Chapter 4

Supply Chain Integration in the Textile and Garment Industries: Some Observations from Thailand

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ABSTRACT

Supply chain integration has been theoretically posited as a key requirement that enhances supply chain competitiveness and innovation. However, there has been a lack of empirical evidence related to the level of supply chain integration and its benefit. This chapter provides an illustration of the level of integration observed in the Thai textile and garment supply chain. The supply chain integration analysis was done through the use of the quick scan audit methodology and it was observed that there was no integrated supply chain in the Thai textile and garment industry. The majority of the existing textile and garment supply chain relationship in Thailand was mostly limited to internal functions within member firms with some dyadic relationships. This means that most Thai textile and garment firms are still struggling with internal integration and are still not able to integrate their respective supply chain thus affecting innovation capability of Thai textile and garment supply chain. Governmental support may be needed to develop the facilitating environment for supply chain integration.

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INTRODUCTION

The purpose of this chapter is to describe the status of supply chain integration found in the textile and garment industry in Thailand. A quick scan audit methodology (QSAM) was used to measure the integration of Thai textile and garment supply chains. It was observed that total supply chain integration remains part of utopia. However, it was noticed that dyadic integration is slowly emerging within the Thai textile and garment supply chain members. The output of the QSAM provides insights on the potential development of a roadmap for the integration of textile and garment supply chains not only in Thailand but possibly in other countries as well.

This chapter is separated into 4 main sections. After the introduction, a general background of the Thai textile and garment industry is presented to provide readers with a better understanding of the context and issues faced by the industry. The following section briefly discusses supply chain integration in the literature and the observed gaps. The methodology and findings are then presented to describe the current state of supply chain integration in the textile and garment industry in Thailand. Solutions and recommendations for supply chain innovations are then further explored.

THE THAI TEXTILE AND GARMENT INDUSTRY

Thailand has a long history of textile and clothing production. The so-called “modern” garment and textile industry was established relatively late compared to other East and Southeast Asian countries. The Thai Ministry of Defence first imported textile machinery from Germany in 1936 for military purposes. Private textile mills emerged shortly after the Second World War in response to local textile shortages. Production, which greatly expanded by the 1950’s, suffered at the time from the low cost of imported cotton textile from Pakistan resulting in government protection in the form of import quotas and restrictions.

The Thai Investment Promotion Act in 1960 saw the takeover and expansion of military owned mills. Local entrepreneurs and Chinese investors from Shanghai and Hong Kong became key players in consolidating the textile and garment industry. This was coupled with Japanese firms forming joint ventures with Thai textile companies a few years later.

The 1970’s found the Thai government mixing protection, promotion and restriction policy together. Import tariffs were extremely high, up to 100 percent, protecting the industry from external subsidised products and regional competitors. Throughout the decade, restrictions were placed on the industry prohibiting capacity expansion and the establishment of new textile firms. While the laws were not entirely effective in limiting capacity or expansion as companies imported machinery without registering it with the Thai Ministry of Industry, the abolishment of restrictions in 1987 resulted in large increases in investment, machinery imports and establishment of new companies.

The importance of textile and clothing manufacturing to Thailand’s economy is apparent. The industry currently consists of approximately 2000 garment firms, 250 weaving and textile firms and 150 spinning companies employing over 1 million workers.

The export of garments and textiles from Thailand was heavily influenced by membership in the Multi-Fibre Agreement (MFA) and Agreement on Textiles and Clothing (ATC). The MFA, which started in 1975, oversaw a textile quota system in place for the export of garments and textile from developing countries to the United States, Canada, the European Union (EU) and Norway. The ATC, signed in 1995, started a 10-year transition period, which incrementally raised quotas on textiles and clothing, until full elimination by the year 2005, integrating the sector fully into General Agreement