'

Unions are a sensitive area for Western brands, particularly in China. An organization called China Labour Watch is battling to make workers more aware of their collective rights, which it says are often provided for by government legislation but ignored by factory bosses (www.chinalabourwatch.org). Protests over pay occasionally lead to rioting.

But, with China set to become the world's dominant supplier of textiles, there are hopes that both wages and working conditions will improve. An article in *Le Figaro* ('*L'usine Chine tourne à pleine régime*', 14 December 2004) quoted Nicolas Giannoli, director of Quiksilver in China, as saying, 'We pay a great deal of attention and, in China, you won't find the problems that you do in India and Bangladesh.' The article adds that the increasing importance of China will prompt Western firms to delocalize large chunks of their head-office operations there, in order to get closer to suppliers and maintain greater control. 'Only the design and the marketing will stay with the Europeans,' opines Gianolli.

Already, most Western fashion and sportswear companies are not apparel manufacturers, but apparel marketers. Behind the familiar brand names are lesser-known supply-chain management companies such as Li & Fung (Hong Kong) and Makalot Industrial Co. Ltd (Taiwan), which co-ordinate the production of garments and footwear for their more famous clients. In order to arrive at the cheapest solution, these companies often dissect the manufacturing process, so that one item may pass through a number of different factories, and even several countries. To quote Oxfam, 'The company may, for example, source fibre from Korea, dye and weave it in Taiwan, buy zips from China, and send it all to Thailand for assembly.'

Today, if you're wearing a global brand, it may be just that.

SWEATSHOP-FREE CLOTHING

Bernard Arnault of LVMH has a low opinion of mass production; or, at least, of fashion brands that use mass production techniques but take on 'designer' airs. At the *International Herald Tribune*'s conference in Hong Kong, he said, 'We can see several companies trying to mix an image of luxury with a mass-market approach. In order to be able to sell a product at a relatively high price, you have to offer the craftsmanship and quality that goes along with it. There's an increase in products that have approximately the same look [as luxury brands] while providing a much lower standard. It's not counterfeiting, but it is misleading.'

Yet Louis Vuitton, also – albeit on a much lesser scale than H&M and Zara – has speeded up its production techniques to serve increased customer demand. Vuitton's marketing strategy, as we know, has been to introduce the short cycles of fashion into the previously static and timeless luxury sector. According to a report in *Le Monde*, the organization within its ateliers (the word 'factory' is frowned upon in the luxury sector) has been streamlined to improve productivity. Instead of using a long production line on which each task is compartmentalized, 'islands' of seven people are responsible for a single model. The idea, says the article, is that each member of the team eventually learns how to perform every assembly task. Whatever the strategy, the result is that the creation of a single bag, which took 25 days in 1995, now takes three and a half days. ('*Le renouveau du sac génère des emplois dans la maroquinerie*', 14 December 2004.)

Those in the know say that Louis Vuitton has one of the largest profit margins in the fashion business. But the article is keen to assert that, unlike other areas of the fashion industry, the luxury sector is creating employment in France. According to the Comité Colbert – the luxury-brand association – 12 factories opened in France in the period 2000–2005 to deal with the craving for upmarket wallets, purses and bags. Louis Vuitton, which employs 3,650 people in its ateliers – about a third of its workforce – has opened five new sites since 1999.

Hermès, also, is expanding in order to satisfy accessory addiction. At the end of 2004, again according to *Le Monde*, it opened new workshops totalling 5,400 square metres on its existing site in the Ardennes. These ateliers are producing the famous 'Birkin' bag. (The cult object was named after Jane Birkin, wife of the late French pop singer Serge Gainsbourg. It was created for her when she complained to Hermès boss Jean-Louis Dumas that she had never been able to find the bag of her dreams.) Hermès has a number of sites like this dotted around France. It also has agreements with local schools to fund the training of students in leather-working skills, providing workshops and machinery.

All this is a refreshing change from the murky world of the sweatshops – but it is at the same time disheartening. If Vuitton and Hermès are to be believed, they are among the few globally renowned brands providing desirable objects without exploiting underpaid workers. But they pass on this 'craftsmanship' to their customers in the form of high prices. Does this mean that political correctness is the preserve of the wealthy, and the rest of us have to swallow our pride in order to clothe ourselves?

