

Impact of Minimum Wage on Employment and Exports in Readymade Garments in Bangladesh

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Abstract

Readymade Garment (RMG) sector is the key sector of Bangladesh economy. It provides job opportunities for more than 4 million people and most of whose are women. Since last three decades, the RMG sector has become the leading export earning sector. It becomes possible only for cheap labour force. But inflation rate has in Bangladesh is also high. Thus the real wage in RMG sector is very low. As a result workers lead a measureable life. So, the government announced the fifth minimum wage. Theoretically, an increase in wage may decrease employment level and create job-less situation for workers. But this study does not find any effect of increasing minimum wage in RMG sector in Bangladesh on employment level and it does not create any unemployment. So, it seems to be blessing for the workers.

Keywords: Impact, Readymade garments, Minimum wage, Worker.

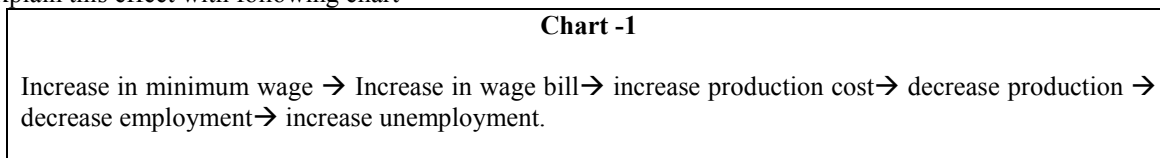
1. Introduction

Bangladesh is traditionally an agricultural country. She could not accommodate her fast growing population with traditional professions. So it needed some highly employment generating industrial sector. In 1970s, the readymade garments industry (RMG) started its journey in Bangladesh. Now, it becomes the leading export earning sector in Bangladesh that contributes almost 80% of the total exports. So, Readymade Garment (RMG) is the leading industry in Bangladesh in employment generation, increasing GDP and foreign currency earnings. It becomes possible for cheaper and huge unemployed labor force. A large number of workers employed in RMG sector are women and most of them are illiterate unskilled or semi-skilled. The owners of garments factory take the opportunity of illiteracy, low skillness of workers and existence of huge unemployment and exploit the poor workers. So, the workers of this sector lead a measurable life. For reducing exploitation Bangladesh government increases minimum wage several times. Finally, government of Bangladesh increases the minimum wage to TK 5300 (US\$68) which is 76.67% more than previous one. This minimum wage executed from 1st December 2013. Theoretically, an increase in minimum wage may results in reducing the export and employment level. This study does not find any effect of increasing minimum wage in RMG sector.

2. Literature Review

From 2006 to 2010, the minimum wage of garment employees was BDT 1650, after long bargaining with stakeholders (the 2010 level was equivalent to US\$38 per month). But inflation rate has always been around two digits for the last few years, so regular increases or revision of wage is indispensable in this sector. Seeking appropriate wages and benefits has led to several labour unrest situations recently. Some unexpected accidents caused a deterioration of the situation. To calm down labour activist, right after the collapse of a garments factory building in Savar, near the capital of Dhaka, which killed more than 1,100 garment workers, the government announced the appointment of a minimum wage board. That committee worked with several stakeholders to find a rate acceptable to all groups. A public sector think-tank, Centre for Policy Dialogue (CPD), suggested BDT 6,500 (US\$84) to be fixed as the minimum wage for the RMG sector (Moazzem and Raz, 2013). But labour organizations are urging a minimum of US\$103, while BGMEA rejected this by arguing that more than 50% of factories are unable to bear this excess labour cost and will eventually be shut down (On RMG minimum wage, 2013). Yet, there is another calculation; BGMEA, the country's association of export-oriented woven, knit, and sweater garment manufacturers and exporters, claimed that the minimum wage is theoretical, as almost all employees work for 10-12 hours a day and earn nearly twice their basic pay. They have offered a 20%

wage hike, barely mentionable in this situation (Stefanicki, 2013). Further, there are about 2,200 small and medium factories in this sector; about 50% of the total that cannot survive such a hike in salary. Finally, minimum wage is fixed at BDT 5300(US\$68) which is effective from 1st December 2013. As labour is a vital part of wage bill, an increase in minimum wage will affect the wage bill as well as employment level. We can explain this effect with following chart-



