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The Paradox of Export Growth in Areas of Weak Governance: The Case of the Ready Made Garment Sector in Bangladesh☆

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Summary. — Can export growth occur in states with weak governance and competitive clientelism? Conventional wisdom is that effective industrial policy requires a politically stable country with a centralized government. Absent these conditions, countries can pursue alternative types of industrial policies. Contexts with *stable*, or predictable, mis-governance and a government committed to nonintervention can yield strong export performance. We test this hypothesis in Bangladesh by examining the creation of industrial policy in the Ready Made Garment (RMG) sector. This paper highlights how the particular "political settlement" in Bangladesh has created a viable environment in which the RMG sector continues to grow.

Key words — Bangladesh, industrial policy, ready made garments, political settlement

1. INTRODUCTION

How can effective industrial policies be pursued in contexts with weak governance institutions with widespread corruption and competitive clientelism? Conventional wisdom, based in large part on the successes of many East and Southeast Asian countries, is that effective industrial policy requires strong and centralized governmental structures with administrative honesty and competent bureaucracy (e.g., Amsden, 1989; Evans, 1995; Johnson, 1982; Rodrik, 2004). A large literature supports the links between strong governance institutions and economic growth. The uncertainty associated with an unstable political context reduces investment and the speed of economic growth, which further contributes to political instability (Barro and Lee, 1994). A high likelihood of a change of government is associated with uncertainty about the economic policies of a new government. Risk-averse economic elites and foreign investors hesitate to invest in economies with uncertainty about policies and property rights (e.g., Alesina, Olzer, Roubini, & Swagel, 1996). Furthermore, foreign and domestic economic elites will shy away from investing in economies where bureaucrats have high levels of discretion and who are neither subject to the oversight of state agencies nor to the scrutiny that is intrinsic to competitive elections (Beazer, 2012).

Others emphasize the negative effects of weak governments on rent seeking and ultimately, economic growth. Weak governments that constantly fear losing office are likely to be vulnerable to the pressure of lobby groups, which bias economic policies in favor of some groups at the expense of economic growth (Shleifer & Vishny, 1993).

The focus of the developmental state literature is on the positive role central government structures played in accelerating development in the late developing states of Korea, Singapore, Taiwan, and Malaysia. Although the exact role the state played in guiding the economy varied across these states, characteristics of the developmental state included the following. First, state institutions helped to obtain the needed capital investment for industry (Johnson, 1982). Second, bureaucratic elites selected a group of industries in which to invest, subsidize, and protect from competition and rewarded firms that performed well and sanctioned firms that did not meet strict performance standards (Amsden, 1989). Third, bureaucratic elites maintained autonomous but close ties with industrial elites (Evans, 1995) in order to help resolve conflicts and build consensus (Schneider, 2004). More recent arguments also assign a central role for the state in industrial policy. For example, Rodrik (2004) argues that governments should share with the private sector the cost of discovering new products or activities. Of course, many countries often lack a strong and centralized state.

In this paper, we employ a multi-method strategy using historical and qualitative data to provide evidence that even in the absence of strong and centralized government institutions, states can pursue alternative yet effective types of industrial policies. Contexts with *stable*, or predictable, mis-governance and a

☆ The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the International Bank for Reconstruction and Development/World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent.

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government that has incentives to not intervene can yield strong performance in exporting manufactured goods. We test this hypothesis in Bangladesh by examining the creation of industrial policy in the Ready Made Garment (RMG) sector. As we document, while the "types" of Bangladesh's industrial policies are antithetical to the standard formulations policies (as seen in East Asia, for example), they have been relatively successful thus far (although, as we discuss later in the article, challenges exist).

Drawing on recent scholarship in political economics on political orders (Khan, 2011; North, Wallis, & Weingast, 2009; North *et al.*, 2007), existing data sources, and field interviews with key stakeholders in the RMG sector [1] (government, manufacturers, labor groups, and workers), we argue that the particular political settlement in Bangladesh has created a paradoxically viable environment in which the garments sector has grown. Bangladesh's industrial policy in garments can be described as weak, but relatively stable and, therefore, predictable, which creates a governance equilibrium.

We first provide background on the RMG sector in Bangladesh in Section 2. In Section 3 we discuss the political settlement as it has emerged in Bangladesh, followed with an examination of the political settlement's effects on industrial policy and business practice in Bangladesh's RMG sector in Section 4. In Section 5, we evaluate the broader implications of the government's industrial policy and evaluate its sustainability. We conclude in Section 6.

2. READY-MADE GARMENTS SECTOR IN BANGLADESH

In 1971, Bangladesh won its independence from Pakistan. In that year, Bangladesh exported goods and services worth around $540 million dollars, comprising a modest 6.3% of its GDP. Of this total, exports of ready-made garments (RMG) were nonexistent. The infant RMG industry was born in 1977 with Reaz and Jewel Garments exporting $40,000 USD in RMG to France and Germany (Rashid, 2006). A South Korean firm, Daewoo, also played an important role in the takeoff of the RMG industry when it partnered with Bangladeshi firm, Desh Garments, which Daewoo provided training and equipment to (Kabeer & Mahmud, 2004). By 2010, RMG exports totaled nearly $16 billion, comprising an overwhelming 82% of Bangladesh's total merchandise exports. Figure 1 plots Bangladesh's tremendous growth in total merchandise exports since 1980. These exports include foreign sales of ready-made garments (clothing) and textiles. As economist Mohammed Ali Rashid (2006) points out, the "explosive growth of RMG exports is of course not unique to Bangladesh. The annual compound growth rate of RMG export industries in Indonesia (31.2%), Mauritius (23.8%), and Dominican Republic (21.1%) compares favorably with that of Bangladesh (81.3%) over the 1980–87 period." Since 2005, clothing exports have grown at an average annual rate of 25% despite concerns that the end of the quota system enshrined in the Multi-Fibre Agreement (MFA) would reduce the industry's foreign sales (Rahman, Bhattacharya, & Moazzem, 2008).

On the contrary, as Bangladesh's leading export industry, the RMG sector generates the largest amount of trade-related foreign exchange and employs more than three million individuals out of Bangladesh's 70 million person working age population, more than any other manufacturing sector in the country (Bajaj, 2010). The vast majority of RMG workers are women from rural Bangladesh (Afsar, 2001; Kabeer & Mahmud, 2004; Razzaque, 2005; Yang & Mlachila, 2004). This employment has led to an increase in the employment of women in the formal workforce and an improvement in women's bargaining position within the home (Kabeer, 2001; Kabeer, Mahmud, & Tasneem, 2011; Khosla, 2013; Schuler, Lenzi, Nazneen, & Bates, 2013; Zohir, 2001). Moreover, employment in the RMG sector has enabled the majority of women to support their family via increased consumption and higher investments in their family's education (Heath & Mobarak, 2012; Hossain, 2012; Rahman *et al.*, 2008).

The RMG sector is composed of different tiers of contractors. The Export Promotion Bureau of Bangladesh reports that of 2,387 firms exporting RMG in 2004, the top 20% (500 firms) accounted for 74% of total RMG exports [2]. Large firms, such as those in the top 20%, have a production capacity of 5,000–10,000 dozens of units per month, whereas the smaller firms typically have a capacity of less than 5,000 dozen units per month (Rahman *et al.*, 2008).

