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# Technical Paper No. 17

Global Value Chains, Local Clusters and  
Corporate Social Responsibility:

A Comparative Assessment of the Sports Goods  
Clusters in Sialkot, Pakistan and Jalandhar, India



Industrial Policy and Private Sector Development Branch  
Programme Development and Technical Cooperation Division

**Global Value Chains, Local Clusters and Corporate Social  
Responsibility:**

**A Comparative Assessment of the Sports Goods Clusters in  
Sialkot, Pakistan and Jalandhar, India**



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### PSD (SME) Technical Working Papers Series

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## **LIST OF ACRONYMS**

AA	Atlanta Agreement
ASGI	Association of Sports Goods Industries
BGMEA	Bangladesh Garments Manufacturers and Exporters Association
BLCC	Bunad Literacy Community Council
CETP	Common Effluent Treatment Plant
CIHT	Central Institute of Hand Tools
CLRI	Central Leather Research Institute
CPI	Cleaner Production Institute
CRRID	Centre for Research in Rural and Industrial Development
CSDO	Child and Social Development Organization
CSR	Corporate Social Responsibility
DFID	Department for International Development
EFP	Employers Federation of Pakistan
ETI	Ethical Trading Initiative
FIFA	International Association of Football Federations
FLA	Fair Labour Association
GVC	Global Value Chain
HEBI	Horticultural Ethical Business Initiative
ICN	India Commission of the Netherlands
ILO	International Labour Organization
IMAC	Independent Monitoring Association for Child Labour
IPEC	International Programme for Elimination of Child Labour
ISO	International Organization for Standardization
KTWMA	Kasur Tanneries Waste Management Association
NCLP	National Child Labour Project
NIT	National Institute of Technology
NLI	National Labour Institute
NRSP	National Rural Support Programme
OEM	Original Equipment Manufacturer
PILER	Pakistan Institute of Labour Education and Research
PRSP	Punjab Rural Support Programme
PSGA	Pakistan Sports Goods Association
PWF	Pakistan Workers Federation
SACCS	South Asian Coalition on Child Servitude
SAHEP	Select Anwar Khawaja Health and Education Program
SCCI	Sialkot Chamber of Commerce and Industry



SCF	Save the Children Fund - UK
SDC	Swiss Agency for Development and Cooperation
SEWA	Self-Employed Women's Association
SF	Sports Forum
SGEPC	Sports Goods Export Promotion Council
SGFI	Sports Goods Foundation of India
SGMEA	Sports Goods Manufacturers & Exporters Association
SGS	Société Général de Surveillance
SHG	Self Help Group
SICA	Soccer Industry Council of America
SME	Small and Medium-sized Enterprise
SMEDA	Small and Medium Enterprise Authority of Pakistan
SPF	Sialkot Programme Forum
TDAP	Trade Development Authority of Pakistan
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
UNIDO	United Nations Industrial Development Organization
UPE	Universal Primary Enrolment
WACAP	West African Cocoa and Commercial Agriculture Project
WFSGI	World Federation of the Sporting Goods Industry
WRC	Workers Rights Consortium

## **EXECUTIVE SUMMARY**

The purpose of this study is to investigate how the Sialkot and Jalandhar soccer ball clusters in Pakistan and India responded to the Atlanta Agreement (AA) between 1997 and 2007. The AA was a multi-stakeholder initiative developed to eradicate child labour from the supply chains of global sports brands. During the mid-1990s producers in both the Sialkot and Jalandhar clusters faced international media allegations that child labour existed within their respective clusters. In order to avoid an international boycott of soccer ball exports, especially from Sialkot, the AA was formulated. This involved negotiations between a wide range of stakeholders, including major sports brands, the World Federation of the Sporting Goods Industry, the Soccer Industry Council of America, the International Labour Organization, the United Nations Children Fund, Save the Children – UK, and the Sialkot Chamber of Commerce and Industry. The agreement, signed in Atlanta in February 1997, proposed two main activities. First, a cluster-wide child monitoring mechanism established to identify children involved in soccer ball stitching. Second, a social protection programme developed so that the child stitchers could be transferred from stitching to school while ensuring that they and their families did not suffer in the process. While the Jalandhar cluster did not play a role in the negotiation of the Atlanta Agreement, it adopted the AA framework as a blueprint for implementing a similar intervention in Jalandhar.

The response of the Sialkot and Jalandhar clusters to the AA can be divided into two main periods. First, an initial response between 1997 and 2003, and then a second period from 2003 onwards, when both clusters had to sustain their response to the AA without international donor support. In the years between 1997 and 2003, both clusters developed a child labour monitoring mechanism and a social protection agenda. However, there were some important differences. First, the Sialkot cluster began implementing the AA in 1997 whereas the Jalandhar cluster only started this process in 1999. Second, international actors, particularly the ILO, UNICEF and SCF-UK, were dominant in the implementation of the social protection agenda of the Sialkot cluster whereas national actors, particularly the Sports Goods Foundation of India, were responsible for implementing the social protection agenda in Jalandhar. Third, the social protection agenda was much wider in scope in Sialkot than in Jalandhar.

We believe that these observed differences can be explained by a variety of factors. First, the Sialkot cluster is much larger than the Jalandhar cluster and leading global brands in the sports goods sector, especially Adidas and Nike, source from Sialkot but not from Jalandhar. This means that the Sialkot cluster is much more on the radar screen of international media and labour/child rights organizations than the Jalandhar cluster. Hence, compliance pressures were greater in Sialkot than in Jalandhar, creating a need to respond more quickly in Sialkot. Another part of the explanation has to do with the Pakistani government's willingness to allow international actors, including the ILO, quickly to begin implementation on the ground in Sialkot. In Jalandhar, the Indian government refused to allow ILO-IPEC to conduct child labour monitoring and decided instead to allow a private sector company to undertake child labour monitoring within the cluster. Finally, the Sialkot cluster already had a strong tradition of collective action, institutionalized through the Sialkot Chamber of Commerce and Industry, which allowed the organization quickly to respond to the child labour allegations. The Jalandhar cluster did not have such a strong tradition, was torn by conflicts between different producer interests, and had to found a new organization, the Sports Goods Foundation of India, consisting of the cluster's leading exporters, before a coherent collective response could be implemented.

The period between 2003 and 2007 marked the end of international donor support for the implementation of the AA in both clusters. In Sialkot, the ILO, UNICEF, and SCF-UK withdrew from the cluster at the beginning of this period. Two new local organizations, the

Independent Monitoring Association for Child Labour, IMAC, and the Child and Social Development Organization, CSDO, were formed in Sialkot to sustain the monitoring mechanism and the social protection agenda respectively. In Jalandhar, the SGFI continued to implement its social protection agenda while the monitoring mechanism which had been handled by Swiss certification firm, SGS, with funding from FIFA, was taken over by SGFI as well.

In the post-2003 period, we again observe a number of similarities and differences between the two clusters. First, both clusters managed to sustain the child labour monitoring mechanisms. However, it appears as if potential monitoring capacity is greater in Sialkot than in Jalandhar if one looks at the number of monitors, frequency of monitoring, and radius covered by the monitors. At the same time, IMAC has a more independent profile, due to its multi-stakeholder board, whereas the SGFI is entirely controlled by local industry in Jalandhar. Second, the social protection agenda had been substantially downsized in Sialkot since 2003. The CSDO undertook only a limited number of activities, most of which were external donor funded and driven, and some of which were considered as not highly relevant to the local context. In Jalandhar however, the social protection agenda has been sustained at its previous level although this was much smaller than the social protection agenda implemented in Sialkot. More recently, in 2005, the SGFI entered into a cooperation agreement with UNIDO, and its social protection agenda has expanded substantially hence.

We interpret these differences across the clusters as resulting from various related factors. First, the presence of the megabrands and associated attention from the international media and labour/child rights groups as well as the Sialkot cluster's larger size make it necessary to sustain a potentially stronger monitoring mechanism in Sialkot than in Jalandhar, where producers are less in the international spotlight. The greater CSR compliance pressures felt in Sialkot also call for the development of a more independent profile for IMAC whereas the fact that many Jalandhar soccer ball exporters tend to operate below the radar screen of international advocacy groups appeared to provide sufficient space for the SGFI to assume full control of the monitoring mechanism in Jalandhar. In other words, the monitoring mechanism appears to be more embedded in the Jalandhar than the Sialkot cluster.

Our analysis of the post-2003 developments in both clusters suggests that there might be a trade-off between the independence and local embeddedness of cluster-based CSR initiatives. In Sialkot, outside CSR pressures appear to have been instrumental in facilitating the development of a potentially stronger and more independent child labour monitoring mechanism than in Jalandhar. In Jalandhar, where such pressures were less evident, it was possible for local industry to take full ownership of the child labour monitoring mechanism. Along with the SGFI's active involvement in the formulation and implementation of the UNIDO supported CSR cluster project in Jalandhar, cluster-wide CSR activities in Jalandhar seem more embedded within the Jalandhar cluster than in Sialkot. However, this comes at a price. Namely, that local industry can dictate the terms of cluster-wide CSR interventions in ways that do not affect their core business practices. In Jalandhar, CSR was thus largely institutionalized as philanthropy, as opposed to facilitating the compliance of local industry with national social and environmental legislation. We interpret the downsizing of the social protection agenda in Sialkot as a lack of ownership on the part of the Sialkot exporters for the social protection agenda of the Atlanta Agreement while the smaller scale of the initial social protection agenda in Jalandhar made it easier for local industry to sustain over time.

A second shock came about in late 2006 when Nike pulled out of the Sialkot cluster, citing labour rights violations and unauthorized outsourcing of stitching to home-based locations as its reasons from withdrawing from its only vendor in Sialkot. The Nike pull-out led to questions being asked about the future viability of the Atlanta Agreement and the efficacy of local monitoring mechanisms. Nike's current sourcing arrangements in Sialkot point to a new CSR model that involves internalized factory-based production for all activities, including

stitching processes, the replacement of piece-rated contract labour with wage-based employment with workers being able to claim full legal employment rights. The challenge of Nike's pull-out resulted in an ILO-led agenda to develop a new Sialkot Initiative that sought to enhance local monitoring capacity and expand its scope to address the wider labour standards concerns within ILO's Decent Work agenda. It remains to be seen whether Nike's new sourcing arrangements and chain governance model will expand to other brands and their suppliers in Sialkot. Many local industrialists appear to be sceptical. There is also a lack of consensus on the agenda of the Sialkot Initiative and how it is to be implemented.

The two distinct shocks relating to labour standards, first in the mid-1990s with the initial child labour allegations, and second the 2006 Nike pull-out, have brought about new forms of chain governance and production organization in both clusters. Whereas home-based stitching remains the dominant model in Jalandhar, stitching in Sialkot is now largely undertaken within registered stitching centres. But this is not the sole model of CSR-based production organization. We also identified a 'fair trade' CSR, a formal factory model, and what we term a 'home-grown' CSR model.

In terms of policy implications, our study suggests that CSR-related cluster development initiatives need to negotiate between the potentially conflicting needs of promoting local cluster governance and addressing global chain governance pressures. In our view, there has to be an effective engagement between global and local actors, in particular between local cluster institutions and global brands that drive demands for CSR compliance. In neither Sialkot nor Jalandhar did we observe such mutual engagement. Second, a sustainable cluster-based initiative has to have an element of local ownership. Our findings from both Sialkot and Jalandhar suggest a fundamental disagreement exists between local exporters in both clusters and international brands/advocacy organizations, not only as to whether child labour constitutes a problem per se, but also whether there are positive developmental outcomes from eradicating child labour, both for the local industry and its workers. While risk management was seen as important by both brands and local exporters, our study points to the need for multi-stakeholder initiatives beyond the risk management function to secure more meaningful returns to local enterprises and workers. One way of doing this would be to combine CSR compliance initiatives with more traditional technology upgrading strategies. In our view, the future survival of the Sialkot and Jalandhar clusters is not determined by their compliance with international CSR norms but by their response to three interrelated challenges, of which CSR pressures is but one. The two other challenges that are equally significant are competition from China and new developments in products and process technologies, in particular acquiring capabilities to produce high quality, premium, machine-stitched soccer balls.

In terms of a future research agenda, we suggest that a more detailed investigation is needed into the returns to local enterprises and workers from participation in the different chain governance models we observed in Sialkot and Jalandhar. Furthermore, we believe that widening the scope of comparative cluster studies is required as part of an effort towards understanding the potential and limitations of using collective, cluster-based action as a mechanism for stimulating local economic development while securing greater returns to workers. In the case of the global soccer ball industry, this means investigating whether the rise of China as the world's leading soccer ball producer facilitates or constrains the scope for collective CSR upgrading in the South Asian clusters.

# **Global Value Chains, Local Clusters and Corporate Social Responsibility: A Comparative Assessment of the Sports Goods Clusters in Sialkot, Pakistan and Jalandhar, India\***

## **1.1 Introduction**

There is now a growing recognition that compliance with international labour standards, corporate social responsibility (CSR) norms and codes of conduct outlined by leading branded global corporate actors are a prerequisite for entry into many high-value international markets. This puts pressures on developing country producers, and potentially raises their costs. At the same time, evidence of the effects of CSR compliance on producer competitiveness, workers' conditions, and environmental pollution in the developing world remains scarce. On the one hand, the contents of codes have mostly been developed in response to consumer and activist concerns in developed countries and may in some situations lead to improvements in working conditions (e.g. improved occupational health and safety). On the other hand, their intended beneficiaries – developing country exporters, workers, and households residing near production sites – have rarely had any voice in the elaboration of these codes. As a result, the priorities identified as relevant by developing country firms, workers, and communities 'on the ground' are often excluded from consideration in codes set by global corporations, global NGOs and other international actors. Similarly the monitoring requirements for CSR compliance may marginalize certain types of workers (e.g. home-based women workers). As the debate now moves towards a more empirically oriented research agenda on the effects of codes (see Barrientos and Smith 2007; Locke et. al., 2007; and Locke and Romis 2007), there are simultaneously strong calls for the development of a more Southern-centred CSR agenda that recognizes already existing social enterprise practices in developing countries and incorporates the concerns of Southern firms, workers, and communities in the development of CSR practices.

One emergent area of interest within the discussion on CSR is how it relates to small firm industrial clusters in the developing world (Accountability 2006). Many of the most powerful examples of local industrial competitiveness in the developing world emanate from such forms of industrial organization. Some developing country industrial clusters successfully overcome the constraints facing individual small firms, and aggressively compete alongside large firms within demanding global markets. Potential clustering advantages include not only economies of scale and scope, agglomeration gains, but also the possibility for joint action. Cluster promotion has thus emerged as an important plank of national and international policy support for local industrial development. One area of interest, particularly for the cluster policy community, is to understand how the integration of local clusters into global value chains (GVCs) and associated CSR pressures impact on such clusters within the developing world, and whether specific cluster dynamics can strengthen the ability of clustered firms to undertake meaningful compliance. Clusters, as one particular form of industrial organization, are especially interesting to the CSR/labour standards debate in that they offer the potential for local collective action to address CSR and labour standards pressures.

This study is interested in the interrelationships between clusters and GVCs as particular forms of industrial organization on the one hand, and labour standards and corporate social responsibility

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concerns on the other. It analyses these relationships with a focus on the global sports goods industries, specifically the manufacture of inflated soccer balls. This industry is not only marked by the presence of well known global brands (Nike and Adidas to name just two) that source through GVC from suppliers operating in local clusters across the developing world, but also by pressures on compliance to labour standards, especially child labour norms, and wider corporate social responsibility concerns reflected in codes of conduct.

Two particular South Asian clusters stand out in the manufacture of soccer balls – Sialkot in Pakistani Punjab and Jalandhar in Indian Punjab. Both have had to respond to international labour standards and both have initiated collective attempts at improving CSR practices. The two clusters share many similarities - in terms of their historical roots, the local Punjabi culture in which they are situated, their production of various types of balls for international markets, their participation in the same international fairs, and the joint attempts of producers at addressing child labour within their clusters. There are also significant differences between the two clusters. These include the overall political contexts in which both clusters are located; the nature of local ‘communities’ in each cluster, especially in soccer ball stitching activities; and the ways in which each cluster is integrated into different types of international value chains. The Sialkot cluster mostly participates in quasi-hierarchical chains with the leading, CSR-sensitive, branded firms in the global sporting goods industry, while the Jalandhar cluster tends to trade primarily with smaller and second tier markets, such as promotional sports goods.

### 1.2 Research Question

The defining challenge for both clusters over the past decade has been to eliminate child labour from production activities. The response to this challenge has been through the Atlanta Agreement (AA) which was initiated in 1997.<sup>1</sup> This was a multi-stakeholder initiative, bringing together a range of international actors, including donors, global industry, global NGOs as well as local firms and government to deal with the presence of child labour. It provided a two pronged strategy aimed at monitoring work practices and removing child workers as well as developing a social protection programme that sought to tackle aspects of the root causes of child labour. The AA was implemented in similar and different ways in both clusters. It raised awareness concerning child labour – already a highly contentious subject in the local setting, and brought CSR issues to the fore in both clusters. This study undertook comparative empirical research in both clusters to consider how each cluster responded to the AA, and the ways in which these responses pointed to specific cluster and value chain dynamics. The key research question addressed in this study is:

*How did the Sialkot and Jalandhar soccer ball clusters respond to the Atlanta Agreement between 1997 and 2007?*

### 1.3 Background and Report Structure

Ten years have passed since the AA was initiated. During this time the implementation of the AA has evolved. In the initial phase, from 1997-2002, key international agencies and international NGOs played a significant role. This was more pronounced in Sialkot than in Jalandhar, and there were a number of similarities in the approach adopted in each cluster, as well as some differences. From 2002 to 2006, a second phase of the AA was initiated with the planned transition in implementation activities from external, international, actors to local cluster institutions. Again there were significant similarities and differences in the two clusters. In late 2006 a rather dramatic incident occurred in the Sialkot cluster, when the leading global brand merchandiser of sports goods, NIKE, stopped sourcing from its first tier supplier and the then largest producer in the Sialkot cluster on the grounds of labour rights violations and unauthorized outsourcing of stitching to home-based locations in outlying villages surrounding Sialkot. Although Nike returned to source from Sialkot in 2007, this event – often referred to as the NIKE ‘pull-out’ – resulted in questions being raised about the future viability of the AA. While this led to a particular and acute challenge for the Sialkot cluster, as local producers feared that other brands might follow Nike’s example, it

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<sup>1</sup> See Appendix 2 for the full Atlanta Agreement of 1997.

also raised a number of issues common to both Sialkot and Jalandhar concerning CSR monitoring and the power of global lead firms to shape local production organizations.

We chart these developments in this study. We show how the two clusters have responded in similar and different ways to the AA. We consider in particular what these responses imply for the organization of the clusters and for local collective action, as well as the relationships between local suppliers and global lead firms. This comparative analysis provides a number of insights into how cluster and chain ties work in relation to the issue of CSR and labour standards, and their implications for local firms. This raises in turn various issues of direct relevance to policy interventions on this theme. The study also identifies a number of critical gaps in our knowledge, gaps that point to deficits within the wider literature on the subject. An example is the consequences of the AA for local workers. The study had the neither time nor the resources to undertake a fully fledged impact assessment of the AA, e.g. how it has affected the livelihoods of local workers. This is an important area for further detailed research. An additional concern relates to the tensions that underlie the values incorporated in 'global' standards and CSR codes defined in the North, how they are considered in the local context and how they 'sit with' local values and local norms. In our view, this tension, which has not been clearly addressed either in the broader literature or thoroughly understood in the context of the Sialkot and Jalandhar clusters, has important implications for further policy interventions.

This report is structured as follows. Following on from the discussion of the methodology of this study, Section 2 considers the conceptual links between labour standards and CSR codes and practices on the one hand and local clusters and GVCs. Section 3 briefly reviews empirical evidence from other cluster case studies which point to how pressures on implementing labour standards and corporate codes have affected the structure and organization of cluster and chain ties. Section 4 returns to the Sialkot and Jalandhar case studies. It provides a brief overview of the global soccer ball industry, the key features and histories of the two clusters in question and their relative position in the global industry in order to help situate the case studies, and the common and specific competitive challenges faced by each cluster. Section 5 outlines how the AA was initially shaped in the two clusters. Section 6 shows how the implementation of the agreement evolved over the decade in both clusters, and the implications for the sustainability of the programme as external development actors left the respective clusters. Section 7 discusses the Nike pull-out from Sialkot and its implications for the institutions of the AA and for broader debates on CSR strategies for the soccer ball clusters, as well as the emergence of new forms of value chain governance and production organization in both Sialkot and Jalandhar. Section 8 concludes, showing how our findings advance the literature, and outlining the implications that arise for cluster-based policy interventions to support effective and sustainable CSR and labour standards compliance. It also considers questions for further research.

#### 1. 4 Methodology

In order to investigate the Sialkot and Jalandhar soccer ball industries' responses to the AA, we conducted extensive fieldwork in both clusters and more limited 'international level' research over a ten-month period from July 2007 to July 2008. We began with exploratory visits to Sialkot and Jalandhar in July/August 2007, conducting initial interviews with key informants in both clusters. We travelled to Geneva in October 2007 to meet with senior officials at the International Labour Organization (ILO) and the World Federation of the Sporting Goods Industry (WFSGI) in Lausanne. These meetings, and the exploratory visits to the two clusters, helped us in devising the overall research questions and methodology for this study. This was finalized at a workshop held in Manchester in November 2007 which brought together the research team and key interlocutors of the United Nations Industrial Development Organization (UNIDO) as well as independent academics. In January 2008 and again in May 2008, one of us attended international conferences on global supply chains in Boston, Massachusetts, (January) and Palo Alto, California (May) where we had the chance to interview senior CSR officials from Nike. We began the more detailed fieldwork

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in Jalandhar in early January 2008 and in Sialkot in late January/early February 2008. This was followed by two more visits to Sialkot in March and April 2008 and another visit to Jalandhar in May 2008. Finally, we paid a brief visit to both the clusters at the end of July 2008 in order to discuss the findings of our study with the Independent Monitoring Association for Child Labour in Sialkot and the Sports Goods Foundation of India.

At the international level we interviewed either the Chief Executive Officer or senior CSR compliance personnel of a number of the leading brands with the aim of understanding their sourcing and CSR practices in relation to the Sialkot and Jalandhar clusters. These included the megabrands such as Nike (US) and Adidas (Germany) and smaller-sized brands such as Select Sports (Denmark) and Fairdeal Trading (UK). We had in-depth conversations with former or present representatives of NGOs (including Save the Children-UK), Dalit Solidarity Network International, the Indian Commission of the Netherlands, and a consultancy company, Just Solutions, in order to obtain a better understanding of how they influenced the implementation of the AA and/or campaigned on child labour/labour rights issues in each cluster.

In each cluster we interviewed a diverse group of stakeholders with the aim of understanding the responses of each cluster to the AA. In Sialkot, this included four large enterprises, three medium-sized enterprises, and four small enterprises.<sup>2</sup> In addition we held repeated in-depth discussions with local 'collective action' institutions such as the Sialkot Chamber of Commerce and Industry (SCCI), the Independent Monitoring Association for Child Labour (IMAC), and the Child and Social Development Organization (CSDO) hosted by the SCCI. We also met representatives of leading local NGOs, including Bunyad, Sudhaar, Select-Anwar Khawaja Health and Education Program (SAHEP), as well as Pakistan Institute of Labour Education and Research (PILER), all of which were involved in either social protection or advocacy work in relation to the soccer ball industry in Sialkot. In addition, we met the trade union representative at Saga Sports and the Pakistan Workers Federation representative in Sialkot. We also spoke to representatives from international policy actors operating in the cluster, including representatives from the ILO and UNIDO in Lahore and Sialkot and a government representative from the Department of Labour, Province of Punjab.

In Jalandhar we interviewed five medium-sized enterprises, and four small enterprises<sup>3</sup>. In addition we had repeated, in-depth discussions with local institutions including the Sports Goods Foundation of India (SGFI) and the Sports Goods Manufacturers and Exporters Association (SGMEA) in Jalandhar. We also met local social protection NGOs, REACH<sup>4</sup> and the Lions Club as well as the advocacy NGO Volunteers for Social Justice that either were or had been active in work related to the soccer ball industry in Jalandhar. The Deputy Commissioner of Labour, Jalandhar, informed us of the government's perspective on labour rights in the sporting goods industry. Finally, we conducted interviews with former and present UNIDO staff in New Delhi and Jalandhar who had been working closely with the cluster in the last five to six years.

In connection with our study, we made an exploratory assessment of working conditions at the bottom of the GVC in which the Sialkot and Jalandhar clusters are inserted. The idea was not to undertake any large-scale assessment of workers conditions in the cluster at this stage, but to get a

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<sup>2</sup> The notion of size of firms is rather loosely understood in both clusters, determined broadly by levels of employment. We considered firms that engaged over 250 workers as large, and less than 50 workers as small. Levels of employment, however, varied over time especially with peaks in seasonal demand for soccer balls. Nevertheless, it was well understood in both clusters as to which firms were large, medium or small.

<sup>3</sup> There are no large soccer ball manufacturers in the Jalandhar cluster.

<sup>4</sup> Reach is an NGO formed by the wives whose husbands are running the sports goods companies that make up the membership of the SGFI. According to the SGFI website, the "wives have formed this project through which underutilized material is collected and recycled. Items like clothes, books, household items etc are collected through regular collection drives at its collection centers. This material so collected is then distributed to the poor and needy people." (<http://www.sgfi.org/information.php?page=53>, accessed 1 March 2009).

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broad sense of working conditions and returns to labour. We visited several stitching units of different sizes in Sialkot and Jalandhar. In Sialkot, our fieldwork reflected the greater complexity of how different GVCs were inserted in the cluster. We visited the largest stitching facility in Sialkot, the Silverstar Group's factory, two large scale stitching centres, three medium-sized stitching centres, two home-based stitching centres, and five home-based, non-registered stitching households. Apart from the Silverstar Group's factory we conducted focus group interviews with stitchers in all of these centres with workers and interviews with stitching families in their homes in two different villages near Sialkot. In Jalandhar, we conducted a number of focus group interviews in one of Jalandhar's few medium-sized stitching centres. We combined this with eight household interviews in the villages of Tajpur and Talhan near Jalandhar, where we talked to stitchers in home-based, registered stitching units.

Despite the fieldwork undertaken, there are clearly limitations to this study. We highlight here three in particular. First, our samples of firms interviewed in both clusters are not large enough to suggest a robust representative sampling methodology. We purposely selected firms that were linked to particular types of value chains, and we sought to interview the first tier suppliers of many of the leading brands that we interviewed in order to get a proper global value chain perspective. These tended to be the larger and medium sized firms in our sample. We also selected other smaller and medium sized producers through random selection and through snow-balling techniques. Our sample, therefore, while not purporting to be representative, is certainly indicative of the ways in which different types of local producers in the two clusters have responded to the AA over time. In addition, we have a better insight into the workings of particular global value chains. Second, our field research was based on qualitative case study methodology. We did not use any semi-structured questionnaires but rather held in-depth discussions with all respondents on a range of common issues. While this approach meant that there were a number of areas on which this study was unable to generate detailed evidence, including empirical data, we were able to explore many of the nuances associated with the implementation of the AA in great depth. Third, despite holding focus group interviews with workers, we were unable within the scope of this study to explore in sufficient depth questions relating to the outcomes for workers within the two clusters arising from the implementation of the Atlanta Agreement. We hope in future work to address some of the gaps, and to provide more detailed empirical evidence on the outcomes for workers, and for firms, from their engagement with global value chains in the sporting goods industry and from the implementation of the AA.

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## 2. Global Value Chains, Clusters and CSR – Identifying the Conceptual Linkages<sup>5</sup>

### 2.1 Introduction

Over the past decade there has been substantial debate on the subjects of labour standards, corporate social responsibility, industrial clusters and global value chains. Much of this has been motivated by the process of economic globalization. Globalization has led to an extensive distribution of global production across distant locations, while requiring a more intensive co-ordination of global production activities. One of the key arenas of co-ordination has been around standards and company codes of conduct, in particular compliance with globally accepted norms on labour conditions and environmental impacts. While the drivers behind these developments are diverse – ranging from international NGOs, consumer groups, international agencies, and global business – compliance with standards and CSR codes has become a necessary condition for access to many global markets and the supply chains of leading companies. It is also emerging as an area of competition and a basis for generating new product and market niches.

These concerns and developments have been discussed separately in the distinct literatures on CSR and GVCs. Our objective here is not to review these distinct subjects in isolation, but to focus specifically on the *relationships* between CSR codes, and labour standards as a specific sub-set of CSR codes, for the organization of local clusters and global value chains. In particular we are interested in understanding how global labour standards and CSR codes affect, and are affected by, the ways in which local clusters are structured and organized and how they are inserted into global value chains. To date this specific interrelationship has been a relatively underdeveloped theme in the research and policy literature. Our contention is that there is a potential tension between the distinct aspects of governance, that is the institutional basis (such as laws, structures and norms) whereby ‘rules’ are set and implemented in order that transactions may take place, observed within the cluster and the governance exercised through the global value chain that link local clusters to global markets. The relationship between vertical chain governance and horizontal cluster governance can lead to different outcomes in the implementation of CSR codes and labour standards. In our view, the interplay between local cluster and global GVC governance is, therefore, central to understanding how labour standards, as a specific component of CSR codes, are addressed within cluster settings.

We begin by briefly outlining the core elements of the industrial cluster and global value chain models. We then turn to a discussion on labour standards and corporate social responsibility in the context of clusters and GVCs. In particular, we focus on the subject of governance, namely horizontal local cluster governance and vertical global chain governance.

### 2.2 Local Industrial Clusters and Global Value Chains

#### *a) Clusters*

Clusters are geographical spaces, or regions, where firms in similar and cognate activities are located within well defined spatial boundaries wherein proximity promotes a range of economic benefits (Porter 1998). These gains include agglomeration benefits that generate economies of scale and scope for small clustered producers. These include economic externalities that arise from the presence of a critical mass of firms, suppliers and a skilled labour pool within the confines of the cluster, as well as through flows of information, knowledge and skills within the cluster. Thus, small producers, through clustering are able to overcome many of the limitations imposed upon them by their size. In addition, clustering offers the possibility for local joint action. This can result in competitive advantages for clustered producers that lie beyond their capacities as individual producers (Schmitz and Nadvi 1999). Joint action, however, is not a necessary outcome of clustering, and can be very difficult to motivate especially where firms primarily compete with each other. Nevertheless, where joint action takes place, gains to cluster-based actors can be significant.

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<sup>5</sup> Parts of discussion in this chapter draws on Nadvi, 2008, ‘Global standards, global governance and the organization of global value chains’, *Journal of Economic Geography*, Vol. 8, No. 3.

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This often arises in the face of external shocks where, through joint action and co-operation, local firms find ways to confront common challenges. Together, these potential gains from clustering, agglomeration economies and joint action, are captured in the concept of collective efficiency (Schmitz 1995, Nadvi 1999).

Contemporary debates on industrial clusters came to the fore in the 1980s, drawing on the remarkable evidence of industrial success observed in small-firm industrial districts in north-eastern Italy (Markusen 1996). This earlier excitement with clusters, as a form of industrial organization with a potential for promoting regional and local economic development, has multiplied. There is now an extensive interest on the role of clusters in promoting technological upgrading (Bell and Albu 1999), in bringing about local economic development (see Pyke 2008), and in addressing concerns related to poverty alleviation (Nadvi and Barrientos 2004). This has spurred an extensive and diverse range of policy interventions by regional, national and international actors across the world. Among the leaders in policy experimentation and implementation on cluster development has been UNIDO. Much of the policy experience on clusters has concentrated on how best to promote joint action in ways that enhance local competitiveness and improve the capacities of individual firms.

As various studies point out, clusters confront the challenge of balancing the divergent tendencies of competition and co-operation. This is often achieved through the interplay of local social norms and values, or as some term local 'social capital' and trust. Moreover, there is clear evidence that the gains from clustering are not evenly distributed. Particular groups and types of firms and workers gain over others. Thus clustering is a *dynamic* concept that evolves over time, resulting in shifting power balances and differential gains within clusters.

#### *b) Global Value Chains*

The allure of the cluster approach is its emphasis on *local* linkages. Yet, cluster dynamics are not solely an outcome of internal linkages. *External* linkages with suppliers and customers located outside the cluster also matter (Garofoli 1992; Harrison 1994; Rabellotti 2004). Globalization, and the processes that it set in motion, has led to the realization that in addition to the *local factors* behind economic development and industrial competitiveness observed within clusters, one must also consider *global linkages and global pressures*. This sparked interest amongst cluster analysts in examining ties between local clustered firms and global buyers (Schmitz and Knorringa 2000), and between local clusters and global value chains (Humphrey and Schmitz 2002). Ties with foreign buyers can often determine patterns of upgrading within clusters, and potentially challenge as well as strengthen local cluster dynamics.

The global value chain model which maps the complex links between globally dispersed producers and global buyers, underlines the critical role of global lead firms in coordinating the organization of global production and distribution, thereby exercising 'power' over local actors (Gereffi 1999; Humphrey and Schmitz 2004; Gereffi et. al., 2005; Gibbon and Ponte 2005; Altenberg 2006). Lead firms exercise asymmetrical power over their suppliers in various ways – determining what is produced where, under what conditions and for what price. In terms of understanding such forms of power, the nature of governance of inter-firm ties within the chain has largely been analysed through the lens of transaction costs. Reducing the costs of organizing the chain, coordinating dispersed and varied suppliers and dealing with concerns such as asset specificity lie at the heart of what lead firms do. This can either take place through market transactions at one extreme or through internalized hierarchical forms of organization at the other extreme. In between these extremes lie a number of distinct forms of network relationships. Thus, Gereffi et al. (2005) outline five forms of governance of value chain ties: market-based, modular networks, relational networks, captive networks, and hierarchical structures. They go on to state that the particular form of governance that prevails in a given value chain at a given point in time is determined by the complexity of transaction, the codifiability of information and the capability of suppliers.

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### 2.3 Labour Standards and Corporate Social Responsibility

The concepts of corporate social responsibility (CSR) and labour standards are distinct, and yet closely related. Blowfeld and Frynas (2005:503) describe CSR as a set of practices that reflect three distinct concerns for companies – first, their need to be aware and take responsibility for the impact of their activities on society; second, that companies need to be concerned about the actions and practices of those from whom they source, in particular their dispersed supply chains; and finally that companies ‘need to manage their relationship with wider society’. Debates on CSR and socially responsible business have focused on philanthropic measures by corporate actors, to an interest in viewing poor communities as critical customers at ‘the bottom of the pyramid’. There are also concerns, especially amongst sceptics of the CSR agenda, that CSR initiatives are essentially aimed at mitigating risks for leading global brands, or providing a public relations fig leaf to hide dubious sourcing practices, or being insufficiently monitored to lend credence to the claims made by corporate actors. These debates are outside the purview of our focus. We here are concerned in particular with the narrower focus on work practices, and the link between CSR and labour standards. Thus, labour standards are often a subset of CSR codes, and most CSR codes require compliance with international labour standards and norms.

At a general level, standards are commonly accepted benchmarks that transmit information to customers and end-users about a product’s technical specifications, its compliance with health and safety criteria, or the processes by which it has been produced and sourced. Standards take many shapes and forms.<sup>6</sup> There has been an extensive literature to date on the rise of global standards<sup>7</sup>; on the array of distinct public and private, local and global actors engaged in the formulation of standards; and, on the ways in which standards have become central to debates on the structure and organization of GVCs (Clapp 1998, 2005; Finger and Tamiotti 1999; O’Riordan 2000; Messner 1997, 2004; O’Rourke 2003; Nadvi and Wältring 2004; Zadek 2004; Hughes 2006; Ponte and Gibbon 2005; Gereffi et. al., 2005; Barrientos and Smith 2007). The vast bulk of the literature has emphasized international drivers behind the proliferation of standards. However, as Kennedy (2006) and Lund-Thomsen (2007) note, national regulatory pressures can also be a driver to the implementation of standards within national and global value chains.

