

Asia's Race to Capture Post-MFA Markets: A Snapshot of Labor Standards, Compliance, and Impacts on Competitiveness

YANA VAN DER MEULEN RODGERS AND GÜNSELİ BERİK

Labor regulations designed to protect workers, promote workplace equality, and improve working conditions achieve social objectives and affect international competitiveness. Considering these dual outcomes has taken on added urgency as Asian economies adjust to an increase in global competition in textiles and clothing following the end of the Multi-Fiber Agreement, with large projected gains for the People's Republic of China and potential losses for other Asian producers. Countries that stand to lose from the MFA phase-out face low cost and high quality production from the People's Republic of China, whose competitive threat lies in its extremely poor compliance record with its own and international labor standards. Yet empirical evidence generally supports the argument that the costs of raising and enforcing labor standards are offset by dynamic efficiency gains and macroeconomic effects. This evidence supports the case for Asian economies to pursue the "high road" in their race to capture post-MFA markets in textiles and clothing.

I. INTRODUCTION

Labor standards that protect basic worker rights, enhance workers' job security, and improve their terms of employment may have the unintended effect of raising labor costs and undermining international competitiveness. Considering the potential tradeoffs between social objectives of labor standards and their economic competitiveness has taken on added urgency as textile- and clothing-exporting countries in Asia adjust to a sudden increase in global competition following the end of the Multi-Fiber Agreement (MFA). Quota eliminations are expected to cause significant changes in world patterns of textile and clothing production and trade, with large expected gains for the People's Republic of China (PRC) and India and potential losses for most other low-cost producers that

Yana van der Meulen Rodgers is Associate Professor, Women's and Gender Studies Department, Rutgers University; and Günseli Berik is Associate Professor of Economics and Gender Studies, University of Utah. The authors thank Arnab Basu, Ethel Brooks, Elizabeth King, David Kucera, Ronald Martin, Andrew Mason, William Rodgers, Sanchita Saxena, Ian Spaulding, Franck Wiebe, Joseph Zveglic, and an anonymous reviewer for their helpful comments. We also thank Nursel Aydinler-Avsar for excellent research assistance. Participants at the Rutgers University School of Management and Labor Relations Proseminar, the Asia Foundation's Working Roundtable in Bangkok on the MFA Phase-Out, and the "Gender, Growth and Inequality" Panel at the 2006 ASSA meetings also provided useful suggestions. This research is supported by funding from The Asia Foundation and a University of Utah Proposal Initiative Grant. All opinions are the authors' and do not necessarily represent those of their respective institutions.

are not protected with alternative favorable trade arrangements (USITC 2004, OECD 2003). Any shift in production will cause disproportionate job losses for women workers, especially in clothing production where they constitute around three quarters of employment.¹ The PRC's competitiveness in textiles and clothing stems from a combination of factors, including low labor costs. Less clear is the extent to which the PRC's low labor costs are explained by weak labor laws.

Global policy dialogues are focused on what countries can do to respond to this change in trade rules. One potential response of Asian exporters is to dismantle or weaken labor regulations in order to compete with the PRC on the basis of labor costs. This option is consistent with the policy conclusions of static microeconomic theory that shows the adverse effects of labor regulations on the demand for labor. Alternatively, these countries could increase compliance with labor market regulations and invest in the skills of workers. Such measures allow the pursuit of an export strategy that enhances international competitiveness on the basis of higher labor costs consistent with higher productivity. This strategy is supported by an argument that highlights dynamic microeconomic efficiency gains, macroeconomic effects, and social benefits from higher labor standards. Either strategy could also be enhanced by improvements in nonlabor costs, such as infrastructure, ease of entry, and operations in order to enhance international competitiveness. Given the high share of female workers in textiles and clothing, either of these options will have gendered effects.

This paper evaluates which scenario is more likely by examining the theory and evidence on the relationship between labor standards and international competitiveness. We also examine statutory labor regulations and actual compliance across Asia to determine the PRC's relative standing on labor standards. Our findings indicate that the PRC has low labor standards both in terms of its ratification of International Labour Organization (ILO) conventions on core labor standards and its national laws on the core standards, job security provisions, and terms of employment. While its legislative status is neither unique nor the worst in Asia, the PRC's competitive threat lies in its extremely poor record on violations of its own and international labor standards. The PRC's erosion of labor standards coupled with its dominance in textiles and clothing is difficult to reconcile with the results from empirical studies on core labor standards. The empirical literature generally supports the argument that higher labor standards do not undermine competitiveness, whether measured in terms of foreign direct investment (FDI) flows or exports. This evidence, which suggests

¹The percent female in textiles production is generally lower than in clothing production. In textiles, available data for Asian economies from the United Nations Industrial Organization's INDSTAT3 2005 (UNIDO 2005) indicate that the share of women employees ranges from 8% in India to 70% in Viet Nam, with an average close to 50%. In clothing, the percent female ranges from 27% in Nepal to 84% in Sri Lanka, with an average close to 75%.

that the costs of raising and enforcing labor standards are offset by dynamic efficiency gains and macroeconomic effects, supports the case for Asian economies to pursue the “high road” in their race to capture post-MFA markets in textiles and clothing.

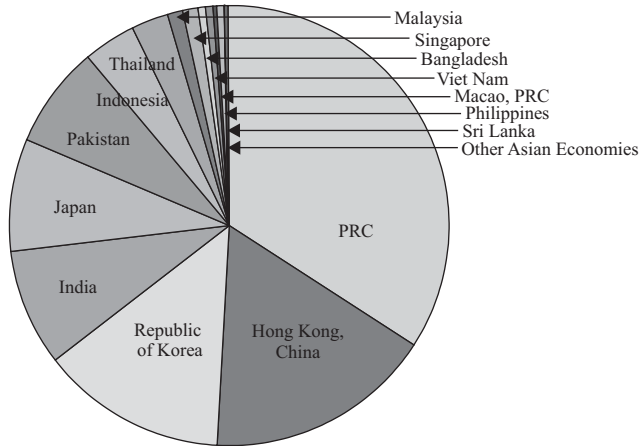
II. THE PRC'S COMPETITIVENESS IN TEXTILES AND CLOTHING

With the end of the MFA, major Asian producers of textiles and clothing face not only loss of quota-guaranteed market access but also the PRC's low production costs that combine with high quality. The PRC has become the prime location for production of not only textiles and clothing but also other high-volume, standardized products, contributing to the ongoing shift of the supply chain toward it. Even under the MFA, the PRC clearly dominated among Asian exporters of textiles and clothing, as illustrated in Figure 1. In 2003, textile exports out of the PRC constituted one third of all Asian textile exports, with another 17% accounted for by Hong Kong, China.² Export dominance is even more pronounced for clothing, with an export share of 45% for the PRC and another 20% for Hong Kong, China.

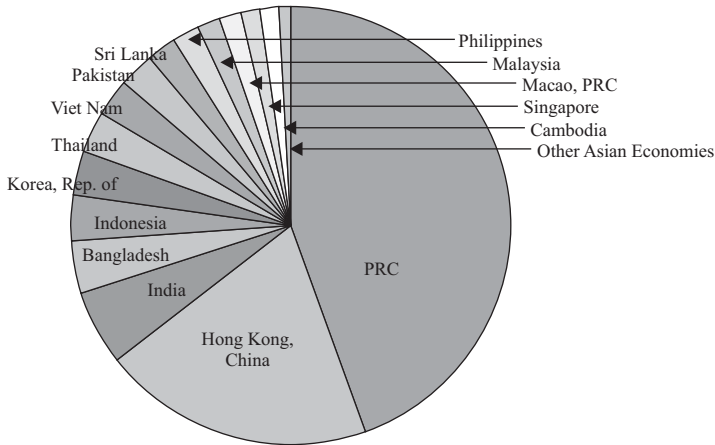
²The figure on Asian exports of textiles and clothing is constructed using the United Nations' COMTRADE data for the most recent year available (UN 2003).

Figure 1. Value of Asian Exports to Rest of World in Textiles and Clothing, 2003

Panel A: Textiles, Yarns, and Fabrics (SITC Rev. 3, Category 65)



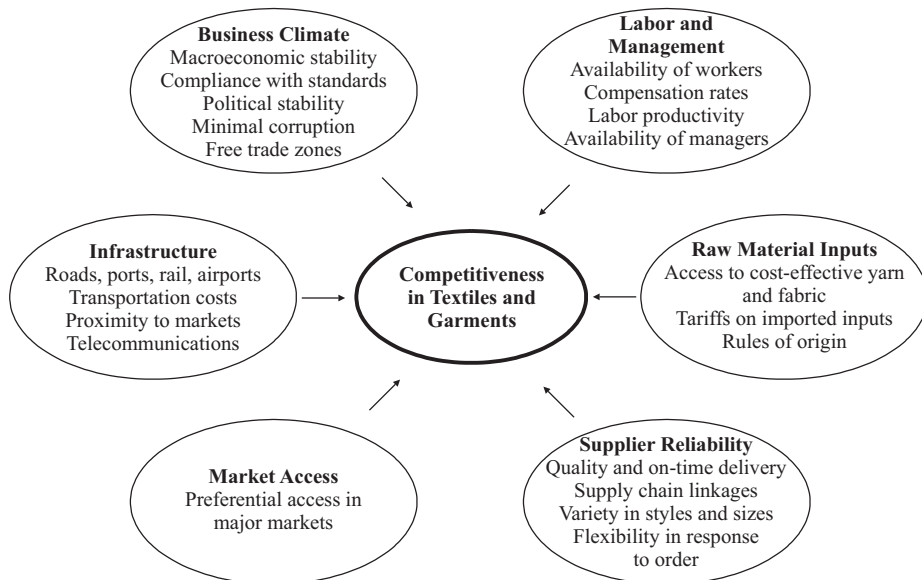
Panel B: Clothing and Accessories (SITC Rev. 3, Category 84)



Labor costs are one piece, albeit an important one, of the picture determining the countries from which buyers in destination countries will choose their goods and where multinational corporations will choose sites for foreign investment. Other factors include infrastructure, ease of entry and operations, and governance (Figure 2). Improvements in infrastructure—including shorter times for clearing customs, fast and regular shipping lines, a reliable transportation network, and modern telecommunications—can go a long way to increase exports and attract FDI. Streamlining regulations associated with starting a new business and reducing problems with corruption will also improve the investment climate.