Traditional economic factors of comparative advantage and export-led growth account for much of the phenomenal

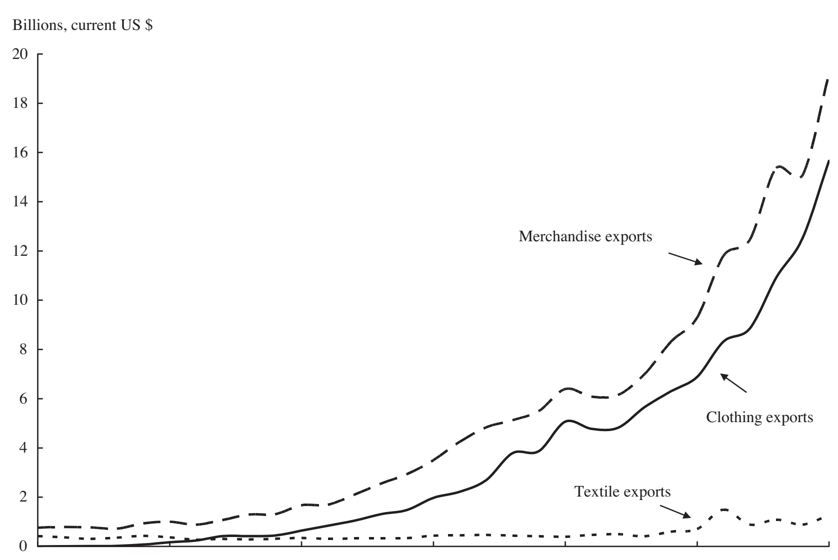

Figure 1. *Merchandise exports, 1980–2010. Notes: Figure 1 plots Bangladesh's growth in total merchandise exports since 1980. These exports include foreign sales of ready-made garments (clothing) and textiles. Data are from the World Trade Organization, "World Bank (2011)."*

growth of the sector. These economic factors include low labor costs, guaranteed export markets via the quota system of the Multi-Fibre Agreement, (up until 2005) and an industrious and innovative entrepreneurial class (Khan, 2011; Rahman *et al.*, 2008; Rashid, 2006). Bangladesh's RMG sector is projected to continue growing, with labor costs and labor unrest on the rise in China. Contractors for major apparel firms like Wal-Mart, such as the Li & Fung group in Hong Kong, note that their sourcing from Bangladesh increased 20% in 2009 while sourcing from China dropped 5% (Bajaj, 2010). These changes are in large part due to the low wages, about 3,000 taka per month (equivalent to about $37), paid to may RMG workers. By comparison, workers in China's coastal provinces are entitled to a minimum wage between $117 and $147 per month. Although Bangladesh's comparative advantage has historically relied on the low cost of labor, BKMEA President Fazlul Haq stated in a 2009 interview that he expects that Bangladesh will now be able to compete on timely delivery and quality, as well as low labor costs (Saxena & Salze-Lozac'h, 2010). In Section 5 of this paper, we address whether such a shift is likely given the low levels of investment in both transportation infrastructure and human capital.

Throughout the development of the RMG sector in Bangladesh, the government's policy has been to facilitate the sector's growth via *noninterference* and a *decentralized* industrial policy. Indeed, unlike the policies of many East Asian governments, successive Bangladeshi governments have neither picked winners nor exclusively directed state subsidies to the RMG sector. To a large extent, such a policy would be untenable in Bangladesh, due to the country's particular "political settlement," which has induced rampant government corruption, fierce political competition, inefficient bureaucracies, and weak political leadership. Moving from periods of military rule and strong one-party rule, the dynamic of political contestation in Bangladesh has settled on a system of competitive clientelism, dominated by two rival political parties (the Awami League and the Bangladesh National Party), which compete on divergent views of nationalism rather than on economic ideology and policies.

Instead, since Bangladesh's independence successive governments have pursued policies emphasizing privatization and export-led growth. Much of this industrial policy has entailed relatively low cost schemes (e.g., bonded warehouses and back-to-back letter of credit financing) that have *not* required state financing. Moreover, the state has decentralized and delegated responsibilities to private organizations, such as the various garments association (e.g., BGMEA, BKMEA, etc.). This consensus on liberal economic policies has occurred despite a political–economic environment that rewards political rent seeking and fosters a weak regulatory state.

In fact, Bangladesh's poor performance on a host of governance indicators is *predictable* and *expected* among the key stakeholders in the industry. The industry has learned to adapt to these institutional weaknesses in a business friendly environment. According to various garment business owners (and government officials), "the industry has grown despite government." [3]

3. THE POLITICAL SETTLEMENT

(a) *Analytical framework*

It is now widely acknowledged that institutions matter (e.g., protection of property rights, rule of law) in economic development (North, 1991). The ways in which institutional arrangements and rules are implemented differ widely across countries. At the core of the problem is an under appreciation of how the relative power of organizations in a given society (what North *et al.*, 2007 call the "social order") affects the understanding and enforceability of institutional rules (Khan, 2011; North *et al.*, 2009).

In particular, our analysis recognizes the importance of a society's macro-political equilibrium or what we call the "political settlement" in shaping a country's particular institutional arrangement, organizations, and policies. Following Khan (2011), we define the political settlement as a combination of institutions and a distribution of power between organizations (e.g., political parties, military, and bureaucracy) that is reproducible over time. Once a particular political settlement emerges, the relative power of different organizations is relatively stable and evolves along predictable paths. Empirically, these paths differ across countries. Unlike advanced economies, the distribution of power between organizations in developing countries typically does not allow the enforcement of many formal institutions like property rights. Rather, these institutions are informally modified or partially enforced to ensure that the distribution of benefits is in line with the actual distribution of power, and many organizations informally operate to ensure these outcomes. This understanding sheds light on why institutions and organizations that appear to be very similar in their formal descriptions actually operate very differently across countries.

Like many other developing countries, and especially those in South Asia (e.g., India, Pakistan), patron-client relationships underlie Bangladeshi politics. The distribution of rents helps to maintain long-standing patron–client relationships. The absence of legal rents in Bangladesh and other South Asian countries implies that rent-seeking goals can only be pursued through the creation of informal rents (Khan, 2011). As North *et al.* (2007) highlight, the creation and distribution of rents secures the loyalty of clients to patrons and elites to the system, thereby protecting rents and limiting violence. By limiting access to valuable resources and activities, as well as contract enforcement, the dominant coalition maintains the balance of power and facilitates cooperation and order. The expectation that violence will threaten to reduce rents decreases the likelihood of fighting. Shocks, such as changes in demography, technology, and the balance of power between the military and political parties, can incite violence and the cause the re-negotiation of the distribution of rents.

For our purpose, the concept of political settlements provides a useful framework to understand Bangladesh's industrial policy with respect to the garments sector. Since Bangladesh's independence in 1971, various manifestations of patronage politics have materialized in Bangladesh. Khan (2011) provides a detailed account of Bangladesh's transition from a system of "constrained patrimonialism" (1971–75) to "clientelistic authoritarianism" (1975–90), culminating with "competitive clientelism" (1990–present) in which two dominant political parties and the military compete for popular support almost exclusively on different concepts of "the nation." In practice, competitive clientelism increasingly breeds weak political governance, yet engenders a surprisingly stable and consistent economic policy environment in Bangladesh that emphasizes privatization and export-led growth.

(b) *The evolution of the political settlement in Bangladesh*

In the aftermath of Bangladesh's independence from Pakistan in 1971, the Awami League emerged as the dominant party that led a broad coalition of political, military, and economic organizations. According to Khan (2011), this governing coalition had a constrained patrimonial structure that was neither based on a unified ideological position nor disciplined party cohesion. Rather, following Bangladesh's separation from Pakistan, many if not most organizations joined with the Awami League to safeguard their access to power and government rents. In the immediate post-independence period, the government generated a large portion of its income from the operation of state-owned enterprises that were created in the pre-independence period.

For the Awami League, maintaining this "oversized" coalition proved arduous, as difficult economic times constrained its capacity to effectively buy support. A growing number of individuals and groups who were dissatisfied with the distribution of rents threatened to leave the party and engage in political opposition or violence from outside the government. Some of these threats materialized in the defection of some groups that led to challenges to the ruling party.[4] In an effort to maintain its political dominance, the Awami League amended the constitution to make Bangladesh a one-party state. The use of constitutional and administrative means to define party insiders and outsiders created democratic political institutions with authoritarian characteristics. Such a strategy proved untenable as the underlying distribution of power within Bangladesh was shifting toward competitive clientelism. In reality, the one-party state did not materialize as President Mujib-ur-Rahman, the leader of the Awami League and the "father" of the nation, was assassinated in 1975.

For the next 15 years (1975–90), political dynamics in Bangladesh transitioned from a system of competitive authoritarianism to multi-party democracy. During this period, military leaders led and maintained the governing coalitions. However, unlike many military dominated regimes in other countries (e.g., Chile), politics under military rule in Bangladesh did not revert to a form of repressive authoritarianism. According to Freedom House, Bangladeshis enjoyed "partially free" political rights during this period (see Table 1). Although elections were held, the military backed the political parties engaged in electoral competition. For the military, the electoral process served the purpose of helping to identify the most powerful political and economic actors that needed to be accommodated within its ruling coalition. Accommodation was achieved via the distribution of government rents, rather than adherence to a common political and/or economic ideology. Replacing the top military leadership, however, was not an option.

