

**ENHANCING EMPLOYMENT AND GLOBAL COMPETITIVENESS  
THROUGH DECENT WORK:  
POST-MFA CHALLENGES AND OPPORTUNITES  
BANGLADESH DECENT WORK PILOT PROGRAMME**

## **Briefing Note**

Greater integration in global markets carries with it opportunities as well as risks. The concerns over the implications of the termination of the MFA underscore two sides of the global challenge: on one hand, the pressure to improve global competitiveness and productivity in order to sustain and expand economic growth and employment; on the other, the need minimize employment and income insecurity, limit possible job losses caused by market declines and shifts, and ensure that workers benefit from new employment opportunities.

The National Policy Dialogue on Globalization, Decent Work and Poverty Reduction (Dhaka, April 2004) expressed concern over the threats posed by the global markets on current jobs and future employment opportunities, more specifically the implications of post-MFA regime. One of the priorities identified by the tripartite partners, and endorsed by the DWPP Advisory Body in 2004, for the Bangladesh Decent Work Pilot Programme was the development of a package of measures that would effectively respond to RMG workers' displacement and promote employment security within the context of global uncertainties.

### **I. Bangladesh RMG in a post-MFA world**

Readymade garments (RMG) make up the bulk (about two-thirds of gross export earnings) of Bangladesh exports. It also represents the largest manufacturing industry in the country Bangladesh by far - about 70 percent of total manufacturing output. Its phenomenal expansion from an insignificant industry in the 1970s to a major supplier of garments in the global market is due to the MFA.

The industry has generated jobs for some 1.4-1.8 million workers and has expanded women's formal labour market participation. Women make up roughly 85-90 percent of the RMG direct workforce. However, net benefits are small (about 25-30 per cent of gross value), as the RMG industry imports almost all inputs other than labour.

The number of factories was reported to be 3,800 in the Gherzi Report<sup>1</sup> but a more recent source quotes 3,914 RMG units<sup>2</sup>. RMG exports increased from US\$0.64 billion in 1990 to

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<sup>1</sup> Gherzi Executive Summary, 2003. Based on Gherzi Textile and Project promotion and Management Associates, "Strategic development and marketing plans for RMG and Related industries," report submitted to the Ministry of Commerce, Government of Bangladesh, December 2002.

US\$4.86 billion in 2001. Export volume continued to increase in 2002, 7.5 percent higher than 2001; but export value was lower by 7.5 percent.<sup>3</sup>

Under the third stage of MFA quota removal (2002-2004), Bangladesh exports that fell under Phase III integration declined by 46 percent (in value terms) in the EU market and 41 percent in the US market while Chinese exports surged in 2001-2003.<sup>4</sup> Among the seven categories of products for which quotas were removed in the US market in 2002, Bangladesh suffered export losses in all but one category.

### **Pre-2005 prognoses: largely pessimistic**

Several studies that had examined the RMG industry and attempted to measure the effects of the termination of the MFA gave rather bleak prognoses.<sup>5</sup>

Most agreed that the impact was likely to be negative if the Bangladesh government and the industry did little to address the conditions that hamper export competitiveness under the post-MFA regime. The Gherzi Report reported a largely pessimistic view among some 600 key informants interviewed, and found this to be “justified” in spite of the unique growth of Bangladesh RMG industry in the 1990s because: “The increasing Bangladesh export levels of the 1990s were achieved in the specific competitive market environment governed by quotas and market access regulations that will no longer apply in the Post MFA era.”

There were several estimates about the quantitative impact of quota removal on exports, enterprises and jobs. Some were based on interviews with key informants, simulations, past experience and extrapolation from performance of Bangladesh exports under previous stages of MFA phase-out. Verbal estimates of enterprise closures and employment ranged from the most pessimistic (as much as 1 million workers losing their jobs) to a less pessimistic one (300,000 workers losing jobs, a third of factories closing).

