



Economic and Social Upgrading in Global Value Chains

A Case Study of Myanmar's Garment Sector

Authors: Min Zar Ni Lin, Jana Rue Glutting, Khin Su Thet and Kanay de
Editors: Divya Prakash, Tanja V. Matheis and Sabina Dewan

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Cover photo

"Garment factory"

Photo by Tanja Matheis. Some rights reserved.

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1. Introduction

When it comes to export-oriented industrialization, many low-income countries choose the labour-intensive garment sector as a focus (Chair & Ung 2013). Globalization over the last three decades has driven a fragmentation of production processes in the sector. Based on their respective comparative advantages, developing countries have positioned themselves at different rungs of this global value chain (GVC). The labour-intensity, relatively low production complexity and low costs drive low-income countries to generally start in the lower-value assembly segments of the garments GVC. Integrating and growing the domestic garment sector is seen as a potential development strategy to increase employment, foreign exchange reserves and beneficial economic spillovers to the local economy.

Countries such as Japan, South Korea and Malaysia have benefited significantly from integration into GVCs. Then most significantly, China exceeded everyone in scale and scope of its integration. However, the rapid rise in labour costs, along with the political will to move-up the value chain to higher-value-added exports has led to a regionalization of the apparel value chains, namely to Bangladesh Cambodia, Vietnam, and Myanmar (Progressive Voices 2016).

Against the backdrop of these regional dynamics, to date, in Myanmar the sector has employed

more than 500,000 workers and has generated export revenue of approximately US\$ 4.6 billion in 2018,ⁱ making it the largest job creator (Lin 2018). The Myanmar Garment Manufacturing Association (MGMA) expects the sector to create more jobs and generate US\$10 billion in export earnings by the year 2024. Initially, garments from Myanmar were mainly exported to higher-income countries in the region such as Japan and South Korea. But after the lifting of trade sanctions by the European Union in 2013 and the United States in 2016, the former, in particular, has become the country's largest export market.

Production in the garment sector in Myanmar relies mainly on a Cut-Make-Package (CMP) system; a form of production on consignment in which the main raw materials (fabrics and auxiliary materials) are imported free of charge, provided by the foreign buyer, then cut, sewed and packaged in the garment factories. The finished products are then exported, free of charge to their final destination (Kudo 2012).

However, despite rising exports and rising demand, the productivity of garment firms and their ability to upgrade has been limited and this stymies the potential gains from GVC integration. In addition, domestic stakeholders have argued that positive spillovers to the domestic economy have been minimal. Moreover, there is a lack of information on the number of firms that comply

ⁱ <https://elevenmyanmar.com/news/export-earnings-from-garment-projected-to-hit-10-billion-usd-in-2024>

with international labour standards with no clear benchmarks to assess firms (Consult Myanmar 2018). Social protection in the country is also seen as lagging behind regional competitors (Progressive Voices 2016).

Beyond highlighting the fragmented nature of global production, studying GVCs also sheds light on how firms and countries generate value, distribute and retain knowledge and how they adopt technology to enhance livelihoods (Marcato & Baltar 2017). It is important to engage in an analysis of value chains in order to maintain and improve Myanmar's garment sector competitiveness and understand its position within the global market.

Examining economic and social upgrading is instrumental to understanding the garment sector in Myanmar. Economic upgrading is usually associated with moving into higher value-added processes in order to boost firm or country competitiveness. Therefore, it often entails productivity enhancements (e.g. increased efficiency in production processes). Social upgrading, on the other hand, considers the effects of GVC integration on the working conditions. These range from training opportunities for workers, wages, the treatment of migrant workers to the adjudication of trade union disputes.

Much of the literature concerning GVCs, and the garment sector in low-income countries, has focused on economic upgrading (Gereffi 1999).

Few studies look at the relationship between economic and social upgrading in particular countries (Marcato & Baltar 2017). As Myanmar's garment industry integrates into global value chains, it is important to look at economic and social upgrading and strengthen the relationship between the two.

This paper examines the Myanmar garment sector in relation to firm-level economic upgrading and social upgrading for workers. This report is based on 60 surveys of apparel firms and 202 interviews with the production line workers as well as semi-structured interviews with stakeholders including policymakers, industry representatives and experts. This study aims at helping policymakers pursue a more inclusive industrial policy that benefits workers and firms alike.

This report is divided into three parts. The first part introduces the characteristics of firms and workers in the survey. The second part summarizes the evidence of economic upgrading and social upgrading. And, the final part analyzes the determinants of the economic upgrading and social upgrading to answer two research questions: (1) what determines economic and social upgrading at the firm level; (2) what types of workers are more likely to be socially upgraded, thus benefiting from the economic upgrading in their firms. Quantitative analysis is complemented by narrative interviews with experts, workers and business people.

2. Descriptive Analysis

The garment industry was one of the largest contributors to Myanmar's growth in 2018-2019. The survey results indicate that all the interviewed factories engaged in the CMP production, entailing cutting, sewing, finishing, and packaging apparel products for export. Myanmar has been engaged in these processes for the last 20 years, and has seen the sector grow from 94 to nearly 500 factories.ⁱⁱ

2.1 Garment Firm Characteristics

The study covers 60 export-oriented garment factories located in industrial zones around Yangon (46 firms) and the Bago (14 firms) region.

80 percent of all firms were fully foreign-owned.

Table 1 shows the breakdown of the surveyed firms by ownership.

China is the newcomer to Myanmar's garment industry, followed by firms from Taiwan and Hong Kong. Less than five domestic firms have been operational in the past 23 years. The oldest interviewed firm was established through Korean investment 23 years ago. This paper interviewed managers from 48 foreign-own firms, nine domestic firms and three Joint Ventures (JV).ⁱⁱⁱ The average year of the surveyed garment firms was 8.2 years, suggesting that this industry in Myanmar is still young.

Table 1

Ownership Type by Region (percent)

| | Yangon | Bago | Total |
|----------------------|--------|------|-------|
| Foreign-owned | 60.0 | 20.0 | 80.0 |
| China | 38.3 | 12.7 | 51.1 |
| Taiwan | 12.8 | 0 | 12.8 |
| Hong Kong | 4.3 | 2.1 | 6.4 |
| Japan | 6.4 | 0 | 6.4 |
| Korea | 10.6 | 8.5 | 19.1 |
| Joint Venture | 5 | - | 5.0 |
| Domestic | 11.67 | 3.33 | 15.0 |

Source: Firm Survey data (CESD-JJN 2018)

ii Presentation done by Ministry of Labour, Immigration and Population on 19 June 2019 in Yangon

iii Joint Venture is an agreement between two or more companies, primarily between foreign firms and domestic firms to work together for mutual benefits bonded in a long-term contract with specific ownership percentages.

Table 2 shows that most of the large garment firms have been established for less than 5 years. Also, several larger firms have been established

for a longer time period as indicated by the fact that 15 of the surveyed firms were more than 15 years old.