In the area of labour standards there had been great diversity from the outset, with an abundance of distinct company codes and labels. Yet, given the continuing vulnerability of branded lead firms to challenges of non-compliance within their dispersed supply chains, and the growing costs associated with dealing with a multitude of standards, there have been attempts towards greater harmonization of standards. Examples of such convergence include measures such as the UK’s Ethical Trading Initiative’s (ETI) Base Code which became the core framework on labour and ethical standards adopted by most of the UK’s branded food and garment retailers who joined the ETI initiative. Another sign of convergence is the SA8000 standard that addresses labour issues, although here there is growing unease on the quality of monitoring and thus the value of this standard. The UN’s voluntary initiative on the Global Compact is yet another example of seeking to promote convergence by bringing private companies on board to agree voluntarily to respect and promote ten principles on human rights, labour, environment and anti corruption within their supply chains.<sup>8</sup> In the same vein, the ISO 26000 series – which will be published as a set of guidelines in late 2008 and is due to be released as a global standard in 2010 (see [www.iso.org](http://www.iso.org)), will provide an attempt to develop an internationally accepted standard on CSR.

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<sup>6</sup>Nadvi and Wältring 2004 provide a useful typology on global standards – distinguishing between product and process standards, between codes of conducts and labels, and between distinct types of process standards – environmental, quality assurance, social and labour standards.

<sup>7</sup>Locke et. al., (2007) cite a 2003 World Bank study that indicates over 10,000 different standards and codes facing developing country producers with significant costs associated with compliance.

<sup>8</sup>For a detailed overview of the Global Compact and the emerging relationship between international business and the United Nations, see Utting and Zammit 2006.

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At the heart of these distinct attempts on convergence is a common agreement on the ‘core’ labour standards – that is to say those standards that in effect are ratified through the international tripartite structure of the International Labour Organization as the internationally agreed labour conventions. The eight core labour standards of the ILO are the 1930 convention on forced labour (Convention 29); the 1948 convention on freedom of association (Convention 87); the 1949 convention on the right to organize (Convention 98); the 1951 convention on equal remuneration (Convention 100); the 1957 convention on the abolition of forced labour (Convention 105); the 1958 convention on discrimination (Convention 111); the 1973 convention on minimum working age (138); and the 1999 convention on the elimination of the worst forms of child labour (Convention 182). These eight conventions are viewed not only as core labour standards but also as core global labour and human rights. Moreover, they are widely endorsed by the global community. The minimum age convention (Convention 138), for example, has been ratified by 150 of the ILO’s 182 member states. The convention on the elimination of the worst forms of child labour has been ratified by 165 member states, that is to say over 90% of all countries in the world.<sup>9</sup> Ratification implies that these conventions are part of national labour laws, and technically are to be enforced by nation states through their labour regulatory bodies.

In most cases, company codes of conduct that form the basis of a firm’s CSR strategy would state that national labour laws in the countries in which they are operating, or sourcing from, have to be adhered to. The concern however lies with how effective national regulatory bodies are in enforcing and monitoring compliance with national laws, and thus with global labour standards. Where such mechanisms are weak, there is not only space, but also demand, for individual company level codes as well as multi-stakeholder initiatives to ensure monitoring and compliance. This mitigates risks to brand-conscious global corporates, and ‘delivers’ on the standards to local workers.

However, the distinct moves towards convergence and divergence on labour standards and CSR underline the complex nature of standards and code development, and reflect concerns with the scope of specific standards, the manner by which compliance is verifiably monitored, the motivations of distinct actors driving the standards agenda, as well as the interests of those parties that seek to implement the standards. In the highly contested arena of labour and social norms, where in addition to the interests of national and international regulators, national and international business, various NGOs (including single issue organizations) have been highly influential, attempts to bring about convergence remain difficult to negotiate, despite the ISO 26000 and UN Global Compact initiatives. Consequently, in these areas we continue to observe a contestation of distinct standards, labels and company codes of conduct seeking to address similar themes but doing so with different levels of emphases and with different forms of monitoring and verification.

In the area of labour and social standards, a number of NGOs have emerged as key players in specific sectors. Thus, the FLA (Fair Labour Association), WRC (Workers Rights Consortium) and WRAP have been important actors engaging as standards monitoring and compliance bodies in labour-intensive sectors such as garments, footwear and sports goods (O’Rourke 2003). The UK’s Fairtrade Foundation, the owner and UK licensee of the ‘Fairtrade’ logo has at its core 14 different charities, or NGOs, most of which are directly engaged on development-oriented agendas ([www.fairtrade.org.uk](http://www.fairtrade.org.uk)). Increasingly, such bodies act not just as ‘whistle blowers’ campaigning against the worst practices of global corporations, but also in tandem with many global corporations in helping them define their corporate codes and CSR best practices, as well as monitoring and auditing compliance with such codes.

If we look at the CSR debate in relation to GVCs, a number of trends have been evident in recent years. The first is a movement away from viewing CSR as primarily a tool for brands to minimize risks associated with child labour and labour rights violations in their supply chains. Whereas the

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<sup>9</sup> <http://www.ilo.org/ilolex/english/docs/declworld.htm>, accessed on 19 June 2008.

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risk management approach may have been useful for international companies to protect their brand value, it is becoming increasingly obvious that this does not automatically bring about increased returns for workers. An obvious example is that some brands prefer to sever their relationship with their suppliers when workers' rights violations or child labour are found in their supply chains. Often such action can leave workers (and their dependents) worse off, as they lose their main source of income. Instead, the focus is increasingly on using a developmental perspective to explore the extent to which CSR standards can bring actual, as opposed to postulated, benefits to workers in the developing world (Lund-Thomsen, forthcoming).

Closely related to the above trend is a movement away from simply emphasizing compliance with CSR standards and auditing of firms to assessing the actual impacts of these standards on workers' conditions in the developing world. Initially, in the ethical trade debate, there was a tendency to assume that compliance with CSR standards automatically brought about benefits for workers. However, in recent years, it has become increasingly apparent that the introduction of codes also may have unintended consequences (Barrientos and Smith 2007). For example, this can happen by pushing SMEs out of the supply chains of leading international brands, because they are not capable of meeting the demands of the brands (Vives 2005). Another consequence is that code implementation sometimes affects workers negatively. For example, if a brand insists that a supplier factory implements a 37 hour working week while workers are paid according to the piece rate system, workers may actually need to work substantially longer hours in order to be able to secure their basic source of livelihood. Hence, a 'mindless' application of codes could have important unintended consequences for workers (Lund-Thomsen, forthcoming).

Third, albeit in its infancy, a movement can be identified which seeks to incorporate the voices of workers in code setting, monitoring, implementation and impact assessment. Until now codes have usually been written up in corporate headquarters with reference to international labour standards and/or the national laws of the countries where they are supposed to be implemented. In other words, what appears relevant CSR concerns from corporate headquarters in Europe and the USA have often been assumed to be identical to the CSR concerns of workers at the bottom of global supply chains. So far workers have had little voice in formulating, implementing, monitoring, and/or assessing the impact of codes. Hence, calls have been increasingly heard for securing a more meaningful inclusion of the voices of workers in the formulation and execution of codes (Prieto-Carron 2004, Nelson et al. 2007).

#### 2.4 CSR Codes, Labour Standards and Cluster and Chain Governance

Governance, put very simply, is the framework and institutional structures by which rules (which include laws at one extreme and norms at the other) are set and implemented. This can take various forms. Gereffi and Mayer (2006) distinguish between 'market', 'corporate' and 'industrial' governance. Market governance refers to the institutional frameworks whereby markets operate, through which contracts are enforced, markets are regulated and distributive outcomes brought about. Corporate governance addresses the firm's accountability to its various stakeholders – shareholders, employees and the community in which it is located; industrial governance is concerned with the organization of ties between various actors engaged in a global supply chain (Gereffi and Mayer 2006:41). Coe and Hess (2007) differentiate between 'institutional and political' governance, namely the national and international arenas where rules that shape market governance are framed; 'inter-firm' governance, which is akin to 'industrial' governance; and 'intra-firm' governance, which addresses firm organization and in particular the relationship between capital and labour within the firm.

Debates on governance have been at the heart of much of the literature on globalization and global value chains (see, for example, Held and McGrew 2002; Henderson et. al. 2002; Dicken 2003; Gereffi 2005; Gereffi et. al. 2005; Coe et. al. 2008). Globalization has resulted in extensive distribution of global production which requires more intensive organization of ties within global production networks ('industrial' governance, 'inter-firm' governance or 'value chain' governance). It has also been associated with the relative decline of national regulatory governance, and the

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growing significance of both international and private actors in the arenas associated with ‘market’ and ‘institutional and political’ governance. Global standards are at the core of this process. They point to an intersection between inter-firm or value chain governance and market or institutional and political governance (Nadvi and Wältring 2004). They also underline what Gereffi and Mayer (2006) refer to as the societal responses to the ‘governance deficits’ of the 1980s whereby private actors (business, NGOs, labour organizations) play a more significant role in defining many of the ‘rules’ through which global production networks are organized.<sup>10</sup>

Understanding the power of global lead firms to organize and structure value chains has been one of the core elements of the GVC approach (Gereffi 1999; Humphrey and Schmitz 2004; Gereffi et al., 2005; Gibbon and Ponte 2005; Altenberg 2006). This is based on recognition of the asymmetrical power exercised by lead firms, and the consequences that this implied for local producers who sought to enter into global value chains. In terms of understanding such forms of power, the nature of governance of inter-firm ties within the chain has largely been analysed through the lens of transaction costs. Reducing the costs of organizing the chain, coordinating dispersed and varied suppliers and dealing with concerns such as asset specificity lie at the heart of what lead firms do. This can either take place through market transactions at one extreme or through internalized hierarchical forms of organization at the other extreme. In between these extremes lie a number of distinct forms of network relationships. Thus, Gereffi et al. (2005) outline five forms of governance of value chain ties: market-based, modular networks, relational networks, captive networks, and hierarchical structures. They go on to state that the particular form of governance that prevails in a given value chain at a given point in time is determined by the complexity of transaction, the codifiability of information and the capability of suppliers.

How do standards influence the nature of governance – both governance of inter-firm ties within the horizontal cluster and the vertical value chain, as well as institutional governance at the cluster and GVC level? Standards are critical to ‘inter-firm’ ties because they provide the potential to codify complex forms of information that can reduce transaction costs. Thus, through the implementation of standards, codifiability of information can theoretically be improved. This could imply that the governance of inter-firm ties could move away from relatively more hierarchical forms to more modular or market-based interactions that require less co-ordination by lead firms. Whether this happens, however, depends very much on the standard, the form of compliance monitoring and the risks for lead firms associated with compliance failure. Where such risks are high, or where the potential costs to brand integrity are sufficiently large, lead firms, while seeking to promote harmonization of labour and social codes, would also want to ensure auditing, inspection and control of their supply chain to minimize such risks. In such cases, despite the presence of global standards and corporate CSR codes, ties between global lead firms and their local suppliers are likely to become more hierarchical. Lead firms would intervene to ensure that compliance to such standards is being adequately implemented, that monitoring is effective such that risks of non-compliance are sufficiently reduced. Hence, in the case of the global sports goods industry, there is extensive first and third party monitoring undertaken by the social compliance departments of global brands as well as by independent third party auditors appointed by them. This is especially pronounced in countries where national regulatory bodies are weak, and where local self-monitoring of practices is suspect.

Horizontal cluster governance – in the form of inter-firm joint action and through cluster institutions - can potentially enhance monitoring capabilities, thus reducing monitoring costs to individual firms and also providing greater confidence for buyers that compliance to core labour standards is in place. To do so, however, cluster institutions have to have the institutional strength, often derived from some form of social cohesion and power, to monitor practices and enforce

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<sup>10</sup> This is not dissimilar to the Ponte and Gibbon (2005) argument that *conventions* relating to ‘civic content’ - such as on issues of labour and environmental standards – shape the organization of particular types of GVCs.

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compliance upon their members. Where such ‘power’, either based on formal rules or informal social practices, is effective, local governance could help cluster-based firms to develop more relational ties with global lead firms. This could reduce transaction costs and improve the prospects of strengthening of ties within the GVC in ways that promote longer-term relationships and the possibilities of technical upgrading. Where, however, cluster governance is relatively weak, or weakly enforced, the outcomes are likely to be ones where global chain ties become more hierarchical in nature. This can serve to further undermine cluster ties as local suppliers look to their vertical linkages within the chain as the best way to both ensure compliance as well as to retain sourcing relationships.

### 2.5 Conclusion

International labour standards and corporate CSR codes are markers of new challenges confronting global production systems and of a new set of global trade rules. Pressures to comply are immense, especially in highly labour-intensive sectors where production is undertaken in developing country firms and farms and is organized and structured by branded global lead firms who are vulnerable to consumer pressure and a loss of brand value resulting from allegations of non-compliance within their supply chains. Under such conditions, local suppliers must meet standards or risk losing business. Within the CSR literature there is now a recognition that global lead firms need to work with local suppliers to improve practices both to mitigate the possibilities of non-compliance, as well as to address cases of compliance failure. This implies substantial costs to local firms, and significant costs to the global lead firm. Reducing costs in this area can have a significant effect on sourcing decisions. Locations with strong and effective local monitoring – either publicly implemented, or privately provided via the market or through cluster institutions – can strengthen their ability to insert themselves into such chains. Nevertheless, continued non-compliance is likely to result in the termination of GVC ties, as well as undermining cluster capabilities. A constellation of factors, from the nature of standards, the risks of non-compliance, the effectiveness of monitoring, to the strength of local institutions, can factor into the ways in which global lead firms incorporate compliance concerns into their sourcing decisions.

The chart below provides a visual representation of the distinct local and global, public and private actors engaged, and regulations addressing, the area of labour standards and CSR compliance. The drivers behind CSR initiatives can dominate how specific codes or standards are implemented and monitored. Global value chain ties can further underline the power of global lead firms to govern the process of compliance, and thus structure chain organization as well as local production activities within clusters. Local governance within clusters can facilitate compliance, providing mechanisms for monitoring and policing codes. However, vertical global governance can also serve to undermine horizontal local governance, weakening the ability of local initiatives around standards and underlining the power of vertical chain arrangements. Thus, the interplay between local horizontal cluster and vertical global chain governance around standards is a critical area of power dynamics.

TYPES of ACTORS		LOCAL	GLOBAL
PUBLIC		Local and National Government National Labour Laws	International Organizations ILO international labour conventions
PRIVATE	Business	Clustered Producers, Trade Associations and Cluster-based Initiatives on CSR and Compliance	Branded Global Corporates, Global Trade Associations Company and Sector-specific Codes of Conduct



	Civil Society	Local or National NGOs, Consumer Groups and Trade Unions	Global NGOs, International Trade Union Federations
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What, however, is the outcome for local workers, especially poor workers? In an earlier study, Nadvi and Barrientos (2004) argued that the concept of clusters lends itself to policy concerns on poverty reduction. In their view, cluster features, processes and dynamics were central to an understanding of how small firm clusters could address issues of poverty alleviation, and they argued that policy interventions had to be sensitive to ‘poverty nodes’ within clusters, that is to say, particular groups that were either poor, or vulnerable to becoming poor as a consequence of cluster dynamics. Similarly, Nadvi (2004) made the case that insertion into global value chains could have pro-poor outcomes, especially if poor groups – such as unskilled urban workers or landless rural labourers were given access to employment within the value chain. Thus, insertion into the chain, through jobs, could potentially have poverty-alleviating results. Extending that discussion from poverty considerations, there is an emerging awareness that social and labour standards can further assist in promoting pro-poor growth within clusters (Nadvi, 2007, Mezzadri 2008). But the focus has to be on poverty nodes, and how such poor groups (including marginalized groups within communities such as migrant workers, women workers, children and the elderly) are affected by the imposition of labour standards and corporate CSR codes. Cluster processes, the dynamics of global value chain linkages, and labour standards and CSR codes create winners and losers – at the level of firms and of workers. The critical agenda is to ensure that the losers are not those very same categories, be they firms or workers that are the most vulnerable to poverty.

### **Section 3: Global Value Chains, Industrial Clusters and Corporate Social Responsibility:**

#### **A Review of Empirical Evidence**

##### 3.1 Introduction

In this section, we return to the overall theme of the interplay between global governance and local governance, reviewing the literature on how external shocks in the form of CSR compliance demands have permeated developing country clusters that are linked into GVCs. While there is now an emerging body of empirical studies on CSR in developing country clusters<sup>11 12</sup>, very few studies have explicitly addressed the question of how external shocks in the form of CSR compliance demands have triggered collective action responses across clusters in the developing world. Many studies that analyse collective responses to CSR pressures in developing country export industries are not typical cluster studies and of such recent origin (and some still ongoing) that they are mostly described in more policy-oriented literature (e.g., ILO-IPEC 2007a, b). Hence, in this section, we cast our net wide, analysing not only ‘pure’ cluster studies, but also cases that display key aspects of collective CSR responses in developing country export industries that may have a bearing on other more specific cluster examples. It should be noted that the depth of analyses offered in these various studies is uneven. Given the uneven nature of the evidence, both within the academic and policy literatures, we are only in a position to offer tentative conclusions as to how external shocks in the form of CSR compliance pressures bring about differential collective action responses across clusters with GVC ties in the developing world.<sup>13</sup>

In Section 3.2, we provide an overview of the limited literature currently available on joint cluster responses to external shocks emerging from CSR pressures. We look both at typical cluster studies and analyse ‘non-cluster’ case studies of collective CSR action in developing country export industries. Sections 3.3 and 3.4 then focus more specifically on labour and environmental case studies respectively, showing how clusters inserted into GVCs have formulated similar and different joint action responses to external CSR threats. In Section 3.5, we conclude by stating that the differences observed in cluster governance responses to external threats can partially be explained with reference to the nature of cluster integration into GVCs. This appears to have important implications for the long-term viability of joint CSR cluster initiatives.

##### 3.2 The Literature on Joint CSR Cluster Responses to External Shocks

Most studies dealing with cluster responses to external threats on labour and environmental concerns have been associated with either how clusters are inserted into GVCs (Tewari and Pillai 2005) or by the imposition of national, formal or informal, regulations that potentially challenge cluster firms (Kennedy 2006, Lund-Thomsen 2007). In addition, some studies in the related

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<sup>11</sup>Recent examples include Mezzadri’s (2008) study of CSR in the Delhi Garment cluster and Pyke’s (2008) overview paper on decent work and industrial clusters. However, neither paper explicitly addresses the question of how external shocks in the form of CSR compliance demands provoked collective action responses in developing country clusters and so are not included in this review. Through its thematic cooperation on CSR and clusters with the Swiss government, UNIDO has also produced a range of studies that seek to map local CSR practices in clusters in India, Senegal, and Ecuador (ASK 2007, Krishnadas et al. 2007, Sodhi 2007, Sachdeva and Panfil 2008, Rana and Singh 2008). However, this policy-oriented literature does not contain any in-depth analysis of the ‘external CSR shocks/collective cluster responses’ theme either.

<sup>12</sup> There are also a number of authors who have written specifically about the CSR challenges faced by the Sialkot and Jalandhar sports goods industries. These include Seigmann (2008), Khan (2007), Rafi Khan (2004, 2007), Husselbee (2000), Schrage (2004), and Goyal (2004, 2005). We draw on these studies in the empirical sections of this report, although it is worth noting that none of them adopt a particular cluster focus.

<sup>13</sup> We do not claim that the case studies reviewed here constitute a complete overview of cluster-based responses to external shocks in the forms of CSR pressures. For example, Accountability (2006) mentions the Wine Industry Ethical Trading Initiative in South Africa and the Vietnam Business Linkage Initiative, which are not included in this review. Due to their recent origin, very little information was available about these initiatives in either the academic or policy-oriented literatures. Hence, we decided to concentrate this review on case studies where we felt that sufficient information was available to draw some tentative conclusions about their functioning.

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literature on ethical sourcing, particularly on the issue of child labour in GVCs, also make reference to collective CSR responses in developing country export industries to external threats (Nielsen 2005, Ruwanpura and Roncolato 2006, Haider 2008).

In our review of the empirical case literature we make a broad analytical distinction between labour and environmental case studies. The labour case studies typically involved cluster-wide responses to external shocks relating to compliance with international labour standards that could be traced back to the clusters' integration into GVCs with international brands. These shocks were caused by international media allegations of child labour or labour rights violations within the cluster that could have led to boycotts of local industry exports as a result of (a) regulatory action on the part of the US government or (b) UK-based brands refusing to source from the export industry in question. The environmental case studies tend to reflect cluster-wide responses to external shocks in the form of national or international regulatory measures that could force cluster firms to close. An indicative overview of the labour and environmental case studies is presented in Table 3.1.

**Table 3.1 Collective Cluster Responses to External Shocks: CSR Case Studies**

Case Study	Labour Case Studies				Environmental Case Studies		
	Garment Sector, Bangladesh	Cocoa Sector, Ivory Coast	Cut Flower Sector, Kenya	Garment Sector, Cambodia	Palar Valley Tannery Cluster, India	Tirupur Knitwear Cluster, India	Kasur Tannery Cluster, Pakistan
<b>External Shock</b>	1993 Internl Media Reports, Harkin Bill	2001 Intern. Media Reports, Threat of US Boycott	2002 Reports on ETI Code Violations, Poor Work Conditions	1998 Threat of Boycott, Reports on Poor Work Conditions	1996 Indian Supreme Court Ruling	1996 Madras High Court Ruling	1990s National Media Reports
<b>Cluster Response</b>	1996 MOU	2001 Harkin-Engel Protocol, WACAP	2002 Horticultural and Ethical Business Initiative <sup>14</sup>	2000 Better Factories Programme	1996 Common Effluent Treatment Plants	1996 Common Effluent Treatment Plants	1996 Common Effluent Treatment Plant

In Table 3.1 we observe that the four labour case studies (Garments, Bangladesh; Cocoa, Ivory Coast; Cut Flower, Kenya, and Garments, Cambodia) reflect a largely similar pattern in terms of the initial external shock and the subsequent joint action response observed within each case. Although none of these four examples are classic cases of small firm clusters, there are important spatial agglomeration aspects to most of these examples as well as local collective action responses akin to cluster joint action initiatives. Thus, they provide useful lessons for the kinds of clusters that form the focus of this study. In each of these cases, international media exposure of child labour or labour rights violations in the value chains in internationally branded companies threatened to restrict access to global markets.

<sup>14</sup> Founded in 2002, the Horticultural Ethical Business Initiative (HEBI) is an independent non-profit organization that strives towards ethical social behaviour in the horticulture and floriculture industry in Kenya. The organization was born out of a concern that ethical sourcing practices were not being following in the Kenyan cut flower industry. The HEBI therefore set out to investigate these claims. The organization initially made a review of other codes, then developed a base code that reflected Kenyan law, developed a methodology that could prove malpractices, and trained social auditors in the use of participatory audit methodology of the new code (Source: <http://www.hebi.or.ke/>; accessed 9 August 2008).

In the case of the Bangladesh garments industry, the 1993 US Harkin Bill called for a ban on import into the USA of goods manufactured or fabricated by child workers. The industry responded to this by dismissing child workers en masse. Eventually, a memorandum of understanding was signed between the ILO, United Nations Children Fund (UNICEF), and the Bangladesh Garments and Manufacturers and Exporters Association (BGMEA) that aimed at eradicating child labour from the industry by introducing a child labour monitoring system and providing social protection for affected children (Nielsen 2005, ILO/UNICEF 2004).

In the case of the Ivory Coast cocoa sector, persistent media reports about child slavery on West African cocoa farms surfaced in 2001, leading to the threat of an import ban on cocoa from the Ivory Coast to the USA. These allegations prompted widespread industry consultations that involved Ivory Coast officials, NGOs trade unions, and the ILO with the aim of finding a solution that could eliminate the worst forms of child labour in cocoa production. The result was the Harkin-Engel Protocol and the West African Cocoa and Commercial Agriculture Project (WACAP) of the ILO whose aim was to eradicate child labour from the cocoa industry supply chain (ILO 2007a. b). In the Kenyan cut flower industry, allegations of labour rights abuses on farms prompted members of the UK Ethical Trading Initiative to visit Kenya in 2002. At the same time, local Kenyan stakeholders, fearing the loss of their most important market, organized themselves with the support of the ETI and UK-based NGO Women Workers Worldwide to form the HEBI (Dolan and Opondo 2005).

In the Cambodia garments sector, it was allegations of labour rights violations and the threat of possible sanctions that prompted the Cambodian government and the Cambodian Garment Manufacturers Association to initiate negotiations with the US Department of Labour and the ILO. This resulted in what was later to become known as the Better Factories Programme, which links labour rights monitoring and labour standards improvements in the garments sector to improved market access in the USA (Polaski 2004).

The final three case studies, the Tirupur Knitwear cluster, the Palar Valley and Kasur Tannery clusters are examples of cluster-based responses to external pressures relating to environmental concerns. In these cases, CSR pressures did not initially emerge through the GVC, but rather from international or national regulatory frameworks or national media exposure. In the Tirupur knitwear cluster and the Palar Valley tannery cluster, it was Indian court orders in 1996 that prompted both clusters to invest in the establishment of common effluent treatment plants (CETPs) or face possible closure of cluster firms (Kennedy 1999, Crow and Batz 2006). The Palar Valley Tannery Cluster also faced the challenge of complying with two German bans on azo-dyes and Pentachlorophenol in the mid-1990s (Tewari and Pillai 2005). In the case of the Kasur tanneries, national media exposés of the catastrophic environmental situation in the city in the early 1990s prompted the Kasur Tanneries Association to enter into a partnership with the United Nations Development Programme (UNDP), UNIDO, local and provincial government authorities. The partnership was intended to reduce the environmental impact of the tanneries in the city, particularly through the construction of a CETP (Lund-Thomsen 2004).

We shall now take a more in-depth look at similarities and differences in cluster responses in the above-mentioned labour and environmental case studies.

### 3.3 External Shocks and Joint CSR Responses: Labour Case Studies

The four labour case studies shown below in Table 3.2, namely the Bangladesh garments, Ivory Coast cocoa, Kenya cut flower, and Cambodia garment industries, do not contain in-depth information on the nature of global chain governance in the four export industries studied. For example, it is not always clear how these chains are organized, and how pressure is applied by international buyers on local suppliers to conform to CSR codes. Nevertheless, a number of common themes emerge from the case studies. First, the four industries are all integrated into GVCs that have the participation of internationally branded companies. These companies are vulnerable to

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NGO and trade union criticism (regarding child labour or labour rights violations) as this may affect their overall brand value. In the four case studies, the exposure of these branded buyers to media criticism, the brands' demands for CSR compliance and the threat of US regulation (in the Bangladesh, Cambodia, and Ivory Coast cases) prompted international and local actors to react at short notice in order to avoid a boycott of local industry products being imported to the USA or Britain. Hence, collective action responses emerged quickly in the four case studies ranging from one year to two a half years from the initial shock was experienced until joint CSR responses were formulated.<sup>15</sup>

**Table 3.2 Similarities and Differences in Joint CSR Cluster Responses to External Shocks: Labour Case Studies**

<b>Cluster Case Studies</b>	<b>Bangladesh Garment Sector (Nielsen 2005, Ruwanpura and Roncolato 2006, Haider 2008 )</b>	<b>Ivory Coast Cocoa Sector (Schrage 2004)</b>	<b>Kenyan Cut Flower Sector (Dolan and Opondo 2005)</b>	<b>Cambodia Garment Sector (Polaski 2004, 2006)</b>
<b>Key Buyers</b>	International Brands	International Brands	International Brands	International Brands
<b>Response</b>	2.5 Years	1 Year	1 Year	2 Years
<b>Issues Addressed</b>	Child Labour Eradication	Child Labour Eradication	Workers' Conditions	Workers' Conditions
<b>Funding</b>	US Department of Labor	US Department of Labor International Confectionery Association	Department for International Development, UK, ETI, Royal Dutch Embassy	US Dept of Labor Cambodian Govt. Garment Manufacturers Association of Cambodia
<b>Implementation Agencies</b>	ILO-IPEC, UNICEF and BGMEA	ILO-IPEC, Ivory Coast Government, Local NGOs	HEBI	ILO
<b>Monitoring Mechanism</b>	In-Factory 12 – Monitoring Teams (2 ILO Monitors, 1 Govt., 1 BGMEA)	Multi-level (National, District, Community-Based)	Social Auditing (23 Local Monitors Educated)	In-factory (1 International Project Director + 8 Local Monitors)

Global governance pressures also appeared to play a significant role in identifying the issues to be addressed in the four labour case studies, whether this had to do with child labour or labour rights violations. In some cases, most notably the Kenyan cut flower industry and the Cambodian garments industry, local trade unions/NGOs did have a role to play in highlighting the presence of child labour or labour rights violations. Nevertheless, the key protagonists were external actors. At the same time, in all of the case studies, funding for local cluster responses was provided by international agencies, most frequently the US Department of Labour, in response to the concerns raised by labour rights groups in the United States (Nielsen 2005, Dolan and Opondo 2005, ILO-IPEC 2007a,b). Similarly, in the implementation of CSR cluster responses to external shocks, an international aid agency, the ILO, initially assumed a leading role.<sup>16</sup> Finally, the combination of

<sup>15</sup> As shown in Table 3.1, the most rapid cluster response was one year (in the Ivory Coast cocoa cluster and the Kenyan cut flower cluster) and the slowest 2.5 years (in the case of the Bangladesh garment cluster).

<sup>16</sup> (Except in the case of the Kenyan cut flower industry, where the HEBI was in charge of coordinating industry-wide CSR action on the ground). However, as Dolan and Opondo (2005, p. 91) point out: "HEBI

vertical GVC pressures in the form of demands for CSR compliance, the threat of boycotts, and international media exposure in the four export industries developing created a need for the development of relatively sophisticated CSR monitoring mechanisms aimed at identifying and preventing child labour and labour rights violations within the industries.

While these four case studies share many similarities, there is also an important difference in the design of their monitoring mechanisms. The difference is that in-house factory inspections were used in the Bangladesh and Cambodia cases whereas on-farm inspections were undertaken in the Ivory Coast and Kenya. On the one hand, this is partially explained by the nature of the products and by the structure of the GVCs in which firms in these specific case studies were inserted. In the Bangladesh and Cambodia garment sector the task of monitoring was facilitated by the existence of well-defined work spaces (factory settings) that made it easier to control the presence or absence of child labour as well as labour rights violations. However, in the case of cocoa sector in the Ivory Coast and the cut flower industry in Kenya, child labour and labour rights monitoring was complicated by production units (farms) being spread through a much larger geographical area. In the Ivory Coast, this led to the development of a multi-level monitoring system involving actors at national, district, and community-based levels. As we shall see below, the Kenyan case is slightly different. On the other hand, timing is also an important factor in understanding the difference in the design of joint CSR monitoring mechanisms. The introduction of the ILO-International Programme on Elimination of Child Labour (IPEC) monitoring system in Bangladesh in 1996 was an early experiment for the ILO in terms of moving beyond its tripartite role and engage in 'on-the-ground child labour monitoring'. This approach was subsequently used as a model for developing similar systems in the Pakistani and Indian sports goods clusters. At a much later point, in 2002, the introduction of social auditing by the HEBI in the Kenyan cut flower industry marked an attempt at overcoming some of the traditional constraints associated with snap-shot, top-down, compliance-oriented forms of code of conduct monitoring that had since emerged (Dolan and Opondo 2005). These limitations had, amongst other things, to do with tick-box approaches, little time spent at local factories, and the use of expensive auditors with limited knowledge of local contexts. Instead, participatory social auditing sought greater involvement of workers, raising their awareness, and uncovering less visible issues such as gender discrimination and sexual harassment (Auret and Barrientos 2004).

In sum, international media exposures, the threat of import bans, international aid organizations, and global chain governance pressures appear to have been the main drivers behind the establishment of collective CSR responses in the labour case studies reviewed here. These pressures played an important role in determining the rapidity of joint action CSR cluster responses, the CSR issues (child labour and labour rights) to be addressed in these initiatives, and the kinds of CSR monitoring mechanisms that were developed. While these have brought about new forms of child labour and labour rights monitoring in the four clusters, their development has mostly depended upon financial, technical, and implementation support from international aid agencies.

The above observations do not mean that local governance and local governance institutions did not have a significant role to play in finding collective responses to the global governance pressures. In all of these cases there were significant local actors, representing collective voices within their respective case studies, such as the BGMEA in Bangladesh, the trade unions and the state in Cambodia, the Kenya Flower Council in the cut flower sector, and government agencies at various levels in the Ivory Coast cocoa sector that facilitated the implementation of collective action responses. Hence, while global governance pressures appear to have been one of the main drivers behind the CSR pressures observed in these case studies, local governance institutions were instrumental in making the implementation of collective action responses possible across the four cases.

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was a product of direct northern involvement. While ETI and [Women Working Worldwide] WWW only performed a facilitative role in the process, they were nonetheless pivotal to the establishment of a 'locally owned' [multi stakeholder partnership] MSP."

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### 3.4 External Shocks and Joint CSR Responses: Environmental Case Studies

We shall now assess the similarities and differences in case studies of cluster responses to external shocks where collective action was aimed at addressing specific environmental concerns. Table 3.3 shows that there are a number of similarities between the three environmental case studies included in this review. In each case, the clusters were part of a complex value chain. Both dyeing and bleaching, which formed part of textiles production in Tirupur and leather production in Palar Valley/Kasur, were sold to national or international manufacturers of textile or leather garments, upholstery and shoes. These national and international manufacturers sometimes in turn supplied large international brands. However, their textile and leather suppliers in the Tirupur, Palar Valley and Kasur clusters still tended to remain below the radar screen of international NGO or trade union activists.<sup>17</sup> In these case studies, external shocks prompting joint CSR action in the clusters were not caused by the CSR compliance pressures from global brands but instead by the potential or actual threat of international or national regulatory authorities as well as national media exposure forcing cluster firms to close. Hence, there was a need to restructure horizontal cluster governance relatively quickly in order to ensure the future survival of the clusters.

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<sup>17</sup> Such activists often concentrate their campaigns on first-tier suppliers to international brands.

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**Table 3.3 Similarities and Differences in Joint CSR Cluster Responses to External Shocks: Environmental Case Studies**

<b>Cluster Case Studies</b>	<b>Palar Valley Tannery Cluster, India (Kennedy 1999, Tewari &amp; Pillai 2005, Kennedy 2006)</b>	<b>Tirupur Knitwear Cluster, India (Crow and Batz 2006)</b>	<b>Kasur Tannery Cluster, Pakistan (Lund-Thomsen 2004, 2007)</b>
<b>Key Buyers</b>	National/international producers of leather garments, upholstery, and shoes	National/international producers of textile garments	National/international producers of leather garments, upholstery, and shoes
<b>Rapidity of Response</b>	1 Year	1 Year	4 Years
<b>Issues Addressed</b>	Environmental and Health Hazards Caused By Tannery Pollution	Environmental and Health Hazards Caused By Bleachers' and Dyers' Pollution	Environmental and Health Hazards Caused By Tannery Pollution
<b>Funding</b>	Federal and State Government, Indian Development Banks, Tanning Industry	Federal and State Government, Indian Development Banks, Garment Industry	UNDP, State and Local Government, Kasur Tanneries Association
<b>Implementation Agencies</b>	Common Effluent Treatment Plants	Common Effluent Treatment Plants	UNIDO, KTWMA, Kasur Tanneries Association
<b>Monitoring Mechanism</b>	Present	Present	Absent

While the collective action CSR responses to external shocks appear to have been formulated relatively quickly in the Palar Valley, Tirupur, and Kasur clusters, these crises had been preceded by years of unsuccessful state or community-based attempts at bringing cluster-level firms into compliance with national environmental legislation. In Kasur, for example, an original plan of constructing a CETP was formulated as early as 1986. However, it was only in 1996 that the Kasur Tanneries Pollution Control project was initiated after a lot of national media press coverage of the disastrous environmental situation in the cluster (Lund-Thomsen 2007). Similarly, in the Tirupur and Palar Valley clusters, the Tamil Nadu Pollution Control Board had promoted the installation of CETPs since 1986 but it was only in 1996 after court orders had been issued that the clusters formulated collective action responses in order to secure their survival (Kennedy 1999, Crow and Batz 2006). At the same time, while the clusters reacted quickly after the initial shock, it appeared as if their stated intentions of implementing joint action CSR responses in the form of CETPs slowed considerably. In Kasur for example, construction of the CETP started in 1996 but was only completed in late 2001 (Lund-Thomsen 2007). In Palar Valley, only one of eight plants planned or under construction in 1997 was functional by 2003 (Kennedy 2006, p. 119).

