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Bangladesh's Ready-Made Garments Sector: Exports, Employment, and Working Conditions

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Abstract

This paper examines the recent evidence on Bangladesh's ready-made garment exports and working conditions in the context of trade liberalization since the end of 2004 and the global economic crisis of 2008-2009. Analysis of detailed export data shows that through early 2009, Bangladesh has managed to expand its garment exports and international market shares largely through the country's volume-driven, low-price export niche in the global market. While this export performance, second to only China, appears to have maintained employment levels, the increasing pressure on unit prices is likely to strengthen supplier resistance to improving wages and working conditions. Evaluation of the recent record of working conditions indicates persistent problems that are associated with Bangladesh's export niche and underscores the urgent need to move to a higher productivity export structure that would enable higher wages, improvements in working conditions, and overall gains in well-being. Implementation of a complementary set of domestic policies to diversify the structure of production (such as productivity-enhancing industrial policy, and investment in infrastructure and education) would enhance Bangladesh's export competitiveness and move the economy away from overdependence on exports. These domestic policies must be enabled and strengthened by reforms to the international governance of trade and investment so as to promote exports, employment, and decent working conditions in low-income countries. Chief among these reforms are a revitalized GSP scheme that rewards improvements in working conditions with market access, and rules that prevent investor or buyer mobility in the face of higher labor costs.

Introduction

An extremely competitive world market in textiles and garments has put strong pressures on Bangladesh to improve the price competitiveness of the country's exports, especially since the expiration of the Multi-Fibre Agreement (MFA) trade regime in 1994 and the Agreement on Textiles and Clothing (ATC) at the end of 2004. The MFA, in place from 1974, helped a number of low-cost producing countries, including Bangladesh, to launch export-oriented textile and apparel industries that generated substantial export earnings and employment growth, primarily for women workers. In the post-ATC world of declining unit prices and pressure on profits, textile- and garment-producing economies have strengthened their competition with each other and with China, the dominant producer. Garment production is the main source of wage employment for women in Bangladesh, where over two-thirds of the workforce in the garment sector is female. Hence female workers in Bangladesh are particularly vulnerable to job losses and downward pressure on wages and working conditions as potential consequences of the new international trade regime.

Bangladesh has a history of weak adherence to labor standards in industrial production and some of the lowest labor costs in the world. Textile and garment workers have experienced numerous violations of worker rights supposedly guaranteed in the national labor codes, ranging from long working hours, forced and excessive overtime, illegal pay deductions, lack of safe and sanitary working conditions, and denial of the freedom to associate and bargain collectively. These conditions, as well as the effects of wage work in garments on women workers, have received intense scholarly attention (Kibria 1995; Kabeer 2000, 2004; Paul-Majumder and Begum 2000; Zohir 2001; and Kabeer and Mahmud 2004). While most of these studies emphasize the positive outcomes for women workers and their families, recent research indicates that extremely low wages and poor working conditions have persisted in Bangladesh well into the early 2000s, despite a shift in policy and scholarly discourse toward corporate self-regulation and the desirability of "sweat-free" working conditions (Berik and Rodgers 2009).

This paper examines recent surveys of working conditions and factory inspection reports to assess the status of employment and working conditions in Bangladesh in response to increased trade competition. Of particular interest, given the global economic downturn in 2008 and 2009, is whether the data point to employment declines and a worsening in working conditions in Bangladesh. In order to infer changes in employment and labor standards not yet captured in the surveys and reports on working conditions, the study uses international trade data to examine changes in textile and garment exports and international market shares. Bangladesh did not see a decline in exports or experience employment losses in textiles and garments when the ATC expired, largely because temporary import restrictions imposed on China in 2005 by the European Union and the United States limited competition in several major categories of apparel. These trade rules shielded Bangladesh from the full effects of the ATC expiration.

Given that the safeguard measures on Chinese imports expired at the end of 2008 and industrialized country markets have contracted with the global economic crisis, Bangladesh has faced intensified global competition in garments and greater risk of export decline. While downward pressure on unit export prices makes it more difficult to seek improvements in wages and working conditions, an expansion in sales as consumers substitute lower-priced apparel would shield employment from declines and possibly even allow employment expansion. Because garment exports comprise close to 80 percent of Bangladesh's total exports, generating employment, raising wages, and improving working conditions matter not only for garment sector workers, but also for the broader goals of achieving employment-led growth, reducing poverty, and improving overall well-being in Bangladesh. Hence policy reforms cannot be limited to simply improving conditions in the garment sector; we argue instead for 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.

Background

Bangladesh's garment industry took off in the early 1980s after a major structural adjustment program that emphasized export-orientation. Garment exports made up just one percent of Bangladesh's total manufactured exports in 1981 (UNIDO 2005). At the time, textiles accounted for 93 percent of exports, over half of which were destined for developing country markets. Over the next two decades, Bangladesh's dependence on garment exports increased substantially, while at the same time the destination shifted dramatically toward industrial country markets. More than 90 percent of Bangladesh's apparel exports have flowed into the EU and US markets during the past decade (Haider 2007; Rahman *et al.* 2008).

Garment manufacturers in Bangladesh have relied on a large supply of low-wage female labor, a key component of labor-intensive production for the high-volume, low-margin segment of the world market. Garments became the source of more than 90 percent of manufacturing sector jobs for women by the late 1990s, up from 0.1 percent in 1981 (UNIDO 2005). In 2006, an estimated 2 million workers, about 60 percent women, held formal jobs in the garment sector (Bangladesh Bureau of Statistics 2007a). Low wages and generally poor adherence to the country's own labor regulations and international labor conventions provided the basis for competitive labor costs. As shown in Table 1, Bangladesh had the lowest labor costs from a sample of 38 apparel manufacturers in 2008. With workers earning an average of US$ 0.22 per hour, Bangladesh ranked considerably lower than the next country (Cambodia, at US$ 0.33 per hour). Note that these labor cost data include wages, social charges, and bonuses, but they are not adjusted for worker productivity (Emerging Textiles 2008). With rising wages in recent years, China is no longer the lowest cost producer in Asia, with workers in the inland parts of China earning US$ 0.55 to 0.80 per hour, and workers in coastal regions earning up to US$ 1.08 per hour. Asian countries as a group still provide a cost advantage compared to other regional apparel producers.

Despite widely-held expectations that most small Asian exporters would record export declines following the expiration of the ATC in December 2004, Bangladesh succeeded in increasing ready-made garment exports to the United States and, to a lesser extent, the European Union. Many attribute the absence of an adverse effect partly to temporary import restrictions that the United States and the European Union placed on garment imports from China following the end of the ATC. A number of scholarly and media articles have pointed to the appeal of Bangladesh as an opportunity for buyers from the United States and the European Union to diversify their sources of garments in the global market (Abernathy, Volpe, and Weil 2006).

Since the mid-1990s, US imports of textiles and garments from Bangladesh have more than tripled, rising from $1.1 billion in 1996 to $3.5 billion in 2008 (Figure 1). Even after the ATC expired at the end of 2004, Bangladesh still saw a steady increase in export values to the United States in every year up through the end of 2008. Textiles have made up a

Table 1. International comparison of labor costs in apparel manufacturing, 2008

Country	*Labor Cost (US$/Hour)*	*Country*	*Labor Cost (US$/Hour)*
Bangladesh	0.22	Guatemala	1.65
Cambodia	0.33	Tunisia	1.68
Pakistan	0.37	Dominican Republic	1.55-1.95
Vietnam	0.38	South Africa	1.75
Sri Lanka	0.43	Honduras	1.72-1.82
Indonesia	0.44	Peru	1.78
India	0.51	El Salvador	1.79
Haiti	0.49-0.55	Lithuania	1.97
China (Inland)	0.55-0.80	Morocco	1.97
Egypt	0.83	Turkey	2.44
China (Coastal)	0.86-1.08	Mexico	2.54
Nicaragua	0.97-1.03	Poland	2.55
Jordan	1.01	Brazil	2.57
Russia	1.01	Costa Rica	3.35
Philippines	1.07	Slovakia	3.44
Malaysia	1.18	Slovenia	3.55
Thailand	1.29-1.36	Romania	4.03
Colombia	1.42	Latvia	4.23
Bulgaria	1.53	Hungary	4.45

Source: Emerging Textiles (2008).