Table 2

Firm Size and Year of Establishment (numbers)

| | ≤ 5 years | 5<year<15 | ≥ 15years | Total | Share of total (%) |
|---------------------|-----------|-----------|-----------|-------|--------------------|
| Small/medium | 17 | 5 | 3 | 25 | 42 |
| Large | 20 | 3 | 12 | 35 | 58 |
| Total | 37 | 8 | 15 | 60 | |
| Share of total (%) | 62 | 13 | 25 | | |

Note: A large firm is defined as having 600 or more employees, while a medium/small firm has less than 600 employees based on the Myanmar 2015 SME Law

Source: Firm Survey data (CESD-JJN 2018)

Table 3

Number for Workers by Occupation by Regions

| | Female | Total |
|---------------------------------------|--------|-------|
| Yangon | | |
| Administrative and Management workers | 12 | 16 |
| Production workers | 705 | 921 |
| Designer/technician | 5 | 9 |
| Foreign Staff | 4 | 9 |
| Total average workers | 705 | 921 |
| Bago | | |
| Administrative and Management workers | 14 | 18 |
| Production workers | 1,006 | 1,141 |
| Designer/technician | 6 | 13 |
| Foreign Staff | 9 | 15 |
| Total average workers | 956 | 1,141 |

Source: Firm Survey data (CESD-JJN 2018)

As **Table 3** illustrates, the average firm size in Yangon was around 921 workers while Bago was about 1,141 workers in 2018. 82 percent of those workers was female. By ownership, foreign-owned employed on average 1,029 workers while joint ventures and domestic firms employed 726 and 752 respectively. In addition, the results show that foreign-owned recruited relatively more production workers than their counterparts.

Surveyed firms, across firm types and regions, claim that their average firm size has increased in the last year. Production workers constitute the largest share of the labour force in the garment firms in both regions. Furthermore, Bago firms are bigger and consequently employ more workers. However, the firms established in Yangon have been established for longer, underscoring the commercial capital historical significance.

Surveyed firms mainly produce padded jackets, casual trousers, and dresses. 20 percent of the firms produce other types of clothing such as wool sweaters, labour uniforms, safety suits, sleeping bags, and pants. Most -- 57 -- firm managers^{iv} say that they follow their buyers' specifications with respect to material and/or design and that the buyer is responsible for the purchasing and delivery of the inputs, such as fabric, sewing silk, excluding packing. They stated that they import their material mainly from China, Korea, and

Japan and export the final products to Europe, Japan and Korea.

2.2 Worker Characteristics

The researchers interviewed 202 garment factory workers from selected garment factories in Yangon and Bago region. 153 of the surveyed workers were employed in the Yangon garment factories.

88.6 percent (or 179) were female workers. Also, more than half of the respondents are single women (64.4 percent), of which 41.5 percent are between the ages of 20-24 years old. Conversely, 34.2 percent of respondents were married, of which 31.9 percent are between the ages of 25-29 years old. Married garment workers typically belong to families with other wage-earning household members, supporting an average family size of four.^v Among the interviewed workers, 41.6 percent had a high school education while 44.1 percent had middle school or below.

More than half of the surveyed respondents (65 percent) worked as skilled operators, while 14 percent were semi-skilled.^{vi} In addition, 73.8 percent of the respondents had a written employment contract (Table A2). Most of the workers have worked for 1-2 years in the firm but have worked for 5 years or more in the garment sector. In fact, several survey respondents (42

iv 59 out of 60 respondents answered E.3 of the Firm Survey Questionnaire.

v Figures are estimated from the worker survey data. It was taken from questions b11-1 and b11-2 which asks the number of people in their respective households (including themselves) and the number of wage-earners in their respective households (including themselves).

vi Although the National Skills Standard Authorities divided skills level of garment workers into four skill levels known as semi-skill, skilled, advanced skilled and supervisory through skills assessment test. However, at firm level, the criteria to define skill levels based on grading system (see annex 1) and grading is varied across firm. Grading can range from A+ to C and points for grading are dependent on the worker year of experience at firm, skills, piece or ticket rates that determine the productivity of the worker and as well as his/her behaviors and reactions toward supervisor and management. In common, production workforce are grouped into supervisor, line-supervisor, operator, and helper at firm level. Normally grading system is mainly applicable to line-supervisor and operators, where skilled operator are often graded as A+, A or B+/B and semi-skilled operator are often graded as B and lower, and the difference in grades play vital role in productivity bonus of operators. The grading system could deviate from firm to firm.

percent) said that they previously worked in another garment factory.

When it comes to migration, this study considers a worker to be a migrant if s/he moves from a rural setting to an urban city township, or within or between regions.

Table A2 provides an overview of the survey respondents' migration status by gender and age group. As the table illustrates, 72.9 percent of the respondents migrated, of which less than half (43.1 percent) migrated to Yangon or Bago less

than five years ago and about 29.2 percent have migrated to Yangon or Bago more than 5 years ago. More than half of the migrants (64.7 percent) are female migrants,^{vii} of which 41.1 percent migrated to Yangon and 4.5 percent migrated to Bago. Around 60.3 percent are migrant workers from Ayeyarwady while the rest are from Kayin, Magway, Mandalay, Pegu, Rakhine, Sagaing, Tarnintharyi and Yangon Region. Many are coming from rural areas (78 percent), particularly from Ayeyarwady region to Yangon region (see Section 5.5 for more).

Table 4

Marital Status and Educational Attainment by Gender, and Age Group (percent)

| Total | Marital Status | | | Educational Attainment | | | | |
|---------------|----------------|---------|----------|------------------------|-------------------------|---------------------------------------|--------------------|-------------------------------|
| | Single | Married | Divorced | Primary Education | Middle School education | High School Education ^{viii} | University Student | University Graduate and above |
| | 64.4 | 34.2 | 1.5 | 6.9 | 37.1 | 41.6 | 7.4 | 6.9 |
| Female | | | | 92.8 | 93.3 | 83.3 | 80.0 | 100.0 |
| <20 | 15.4 | 2.9 | - | 7.1 | 13.3 | 10.7 | 13.3 | - |
| 20-24 | 41.5 | 17.4 | - | 35.7 | 29.3 | 37.0 | 46.7 | 7.1 |
| 25-29 | 18.5 | 31.9 | - | 28.6 | 26.7 | 16.7 | 13.3 | 42.9 |
| 30-34 | 9.2 | 18.8 | 66.7 | 14.3 | 18.7 | 12.0 | 6.7 | - |
| 35+ | 4.6 | 15.9 | 33.3 | 7.1 | 5.3 | 7.1 | - | 50.0 |
| Male | | 13.1 | | 7.1 | 6.7 | 16.6 | 20.0 | |
| <20 | 3.1 | - | - | - | - | 4.8 | - | - |
| 20-24 | 6.1 | 5.8 | - | 7.1 | 2.7 | 9.5 | 6.7 | - |
| 25-29 | 1.5 | 4.3 | - | - | 1.3 | 2.4 | 13.3 | - |
| 30-34 | - | 1.4 | - | - | 1.3 | - | - | - |
| 35+ | - | 1.4 | - | - | 1.3 | - | - | - |

Source: Worker Survey data (CESD-JJN 2018)

vii The figure is a summation of female migrants less than five years (36.63 percent) and female migrants for more than five years (27.72 percent) across all the age groups and in both survey region.

viii High School education stands for workers who have whether finished or have attended the school any grade between 9th grade to 12th grade.

3. Economic Upgrading

3.1 Economic Upgrading within GVCs

Standard GVC analysis defines upgrading as, “moving into higher value-added stages”, (Fernandez-Stark et al. 2011) that yield productivity and technological spillovers. Economic upgrading is the dimension of the GVC analysis that looks at the economic gains of greater GVC integration. This view assumes that improvements in livelihoods and working conditions are an automatic outcome of economic upgrading of firms that have integrated into GVCs. However, this is often not the case (Rossi 2013).

