Revised Draft

Exports, Employment and Working Conditions: Emerging Issues in the Post-MFA RMG Industry

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Executive Summary

With an export volume of more than US$6 billion and providing direct employment to about 2 million people, the export oriented readymade garment (RMG) industry is considered to be one of the most important sector of Bangladesh. Taking advantage of the global 'managed trade' regime under the Multi-fibre Arrangement (MFA) system, RMG exports from the country have demonstrated a spectacular growth performance over the past 20 years or so. With the expiry of the MFA system, Bangladesh has now entered into a new era, embracing a fierce competition from all other dominant textile and clothing suppliers that have long been severely constrained by quantitative restrictions imposed by developed countries. There is a great deal of concern about Bangladesh's export prospect in the post-MFA period along with the negative consequences on the workforce employed in the industry.

The basic objective of the present paper is to highlight the most important issues and challenges facing the RMG industry during the current post-MFA regime. Since analyses of export trends and prospects have been subject matters of regular discussions and studies, without dealing with them in details, a number of issues that especially concern and affect employment, workers' earnings and working conditions in the industry are identified and discussed in this paper.

Most academic empirical studies provide adverse consequences of MFA-phase out on Bangladesh's exports, generating a lot of interest in the emerging trends and actual exports of the country in the post-MFA period. The growth of total RMG exports during January-May 2005 is estimated to be 8.7 per cent over the same period of 2004. Export data disaggregated between woven and knit-RMG products show that exports of woven products have actually declined by 6.6 per cent in the post-MFA period (compared to the export earnings of January-May 2004), for which information is available. In contrast, knitwear products have enjoyed a robust growth rate of 32.5 per cent in the first four months of 2005 (over the same period of 2004). Export data on destinations show that woven-RMG suffered a setback in the EU market, but maintained a modest growth rate in the US market.

Post-MFA export trends are likely to influence employment and working conditions in the RMG sector. Falling export orders, causing closure of factories and consequent loss in employment and increased competition exerting downward pressures on prices are two possible channels through which employment situation and working conditions in the RMG industry can get affected. The possibility of net employment loss along with a growth in the overall RMG export revenues cannot be ruled out. This is possible if the labour intensity across RMG products differ.

As the woven products are under tremendous pressure in contrast to fairly robust growth of knit-RMG items, there is a possibility of Bangladesh's increasing specialization in knitwear in the future. Given a fixed amount of export revenues, shifting from woven to knit may be considered beneficial from purely macroeconomic balances consideration, as it would yield more purchasing power (in terms of imports) of the country. However, one big cause for concern is the fact that

the woven-RMG is far more labour-intensive than the knit industry. Consequently, shocks to the woven sector along with a modest growth in knitwear products may not be worrisome, considering the macroeconomic balances of the country. But, such changes in export composition could lead to unemployment of workers unless the expansion in the knitwear production could accommodate all job losses in the woven sector. Any transformation in export composition can also have differential gender effects. For example, if jobs in the knit-industry are more machine-intensive in nature, men may have some comparative advantage over women. Consequently, even if job losses from the woven sector are replaced by new work opportunities in the knit production, a sizeable number of women workers – formerly employed in the woven sector – might not find a suitable job in the newly expanded sector.

The problem with the number of people employed in the industry must be acknowledged, as it can conceal declining living standards of the workers. In most RMG factories, workers work overtime, which accounts for a substantial portion of their monthly income. If export orders fall, unchanged employment situation can be accompanied with cessation of overtime opportunities. Therefore, one might not find any effect of the MFA phase-out from the number of people employed in the industry, while consideration of incomes earned by workers could have led to a different conclusion.

Because of lack of data, not much is known about how the post-MFA business environment is affecting individual firms, particularly whether there have been any significant changes in the employment and working conditions of workers. According to a recent survey of 35 firms, 20 enterprises (i.e., 57 per cent of the sample) reported experiencing reduced prices of their products since January 2005, while about one-fourth of the sample units reported experiencing reduced buyers' orders. None of the firms surveyed reported any decrease in employment after the MFA phase out, but information on working conditions related to wages and working hours was not available.

The issue of competitiveness captures a focal point in the discussion on the possible implications of MFA phase-out. Although in most cases cost competitiveness is referred to, the grounds of competitiveness in the global market are no longer limited to technical and economic standards, but encompass social standards, especially labour standards and environmental issues. In this context, the concept of 'decent work' introduced by ILO has received a lot of attention.

There is hardly any controversy over the fact that the decent work record of Bangladesh's RMG industry is far from satisfactory. Bangladeshi exporters have been under continuous pressures for complying with international labour standards, which puts many businesses into a dilemma: on the one hand, in the face of price competition with rivals they need to be more competitive, on the other hand the strict compliance with standards would increase the costs of production thus weakening their competitive position further.

Decent work is usually thought to have positive effect on labour productivity and the productivity gains could potentially offset the cost raising effects. However, when the share of labour in total product value chain is very low, such in the case of RMG industry, improved productivity may not contribute to significant competitiveness gains. Another problem is that despite the pressure from the buyers, the demand for decent work does not ensure export market, providing little motivation for the entrepreneurs to improve work environment.

Given the above points, the role of Government becomes crucial in ensuring decent work. Setting up certain standards, the Government can enforce the compliance obligations. Policy support in terms of reduced costs of doing business (in terms of efficient ports and inland transportation, removal of administrative bottlenecks and corrupt practices) will also provide firms with saved resources to be spent on improving working environment. Collaboration with employers and multilateral agencies can also be effective in implementing the decent work.

As part of the preparation for dealing with any adverse consequences emerging from the quota phase-out, the Government (Ministry of Commerce) has developed a Post-MFA Action Plan (PMAP) with six major components in it. One serious problem of PMAP is its implementation. Participation of labour unions in its design and implementation has also been overlooked.

To deal with the post-MFA situations, employers' organizations have been putting in serious efforts in obtaining duty-free access to the US market, which could increase Bangaldesh annual exports by US$0.5 billion, providing additional employment to about 180,000 people. BGMEA in collaboration with others have also developed a code of conduct for the RMG industry. The proposed code, if accepted by all, could prevent entrepreneurs from dealing with different standards set by different buyers. Similarly, the BKMEA is working with the GTZ for developing a common code of conduct for the knitwear industry.

Various multilateral agencies have also been collaborating with the Government, employers' organizations and labour unions. Particularly, the ILO has been playing an active role in providing technical assistance on issues related to compliance in about 300 factories. The BGMEA-ILO partnership project has initiated a process of dialogue between workers and employers and under this project, Workers Welfare Committees (WWC) have been formed in the factories included in the project.

To conclude, the paper has emphasized on, amongst others, developing a database for capturing changes related to employment situation and working conditions at the firm level, the need for effective implementation of PMAP, the need for helping the small and medium scale RMG enterprises comply with standards, and promoting social dialogues involving employers, workers, policy makers, and multilateral agencies.

I. Introduction

The performance of the export sector, fuelled by a phenomenal growth of the readymade garments (RMG), has been one of the most notable success stories of Bangladesh. From about US$1 billion in the mid-1980s, the country's exports crossed US$8 billion in the fiscal year of 2004-05. Between 1990 and 2004, real exports grew at a rate of 12.8 per cent per annum as against of the corresponding GDP growth of 4.8 per cent. The role of the RMG sector as the only driver to this apparently spectacular performance is reflected in the fact that RMG exports were just over US$10 million in 1985 (or 10 per cent of total exports), but within the next two decades they increased to US$6 billion, accounting for about three-quarters of the country's total export receipts.[1] As the apparel making is characterised by a highly labour-intensive production process, the growth in exports has resulted in a remarkable expansion in employment. Just about 0.1 million people were employed in the RMG industry in the mid-1980s, but over the next 20 years it grew rapidly to reach about 1.9 million – 80 per cent of whom being women.[2] According to one estimate, if jobs created in the complimentary enterprises as a result of the growth in this sector are considered, the number of people either directly or indirectly depending for their employment on the existence and expansion of the RMG sector will rise to three millions (Ahmed and Sattar, 2004).

The growth of RMG exports has had favourable effects on macroeconomic balances. The trade deficit has declined from around 10 per cent of GDP in the early-1980s to around 5.5 per cent in 2004. The rising share of export trade in the economy brightly contrasts the declining significance of foreign aid, which now constitutes only about 3 per cent of GDP – down from 7 per cent of the mid-1980s. It is in this context, the RMG-led export growth is argued to have transformed Bangladesh from a predominantly aid-dependent country to a largely trade-dependent nation (Rahman, 2002).