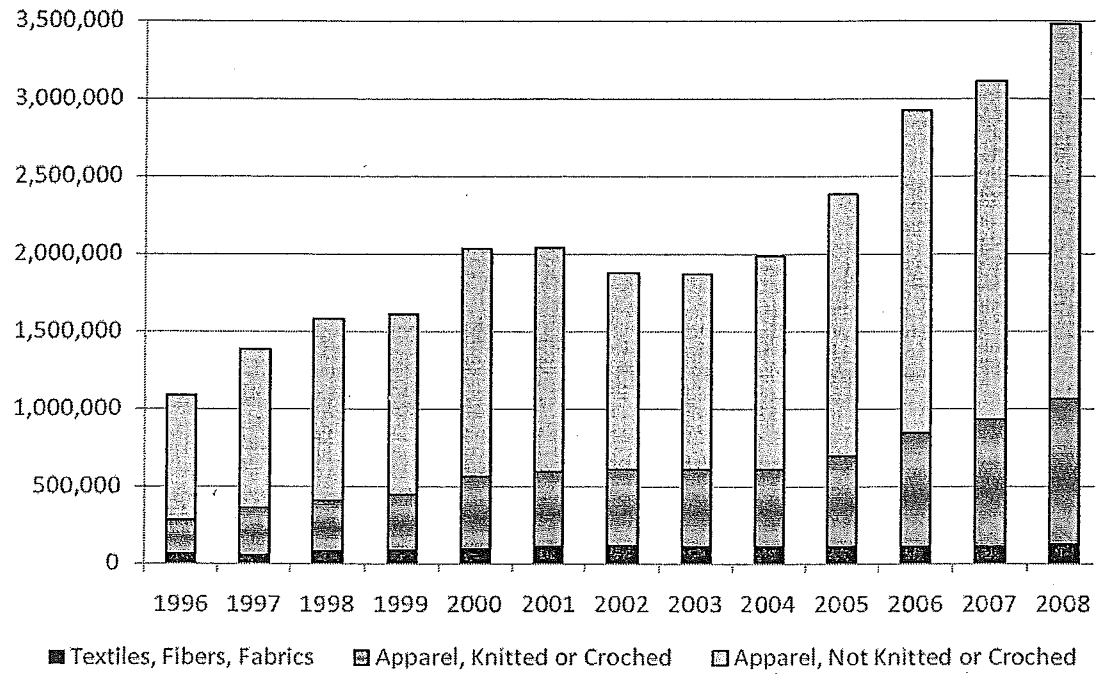
very small share while ready-made garments, both knitted and woven, have made up the lion's share. Exports to the European Union also rose in the post-ATC environment, albeit with less consistency from year to year. While exports to the EU doubled in value between 1999 and 2004, the post-ATC years saw a slowdown in growth and actual declines in 2005 and again in 2007. Following a recovery in 2008, export values to the EU reached a new high of 5 billion euro (which, at about $7 billion, is roughly double the export value to the US). In terms of composition, knitwear (rather than woven garments) has comprised the bulk of Bangladeshi exports to the European Union. Because knitwear inputs are predominantly locally-produced while woven garments rely more on imported fabrics, it has been easier for knitwear producers to satisfy the 51 percent domestic and regional value addition requirement for gaining eligibility for preferential duty-free access to the European Union (Bangladesh Bank 2008).

In terms of market share, Bangladesh has seen a small but steady increase in its share of the United States market–from 2.3 percent in 2003 to 3.6 percent by 2008–rather than the expected decrease (Figure 2). A similar story applies to India, a close competitor that remains a relatively larger source country than Bangladesh in the US market. However, during this same period China has more than doubled its US market share of textile and garment imports, from 15 percent to 33 percent. Bangladesh has established a relatively stronger foothold in the EU market than in the US market, with a 6.0 percent share in 2008. Although Bangladesh has gradually become a bigger player in the EU since the late 1990s and has started to catch up to India, China has recorded an enormous increase in its EU market share, from 15 percent in 1999 to 37 percent in 2008. Most of this increase occurred in the direct aftermath of the expiration of the ATC, with some levelling off in 2006 due to the temporary import restrictions imposed by the EU.

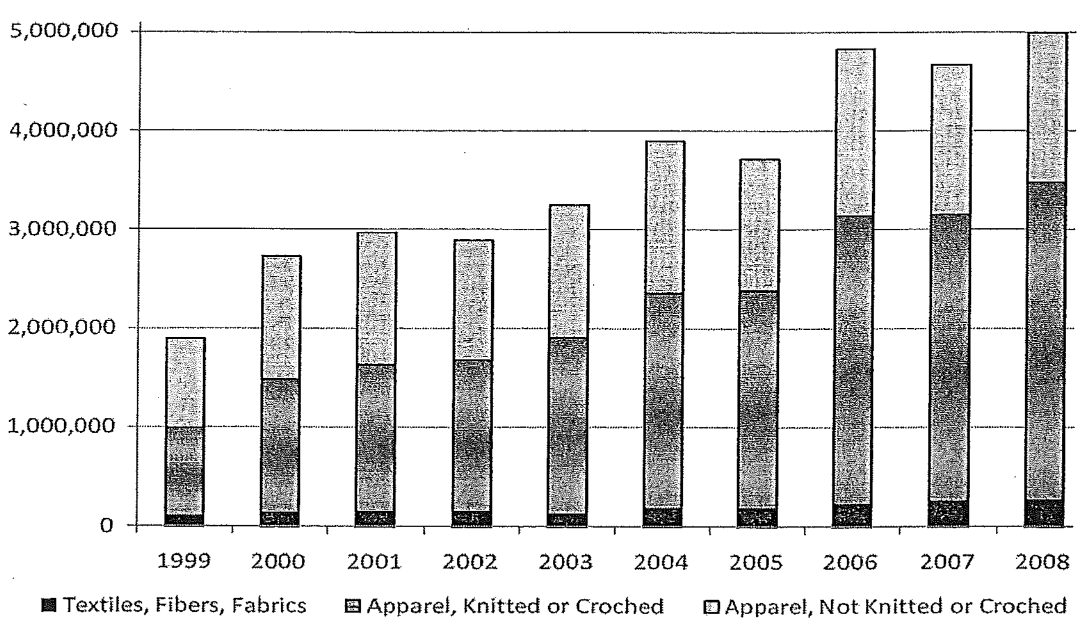
Export competitiveness considerations create a major obstacle in improving wages and working conditions in Bangladesh's garment sector. A recent analysis of surveys of working conditions in the garment sector from the early 1980s to 2008 indicates the persistence of the same set of problems (Berik and Rodgers 2009). These problems have stemmed more from poor enforcement of labor laws than the

Figure 1. United States and European Union textile and garments imports from Bangladesh

Panel A. United States Imports (in 1000s US$)