This paper looks at firm-level economic upgrading (Fernandez-Stark et al. 2011; Winkler, 2016; Rabellotti, 2005), including - process, product, and functional upgrading:^{ix}

1. Process upgrading: Higher productivity and efficiency in current production processes through internal changes, or through the introduction of new technologies
2. Product upgrading: Improving products or moving to the production of higher-value-added products
3. Functional upgrading: Adding tasks to the existing portfolio of the firm

Functional upgrading involves covering a progressively larger range of activities in the

value chain. It assumes that there will be higher profit margins for firms which could translate into higher wages for workers and conversely better working conditions (Kaplinsky & Morris 2001). For the garment industry the trajectory entails:

1. Cut-Make-Package (CMP): The contracted garment firm focuses only on final production. The supplier or buyer provide the inputs, specifications, and design of the products.
2. Free on Board (FOB): The manufacturer is responsible for production activities as well as activities of sourcing and procurement of necessary raw materials for production.
3. Original Design Manufacturing (ODM): In this stage, the garment firm is engaged in design in addition to FOB.
4. Original Brand Manufacturing (OBM): This business model includes branding and marketing activities in addition to previous stages of production.

Much of the empirical evidence suggests that the garment industry in developing countries frequently does not reach ODM or OBM stages. Designing or branding and marketing activities are done by firms whose headquarters are located in industrialized countries. In the garment sector in Myanmar, most firms are in the CMP stage.

^{ix} Chain upgrading is the fourth path to achieve economic upgrading. It relies on using the knowledge acquired in particular chain functions to move into different sectors/industries. Initial assessment of the current state of the garment sector in Myanmar, it is evident that it does not have the capabilities to be involved in such type of economic upgrading.

However, some factories undertake OBM only in the local market because they lack the abilities to access or cater to global markets. Nonetheless, Myanmar National Export Strategy 2015 and MGMA's 10-year Strategy 2015 recognize the need to upgrade from CMP to FOB in order to further integrate into the global value chains and to benefit from higher-value-added production.

3.2. Economic Upgrading in Myanmar's Garments Sector

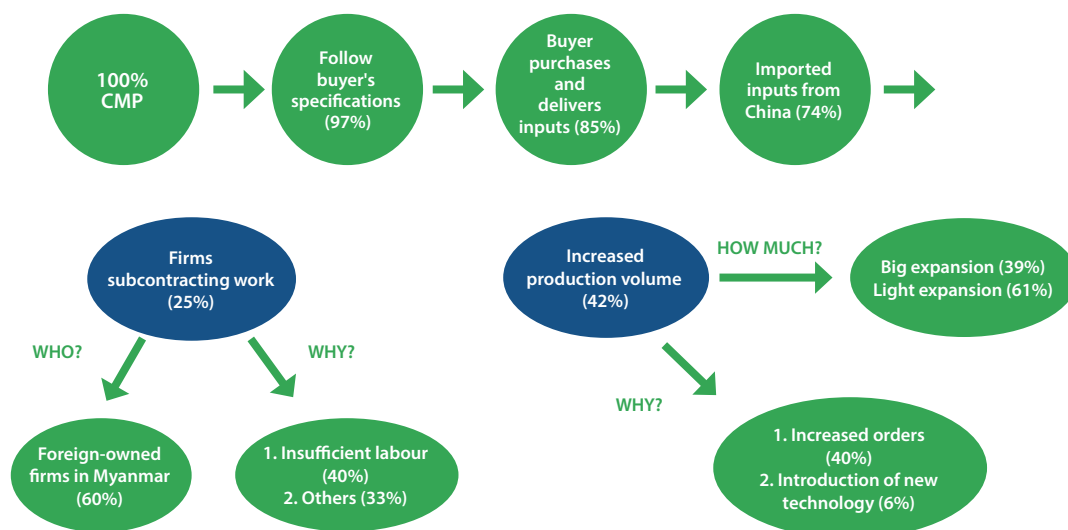
As of 2018, 37 percent of the export-oriented firms in this study reported that their major exports were destined for the European Union (EU), followed by 17 percent for Japan and 10 percent for Korea. This trend reflects the lifting of trade sanctions in recent years, especially the

EU's reinstatement of the Generalized System of Preferences. Out of the 60 firms interviewed, 40 reported that the EU is their main export market. Among the latter firms, more than half are fully Chinese-owned, followed by firms owned by the Burmese. Chinese-owned firms have well-established linkages to the EU market.

The garment GVC is a buyer-driven value chain. Brands and buyers or buyers' agents dictate the time and product quality standards that contracted firms must meet. 97 percent of the firms reported that they follow the buyer's specifications, and 85 percent stated that the buyers provide and deliver the raw materials and intermediate inputs for their factory. Among these 74 percent imported raw materials (e.g.

Figure 1

Value Chain Integration in the Garment Sector in Myanmar



Source: Firm Survey data (CESD-JJN 2018)

fabric, sewing silk)^x exclusively from China, while 12 firms imported from China and other countries.

Myanmar firms lack the production capacity to match the scale in demand by buyers, especially given the short time frames and rapid turnaround. This pressure results in subcontracting part of the buyer's order to other firms in the country. Among the interviewed firms, 25 percent of the firms outsourced part of the manufacturing to (mainly) foreign-owned firms within the last 12 months, stating the main reason was insufficient labour force and a lack of equipment. Moreover, producers face contractual obligations to compensate buyers for a loss of profit in the event that a deadline is not met. A significant part of the production takes place in foreign-owned firms, because of cultural affinity, prior relations, or a more established network in the country. Among the surveyed factories, 15 percent receive subcontracting work from other firms. Those firms' managers stated labour shortages as one of the main reasons for subcontracting. In the ASEAN region, Myanmar apparel sector is characterized with one of the lowest minimum wages for the workers. Once the workers receive training from a firm, they are highly likely to switch to a new factory for higher wages, even if the increment is infinitesimal. A similar pattern is observed in the case of advanced skilled workers who migrate to neighboring countries for high salaried jobs which are still missing in Myanmar's apparel factories.

On average, small and medium-sized firms experienced greater increases in production volume in the last 12 months than large firms. Small and medium-sized firms were, on average, younger firms that were beneficiaries of the GSP agreement catering to the growing demand from the EU. The reason for the increases in production volume is higher demand, according to, that is, increased orders from their buyers. Responding to short-term rising seasonal orders, firms relied on subcontracting work and hiring flexible workers.

All the firms surveyed said they were CMP firms. However, when looking deeper, their business models extend beyond CMP. Firms appear to prefer to remain a CMP firms, at least on paper, to avail certain tax incentives that are only available to this category of firms. There are no incentives for FOB firms (Figure 1).

Not only are the current tax incentives exclusively for CMP firms, there is no clear dedicated government agency or committee for FOB firm development, or any policy intention to have a nation-wide sector specific committee. Currently, Myanmar has a ministerial CMP steering committee, consisting of members of relevant government agencies and private sector representatives. It is possible, as one interviewed buyer stated, *"this could be because domestic players that not willing to mobilize resources to achieve an industry platform exert pressure."*

x Excluding packaging materials.

Table 5

Summary of Upgrading Stages by Region, Ownership, and Size (percent)

| | Process Upgrading | Product Upgrading | Functional Upgrading |
|------------------|-------------------|-------------------|----------------------|
| Region | | | |
| <i>Yangon</i> | 47 | 2 | 0 |
| <i>Bago</i> | 28 | 7 | 0 |
| Ownership | | | |
| Foreign | 42 | 4 | 0 |
| JV | 67 | 0 | 0 |
| Domestic | 33 | 0 | 0 |
| Size | | | |
| Small/Medium | 37 | 5 | 0 |
| Large | 49 | 3 | 0 |

Source: Firm Survey data (CESD-JJN 2018)

In order to understand if and how garment firms were involved in economic upgrading, management level representatives were asked to discuss the different types of upgrading their firm was engaged in. In addition, qualitative interviews were carried out with stakeholders to explore the opportunities and challenges that firms faced in order to upgrade. When asked about firm engagement in either type of economic upgrading within the last 12 months, 54 percent of firms responded that they undertook upgrading, while the remaining 46 percent did not take any steps to upgrade. **Table 5** provides a breakdown of the firms that were engaged in some form of economic upgrading. The findings also reveal that foreign-owned have

engaged in economic upgrading activities more than domestically-owned firms.