The growth and development of the RMG industry in Bangladesh was the result of an international "managed trade" regime in the sector which caused global dispersion of production by limiting imports from countries that would have a larger volume of exports were they not constrained by their quota allocations. While the intention was to provide protection to domestic manufacturing units in the importing countries from the relatively efficient producers in developing countries, the operation of MFA quotas in the process led to exporting opportunities in countries where textile and clothing were not traditional export items. Many international business firms, in particular those from the Asian newly industrialising economies (NIEs), facing binding quota restrictions in their own countries, relocated part of their production and trade to other relatively poor developing countries including Bangladesh. The quota system ensured a 'reserved' market status for the new suppliers (and also for the quota restrained countries) and gave them some time to develop and learn the skills required in the production and marketing. After the expiry of the MFA system, not only have the developed country producers come under direct competition from the traditional and already well-established producers in developing countries, but the relatively new manufacturers, grown under the restricted trade regime, also have to compete with the aforementioned two groups. Therefore, despite substantial gains of the

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[1] Therefore, non-RMG exports, in contrast, grew only modestly during the same period.
[2] Currently, 35 per cent of all manufacturing employment is due to the RMG industry. The trend growth rate of employment in the sector for the period 1980-2004 is estimated to be 24 per cent per annum.

world economy as a whole, the abolition of MFA is likely to affect a number of countries adversely. Particularly, Bangladesh has been considered as country to lose out of the abolition of the quota system. It is in this backdrop, the export prospect of Bangladesh and the emerging trends in actual exports have drawn a lot attention amongst policymakers, academics and donors.

The basic objective of the present paper is to highlight the most important issues and challenges facing the RMG industry during the current post-MFA regime. Analyses of export trends and prospects have been subject matters of regular discussions and studies and therefore without dealing with them in details here, we identify the issues that especially concern and affect employment, workers' earnings and working conditions in the industry. This paper is organised as follows: after the introductory remarks in Section I, Section II briefly provides a rapid appraisal of export trends in the post-MFA period in order to better appreciate the implications for employment situations; Section III brings up a number of issues related to decent work and working environment in the RMG industry; Section IV summarises the main strategies/programmes thus far adopted and launched by different actors to mitigate the potential adverse consequences arising out of the MFA phase-out; finally, Section V conludes.

II. A Rapid Appraisal of Emerging Trends in the Post-MFA Era

2.1. Export Trends: RMG Exports to the EU and US during the ATC Period

The US and the EU are the two principal markets for Bangladesh, accounting for about 94 per cent of Bangladesh's RMG exports. Throughout the ATC transition period Bangladesh's exports of T&C products in the EU had not been subject to any quantitative restrictions or tariff barriers, provided that exporters fulfilled the EU rules of origin (ROO) requirements. By contrast, the US remained a restrictive market for Bangladesh as neither quota-free export opportunities nor any tariff concessions were granted to products made in Bangladesh. There is also an interesting difference between the compositions of Bangladesh's RMG exports to the EU and US. Although woven-RMG dominates (in absolute value terms) knitwear in both markets, the relative significance of the latter has grown rapidly in the EU, but at a much less prominently in the US market. The reason is that because of relatively high domestic value added, the knit-RMG has been in a better position to comply with the two stage EU-ROO criterion to qualify for the zero-tariff access, while low backward integration in production does not make most of the woven-RMG eligible for similar preferential treatment. The share of knitwear in Bangladesh's RMG exports to the EU increased from 15 per cent in 1992 to more than 42 per cent in 2003, while during the same time the ratio of knit to woven RMG exports in the US market grew from 4 per cent of 19 per cent.[3]

The value of exports of RMG to the US increased from US$364 million in 1989 to US$2,065 million in 2004 (Appendix Table 1). However, during 2002 and 2003 exports fell absolutely, leading to declining market shares in terms of both value and quantity. In 2001, Bangladesh was the source of 3.4 per cent of US apparel imports (in value terms), but by 2003 this share declined

[3] Therefore, it appears that in order to take advantage of the preferential treatment in the EU, Bangladesh has increasingly specialised in the production of knitwear and the resultant increased supply capacity has also contributed to a growth of its exports higher than that of woven-RMG in the US market.

to 2.7 per cent.[4] The declining trend in RMG exports was reversed in 2004 as Bangladesh recorded a growth of 5.51 per cent. Despite this export growth, Bangladesh however failed to prevent its declining market share. Being subject to MFA restrictions, Bangladesh's T&C products in the US were integrated according to the US schedule of integration. Of the US$2 billion exports of MFA items from Bangladesh to the US in 2004 more than 80 per cent of were constrained under quota and were integrated only at the end of the ATC timeline. Therefore, much of Bangladesh's future export prospect will critically depend on how Bangladesh fares in the most recently liberalised categories.

A comparatively better picture is revealed for the EU market, where Bangladesh is found to be maintaining a market share (in value terms) close to 3.7 per cent in recent times. Bangladesh's exports of RMG products to the EU market has grown at an exponential rate – from US$0.4 billion in 1990 to about US$4.8 billion in 2004 (Appendix Table 3). As mentioned above, the preferential treatment under the EU GSP scheme has contributed to this dramatic growth. In terms of quantity, the share has been on average more than 4 per cent for most of the recent past. Although Bangladesh was not subject to quantitative restrictions in the EU market, the phasing out of the MFA regime would make many of its competitors' exports unrestricted thereby exerting a fierce competition.

2.2.The Predictions

Most academic empirical studies provided adverse consequences of MFA-phase out on Bangladesh's exports. Of particular interest is the study undertaken by Mlachila and Yang (2004), which, using a global general equilibrium modelling system and database (known as the GTAP model), showed that Bangladesh's export of RMG could fall by 20 per cent resulting in a contraction of employment by 5-13 per cent. Almost identical results are also reported by Lips *et al.* (2003), according to which the elimination of MFA quotas leads to a decrease of the Bangladeshi wearing apparel export production by 20 per cent. On the other hand, Nordas's (2004) simulation exercises show Bangladesh's share in the EU clothing imports to rise by one percentage point (from the current share of 3 per cent to 4 per cent), but the US market share declines (from the existing 4 per cent to about 2 per cent).

Against all grim predictions of academic empirical exercises, there were some positive and encouraging developments for Bangladesh just immediately before the removal of final quotas. International buyers were reported to have been expanding their offices and networks in Dhaka, viewing Bangladesh to be one of their most important suppliers in the post-MFA period. Capital and machinery imports for RMG and textile industries were also shown to have increased in recent years (Rahman, 2004), which could be considered as an important indication that, entrepreneurs being hopeful about their business prospects in a quota free world were expanding their capacities. The US and the EU applied some measure to restrict import surge from China on, which was to discourage many importers in the north to source from China alone.

[4] In contrast, as shown in Appendix Table 2, China's share since 2001 has gone up remarkably. Amongst others, AGOA countries as a group, India, and Vietnam have been able to increase their relative significance, while Bangladesh, Costa Rica, Mexico, and Sri Lanka suffered loss of market shares.

2.3. Early Signals in the Post-MFA Period

Six months have passed since the expiry of the MFA system. But, as data on Bangladesh's exports of apparel products are available only until April 2005, early signals in the post-MFA period can only be read with four months' export figures. In general, the EPB exports data seem to reveal a mixed outlook for Bangladesh. As Table 1 shows, compared to January 2004, Bangladesh's apparel exports in the first month of the quota-free regime were about US$52 million lower. However, a strong recovery was staged in February 2005 when apparel goods' exports rose to US$ 488 million in comparison with US$ 331 million of the same month of the previous year. In the following month of March 2005, the growth of exports was modest – only about 5 per cent over the same month of 2004, while the exports in April 2005 remained stagnant compared to the same period of the previous year. The provisional export data for May, 2005, is US$601.8 million, which yields a growth of more than 13 per cent over May, 2004. The growth of total RMG exports during January-May 2005 is estimated to be 8.7 per cent over the same period of 2004. This growth rate is much lower than the corresponding rate achieved during first five months of 2004.

Table 1: Monthly RMG Exports from Bangladesh (US$ Million)

	2001	2002	2003	2004	2005
January	349.42	428.66	434.18	569.53	517.81
February	371.6	386.39	356.46	331.22	488.98
March	316.13	317.63	387.31	471.11	495.96
April	373.95	302.11	383.46	447.12	451.65
May	428.74	411.65	466.25	531.18	601.78*
Total (January-May)	1,839.8	1,846.4	2,027.6	2,530.2	2,556.2
Growth of January-May (%)	-	3.6	9.8	15.9	8.7*

Note: * provisional estimate.
Source: EPB data.

