EXPORT COMPETITIVENESS AND POVERTY REDUCTION: COMPLEMENTARY OR COMPETING OBJECTIVES?

EVIDENCE FROM THE CLOTHING SECTOR IN BANGLADESH, CAMBODIA AND SRI LANKA

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Introduction

In the increasingly globalised world in which we live prosperity is more than ever dependent on the ability of people to gain access to economic processes. One of the most significant challenges therefore facing developing world policy-makers today is to facilitate the engagement of their inhabitants with livelihood enhancing opportunities.

The expansion of labour intensive industries provides a potentially important avenue for developing countries to stimulate employment generation and reduce poverty. This is due to a number of factors, including: the fact that many developing countries have a comparative advantage in these sectors (due to abundant supplies of labour); that labour intensive sectors can provide employment opportunities for unskilled workers; they are often sectors that require the investment of relatively low levels of start up capital; and they are sectors that can develop useful backward and forward linkages with the rest of the economy.

The clothing sector is an example of a labour intensive sector that can play this role, and developing countries (mainly in Asia) have been gradually increasing their dominance of this sector in recent years, with concomitant benefits for economic growth and poverty reduction.

The rising dominance of developing over developed countries in clothing production is not a new phenomenon, and the attempts of developed countries to check this rise can be dated back to the 1950s, when Japan, Hong Kong, China, India and Pakistan agreed to export restraints for their cotton textile products to the USA. This system of export restraints was followed by a number of others, most notably the Multi Fibre Agreement (MFA) which came into force in 1974 and introduced quotas on the exports of developing countries to the US, the EU, Canada, Finland, Norway and Austria.

Although these quotas held back the development of clothing production in countries such as India and Pakistan, quotas also provided an opportunity for clothing production to develop in countries such as Bangladesh, Cambodia, China, Nepal, Sri Lanka and Vietnam. Many of these countries have been expanding their clothing production in recent years at the expense of EU and US producers, and they and are now the largest exporters of clothing products.

This dynamic is set to continue following the completion of the MFA phase-out at the beginning of 2005, which has opened up the global clothing market to a greater extent than ever before.

Despite the large numbers of jobs that have been created in the clothing sector in developing countries in recent years, there has been a lot of debate about the contribution this sector has made to poverty reduction. It has been claimed that due to the dominance of supply chains by large multinational corporations and the competitive nature of the global clothing market, jobs in the clothing sector are poorly paid and insecure and working conditions are bad.[1] It is also claimed that clothing production has limited backwards and forwards linkages with the domestic economy because inputs are commonly imported, production takes place in isolated economic enclaves and investors are offered significant tax breaks and other financial incentives.[2]

On the other hand proponents point to the fact that huge numbers of new job opportunities have been created in this sector (especially for women), labour standards are improving in these countries (due to strengthened domestic and international legislation) and that linkages with the domestic market exist and take time to develop.

Although this debate has died down in recent years as clothing production has continued to expand in developing countries and as public awareness has created pressure for improved labour practices, new competitive pressures in the global clothing market (following the phase-out of the MFA) have put the clothing sector and its contribution to poverty reduction back into the spotlight.

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[1] For example see “No Logo”, Naomi Klein, 2000

[2] For example see “Export Processing Zones – Symbols of Exploitation and a Development Dead-end”, ICFTU, September 2003

This paper attempts to investigate the nature of trade and poverty linkages in the clothing sector of Bangladesh, Cambodia and Sri Lanka and to assess how the experience of these countries fits with the contrasting narratives presented above. It does this through synthesizing case studies on the clothing sectors of these countries commissioned by CUTS International as a part of its project "Linkages between trade, development and poverty reduction (TDP)", [3] and data from additional sources to compliment their findings.

Clothing sector in Bangladesh, Cambodia and Sri Lanka:
Bangladesh

Bangladesh's clothing sector began developing in the late 1970s, due to investment from East Asian producers looking to take advantage of the quota free access and cheap labour that Bangladesh could provide.[4] However, the sector only started its major expansion in response to the market reforms that were undertaken from the early 1980s. These stimulated production of clothing (mainly for export) by opening up the economy to private trading, reducing restrictions on foreign investment, reducing import tariffs and providing incentives to investors.

Table 1: Growth of clothing sector in Bangladesh

Year	Export value ($US M)	Share in total exports	Employment	Number of clothing factories
1983/4	32	4%	-	134
1986/7	299	28%	283,000	629
1990/1	867	51%	400,000	834
1995/6	2,547	66%	1,300,000	2,353
2001/2	4,583	77%	1,800,000	3,618

Source: World Bank (2004)

During the 1980s, the clothing sector expanded dramatically with exports increasing from $32m in 1983-4 to $867m in 1989-90 as the number of clothing factories increased from 134 to 759 over the same period. The number of people employed in the sector also increased dramatically, from 198,000 in 1985-6 to 335,000 in 1989-90.[5]

The 1990s and early 2000s have seen the clothing sector continue its rapid expansion and output grew at 16% p.a. during this period. Current exports are valued at $4.6 billion and the sector currently employs 1.8 million people in its 3618 registered clothing factories. In addition, the sector currently contributes 77% of total exports, employs 40% of the manufacturing labour force and contributes 5% of GDP.[6]

The vast majority (94%) of Bangladesh's clothing exports go to the EU and US (in 2002/3 56% of its clothing exports went to the EU market and 38% went to the US market), showing a clear dependence on quota-restricted markets. The sector has though achieved some product diversification in recent years and currently produces a wide range of knitted and woven products.[7]

Bangladesh's clothing sector is heavily dependent on imported inputs (mainly from East Asia) as its textile industry is weak and other input industries have limited production capacity. In 2002

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[3] A 13 country project which aims to gather new insights on TDP linkages in Africa and Asia and to incorporate these insights into policy-making processes. From October 2006 the case studies will be available on the project website (http://www.cuts-citee.org/tdp.htm)
[4] Although FDI was the initial driver of the clothing sector, its importance has declined and over 90% of establishments are now domestically owned. The government has supported this process by reserving quotas for domestic firms.
[5] IMF (2004)
[6] Ibid
[7] CPD (2002), NB - knitted products include T-shirts and jackets, woven products include shirts and trousers

Bangladesh imported about $1.8 billion of textiles and related inputs, equivalent to 40% of clothing export values. However, in recent years domestic value added in the sector has increased (from 19% in 1993-4 to 25% in 2002) in part due to the deepening of backward linkages, and there is therefore significant potential to reduce dependence on imported inputs.