Process upgrading was undertaken by less than half (47 percent) of 59 firms^{xi} in the last 12 months. These were mainly larger foreign firms located in Yangon (**Table 5**). **Table 6** highlights that introducing advanced machines is the most prevalent strategy (26 percent). This reflects a propensity on part of firms to use the technically advanced machines to meet demand during the lead time specified by a buyer. Nonetheless, process upgrading in Myanmar is basic, consisting of a low level of sophistication in current machines, or changes in production processes (NES 2018).

xi One firm did not respond the economic upgrading section.

Table 6

Approaches for Process Upgrading

| Approaches | Percent |
|--|---------|
| Replacing manual tasks with machines | 19 |
| Replacing with advanced or new machines | 26 |
| Using the software to control the machines | 14 |
| Organizing production process, e.g. re-arranged available machines/workers | 14 |

Note: Only 58 out of 60 replied this question

Source: Firm Survey data (CESD-JJN 2018)

Product upgrading was mainly undertaken by foreign-owned firms and implemented with the support of foreign partners.

None of the surveyed firms reported undertaking functional upgrading or an intention to engage in higher stages of their export product's value chain over the course of the last 12 months. These findings are consistent with the CMP focus of garment factories in Myanmar. However, in the case of foreign-owned garment factories located in Myanmar, many of them have their parent company outside Myanmar. From there they import textile and other materials to their subsidiaries companies to make the final apparel products. These products are then exported back to their parent units. As such, those garment firms that are fully foreign-owned and located in Myanmar are said to be CMP-based in their operations in Myanmar, but they undertake FOB in relation to their parent companies.^{xii}

Overall, this study found that ownership of the garment factory plays a role in a firm's decision to upgrade and the structure of this upgrading. As illustrated by a firm representative from Bago: *"The mother company of this firm is in Hong Kong, they design the clothes and provide the raw materials, we were set up in Myanmar only to focus on CMP."*

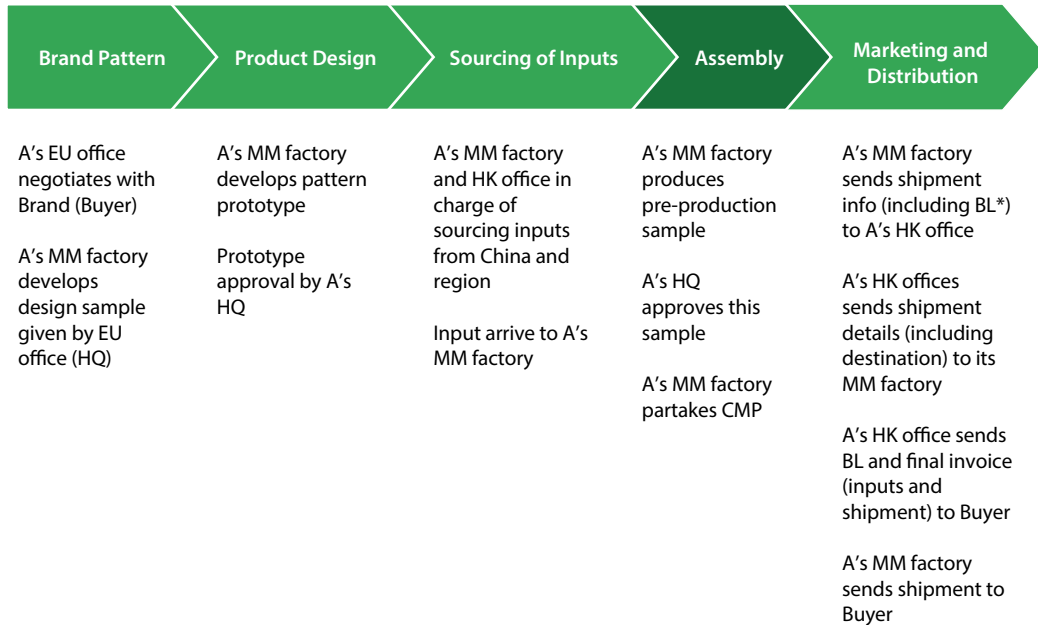
While countries can have a strategy to upgrade their garment sector, a lack of appropriate incentives, limited skills, and scarcity of resources are the most common impediments (Fernandez-Stark et al 2011).

However, a representative from the MoC stated; *"the FOB challenge also depends on the investor, whether its management wants to transition or not. Garment firms are wary to take on the responsibility (and associated risks) of moving toward FOB, especially given that the CMP is an established market in Myanmar"*.

xii The usage of the word "FOB" in the Myanmar apparel sector is quite different from its usage in customs terminology, free on board.

Figure 2

Fully Foreign-owned Firm Manufacturing Process in Myanmar^{xiii}



Note: BL* refers to Bill of Lading, ownership certification of a shipment

Source: Author's own elaboration

In order to encourage investments that would assist firms to transition into FOB, the Government of Myanmar (GoM) and MGMA have developed garment sector development strategies in 2015 by outlining an FOB upgrading strategy as the next step for the garment sector in Myanmar. But according to a CESD report (2018), many garment firms are not interested in shifting to a FOB production model. The respondents indicated that a lack of skilled labour and capital, as well as a shortage of raw material in the domestic market,

were major challenges in moving toward an FOB production model. Furthermore, the survey's results reveal that foreign firms do not rely on domestic firms for their subcontracting work, whereby limiting the possibility for knowledge to spill over to the local value chain.

Similar to previous studies (CESD 2018), this study found that only 40 percent of surveyed firms had plans to engage in any type of upgrading in the next 12 months, mainly foreign-owned firms and

^{xiii} MM stands for Myanmar; HK stands for Hong Kong; EU stands for European Union HQ stands for Headquarter

recently established firms. The main external factors constraining firms to upgrade were namely energy infrastructure (i.e. electricity) and transportation infrastructure (i.e. roads and cargo logistics).

Overall, garment firms in Myanmar seem to pay little attention to economic upgrading despite the existence of a national strategic plan (NES) to transition from a CMP to FOB business model. This

is because some of the firms have gone beyond CMP model, but have not formally registered as such in order to maintain tax privileges. Nonetheless, Myanmar is lacking the available physical infrastructure and institutional resources to cultivate more skills and invite capital investment to undertake economic upgrading beyond this nascent form.

Box 1

The National Export Strategy

The National Export Strategy 2015-2019, (NES) provides a strategic plan for Myanmar's garment sector to meet specific sector objectives, including making the transition from CMP to FOB to achieve greater sector growth and profitability. Most garment firms are currently concentrated in CMP with low profit margins. Other options include increasing the production volume for the current portfolio of export products, improving quality standards for greater margin and access to markets, developing capacity for design and production of knit garments to penetrate more markets and expand value chain participation. The NES acknowledges the need for public policies including up-skilling the workforce, widespread adoption of worker protections and environmentally friendly technologies, provision of critical infrastructure in sector-dedicated zones, and secure port facilities.

