

# Sewing Success

## *Employment and Wage Effects of the end of the Multi-fibre Arrangement (MFA)*

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## Summary

This report describes the effects of the end of the Multi-fibre Arrangement (MFA) and the Agreement on Textiles and Clothing (ATC) on wages and employment in nine developing countries: Bangladesh, Cambodia, Honduras, India, Mexico, Morocco, Pakistan, Sri Lanka, and Vietnam.

The focus on the apparel sector in general and on the end of the MFA/ATC in particular is driven by a concern about the effects of globalization on poverty in developing countries. The apparel sector is an important first step toward industrialization. Even after other manufacturing sectors are established, the sector continues to provide an alternative for workers in low-wage agriculture or service jobs. Moreover, due to low skill requirements the apparel industry provides employment opportunity to the less-skilled and especially female workers. Understanding how employment, wage premiums, and the structure of the apparel industry have changed after the MFA/ATC is important for understanding the potential effects on poverty.

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.

There were also significant changes within countries. Apparel employment rose in Bangladesh, India, Pakistan, and Vietnam between 2004 and 2008, In Honduras, Mexico, Morocco, and Sri Lanka, however, apparel employment fell. Some of the change in employment is explained by upward movement through the apparel value chain, as in Sri Lanka and Bangladesh. Other countries remained as suppliers of low-end products with almost no decision-making power at other stages of production.

This report contains four innovative findings. As is always the case with significant policy changes, the end of the MFA produced both winners and losers. The first main finding of this report is that export and employment patterns after the MFA/ATC did not necessarily match predictions. Apparel is a very labor-intensive industry, which led many to predict that the shifts in apparel production across countries after the MFA would be mainly driven by wage differences across countries. This report shows, however, that only 13 percent of variation in export changes post-MFA can be explained by the differences in wage levels. China was predicted to gain at the expense of nearly all other countries, but in fact other large Asian apparel exporter countries increased exports. Some countries previously restricted by the quota system, such as Bangladesh, increased production. 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 Bangladesh, India, Pakistan, and Vietnam, implemented proactive policies specific to the apparel industry. While wage differences explain some of the production shifts, domestic policies targeting apparel sector, ownership type, and functional upgrading of the industry perhaps played a more important role.

Second, changes in exports are usually, but not always, good indicators of what happens to wages and employment. This is especially important for policy because it shows that simply using exports as a metric of “success” in terms of helping the poor is not sufficient. While rising exports correlated with rising wages and employment in the large Asian countries, rising exports coincided with falling employment in Sri Lanka. In some cases, rising global competition (and resulting fall in employment) may provide the impetus to shift towards higher-valued products and services. For example, Mexico had falling exports and employment but seems to have been able to absorb these workers into other industries. But when countries were perhaps not at the point where shifting into higher-valued goods and services was possible, the rising competition generates real losses. This seems to be the case in Honduras, where falling exports correlated with falling wages and employment. Therefore, the implication is that facilitating the movement into higher-value economic areas in the face of rising global competition is important.

Third, this report identifies the specific ways that changes in the global apparel market affected earnings. There is a considerable debate surrounding the effects of globalization on workers in general. De Hoyos et al. (2008) and Robertson et al. (2009) demonstrate that the apparel premium over other industries is the critical component of wages that helps lift workers from poverty. This report shows that these premiums change in predictable ways: rising (in most cases) in countries that were proactive in adapting to the MFA phase-out and expanded their market shares, and falling in countries that failed to respond in a timely fashion to the changing environment. This means that not only are employment opportunities generally lost when exports contract and gained when exports expand, but one of the most important features that made these “good” jobs—the wage premiums—also fall or rise. This represents a double impact for workers in developing countries.

Finally, in terms of policies, this report shows that promoting “upgrading” (defined as shifting to higher-value goods, shifting up the value chain, or “modernizing” production techniques) seems to be necessary for sustainable competitiveness in the apparel sector but does not necessarily help the poor. Without the skills and preparation to make the transition up the value chain, workers can easily be left behind. In some countries upgrading corresponds with falling demand for labor (as in Sri Lanka). Since upgrading often requires workers with more advanced skills, the decline in labor demand affects mostly low-skilled poor. In Honduras in particular, where neither proactive upgrading nor workforce development programs were present, the increased competition and subsequent production shifts represented real losses to workers. Therefore, having proactive policies to support progress in the apparel industry should be a two-sided coin. Policies that support upgrading need to be complemented with targeted workforce development to make sure that the most vulnerable workers are not left behind. Having a vision for the evolution of the apparel sector that incorporates developing worker skills seems crucial. Otherwise, less-skilled workers could miss out on opportunities to gain valuable work experience in manufacturing.