Contrary to the labour case studies, where the bulk of financing was provided by international development aid agencies, national government agencies and local cluster actors assumed greater financial responsibility for supporting joint action cluster responses in the environmental case studies. This was the case in the Palar Valley tannery and Tirupur knitwear clusters, where federal and state government agencies, Indian development banks and bleachers/dyers/tanners financed the establishment of CETPs (Kennedy 1999, Crow and Batz 2006). While UNIDO and UNDP also contributed financially to the construction of the CETP in the Kasur tannery cluster in Pakistan, significant funding commitments were also forthcoming from provincial and local government agencies as well as the Kasur Tanners Association (Lund-Thomsen 2007).



In terms of implementation of joint CSR cluster responses, new institutions were formed in the immediate aftermath of each crisis. In the three case studies, CETPs were constructed (Tewari and Pillai 2005, Crow and Batz 2006). In the Palar Valley and Tirupur cluster case studies, it was the industry itself which took on managerial responsibility for running the plants, while a public private partnership, the Kasur Tanneries Waste Management Association (KTWMA) was formed in the Pakistani tannery cluster to manage the CETP (Lund-Thomsen 2004).

An important difference also existed – as in the labour case studies – in the design and implementation of CSR monitoring mechanisms. In the case of the Palar Valley tannery and Tirupur knitwear clusters in India, it appeared as if there were relatively well-functioning monitoring mechanisms that could measure the treatment efficiency of the CETPs established.<sup>18</sup> However, in the Kasur tannery cluster in Pakistan, the KTWMA did not appear to carry out regular monitoring of the actual reduction in pollution loads as a result of the CETP's functioning (Lund-Thomsen 2007). Hence, in situations where cluster responses are less driven by vertical GVC pressures, it would appear that cluster institutions are also under less pressure to provide public access to information about the design and performance of the CSR monitoring mechanism. Instead, as Kennedy relates in her study of the Palar Valley tannery cluster, there may be greater scope for local governance responses where local ethnic and religious factors may contribute to social cohesiveness, regulating individual behaviour in ways that facilitate the efficient management of CETPs (Kennedy 1999, 2006).

In sum, there may be greater scope for the development of local cluster responses when clusters are not tied into GVCs dominated by lead brands or when they are located further down GVCs and their buyers tend to remain below the radar screen of international NGO and trade union activists. In the cases reviewed, this is reflected in longer time frames to react to external shocks, greater cluster influence in determining the issues to be addressed (in this case, environmental pollution), and stronger cluster involvement in the financing, design, and management of local CSR cluster institutions. However, in the absence of vertical chain pressures or sustained enforcement of national environmental legislation, it appears that local cluster institutions have fewer incentives to develop sophisticated monitoring mechanisms and provide public information access to information about their performance.

### 3.5 Conclusion

This section sought to review the evidence on clusters facing CSR pressures. As we stated at the outset, there is very limited number of academic and policy studies detailing how external shocks in the form of CSR pressures have brought about differential responses within clusters in the developing world. Drawing on a handful of key case studies, we argued that the differences observed in cluster governance responses to external threats can partially be explained with reference to the nature of cluster integration into GVCs.

A key difference that we observe across the case studies reviewed here relates to the nature of ties that local producers have with the GVCs into which they are integrated and through which they access global markets. In the labour case studies, it appeared that international media exposures, the threat of import bans, international aid organizations, and global chain governance pressures determined the rapidity of the local joint action responses to CSR pressures; the issues to be addressed in these initiatives; and even the types of collective action that emerged in response to such pressures. That is not to say that local institutions and local governance do not matter. In all of the labour cases reviewed here, there were significant local actors, representing collective voices within their respective case studies that were central in the implementation of collective action responses. Hence, while global governance pressures appear to have a key driver behind collective

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<sup>18</sup> Personal communication from Meenu Tewari to the authors, 8 August 2008.

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action CSR responses observed in these case studies, local governance institutions were at the heart of making the implementation of these responses possible across the four cases.

In our view there may be greater scope for the development of local cluster CSR responses when such clusters are either not tied into GVCs dominated by lead brands or when the clusters are more 'invisible', located further down the value chain, thus remaining below the radar screen of international labour and environmental advocacy groups. In such instances, local cluster governance is more likely to emerge as the key driver, or protagonist, in articulating a local collective response to CSR pressure. As observed in the environmental case studies, this is reflected in the longer time-frames to react to external shocks, greater cluster influence in determining the CSR issues to be addressed in collective action initiatives, and stronger cluster involvement in designing as well as financing the operation of new CSR cluster institutions.

When internationally leading branded firms are key buyers from clusters, international development agencies often take greater interest in designing, financing, and implementing joint cluster CSR responses to external shocks. Initially, the presence of development agencies is often instrumental in the design and implementation of sophisticated cluster-wide CSR monitoring mechanisms in cooperation with their local counterparts. However, the externally-driven nature of local governance responses raises questions about the local ownership and sustainability of these initiatives once international aid agencies withdraw their financial, technical, and implementation support. Similarly, the question arises as to what happens to issues of local ownership and sustainability in cases where national regulatory authorities do not keep up the pressure on cluster firms to comply with national legislation.

In conclusion, there is a dearth of studies investigating whether joint CSR cluster initiatives in response to external threats can be sustained once the initial external shocks subside, international agency support is withdrawn, and/or national regulatory pressure loosened. Hence, in the following sections, we will make a contribution towards fulfilling this gap in the literature on GVCs, clusters, and CSR responses to external threats in two ways. First, in Section 5, we will compare how the initial shocks of child labour allegations in the mid-1990s brought about differential joint CSR action across the two clusters – the Sialkot and Jalandhar sporting goods clusters – operating in the same global industry. An important difference was that one cluster, Sialkot, faced greater CSR compliance pressures (due to the presence of the megabrands Nike and Adidas) than the other cluster, Jalandhar, which was supplying less exposed sports brands. Second, in Section 6, we will investigate whether those joint action CSR responses could be sustained over time once international donor support was withdrawn from both clusters in 2003/4. However, we start this analysis in Section 4 by outlining the key similarities and differences in the internal organization of these two clusters and their external GVC linkages.

## 4. The Global Soccer Ball Industry and the Sialkot and Jalandhar Soccer Ball Clusters

### 4.1 Introduction

The soccer ball segment of the global sporting goods industry has been growing steadily with world exports of inflatable balls rising from US\$338 million in 2001 to US\$817 million in 2005<sup>19</sup>. The industry is dominated by seven branded manufacturers. These include Adidas, Puma, Reebok and Umbro (in Europe), Nike (in North America), and Asics and Mizuno (in Japan) (Kolk and Tulder 2001).<sup>20</sup> In recent years, there has been an unprecedented concentration of market power in the industry's two biggest brands, what we term the 'megabrands', Adidas and Nike. In 2005, Adidas announced its take-over of Reebok for an estimated US\$3.8 billion dollars.<sup>21</sup> Similarly, Nike acquired one of the UK's premier brands, Umbro, for an estimated US\$580 million in 2007 (Morris 2007). These brands outsource most, if not all of their production activities to developing countries such as China, India, Thailand, and Pakistan. Nike and Adidas compete extensively with each other in promoting their respective brands. They are also highly sensitive to NGO and media criticism that can undermine their brand value. Both brands have played an active part in seeking to minimize their risks from challenges on labour standards. Below the top tier brands, there are a number of smaller, brands such as Franklin Sports in the USA, Select Sports in Denmark, Decathlon in France, and Baden Sports in Germany. These smaller brands are struggling to survive in the face of the competition from Nike and Adidas, but they are more likely to remain below the radar screen of international campaign organizations and thus potentially less vulnerable to media criticisms of labour standards violations in their supply chains.

This section provides a brief overview of the geography of global soccer ball production. It then goes on to detail the Sialkot and Jalandhar soccer ball clusters that form the main focus of this study, highlighting the main similarities and differences between them. As stated earlier, this study seeks to understand why two clusters that are similar on many counts respond differently to external shocks arising from CSR pressures on child labour. Our argument is that the nature of integration of local clusters into GVCs is a key factor in accounting for this. As we show through the comparative overview of the Sialkot and Jalandhar clusters, their differential integration into GVCs has important implications for the dynamics of local cluster governance and GVC governance. This has consequences for the ways in which the two clusters respond to the similar challenges, and external shocks, relating to CSR pressures around child labour.

### 4.2 The Geography of Global Soccer Ball Production

Soccer ball manufacture is concentrated in four locations in the world – China, Pakistan, Thailand and India.<sup>22</sup> As Table 4.1 below shows, not only was China the world's largest producer of soccer balls in 2001, but its leadership position had further consolidated by 2005. Pakistan is the world's second largest soccer ball manufacturer, while India is a much smaller producer accounting for roughly one-tenth of the export volume coming from China and Pakistan. Between 2003 and 2005, Chinese exports of inflatable balls grew by 54% while Pakistani soccer ball exports rose by 17% and Thailand's by 26%. China dominates in the manufacture of low to medium quality machine-stitched balls, while Pakistan is the leading producer for high quality, premium, hand-stitched

<sup>19</sup> Source: Trade Data from The Personal Computer Trade Analysis System of the International Trade Centre. The large increase in world exports between 2001 and 2005 can to some extent be attributed to the lack of data available for Pakistan in 2001. At the time, Pakistan was probably either the largest or the second largest exporter of soccer balls in the world.

<sup>20</sup> Kolk and Tulder (2001) only mention six companies: Adidas, Puma, Nike, Reebok, Asics, and Mizuno. We have added Umbro here, as it is a significant buyer from both the Sialkot and Jalandhar clusters. Umbro was, however, taken over by Nike in April 2008.

<sup>21</sup> BBC News, 2005. 'Adidas Agrees to Buy Rival Reebok', 3 August. Information from BBC World Website (Available at <http://news.bbc.co.uk/2/hi/business/4740755.stm>, accessed 12 June 2007).

<sup>22</sup> Vietnam also manufactures soccer balls, but its production is on such a small scale that it is not currently considered a significant threat to the other exporting countries in the global soccer ball industry.

match balls. Thailand has carved out a niche for the manufacture of premium, machine- made thermo-moulded balls. India's soccer ball production is largely restricted to low to medium quality hand-stitched balls.

**Table 4.1: Exports of Inflatable Balls of World's Four Largest Producer Countries: 2001-2005 (US\$000)**

Country	2001	2002	2003	2004	2005
CHINA	\$93,343	\$139,956	\$176,097	\$229,038	\$272,900
PAKISTAN			\$158,451	\$184,225	\$185,641
THAILAND	\$43,869	\$64,531	\$47,342	\$77,791	\$59,964
INDIA	\$12,956	\$18,928	\$12,899	\$18,808	\$22,735

Source: Personal Computer Trade Analysis System of the International Trade Centre

With the exception of Thailand, production in all the major soccer ball manufacturing countries is concentrated in well defined and specific production clusters. We briefly outline the main features of these production clusters.

In **Pakistan**, approximately 390 soccer ball producers are located in the city of Sialkot. It is the main location of soccer ball production in Pakistan, and traces its history to colonial times. By the mid- to late 1990s, Sialkot district had developed into a major centre for a wide range of sporting goods, supplying most global brands, while it boasted 75-80 % of world football production (Rafi Khan 2004). Whilst it has lost its premier position, and now ranks second after China in terms of its share of world exports amongst soccer ball producing countries, it remains the world's primary production centre for high quality hand-stitched soccer balls.

In **India**, the origins of the Jalandhar sports goods cluster can be traced back to Sialkot from where many of its original entrepreneurs and workers came following the Partition of British India in 1947. The Jalandhar cluster is a unique example of a transplanted cluster, where a major segment, entrepreneurs as well as workers, of an existing cluster shifted to a new location due to the political division of the country. With about 150 exporting enterprises, the cluster is the leading centre for manufacture and exports of sports goods from India, and the key location for the production of hand-stitched soccer balls.

In **China**, the soccer ball industry has grown tremendously in the last decade and consists of approximately 200 suppliers (Global Sources 2006). Chinese-made soccer balls have now come to dominate the global market, accounting for approximately just over 50% of the world market. The province of Guangdong (cities of Dongguan and Guangzhou) is the leading production hub for large-scale, export-oriented manufacturers that produce upscale machine- stitched soccer balls. Here, locally owned or Taiwanese/Hong-Kong invested companies cater to the demand from many buyers who previously used to source medium quality hand-stitched soccer balls from Pakistan and India and have shifted to machine-stitched Chinese balls. In addition, there is a large concentration of relatively lower quality hand-stitched soccer balls produced in the province of Jiangsu, with production clusters in Wuxi and Nanjing (ibid.).

**Thailand** has also emerged as an important production location. Soccer ball production in Thailand is not dominated by a specific cluster. Instead there a small handful of very large producers manufacturing machine-stitched and thermo-bonded balls. In particular, Thailand's profile in the international soccer ball industry was highlighted when the Japanese firm Molten produced the 2006 World Cup soccer ball for Adidas using thermal bonding of panels by machines instead of

stitching in its Thai factory. Other international brands such as Japanese Mikasa and Nike also source soccer balls from Thailand (Play Fair 2008).<sup>23</sup>

#### 4.3 The Sialkot and Jalandhar Soccer Ball Clusters

##### *The Sialkot Soccer Ball Cluster*

Sialkot, located approximately 125 km north-west of Lahore and close to the disputed border with Indian Kashmir, is one of the major industrial centres of Pakistan. It is well-known for its various small firm clusters that manufacture and export surgical instruments, musical instruments, sports goods, leather goods, textile products and other light manufactures. The Sialkot soccer ball cluster dates back to the early 20<sup>th</sup> Century when Sialkot became a hub for sports goods production, supplying cricket equipment and soccer balls amongst other items to the British Army (UNIDO 2008:9). Until the early 1970s, hand-stitching of soccer balls was mainly carried out by male workers in factory environments. However, with the introduction of newer and stricter labour laws under the populist regime of Zulfikar Bhutto in 1972, the soccer ball manufacturers of Sialkot shifted labour intensive aspects of production – primarily hand stitching – from factories to workers' homes, thereby circumventing the labour legislation. This marked the beginning of soccer ball stitching as a cottage industry in Sialkot. Along with the change from natural leather to synthetic leather (PVC and PU) as a key raw material for soccer ball production, this decentralization process led to a substantial growth of the industry, and facilitated the entry of large numbers of home-based women workers into soccer ball stitching along with a smaller number of child workers.

Today the Sialkot soccer ball cluster dominates the town's diverse sports goods industry. The cluster consists of 390 registered soccer ball manufacturing firms with a further 2600 registered stitching units. In Sialkot, approximately 30,000 thousand stitchers (of which 60% are estimated to be women) work in designated stitching centres. The numbers of workers increases in World Cup and European Cup years with some estimates stating that up to 60,000 workers join the workforce at this time. (UNIDO 2008:18). The cluster is highly differentiated. There are 20 large firms who act as first tier OEM suppliers of premium quality hand-stitched balls to the leading global brand merchandisers in the industry (these include well known brands such as NIKE, Adidas, Umbro, Mizuno, etc). The presence of these brands brings a high level of scrutiny from international child labour and labour rights activist on local suppliers. There are a further 50 medium sized producers, supplying to less well known brands, football clubs, and to retailers and wholesalers in Eastern Europe, Latin America, and the Middle East.<sup>24</sup> Customers also include well-known branded companies such as Coca Cola and Pepsi that source promotional soccer balls. Many smaller and medium-sized sports brands tend to remain under the radar screen of international advocacy groups while other branded non-sports companies might have CSR monitoring programs in place. However, since promotional footballs do not tend to be part of their core business, CSR compliance monitoring is often less intense from their side in relation to their suppliers. At the lower-end of the value chain, medium-sized enterprises along with a further 400 plus small firms (many of whom are not registered) produce promotional balls as well as low to medium quality soccer balls through complex subcontracting arrangements (ibid:14).

The cluster has a significant presence of relevant component and raw material suppliers as well as logistics and transportation agents that facilitate international trade from the cluster. There are a number of specialized business development service providers in the cluster and leading financial and state support institutions (ibid.). There are a number of local cluster institutions including a

<sup>23</sup>There is currently very little information or literature available on the Thai soccer ball industry. One exception is the 2006 report by the Thai Labour Campaign entitled the Life of Football Factory Workers in Thailand that reports on workers' conditions in two export-oriented factories (Yimprasert 2006).

<sup>24</sup> Interview with Small Enterprises 1 and 2.

Sports Goods Manufacturers Association and the powerful collective institution of the SCCI which has been at the forefront of various joint action initiatives in Sialkot.

#### *The Jalandhar Soccer Ball Cluster*

Jalandhar is a key centre for manufacturing in the Indian state of Punjab, located between the two important industrial cities of Ludhiana (70 km) and Amritsar (60 km). The sports goods industry of Jalandhar owes its history to the partition of British India when Hindu and Sikh Sialkot-based entrepreneurs and skilled workers migrated to East Punjab and were settled in Jalandhar. Originally, the 20 families that migrated from Sialkot to Jalandhar after partition were Hindu sports entrepreneurs. Along with them also followed skilled soccer ball stitchers (Rana and Singh 2008). As the skill spread in Jalandhar, approximately 80-90% of the stitchers now originate from the relatively poorer scheduled castes.

The Jalandhar soccer ball cluster consists of 150 firms<sup>25</sup>. There are approximately 15,000 mostly home-based stitchers in Jalandhar. During peak production periods around World Cup or European Cup years, the workforce expands to approximately 25,000 stitchers (Rana and Singh 2008). According to UNIDO (Rana and Singh 2008, p. 14) the production of soccer balls accounts for approximately 30% of the revenue, and 60% of employment, generated by the sporting goods cluster of Jalandhar. Approximately 85% of the inflatable balls produced are exported with the rest being accounted by domestic sales. Annual exports amounted to US\$ \$22.735 million in 2005. There are 10 medium-sized firms and 40 small firms, which mostly produce lower-end promotional balls. At the international level, their customers include small and medium-sized sports brands such as Mitre in the UK and Gilbert in the US, football clubs such as West Ham United and Charlton Athletic, and international retailers such as Tesco. Branded companies such as Pepsi, Disney, and Dunlop also source lower-quality promotional soccer balls from Jalandhar. The cluster also has 100 micro firms, mostly catering to the domestic market. Finally, as in Sialkot, the presence of relevant component manufacturers and transportation agents facilitate trade from the cluster (UNIDO Diagnostic Study 2001).

#### 4.4 Key Similarities between the Sialkot and Jalandhar Soccer Ball Clusters

##### *a) Common Cluster Features*

The Sialkot and Jalandhar soccer ball clusters share many common features. Both clusters have a critical mass of producers, subcontractors, component suppliers and key local collective institutions. The range of collective cluster-based industry or government support institutions is especially significant in both clusters.<sup>26</sup> Thus, in both clusters we see evidence of collective efficiency gains in the form of agglomeration economies and joint action. Furthermore, in both clusters there is a predominance of small and medium sized enterprises (SMEs), although in the case of Sialkot there are also a handful of large firms. While the two clusters vary in the range of product qualities of balls produced, the process of manufacture is largely similar. The initial tasks of producing the PVC material are carried by specialist sub-contractors while polyurethane (PU) often has to be imported from abroad<sup>27</sup>. Panels are then cut from the material and printed. In both clusters the labour

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<sup>25</sup> The Jalandhar sports goods cluster also produces other sports goods items including Cricket, Hockey, Boxing, Tennis, Badminton, Field and Track equipment, Golf Balls, Protective Equipments, Chess, and Hammocks, etc.

<sup>26</sup> In Sialkot, these include the Pakistan Sports Goods Association (PSGA), Employers Federation of Pakistan (EFP), Pakistan Workers Federation (PWF), Cleaner Production Institute (CPI), Small and Medium Enterprise Authority of Pakistan (SMEDA), and Trade Development Authority of Pakistan (TDAP). In Jalandhar, they include Sports Goods Manufacturers and Exporters Association (SGMEA), Sports Goods Foundation of India (SGFI), Sports Forum (SF), Association of Sports Goods Industries (ASGI), Indian National Trade Union Congress and Centre of Indian Trade Unions, National Institute of Technology (NIT), Punjab Technical University, Central Leather Research Institute (CLRI), Central Institute of Hand Tools (CIHT), and Polymers and Rubber Material Testing Laboratory.

<sup>27</sup> Polyurethane is used for high-end hand-stitched soccer balls and therefore almost exclusively used in the Sialkot cluster. There are a couple of PU suppliers in Lahore but a lot of PU is still imported from China, Republic of Korea, and Japan.

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intensive task of hand stitching is sub-contracted out. This process of stitching the balls is outsourced from the factory premises in order to keep overhead costs down, circumvent local labour laws, and retain flexibility in relation to meeting seasonal changes in the demand for soccer balls. Outsourcing is done with the help of subcontractors of which there are approximately 2,450 in Sialkot and 1000 in Jalandhar.<sup>28</sup>

Subcontractors function as a link between the factory and stitchers in both Sialkot and Jalandhar. Only one or two firms in both clusters directly employ their own stitchers. In both clusters, stitchers are generally either employed by the sub-contractors, or self-employed, and are paid on a piece-rated basis, with piece rates varying according to the type and quality of ball being stitched. In Sialkot, stitching officially takes place in 2,600 registered stitching centres. Registration implies that these centres are being monitored by the child labour monitoring programme previously run by ILO-IPEC and now run by its successor agency, IMAC. Stitching centres vary in size, from large stitching centres accommodating between 100-500 stitchers, medium-sized centres for 50-100 stitchers, smaller centres with 10-50 stitchers, and home-based stitching centres with less than 10 stitchers. In addition, there are non-registered home-based stitching locations, although it is difficult to estimate the numbers of these non-registered household stitching units. In Jalandhar, an almost similar number of stitching locations, approximately 3,000, have been identified. These are registered and monitored by the child labour monitoring programme run by SGFI. Approximately, 30 are smaller and medium-sized stitching centres whereas the remainder is home-based units. There are also a large number of unregistered stitching locations in Jalandhar.

Football stitching is a family-based skill that has been handed down from generation to generation in both clusters. In many of the rural settings football stitching is the only way in which villagers can earn a living apart from working in the fields. The home-based stitching system has made it possible for women to take up football stitching as a part-time occupation that could be combined with child rearing and other domestic duties. There are no fixed working hours, although stitching centres in Sialkot are sometimes open from 9 a.m. to 4 p.m. with stitchers showing up according to their own convenience. Working hours in home-based locations in both Sialkot and Jalandhar vary according to the international demand for soccer balls and each household's interest in stitching soccer balls. Working hours rise in peak seasons associated with World Cup tournaments or European Football Championships. In non-tournament years there is often a low season of 3-4 months, when stitching work declines. During this period, part of the stitching workforce, especially male family members, are forced to look for other, temporary sources of income until there is once again a surge in the demand for footballs. Payment is made according to the piece rate system in both Sialkot and Jalandhar, which is agreed between contractors & factories.<sup>29</sup> The piece rates in Sialkot vary between 30-60 Pakistani rupees (approximately US\$0.50 to US\$1) per ball whereas the rates in Jalandhar were approximately 15- 25 Indian rupees (approximately US\$0.30 to US\$0.60) per ball. This is probably related to some Sialkot producers manufacturing high-end balls while Jalandhar is mostly producing medium-lower end balls that place the Jalandhar producers in direct price competition with their Chinese counterparts. In addition, in both clusters, stitchers are said to average four balls a day, although this can rise for the most productive workers to 5 or even six balls a day.

While stitching provides an important source of livelihood for rural families in both Sialkot and Jalandhar, local manufacturers openly state that football stitching is outsourced to village-based locations in order to avoid local labour laws. Hence, football stitchers are generally not covered by any health insurance, unemployment benefits or old-age pension schemes. They are also not protected by core labour standards such as freedom of association and the right to collective

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<sup>28</sup> We are using the number mentioned in the 2008 UNIDO diagnostic study of Sialkot and the 2008 UNIDO study of Enterprise Social Responsibility in the Jalandhar cluster as well as information provided by IMAC.

<sup>29</sup> Interview with stitchers in Sialkot and Jalandhar, early 2008.

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bargaining. Often this places stitching families in a very vulnerable position in instances where family members fall ill and require medical treatment. Similarly, expenditures related to paying dowry for daughters' weddings place a major strain on stitching families in Sialkot. Often female stitchers use football stitching as a means of saving in order to be able to cover this one-off cost. While stitching is not a hazardous occupation per se, interviews with stitchers in both locations also pointed to frequent backaches and prickling by the needle as part of the occupational health and safety challenges faced by the workers. There are also some unique challenges related to conditions of work in Sialkot and Jalandhar. In Sialkot, a major challenge is related to securing the right of home-based female stitcher to access work and enjoy the same benefits that centre-based stitchers have. Several studies have pointed to the tension that exists between the establishment of stitching centres where conditions of work can be monitored as per the code of conduct of international brands and the difficulties faced by home-based female stitchers in accessing these centres (see e.g., Khan 2007, Rafi Khan 2004, 2007). Accessing these centres may be difficult for home-based female stitchers because of poor transportation facilities, domestic duties, or the unwillingness of male household members to let their wives, sisters, or daughters work outside the home. In Jalandhar, as most stitching takes place in home-based locations, there is little need for women stitchers to commute to stitching centres. Instead, the main challenge appears to be the wider system of discrimination that 80-90% of the stitchers originating from lower-caste, Dalit background, are exposed to. While caste-based discrimination is by no means isolated to the football stitching profession, it was obvious in Tajpur village near Jalandhar, for example, that stitching was concentrated in a segregated part of the village inhabited by lower scheduled castes. This area had poorer infrastructure with dirt roads, no toilet facilities in the houses, and flooding of streets due to the non-functioning sewerage system. We were informed that higher caste, Jats or landlords, in the villages near Jalandhar often institute boycotts against lower-caste Dalits in case they protest against their marginalized position. A village boycott may thus prevent stitchers from defecating in nearby fields, denying them access to jobs, the possibility of visiting a doctor, etc. Hence, not only are local stitchers in the villages near Jalandhar not covered by local labour laws, they are also faced with a wider system of discrimination that marginalizes them.

#### *b) Common Challenges*

The Sialkot and Jalandhar clusters face various common challenges. These include increasing competition from Chinese soccer ball manufacturers and the need to upgrade technologically. As we show above, the increasing dominance of the Chinese soccer ball industry, especially in the production of machine-stitched soccer balls, raises a significant test for the Sialkot and Jalandhar clusters, especially for producers of low and medium quality hand-stitched balls that compete most directly with Chinese machine-stitched balls in terms of price and quality. The threat from China, underlined by the trade statistics shown in Table 4.1, emerged as a key concern in many of our interviews with producers in both the Sialkot and Jalandhar clusters.

The new competition from China is associated with a set of pressures felt by both clusters. These include the need to upgrade technologically, and to reduce lead times to levels comparable with those seen in China. Take first technological pressures. The sporting goods industry has experienced substantial technological development in recent years. This includes advances in products, including the use of new materials (including most recently advances in nanotechnology materials), and innovations in production process technologies. Technological innovation poses a serious threat to the Sialkot and Jalandhar soccer ball clusters. In some cases, these advances have threatened the viability of existing producers of traditional sports goods in Sialkot. For example, Sialkot was a very competitive supplier of wooden tennis and squash racquets in the early 1970s. These products used locally sourced wood and were hand-crafted, with the cluster supplying many of the leading global brands. With the development of carbon graphite technology, racquets became lighter and stronger. Rapidly carbon graphite based products, which required a very different raw material and a very different, and far more mechanized, manufacturing process, took over from wooden racquets. Without the requisite raw materials, technologies and most importantly knowledge base and skill sets, Sialkot's tennis and squash racquet industry collapsed.

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A similar scenario threatens the position of the leading South Asian soccer ball clusters with the gradual shift of technology from hand-stitched to machine-stitched soccer balls and more recently thermo-moulded balls. While there is likely to be a continued demand for high-quality hand-stitched balls in the world market, this is not likely to increase in the years to come.<sup>30</sup> In the peak production season in the run-up to the 2006 FIFA World Cup, the majority of soccer balls sold was machine-stitched, originating from China, and this trend is likely to continue during the 2010 FIFA World Cup in South Africa.<sup>31</sup> Machine-stitched balls are produced in China on patented production equipment that resembles a regular sewing machine where a supporting foundation and other devices have been added. Traditional sewing machines for garment production do not have the necessary strength to stitch soccer balls. However, by changing a few of the components inside the sewing machine and adding a stronger foundation, it is possible to use sewing machines to stitch soccer balls. In China, the price for such a machine is approximately 300 US dollars, and some producers in Sialkot are in the process of buying sample machines or acquiring access to parts.<sup>32</sup>

Whereas most producers in Sialkot and some brands still claim that the quality of a premium hand-stitched ball is superior to machine-stitched balls, gradual improvements in machine-stitching is likely to narrow this difference. Some industry observers claim that Chinese machine-stitched balls are not only cheaper but also of a similar quality, particularly at the low-end promotional and training balls end of the market.<sup>33</sup> This is a particular challenge for Jalandhar, which has focused its efforts on promotional balls. In a related development, the Sialkot cluster has lost its monopoly on supplying the official football for FIFA World Cups. In the FIFA World Cup 2006, the +Teamgeist was the official World Cup ball designed by the Adidas Innovation Team and manufactured by the Molten Corporation in Thailand.<sup>34</sup>

The technological challenges in the soccer ball sector clearly require the need, as one leading brand representative stated, “for continued research and development in Sialkot if the Pakistani producers are to keep up with their international competitors”.<sup>35</sup> Yet, according to one international industry expert, Sialkot’s producers appear to believe that they can continue to rely on hand-stitched soccer ball production, and that the pressures to upgrade are not so acutely felt across the cluster.<sup>36</sup> This sense of complacency as regards technological investment, while widespread within the cluster, is nevertheless seen by the afore-mentioned industry observer as pointing to “a very scary situation for the Sialkot producers [where they] are likely to be marginalized in the international market unless they rise quickly to the current situation”.

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<sup>30</sup> Interview with Charles Brown, Senior Director, Compliance, Nike, 12 January 2008.

<sup>31</sup> “Pakistani soccer ball manufacturers turn to machine stitching system”, *The Daily*, Lahore, 23 November 2007.

<sup>32</sup> Interview with Large Enterprise 3.

<sup>33</sup> Interview with Charles Brown, Senior Director, Compliance, Nike, 12 January 2008.

<sup>34</sup> While Adidas has supplied all official World Cup balls since 1970, the Teamgeist ball only has 14 curved panels as opposed to the previous 32 panel balls that has been the standard since 1970. A new feature is also that the ball is bonded together rather than stitched. Its *claimed* benefits include being rounder and almost waterproof, ensuring more uniform performance regardless of where it is hit. Other brands tend to be more sceptical of its claimed benefits while some top-players criticized the ball in the run-up to the 2006 World Cup for being too light, not flying straight in the air, and performing differently under wet conditions. Hence, while there are doubts about the quality of thermo-moulded balls, one of the largest brands, Adidas, is already using them as its first choice for international tournaments. Meanwhile the other giant in the international sporting goods industry, Nike, is currently exploring whether it would be feasible for the company to produce thermo-moulded balls.

<sup>35</sup> Interview with Charles Brown, Senior Director, Compliance, Nike, 12 January 2008.

<sup>36</sup> Interview with Industry Expert 1.

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Another common challenge for the Sialkot and Jalandhar clusters is the need to lower lead times (the time taken between receiving orders to actual delivery at the end market) to levels that are comparable with those seen in China. The difference in lead times is significant. According to local respondents, lead times from the coastal area in Guangdong Province, China to the US West Coast are significantly shorter than from Sialkot to the West Coast.<sup>37</sup>

Various factors effect lead times. One of these is absence of many supporting industries in close proximity to Sialkot and Jalandhar, unlike the situation in China. Although basic raw materials can be easily obtained in the two clusters, many items – such as key chemicals and machine tools have to be imported. This distinguishes the Sialkot cluster and Jalandhar clusters from their competitors in Guangdong, China, where the main components and machine tools required for soccer ball production are produced in close proximity to soccer ball exporters. In China such clustering reduces transportation costs, reduces inventory costs by accelerating throughput times and ‘line down costs’ caused by broken lines in the supply chain. In addition, clustering of related support industries facilitates positive externalities in terms of technology spill-over, knowledge sharing, and reduces search costs for suppliers (Navarro 2007:14). A key raw material for high-end soccer ball production is polyurethane, which offers the benefits of synthetics (for feel) and plastics (for durability). In Pakistan there are only a couple of PU manufacturers in Lahore and the quality is not as good as the PU sourced from abroad.<sup>38</sup> In Jalandhar, there are a few PVC suppliers. Otherwise it has to be sourced from New Delhi and Mumbai. PU has to be imported entirely from abroad, which adds to cost and delivery times (UNIDO Diagnostic Study 2001).

A further reason for the slow lead times for the Jalandhar cluster is the significant infrastructural challenge given the cluster’s distance from leading seaports in India.<sup>39</sup> Although similarly land-locked, distance from ports does not appear to constitute a significant challenge for the Sialkot cluster. Much of this has to do with Sialkot’s dry port, which facilitates quicker transportation from the cluster.

Another common challenge for the two clusters has been political instability in the region, which can have negative effects on production, and limit the ability of foreign buyers to visit local producers. During the 1970s and 1980s this was especially acute for the Jalandhar cluster due to the political unrest and violence associated with Sikh separatist movements in the Indian Punjab. More recently, the Sialkot cluster has had to face the consequences of rising violence and instability in Pakistan that has ensued since September 11 2001, and the subsequent war in Afghanistan. This has prevented many American and European buyers from travelling to Pakistan. Meetings sometimes have to be cancelled and it is often not possible for buyers to travel beyond their hotels in Lahore.<sup>40</sup>

Finally, both clusters have been exposed to allegations of child labour with the value chains of local suppliers. In recent years, both clusters have witnessed the emergence of local CSR institutions in response to the AA. In Sialkot, this has happened through the establishment of a CSDO hosted by the SCCI which is charge of social protection activities, while IMAC was created to keep track of the presence or absence of working children in the Sialkot soccer ball industry. In Jalandhar, the child labour monitoring and social protection functions have been integrated into a single institution. We discuss the evolution of these institutions in depth in Sections 5 and 6.

#### 4.5 Key Differences between the Sialkot and Jalandhar Soccer Ball Clusters

While the two clusters share similarities and common challenges, there are a number of critical differences between them. These can be seen in some of the core features of the two clusters and the processes that clustering has brought about in Sialkot and Jalandhar. There are sharp differences in scale, in products, in history of joint action, and most importantly in the types of

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<sup>37</sup> Interview with Large Enterprise 3.

<sup>38</sup> Interview with Large Enterprise 3.

<sup>39</sup> Interview with Medium-sized Enterprise 5.

<sup>40</sup> Interview with Charles Brown, Senior Director, Compliance, Nike, 12 January 2008.

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buyers each cluster attracts, and the ensuing GVC ties into which they are inserted. A summary of this is presented in Table 4.2 below:

**Table 4.2: Key Differences Between the Sialkot and Jalandhar clusters**

	Sialkot	Jalandhar
Scale: Number of Firms	20 (Large) 50 (Medium) Small and Micro (400)	10 (Medium) 140 (Small and Micro)
Scale: Number of Subcontractors	2,400	1000
Scale: Number of Workers	30,000 Stitchers	12,000 Stitchers
Scale: Exports (2005)	\$185 million	\$22 million
Types of Hand-stitched Soccer Balls	High Quality Premium Match Medium Quality Low Quality Promotional	Medium Quality Low Quality Promotional
Key Buyers	Megabrands (Nike, Adidas)	No Megabrands
History of Joint Action	Extensive	Limited

*a) Scale*

Take scale, for instance. While both clusters have a critical mass of small and medium producers, the size of the Sialkot cluster is much larger – whether measured by numbers of firms, export volumes, or employment. Sialkot’s exports of soccer balls of US\$185.6 million dwarf that of Jalandhar (of US\$22.7 million). There are almost 500 firms in the Sialkot cluster in contrast to 150 firms in Jalandhar. Although home-based stitching takes place in Sialkot, it is not viewed as the dominant form of production organization for stitching, unlike Jalandhar. In Sialkot, much of the hand-stitching, especially for the premium export market and for the leading brands, is undertaken in the designated stitching centres. Medium-sized and smaller stitching centres are relatively rare in Jalandhar.