In line with the NES, the Myanmar government has undertaken a number of reforms to promote further development of garment sectors. This includes a number of legal and institutional reforms such as the introduction of a new investment law (2016), occupational safety and health law (2018), financial liberalization by the central bank including a relaxation of regulations to allow foreign banks to provide loans to domestic firms. MoLIP also established the National Skills Standard Authorities (NSSA) to promote nationwide skills standards as well as to skill workers. On the one hand, the MGMA and other development partners have taken a number of actions to enhance the development of the garment sector. The MGMA launched a 10-year strategic plan aimed at facilitating entry-level training for garment workers, online application for Certificate of Origin, and business matching activities. Currently, the NES being revised for a second five-year term (2020-2025).

4. Social Upgrading in Garment Factories

4.1 Working Conditions

Social upgrading is defined as the benefits that can result from economic upgrading captured by workers involved in the GVC. Social upgrading stands for a better quality of employment. This concept was coined by the International Labour Organization (ILO) to ensure that workers benefit from increased firm-level competitiveness (Ghai 2006). The ILO's Decent Work Agenda used to frame social upgrading is composed of four dimensions: employment, conditions of work, social protection, and social dialogue, broadly defined as economic security and workers' voice. Overall, it goes beyond wages to capture other dimensions of work, too (Barrientos et al. 2010)

A signed employment contract is an important indicator of the quality of working conditions. The Employment and Skill Development Law requires employment contracts to be signed by both parties to ensure that regulations pertaining to working conditions are met. These range from provisions about probation periods, leave, working and overtime hours, and safety rules for factories, and other worker rights (Ministry of Labour, Immigration and Population, MoLIP 2013).

One quarter of the respondents reportedly did not have an employment contract with their current firm. Years of work experience do not seem to be related to the signing of employment contracts. The notion that one may not know that employment contracts exist does not seem to

be a big factor since many employees with over two years of work experience did not have an employment contract either.

When asked for the reason, a representative from MoLIP stated that in his region, once workers acquired a certain level of skills, they often decide to migrate to Thailand before they could formally be employed under a contract. High worker turnover and the tendency to await the end of the workers' probation period to enter into a contract seem to be explanations for the low share of formal contracts among workers. At times, both the worker and the employer ignore the importance of renewing an employment contract after it expires, though they continue to work together without a written contract.

Among the workers in Yangon who did not sign an employment contract, the most experienced workers (6.8 years) tended to work in domestic-owned firms, followed by workers in joint ventures (5.75 years). The least experienced workers without employment contracts work in foreign-owned firms. This suggests that domestically-owned firms don't pay as much attention to compliance when it comes to having a written contract as even workers that have stayed with the firm for some time are without contract. In-depth interviews of the most experienced workers highlighted the fact that a key reason for not signing an employment contract was that some workers felt that having an employment contract would restrict their freedom. Some workers also

refuse to renew an employment contract if the new contract doesn't provide the same benefits as the previous one. For instance, some workers publicly refused to renew an employment contract with a firm because the new contract did not provide free accommodation whereas the previous agreement had (Myanmar Times 2018a).

According to 2012 Labour Law, factories must have a leave policy and allow access to social security. It appears that most, 86 percent, of surveyed workers knew about their firm's leave policy. Nonetheless, one worker confided that despite knowing that she was eligible for compensated sick, causal, and maternity leave, she did not avail it because she wanted to earn the attendance bonus and other additional bonuses. Several

workers reported a lack of child care facilities. Only 22 percent of employers reported their firm provided some form of facilities. Ventilation in the workplace varied greatly among firms. While 86 percent of the interviewed workers said their workplace had fans, only 26 percent reported having air-conditioning, and 36 percent of firms reported having coolers.

Table A3 illustrates worker and firm perspectives on service and policy changes in their factory. The leave policy responses suggest that the law is being enforced now, mainly because workers have reported improvements; firms appear to be discontent, or reported no change regarding this policy. The availability of childcare facilities have not changed among worker and firms alike. Both

Table 7

Average Years of Working Experience in Firm and Employment Contract Status by Regions and Firm Ownership

| | Employment Contract* | No Contract |
|---------------|----------------------|-------------|
| Yangon | | |
| Foreign-owned | 2.53 | 2.19 |
| Joint venture | 2.5 | 5.75 |
| Myanmar-owned | 6.18 | 6.8 |
| | 3.13 | 3.22 |
| Bago | | |
| Foreign-owned | 2.82 | 1.92 |
| Joint venture | - | - |
| Myanmar-owned | 4.33 | - |
| | 3.2 | 1.92 |

* The survey did not ask for details on the timeline when the workers signed their employment contract

Note: This is calculated based on 201 respondents. One observation is missing.

Source: Worker Survey data (CESD-JJN 2018)

parties see positive improvements in equipment and facilities in factories.

The survey found that if a low-skilled worker was absent for three days without taking leave, it was assumed that the worker resigned. This was not in line with the stipulations of the Employment and Skill Development Law (2013). When it comes to retention of skilled operators, according to the survey, 76 percent of firms used mainly verbal negotiations to try to convince a worker to stay, only a few firms utilized financial incentives (18 percent) or non-financial incentives (6 percent) to retain their high skilled workers. Nonetheless, in the qualitative interviews firm representatives indicated that the few workers that did resign said it was for a better-paying job or because they were migrating to another country.

4.2 Gender-related Aspects of Social Upgrading

GVC participation and upgrading strategies affect men and female differently (Staritz 2013). These dynamics are particularly relevant in labour-intensive export sectors. In Myanmar, about 90 percent of the workforce in the garment sector is female (CESD 2018). Consequently, gender becomes central to any discussion on working conditions and labour rights in GVCs.

The worker's surveys revealed that the female garment workers were mainly concentrated in the lowest paying occupations. In particular, about 88 percent of helpers and operators of sewing machines, 60 percent of quality

controllers and technicians, and only 42 percent of administrative and management workers were female.^{xiv} Conversely, higher executive positions are dominated by men.

According to Myanmar law female workers are entitled to 14 weeks of maternity leave^{xv} during which they must receive the minimum wage. The national social security scheme provides a maternal benefit of 70 percent of the regular wage during the leave as well as additional maternity expense benefits. According to the survey findings, 95 percent of female workers were aware of their rights to these benefits.

About 70 percent of female workers reported that their firm had specific provisions for pregnant female workers, such as longer lunch breaks (40 percent), additional allowance for basic medical check-ups (20 percent), as well as reduced working hours and a more lenient granting of sick leave (10 percent).

When a firm representative was asked about maternity leave in his factory, he stated that a worrisome trend in his factory was that workers would not come back after their maternity leave. When a worker was asked about this perceived trend among new mothers, she revealed that *"the main reason for mothers not returning to work after their maternity leave, was that the majority did not have anyone to take care of the child at home. The percentage of working mothers will increase if the firm provided a childcare facility. However, firms prefer to hire single females. This preference*

xiv No distinction between foreigner and Myanmar national, thus possibly over-representing Myanmar women in the higher-skilled positions.

xv It includes six weeks of prenatal and eight weeks of postnatal leave, and an additional seven days of paid leave for medical checkups.

even leads some firms to ask potential hires to provide medical evidence before hiring them.” This statement was confirmed by a firm representative: *“We ask them to provide medical recommendations before hiring them. Hiring single female increases the chances of meeting the production targets.”* Such behavior on part of firms contradicts the 1949 Factory Law which stipulates that firms must provide in-factory childcare. This survey, however, finds that only five percent of workers stated that their firm offered childcare.

Workplace harassment is defined as unwelcome conduct which offends, intimidates, or humiliates a worker (DaNa & IFC 2019). There are various forms of harassment, ranging from sexual harassment to verbal and physical abuse, and bullying (DaNa & IFC 2019).