In the case of clothing, encouraging vertical integration such as building knitting mills and dye facilities nearby, can also improve competitiveness. One indication that labor costs may be of less concern comes from survey responses by firms in textiles and clothing in Indonesia, Republic of Korea (henceforth Korea), Philippines, and Thailand, which identify delays in clearing customs and limited access to finance for working capital as the top two bottlenecks in production.³

Figure 2. **Determinants of Competitiveness in Textiles and Clothing**



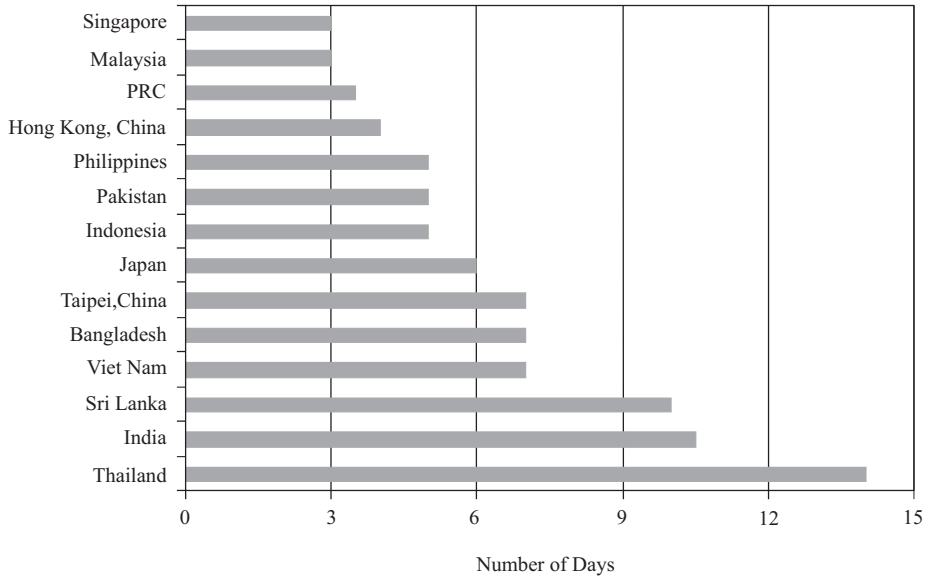
Source: USITC (2004).

The PRC’s low production costs result from a combination of competitive factors in the overall investment climate, not just low wages. For example, Figure 3 shows that the PRC ranks among the fastest countries in Asia for clearing goods through customs and keeping shipments moving, with an average of just 3.5 days for standard dry cargo to clear customs. In contrast, its compensation rates are certainly not the most competitive in the region. Countries vary considerably in their baseline compensation rates to workers in textiles and clothing, with the PRC falling in the middle of the distribution rather than the

³The World Bank’s *Investment Climate Surveys* for Indonesia, Korea, Philippines, and Thailand for the late 1990s (<http://rru.worldbank.org/InvestmentClimate/>). Our tabulations of these surveys also help quantify the relative importance of labor costs, which make up between 23–32% of total production costs in textiles and clothing.

bottom (Table 1). Nonetheless, low wages are a part of the package of advantages for producing in the PRC. The government's policy of maintaining undervalued exchange rates and generous incentives are additional factors that increase the country's appeal as a supplier to foreign companies.

Figure 3. Average Customs Clearance Times in Asia, 2005



Note: Data points represent the average number of days for standard dry cargo to clear customs. For economies that reported a range of days, we chose the midpoint.

Source: International Exhibition Logistics Association (2005).

Table 1. Hourly Compensation in Textiles and Clothing across Asia (in US dollars)

	Textiles	Clothing
Newly Industrialized Economies and Japan		
Hong Kong, China	\$6.15	...
Japan	...	...
Singapore	...	...
Korea, Rep. of	\$5.73	...
Taipei, China	\$7.15	...
PRC and India		
PRC (noncoastal)	\$0.41	\$0.88
PRC (coastal)	\$0.69	\$0.88
India	\$0.57	\$0.38

continued.

Table 1. **continued.**

Southeast Asia		
Cambodia	...	...
Indonesia	\$0.50	\$0.27
Lao PDR	...	...
Malaysia	\$1.16	\$1.41
Philippines	...	\$0.76
Thailand	\$1.24	\$0.91
Viet Nam	...	...
Other Asian Economies		
Bangladesh	\$0.25	\$0.39
Mongolia	...	...
Myanmar	...	...
Nepal	...	...
Pakistan	\$0.34	\$0.41
Sri Lanka	\$0.40	\$0.48

... means not available.

Note: Hourly compensation includes wages and fringe benefits. Data are for 2002. The compensation rate for clothing in the PRC reflects compensation for moderate to better quality clothing; the figure for lower-quality clothing is \$0.68. For the PRC, textiles but not clothing costs are broken down by coastal and noncoastal areas.

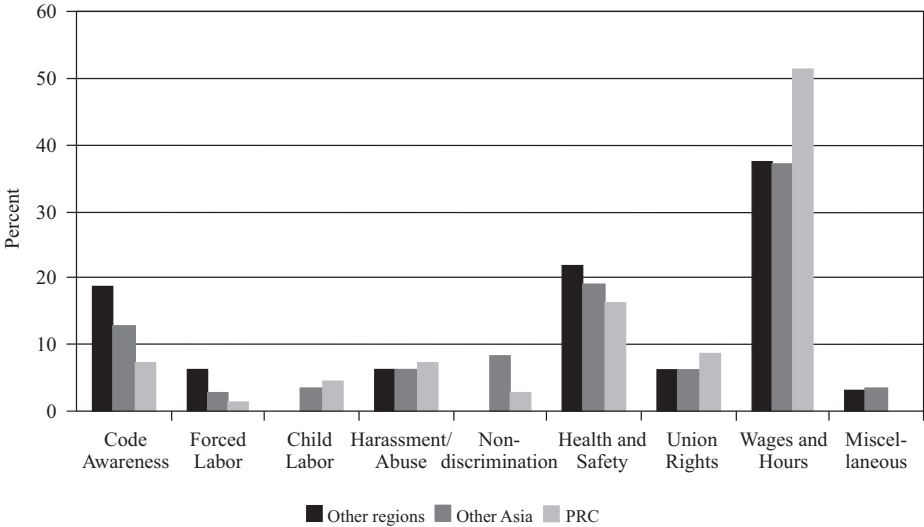
Source: USITC (2004).

One contributor to the PRC's low labor costs is unusually poor compliance with international labor standards and its own labor laws. The oversupply of labor along with employment conditions that encourage long working hours by young, female migrant workers contribute to poor labor standards and low unit labor costs (FLA 2005). The PRC has a worse track record on wage and hour violations than most other Asian countries and other regions, as indicated by data on the observance of labor standards generated through factory visits by the Fair Labor Association (FLA).⁴ Figure 4 shows the distribution of violations of the FLA workplace code of conduct in clothing factories in the PRC in 2003 relative to

⁴The Fair Labor Association (FLA) is a multi-stakeholder organization that combines the efforts of industry, universities, and consumer, labor, and human rights NGOs to improve the observance of labor standards in factories that supply goods for FLA-affiliated companies. In addition to the core labor standards of the ILO, the FLA uses key terms of employment criteria and a code awareness criterion (which records awareness of the FLA workplace code of conduct in the factory) as the basis for monitoring the factories. The companies make a commitment to promote labor standards in their suppliers (and apply the higher standard if the national laws differ from the FLA codes). Companies have to convey the expected standards to their suppliers, monitor them, work on remediation when violations are identified on independent monitoring visits by the FLA, and make public reports. Thus, factories that produce for FLA-affiliated companies are likely to have a better compliance record than the state of affairs in suppliers overall.

other regions.⁵ The major violation is noncompliance with wages, hours of work, and overtime compensation codes, which accounted for 52% of all violations in the PRC and around 37% each in other Asian countries and other regions. In contrast, factories in the PRC displayed greater awareness of the codes compared to factories elsewhere, and had fewer code violations on health and safety regulations, forced labor, and nondiscrimination.

Figure 4. **Workplace Code of Conduct Violations in Clothing Factories Monitored by the Fair Labor Association, 2003**



While noncompliance and failed audits have increased factory turnover for major retailers and branded companies in the PRC, other determinants of its comparative advantage have outweighed this drawback and ensured the country’s position as the dominant producer in textiles and clothing. Even a strategy of technological upgrading and producing higher value-added products does not seem to protect the export processing zones in Central America from losing employment and exports to the PRC (FLA 2004 and 2005, Sargent and Matthews 2004). Nonetheless, Asian economies that are seeking to mitigate losses in textiles and clothing production face the same determinants of competitiveness as the PRC within their economies. These factors are potentially subject to

⁵Country-level data were compiled by the authors from the tracking charts generated in each factory visit. We identified a total of 210 violations in clothing factories that were documented by the FLA in 2003. Figure 4 reports whether or not a code violation was observed, not its severity. Eighty-two percent of factories monitored by the FLA in 2003 were clothing factories, and the rest produce footwear and equipment.

manipulation in order to enhance the investment climate and new market opportunities. Changes include better enforcement of labor legislation to help attract foreign investors that value labor standards and to orient production toward niche markets and higher quality goods.