While the military did not formally promulgate any explicit economic ideology (e.g., in party manifestos), military rulers and military-backed parties embarked on a series of economic reforms (discussed in Section 3) that moved away from the centralized socialism of the post-independence period toward policies emphasizing privatization and liberalization. Moreover, the entry of military personnel into leadership positions within the government introduced greater discipline and organization, especially within the bureaucracy (Khan, 2011, 100). With respect to the fledging garments sector in the early 1980s, these reforms, coupled with favorable external conditions created by the Multi-Fibre Arrangement (MFA), contributed to the sector's subsequent takeoff.

As a consequence of the economic reforms implemented by successive military governments, economic growth in Bangladesh in the 1980s (averaging 3.22% per annum that decade) and the agrarian nature of the economy gradually began to change. These reforms were encouraged in part by foreign donors and policies of structural adjustment. In 1980, for instance, the agricultural and industrial sectors (as defined by the World Bank) comprised about 32% and 21% of Bangladesh's GDP, respectively. By 2005, the relative positions had shifted; agriculture comprised 20% of GDP compared to the 27% share held by the industrial sector (World Bank, 2011).[5] Strong economic growth was destabilizing for the military as many "excluded" organizations increased their relative strength and sought to shift the established rules of political competition. After a series of confrontations in the late 1980s the second ex-military ruler, President Ershad (then head of the incumbent Jatiya Party) was ousted from power in 1990, thus ushering in the current era of multi-party competition.

Since 1990, political competition has operated in "a moderately stable but vulnerable operational equilibrium of democratic institutional rules with competitive clientelism" (Khan, 2011, 78). Political competition has centered on fierce competition between the Awami League and the Bangladesh National Party (BNP), which claim to differ in their definition of "the nation." These differences, however, have had no tangible implications for economic policy. Neither party adheres to a clearly defined economic platform, nor does either party campaign on distinct programmatic initiatives. Instead, both parties maintain large enough coalitions of support to remain in power via the re-distribution of informal and formal rents. For both parties, these coalitions are increasingly comprised of legislators with financial stakes in the RMG sector. Some estimates suggest that 31 members, or about 10% of the country's

Table 1. *Characteristics of Bangladesh's political settlement, 1972–2011*

Government	Years in office	Economic orientation	Party orientation	Corruption	Political and civil rights
Awami League	1972–75	Left*			Partially free
Ziaur Rahman (Military)	1976–79	NA.			Partially free
BNP	1980–82	Not defined in platform	Islamic		Partially free
H.M. Ershad (Military)	1983–86	NA.		0	Partially free
Jatiya Dal	1987–91	Left		0.22	Partially free
BNP	1992–96	Not defined in platform	Nationalist	1.87	Free/Partially free
Awami League	1997–2001	Not defined in platform		1.96	Partially free
BNP	2002–06	Right	Nationalist	1.21	Partially free
Military/Caretaker	2007–08	NA.		2.27	Partially free
Awami League	2009–11	Not defined in platform		2.89	Partially free

* *Notes:* Authors' characterization of the government's economic orientation. For the years 1976–present, government, years in office, and economic party orientation are from the Database of Political Institutions (Beck *et al.*, 2011). Corruption is a measure of patronage-oriented corruption and evaluated on a 0–6 scale, where lower values correspond to greater corruption. These data are from PRS (2011) and are available from 1985 to the present. Political and civil rights are defined by Freedom House (2011).

300 legislators, directly own garment factories or have financial interests in the garments industry (Yardley, 2013).

While elections are fiercely contested and often disputed, since 1990 the Awami League and the BNP have won power cyclically. The parties rotate in and out of dominance with each election. [6] When one party is in power, organizations and bureaucrats loyal to the opposing party "sit on the bench" until there is a change in government. Indeed, politicians, bureaucrats, and the general public expect that this cycling of parties will continue. [7] Nevertheless, despite the cycling of governments every five years, economic policy has remained consistent as both parties favor privatization, liberalization, and export-led growth. Yet in contrast to other developing countries, the approach of each party's industrial policies has been relatively hands-off.

The current equilibrium of a two-party clientelistic political settlement in Bangladesh is even more striking in light of the 2007 military-backed caretaker government. After an electoral crisis in 2006, the caretaker government remained in power and attempted to institute good governance reforms (e.g., reduce government corruption and the politicization of bureaucracies and the judiciary). At the end of the caretaker government's rule in 2008, these "off the equilibrium path" policies were quickly removed once the Awami League came to power. This reversion to the equilibrium of weak governance practices suggests that the two main political parties support Bangladesh's political settlement.

(c) *Equilibrium conditions*

From this brief account, the political settlement in Bangladesh has two key features:

(1) Weak but stable governance, which generates a host of political economy issues (which we discuss in Section 5).

(2) Consensus among the dominant political actors favoring privatization, liberalization, and export-led growth. None of the major parties supports excessive state intervention in the market.

Empirically, these equilibrium features are evident in the data. Using publically available sources, Table 1 describes the economic orientation and prevailing political conditions for each successive government/regime in Bangladesh since its independence.

With the exception of the military-backed Jatiya Party (led by General Ershad in the late 1980s), since independence, the prevailing economic ideology of all incumbent government has been largely consistent but noticeably absent from their competition for support. For instance, the party manifestos of the Awami League and BNP have not articulated any particular or consistent economic ideology. While the BNP has recently adopted a more right leaning, conservative economic outlook, political actors have not tended to favor a more interventionist role for government. Instead, the BNP has opted to differentiate itself from the Awami League on the basis of religion (1980–82) and, more recently, on nationalism.

A stable feature of Bangladeshi politics is patronage-based corruption. [8] To gauge this particular form of corruption, we use a corruption index constructed by Political Risk Services that is "concerned with actual or potential corruption in the form of excessive patronage, nepotism, job reservations, 'favor-for-favors', secret funding party, and suspiciously close ties between business and politics" (PRS, 2011). This index ranges from a score of 0 (high corruption) to 6 (low corruption). [9] As Table 1 shows, patronage-related corruption has been high in Bangladesh since the mid-1980s, although there has been a gradual improvement in the quality of governance. Nevertheless, Bangladesh still ranks as one of the most corrupt countries in the world, but a country in which corruption is stable and predictable. Interviews in the RMG sector showed that stable and predictable corruption is simply a fact of doing business in the industry. As one interviewee put it, "The stakeholders and those informal networks are considered to be part of the process these days... Either you have to develop [an] alternative system quickly and properly, and if that is not, all the stakeholders and entrepreneurs are used to the process and those kinds of costs are being taken into account with the overall cost calculation of the manufacturers" (Interview, 2012). Another interviewee summed up the political context in this way; "It's not that the state has a particular vision or ideology, or that it is a very coherent state, that it knows what it wants and pursues it relentlessly, riding roughshod over any lobbies, whoever that may be: top elite, bourgeoisie, labor unions, the peasant sector... In Bangladesh, we have soft authoritarianism. We give into the particularistic lobbying. The nexus between the society and the state is different. We have more of the clientelistic give and take" (Interview, 2012).

Finally, it is worth noting that Bangladeshis have enjoyed "partially free" civil and political rights since the country's independence despite changes in political regimes from single party and military rule in the 1970s and 1980s to a more competitive electoral setting since 1990. This stability in the quality of political rights has fostered a relatively predictable business friendly environment in which entrepreneurs, in particular in the garment sector, can freely operate.

4. INDUSTRIAL POLICY: CONVERGENCE ON PRIVATIZATION AND EXPORT-LED GROWTH

The analysis in Section 3 describes how the evolution of Bangladesh's political settlement has generated a relatively stable environment conducive for the growth of the garments industry. Successive governments have also pursued relatively noninterventionist policies to help the industry develop. For example, in Figure 2 we identify several major RMG related policies implemented by successive governments from the mid-1970s to the present.

(a) *Commitment to economic liberalization*

While governments have competed over the re-distribution of state rents, government policy with respect to the garments industry has been relatively noninterventionist. In contrast to the public sector-led import-substitution industrialization strategy pursued during the first few years after independence, the industrialization philosophy of the government changed rather dramatically during the late 1970s. The emphasis shifted to export-oriented growth spearheaded by the private sector. Successive governments have not provided targeted government subsidies to the garments sector. Rather, various policy reforms emphasizing economic liberalization and a commitment to export-led growth through competition among domestic firms have contributed to the growth of the RMG sector in Bangladesh.