In recent years the clothing sector has benefited from duty and quota free access to a number of markets (excluding the US). Especially important have been preferences to the EU market through the Everything But Arms (EBA) preference scheme. However, strict rules of origin have prevented Bangladesh from making full use of EBA preferences (and those to other markets) and it is estimated that less than half of its clothing exports to the EU actually receive duty and quota free access.

The key competitive advantage of Bangladesh's clothing sector (besides quota access) has been low labour costs and its unit labour costs (ration of wages rates to output) are currently around 30% lower than those of China and India. However, labour productivity in Bangladesh's clothing sector (as measured by value added per worker) is significantly lower than that of its main developing world competitors due to infrastructure weaknesses, high levels of corruption and policy failures.[8]

Cambodia

The clothing sector in Cambodia began developing from the mid-1990s due to foreign investment from Hong Kong, Taiwan, Malaysia and Singapore. These investors were attracted to Cambodia by the lack of quotas on Cambodia's clothing exports to the US market and the increasingly restrictive quotas applied to clothing exports from their home markets. Cambodia's large pool of cheap unskilled labour also made it an attractive location for FDI in clothing production, as did the introduction of legal provisions protecting investment, financial incentives (such as tax breaks) provided to foreign investors and the wide range of market reforms that opened up the economy to the private sector.[9]

Cambodia's clothing sector began to grow rapidly after 1997 following the extension of the EU system of trade preferences to Cambodia and the granting of Most Favoured Nation Status (MFN) by the US, which enhanced the access of Cambodian clothing exports to EU and US markets.

From 1999 onwards, Cambodian clothing exports began to face quotas to the US market, although the sector was boosted by the signing of a textile agreement with the EC (which gave Cambodian clothing exports duty and quota free access to EU markets) and the removal of quota restrictions in the Canadian market in 2002.

Table 2: Garments Industry in Cambodia: Selected Indicators

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Garment exports (US$M)	27	79	227	378	553	985	1156	1291	1580	1969
Exports to US (US$M)	___	1	107	298	486	750	823	911	1087	1255
Exports to EU (US$M)	26	75	112	76	58	221	306	339	397	570
Employment (000's)	19	24	52	79	97	123	188	210	234	246
Local value added as % of GDP	0.2%	0.9%	2.0%	3.4%	5.6%	7.9%	8.9%	9.8%	10.9%	12.2%

Source: EIC (2005)

8 US (2006)

9 ODI (2005)

Despite the restrictions that were placed on Cambodian clothing exports from the late 1990s, the sector has continued to grow impressively. Between 1997 and 2004 Cambodia's clothing exports increased nine fold from $227 million to $2 billion, with around 60% of these exports going to the US market and the vast majority of the rest going to EU markets. Over the same period the number of people employed in the garment sector increased ten-fold from 24,000 to 246,000. The contribution of the clothing sector to economic growth has also been significant as illustrated by the 12.2% share of GDP provided by local value added in clothing sector in 2004.

The majority of clothing products that Cambodia produces are at the downstream, mass-market end of the supply chain, which incorporates activities such as the cutting and making of yarns and fabrics into finished garments. Due to the fact that Cambodia does not have a domestic textiles industry its clothing sector relies on imported textiles inputs, mainly from Hong Kong, Taiwan, China and South Korea. The clothing sector in Cambodia is therefore characterised by relatively low levels of domestic value added (typically 25%-30%) and low profit margins.

The Cambodian clothing industry has achieved high levels of productivity in comparison to its main competitors in the developing world. Estimates of value added per worker suggest that it grew at 12% p.a. between 1999 and 2003 and that Cambodia is as competitive a producer of clothing as China and India. High and improving productivity in Cambodia's clothing industry is also illustrated by low (in comparison to its competitors) and falling levels of unit labour costs (ratio of wages over volume output) as output has outpaced wage costs in recent years.[10]

Sri Lanka

The clothing industry in Sri Lanka has its origins in the mid-1960s when it was run primarily by the private sector on a modest scale, with almost all of the garments produced for the domestic market. Since the importation of fabrics was either banned or restricted, the garment industry was mainly fed by locally produced textiles. Manufacturing for export began in the mid-1970s with about 5-6 factories in operation; by 1977 at the start of the market reform process, recorded export earnings stood at only $10 million.

The market reform process that was initiated in the late 1970s created new opportunities for investment in sectors such as clothing. Tariff rates were lowered dramatically, quantitative restrictions were removed and restrictions on foreign investment and exchange were relaxed, providing stimulus to private trading activities. In addition, export processing zones (EPZs) were established, which had superior infrastructure and offered investors easy access to imports, reduced tax rates and other incentives to attract FDI.

Although MFA quotas were applied to Sri Lankan clothing exports from the late 1970s onwards, investors from countries that were facing quota restrictions (East Asian countries such as Hong Kong and South Korea) were attracted by the availability of quotas in Sri Lanka. Together with the improved business climate the availability of quotas stimulated FDI in the clothing sector and FDI has played an important role in its expansion over the last 20 years (foreign investors currently own 50% of all garments factories in Sri Lanka and are responsible for 90% of exports).

Table 3: Garments Industry in Sri Lanka: Selected Indicators

	1995	**1997**	**2000**	**2003**
Garment exports ($M)	1466	1973	2723	2400
	1980	**1990**	**2000**	**2004**
Garments/Total Exports (%)	10.4	32.8	49.1	46.0
Garments/Manufacturing (%)	30.3	58.5	63.3	58.8
No of Garment Firms	142	678	891	1061
Cumulative FDI in Garments ($M)	36	108	158	158

[10] Ibid

No Employed by Garments Industry	102	250	227	330

Source: IPS (2006)

Clothing production grew rapidly during the 1980s supported by a growth in exports of around 20% p.a. By 1986 clothing was the most significant contributor to exports. The rapid growth of clothing production continued during the 1990s and exports reached a peak of $2.7 billion in 2000, supported by a growth in exports of around 18% p.a. In 2002 the clothing sector accounted for around 6% of GDP, contributed 35% of manufacturing employment, employed around 300,000 people and contributed 52% of total exports.