Several authors have analyzed the impact of minimum wage in the garment industry. Anker, R., (2011), works for estimating a living wage and suggests a method which is followed by various countries to estimate minimum wage for their workers. A number of research studies in the developing countries on the link between minimum wage increase and employment show a negative effect. In Latin American countries, where the minimum wage level is comparatively high (compared with overall wage distribution), a sharp negative impact of minimum wage-employment relationship is seen (Kristensen and Cunningham 2006). Research on minimum wage increases in Colombia showed a negative impact on employment, where the minimum wage was close to the average wage, while the same research in Mexico showed no effect, where the minimum rate was far below the market rate(Bell, 1997). Maloney and Nunez (2004) also found a negative effect on employment in both formal and self-employed sectors in Colombia (Salam 2014). The same tendency was also observed in Costa Rica (Ginding and Terrell 2007) As the RMG sector in Bangladesh has to observe the situation in its Asian counterparts, some research on this phenomenon was also observed in such countries as Vietnam and Indonesia. Similar research in Vietnam showed evidence of a decrease in formal employment as the minimum wage rose (Nguyen 2010). Harrison and Scorse (2010) did the same type of research in Indonesia; they examined the effect of anti-sweatshop campaigns on wage increase in the export-oriented foreign-owned textiles, footwear, and apparel industry, which showed that a 10% increase in real minimum wages resulted in an average 1.2% decrease in the employment of production workers. So this study wants to analyse the impact of minimum wage on worker.

3. Definition of Minimum Wage

At the international level, Article 23 of the United Nations Universal Declaration of Human Rights (1948) stated: “Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity” (Anker, 2011). Article 3 of Convention 131 (1970) suggested that the following factors need to be considered in determining minimum wages:“(a) the needs of workers and their families, taking into account the general level wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups.(b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.” (Anker, 2011) Definitions used by specific countries are captured in the following table-

Table 1: Mention of minimum wage/living wage concept in the constitutions of selected countries.

Country	Mention of Minimum Wage/Living Wage Concept in the Constitutions
Mexico (Constitution)	“The general minimum wage must be sufficient to satisfy the normal necessities of a head of family in the material, social and cultural order and to provide for the mandatory education of his children.”
India (Directive Principle No. 43 of State Policy in the Constitution)	Living wage, etc. for workers—The State shall endeavour to secure, by suitable legislation or economic organisation or in any other way, to all workers ... a living wage.”
Namibia (Article 95 in Principles of State Policy in the Constitution)	“Ensure that workers are paid a living wage adequate for the maintenance of a decent standard of living and enjoyment of social and cultural activities.”
Brazil (Constitution)	“National minimum wage be capable of satisfying their basic living needs and those of their families with housing, food, education, health, leisure, clothing, hygiene, transportation and social security, with periodical adjustments to maintain its purchasing power.”

Source: Cited in Anker 2011, pp.3-4)

Not only the definition but also the process of determining the minimum wage is different in different countries. Two major economic powers in this region, China and India, determine their minimum wage following by following decentralization policy. But, Bangladesh follows a nationwide central wage policy.

4. Minimum Wages in the RMG sector in Bangladesh

4.1. History of Minimum Wages in the RMG sector in Bangladesh

The pioneer of RMG in Bangladesh, Reaz Garments, was established in 1960 as a small tailoring outfit, named Reaz Store in Dhaka. It served only domestic markets for about 15 years. In 1973 it changed its name to M/s Reaz Garments Ltd. and expanded its operations into export market. RMG sector in Bangladesh did not expand largely up to late 1970s. Even in 1982, there were only 47 garment manufacturing units in Bangladesh. Finally, the number increase to 384 in 1984-85. The government assigned high priority to the development of RMG industry and implement first minimum wage (TK627).

Table 2: Declaration of Minimum Wages in the RMG sector in Bangladesh

Year	Minimum wage	TK	Increasing rate (%)
1985	1 st	627	
1994	2 nd	930	48.33
2006	3 rd	1662	78.76
2010	4 th	3000	80.45
2013	5 th	5300	76.67

Source: Cited in Salam (2014)

To use some numbers, we see that minimum wage in the garments industry increased from Tk. 930 in 1994 to Tk. 1662 in 2006 and then once again to Tk. 3,000 in 2010. But at the same time the price of consumer goods has increased steadily by 6.65% per annum since 1994. Shibly (2014) conclude that the increase in minimum wage in 2013 will increase 5-10% in the total wage bill per worker.