Employment levels also differ between the two clusters. Although accurate data on employment in the soccer ball sectors in Sialkot and Jalandhar is hard to obtain, the number of registered stitchers in Sialkot (approximately 30,000 in non-peak seasons) is nearly double that of their counterparts in Jalandhar. In addition to the registered stitchers, who are monitored through the respective child labour monitoring programmes in operation in the each cluster, there are, in both clusters, non-registered stitchers working outside the purview of the voluntary child labour monitoring regimes in operation in each cluster. Moreover, while there are no large firms in Jalandhar, Sialkot has at least twenty large producers. The significance of the large firms cannot be underestimated in the Sialkot cluster. It is these firms that tend to produce for the leading global brands. It is these firms that also exercise significant influence in the cluster, and especially on key cluster institutions such as the SCCI.

There is also a marked difference in terms of the product lines of the two clusters. While producers in Sialkot manufacture a wide range of soccer balls, the cluster is particularly known for its high quality hand-stitched premium, or match balls. These are balls used by professional football teams, and in major professional leagues and tournaments around the world. Jalandhar has not been able to produce such high quality hand-stitched balls, or to break into these premium markets. In contrast,

Jalandhar's leading exports are of medium to lower quality soccer balls as well as various sizes of promotional balls.

These distinctions in scale and product quality have meant that the two clusters have attracted somewhat different types of buyers. Most of the leading global sports good brands, including the two megabrands – Nike and Adidas – source high quality hand-stitched soccer balls from Sialkot. In contrast, Jalandhar has failed to attract the megabrands, and only a small handful of top sports brands are prominent in sourcing from the Indian cluster (a key example is the Pentland Group which sources the well known 'Mitre' brand of soccer balls from Jalandhar). In interviews with leading global buyers and key brands, it is apparent that the Jalandhar cluster's overall scale and its product quality are not considered as meeting their requirements. There was no sense that Jalandhar posed a significant competitive challenge to Sialkot in hand-stitched soccer balls.

#### *b) Joint Action*

Another sharp difference between the clusters has been their experience with cluster-based joint action. The Sialkot cluster has a strong history of collective action through the SCCI. This has been a key element behind the competitive success of the various industrial clusters in Sialkot over the years. In the 1980s the various clusters in Sialkot came together through the SCCI to develop a 'dry port' in nearby Sambrial to speed up the processes associated with customs evaluation and shipping of their exports and imports from land-locked Sialkot to sea and airports. Through collective private investments, this first private 'dry port' in the country was able to reduce handling costs and shipping time substantially. In the 1990s, again there was evidence of joint action in response to externally imposed threats associated with meeting global standards on quality assurance (for the surgical instruments cluster) and child labour (in the soccer ball cluster). Again, these examples indicated that in the face of critical external shocks, collective action within the cluster was able to mobilize rapidly. This not only reduced the respective cluster's exposure to such challenges, but actually enhanced its global competitive position. Thus, by the end of the 1990s Sialkot's industrialists, especially in the surgical instruments cluster, had enthusiastically adopted the ISO 9000 quality assurance standards<sup>41</sup>, while in the early years of the current decade, the child labour monitoring programme in Sialkot was seen as a model approach to address social compliance on child labour.

More recently, private industry in Sialkot has collectively invested in improving local infrastructure with building and improvement of roads within the city, its industrial estate, and its key arterial road to Gujranwala. Most recently, the SCCI has spearheaded the construction of the Sialkot International Airport, the first and only private sector built airport in the country. The airport was established at a cost of US\$40 million and jointly financed by the city's industrialists. Opened in late 2007, it provides domestic, and now international, passenger flights with a cargo service to be launched in the near future. By contrast, the Jalandhar cluster is not well known for joint action initiatives. Collective action has been constrained by the Jalandhar cluster's limited size, its fragmented production structure and associated conflicts of interest amongst producers, as well as the tendency of industrialists to either escape government regulation or look towards government for help instead of relying on the producers' own resources when faced with external threats.<sup>42</sup>

#### *c) Global Value Chain Ties*

Possibly the sharpest differences between the two clusters relates to the ways in which they are linked into GVCs. As previously mentioned, the megabrands, Nike and Adidas, source soccer balls from Sialkot and not from Jalandhar. This is important, because it brings the Sialkot cluster into the

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<sup>41</sup> See Nadvi 1999 and Nadvi 2004a for detailed studies on local joint action and the surgical instruments cluster's response to pressures to comply with international quality assurance standards.

<sup>42</sup> This is not to say that Sialkot's producers do not attempt to escape governmental regulations or extract government subsidies to operate a profitable business. Clearly, they also engage in such rent-seeking practices. However, the difference between the Sialkot and Jalandhar clusters is that the former appears to rely more on its own resources to respond to external threats than the latter cluster.

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international limelight, attracting the attention of Northern-based child labour and labour rights advocacy groups. While there are also well-known brands such as UK-based Mitre and French sports retailer Decathlon sourcing from Jalandhar, these brands do not receive the same attention of international advocacy groups like Nike and Adidas. Hence, the Jalandhar cluster is less in the international media spotlight, and pressures for CSR compliance are more acutely felt by local manufacturers in Sialkot than in Jalandhar. In addition, many medium and large firms in Sialkot act as exclusive OEM suppliers working with individual brands.

In some cases, local suppliers, notably the Silverstar and Forward Sports factories that supply Nike and Adidas, are integrated into what the literature terms as ‘captive governance relationships with their lead firms, the global brands. This implies that the brands determine all key marketing and pricing decisions, design the ball and monitor code compliance by the supplier through first and third party audits. Suppliers are responsible for OEM production, according to the stipulations laid down by the brands, and for ensuring full compliance with the brand’s code of conduct. In sectors where access to markets is heavily concentrated in the hands of key retailers or brand merchandisers, being engaged in a captive relationship may be the only way for developing country producers to succeed. This type of relationship can also have substantial benefits. In addition to providing access to markets, it can result in long-term relationships with brands, leaving producers less vulnerable to constant shifts in production associated with pure market-based ties with buyers. It can also allow firms to raise profits through high volume contracts and lead to some transfer of technical know-how from brands to producers.

Captive relationships also imply risks for producers, especially those who produce exclusively for one brand buyer. If the brand decides to ‘pull the plug’, switching to other suppliers inside or outside the cluster, the OEM producer may collapse. In the last two years, three of the largest manufacturers in Sialkot, Saga Sports, Sublime, and Capitol Sports, have seen their primary buyer terminate their sourcing relationship. Nike stopped sourcing from its then sole supplier, Saga Sports, in November 2006 for alleged labour code violations. From being the cluster’s then leading producer, Saga Sports is now effectively bankrupt. Similarly, Adidas rationalized its sourcing arrangements in Sialkot, moving from three local OEM suppliers: Capital Sports, Sublime, and Forward Sports, to one – Forward Sports – in late 2007. This decision was related to Adidas’ sourcing strategy of consolidating its supply chain. It had gradually been implemented in the past six years and aimed at providing those suppliers that demonstrated the greatest level of commitment and innovation with further growth opportunities and additional investments in cutting-edge technologies.<sup>43</sup>

In Jalandhar, some medium-sized OEM suppliers are also integrated into captive chains with international sports brands such as Gilbert and Mitre. However, while these OEM suppliers in many ways face opportunities and threats similar to their counterparts in Sialkot, non-compliance with CSR standards is less likely to result in the termination of orders from the Jalandhar cluster as the Jalandhar producers are less in the international media spotlight than their counterparts in Sialkot.

#### 4.6 Conclusion

Although China has emerged as the leading global exporter of inflatable soccer balls, its dominance is largely restricted to the machine-stitched products. In the area of hand-stitched balls, the traditional forms of manufacturing of soccer balls, South Asia is dominant with production concentrated in the soccer ball clusters of Sialkot, Pakistan and Jalandhar, India. Hand-stitched balls range in quality, from premium balls used in professional tournaments and by leading international clubs, to low quality promotional and toy balls. Sialkot has enjoyed a unique position as the leading

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<sup>43</sup> Adidas sourcing strategy applies all production areas (footwear, accessories, and apparel). E-mail communication from William Anderson, Head of Social & Environmental Affairs Asia Pacific, Adidas Group, 2 May 2008.

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source for premium hand-stitched match balls. Recent technological developments have seen the emergence of thermo-moulded balls as a serious challenge to hand-stitched balls at the premium quality end of the market, while improvements in the quality of machine-stitched products raise new competitive pressures for medium quality hand-stitched ball producers. In this section we sought to provide a brief overview of the global soccer ball industry, and a sense of its geography of global production. We then went on to outline in greater detail the two clusters that form the focus of this study, Sialkot and Jalandhar. As we have stated earlier, this study seeks to understand what explain differing responses of these two, seemingly similar, clusters to common external shocks around CSR pressures on child labour. While we have detailed many of the similarities across the two clusters, it is worth re-emphasising some of the critical differences between Sialkot and Jalandhar.

The Sialkot cluster is approximately three times larger than the Jalandhar cluster in terms of numbers of firms and eight times larger in terms of export value. Whereas the Sialkot cluster is a supplier of top-quality hand-stitched balls to the world's leading brands such as Nike and Adidas, the Jalandhar cluster tends to sell lower-end promotional balls to medium/small sports brands or wholesalers/chain stores throughout the world. Both clusters face a number of common challenges. These include competition from lower-cost Chinese producers using newer, machine-stitched technology as opposed to the 'older' hand-stitched production of soccer balls found in Sialkot and Jalandhar. Both clusters lack supporting industries that can supply the key raw materials PU and PVC, adding to their lead time in comparison with their Chinese competitors. In addition, political instability has impacted on both clusters, and currently is a serious impediment to Pakistan's soccer ball industry.

While producers in both clusters gain from agglomeration advantages, the experience with local joint action across the two clusters is markedly different. The Sialkot cluster has a strong tradition, going back at least two decades, of collective industry action to confront common challenges and respond to external threats. This tradition of local joint action has strengthened institutions of local governance within the cluster, especially in the respective trade bodies and the local chamber of commerce (SCCI). In contrast, joint action has been, until recently, relatively limited in the Jalandhar cluster.

One of the most marked differences across the two clusters relates to the types of buyers that producers in each cluster trade with, and the types of GVC relationships that ensue. Most of the larger firms in the Sialkot cluster act as OEM suppliers to leading global brands. For the major brands, especially the two 'mega' brands Nike and Adidas, the GVC relationship is such that local suppliers are in a captive governance arrangement with their lead firms. Producing for such leading brands has its advantages – most notably in terms of production volumes, market access, and flows of technical knowledge and know-how. However, captive chain ties can leave local OEM suppliers highly vulnerable to the changing sourcing patterns of global brands.

One of the main challenges posed by the leading brands is associated with compliance with their codes of conduct, especially with respect to labour standards. This is a highly charged area, where revelations of code violation can seriously undermine the brand value of the leading global firms. Trading with the Sialkot and Jalandhar clusters represents a significant reputational risk to international brands if child labour is found in their supply chains. The pull-out of Nike from Saga Sports citing labour rights violations and the unauthorized outsourcing of stitching to home-based locations illustrates the extent to which a large brand will go in order to avoid the risk of being associated with child labour. Nike would rather forego profits in the short-term by limiting its supply of premium-stitched soccer balls than re-enter Sialkot under the old production model that involved home-based stitching and possibly children in the stitching of footballs.<sup>44</sup> It should be emphasized here that the reputational risk of being associated with child labour not only affects larger but also medium-sized and smaller brands. In the mid-1990s, the German brand Baden

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<sup>44</sup> Interview with Charles Brown, Senior Director, Compliance, Nike, 12 January 2008 and 29 February 2008.

decided to shift its sourcing of soccer balls from Pakistan to China due to the company's concern over the child labour issue (Global Sources 2006:6).

Thus, an essential element of captive governance ties is related to the mechanisms for ensuring effective monitoring of code compliance by local suppliers. The megabrands rely on their own and third party monitors to ensure that their codes of conduct are being met. One implication of this arrangement is that, as leading global brands exercise more and more power over their local OEM suppliers, local cluster governance, exercised through local collective institutions, increasingly gives way to global chain governance. In contrast, most firms in the Jalandhar cluster who trade with smaller brands and distributors across the world operate in market based ties with their global buyers. This implies that GVC governance for most producers in Jalandhar cluster is, compared to Sialkot, relatively less pronounced. In the subsequent sections we go into greater depth in analysing how the interplay between local and global governance has affected how the two clusters have responded to similar challenges around CSR pressures on child labour and on the implementation of the AA.

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## **5. Child Labour and the Atlanta Agreement – The Initial Response of the Sialkot and Jalandhar Clusters**

### 5.1 Introduction

The critical and common challenge faced by both the Sialkot and Jalandhar soccer ball clusters over the past decade has been CSR pressures relating to the presence of child workers in production activities. This section explores how the initial ‘shock’ of being exposed to the child labour allegations in the international media in the mid-1990s permeated both clusters between 1997 and 2003, affecting the interrelationship between global governance and local governance in each cluster. We argue that their initial responses to the AA were to some extent similar. Both clusters decided to introduce a child labour monitoring mechanism and develop a social protection programme that aimed at transferring former child workers from stitching to school while ensuring that their families did not suffer in the process.

There were, however, four significant differences in the initial response to the AA across the two clusters. First, the Sialkot cluster reacted much faster in terms of implementing the Agreement than the Jalandhar cluster. In Sialkot, the implementation process began in 1997, whereas it was only started in Jalandhar in 1999. Second, the formalization of the football industry was much greater in Sialkot than in Jalandhar. In Sialkot the stitching process had been largely transferred from home-based, non-monitored, settings to stitching centres while home-based stitching units remained the predominant form of work organization in Jalandhar. Third, international organizations were initially much more involved in the ‘on-the-ground’ implementation of the AA in Sialkot whereas local actors in Jalandhar took charge of the process to a greater extent. Finally, the social protection program in Sialkot was much wider in scope than was the case in Jalandhar.

In our view these differences can be best explained by analysing the interplay between chain global governance and local cluster governance in the two clusters. The global chain governance pressures for child labour and CSR compliance are much greater in the Sialkot cluster than in the Jalandhar cluster. This partly explains why the Sialkot cluster began to implement the AA already in 1997 while the implementation process in Jalandhar only began in 1999. It also partly explains the need for greater restructuring in the Sialkot industry as opposed to the Jalandhar industry. However, the implementation of the AA was also facilitated in Sialkot by a strong tradition of collective action institutionalized in the SCCI that allowed the cluster to react quickly and ensure greater formalization of the industry. In Jalandhar, there was a much weaker tradition for collective action, and a new collective CSR institution had to be formed before the implementation of the AA could begin within the cluster in 1999.

A secondary factor that has further strengthened the role of global governance forces in Sialkot appears to be the relatively ‘benign neglect’ on the part of the Pakistani government which has not undertaken a more active role in addressing the child labour issue through its own regulatory regimes. This has provided the space for international agencies to implement larger-scale projects on the ground in Sialkot, supported by local NGO partners, both in the arena of child labour monitoring as well as in the development of social protection programmes aimed at transferring children from stitching to school while providing social safety nets for their families. In contrast, more active state intervention appears to have prevented international agencies from taking on such a leading role in Jalandhar.

In Section 5.2 we document the institutional response of the Sialkot cluster to the AA between 1997 and 2003/4 while Section 5.3 discusses how the Jalandhar cluster, faced with similar challenges as in Sialkot, also developed a multi-stakeholder, public-private initiative modelled on the AA during the same period. Both sections address the two distinct components of the AA – child labour monitoring and social protection. Section 5.4 concludes with an overview of the similarities and the differences in the two clusters’ initial responses to the AA as well as an explanation of why the cluster responses differed to some extent although they had both inherited the basic principles of the AA.

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## 5.2 The Atlanta Agreement and the Sialkot Cluster – Its Initial Purpose and Implementation Structures

### *a) The Emergence of the AA*

In 1995 and 1996 a series of international media reports documented the presence of child workers engaged in the production of soccer balls in Sialkot. For example, on April 6 1995, the US television network CBS broadcast a documentary entitled “Children at Work” that focused on how poor children in Sialkot were working so that American children could enjoy playing soccer. Subsequently, several newspaper articles and reports in the United States and Europe made strong allegations that children were not only working but also bonded and enslaved in the soccer ball industry of Sialkot (Rafi Khan 2007, p. 83). While the claims of enslaved and bonded child labour in the soccer ball industry were hard to verify, they were reinforced by the early 1996 Foul Play Campaign of the International Labor Rights Fund in Washington. The campaign also brought attention to the plight of the children working in Sialkot’s soccer ball industry (Kazmi and McFarlane 2003).

At the time, Sialkot was the primary production location in the world for hand-stitched soccer balls, and all leading global brands sourced from there. Faced with these pressures the global sporting goods industry – the WFSGI, the International Federation of Footballs Associations (FIFA), the Soccer Industry Council of America (SICA), and the global brands - were forced to react. They met with a multi-stakeholder group including the ILO, UNICEF, Save the Children – UK (SCF), Anti-Slavery International, and the SCCI in London in November 1996. While there was universal agreement about the need for devising a solution to the child labour issue, estimates of the actual size of the ‘problem’ varied between 5,000 and 17,000 working children (Husselbee 2000).

A key question was how to create a credible child labour monitoring mechanism that could prevent children from stitching soccer balls. The sporting goods industry initially considered hiring the services of a private accountancy firm to undertake this task, but questions were raised about the impartiality of private sector consultants. Instead the ILO offered its help. With its perceived impartiality and its experience from child labour monitoring in the Bangladesh garments industry, the ILO soon became the preferred option of the industry. UNICEF also became a key actor due to the organization’s concern with the promotion of child rights. The SCF took part in the AA negotiation process given the organization’s concern with the plight of the working children and their families whose incomes were, at least in the short run, likely to drop as the children stopped working. The experience of Bangladesh garment industry in the early 1990s had illustrated that if child workers were simply laid off without appropriate educational and income generation alternatives for themselves and their families, they might turn to work in more hazardous occupations such as begging, prostitution, and brick chipping (Husselbee 2000, p. 133).

As a consequence of these discussions the AA came into shape and was signed in early 1997. Its goals were formulated as: a) to eliminate child labour in soccer ball production within the cluster, and b) to eliminate child labour in all other local industries in Sialkot (ibid.). The idea was that simply eradicating child labour in the soccer ball industry would not be possible if it were not complemented by similar efforts in other local industries in Sialkot (e.g. surgical instruments) (ibid.). These objectives were to be achieved through the development of a child labour prevention and monitoring mechanism as well as a social protection and rehabilitation programme for the children and their families. In terms of the interventions objectives, these were more specifically stated as:

- “to prevent and progressively eliminate child labour in the manufacture or assembly of soccer balls in Sialkot District and its Environs”,
  - “to identify and remove children under the age of 14 from the manufacture or assembly of soccer balls and provide them with educational or other opportunities and
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- “To facilitate changes in community and family attitudes to child labour, including in the soccer industry.” (Dogar et al. 2004).

While organizations such as the WFSGI, FIFA, Sporting Goods Manufacturers Association, and SICA had played important roles in the negotiation process leading up to the signing of the AA, it was only the ILO-IPEC, UNICEF, and the SCCI that were the actual signatories to the Agreement. These partners became the key implementing agencies of the agreement. In addition, SCF obtained an observer role as an interested party to the agreement.

The Pakistani government played a very limited role in the AA agreement negotiations and its subsequent implementation in Sialkot. During the negotiations it was suggested that the Pakistani government should carry out the monitoring process. However, Sialkot’s industrialists strongly resisted this idea. Alongside fears of inefficiency and corruption on the part of government labour inspectors, there was a sense on the part of local industry that the stamp of an ILO inspection regime would provide greater international credibility to the claim that the child labour issue had been addressed in Sialkot. At the same time, the Pakistani government welcomed the support of international donors for the project, especially as its own resource commitments to this initiative were limited.<sup>45</sup> Although Pakistan had clear minimum age guidelines in its labour legislation, state enforcement of labour standard regulations was weak, and the government had at the time no clearly set out strategy to address the issue of child labour. Consequently, in the implementation process of the AA, government participation was limited to membership of only one of the three implementing committees of the AA, the Sialkot Programme Forum (SPF).<sup>46</sup> This was headed by the Deputy Commissioner of Sialkot. The SPF was meant to facilitate the implementation of the AA and had representatives of government line departments, the international aid agencies, and their Pakistani NGO counterparts as its members. However, SPF would only convene at intervals to be proposed by the international aid agencies<sup>47</sup> and had no direct involvement in project implementation on the ground (Dogar et al. 2004, pp. 11-12).

The limited role played by the Pakistani government in the negotiations and implementation of the AA appeared to have had ramifications for its future sustainability in Sialkot. In the view of one Pakistani government official involved in the discussions leading to the AA, there was a clear sense that the government was happy to let international actors both shape the child labour elimination programme and to subsequently implement it. Yet, there can be, as our informant observed, a potential trade-off in development interventions such as the Sialkot soccer ball project between donors quickly implementing projects on the ground and long-term sustainability. The latter required greater government involvement from the outset, which would imply that the implementation process would take much longer time, given the government’s slow pace of working. However, in instances such as the Sialkot soccer ball project, where donors were implementing activities on the ground with only weak linkages to national institutions and national regulatory policies, the outcome was often “island projects” that were unlikely to be sustainable once the donors pulled out.<sup>48</sup>

#### *b) Competing Moral Logics in the Atlanta Agreement*

The objectives and the approach taken in the AA reflected three competing logics or ways of understanding the causes of child labour. The *moral logic of economic change* supposed that children’s engagement in soccer ball stitching was caused by poverty, and that removing them from

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<sup>45</sup> Interview with Pakistani Government Official 1.

<sup>46</sup> The AA was to be implemented through three committees, the Project Coordination Committee (ILO, UNICEF, SCCI, and SCF) responsible for the overall administration of the programme, the Sialkot Implementation Team (the international aid agencies and their Pakistani NGO counterparts) in charge of coordination of activities on the ground in Sialkot, and the SPF, whose task was to facilitate on-the-ground implementation.

<sup>47</sup> Through the Sialkot Implementation Team.

<sup>48</sup> Interview with Pakistani Government Official 1.

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stitching activities would exacerbate this situation. Hence, according to this logic, it was necessary to provide economic and social safety nets that could ameliorate the negative effects of removing children from work and provide them with alternative opportunities for educational and social advancement. SCF-UK was the strongest proponent of this logic amongst the AA partners. The *moral logic of industrial change* saw child labour as arising from home-based soccer ball stitching, widespread subcontracting, informal labour practices, and the absence of local law enforcement. The solution to the child labour issue was therefore seen as transferring home-based production to factory-like environments. This logic was mostly espoused by the ILO, the global brands, trade unions and the SCCI in the negotiation process<sup>49</sup>. Finally, the *moral logic of social and cultural values change* saw the presence of child labour in the cluster as caused by the local value system in Sialkot. The solution was therefore to replace existing social and cultural values with new ones advocating children's rights. UNICEF and to some extent the WFSGI represented this point of view through their awareness raising programmes on child labour and child rights (Kazmi 2008, pp. 244-50).

Three observations seem relevant to understanding how these moral logics were institutionalized in the implementation of the AA. First, the moral logic of economic change could be seen in the SCF's attempts at creating income and educational alternatives for the child and female stitchers as well as their families that would be affected by the agreement. Second, the moral logic of industrial change was reflected in the ILO-IPEC's intervention that focused on establishing stitching centres as part of a broader child monitoring scheme. Finally, the moral logic of social and cultural values change was institutionalized in UNICEF's awareness-raising programmes around child rights.

Interestingly, it appears that the most important motivation for Sialkot manufacturers in negotiating and joining the AA was that market access was becoming conditional upon eradicating child labour from the Sialkot soccer ball industry. The message from the brands was clear: either the Sialkot manufacturers had to do something substantial to address the child labour issue or the brands would be forced to source soccer balls elsewhere.<sup>50</sup> As one soccer ball manufacturer that we interviewed in Sialkot put it, "the soccer ball industry [in Sialkot] would have collapsed unless we had negotiated and implemented the AA".<sup>51</sup> According to Khan (2007, p. 100), the AA was negotiated by Sialkot's largest companies through the SCCI in an attempt to avoid the sanctions that had brought Pakistani's carpet industry to its knees a few years earlier after similar media reports on child labour in the industry surfaced and officially been denied by local carpet manufactures (ibid., p. 87). In other words, while many soccer ball manufacturers felt compelled to join the agreement, it appears as if there was limited buy-in from Sialkot's industrialists to the idea that child labour was a 'problem' per se. One informant – a member of a leading soccer ball family in Sialkot – stated about the international brands, "They put a knife to our throat and we had no other choice than to react regardless of whether we thought the international concern with child labour was justified or not."<sup>52</sup> According to Khan (2007, p. 51), while Sialkot's football manufacturers were willing to do almost anything demanded by their buyers in order to survive, they constantly complained about what they perceived as foreign standards imposed on them by outsiders with little familiarity of the ground reality in Sialkot. According to some of the manufacturers whom we interviewed for this study, the imposition of the child labour issue on the Sialkot soccer ball cluster had not only increased the industry's cost structure, but also denied children the opportunity to learn the skill of stitching and forced many home-based women workers out of the workforce as a result

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<sup>49</sup> It should be note that the SCCI was to some extent represented by Saga Sports, whose founder, Sufi Khurshid, believed that the establishment of large-scale stitching centres that could be monitored constituted the solution to the child labour issue. The idea was then to attract stitchers to work in these centres by providing them with the various benefits (Hussein-Khaliq 2004, p. 106).

<sup>50</sup> Interview with NGO 1.

<sup>51</sup> Interview with Small Enterprise 2.

<sup>52</sup> Interview with Medium-sized Enterprise 2.

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of the introduction of the stitching centre system<sup>53</sup>. Hence, while removing children from their supply chains was necessary to avoid an international boycott, some manufacturers in Sialkot did not appear to believe that the implementation of the AA had either benefitted them or workers within the industry.

In addition, an important observation is that the perception of local stitchers did not figure in any of these logics. According to Khan (2007, p. 169), in the absence of a well-functioning school system and few alternative job opportunities, adult stitchers often preferred to let their children work at home under their supervision instead of sending them out of the house. Khan describes how football stitching was considered clean, flexible, not dangerous, and easy to learn by adult stitchers, enabling their children to earn money for themselves and assist in running the household. However, the adult stitchers' perception of home-based stitching as a socially beneficial activity for children, as Khan relates it, did not form part of the moral logic underlying any of the monitoring or social protection activities implemented as part of the AA. Indeed the intended beneficiaries, adult and child football stitchers, did not appear to have been consulted about what their priorities for the AA would be.

*c) Partners Operational Framework*

The signing of the Agreement was followed by a Partners Operational Framework outlining the responsibilities of the partners in the AA. Hence it was decided that ILO-IPEC would be responsible for devising and implementing a workplace monitoring system and a social protection programme that would rehabilitate the children withdrawn from soccer ball stitching and help their families find alternative sources of income generation in anticipation of the drop of incomes that would result from child workers exiting the industry. A local NGO Bunyad Literacy Community Council (BLCC) played an important role in this first phase, and later Sudhaar, another local NGO in the second phase, particularly in relation to the provision of non-formal education (ILO-IPEC 2004, p. 9-10).

UNICEF was to implement awareness-raising campaigns that would contribute to the elimination of child labour from the industry. This was to happen through campaigns to promote children's rights and support the development of a Universal Primary Enrolment programme. Target groups included parents, employers, children and the wider Sialkot community. The means for implementing the campaigns would be advocacy, social mobilization, programme communication, and training of government officials, NGOs/community-based organizations, and religious leaders on the issue of child rights (Dogar et al. 2004, p. 9-10).

As an observer to the Agreement, SCF established a field office in Sialkot with the aim of ensuring that the children would not suffer from the implementation of the AA. Through a detailed analysis of the ground reality in the villages, SCF's activities sought to improve the quality and community management of local schools in order to make schooling more attractive, and promote alternative forms of income generation for stitching households. A central concern was to protect women's income that might be reduced as stitching was transferred from home-based to designated stitching centres. For female home-based workers, commuting back and forth to stitching centres could be difficult for social stigma and childrearing reasons. Hence, SCF's efforts included the formation of women's groups, the provision of credit and savings schemes to stitching families, encouraging manufacturers to establish all female centres, and facilitating community participation in school management. The SCF's social monitoring was to complement UNICEF's efforts (Husselbee 2000).

The implementation of the AA was initially estimated to cost US\$ 977,444. The SCCI committed to paying US\$221,700 for the institutionalization of the child labour monitoring mechanism while the ILO's social protection component was financed by a grant of US\$755,744 from the US Department of Labour. UNICEF undertook its project at a cost of US\$200,000 while the SCF's

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<sup>53</sup> Interview with Medium-sized Enterprise 3 and Small Enterprise 4.

educational programmes were supported by a US\$100,000 grant from FIFA/SICA. Finally, SCF's income generation schemes and its work with the formation of women groups received funding from the UK Department for International Development (DFID) that provided approximately US\$40,000 per annum over a three-year period. As the implementation of the programme was extended into a phase II (2000-2004), additional financing of US\$380,000 was provided for by the SCCI (US\$180,000) and FIFA (US\$200,000) while the ILO's social protection programme received a grant of US\$1,109,831 from the US Department of Labor (Dogar et al. 2004, pp. 13-18).

*d) The Child Labour Monitoring Mechanism in Sialkot*

In accordance with the AA's goal of eliminating child labour from the soccer ball industry of Sialkot, a child labour prevention and monitoring mechanism was created. In order to eradicate child labour from the Sialkot cluster, it was necessary to reorganize the value chain of participating manufacturers by transferring home-based stitching units into stitching centres that could be monitored for the presence or absence of child labour. Two types of monitoring would be conducted: international monitoring by the manufacturers and external monitoring by the ILO-IPEC. As part of the internal monitoring process, manufacturers joining the programme had to provide information about their company such as production capacity, number of stitching centres, number of employees working in each centre, name of subcontractor/location in the villages surrounding Sialkot, etc. Once the information had been entered into a database created specifically for this purpose, the ILO-IPEC provided the joining manufacturer with a three digit code to be printed on the inside of the panel of each soccer ball. In this way, it would be possible to trace the movement of the balls from the factories to the stitching centre and back again, identifying possible leakages along the value chain. Leakages meant balls stitched in home-based settings (Dogar et al. 2004, pp. 14-15).

The AA stipulated that 100% of the production capacity of participating manufacturers should be transferred to monitorable stitching centres within the first 18 months of joining the programme. This was to be done in three phases, where 25% of production capacity was to be switched to the centres within the first six months, 25% in the next six months, and the remaining 50% was to be switched in the last six months. Hence, at the end of the 18-month transition period, the manufacturer was required to reveal 100% of its stitching production to the ILO-IPEC.<sup>54</sup>

An external monitoring system was devised by the ILO-IPEC. A team of 20 monitors (consisting of men and women) was hired so that a male and female monitor could accompany one another on field visits. The ILO-IPEC divided the Sialkot district into seven zones, with each zone consisting of various clusters. At the same time, a custom-designed computer program randomly chose the sites to be visited. Hence, the field monitors were provided with a list of sites to be visited each morning prior to entering the field. The role of the monitors was to verify the information provided by the manufacturers. It was decided that a stitching centre would consist of a minimum of five stitchers who could be seated jointly with a signboard indicating that the locality in question was a designated stitching centre<sup>55</sup>.

*e) The Social Protection Programme in Sialkot*

The purpose of the social protection programme was to provide the families affected by the AA with educational and income generation alternatives. During phase I of the implementation of the Agreement from October 1997 to August 2000, UNICEF managed to cover 508 villages and 10 urban wards as part of their Universal Primary Enrolment (UPE) programme, achieving an enrolment rate of close to 100% amongst 5-7 year old children in primary schools. During the same time, the SCF's income generation and skills training programme disbursed Pak. Rupees 119.25 million to 6,299 borrowers. However, given the scale of the task, it was clear that the intended

<sup>54</sup> Interview with NGO 1.

<sup>55</sup> Information from IMAC's webpage (<http://www.imacpak.org>, accessed 16 June 2008).

initiatives could not be completed within the first phase. Hence, it was decided to develop a phase II of the programme, as there was broad consensus amongst the AA's key stakeholders to solidify and expand the work undertaken in Phase I. The evaluation of Phase I recommended an improvement of the social protection programme and the transfer of the monitoring component of the project to a local independent body. The idea was that the local body should continue the monitoring function set up by the ILO-IPEC in order to sustain the achievements of the AA (Dogar et al. 2004).

A local child rights advocacy organization, Sudhaar, took over the work of the BLCC in Phase 2, supporting the rehabilitation of soccer ball stitchers through non-formal education, recreational activities, community mobilization and training of teachers. A major new intervention in phase II was also the provision of micro-credit and skills training by the Punjab Rural Support Programme. (PRSP). The PRSP provided Pak Rupees 21,365,000 to 2139 borrowers between 2002 and 2004 and imparted skills training to 465 individuals from the soccer ball stitching community in fields such as leather stitching, plumbing, motor driving, screen printing, etc. Another vital component of Phase 2 was an attempt to bring about improved health and hygiene amongst the stitchers. This component was executed by another local NGO, Baidarie, providing 2179 children, their families, and 109 non-formal education teachers with health care. A final aspect of the second phase related to awareness-raising activities regarding child rights and the child labour issue. Local NGO Community Development Concern implemented a mini-action programme through interactive theatre, staging 12 performances and reaching 3200 individuals. These performances aimed to educate the audience about child rights and the question of how to improve the lot of children (ILO-IPEC 2004, pp. 9-10).

While SCF had played a very active role during the first phase of the implementation of the AA through its income generation programme, education programme, women football stitchers employment programme, and social monitoring programme, the SCF was much less active during the second phase of the programme. In fact, the SCF closed its Sialkot office in August 2001. Assisted by six local NGOs, UNICEF's primary concern remained its UPE programme. In 2003, UNICEF's handed over the UPE to the District Education Department for further follow-up and continuity, and the ILO-IPEC concluded its activities in the soccer ball cluster by 2004 (Dogar et al. 2004, p. 33).

To sum up, by the time that this first stage of the AA came to an end in 2004, when ILO-IPEC's programme funding ended, 93 manufacturers had joined the monitoring programme, 1803 stitching centres had been established, and 44,237 monitoring visits had been carried out by the ILO inspectors. These manufacturers represented approximately 95% of the total export-oriented production of soccer balls leading many observers to conclude that child labour had virtually been eliminated from the Sialkot cluster by July 2002 (Hussein-Khaliq 2004, p. 103). UNICEF's UPE programme was reported to have achieved a 97% enrolment rate amongst children aged 5-7 years in Sialkot district when UNICEF pulled out in 2003, whereas the income generation activities carried out by the Pakistan Rural Support Programme only appeared to have reached a very limited part of the original target group (Rafi Khan 2004). Finally, from the view of donor coordination, the establishment of the Partners Operational Framework played an important part of linking international aid agencies and their local NGO counterparts together on the ground in Sialkot (Husselbee 2000).

In assessing the initial institutional response of the Sialkot cluster to the AA between 1997 and 2004, three interrelated points emerge. First, implementation of the AA began relatively quickly after the signing of the Agreement in February 2007. In fact, it was envisaged that the AA would be implemented in Sialkot over a two-year period between 1997 and 1999 although the implementation of AA was later extended until 2004 as it turned out to be impossible to undertake the envisaged activities within the original timeframe. Second, the restructuring of the football industry was quite substantial due to the transfer of soccer ball stitching from home-based to stitching centre-based locations. By 2008, the average number of stitchers working in a stitching centre was 11 in Sialkot compared with only four stitchers per stitching unit in Jalandhar, reflecting

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the trend towards gathering the football stitching process into relatively larger units in Sialkot<sup>56</sup>. Third, both the financing and actual implementation of the AA in Sialkot were heavily donor-driven. The U.S. Department of Labour, FIFA, and DFID provided substantial funds for the implementation process while activities on the ground were designed and driven by the ILO, UNICEF, and SCF-UK that used local Pakistani NGOs as subcontractors. By contrast, Pakistani government financing of and participation in the AA implementation process were largely absent. Hence, the implementation of the AA in Sialkot was largely controlled or 'owned' by international actors between 1997 and 2004, raising questions about the future viability of the AA in Sialkot once project activities were to be transferred to local actors in the post-2004 period.