In recent years the clothing sector has benefited from preferential access to a number of markets (excluding the US). Especially important have been preferences to the EU market through the Generalised System of Preferences (GSP), which from July 2005 offered Sri Lanka duty free access for its clothing exports. However, strict rules of origin have prevented Sri Lanka from making full use of EBA preferences for its clothing exports.[11]

Due to the fact Sri Lanka's textiles sector is relatively small the garments sector is highly dependent on imports for its inputs. The industry had a value added to output ratio of only 25 per cent in the early 1980s, essentially limiting the deepening of the industrial structure. Although this figure had improved somewhat to stand at 30-35 per cent by the end of the 1990s, the sector still has lowest value added in Sri Lanka's industrial sector (evaluated at the ISIC 3-digit level).[12] In addition, the overwhelming dominance of this sector in industrial production has continued to raise concerns about the need for Sri Lanka to diversify its industrial export structure.

Although the clothing sector has achieved significant productivity increases since liberalisation in the late 1970s, the sector still suffers from low productivity in comparison to its main developing country competitors. The low levels of productivity are due to a number of factors including: low levels of technology; shortage of skilled workers; restrictive labour regulations; and slow turn around times. Due to its low levels of productivity the Sri Lankan garment sector has had to rely on a strategy of targeting niche markets where there is limited competition. This has led to production being concentrated in a narrow range of products and if Sri Lanka is to diversify production it needs to take measures to improve productivity and competitiveness.

Clothing production and poverty reduction:

There a number of channels through which the development of the clothing sector in Bangladesh, Cambodia and Sri Lanka has impacted on poverty and welfare. Obviously the most direct impact is through the number of jobs that sector has created. However in looking at employment in the clothing sector it is also important to look at the character of this employment i.e. who has been employed and the quality of employment that has been created.

Other factors that are relevant in the context of poverty reduction include the backward and forward linkages of the clothing sector with other sectors of the economy (particularly the agricultural sector) and the future prospects of this sector in the context of a more competitive global market for clothing products.

We will now take a detailed look at the characteristics of the clothing sector in Bangladesh, Cambodia and Sri Lanka in order to get sense of how its development has impacted on poverty and welfare in each of the countries through the channels outlined above. We will also analyse the potential for the sector to continue to contribute to poverty reduction in each of the countries in the post MFA-environment.

[11] In 2002 Sri Lanka used only 32% of its GSP quota for 'apparel knitted and crocheted' products (Chapter No 61) and only 11% of its GSP quota for 'apparel not knitted and crocheted' (Chapter 62) products.

[12] Kelegama and Foley (1999)

Bangladesh

Employment:

Employment in the clothing sector has expanded enormously over the last two decades and the sector currently employs around 1.8 million people, 90% of whom are women. The majority of these female workers are migrants who have moved to urban areas together with their families, although they are generally unmarried and childless.[13]

Studies have shown that for many of these women employment in the clothing sector is their first experience of formal employment and has allowed them to make significant contributions to household expenses in areas such as nutrition, housing and education (which female labourers spend a higher proportion of their wages on than male workers). Despite the fact that wages in the sector are quite low and working conditions are frequently poor (discussed in greater detail later), it seems safe to suggest that this employment has improved female and overall welfare and contributed to female empowerment.[14]

However, over the last two decades the employment elasticity of growth in clothing production has fallen as the production of knitwear products (which require lower levels of labour intensity) has grown and the production of woven products (which require higher levels of labour intensity) has contracted. As of 2004, the woven sub-sector exported $3.5 billion of goods and employed 1.4 million workers, whereas the knitwear sub-sector exported good worth $1.9 billion but employed only 0.5 million workers.

Labour standards:

Bangladesh's clothing sector has been heavily criticised by NGOs, international institutions such as the ILO and by workers themselves for the low levels of wages and the poor working conditions that exist in the sector. The national minimum wage of 930 Takas a month (about $16) has not been revised since 1994 and surveys have found large numbers of female workers suffering from food deprivation, health problems and insecure tenure.[15] A recent study by the Bangladesh Institute of Labour Studies (BILS) found that amongst a random sample of garment workers the vast majority of interviewees admitted that they struggled to cover basic living expenses whilst working in the garment sector.[16] Growing worker unrest also suggests that working conditions are not improving in any significant way and may actually be worsening in some parts of the sector in response to increasing competitive pressure.

However, studies have also found that the income of an average clothing worker is well above the poverty line income, which as of 2002 was 725 Takas in urban areas and 635 Takas in rural areas. A 2001 survey found that average monthly income of female garment workers in Export Processing Zones (EPZs) was 3,014 Takas and 1,706 Takas for female garment workers outside of the EPZs.[17] Another study by the World Bank found that average monthly wages across the sector were around 2,200 Takas in 2000, up from 1,186 Takas in 1990 and 1,792 Takas in 1997.[18] It should also be noted that wages in the clothing industry are higher than those in the majority of industrial and services sub-sectors,[19] and that studies have also found that workers in the clothing sector generally have access to better quality housing and infrastructure than that existing in rural areas (from where many migrated).[20]

The ability of workers to bargain with factory owners to improve working conditions is limited by a number of factors. There are over 5,000 trade unions in Bangladesh but they don't work together

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13 Hewitt and Amin (2000)
14 CPD (2002) and Ibid
15 UNDP (2005)
16 BILS / ILO (2005)
17 UNDP (2005)
18 IMF (2004)
19 G.Hafiz and A.Siddiqi (2004)
20 Hewitt and Amin (2000)

effectively and workers are discouraged from joining them through employer discrimination against union members. In addition, legal loopholes provide employers with significant leeway to act against union members and the government regularly introduces bans on collective bargaining by workers.[21]

Table 4: Selected characteristics of some of the main global clothing producers

Country	Latest year	Value added per employee ($)	Wages and salaries per employee	Materials and utilities (as % of output)	Costs of labour (as % of output)	Operating surplus (as % of output)
Bangladesh	**1997**	**900**	**400**	**75.4**	**9.7**	**15.0**
China	2001	5,000	1,600	74.8	13.7	11.5
El Salvador	1998	5,100	2,500	30.7	33.5	35.7
Hong Kong	1999	27,600	14,800	71.1	15.5	13.4
India	1998	2,600	700	77.8	6.3	15.8
Indonesia	1999	2,500	600	63.4	8.5	28.1
Morocco	1998	4,000	2,500	55.9	27.9	16.2
Sri Lanka	1998	2,500	700	53.4	13.6	33.0

Source: IMF (2004)

B/F linkages:
The majority of clothing factories are found within Dhaka and its surrounding areas, as this is where the transport and trade infrastructure is most developed. The sector received its initial investment from foreign investors who operated in the EPZs. However, domestic investment has gradually been nurtured through the government reserving quotas for domestic producers, and domestic producers currently own around 95% of production units.[22]

The clothing sector has managed to develop significant backward linkages and has also stimulated growth in other sectors of the economy through its consumption of goods and services. Through these linkages the clothing sector is making further contributions to economic growth and poverty reduction and taking these into account the clothing sector is responsible for creating employment for over 3 million people. The government has played an important role in developing these linkages by using financial and regulatory incentives to promote investment in activities with significant linkages.