In 1982, the military government issued the New Industrial Policy (NIP) that introduced significant policy reforms in the industrial sector. From the outset, military leaders were less reliant on a "socialist" platform than was espoused in the 1970s. The NIP strove to stimulate industrial development through the private sector. To that end, the NIP made fundamental changes in the industrial policy environment and promotional instruments. The highly regulated policy

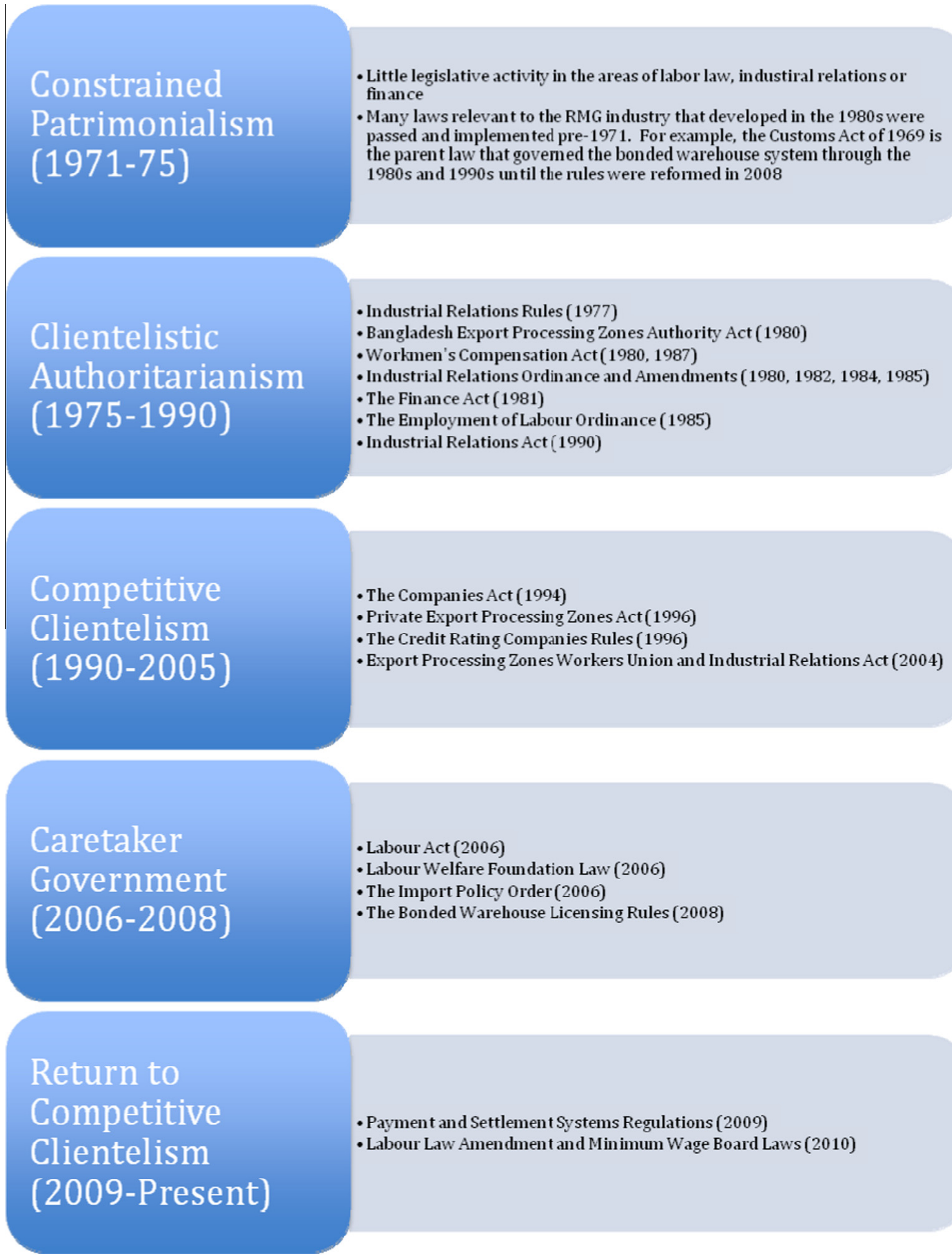

Figure 2. *Major government policies related to the RMG sector, mid-1970s-2012.*

environment of the previous decade began to give way to a process of policy de-control and the dominance of market forces in the allocation of resources.

These policies were not targeted explicitly to support the RMG sector. In 1986, under the next military government (led by General Ershad) the NIP was revised and again further in 1991 by the new democratically elected Awami League government. The Revised Industrial Policy (RIP) coupled with encouragement from foreign donors and multilateral organizations to pursue neoliberal economic policies (Parnini, 2009; Rahman, 1992) further strengthened the process of achieving a rapid expansion of the private sector and shifting the economy into a competitive market economy. The Multi-Fibre Arrangement (MFA) that governed quotas for textiles and readymade garments exported from developing countries to developed countries during 1974–2005 also encouraged the growth of the RMG sector in Bangladesh. The MFA restricted the sale of Chinese textiles and garments in particular, which was advantageous for Bangladesh at least during the initial phase of entry into the international garment market (Razzaque, 2005; Siddiqi, 2004; World Bank, 2005). Although both policymakers and scholars were concerned that the end of the MFA would damage the competitiveness of the Bangladeshi RMG sector, Bangladesh retained its competitiveness in the world market and RMG exports continued to rise post-2006 (Yunus & Yamagata, 2012).

The decentralization of the administration of certain government policies accompanied an explicit shift toward privatization. For example, the investment sanctioning procedure was gradually simplified and liberalized. The sanctioning authority delegated to government departments and financial institutions increased substantially, while controls exercised by the Department of Industries and the Chief Controller of Imports and Exports (CCIE) were streamlined. Furthermore, projects financed from nongovernment sources received automatic registration, and starting in 1991, private investments in "free sectors" that were funded with the entrepreneur's own funds no longer required government authorization. These reforms made it much easier for new investors to enter the RMG sector.

Successive governments increasingly relinquished controls over import policy, thus allowing the RMG sector to import key inputs at lower prices. For example, under military rule, import-licensing procedures were liberalized in the 1980s. In 1983–84, imports financed with cash license at official exchange rate were gradually reduced and industries were required to import the rest of their requirements from the secondary exchange market (SEM) where the exchange rate better reflected the opportunity cost of foreign exchange. Even though this increased import costs, garment manufactures (and other entrepreneurs) benefited because of the hassle-free availability of foreign exchange that did not require the payment of speed money. Import licensing was shortly abolished thereafter and imports were permitted against letter-of-credit (L/C) authorization forms to be accepted by banks designated by the industrialists. In 1986, a very important change in import policy shifted bureaucratic regulations from a "positive list" to a "negative list" supplemented by a "restricted list." This greatly benefited industries dependent on imported inputs, like the RMG industry.

As Bangladesh transitioned from competitive authoritarianism (under military rule) to competitive clientelism in early 1990s, successive democratically elected governments relinquished greater authority to the main garment associations (BGMEA and BKMEA). For example, according to a former BGMEA President, the government's decision to delegate authority to BGMEA to issue trade (import) customs certificates (e.g., utility decision and utility participation) streamlined the process for garment manufactures to acquire imported raw materials and technology. Consequently, these associations have been able to exert greater influence (e.g., via lobbying, increasing share of Bangladesh's exports) over the government's relatively "hands off" policies with respect to the RMG sector (Yardley, 2013).