In terms of the interplay between local and global governance, the experience with the AA in the Sialkot cluster during the period 1997 to 2004 was clearly one where global governance – exercised both by brands through their value chain ties with local suppliers, and by the international agencies and donors who implemented and financed the labour monitoring and social protection programmes – was dominant. Local institutions – such as the SCCI as well as local NGOs – did have a role, but a very secondary one in facilitating the implementation of the AA. The state's role was largely dormant. In large measure, the AA broadly delivered in terms of needs of most leading brands. As we have stated earlier the response was a rapid one, with a child labour monitoring regime in place by 1997. While the AA only addressed monitoring of child labour, and thus did not cover the wider range of concerns incorporated in the codes of conduct of megabrands such as Nike and Adidas, it provided during this stage an internationally credible system for providing due assurance that soccer balls produced from the cluster were child labour free. Moreover, the broader developmental goals – on education and income generation – encapsulated within the social protection programme strengthened the view that there could be positive developmental outcomes from the AA in Sialkot, outcomes that were in line with the CSR goals of the leading brands.

### 5.3 Institutional Response to the Atlanta Agreement in the Jalandhar Cluster

While the Jalandhar cluster was not a signatory to the AA in 1997, it had also faced media allegations on the presence of child workers within the cluster in the late 1990s. Confronted with this challenge, local industry actors decided to develop their response to these allegations using the AA as a model framework and obtained the support of leading international actors such as the WFSGI and FIFA for adopting this approach. We shall here trace how the Jalandhar cluster initially developed its approach to implementing the AA in the period between 1997 and 2004.

#### *a) Responding to International NGO and Media Pressure (1998 – 2003)*

The starting point for the Jalandhar cluster was different from the Sialkot cluster in that the Jalandhar cluster had no prior experience of developing strong institutional mechanisms for collective action until the mid-1990s. Although cluster institutions such as the Sports Goods Manufacturers and Exporters Association (SGMEA) did exist, the cluster faced a number of structural problems that seemed to limit the potential for collective action. First, the cluster was not very big, which made it difficult to obtain a critical mass of firms that could undertake large-scale collective action initiatives. Second, a large number of sporting goods items were produced within the cluster, leading to a fragmented production structure. Hence, it was difficult to find common ground with different producers attempting to promote their particular interests under the SGMEA umbrella. Discussions often took place about which producer interests should be prioritized, leading to potential conflicts of interests between firms (e.g., cricket bat vs soccer ball producers). Often cluster firms could only agree on the lowest common denominator in terms of collective action initiatives. An additional factor influencing the potential for collective action was that some producers had attempted to stay in business by escaping governmental regulations, extracting

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<sup>56</sup> This is a rather crude average based on a calculation of the number of registered stitchers with IMAC (31182) and SGFI (14843) divided by the number of registered stitching centres in Sialkot (2661) and stitching units in Jalandhar (3592).

subsidies (sometimes without being entitled to them), and paying government officials to further their own interests. In other words, the entrepreneurs had so far not pro-actively developed a tradition for collective action that could ensure the cluster's survival.<sup>57 58</sup>

However, in 1997, international attention was drawn to the presence of child workers in the supply chains of some of the international brands sourcing footballs from Jalandhar. The South Asian Coalition on Child Servitude (SACCS) played a key role in this process. The SACCS was a large network of non-governmental organizations that had been at the forefront of a campaign to eliminate child labour in the region. With a membership of more than 500 NGOs in India alone the SACCS had been instrumental in the launching of the Global March against Child Labour campaign, which became an international movement seeking to eliminate child labour. The SACCS had also been a driving force behind the initiation of the Rugmark label aimed at ensuring that carpets were produced free of child labour (ICN 2000).

In April 1997 a national consultation on child labour in the sports goods industry was arranged by SACCS. The WFSGI and UNICEF were international participants. From India the Sports Goods Export Promotion Council (SGEPC), several exporters, the National Human Rights Commission, UNICEF and the National Trade Union Centre participated in the meeting. Its outcome was to form a Joint Committee to be coordinated by the SACCS with the participation of the SGEPC the sports goods industry itself, and a number of experts on the topic.

A month later Christian Aid and SACCS (with the help of its local member 'Volunteers for Social Justice') published the report 'A Sporting Chance' on child labour drawing international attention to the child labour issue in the Jalandhar sports goods industry. This was followed by an article in the Sunday Mirror. The Christian Aid report received a lot of publicity and provoked negative reactions from the Jalandhar sports goods industry. In particular the statement that 25,000 to 30,000 children were working in the sports goods industry was strongly rejected by the exporters. In fact, the executive director of SGMEA responded by sending a 20-page letter to Christian Aid taking issue, section by section, with the points raised in the report. The response of the SGMEA was co-authored by two leading entrepreneurs within the cluster.<sup>59</sup>

Initially, conflicting interests of different producer groups within SGMEA delayed the formation of a more coherent collective industry response to the allegations of child labour within the industry. Cricket equipment producers did not want to be associated with child labour while the soccer ball producers who had been the main focus of the Christian Aid report felt an urgent need for the development of a collective response. Against the backdrop of the organizational inertia of the SGMEA, a group of approximately 25 of the cluster's leading exporters of inflatable balls decided to form the SGFI. The SGFI was a non-profit entity devoted to the prevention and rehabilitation of child labour in the Indian Sporting Goods Industry.

After the publication of the Christian Aid-SACCS report another meeting of the Joint Committee took place, and it then ceased to function (Indian Commission of the Netherlands 2002, p. 7). The Government of India developed its own response to the allegations of child labour within the sporting goods industry. On the one hand, the Christian Aid report claimed that a significant number of children worked within the industry. On the other hand, the response from the sporting goods industry in Jalandhar suggested that hardly any children were involved in stitching soccer

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<sup>57</sup> Interview with United Nations Representative 1.

<sup>58</sup> This attitude appears to prevail to date. For example, SGMEA primarily concentrates on influencing various tiers of the Indian government in relation to lowering export duties, easing other forms of taxation, facilitating the movement of goods and services, and improving other import/export policies. It should be noted though that SGMEA has organized two sporting goods raw material buyer-seller meetings in recent years and also undertaken a training program with the CLRI, Jalandhar on Protective Equipment Stitching for local workers.

<sup>59</sup> The authors were Satish Wasan of Wasan Sports and P.C. Sondhi of F.C. Sondhi and Company. Interview with United Nations Representative 5.

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balls. Faced with these contradictory claims, the Government of India decided to carry out its own survey in order to establish the exact number of children working in the industry.<sup>60</sup> The survey carried out by V. V. Giri National Labour Institute (NLI) showed that approximately 10,000 children were involved in football stitching in Jalandhar district. Of these, 8,650 were schoolgoing children who helped their parents stitch in their free time while 1,350 children were found to be stitching full-time (ICN 2002, p. 7).

The response of the Indian government to the findings of the report was to initiate National Child Labour Projects (NCLPs) in Jalandhar. India had already adopted a National Child Labour Policy in 1987 which focused on general development programmes to benefit children and developing project-based action plans in areas with high child labour concentration. In 1988 National Child Labour Projects became the vehicle of the Ministry of Labour and Employment to implement this policy. NCLPs were mainly focusing on the rehabilitation of child workers.<sup>61</sup> However, it was only after the exposure of child labour in the Sports Goods Industry in Jalandhar that NCLPs were initiated in Jalandhar district.<sup>62</sup>

*b) The Child Labour Monitoring Mechanism in Jalandhar*

Whereas the Sialkot cluster started implementing the principles outlined in the AA in 1997, the Jalandhar sporting goods cluster did not start to implement the monitoring mechanism and the social protection component before the end of 1999. Once the SGFI had been established, the Foundation consulted various international organizations such as the WFSGI, ILO-IPEC and SCF-UK with the aim of finding a solution to child labour allegations levelled against the industry. The approach was based upon the AA, and the US government indicated its willingness to provide US\$3 million to establish a similar programme in Jalandhar. The condition was that ILO-IPEC should be responsible for the external monitoring activities (Indian Commission of the Netherlands 2000).

While the 'AA for India' was supposed to be signed in February 1999, the Government of India decided not to allow ILO-IPEC to supervise the external monitoring. The ICN (2000) report mentions several possible reasons for the Indian government's refusal, including the Indian government not needing the money, that too much would be spent on staff salaries, that stitching footballs was not a hazardous occupation, that it was opposed to monitoring from outside the country, and that the ILO-IPEC and the US government insisted on SACCS being a member of the steering committee of the Indian AA.

Once a monitoring programme sponsored by the ILO-IPEC failed to materialize and the NLI report had been published, a new workshop was held in June 1999 in Jalandhar with the aim of finding a solution to the child labour issue. UNICEF and representatives from Adidas, Reebok, Pentland, Nike, and the WFSGI attended amongst other stakeholders. One of the world's leading inspection and certification companies, the Swiss-based Société Générale de Surveillance (SGS) was invited to make a presentation on the possibility of SGS establishing a child labour monitoring system in the cluster. In the following months, there were several follow-up discussions with brands, particularly the WFSGI and the Pentland Group. Their main doubt was whether SGS had the expertise to undertake the child labour monitoring function, as SGS had never previously been involved in a similar exercise.

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<sup>60</sup> Interview with Government Official, Jalandhar.

<sup>61</sup> <http://www.oit.org/public/english/region/asro/newdelhi/ipec/responses/india/national.htm>, accessed 10 April 2008.

<sup>62</sup> By 2008, 27 schools had been set up to rehabilitate child workers under this scheme in Jalandhar district. The Indian government provides the school infrastructure, while the actual management and running of the schools are outsourced to NGOs. Interview with Government Official, Jalandhar.

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The SGFI then turned to FIFA for assistance in relation to the development of the monitoring programme. FIFA made a significant contribution by providing US\$400,000 that assisted the Jalandhar Sporting Goods Industry in establishing and maintaining a credible child monitoring mechanism.<sup>63</sup> The FIFA grant was to be spent during the period 2000-2003. FIFA hired SGS to design the monitoring system and be the external, third-party monitor on the basis of the principles established in the AA.

Initially, the SGS was not aware of the monitoring system developed in Sialkot. However, on the basis of discussions with WFSGI and brands, SGS developed a system that was based on three processes. The first involved the establishment of the database of manufacturers, contractors and stitchers within the industry. The second was an internal monitoring system where the enterprises themselves would check the presence or absence of child labour within the supply chains. The third part of the system consisted of external monitoring by the SGS in terms of random unannounced audits to the stitching locations. These sites were indicated by the manufacturers as having stitchers present and by SGS attempts to detect any sites not reported by the manufacturers<sup>64</sup>. Field-level design, capacity building amongst manufacturers, and external monitoring were carried out by the SGS' India office headquartered in Ludhiana near Jalandhar in Indian Punjab. Once FIFA had approved the monitoring system it took six months before the official monitoring programme was launched in Jalandhar on 1<sup>st</sup> January 2000.<sup>65</sup>

In late 2000 FIFA invited the SGS, SGFI, and other stakeholders from India to attend a workshop in Sialkot. The purpose was to exchange experiences between the Sialkot and the Jalandhar monitoring programmes. The FIFA, WFSGI and the brands wished to standardize the systems in both clusters. In particular, they advocated the use of stitching centres as had been done in Sialkot. However, the steering committee of the Jalandhar project argued that the programme should evolve on its own terms. There were cultural issues related to women not wishing to work outside the home or in factories. Also, the industry in Jalandhar was smaller than the one in Sialkot and the Jalandhar producers were not under similar pressure to comply with the demands of the brands. This was probably part of the explanation why Jalandhar was permitted to continue as a cottage industry with home-based stitching units instead of formalizing the industry to a greater extent, as had been the case in Sialkot.<sup>66</sup> As previously mentioned, the average number of stitchers working in a stitching centre was 11 in Sialkot compared with only four stitchers per stitching unit in Jalandhar in 2008.

*c) The Social Protection Programme in Jalandhar*

The social protection programme was finalized with the help of UNICEF and SCF-UK but was much smaller in scope than the social protection programme in Sialkot. Whereas the total budget of the social protection programme in Sialkot between 1997 and 2004 had mostly been donor-financed, amounting to US\$2,185,575, the social protection programme in Jalandhar had a budget of US\$208,000 between 2000 and 2004<sup>67</sup>. This budget was financed entirely by the SGFI. In other words, the social protection programme in Sialkot was initially ten times larger than the one in Jalandhar.

The SGFI then decided to use a multi-faceted approach in the development of its social protection programme. The first phase involves rapport building and awareness creating activities. Through this medium, a message was sent to the community that children under 14 years concentrate on their studies and other recreational activities and not be involved in child labour. They were asked

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<sup>63</sup> Interview with United Nations Representative 5.

<sup>64</sup> Interview with Consultant 2.

<sup>65</sup> Interview with United Nations Representative 5.

<sup>66</sup> Interview with Consultant 2.

<sup>67</sup> This figure is an approximation based on SGFI's annual budget for social protection in 2004 which was INR 2,202,469 (app. US\$52,000). The actual figure may be smaller for the entire period as the SGFI was slowly developing its social protection programme during this period.

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to create an awareness campaign within the community emphasizing the value of children's education and the ills of child labour. The Centre for Research in Rural and Industrial Development (CRRID) was assigned the responsibility for the social protection activities on September 20, 2000. The budget of over INR 0.5 million was paid by SGFI to CRRID<sup>68</sup> (Gorgemans 2000).

The second part of the social protection agenda for Jalandhar was closely linked to the child labour monitoring mechanism. The intention was to identify the children stitching footballs. This job was entrusted to representatives of SGS India who were conducting the external monitoring of the programme along lines very similar to that developed by ILO-IPEC in Sialkot. The list of children found to be working by SGS was handed over to CRRID. The second phase involved profiling the children identified by SGS. Of the 63 children identified by SGS by November 31, 2000, CRRID had done the profiling of 20 children<sup>69</sup>. Their findings were in brief:

- 1) The majority of the children were males in the 13-14 year age group and all were studying in government schools.
- 2) None of them liked stitching footballs but were doing this to augment their family income.
- 3) In no household were children exclusively involved in the stitching of footballs.

The third aspect of the social protection agenda was tuition centres. The SGFI surveyed several homes where children were engaged in stitching, with the aim of finding out why children were engaged in football stitching. The SGFI found that school books and materials for study were available in most homes, but that the children often did not do their homework. The parents of child stitchers were often illiterate and did not always appreciate the value of formal-type education (Wasan 2008). In fact, some parents were not keen on allowing their girls to come out and play while the parents could not afford to send their children to school. Hence, the idea of establishing children's tuition centres emerged.<sup>70</sup>

#### 5.4 Conclusion: Comparative Overview of the Clusters' Initial Responses to the Atlanta Agreement

This section documented how the initial shock of being exposed to child labour allegations in the mid-1990s permeated the Sialkot and Jalandhar clusters between 1997 and 2004 as the clusters developed their initial responses to the AA. The table below summarizes the key similarities and differences in these responses to the AA.

To begin with, Table 5.1 shows that some reactions were initially almost identical in both clusters. A child labour monitoring mechanism (internal and external) and a social protection component were included in both clusters. However, there were also a number of important differences in the two cluster responses: (a) the reaction of the Sialkot cluster was much quicker than the one in Jalandhar, (b) the extent to which the industry was formalized in Sialkot was much greater than in Jalandhar, (c) international organizations were much more involved in the implementation of the AA in the Sialkot cluster than in the Jalandhar cluster, and (d) the social protection programme was much wider in scope in Sialkot than it was in Jalandhar.

<sup>68</sup> Gorgemans, A.. 'The Sporting Goods Industry's Approach to Child Labor' Speech Presented to the Asian Development Bank. Available at [www.adb.org/AnnualMeeting/2001/Seminars/gorgemans\\_paper.pdf](http://www.adb.org/AnnualMeeting/2001/Seminars/gorgemans_paper.pdf), accessed 17 June 2008).

<sup>69</sup> Another important step in the social protection programme is the adoption of four transitional schools of 50 children each by the foundation in association with the Government of India, Department of Labour. The children in these schools have been identified by the Department of Labour as not attending any kind of school.

<sup>70</sup> The initiatives were also developed in cooperation with the local panchayat and religious priests as well as hosted in local temples so that they were embedded within the local context. In this way, the rent was saved and girls could easily attend.

**Table 5.1 Comparative Overview of the Sialkot and Jalandhar clusters**

KEY FEATURES OF THE CLUSTERS' RESPONSES	SIALKOT	JALANDHAR
Monitoring System	Internal and External	Internal and External
Social Protection Activities	School Improvement CL Awareness Raising Non-Formal Education Centres Income Generation Schemes Health Projects	CL Schools CL Awareness-Raising Health Camps Tuition Centres
Year of Implementation	1997	1999
Government Involvement	Benign Neglect	Active
Monitoring Agency	ILO-IPEC	SGS
Social Protection Agencies	UNICEF, ILO, SCF-UK and Pakistani NGOs	SGFI CRRID
Global Value Chain Transformation	Extensive Formalization (Home-based to Centre- based Stitching Process)	Limited (Continuation of Cottage-based Industry)

We explain the quicker reaction of and the greater extent of formalization in the Sialkot cluster than in the Jalandhar cluster with reference to the interplay between global and local governance in the two clusters. In Sialkot, global governance pressures for CSR compliance are much greater. The Sialkot cluster is much larger than the Jalandhar cluster, and the presence of Nike and Adidas in Sialkot means that international media attention and surveillance from labour rights and child rights activists are more prominent in Sialkot than in Jalandhar. In Jalandhar, the industry is smaller and many of the local manufacturers operate below the radar screen of international advocacy groups. In other words, there was a need for the Sialkot cluster to react very quickly to the child labour allegations while the situation was initially less threatening in Jalandhar. At the same time, the relatively quicker implementation of the AA in Sialkot was facilitated by the presence of the SCCI and the cluster's strong tradition for collective action. In Jalandhar, collective action institutions were relatively weak, different producer groups disagreed amongst themselves, and it was necessary to found a new collective action institution, the SGFI, before the cluster could effectively begin to implement the AA in 1999.

We explain the greater involvement of international donors in the social protection programme in Sialkot than in Jalandhar with reference to the more active involvement of the state in India than in Pakistan in terms of steering the local response in each cluster. The relatively 'benign neglect' on the part of the Pakistani government meant that international agencies could implement projects directly on the ground in Sialkot (supported by local partner NGOs) while active state intervention in India prevented international agencies from taking on such a leading role. While the child labour monitoring mechanism took on almost identical features in both clusters, the greater resources at the disposal of international donors and their child labour eradication vision initially led to the development of a much larger social protection programme in Sialkot, while the SGFI was taking its first tentative steps towards the development of its social protection programme during the same period.

## **6. The Dynamic Evolution of the Atlanta Agreement in Sialkot and Jalandhar**

### 6.1 Introduction

The previous section detailed how the Sialkot and Jalandhar clusters responded to the AA (AA) between 1997 and 2003/4. In this section, we assess how the implementation of the AA, with respect to both child labour monitoring and social protection, has evolved since 2003/4. External funding for the various programmes initiated to address both the child labour monitoring and social protection agendas of the AA came to an end in 2003/04. At this point the key external actors engaged in the two clusters, namely ILO-IPEC, UNICEF and SCF-UK in Sialkot and FIFA and SGS in Jalandhar had exited as their programmatic funding ended. With the departure of the international actors, various local institutions emerged in both Sialkot and Jalandhar to take on many of the core functions previously undertaken by the international agencies. Hence, in this section, we look at how these local institutions addressed the monitoring and social protection agendas of the AA; and how this experience differed across the two clusters.

As we have suggested, a marked distinction between the two clusters lies in the ways in which they are inserted into GVCs. This has resulted in different types of GVC governance for the two clusters. In our view these distinct forms of GVC governance have directly influenced the sustainability of the post-2003 experience with child labour monitoring and social protection in the two clusters. As mentioned in section 4, the presence of Nike and Adidas in Sialkot is important, because it brings the Sialkot cluster into the international limelight, attracting the attention of Northern-based child labour and labour rights advocacy groups. In contrast, the absence of these megabrands brands and the smaller size of the industry are some of the factors that explain why the Jalandhar cluster is less in the international media spotlight, and pressures for CSR compliance are less acutely felt by local manufacturers in Jalandhar than in Sialkot. Hence, the international media attention, the larger size of the cluster, and extensive surveillance from labour and child rights advocacy groups are some of the reasons why it has been necessary to sustain an active and independent monitoring mechanism on child labour<sup>71</sup> in Sialkot. In Jalandhar, the smaller size of the industry and the fact that many manufacturers operate below the radar screen of international child rights and labour rights groups appear to be some of the factors that made it possible for local institutions, in particular the SGFI and its members, to take full control of the child labour monitoring mechanism in Jalandhar. However, the social protection agenda in Sialkot, which was ‘owned and driven’ by international aid agencies during the 1997-2003/4 period, does not appear to be as sustained with only limited local ownership of the various initiatives, following the donor pull-out. In contrast, in Jalandhar we see a gradual expansion of the social protection agenda, especially following the intervention of UNIDO in 2005. Whether this expansion can be sustained, after UNIDO pulls out of the Jalandhar cluster in October 2008, remains to be seen. These divergent trends suggest ‘trade-offs’ in both clusters in the post-2003 period between ‘independence’ and ‘embeddedness’ in child labour monitoring schemes, and ‘international’ versus ‘local’ ownership of social protection activities.

The discussion is structured as follows. Section 6.2 reviews the process by which child labour monitoring functions were transferred from international agencies to local institutions in 2003/4 in Sialkot and Jalandhar. Section 6.3 considers how both the Jalandhar and the Sialkot clusters engaged with the social protection agendas of the AA in the post-2003 period. Section 6.4 concludes with a comparative overview of the similarities and differences in the responses seen in the two clusters, and seeks to explain these differences in terms of the interplay between local cluster and GVC governance experienced in the two clusters.

### 6.2 The Post-2003 Child Labour Monitoring Mechanisms in the Sialkot and Jalandhar Clusters

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<sup>71</sup> Both through independent third party audits undertaken for the leading brands and through the newly set up body, Independent Monitoring Association for Child Labour (IMAC), which took over the functions of ILO-IPEC.

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*a) From ILO-IPEC to IMAC monitoring in Sialkot*

A new institutional pillar that emerged in Sialkot during this time was IMAC. IMAC is an independent non-governmental and 'not-for-profit' organization. The organization was established in 2002 and took over ILO-IPEC's activities in Sialkot in March 2003. Its creation can be traced back to the evaluation report of the Phase I of the project implementation of the AA. This suggested the need for a stronger focus on capacity building including "a transfer of existing work place monitoring to a local independent body". The report also recommended that workplace monitoring should go beyond child labour and include working conditions, particularly health and safety measures of the stitchers (Dogar et al. 2004, pp. 27-28).

The ILO facilitated in the establishment of IMAC, assisting in the process of hiring consultants to define the organizations' structure, legal mandate, and rules of business, (ibid., p. 34). The head of ILO-IPEC's Sialkot office, Nasir Dogar, who had designed the ILO-IPEC's child labour monitoring system, took over as the head of IMAC along with a whole-scale transfer of personnel and equipment from ILO-IPEC to IMAC. Hence, there was a strong sense of continuity and knowledge transfer from the ILO-IPEC to IMAC.

By 2008, IMAC had functioned in an independent capacity for five years. It continued to work with and refine the original monitoring system in operation under ILO-IPEC.<sup>72</sup> Thus, as before, monitoring included internal and external elements. However, while ILO-IPEC had 20 monitors in 2003, 10 male and ten female, IMAC had 12 monitors in 2008, six males and six females. When IMAC took over from ILO-IPEC in 2003, 93 manufacturing exporters were part of the programme, 1,803 stitching centres were being monitored, and 44,237 monitoring visits had been carried out (Dogar et al. 2004, p. 30). In May 2008, while the membership of IMAC had declined to 88 manufacturing exporters, numbers of monitored stitching centres rose to 2,655, with 135,711 monitoring visits being carried out.<sup>73</sup>

If the idea behind the establishment of IMAC was to create a locally sustainable model for international child labour monitoring, then the organization's establishment and subsequent functioning can be broadly deemed as 'successful' in that it plays the central role in monitoring for child labour in the Sialkot cluster, and its services are sought by a large number of exporting producers within the cluster. Moreover, while the megabrands do not rely on IMAC to ensure compliance with their CSR codes of conduct, IMAC's monitoring activities provide an especially important function for smaller and medium-sized brands that source from Sialkot but do not have the capacity or resources to undertake their own child labour monitoring amongst their suppliers in Sialkot<sup>74</sup>.

*b) From FIFA/SGS to SGFI monitoring in Jalandhar*

As with the 2003 pull-out by ILO-IPEC (in Sialkot), the exit of the Swiss auditing firm SGS as the agency charged with monitoring for the presence of child labour in the Jalandhar cluster was

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<sup>72</sup>As with the earlier ILO-IPEC monitoring regime, IMAC's 12 monitors receive a random, computer-generated, list every morning of stitching centres to be visited. The computer programme also lists results of previous visits to these locations. This ensures that it is difficult for participating manufacturers to take evasive action by informing their stitching centres of upcoming visits by IMAC's monitors. IMAC uses a three category distinction, A, B, and C, to indicate the relative performance of manufacturers that have signed up to the AA. Category A signifies that the participating manufacturer is fully compliant with the provisions of the programme, category B refers to manufacturers whose compliance with the programme is doubtful at times or manufacturers that are caught violating the provisions of the programme. Hence they are moved from category A to category B with the possibility of being upgraded to category A again once the compliance failure has been rectified. Category C applies to those manufactures that are not serious in implementing the AA or habitually violate the provisions of the programme.

<sup>73</sup>Information from IMAC webpage (<http://www.imacpak.org>, accessed 20 June 2008). E-mail communication from Nasir Dogar, 4 June 2008.

<sup>74</sup>Interview with William Anderson, Head of Social and Environmental Affairs, Asia-Pacific, Adidas Group, 20 May 2008.

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planned. It came about when the annual funding from FIFA of US\$100,000 for SGS' monitoring activities was terminated in 2003 at the end of the three year programme cycle. Unlike Sialkot where an independent monitoring agency, IMAC, was created to take over from ILO-IPEC and to which all IPEC resources and manpower were transferred, no such independent body emerged in Jalandhar. The local industry in Jalandhar, under the aegis of the SGMEA, first considered rehiring SGS to continue its monitoring work. At a cost of US\$100,000 a year, however, this was considered too expensive by local soccer ball producers. Instead, local industrialists and SGS felt that SGFI could take on the task at a much lower cost. SGFI would only need US\$10,000 to take on the monitoring function. To strengthen the credibility of SGFI's monitoring role, it was also agreed that SGS would be hired to audit SGFI's monitoring system according to the ISO9000 quality assurance standards. These audits by SGS of SGFI's monitoring procedures were to be carried once every three to four months as opposed to the once a year requirement under the ISO9000 standard. Thus, it was felt that SGFI could expand its mandate and operational capacity in relation to child labour monitoring.

SGFI's role as the monitoring agency for child labour in Jalandhar was endorsed by both WFSGI and FIFA, providing the programme with the required stamp of approval by the key international business actors. From 2003 onwards, the SGFI undertook the child labour monitoring in its own. The SGFI child labour monitoring programme has since been entirely financed by local industry. SGFI's monitoring team has five staff members, who work in pairs. Combined with the SGS' initial efforts SGFI has undertaken 144,000 monitoring visits since 1999.

*c) Commonalities and Differences in the Post-2003 Child Labour Monitoring Regimes in Sialkot and Jalandhar*

Table 6.1 below summarizes the main commonalities and differences in the child labour monitoring mechanisms in Sialkot and Jalandhar after 2003. It brings out a number of interesting points in relation the *potential*<sup>75</sup> capacity of each cluster to monitor child labour after external donor support was phased out from both clusters in 2003/4. In terms of similarities, the child labour monitoring mechanisms in both clusters continue to function along similar lines to those initially developed under the AA. However, in both clusters the agencies charged with undertaking child labour monitoring, IMAC in Sialkot and SGFI in Jalandhar, are struggling to retain their monitoring capacity, especially in terms of number of monitors and reduced budgets.

**Table 6.1: Post-2003 Child Labour Monitoring: The Sialkot and Jalandhar Clusters Compared**

<b>Post-2003 Child Labour Monitoring</b>	<b>Sialkot</b>	<b>Jalandhar</b>
Institution	IMAC	SGFI
Governance Structure	Multi-stakeholder Board	Industry-Based
Members	88	30
No. of Stitching Locations Monitored	2655	3300 units

<sup>75</sup> We are intentionally using the term *potential* capacity as we have neither followed IMAC's/SGFI's monitors in the field nor undertaken interviews with stitchers with the aim of gauging their perceptions of the frequency and quality of IMAC/SGFI monitoring. Instead we have chosen to rely on the information forwarded to us by both organizations with a view to analysing the potential capacity of the organizations (in terms of resources, monitors, frequency of monitoring, and monitoring radius covered) as opposed to their actual capacity. An assessment of their actual capacity would require following the monitors into the field and also interviewing stitchers to be able to make a more comprehensive assessment where the information is triangulated.

No. of Monitors	12	5
Monitoring Radius	75 km	10 km
Frequency of Monitoring	6 Weeks	13 Weeks
Public Information Access	High	Low

There are also important differences in the institutional framework for child labour monitoring in the two clusters post-2003/4. First, IMAC has a much larger membership in Sialkot than SGFI has in Jalandhar. In part this is a reflection of the Sialkot cluster being bigger in size than the Jalandhar cluster. Second, in terms of stakeholder representation, IMAC's board includes a diverse body of actors representing local industry, international organizations, government agencies, academia and civil society organizations. In contrast, SGFI's board is entirely dominated by members of the Jalandhar sporting goods industry. An implication of this seems to be that SGFI is more easily capable of developing its institutional profile over time as the SGFI project director only needs to obtain the backing of local industry to start new initiatives. By contrast IMAC is in tighter position needing to balance a variety of interests amongst its stakeholders. However, the industry domination of the SGFI board means that opposing views are less likely to be taken into consideration. In fact, the absence of any inbuilt, independent institutional oversight of the Foundation could cast doubt on the reliability and quality of the information that the SGFI provides about its monitoring and social protection activities. Third, while SGFI has to monitor more units than IMAC, they have less than half the manpower to undertake this task. Hence, in terms of the monitoring radius (from central Sialkot/Jalandhar) and the frequency between monitoring visits, IMAC has much greater potential capacity to undertake the child labour monitoring function than SGFI. Finally, public access to information about IMAC's monitoring procedures and performance is much greater than access to similar information about SGFI's activities. Interested stakeholders are able to find a detailed online explanation of how IMAC functions and monthly monitoring updates on <http://www.imacpak.org>. Meanwhile, the SGFI website (<http://www.sgfi.org>) does not provide any detailed information on either its child monitoring system or on the progress achieved to date.

We turn now from the post-2003/4 experience with child labour monitoring in the two clusters, to how the two clusters addressed the social protection agenda once international actors withdrew. Once again we see similarities and critical differences between the two clusters.

### 6.3 The Post-2003 Social Protection Agenda in the Sialkot and Jalandhar Clusters

#### *a) The Post-2003 Experience in Sialkot*

A core feature of the AA in Sialkot during the period 1997-2003 was the wide array of social protection activities being undertaken in the cluster. These were financed by international donors (most notably the US Department of Labor and UK's DFID) and managed by key international development agencies such as UNICEF, SCF-UK and the ILO. They sought to transfer children from stitching to school by targeting interventions on education and awareness-raising (SCF-UK, UNICEF, ILO-IPEC), and providing a social safety net for their children and their parents through income generation and micro-credit (SCF-UK, ILO-IPEC).

From 2001 to 2004 many of these interventions came to an end. In December 2001 SCF pulled out from Sialkot. In late 2002 UNICEF withdrew and 2004 ILO-IPEC stopped its activities in the Sialkot soccer ball cluster. The exit of these international actors did not necessarily imply that all social protection initiatives were terminated. It did however imply that the social protection agenda was substantially downscaled in Sialkot after the donor pull-out. Thus, for example, an attempt was made at transferring UNICEF's UPE programme in Sialkot to the Government of Punjab's Education Department. In addition, some of the social protection activities in the soccer ball industry were sustained by Sudhaar with funding from Adidas. In order to prevent under-age children from entering the football stitching occupation, Sudhaar had been running a programme to improve school infrastructure and educational standards in the rural areas surrounding Sialkot since



the late 1990s. Adidas believed that Sudhaar's programme would complement Adidas' efforts to eliminate child labour in its supply chain by improving access to education. Since 2002, the programme has been fully run with funding from Adidas and is aimed at motivating children to stay in school, develop state-of-the-art schools, provide teacher's training, and improve educational planning in the district government. Focus is also on strengthening the education provided by local government, while involving parents and rural communities in the educational process (Adidas Group 2006:30).

However, unlike the situation observed in 2000, when there was a significant level of activity within the cluster on these issues, which led some to term Sialkot as a 'development district', it would be hard to attach a similar label to Sialkot today.<sup>76</sup> Under the UNICEF programme it was claimed that primary enrolment rates of 97% had been achieved in Sialkot. However, it is very difficult to establish the extent to which child enrolment takes place in the district today. In 2003 the BLCC and Sudhaar shifted their focus towards the ILO-IPEC's new child labour eradication programme in another of Sialkot's export-oriented industries – the surgical instruments industry. Sudhaar is responsible for the upstream intervention that aims at strengthening linkages between relevant government departments of the district government in Sialkot District, while BLCC is responsible for the downstream intervention that aims at building the capacity of other stakeholders, partners and targeted communities. Hence, many of the activities of these two organizations that had been central to the ILO-IPEC's social protection component in the soccer ball industry project continued although with a different target audience in mind – namely, child workers and their families in the surgical instruments industry. Similarly, although NRSP (and its provincial counterpart PRSP) continue to be active in promoting income generation through micro-credit lending, there is no longer any attempt to link this with the soccer ball cluster. In fact, one of the key aspects of the social protection agenda during 1997-2003 was that extensive attempts were made at co-ordinating the activities of international actors. This was carried out through the weekly meetings of the Sialkot Implementation team which provide a venue for the co-ordination of functions and day-to-day management of activities undertaken under the aegis of the AA. Thus, there was a core link between social protection activities and child labour monitoring, and extensive information sharing between all partners to the AA. Since 2003, there is no longer any co-ordinating institution, and thus no process by which the social protection agenda can be effectively built upon.

One newly set up local institution, CSDO, could potentially have provided such a co-ordinating function, and championed the social protection programme in Sialkot. Its task was to carry on with the social protection agenda and to link it more closely to local industry. Initially, with the support of SCF-UK the CSDO began as 'a child labour cell' in SCCI. It was later renamed the 'Child and Social Protection Programme' with the aim of including the more socially-oriented development activities instituted as part of the AA. The CSDO primarily built its activities by entering into funding arrangements and partnerships with UNICEF and the ILO-IPEC. These organizations along with SCF-UK assisted the CSDO in establishing itself and expanding its capacity.

CSDO's core activities have continued to focus on the child labour issue. In 2006, under a financing initiative of FIFA and the ILO, CSDO established a Centre of Football Excellence. The opening of the Centre marked a new phase on the implementation of the AA that went beyond the original concern of eliminating child labour from the soccer ball industry of Sialkot and securing the plight of the children and their families through a social protection programme. The idea was that former child stitchers should now have the opportunity to enjoy the game of soccer instead of being exploited as child workers in the stitching of soccer balls. The major stakeholders behind the

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<sup>76</sup>See Nadvi 2004a for a discussion on the development district aspect of the AA in 2000. Khan (2007) and Rafi Khan (2007) both provide critiques of the developmental agenda encapsulated in the AA during this period.

initiative were FIFA, the ILO, Pakistan Football Association, District Football Association, CSDO, BLCC, and Sudhaar.<sup>77</sup> In 2006, a local tournament was arranged where 21 teams of young players participated. Currently, CSDO is facing a funding crisis since the FIFA-ILO 'Centre of Excellence' project will expire at the end of 2008. CSDO only receives limited funds from the SCCI to maintain a basic infrastructure including staff salaries, whereas the organization has to raise funds from international donors in order to undertake major projects.<sup>78</sup>

In analysing the CSDO's institutional evolution since its establishment in 2002, two points stand out. First, the establishment of the CSDO was a heavily donor-driven exercise, initially through SCF and subsequently supported by ILO-IPEC and UNICEF. ILO-IPEC and FIFA have been instrumental in financing the latest phase of its development – the establishment of the Centre for Football Excellence. While the SCCI officially supported and hosted the CSDO since its inception, it has made only a limited financial commitment to supporting its basic infrastructure, requiring instead that major development initiatives be funded by international aid agencies. This is an interesting observation viewed in the light of SCCI's renowned ability to initiate and undertake self-financed collective action in areas that are prioritized by Sialkot's entrepreneurs. Examples of such local joint action, from the dry port in the 1980s to the recently built international airport, bear testimony to the ability of Sialkot's entrepreneurs to collectively invest in initiatives that they prioritize. While it would appear that CSDO is seen by some elements of local industry as a good media 'insurance policy' to project the industry as being committed to the 'child labour eradication cause', the very limited financial commitment on the part of the SCCI to finance the CSDO's activities raises questions about the extent to which SCCI really assumes 'ownership' of the CSDO's social responsibility activities.