Table 2: Woven- and Knit-RMG Exports from Bangladesh during Jan-March 2005

	2001	2002	2003	2004	2005
Exports of Woven-RMG Products					
January	252.07	298.26	297.89	376.61	296.07
February	266.1	272.72	259.61	222.9	292.92
March	208.26	216.17	257.0	304.12	264.54
April	240.66	190.15	239.48	263.1	236.57
Total (January-April)	967.09	977.3	1053.9	1166.7	1090.1
Growth of January-April (%)	-	1.06	7.85	10.7	-6.57
Exports of Knit-wear Products					
January	97.35	130.4	136.29	192.92	221.74
February	105.5	113.67	96.85	108.32	196.08
March	107.87	101.46	130.31	166.99	231.41
April	133.29	111.96	143.98	184.02	215.08
Total (January-April)	444.01	457.49	507.43	652.25	864.31
Growth of January-April (%)	-	3.03	10.9	28.5	32.5

Source: EPB data.

Export data disaggregated between woven and knit-RMG products show that it is the woven-RMG, which has performed worse in 2005 compared to the first four months of 2004. During January-April 2005, Woven exports stood at US$1,090 million as against of US$1167 million earned during the same period of the previous year. That is, exports of woven products have actually declined by 6.6 per cent in the post-MFA period for which information is available. In contrast, as shown in Table 2, knitwear products have enjoyed a robust growth rate of 32.5 per cent in the first four months of 2005 (over the same period of 2004).

Table 3 gives the monthly data on exports of apparel products from Bangladesh to the US. The figures show that exports of both woven and knit-RMG to the US market have increased. Compared to January-April 2004, the growth of woven-RMG during the same period of 2005 is estimated to be about 18 per cent. The performance of knitwear has been truly dramatic. Export receipts from knitwear products during January-April of 2005 stood at US$133.6 million, in comparison with a small figure of US$34.8 million during the same period of 2004, providing an astronomical growth rate of more than 250 per cent in the post-MFA period for which information is available.

Table 3: Exports to the US Market (US$ Million)

	2003			2004			2005		
	Woven	Knit	Total	Woven	Knit	Total	Woven	Knit	Total
January	131.3	23.2	154.6	134.7	12.2	146.9	141.7	33.9	175.6
February	113.9	17.9	131.8	88.8	5.84	94.7	131.7	29.5	161.2
March	114.9	21.0	135.9	113.4	7.6	121.0	115.8	29.7	145.6
April	108.8	24.7	133.6	108.8	24.7	133.6	125.7	29.3	155.1
Jan-April	469.1	86.9	556.1	436.7	34.8	471.5	515.1	133.5	637.6
Growth of Jan-April (%)	-	-	-	-6.9	-59.9	15.2	17.9	252.1	35.2

Source: EPB data.

On the whole, the data for the early post-MFA period suggest that, it is still too early to predict anything about the country's future export prospect. The most encouraging sign for Bangladesh is the rapid growth of knitwear products in both the EU and US markets. Although the base of knitwear exports in the US market is still very low, high growth rate in the EU is achieved with a large base. There was an apprehension that immediately after the MFA phase-out, woven-RMG products in the US market would be badly affected since Bangladesh did not get duty-free access to that market and since the domestic content in woven products was very low, limiting the capacity of exporters to absorb price shock. In contrast, during the first four months of the post MFA period, woven manufacturers of the country have actually registered a strong growth performance. As EPB data suggest a decline in the overall growth of woven-RMG, it is the EU market where woven products are doing badly. Therefore, the stringent EU-ROO appears to be more constraining than the tariff barriers faced by Bangladesh's woven manufacturers in the US market.[5]

[5] Note that knitwear products in the EU market have demonstrated a robust export performance, as pointed out above. Because of high local value content, knitwear products are eligible for the EU-GSP facilities (of zero tariff), but too much dependence on imported raw materials prevent woven products from fulfilling the two-stage value addition criterion for accessing such preferences.

It appears from the above that, even after the expiry of the MFA system Bangladesh may get some time to consolidate its positions in the world market. The strong marketing network established over the past two decades through a proven track record has given Bangladesh the reputation of a reliable supplier and it is unlikely that the buyers will leave the country immediately after the phase-out to build arrangement with uncharted firms in other countries. In addition, the EU and the US have applied some measure to restrict import surge from China on a number of categories. Due to these developments, importers in important markets might not want to rely wholly on China for procurement, especially when a particular clause embodied in the Protocol of China's accession to the WTO enables the US to restrict imports of textile and clothing products from China until 2008. Many other countries could take advantage of this (Sino-US) bilateral agreement to restrict imports from China. From 2008, when keeping restrictions on China will be difficult as per the WTO rules, only then the real competitive pressure in the market will be realized. Therefore, over the next two/three years Bangladesh will have to improve its competitiveness to retain its export markets.[6]

2.4. Changes in Employment and Working Conditions in the Post-MFA Period

One could think of several channels through which post-MFA trends might influence employment and working conditions in the RMG sector. The most obvious one is falling export orders, causing closure of factories and consequent loss in employment. Increased competition following the termination of the quota system will surely exert downward pressures on prices, which may be translated into reduced workers' wages and other benefits. These two possible scenarios may not be separated as the occurrence of the former will almost certainly lead to the latter. Conversely, a part of the declining prices can be absorbed in the beginning through reduced wages and profits before reaching a point beyond which further downward cost adjustment would not be feasible, requiring firms to exit.

It needs to be emphasized here that, the possibility of net employment loss along with a growth in overall RMG export revenues cannot be ruled out. This is possible if the labour intensity across RMG products differ. As pointed out above, the woven products exported by Bangladesh are under tremendous pressure in contrast to fairly robust growth of knit-RMG items. Therefore, there is a possibility of Bangladesh's increasing specialization in knitwear in the future. Given a fixed amount of export revenues, shifting from woven to knit may be considered beneficial from purely macroeconomic balances consideration, as it would yield more purchasing power (in terms of imports) of the country.[7] However, one big cause for concern is the fact that the woven-RMG is far more labour-intensive than the knit industry.[8] Consequently, shocks to the woven sector along with a modest growth in knitwear products may not be worrisome, considering the

[6] There is a general perception in Bangladesh that the post-MFA business situation is likely to be bleak, which is also reflected in a recent UNDP survey. As many as 25 entrepreneurs (out of a total of 35 or 71 per cent), thought that some factories will be closed down as a direct consequence of increased competition in the global textile and clothing market as against of only 10 entrepreneurs (i.e. 29 per cent), who thought otherwise.

[7] It has already been pointed out that, domestic value addition in the knitwear industry is much higher than that of the woven sector.

[8] In the fiscal year 2004, with an export earning of $2,148 million the knitwear sector employed 0.5 million workers, while the $3,538 million woven industry provided direct employment to 1.3 million workers. Therefore, there is one worker for every $4,296 knit exports, while the comparable figure for woven is $2,721.

macroeconomic balances of the country. But, such changes in export composition could lead to unemployment of workers unless the expansion in the knitwear production could accommodate all job losses in the woven sector. Any transformation in export composition can also have differential gender effects. For example, if jobs in the knit-industry are more machine-intensive in nature, men may have some comparative advantage over women. Consequently, even if job losses from the woven sector are replaced by new work opportunities in the knit production, a sizeable number of women workers – formerly employed in the woven sector – might not find a suitable job in the newly expanded sector.

The problem with the number of people employed in the industry must be acknowledged, as it can conceal declining living standards of the workers. In most RMG factories, workers work overtime, which accounts for a substantial portion of their monthly income. If export orders fall, unchanged employment situation can be accompanied with cessation of overtime opportunities. Therefore, one might not find any effect of the MFA phase-out from the number of people employed in the industry, while consideration of incomes earned by workers could have led to a different conclusion.

From the above discussion, it can be inferred that assessing the impact on employment and working conditions may not be straightforward. Export trends (both prices and volumes) and structural changes need to be identified first for relating them to the labour market dynamics taking into consideration of such factors as gender and skill composition of the workers, workers' turnover, and working conditions.

Because of lack of data, not much is known about whether there have been any significant changes in the employment and working conditions of workers in the RMG sector since the removal of MFA quotas. If one considers the export earnings in the first few months of 2005, the reason for any loss in employment may not be obvious given the evidence of a modest growth of RMG exports. Since the MFA phase-out is likely to affect different firms differently, one needs firm-level data to analyse the changes in employment situation and working conditions. A recent UNDP-commissioned survey and analysis has attempted to capture whether and how far the anticipated impacts of MFA phase-out have started occurring in the RMG sector of Bangladesh.