(b) *Promoting exports*

According to current and former Secretaries of Commerce, successive governments have viewed garments as a key export sector.[10] In the late 1970s, the head of the government, General Zia-ur-Rahman, initiated Bangladesh's transition to greater international economic openness (Khan, 2011). The transition continued throughout military rule in 1980s in which a number of incentives were introduced to encourage export growth. For example the declaration of Export Promotion Zones (EPZ) created regions in which firms could operate with special privileges. Some of these included the Bonded Warehouse Facility (BWF) and an improvement of the Export Performance License (XPL) Scheme 37.[11] The government also introduced a Duty Drawback System, which offered rebates on import duties and indirect taxes, as well as tax reductions on export income.[12] For certain fast-moving items such as RMG, a notional system of duty payments was adopted in 1982–83. Under this system, exporters were exempt from paying duties and taxes on imports used in export production at the time of importation, but were required to keep records of imported raw and packaging materials.[13]

Exporters, however, experienced difficulties in taking full advantage of the provisions of the Duty Drawback System because of complicated procedures. Thus, the government introduced the Special Bonded Warehouse (SBW) Scheme that, according to manufacturers, was arguably the most efficient system to exempt exporters from import duties and taxes. This scheme initially applied only to garment manufacturers who exported 100% of their output, although the facility was subsequently extended to 100% export-oriented specialized textile and leather goods manufacturers as well. The SBW Scheme was administered through the use of passbooks, input–output coefficients, and stock books and permitted fairly speedy administration of the import procedures and guaranteed garment exporters duty-free imports of garment business' import requirements. Thus, the SBW Scheme helped level the playing field for Bangladesh's garments exporters vis-a-vis their competitors in other countries. Furthermore, it led to some cost reductions, as funds were not tied up for paying duties.

To facilitate export financing, *without government subsidies*, the government implemented an innovative (and unique to Bangladesh) facility.[14] In 1986–87, the military government enacted legislation for a back-to-back letter of credit (L/C) system. The introduction of this facility minimized the problem of financing working capital for garment manufacturers. The back-to-back L/C operates in a way that does not require the garment manufacturers (nor the government) to invest money to open import L/C or make payment to the fabric suppliers from their own resources. Original buyers make payment against what is called "Master L/C" and the Master L/C covers all risks. The operation of the back-to-back L/C ensured the garment exporters almost 70% of the working capital they needed. Most RMG exporters agree that the operation of the back-to-back L/C is the single-most important factor responsible for the phenomenal growth of garment exports from Bangladesh besides the favorable international environment created by the Multi-Fiber Agreement.

The discussion in this section points to the positive contribution made by policy reforms to the growth of the RMG industry in Bangladesh. Unlike the relatively top-down and centralized approach to industrial policy in many Southeast and East Asian countries, the reforms in Bangladesh have been relatively costless, entailing a decentralization of government controls over duties and fostering a climate of export-led growth through private sector financing. According to garment business owners, the SBW facility and the back-to-back L/C system in particular led to significant reduction in the cost of producing garments and enhanced the international competitiveness of Bangladesh's garments exports. It also allowed garment manufacturers to earn more profit, which could be used to overcome difficulties arising from weak governance.

5. POLITICAL ECONOMY IMPLICATIONS OF THE POLITICAL SETTLEMENT

While successive Bangladeshi governments have converged on an overall commitment to privatization and export-led growth in the garments industry with very little (if any) top-down (centralized) industrial policy, the evolution of Bangladesh's politics has generated a mix of weak governance conditions. In this section, we describe three key features of this governance equilibrium. We first describe how high, but relatively stable, corruption constitutes a high but manageable "cost" of doing business in Bangladesh. We then discuss the perverse political incentives generated by Bangladesh's political settlement on bureaucratic quality and its implication for public procurement. Finally, we examine how Bangladesh's political settlement has marginalized the role of labor rights and groups.

(a) *Stable corruption and stable business expectations*

Corruption in government projects and bribery in business production are pervasive. Although Bangladesh's ranking in Transparency International's Corruption Perceptions Index (CPI) improved over the last few years, Bangladesh's global ranking continues to be fairly low (see Figure 3). In 2011, Bangladesh ranked 120 out of 182 countries on Transparency International's Corruption Perceptions Index. Yet, the garment sector in Bangladesh continues to develop in spite of high levels of corruption. Conventional wisdom is that corruption is a tax on production that hurts business competitiveness (Kreps, 1997). These studies, however, under appreciate that stable and predictable corruption may not be as problematic for growth as we would otherwise expect (Kang, 2002; Malesky & Samphantharak, 2008).

Rent seeking is an equilibrium outcome in Bangladesh and acknowledged by all economic actors in the garment industry: owners, labor, and foreign buyers. According to these stakeholders, corruption is a predictable and manageable cost of doing business. Given Bangladesh's low labor costs in the garments industry, the relative costs of paying these bribes are small. In day-to-day operations, paying bribes along the production line (e.g., in transporting goods from Dhaka to the port in Chittagong) are essential, and on the margin, manageable. The stable and predictable nature of corruption in Bangladesh helps to mitigate its potentially harmful impact on economic development. If corruption is not very high or unpredictable, corruption can be treated as a tax (Kreps, 1997). When a bribe schedule is predictable and well known, firms will build informal charges into their business plans. As one interviewee explains, "If you're in big trouble in Dhaka, or more even in a small town, someone is creating trouble for your business instead of going to the police, you go to the local MP, the local ruling party Youth Front leader, or the student front leader, they will protect you, they will give you the effective protection not the police. But you know that, those are the rule of the game. It's not unpredictable. Everyone knows it. This is predictable. And they can do it. Instead of paying the police, you pay them. That's how people are doing business" (Interview, 2012).

Indeed, the effect of predictable corruption on export growth is not unique to Bangladesh. Stable and predictable corruption in countries with weak governance may not necessarily hinder export performance in other countries.[15] For example, in a broader sample of countries with weak governance conditions, bivariate correlations suggest that *greater* variability in corruption is *negatively* associated with overall export growth. Or stated alternatively, greater stability in corruption is positively correlated with higher overall export growth. (Referees, Appendix A discusses these findings.)

Extant theoretical models also predict such behavior. For example, Shleifer and Vishny's (1993) model shows that bribery is more stable in centralized bureaucratic contexts. Monopolistic suppliers of bribe-generating products will price bribes to maximize their returns across different markets, such as licenses and business permits. In regimes with decentralized bureaucracies, suppliers of bribe-generating products operate independently of one another. Each bureaucrat tries to maximize bribes, without taking into account other bribery activities that are occurring in other parts of countries or at different levels of government. According to Harstad and Svensson's (2011) model, in equilibrium, when their level of capital is relatively small, firms are more likely to pay bribes rather than lobby for policy changes. In Bangladesh, the textile industry consists primarily of small firms (Rahman *et al.*, 2008).[16]

Empirically, several analyses point to a positive association between the predictability of corruption and growth. For example, Kang (2002) and Chang (2003) attribute the

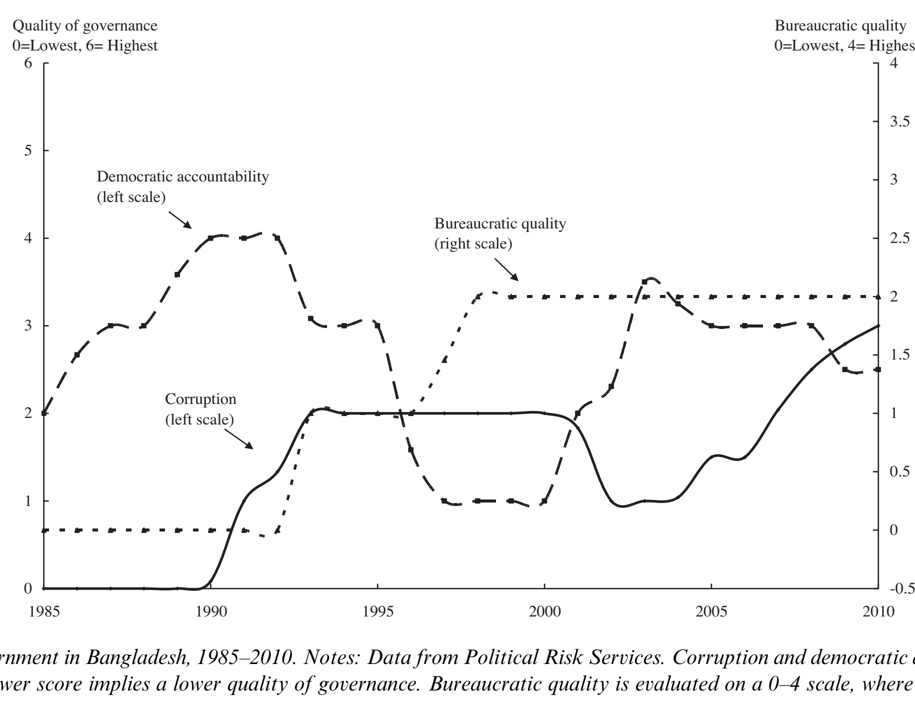

Figure 3. *Quality of government in Bangladesh, 1985–2010. Notes: Data from Political Risk Services. Corruption and democratic accountability are evaluated on a 0–6 scale, where a lower score implies a lower quality of governance. Bureaucratic quality is evaluated on a 0–4 scale, where a lower score implies lower bureaucratic quality.*

investment growth that takes places in highly corruption regimes, such as South Korea in the post-war period, to the predictability of corruption. Malesky and Samphantharak (2008) provide evidence to suggest that in Cambodia, the predictability of corruption plays a central role in firms' investment decisions. Controlling for firm-level characteristics (size, sector, age, and formality), they find that firms exposed to a shock in their bribe schedule invest less in subsequent time periods.