A second and closely linked observation in relation to the CSDO's institutional evolution is that its main focus on child labour, and the initiatives it has pursued, have been driven largely by international donors and not emerged through the development of a locally embedded and self-articulated CSR agenda within the cluster. Officially, CSDO claims to have embraced a broader CSR agenda working on issues related to the welfare of not only children, but also women, youth, social education and coordination amongst social welfare agencies. In practice however, the main activity of the CSDO since 2006 has been the establishment of the Centre for Football Excellence where the focus is once again on child labour – this time on attracting former child stitchers to the game of football and promoting the spread of the game in Sialkot. While the idea of converting former child stitchers into football players is by no means harmful, seems more a product of the imagination of external actors than a bottom-up initiative undertaken by the CSDO/SCCI to develop a self-articulated CSR agenda. Such an agenda self-articulated CSR agenda on the part of the CSDO might have, at the very least, seen the organization supporting recreational activities for former child stitchers in relation to sports that are far deeply rooted in the local culture, such as cricket or hockey. These are, after all, the national sports of Pakistan.

*b) The Post-2003 Experience in Jalandhar*

The termination of FIFA funding in 2003 provided the SGFI with an opportunity to revisit its organizational mission in Jalandhar. This had slowly evolved beyond the original focus on child labour prevention and rehabilitation to a broader concern on addressing what SGFI subsequently identified as the root causes behind children working in the industry. Whereas the establishment of SGFI had originally been motivated by Northern CSR concerns/pressure from the outside, the end of the FIFA funding meant that the industry had to sustain the programme, taking on issues such as the provision of social security, health and safety along with the prevention and rehabilitation of child labour.<sup>79</sup>

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<sup>77</sup>Information from CSDO Homepage ( <http://www.csdo-scci.org/cfe.html> accessed 30 May 2008)

<sup>78</sup> Interview with NGO 4.

<sup>79</sup> Notes from 2007 PowerPoint Presentation Made By Ravi Purewal, SGFI Project Manager, Provided to the Authors During their Visit to Jalandhar, January 2008.

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During the period between 2003 and 2005, it was primarily the SGFI and its members' interest in promoting social initiatives that were the key drivers behind the SGFI's development. At the time, the SGFI carried out a survey amongst home-based stitching families in order to identify what their priorities were in relation to social protection activities within the cluster. From this survey it emerged that approximately 70% of the stitchers had no savings, they paid very high interest rates on loans from private sources, drug and alcohol addiction was widespread, and approximately 80% of the stitchers were not insured.<sup>80</sup> This was the situation prior to the intervention of the UNIDO within the cluster in 2005.

The year 2005 marked the beginning of an expansion of SGFI's activities as the organization entered into a three-year cooperation agreement with UNIDO. UNIDO had linked up with the Swiss Agency for Development and Cooperation (SDC) on a Thematic Cooperation. While the SGFI's annual budget for social protection activities was INR 2,202,469 (approx. US\$52,000) in 2004, the budget was increased by 68% to INR 3,698,400 (approx. US\$ 7,000) by 2008. The thematic cooperation had both action-oriented research and field-level technical assistance as its components. At the global level the project aimed at "identifying and disseminating good practice the project aims at identifying and disseminating good practice to operational suggestions on how to enhance SME participation in the CSR movement"<sup>81</sup>. As part of this thematic cooperation, UNIDO had decided to approach the Jalandhar cluster to gauge its interest on initiating a social and responsibility action research project in the cluster.<sup>82</sup>

From the viewpoint of the SGFI, its initial reaction was hesitant. The SGFI already had a number of activities in its portfolio, and the entrepreneurs were able to finance those activities through their own means. Several meetings were held. Eventually, SGFI decided to cooperate with UNIDO based on the idea that UNIDO could assist SGFI in broadening its vision through its experience of having worked in many other clusters in India and worldwide.<sup>83</sup>

From the viewpoint of UNIDO, the SGFI decided to cooperate with UNIDO on the social and environmental responsibility project, because it could improve SGFI's social and 'global impression impact'. SGFI had to take part in WFSGI meetings outside of India at least once a year. In this connection SGFI had to keep innovating if SGFI wished to continue to present its work at the international level. The SGFI's social protection agenda was then expanded through a process of dialogue between SGFI and UNIDO. Good interpersonal relations and shared understanding between the UNIDO CDA and the SGFI project director facilitated this process.<sup>84</sup>

Initially, this dialogue took place through a number of one-to-one meetings between UNIDO's CDA and the Jalandhar sports goods entrepreneurs. These meetings coupled with formal group discussions and exposure visits of the SGFI manager were helpful in framing the SGFI's initial action plan based on what SGFI's member firms would engage in.<sup>85</sup> After the initial meetings with the Jalandhar firms it became obvious that compliance with codes and labour standards was seen as nothing more than added costs by the small Jalandhar firms. It was only in instances where the

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<sup>80</sup> Ibid.

<sup>81</sup> Information from weplayfair.com website (<http://www.weplayfair.com/index.php>, accessed 19 June 2008).

<sup>82</sup> UNIDO approached Jalandhar since the cluster had a mixture of exporting firms and considerable sales in the domestic market. UNIDO had also run a cluster development program in the Jalandhar cluster since 2001. This was important since a considerable amount of trust had already been built, making a new and challenging intervention easier.

<sup>83</sup> Interview with Small Enterprise 4.

<sup>84</sup> Interview with United Nations Representative 6.

<sup>85</sup> Interview with United Nations Representative 6.

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firms' buyers demanded CSR compliance that it became a must for the SMEs to engage in CSR.<sup>86</sup> UNIDO also attempted to partner with the Fair Labour Association to show the Jalandhar producers that buyers might prioritize CSR in the future. However, most Jalandhar firms rejected this idea doubting the commitment of their buyer brands while accusing them of double standards. That is, on one hand the brands sought to impose their code of conduct requirements. On the other hand, they would also ask for price reductions and switch their orders to China that had a notorious reputation for labour exploitation.<sup>87</sup>

Instead of assisting the Jalandhar soccer ball producers in meeting their social and environmental obligations under Indian law through CSR compliance measures, the project primarily focused on initiating a range of social or philanthropic projects. These were broadly defined as (i) turning existing tuition centres into 'personality' centres, (ii) establishing self-help groups for women soccer ball stitchers, (iii) initiating health activities, (iv) establishing an NGO, REACH, for the wives of entrepreneurs, and (v) constructing a common facility centre that could assist the firms in making the transition from hand-stitched to machine-stitched soccer balls.

The idea of turning SGFI's existing tuition centres into 'personality' centres originated from UNIDO's CDA in Jalandhar. Initially, UNIDO's CDA in Jalandhar had not been particularly impressed by the quality of SGFI's tuition centres that she perceived as an extension of the already poor state of the government school system. The children were repeating the same points that they had already studied in the school. There was no thinking out of the box, creative learning or alternative attempts to help stimulate the development of the child in SGFI's tuition centres. Hence, converting the tuition centres into personality centres would help in stimulating the children's broader development.

Another new social protection activity in the Jalandhar cluster was the formation self-help groups that were intended to empower female stitchers and their families. The concept of self help groups (SHGs) is widespread in India. SHGs are now being seen as a particular tool for fostering local development initiatives, especially in many poor urban and rural communities. The Jalandhar approach on SHGs was modelled on the experience of the Self-Employed Women's Association (SEWA) that the UNIDO CDA and SGFI's project manager had visited. At SEWA they had seen groups of women workers collecting their savings, and using this as a form of social security. Subsequently, SGFI initiated the formation of self-help groups on a pilot basis with a relatively limited number of groups to ensure that they were functioning properly before scaling the project up to the entire home-based worker mass of the SGFI member firms. By early 2008 SGFI had organized 650 families into self-help groups with monthly savings of INR 20000. These stitchers rarely had any insurance or savings to fall back upon. The self-help groups were organized by SGFI staff and the female stitchers within an SHG contributed equal amounts to their bank. The money collected was used for insurance, micro-finance and income generation schemes.

The third major focus area of SGFI was REACH. Reach brought together the wives SGFI members in a volunteer effort to improve community welfare in Jalandhar. The background was that the wives of the entrepreneurs in Indian Punjab were often house wives that usually had some free time at their disposal. However, some of India's larger companies have foundations that are run the wives of entrepreneurs. REACH was then formed during a meeting when UNIDO's cluster development agents had explained to the purpose of initiating such an organization. Many of the entrepreneurs' wives had promised that they would help in the work of REACH during this initial meeting. However, fewer ladies had come at the second meeting, having discovered that REACH would not involve having tea parties but instead doing volunteer work to help poorer sections of

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<sup>86</sup> UNIDO attempted to introduce some productivity experts to the cluster. They explored whether local firms could obtain cost savings by engaging in environment or worker-friendly initiatives. However, most explorations led to insignificant results and UNIDO was not able to convince the small firms of the business case for investing in CSR compliance measures. Interview with United Nations Representative 6.

<sup>87</sup> Interview with United Nations Representative 6.

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society in Jalandhar. At present, REACH is run by 3-4 dedicated wives of entrepreneurs who believe that many of the other entrepreneurs' wives were not interested in working. REACH collects clothing and other items, which it then distributes to the poor. UNIDO has supported the project by paying a basic salary for one of the ladies to serve initially as REACH coordinator.<sup>88</sup>

Finally, SGFI also initiated a common facility centre with the aim of helping the soccer ball industry in Jalandhar upgrade its production technology. For example, six stitching machines were procured while workers from SGFI's member companies received training in how to handle the machines. One SGFI member received its order in 2007 for machine-stitched soccer balls from the UK, and a number of SGFI members began to experiment with machine-stitching technology forwarding their samples to international buyers.<sup>89</sup>

*c) Commonalities and Differences in the Post-2003 Social Protection Agenda in Sialkot and Jalandhar*

In terms of the post-2003/4 social protection agenda, Table 6.2 below outlines a number of important differences across the two clusters. First, the social protection agenda was heavily donor-driven in Sialkot prior to 2003, with the ILO-IPEC, SCF, and UNICEF involved in field level implementation activities along with their Pakistani counterparts. After 2003 these international agencies left the soccer ball industry in Sialkot and the responsibility of implementing donor-designed social protection activities were transferred to local institutions, mostly the CSDO. It seems questionable today whether CSDO is truly in a position to drive social protection agenda in the way that the international agencies did between 1997 and 2003.

**Table 6.2 Similarities and Differences in the Evolution of the Social Protection Agenda in the Sialkot and Jalandhar clusters: 2003 – 2007.**

<b>Social Protection Programme</b>	<b>Sialkot</b>	<b>Jalandhar</b>
<b>Pre- 2003 Drivers</b>	AA Principles (UNICEF, ILO-IPEC, SCF)	AA Principles (SGFI/CRRID)
<b>Post-2003 Drivers</b>	CSDO (?)	SGFI/UNIDO
<b>Pre- 2003 Activities</b>	School Improvement Aw. Raising, NFE, Micro-Credit, Health	CL Schools, Aw. Raising, Health Camps, Tuition Centres
<b>Post-2003 Activities</b>	NFE, Centre of Football Excellence Micro-credit <sup>90</sup>	CL Schools Pers. Centres Income Generation CFC, Health

In Jalandhar, it was national institutions from the beginning that were involved in project formulation and execution, although this took place within the overall AA framework. After 2003

<sup>88</sup> In addition, the common facility centre has been experimenting with developing a table for screen printing of multiple football panels while multiple cutting die and roll lamination machines are currently under development.

<sup>89</sup> The SGFI holds a free medical camp every second month for stitchers and their families. Free medical check-ups are given and medicines distributed according to need. These camps are general, eyes, ears, throat, orthopaedic. At one of the SGFI tuition centres free medical check-ups are also provided once a week.

<sup>90</sup> The PRSP continued to provide micro-credit facilities to villages in Sialkot district beyond 2003/4. At times, its beneficiaries also included stitching families but this was largely incidental and not part of an overall strategy to sustain the soccer ball project in Sialkot.

the focus on social protection activities in Sialkot continued to be heavily donor-driven, especially through the Centre for Football Excellence project involving ILO-IPEC and FIFA. There appears to have been limited involvement on the part of the SCCI in the AA's social protection agenda. By contrast the SGFI took responsibility for developing its own social protection agenda in Jalandhar. Initially, this had a rather limited focus on providing child stitchers with educational opportunities through the establishment of tuition centres. It was then gradually transformed to a broader social and environmental responsibility agenda which was developed in dialogue with and partly funded by UNIDO. This was done on the basis that social protection activities should be philanthropic and not affect core business practices in the Jalandhar cluster.

A second important difference was that fewer social protection activities were undertaken in Sialkot after 2004, while the number of social protection activities increase in Jalandhar – mostly due to donor financing from UNIDO. Hence, it was not GVC pressures that facilitated or constrained local cluster governance of social protection in the two clusters. Instead it was the initial pressure of international aid agencies (in Sialkot) and their absence (in Jalandhar) that appears to explain why the social protection agenda was initially well-developed in Sialkot and subsequently downsized after the donors pulled out. On the other hand, it was the initial absence of donor agencies that led the SGFI to develop a limited social protection agenda that could be sustained through the SGFI's own finances and subsequently expanded with UNIDO funding in the post-2003 period.

#### 6.4 Conclusion

This section has been concerned with outlining how the two core elements of the AA – child labour monitoring and social protection – evolved in the two clusters once the key external actors withdrew in 2003/4. In both clusters there was a transition to a more active engagement by local actors. This was seen in the emergence of IMAC as a new independent institution to undertake child labour monitoring in Sialkot, while the industry's own body SGFI took on monitoring tasks in Jalandhar. Both agencies adopted similar monitoring practices to those used when the AA was developed in the respective clusters. However, IMAC appears to be more independent from local industry interests and to have greater monitoring capacity than SGFI in Jalandhar. In terms of the social protection agenda, it is also clear that not only is the substantial activity experienced earlier in Sialkot is no longer sustained, but it is also questionable whether the new institution, the CSDO, set up to promote the social protection agenda in the cluster, can act a key driver in sustaining the social protection agenda of the AA in the way that the international agencies did. The Jalandhar cluster on the contrary appears to have assumed greater responsibility for the social protection agenda, expanding its original child labour focus to a broader social and environmental responsibility agenda. However, while this agenda has not been driven by the pressure of international brands, it continues to be heavily influenced by external actors, most particularly through the dialogue that is developed between SGFI and UNIDO after 2005.

In terms of the post-2003/4 child labour monitoring arrangements, we see a relationship between what emerged in the two clusters and the types of buyers and value chains ties that dominated in the two clusters. We ascribe the differences in monitoring practices in the two clusters to the differential integration of the two clusters into GVCs. Global governance pressures (in terms of the demands from brands to ensure that compliance with child labour standards are adequately demonstrated) are much greater in Sialkot than in Jalandhar.

The global governance pressures felt in Sialkot provide stronger pressures for IMAC to let itself be subject to independent oversight (institutionalized through a multi-stakeholder board and a well-developed IMAC website) and maintain greater potential monitoring capacity (measured in terms of number of monitors and frequency of monitoring visits) than that observed in Jalandhar. Our comparison of the child labour monitoring mechanisms observed in Sialkot and Jalandhar clusters post-2003 indicates that there may also be a trade-off between *independence* of the child labour monitoring mechanism and its local *embeddedness*. Global governance pressures provide strong incentives for maintaining a credible monitoring mechanism that is more independent from local

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industry interests in Sialkot. The absence of similar pressures in Jalandhar has meant that it has been possible to develop a child monitoring mechanism that has been entirely 'owned' or controlled by local industry interests in the post-2003/4 period. However, this local embeddedness or ownership of the child labour monitoring mechanism in Jalandhar also means that local industrialists are not required to maintain the same level of public access to information about the operational procedures and performance of the local child monitoring mechanism.

However, there is an important challenge to the longer term sustainability of the child labour monitoring mechanisms in the two clusters which relates to the ways in which IMAC and SGFI relate to the global brands that source from their respective clusters. This can be seen in two ways. First, in the case of Sialkot, the leading brands, and especially the megabrands, do not rely on the cluster-based IMAC monitoring programme, but conduct their own independent auditing of their local supply chains. For them, their compliance monitoring needs to be extended beyond child labour to encompass the range of CSR concerns encapsulated in their respective codes of conduct.

Second, both IMAC and SGFI largely seem to have failed to establish closer ties between themselves as the leading monitoring bodies in their clusters and the international brands that source from the clusters. None of the leading brands are members of their boards, or actively engaged in the working of the two agencies. Neither agencies report the findings of their individual audits directly to the international brands, but to their members – namely local producers. Strengthening ties with international buyers and leading brands would seem important for ensuring that IMAC and SGFI not only retain a relevant and active profile for local manufacturers and other stakeholders in Pakistan and India, but also for the main buyers from Sialkot and Jalandhar. It is important to remember that buyers, and brands, are not a homogenous group of actors when it comes to concerns on labour standards, and how to respond to failures on compliance. Far from it. The interests of CSR sensitive brands, such as Adidas and Nike, may often be at odds with those of smaller brands who remain below the radar screen of international advocacy groups and are therefore less concerned about child labour in their supply chains. However, if the ongoing relevance of IMAC and SGFI is to be ensured, an important place to start would obviously be to involve some of the larger and smaller brands more directly in their work, and on their Boards.

With respect to the social protection agenda, GVC ties appear to be less significant. Most brand buyers (although there are a few notable exceptions) are concerned primarily with ensuring that their supply chains are free from child labour, and that the main tenets of their individual codes of conduct are being met. Very few, however, go beyond this to broader concerns on social protection and social development issues that would adhere to wider development type CSR values. Thus, the fact that there is no pressure from the GVC has meant that the exit of international agencies from Sialkot led to the social protection activities taking a relative step back. Importantly, key local cluster institutions, such as the SCCI which acts as the collective representative body for local industry, failed to take ownership of this aspect of the AA agenda. Thus the local agency set up to address this, CSDO, remains a relatively insignificant actor in relation to what was experienced in the cluster in the period 1997-2003. In contrast, the fact that GVC governance ties are relatively weaker in Jalandhar may, however, have helped local industry to take on a relatively more active engagement on social protection concerns. Whether this is truly owned by the cluster, and not solely an outcome of UNIDO support, remains to be seen. Consequently, local cluster governance through the SGFI in Jalandhar may possibly provide a more effective channel for promoting local CSR concerns and values in that cluster in a way that has not been observed in the Sialkot cluster, despite the fact that latter cluster experienced a much larger and more intensive social protection programme during the earlier period.

In conclusion, it appears as if there is a trade-off between independence and embeddedness of child labour monitoring schemes and international versus local ownership of social protection activities in both clusters. Global governance pressures in Sialkot resulted in a need to sustain a more

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independent monitoring mechanism while the absence of such pressures in Jalandhar allowed the SGFI and its members to take full control of the monitoring mechanism in Jalandhar. At the same time, the social protection agenda was initially owned by international aid agencies in Sialkot while local ownership does not appear to have developed for these activities after the donor pull-out in 2003/4. On the other hand, in Jalandhar, local ownership was initially developed for the social protection agenda, and it was then subsequently expanded with international donor funding. Whether this expansion of the social protection agenda can be sustained in Jalandhar remains to be seen after UNIDO pulls out of the cluster in October 2008. Whether local cluster institutions can effectively take ownership of the social protection agenda and foster a locally owned set of values on CSR, given the relative power of global governance exercised by leading brands in the Sialkot cluster, also remains a moot point.



## 7. The 2006 Nike ‘Pull-Out’ and its Implications for the Atlanta Agreement

### 7.1 Introduction

In Sections 5 and 6 we analysed how the Sialkot and Jalandhar clusters responded to the initial shock of media allegations on the presence of child labour in both clusters. Section 5 outlined the similarities and differences in the response to this, specifically how the AA was implemented in both clusters. Section 6 discussed how both clusters dealt with the exit in 2003/4 of the key external actors who were implementing the AA. In this section, we consider a new shock that took place in November 2006 – namely Nike’s termination of its sourcing arrangements with its lead supplier in Sialkot, Saga Sports, and its short-lived ‘pull-out’ from that cluster. As a result of the Nike ‘pull-out’, serious questions were raised about the AA’s future viability. While the shock was specific to the Sialkot cluster, it prompted a reconsideration of the link between global chain governance and local cluster governance, and the organization of production in soccer ball manufacture which have implications for both Sialkot and Jalandhar. To date, the Nike Pull-out has only been partially analysed by Seigmann (2008) and Nadvi (2008). We seek to go beyond these studies to consider the consequences of the Nike actions for the structures of the AA, and for on-going debates on CSR implementation in the two clusters.

In the first part of the discussion, we explore how the Nike pull-out brought a number of key international actors, such as the ILO, back to the Sialkot cluster, to consider further how labour standards compliance could be better addressed in the cluster. One outcome of this was the attempt to develop a new ‘Sialkot Initiative’ that would broaden the goals on labour standards and CSR concerns in Sialkot in ways that were broadly aligned with ILO’s current policy agenda of promoting what it calls ‘Decent Work’. Some have termed this new initiative as an attempt to develop an Atlanta II. Despite the laudable aims expressed in the Sialkot Initiative, we remain sceptical about its actual value. There appears to be little consensus on its objectives, how they are to be implemented, or in what ways will they strengthen local cluster institutions and local cluster governance of labour standards. Instead, in our view, one of the outcomes of the Nike pull-out, and its subsequent re-entry in Sialkot, has been to highlight further the dominance of global chain governance, exercised by the leading brands, over local cluster governance in terms of the manner in which CSR compliance is to be achieved in the Sialkot soccer ball industry. There are, nevertheless, clearly differences of views amongst the leading brands as to how global chain governance should be exercised. Moreover, for smaller brands that source from Sialkot (and Jalandhar), and do not have the resources to monitor their supply chains fully, local cluster institutions that serve to monitor child labour continue to remain important.

In the second part of this section we discuss the different ‘models’ of production organization and supply chain governance that have emerged in the two clusters. We look at how the organization of production of soccer balls in Sialkot and Jalandhar has been effected by the pressures arising from further up the GVCs as a result of the first shock (the initial child labour allegations) felt in both clusters in the mid-1990s, and the second shock (the Nike pull-out) that came about a decade later. These shocks have directly affected the ways in which production is locally organized in the two clusters, and have resulted in a close relationship between production organization and the CSR concerns of buyers.

The discussion in this section is structured as follows. In Section 7.2 we briefly trace some of the developments that preceded Nike’s decision to exit from Sialkot in 2006. Section 7.3 turns to the consequences that the Nike pull-out had for the AA stakeholders. In Section 7.4 we outline what we believe are the future perspectives for the AA in the post-pull-out phase. In Section 7.5 we discuss the distinct forms of production organization and chain governance that emerged in Sialkot and Jalandhar in response to the first (child labour allegations in the mid-1990s) and the second shock (Nike’s pull-out).

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### 7.2 The Events leading Up to Nike's Pull-Out from Saga Sports

The relationship between Nike and Saga Sports originally developed in 1996 and marked a change in the type of global chain governance models that dominated the Sialkot cluster. Saga Sports was founded in 1983 and became a PKR 1.6 billion business (approximately US\$24 million) by 2002. At this point it was the Sialkot cluster's leading manufacturer in terms of export volumes and total numbers of stitchers working for it. Its owner, Sufi Khurshid, was considered a 'visionary' within the cluster, particularly on CSR and child labour concerns. He played a key role in negotiating the AA and headed the delegation from the SCCI that took part in the negotiations in Atlanta. When allegations of child labour became rampant during the mid-1990s, Sufi Khurshid believed that the only effective response to dealing with the problem was to eliminate the middleman – the subcontractor – from the production chain and concentrate football stitching in centres that could be monitored by internal and external auditors. Realizing that the concentration of stitching in large-scale centres would upset the traditional home-based production structure, he decided that Saga's custom-built stitching centres should be provided with facilities that could attract former home based stitchers, including women stitchers. These incentives included, free transport, free meals, medical facilities, crèches, and subsidized 'fair-price' shops.

Sufi Khurshid passed away in 2001. His death precipitated a series of events that eventually led to the company losing its main buyer Nike in 2006. Following his death, as is often the case with most family owned, as opposed to professionally managed, businesses in Pakistan, his wife took over the management of the company. With little business experience or acumen, over time she alienated many of the company's senior managers who had worked with Sufi Khurshid. Lacking the skills required for running a business the size of Saga Sports, Mrs Sufi increasingly relied on other family members who were placed in senior management positions – family members whom she felt she could trust, but who unfortunately had little knowledge of how to run a football factory. Instead they initiated a process of firing or demoting many of Saga's senior, more experienced managers.<sup>91</sup> Thus, despite a strong management system, the demise of Mr Sufi set in motion a series of management failures.

One of these became obvious in early 2006 as Nike was informed by LIFT Standards, an international consultancy company, of the possible leakages in its supply chain to home-based stitching locations in Sialkot. Following this news Nike conducted its own investigations into the possible existence of unauthorized outsourcing to home-based stitching locations.<sup>92</sup> In the following months, three independent third party audits were undertaken by LIFT standards, Responsible Business Initiative (a Lahore-based CSR consultancy company), and the Fair Labour Association. Nike also decided to hire the services of Matrix Sourcing, a Lahore-based consultancy company to assist Nike in monitoring sourcing and CSR compliance at Saga Sports in Sialkot.<sup>93</sup>

These audits pointed to failures of compliance with the Nike code of conduct, including unauthorized outsourcing of stitching to home-based units. In addition, there were other supply chain failures as Saga struggled to meet the increasing volumes of orders that Nike had placed with it. In the light of these independent audit findings, a follow-up process of extensive meetings took place between Nike and Saga – including a meeting with Saga in Oregon. Saga was given a 15

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<sup>91</sup> Interview with Large Enterprise 3.

<sup>92</sup> It should be noted that prior to April/May 2006, audits had been carried out for Nike at Saga Sports-owned facilities that had not detected any unauthorized outsourcing. These include a Fair Labour Association audit in 2004, a Nike-contracted third-party audit in 2005, follow-up monitoring to check remediation in October 2005 and additional Nike Environmental, Safety and Health auditing in April 2006. Nike, Saga/Sialkot – Q and A, Internal Nike Document, Nike, Beaverton, 2006.

<sup>93</sup> Matrix Sourcing has mostly assisted international buyers/brand names with sourcing apparel from Pakistan and has been handling Nike's sourcing of apparel from Pakistan. The company specializes in product monitoring, quality control and assurance, ensuring proper lead times, and CSR compliance monitoring. Matrix acts as the authorized agent of Nike in Pakistan and functions as Nike's liaison office in Pakistan.

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point remediation plan and nine months to complete it. According to Nike's senior CSR management, Saga failed to address these points until after the company had been notified that Nike would be ceasing its business with Saga. Whereas Nike would usually have been willing to work with suppliers that were in non-compliance with Nike's code of conduct if they were committed to improving their performance, Saga did not appear willing to address any of the non-compliance issues raised by Nike. On 20 November 2006, Nike issued a press release announcing the termination of its sourcing from Saga Sports. According to press release,

"...Nike discovered widespread unauthorized outsourcing of its products from Saga facilities, resulting in the production of Nike soccer balls inside homes in the Sialkot area. Nike has a long-standing policy against such practices because of the potential for using under-aged workers and the inability to ensure safe working conditions in home-based settings. The company also found numerous labour, environmental and health and safety compliance violations within Saga's facilities, including serious allegations by trade union representatives and other Saga employees of worker harassment, wrongful termination and inaccurate payment of wages." (Nike Press Release 2006)

In this connection, Hannah Jones, Vice-President of CSR in Nike commented that Nike had exhausted all options and that the only alternative was to cease orders despite the potentially negative effects on Nike's soccer ball business and workers in Sialkot. In the Nike press release she stated, "In this case, remediation didn't work...In fact, we saw a further significant deterioration of working conditions due to a lack of commitment by management to address the problems. We also are deeply concerned about the broader conditions and practices we saw in home-based settings."

### 7.3 The Nike Pull-Out and its consequences for the Atlanta Agreement Institutions

Nike's pull-out from Saga Sports set in motion a series of events, both internationally and within the cluster. This prompted various actors to put forward their own vision of how local cluster governance should be re-organized in response to global chain pressures for CSR compliance within the industry. For Nike the pull-out was an opportunity to raise a debate about what future local cluster governance model should be adopted in the Sialkot cluster in order to address its global chain governance concerns (i.e. labour rights violations at Saga Sports and continued home-working in the industry). Moreover, Hannah Jones, Nike's Vice-President for Corporate Responsibility said, "We see the potential that fresh approaches like social enterprise initiatives can create for economic diversification and the long-term health of the community." (Nike Press Release 2006)

In the aftermath of its pull-out Nike was engaging with a diverse group of stakeholders with the aim of exploring "ways in which this moment can become a catalyst for transforming local manufacturing models and creating sustainable development." Internationally, a series of meetings ensued between Nike, the WFSGI, the ILO, the SCCI and the Government of Pakistan. In the face of pressure – both political and commercial – to resume sourcing from Sialkot, Nike held a consultative meeting with a number of actors in December 2006 to assess how to proceed. Meanwhile, WFSGI conducted a series of consultations with the leading brands to ensure that Nike's pull-out did not set in motion a mass exodus of buyers from Sialkot.

While Nike made clear to us that its pull-out had nothing to do with the working or effectiveness of IMAC<sup>94</sup>, the pull-out focused attention on child labour monitoring mechanisms operating in the cluster, in particular the effectiveness of IMAC in spotting failures. Relationships between ILO-IPEC headquarters and IMAC deteriorated. From the ILO-IPEC headquarters in Geneva there appeared to be concerns on the capability of IMAC to perform its stated mandate, and a desire to salvage the reputation of the well known IPEC model of child labour monitoring in Sialkot. The

<sup>94</sup> Interview with Charles Brown, Senior Director, Compliance, Nike, 12 January 2008.

key issue was the sustainability of the ILO-IPEC model in the soccer ball industry. The ILO-IPEC headquarters were concerned that the soccer ball manufacturers of Sialkot had too much influence on IMAC's board, and that the number of stitching centres to be monitored had increased substantially since 2003, while the number of monitors had been reduced from 20 to 12. Allegedly, IMAC's monitoring visits had become less frequent. Whereas monitors used to carry out in the inspections in pairs – one male, one female – IMAC had now resorted to single monitor visits.<sup>95</sup>

In the view of both Adidas and Nike, the effectiveness of IMAC in terms of monitoring the presence or absence of child labour in the cluster was quite limited. They believed that the number of stitching centres had increased dramatically in recent years, while IMAC did not have enough inspectors to monitor these centres, not to mention home-based settings, to ensure that children were not taking part in production. In the view of Adidas, the capacity of IMAC was already stretched, and it was therefore difficult to envisage how IMAC would be able to expand its mandate so that the organization could monitor the full range of labour rights questions as proposed by the ILO. Instead both Nike and Adidas had either relied on their own staff – in the case of Adidas a liaison office in Sialkot – or third-party inspectors, in the case of Nike, to monitor work conditions within their suppliers.<sup>96</sup>

In our interviews with IMAC's Chief Executive, Nasir Dogar, he challenged many of these points. First in his view, the claim that IMAC's board of governors was dominated by the sporting goods industry of Sialkot is difficult to support. At its inception five out of ten members of the board had strong links with the Sialkot sporting goods industry<sup>97</sup>. However, by 2006, the sporting goods industry representatives were clearly in the minority with only five out of 15 board members being associated with the industry.<sup>98</sup> Second, when IMAC's contract with the ILO had come to an end in February 2004, it had been ILO's suggestion, not IMAC's, that IMAC should revise the budget, especially the personnel cost, with a view to securing the future sustainability of IMAC. Hence, IMAC had reduced the number of monitors to 12.<sup>99</sup>

With respect to the megabrands, Adidas and Nike, IMAC states that these brands never contacted it and thus could not have in-depth knowledge of IMAC's technical capacities to monitor as per their code of conduct, whether directly or indirectly. Furthermore, even within the narrow concern of child labour, IMAC made an important observation. Namely, that IMAC's outreach covered the entire industry and it could visit any manufacturer who was a member. The brands only monitored those suppliers who were producing for them. Hence, the brands might not always be in a position to know whether there were leakages before or after working hours from their designated centres or factories. For example, another well-known brand used to only have one supplier in Sialkot. This factory was instructed to stitch all balls within factory premises. The brand hired full-time monitors

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<sup>95</sup> The Sialkot initiative envisaged that IMAC should be reformed along the following five dimensions: a) The board of governors should increase and diversify multi-stakeholder representation on the Board, more clearly defining its responsibilities; b) IMAC's monitoring should be strengthened, c) the transparency of IMAC's governance, monitoring, and reporting should be increased; d) efforts should be taken to ensure that IMAC had the technical capacity to carry out its monitoring function; and e) steps should be taken to ensure IMAC's financial sustainability. The Sialkot Initiative 2007, Government of Pakistan – ILO Tripartite Workshop, Islamabad, Pakistan, 21-22 February 2007. (Available at [home.scci.com.pk/Sialkot\\_Initiative\\_2007.pdf](http://home.scci.com.pk/Sialkot_Initiative_2007.pdf), accessed 1 June 2008).

<sup>96</sup> Interview with William Anderson, Head of Social and Environmental Affairs, Asia-Pacific, Adidas Group, 20 May 2008. Interview with Charles Brown, Senior Director, Compliance, Nike, 12 January 2008.

<sup>97</sup> These included SCCI, CSDO, District Nazim represented by a sport goods manufacturer, Pakistan Sport Goods Manufacturers and Exporters Association, and a soccer ball manufacturer participating in his individual capacity. Apart from that the TDAP, the Pakistan Workers Federation, the WFSGI, and the ILO/UNICEF (in a technical advisory capacity) were represented on the Board of Governors.

<sup>98</sup> That was because LEAD, the Ministry of Labour, Punjab Government, LUMS, Ministry of Labour, Pakistan, Pakistan Workers Federation, Sialkot Chapter, and the Employment Federation of Pakistan had also joined the Board of Governors at this time.

<sup>99</sup> See IMAC, First Annual Report – March 2003 – April 2004, IMAC, Sialkot, 2004.