III. LABOR STANDARDS AND COMPETITIVENESS: CONCEPTUAL FRAMEWORK

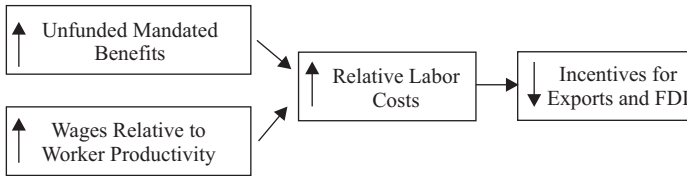
Labor standards are often discussed solely in terms of labor costs within the framework of static microeconomic efficiency. This approach highlights the negative impacts of increased compliance with labor standards. If firms in countries with stronger and better enforced labor legislation bear the costs of mandated benefits and higher wages relative to productivity, they will face higher relative labor costs. As shown in Figure 5, higher labor costs could lead to lower FDI and exports. Firms could then resort to hiring fewer workers and relying on labor-saving technologies or casual home-based workers who remain uncovered. Under rules of trade and capital account liberalization, firms may also move to locations with weaker labor standards. Such adjustments to policies that raise labor costs relative to productivity could generate the oft-cited “race to the bottom.”⁶

There are countervailing forces that may prevent the decline in labor standards and are often overlooked in the labor standards debate. As Figure 5 also highlights, laws that allow workers to freely associate and bargain collectively promote social and political stability, which in turn enhances economic growth and incentives for FDI and exports. Standards that eliminate discrimination and child labor in the workplace contribute to higher levels of education, an important determinant of economic growth and innovation. Contributing to these positive links, the increase in economic growth also has positive feedback effects for FDI and exports. Furthermore, surveys of corporate managers and firm owners indicate that compliance with labor standards is actually an important reason to source from countries or to choose them as the destination for FDI (Kucera 2002, USITC 2004). Social stability, labor quality, and the regulatory environment are all ranked more highly than labor costs as a criterion for attracting FDI. In fact, violating union rights is particularly likely to generate bad publicity and product boycotts.

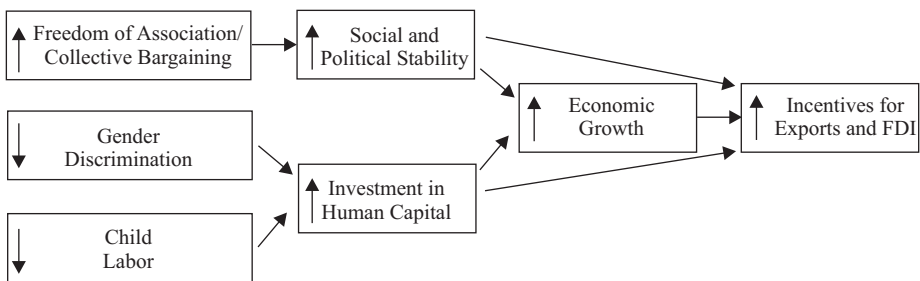
⁶The anticipated job losses or wage reductions resulting from raising labor standards lead some to oppose the use of trade sanctions to raise labor standards in developing countries and to call for use of other strategies to improve labor standards (Kabeer 2004).

Figure 5. Conceptual Framework for Impact of Labor Market Regulations

Negative Impacts (Microeconomic)



Positive Impacts (Macroeconomic)



Source: Modified from Kucera (2002).

IV. THEORY AND EVIDENCE ON IMPACT OF LABOR LAWS

As an organizing scheme, major labor laws are categorized into three groups: basic rights (core labor standards of the ILO), job security, and terms of employment. Table 2 shows these groups and lists examples of important policies in each category. Within the framework of standard microeconomic analysis, labor market regulations are viewed as distortions that have the unintended effect of hurting the very workers that they are designed to help. According to this type of analysis, workers do not have the option of improving their working conditions without jeopardizing their jobs. Although this approach does not account for social benefits and dynamic, productivity-enhancing effects of labor legislation, the analysis can be broadened in scope to consider the net effects of policy and the achievement of the intended safety nets (Elson 1999, Palley 2004).

Table 2. **Categorization of Labor Legislation**

Category	Policy Examples
Basic Rights	No child labor No forced labor No discrimination Freedom of association and collective bargaining rights
Job Security	No arbitrary dismissal Permission from government required for dismissal Pension and retirement compensation Survivors' compensation Unemployment benefits
Terms of Employment	Minimum wage Standard work week Overtime hours and compensation Accident compensation Health and safety Alternative employment contracts Maternity leave

Source: Modified from Galli and Kucera (2004).

A. Basic Rights (Core Labor Standards)

The abolition of child labor, forced labor, and labor market discrimination has obvious objectives. Although there is widespread disagreement about the best way to enforce legislation regulating basic rights, a consensus has emerged that these rights cannot be compromised. The *abolition of child labor* is expected to have a positive impact on trade and FDI, mostly through the channel of human capital investment, although the immediate trade-off is the loss of vital income for poor families. School enrollment rates are a key determinant of economic growth, and economic growth in turn is positively associated with more FDI and greater exports. Another link to FDI is the tendency for multinationals to invest in or source from countries abiding by this fundamental labor standard. Empirical evidence supports the argument that a reduction in child labor encourages economic growth (Galli 2001, Kucera 2002), and that openness to trade and higher FDI stocks are associated with lower incidences of child labor (Neumayer and de Soysa 2004). Similar arguments are made for the *abolition of forced labor*, and evidence in Busse and Braun (2003) suggests a negative relationship between FDI and the extent of forced labor.⁷

⁷Busse and Braun, however, do find a weak positive relationship between forced labor and comparative advantage in trade in unskilled-labor intensive goods, suggesting the need for raising awareness about the problem and effective interventions.

In an effort to eliminate *discrimination* in employment and pay against women, most countries have adopted policies that promote equal treatment in the workplace. Given that women worldwide are often more constrained than men in participating in the labor market or in higher status occupations, such policies focus on ending discriminatory employment practices and creating new job opportunities for women. The “equal pay for equal work” clause requires employers to provide equal pay for workers performing the same job with equal efficiency, regardless of gender. The legislation is often applied to narrow job titles within establishments. Under perfect competition, equal pay legislation should raise women’s relative wages if women work in jobs that contain within-job pay inequities. The relative pay increase for women may come at the cost of employment losses if employment is demand-determined.

In practice, equal-pay legislation tends to have more success in industrialized countries where collective bargaining is common and differential pay rates by gender are legislated but relatively easy to change (Blau and Kahn 1995). Equal pay has less impact in countries where the wage setting mechanism is more decentralized. Enforcement has proven to be a major obstacle, particularly in developing countries that do not have sufficient resources to create viable enforcement methods. Another obstacle to improving women’s relative wages is gender segregation in employment by occupation and industry. Governments have tackled this problem by promoting women’s access to occupations in which they formerly had few opportunities through equal opportunity provisions that prohibit sex-based discrimination in hiring, training, promotion, and firing. In theory, if equal opportunity measures are effective in reducing discrimination against women in male-dominated occupations, firms will hire more women at any given wage. On the supply side, the creation of new job opportunities will encourage some women to shift occupations and other women to join the labor force. Women’s relative wages should rise if the legislation succeeds in reducing women’s concentration in relatively low-paying occupations.

Freedom of association and collective bargaining rights, hereafter referred to as “union rights,” are predicted to lead to higher labor costs even when labor productivity is taken into consideration. Stronger union rights are likely to result in higher unionization rates, and union members tend to receive higher wages than non-union members. There is an ambiguous impact on the demand for labor in the formal sector occurring through a macroeconomic and a microeconomic channel. One view on the macroeconomic side is that stronger civil liberties and rights are conducive to economic growth and stability (Stiglitz 2002, Rodrik 1999). Stronger rights cause less conflict and more stability, both of which are

favorable in attracting FDI. Increased investment, in turn, encourages economic growth and the creation of new jobs in the formal sector.⁸

On the microeconomic side, stronger bargaining positions for workers are likely to raise wages in the formal sector and cause the formal sector demand for workers to shrink. Yet Galli and Kucera (2004) argue that it is not union rights by themselves, but rather policies that increase the difficulty of letting go of workers in adverse business conditions, which are the potential culprits behind an employment shift from the formal sector to the informal sector. Hence high wages allocated to an immobile labor force, rather than simply high wages, serve as a detracting force in the business climate. Given these conflicting forces through the macro and the micro channels, the impact on employment and the economic environment becomes an empirical issue.