4.2. Minimum wage in RMG sector from global perspective

Bangladesh is a low income developing country. Here both the population density and the unemployment rate are very high. Most of the workers in RMG sector are unskilled or semi-skilled. Farther, due to lack of union opportunity workers are also unorganized. So, the wage rate of worker in Bangladesh is cheaper than most of its competitive countries.

Table 3: Minimum wage and per capita GDP in some selected countries

Countries	Minimum wage/Month (US\$)	Per capita GDP/Month(US\$)	Minimum wage as % of per capita GDP
Bangladesh	68	62	109
India	71	124	57
Pakistan	79	108	73
Sri Lanka	73	244	30
Viet Nam	78	133	59
Cambodia	80	79	101

Source: Cited in Basher, A., (2013)

The monthly minimum wage (US\$68) for entry level workers in garment sector in Bangladesh is comparatively lowest major garment-exporting countries. For example, this rate in Cambodia is US\$80, in India US\$71, in Pakistan US\$79, in Sri Lanka US\$73 and in Viet Nam US\$78. But at the same time it is also true that people working for minimum wage in Bangladesh receive about 109 per cent of the country's average per capita GDP. In case of Cambodia this share is also more than 100 per cent. Only in these two countries people working for minimum wage can maintain a living standard which is higher than the national average. In case of other countries, they miserably fail to maintain this level. The case of Sri Lanka, for example, the living standard of people working for minimum wage is less than one-third of the national average. It implies that in terms of income distribution Bangladesh has a better position.

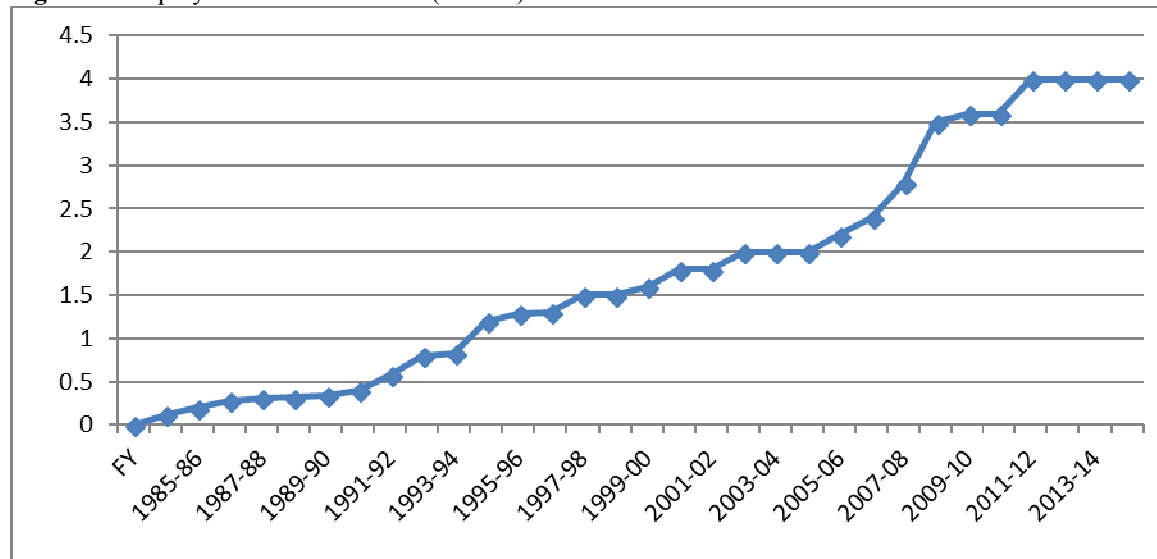
5. Effect of minimum wage on RMG sector

Some policymakers often consider an increase in the minimum wage as a tool of poverty elimination and equaling income distribution. Because, they think increasing minimum wage increases the earnings of low-income workers. Some of them think that a moderate rise in the minimum wage is helpful for lower earning group, because it increase their income without causing any job loss; even it increases productivity in the workplace. They also argue that, it leads to an increase in work effort, lower turnover, and more on-the-job training (Katz 1987; Levine 1992; Raff and Summers 1987). But some empirical evidence concludes that a higher minimum wage may end up in job losses. Economic theories also suggest that an increase in wage results in increasing production cost and it decreases profit. Finally, it decreases production volume as well as employment level. So, this study enquires into whether minimum wage affect export of RMG or employment level in this sector.