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to be present on the factory premises while two additional monitors had to do surprise checks within outside the factory premises. In spite of these measures, ILO/IMAC monitors identified the brands' balls being stitched in home-based settings on a number of occasions.<sup>100</sup>

Internationally, news reports were also emerging debating the implications of Nike's pull-out for the future of the AA. In *Ethical Corporation*, Dough Cahn wrote in February 2007,

“So what are we to make of the fact that nearly a decade after this landmark collaboration – the AA - was birthed, Saga Sports has been dropped by a major global brand? Activists in Pakistan have long warned of a resurgence of child labour, pushed into ever more remote villages surrounding Sialkot to avoid inspectors...is it fair to conclude that the Atlanta Partnership failed to deliver on its promise. In fact, the answer must be yes. But rather than declare the Atlanta Partnership null and void, the parties to the agreement should examine in detail what went wrong and resolve to strengthen it. ...The stakes are high. The ability of the Atlanta Partnership to succeed in the face of today's known failures will inform a range of other experimental yet innovative partnerships to address difficult social issues in developing countries.” (Cahn 2007)

Within the Sialkot soccer ball industry Nike's pull-out from Saga Sports caused widespread confusion and disbelief. While Nike's stated concerns about labour rights violations at Saga Sports were registered, Saga Sports had widely been perceived as the pacesetter on local CSR practices. If Nike was truly concerned about the welfare of Saga's workers, then why did Nike decide to render Saga's 7,000 workers redundant? It was not only 7,000 workers that lost their source of income but these 7,000 workers also had an estimated 30,000 dependants that were likely to be adversely affected by Nike's decision. At the international level, these concerns were mirrored by a debate about how global corporations should respond when codes of conduct violations were discovered in their supply chains. While Nike had spent nine months working with Saga to resolve its concerns and although no children were found in Saga's supply chain, Montero still commented, “Child labour is universally condemned, but is it fair for multinationals to cut and run when incidents arise of children working? Or do corporations have an obligation to work to fix these problems themselves?” (Montero 2006)

These debates about the causes and effects of Nike's pull-out raised the stakes for finding an appropriate local governance response (an Atlanta II agreement) that could satisfy the concerns raised by all stakeholders involved. In February 2007, at a multi-stakeholder meeting held in Islamabad which included government, the SCCI, the Employers Federation of Pakistan, the ILO, WFSGI, key brands, national and international trade unions and NGOs, a new Sialkot Initiative was launched. The Sialkot Initiative appears to be an attempt to revive the principles within the original AA, but to broaden its goals to beyond child labour, and to incorporate ILO's overriding campaign on Decent Work. This meant addressing all core labour standards, not just the elimination of child labour. As Nike stated, Saga's compliance failures were not restricted to the leakage of stitching to home-based units but to other areas of social and labour compliance that fell within its code of conduct. Nike stated that it had stopped relying on ILO-IPEC, and subsequently IMAC's monitoring activities, as far back as 2001 on the grounds that they were only narrowly focused on child labour and did not address the wider social compliance concerns that were part of Nike's code. The recommendations emerging from the review of IMAC were incorporated into the Sialkot Initiative, but there was no clear indication as to how the Decent Work agenda, or the wider set of

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<sup>100</sup> IMAC also claims to have observed similar leakages from both Adidas and Nike suppliers but could not report this directly to the brands. Personal Communication from Nasir Dogar, IMAC Chief Executive, to the authors, 5 June 2008.

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labour standards were to be implemented within the Sialkot cluster.<sup>101</sup> The Sialkot Initiative document outlined a future vision of the Sialkot cluster as follows:

“An effective strategy to promote decent work in Sialkot for women and men will require an integrated policy and implementation approach aimed at revisiting the business model presently dominant in the industry. Specifically, Sialkot should emerge as a centre of excellence in sporting goods manufacturing based on leadership in production and social standards. This calls for focused investment to upgrade production capacity to comply with the standards required in global markets. Specifically, it requires a gradual transition from home-based work, the formalization of contracting and subcontracting by law, and the formalization of stitching centres.” (ILO, the Sialkot Initiative 2007)

While the idea of a new collective action initiative in response to Nike’s pull-out was welcomed, the proposed contents of the new local governance model were met with scepticism from various quarters. According to some of our respondents in Sialkot the initiative appeared to address the concerns of global brands and not local producers. According to one respondent, some local firms had suggested that a fair trade model should be used as the future CSR model for the Sialkot sporting goods industry, as there were five or six companies in Sialkot that were selling balls according to fair trade schemes. In this way, the consumer was willing to pay a premium, and the fair trade model would work well for both the exporters in Sialkot and the workers whose conditions could be improved. However, none of the brands were willing to respond positively to this suggestion.<sup>102</sup> Similarly, the involvement of the WFSGI in the initiative was perceived with a certain degree of scepticism as WFSGI was seen as being dominated by the global brands.<sup>103 104</sup>

However, it was not only local industrialists that were sceptical of the Sialkot Initiative. There also appeared to be an internal split amongst the megabrands – Nike and Adidas - about what constituted an appropriate future governance model for the Sialkot cluster. From the viewpoint of Adidas, the international trade unions pushed very hard on the issue of freedom of association at the Islamabad meeting in February 2007. They did not seem to appreciate the difficulties of organizing highly dispersed, home-based workers or the political sensitivities of insisting on the implementation of the ILO’s core labour rights. Adidas was well aware of these sensitivities from its work with supplier factories in other parts of Asia. Adidas believed that the entire approach taken in the Sialkot initiative was not very realistic, and the Sialkot Initiative did not have multi-stakeholder buy-in as had been the case with the original AA.<sup>105</sup> Finally, Nike’s decision to re-enter Sialkot in May 2007 and source from a new local supplier appeared to have taken some of the pressure out of the situation.

#### 7.4 The Lessons of the Nike Pull-Out

Nike’s pull-out from Saga Sports had several consequences for the interplay between global and local governance in the Sialkot cluster. First, Nike’s exit cast into doubt the viability of the AA as a way of structuring this interplay (i.e. brands’ commitment to only source from ‘child labour free’ companies in Sialkot and the Sialkot producers’ commitment to collectively address the child labour issue). From Nike’s point of view, local cluster governance structures (i.e. the AA) had only focused on child labour issues and not on broader labour rights covered in Nike’s code of conduct.

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<sup>101</sup> The Sialkot initiative envisaged that IMAC should be reformed along the following five dimensions: a) The board of governors should increase and diversify multi-stakeholder representation on the Board, more clearly defining its responsibilities; b) IMAC’s monitoring should be strengthened; c) the transparency of IMAC’s governance, monitoring, and reporting should be increased; d) efforts should be taken to ensure that IMAC had the technical capacity to carry out its monitoring function; and e) steps should be taken to ensure IMAC’s financial sustainability. The Sialkot Initiative 2007.

<sup>102</sup> Interview with Medium-sized Enterprise 2.

<sup>103</sup> Interview with Large Enterprise 2.

<sup>104</sup> Medium-sized Enterprise 3.

<sup>105</sup> Interview with William Anderson, Head of Social & Environmental Affairs Asia Pacific, Adidas Group, 20 May 2008.

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There was also the continued practice of home-working which prevented the industry from becoming internationally competitive in the view of Nike. Global governance pressures (i.e. Nike's withdrawal from Saga Sports) then led to a reconsideration of the appropriateness of established local governance structures (through the activation of a multi-stakeholder dialogue) which initially appeared to have substantial momentum. However, after the ILO's Sialkot Initiative meeting in February 2007, it emerged that key actors in the process disagreed about the main causes behind Nike's pull-out; they were not able to reach a consensus about what 'the problem' was in relation to the previous Agreement, and hence it was very difficult to find a new way of restructuring local governance in ways that could satisfy the various concerns of competing actors with an interest in the future viability of the soccer ball cluster. Hence, at present, it appears unlikely that a large AA II will see the light of the day in the foreseeable future.

While global governance pressures (i.e. the Nike pull-out) led to a reconsideration of the interplay between global and local governance in Sialkot, it seems that the local governance institutions created by the AA – IMAC in particular – will continue to perform their current function. Even if IMAC does not meet the monitoring requirements of the megabrands – in the views of Nike and Adidas – IMAC will still serve as a key local governance institution for smaller and medium-sized brands that cannot afford to employ their own CSR monitors on the ground in Sialkot. However, for the megabrands, Nike and Adidas, global chain governance is now replacing local cluster governance as the key means through which CSR compliance is ensured. This illustrates a broader observation; namely, that the first shock (allegations of child labour in the Sialkot and Jalandhar clusters) and the second shock (the Nike pull-out in Sialkot) have brought about new forms of production organization and chain governance in both clusters that may be partly distinguished on the basis of the CSR content. We now turn to an analysis of the new forms of chain governance across the two clusters in Section 7.5.

#### 7.5 Forms of Production Organization and Chain Governance in the Sialkot and Jalandhar clusters

Prior to the first shock in the mid-1990s, home-based stitching was the dominant model of production organization in both the Sialkot and Jalandhar clusters. In the case of Sialkot, home-based stitching had emerged as a response to the labour laws that came into force in 1973. Home based stitching, however, gave firms a greater degree of flexibility in production. Stitchers were no longer directly employed by them, but worked on a piece rate basis for sub-contractors. Home - based work also provided flexibility for stitchers in that they could manage their stitching tasks with other domestic and farm and off-farm work according to their convenience. However, home-based working meant that children could participate in stitching tasks, and was difficult to effectively monitor.

The two shocks, first in 1997, and subsequently in 2006, have significantly altered this form of production organization and chain governance. The first shock led to the emergence of registered stitching centres linked to individual exporting firms. In some of the chain governance with external brands, there were wider CSR concerns that permeated these production arrangements. These included what we call a 'home-grown CSR' model of chain governance and production organization and a 'fair trade' model chain governance and production organization. The second shock, namely the Nike pull-out, resulted in a new form of production organization and chain governance. This is the 'formal factory' model. We briefly outline these distinct models below.

##### *a) The Stitching Centre Model<sup>106</sup>*

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<sup>106</sup> It should be noted here that we are using the 'stitching centre' here to refer to a building with a roof in which stitching takes place. In IMAC's terminology, a stitching centre can refer to any location, whether inside or outside, where five or more stitchers gather together. In the case of female stitching centre, only three ladies are required to gather together before it can be called a stitching in IMAC's view.

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The first shock led to a significant re-organization of production. This was most clearly apparent in Sialkot, with the emergence of registered stitching centres linked with individual exporting firms. These stitching centres were either owned by the firms, by the sub-contractors or rented by either party. Stitching centres varied in size, with as few as five persons in them<sup>107</sup>, to a handful of centres with over 500 stitchers. Most critically, stitching centres provided a better mechanism to monitor on child labour. Access to children could be restricted, while working conditions could be better audited. Stitching centres could also be seen as a way to improve quality and product standardization through improved monitoring of stitching activities.

Very rapidly, following the implementation of the AA, the stitching centre model of production organization took hold in Sialkot. It was driven by the imperatives of the child labour monitoring process encapsulated within the AA and implemented by ILO-IPEC, as well as by the demands from external buyers, especially leading brands. Brands' concerns with CSR also varied. For a large number of buyers from both clusters, the primary CSR demand was the need to ensure that no children were engaged in production. In these cases, the ILO-IPEC, and subsequently IMAC, practice of child labour monitoring was seen as an adequate basis for ensuring this minimal CSR compliance.

Our interviews with key informants and our field visits suggested that the stitching centre model was much more widespread in Sialkot than the Jalandhar. There were also a handful of medium-sized exporters from Jalandhar that established stitching centres, usually encompassing between 10 – 50 stitchers, with the aim of meeting the compliance demands of their international buyers. To a large extent, however, home-based stitching continued to be the dominant form of production in Jalandhar, although most home-based units in Jalandhar are now registered with the SGFI.

For a small handful of brands in Sialkot, however, their CSR concerns went beyond child labour. Some brands – especially the megabrands – emphasized compliance with their full code of conduct which incorporated a wider set of labour standards and labour rights. In one instance in Sialkot, CSR concerns related to social developmental concerns which involved a European brand working with its supplier on addressing core community needs that were identified from the bottom-up by the local supplier. Finally, in some cases external buyers were keen to adopt a CSR value of 'fair trade' in their sourcing arrangements from local suppliers. However, so far, it is only in Sialkot, and not in Jalandhar, that the home-grown and the fair trade models have been adopted. . We outline these two variants – the home-grown CSR model of sourcing and the fair trade model – of chain governance and production organization by drawing on the examples of some local producers and their GVC ties in the two clusters.

#### *b) The Home-Grown CSR Model*

The Home-Grown CSR model is primarily characterized by relational value chain governance that exists between a European brand and its supplier in Sialkot. In this model, the CSR aspect of chain governance does not primarily take place through the implementation of codes of conduct or labour standards but instead through social investment projects. Soccer ball stitchers are still paid according to the piece-rate system but are provided with a range of social support systems aimed at securing their welfare and reducing turnover rates amongst the supplier company's stitchers. The home-grown CSR model is unique in the sense that social project costs are equally borne by the European brand and the Sialkot supplier, and that the local supplier has been fully in charge of designing and implementing the programme.

The origin of the model can be traced back to the personal friendship that developed between the former directors of the European brand and the Sialkot soccer ball producer directors in the mid-1970s. Both directors shared a vision of combining a profitable business with looking after their

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<sup>107</sup> In the case of centres with five to ten stitchers in Sialkot, these usually consisted of home-based stitching centres where an individual stitcher would put his/her house at disposal of other stitchers so that they could gather together and stitch together while still being registered with IMAC.

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workers. In the early 1990s, the European brand requested its partner company in Sialkot to set up a social support programme for its stitchers. These plans were accelerated by European media allegations of child labour in the supply chain of the Sialkot manufacturer. While these media allegations were later proven wrong, they provided added incentives for the European brand/its Sialkot partner to initiate a social protection programme for their Sialkot stitchers.

The home-grown CSR model was designed on the basis of a house-to-house survey in some of the villages that had a concentration of stitchers who were mainly stitching for the Sialkot supplier/the European brand. According to the survey, stitchers often had to take advance payments from subcontractors as they had no social security, pension fund, and bonus payments from their work. The income generated from stitching footballs was not sufficient to cover medical emergencies, while most stitchers were having difficulties in terms of paying for their children's school fees, books, and uniforms. As a result, many stitchers had accumulated significant amounts of debt. As their main social priorities, the stitchers identified financial assistance to pay educational and medical expenditures, followed by repair work at home, dowry for the girls, toilets, a pump, fans, electricity meter, etc.

A social protection programme was thus developed for the stitchers of the European brand/the Sialkot supplier on the basis of the survey findings. This programme included the provision of a subsidy to enable parents to pay their children's school fees, the provision of informal education to children aged 8 to 14 – either at a company-owned learning centre or through the use of mobile teachers visiting the children in their homes, an adult literacy programme, as well as providing medicine and treatment free of cost. The latter is done through agreements with local doctors/hospitals that are reimbursed by the project once patients have been treated.

*c) The Fair Trade Model*

The fair trade model of chain and production organization is also characterized by relational chain governance relationships between a small fair trade brand that has carved out a niche for itself in the European market and its local supplier in Sialkot. In this model, the CSR aspect of chain governance takes place through standards for fair trade footballs. A special feature is that a higher premium is paid for each ball stitched, which, in theory, secures a higher return to workers, while 20% of the fair trade premium is to be invested in community development projects that benefit in-house workers and the stitchers working in the centres of the company outside factory premises. Decisions on allocations of this premium are made by a separate NGO with representatives from both management and workers. However, only 5-10% of the Sialkot supplier's production of soccer balls is done according to fair trade standards, as there is very limited demand for fair trade balls internationally.

The origin of the Fair Trade Model of Chain Governance and Production Organization can be traced back to the mid-1990s, when a European fair trade expert visited Sialkot in search of suppliers who would be interested in producing soccer balls according to fair trade criteria. The European expert made an assessment of the capacity and interest of various Sialkot suppliers in producing fair trade soccer balls. Most suppliers believed that international demand for fair trade soccer balls was too low to justify the expenditures required to obtain fair trade certification. In the end, one supplier came forward and expressed its interest.

The fair trade model was designed through a detailed assessment of what constituted a fair living wage for a football stitcher in Pakistan. The outcome of this work was that a fair living wage would be PKR 6,000 per month. This would ensure that all basic necessities were covered while some funds could still be saved. This was used to calculate what fair stitching wages would be. Fair stitching wages were determined to be more than PKR 4,000 per month, assuming that orders are constantly available. Two workers per stitching family would be required per month in order to reach the fair trade minimum. This was an important observation in relation to child labour debate

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in Sialkot that took place during the mid-1990s. Simply banning children from working was insufficient to the extent that fair living wages were the real determinants of whether parents would be in a position to send their children to school. Under the fair trade model however, employing children under the age of 14 is not allowed while youngsters between 14 and 18 are to be employed in a way that does not interfere with their education.

*d) The Formal Factory Model*

The formal factory model describes the relationship between Nike and Silverstar, its new supplier in Sialkot. This is marked by a captive chain governance between Nike and its OEM supplier. The critical difference in contrast to other leading brands is that Nike requires that all production related work is undertaken in-house, within the factory's premises. Moreover, all workers have to be waged, as opposed to piece-rated, permanent (as opposed to contract) labour. Finally, there has to be independent third-party monitoring of compliance and production. Whereas football stitching was traditionally outsourced to village-based locations around Sialkot, the formal factory model requires that all football stitching is in-sourced, carried out within the factory. While the principles of lean production are part of the formal factory model, the piece-rate system is abolished and replaced by a fixed rate system with added bonus incentives for higher productivity. In addition, all workers are to be permanent employees and qualify for permanent worker benefits including social security, health insurance, and employee old-age benefits. Moreover, in the formal factory model, ILO Conventions 87 and 98 should be fully abided by in order to secure freedom of association and collective bargaining. These rights of workers are to be established through worker-management dialogue on workers' conditions and worker grievances. Finally, third party monitors, including Nike's agent in Pakistan, Matrix Sourcing, have the responsibility for CSR monitoring in Silverstar, while a computer tracking system makes it possible to trace exactly which worker stitched a specific Nike football, when, and what was the remuneration for that worker.<sup>108</sup>

### 7.6: Conclusion

In Section 7 we explored how the second shock – the Nike pull-out from its main supplier, Saga Sports, permeated the Sialkot cluster and its implications for the interrelationship between global and local governance. The Nike pull-out was important, because it led to fundamental questions being posed about the future viability of the AA and the activation of various actors in a search for a new cluster-wide CSR initiative in Sialkot. Nike suggested that all stitching work should be fully internalized within factories, the ILO put forward its idea of introducing its 'Decent Work' agenda in Sialkot while many local enterprises felt that Nike's pull-out was a reflection of double standards, since Nike's actions had led to 7,000 workers being laid off while Nike was claiming to have acted in the interests of workers. Adidas appeared to be satisfied with its current sourcing arrangements in Sialkot and was therefore not keen on pursuing a new AA II. Hence, we arrived at the conclusion that it seems unlikely that a broad-based agreement could be reached on a new AA for the Sialkot cluster. Instead global chain governance appears to be taking over in Sialkot as far as the sourcing and CSR policies of the two megabrands are concerned, essentially replacing local cluster governance, as the two megabrands rely on their own CSR monitoring staff and external auditors. There is still a significant role for local governance to play in assisting many medium-sized and smaller international brands to monitor their supply chains for the presence or absence of child labour. That is, because these medium and small brands often do not have the capacity on their own to monitor their supply chains.

As a result of the first shock (experienced in both clusters) and the second shock (affecting the Sialkot cluster), it is interesting to note that new forms of chain governance and production organization have emerged in both clusters. True, home-based stitching can still be found in Sialkot and, to a greater extent, in Jalandhar. However, the increased attention paid to child labour and CSR monitoring has also led to the emergence of what call 'the stitching centre' model which has

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<sup>108</sup> Nike Press Release, Request for Proposal (RFP) Manufacture of Hand-stitched Soccer Balls in Pakistan.

primarily been aimed at transferring home-based work to village-based stitching centres. At these centres the presence or absence of child labour can be monitored. The stitching centre model appears to be widespread in Sialkot. While it is present in Jalandhar as well, it has not been adopted to the same extent as in Sialkot.

In addition, a handful of suppliers in Sialkot have taken a step further in developing their own CSR profiles in cooperation with international brands. One model is what we call the 'home-grown' CSR model which mostly consists of social projects based on an in-depth analysis of the ground reality in the villages of Sialkot. Another model – the fair trade model – has also emerged in Sialkot where the stitchers are secured a premium per ball stitched while a certain amount of this premium is reserved for community-based investment projects. Finally, the second shock – the Nike pull-out – led to the introduction of a new model – the factory model – where all workers are required to stitch inside the factory premises, the piece-rate system is abolished, and workers given permanent status and full legal rights. At present, it is not clear whether any of these models will replace the stitching centre model as the dominant form of chain governance and production organization in Sialkot. At the same time, no research has been undertaken to investigate whether participation in these models brings returns to workers and if so, whether the returns to workers are higher in one model than another.

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## 8. Conclusion

### 8.1 Introduction

This comparative study sought to analyse how two industrial clusters in the international sporting goods industry, the Sialkot soccer ball cluster in Pakistan and the Jalandhar soccer ball cluster in India, responded to the common challenge that they have faced since 1997, namely the need to comply with international standards and CSR norms pertaining to child labour. During the mid-1990s, the Sialkot and Jalandhar clusters were faced with international media allegations that child labour was found in both clusters. The response came in the form of the Atlanta Agreement. The 1997 Atlanta Agreement was a multi-stakeholder initiative aimed at eradicating child labour in the soccer ball sector, specifically in the Sialkot cluster. A voluntary agreement, it was driven in particular by the international sporting goods industry, especially through its representative body the WFSGI. The signatory partners of AA were the local chamber of commerce in Sialkot (SCCI) and the ILO and UNICEF. The AA had two components to it – child labour monitoring and social protection of former child workers. In 1999 a similar multi-stakeholder initiative modelled on the Atlanta Agreement began in Jalandhar. Through the comparative analysis we considered the similarities and differences in the ways in which the two clusters acted on the Atlanta Agreement (AA), and how this has evolved over time. A second critical moment for the two clusters, especially Sialkot, was the 2006 ‘pull-out’ by Nike, the leading megabrand that sourced from Sialkot. Nike’s action, and its subsequent return to Sialkot, highlighted the continuing challenge on child labour monitoring for the two clusters a decade after the AA was initiated. It also pointed to new developments with respect to the Atlanta Agreement process as well as to the ways in which production was organized and local value chains structured.

In the remaining discussion in this concluding section, we review the key findings from the study. We then go on to show how these findings might advance the literature. From that we turn to consider some of the broad policy implications that arise from this study, both policy implications that are specific to the two clusters as well as more general cluster development initiatives concerned with promoting CSR and labour standard compliance. Finally, we highlight what we consider to be areas for further research as a consequence of the findings from this study.

### 8.2 Key Findings

#### *i) Similarities and Differences*

There are a number of similarities across the two clusters. First, in both clusters we observe a critical mass of producers and subcontractors. This results in common types of agglomeration economies in Sialkot and Jalandhar, and we see in both clusters similar forms of institutional joint action. Thus, in terms of collective efficiency gains, these are broadly similar for Sialkot and Jalandhar. Second, both clusters produce hand-stitched inflatable soccer balls using broadly similar production processes and techniques. Thus, the division of labour in production is common across the two clusters. Third, in both clusters we find a concentration of small and medium enterprises. Hence, in both clusters we find that clustering provides significant benefits for small firms, and that the presence of SMEs adds to dynamism and flexibility of the two clusters and their ability to attract global markets. Fourth, both clusters confront similar types of competitive challenges. These include increasing competition from Chinese producers, especially from producers of machine-stitched balls. There are also common technological challenges. While Sialkot and Jalandhar both produce hand-stitched soccer balls, the quality of machine-stitched products has significantly improved, while thermo-bonding technology has meant that mechanized production of the highest qualities of soccer balls is now feasible. These technological advances present significant threats to the traditional hand-stitched products from the two South Asian clusters. Finally, both clusters have faced difficulties arising from political instability, from the lack of locally produced high quality inputs, and from transportation and logistics constraints.

Despite these similarities, there are a number of very marked differences across the two clusters. First, a critically obvious difference relates to scale. Sialkot is not only the larger of the two clusters, with approximately three times the number of firms and workers found in Jalandhar, it is

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also a bigger global player with eight times the export volume of Jalandhar. Second, in terms of product qualities and niches, while both clusters produce hand-stitched balls, Sialkot has been known for manufacturing high quality hand-stitched balls used by the premium end of the global market. In contrast, Jalandhar's exports are restricted to largely medium to low quality balls. Thus, while the two clusters do compete in the area of low to medium quality balls, and in promotional balls, Sialkot enjoys an advantage over Jalandhar in the premium high quality segment. Third, given the scale and product quality differences, the two clusters attract different types of buyers. While both clusters produce for medium brands, for buyers seeking promotional products, for regionally specific distributors and for leading global retailers, Sialkot's firms also manufacture for all the leading sports goods brands, including the top two megabrands. Very few of the major brands source from Jalandhar. Fourth, Sialkot's cluster institutions have a long history of engaging in joint action, addressing common concerns and taking collective initiatives to address common problems. Jalandhar on the other hand has a very limited experience of local joint action.

*ii) Responding to Child Labour – the Atlanta Agreement*

Given the similarities and differences, one common challenge for the two clusters has been the pressure to respond to media allegations during the mid-1990s on the presence of child workers, and the subsequent demands to comply with international standards on child labour. These demands were especially pronounced from the leading international brands, for which the presence of child workers in their supply chains was seen as seriously undermining their brand integrity and value. Thus, brands invested in developing codes of conduct and in ensuring compliance to such codes through internal as well as external third-party monitoring. Such pressures were especially acute for the Sialkot cluster, from where most of the leading brands source. They were also important, albeit relatively less pronounced, in the Jalandhar cluster although many of its buyers operated below the radar screen of leading international NGOs and child labour advocacy groups.

The ILO, through its IPEC programme, undertook to independently monitor the presence of child workers within the Sialkot cluster while UNICEF and SCF took on the social protection tasks, focusing particularly on primary education, school improvement, micro credit and income generation initiatives. One outcome of the AA in Sialkot was that it promoted a formalization of work, with stitching activities being moved from home-based settings to registered stitching centres which could be independently monitored and from where children could be excluded.

In 1999 a similar multi-stakeholder initiative, modelled in large measure on the AA, began in Jalandhar. It too had a distinct child labour monitoring component and a social protection programme. However, there were a number of key differences in the initiatives adopted in the two clusters. First, international actors were far more dominant in the implementation of the AA in Sialkot as compared with what was seen in the similar programme in Jalandhar. In part, this was an outcome of the different approaches adopted by Indian and Pakistani governments to the agenda of the AA. In India, the state played a relatively engaged role, having already formulated a National Child Labour Policy in 1987. Thus, the state restricted ILO-IPEC from entering the Jalandhar cluster to undertake child labour monitoring. In contrast, the Pakistani government appeared content to allow international actors to finance the AA process and actively determine how it was to be developed and implemented in the cluster. Second, and possibly linked to the point above, the reaction to the challenge on child labour, and the subsequent implementation of the AA, was far more rapid in Sialkot than the experience in Jalandhar. Third, while the Sialkot cluster saw a substantive engagement in the social protection agenda, the social protection programme in Jalandhar was relatively limited in scope. Fourth, the implementation of the AA in Sialkot resulted in the rapid development of registered stitching centres and relatively more formalized work practices. In contrast, stitching activities in Jalandhar continued to remain predominantly in home-based locations.

In our view there are various factors that account for the differences observed in the ways in which the initiatives were implemented in the two clusters. The existing history of cluster-based collective

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action facilitated, in our view, the ability of the Sialkot cluster to more rapidly mobilize its response to the initial challenge on child labour. Similarly, the fact that local firms were OEM suppliers to the leading global brands further added to the pressure to rapidly implement the child labour monitoring scheme. In contrast, a limited experience of collective action, the intervention of the Indian state, and the fact that the cluster did not supply the leading global brands, meant that the effective implementation of the initiative took longer in Jalandhar. Thus, the experience in Sialkot underlined that in the implementation of the AA both global governance – in the form of global value chain pressures felt by local firms from the brand firms to whom they supplied, as well as local governance – in the form of cluster-wide joint action channelled through the SCCI – were important. However, while local governance was essential in facilitating the implementation of the AA in Sialkot, it was also apparent that the drivers behind the AA came from global actors – both global brands as well as global institutions and development agencies.

*iii) The Dynamic Evolution of the Atlanta Agreement in the two Clusters*

Between 2003-04 both clusters saw a distinct change in the AA programme as the key external actors withdrew with the end of their programmatic funding cycle. In Sialkot ILO-IPEC transferred its child monitoring activities to a newly-formed independent local agency IMAC. Similarly, in Jalandhar the child labour monitoring functions were transferred from the private Swiss auditing firm SGS to the local industry-based organization the SGFI. In the area of social protection as well, we observed distinct changes during this period. In Sialkot, UNICEF and SCF withdrew transferring some of their activities to the provincial government, to local NGOs and other local agencies. In addition a new body, the CSDO, which was housed in the SCCI, was formed to take on the primary role of championing the social protection agenda in Sialkot. In Jalandhar, SGFI took on the social protection mantle in addition to its child labour monitoring activity.

In our view, there were distinct differences in the two clusters in terms of the ways in which the two aspects of the AA – child labour monitoring and social protection – evolved. In terms of child labour monitoring, IMAC in Sialkot is an independent multi-stakeholder institution. In contrast, Jalandhar's SGFI is very much a part of the local industry. In addition, IMAC appears to have a greater potential monitoring capacity, with more monitors and more frequent monitoring visits than SGFI does in Jalandhar. Again, we account for this difference on the grounds that the global governance pressures felt through the GVC in Sialkot require the presence of an independent child labour monitoring programme. The fact that GVC pressures on compliance appear comparatively less pronounced has meant that an industry-based monitoring scheme can persist. Thus we see a potential trade-off between independent child labour monitoring and locally embedded child labour monitoring. Global governance pressures provide a stronger incentive for independent monitoring in Sialkot than that observed in Jalandhar. However, for the biggest brands, especially the market leaders Nike and Adidas, independent monitoring by IMAC in itself is not considered sufficient to ensure compliance within their respective supply chains. Such leading brands require their OEM suppliers to conform to their code of conduct. These codes include stipulations on not using child labour, but their coverage goes beyond the narrow domain of child labour standards. To ensure compliance with their code, and in our view to further mitigate risks of non-compliance, such leading brands continue to rely on their own monitoring activities. These are either undertaken by independent local and international auditors, or through their own staff, who in the case of some firms are locally based in Sialkot. For medium and smaller brands that source from both clusters, and who lack the resources to undertake their own independent audits of their supply chain, the monitoring offered by IMAC and SGFI in the two clusters respectively plays an important role.

In the area of social protection, however, we find a very different experience over time in the two clusters. The exit of international actors has seen a rapid decline of the social protection agenda in Sialkot, and a relative disengagement of the social protection activities from the child labour monitoring programme. The limited initiatives that have been undertaken, funded and driven by international players such as FIFA and ILO-IPEC, have included measures to promote football playing amongst former child workers. While no doubt laudable, such objectives hardly address poverty and education concerns that underlie the earlier social protection initiatives. In contrast, we

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observe an expansion of the social protection agenda in Jalandhar, driven in part by the intervention of UNIDO in Jalandhar in 2005, but also reflecting a greater engagement by the industry on promoting a local social CSR agenda, articulated through SGFI.

*iv) The Nike Pull-Out and its Consequences*

The final act in the dynamic development of the AA is the consequences that have emerged, especially for Sialkot, in the light of the Nike pull-out of 2006 and the subsequent return of Nike to Sialkot in 2007. Nike's actions brought the Sialkot cluster back into the international limelight. Many of the international players who were critical in designing the AA at its outset returned to assess whether Nike's actions pointed to the failure of the AA. Nike has stressed that their decision to stop sourcing from their then lead supplier in Sialkot was not related to IMAC's work. Nevertheless, Nike's actions highlighted the fact that there is contestation about the efficacy of child labour monitoring within the cluster. Moreover, with leading brands concerned with ensuring compliance in their supply chains to their full codes of conduct, the fact that IMAC's monitoring is primarily focused on child labour has meant that such brands have engaged in alternative monitoring mechanisms of their chains. In response to this challenge, the ILO has spearheaded the development of the 'Sialkot Initiative' - a new agenda aimed at strengthening the existing work of IMAC and expanding the scope of activity on monitoring to encompass the wider range of international standards that fall within what the ILO has been championing as 'Decent Work'. Our findings indicate, however, limited consensus on the objectives of the Sialkot Initiative, or how it is to be implemented. This lack of enthusiasm from both local and external actors suggests that much more work – including extensive multi-stakeholder dialogues – needs to be undertaken before one can envisage the Sialkot Initiative evolving into what some have termed as an Atlanta II.

In contrast, Nike's pull-out reinforces our view that on the agenda of compliance, global governance pressures, exercised by the leading brands, increasingly dominate over local cluster governance. One critical aspect of this dominance is that, in re-entering the Sialkot cluster, and sourcing from a new OEM supplier, Nike has developed a new type of production model in Sialkot. We have termed this the 'formal factory' model, where all production activities are undertaken in-house and all workers are employed on a wage basis with full legal employment rights. This is a radical departure from the dominant practice in Sialkot, where outsourcing to sub-contracting stitching centres and a reliance on piece-rated contract workers is widespread. It remains to be seen whether this new model that Nike has championed will take hold within the cluster, and if it will spread beyond Nike to the sourcing arrangements of other leading brands.

Our interviews with local firms and key institutions in the two clusters suggest to us that the issue of labour standards compliance has led to two distinct 'shocks'. The first was felt in both clusters in the mid-1990s and led to the development of the Atlanta Agreement, first in Sialkot and subsequently in Jalandhar. While there were differences in the scope of the initiatives adopted in the two clusters, and their manner of implementation, their objectives were broadly similar in the two clusters. A second shock took place in November 2006 with the Nike pull-out. While this shock was primarily felt in Sialkot, we argue that it also has potential ramifications for Jalandhar. One aspect of these distinct shocks is that they resulted in changes in the forms of production organization and chain governance in order to facilitate compliance and labour monitoring. This was especially marked for Sialkot which, unlike Jalandhar, supplies the leading global brands. The first shock saw the emergence of registered stitching centres as the dominant form of production organization in Sialkot. The second shock has seen the emergence of a formalized and integrated factory model in Sialkot as a new form of production organization and chain governance, driven again by compliance concerns. We observed two further types of chain governance models that could have different implications on compliance and the embeddedness of CSR norms by local producers. These were the 'fair-trade' model of sourcing and what we call the 'home-grown CSR model' where external buyers have developed collaborative CSR arrangements with their local suppliers in which the focus is on developmental initiatives rather than solely on compliance to

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standards. These two models are, however, limited by the fact that they have been adopted by only a very small number of brands and local firms in the two clusters. While they provide an indication of alternative arrangements in chain governance and CSR concerns, the dominant pattern in Sialkot is nevertheless of one where chain governance seeks to structure the organization of production in ways that ensure compliance.

### 8.3. Implications for the Literature

In terms of the broader relationship between global and local governance, our study of the Sialkot and Jalandhar clusters points to the important question of ownership of not only the AA but also of the CSR and standards compliance agenda. In terms of the role that global governance pressures play in ensuring compliance with CSR standards, our study reinforces some of the findings of earlier studies that point to the limitations of using CSR codes of conduct as a means to improve workers' conditions in the export industries of developing countries. These studies have highlighted that it may be very difficult to prove direct causality between codes and improvements in workers' conditions (Nelson et al. 2007). They have also highlighted that codes may either have little or no impact in improving workers' conditions in export factories (Locke et al. 2007) or have some positive effects on product standards (i.e. reduction in occupational health and safety risks) while process standards (such as freedom of association, right to collective bargaining, etc.) appear not be influenced by CSR codes (Barrientos and Smith 2007). At a more fundamental level, codes of conduct only tend to apply to full-time factory workers (often males) where large-numbers of home-based or contract workers are not covered by codes. The latter is certainly the case in Sialkot and Jalandhar, where most of the production is outsourced to locations outside the factory to either home-based or stitching centre locations that are not covered by national labour legislation.

Our study also contributes to this literature by highlighting the issue of lack of ownership on the part of local exporters of the CSR standards that they are supposed to implement. While some of the football manufacturers we interviewed in Sialkot and Jalandhar were willing to comply with CSR standards as a way of gaining market access, they constantly complained about what they perceived as foreign standards imposed on them by outsiders having little familiarity with the ground reality in Sialkot or Jalandhar. One issue was what they perceived as the discrepancy between international brands' requirements that local exporters should invest in CSR upgrading while the same buyers demanded the lowest possible price. At the same time, while many local suppliers were willing to upgrade CSR profile if the cost could be shared with the brands, the brands almost always insisted that CSR upgrading should be paid by the local factory. Another issue is related to the 'mindless' application of CSR standards that made little or no sense in the Sialkot and Jalandhar contexts.<sup>109</sup> Some manufacturers observed that CSR norms defined outside of the clusters by the brands often failed to understand local ground realities. Furthermore, the danger of non-compliance, and the associated loss of business also created an atmosphere of fear in the two clusters – fear of NGOs and especially fear of the media.<sup>110</sup> Against this background it is hardly surprising that soccer ball manufacturers in Sialkot and Jalandhar feel little ownership of the international CSR standards that they have had no voice in formulating and are now forced to implement if they want to continued market access in the developed world.

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<sup>109</sup> For example, one manufacturer explained how the code of conduct of its large international buyer stipulated that toilets should be equipped with a proper seat. The brand's code of conduct assumed that toilets would be of the kind found in North America or Europe. However, Pakistani workers were mostly used to Indian style toilets, consisting mainly of a hole in the ground that one has to squat over. At the factory in question, the European style toilets had sometimes become blocked, because workers did not know how to use the toilet or refused to do so. Another CEO put it in this way, "What would you say if I came to your country in Europe without knowing anything about your social structure and told you that you should do this and that in relation to social compliance?"