Evidence from cross-national regressions also supports the hypothesized relationship between the arbitrariness of corruption and foreign investment. Wei (1997) finds that the arbitrariness of corruption is correlated with less foreign investment. Similarly, Campos, Lien, and Pradhan (1999) finds that predictability is associated with higher investment as percentage of GDP when controlling for levels of corruption. For Bangladesh's RMG sector, a recent McKinsey report on the growth potential of the country's garment industry ranked corruption as a low concern for the future of the sector (McKinsey, 2012). The report finds that most chief purchasing officers (CPOs) in European and US apparel companies are aware of corruption and view it as costly. At the same time, CPOs view corruption as manageable with experience. According to the Doing Business Survey for Bangladesh, obtaining electricity requires seven procedures, takes 372 days and costs 3526.1% of income per capita., Exporting a standard container of goods also requires six documents, takes 25 days and costs $965 (World Bank, 2012). Given that waiting 372 days to receive electricity or 25 days to export a container is prohibitively costly, it is likely that business owners have mitigated these delays through informal payments to government agents.

(b) *Government incentives and procurement*

An unfortunate consequence of Bangladesh's competitive clientelism is the fragmentation and the gradual deterioration of capabilities of its bureaucratic organizations (see Figure 3 below). This has emerged as a consequence of the growing politicization of the bureaucracy and the cyclical demotion of senior bureaucrats after every change of the party in power. Consequently, the time horizons of bureaucrats diminish such that they are incentivized to develop party loyalties rather than their professional capabilities. Thus, bureaucratic quality has remained low in Bangladesh.

Moreover, the political settlement generates incentives for the mis-allocation of public funds yielding poor public goods provision. Since political actors compete on the re-distribution of formal and informal government rents to win elections, the incentives of politicians are to support policies/programs that ensure a quick payoff. Consequently, there is under-investment in and politicization of long-term public programs, such as government procurement. Poor investment in infrastructure, especially power and roads, is a major obstacle to the continued growth of the RMG sector.

Problems in the procurement for public infrastructure projects are especially problematic in the power sector. Although the government has sought to procure electricity from private providers in order to help meet the growing demand for electricity, since 2001 the government has been unable to procure any large power generation contracts (Khan, Riley, & Wescott, 2012). The major political actors have been unable to agree on how to share the rents from contracts with rival factions within the government often block the final stages of the procurement process. The rents that would flow from a high-value procurement contract for electricity generation are not easily divisible and would only flow to a limited number of extremely well connected actors. Acknowledging the difficulty with procuring high-value contracts within the last few years has caused the government to instead procure dozens of small power plants (McKinsey & Company, 2012). While inefficient, lower-value procurement is allowing the government to fulfill rent-seeking demands and sustain the political settlement.

(c) *Marginalization of labor*

One of the striking features of the political settlement in Bangladesh is the exclusion of labor interests. The highly fractionalized nature of the union movement in Bangladesh along with government neglect of workers' organizations has stunted the growth of a significant organized labor movement. Moreover, the nature of the political competition between the Awami League and the BNP does not require the two parties to seek the support of organized labor in order to form a winning coalition. [17] The exclusion of labor from formal representation and influence has resulted in sporadic, violent worker protests against low wages and poor working conditions that have contributed to the death of many garment workers (e.g., the collapse of the Rana Plaza factory in April 2013). It is only these types of actions that seem to force political actors to make concessions to labor interests. A lead researcher at BRAC Development Institute in Dhaka points out that "The way the government relates with RMG owners and entrepreneurs and the way it deals with labor is completely in a discriminatory way. Since the rise of the RMG [sector] in the late 70s, it is their 'boy,' the most-favored sector… It was heavily nurtured…." (Personal interview, 2012).

The low wages earned by workers in the RMG industry is unsurprising given the abundant labor supply in Bangladesh coupled with the relatively low-skill nature of RMG work. A majority of workers are not unionized and cannot collectively bargain for higher wages. Although no official statistics are available, most sources (e.g., Bangladesh Institute for Labor Studies, labor leaders) proximate that less than 5% of workers in the RMG industry belong to unions. The low unionization rate is unsurprising as interviews with garment workers revealed that joining a union means taking the risk of losing one's job. Moreover, according to Nasrul Islam Khan, President of the Bangladesh Jatiyatabadi Sramik Dal (BJSD) workers federation, less than 10% of *all* workers in Bangladesh are members of trade unions. According to Khan, "there are some interesting developments happening regarding the trade unions and labor organizations in the apparel sector. Currently, there are some national-level labor organizations [that] are taking interest in the workers and do some work but there are very few factory level organizations in the true sense of a trade union operation" (Khan, 2012).

The fight over the minimum wage demonstrates the way labor is marginalized from the current political settlement and its attempts to exert its potential power. Wages in Bangladesh for RMG manufacturing are among the lowest in the world. Figures 4 and 5 compare the top ten exporters of garments to the US market and their most current minimum wages in USD and also the minimum wage over time in Bangladesh. Bangladesh has a minimum wage significantly below even Cambodia. In fact, the current minimum wage of 43 USD per month in Bangladesh was only implemented in November of 2010. During 1994–2006, wages were stagnant at a rate of 930 taka per month ($14 in 2006 USD).

The fight over the minimum wage increase in 2010 was heated. Bangladeshi labor federations and pro-labor NGOs advocated for an increase of the minimum wage to 5,000 taka per month but ultimately lost and had to settle for an increase to 3,000 taka per month (SweatFree Communities, 2010).

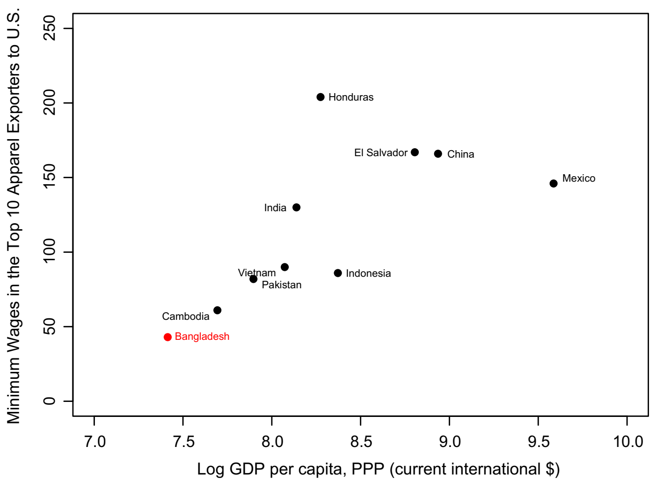

Figure 4. *Minimum wages in the top 10 exporters of apparel to the US market. Notes: US dollars per month. *India does not set a minimum wage so an estimate of the monthly income for a garment worker has been substituted to give a comparison. Also, China sets minimum wages at the local level so wages vary greatly between more and less developed provinces. The wage reflected in this chart ($166 USD) reflects the typical wage of a garment worker in a coastal province. Source: ILO Global Wage Report (2010/2011).*

International Trade Union Confederation General Secretary Sharan Burrow commented "The new minimum wage of 21 US cents per hour is not enough to live on, with workers putting in extremely long hours in difficult working conditions but still unable to make ends meet. It is an absolute disgrace that this industry, worth $12 billion a year, treats its workforce with such contempt" (ITUC, 2010a). Moreover, during the campaign workers' representatives faced harassment, arrest, and torture (ITUC, 2010a, 2010b; Human Rights Watch, 2011). Industry associations on the other hand, such as BGMEA and BKMEA, opposed the wage hike. BGMEA spokesperson Abdus Salam Murshedy suggested that wages be raised 200 taka (from 1,662 to 1,969 taka or from 24 to 28 USD) (Haroon, 2010).

