

SEWING SUCCESS: EMPLOYMENT AND WAGES OF THE END OF THE MULTI- FIBRE ARRANGEMENT

Motivation

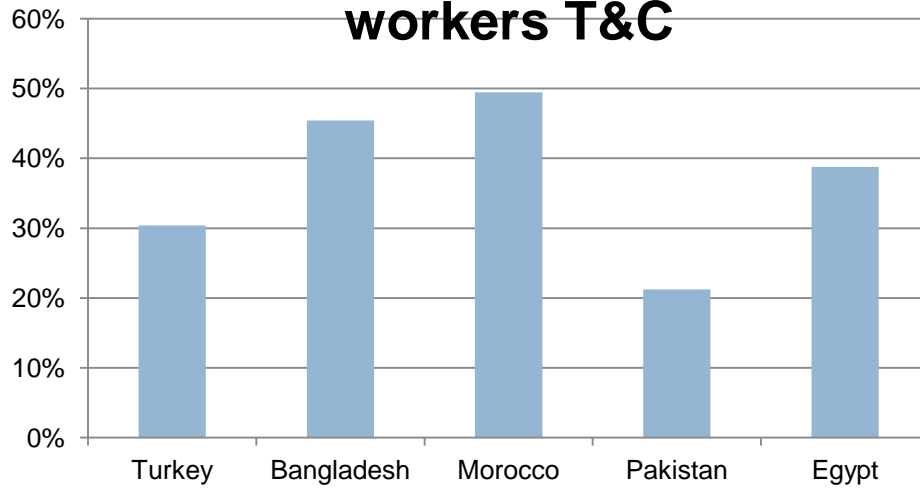
- Apparel and Poverty
 - 70% of world apparel exports came from low income countries in 2008
 - Apparel provides entry to formal employment for the unskilled, the poor and women
- The Multi-fibre Arrangement (MFA) was a Global System of Quotas
 - Controlled apparel and textile trade
 - Phased out with final end in December 2004
- Implications of the MFA end
 - Reallocation of production across countries
 - Increase in exports
 - Decrease in apparel prices

Characteristics of the Apparel Industry (T&G)

- In nearly all countries, most workers in apparel sector are women
- Vertically Integrated (Value Chains)
- Buyer Driven
- “Good” Jobs
 - Higher wages than alternative (agriculture)
 - Better working conditions than alternatives
 - Gateway for women into manufacturing
- Very Wage Sensitive

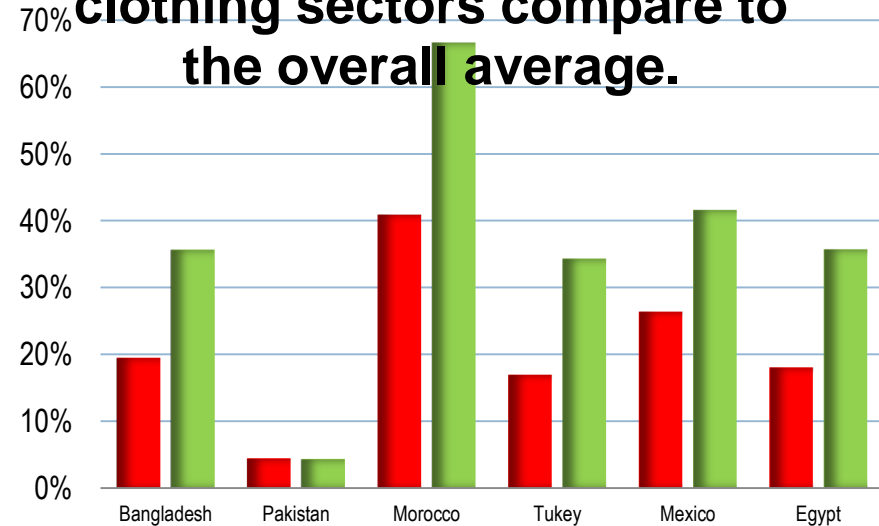
The T&C sector employs a large share of unskilled workers and women