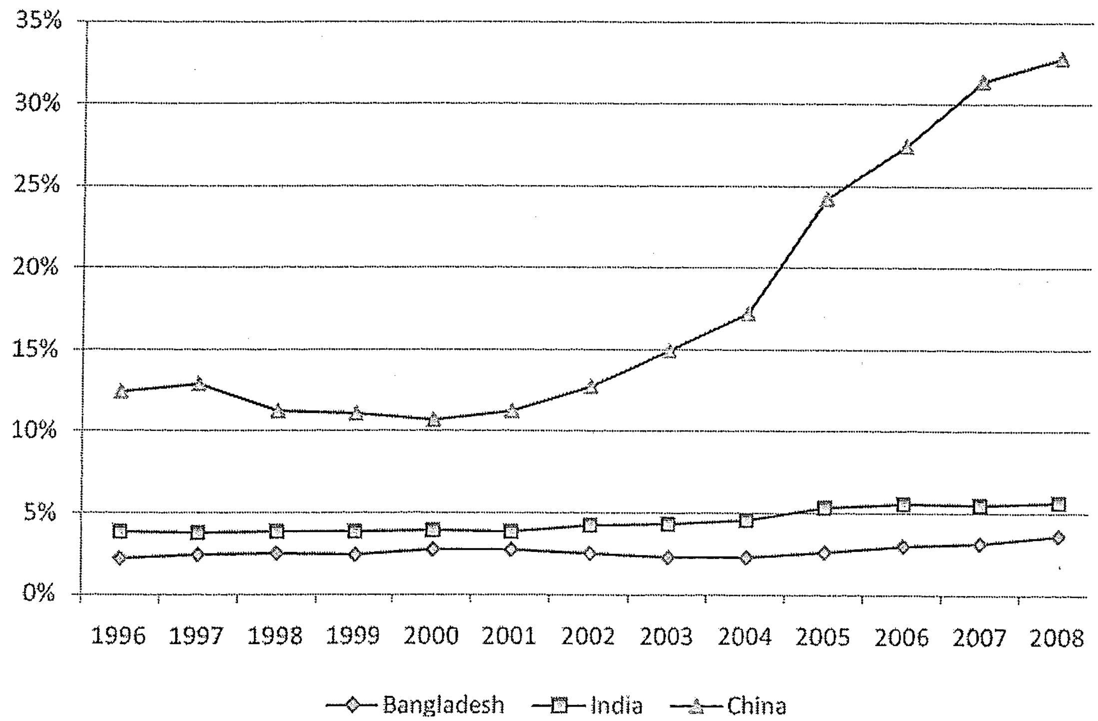
Panel B. European Union Imports (in 1000s of Euro)



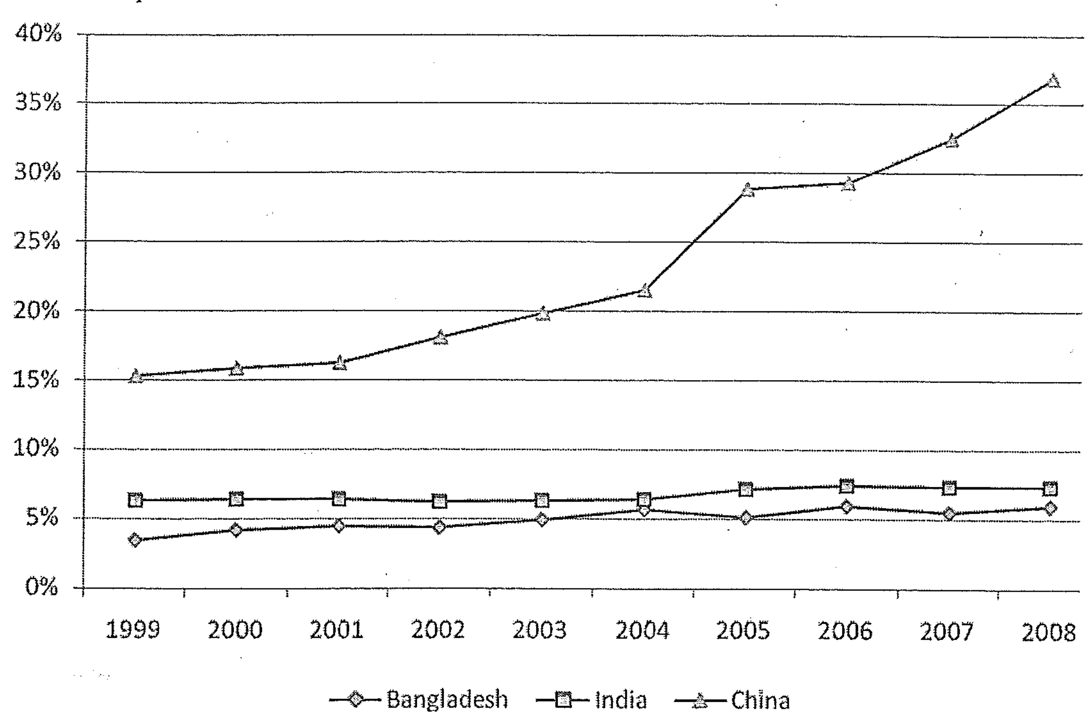
Note: EU is the EU-25 as specified in the source data. Trade categories include HTC codes 50 (silk yarns and fabrics) through 63 (other made-up textile articles).
Source: Authors' calculations using USITC (2009) and the European Commission (2009).

Figure 2. United States and European Union market shares, textile and garments imports

Panel A: United States Market Shares



Panel B: European Union Market Shares



Source: Authors' calculations using USITC (2009) and the European Commission (2009).

shortcomings in the legal framework. Bangladesh is signatory to the major conventions of the International Labor Organization (ILO), including seven of the eight core conventions that strive to create decent workplace conditions, and these conventions are largely reflected in the labor laws of the country (the exception is the child labor convention). Yet government enforcement of labor laws is weak in absolute terms and is also weak relative to competitors. For example, in 2005, government inspectors made an average of 8 visits per garment factory, well below 16 in Cambodia and 14 in China (Rahman *et al.* 2008). ILO involvement in the 1990s did help to nearly eliminate the child labor problem in the garment sector through the ILO's collaborative efforts with the Bangladesh Garment Manufacturers and Exporters Association and with UNICEF. However, ILO pressures to bring union rights up to par with its conventions on freedom of association and collective bargaining, and pressures to enforce the rights of workers to address grievances about workplace conditions, are ongoing but ineffective (Elliott and Freeman 2003; ITUC 2009).

Notwithstanding these efforts, labor standards enforcement in Bangladesh takes place largely through the market mechanism. This mechanism is increasingly shaped by the corporate codes of conduct of major buyers and multi-stakeholder initiatives, including the Fair Labor Association (FLA), that seek to improve working conditions. Yet leaving enforcement to the voluntary initiatives of companies creates a piecemeal system that allows a large number of factories and subcontractors to remain outside the scope of monitoring efforts. Even the reach of the Fair Labor Association is limited. For example, the FLA conducted just 147 independent factory audits in 2006 while 39 FLA-affiliated companies sourced production from more than 5,000 factories globally (FLA 2007). Given this ad hoc approach to monitoring and enforcement, the poor status of Bangladesh's working conditions since the 1990s may be attributed to the workings of the market mechanism in a context of no effective rights to organize unions and bargain collectively.

Primary among these working-condition outcomes are the low wages that prevail in the country's main export sector. The garment sector does offer better earnings for women compared to their few alternatives within and outside the manufacturing sector (Kabeer 2004; Kabeer and Mahmud 2004). Yet real earnings in the sector have eroded considerably between 1994 and 2006, the years when the government raised the minimum monthly base pay structure. Even with the 2006 adjustment to the minimum wage, in US dollar terms the lowest grade workers still experienced a decline in minimum earnings compared to the 1994 level (Khatun 2008). Moreover, this minimum does not even meet the international poverty threshold of a dollar a day.

