Apparel employment, trade, and economic development in South Asia

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Apparel production is organized in global value-chains

Source: Stitches to Riches
Apparel is labor-intensive

It makes up 41% of manufacturing employment (with textile) in South Asian countries

Source: Household and labor force surveys
Apparel pays higher wages than alternatives

Apparel wages are higher than agriculture

Monthly earnings, 2012 USD

Source: Stitches to Riches, Chapter 4
Apparel employs more female workers than other industries

Source: Stitches to Riches, Chapter 4
South Asia is at a crossroads

• On one hand, China is losing its cost advantage due to higher wages; it is also moving to higher value-added products

• On the other hand, South Asian apparel producers face an environment of increased competition and scrutiny
Question of the study

• How competitive are South Asian apparel producers in the global apparel market?

• How much of production shifting out of China can South Asia capture?

• What effect could increased exports have on employment?
The Stitches to Riches framework

**A: Qualitative factors affecting production (Policies)**

Chapter 5

Output (y)

Product demand $\frac{dy}{dp}$

Chapter 2

Chapter 3

Firms $y=f(K,L,A)$

Labor demand $\frac{dL}{dy}$

Chapter 4

Workers (L)

Source: *Stitches to Riches*, Chapter 1
The Stitches to Riches framework

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Chapter 2
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Firms
\[y = f(K, L, A)\]
Chapter 4

Labor demand
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Output (y)

Workers (L)

Source: Stitches to Riches, Chapter 1
HOW COMPETITIVE ARE INDIAN APPAREL PRODUCERS IN THE GLOBAL MARKET?

[Benchmarking]
India is gaining market share, but not as quickly as Southeast Asia

Source: COMTRADE data, Stitches to Riches Chapter 2
Note: SAR – South Asia Region countries; SEAB – Southeast Asian Benchmark countries
Is India aligned with global buyers’ demand?

India will need to increase apparel production in manmade fibers to stay competitive.

Source: COMTRADE data, Stitches to Riches Chapter 2
Note: MMF - manmade fiber; SAR - South Asian sample countries; SEAB - Southeast Asian benchmark countries. N/A indicates the material is not available in trade data classification definition.
How do global buyers perceive India’s production efficiency?

Despite low unit prices, buyers perceive India’s costs to be high

<table>
<thead>
<tr>
<th>Country</th>
<th>Cost competitiveness</th>
<th>Price (FOB)</th>
<th>Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>▲</td>
<td>▲</td>
<td>△</td>
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<tr>
<td>Bangladesh</td>
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<tr>
<td>Indonesia</td>
<td>▲</td>
<td>△</td>
<td>△</td>
</tr>
</tbody>
</table>

- ▪️ Factor is not a problem
- ▲ Factor may become an issue
- △ Factor is likely an issue

Source: COMTRADE data, Global Buyers’ Survey 2014, *Stitches to Riches* Chapter 2
Note: FOB – free on board.
How do global buyers perceive India’s production efficiency?

Southeast Asian countries are outperforming India on non-cost factors that buyers care about

<table>
<thead>
<tr>
<th>Country</th>
<th>Quality</th>
<th>Lead time and reliability</th>
<th>Social compliance and sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
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<td>![Circle]</td>
<td>![Triangle]</td>
</tr>
<tr>
<td>Bangladesh</td>
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</table>

*Factor is not a problem*  
*Factor may become an issue*  
*Factor is likely an issue*

Source: Birnbaum 2013, Global Buyers’ Survey 2014, *Stitches to Riches* Chapter 2
HOW MUCH OF PRODUCTION SHIFTING OUT OF CHINA CAN INDIA CAPTURE?

[Responsiveness of exports to changes in prices]
A 1% increase in Chinese apparel prices could increase EU demand for Indian apparel exports by 1.90%.

Source: *Stitches to Riches*, Chapter 3

*Note*: Pattern indicates results not statistically significant
A 1% increase in Chinese apparel prices could increase US demand for Indian apparel exports by 1.46%.
WHAT EFFECT COULD INCREASED EXPORTS HAVE ON EMPLOYMENT?

[Responsiveness of labor demand to increases in output]
A 1% increase in output could increase firms’ labor demand by 0.17%
A 1% increase in Chinese apparel prices could increase firms’ demand for female labor by 0.25 – 0.33%

• A 1% increase in wages could increase female labor force participation by 19%

Source: Stitches to Riches, Chapter 4

Note: Pattern indicates results not statistically significant
How can India increase the apparel sector’s potential to create jobs?

• Increase integration between fiber-textile-apparel supply chain

• Leverage SMEs that have the flexibility to quickly adapt to fast fashion

• Leverage its pool of skilled workers to move up the apparel value-chain
How can India increase the apparel sector’s potential to create jobs?

• Reduce tariffs and import barriers to ease access to man-made fibers

• Increase market access for example through increased FDI

• Improve productivity and help firms growth by tackling complex policies.
THANK YOU

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Report available at:
https://openknowledge.worldbank.org/handle/10986/23961
South Asia needs to create jobs for its young people

- About 1 million individuals will enter the workforce every month for the next three decades

**Female labor force participation is low**

<table>
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<tr>
<th>Region</th>
<th>Percent</th>
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<tr>
<td>East Asia &amp; Pacific</td>
<td>64%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>65%</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>64%</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
<td>56%</td>
</tr>
<tr>
<td>South Asia</td>
<td>25%</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>12%</td>
</tr>
</tbody>
</table>
South Asia needs to create jobs with low barriers to entry

The population has an average of 5.3 years of schooling