In this survey (CESD-JJN 2018), only 4 percent of the surveyed women reported knowing of incidences of a female colleague being physically abused at the workplace in the past year.^{xvi} When asked who they would ask for help if need be, over half of the female workers indicated that they would contact their supervisor or manager.

4.3 Skill Development and Training

Skills development in the garment sector is critical to improve productivity, profits and wages for workers (Taglioni & Winkler 2016). A higher

skilled labour force contributes to job security and enables access to higher paying jobs with better working conditions (Fernandez-Stark & Bamber 2018).

To address the prevalence of low skill and productivity in the garment sector, government, private sector actors, and international non-governmental organizations (INGOs)^{xvii} have cooperated to provide different types of trainings to workers based on the NSSA curriculum.^{xviii} Despite these initiatives, their reach and scalability remains limited. From the survey, 20.4 percent of surveyed workers reported to have changed their position or tasks in the last year. However, only five percent of them stated having received specialized training for their new position.

In Myanmar, factory owners are reluctant to train unskilled workers as operators because of the high turnover rates (CESD 2018). Employers feel that it may not be worth investing in training if the worker is likely to leave shortly after obtaining the training. 59 percent of the interviewed workers indicated their employer did not provide any courses in the last year.

As worker explained, *“the firm does not provide any training, rather more experienced workers teach less-experienced workers on the job. However, the less experienced workers do not ask for help*

xvi This figure is similar to the CESD 2017 study. Nonetheless, it is considerably lower than the DaNa & IFC 2019 study. Possibly due to the nature of the questions. In this report's survey, the women were asked to recollect if they knew of any physical harassment encounters.)

xvii International non-governmental organizations (INGOs) refer to non-profit institutions (including religious organizations) which may develop, finance or implement activities in the domain of their concerned sector as either their primary or secondary mission.

xviii LIFT and MoLUP's Aung Pyin Hmu training center for new garment sector workers and Training-of-Trainers (ToT) programs (LIFT 2017), SMART Myanmar trainings for HR staff on sustainability and ethics (SMART 2016), and skilled workers MGMA's 10-day ToT program (MGMA n.d.)

NSSA stands for National Skills Standard Authority founded in 2007 headed by the Permanent Secretary of Ministry of Labour, Immigration and Population. The unskilled workers can earn skill certificate through NSSA by going through the Skilled Worker Assessment program.

because they are aware it would overburden the more experienced workers, and they would not be able to teach because of daily production targets.”

Only 35 percent of respondents reported having in-house training in the firm, while three percent reported having outside training offered to them. When in-house trainings were provided, the most common type were those that are legally required such as fire training.^{xix} During the interviews, workers stated that sewing training was given either to recently incorporated workers, or to line supervisors and quality controllers whenever the factory had orders and a change in product design. Only a few respondents had access to language, management, and soft skills training. Survey findings suggest that there is a mismatch between training programs provided by firms, and those demanded by employees such as computer skills and language courses.

Given the limited availability of training, over half of interviewed workers replied that they never received any. One reason may be the loss of salary when attending trainings. As a worker in Yangon stated, *“my firm allows me to attend outside training courses, however I only get paid the minimum wage, and cannot earn the overtime, piece or production target bonus. It is very costly for me to attend them [outside trainings].”*

The survey’s findings suggest that most workers to the level of operator tend to remain un-skilled and do not receive training. As a worker stated, *“before 2017, entry-level trainees were more common, they had a month to learn how to sew, now they are tested after a week. But today firms prefer to hire someone with prior experience rather than train them.”* When workers do get promoted or change tasks, they do not receive training for their new position. Only two of the 41 newly

Box 2

The National Skills Standard Authority

Myanmar establishment of a skills standard started in 2004 as part of the Skill Recognition System in ASEAN to promote free flow of labour between nations. The National Skills Standard Authority (NSSA) was established in 2013 along with the Employment and Skill Development Law (2013) with the objective to define skill standards for different occupations within the country. Its activities include selection of prioritized occupations for defining skill standards, setting curricula in line with skill standards and providing skills accreditation certificates. Under NSSA, there are 14 sectoral occupational competency standard committees. Textile and garments is a sub-committee under the manufacturing industry occupational competency standard committee. Training ranging from basic sewing to quality control is provided to garment workers in collaboration with development partners, MGMA and training centers. Up to date, the NSSA has issued skill certificates for 10,680 semi-skilled operators and 791 skilled operators.

xix This training was obligatory and provided by department of fire services bi-annually.

promoted workers had received specialized training for their new position.

Production workers in higher positions, such as supervisors and quality controllers, are more likely to receive training compared to operators, which represent 79.6 percent of 202 workers. Apart from the on-the-job training, most firms do not provide technical skills training. Training attendance is low, possibly because of the potential loss of salary and scheduling conflicts as garment workers are required to work six days a week.

4.4 Migration

The expansion of the manufacturing sector has led to a dramatic increase of rural to urban internal migration. Ayeyarwady and Magway are among the poorest regions in the country and these regions have some of the highest rates of out-migration (IOM 2016). Most of the migrant workers in this survey came from the Ayeyarwady region (Table 8), followed by center of Myanmar. In this survey 78 percent of the interviewed migrants came from rural areas.

The majority 83 percent of the workers in Yangon are migrants who come from outside the Yangon municipal area. But only 38 percent of garment workers in Bago come from outside Bago urban area. According to the respondents, most of them had migrated in the last five years. Most female migrants had attended high school. Women in our survey were more educated than nationwide average educational level of total labour force.^{xx}

Nonetheless, when comparing their educational levels to non-migrants, the former appear to be significantly less educated.

A search for employment was a key driver of migration, followed by family-related matters (Table 9). As a migrant worker from Bago explained, she migrated to accompany her husband who got a job in Bago. A focus group discussion in a migrant workers' village revealed that young females preferred to leave their village. This was mainly due to limited job opportunities and the job insecurity in farming. These women believed that urban areas offered work all year round and better-paying jobs. As a female migrant worker from Ayeyarwady division disclosed, *"working in the rural farms, one remains very poor and it is difficult, but working as an operator in a factory is comfortable and provides a stable regular income."* Another family-related reason to migrate is when a family member is transferred to an urban area. Overall, the pattern that emerges is that men are more likely to move for employment purposes, while women follow their family. This finding corroborates with previous research findings (Department of Population 2015).

A young female garment worker moved to Yangon with her family after Cyclone Nargis (2008). The cyclone had affected her area causing extensive property damage. After completing middle school in Yangon, she started work in the garment factory.

xx Myanmar Labour Force Survey (2015)

Table 8

Origin and Destination of Migrant Workers (percent)

| Migrating from: | Migrating to | |
|-----------------|--------------|-------------|
| | Yangon | Bago |
| Kayin | 0.99 | - |
| Rakhine | 0.5 | - |
| Yangon | 4.46 | 0.5 |
| Mandalay | 3.47 | 0.5 |
| Bago | 5.94 | 5.94 |
| Magway | 4.95 | - |
| Ayeyarwady | 41.58 | 1.49 |
| Tarnintharyi | 0.5 | 0.5 |
| Sagaing | 0.5 | - |
| Total | 62.87 | 8.91 |

Note: Only 145 out of 202 responded to one or two of the questions. Migration is considered moving from a rural to urban setting within a region or between regions.