The UNDP survey covered 35 RMG firms located in Dhaka, Gazipur, Savar, and Narayanganj. Of the surveyed firms 12 produced woven-products, 11 specialised in knit-RMG, and the rest 12 enterprises were of 'mixed type'. The survey classified the firms into small, medium and large categories, but the definition used for such classifications were different from the usual employment and/or capital investment criteria used. According to the yardsticks used in the survey, RMG enterprises with 1-2 assembly lines were considered to be *small*, with 3-6 assembly lines as *medium* and with more than 6 lines as *large* enterprises. Considering these definitions, 5 selected firms fell into the category of small, 19 were medium and the rest (11) were to be considered as large manufacturing units. During the survey, entrepreneurs were asked, amongst others, (i) whether they experienced reduced orders and prices for their products after the MFA phase-out, (ii) if they were expecting drop in prices in the future, and (iii) whether there has been any change in employment situation in their respective firms following the abolition of quotas.

It emerged from the survey that, 20 RMG enterprises (i.e., 57 per cent of the sample) experienced increased price competition, and had to accept reduced prices of their products since January 2005. The rest 15 firms reported not experiencing any negative consequences on their prices[9]. 7 out of a total of 12 sample woven enterprises (i.e., 58 per cent) had experienced reduced product prices, whereas 5 of 11 sample knit enterprises (45.5 per cent) reported similar experiences. Two-thirds of the sample 'mixed' enterprises also had to embrace reduced product prices since January 2005. 18 of the 20 surveyed firms facing reduced prices reported that the magnitude of the price fall was less than 20 per cent. For the remaining two firms, prices dropped between 20 and 25 per cent.

About a half of the sample entrepreneurs (19 out of 35, i.e., about 54 per cent) was also expecting drop in product prices in the remaining months of 2005. More woven sector entrepreneurs (7 out of 12 or, 58.3 per cent) compared to their knit sector counterparts (6 out of 11 or, 54.5 per cent) reported their anticipation about reduced prices of their products in the near future. Also, a half (6 of the 12) of the entrepreneurs of mixed RMG enterprises were of the view of increased market and price competition leading to decreased product prices some time later in the year.

Table 4: Whether Firms Have Experienced Reduced Export Prices

Type of RMG Unit	Experienced reduced prices since 1/1/05	Did not experience reduced prices	Expect drop in prices in 2005	Do not expect drop in prices
Woven	7 (58.3%)	5 (41.7%)	7 (58.3%)	5 (41.7%)
Knit	5 (45.5%)	6 (54.5%)	6 (54.5%)	5 (45.5%)
Mixed	8 (66.7%)	4 (33.3%)	6 (50.0%)	6 (50.0%)
Total	20 (57%)	15 (42.8%)	19 (54.3%)	16 (45.7%)

Source: Majid and Hussain (2005), "Survey of Workers, Supervisors, Managers and Entrepreneurs of RMG Sector of Bangladesh" *Prepared for the Preparatory Assistance Project on Sustainable Employment Policy Options in the Post-MFA Era*, supported by UNDP.

The aggregate export data presented above have shown quite a strong growth of knitwear products and a modest decline in woven-RMG exports in the period immediately after the MFA phase-out. The firm-level data gathered from the UNDP survey reveals increased buyers' orders since January 2005 for 18 sample firms (out of a total of 35 or 51.4 per cent of the sample). However, about one-fourth of the sample RMG units (i.e., 9 firms) reported experiencing reduced buyers' orders in the early periods after the MFA liberalization. According to the survey results, five of the 12 (i.e., 41.6 per cent) woven firms and three of the 12 mixed units (25 per cent) reported reduced export orders in contrast to one out of 11 knit factories (i.e., 9.1 per cent) with similar experience. These findings are consistent with the aggregate RMG export data for Bangladesh, as presented in an earlier section, where woven-RMG was found to be under increased competitive pressure in the post-MFA period. Two woven, three knit and three mixed firms reported unchanged buyers' orders.

Interesting results were obtained from the UNDP survey when the employment situation of the

[9] It is surprising to note that 15 firms did not experience anything. This may be due to volatility of markets immediately after the MFA phase-out. This sample size is small, hence any conclusion on the basis of this observations should be drawn carefully. But if this were the scenario, then adverse consequences on employment may be very bleak.

respective enterprises was enquired. None of the firms surveyed reported any decrease in employment after the MFA phase out. 19 entrepreneurs actually hired more workers during the first few months of 2005 while in the rest of 16 firms the number of workers remained unchanged (Table 5). It is rather striking to observe that while increased buyers' orders were received by only 5 woven firms, 10 woven entrepreneurs reported rising employment in their firms. Increased orders can be supplied with unchanged or even reduced workforce, if productivity rises or if there was an underemployment situation initially. However, it is very difficult to explain the phenomenon of rising employment with decreased orders. Could it be that although some of the woven firms faced reduced export orders in the first half of 2005, but in response to a possible rising export orders they eventually hired more workers? The analysis of UNDP survey data does not provide any discussion on this apparently perplexing issue. No change in employment situation can, however, be explained for those 9 firms with reduced export orders since it may not be feasible to lay-off workers instantly or firms may wish to retain their workforce against the expectation of better business situation in the near future and given the difficulties associated with recruiting experienced workers within a short period of time.

Table 5: Changes in Employment Since January 2005

Type of RMG enterprises	Increased	Decreased	No Change	Total
Woven	10 (76.9%)	0	3 (23.1%)	13 (100.0%)
Knit	7 (63.6%)	0	4 (36.4%)	11 (100.0%)
Mixed	2 (16.7%)	0	10 (83.3%)	12 (100.0%)
Total	19 (52.8%)	0	17 (47.2%)	36 (100.0%)

Source: Majid and Hussain (2005), "Survey of Workers, Supervisors, Managers and Entrepreneurs of RMG Sector of Bangladesh" Prepared for the *Preparatory Assistance Project on Sustainable Employment Policy Options in the Post-MFA Era*, supported by UNDP.

There are several important limitations of the above mentioned survey. The first obvious shortcoming is such small sample size. When the already small sample is further disaggregated into different types of RMG enterprises, meaningful statistical inference cannot be drawn. The process of sample selection is not known. Furthermore, the analysis does not make any attempt to understand employment dynamics. Therefore, the distinction between the number of people employed and the number of effective working hours is not made. As already pointed out, the number people employed can remain unchanged with the overall factory working hours. The survey also fails to capture information on other issues affecting employment and working conditions.

Although, there is no reported evidence on factory closure and/or retrenchment of workers in the initial post-MFA period, a more comprehensive impact assessment can only be made after some more time has elapsed. However, continued monitoring of export orders by categories, employment, wage and working conditions is required to get an insight on the emerging trends in the Post-MFA era. This assessment will assist stakeholders to chalk out effective strategies and programmes. No effective effort has been undertaken to monitor the employment and working condition situations in the RMG industry closely and regularly. This should be regarded as a significant obstacle to informative policy discussions and actions.

III. Competitiveness and Decent Work

The issue of competitiveness has been catapulted into prominence in the discussion on the possible future implications of MFA phase-out. With the anticipation of increased competition, it is feared that a number of countries will not be able to withstand the world-wide free competition. Several other factors also contribute to the interest in the issue of international competitiveness. Discriminatory trade preferences have certainly influenced competitiveness and, by raising transportation costs, unfavourable geographical locations could also make certain suppliers uncompetitive relative to countries with more favourable geographical characteristics (Redding and Venables, 2003). Therefore, suppliers' proximity to market reduces the lead time on the one hand, and transportation cost on the other.[10] Apart from these, the role of the factors associated with investment climate and cost of doing business has been given a lot of emphasis in assessing individual countries' competitiveness (e.g., Bow, 2000; World Bank, 2004; Mlachila and Yang, 2004; BEI and World Bank 2003).

It is often argued that the grounds of competitiveness in the global market are no longer limited to technical and economic standards (such as cost competitiveness, product quality, in-time delivery, etc.), but include social standards, especially labour standards and environmental issues. The capacity to compete globally is also thought to be determined by social, human and institutional factors and not only by technical and economic considerations alone. Therefore, apart from the factors associated with the improvement of price competitiveness, it is also important to bring about positive qualitative changes in the environment of production that includes the nature of production process, working conditions, environmental aspects, and social welfare. In this context, the concept of 'decent work' introduced by ILO has received a lot of attention. Decent work is defined as the productive and remunerative work carried out under the conditions of equity, security, and workers' rights. It means access to employment in conditions of freedom, the recognition of basic rights at work which guarantees the absence of discrimination and harassment at work, an income enabling one to satisfy basic, economic, social, and family needs and responsibilities, an adequate level of social protection for the workers and family members including protection from adverse and hazardous working environment, and the exercise of voice and participation at work. Therefore, decent work implies certain standards related to working and social environment under which employment should be offered, sustained, and protected. The decent work framework emphasizes the fact that it acts as a contributing factor to productivity improvement resulting enhanced competitiveness. The argument is that if the work is decent, the workers are likely to be more productive which will offset the increased costs due to the introduction of the decent environment.