A recent analysis of FLA independent factory audits gives an indication of compliance with labor laws in garment suppliers that source production for FLA-affiliated companies (Berik and Rodgers 2009). In 2005, the major source of non-compliance with the FLA's "Workplace Codes of Conduct" was in the combined category of hours of work, wages, benefits, and overtime compensation, which constituted 35 percent of the non-compliance incidents that were observed in the audited Bangladeshi factories. Noncompliance with the wage and hour codes also accounted for most of the code problems in other countries and in Bangladesh in earlier years. Bangladesh's violations for excessive hours of work were considerably worse than China and other regions. This record is consistent with Bangladesh's particular niche in the world market for garments, where its export performance depends on increasing the export volume rather than the unit price.

Global Financial Crisis and Garment Exports

Because Bangladesh is highly integrated with the global economy, the country is highly susceptible to business cycles and economic crises in the developed economies that constitute its major markets. In the United States, the demand for garments declined in 2008 and 2009 as the economic recession deepened and consumption demand declined. As shown in Table 2, the volume of US imports showed double-digit drops in most categories of cotton, wool, and man-made fiber garments in the first half of 2009 relative to 2008. High volume categories, including cotton underwear, women's and girls' cotton slacks and blouses, men's and boys' cotton shirts and trousers, and cotton nightwear all fell steeply during the first half of 2009, despite the lifting of quotas on Chinese imports on December 31, 2008. These sharp declines came on top of import reductions in most garment categories in 2008 relative to 2007. US imports of wool and man-made fiber apparel saw some of the highest percentage losses, although in absolute volume terms the drops were relatively smaller than for cotton apparel.

The US market slump has had an uneven impact across countries. As shown in Table 3, the volume of US imports from China surged in a number of high-volume categories, particularly those in which safeguard measures were eliminated after December 31, 2008, while other leading source countries saw drastic declines. For example, China's exports to the US in two of its highest volume cotton categories–knit shirts and trousers–almost doubled in the first half of 2009. Bangladesh is the only other leading source country that experienced rising exports to the US in both these categories. A similar story holds for men's and boys' woven shirts: US imports in this category rose for China and Bangladesh during the first half of 2009 and dropped for the other leading source countries. The decline in US sales of garments was accompanied by downward pressure on retail prices, increasing the attractiveness of Bangladesh as a low-priced supplier. Prices for Bangladeshi garments actually fell in the US market in the first quarter of 2009 for numerous important categories of cotton apparel, including shirts and trousers (Emerging Textiles 2009a). However, Bangladesh did not fare well across categories, as it experienced declining export volumes to the US in underwear, women's and girls' woven shirts, and man-made fiber trousers (Table 3). In value terms, total US apparel imports dropped 11 percent in January - April 2009 relative to January - April 2008, while US apparel imports from Bangladesh actually rose by 13 percent in value during this period. Other large garment producers, including Indonesia, India, Mexico, and Honduras, all experienced declining sales values in the US market in early 2009 (Emerging Textiles 2009a).

A similar story about Bangladesh's price competitiveness holds in the EU market. In the first quarter of 2009, total EU apparel imports rose about 1 percent in volume while dropping more than 9 percent in US$ value terms, reflecting the strong downward pressure on world prices in dollar terms. In contrast, EU apparel imports from Bangladesh grew 4 percent in volume terms and 7 percent in US$ value terms, with the unit values for most of Bangladesh's product categories not moving very much (Emerging Textiles 2009a). Similarly, while the European economic downturn and a weaker euro caused the EU's total apparel imports to start declining in volume and value during the second quarter of 2009, EU imports from Bangladesh remained strong and resisted strong competition from China (Emerging Textiles 2009e, 2009f). A closer look at these overall trends reveals interesting differentials across import categories and countries. Table 4, which reports total apparel imports for the EU by value (in €), volume, and unit value (in € and US$) for the first quarter of 2009, shows that unlike the United States, import values and volumes still rose in several of the EU's highest value categories. For example, knit pullovers rose by 13 percent in value and 14 percent in volume, and women's and girls' woven suits increased by 3 percent in value and 29 percent in volume. Yet other categories recorded declines, particularly in volume terms. While import values in many categories rose in euro terms, import values in dollar terms dropped. The weaker value of the euro against the dollar was responsible for a jump in apparel prices in euro terms in most categories, while apparel prices in dollar terms dropped in numerous categories. Note that high value import categories generally do not have the highest unit values and are generating revenues from high volume trades. For example, knit t-shirts and woven suits for women and men, three of the highest value categories, each have below-average unit values, while brassieres and women's blouses have some of the highest prices and relatively low volumes.

As demonstrated in Table 5, which shows the EU's apparel imports from eight leading source countries, imports from China of items like knit pullovers and women's and girls' blouses surged with the lifting of temporary import restrictions in the EU. Despite these gains for China, Bangladesh continued to grow in terms of export values and volumes in major garment categories, and Bangladesh was one of the only countries that managed to offer lower prices than China. 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 (Emerging Textiles 2009d). Table 5 also shows that Bangladesh was one of the only leading source countries in the EU market whose garment prices either held even or rose slightly in dollar terms for most products. Although unit values rose for Vietnam and Indonesia, both these other countries experienced declining sales volumes and market shares in the EU market.

Monthly export data from the Bangladesh Bank indicates that Bangladesh's total exports have increased in value by 15 percent between July 2008-March 2009 and the same period in the previous year (Bangladesh Bank 2009). This increase owes almost entirely to the growth of woven and knitted garments, both of which expanded in volume and value over this period. Woven and knitted garments' combined share of exports has risen from 76 percent in July 2007-February 2008, to 79 percent of exports in July 2008-February 2009. In addition to the lower prices Bangladesh offers retailers, the increased attractiveness of Bangladesh as a source of garments likely owes to the rise in the value of the Chinese yuan against the US dollar (by 5 percent over 2008), while the value of the Bangladeshi currency has held steady (Rahman *et al.* 2009; Bangladesh Bank 2009).

Table 2. United States total apparel imports by volume, 2007-2009

	2008 Volume	*2008-07 Change*	*Jan-Jun 09 Volume*	*Jan-Jun 09-08 Change*		*2008 Volume*	*2008-07 Change*	*Jan-Jun 09 Volume*	*Jan-Jun 09-08 Change*
Cotton:					**Wool Continued:**				
352 Cotton Underwear*	2123.6	6%	841.7	-15%	448 Wool Slacks, WG	9.0	-31%	1.2	-59%
348 Slacks, WG*	1595.7	-2%	804.9	-8%	445 Wool Sweater, MB	6.9	-20%	0.7	20%
339 Knit Blouse, WG*	1400.0	-1%	645.0	-12%	442 Wool Skirts	4.1	-21%	0.6	-33%
338 Knit Shirts, MB*	1123.8	-2%	477.7	-14%	444 Wool Suits, WG	1.9	-19%	0.5	-53%
347 Cot.Trousers, MB*	1089.4	-1%	526.4	-8%	**Man-Made Fiber:**				
351 Cot. Nightwear	922.2	-7%	325.9	-17%	659 Other App.	1503.9	1%	688.0	2%
332 Cotton Hosiery	659.3	1%	330.0	2%	638 Knit Shirts, MB*	706.2	10%	280.6	-21%
335 Cot. Coats, WG	621.3	0%	179.3	-19%	636 Dresses	617.7	14%	379.3	23%
340 N-Knt Shirts, MB*	600.0	-11%	247.1	-8%	651 Nightwear	593.7	2%	181.6	-11%
336 Cotton Dresses	580.6	16%	411.6	4%	652 Underwear*	559.7	0%	247.6	-7%
334 Other Coats, MB	367.3	2%	83.4	-10%	639 Knit Blouses, WG*	556.0	1%	270.9	9%
350 Dresses, Gowns	363.9	-10%	158.9	-12%	635 Coats, WG	463.8	-9%	113.5	-2%
359 Other Cot. App.	356.6	-9%	159.5	3%	647 Trousers MB*	457.5	-7%	222.0	-10%
341 N-Knt Blouse, WG	300.2	-10%	170.6	-8%	648 Slacks WG*	371.6	-8%	146.6	-10%
345 Cotton Sweater	288.1	-9%	45.6	-1%	632 Hosiery	367.2	1%	177.3	7%
342 Cotton Skirts	153.4	-23%	105.8	-4%	634 Other Coats, MB	365.8	-13%	101.3	-3%
349 Bras & Other*	35.9	-1%	15.8	-19%	650 Dress Gown, Robe	241.4	3%	59.3	-11%
Wool:					641 N-K Blouses, WG	183.4	-15%	84.5	-9%
435 Wool Coats, WG	82.3	5%	12.3	-8%	649 Bras/Ot Bod Sup	160.9	-1%	72.8	-12%
446 Wool Sweater, WG	30.7	-14%	2.4	-9%	640 N-K Shirts, MB*	147.6	-23%	62.7	-23%
438 K Shirts, Blouses	23.6	-1%	3.2	-12%	646 Sweaters, WG	144.6	-23%	19.4	-16%
433 Suit-Typ Ct, MB	20.7	-11%	7.1	-27%	642 Skirts	78.8	-27%	39.2	-6%
443 Wool Suits, MB*	20.1	-19%	8.4	-22%	644 Suits, WG	43.3	-21%	17.0	-12%
447 Trousers, MB*	17.5	-14%	6.6	-27%	643 Suits, MB	18.6	-16%	6.7	-27%
436 Wool Dresses	14.5	13%	3.0	2%	645 Sweaters, MB	10.2	-46%	1.8	-46%