Source: Worker Survey data (CESD-JJN 2018)

Table 9

Reasons for Migration

| Reasons for Migration | Percent |
|--|---------|
| More job opportunities | 65.75 |
| Family related matters | 12.33 |
| Better salaries | 4.11 |
| To find educational opportunities | 4.11 |
| Related social network based in Yangon | 4.11 |
| Follow family members as their primary | 4.79 |
| Others | 2.75 |
| Inconvenient living/working conditions | 2.05 |

Source: Worker Survey data (CESD-JJN 2018)

Box 3

The Daily Routine of a Female Migrant Garment Worker

Every morning, she wakes up at 4:30 am and cooks her meal. She serves some of it to Buddha and then packs the rest in a lunch box. She then takes a shower, gets dressed, puts on her make-up and has breakfast. She leaves home to catch the bus that will take her to the ferry that crosses the river. Her factory is on the other side. At 6:20 am the ferry arrives, she then has to take another vehicle for 30 minutes to reach the workplace by 7:15am. When she reaches the factory, the worker scans her fingerprint at the factory's entrance. Normally, between 7:15am -7:30 am, the production manager holds a brief meeting to go over the day's activities. From 7:30 am she works in the production line until 11:30 am, then takes an hour lunch break and resumes work at 12:45 pm until 18:30, when she journeys back home. Her ferry leaves at 19:00 from the dock. Once she arrives home, she takes a shower, makes dinner, and goes on social media or calls her family in the village. Around 22:30, she goes to bed. This is her life six days a week.

Sundays are her day off; she could meet friends but she doesn't. She stays at the hostel instead. She has not allowed herself to do tourist activities because she wants to save as much money as possible to send to her family back home. If she had a choice, she would get another job. She wants to attend training courses on basic computer skills and English lessons so she can build a better career. She is interested in becoming a multilevel marketer; she would earn more than as an operator. Her future plan is to bring her younger brother from the village to Yangon so he too can have more choices and can build a better life when he grows up.

4.5 Employment and Wages

Table 10

Average Monthly Wage (Basic Salary) by Occupation, Gender, and Region (MMK)

| | Total Monthly Wage | | | Monthly Basic Wage | | |
|-------------------------|--------------------|---------|---------|--------------------|---------|---------|
| | Female | Male | Total | Female | Male | Total |
| Yangon | 214,249 | 208,000 | 213,719 | 119,399 | 128,138 | 120,142 |
| Helper | 156,667 | - | 156,667 | 112,000 | - | 112,000 |
| Skilled Operator | 211,661 | 225,000 | 212,874 | 116,729 | 130,580 | 117,988 |
| Semi-skilled Operator | 193,944 | 151,333 | 187,216 | 117,125 | 120,000 | 117,579 |
| Line supervisor (EC) | 182,667 | - | 182,667 | 134,333 | - | 134,333 |
| Supervisor | 293,600 | - | 293,600 | 110,400 | - | 110,400 |
| Quality Controller (QC) | 256,340 | - | 256,340 | 151,091 | - | 151,091 |
| Others | 210,000 | - | 210,000 | 108,000 | - | 108,000 |
| Bago | 211,004 | 181,100 | 204,774 | 121,842 | 102,600 | 117,833 |
| Helper | 165,000 | - | 165,000 | 108,000 | - | 108,000 |
| Skilled Operator | 191,289 | 180,000 | 189,676 | 119,556 | 99,000 | 116,619 |
| Semi-skilled Operator | 153,667 | 157,750 | 155,300 | 110,000 | 101,250 | 106,500 |
| Line supervisor (EC) | 256,000 | 210,000 | 246,800 | 118,500 | 108,000 | 116,400 |
| Supervisor | 292,327 | - | 292,327 | 145,000 | - | 145,000 |
| Quality Controller (QC) | 272,500 | - | 272,500 | 129,000 | - | 129,000 |
| Others | - | 215,000 | 215,000 | - | 108,000 | 108,000 |

Note: The data in the table is represents 201 observation out of 202 worker respondents. One missing data was dropped from this summary table. The occupational group 'Others' include clerk, on-the-job trainee, technical expert and goods keeper in the storehouse.

Source: Worker Survey data (CESD-JJN 2018)

Table 10 shows the total average monthly wage and the basic wage of each occupational group by region and gender for the 60 surveyed garment firms in Yangon and Bago. The operators typically earn on average 186,266 MMK (USD 130.4), as their total monthly salary, their average base salary is around 114,671 MMK (USD 80.3).

Interns, production-line clerks and storekeepers earn more than the minimum daily wage of 3,600 MMK (USD 2.5) required by law at the time of the survey. The minimum wage was revised in May 2018 raising it to 4,800 MMK (USD 3.4) a month after the survey was conducted. Most workers in Bago region in our sample earn basic salaries

ranging between MMK 110,000 (USD 77) to MMK 150,000 (USD 105) and in Yangon region basic salaries ranging between MMK 110,000 (USD 77) to MMK 150,000 (USD 105) and median salaries for both regions is MMK 110,000 (USD 77)

Furthermore, the survey reveals that garment workers work long hours. The surveyed workers appeared to work, on average, ten hours a day, including overtime. On average, they work 27 days per month.^{xxi} When asked about whether there were any changes in their daily working hours compared to the previous year, 72.3 percent of the workers stated they had not experienced a change. 15.8 percent stated that their working

hours had decreased. Only 11.8 percent stated that their daily working hours had increased. Nonetheless, overtime work is dependent on having met the daily production target, so production workers are on average working many more “extra” hours than their administrative and managerial counterparts.

As expected, positions such as quality controller, line supervisors and supervisors have higher total monthly wages as compared to operators. The wage gap can be attributed to the difference in skills (using educational attainment as a proxy), years of experience in the garment sector, or years of service in the garment firm.

Table 11

Monthly Income Composition by Occupation (percent)

| | Helper | Semi-skilled operator | Skilled operator | Supervisor | Line supervisor | Quality Controller | Others |
|----------------------------------|--------|-----------------------|------------------|------------|-----------------|--------------------|--------|
| Basic Salary | 72.96 | 64.04 | 60.28 | 50.09 | 53.72* | 59 | 47.61 |
| Overtime | 24.45 | 20.84 | 19.14 | 17.31 | 18.05 | 18.74 | 21.51 |
| Attendance (Regularity) Bonus | 1.72 | 4.19 | 4.62 | 4.79 | 4.53 | 4.14 | 5.18 |
| Service/Seniority/ Loyalty Bonus | - | 2.17 | 3.78 | 4.21 | 7.2 | 0.86 | 4.57 |
| Food Allowance | - | 0.08 | 0.09 | - | - | - | 0.33 |
| Transportation | - | 0.23 | 0.37 | - | 1.96 | 0.53 | 2.53 |
| General Bonus | - | 2.15 | 3.4 | 3.7 | 9.22 | 5.01 | 17.13 |
| Pocket Money | - | 0.17 | 0.66 | 0.01 | 0.27 | 0.81 | 1.12 |
| Piece Rate | 0.87 | 5.73 | 6.28 | 3.52 | 1.87 | 2.86 | - |
| Supervision | - | - | 0.12 | 8.84 | 3.19 | 8.05 | - |
| Other | - | 0.39 | 1.27 | 7.53 | - | - | - |

*A line supervisor said this basic salary was higher than the rest of the line supervisors.

Source: Worker Survey data (CESD-JJN 2018)

xxi The following figures are the mean of the daily working hour and the monthly working days.

As **Table 11** illustrates, that the basic salary, on average, makes up most of the total monthly wage (56.51 percent) and is generally above the monthly minimum wage.^{xxii} Nonetheless, some interviews reveal that some specific occupations in the Bago region were paid below the minimum wage, at the time of this survey. Some helpers and production interns during their probation period receive 2,700 MMK (USD 1.9).