According to a report by International Labor Rights Forum, such a wage falls short of constituting a living wage.[18] To put the new minimum wage of 3,000 taka per month into perspective, employees of state-owned industries in Bangladesh are entitled to twice that amount (6,000 taka per month). The rural bias of the political settlement in Bangladesh comes to the forefront with the issue of the minimum wage. In 2008, the government established a rural minimum wage of 150 taka per day or 4,500 taka per month. Although the dominant political parties in Bangladesh seek support from the rural majority rather than the comparatively small industrial urban workforce that RMG workers are part of, Prime Minister Sheikh Hasina did weigh in on the minimum wage debate saying, garment workers' wages were "not only insufficient but also inhuman … workers cannot even stay in Dhaka with the peanuts they get in wages" (Workers Uniting Staff, 2010).

Like most countries, Bangladesh has signed a number of conventions on labor rights and passed legislation that formally entitles workers to political and civil rights.[19] However, the most recent published observations of these conventions suggest serious problems with implementation. For example, the 2010 report on the convention on Freedom of Association (No. 87) states, "The Committee recalls that freedom of association and in particular the right to organize under the Convention can only be exercised in a climate that is free from violence, pressure or threats of any kind against the leaders and members of workers' organizations and that detention of trade unionists… In these circumstances, the Committee urges the Government to provide full particulars in respect of all the allegations of killings, physical assaults and detention of trade unionists and trade union leaders" (ILO, 2010a).[20]

Domestic laws as well as international treaties are favorable to workers. As one interviewee reported, "There are labor-related laws here … that, if implemented, would favor the workers a lot but [the laws have] not fully found to be implemented and, to some extent, the government maintains some flexibility, which actually … makes the business environment quite favorable for the manufacturers" (Interview, 2012).

The reasons for weak enforcement are twofold. First, there is little political incentive for the government to interfere on

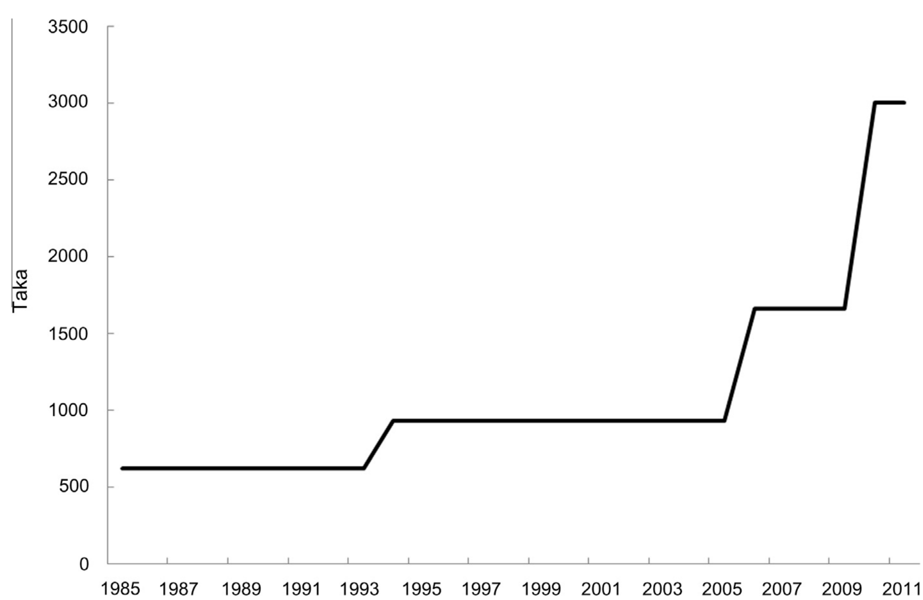

Figure 5. *Minimum wage in Bangladesh, 1985–2011. Notes: Wage in Bangladesh taka per month. Source: US Department of State Human Rights Report (2011).*

behalf of workers given that they are not a politically powerful group. For example, in the current Bangladeshi Parliament (comprised of 345 members), there are 29 sitting members that are garment manufacturers/owners, compared to only four with a labor union background.[21] Although interviews with labor federations support the conclusion that the government has not sided *against* labor, they have certainly not taken up the labor cause. One interviewee pointed out "[Sheikh Hasina] is accommodating a pro-labor constituency but it doesn't make her committed to labor when it comes to real policymaking. She is following the standard policy of discriminating [against] labor as much as possible and favoring employers... She knows if labor is given too much ... say raising the minimum wage to 5,000 taka, it will have a serious disrupting effect on exports" (Interview, 2012).

Second, the lack of organized labor power has given the state little reason to invest in building the necessary capacity to properly regulate the industry. Bangladesh, like many other apparel producing countries, suffers from weak regulatory capacity. In the context of labor rights, this problem tends to manifest in the plight of under-funded labor ministries. Nasrul Islam Khan, President of the BJSD workers federation, laments, "labor inspectors have power" (in reference to existing legal statutes) but "our labor inspectors are under staffed, under equipped, and incapable of performing their duties." Government officials and labor leaders openly acknowledge that the ratio of labor inspectors to workers is hopelessly imbalanced. Moreover, inspectors rarely have the tools they need like cars for travel between factory locations or sufficient salaries to resist bribes. The lack of resources allocated labor ministries is due to the marginalization of labor from the current political settlement. Although there are technical skills in which labor inspectors may need to be trained, such as how to evaluate efficiencies in different types of production in order to work with suppliers on capturing greater gains, this aspect of labor regulation is far less important than the basic issue of funding.

The allocation of funding to labor regulation can be seen as one way that a pro-labor political party supports its constituents but neither of the dominant political parties in Bangladesh can be described as pro-labor. Scholarly research shows that pro-labor parties spend more on social welfare and adopt more progressive labor laws than other types of political parties (Hibbs, 1977; Iversen & Soskice, 2006; Murillo & Schrank, 2005). Without such a party in Bangladesh, the outlook for labor is bleak. Moreover, cross-national work (e.g., see Mosley, 2008) shows that trade openness is negatively associated with collective labor rights under centrist or right-wing governments, but positively associated under left-wing governments. As described above, the dominant political parties in Bangladesh can be thought of as sharing an economic ideology based on a liberal, free market approach that emphasizes decentralization and low levels of regulation. This means the Awami League and BNP can both be described as centrist or even right wing and bodes poorly for Bangladeshi workers.

Although labor violations are still commonplace, workplace conditions have improved somewhat over time. This is primarily due to the worldwide rise of private regulation programs implemented by global brands subcontracting with suppliers in the garment industry in Bangladesh. Although the success of such programs can at best be described as mixed, private regulation seems to have a positive impact on workplace health and safety even if it they do not show much progress in terms of "enabling rights," such as freedom of association rights (Barrientos & Smith, 2007; Locke, 2013). One interviewee described the government's initial approach to compliance standards in the RMG industry "quite flexible" but added that "Nowadays, the government has started to take strong position regarding environmental and compliance issues and increasingly buyers take a more and more strict position and Bangladesh has matured to handle these compliance [issues]" (Interview, 2012). The same interviewee observed that, "There is some increased consciousness among factory owners regarding worker welfare ... from that perspective, I think there were some ways of negotiation that have taken place and that the environment has, to some extent, developed. Now both parties are set in a tripartite arrangement to discuss the minimum wage issues. Compared to the 1990s, there is improvement" (Interview, 2012).

6. CONCLUSION

Despite the weak governance outcomes induced by Bangladesh's political settlement, the dominant private-actor economic stakeholders in the garments sector (owners, labor, and foreign buyers) maintain a positive outlook on the industry. Given the tremendous growth of the sector, especially in the post-MFA era, owners and labor expect continued growth albeit with several important obstacles such as infrastructural upgrades to transportation systems making upgrading within the RMG sector difficult (see Haider, 2007; Ahmed, 2009 for in-depth analyses of sustainability of growth in the Bangladeshi RMG sector). Despite the low wages and poor working conditions (in some factories), the RMG sector has provided workers with an increase in living standards. Foreign buyers also hold a favorable view about Bangladesh's RMG sector. According to a recent study of chief purchasing officers (that source 66% of all exports from Bangladesh to Europe and the United States), 89% rank Bangladesh as one of the top sourcing "hot spots" in the next five years (McKinsey & Company, 2012).[22] Moreover, next to competitive pricing, these purchasing officers rank Bangladesh's capacity of over 5,000 RMG factories and supplier capability as the country's main advantages over its competitors (Cambodia, India, Indonesia, Pakistan, and Vietnam).