Following the designation of the textiles sector as a thrust sector in 1995 and the government support that this entailed, the textiles sector has expanded and has developed improved linkages with the clothing sector. Although the knitting sector is still heavily import dependent (imports around 80% of inputs), the development of the textiles sector has led to reduced dependence on imported inputs in the woven sector, which currently imports only 25% of inputs.[23] Weaving, dyeing, accessory and finishing enterprises have also received a boost from the expansion of the clothing sector as they have been increasingly involved in the production chain.[24]

Other sectors that have benefited from the growth of the clothing sector (as clothing factories and workers have made use of their services / products) include banking and finance, shipping and logistics, transport, information and communication technology, tourism, real estate and basic consumer goods and services sectors.[25]

It is clear from this assessment that the growth of the clothing sector in Bangladesh has made a major contribution to poverty reduction by creating large numbers of jobs (mainly for female workers

[21] ICTFU (2006)
[22] IMF (2004)
[23] IPPG (2006)
[24] CPD (2002)
[25] Ibid

without alternative employment opportunities) and through establishing significant linkages with other sectors of the economy. It is also clear that much still needs to be done to improve working conditions and wage rates in the clothing sector so that this employment translates itself into sustainable welfare and human development gains for workers.

MFA phase-out:
However, the increasingly competitive global market for clothing following the phase-out of MFA quotas poses new challenges for this sector and the contribution it is making to poverty reduction. What are the future prospects of this sector? What impact will this increasingly competitive environment have on employment and on labour standards?

The complete phase-out of the MFA was agreed in 1995 and was timetabled to take place over the following decade. However, the government and other key stakeholders only woke up to responding to this challenge in the final stage of the phase-out, as the government, employers and buyers were waiting on each other to take the lead in setting the agenda. As a result dialogue amongst the key stakeholders on how to deal with the MFA phase-out was slow to develop and there was only limited time to implement reforms and invest in safeguard measures.[26]

In the run up to the MFA phase-out many analysts predicted that Bangladesh's clothing sector would contract significantly as much of production was concentrated on quota constrained products and low levels of productivity were predicted to limit its ability to diversify and compete in quota free markets.

Initial data suggests that far from the predicted scenario of significant export contractions, Bangladesh has maintained its global clothing exports at 2004 levels, with reductions in exports to the EU (its most significant market) compensated by significant increases in exports to the US. It seems likely that as well as efforts to restructure the sector in preparation for the MFA-phase out, safeguards applied by the EU and US on Chinese clothing exports have also played a role in maintaining Bangladesh's market share.

Table 5: Performance of Bangladesh's clothing exports (pre-quotas vs post-quotas)

	2003	2004	% change (2003-4)	Jan-Sept 2004	Jan-Sept 2005	% change (2004-5)
Exports to US market ($M)	1,869	1,986	6.3%	1,485	1,779	19.8%
Exports to EU market (millions of Euro)	3,243	3,893	20.1%	2,988	2,733	-8.5%

Source: UNDP (2005)

Challenges:
Despite these initial promising results and positive signs from producers who are increasing their efforts to diversify and develop strategic partnerships with buyers, the Bangladeshi clothing sector will face some significant challenges over the coming years. Safeguards on China may be removed as early as 2008 and the sector still has some major issues to deal with, which are limiting productivity. These include the poor telecommunications, transport and utilities infrastructure, long lead times (in part to dependence on imported inputs) and weak and corrupt trade facilitation institutions.

There is also concern that the discouragement of FDI in the clothing sector and positive discrimination in favour of domestic investment is a factor holding back productivity. This is because, as well as providing additional finance to the sector, FDI also has the potential to link the sector more effectively to global supply chains and facilitate the transfer of technology through these links. The

[26] BILS / ILO (2005)

potential benefits from FDI in the Bangladeshi clothing sector have been highlighted by a recent study by the World Bank which found that Bangladeshi clothing firms financed by FDI have productivity levels 20% higher (on average) than those financed by domestic capital.[27]

However, from the perspective of poverty reduction concerns relating to discrimination against FDI need to be balanced with the fact that domestic firms have made significant contributions to domestic capital accumulation and the expansion of the financial sector and the fact that domestic firms have a high propensity to create productive linkages with the domestic economy.[28]

The degree to which these productivity bottlenecks are combated over the coming years will determine the long term future of this sector and its ability to continue absorbing labour and contributing to poverty reduction. These productivity bottlenecks exist in a wide range of areas across the sector and tackling them will therefore require action by a range of stakeholders and institutions. In order to respond most effectively to this challenge and to coordinate the efforts of these stakeholders it is important that cooperation amongst stakeholders in the clothing sector is improved. The disappointing response of the sector in the lead up to the MFA phase-out suggests that there is still much work to do to establish the required level of cooperation.

The issue of labour standards is one which needs to be taken more seriously if Bangladesh is to maintain its position in world markets. With the rise of public pressure in the developed world for labour standards to be respected in sectors such as clothing production, labour standards is an area in which competition amongst developing world producers is intensifying. If Bangladesh continues to neglect this issue then it might see its regional and global competitors muscling in on its markets by marketing their progressive stance on these issues. In addition, given the high levels of worker unrest currently existing in Bangladesh's clothing sector, the cost of improving labour standards (which is not necessarily that large) may well be outweighed by improvements in labour productivity, as workers respond to welfare improvements by working more effectively. Tackling the issue of labour standards will require improving and institutionalizing dialogue between factory owners and workers and the engagement of other key stakeholders (especially the government) in a coordinated response to this challenge.

Conclusion

Given the uncertain future of the clothing sector in Bangladesh it is hard to predict to what the long-term impact of the MFA phase-out will be on poverty reduction. If the sector can continue its expansion by improving infrastructure, the business environment (i.e. move away from relying on cheap labour costs for its competitive advantage) and improving working conditions (which may increase labour productivity), then there will be limited pressure on employment and labour rights. However, if the sector struggles and costs are cut through retrenchments, wage reductions and FDI that is de-linked from the domestic economy, then its contribution to poverty reduction will weaken. The coming years will reveal much about what the future holds for clothing production and poverty reduction in Bangladesh.