Empirical evidence on the macro channel alone tends to support the argument that greater union rights are conducive to stability and economic growth. In particular, collective bargaining is linked to improved information flow and coordination among workers, which is associated with a lower incidence of strikes (Aidt and Tzannatos 2002). Evidence for the net impact of the macro and micro channels is indicative of either no statistically significant relationship (Rodrik 1996, OECD 1996, Flanagan 2003) or a positive net effect.⁹ For example, Cooke and Noble (1998) show that ratification of ILO standards on unions and bargaining in host countries is positively related to US FDI outflows. Further, in a study for over 100 countries, Kucera (2002) finds that stronger union rights are associated with greater FDI, with the positive effect from the macro channel outweighing the negative effect from the micro channel. Most recent cross-country analysis shows that neither trade openness nor export success depend on weaker compliance with union rights (Neumayer and de Soysa 2006, Kucera and Sarna 2006). In fact, there is a strong positive relationship between aggregate manufacturing exports and trade union rights, suggesting that the positive effects of union rights on greater stability offset the negative effects associated with higher labor costs.¹⁰ Although the danger exists for a competitive reduction in standards and regulations, evidence reviewed in Kucera (2002) indicates that governments have not used systematic competitive cuts in union rights to alter their comparative advantage. Any erosion in standards appears to be taking place through declining compliance with labor standards rather than

⁸Others point to the instability that may ensue if countries rapidly expand union rights, which may in turn stifle economic growth and push workers into the informal sector (Singh and Zammit 2000).

⁹Busse (2002) stands out as an exception. Stronger union rights as measured by the Freedom House civil liberties index and the OECD's (2000) union rights index are associated with lower trade ratios, with precisely estimated coefficients.

¹⁰For labor-intensive manufacturing exports, however, the association with trade union rights is highly sensitive to the classification of industries and model specification.

systematic changes in the legal structure governing labor markets (ADB 2005, FLA 2005).

B. Job Security

The most important regulations in the area of job security include no arbitrary dismissal and the right to a pension and retirement compensation. The literature on the effects of these regulations focuses on two areas: first, the impact on turnover rates and employment cyclicalities in the formal sector, and second, the impact on formal and informal sector employment. Stronger job security rights are expected to reduce job turnover rates, particularly for workers in the formal sector who have the least tenure, which may reduce costs of turnover for firms. Over the course of the business cycle, however, stronger job security rights are associated with lower variability of formal sector employment. These regulations make it more difficult for firms to let go of workers during economic slowdowns and raise labor costs. Further, the potential of high dismissal costs in the future discourage firms from taking on new workers during economic recoveries (Bertola 1990, ADB 2005). These costs help to explain empirical findings in Cooke and Noble (1998) that government restrictions on layoffs are negatively related to US FDI outflows.

The impact of job security rights on formal and informal sector employment has more ambiguities. The common argument is that these regulations limit employers' flexibility and raise worker costs, thus pushing workers from formal sector employment to the uncovered informal sector. Similarly, one would expect to see countries with weaker job security regulations to have less informal-sector employment. However, Galli and Kucera (2004) argue that there are short-term and long-term effects. In particular, if a country were to weaken its job security rights, the immediate impact would be more worker dismissals than hires in the formal sector, resulting in an increase in the share of workers in the informal sector. However, in the longer term as firms face relatively low costs associated with worker dismissal, the equilibrium outcome is a net gain in formal sector employment as firms restructure the composition of their workforce.

C. Terms of Employment

Terms of employment policies cover a host of worker needs and protections.¹¹ To limit the scope of the analysis in this broad area, we focus on

¹¹Note that alternative types of employment contracts are becoming more prevalent globally as firms are able to pursue these legally and thereby reduce the labor costs associated with a standing workforce. In most Asian countries, available data in Botero et al. (2004) indicate that part-time employees are not exempt from receiving benefits that are mandated for

three policies that can potentially increase labor productivity as well as affect labor costs and employment: the minimum wage, working hour restrictions for female workers, and maternity leave benefits. Although the *minimum wage* is primarily used as a vehicle for lifting the incomes of poor workers, the policy may entail distortionary costs.¹² Under assumptions of perfect competition, an increase in a binding minimum wage causes a decline in the demand for labor. Jobs become relatively scarce, and some workers who would ordinarily work at a lower market wage are displaced while other workers see an increase in their wage. Critics claim that employment losses can be large in developing countries, while advocates argue that employment losses are small, especially in industrialized economies. The prediction of adverse employment effects in developing countries is based on the existence of large informal sectors and high rates of disguised unemployment in these countries (World Bank 1995). The minimum wage primarily protects workers in the urban formal sector, whose earnings already exceed by a wide margin the earnings of workers in the rural and informal sectors. Employment losses in the regulated formal sector translate into more workers seeking jobs in the unregulated informal sector. The end result could be lower, not higher, wages for most poor workers.

In practice, there is limited compliance with minimum wage regulations and the minimum wage is subject to erosion in real terms (ADB 2005). Noncompliance is widespread in developing countries and is directly related to difficulty of enforcement (Squire and Suthiwart-Narueput 1997). Compliance is especially difficult to enforce in small firms in the informal sector. Moreover, the minimum wage is more binding and compliance is more costly in these firms since they tend to hire more unskilled workers, young workers, and female workers, who are paid lower wages on average. Noncompliance can take the form of outright evasion, legal exemptions for such categories as part-time and temporary workers, and cost-shifting through the avoidance of overtime premiums. Employers may also opt to comply with the minimum wage but reduce nonwage benefits that remain uncovered, such as paid sick days, holidays, health insurance, and retirement benefits.

Empirical evidence suggests that noncompliance can be greater for female workers. Rama (1996) finds lower compliance rates among female workers in Indonesia, while Squire and Suthiwart-Narueput (1997) show similar gender differences in compliance rates in Mexico and Morocco. Also, labor force participation rates drop more for women than men when the minimum wage rises relative to income per adult (Schultz 1990). In Indonesia, the minimum wage in 1994 amounted to roughly 60% of average wages for all workers, but over 80%

full-time employees. The evidence on benefits granted to workers covered by other types of contracts with fixed limits on the employment period is less clear. Such contracts bring workers less long-term job security (Standing 1999).

¹²This debate is carefully reviewed in Card and Krueger (1995).

of average wages for women (World Bank 1996). Because women are concentrated in labor-intensive manufactured export industries such as textiles and clothing, they are likely to experience the brunt of employment cutbacks that firms may make in order to reestablish their international competitiveness.

The most common types of *working-hour restrictions* are limits on overtime and night-work prohibitions. Overtime stipulations require firms to compensate workers with a higher wage for hours worked beyond the legal work day, and many governments constrain the number of overtime hours that workers may work. Night-work prohibitions constrain the time of day when workers can be employed. These restrictions, traditionally more severe for female workers, were once justified by the need to reduce the danger that women face when they travel to and from work late at night, and the need to have working women spend more time at home. When coverage differs by gender, these restrictions cause firms to have less flexibility in their hiring of female workers. Firms could substitute away from female workers toward male workers or capital, causing a reduction in women's total hours and employment.¹³ On the supply side, a night-work prohibition reduces women's flexibility in determining the time of day at which they work and, when binding, leads to fewer working hours. Overtime limits lower the cap on the number of hours that a worker may supply and, when binding, also lead to fewer working hours. The effect on employment depends on how women value the opportunity to work at night and to work extended hours. For example, overtime limits may encourage more women with family responsibilities who value shorter work days to join the labor force, causing a positive employment effect. Moreover, women with jobs in exploitative working conditions may welcome the prohibition of night work and strict limits on the number of overtime hours that employers can force them to work.

Empirical evidence on the labor market impact of working hour restrictions that differ by gender is mixed for industrialized countries and scant for developing countries. For example, Goldin (1988) finds that maximum-hours legislation did not change women's employment share in manufacturing and actually increased their employment share in sales, another covered sector. Shorter workdays appear to have encouraged more women with household responsibilities to enter the labor market. In contrast, in Taipei, China, overtime limits and night-work prohibition led to a significant reduction in both women's working hours and their employment compared to men (Zveglic and Rodgers 2003).

Finally, *mandated maternity leave benefits* can entail complexities that, if addressed through public finance, can lead to positive labor market outcomes.

¹³Hamermesh (1993) provides a summary of studies that estimate the substitutability between different groups of workers, between workers and hours, and between capital and labor.

When maternity benefits are financed by firms rather than the government, the mandate acts as a tax on the employment of the beneficiary. Firms' demand for young female workers declines in order to compensate for the expected cost of complying with the mandate. On the supply side, those workers who value the benefit will accept a lower wage for a given quantity of labor supplied (Summers 1989). Therefore, the supply of workers likely to use the benefits increases. These changes in labor demand and supply cause the relative wages of beneficiary workers to decline. The change in relative employment is indeterminate and depends on the differential values that firms and workers assign to the benefits. For example, for a mandated maternity leave, firms consider the wage cost of the paid leave, the probability that their workers take leave, and any costs involving temporary replacement workers. If leave benefits are financed mostly by the government, then the demand curve shifts less. The value that workers place on the leave benefits depends first on the level of compensation and duration of the leave. Workers may also assign value to the employment guarantees that generally accompany maternity leave legislation. Job-protected maternity leaves help women to maintain favorable job matches and to avoid search costs from seeking alternative employment.

Dynamic considerations can counteract the static restrictive effects of maternity benefits on labor demand. Waldfogel (1998) argues that maternity leave raises the probability that women will remain in the labor force and return to their former employer after childbirth. By strengthening women's attachment to the labor force and increasing their investment in firm-specific experience and training, a job-protected maternity leave can enhance the productivity of female workers. In this case one might observe higher wage offers from firms over time, possibly large enough to overcome the initial pecuniary cost of maternity benefits. Maternity benefits also have social benefits in the form of healthier women and infants, which provide the argument for their public funding.