The competitive environment also seems favorable for Bangladesh's RMG sector. In particular, as China gradually shifts away from the production of apparels into higher-end manufacturing, this trend will expand the export opportunities for Bangladesh's garments sector. The Bangladeshi government remains committed to expand access to foreign markets, especially through negotiations within the World Trade Organization. Moreover, the improved managerial capabilities of "second generation" garment owners, many of whom have acquired management training abroad, are likely to raise the industry's efficiency and international competitiveness by, for example, integrating new production technologies, negotiating better contracts with foreign buyers, and introducing best-practices in management.

While RMG stakeholders expect continued success in their industry, political and reputational challenges remain. In the near term, the political settlement is unlikely to change as the rivalry between "the battling Begums" persists in the next dynasty of political leadership in the Awami League and BNP (Economist Magazine, 2013). Unease over labor issues and the politicization of labor federations remains a potential source of instability. Moreover, if current pledges by the government to increase industry wages materialize, higher salaries may increase the relative costs of corruption, which are likely to hurt the industry's competitiveness. Tied to this concern is the provision of and access to high quality public infrastructure such as roads, bridges, ports, and reliable energy sources. Under-provision or shoddy construction of these projects would undermine, not only the competitiveness of the garments sector, but Bangladesh's continued economic growth. Finally, the Rana Plaza tragedy in 2013 put labor standards in the Bangladeshi RMG sector in the world media spotlight. Several major brands came under intense pressure to improve monitoring and enforcement of their own codes of conduct as well as Bangladeshi labor law after the incident. Most brands have chosen to keep their business in Bangladesh and some have signed agreements with various NGOs stating their intention to improve labor conditions. However, if conditions do not improve and another major industrial accident was to occur that receives international media attention, apparel brands may chose to exit the Bangladeshi market for countries such as Cambodia and Sri Lanka, which have built reputations as destinations for ethical sourcing of readymade garments.

NOTES

1. In total we conducted 16 formal interviews totaling over 20 h. We also engaged in numerous additional informal interviews/conversations with stakeholders from the RMG sector.

2. More recent data with a breakdown of exports by firm size from the Bureau of Export Promotion are not currently available.

3. Based on interviews conducted for this paper.

4. These defections effectively changed the distribution of power in the direction of competitive clientelism (i.e., disproportionate higher redistribution to rents to "in" groups).

5. The "residual" sector is services. In 1980, services constituted 47.8% of the economy. In 2005, services comprised around 52.6% of the economy.

6. Before every election, there is suspicion by the opposing party that the incumbent will engage in illegal tactics to ensure a higher vote-share. Thus, Bangladesh has a "caretaker system" in which a nonpartisan caretaker government runs the country during the electoral process to ensure fairness. After the election, the caretaker government is dismissed and the winner of the election (typically Awami League or BNP) takes power.

7. This sentiment is based on conversations with current and former Members of Parliament (from the Awami League and BNP), bureaucrats, business, and labor leaders.

8. Corruption is commonly defined as the "misuse of public office for private gain" (Bardhan, 1997) where the gain may accrue to politician, bureaucrat, his/her political party, and/or favored constituencies. Corruption can take various forms. Bribery, for instance, is a payment from the private citizens (e.g., individuals, firms) to government officials for some form of rent (e.g., government contract). In contrast, patronage is a payment from government officials to private citizens to illicit support. In each instance, public office is misused, but the direction of payments differs.

9. The index has been released on a monthly basis since 1984 for up to 140 countries. In comparison to other measures of corruption (e.g., Transparency International), the index created by Political Risk Services reaches the farthest back in time and is the most prevalent measure of corruption in cross-national panel analysis. We average the monthly corruption scores to generate an annual corruption index value. Data for Bangladesh are available from 1984 to the present.

10. Comments expressed by the current Commerce Secretary in a roundtable discussion on the RMG sector (January 9, 2012). Moreover, according to former Commerce Secretary, Sohel Ahmed Choudhury, garments and textiles manufacturing falls under the purview of the Commerce Department because they are export industries.

11. Under the XPL scheme, exporters of nontraditional products received import licenses for specific products over and above their normal percentage allotment based on the f.o.b. value of their exports. The transferability of these licenses (called Import Entitlement Certificate) was an added incentive to exporters as these could be sold at a premium in the market. In 1985–86, the XPL Scheme was replaced by the XPB Scheme where the import entitlement rates were raised and the scope of the scheme was expanded to cover nearly all exports.

12. Under this Duty Drawback System, exporters of manufactured goods were entitled to receive refunds of duties and taxes paid on imported inputs used in export production, as well as a reimbursement on excise duties paid on exported finished goods.

13. The duties and taxes payable on the imports were kept in a suspense account. Upon proof of exports, this liability was removed.

14. Export credit (pre-shipment and post-shipment working capital) for nontraditional export items like garments was available in local currency from commercial banks at concessional interest rates.

15. Our argument applies to sectors as long as they are not vulnerable to income shocks or windfalls, such as extractive industries (e.g., natural resources). For instance, the discovery and management of natural resources is likely to shorten governments' time horizons leading to the central governments' monopolization of its revenues and potentially altering the political settlement (see, for example, Sachs & Warner, 2001).

16. Citing official statistics from the Export Promotion of Bureau of Bangladesh, Rahman *et al.* (2008), official report that about 80% of garment exporting firms are "small," producing less than 5,000 dozen units per month.

17. In many instances, labor groups reflect the political interests of these two parties. Consequently, many labor groups (and their leaders) are unable to cooperate to promote broader labor interests.

18. According to this report the previous minimum wage of 1,662 taka per month is not a living wage; it is, in fact, a malnutrition wage. ILRF calculates that the average garment worker needs 2,351 taka per month simply to buy food with enough calories to support a 10 h work day. According to the report, this wage does not even begin to reflect the other basic needs of workers or the fact that many workers support their families as well as themselves with their wages.

19. In fact, Bangladesh ratified many of the fundamental International Labour Organization (ILO) conventions in the early 1970s. Bangladesh has currently ratified seven of the fundamental conventions, including conventions on the Right to Organize and Collective Bargaining (No. 98), the Right to Freedom of Association (No. 87), and the Abolition of Forced Labour (No. 105).

20. The 2010 report to the ILO on the Right to Organize and Collective Bargaining (No. 98) is just as bleak. The report says, "There is a weak implementation of labor law in general, and more particularly an unwillingness of employers to recognize trade unions and collective bargaining" (ILO, 2010b). The report goes on to note that Bangladeshi law "provides for the establishment of an EPZ labor tribunal and an EPZ labor appellate" but reports by the International Trade Union Confederation (ITUC) reveals that neither body has been established, leaving garment workers employed in EPZs without access to the judicial system for the resolution of labor grievances. A 2010 survey of 825 factories done by the Bangladesh Factory Inspection Department concluded that 15% of factories do not pay their workers on time, 6% did not pay over time, and 1% did not even pay workers the minimum wage (SweatFree Communities, 2010). An ILRF partner report also notes that during the first six months of 2010 alone, 356 garment workers were killed on the job (International Labor Rights Forum Staff, 2010). These deaths are largely due to a series of fires in garment factories, including a fire at a small factory in Dhaka where 22 women workers died from the fire as a result of being locked into the factory. All exits from the building had been blocked despite the certification of the factory as being "fully compliant" by a monitoring group (SweatFree Communities, 2010).

21. Statistic cited in an interview with Nasrul Islam Khan, President of the Bangladesh Jatiyatabadi Sramik Dal. Other individuals also indicated that were more garment factory owners serving of Parliament than current (or former) labor leaders.

22. In this ranking, Vietnam, Indonesia, and Cambodia came in second, third, and fourth (with 52%, 41%, and 32%, respectively).

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APPENDIX A. SUPPLEMENTARY DATA

Supplementary data associated with this article can be found, in the online version, at http://dx.doi.org/10.1016/j.worlddev.2013.11.001.