The Promise and Peril of Post-MFA Apparel Production

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For anyone concerned about the effects of globalization on poverty in developing countries, the apparel sector in general and the end of the Multi-Fibre Arrangement (MFA) and the Agreement on Textiles and Clothing (ATC) in particular are key areas of interest. As an important first step toward industrialization, the apparel sector continues to provide an alternative for workers in low-wage agriculture or service jobs (especially less-skilled workers and women), even after other manufacturing sectors are established. By providing formal labor experience, these jobs hold the promise of lifelong participation in the labor market, which in the long term can help workers move out of poverty. Therefore, understanding how employment, wage premiums, and the structure of the apparel industry have changed after the end of the MFA and ATC is important to appreciate the effects of this significant policy change on poverty.

Why Apparel Matters for Poverty

Developing countries, and especially the poorest countries, have high rates of unemployment and underemployment and a large number of workers in agriculture. The pattern of economic development has historically involved growth in manufacturing. One of the first manufacturing sectors to emerge in poor countries is often apparel. Due to relatively low start-up costs, relatively low skill requirements, and the feasibility of small-scale production, apparel provides manufacturing jobs to low-skilled and female workers that have few other paid employment options.

There is a popular perception that average wages are low in apparel, and, by international standards, they certainly are. But although wages are low, the workers in apparel—predominantly young, less educated women—are workers that earn lower wages everywhere in the domestic labor market. To compare globalization, wages, and working conditions across countries and industries, Robertson et al. (2009) compiled five country studies and found that if worker characteristics are considered, apparel workers earn a sector-specific “premium” over the economywide average. This means that apparel workers earn more in apparel than they could elsewhere in the country. Furthermore, Robertson et al. (2009) found that working conditions are better in globally engaged industries. In other words, apparel jobs, relative to domestic alternatives, are often “good” jobs that directly contribute to poverty reduction. De Hoyos, Busso, and Núñez (2008) found that poverty would have been 1.5 percentage points higher in Honduras without the apparel-centered assembly sector (maquilas). Results are similar in other countries. Prior to the end of the quota system, entry-level workers in Cambodia’s apparel factories earned wages well above the poverty line (Yamagata 2006).

The fact that apparel workers in most countries are typically women is another reason why it is important to include the apparel sector when considering the link between globalization and poverty. Boosting economic opportunities for women is increasingly accepted as necessary step for economic develop-
opment. Paid employment opportunities for women are particularly important for poverty reduction. When women work, fertility rates fall, and their labor productivity generates efficiency gains and higher per capita growth rates. These effects are widely recognized and help explain why the third and fifth United Nations’ Millennium Development Goals involve improving the status of women.

Therefore, in many ways, what affects the apparel sector has the potential to have a significant effect on poverty. Until 2005, apparel exports were governed by the MFA and ATC. The ending of these agreements relaxed global constraints and allowed a radical shift in apparel production between countries. The relative success of China is well known—even to those not interested in apparel, poverty, or development. What happened in the rest of the developing world is a story that had not been told until now—Sewing Success: Employment, Wages, and Poverty following the End of the Multi-Fibre Arrangement (López-Acevedo and Robertson 2012) describes how wages and employment changed after the end of the MFA and ATC in nine key apparel-producing developing countries: Bangladesh, Cambodia, Honduras, India, Mexico, Morocco, Pakistan, Sri Lanka, and Vietnam. These countries paint a picture of the rising and falling fortunes of poor workers after this important policy change.

**Production Shifts and Labor Demand**

The link between the end of the MFA and ATC and workers is straightforward for those familiar with international economic theory. MFA quotas restricted exports and therefore shaped production patterns: first, MFA quotas restricted exports for those countries with the capacity to produce and export more than they were allowed. Second, countries with less production capacity were considered investment and sourcing opportunities for countries whose exports were restricted. This investment expanded the otherwise small apparel sector.

The resulting production patterns affected the demand for workers. In the bound countries, the quotas limited the demand for, and therefore employment of, apparel workers. On the other hand, countries not meeting their quotas received foreign capital and sourcing from the supplier firms to take advantage of unfilled quota limits, which created jobs. Removal of the MFA quotas would potentially have the opposite effect: increasing demand for workers in the expanding countries and the risk of job loss in countries no longer attractive because of their quota allocation.

The complexity of the apparel sector, however, means that the story may be more multifaceted than a simple shift of labor demand. Countries that expand exports and production could do so through either labor-intensive or capital-intensive techniques, potentially creating opposite effects on employment. Countries that lose apparel jobs may simply move those workers into other manufacturing jobs and thereby effectively follow the same transition path out of apparel that the now-developed countries previously traveled.

The first step to understanding the changes induced by the end of the MFA is documenting how production shifted between countries when the agreement ended (figure 1). The end of the MFA was followed by rising apparel exports, falling prices, and a reallocation of production and employment between countries. Global apparel exports increased from US$252 billion in 2004 to US$366 billion in 2008. As global supply increased, world average apparel unit values fell.