Note: In millions of meters^2. The notation * indicates quotas on imports from China until December 31, 2008.
Source: Emerging Textiles (2009b).

Table 3. United States apparel imports by volume from eight leading source countries, first half, 2008-2009

	Jan-Jun 09 Dozens	*Jan-Jun 09 Change*	*Jan-Jun 08 Share*	*Jan-Jun 09 Share*
338/339 US Cotton Knit Shirts*				
World	187,103,134	-13%	100%	100%
China	23,381,664	90%	6%	13%
Vietnam	18,014,083	-4%	9%	10%
Honduras	17,161,578	-32%	12%	9%
Indonesia	15,032,055	7%	7%	8%
Mexico	10,994,902	-23%	7%	6%
India	10,521,782	-5%	5%	6%
Cambodia	9,368,499	-20%	5%	5%
Bangladesh	8,722,875	9%	4%	5%
340/640 US Men's and Boys' Woven Shirts*				
World	15,411,216	-12%	100%	100%
China	3,839,091	11%	20%	25%
Bangladesh	3,543,027	2%	20%	23%
Indonesia	1,420,174	-13%	9%	9%
Vietnam	1,240,033	-9%	8%	8%
India	1,011,402	-27%	8%	7%
Honduras	577,847	-28%	5%	4%
Mexico	465,425	-12%	3%	3%
341/641 US Women's and Girls' Woven Shirts				
World	21,083,316	-8%	100%	100%
China	10,340,950	-5%	47%	49%
India	3,168,649	-8%	15%	15%
Indonesia	2,469,890	-23%	14%	12%
Bangladesh	1,316,091	-11%	6%	6%
Vietnam	1,049,384	21%	4%	5%
Cambodia	378,348	26%	1%	2%
Mexico	325,553	-25%	2%	2%
Honduras	143,758	-29%	1%	1%

	Jan-Jun 09 Dozens	*Jan-Jun 09 Change*	*Jan-Jun 08 Share*	*Jan-Jun 09 Share*
347/348 US Cotton Trousers*				
World	89,345,737	-8%	100%	100%
China	21,579,545	96%	11%	24%
Bangladesh	15,166,986	9%	14%	17%
Vietnam	7,864,548	-8%	9%	9%
Mexico	7,534,928	-16%	9%	8%
Indonesia	5,183,687	-14%	6%	6%
Cambodia	4,265,524	-35%	7%	5%
India	3,663,455	-26%	5%	4%
Honduras	1,819,364	-31%	3%	2%
352/652 US Cotton and Man-Made Fiber Underwear*				
World	109,966,789	-14%	100%	100%
Honduras	15,563,377	-26%	17%	14%
China	15,322,714	65%	7%	14%
India	9,150,181	24%	6%	8%
Bangladesh	9,120,398	-8%	8%	8%
Vietnam	6,270,735	242%	1%	6%
Cambodia	2,505,307	-28%	3%	2%
647/648 US Man-Made Fiber Trousers*				
World	24,733,269	-10%	100%	100%
China	4,977,040	36%	13%	20%
Vietnam	2,703,428	3%	10%	11%
Indonesia	2,207,680	-29%	11%	9%
Bangladesh	2,035,275	-12%	8%	8%
Mexico	1,622,825	-30%	8%	7%
Honduras	1,047,135	-24%	5%	4%
Cambodia	746,773	-40%	5%	3%

The notation * indicates quotas on imports from China until December 31, 2008. Source: Emerging Textiles (2009c).

Table 4. European Union total apparel imports by value, volume, and unit value, first quarter 2009

	€ Value	€ Value Change	Volume	Volume change	€/kilo UV	€ UV change	US$ UV change
Knitted Apparel							
6109 T-shirts	2,036,925,867	-4%	1,670,329	-3%	12.19	0%	-13%
6110 Pullovers	1,566,364,785	13%	974,240	14%	16.08	-1%	-13%
6104 Suits/Trousers, WG	614,676,651	13%	473,749	-5%	12.97	19%	4%
6108 Pajamas/Slips, WG	431,471,943	-3%	316,379	-25%	13.64	30%	14%
6105 Shirts, MB	420,220,891	6%	306,927	-5%	13.69	12%	-3%
6106 Blouses, WG	349,819,051	6%	204,568	0%	17.10	6%	-7%
6115 Pantyhose/tights	348,082,325	-1%	726,694	33%	4.79	-25%	-35%
6111 Babies Garments	323,284,794	6%	209,860	-12%	15.40	21%	6%
6112 Tracksuits/Skisuits	281,866,016	3%	146,523	-14%	19.24	20%	5%
6107 Underpants, MB	218,853,113	3%	212,490	-11%	10.30	16%	2%
6103 Suits/Trousers, MB	123,006,071	-10%	125,907	-29%	9.77	27%	11%
6114 Special Garments	112,725,837	-10%	62,571	-23%	18.02	18%	3%
6102 Overcoats, WG	94,980,390	31%	74,726	26%	12.71	4%	-9%
6116 Gloves/Mittens	91,383,628	-9%	122,768	-15%	7.44	8%	-6%
6101 Overcoats, MB	46,195,249	28%	37,624	25%	12.28	3%	-10%
6117 Made-up Accessories	35,853,315	13%	29,095	8%	12.32	5%	-8%
Woven Apparel							
6204 Suits/Trousers, WG	2,781,758,622	3%	2,065,112	29%	13.47	-20%	-30%
6203 Suits/Trousers, MB	1,967,428,636	2%	1,321,694	-6%	14.89	8%	-6%
6206 Blouses, WG	706,030,474	8%	271,522	8%	26.00	1%	-12%
6205 Shirts, MB	657,903,305	-4%	389,480	-15%	16.89	12%	-2%
6202 Overcoats, WG	521,301,076	12%	300,690	-11%	17.34	25%	10%
6212 Brassieres	389,832,369	-2%	116,725	-6%	33.40	4%	-9%
6201 Overcoats, MB	382,198,341	10%	226,634	-13%	16.86	26%	10%
6211 Tracksuits/Skisuits	361,937,494	1%	258,578	-13%	14.00	16%	1%
6210 Non-woven, Felt	294,699,057	13%	222,411	-7%	13.25	22%	6%
6209 Babies Garments	171,418,188	10%	90,958	-10%	18.85	22%	7%
6214 Shawls, Scarves	112,730,901	48%	67,606	27%	16.67	17%	2%
6208 Underwear/Pajamas, WG	82,785,164	-6%	74,392	-29%	11.13	33%	16%
6207 Underwear/Pajamas, MB	45,934,133	-13%	54,935	-27%	8.36	20%	5%

Note: Volume in 100's of kilos. Source: Emerging Textiles (2009d).

