The Price of Export Success in Bangladesh's Garment Sector

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The key engine of economic growth in Bangladesh—the ready-made garment sector—has gained a winning reputation, despite the intensification of global competition in garments resulting from the global economic crisis of 2008-09. Analysis of detailed export data shows that through the first half of 2009, in a performance second only to China, Bangladesh has managed to expand its garment exports and market shares in its two leading destination markets: the European Union and the United States. Bangladesh has achieved this export performance largely through the country's volume-driven, low-price export niche in the global market, premised on low labor costs. For example, during the financial crisis, Bangladesh was one of the only countries that managed to offer lower prices than China in the EU market. While Chinese garment prices on average were about 6 percent below the market average, prices of Bangladeshi garments stood at 35 percent below the market average. While this export niche appears to have maintained employment levels since the global financial crisis struck, it has also served as the main bottleneck to improving wages and working conditions. This bottleneck renders the country vulnerable to slumps in world markets.

In 2008, labor costs in the Bangladeshi garment industry ranked lowest in the world, about one-third lower than the next country, Cambodia. Moreover, unit labor costs in the garment sector appear to have declined in recent years as real earnings eroded and working hours increased. The link between low wages and poverty has become a growing concern, mainly because low wages perpetuate poverty just as poverty sustains low wages. Even if garment sector jobs provide higher take-home pay than the next best alternative for these workers, stagnant earnings prevent improvements in the livelihoods of garment workers and their families.

Assessment of wages and working conditions in the garment sector indicates persistent problems stemming from Bangladesh's export niche, especially long working hours and forced or excessive overtime. While these patterns contribute to increased production and lower unit labor costs, they undermine workers' wellbeing and constitute labor code infractions. Similarly, payment of lower base wages to women workers for the same work as men contributes to the sector's competitiveness but also violates national and international labor standards. In a vicious negative cycle, garment manufacturers as well as workers have an incentive to maintain excessive hours of work, since low pay makes workers eager to work excessive hours in order to earn additional income at the same hourly pay.

Worker organizations could push for higher wages, which would reduce the incentive to work long hours. However, gradual deterioration of labor rights since the early 1980s in Bangladesh and ongoing employer resistance to implementing labor laws in garment factories deprive garment workers of this fundamental channel for improving pay and working conditions. Employer resistance is evident in the delays observed in implementing the Export Processing Zone Workers Association and Industrial Relations Act of 2004. Symptomatic of such delays, in October 2008 the Bangladesh Export Processing Zone Administration extended the ban on lockouts and the right to strike for another two years. Furthermore, despite the phase-in of union rights, as of late 2009 the Bangladesh Export Promotion Authority continued to advertise “production oriented labor laws” that forbid the establishment of trade unions in Export Processing Zones as a way to attract foreign direct investment. As a result of the ongoing restrictions on worker organizations within and outside of Bangladesh’s Export Processing Zones, low margins in the extremely competitive international market serve as the primary vehicle for regulating wages and working conditions in Bangladesh’s garment sector. While garment manufacturers increasingly face the codes of conduct of international buyers and multi-stakeholder organizations, this type of regulation has well-known limitations.

What Can Be Done? A Modest Proposal

The pressure to maintain international competitiveness during the global recession is likely to strengthen garment manufacturer resistance to improving wages and working conditions. In the face of such resistance, the Bangladeshi garment industry needs to move out of its particular export niche to a higher-productivity export structure that would enable higher wages, improvements in working conditions, and overall gains in wellbeing. This move can be reinforced by implementing a complementary set of domestic policies that diversify the structure of production and move the economy away from its overdependence on exports. Examples include productivity-enhancing industrial policy as well as investment in infrastructure and education. This strategy raises questions about the constraints on public finance in low-income countries like Bangladesh. Loosening the stringent balanced budget standards set forth by the world’s major international financial organizations will go a long way to facilitate these proposed domestic policies.

In addition to such a shift in fiscal policy norms, reforms to the international governance of trade and investment will enable and strengthen the proposed domestic policies so as to promote exports, employment, and decent working conditions. In the context of global integration, low-income economies such as Bangladesh risk losing investors or international buyers if they undertake measures that might raise labor costs or unit prices. Such risk makes it difficult for a single country to improve working conditions. An effective agenda for global reforms starts with a revitalized Generalized System of Preferences (GSP) scheme that rewards improvements in working conditions with market access. In the context of trade liberalization, the GSP rewards would need to take the form of reduced and zero tariffs (rather than import quotas) on garment imports into the European Union and the United States and would need to be granted on the basis of credible verification of improved working conditions. Cambodia’s *Better Factories* program serves as a good model for such verification. In this model, which has begun to see replication in a few other developing countries, the International Labor Organization acts as the independent entity to monitor local garment factories.

Factory-based inspections constitute but a first step toward securing sustainable improvements in wages and working conditions throughout the country. Reforms are also needed to establish rules that prevent investor or buyer mobility in the face of higher labor costs. In addition, rich countries need to bolster the capacity of developing country governments to enforce their own labor laws and to promote democratic rights, including worker rights and the dignity of labor. Hence policy reforms cannot be limited to simply improving conditions in the garment sector; policymakers need to consider a broad-based policy strategy built on labor standards enforcement, export diversification, proactive industrial policy, and domestic-demand growth as the means toward alleviating some of the challenges facing Bangladesh's workforce.