Not necessarily. Enter American Apparel, the company that is, according to *The New York Times*, 'building a brand by not being a brand' (23 November 2004). Founded in 1997, American Apparel originally supplied plain and neat wholesale T-shirts to a range of US clients. Having relocated its factory from Mexico to Los Angeles, it began promoting its product as 'Made in downtown LA – sweatshop-free'. When it moved into retail in 2002, something about its bright, logo-free basics and anti-establishment stance struck a chord with consumers. Suddenly the company went into high gear, expanding across the United States and into Canada, Europe and Asia.

There have been other sweatshop-free brands – notably another US outfit called No Sweat – but American Apparel is the first that looks capable of becoming another Gap. There are a number of factors in its favour. One of them is its founder, Dov Charney, a fast-talking, extravagantly moustachioed entrepreneur who has deliberately made his droll 1970s persona part of the brand's appeal. Then there is the advertising: grainy, off-focus and provocative, featuring attractive young women in the brand's cute little knickers and tops. A man occasionally appears in the ads – more often than not, it's Charney himself. In fact, American Apparel has succeeded by being both politically correct and entirely politically incorrect at the same time. It makes doing the right thing feel pleasantly naughty.

The stores, too, hit the right spot. The minimalist white spaces, as well as being lined with T-shirts, underwear, abbreviated skirts and hooded sweatshirts, are photographic galleries featuring urban imagery from the 1970s, and snaps of beautiful rebels designed to inspire shoppers to get the look. The products have deadpan names like 'Baby Rib Sleeveless Crew', 'Classic Girl Flat Bottomed Panty' or 'Fine Jersey Leisure Shirt'.

The company produces a million units a week at its seven-floor garment factory in Los Angeles. It pays each of its 2,500-plus workers about US$13 an hour, well over the minimum wage. It claims that constant reinvention to create high customer demand, aligned with the sheer volume of output, make the profit margins practical. Charney explains to the press that his theory of 'vertical integration' – which brings designers, marketers, cutters, sewers and knitters together under one roof – reduces costs and improves quality control. He now shudders to recall the time when his factory was based in Mexico, where he was plagued by faulty phone lines and sub-standard equipment. 'It wasn't feel-good and it wasn't viable,' he told *The New York Times*. 'You think it makes you proud to pay someone forty dollars a week to make shirts all day? I spend forty dollars on a drink.' ('Sweatshop-free clothing industry growing in the US', 14 December 2004.)

In an earlier interview, with the trade magazine *Industry Week*, Charney argued that being closer to his customers enabled him to react more quickly, cutting down waste and saving money. 'People underestimate the cost of [going] off-shore. Instead of investing more money in R&D and investing money in innovation, a lot of companies find themselves putting an insurmountable amount of capital into financing the supply chain, because you need to constantly have stuff on the water and you need deeper inventories.'

He added that being based in Los Angeles made more sense because 'you've got to go to the top 5 per cent of kids that really set trends. You have to make products that they are going to want to buy two years from now or three years from now. And if you're going to focus on that, and then you're going to say, well I'm off-shore and I have this elongated supply chain and I want the cheap, cheap, cheap, you're going to lose that ability to be the trendsetter.' ('Home-run hitters', 1 December 2003.)

Perhaps due to his high media profile, Charney has occasionally attracted criticism – for instance, he's been accused of preventing his staff from joining a union. He denied the charges and pointedly slapped posters on the factory walls informing his staff that they were free to join the union whenever they liked. These stunts keep the company in the news, while at the same time expressing its flamboyant identity.

It's true that American Apparel's anti-corporate values have given it a handy marketing hook. But as the words 'sweatshop-free' continue to drive its worldwide expansion, other retailers have been forced to sit up and take notice.

ETHICAL FASHION

American Apparel, People Tree, Veja, Patagonia: brands that promise ethical working conditions, fair trade or the use of organic materials are becoming more prevalent, nibbling the market share of retail giants whose clothes are made by workers in developing markets. And the self-proclaimed capital of fashion has also become the location for the world's largest event devoted entirely to eco and fair trade clothing. The number of exhibitors at the four-day Ethical Fashion Show in Paris every October has grown from 24 designers in 2004 to well over 100 today.

The event was created by designer Isabelle Quéhé, who was inspired by a movie shot in Niger by her cameraman husband. '[It] featured a catwalk show by an African designer. I thought, well, Paris is supposed to be the capital de la mode, but we don't support anything like this, and we should.' ('Chic without the suffering: fashion displays its ethical face', *The Guardian*, 12 October 2007.)