However, currency depreciations vis-à-vis the US dollar in a number of competitors (India and Pakistan, and to a lesser extent, Viet Nam, Cambodia, and Sri Lanka) have simultaneously undermined the export competitiveness of Bangladesh relative to these countries (Rahman *et al.* 2009).

Hence the 2008-09 financial crisis has led to large reductions in consumer demand for apparel in the US and EU markets, which have in turn translated into volume declines in their overall apparel imports. Two source countries stand out from the others for having weathered the storm thus far in terms of maintaining or even increasing their sales volumes and market shares during the first half of 2009: China and Bangladesh. While the lifting of US and EU import restrictions at the end of 2008 explains the surge in Chinese exports in numerous categories, Bangladesh's extremely low prices have served to maintain its competitiveness even in the difficult market environment. Although Bangladesh has seen increases in garment exports, monthly growth rates have slowed down, from 16 percent growth in January 2009 relative to January 2008, to 9 percent in April 2009 from the same month in 2008 (Emerging Textiles 2009a). The tremendous downward pressure on apparel prices and labor costs, plus the deceleration in export growth, both have negative implications for employment and working conditions in Bangladesh's garment industry.

Looking to the future, the effect of the economic crisis on garment exports in Bangladesh also depends on the stimulus packages, and more generally, industrial policies being pursued in competitor economies. Of particular concern is China's recent reversal of measures that encouraged its own producers of lower-end products to move up the ladder (Rahman *et al.* 2009). These measures had benefited the lower-end suppliers in Bangladesh by thinning the global competition in lower-end markets, and China's new policy will intensify the competition once again. Another threat to Bangladeshi apparel producers comes from India's industrial policy to support its own cotton yarn manufacturing. This policy has recently made imported Indian yarn more competitive in Bangladesh compared to the domestically-manufactured yarn, resulting not only in Bangladeshi yarn factory closures, but also in an increased lead time in Bangladesh's knitwear sector. In addition, China and India have implemented stimulus packages to support their own exporters of labor-intensive industries (including apparel and textiles) through various exporter subsidies such as export tax rebates, which would put Bangladeshi suppliers at a relative disadvantage.

Financial Crisis, Employment, and Working Conditions

The effect of the crisis on employment, wages and working conditions in the garment sector is not yet discernible in statistics. As argued by Rahman *et al.* (2009) and supported by our analysis of detailed export data, the volume-driven nature of garment exports has likely kept employment high and shielded the industry from job losses, at least until early 2009. However, lower consumer prices in 2009 will likely translate into downward pressure on supplier prices, on wages and working conditions in the sector, and on the volume of orders. In response to buyer pressure to reduce production costs in cutting and making, apparel manufacturers reportedly have doubled their efforts to increase productivity and reduce wastage of fabric/apparel without reducing wages (Rahman *et al.* 2009). If garment export growth decelerates or declines, in their quest to maintain low unit prices, factories might be tempted to outsource more of the production to subcontractors, away from the sight of factory inspection programs.

Furthermore, if Bangladesh experiences further deceleration in the growth of garment export volumes, then employment decline and lower employee turnover may ensue. Lower employee turnover weakens the incentive for employers to improve wages and working conditions in order to keep experienced sewing operators. In any case, suppliers will resist any improvements that raise costs for buyers, such as raising the minimum or factory wage. Yet higher productivity and quality control also continue to be concerns of suppliers in order to maintain orders in an increasingly competitive environment. The overall effect of the crisis on basic supplier compliance with buyer corporate-social-responsibility programs or FLA-type initiatives depends on the extent to which corporate buyers maintain their commitment to these programs. Since the crisis in importing countries is likely to weaken consumer and union support for improvements in workers' rights and working conditions in developing countries, and, hence, attention to corporate-social-responsibility programs, pressure on suppliers is likely to diminish as well (Maquila Solidarity Network 2009).

The state of trade union rights in Bangladesh was unchanged in 2007 and 2008 relative to the early 2000s. Time series data based on US State Department Reports indicate that over the 1981-2007 period, worker rights in Bangladesh changed from

Table 5. European Union apparel imports by volume and unit value from eight leading source countries, first quarter, 2008-2009

	EU Total	*China*	*Bangladesh*	*Turkey*	*India*	*Vietnam*	*Morocco*	*Indonesia*	*Tunisia*
Volume									
6105 Shirts, MB	306,927	71,040	103,085	20,561	35,555	10,939	2,545	7,191	2,249
6106 Blouses, WG	204,568	49,191	37,009	47,749	21,170	5,698	6,160	1,773	2,216
6109 T-shirts	1,670,329	404,291	572,655	232,061	150,232	19,394	44,495	15,384	18,390
6110 Pullovers	974,240	490,108	165,100	74,571	28,330	16,918	20,328	14,584	15,616
6203 Suits/Trousers, MB	1,321,694	595,776	207,301	86,941	41,135	36,175	40,243	22,351	57,104
6205 Shirts, MB	389,480	149,931	83,411	19,003	56,489	15,378	5,744	13,055	6,341
Volume Change									
6105 Shirts, MB	-5%	-1%	6%	-17%	-3%	-36%	-9%	-15%	-30%
6106 Blouses, WG	0%	74%	14%	-5%	1%	-54%	-8%	-34%	-43%
6109 T-shirts	-3%	25%	4%	-16%	-9%	-66%	-1%	-13%	-17%
6110 Pullovers	14%	111%	2%	-19%	-9%	-38%	10%	-46%	-10%
6203 Suits/Trousers, MB	-6%	5%	-1%	-16%	-10%	-41%	-24%	4%	-27%
6205 Shirts, MB	-15%	-27%	4%	-29%	17%	3%	-33%	-18%	-17%
Volume Share									
6105 Shirts, MB	100%	23%	34%	7%	12%	4%	1%	2%	1%
6106 Blouses, WG	100%	24%	18%	23%	10%	3%	3%	1%	1%
6109 T-shirts	100%	24%	34%	14%	9%	1%	3%	1%	1%
6110 Pullovers	100%	50%	17%	8%	3%	2%	2%	2%	2%
6203 Suits/Trousers, MB	100%	45%	16%	7%	3%	3%	3%	2%	4%
6205 Shirts, MB	100%	39%	21%	5%	15%	4%	1%	3%	2%
US$ - U.V. Change									
6105 Shirts, MB	-3%	3%	4%	-8%	-12%	9%	7%	8%	1%
6106 Blouses, WG	-7%	-18%	1%	-10%	-10%	79%	-11%	6%	9%
6109 T-shirts	-13%	-26%	0%	-16%	-9%	98%	-28%	12%	-13%
6110 Pullovers	-13%	-24%	3%	-11%	-6%	13%	-19%	3%	-9%
6203 Suits/Trousers, MB	-6%	-5%	9%	-7%	-5%	47%	-11%	7%	-8%
6205 Shirts, MB	-2%	16%	6%	6%	-28%	5%	-13%	0%	-17%

Note: Volume in 100's of kilos. Source: Emerging Textiles (2009d).

being "fully protected" during part of the 1980s to "somewhat restricted" during the 1990s to "severely restricted" after 2001 (CIRI 2009). According to the Decent Work Indicators Pilot Survey of 2005, 8.9 percent of workers in Bangladesh are members of trade unions or workers' welfare associations, with a higher rate in urban areas at 13.7 percent and a higher rate among urban men (15.4 percent) than urban women (9.1 percent) (Bangladesh Bureau of Statistics 2009).