Yet, against all grim predictions, there were some positive or encouraging developments just before the removal of all quotas. In preparation for stiffer competition, some enterprises had begun to take measures to upgrade production process and productivity. Capital and machinery imports for RMG and textile industries increased in the recent years before 2005. None had been documented but there were reports of mergers and acquisitions, indicating a move towards larger-scale operations<sup>6</sup>; more aggressive marketing strategies and establishment of closer stable links with buyers; adoption of new technology (e.g. computer-aided design and cutting); and relocation of some factories to more spacious and suitable factory sites. Two new products had emerged as well – hosiery and rugs.<sup>7</sup>

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<sup>2</sup> Letter of BGMEA to Ministry of Commerce, dated 14 August 2004.

<sup>3</sup> Gherzi *ibid*.

<sup>4</sup> Monfort Nlachila and Yonbgzheng Yang, “The end of textiles quota: A case study of the impact on Bangladesh,” IMF Working Paper, WP/04/108.

<sup>5</sup> Gherzi *ibid*; IMF *ibid*; Syed Azim, “Report on Bangladesh RMG Supply Chain: with specific reference to post-MFA consequences”. Project Preparation Technical Assistance (PPTA), report submitted to ADB May 31 2003; The Innovators, “Exports of RMG and MFA Phase-out”; Keith Stuart-Smith & Mashuda Khatun Shefali, “Study report on post MFA strategy for the RMG workers in Bangladesh”, March 2003; CPD, “Rapid Appraisal of RMG”.

<sup>6</sup> It is not known if this will mean less subcontracting to smaller enterprises.

<sup>7</sup> According to an official of the Centre for Policy Dialogue (CPD) interviewed by the ILO team.

However, it was obvious that only a certain segment of the RMG industry have the capacity to upgrade along the garments global value chain. According to the Gherzi report, the large economic sized enterprises (reported to be 570) will have that capacity, but not “many of the medium sized companies and small sized companies many not be of an economic size to make the necessary adjustments even if they wanted to.”

International buyers were also reported to have expanded their offices and networks in Dhaka, treating Bangladesh as one of their most important suppliers. The EU and US prepared to restrict import surge from China, which discouraged many importers to source from China alone.

The Government of Bangladesh drew up a Post-MFA Action Plan (PMAP) with a total cost of \$40M, which it circulated in the donor community to mobilize funds. The PMAP placed heavy emphasis on reducing lead times through port improvements, customs reform, shipping regulations, better backward linkages (local raw textile materials), product quality, technology and export diversification. One component of the PMAP dealt with worker displacement – the Displaced Workers Rehabilitation Program of the Post-MFA Action Program. The Government allotted \$3M (Taka 20 crores) for training and revolving loan fund for laid-off workers.

Many other international organizations undertook or initiated projects to assist the RMG industry or the Government to respond to the post-MFA challenges. The UNDP project on "Sustainable Employment Policy Options in the post-MFA Era" carried out series of studies with the end in view of formulating an “Employment Policy Options Project Document” and a Bangladesh Government TAPP by the end of 2004. The studies were: (i) quantitative employment impact assessment study based on secondary data; (ii) qualitative employment impact assessment study based on focused group discussions among workers; (iii) human development trade agreements impact assessment study; (iv) development of social safety scheme study; (v) identification of employment-oriented exports sectors; (vi) development of modality for SMEs productive and marketing efficiency; and (vii) development of training and re-training modality. As a result of these studies, UNDP will provide technical assistance to a Social Compliance Cell in the Export Promotion Board.

The ADB also proposed a Small and Medium Enterprise Sector Development Program (SMESDP), with total loan amount of \$50 million and TA grant of \$600,000.<sup>8</sup> The proposed programme had a sub-component on “Skills retraining of displaced RMG workers” (worth US\$ 1.035 million), which will train displaced RMG workers in specific skills required by SMEs.<sup>9</sup> Several international organizations (WB, GTZ, DfID), which were supporting private sector development, were also aligning their support to meet the post-MFA challenges in the RMG sector.

### **Initial export trends in 2005: not as bleak as expected**

As data on Bangladesh’s exports of apparel products are available only until April 2005 (as of this writing), early signals in the post-MFA period can only be read with four months’ export

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<sup>8</sup> Information on the present status of this ADB proposal has not been obtained.