5.1. Effect of minimum wage on employment

Minimum wage has a little effect on employment in RMG sector. Although government declare first minimum wage in 1985 and revised it four times, number of factories as well as number of workers increase steadily.

Figure 1: Employment in RMG sector (million).



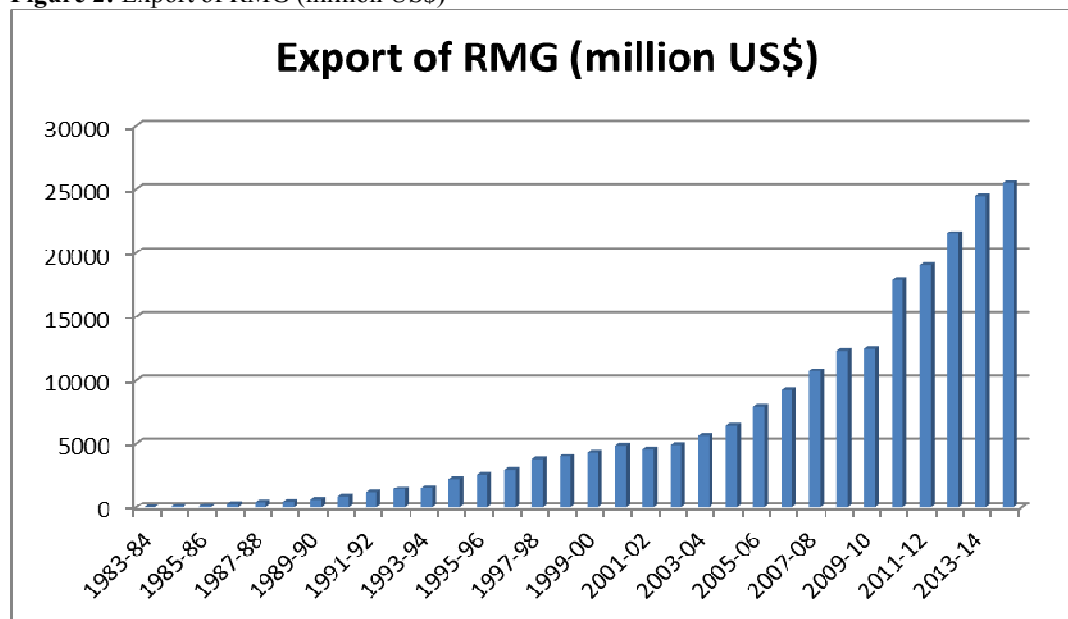
Source: BGMEA (2015)

In 1985 the number of factories was 384 which increase to 1839 in 1994 and it becomes 3200 in 2000. On the other hand only 0.12 million people were employed in RMG sector. In 1994 it increases to 0.83 million and in 2000 it becomes to 1.60 million. So we can say that first revision did not affect employment. Similarly in 2006 number of factories and worker was 4220 and 2.20 million which increases in 2010 to 5063 and 3.6 million respectively. This shows that second revision also has a negligible effect on employment RMG sector. In 2015 number of factories and worker becomes to 4296 and 4.0 million. During this time the growth rate is relatively small, but it becomes slower before minimum wage revision.

5.2. Effect of minimum wage on export of RMG

Like the employment, RMG export also not very much affected by minimum wage revision. During 1980s RMG export was only around 1/3 of total export of our country. But during 1990s it becomes more than 50% of total export and during 2000s it becomes more than 2/3 of total export. So, export of RMG sector has a smooth growth in Bangladesh.

Figure 2: Export of RMG (million US\$)



Source: Export Promotion Bureau Compiled by BGMEA (2014).

In 1983-84 Bangladesh export only US\$ 31.57 million RMG product and in 1999-00 it becomes US\$ 4349.41 million. In 2014-15 export in this sector becomes US\$ 25491.40 million. It is clear from the figure that minimum wage do not have much effect on export, because after revision (in 1994, 2006, 2010 and 2013) export in RMG sector has a steady growth.