Empirical evidence on the labor market effects of maternity leaves is mixed for industrialized countries and sparse for developing countries. Studies have generally found positive employment effects, although not always significant, in industrialized economies.¹⁴ The wage effect, which has been estimated as positive, close to zero, and negative, is more controversial. Research on mandated maternity benefits generally finds that wage changes for female workers following the mandate are either inconsequential or negative depending on the wage compensation rate, leave duration, and the degree to which employers bear the costs.

¹⁴Gruber (1994) has evidence for the United States and Ruhm (1998) for Europe.

V. LEGISLATION AND COMPLIANCE ACROSS ASIA

Since legislation relevant to a given labor standard or worker right does not indicate either enforcement of the law or firms' compliance with it, the analysis concludes with a comparison across Asian economies of legislation and compliance measures. How the PRC compares relative to other economies in Asia, especially in terms of compliance, indicates the extent of pressure on others to emulate the PRC. In terms of the core labor standards, most Asian countries' standing on the ILO conventions is poor. Several have not ratified ILO conventions prohibiting forced labor, child labor, and discrimination.¹⁵ Notably, PRC, Korea, and Viet Nam have not ratified either of the forced labor conventions (No. 29 and No. 105). India and Myanmar are not signatories to either of the child labor conventions that stipulate a minimum age for work (No. 138) and seek to eliminate the worst forms of child labor (No. 182), while Bangladesh, Cambodia, and Pakistan have not ratified one or the other of these conventions. Almost all Asian countries uphold the equal remuneration convention (No.100), while Lao PDR, Malaysia, Myanmar, Singapore, and Thailand have not ratified the discrimination convention (No. 111). The summary of legislation prohibiting child labor and discrimination in Asian economies in Table 3 shows that most countries set a higher standard in their national legislation than in their record on the ILO conventions. While all have regulations governing the use of child labor, there is wide variation in the minimum working age, with several countries permitting work below age 14. Most nations also prohibit discrimination, mostly via an equal-pay clause, but fewer than half of these countries go the next step by prohibiting sex-based employment discrimination. Published evidence on the impact of this type of legislation in Asia is limited but seems to point in the direction of little to no impact due to the lack of enforcement.¹⁶

Several Asian countries have not ratified either of the ILO conventions No. 87 and No. 98 that promote the freedom of association and collective bargaining rights. The PRC, India, Korea, Lao PDR, Thailand, and Viet Nam stand out in this regard. Table 4 shows that Asian countries vary considerably in terms of codified union rights. Several Asian countries do not recognize the right to unionize and collectively bargain in their constitution. Workers have some rights in the form of workers' councils instead of or in addition to unions. In terms of unionization rate (which includes the mandate to form workers' councils), several countries have lower unionization levels than the PRC. Most countries require third party arbitration of labor disputes and provide job

¹⁵Information on country ratifications of the ILO core labor standards is readily available from the International Labour Organization's APPLIS database (ILO 2005c).

¹⁶For example, Behrman and Zhang (1995) point to the lackluster performance of equal opportunity legislation in Asian developing economies.

protection for strikers. The labor laws in Asia thus combine highly restrictive worker rights with paternalism on the part of the state. Based on the legal framework and when multiple dimensions of union rights are considered, the PRC does not appear to be the country with the weakest union rights.

Table 3. **Indicators of Laws against Discrimination and Child Labor in Asia**

	Child Labor Minimum Working Age	Labor Discrimination Prohibited By Sex	Labor Discrimination Prohibited By Race
Newly Industrialized Economies and Japan			
Hong Kong, China	13	Yes	Yes
Japan	15	Yes	Yes
Singapore	12	No	Yes
Korea, Rep. of	15	Yes	No
Taipei, China	15	Yes	Yes
PRC and India			
PRC	16	Yes	Yes
India	14	Yes	Yes
Southeast Asia			
Indonesia	12	Yes	No
Malaysia	14	No	Yes
Philippines	15	Yes	No
Thailand	13	Yes	Yes
Viet Nam	18	Yes	Yes
Other Asian Economies			
Kazakhstan	16	Yes	Yes
Kyrgyz Republic	18	Yes	Yes
Mongolia	14	Yes	Yes
Pakistan	14	Yes	No
Sri Lanka	15	Yes	Yes

Note: The discrimination measures indicate if the economy has legislation that prohibits discrimination in the constitution, the labor code, or a special law. The minimum working age indicates the age at which a child can be employed in an apprenticeship or full-time outside the family business without requiring official permission.

Source: Botero et al. (2004).

Table 4. Indicators of Union Rights in Asia

	Collective Bargaining Rights				Collective Disputes			Unions
	Right to Unionize	Right to Bargain Collectively	Employers Must Bargain with Unions	Workers' Councils Mandated	Wildcat Strikes Legal	Third Party Arbitration in Dispute	Employers May Not Fire Strikers	Percent of Workforce Unionized
Newly Industrialized Economies and Japan								
Hong Kong, China	Yes	No	No	No	Yes	No	No	0.220
Japan	Yes	Yes	Yes	No	No	No	Yes	0.240
Singapore	No	No	Yes	No	Yes	Yes	Yes	0.240
Korea, Rep. of	Yes	Yes	Yes	Yes	No	Yes	Yes	0.138
Taipei, China	No	Yes	No	Yes	No	Yes	Yes	0.350
PRC and India								
PRC	No	No	No	Yes	No	Yes	Yes	0.140
India	No	No	No	Yes	Yes	No	Yes	0.030
Southeast Asia								
Indonesia	No	No	Yes	No	Yes	Yes	Yes	0.012
Malaysia	No	No	No	No	No	Yes	Yes	0.100
Philippines	Yes	Yes	Yes	No	Yes	Yes	Yes	0.120
Thailand	Yes	Yes	Yes	No	No	No	Yes	0.100
Viet Nam	Yes	No	Yes	Yes	Yes	Yes	Yes	0.500
Other Asian Economies								
Kazakhstan	Yes	Yes	Yes	Yes	No	Yes	Yes	...
Kyrgyz Republic	Yes	No	Yes	Yes	No	No	Yes	...
Mongolia	No	No	Yes	No	No	Yes	Yes	...
Pakistan	No	No	Yes	Yes	No	Yes	Yes	0.100
Sri Lanka	Yes	No	No	Yes	Yes	Yes	Yes	0.700

... means data not available.

Source: Botero et al. (2004).

These union rights, though, mean very little if they are not enforced. The Kucera indicator of trade union rights represents one attempt to quantify observance of freedom of association and collective bargaining rights as defined in the ILO conventions for 160 countries for the mid-1990s (Kucera 2004). The indicator is constructed on the basis of textual analysis of three well-known sources on labor standards using criteria on 37 types of violations of freedom of association and collective bargaining rights.¹⁷ According to the indicator, on average, workers in Asian countries have less trade union rights compared to other developing regions. This pattern holds when severity of the violations is taken into account (weighted) and when they are not factored into the indicator (unweighted). The average value of the weighted indicator for the 20 Asian countries reported in Figure 6 is 3.72 compared to the averages for Latin America (4.82), Sub-Saharan Africa (5.43), and Middle East-North Africa (3.90). When the severity of violations is factored in, most scores improve, indicating that the violations observed are relatively less severe. In a few countries (Cambodia, India, Nepal, Sri Lanka) the violations tend to be severe, reducing the scores on the union rights indicator. The PRC scores the lowest, along with Lao PDR, Myanmar, and Viet Nam, owing to the general prohibitions against formation of unions, union activity, and collective bargaining. This precedent could serve as a powerful negative incentive for other Asian economies in the post-MFA environment in terms of a further weakening of union rights.

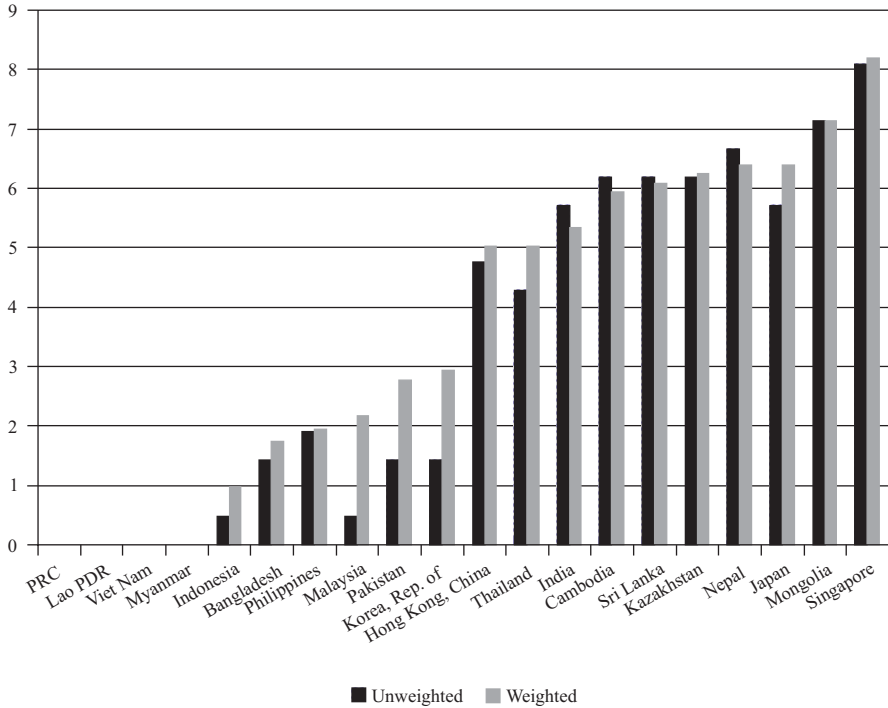
In terms of job security regulations, Table 5 points to a wide regional variation. Employers have anywhere from zero weeks (in Indonesia) to 13 weeks (in India) to give notice that they are dismissing a redundant worker, and the severance pay in this situation ranges from zero weeks in several countries to 25 weeks worth of wages (in Indonesia and Thailand). Although employers in most Asian economies are prohibited from dismissing workers without a just cause, workers in a few countries (including Malaysia and Thailand) are vulnerable to potentially unjustified dismissal. A number of countries, notably India and Sri Lanka, have legislation that requires larger employers to obtain prior government approval for collective dismissals and for the layoff of a single redundant worker, suggesting strong job protection for formal sector workers.¹⁸

¹⁷These sources are discussed in Kucera (2004). The coded violations are wide-ranging, and include murder or disappearance of union members or organizers (or violence against their families), dismissal for union activity, restrictions on right to unionize or right to strike in tradable/industrial sectors, and nonmembership in unions as a condition for employment.