Cambodia

Employment:

Cambodia's clothing sector currently employs 250,000 workers (see table 1 for more data on employment), equivalent to 42 percent of total industrial employment and 4.3 percent of national employment. The vast majority (around 90%) of these workers are low skilled female labourers who have migrated from rural areas where agriculture is the main source of livelihoods.[29] It is therefore fair to assume that given the level of wages in the sector these labourers improve their earning capacity

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[27] World Bank (2005)

[28] Foreign firms have obligations and closer linkages to foreign suppliers, whereas domestic firms will have closer relations to domestic suppliers are therefore more likely to integrate them into the supply chain.

[29] According to an ADB-sponsored survey in February 2004, the populous provinces near the capital Phnom Pheh Prey, Veng, Kompong Cham and Kandal are among the top three that provided women worker migrants.

by moving from rural areas to work in the clothing sector. Furthermore, these economic opportunities are breaking down traditional opposition to women taking jobs outside the home and migrating to find work, increasing their ability to gain financial independence. Nevertheless, working in the clothing sector is not without its risks for female labourers as some face damaging their reputations and chances of marriage when they leave home to work in this sector,[30] and long hours, poor accommodation and poor sanitation in factories can cause health problems.

The income of workers in the clothing sector was equivalent to around 13 percent of total clothing sales in 2003, approximately US$135 million.[31] A garment worker in 2004 received an average wage of US$60 per month, of which they spent around half on basic living expenses (food, accommodation and utilities) and transportation to and from work and sent the remaining amount (about US$30) to their families in rural areas, which commonly supported another 4 or 5 family members. As it is estimated that 90% of garment workers remit such a proportion of their income to their families in rural areas, annual remittances are worth around $120 million and this money is commonly spent on basic living expenses such as food, shelter and education.

Labour standards:
However, despite the obvious benefits remittances have for rural inhabitants the high proportion of income workers commonly send to their families has caused concern that some workers are risking their health by limiting their spending on things such as food and accommodation.

The government, factory associations, labour unions and international institutions have all played an important role in improving wage rates and labour conditions in Cambodia in recent years. Labour unions are very active in the clothing sector[32] and have acted as mediators between workers and factory owners to settle disputes and discuss wages. As a result the minimum wage was increased from $27 to $40 a month in 1997 and then to $45 a month in 2000, and the government has also made progress in enforcing ILO core labour standards in clothing factories.

The US government has supported the strengthening of core labour standards in Cambodia by making quota expansion conditional on their implementation and the ILO has monitored the performance of factories in meeting these standards. The prospect of increased market access through the expansion of quotas and preferences together with rising levels of productivity in the sector have in recent years provided unions with leeway to successfully demand these improvements in wage rates and labour standards.

Table 6: Evolution of government policies in the Cambodian clothing sector

1989	• Free market reforms initiated
1994	• Investment law introduced • Trade deregulation and liberalisation initiated
1996	• Trade relations with the US normalized, MFN status obtained • Garment Manufacturers Association in Cambodia (GMAC established) • Labour unions established
1997	• Trade relations with the EU normalized • Labour law introduced • Major ILO conventions ratified
1999	• Became a full member of ASEAN • Signed bilateral textile agreement with the US (set quotas and linked quota levels to labour standards) • Cambodia and EC sign textile agreement (allowed unlimited access to EU

[30] Stuart-Smith et al (2004), I.FitzGerald, (2005)
[31] Sok Hach et. al. (2001) and Sok Hach (2004)
[32] It is estimated (Sok Hach (2004)) that in 1999 there were 76 strikes amongst clothing workers and in 2004 there were 482 labour unions active in the sector.

	markets)
2002	• Expiration of Cambodia-EC agreement (replaced by EBA access)
2004	• Joined WTO • Obtained 14% increment in quota allocation from US due to improved compliance with ILO labour convention

Source: EIC (2005)

B/F linkages:
The majority of factories are located in Cambodia's capital Phnom Penh and its neighbouring suburbs and provinces and there are therefore only a small number of factories in rural areas. With the vast majority of inputs imported the clothing sector therefore has few direct links with other sectors of the economy. However, it has stimulated the creation of approximately 150,000 jobs in the service sector in clothing producing areas as enterprises such as beauty parlors, food retailers and taxi services have expanded to meet the needs of workers.

It is clear from this assessment that the Cambodian clothing industry has contributed significantly to poverty reduction by providing employment to thousands of workers (mainly female rural migrants with limited alternative employment opportunities), through remittances to rural areas and by providing a stimulus to enterprises providing services to workers. It is also clear that whilst some problems remain in the sector in terms of labour rights and conditions recent improvements have been made through effective dialogue between workers, factory owners and the government and pressure from outside bodies.

MFA phase-out:
However, the increasingly competitive global market for clothing following the phase-out of MFA quotas poses new challenges for this sector and the contribution it is making to poverty reduction. What are the future prospects of this sector? What impact will this increasingly competitive environment have on employment and on labour standards?

The phase out of the MFA was completed at the beginning of 2005, and the long-term impacts are obviously still to emerge, especially with regard to the linkage to poverty reduction. We can however present some of the initial impacts that are emerging and further data on the Cambodian clothing industry in an attempt to predict the impact of the MFA phase out on the sector and its contribution to poverty reduction.

As the MFA phase was completed Cambodia seemed to be in a reasonably good position to compete in the more open global clothing markets. Productivity in its clothing industry was high in comparison with its main competitors from the developing world and productivity was continuing to rise in the run-up to the phase-out. In addition, even before the MFA phase-out Cambodia was diversifying its clothing production away from quota controlled products to quota-free products, where competition was already intensive.[33]

Table 7: Performance of Cambodia's clothing exports (pre-quotas vs post-quotas)

	2003	2004	% change (2003-4)	Jan-Sept 2004	Jan-Sept 2005	% change (2004-5)
Exports to US market ($M)	1,241	1,431	15.3%	1,068	1,254	17.4%
Exports to EU market (millions of Euro)	424	520	22.5%	382	330	-13.5%

[33] ODI (2005)

In the first 9 months following the MFA phase-out Cambodia's clothing exports to the US increased by 17.4% in absolute terms (compared to Jan-Sept 2004) and their share of the US market also increased (from 1.6% Jan-Sept 2004 to 1.8% Jan-Sept 2005). In terms of the EU market, Cambodia's clothing exports fell by 13.5% in absolute terms over the same reference period. However, given the fact that Cambodia exports around 60% of its clothing to the US market and its exports to Canada have also increased in the post phase-out period, its overall clothing exports have increased in absolute terms since the beginning of 2005 and it has marginally increased its share of world markets.[34]

