

The Impact of Exporting on Factory Working Conditions in Myanmar

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Data collected in Myanmar garment and processed food firms from 2013 to 2015 provide evidence that exporting has positive effects on fire safety and the other measures of working conditions. This effect can be a result of foreign buyers' pressure to local firms to comply with international labour standards.

Introduction

Even if many developed countries predispose reduced tariff rates to low-income countries, there is inadequate empirical evidence that such trade policies benefit workers in developing countries. This is why, in the press and in trade policy debates, there are repeated concerns about unsafe and exploitative working conditions in low-income country firms exporting their products to developed countries. The theoretical explanation is that trade might deteriorate conditions if the cost-cutting management technologies adopted for exporting are harsh on workers. These concerns raise a question that has important policy implications: Does improving access to the markets in high-income countries undermine working conditions in developing countries?



Fig.1 – Fire at a garment factory in Yangon (Myanmar Times)

Data Collection



Fig.2 – A garment factory in Yangon

This project collected measures of firm-level working conditions by conducting a field survey in Myanmar. It did so through three yearly waves from 2013 up to 2015 using in-person interviews consisting of plant managers in a panel of 381 garment and 316 processed food firms. The survey targeted all firms in the industries in Yangon and Mandalay that are found through available sources such as industry directories and the government's registration record. The questions were constructed for evaluating whether plant labour practices comply with the international labour standards advocated by the International Labour Organization (ILO) and major private initiatives providing certification and auditing services. As such, the survey asked questions about fire safety, health management, firm-worker negotiations, wage, and hours of work. Validation of managers' responses was later checked by comparing them with the record of survey staff's direct observations of safety equipment at the plants.



Private Enterprise Development in Low-Income Countries

Findings (1): From comparison of firms within exporting (garment) industry

Firms decide to export for various reasons. In the context of Myanmar garment industry, eligibility of products for Japanese preferential tariffs was found to be a key determinant of firm's decision to export. Before the lifts of US and EU trade sanctions in 2012, the main foreign market for Myanmar garment industry was Japan. Japanese apparel demand in Southeast Asian countries increased in the late 2010s, which potentially shifted away from China after the anti-Japan demonstrations triggered by dispute over an island in 2005. Export from Myanmar to Japan started to increase significantly after 2005. However, it was only in a certain type of apparel products, called woven apparel. The reason was that Japanese preferential tariffs for low-income countries were stricter on knitted clothing than woven clothing. In this regard, the first analytical method centered on comparing current working conditions in garment firms by businesses' product types in 2005 regarding eligibility for Japanese free tariff (that is, woven vs. knitted apparel).

It is shown that producers of knit and woven apparel products resembled one another concerning productivity, firm sizes, wages, and various other observable characteristics. That is according to a survey conducted by the Institute of Developing Economies of the Japan External Trade Organization (JETRO IDE) (which targeted the entire population of Yangon garment firms in 2005).



Fig.3 – Fire exit, evacuation route map, and fire hose at a garment factory

The results indicate that firms that produced mainly woven products in 2005 (“woven firms” hereafter) are more likely to be exporters in 2013-2015 than the other type of firms by 25 percentage points. The woven firms also employ more than twice of the other firms on average in the recent years. Moreover, the woven firms have better fire safety equipment, health management (e.g. contracting with hospital, emergency treatment), and negotiation tools between workers and firms (e.g. workers' leaders, meetings, suggestion boxes). The magnitudes of the difference are also large: for example, 57% of woven plants have a fire alarm while 26% of knit plants do, and 18% of woven plants have a suggestion box while 5% of knit plants do. Further results and analysis can be found in [this paper](#).

So, what are potential explanations of the identified results? One is that foreign buyers require local suppliers to comply with the international labour standards for protecting their brand names. The most shared and practical approach of imposing such rules is to have a third-party labour audit, which usually provides a certificate. The result from the data supports that firm that had more exposure to trade (woven firms) were more likely to have an experience with such audits by 12 percentage points. Another explanation, however, is that there is an increasing return to scale in investment on safety. Thus, the improvement in safety measures can be as a result of exporting and an increase in employment size.



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Findings (2): From comparison of firms by exporting (garment) and non-exporting (processed food) industries over time

An alternative way of data analysis produced similar conclusion as in the ones above. Here, the second method compared exporting and non-exporting industries from 2013 to 2015, which is a period just after the US and EU trade sanctions were lifted in 2012 and 2013 respectively. The study chose processed food sector as a non-exporting sector because import regulations on food products are stringent in many countries, and there is a rare exportation of these commodities.

The left part Figure 3 shows that, from 2013 to 2015, the exporting industry (apparel) had an increase of export sales to EU or the US as a share of sales while the non-exporting industry (processed food) had no export to these foreign countries. The right part Figure 3 indicates the average of overall fire safety scores (where the score in each plant was constructed to take a value from 0 to 1 based on the information of the number of fire safety equipment and exercise of fire drill), showing that fire safety measures improved at the same time as opposed to the non-exporting industry.

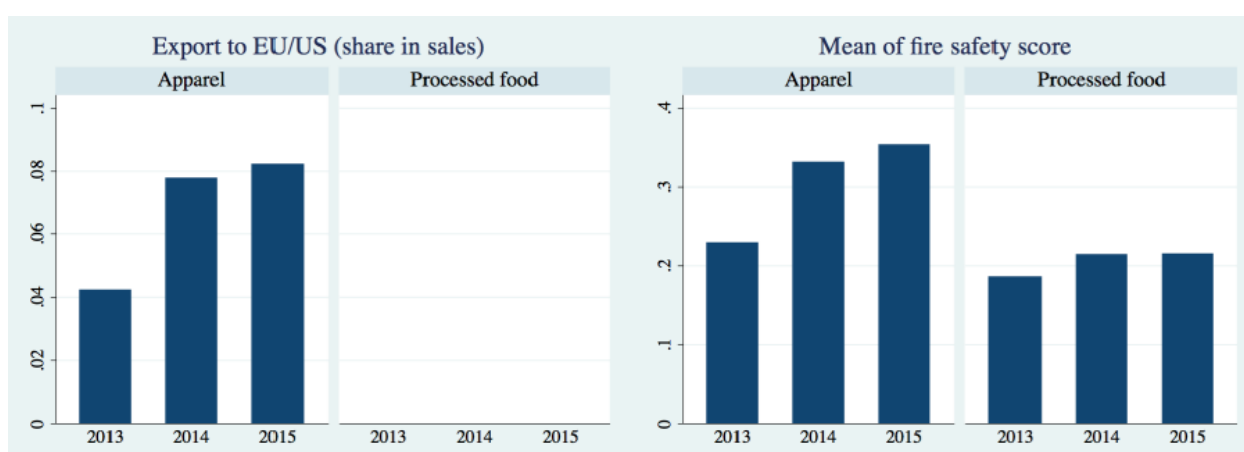


Fig.4 – Comparison by garment and processed food industries

Potential Policy Impact

My empirical results show that exporting to high-income countries positively and significantly affects working conditions. This evidence will support the developed countries' policies to reduce tariffs to low-income countries for the benefit of workers in those nations

Moving Forward...

The main shortcoming of this research is that it does not clearly identify the pathways that exports improve workplace measures. Do the positive effects of exporting on safety result mainly from pressure from the foreign buyers or an increase in firm size? A similar question is whether the effects would be different for an increase in domestic or international demand. Further evidence is needed to advise future policies better.