In legal terms, the Bangladesh Labor Act of 2006 has consolidated various labor laws into one comprehensive act. By the same token, it has carried over provisions restrictive of union rights into this new act, although it has also expanded the category of workers that are permitted to form unions (ITUC 2009). The Export Processing Zone (EPZ) Workers Association and Industrial Relations Act of 2004, through which union rights in EPZs were to be phased in over a four-year period, is a restrictive law that does not comply with the ILO's conventions on freedom of association and collective bargaining rights. Moreover, since the passage of the Act, EPZ employers have vigorously sought to prevent the formation of worker organizations, and the implementation of each phase has lagged behind schedule. The resistance to implementing union rights is likely due to public warnings reportedly made by Asian investors against the formation of trade unions (ITUC 2009). At the end of 2008, the EPZ labor tribunals that were supposed to provide workers access to a judicial system for grievances had yet to be established. While the ban on strikes and lockouts was to expire by October 31, 2008, the Bangladesh Export Promotion Authority extended the ban for another two years. Despite the phase-in of union rights, as of September 2009 the Bangladesh Export Promotion Authority continued to advertise the "production oriented labor laws" that forbid the "formation of any labor union in EPZs" as a way to attract FDI. This promotional language signals the Bangladesh Export Promotion Authority's nearly unlimited authority to administer labor matters in EPZs (Export Promotion Bureau 2009).

The two-year state of emergency in Bangladesh ended in December 2008. During this period the lack of a legal framework to resolve labor-related grievances resulted in ongoing labor unrest in the garments sector, which was met by employer and police intimidation (New Age 2009; ITUC 2009). Workers had no other recourse but to engage in spontaneous protests to address a whole range of workplace grievances. They participated in spontaneous strikes and they blocked roads to protest long working hours, non-payment of wages and overtime, and maltreatment by management. In response, employers dismissed workers trying to organize unions and, emboldened by the emergency powers ordinance, security forces also arrested and detained workers and union officials with impunity. There is also reported government harassment of organizations or unions that support EPZ workers or insist on the implementation of labor laws (ITUC 2009). Any slowdown in garment exports is expected to allow no room for change in this situation. If anything, employer resistance to the expansion of union rights and union activity is likely to increase at a time when union activity is essential.

In late 2008, the Fair Labor Association initiated independent external monitoring in three factories in Bangladesh to evaluate compliance with ten workplace codes of conduct that the FLA sought to uphold in factories that supplied FLA-affiliated companies (FLA 2008). These audit reports provide a glimpse of the kinds of workplace problems that prevail in large factories that source major brand-name companies committed to making improvements in working conditions. The audited factories were large establishments that employed between 963 and 1958 workers and sourced six brand companies. The monitoring results reveal that 17 of the 27 violations of the FLA codes were related to health and safety. These problems entailed relatively low-cost adjustments and they were rectified by a follow-up visit to two of the factories by the company's local representative. As of early July 2009, the third factory had yet to receive a follow-up visit.

Other recorded violations occurred in the categories of FLA-code awareness; freedom of association; harassment and abuse; and hours of work, wages, benefits and overtime. Code awareness violations involved the lack of an independent mechanism for workers to contact the buyer, as well as workers not being given a copy of their employment contract. Inactive worker welfare committees and the lack of a secure suggestion box served as evidence for non-compliance of the freedom of association code. These types of infringements appear relatively minor against Bangladesh's background of widespread worker intimidation and harassment by both factory owners and government forces (ITUC 2009; New Age 2009).

Violations with respect to worker harassment, worker abuse, and hours of work suggest that these violations are probably endemic to Bangladesh's market niche and are more difficult to fix. Management efforts that force workers to work longer hours and to work more intensively stem from the desire to achieve lower unit labor costs. For example, one FLA external monitoring audit in 2008 reported supervisors chastising and verbally abusing workers for failure to meet production targets or for mistakes. Moreover, two of the factories had problems with hours of work. In one factory, workers were working on weekly rest days and not receiving a subsequent compensatory day off. In the other factory they were working continuously up to 20 days. Excessive hours of work—on the order of 60 to 86 hours per week—were also documented on several occasions in 2008. The FLA audit reports indicated the need to reduce excessive working hours and cut continuous schedules as a plan of action. However, there was no outline of how the supplier should implement this plan. Indeed, the factory in question was not compliant on the follow-up visit by the company representative because the visit coincided with an upcoming shipment date when hours of work were longer. Also, it is difficult to remedy the working-hours problems without raising the regular hourly wage. Survey results indicate that after the ATC phase-out in the garments sector, effective working hours (overtime and normal hours) have increased (Rahman *et al.* 2008). That said, as recorded in the FLA audit report and two Centre for Development Dialogue surveys (Rahman *et al.* 2008, Khatun 2008), the workers were happy with overtime hours since they could earn a higher overtime rate or even earn additional income at the same regular hourly rate.

Excessive hours were prevalent outside of the ready-made garment sector as well, most likely indicating the widespread nature of low regular-wage rates. According to the 2007 Wage Survey, workers in formal establishments tended to work long hours, with 57 percent working 50 or more hours per week (Bangladesh Bureau of Statistics 2007b).[1] Average monthly income of wage earners was lower among the group that worked 60 or more hours (compared to workers who worked 40 or more and 50 or more hours per week), suggesting that workers who work longer hours are doing so to compensate for relatively low wage rates (Bangladesh Bureau of Statistics 2007b). Worker eagerness to generate sufficient earnings, the absence of better job alternatives, and the widespread nature of excessive hours in formal establishments all make it difficult to tackle hours of work. Effective freedom of association and collective bargaining rights would break this pattern of low wages and long hours.

If Bangladesh starts to experience falling orders due to the 2009 economic crisis, then there will be fewer problems with excessive hours of work and continuous work schedules. However, a decline in the volume of production is unlikely to help rectify the problem of low earnings rates. Hence workers are likely to experience declining monthly earnings due to fewer hours of work as well as downward pressure on wage rates.

While the 2008 FLA audit results do not indicate the use of child labor, forced labor, or discrimination against women, it is difficult to conclude that factories avoided these practices. The problem of lack of a contract or an appointment letter, which is considered a mild form of forced labor and is recorded in previous reports, is not noted in the more recent reports. This problem of hiring workers informally is improving, although it is still widespread in Bangladesh. In the garment sector only 20 to 30 percent of all employers and half the large employers provided workers with a contract in 2006 (Rahman *et al.* 2008). According to the Decent Work Indicators Pilot Survey of 2005, only 28 percent of employees had a written contract or appointment card (Bangladesh Bureau of Statistics 2009).

Other evidence indicates that wage discrimination against women is prevalent in garment factories, over and above the earnings differentials associated with occupational segregation by sex. The Wage Survey of 2007, for example, reveals that the job categories that women predominate—sewing operator and helper—generate lower monthly earnings than a job mostly staffed by men—knitting operator (Bangladesh Bureau of Statistics 2007b). Specifically, in 2007, sewing operators and helpers earned 3,505 Tk. and 2,609 Tk., while knitting operators earned 4,760 Tk. These earnings differentials between women and men capture differences in skill and in overtime work. But as the analysis of the two CPD surveys indicates, even when skill and other productivity-related differences are taken into consideration, there is still a gender earnings ratio on the order of 72 to 80 percent. This ratio has declined from 95 percent in the early 1990s (Rahman *et al.* 2008; Khatun 2008). Furthermore, a 2006 focus group with garment workers also indicated gender differentials in base monthly earnings between women and men sewing operators (Berik and Rodgers 2009).[2] The crisis context is likely to make it difficult to address the earnings differential between men and women, when the problem does not even register in compliance monitoring programs.