Challenges:
Supported by the overall increase in clothing exports, 43 clothing factories opened in Cambodia during the period Jan-Nov 2005 and wages in the sector seem to have stayed constant.[35] In addition, analysis by the World Bank and others suggests that Cambodia's clothing industry still has considerable savings to make in relation to inputs[36], transport and administration costs, which provide the potential for increasing productivity without reducing labour costs (which are already low). There is also considerable scope to achieve productivity gains from investing in infrastructure such as electricity, transport and telecommunications, the current poor state of which is holding back competitiveness. [37]

A factor that will make it more difficult to maintain labour standards is that since the removal of quota restrictions governments such as the US have one less tool to create pressure for improvements to working conditions in the Cambodian clothing sector. However, until the end of 2008 the ILO has agreed to maintain the level of surveillance it established to advise the US government on their quota expansion policy. In addition it should be noted that the legacy of cooperation to improve labour standards for international buyers is likely to be felt for some time to come as Cambodia has established itself as a producer that upholds high labour standards and buyers will expect these to be maintained.[38] If Cambodia fails to do so in the face of more intense global competition then she may lose markets to countries maintaining their adherence to these standards.

Conclusion:
The impact the MFA phase-out has had and will have on poverty is still becoming clear, but initial data suggests employment has increased in the sector since the beginning of 2005 and that the sector has the potential to continue generating employment without compromising on labour standards.

Recent minimum wage increases, recent improvements in labour standards legislation, effective channels of dialogue between workers, factories and government, the close monitoring of labour standards by bodies such as the ILO and efforts by Cambodian producers to market themselves on labour standards[39] are also factors that suggest there are mechanisms in place to maintain and improve employment quality in the sector in the post phase-out environment.

Sri Lanka

Employment:
The clothing sector currently employs over 300,000 people, has tripled its employment levels over the last 25 years and contributes around 16% of total employment in the country.

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[34] UNDP (2005)
[35] Ibid
[36] As the majority of inputs are imported customs and administrative procedures consume a significant amount of time and resources. Sourcing from suitable local suppliers would reduce lead times and improve competitiveness.
[37] ODI (2005)
[38] World Bank (2004)
[39] ILO (2005)

The majority of workers (87%) in the clothing sector are young unskilled women, for whom there are few alternative employment opportunities. For many women workers their jobs in the clothing sector are their first experience of formal employment and it therefore seems fair to assume that much of the employment in this sector is welfare enhancing.[40]

The growth of the clothing sector has played an important role in stimulating an expansion in the female labour force. During the 1970s the female labour force grew by only 0.9% p.a. but by 10.6% in the first half of the 1980s. Between 1980 and 1990 the female employment rate increased from 25.8% to 39.5%.[41]

Labour standards:
In the early 1990s the government introduced a minimum wage policy in the clothing sector and factories were encouraged to provide meals and other services for their workers. Although these measures and others (including improved compliance with ILO core labour standards) have played a role in improving labour welfare, the sector continues to be plagued by poor working conditions and low levels of wages. Factories (especially small and medium ones) regularly lack adequate sanitation facilities, female workers suffer harassment, transport to factories is unreliable and working hours are long. These poor conditions have led to rapid turnover of workers and high levels of absenteeism, which are in turn contributing to low levels of productivity in the sector.[42]

Another factor that has played a role in the continued poor working conditions and worker unrest in the clothing sector is the poor relations between workers and employers. Many factory owners pay lip service to labour regulations such as those relating to working hours and insurance, and trade union formation is discouraged weakening the ability of employees to bargain collectively.[43] Although institutions such as the Sri Lanka Apparel Exporters Association are making efforts to monitor and enforce compliance with labour rights, monitoring mechanisms are often weak and they are struggling to cover the sector effectively.[44]

B/F linkages:
In the initial stage of its expansion the majority of clothing factories were situated in the Western region of Sri Lanka in the vicinity of the capital, where the road and port infrastructure was most developed. However, in the early 1990s the Sri Lankan government started implementing its 200 garment factory programme (GFP) which aimed to stimulate the establishment of 200 clothing factories in rural areas. Entrepreneurs were encouraged to set up these factories through investment incentives such as access to quotas, tax breaks, cheap credit and duty reductions on inputs.

By 1994 the GFP had led to the establishment of 150-200 factories in rural areas increasing the linkages of this sector with the rural economy. The linkages these factories have created go beyond simply employing locals and factory workers making use of local services, as some of these firms make use of locally produced inputs and play a role in improving infrastructure in the areas in which they operate. For example, Brandix Lanka Ltd, the largest exporter of clothing in Sri Lanka, has set up factories across Sri Lanka and currently employs 18,000 people. It has also invested in a number of water infrastructure projects in rural areas, including a desalination plant and a water treatment system.

Despite the benefits that the expansion of clothing production to rural areas have produced, this restructuring has created problems for the industry as a whole as the reallocation of quotas has disrupted the production of existing producers and a shortage of experienced staff to manage factories has hit productivity. In addition it should be noted that the majority (c70%) of clothing factories are still situated in the Western region as the poor state of infrastructure elsewhere continues to restrict the ability of entrepreneurs to operate effectively. The government is continuing its efforts to stimulate the

[40] IPS (2006)
[41] IPS (2006)
[42] IPS (2001)
[43] The first trade union in the EPZ was only formed in 2001.
[44] IPS (2001)

establishment of factories outside of the Western region but recent efforts have had limited success as incentives seem insufficient to compensate for the handicap of operating in more remote areas.

Table 8: Geographical distribution of clothing firms and employees (1999)

Province	Establishment		Employment	
	Number	Percentage	Number	Percentage
Western	638	72	181329	65
Southern	51	6	19488	7
Central	54	6	17056	6
Eastern	8	1	3512	1
North Western	60	7	22398	8
North Central	21	2	10426	5
Uva	20	2	6559	2
Sabaragamuwa	36	4	15419	6
Northern	3	-	634	-
Total	891	100	276821	100

Source: IPS (2004)

It is clear from this assessment that the clothing sector in Sri Lanka has created a large number of jobs, not just in the major cities such as Colombo, but also in rural areas where the government has provided incentives for firms to establish operations. These rural enterprises have also improved the linkages of the clothing sector with rural areas. Given the fact that in addition the majority of workers are female migrants with few (if any) alternative employment opportunities the sector can be said to have contributed significantly to poverty reduction. However, despite recent improvements in labour rights the sector continues to be characterised by poor working conditions and low wages, which is limiting the contribution of this sector to welfare.