Share of unskilled production workers T&C



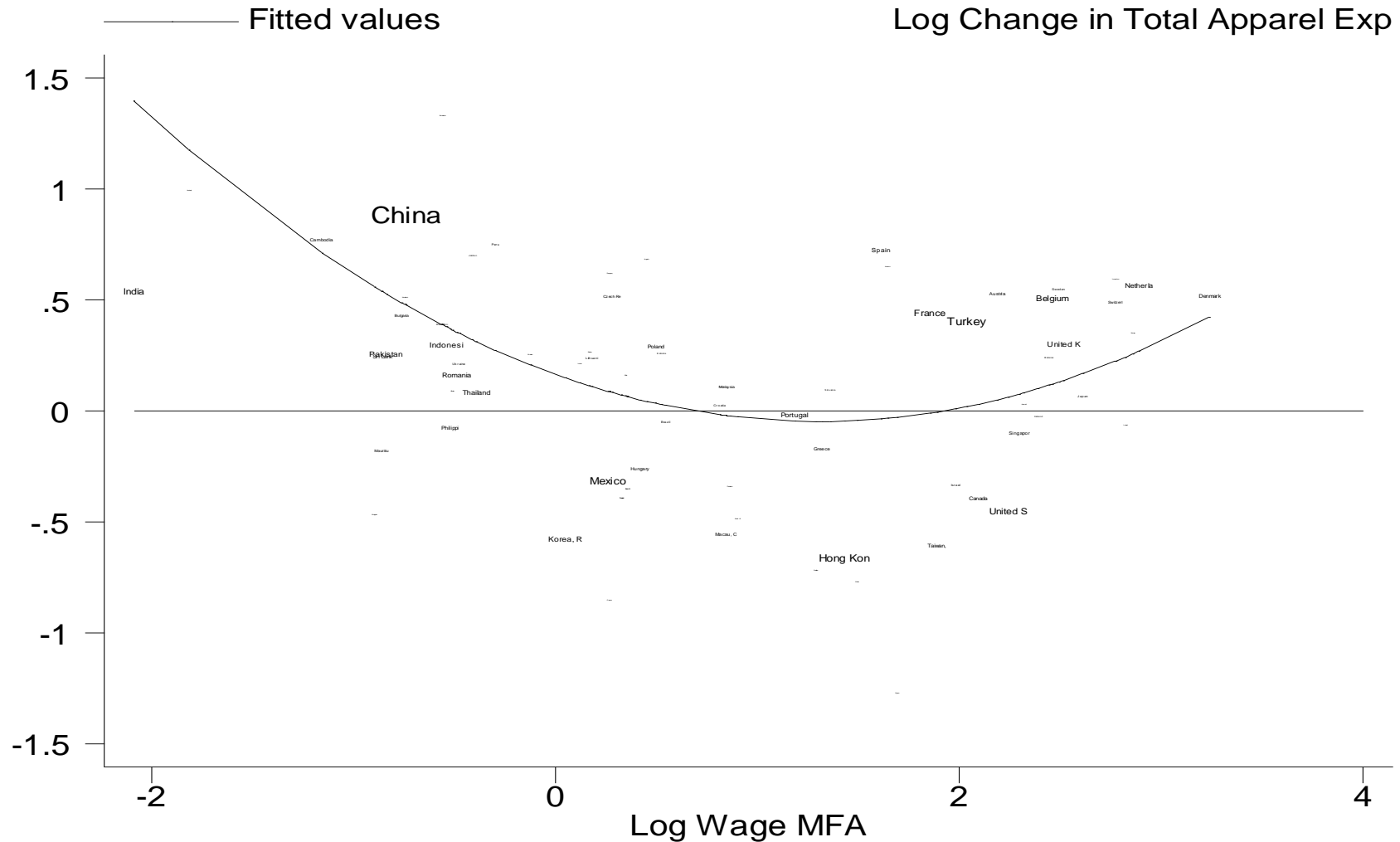
Source: Enterprise Surveys

Female intensity is larger for firms in the textile and clothing sectors compare to the overall average.



Source: Enterprise Surveys.

The sector is very wage sensitive, but wages explain only 30 percent of export variation



Our Approach

- Analyze global change in apparel production
- Identify key countries
- Use available data to examine employment and wages following the end of the MFA
- Identify policy implications

Country Selection

- Nine Countries:
 - **South Asia:** Bangladesh, India, Sri Lanka, and Pakistan;
 - **East Asia and Pacific:** Cambodia and Vietnam;
 - **Latin America and the Caribbean:** Honduras and Mexico;
 - **North Africa:** Morocco.
- Criteria for selection:
 - Significance of apparel in overall economy
 - Regional coverage
 - Position in global value chain
 - Data availability
- China is not included

Methodology and Data

- Trade data: changes in exports and unit prices
- Household and Labor Force Surveys
 - Wage premia in apparel
 - Male-female wage differentials
 - Working conditions
- Firm-level and Industry-level data
 - Expansion/contraction of industry (employment)
 - Evidence of change in industry structure
 - Vertical Integration
 - Shifts between textile and apparel
 - Change in female intensity (demand for women)