The decent work framework appears to have a very striking and interesting context in Bangladesh. The end of MFA regime has exerted a worldwide business environment marked by serious price competition in which the sustainability of Bangladesh's exports is very much doubted (e.g., Mlachila and Yang, 2004). Despite this ominous situation, Bangladeshi exporters

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[10] The clothing export is particularly sensitive to the seasonality in importing countries and timely delivery of goods is considered to be a precondition for business success. There is now empirical evidence demonstrating that a substantial shift of the US apparel imports away from Asia in favour of Mexico and the Caribbean countries during the 1990s is only partly due to discriminatory trade policy with the other important reason being an increasing demand for timely delivery that gives a competitive advantage to nearby exporters (Evans and Harrigan, 2004).

have been under continuous pressures for complying fully with international labour standards. This puts many businesses into a dilemma: on the one hand, in the face of price competition with rivals they need to be more competitive, on the other hand the strict compliance with standards would increase the costs of production thus weakening their competitive position further.

These apparently conflicting matters can be resolved either by productivity gains as a result of the introduction of the decent work environment or by enhanced consumers' preference in favour of goods produced under better working conditions and not on the basis of the price consideration alone. Many business enterprises are, however, of the view that neither does the improvement in standards necessarily lead to better returns from investments nor can they secure export market share. There are also a number of factors that need to be taken into consideration in order to better understand the issues related to competitiveness and decent work. In the following, we bring-up these issues.

3.1. Decent Work Record of the RMG Industry

The employment in the RMG sector is characterized by low wages and there is hardly any controversy over the fact that the decent work record of Bangladesh's RMG industry is far from satisfactory. In fact, Bangladesh is a country with one of the lowest wage rates in the world (Abernathy *et al*., 2004). While the low wage rate reflects large supplies of workers relative to demand, what is striking is that the legal minimum wage for this sector has not increased during the past 10 years or so. It is often argued that despite the unchanged legal rate, the actual minimum wage in the sector has increased in response to the adjustment with the increased standard of living and inflation. However, such a claim is grossly overstated as full inflation adjustment is never undertaken.

From a very rigid point of view one could, however, legitimately argue that employers were already providing wage rates higher than the market-clearing ones, and as such the industry is characterized by efficiency wages. The problem gets far more complicated over the discussion on what efficiency wage is a fair wage and what is not. In this backdrop, the concept of decent work can greatly resolve these issues as it encompasses the quality of work and social environment along with the wages provided.

In spite of many significant contributions and keeping aside the problem of low wages, when it comes to working environment and conditions, the RMG industry is considered to be a sector largely apathetic about the welfare of its workers. The industry is characterized by a wide variety of deprivations of women workers, which include, *inter alia*, lack of proper infrastructure facilities and safety at workplace, non-compliance with the minimum wages, wage discrimination, lack of provision of essential service benefits to workers, lack of housing facilities, and lack of skill development and training opportunities (CPD, 2003). Although the workforce of the industry is overwhelmingly dominated by women, provisions available in the sector are not gender sensitive at all. Rare-availability of baby-crèches at the factory premises, irregularities associated with granting of maternity leave and benefits to the eligible workers, insufficient number of toilets, congested workplace in unsafe buildings, non-issuance of any formal contract of employment, non-compliance with overtime works and allowances are some of the serious regular allegations. During the entire lifetime of the industry in Bangladesh, there has been very little improvement with regard to minimum basic provisions. Repeated discussions on these issues have taken place, but unfortunately things have not changed much. In fact, it will be no exaggeration in mentioning that working conditions in a large number of Bangladesh's RMG factories have always been in a critical state and no serious efforts have been undertaken to bring about changes.

The collapse of a factory building at Savar immediately after the quota-phase out attracted renewed attention to work place safety concerns. The general impression of the buyers is that safety measures in an overwhelming majority of garment units are not up to the mark.[11] A leading EU garment workers' federation and some European buyers have very recently urged the government to address all the compliance issues (including the workers' safety and salary packages) to retain the market in the European Union (EU). Many buyers are increasingly raising questions about the compliance issues and threatening to discontinue sourcing garment products from a country like Bangladesh that is not maintaining ethical practice in production.

3.2. The Wage-Productivity Relationship

Sometimes, low wages in the industry is rationalised with the argument that, it is the result of low productivity of workers. This reasoning is, however, absolutely wrong! The wage-productivity relationship holds when there is full employment. In the presence of an excess supply of labour, wages will be low irrespective of the productivity level. It is also important to remember that wages earned in one industry are largely determined by the wages similar workers are earning in other industries. Therefore, even if some of the garment manufacturing units achieve very high labour productivity, wage would still not rise very much in those factories. Similarly, if the productivity of the whole garment industry rises to a very high level, comparable rise in wages may not take place if the productivity associated with jobs that can be performed by workers with similar skills as garment workers do not increase.

3.3. Productivity Enhancement and Competitiveness

The principal economic argument behind better working condition is its positive effects on labour productivity. In the labour economics literature, this argument is postulated through the so-called efficiency wage theory. It also has a strong empirical relevance. While the traditional neoclassical economics emphasizing on the market-clearing mechanism cannot explain why many firms are actually paying much higher than the going wage rate, the efficiency wage theory provides the rationale for such behaviour.

In the context of Bangladesh, the relationship between better working environment and labour productivity has been examined by Ahmed *et al.* (2004), where decent work is found to have a positive effect on the total factor productivity.[12] This result suggests that, the positive effects could outweigh the increased costs associated with the implementation of better working environment. The data used in Ahmed *et al.* (2004) did not include any garment manufacturing units and, in fact, one might question the relevance of the finding to the RMG industry. The

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[11] The Daily Star, 26 June 2005.
[12] The study found that given the capital-output ratio, firms that have features of decent work environment also enjoy higher labour productivity.

share of labour in the RMG value chain is very low and hence a rise in workers' productivity might not result in substantial competitiveness gains for firms. For example, the integrated value chain analysis, undertaken by World Bank (2005), shows that for a $1.28 T-shirt produced in Bangladesh, the labour cost associated with sewing and assembly accounts for only 4.7 per cent of the entire value chain (i.e., $0.06).[13] It can be calculated that, remaining all other things constant, a doubling of labour productivity (i.e., a 100 per cent improvement in labour productivity) would result in the reduction of cost by just $0.03, which is likely to have not much effect on the competitive position of Bangladesh in the world market. The local value addition of in knit-RMG is considerably higher than that of woven products. Therefore, together with productivity gains arising from better working environment along with a reduced profit margin can give Bangladesh's knit products considerable competitive edge.

3.4. Is Productivity low solely because of workers?

When it is reported that labour productivity is low in Bangladesh, most people implicitly attribute its reason to the workers. Given their low level of education and skills, most Bangladeshi workers are likely to be less productive than their counterparts in other developed and relatively advanced developing countries. Nevertheless, when Chinese workers, for example, are considered to be three times as productive as those of Bangladeshis, it does not imply that only the differences between the characteristics inherent in the workforce of these two countries explain the productivity difference. It could be that investment on capital is much higher in the countries with high productivity. In terms of annual average capital intensity, Bangladeshi garment factories spend less than $1,500 per worker in comparison with more than $4,000 spent by Chinese firms (World Bank and BEI, 2003).[14]

Another important related point, discussion on which usually is not taken place in Bangladesh, is the managerial efficiency or management productivity. Some firms are not in a position to move to high value added items, or expand their current capacity of production because of their management inefficiency.[15] This may have some implications for overall low productivity. Yet another factor needing to be recognized is that, despite the low levels of education, the scopes of training and skill development for factory workers are extremely limited in Bangladesh. Investment on workers' skill development is something that has not become a part of firms' production and market expansion strategy.

3.5. The Demand for Better Working Environment

Working conditions are supply side issues related to workers involved in the production process. Their ideal demand side, i.e. whether workers are willing to accept the existing working

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[13] According to the said value chain analysis, material costs including the cost of raw materials and port-related charges and accessories constitutes 77.96 per cent of the value chain. The second largest cost area is the administration, which accounts for about 12 per cent of the FOB cost. Note that, administration includes the profit margin of the entrepreneurs. Low share of labour in final goods' prices have also been shown in Bow (2001) and Rahman (2004).

[14] Average wages in China are considerably higher than that of Bangladesh. In fact, there is some suggestion that between the two countries productivity adjusted wage rate could be lower in Bangladesh (Razzaque, 2005).

[15] During a recent UNDP project informal discussion, some participants thought that a part of the long lead time problem could be due to management inefficiency.

conditions is not of much relevance given the widespread unemployment problem. Instead, the demand for decent work is coming from the buyers and consumers. Now, the question is whether the buyers and consumers are willing to pay a price for the better working environment.