¹⁸ India, Indonesia, Kazakhstan, Kyrgyz Republic, Philippines, Sri Lanka, and Viet Nam, have such legal requirements (ADB 2005). In India industrial establishments with 100 or more workers are required to seek prior approval from the relevant government authority, which verifies the validity of the retrenchment claim (i.e., that it is not sought as an unfair labor practice). Sri Lanka's Termination of Employment of Workers Act is broader in scope. It applies to firms that employ 15 or more workers in a wide range of industries. These firms must seek prior authorization from the labor commissioner to dismiss workers who have more

However, recent evidence indicates that due to either weak compliance or legislated options for firms in determining their employment levels (i.e., increasing employment under less certain contractual terms), workers experienced an erosion of job protections since the early 1990s (ADB 2005).¹⁹

Figure 6. Kucera Indicator of Trade Union Rights for Asia, Mid-1990s



Note: Economies that prohibit the right to establish and join unions or have general prohibitions of collective bargaining have a score of zero. Weighted indicator indicates the severity of violations, while unweighted indicator weighs violations equally.
 Source: Kucera (2004).

than 6 months of service and must abide by the decision without recourse to appeal (ILO 2005d).

¹⁹For example, in India and the Philippines there is evidence of increasing use of contract labor and other forms of nonregular workers (e.g., piece-rate, part-time, commission workers) along with rising nonenforcement of or noncompliance with labor laws in the 1990s (ADB 2005).

Table 5. Indicators of Job Security in Asia

	Dismissal Procedures					Old-age Benefits	Unemployment Benefits
	Redundancy Notice Period	Redundancy Severance Pay	No-Cause Notice Period	No-Cause Severance Pay	Cost of Firing Workers	Benefits Index for Retirement, Disability, and Death	Social Security System Covers Unemployment
Newly Industrialized Economies and Japan							
Hong Kong, China	1.0	8.6	1.0	8.6	0.178	0.813	Yes
Japan	4.3	0.0	4.3	0.0	0.080	0.636	Yes
Singapore	2.0	12.9	Not allowed	Not allowed	0.604	0.585	No
Korea, Rep. of	4.3	12.8	Not allowed	Not allowed	0.617	0.597	Yes
Taipei, China	4.3	12.9	Not allowed	Not allowed	0.613	0.674	Yes
PRC and India							
PRC	4.3	12.9	Not allowed	Not allowed	0.599	0.560	Yes
India	12.9	6.4	Not allowed	Not allowed	0.623	0.429	No
Southeast Asia							
Indonesia	0.0	25.8	Not allowed	Not allowed	0.685	0.532	No
Malaysia	6.0	2.1	6.0	6.4	0.195	0.585	No
Philippines	1.4	12.9	Not allowed	Not allowed	0.575	0.614	No
Thailand	8.6	25.7	8.6	25.7	0.632	0.621	No
Viet Nam	6.4	12.9	Not allowed	Not allowed	0.621	0.622	No
Other Asian Economies							
Kazakhstan	8.6	8.6	Not allowed	Not allowed	0.605	0.585	No
Kyrgyz Rep.	8.6	4.3	Not allowed	Not allowed	0.569	0.574	Yes
Mongolia	4.3	4.3	Not allowed	Not allowed	0.527	0.479	Yes
Pakistan	4.3	0.0	Not allowed	Not allowed	0.485	0.551	No
Sri Lanka	4.3	0.0	Not allowed	Not allowed	0.484	0.583	No

Note: The first four rules refer to the length in weeks of the notice period for dismissing one redundant worker, severance pay for dismissing one redundant worker, notice period for dismissing one worker for no cause, and severance pay for dismissing one worker for no cause. The cost of firing workers is the ratio of the wage bill (after firing 20 % of a firm's workers) to the old wage bill. The old-age benefits index is an average of four normalized measures of old age, disability, and death benefits where higher values indicate more protection.

Source: Botero et al. (2004).

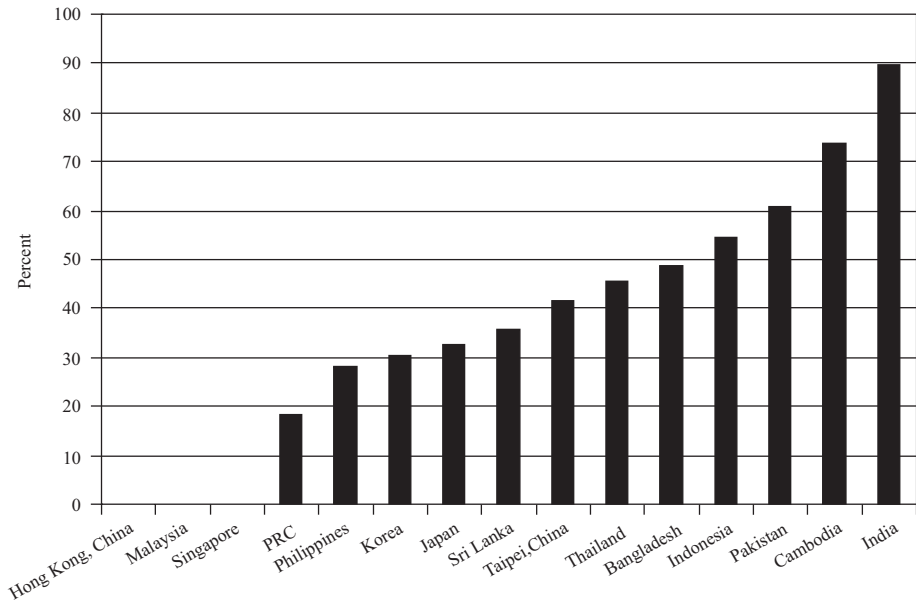
In legal terms the cost of firing workers is higher in Asia compared to other regions (as computed by Botero et al. 2004). Relatively high costs of firing workers in Indonesia, India, and Thailand translate into more worker protection, while in Hong Kong, China; Japan; and Malaysia, the low cost of firing workers corresponds with high flexibility for employers but less worker protection. Unemployment insurance has become more established in the newly industrialized economies, but this benefit is more of a rarity in the other Asian economies. According to these indicators, the PRC does not offer the weakest job security for workers in Asia: employers cannot legally dismiss a worker without cause, the redundancy notice period and the severance pay are not the lowest in Asia, and the cost of firing workers is relatively high. The PRC is among the small number of countries that have unemployment benefits, but its old-age benefits are less generous compared to other Asian countries. However, the fact that the PRC's labor laws do not appear to present restrictions on firms that seek to adjust their employment levels (ADB 2005) suggests that pressure on governments to weaken job protections for formal sector workers in Asia is likely to increase.

Turning to minimum wage laws, whether or not this legislation has much of a "bite" in terms of employment effects depends on the legal wage floor relative to prevailing wage rates. Figure 7 compares the monthly wage floor in local currencies to average monthly manufacturing wages in local currencies (Figure 7).²⁰ Among the sample countries for which we were able to obtain minimum wage data, three countries (Hong Kong, China; Malaysia; and Singapore) have no comprehensive minimum wage laws. Of the countries that do have minimum wages, the overall picture suggests that the minimum wage does not have much relevance for formal sector workers in much of Asia. The legal floor is quite high in Cambodia and India, with the implication that a large proportion of workers are earning the minimum.²¹ On the low end is the PRC, whose wage floor amounts to just 18% of average manufacturing sector wages. This ratio is at least 10 percentage points below all the other countries, which suggests that there will be increasing pressure on Asian governments to resist raising their minimum wage levels.

²⁰For those economies that only reported hourly, daily, or weekly wages, we converted to monthly wages assuming 8 hours per day, 5 days per week, and 4 weeks per month. For economies with multi-tiered minimum wage structures, we used the minimum wage most relevant to the overall manufacturing sector. All data are for 2003 or the closest year possible.

²¹At the high end, India has a number of minimum wage rates set by the government for some sectors and by collective agreement for others. For Figure 7, we used the ILO-cited (2005b) minimum wage of 52 rupees/day for the lowest minimum wage level, set for unskilled workers in rural areas (the minimum wage for unskilled workers in urban areas is higher). This wage level, multiplied by 20 days/month, amounts to 90% of average manufacturing sector wages of 1158.6 rupees/month (ILO 2005a).

Figure 7. Statutory Minimum Wages as a Share of Average Manufacturing Wages, 2003



Sources: ILO (2005a and 2005b), US DOL (2000).