<sup>110</sup> Some manufacturers in Sialkot complained that they were subjected to blackmail by local NGOs that wanted money in return for not sending stage-managed pictures of children stitching soccer balls to their buyers or the international press. One manufacturer stated that he and his colleagues were often scared when foreign NGOs visited. He told us, "We have to love them even though they come here to check us, to kill our company".

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We did however find examples in Sialkot (not in Jalandhar) of chain governance and production models that did seem to be more owned by local manufacturers. In what we describe as the “home-grown” and “fair trade” models, chain governance did not necessarily take place through the strict implementation of codes but through social investment or development projects. In both models, the process of identifying social priorities had started from the bottom-up, in the local cluster rather than being defined in the corporate headquarters of the brands. In the Sialkot home-grown CSR model, this had happened through a survey of stitchers’ social priorities while in the fair trade model it happened through a process of prioritization between management and workers of social investment projects and by carrying out an intensive survey in Sialkot before defining what then became the world’s first fair-trade standard for the production of soccer balls. In other words, international brands that wished to secure greater local ownership amongst their suppliers for a CSR agenda could usefully consider whether using bottom-up approaches to identifying either local social investment projects or defining standards would be helpful in improving the implementation of CSR standards across the world.

#### 8.4. Implications for Policy

Our study suggests that maintaining a cluster-wide child labour monitoring mechanism was perceived as important by local exporters in both the Sialkot and the Jalandhar clusters in order to secure continued market access in the developed world. In other words, child labour monitoring constituted an important form of media insurance and a way for local exporters to protect the brand value of their cluster. This was brought about through cluster-based institutions and involved varying degrees of cluster joint action. Thus, despite the dominance of global governance pressure exercised by leading global brands on their local suppliers, local cluster governance was felt to be important, in the view of some critical, in effectively implementing a cluster-wide response on child labour, and more broadly on CSR concerns. It is also our view that global buyers can benefit from this. The presence of a cluster-wide monitoring initiative can reduce the costs associated with monitoring compliance by individual brands. Even if some brands feel that their specific compliance needs are not met by the cluster-wide initiatives, and/or their exposure to risks are such that they need to ensure their own compliance mechanisms, the fact that there is a cluster-wide initiative can serve to strengthen the overall standing of the cluster as a location to source from. Thus, we have argued that while paradoxically the leading brands do not rely on IMAC in Sialkot, the fact that this is a relatively independent monitoring mechanism is nevertheless important to them. It provides some credence to the view that outside of their own supply chains, there is compliance to minimal standards within the cluster as a whole.

At the same time, our study suggests that CSR related cluster development initiatives need to negotiate between the potentially conflicting needs of promoting local cluster governance and addressing global chain governance. In our view strengthening the space for local cluster governance can enhance effective and sustained compliance. But to do so requires a number of prerequisites. We consider three such concerns to especially pertinent. They are: effective dialogue between local and global actors; local ownership of the CSR agenda and the values that underlie it; and a recognition that CSR concerns cannot be seen in isolation, but as part of a more holistic strategy of cluster development, that seeks to promote employment and incomes of workers as well as the growth and competitiveness of firms.

First, there has to be an effective engagement between local and global actors, in particular between local cluster institutions and the global brands that drive the demands for compliance. Strengthening this engagement and dialogue can be critical to making a CSR initiative relevant and implementable.

Thus, in our view, both IMAC in Sialkot and SGFI in Jalandhar face a common challenge in that they have failed to establish closer ties between themselves as the leading monitoring bodies in

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their clusters and the international brands that source from the clusters. None of the leading brands are members of their boards, or actively engaged in the working of the two agencies. Neither agencies report the findings of their individual audits directly to the international brands, but to their members – namely local producers. Strengthening ties with international buyers and leading brands would seem important for ensuring that IMAC and SGFI not only retain a relevant and active profile for local manufacturers and other stakeholders in Pakistan and India, but also for the main buyers from Sialkot and Jalandhar.

It is important to remember that buyers, and brands, are not a homogenous group of actors when it comes to concerns on labour standards, and how to respond to failures on compliance. The interests of CSR sensitive brands, such as the likes of Adidas and Nike, may often be at odds with those of smaller brands who remain below the radar screen of international advocacy groups and are therefore less concerned about child labour in their supply chains. However, if the ongoing relevance of IMAC and SGFI is to be ensured, an important way to start would obviously be to involve some of the larger and smaller brands more directly in their work, and on their Boards.

Moreover, an engagement with the brands, who are usually the drivers behind CSR compliance, also allows for clusters to observe that the demands on compliance can change over time. Thus, in the case of Sialkot, the leading brands, and especially the megabrands, do not rely on the cluster-based IMAC monitoring programme, but conduct their own independent auditing of their local supply chains. For them, their compliance monitoring needs have gone beyond child labour to encompass the range of CSR concerns encapsulated in their respective codes of conduct. The fact that this does not factor into an engagement with IMAC, raises questions about the long-term sustainability of the child labour monitoring mechanisms being adopted in the cluster.

Second, a sustainable cluster-based initiative has to have an element of local ownership. Without such ownership of the values behind the standards, it is difficult to foresee that compliance would be fully sustainable. Yet, there is often a disjuncture between the externally imposed CSR norms and local values. Our findings from Sialkot and Jalandhar suggest a fundamental disagreement between local exporters in both clusters and international brands/advocacy organizations not only as to whether child labour constitutes a problem per se, but also about whether the developmental outcomes of eradicating child labour within the clusters are positive or negative for the local industry and its workers. According to some of the manufacturers that we interviewed for this study, the ‘imposition of the child labour issue’ on the Sialkot soccer ball cluster had not only increased the industry’s cost structure, but also denied children the opportunity to learn the skill of stitching and forced many home-based women workers out of the workforce as a result of the introduction of the stitching centre system. Hence, while removing children from their supply chains was necessary to avoid an international boycott, some manufacturers in Sialkot did not appear to believe that the implementation of the AA had either benefitted them or workers within the industry.

However, the dominant trend in the current CSR and standards agenda is one where compliance is mostly seen as a risk management tool, not only by international brands but also by local exporters. This raises the broader question of whether, and if, so how CSR multi-stakeholder initiatives in clusters can achieve a greater level of ownership within the clusters. To do so may imply moving beyond a risk management function towards securing more meaningful returns to local enterprises and workers within the cluster. Our study highlighted that greater involvement of local stakeholders in the formulation of cluster-wide CSR initiatives may facilitate greater levels of ownership. This certainly appears to have been the case in Jalandhar cluster. At the same time, it is also obvious that while greater involvement of local industry in the formulation of cluster-wide CSR initiatives may facilitate their local embeddedness, they may also make such interventions prone to “elite capture”. Thus, the cluster-wide CSR intervention in Jalandhar only addressed the issues which leading local industrialists perceived to be in their interest while broader questions around basic compliance with national labour and environmental legislation of India has not been part of the agenda addressed in the cluster-wide CSR intervention. In Sialkot, while the cluster response appears to have been less

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locally embedded, the establishment of a more independent child labour monitoring mechanism appears to have secured a greater possibility that children are taken out of the industry even if the social benefits of eradicating child labour is disputed by local firms.

Third, promoting cluster strategies that aim to enhance CSR compliance cannot be effective without engaging in a wider and more holistic cluster development strategy. Thus, a CSR strategy that seeks to ensure compliance with labour standards and thus promote better working conditions has to be part of a wider agenda that seeks to promote the growth and competitiveness of local clusters through technological upgrading, improving market access, and developing knowledge. Thus, the CSR agenda has to be seen as part of the broader cluster development agenda, rather than a stand-alone initiative. Consequently, it appears to us that the issue of how to improve workers' conditions in global value chains and local clusters cannot be separated from the question of how to generate more jobs in such clusters as well as to improve the returns to labour through productivity enhancements.

The traditional CSR literature has been preoccupied with debating how to contain the unfortunate side-effects of unfettered local economic development stimulated by participation in global value chains. Mostly, this debate has focused on how to improve the conditions of workers that are already in employment. What the CSR literature has ignored is the broader question of how to create jobs in the first place, and how workers' incomes can be raised in a sustainable fashion. This is an issue that has been extensively dealt with in the literatures on how local clusters through their GVC linkages could play a central role in fostering local economic development. However, what the industrial cluster literature traditionally missed was a more in-depth investigation of whether the assumed benefits from cluster integration into GVCs, including standards compliance, actually translated into higher incomes and better work conditions at the bottom of the cluster and the international supply chain.

We believe that this study presents a first step at creating a more sustained research agenda that can address the potentially fruitful 'marriage' of the GVC, industrial cluster, and CSR literatures. The comparative study of the Sialkot and Jalandhar clusters has empirically demonstrated what the fruits of such a marriage of literatures could obtain. This study has analysed the evolution of the two clusters' responses to child labour allegations since the mid-1990s and the subsequent evolution of the CSR agenda in both clusters. We firmly believe that addressing CSR compliance pressures is not the sole, and possibly not even the main, challenge facing both clusters if the aim is to secure greater levels of employment and better work conditions in Sialkot and Jalandhar. The main challenge facing both the Sialkot and Jalandhar clusters is whether they will be able to technologically upgrade – that is, successfully make the shift from hand-stitched to machine-stitched football production in the next five years. As international demand is increasingly shifting towards machine-stitched and thermo-moulded soccer balls, both the Sialkot and Jalandhar clusters will have to upgrade technologically if they are to survive and remain internationally competitive. While the technological leap from using the hand-stitching method to employing enhanced sewing machines for stitching soccer balls is not very large in countries that already have large garments industries, we were surprised by the relative degree of complacency about this issue that we met particularly in Sialkot but also to some extent in Jalandhar. In our view, unless both clusters in the near future act collectively, for example by hiring experts in machine-stitched technology and experiment with the use of different types of sewing machines, they risk falling off the industrialization ladder, while thousands of workers will lose their jobs.

#### 8.5. Implications for Further Research

We believe that our study has been a first tentative attempt at exploring theoretical and empirical linkages between the GVC, cluster, and CSR concepts using the comparative case studies of the Sialkot and Jalandhar soccer ball clusters. This analysis has thrown up a number of issues for

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further research. We identify here two particular aspects of a possible future research agenda on this subject.

First, the literature on labour standards in global production is increasingly moving away from theoretical arguments for and against the use of CSR codes of conduct in global value chains towards a more empirically informed understanding of their effects on local firms and workers. While some work has already been undertaken on this issue, we believe that there is still ample scope for investigating how the sourcing and CSR requirements of international firms affect their local suppliers and workers in the developing world. As part of this study, we tried to sketch different chain governance and production models that were present in the Sialkot and Jalandhar clusters, linking local firms and workers to international brands. What we do not know is how participation in these different chain governance and production models affects returns to local firms and workers? Hence, comparing returns to firms and workers from participation in e.g., the factory-based model espoused by Nike as opposed to the fair trade model of chain governance, the home-grown CSR model of chain governance, or the stitching centre model used by Adidas constitutes an important part of a future research agenda.

Second, we believe that widening the scope of cluster studies and their participation in GVCs will greatly enhance our understanding of the potential and limitations of using collective, cluster-based action as a mechanism for stimulating local economic development while securing greater returns to workers. In this study, we only dealt with the Sialkot and Jalandhar clusters and their GVC linkages. However, the international soccer ball industry is dominated by China, while Thailand is an emerging location that could also threaten the future prosperity of the South Asian clusters. Thus, in this broader geographical context of production, a further area for future research is to consider the implications of the rise of China, in this case the Chinese soccer ball industry. A number of questions arise. For example, why are international brands increasing their purchasing of soccer balls from China? What are the types of CSR pressures within the Chinese soccer ball industry? How do Chinese producers address such CSR concerns? How does global governance, through the GVC, and local governance influence this response? And, finally, does the rise of China facilitate or constrain the scope for collective CSR upgrading in other production locations?

To put it bluntly, this requires a research programme that seeks to theorize and empirically investigate whether the insertion of industrial clusters into the global economy, and joint attempts at promoting corporate social responsibility within these clusters, leads to a race-to-the-top whereby the clusters 'upgrade' by making better products more efficiently and improving the conditions of workers in developing countries. Or, conversely, whether insertion into the global economy and joint CSR efforts in clusters leads to a race-to-the bottom, because their attempts at upgrading are undermined by fierce price competition as global buyers prefer to source from lower-cost suppliers elsewhere in the developing world that do not engage in collective CSR initiatives.

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#### Press Releases

Nike Press Release, 2006. 'Nike Ends Orders with Soccer Ball Manufacturers'. Beaverton, Oregon: Nike, 20 November.

Nike Press Release, 2007. Nike Resumes Soccer Ball Production in Pakistan , 24 May 2007.

Nike Press Release, Request for Proposal (RFP) Manufacture of Hand-stitched Soccer Balls in Pakistan, Undated.

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**APPENDIX 1: LIST OF INTERVIEWS****International Actors**

<b>Name</b>	<b>Designation</b>	<b>Institution</b>	<b>Location</b>	<b>Date</b>
Wahid Rehman	Head, South Asia Desk	ILO-IPEC	Geneva	16.10.2007
Robbert de Kock	Secretary General	WFSGI	Lausanne	16.10.2007
Stirling Smith	Director	Just Solutions UK	Manchester	20.02.2008
Gerard Oonk	Head	Indian Commission of the Netherlands	Jalandhar	10.04.2008
Peter Knap	Director	Select Sports	Denmark	25.02.2008
Charles Brown	Senior Director of Global Corporate Responsibility Compliance	Nike	Boston	12.01.2008
			Oregon (By Telephone)	29.02.2008
			Manchester	16.07.2008
Caitlin Morris	Compliance Director, Integration and Collaboration	Nike	Palo Alto	17.05.2008
			Manchester	16.07.2008
William Anderson	Head of Social and Environmental Affairs, Asia Pacific	Adidas	Singapore (By Telephone)	20.05.2008
Bahar Kazmi	Former Manager of the SCF-UK office in Sialkot 1996-1998, Manager SCF-UK, Pakistan 1998-2001	Save the Children Fund – UK	Manchester	3.06.2008
Martin Kunz	Director	Fairdeal Trading	London (By Telephone)	01.08.2008

**INTERVIEWS IN PAKISTAN****NGOs**

<b>Name</b>	<b>Designation</b>	<b>Institution</b>	<b>Location</b>	<b>Date</b>
Zulfiqar Ali	Project Manager	Pakistan Institute for Labour Education and Research	Sialkot	29.01.2008
Ijaz Ahmed	Project Manager	Child and Social Development Organization	Sialkot	28.03.2008
Nasir Dogar	Chief Executive	Independent Monitoring Association for Child Labour	Sialkot	06.08.2007
				29.01.2008

**Enterprises**

<b>Name</b>	<b>Designation</b>	<b>Institution</b>	<b>Location</b>	<b>Date</b>
Jehangir Iqbal Sheikh Amer Zeeshan	Chairman/CEO Manager, HR and IT	Silver Star	Sialkot	06.08.2007
Jehangir Iqbal Sheikh	Chairman/CEO	Silver Star	Sialkot	19.03.2008
Mian A. Shakoor	Representative	Saga Workers Union	Sialkot	07.08.2007
Rizwan Dar	Executive International	SAGA Sports Pvt. Ltd.	Sialkot	07.08.2007
Khwaja Masood	Director	Forward Sports	Sialkot	20.03.2008
Asad Bajwa	General Manager	Talon Sports	Sialkot	08.08.2007
Nasir Iqbal Barya	Director	Talon Sports	Sialkot	19.03.2008
Mr. Hassan	Human Resource Manager	Talon Sports	Sialkot	30.04.2008
Khurram Anwar Khawaja	Director	Anwar Khawaja Industries	Sialkot	08.08.2007
Anita Khawaja	Project Director, SAHEP	Anwar Khawaja Industries	Sialkot	28.01.2008
Ali Imran Shabbir	Director	Ali Trading Company	Sialkot	30.01.2008
Iftikhar Ahmad <sup>111</sup>	Director	Soccer Plus International	Sialkot	02.02.2008
Avais Habib Khan <sup>112</sup>	Director	Felicity Sports International Ltd.	Sialkot	02.02.2008
Omer Sharif Sheikh	Director	Ambassador Sports	Sialkot	20.03.2008
J.R. Sandahl	Director	Super Sportif	Sialkot	28.04.2008

**Other Interviews**

<b>Name</b>	<b>Designation</b>	<b>Institution</b>	<b>Location</b>	<b>Date</b>
Abdul Mateen Janjua	Office Bearer	ILO- IPEC	Sialkot	06.08.2007
Shahid Hussein Hashmi Amer Maqbaal Hashmat Ayaz bin Shaukat	Manager Senior Field Ops. Manager Merchandising	Matrix Sourcing	Sialkot	06.08.2007
Abdul Waheed Sandal	President 2007	Sialkot Chamber of Commerce and Industry	Sialkot	07.08.2007
Aziz-ur-Rehman	Country	Adidas Sourcing	Sialkot	08.08.2007

<sup>111</sup>Worked for Saga Sports<sup>112</sup>Worked for Saga Sports

	Manager	Ltd.		
Khurram Khawaja	President 2008	Sialkot Chamber of Commerce and Industry	Sialkot	29.01.2008
Ali Khan	Assistant Professor	Lahore University of Management Sciences	Lahore	24.01.2008
Ambreen Waheed	Director	Responsible Business Initiative	Lahore	17.03.2008
Tasir Alizai		ILO	Lahore	18.03.2008
Government Official		Punjab Department of Labour	Lahore	22.07.2008

### INTERVIEWS IN INDIA

#### Enterprises

Name	Designation	Institution	Location	Date
Manish Mahajan	Managing Director	Hans Raj Mahajan (a sporting goods company)	Jalandhar	09.01.2008
Vikas Gupta	Managing Director	Soccer International	Jalandhar	09.01.2008
Rajnish Kharabanda	Joint Managing Director	Nivia	Jalandhar	11.01.2008
Sanjay Sharma	Director	Sharma International	Jalandhar	06.05.2008
Vinay Mehndiratta	Director	Sakay International	Jalandhar	06.05.2008
Satish Wasan	Director	Wasan Sports	Jalandhar	02.08.2007 07.01.2008
Ajay Mahajan	Director	Uma International	Jalandhar	06.05.2008
Anuj Pasricha	Director	Legend International	Jalandhar	06.05.2008
Anup Anand	Director	Anand Sports	Jalandhar	06.05.2008

#### NGOs

Name	Designation	Institution	Location	Date
Professors		Citizens' Welfare and Protection Council (NGO)	Jalandhar	08.01.2008
Ravi Purewal	Project Director	Sports Goods Foundation of India	Jalandhar	02.08.2007 10.01.2008
Neerja Mayor	Chief Executive Officer	Mayor World School	Jalandhar	11.01.2008

Darjeet Kaur	Coordinator	REACH (a local women's NGO)	Jalandhar	11.01.2008 12.01.2008
Jai Singh	Head	NGO working on Dalits' Rights	Telephone interview from Lahore to Jalandhar	17.04.2008
Neena Sondhi	Administrator	F.C. Sondhi Trust	Jalandhar	06.05.2008

#### Other Interviews

Name	Designation	Institution	Location	Date
Ravi Verma	Project Director	Sports Goods Manufacturers and Exporters Association (SGMEA)	Jalandhar	09.01.2008
Inderjit Singh	Assistant Labour Commissioner	District Department	Jalandhar	10.01.2008
Namit Mutreja	SGS	CL Monitoring in Jalandhar Cluster 1999-2003	New Delhi (By Telephone)	08.04.2008
Ashima Sachdeva	Former UNIDO cluster development expert 2005-07	UNIDO	New Delhi (By Telephone)	15.04.2008
Mukesh Gulati	Head, Cluster Development Programme	UNIDO	New Delhi	01.08.2007
Sudhir Rana	Cluster Development Agent	UNIDO	Jalandhar	01.08.2007
Navdeep Singh	Cluster Development Agent	UNIDO	Jalandhar	08.01.2007 12.01.2008

## Appendix 2: The Atlanta Agreement

### ATLANTA AGREEMENT<sup>113</sup>

(A RETYPED COPY)

#### PARTNERS' AGREEMENT TO ELIMINATE CHILD LABOUR IN THE SOCCER BALL INDUSTRY IN PAKISTAN

WHEREAS, the communities surrounding Sialkot, Pakistan are the centre of the global market for soccer ball, producing over half of the world's hand-stitched balls each year for export to customers around the world;

WHEREAS, the International Labour Organization's (ILO) minimum age convention (NO. 138), 1973, provides that no one under the age of 15 years shall be shifted to employment or work in any occupation but permits a ratifying Member whose economy and educational facilities are insufficiently developed, after consultation with employer and workers concerned, to initially specify a minimum age of 14 years;

WHEREAS, Pakistan has ratified the ILO Minimum Age (Industry) (Revised) Convention, 1937 (No. 59);

WHEREAS, for purposes of this Agreement, "Child labour" shall be deemed to be present in Pakistan whenever children under age 14 are working in conditions that interfere with schooling, or that are hazardous or otherwise injurious to their physical, mental, social or moral well-being;

WHEREAS, the International Labour Organization set up the International Program on the Elimination of Child Labour (IPEC) to assist all elements of society, including government, industry and labour to work together to develop programs and strategies to end child Labour and to that end a Memorandum of Understanding between the Government of Pakistan and the International Labour Office was signed on 21 June 1994 and extended on 21<sup>st</sup> August 1996;

WHEREAS, the United National Children's fund ("UNICEF") has been operating in Pakistan pursuant to the current Basic Cooperation Agreement between the Government and UNICEF, entered into force on 24<sup>th</sup> November 1995 and the Master Plan of Operations 1996-98, in order to secure and promote the rights of children as identified and articulated in the Convention on the Rights of the Child, ratified by the Government of Pakistan in November 1990;

WHEREAS, the Sialkot Chamber of Commerce and Industry (SCCI), the All Pakistan Sporting Goods Association and other interested business organizations located in the Sialkot District, Punjab Province, have created a Steering Committee on Child Labour (SCCL), to coordinate the efforts of the business community in Sialkot to contribute to end Child Labour in Pakistan by supporting the efforts of its members and their customers to eliminate Child Labour from the manufacture or assembly of soccer balls, and others products for which Sialkot is internationally know;

NOW THEREFORE, this agreement is entered into as of February 14, 1997, by and among the International Labour Office (ILO) represented by IPEC, UNICEF and SCCI, (collectively, the "Partners") for the creation of a Project to Eliminate Child Labour in the Soccer Ball Industry in Pakistan (the "Project"):

#### **I. Goals of the Project.**

##### **A. Elimination of Child Labour in Soccer Ball Production**

The primary goal of the Project is (i) to assist manufacturers seeking to prevent Child Labour in the manufacture or assembly of soccer balls in Sialkot district and its environs; (ii) to identify and remove children from conditions of Child Labour in the manufacture or assembly of soccer balls and provide them with educational and other opportunities and (iii) to facilitate changes in community and family attitudes to Child Labour, including in the soccer industry. The partners acknowledge that the success of the Project depends on integrating the implementation of these elements and receiving the support of other institutions operating in the region, most particularly the Government of Pakistan. The target timetable for realizing this goal has been set by the partners at 18 months.

##### **B. Elimination of Child Labor in Other Local Industries.**

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<sup>113</sup> Source: IMAC Homepage ( <http://www.imacpak.org/atlanta.htm>, accessed 14 September 2008)

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The Partners recognize that efforts to eliminate Child Labour in the soccer ball industry in Pakistan can best succeed if they are complemented by similar efforts in others local industries and by the creation of meaningful new opportunities for children in this district. It is the hope of the Partners that the development of the Project shall encourage other sectors of the business community in Sialkot, the Government of Pakistan and other important institutions in Pakistan to explore how they might do more to contribute to the end of Child Labour.

## **II. Elements of the Project**

The project shall consist of two basic program elements (collectively, the "Programs"):

**Prevention and Monitoring Program.** Manufacturers engaged in the production and assembly of soccer balls shall be invited to join a voluntary program of prevention and monitoring (the "Prevention and Monitoring program").

### **1 Registration of Contractors, Stitchers and Stitching Facilities.**

By joining the program, participating manufacturers shall publicly commit to a series of actions designed to prevent the practice of stitching by children under 14 years within 18 months, by requiring the formal registration of (i) all contractors responsible for overseeing stitching on behalf of the manufacturers, (ii) all stitching location such that they are clearly identifiable and open to unannounced inspection and (iii) all stitchers, including documentation verifying that they are over 14 years.

### **2 Establishment of Internal Monitoring Systems.**

Each participating manufacturer agrees to establish an internal monitoring department to verify that it is in compliance with the program and to designate a senior manager with responsibility for this function. Each participating manufacturer agrees that its monitoring department shall provide training to employees to enable them to monitor the age of stitchers and to prepare periodic reports on its monitoring efforts.

### **3 Agreement to Independent Monitoring.**

Participating manufacturers also agree to have their compliance with the Program verified by an independent third party (the "Independent Monitoring Body") who shall provide periodic reports to the Coordinating Committee and to the World Federation of Sporting Goods Industry (for dissemination to their customers and consumers in Europe, the Americas and Asia). These reports shall be made public.

### **4 Coordination with Social Protection Program.**

Participating manufacturers commit to work closely with the ILO and other organizations involved in the Project to integrate their efforts to remove children from conditions of Child Labour with the effort to provide such children from educational and other opportunities. These other efforts are described more fully in the description of the Social Protection Program shall have the following section.

#### **Social Protection Program.**

The Partners recognize that a comprehensive program must be developed (the "Social Protection Program") to ensure that the elimination of Child Labour does not create new and potentially more serious dangers to the affected children or their families. This program shall have the following elements:

#### **1 Protection of Children Removed from Child Labour by Providing Educational and Other Opportunities.**

The Partners acknowledge that it is essential to identify children at risk of Child Labour in the manufacture or assembly of soccer balls and provide them with appropriate education and facilities. Some combination of the following initiatives shall be developed to address the needs of these children:

##### **(i) Rehabilitation.**

A rehabilitation initiative shall target children under 14 removed from the soccer ball industry to support their placement into appropriate education programs.

##### **(ii) Education.**

An educational initiative shall also seek to discourage children at risk of becoming engaged in Child Labour from abandoning the educational system by upgrading the relevance and value of educational opportunities currently available to them.

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**(iii) In-kind Assistance.**

An assistance initiative shall seek to provide appropriate in-kind forms of support to facilitate the participation of children in educational programs.

The Partners agree that the development and implementation of these initiatives shall require the close cooperation of industry to ensure that children engaged in Child Labour are properly identified and that they promptly receive the education opportunities.

**2. Changing Community Attitudes toward Child Labour in the Soccer Industry.**

The Partners also acknowledge that sustaining the elimination of Child Labour shall require more fundamental changes in community attitudes and family approaches toward work. They agree that some combination of the following initiatives shall be developed to facilitate this change:

**(i) Awareness Raising.**

An awareness-raising initiative shall target communities in Sialkot which serve as important sources of child workers and educate local community leaders (including members of the business community), religious leaders, parents and children of the importance of education for all children and the serious health and developmental consequences of sending children to work instead of school.

**(ii) Income Generation.**

An income generation initiative shall offer families the opportunity to replace the income lost when children have been removed from the soccer ball industry by means that do not require Child Labour. Such opportunities shall include, but not be limited to, replacing stitchers under age 14 with qualified members of their families who are older than 14 years.

**III. Administration of the Project.**

**A. Coordinating Committee.**

The Partners agree to establish a Coordinating Committee to administer implementation of the Project.

**1 Membership on the Coordinating Committee.**

The Coordinating Committee shall consist of an authorized representative of each of the Partners as well as other members that the Committee may decide to invite. Each Partner shall designate one individual to serve as its representative on the Coordinating Committee. The Partners have invited Save the Children Fund (UK) ("SCF"), an independent international non-governmental organization, to serve as a member of the Coordinating Committee, in recognition of SCF's significant experience working to advance the interests of children in Pakistan.

**2 General Responsibilities.**

General responsibilities of the Coordinating Committee shall include:

- i. facilitating communication among the Partners to ensure that all elements of the Project are proceeding in an orderly and efficient manner;
- ii. promoting cooperation among the Partners in providing technical and other resources to assist in the development or implementation of the Project;
- iii. identifying individuals and organizations qualified to implement the various elements of the Project and delegating responsibility for implementation to them;
- iv. assuring the proper integration of efforts to prevent Child Labour with efforts to provide meaningful educational opportunities to affected children and alternative income generation opportunities to their families;
- v. making public on a regular basis, status reports on the Project and on its success;
- vi. encouraging foreign companies, in particular members of the World Federation of the Sporting Goods Industry and the Soccer Industry Council of America, to support this Project; and
- vii. encouraging manufacturers in other business sectors operating in Sialkot to join in efforts to eliminate Child Labour.

**3 Approval of Social Protection Program Plan.**

The Coordinating Committee shall approve a plan that articulates the programmatic priorities for the Social Protection Program and proposes non-governmental organizations to implement them within a time frame that is consistent with the Prevention and Monitoring Program. The Coordinating Committee shall be responsible for overseeing the implementation of the Social Protection Program plan, including approving the disbursement of funds.

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**4 Approval of Terms of Reference.**

The coordinating Committee shall review and approve the Terms of Reference for the Prevention and Monitoring Program; provided, however, that the members of the Coordinating Committee other than SCCI may delay the implementation of the Program if they agree that this is necessary to protect the best interests of the children who are the intended beneficiaries of the Social Protection Program. The rationale for any such determination shall be made public.

**5 Approval of Independent Monitoring Body.**

The coordinating Committee shall select an internationally credible Independent Monitoring Body to verify the compliance of participating manufacturers with the Terms of Reference of the Prevention and Monitoring Program. The Coordinating Committee shall be responsible for overseeing the performance of the Independent Monitoring Body, facilitating the distribution of its public reports and approving the disbursement of Project funds for its work.

**6 Management and Decision Making.**

The Chairpersonship of the Coordinating Committee shall rotate among the Partners every six months, with the ILO representative serving as the Chair of the first six months and the order of subsequent chairs determined by lot. Except as otherwise provided for in Section III.A.4 above, the Coordinating Committee shall decide all matters by consensus.

**B. Specific Responsibilities of ILO.****1. Determination of Programs and Implementing Agents.**

In consultation with the Coordinating Committee, ILO shall be responsible for proposing for approval by the Coordinating Committee a plan that articulates the programmatic priorities for the Social Protection Program and proposes non-governmental organizations to implement them within a time frame that is consistent with the Prevention and Monitoring Program. This plan shall be presented for approval by the Coordinating Committee within two months following the execution of this agreement.

**2. Enlisting the Participation of the Government of Pakistan.**

The Partners acknowledge that the basic education of the children of Pakistan is ultimately the responsibility of the Government of Pakistan. Attempts to eliminate Child Labour shall only succeed in Sialkot if the Government makes a sustained commitment to increase the resources available to educate children. ILO shall make every effort to secure additional resources from the Government of Pakistan to improve educational opportunities for all children in Sialkot and to assist in the implementation of the Social Protection Program.

**3. Financial and Technical Support.**

ILO agrees to make available over the next 24 months no less than US\$500,000 in IPEC programmatic funds contributed by the Government of the United States of America to support the Social Protection Program element of the Project and to provide technical advice and support for the establishment and implementation of the Prevention and Monitoring Program. In addition, ILO shall make available appropriate technical resources, staff assistance and expertise to support the Project and to facilitate the operations of the Coordinating Committee.

**C. Specific Responsibilities of SCCI.****1. International Support for the Project.**

SCCI agrees to work with the World Federation of the Sporting Goods Industry (WFSGI), whose members represent over 12,000 sporting goods manufacturers, distributors and retailers around the world, and the Soccer Industry of America (SICA), the trade association that represents the U.S. soccer industry, to determine how their members can demonstrate their support for the Project and encourage Pakistani manufacturers of soccer balls to participate.

**2. Development of the Terms of Reference.**

SCCI agrees to work with the members of the Coordinating Committee to propose a definitive version of the Terms of Reference for the Prevention and Monitoring Program, which shall be made available to the public.

**3. Selection of the Independent Monitoring Body.**

SCCI agrees to work with the members of the Coordinating Committee to identify and propose an internationally credible Independent Monitoring Body for approval by the Coordinating Committee.

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**4. Financial and Technical Support.**

SCCI has indicated the all costs associated with the development and implementation of the Prevention and Monitoring Program, including the costs associated with constructing new stitching facilities, establishing internal monitoring departments within participating manufacturers and complying with the terms of reference for the Program shall be borne by the companies participating in the program. In addition, SCCI has agreed that participating companies shall contribute funds to finance verification of their compliance by the Independent Monitoring Body. This amount is expected to total no less than US\$250,000 over the next 24 months.

**5. Contribution of SICA.**

SCCI has informed the Partners that the Soccer Industry Council of America, the trade association that represents the U.S. soccer industry, has agreed to contribute US\$100,000 over the next 24 months on behalf of SCCI to support elements of the Social Protection Program approved by the Coordinating Committee.

**D. Specific Responsibilities of UNICEF.**

**1. Awareness Campaign on Child Labour.**

In consultation with the Coordinating Committee, UNICEF will develop an awareness campaign to educate parents, employers, community members and children in Sialkot on ways to protect against the exploitative and hazardous conditions associated with Child Labour. At the national and provincial levels, UNICEF will advocate with parliamentarians and policy makers to revise laws, improve enforcement and monitor violation of rights of children at risk of Child Labour.

**2. Determination of Programs and Implementing Agents.**

In consultation with the Coordinating Committee, UNICEF shall present a plan in collaboration with ILO for approval by the Coordinating Committee which articulates the programmatic priorities for the Social Protection Program and proposes non-governmental organizations to implement them within a time frame that is consistent with the Prevention and Monitoring Program and other elements of the Project. This plan shall be presented for approval by the Coordinating Committee within two months following the execution of this agreement.

**3. Enlisting Participation of the Government of Pakistan.**

The Partners acknowledge that the basic education of children of Pakistan is ultimately the responsibility of Pakistan. Attempts to eliminate Child Labour shall best succeed in Sialkot if the Government makes a sustained commitment to increase the resources available to educate children. UNICEF will work with ILO and other members of the Coordinating Committee to improve educational opportunities for all children in Sialkot and to assist in the implementation of the Social Protection Program.

**4. Financial and Technical Support.**

UNICEF agrees to make available over the next 24 months no less than US\$200,000 for the Project. UNICEF shall make available appropriate technical resource, staff assistance and expertise to support the Project and to facilitate the operations of the Coordinating Committee.

**E. Other Provisions.**

**1. Respect for Logos, Trademarks, etc.**

Nothing in this agreement shall be construed to permit any member of the Coordinating Committee to use or permit to use the logos, trademarks or service marks of any other Coordinating Committee member or of WFSGI, of SICA, or of any WFSGI or SICA member or affiliate, without obtaining the express consent of the organization owning the rights to the logo or mark. In addition, SCCI shall be responsible to ensure that the logos, trademarks or service marks of any of the members of the Coordinating Committee are not used by WFSGI, by SICA or by any WFSGI or SICA member without the express consent of the organization owning the rights to the logo or the mark.

**2. Resolution of Disputes.**

The Partners shall make every effort to resolve amicably by direct informal negotiations any disagreement or dispute which may concern the commitments they make as part of this Agreement. Where any such agreement or dispute cannot be resolved by mutual agreement, it shall be settled by arbitration in accordance with UNCITRAL Arbitration Rules as at present in force. In no event, however, shall this mechanism be employed to resolve disagreements or disputes between members of the Coordinating Committee when making decisions about the design or implementation of the Project.

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IN WITNESS WHERE OF, the Partners to this Agreement do here by signify their agreement as of 14th day of February, 1997.

*For and on behalf of the International Labour Organization*

By /s/ Kari Tapiola

Kari Tapiola

Deputy Director General

For and on behalf of United Nations's Children Fund.. UNICEF

By /s/ Stephen H. Umemoto

UNICEF Representative for Pakistan

For and on Behalf of the Sialkot (Pakistan) Chamber of Commerce and Industry

By /s/ Khurshid Soofi

Khurshid Soofi

Chairman, Steering Committee on Child Labour

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