MFA phase-out:
The increasingly competitive global market for clothing following the phase-out of MFA quotas poses new challenges for this sector and the contribution it is making to poverty reduction. What are the future prospects of this sector? What impact will this increasingly competitive environment have on employment and on labour standards?

The phase out of the MFA was completed at the beginning of 2005 and the long-term impacts are obviously still to emerge, especially with regard to the linkage to poverty reduction. We can however present some of the initial impacts that are emerging and further data on the Sri Lankan clothing industry in an attempt to predict the impact of the MFA phase out on the sector and its contribution to poverty reduction.

Table 9: Performance of Sri Lanka's clothing exports (pre-quotas vs post-quotas)

	2003	2004	% change (2003-4)	Jan-Sept 2004	Jan-Sept 2005	% change (2004-5)
Exports to US market ($M)	1,488	1,601	7.6%	1,162	1,287	10.7%
Exports to EU market (millions of Euro)	736	841	14.2%	634	595	-6.2%

Initial data suggests that Sri Lanka has been able to increase its exports to the US market by 10.7% during the period Jan-Sept 2005 (compared to Jan-Sept 2004) and that it has maintained its share of the US market (1.8%). In terms of the EU market, its exports fell by around 6% Jan-Sept 2005 compared to the same period the previous year. However, given the fact that around 60% of Sri

Lanka's clothing exports go to the US market its global clothing exports increased during 2005 both in absolute terms and in terms of global market share.

Challenges:
Despite these positive results, in the long run the removal of MFA quotas is likely to pose many challenges for Sri Lanka's clothing industry and for the economy as a whole. The clothing sector in Sri Lanka is characterised by both product and market concentration as the sector has tried to gain a foothold in world markets by targeting niche markets, especially in the US. Although this strategy has achieved results it has made the sector vulnerable to the pressures of heightened global competition if it spreads to these niche products.

However, the ability of clothing firms to diversify and expand production is threatened by low levels of productivity caused by rising labour costs due to high turnover and labour shortages (of both skilled and unskilled labour), low investment in technology, weak infrastructure, long turnaround times and poor labour-firm relations. If productivity is to be increased there needs to significant investment in new technology, infrastructure and training, as well as efforts to improve labour conditions and labour firm-relations in order to reduce labour turnover and absenteeism.

In terms of improving turnaround times, one option is to increase the volume of inputs sourced locally, but this is a strategy that might take some time to implement as the domestic input industries face a number of problems including, high capital costs, weak links with international supply chains, skills shortages and poor access to raw materials.[45] A more realistic option in the short term is to improve the administration of international trade procedures, as there is a common perception that the institutions responsible for trade facilitation are weak and overly bureaucratic.

Amongst large scale firms, which have by and large established direct links with overseas buyers, have a reputation for producing quality clothing products and have the resources for investment to increase productivity, there is optimism that they will be able to restructure sufficiently to compete in a quota free environment. There is much more concern about small and medium firms who have do not have direct links to buyers and face much more serious challenges to increase productivity.

Conclusion:
Given the linkage between poor labour conditions and low levels of productivity, there is therefore potential for improved performance in the sector to occur in parallel with improved labour conditions and welfare increases. Increasing pressure from buyers to adhere to labour standards and existing minimum wage legislation will also put pressure on factory owners to improve working conditions and wages.

However, it should be noted that the Sri Lankan clothing sector is characterised by high labour to machine ratios in comparison to its competitors, and productivity increases might require a reduction in this ratio and therefore the laying off of workers. If the sector can expand at the same time then retrenched labour could be re-absorbed into the sector, but otherwise retrenched labourers will have to find employment outside of the sector.[46]

The long term impact of the MFA phase-out on poverty is obviously yet to become clear, but much will depend on the ability of Sri Lankan firms to compete in the quota free environment. This will determine the ability of the sector to continue to provide employment opportunities and the degree to which any labour retrenched from technological upgrading can be absorbed elsewhere in the sector. The linkage between poor working conditions and low levels of productivity suggests that improved competitiveness in the long run can be achieved in parallel with welfare enhancing improvements in labour conditions.

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[45] Kelegama and Foley (1999)
[46] IPS (2001)

Conclusions
The country case studies on the clothing sector in Bangladesh, Cambodia and Sri Lanka have revealed that this sector has made a significant contribution to reducing poverty and improving welfare in each of these countries. The sector has created a large number of jobs, mainly for female labourers with few (if any) alternative employment opportunities and little previous experience of formal employment. The growth of the clothing sector has also stimulated growth in backward linking sectors such as textiles and accessories (especially in Bangladesh), sectors that provide services to factories and workers, e.g. banking, retail and marketing and contributed to increased rural incomes through remittances (especially in Cambodia).

However, the case studies also reveal that there have been and continue to be challenges in ensuring that the quality of employment in the clothing sector of these countries is sufficient to ensure that it leads to sustainable and long term welfare improvements for workers. Although the sector has created jobs for many poor rural people workers continue to face problems such as extensive hours, insecure tenure, limited freedom to organize and bargain collectively, cramped living conditions (mainly a problem for workers living in dormitories) and poor health and safety provisions. This is especially so in Bangladesh and Sri Lanka, where working conditions have been slow to improve and relations between workers and factory owners are often fraught. In Cambodia the situation is better, as wages and labour conditions have improved markedly in recent years.

The country case studies also reveal that the degree to which these channels effectively promote poverty reduction is determined by a host of complimentary measures that mediate these linkages. A comparison of the findings of these country studies will enable us to draw out the key factors that have played a role in mediating these linkages and determining the different country experiences. This analysis will also allow us to make some recommendations about the types of policies that will safeguard and further promote the contribution the clothing sector is making to poverty reduction in these countries.

Quota availability and preferential market access

One of the key factors that stimulated the establishment of the clothing sector in all of the study countries was that being non-established clothing producers when quotas were introduced their exports did not face quotas to markets such as the EU and US. This attracted investment to the sector from quota constrained countries (mainly in East Asia). Once these countries became established clothing producers and faced quotas to major markets the quota system continued to play a role in the nurturing of clothing production by protecting their markets. This was especially the case in Bangladesh, which had the largest proportion of exports facing quotas before their MFA phase-out.

In recent years and especially since the phase-out of the MFA, the preferential access these countries enjoy to the EU (and other developed country markets to a lesser extent) has supported them in their efforts to expand production and adjust to the impact of the MFA phase-out. Bangladesh has gained most significantly from this preferential access as being an LDC it enjoys duty and quota free access to the EU, the destination for the majority of its exports. However, the strict rules of origin (in relation to domestic value added and input sourcing) the EU and others apply to their preference schemes have constrained the ability of these countries to make full use of preferences.