Bangladesh is known to be the cheapest source of the types of products that it manufactures. Surely, consumers in the developed countries have so far benefited from the low prices. Despite the demand for decent work, it is almost certain that rising prices of products, even if it results as a direct consequence of the implementation of a better working environment, would adversely affect Bangladesh's competitiveness and export receipts. That is, the demand for decent work itself does not guarantee market success or increased export revenues in a competitive global market following the MFA phase-out. It is also important to realize whether in the name of the decent work, buyers and/or intermediaries involved in the business attempt to exert their bargaining powers to force RMG manufacturers in Bangladesh to accept low prices.

3.6. Setting-up the Standards for Better Working Environment and Working Conditions

While there is a broad consensus on the need for improving the working conditions, concerns have been expressed about setting-up unusually high compliance standards, which are unrealistic to the situation of Bangladesh. Besides, standards used in evaluating the working environment and conditions considerably differ between buyers. Compiling with different standards set up by different buyers is extremely difficult for the entrepreneurs. To overcome this problem, a number of initiatives have been launched to develop a common set of codes of conduct for the sector, on which individual firms' work environment record can be assessed.[16] It is yet not clear, if and when these standards are specified whether those will be acceptable to all parties involved. Employers usually point out that setting unusually high compliance standards for the RMG industry would be unwarranted given the prevailing situation in other industry and non-tradable sector. They argue that the garment sector has a much better working environment than many of the state run industries and other export-oriented sectors, which is partly attributable to buyers' compliance requirement. It needs to be mentioned here that investment on better codes of conduct can have immediate cost-raising effects, while the gains associated with improved competitiveness via enhanced productivity can only be achieved with a time lag. Therefore, how firms are going to adjust the implication of rising costs at a time of increased competitive pressure is an important issue.

[16] For example, BGMEA has drafted and proposed a single code of conduct to replace multiple codes of conduct, which has received support from one trade union centre or federation. BGMEA also has set up a compliance cell to monitor and improve compliance by members. It was learnt that GTZ has also taken initiative to develop a common set of compliance indicators particularly for the European buyers.

3.7. Role of Various Stakeholders in Promoting Decent Work

From the above, it is quite straightforward to infer about the critical role that government can play in ensuring an acceptable work environment in the RMG industry. When the scope of productivity gains is relatively low, at least in the short-run, and the demand for better work place cannot guarantee increased exports and market success, a decent work environment may be ensured by a more pro-active role of the Government. There is no denying that standards related to working conditions will differ across countries. Nevertheless, in an absolute sense there is a need for setting standards with regard to minimum wages and other working conditions. Even when people are willing to accept, there should be minimum standards to humanize the conditions. The specification of these conditions may be considered as the provision of merit goods. As in the cases of all other merit goods, the Government will have to play an important role either in establishing or facilitating the process of setting suitable codes of conduct by striking a delicate balance between the realistic country scenario and the need for protecting its workers. Enforcement of these conducts will be most important in ensuring the credibility of the official machinery and wining the confidence of buyers and consumers. An effective initiative by the Government in this regard can also provide a basis for negotiating with buyers for a unique set of codes of conduct that is based on national laws and core standards. Taking into consideration of increasing pressures from the buyers, while employers' associations in collaboration with various donors and agencies have already taken some steps, without the Government support and cooperation their enforcement and sustainability over the long-run are uncertain.

Employers/entrepreneurs are central to the working environment in their firms. Ideally, the employers themselves should first identify their problems and find out means to address them effectively. In that sense, they need to play an active role rather than passively implementing the codes of conduct.

Buyers can also have an important role in promoting better work environment in Bangladesh. While operating purely on profit-maximizing motive, demanding high standards without taking into consideration of the realities and cost structure of the firms is to be considered as unfair. One frequently hears the threat of 'boycott' from buyers, but such action will do more harm than better to workers. Denying a country the opportunity to export and trade may well be to condemn them to even deeper poverty. On the other hand, the buyers may offer some incentive to help improve the factory working condition. There are some examples in Bangladesh where buyers have actually done so (Ahmed *et al*. 2004).

The role of multilateral agencies in promoting decent work in Bangladesh cannot be overemphasized. Disseminating knowledge about labour standards, campaigning the need for good working environment, facilitating dialogues and exchange of ideas amongst stakeholders, etc. are important areas where their involvement can be instrumental. They can also extend technical assistance with regard to the improvement of standards. Many small and medium scale RMG factories find it difficult to comply with the codes of conduct. Helping these enterprises can be an crucial in lifting the decent work record of Bangladesh. Multialteral agencies can also work with the employers to motivating buyers about offering generous incentive packages to the firms complying with labour laws and standards.

IV. Strategies/Programmes Undertaken to Address the Post-MFA Challenges

4.1. Government Initiatives

Having realized the potential adverse consequences arising from the end of textile and garment export quotas, the Government undertook a number of initiatives to address the impending challenges. Most of these initiatives were taken up immediately before the MFA-phase out. The Government set up A *National Coordination Council on RMG* to deal with the problems of the sector on a priority basis by providing important policy directions. A number of meetings of this committee have taken place since its inception, but on a number of critical issues (such as establishment of a centrally bonded warehouse and EU Rules of Origin) there were important differences in interest amongst different groups which could not be resolved. The Ministry of Commerce with the support from the World Bank conducted a study on the *Post-MFA Development Strategy* and many of the recommendations of the study that include, amongst others, promotion of export trade, development of physical infrastructure, establishment of a centrally bonded warehouse, provision for investment incentives, lowering interest rates on exporting activities, human resource development, and marketing support, have not yet been possible to implement.

In another significant development, The Ministry of Commerce designed a Post-MFA Action Programme (PMAP) to mitigate the negative effects emanating from a possible export shock and to help reposition the RMG industry in a quota-free world. A PMAP Steering Committee (PSC), headed by the Secretary of Commerce, has been formed to supervise, monitor and evaluate the activities of the project.[17] Based on the recommendations of a working group formed by the PSC, the following six components have been included in the PMAP Technical Assistance Project Proposal (TAPP):[18]

1. Skill and Quality Development Programme (SQDP);
2. Displaced Workers Rehabilitation Programme (DWRP);
3. Support to Capacity Enhancement Programme (SCEP);
4. Support to Primary Textile Sector (SPTS);
5. Support to Handloom Sector (SHS); and
6. Support to Forward Linkage Industries (SFLI).

[17] Composition of the steering committee include all lead ministries, and stakeholders (BGMEA-Bangladesh Garments Manufacturers and Exporters Association, BTMA- Bangladesh Textile Mills Association, BKMEA-Bangladesh Knitwear Manufacturers and Exporters Association, BTTLMEA- Bangladesh Terry Towel and Linen Manufacturers and Exporters Association, etc.), leading NGOs and development partners. The lead ministries are the Ministry of Textile & Jute; Ministry of Children & Women Affairs; Ministry of Labour, Ministry of Youth and Sports; Ministry Industries, Ministry of Shipping, and Ministry of Civil Aviation and Tourism. Other agencies are the National Board of Revenue, Economic Relations Division, Finance Division, Bangladesh Handloom Board and Bangladesh Bank.

[18] The working groups was formed with representatives from the World Bank, DFID (Department for International Development), SEDF (South Asian Development Facility), BGMEA, BKMEA, ERD, MOL&J and MOFA was formed with PSC's Member-Secretary as its Convenor.

Of the six components, activities related to the first two are more concrete. Under SQDP, training is being provided in six areas namely, compliance norms, quality, productivity, marketing, merchandising, and inventory management. It was estimated that a total of 21,660 participants – representing workers from shop floors to supervisors, managers, marketing officers and executives – would be benefited from the programme (Ministry of Commerce, 2004). These training programmes comprise short-term (up to one week) medium-term (2-12 weeks) and long-term (beyond 12 weeks) courses offered by both public and private institutes such as College of Textiles and Technology, DCCI Business Institute (DBI), BGMEA Institute of Fashion and Technology, etc. A training programme on productivity improvement under this component is to be implemented by SEDF. In DWRP, there is to be support for the women workers losing jobs as a result of the MFA shock. Since, the joblessness for women workers may have disastrous social and economic consequences, this several independent programmes are planned to be undertaken to rehabilitate these workers. The retrenched workers will be trained on handicrafts, nursing, hotel catering, small business, and entrepreneurship, which may also help them find alternative employment. Micro-credit support and subsistence allowance (or, joblessness allowance) for the first few months of the training on alternative trade and employment for this group of women are also under consideration. As a concrete step to mitigate the sufferings of the potential displaced workers, the Government allocated Tk. 200 million in FY 2004-05 to start a programme involving key strategic partners to generate employment for retrenched RMG workers and staff through re-training.[19] A cell at the EPB has been opened to provide support to the retrenched workers but until now no one has applied for assistance.