On the whole, analysis of FLA's monitoring results indicate that those problems that can be addressed relatively easily are fixed by suppliers (for example, most of the health and safety related shortfalls), but problems that arise from the export market niche of Bangladesh (that is, wages and hours-related violations to keep unit labor costs low) are difficult to address. To be effective in achieving improvements in these persistent problems, monitoring programs and voluntary codes of conduct have to constitute pressure points for promoting freedom of association, collective bargaining rights, and the principle of non-discrimination.

Policy Reforms

Bangladesh so far has been shielded from the adverse effects of global downturn by its export market niche in garments. Since the early 1980s and in the recent global downturn, Bangladeshi export performance in garments has remained dependent on increasing export volume and keeping unit prices low. This niche is also associated with the persistence of working condition problems and constitutes the source of manufacturer and government resistance in Bangladesh to full implementation of laws that would improve wages and working conditions in the garment sector. Continued presence in this niche amounts to a highly risky strategy, since heavy reliance on volume-driven exports has rendered Bangladesh vulnerable to slumps in destination markets and relentless downward pressure on labor costs (and living standards). In addition, industrial policy of competitor economies is likely to undermine Bangladesh's export competitiveness, as in the case of weak backward-linked industries like yarn. To reduce this export vulnerability and create space for improvements in working conditions and wage levels, Bangladesh needs to embark on policies to upgrade technology and products and to reduce the lead time in garment production and distribution. Pursuit of an active industrial policy to move the country from the low-end niche in the export market would create room for higher profit margins and higher wage rates. Industrial policy that diversifies export products, moves toward higher quality exports, and builds backward linkages would serve as a central component in a new strategy for better labor standards. Such improvements in working conditions can be achieved without undermining employment and exports by identifying a complementary package of domestic policies, including industrial policy, backed up by efforts at the level of international governance.

Although the 2008-09 financial crisis and the resulting resource constraints have made it difficult to initiate or pursue industrial policy, export diversification that targets promotion of price inelastic goods with high income elasticity is necessary. In addition, promoting vertical integration by building knitting mills and dye facilities nearby can improve competitiveness in the garment industry. The government also needs to consider combining an export strategy with a strategy that orients the production structures toward greater reliance on domestic demand. This approach is compatible with higher wages, stronger labor standards, and a higher quality of growth. It also helps to diversify the structure of production in a way that reduces the overdependence on a few markets and few products.[3]

Although the Bangladeshi government has been relatively slow to pursue such productivity-enhancing industrial policy, new policies for export promotion, domestic demand stimulation, and sectoral and regional development are considered critical areas for reform and are backed by the Centre for Policy Dialogue (CPD 2009). Policies to support the garment sector have been limited to granting export manufacturers access to duty-free machinery imports, which garment manufacturers have used to upgrade their capital stock in the post-ATC period. Allowing the private sector to establish bonded warehouses with special incentives, including the duty-free import of raw materials for garment export production, will not only reduce lead times but will also promote long-term industry development (Haider 2007). Bangladesh has also seen some firm-level restructuring and a scaling of production through manufacturers' own efforts. However, in-house research and development, which is highly correlated with labor productivity, has remained inadequate, contributing to the sector's limited export diversification (Rahman *et al.* 2008). Additional policy initiatives to promote technology and product upgrades include the establishment of a Technology Upgradation Fund and a Skill Upgradation Fund to support the garment sector and strengthen vocational training (Rahman *et al.* 2008, 2009). The Global Competitiveness Report 2009-2010 underscores the need to address the lack of adequate skilled workforce to undertake new industrial activities (World Economic Forum 2009). Bangladesh scores very low on the quality and quantity of higher education and on-the-job training. In addition, greater emphasis on gender equality in education and training programs could facilitate women's movement into higher-skilled jobs by boosting their productivity and skills acquisition. Once women workers can qualify for these jobs, enforcing laws on gender-equitable pay, health and safety in the workplace, and union rights is crucial for improving livelihoods and countering the gender income inequalities still so prevalent in Bangladesh.

Any strategy to improve labor standards requires additional domestic policies that strengthen various dimensions of Bangladesh's export competitiveness. Non-labor components of costs and supply bottlenecks have hampered competitiveness and created non-negotiable costs, making labor costs the only true variable cost. Investment climate data show fairly clearly the need to fight corruption, which would serve not only macroeconomic objectives but also help to improve the enforcement of labor standards. In addition, Bangladesh has experienced persistent problems with infrastructure (especially electricity supply), insufficient financing, and high reliance on imported inputs in the context of cumbersome trade and customs regulations. These problems have raised costs, reduced productivity, and weakened export competitiveness. The World Economic Forum (2009) highlights the ongoing bottlenecks in quality of port and air transport infrastructure, and quality of electricity supply. Investments in infrastructure as well as organizational improvements in firms can cut non-labor costs and reduce lead-times in ready-made garment exports.

These domestic policies raise questions about reforms of international governance. Developing country governments should be able to undertake industrial policy and increase government spending on education without facing constraints on their macroeconomic policies. In addition, domestic policies could be complemented, and indeed strengthened, by reforms of global governance of trade and investment that enable Bangladesh and other textile and garment-exporting countries to protect jobs and resist a decline in labor standards in an increasingly competitive environment.

It is difficult for a single country that is heavily dependent on exports to implement labor laws or any other policies that are perceived to raise the costs for buyers or investors. At the global level, a revitalized GSP scheme that emphasizes incentives for labor standards compliance with a new local role for the ILO as an independent monitor could be implemented. Such a trade-incentives approach that provides low or no-duty access to markets in exchange for verified advances in working conditions could overcome the potential trade-off between jobs and working conditions, and offer a viable alternative to the trade-sanctions approach. Ultimately, stronger adherence to international labor standards will reduce the sector's vulnerability and improve its competitive position. There is 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. A growing body of 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 short-term pecuniary costs. While labor laws that provide greater job security and better terms of employment can entail costs to employers, empirical evidence suggests that these trade-offs are offset by dynamic efficiency gains and benefits to society at large (Elson 1999, Palley 2004). Garment sector research in Bangladesh also shows that higher wage rates and good compliance standards at the firm level have a strong positive effect on labor productivity (Rahman *et al.* 2008). Hence greater compliance with labor standards is a viable and desirable option for Bangladeshi textile and garment producers that are adjusting to the post-ATC trade rules.

Moreover, investment liberalization must be revisited at the global level to allow low-income countries to protect themselves against capital flight and buyer mobility. Investor threats to move to other low labor-cost sites, and buyer incentives to source from sites with the lowest cutting and making costs, present the major hurdle in enforcing union rights and other labor laws. When simultaneously implemented in several competitor countries, and supported by complementary domestic policies, a trade-incentives approach could provide an effective strategy for raising the global floor under working conditions and worker pay.

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Endnotes

1. Large, hence formal, establishments predominate as a source of wage employment in Bangladesh. In 2007 almost three quarters of wage earners (72 percent) worked in establishments that employed 100 or more workers while almost half the establishments surveyed were small (employing less than 5 workers). Women constituted 12.4 percent of formal establishments and a slightly higher 13.2 percent of informal establishments (Bangladesh Bureau of Statistics 2007b).

2. In the labor market as a whole the gender wage differential is prevalent. In formal establishments, median earnings of women were 68.6 percent of men's earnings in 2007 (Bangladesh Bureau of Statistics 2007b). Women's monthly earnings were less than men in all percentile earnings categories, ranging from a low of 55 percent of men's earnings in the 10th percentile to 77 percent for the 90th percentile. Mean daily gender income ratios were lower for workers with fewer years of schooling where garment workers are likely to be located—ranging from 64 percent of male earnings for women with no schooling to 62 percent for women with 6 to 10 years of education.

3. See 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.

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