<sup>9</sup> ADB Pre-Appraisal Mission (7-22 September 1004), “Aide Memoire, Bangladesh: Small and Medium Enterprise Sector Development Program (SMESDP)”

figures. In general, the Bangladesh Export Promotion Board (EPB) exports data seem to reveal a mixed outlook for Bangladesh.

For the whole period January-May 2005, the growth of total RMG exports is estimated to be 8.7 percent over the same period in 2004. 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 2004. Compared to the same period of the previous year, the growth of exports was modest in March 2005 (only about 5 per cent over the same month of 2004), stagnant in April 2005, and substantial at 13 percent for May 2005.

Table 1 Total Apparel 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*

Note: \*provisional estimate

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. Woven exports declined by 6.6 percent in the initial post-MFA period. In contrast, as it can be computed from Table 2, knitwear products enjoyed a robust growth rate of 32.5 percent.

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

	2001	2002	2003	2004	2005
<u>Exports of Woven-RMG Products</u>					
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	304.12	264.54
April	240.66	190.15	239.48	263.10	236.57
<u>Exports of Knit-wear Products</u>					
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

Source: EPB data.

Table 3 gives the data on exports of apparel products from Bangladesh to the US. The export 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 in 2005 was about 18 percent. Growth rates for knit-RMG have been truly dramatic. Knit garment export earnings for January-April 2005 stood at US\$133.6 million, which is 250 percent higher than the small figure US\$34.8 million for the same period of 2004.

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

	2003			2004			2005		
	Woven	Knit	Total	Woven	Knit	Total	Woven	Knit	Total
January	131.37	23.23	154.6	14.79	12.2	146.99	141.76	33.9	175.66
February	113.9	17.97	131.87	88.86	5.84	94.7	131.76	29.51	161.27
March	114.98	21.00	135.98	113.43	7.6	121.03	115.80	29.70	145.60
April	108.80	24.70	133.60	108.80	24.70	133.60	125.70	29.30	155.10

Source: EPB data.

In conclusion, early figures counter the pessimistic predictions last year. The most encouraging sign for Bangladesh is the rapid growth of knitwear products in the US market although the base of knitwear exports in the US market is still very low. Woven garments exports have done as well.

However, it is much too early to establish how the Bangladesh RMG exports will really fair. Some say that the early 2005 export figures reflect traces of previous orders and extra efforts by buyers to guarantee their sources of supply, and that the real impact would be evident in 2008.

### **What about the post-MFA impact on employment?**

Adjustments and changes in the RMG sector as a result of, and in response to, the new post-MFA conditions (such a moves towards higher share of knit exports, towards larger internal economies of scale, more modern technology; and stiffer price competition) are likely to affect employment, specifically skills requirements, occupational structure, female-male share of jobs, wages and working conditions, and management of human resources and labour relations.

However, data on employment and profile of workers in the RMG sector is inadequate and not systematically obtained.

There have no reports of wholesale dismissals of workers or job losses. However, this does not say anything about job and worker turnover at enterprise level, which may have increased. Trade unions and workers have reported job losses and fears of future job loss, and increased working hours (the Government suspended temporarily its restriction on the total number of overtime hours per worker per week).<sup>10</sup>

At least among large companies, a sizeable number have carried out improvements in their working conditions and labour relations. The ILO-BGMEA Partnership Project on labour

<sup>10</sup> See A.R. Chowdhury Repon & Syeed Ahamed, "Social and Economic costs of post-MFA: Workers' perspectives", a paper written for the ILO and the National Tripartite Meeting on 24 August 2005, Dhaka.

relations and working conditions has assisted 300 large factories identify and adopt improvements. The principal motivating forces behind these moves are buyers' codes of conduct and the increasing acceptance that Bangladesh has to change its poor social image in the global market.