One important problem with the PMAP is that its effective implementation may take some more time. Specific components under 3-6 above are not well-elaborated and therefore their process of execution is not very clear. The non-inclusion of the trade unions from the ‘steering committee’ can also be considered as a major drawback. Since a large number of the proposed components deal with survival, quality, and efficiency of the workers, participation of the trade unions would have been useful.

The absence of any well-designed component on the improvement of work environment (or, introduction of the decent work programme) may also be regarded as a big omission, particularly when the compliance issue has become a major factor in the post-MFA era.[20] It could have been possible to provide support to the small and medium RMG firms for improving their working conditions, as employers are of the view that these are the enterprises facing the most severe challenges of price competition on the one hand and meeting the compliance requirements on the other.

Apart from the TAPP components, the Government has already taken some significant actions to help the RMG sector become more competitive. Some notable improvements in customs and

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[19] It is called “Garments Employees Re-training & Employment Programme”. The key partners are the Ministry of Children and Women Affairs (MOC&WA), Ministry of Youth and Sports, NGO Bureau and BRAC. BRAC acts as the implementing agency.

[20] Actually, the TAPP on PMAP mentions about compliance issues under the Small Enterprise Capacity Enhancement Programme component. However, no action plan and/or implementation design is provided. It appears that these

ports procedures have been accomplished. While in the past each export consignment required 17 signatures by different officials, currently only five are needed. Freight-forwarding charges have drastically been reduced from as high as Tk15,000-20000 to only about Tk.1,250 per consignment. The government has exempted the fully export oriented industries from paying VAT at the time of importing and exporting and against the commission being paid in handling charges in port operations, freight forwarding, clearing and forwarding agents, shipping agents and insurance companies. All these measures should contribute to reducing costs of business and thus enhancing the competitiveness of the sector.

4.2. Entrepreneurs'/Employers' Response

Despite all the grim predictions, RMG entrepreneurs have remained focussed about their business strategies. New investment on capital machinery was recorded just before the expiry of the quota phase-out, as an indication of entrepreneurs' being hopeful about their business prospects in a quota free world. According to the employers, the next few years are crucial for the sector as it is now being watched by the international buyers to evaluate its performance in a quota free regime. With this view to end, they undertook several initiatives on a number of fronts. Serious efforts were launched (and are still being pursued) to obtain duty-free access into the US market. It has been estimated that such access could increase Bangladesh's annual exports by $0.5 billion (Razzaque, 2005). Since the US market is primarily dominated by woven products, the employment effects of export expansion as a result of zero-tariff access are likely to be very high – one recent estimate suggesting a rise of employment by 180,000.

Entrepreneurs have been trying to address such problems as long lead time, weak compliance, price competition, poor quality management, etc. Specific strategies of leading enterprises include exploring new buyers, consolidating market position, enhancing productivity and quality. However, how small and medium scale firms are coping with the changed situation is yet not known.

In case there is the loss of employment because of factory closure, BGMEA have undertaken some measures so that workers can obtain compensation. It has been learnt that the BGMEA arbitration cell is to work towards ensuring workers' compensation as per law in the event of a factory fails to make compensation.

Largely because of pressures from the buyers, entrepreneurs have become concerned about the compliance of labour and other work place related standards. After discussion with other stakeholders, BGMEA is reported to have developed a code of conduct for the readymade garment sector. The code of conduct is to be discussed in the Tripartite Consultative Committee (TCC) of the Government. If approved, the proposed code can be used as a single code for implementation in the RMG sector.

4.3. Collaboration with Multilateral Agencies

Several collaborations with multilateral agencies have been chalked out to mitigate the consequences arising out of the MFA phase-out. The European Commission and BGMEA under the Euro-Bangla project attempted at exploring business opportunities with three important EU members, viz. Belgium, Greece, and Spain. SEDF and BGMEA jointly organized a Bangladesh Apparel Fair in Japan.

Both BGMEA and BKMEA in collaboration with SEDF are working on a project called Productivity Improvement Porgramme (PIP) with the objectives of increasing competitiveness, performance, and growth.

With regard to compliance, BGMEA entered into a project with the ILO with the professed objectives of improving working conditions and labour relations in the garment factories. Since the initiation of the project, more than 300 factories have been monitored for compliance with labour law and social standards. In addition, BGMEA has launched a compliance cell to help factories become compliant. In about 100 factories compliance training has been conducted using the training materials developed by the ILO. On the other hand, the BKMEA is working with the German Technical Cooperation (GTZ) to ensure compliance, skill development, and a common code of conduct for the knit sector.

The BGMEA-ILO partnership project has initiated a process of dialogue between workers and employers. Workers Welfare Committees (WWC) have been formed in the factories which are being monitored as part of the project. In these factories consultations with workers take place which help maintain good relationship with the management. Although no quantitative evidence is yet available, there is a strong feeling that regular consultations with workers have a positive impact on workers and on their productivity.

There is no denying that interaction between workers and management has traditionally been at a minimum level. Such a relationship between workers and employers is not conducive to a healthy growth of any sector. Constructive social dialogues can help identify areas for potential competitive strengths for the industry as well as recognize the factors that strongly motivate the workers. Under such an atmosphere, professional developments take place to the benefit of the individual workers and the industry.

V. Concluding Remarks

With the end of the MFA system, Bangladesh's RMG exports have now entered into a new era, embracing a fierce competition from all other dominant suppliers of the same products that have long been severely constrained by quantitative restrictions imposed by developed countries. Most academic empirical studies predicted a gloomy export prospect for Bangladesh after the worldwide liberalization of trade in textiles and clothing. The data for the first five months of 2005 is currently available, which shows that compared to the same period of 2004, Bangladesh's exports of RMG in the post-MFA period have registered a modest growth rate of about 9 per cent. Disaggregated data over destination countries reveal that exports of woven-RMG, particularly to the EU, are under serious pressure, while the performance of knitwear products has been truly remarkable.

The quota-free global trade in textile and clothing may also have implications for employment situation and work conditions. Until now, however, there is no reported case of factory closure and the resultant loss of employment. Whether increased price competition has had any adverse impact on the conditions of work is still not clear, largely because of lack of data.

International competitiveness of countries is considered to be the key to survival in the post-MFA world. However, competitiveness in global markets is no longer limited to technical and economic standards, but includes social standards, especially labour standards and environmental issues. Therefore, apart from the factors associated with the improvement of price competitiveness, it is also important to bring about positive qualitative changes in the environment of production and working conditions. These are the areas where Bangladesh has to overcome critical challenges to consolidate its position in the global market. Particularly, the decent work record of the export-oriented RMG sector is far from satisfactory. Since compliance has become a major issue, concerted efforts need to be undertaken by the Government and all other stakeholders to ensure Bangladesh's continued export success on the one hand, and to promote decent work environment to protect workers' interest and welfare on the other. To conclude, the following issues are being emphasized based on the discussions in the present paper.

While export trends get much more priority attention, employment situation and work conditions are generally overlooked. Changes in employment situation may not get reflected in the aggregate export trend. Increased competition exerting downward pressures on prices may adversely affect workers' wages and other benefits. Besides, labour intensity between woven and knit sectors differ quite significantly and, therefore, any shift in the product composition can have important effects on employment without any noticeable change in the export trend. There is a need for continued monitoring of export orders by categories along with changes taking place in terms of number of employment, working hours, wages, and working conditions to make an informative assessment of the emerging trends. Such monitoring will assist stakeholders to chalk out effective strategies and programmes, if and whenever needed. Currently, data and information related to employment and working condition situations in the RMG industry are not gathered and published on a regular basis, which calls for immediate attention and action.

The above data generating process can be tailored in such a way so that indicators of working conditions can be captured and monitored regularly to assess the overtime trend in decent work record of the RMG industry.

As discussed in earlier, the limited scope of enhancing competitiveness through improved labour productivity should not be considered as a discouraging factor in promoting better working conditions. Firms engaged in producing global brand items, are likely to have relatively large share of labour in their cost structures, thus providing considerable scopes for influencing competitiveness. Policy support in terms of reduced costs of doing business (in terms of efficient ports and inland transportation, removal of administrative bottlenecks and corrupt practices) will also provide firms with saved resources to be spent on improving working environment.

In improving the compliance record of the industry, the role of government cannot be overemphasized. Since the demand for better working environment by buyers and consumers cannot guarantee increased exports and market success, giving manufacturers limited incentive to comply with, decent work conditions need to be ensured by a more pro-active role of the

Government. Even without comparing with other countries, there is a need for setting standards with regard to minimum wages and other working conditions in an absolute sense. The compliance with these conditions should be considered as the provision of 'merit goods'.