Quotas and preferences have also played a role in improving wage rates and labour conditions in the clothing sectors of these countries. By making quota expansion and preference provision dependent on the implementation of core labour standards and minimum wage legislation the EU and US governments and the ILO have been able to create incentives for clothing producers and governments to improve employment quality.

Although the impact of the MFA phase-out is the most significant challenge currently facing the clothing sector in these countries, the more open market in the post-MFA era also provides significant opportunities for these countries to integrate further into global supply chains and expand their access to global markets.

Effective market reforms and business climate
Although quotas provided the initial impetus to clothing production in the study countries, the sector only expanded rapidly after market reforms were undertaken. The reforms that played a role in expanding clothing production included: trade liberalisation; relaxation of foreign exchange and FDI restrictions; removal of licenses; and the introduction of FDI incentives. These reforms increased the opportunities available to private traders, reduced the cost of inputs and machinery, improved the business climate and encouraged foreign investment in the sector. As a result these reforms created incentives for entrepreneurs to invest in clothing production and they have also allowed the sector to create backwards and forwards linkages with other sectors of the economy.

In addition to market reforms, measures that have been implemented in these countries to improve the business climate and the ability of firms to operate effectively have also played an important role in promoting clothing production and the backwards and forwards linkages this sector has created with other sectors of the economy. These measures include: investment in transport and utilities infrastructure; the establishment of market institutions to promote business and effectively regulate economic activity; improving law and order; and financial sector reforms.

The main challenges facing the clothing sector in these countries following the MFA phase out include strengthening the business climate further through these types of measures. This should improve productivity and hence competitiveness, and may provide an opportunity for improvements to be made in wage rates and labour standards by reducing the pressure on labour costs as a contributor to overall productivity.[47]

Labour relations
The relationship between workers, factory owners, business associations and the government, and the relative strength of workers in this hierarchy, have been amongst the key factors that have determined the quality of employment available in the clothing sector of these countries.

In Bangladesh, due to the fact that trade unions are weak, workers have few alternative opportunities for employment and the sector is charaterised by low levels of labour productivity, workers have limited power to assert their rights and labour standards have been slow to improve.

In the Cambodian clothing sector there are a large number of active trade unions who have played an important role in mediating between workers and factory owners to settle disputes and create pressure for improved working conditions. In addition, unions, factory owners and the government have managed to develop productive and mutually beneficial cooperation, to the extent that labour rights have become a key marketing strategy for Cambodia's clothing industry.

Sri Lanka's clothing sector is characterised by poor worker-factory relations and weak trade unions, giving workers limited leverage to improve the poor labour conditions and low wages that exist. In addition, labour institutions and the government have lacked the resources and will to improve labour legislation and to monitor and enforce the implementation of existing labour legislation.

It should also be noted that the growing attention paid to the link between poor working conditions and low levels of productivity may strengthen the hand of workers in promoting improved working conditions.

Government intervention
Due to their involvement in the economic reform process, efforts to improve the business climate and labour legislation, the governments of the study countries have played a key role in supporting the expansion of the sector and its contribution to poverty reduction. However, there are a number of other areas in which government intervention has played a key role.

[47] A case can be made that higher labour standards in Cambodia are a function of its higher levels of overall productivity, which have provided factory owners with the freedom to improve labour standards without harming overall competitiveness.

The cases of Bangladesh and Sri Lanka illustrate the role that government regulation can play in improving the backwards and forwards linkages between the clothing sector and other sectors of the economy. In Bangladesh the government has supported this process by supporting backward linking sectors such as textiles and by reserving quotas and providing financial incentives for domestic firms and those pledging to create these linkages. In Sri Lanka, the government-sponsored 200 Garment Factories Programme was instrumental in establishing factories in rural areas, and it did so by providing entrepreneurs financial and regulatory support to operate in these areas. In the coming years the government's of these countries will also have an important role to play (through financial and regulatory policy interventions) in balancing the objective of deepening these linkages with the need to stay competitive and integrate more effectively into global supply chains (which might lead to increased sourcing from MNC suppliers).

For all of the study countries the role of the government (with the support of international donors) in helping the clothing sector prepare for the phase-out of the MFA has also been significant. In Bangladesh the government was heavily involved in developing an action plan to respond to the challenges posed by the MFA phase-out and in efforts to resource and coordinate the implementation of this action plan. In Cambodia and Sri Lanka the government has played an important role in supporting the efforts of clothing firms to diversify production and improve skills in the run up to the MFA phase out.

In the post MFA environment it is important for the governments of these countries to continue playing this role by monitoring international markets, coordinating and directing the activities of key stakeholders in the clothing sector and supporting the efforts of firms to improve competitiveness and restructure.

The challenge of protecting and improving labour standards in the post-MFA environment will also require the government to play an important role in mediating between the interests of workers and factory owners and facilitating a dialogue that allows the interests of all stakeholders to be balanced effectively.

Recommendations

Although the clothing sectors of Bangladesh, Cambodia and Sri Lanka have so far responded well to the phase-out of the MFA, its full force has not yet been felt as the EU and US have maintained safeguards on China (which are due to last until 2008) and the dynamics of the post-MFA environment are still taking shape. The clothing sectors of these countries will therefore face some significant challenges in maintaining and increasing their market share over the coming years, especially that of dealing with the range of productivity bottlenecks that are holding back competitiveness.

The degree to which this sector can continue to contribute to poverty reduction in these countries in the post MFA-period will in the main be determined by the success they have in meeting these challenges. However, it will also depend on the types of policies that are implemented to support the sector as if these can be designed in such a way as to be mutually beneficial both to productivity and labour standards then the potential that this sector holds for poverty reduction can be more effectively realised. In this regard this paper recommends the following policy responses:

- Improve training programmes for workers across the supply chain.
- Improve compliance with core labour standards
- Strengthen dialogue and cooperation between workers, factory owners, buyers and government on labour standards and wage rates.
- Strengthen dialogue and cooperation between workers, factory owners, buyers and government on improving productivity and competitiveness.
- Improve trade facilitation mechanisms and institutions.
- Invest in a wide range of infrastructure areas, including: electricity, roads, transport and telecommunications.
- Develop short and long term strategies for expanding local sourcing.

- Developed countries to improve access to their markets for clothing exports (conditional on meeting reasonable improvements in labour standards).

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