Products on display at the show include fair trade jewellery from villages in China, hand-embroidered coats from Kabul and woven bags from Brazil. If all that sounds a bit neo-hippie, the event also attracts young designers who make clothes without using the chemical dyes and softeners that are so harmful to the environment. Another eco-friendly approach is to recycle clothing: the route taken by British designer Emmeline Child, who turns discarded and second-hand garments into unique new pieces.

At the 2007 Ethical Fashion Show, a group of consultants gathered to try and categorize the types of consumer who regularly bought 'ethical' clothing. They came to the conclusion that the market varied considerably in age and profile. The young – generally thought to be the most concerned about ethical issues – talked rather than spent. These 'ethno street' consumers were typified as the 'the "no" generation'. They seemed to be against everything, while offering no concrete solutions. Tribal in nature, they liked the idea of a 'global village'. They downloaded films and music illegally, while claiming to be part of the creative community they were short-changing. They poured scorn on big corporations, but many of them smoked and were not averse to the occasional Big Mac. And despite their penchant for piercings and tattoos, they were just as likely to shop at H&M as the next consumer.

In fact, older consumers were thought to be a more realistic target group for ethical brands. These ranged from women of a certain age who had discovered yoga and organic beauty products, to ecologically-aware middle class families. As well as being interested in 'fair trade' and organic products, this group had also become determined to support local goods and producers: hence their careful scanning of the 'Made in…' label. As they were concerned about climate change, they worried that importing clothing from cheap labour markets left a dirty great carbon footprint. Yet they also desired authenticity, looking for Shetland wool and Irish linen, for example.

Away from the speculation, it is certain that consumer interest in ethical fashion will continue to grow. Pop singer Bono was ahead of the curve when he started an ethical fashion label, Edun, with his wife Ali Hewson and the designer Rogan Gregory in 2005. The fair trade clothes are made in locally-run factories in Africa, South America and India.

A year later, Gap and Armani had signed up for Bono's Project Red collaboration – which encouraged brands to donate a percentage of their profits to helping women and children affected by HIV/AIDS in Africa.

Other mainstream fashion brands have added an ethical twist to their acts. Diesel pledged to cut down on the chemicals it uses to wash its jeans; and embarked on a company-wide drive to encourage its staff to save energy. Levi's added 100 per cent organic cotton jeans to its product line. The jeans had coconut shell buttons and their indigo finish was created by potato starch, mimosa flowers and Marseille soap. They were created in a separate section of the Levi's factory in Hungary, on machinery that complied with environmental regulations. The senior vice-president of Levi's product in Europe, You Nguyen, put the initiative down to the 'zeitgeist'. 'We found more and more consumers were making product choices based on the environmental and social impact. They were getting interested in apparel made using sustainable production methods, but they still wanted style and quality – it was no longer either/or.' ('Levi's launches green jeans', *The Guardian*, 24 November 2006.) The catch was that the jeans were pricey, retailing at around €120. Conscience comes with a price, which may explain why richer, middle-aged consumers are the ideal target for ethical fashion.

There are other problems, too. Those who work in ethical fashion say they are struggling with distribution issues. As *The Wall Street Journal* reported, 'Distribution of eco-fashion is broadening beyond catalogues and a few stores, now that big names from Barneys to Macy's are making a point of carrying eco-designs... Largely, though, eco-designers compete for floor space in stores with designers who aren't limited in their choice of materials or factories.' ('Green fashion: beyond T-shirts', 18 October 2007.)

The same article caught up with Rogan Gregory of Edun, who conceded the line hadn't sold as well as he'd expected. 'He faced a "laundry list" of problems: it was hard to find good organic cotton where the company needed it. It was impossible to create complex garments – or even cut a good fit – with the inadequately trained workers Edun focuses on. National infrastructure problems made transport and timely deliveries difficult.' Gregory said the company now had its 'head above water', but he confessed, 'It's hard enough to start a company, let alone do it with organic fabric and make it in Africa.' His comments may have persuaded consumers to support the brand, and others like it.

The other sticking point, as the *Journal* pointed out, is the foggy interpretation by brands of the terms 'ethical' or 'eco' fashion. 'Eco, green, sustainable… while you might expect the terms to mean the designers minimize harm to the environment or to workers, the terms are currently meaningless because there's no strictly guarded definition.'

Ironically, it may be that the best way to consume fashion ethically is simply to buy less of it.

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