Working-hour restrictions are widespread in Asia (Table 6). The PRC is among the countries that stipulate the lowest statutory work hours in Asia, where the norm is 8 hours per day /48 hours per week. Night-work prohibition is common in Asia, although the severity of the legislation varies considerably. For example, Thailand deviates considerably from the ILO standard by starting the restricted hours at midnight and specifying only six consecutive hours of rest. At the other extreme, Indonesia requires women to end work by 6:00 p.m. and not resume work before 6:00 a.m. Bangladesh, Myanmar, and Pakistan ban night work by women entirely.²² Special overtime limits for female workers are less common. Most Asian countries have adopted overtime limits for their workers while fewer than half of these countries have overtime limits that differ across sex. Some countries, such as India and Bangladesh, ban overtime work for women but not for men. There is evidence that the dormitory arrangements in industrial enterprises in the PRC are conducive to violations of the PRC's hours regulations (FLA 2005). The PRC is one of the few countries that do not restrict women's working hours at night, and it does not stipulate overtime limits that

²²India's national labor law also bans women's night work, but in 2005 the Cabinet approved an amendment to the Factory Act that would allow women to work late-night shifts. According to media accounts, the Act is being amended following court proceedings and legal cases made by women's groups.

differ for women and men. Its gender-egalitarian approach in hours regulations is likely to put pressure on its poorer Asian competitors to follow suit, but such a change will help women only if they no longer face the dangerous or exploitative work conditions from which the regulations are protecting them.

Maternity leave provisions are just as prevalent among Asian countries as they are in other regions of the world. Leave benefits in the East Asian newly industrialized countries are among the least generous in the region (Table 6). For example, Singapore and Taipei, China have just 8 weeks of maternity leave, albeit at full pay. At the other extreme, Viet Nam's legislation calls for 4–6 months of fully paid leave. The PRC offers a 3-month, paid maternity leave that is fully financed by employers, which is the most common arrangement in Asia. Asian governments tend to mandate paid maternity benefits without funding them, which contrasts with other regions. In terms of enforcement, evidence in Zveglic and Rodgers (2003) for Taipei, China indicates that only after the administration began to strictly enforce the 1984 Labor Standards Law did the maternity leave provisions begin to have a positive impact on women's employment. Further evidence from Malaysia indicates that of all cases when women employed in the covered formal sector were eligible for a maternity leave, fewer than one half resulted in a leave received (Bernasek and Gallaway 1997). This result could reflect either poor compliance among firms or a lack of worker awareness of the policy. Lack of awareness is also problematic in Bangladesh, where a survey of female clothing workers showed that few knew they were entitled to paid maternity leave (World Bank 1995). Fear of job loss if the leave is taken could be a further concern among women workers, particularly if employers signal such threats.

Table 6. Terms of Employment that Differ by Gender

	Statutory Work Hours	Overtime Limits for Men	Overtime Limits for Women	Restricted Hours for Women	Maternity Leave Duration	Portion of Leave Employer-financed
Newly Industrialized Economies and Japan						
Hong Kong, China	8/day, 48/week	—	2/day, 200/year	23:00-6:00	10 weeks	80% (0%)
Japan	8/day, 40/week	—	6/week, 150/year	22:00-5:00	14 weeks	0% (60%)
Singapore	8/day, 44/week	4/day, 72/month	Same as men	—	8 weeks	100%
Korea, Rep. of	8/day, 48/week	12/week	2/day, 6/week, 150/year	22:00-6:30	60 days	100%
Taipei, China	8/day, 48/week	3/day, 46/month	2/day, 24/month	22:00-6:00	8 weeks	100%
PRC and India						
PRC	8/day, 40/week	3/day, 36/month	Same as men	—	90 days	100%
India	9/day, 48/week	3/day, 12/week	0/day	19:00-6:00	12 weeks	0% (100%)
Southeast Asia						
Cambodia	8/day, 48/week	2/day	Same as men	—	90 days	100%
Indonesia	7/day, 40/week	14/week	Same as men	18:00-6:00	3 months	100%
Lao PDR	8/day, 48/week	3/day, 30/month	Same as men	22:00-5:00	90 days	0% (100%)
Malaysia	8/day, 48/week	4/day	Same as men	22:00-5:00	60 days	100%
Philippines	8/day, 48/week	—	Same as men	22:00-6:00	60 days	0% (100%)
Thailand	48/week	—	Same as men	24:00-6:00	90 days	100%
Viet Nam	8/day, 48/week	4/day, 200/year	Same as men	—	4-6 months	0% (100%)
Other Asian Economies						
Bangladesh	9/day, 48/week	1/day, 12/week, 416/year	0/day	20:00-7:00	12 weeks	100%
Mongolia	8/day, 46/week	4/2 days, 120/year	Same as men	—	101 days	0% (100%)
Myanmar	8/day, 44/week	—	0/day	18:00-6:00	12 weeks	0% (67%)
Nepal	8/day, 48/week	4/day, 20/week	Same as men	18:00-6:00	52 days	100%
Pakistan	9/day, 48/week	—	0/day	19:00-6:00	12 weeks	100%
Sri Lanka	8/day, 48/week	4/day	Same as men	22:00-5:00	12 weeks	100%

— means not applicable or not stated.

Note: The share of the maternity leave financed by public funds is in parentheses in the last column.

Source: Nataraj, Rodgers, and Zveglic (1998).

VI. POLICY OPTIONS

This study has demonstrated a strong economic rationale for increasing compliance with labor-market regulations that are consistent with fundamental worker rights, job security, and fair terms of employment. Empirical evidence indicates that regulations consistent with the ILO's core labor standards have a positive impact on exports and FDI, with improvements in the quality of human capital and political stability serving as the key channels that outweigh any static costs. While labor laws that provide greater job security and better terms of employment can entail trade-offs, empirical evidence suggests that these trade-offs are offset through dynamic channels and may entail benefits for society at large. Hence greater compliance with labor standards is a viable option for Asian textile and clothing producers that are adjusting to the new post-MFA trade rules. Asian countries may also consider combining an export strategy with a strategy that orients their production structures toward greater reliance on domestic demand. This approach is more compatible with higher wages, stronger labor standards, and a higher quality of growth.²³

Yet the PRC's lower labor standards and especially its poor compliance record are likely to generate pressure on its competitors to weaken enforcement of their labor regulations in a number of areas: union rights, minimum wage, and working hours. While the PRC does set a higher standard in a number of other labor regulations, such as child labor and maternity leave benefits, rather than emulate the PRC, its competitors may be tempted to achieve lower labor costs by resisting any improvements in these areas as well. For sustained industrialization to occur, this study has argued that Asian countries take the "high productivity" route to growth rather than the "low wage" route by ratifying core labor standards and promoting adherence through domestic legislation and enforcement. Whether or not the high-road strategy retains support as Asian economies adjust to the post-MFA trade regime in textiles and clothing is an area for active research.

Asian countries generally have paternalistic regulatory structures for labor markets that grant workers limited rights while at the same time seeking to protect workers through a variety of other means. These countries must seek to broaden the set of basic worker rights, update and enforce existing legislation, and implement regulations that have strong positive impacts on human capital. Although legislation on the terms of employment is widespread among Asian economies, evidence indicates that a significant number of all workers are either not covered by the legislation, unaware they are entitled to benefits, or employed in covered firms that fail to comply with the legislation. Measures such as safe

²³See Palley (2004) for arguments in favor of a strategy based more on domestic demand, and Felipe and Lim (2005) for evidence on the contribution of both exports and domestic demand to macroeconomic performance across Asia.

workplace conditions, overtime pay, and paid benefits, although potentially costly to implement, promote lower turnover rates, improved well-being for workers, and extended firm-specific tenure. As a policy priority, these measures need to be provided to a broader range of workers by removing exemptions and promoting awareness of benefit availability. Measures to back mandated benefits with public funds, ideally through a system of national insurance, can go a long way to ensuring greater compliance among firms.

Some job security measures, which appear to impose higher costs on employers compared to the PRC's regulations, could be revised if they are deemed to have outlived their usefulness. For example, working-hour restrictions for female workers ought to be removed once the measures can no longer be justified by dangerous and exploitative working conditions. Working-hour restrictions that constrain women more than men can hinder women's progress toward equity in the labor market. The measures contribute to the exacerbation of occupational segregation by sex as some employers become resistant to hiring women who have less flexible working-hour options. Another example is the regulations that make it exceedingly difficult or expensive for firms to let go of workers in times of structural change. These restrictions may be relaxed provided public systems are in place to alleviate the inevitable hardship for workers.

Consumer demand for products made under "sweat-free" conditions can also be effective in moving to higher labor standards. There are hundreds of nongovernment organizations (NGOs) that monitor whether companies are abiding by codes of conduct, and high-profile incidents in the media have made compliance a real issue. These NGOs are often organized into larger monitoring groups, such as the Fair Labor Association, the Collegiate Licensing Company, and Worldwide Responsible Apparel Production, with the resources to track violations and put pressure on major retailers in textiles and clothing to comply with standards. With this pressure and the negative consequences of media exposure in the case of noncompliance, particularly in the last decade, corporations are paying more attention to labor standards in the countries where they produce or buy their products. Most major retailers and manufacturers now have their own compliance programs, with each program establishing a set of guidelines under which a factory must operate. Programs are administered by company-employed inspectors or by independent audit companies. The prevalence of these codes of conduct and firms' efforts to enforce them in the factories from which they source may go a long way to improve working conditions and to significantly reduce the incidence of child labor and forced labor in textiles and clothing.