## **II. Value-added of the DWPP**

### **Context for ILO action**

By August 2004, the ILO Bangladesh DWPP team had made the following observations:

- There was little documented information on (i) employment structure and post-MFA employment implications apart from various estimates of job losses based on export declines; (ii) extent and nature of restructuring and upgrading in the industry; (iii) profile of RMG workers (employability and capacity to adjust); and (iv) how a programme on displaced workers might work.
- The economic and technical aspects of the industry dominated the official and principal strategies for strengthening the competitive position of the RMG industry. The contribution of (and implications on) the social (human and decent work) dimensions has been marginal. Skills training was regarded as a valuable factor. Labour costs were seen as a comparative advantage and in relation to productivity. Labour standards were seen purely as forming part of the new global standards.
- There was no integrated framework, which was shared among relevant institutional actors, for responding to the employment impact of the MFA phase-out.
- The Labour Ministry and trade unions had not been involved in consultations on PMAP or the workers' displacement programme. More generally, tripartite consultations and social dialogue had not been part of the post-MFA agenda setting process.

At the same time, there were many actors engaged in the whole post-MFA discourse and agenda setting. Most importantly, the UNDP had embarked on its own project, "Sustainable Employment Policy Options in the post-MFA Era", which sought to address employment and social protection issues.

### **Niche for the Decent Work perspective**

The ILO Bangladesh DWPP team had identified two policy areas that demanded attention:

- Restructuring and upgrading of the RMG industry, primarily involving enterprises that have the capacity to upgrade, adjust and innovate – calls for the incorporation of the social and decent work dimensions, that ensures protection of workers' jobs and workers' employability, while also promoting productivity and competitiveness
- Workers' displacement that is likely to occur as a result of closure or downsizing of many small and medium sized enterprises that are unable to adjust and compete in the new post-MFA situation – calls for integrated response that includes protection of income security and worker's employability

It was clear that the value addition of the DWPP would consist of:

- (i) Asserting the role of social dialogue, and particularly, tripartite consultation, as the effective process for building a much needed consensus on ways of strengthening

the RMG industry, and negotiating responses to issues on which workers and employers had differing perspectives and/or interests. This would strengthen the position of workers and trade unions, which had so far been marginal in the agenda-setting circles.

- (ii) Highlighting and promoting an integrated and Decent Work-based approach to industry upgrading, restructuring and competitiveness that takes into account not only the technical and economic factors but also the social and decent work dimensions.

As a first step in the process, the Bangladesh DWPP team in consultation with the tripartite partners decided to hold a national tripartite meeting on the social and decent work dimensions of the post-MFA challenges and opportunities, which would give the social partners a venue for identifying common areas of interest and action, a basis for developing a tripartite plan of action. At the meeting of the DWPP Advisory Body in April 2005, it was decided that the Ministry of Commerce, which was responsible for the national Post-MFA Action Plan, would be requested to convene the tripartite meeting.

By June 2005, the national political context had become more favourable for a strong policy attention on the social and workers' dimensions of the post-MFA environment. The Ministry of Commerce, with assistance of the UNDP and the International MFA Forum, held the "Forum on the Future: Conference on an Internationally Competitive Textile and Garment Industry" on 27-28 June 2005 in Dhaka. With the participation of the ITGLWF, international ethical trade organizations who constitute the International MFA Forum, the UNDP and the ILO, the conclusions of the Forum incorporated into the agenda the concerns over compliance with international labour standards, national labour laws and codes of conduct; industrial relations and social dialogue, and health and safety. The Forum set up a Social Compliance Forum for RMG, which was directed to expand its composition to ensure tripartite dialogue.

### **III. National Tripartite Meeting in the RMG sector: outcomes**

The National Tripartite Meeting was held on 24 August. It underscored the importance of tripartite dialogue in constructing national responses to difficult global challenges that involved differing if not competing interests among the social partners. It aimed to elicit the views of the social partners on the challenges and opportunities in the RMG industry, particularly in the light of the new post-MFA trade regime, and identify feasible elements for future joint action.