Many expected that the shifts in apparel production across countries after the MFA would be mainly driven by wage differences because apparel is labor intensive. Wage differences, however, only explain 30 percent of the variation in the change in exports across countries. For example, China was predicted to gain while nearly all other countries lost. But, in fact, other large Asian apparel exporter countries, such as Bangladesh, also increased exports. Other countries, such as Hong Kong SAR, China, Mexico, and Honduras, experienced falling exports and market shares. Therefore, export gains were not simply due to a shift from higher-wage countries to lower-wage countries. Countries that gained the most, including India, Bangladesh, Vietnam, and Pakistan, implemented proactive policies specific to the apparel industry. While wage differences explain some of the production shifts, domestic policies targeting the apparel sector, ownership type, and functional upgrading of the industry perhaps played a more important role.

**Wages, Employment, and Working Conditions**

Significant changes within countries followed these production shifts. Bangladesh, India, Pakistan, and Vietnam experienced rising apparel employment between 2004 and 2008. Honduras, Mexico, Morocco and Sri Lanka, however, experienced falling apparel employment. Sri Lanka and Bangladesh
moved up the apparel value chain in ways that helped explain their changes in employment. Other countries remained as suppliers of low-end products with almost no decision-making power at other stages of production. Wage premiums rose (in most cases) in countries that experienced an increase in exports, and fell in countries with falling exports. The results therefore suggest that workers were affected by changes in both employment and wages.

As the apparel-specific wage premium rose, the male–female wage gap fell throughout the economy, not just in the apparel sector, in several countries. The falling wage gap shows that women’s wages were rising relative to men’s wages, suggesting that the entire economy may be affected by the change in a policy affecting a single sector. This result is consistent with the idea that the increase in apparel exports coincides with an increase in the demand for the factor used intensively in apparel—women—that may then have significant long-run poverty-reducing effects.

Policy may have also influenced wage premiums. Countries that implemented proactive adaptive policies experienced rising wage premiums, but wage premiums declined in countries with less proactive responses. For example, Sri Lanka took steps to focus on higher value production. Total apparel exports rose, but total employment fell as Sri Lanka shifted into less labor-intensive stages of the value chain. Similar shifts occurred in Vietnam and Bangladesh. One important lesson from these results is that moving up the value chain may increase exports but reduce jobs for women and workers most likely to be closest to poverty. At the same time, Mexico’s experience suggests that shifting out of apparel may not necessarily be negative. If the country is moving into more advanced manufacturing, moving out of apparel may be a sign of economic development.

**Challenges and Prospects**

One of the key lessons from this experience is that export promotion alone may not be sufficient to help the poor. While rising apparel exports correlated with rising wages and employment in large Asian countries, they coincided with falling employment in Sri Lanka. Along the same lines, falling apparel exports may not necessarily be bad for the poor. If rising global competition provides the impetus to shift toward higher-value products and services, as in Mexico, then falling apparel exports may simply be a sign of development. But if shifting into higher-value goods and services is not possible, rising competition can generate real losses. This seems to be the case in Honduras, where falling exports correlated with falling wages and employment. Therefore, policies that facilitate movement into higher-value economic areas, such as education opportunities, are important.

Even within the apparel sector, promoting “upgrading” (defined as shifting to higher-value goods, shifting up the value chain, or “modernizing” production techniques) may support sustainable competitiveness in the long run, but may not necessarily help the poor. Workers without the skills or access to training to transition up the value chain can easily be left behind, such as in Honduras. Therefore, policies that support upgrading need to be complemented with targeted workforce development to make sure that the most vulnerable workers are not left behind.

**Concluding Remarks**

Exports and employment after MFA/ATC did not necessarily match predictions, but the changes in many cases were significant. While it is well known that China’s gains in apparel were impressive, the experiences of other countries have received less attention. Some large Asian countries that were expected to experience falling exports actually increased their exports. Countries with active policies gained the most, including India, Bangladesh, Vietnam, and Pakistan.

These changes corresponded with significant changes in both employment and earnings. Since the apparel premium is a critical component of wages that help workers move out of poverty (De Hoyos, Bussolo, and Núñez 2008; Robertson et al. 2009), the fact that premiums rise (in most cases) in countries that “gain” and fall in countries that “lose” represents an important dimension of the workers’ experience after the MFA/ATC that complements employment.

Finally, to the extent that upgrading may correspond with falling demand for labor (as in Sri Lanka), having a vision for the evolution of the textile and apparel sector that incorporates developing workers’ skills seems crucial. Otherwise, moving too quickly up the value chain could result in a lost opportunity for more vulnerable workers to gain valuable work experience in manufacturing.

One policy-related concern is that the opportunities for pro-poor apparel production may be short lived and are highly sensitive to changes in the global economic environment. It is important to identify how the change in policy is affecting workers and through which channels they are being affected so that the appropriate policy responses can be applied. For economies that are gaining, it is important to know who is benefitting and what conditions are necessary for the poor to benefit from the change in policy. If the poor are not benefitting, policymakers need to ask why and determine what, if anything, might be done to help the poor capture some of the gains.

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Notes

1. Several recent papers have focused on the gender dimensions of globalization including Rendall (2010), Aguayo-Tellez, Airola, and Juhn (2010), Oostendorp (2009), Özler (2000, 2001), and Sauré and Zoabi (2009).

2. The United Nations established eight Millennium Development Goals for 2015. The third promotes gender equality and female empowerment, while the fifth focuses on maternal care.

3. The recent World Bank (2011) report, *More and Better Jobs in South Asia*, suggests that “...South Asian countries would benefit from reorienting their labor market policies from protecting jobs to protecting workers.”

References