6.1. Arguments in favor of raising minimum wage

Workers use their earnings for food and non-food items. On average they use more than 50% for food items. Vary often workers often have to borrow a part of expenditure their monthly expenditure because their income is so much low (Moazzem 2014). So, a rising wage can helps workers for maintaining their basic needs.

The flourishing RMG sector in Bangladesh becomes possible only for her cheap labour force. But workers who sacrifice themselves for the development of RMG sector live under the poverty line. The government earns handsome revenues from this sector, factory owners making huge profit from this business, and buyers (international retailers) get the most, 55-65% benefit on the garments production in Bangladesh (CPD report, 2013). By rising minimum wage we can provide workers a part of profit.

Share of labour cost in total cost in Bangladesh is very low. To make a shirt Bangladesh need US\$ 3.72 among which labour cost is only US\$ 0.22 (5.91%). That means that if wage for workers increase by 10% then it results in only 0.59% increase in total production cost increase.

Economic theory suggests that whether a minimum wage leads to higher employment (or higher productivity) or job losses depend on the balance between the minimum wage and marginal productivity of labour (MP_L). According to Rebitzer and Taylor (1995) an increase in the minimum wage can benefit both the workers and owners if the existing wage is much lower than the MP_L . In this regard, Bangladesh has little backlash, as productivity in the RMG sector is comparatively low only 77% compare to China, India and Pakistan 100%, 92%, and 88% respectively. Thus a proper training can ensure both more wages and more profit.

Finally, we can say that wage should be determined on the basis of marginal productivity and existence of perfect competition ensures this requirement. However, perfect competition is does not exist completely in Bangladesh for several reasons. In such a situation, government needs to intervene to set the wages for the working class to lessen their exploitation by employers (Basher, 2013).

6.2. Arguments against raising minimum wage

Although RMG sector in Bangladesh has enjoyed the facility of cheap labour force. But it does not mean that they earn higher profits. Actually international retailers enjoy the most of the profits as their share of design and development of the product (Noman, 2013). So, an increase in wage may increase in production cost.

Today, about 4.0 million workers, 90 per cent of whom are girls and women, are working in the RMG sector. But they are in better position compare to past.

People working for minimum wage in Bangladesh receive about 109 per cent of the country's average per capita GDP. In case of other countries, minimum wage is lower than average per capita GDP (Basher 2013). So it is more important to ensure job security than higher wage.

We have to remember that most of the workers in RMG sector in Bangladesh are illiterate and unskilled: not only that, they also less productive than other competitive countries. So, we can't increase minimum wage without ensuring quality of workers.

7. Recommendations and Conclusion

Since last three decades readymade garments (RMG) becomes the driving force of Bangladesh economy. So, any shock on RMG sector may affect the economy. Most of us think that an increase in wage adversely affect employment and becomes an imprecation for workers. But this situation will occur if and only if labour cost holds the large share of production cost and production process in on optimum level. Besides this, as well as cheaper labour, the quality and reputation of product also contribute in flourishing RMG sector in Bangladesh. Bangladesh is not currently working at optimum capacity level and share of wage in total cost is very low. So, an increase in minimum wage does not affect RMG sector adversely. So, it becomes possible for the workers to get higher wage without losing any job and it becomes bless for them. Thus, for further increase in minimum wage we have to give emphasis on ensuring productivity of workers and quality of our product. Besides, Bangladesh needs to diversify its RMG product market. To increase workers efficiency and ensuring product quality and product market Bangladesh can take following strategies:

1. Cost Effective Strategy: Cost Effective Strategy should begin with assigning the highest priority for establishing backward linkages. We can reduce the production cost by establishing backward linkage.
2. Labour Productivity Improvement Strategy: Bangladeshi workers are not efficient as of Hong Kong, South Korea and Sri Lankan workers. Proper education and training can increase worker's productivity. An increasing productivity can reduce production cost.
3. Product Diversification Strategy: Product Diversification Strategy is an important factor to keep place in the

world readymade garments market. Different types of products should be produced by applying fashion. By diversifying our RMG product we can increase RMG export.

4. Market Diversification Strategy: Bangladesh exports her RMG product in selected markets in the world. Mostly are in USA, Canada and Europe. Bangladesh can increase RMG export by expanding its product market.

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