It had high-level participation from the Minister of Commerce, Adviser (with rank of State Minister) to the Commerce Ministry and the Secretary of the Commerce Ministry at the inaugural ceremony; the Ministry of Commerce Secretary at the closing session; the Joint Secretaries of both ministries of Commerce and Labour and Employment throughout the meeting; and the presidents of BGMEA and BKMEA and the top officials of the trade union centres directly engaged in the garment industry.

Workers' officers and representatives came in full force, making up roughly 40-50 percent of total participants.

A representative of the Cotton Group, a buying house based in Dhaka, spoke at the panel on "Managing risks to employment and incomes: minimizing negative effects".

Prior to the national meeting, on 23 August, separate consultations with the employers' organizations (Bangladesh Employers' Federation, BGMEA, BKMEA<sup>11</sup>) and with the workers' organizations under the National Coordinating Committee on Workers' Education (NCCWE). These consultations had been organized by the ILO in coordination with the BEF and the NCCWE, and were aimed at providing the workers and employers a forum for consolidating their perspectives, prioritising issues and identifying areas of common interest and possible joint action with the tripartite partners. These pre-tripartite meeting consultations proved helpful. For example, the workers decided to underscore three top priorities, among a list of recommendations, at the National Tripartite Meeting: appointment letter for workers, respect for core international labour conventions and wages.

## **Perspectives of the social partners**

At the National Tripartite Meeting, four papers were presented to give an overview of the different perspectives of the situation in the RMG sector.<sup>12</sup> A policy issues paper gave an overview of the recent export trends, identified key issues and implications for employment, wages and working conditions, and identified the thrusts and gaps in post-MFA responses of the Government, employers and trade unions. This was followed by the papers of the Workers, Employers and the Government (Ministry of Commerce).

The Employers' and Workers' presentations gave the same message that measures should be taken to ensure survival and growth of the RMG export industry in the post-MFA era and that employers, trade unions and workers should work together. There was also clear consensus on the importance of health and safety, working conditions, upgrading workers' skills, and improving the communication between workers and supervisors and managers for purpose of raising productivity and competitiveness. But the differences lay in emphasis and operational aspects. For example, the Employers' paper gave more emphasis to improvements in decent work that have been adopted in the bigger factories, while the Workers were much more critical of the decent work situation in RMG factories and stressed the notion of respect for workers' rights and enforcement of national laws.

The Workers' paper pointed out that improvement was needed particularly in the areas of wages, working conditions and welfare measures, and that legal and social protection has not been adequately enforced. The Workers put forward three priorities for further discussion with the employers' organizations and the Government, as follows:

- i. Issuance of appointment letter (contract) to every worker. As of date, the national labour law requires employers only to give their employees an identity card and a service book, both of which are not respected by many employers.
- ii. Revision of the minimum wage in the RMG sector as it has not been revised since

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<sup>11</sup> BGMEA - Bangladesh Garments Manufacturers and Exporters Association; BKMEA - Bangladesh Knitwear Manufacturers and Exporters Association

<sup>12</sup> Papers prepared for the National Tripartite Meeting: (1) Bazlul H. Khondker, Abdur Razaque & Nazneen Ahmed, "Exports, employment and working conditions: Emerging issues in the post-MFA RMG industry, July 2005; (2) Sk. Jeneefa Jabbar, "Ready made garment sector in Bangladesh: A study from the employers' perspective; (3) A.R. Chowdhury Repon & Syeed Ahamed, "Social and Economic costs of post-MFA: Workers' perspectives; and (4) Siddiqur Rahman Choudhury & Md. Ghulam Hussain, "Post-MFA issues and challenges: Social dimension", 24 August 2005. The ILO provided the terms of reference and external collaboration contracts for these papers.

1994. The US dollar value of the minimum wage in 2005 is half of its value in 1994, while the RMG sector is selling its goods at dollar price.
- iii. Compliance with and enforcement of the core International Labour Conventions. The Government of Bangladesh has ratified Convention No. 29 (forced labour), Convention No. 105 (abolition of forced labour), Convention No.87 (freedom of association), Convention No.98 (right to organise and collective bargaining), Convention No. 100 (equal remuneration), Convention No. 111 (freedom from discrimination in employment and occupation), and Convention No. 182 (elimination of the worst forms of child labour). The Workers emphasized the need for compliance with Convention Nos. 87 and 98.