Across Countries Changes

- Increased total exports:
 - from US\$41.4 billion in 2004 to US\$58.7 billion in 2008 in 9 country studies
 - Significant increase in Bangladesh, Cambodia, India, Vietnam; moderate in Honduras, Morocco, Pakistan and Sri Lanka; decline in Mexico
- Reallocation of production:
 - increase in market share - Bangladesh, Cambodia, India and Vietnam;
 - decline- Mexico, Honduras and Morocco
- Decline in apparel prices due to
 - increased global supply;
 - highly cost-competitive exports from China

Within Country Changes

- Employment changes over 2004-2008 :
 - Increased: Bangladesh - 40%, Cambodia - 20%, India - 48%, Pakistan – 8%, Vietnam – 50%
 - Declined: Honduras - 3%, Mexico - 35%, Morocco – 8%, Sri Lanka - 12%
- Wage premia changes, in general, coincided with employment changes :
 - Increased in Bangladesh, India, Pakistan, Vietnam
 - Declined in Honduras, Mexico, Morocco, Sri Lanka
 - Only in Cambodia wage premium declined while employment went up
- Change in value chain position :
 - Upgrading or moved up: Bangladesh, India, Morocco, Pakistan, Sri Lanka, Vietnam
 - No change: Cambodia, Honduras, Mexico

Closing of Female-Male Wage Gap

- Decrease in wage gap in Bangladesh, Cambodia, India, Pakistan and Sri Lanka (countries that gained after 2004)
- Increase in wage gap in Honduras and in Vietnam

Impact of Female dummy on log wages

	2004	2005	2006	2007	2008	2009
<i>Bangladesh</i>		-0.373***				0.158
<i>Cambodia</i>	-0.120***			-0.128***	-0.133***	-0.115**
<i>Honduras</i>		-0.307***		-0.324**		
<i>India</i>	-0.489**	-0.400***		-0.403***		
<i>Pakistan</i>		-0.721***			-0.473***	-0.630***
<i>Sri Lanka</i>			-0.553***		-0.443***	
<i>Vietnam</i>	-0.138***		-0.135***		-0.215***	

Several rounds of household surveys. Preliminary numbers.

Changes within industry are important for employment

		Upgrading	
		limited	substantial
Employment	decline	Sub-Saharan Africa Caribbean/ Honduras Mexico * Romania*	Hong Kong, Korea, Taiwan Malaysia, Singapore Thailand Turkey Sri Lanka Mauritius Tunisia/ Morocco **
	increase	Cambodia Indonesia/ Pakistan *	China India Bangladesh Vietnam

* No upgrading within apparel and textile sectors but upgrading to other sectors.

** Upgrading not as substantial as in other cases.

*** Upgrading more substantial than in other case.

Conclusions

- Export and employment patterns did not necessarily match the predictions
 - Only 30% in export variation explained by wages
 - Upgrading, ownership, domestic policies were important in explaining changes in exports
- Changes in exports are usually, but not always, good indicators of changes in wages and employment.
- Wage premia rise in countries that were proactive in adapting to the MFA phase-out (increased their market share), and fall in countries that failed to respond timely to the changing environment.
- Promoting “upgrading” seems to be necessary for sustainable competitiveness in the apparel sector but does not necessarily help the poor.

THANK YOU !

Framework: across countries changes

- Changes in Total Exports
- Changes in Countries' Market Shares
- Changes in Global Apparel Prices

Framework: within country changes

- Income can be defined as the product of employment (l), hours (h), and wages (w):

$$\text{income} = y = lhw$$

- The change in income can therefore be decomposed into changes in each component:

$$\% \Delta y = \% \Delta l + \% \Delta h + \% \Delta w$$

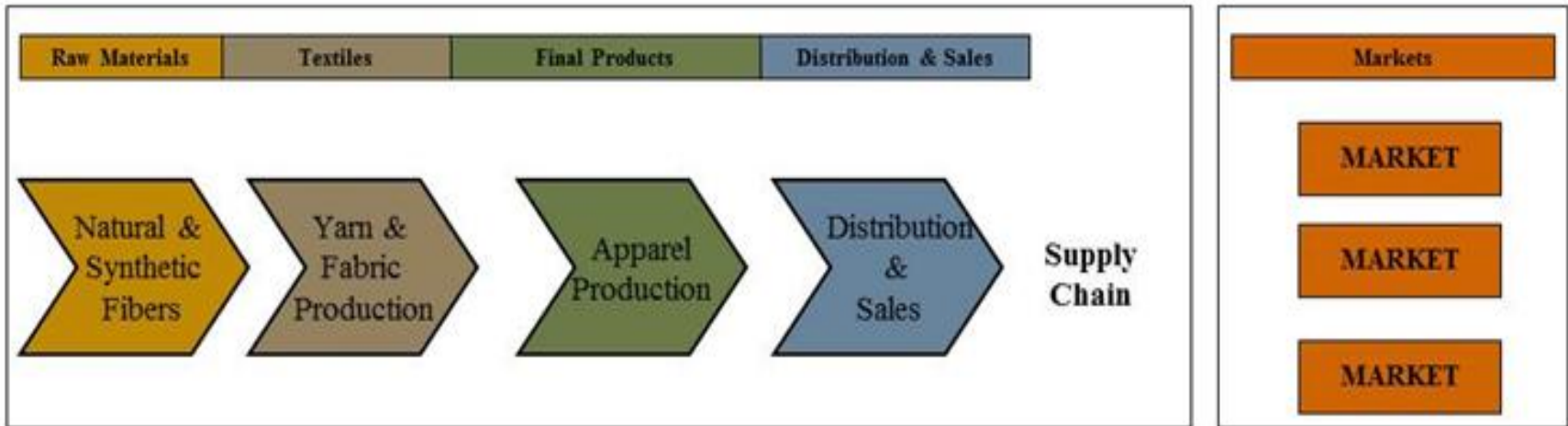
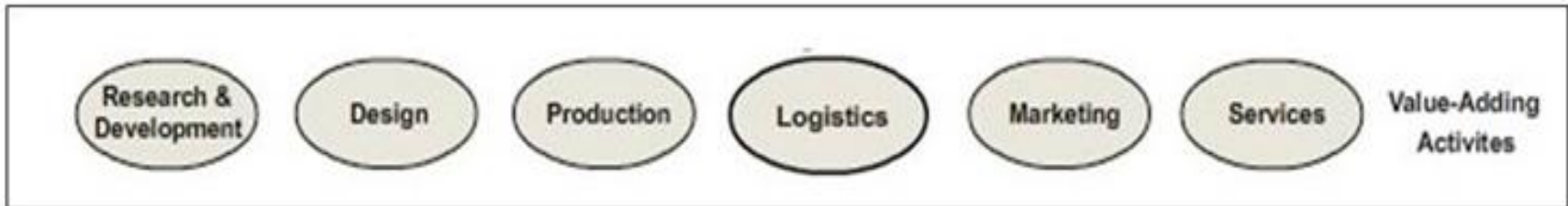
- $\% \Delta l$ capture changes **between** apparel and other sectors
- $\% \Delta h$ represent changes **within** sector that reflect the evolution of the apparel sector itself
- $\% \Delta w$ represent changes in **wage levels** that can be attributed to different characteristics

Change in Apparel Wage Premia

	2004	2005	2006	2007	2008	2009
<i>Bangladesh</i>		0.343***				1.545***
<i>Cambodia</i>	0.287***			0.354***	0.374***	0.13**
<i>Honduras</i>		0.275***		0.14**		
<i>India</i>	-0.046**	-0.124***		0.084***		
<i>Pakistan</i>		0.076***			-0.085***	0.019
<i>Sri Lanka</i>			0.05***		0.082**	
<i>Vietnam</i>	-0.340***		-0.092		-0.076***	

Several rounds of household surveys. Preliminary numbers.

The Apparel Sector and Value Chain



Countries Have Different Positions in the Value Chain

Functional Categories	Capabilities	Country Examples
CMT (Assembly)	Marginal supplier; low-cost volume production	Cambodia, Vietnam , Sub-Saharan Africa, Caribbean, Honduras
FOB (OEM) Full Package Provider	Preferred supplier; scale economies in volume production	Bangladesh, Pakistan, Morocco , Indonesia
ODM: Full Package with Design	Niche supplier; specialize in specific product areas	Sri Lanka, Mexico
	Strategic supplier; export: high-value, complex products or volume. Brand development (OBM) for domestic market	India , China, Turkey
Global Lead Firm	Global brand owners; marketing and retailing	EU-15, USA
Full Package Service Provider	Coordinate supply chain and OEM or ODM activities; contract out manufacturing or invest in production in foreign countries	Hong Kong, Korea, Taiwan (1980); Malaysia, Singapore (1995); Thailand (2010)

Future Work

- Impact of post MFA changes in the apparel labor and product markets on employment and wage opportunities in other sectors and the overall structure and welfare of the economy
- Impact of China safeguard removal in 2008 and world financial crisis on wages and employment in global apparel sector
- How changes in domestic policies affected workers and which policies were the most efficient in improving workers' welfare in short and long term