The pro-active role of the Government should not be an obstacle to the private sector growth and development. Ideally, with the involvement of representatives from the employers, labour unions, and all other stakeholders, the Government should facilitate the preparation of a code of conduct for all aspect related to the business activities in the RMG sector. The enforcement of this conduct can be done with a similar multi-stakeholder group. This could give much needed credibility to the enforcement mechanism.

Employers play a central role in the working condition of their firms. They need to identify the compliance problems themselves and find out means to address them. Through dissemination of knowledge and campaign and by providing technical assistance the multilateral agencies can greatly help improve the work environment in the RMG sector. Such a combined effort need to be coordinated effectively either under the leadership of the Government or by any other stakeholder group.

The Post-MFA Action Plan (PMAP) project needs to be effectively implemented. Although immediately after the MFA-phase there has not been any evidence of serious export shocks and employment losses, things could change when the existing restrictions on China cannot be maintained after 2008. Therefore, capitalizing on the breathing space over the next couple of years, it is important to consolidate Bangladesh's position in the global export market. The issue of compliance in the PMAP has not received adequate attention and it may be useful build it as an independent component. Bangladesh should target to earn repute as a compliant country within the next two years. With this view to end, the Government in collaboration with the employers, trade union bodies, and multilateral agencies may develop a strategy of gradual and incremental implementation of a decent work strategy. Providing attractive financial and fiscal incentives to the compliant firms may be considered.

Many small and medium RMG firms find it difficult to comply with the standards. Special priority should be given to address their problems, as the business prospect for them in the post-MFA period is not so well one the one hand, complying with labour and environment standards can have immediate cost-raising effects, making them uncompetitive. It may be possible to arrange funds for these factories so that improvement of certain infrastructural facilities can be supported.

Under the PMAP, a number of training programmes are being envisaged. What is however important is to ensure the quality of these training programmes.

As part of the decent work development strategy, social dialogues involving employers, workers, policymakers and representative from multilateral agencies should be promoted. This might be an effective forum for discussing various issues and problem in a constructive way and disseminating information. Increased interaction between workers and management at the firm level can lead to professional developments to the benefit of the individual workers as well as the industry.

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Appendix Tables

Appendix Table 1: Bangladesh's Exports of RMG in the US Market

Year	Export to US (US$ million)	Growth of export earnings (%)	Market share (%) in terms of value	Export of quantity (in million SMEs)	Growth quantity (%)	Market share in terms of quantity (%)
1989	364	-	1.55	315	-	2.41
1990	478	31.59	1.95	382	21.30	2.89
1991	476	-0.50	1.87	341	-10.75	2.46
1992	744	56.36	2.46	465	36.20	2.96
1993	787	5.76	2.42	493	6.15	2.85
1994	954	21.13	2.68	596	20.82	3.18
1995	1,146	20.14	2.85	714	19.84	3.62
1996	1,196	4.41	2.82	664	-7.04	3.22
1997	1,515	26.60	3.04	786	18.42	3.21
1998	1,723	13.75	3.09	923	17.38	3.34
1999	1,780	3.33	3.01	985	6.69	3.23
2000	2,236	25.61	3.35	1,186	20.41	3.36
2001	2,239	0.12	3.40	1,221	2.94	3.51
2002	2,016	-9.95	3.05	1,149	-1.80	2.94
2003	1,957	-2.92	2.71	1,109	-5.74	2.36
2004	2,065	5.51	2.48	1.108	0	2.36

Note: In the US market the quantity of MFA items is often measured by the square meter equivalents (SMEs).
Source: Computed on the basis of the data base of OTEXA.

Appendix Table 2: Share of the US Market by Competitors in terms of Value (per cent)

20 Exporters	1990	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
World	100	100	100	100	100	100	100	100	100	100	100
CBI	7.25	11.49	12.61	13.30	14.25	13.88	13.99	13.43	13.46	13.21	12.50
NAFTA	4.16	8.03	10.66	13.56	15.42	16.90	18.31	18.19	17.24	16.37	14.28
AGOA	0.65	0.97	0.94	0.83	0.84	0.91	0.95	1.08	1.39	1.55	1.39
Restrained countries	79.30	77.45	74.63	71.29	69.93	68.53	66.88	66.80	67.02	67.66	69.38
Bangladesh	**1.55**	**2.68**	**2.85**	**2.82**	**3.04**	**3.09**	**3.01**	**3.35**	**3.40**	**3.05**	**2.71**
China	12.73	12.33	10.92	10.65	11.16	9.77	9.62	9.10	9.31	12.11	14.99
Costa Rica	1.39	1.73	1.74	1.55	1.57	1.38	1.30	1.16	1.07	1.01	0.77
El Salvador	0.25	1.05	1.38	1.63	2.00	1.99	2.14	2.25	2.34	2.37	2.27
Guatemala	0.74	1.53	1.59	1.76	1.80	1.90	1.95	2.09	2.30	2.31	2.29
Honduras	0.42	1.62	2.10	2.66	3.08	3.11	3.39	3.25	3.34	3.39	3.24
Hong Kong	13.60	11.02	9.99	8.78	7.59	7.65	7.00	6.57	6.27	5.59	4.93
India	2.84	3.80	3.67	3.78	3.72	3.79	3.74	3.82	3.75	4.15	4.15
Indonesia	2.49	2.93	3.04	3.25	3.47	3.27	3.07	3.32	3.63	3.23	3.07
Korea Rep	9.73	6.13	5.16	4.46	4.24	4.37	4.53	4.28	4.17	3.99	3.32
Mexico	2.43	4.74	6.91	9.21	10.98	12.34	13.52	13.52	12.73	11.94	10.25
Pakistan	1.53	1.92	2.20	2.20	2.22	2.36	2.31	2.56	2.74	2.75	2.86
Sri Lanka	1.57	2.23	2.33	2.48	2.52	2.46	2.31	2.34	2.42	2.12	1.93
Thailand	2.13	3.09	3.22	3.05	3.08	3.25	3.25	3.41	3.48	3.05	2.68
Vietnam	-	0.01	0.04	0.05	0.05	0.05	0.06	0.07	0.07	1.32	3.21

Source: Computed on the basis of the published information by ITCB.

Appendix Table 3: Bangladesh's Exports of RMG in the EU Market

Year	Export to EU (US$ million)	Growth of export earnings (per cent)	Market share (%) (Extra-EU) in terms of value	Export of quantity (tons)	Growth quantity (%)	Market share (Extra-EU) in terms of quantity (%)
1990	402	-	0.94	132050	-	3.19
1994	1,026	-	1.89	198803	-	3.58
1995	1,380	34.50	2.27	220112	10.72	4.12
1996	1,570	13.77	2.51	247667	12.52	4.43
1997	1,771	12.80	2.73	248942	0.51	3.97
1998	1,951	10.16	2.90	286652	15.15	4.35
1999	1,995	2.26	3.05	314011	9.54	4.56
2000	2,446	22.61	3.71	329431	4.91	4.37
2001	2,611	6.75	3.75	358308	8.77	3.57
2002	2,694	3.18	3.69	376437	5.06	4.31
2003	3,602	33.7	4.65	-	-	-
2004	4,784	32.8	5.39	-	-	-

Note: The quantity is measured in terms of tons. '– ' indicates non-availability of data.
Source: Computed on the basis of the published information by ITCB.

Appendix Table 4: EU Market Share by Competitor Countries in terms of Value (per cent)

Exporters	1995	1996	1997	1998	1999	2000	2001	2002	2003
All Extra-EU	100	100	100	100	100	100	100	100	100
Bangladesh	**2.27**	**2.51**	**2.73**	**2.90**	**3.05**	**3.71**	**3.75**	**3.70**	**3.72**
China	13.46	14.47	15.15	15.38	16.64	17.55	17.45	18.87	19.45
Hong Kong	5.91	5.54	4.96	4.76	4.89	4.55	3.60	3.21	3.15
India	6.77	6.58	6.06	5.73	5.64	5.75	5.76	5.58	5.58
Indonesia	3.38	3.31	3.53	3.35	3.09	3.21	3.16	2.71	2.29
Korea	1.93	1.81	2.25	2.24	2.48	2.67	2.34	2.11	2.11
Pakistan	2.59	2.61	2.50	2.46	2.37	2.28	2.27	2.51	2.63
Sri Lanka	1.01	1.03	1.06	1.08	1.13	1.20	1.04	1.00	1.00
Thailand	2.03	1.93	1.90	1.80	1.80	1.73	1.59	1.57	1.53
Vietnam	0.75	0.93	1.10	1.13	1.21	1.30	1.26	1.18	1.25

Source: Computed on the basis of the published information by ITCB.