## Highlights of the discussion

Speakers, discussants and participants all stressed the need for building a national consensus among the tripartite partners and other actors in the RMG sector, through the practice of social dialogue, on measures that would protect Bangladesh RMG export market, ensure the growth of the industry, and minimize the social & economic costs of the termination of the MFA. Employers and Workers called for developing constructive and non-antagonistic labour relations in the RMG sector, and for closer collaboration between them and their representative organizations.

The post-MFA impact on employment at macro level was not evident during the January-June 2005 period. However, this may be dissimulating adjustments in the labour market and job turnover that are evident only when one looks at the enterprise level. The share of knitwear of total garment exports has increased, while woven exports have declined; prices have gone down further and price competition continues to be stiff; and smaller factories are more vulnerable and less likely to survive. These trends are likely to lead to labour market adjustments, affecting employment and working conditions, such as job losses in woven garments factories, more jobs for men in male the machine-intensive knitwear exports; and downward pressure on wages and working conditions. However, data on employment and working conditions in the RMG industry is inadequate and not collected systematically.

The Tripartite Meeting noted that, in addition to quality, price and lead time, compliance to labour and social standards has become a must for sustained competitiveness in the global market. There was consensus among the tripartite partners that improving working conditions and workers' welfare was desirable not only to meet buyers' social compliance requirements but also to raise productivity and to meet workers' needs.<sup>13</sup> The Cotton Group representative, while noting that buyers were mixed with some having codes of conduct and others, none, underscored that the Cotton Group was a "responsible buyer", practicing ethical conduct and expecting the same from its suppliers, and committed to assist Bangladesh.

It was also observed that social compliance was poor in many factories, especially in smaller

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<sup>13</sup> If one were to go purely by the statements made by the BGMEA and BKMEA presidents, there is positive space for future bipartite dialogue on workers' priority issues. The presidents agreed on the need for better workers' facilities and working environment, and for better social compliance; they did not pose objection to need for appointment letters; and minimum wage was regarded as a "discussable" issue. But the employers attributed the problems of compliance mainly to the lower-end segments (smaller in scale, subcontracting enterprises) of the industry.

units, due to several reasons - primarily ignorance or lack of awareness of labour standards and their importance; the absence of direct contact with big brand names and buyers which enforce codes of conduct; lack of capacity; and weak government inspection and enforcement machinery.

Finally, the meeting decided to request the Ministry of Commerce to submit the conclusions of the Meeting to the Social Compliance Forum, which would provide the framework for further tripartite deliberations on the conclusions and a tripartite plan of action. The Social Compliance Forum for RMG, which is chaired by the Ministry of Commerce, provides a vehicle for finding solutions to issues and problems facing the whole RMG sector, i.e. the employers, the workers and trade unions.

**Annex**  
**POPULATION OF RMG UNITS**

**Source: BGMEA, letter to Ministry of Commerce, 15 August 2004**

Total RMG units: 3944

Classification of RMG units by employment size

Employment Size	Dhaka Area		Chittagong Area		Total
	Woven Garments	Knitted Garments	Woven Garments	Knitted Garments	
0-99					678
100-199					476
200-299					835
300-399					687
400-499					460
500 & above (would be better to disaggregate this further)					808
Total					
Total by City	3014				3944

**Source: Gherzi Report, 2003**

Total RMG units: 3800

Fabric forming technology

Woven garments: 3150 (82.9%)

Knitted garments 650 (17.1%)

Economic size

Large-sized: 570 (15%)

Medium-sized: 1900 (50%)

Small-sized: 1330 (35%)

EPZ / non-EPZ

EPZ-based units: 42

Market linkage

Formal, prime contractors: 1140 (30%)

Partly prime contractors-partly sub-contractors: 1900 (50%)

Subcontractors – informal, artisan: 760 (20%)