Even if consumer-led corporate codes of conduct are proliferating, relying on companies to self-regulate compliance is not sufficient, especially in light of strong consumer demand for low-cost clothing, the lack of agreement among corporations and monitoring groups over a common set of labor standards, and

the large number of factories and subcontractors that remain outside the scope of private monitoring efforts. Government enforcement, hence funding for viable enforcement structures, thus remains a top policy priority. Asian countries have comprehensive labor codes, yet these labor laws mean little without adequate enforcement. As an example of a policy action to remedy enforcement shortcomings, Taipei, China's administration backed up its 1984 Labor Standards Law with the creation of a cabinet-level enforcement agency. Within just a few years, this agency had inspected thousands of establishments and penalized close to half the employers with fines and court sentences. The Labor Standards Law had little observable impact on labor market outcomes until after these enforcement remedies. This example contains fruitful lessons for other Asian governments, particularly as they seek effective measures to improve workforce productivity in the race to capture post-MFA markets in textiles and clothing.

REFERENCES

- Aidt, T., and Z. Tzannatos. 2002. *Unions and Collective Bargaining: Economic Effects in a Global Environment*. World Bank, Washington, DC.
- Asian Development Bank. 2005. *Key Indicators 2005: Labor Markets in Asia: Promoting Full, Productive, and Decent Employment*. Asian Development Bank, Manila.
- Behrman, J., and Z. Zhang. 1995. "Gender Issues and Employment in Asia." *Asian Development Review* 13(2):1–49.
- Bernasek, A., and J. Gallaway. 1997. "Who Gets Maternity Leave? The Case of Malaysia." *Contemporary Economic Policy* 15(2):94–104.
- Bertola, G. 1990. "Job Security, Employment, and Wages." *European Economic Review* 34(4):851–79.
- Blau, F., and L. Kahn. 1995. "The Gender Earnings Gap: Some International Evidence." In R. Freeman and L. Katz, eds., *Differences and Changes in Wage Structures*. Chicago: University of Chicago Press.
- Botero, J., S. Djankov, R. La Porta, F. Lopez-de-Silanes, and A. Shleifer. 2004. "The Regulation of Labor." *Quarterly Journal of Economics* 119(4):1339–82.
- Busse, M., and S. Braun. 2003. "Trade and Investment Effects of Forced Labour: An Empirical Assessment." *International Labour Review* 142(1):49–71.
- Busse, M. 2002. "Do Labor Standards Affect Comparative Advantage in Developing Countries?" *World Development* 30(11):1921–32.
- Card, D., and A. Krueger. 1995. *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton, NJ: Princeton University Press.
- Cooke, W., and D. Noble. 1998. "Industrial Relations Systems and U.S. Foreign Direct Investment Abroad." *British Journal of Industrial Relations* 36(4):581–609.
- Elson, D. 1999. "Labor Markets as Gendered Institutions: Equality, Efficiency and Empowerment Issues." *World Development* 27(3):611–27.
- Fair Labor Association (FLA). 2004. *2004 Annual Public Report*. Available: <http://www.fairlabor.org/2004report/>.
- . 2005. *2005 Annual Public Report*. Available: <http://www.fairlabor.org/2005report/>.

- Felipe, J., and J. Lim. 2005. "Export or Domestic-Led Growth in Asia?" *Asian Development Review* 22(2):35–75.
- Flanagan, R. 2003. "Labor Standards and International Competitive Advantage." In R. Flanagan, ed., *International Labor Standards: Globalization, Trade and Public Policy*. Stanford: Stanford University Press.
- Galli, R. 2001. The Economic Impact of Child Labor. ILS Decent Work Research Programme Working Paper No. 128, International Institute for Labour Studies, Geneva.
- Galli, R., and D. Kucera. 2004. "Labor Standards and Informal Employment in Latin America." *World Development* 32(5):809–28.
- Goldin, C. 1988. "Maximum Hours Legislation and Female Employment: A Reassessment." *Journal of Political Economy* 96(11):189–205.
- Gruber, J. 1994. "The Incidence of Mandated Maternity Benefits." *American Economic Review* 84(3):622–41.
- Hamermesh, D. 1993. *Labor Demand*. Princeton, NJ: Princeton University Press.
- International Exhibition Logistics Association (IELA). 2005. *IELA-Customs-Info Database*. Available: http://www.iela.de/inhalt/fr_custom.html.
- International Labour Organization (ILO). 2005a. *APPLIS Database*. Available: <http://www.ilo.org/public/english/standards/index.htm>.
- . 2005b. *Labor Force Statistics*. Geneva. Available: <http://laborsta.ilo.org>.
- . 2005c. *Minimum Wage Database*. Geneva. Available: <http://www.ilo.org/travail/database/servlet/minimumwages>.
- . 2005d. *Termination of Employment Digest*. Available: http://www.ilo.org/public/english/dialogue/ifpdial/publ/publ_emp.htm.
- Kabeer, N. 2004. "Globalization, Labor Standards, and Women's Rights: Dilemmas of Collective (In)action in an Interdependent World." *Feminist Economics* 10(1):3–35.
- Kucera, D. 2004. Measuring Trade Union Rights: A Country-level Indicator Constructed from Coding Violations Recorded in Textual Sources. ILO Policy Integration Department Working Paper No. 50, International Labour Organization, Geneva.
- . 2002. "Core Labour Standards and Foreign Direct Investment." *International Labour Review* 141(1–2):31–69.
- Kucera, D., and R. Sarna. 2006. "Trade Union Rights and Exports: A Gravity Model Approach." *Review of International Economics*.
- Nataraj, S., Y. Rodgers, and J. Zveglic. 1998. "Protecting Female Workers in Industrializing Countries." *International Review of Comparative Public Policy* 10:197–221.
- Neumayer, E., and I. de Soysa. 2004. "Trade Openness, Foreign Direct Investment, and Child Labor." *World Development* 33(1):43–63.
- . 2006. "Globalization and the Right to Free Association and Collective Bargaining: An Empirical Analysis." *World Development* 34(1):31–49.
- Organization for Economic Cooperation and Development (OECD). 1996. *Trade, Employment, and Labour Standards: A Study of Core Workers' Rights and International Trade*. Paris.
- . 2000. *International Trade and Core Labour Standards*. Paris.
- . 2003. Liberalizing Trade in Textiles and Clothing: A Survey of Quantitative Studies. Working Paper. Paris.
- Palley, T. 2004. "The Economic Case for International Labour Standards." *Cambridge Journal of Economics* 28:21–36.

- Rama, M. 1996. *The Consequences of Doubling the Minimum Wage: The Case of Indonesia*. Policy Research Working Paper 1643, World Bank, Washington, DC.
- Rodrik, D. 1996. "Labor Standards in International Trade: Do They Matter and What Do We Do About Them?" In R. Lawrence, D. Rodrik, and J. Whalley, eds., *Emerging Agenda for Global Trade: High Stakes for Developing Countries*. Overseas Development Council, Washington, DC.
- . 1999. "Where Did All the Growth Go? External Shocks, Social Conflict, and Growth Collapses." *Journal of Economic Growth* 4(4):385–412.
- Ruhm, C. 1998. "The Economic Consequences of Parental Leave Mandates: Lessons from Europe." *Quarterly Journal of Economics* 113(1):285–317.
- Sargent, J. and L. Matthews. 2004. "What Happens When Relative Costs Increase in Export Processing Zones? Technology, Regional Production Networks, and Mexico's Maquiladoras." *World Development* 32(12):2015–30.
- Schultz, T. P. 1990. "Women's Changing Participation in the Labor Force: A World Perspective." *Economic Development and Cultural Change* 38(3):457–88.
- Singh, A., and A. Zammit. 2000. *The Global Labour Standards Controversy: Critical Issues for Developing Countries*. South Centre, Geneva.
- Squire, L., and S. Suthiwart-Narueput. 1997. "The Impact of Labor Market Regulations." *World Bank Economic Review* 11(1):119–43.
- Standing, G. 1999. "Global Feminization through Flexible Labor: A Theme Revisited." *World Development* 27(3):583–602.
- Stiglitz, J. 2002. "Participation and Development: Perspectives for the Comprehensive Development Paradigm." *Review of Development Economics* 6(2):163–82.
- Summers, L. 1989. "Some Simple Economics of Mandated Benefits." *American Economic Review* 79(2):177–83.
- United Nations (UN). 2003. *Commodity Trade Statistics Database 2003 (COMTRADE)*. Geneva.
- United Nations Industrial Development Organization (UNIDO). 2005. *Industrial Statistics Database 2005 (INDSTAT 3)*. Vienna.
- US Department of Labor. 2000. *Wages, Benefits, Poverty Line, and Meeting Workers' Needs in the Apparel and Footwear Industries of Selected Countries*. Washington, DC.
- United States International Trade Commission (USITC). 2004. "Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market." Washington, DC.
- Waldfogel, J. 1998. "Understanding the Family Gap in Pay for Women with Children." *Journal of Economic Perspectives* 12(1):137–56.
- World Bank. 1995. *World Development Report 1995: Workers in an Integrating World*. New York: Oxford University Press.
- . 1996. "Involving Workers in East Asia's Growth." In *Regional Perspectives on World Development Report 1995*. Washington, DC.
- . 2006. *Enterprise Surveys Database*. Washington, DC. Available: <http://rru.worldbank.org/EnterpriseSurveys/>.
- Zveglic, J., and Y. Rodgers. 2003. "The Impact of Protective Measures for Female Workers." *Journal of Labor Economics* 21(3):533–55.