Focus group discussions in Bago revealed that bonus entitlements were attributed according to the position and skills of a worker based on a points system (**Annex 1**). Those working for the garment firms for a certain number of years also receive a monthly service/loyalty bonus to serve as an incentive for workers to remain at the firm and reduce labour turnover. Piece rates and meeting production targets receive bonus points, as do good discipline and some other attributes (**Annex 1**).

Interviews revealed that while all positions receive piece rate payments, certain bonuses are only paid to supervisors and line supervisor levels even though all workers should have access to them. Aside from monetary support, most garment workers (81.2 percent) receive in-kind support such as daily meals, work uniforms, transportation to work, social or extra-curricular activities, and snacks.

56.7 percent of the surveyed firms reported they increased wages for their workers as compared to the previous year. Of which, 35.3 percent of the firms said it was due to higher productivity, while 41.2 percent said it was because of the introduction of the minimum wage. Yangon garment workers are generally more satisfied in the wage policy and the bonus policy, citing it as better than their previous job.

4.6 Industrial Relations: Unions and Disputes

For the Myanmar garment sector, managing industrial relations is still a relatively new exercise. Labour disputes have increased between 2015 to 2017.^{xxiii} According to MoLIP's administration record in 2017, 42 percent of reported disputes occurred in the garment sector. However, the number of reported disputes decreased in 2018.

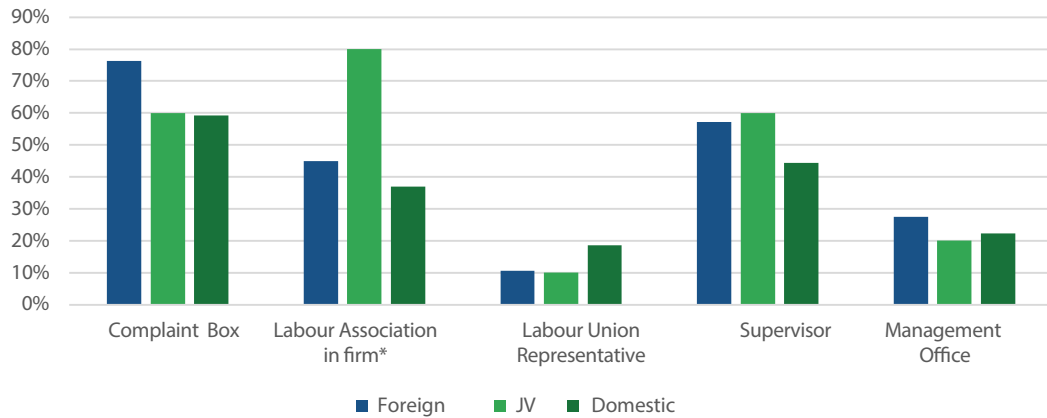
In order to reflect the present industrial environment and the new political system, the government of Myanmar amended a number of labour laws, which had been drafted whilst the country was still under British rule. Notably, the Minimum Wage Law (2013), Labour Organization Law (2011), Settlement of Labour Disputes Law (2012) and the Social Security Law (2012) were enacted to create the better working environment, to protect workers' right, and to foster sound industrial relations in the country.

xxii The monthly minimum wage rate was computed using the conversion of 1 month = 30 days.

xxiii During the military regime, trade unions were illegal.

Figure 3

Preferred Internal Complaint Mechanism (percent)



Notes:

* Labour associations include any other organizations that include employers. i.e. Workplace Coordination Committee (WCC). This category excludes labour unions.

** Two observations were omitted: one worker reported to WCC while another worker reported to a translator

Source: Worket Survey data (CESD-JJN 2018)

As **Figure 3** illustrates, in the event that workers want to report a problem or make a complaint within the firm, 91 percent of the respondents had a query or complaint mechanism available in the firm. If they had to raise a concern, around 70 percent of the workers preferred complaint boxes, 56 percent preferred to report the problem to their supervisors, and 45 percent voiced their complaints via the labour associations^{xxiv} in firms. Among the latter category, workers in joint ventures appear to have labour associations that are more approachable than the other two firm types. Complaints are not the same as filing a formal labour dispute. Few respondents

(12 percent) stated that they would internally file a formal dispute with their labour union representatives.^{xxv} However, in comparison to the other two firm typologies, workers in domestic firms appear to be more willing to use this mechanism. Finally, notifying the management office and specifically, the human resources department, was only preferred among 25 percent of workers.

When asked about the process for reporting violations within a firm, most workers stated they would first report the violation to a supervisor. If that failed to prompt action, then the complaint

xxiv Labour Association refers to associations and collectives present in the firm; including employer's associations.

xxv Labour Union is an association solely composed by workers and representing the workers.

would be sent to the management office. Trade unions or the Workplace Coordination Committee (WCC) – a body of two worker and two employer representatives elected to resolve disputes – were seen as a last resort. Reporting a problem to a trade union or the WCC meant that the complaint was formalized as a labour dispute. As one worker explained, *“[I]f an argument occurred between operators it would be reported to the supervisor or line leader first. Greater matters went to the human resources department. If the matters were not solved, they were taken on by the Workplace Coordination Committee to be resolved through the labour dispute mechanism (see Box 4 in the following section).*

Labour unions play a crucial role in industrial relations by representing workers in labour disputes and preventing an escalation of disagreements by conveying workers’ demands and grievances to firm management. Labour unions are also instrumental in informing workers on the current labour laws, educating workers on their rights and responsibilities, occupational health and safety practices and to raise awareness of sexual harassment and gender equality policies. Moreover, labour unions are also key stakeholders in the labour reform process. Among the surveyed workers, 27.4 percent reported being members of a labour union.

Labour unions in Myanmar are a relatively new phenomenon only having been legally established after the 2011 Labour Organization Law. According to this law, labour unions should be notified of issues that are not resolved by management. According to the MoLIP, in Yangon, 53 percent of registered disputes relate to job termination, 21 percent because of wage-related disputes, four percent are compensation related and four percent are related to complaints about working conditions (MoLIP 2017). The primary research also found that disputes related to job termination, wages and working conditions were the main grievances expressed by the workers interviewed for this study. The presence of labour union in foreign firms is higher than their counterparts, thus, there are also more strikes reported in these firms.

This study found evidence of the mediating role that trade unions play. Among other benefits, the presence of trade unions was found to be positively related to higher provision of training in firms. Some firms believe that unions are effective mediators. Such was the case when around a hundred workers protested against the dismissal of seven of their union leaders (Myanmar Times 2019). The case was resolved by the labour union before it further escalated into a strike.

Box 4

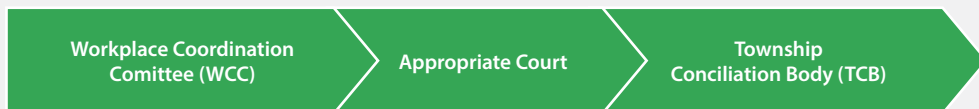
Labour Disputes Mechanisms in Myanmar

In accordance with the Labour Dispute Law 2012, a factory must have a Workplace Coordinating Committee (WCC) for factory level negotiation. The WCC consists of two firm representatives and two factory worker representatives, which workers have the right to elect. If the dispute is not successfully resolved by the WCC, it goes to a Township Conciliation Body (TCB), which is made up of three worker representatives, three employer representatives and three government representatives. Each member serves a one-year term. If there is no agreement at the township level, the disputes can be referred to the state/region level arbitrary body (AB). There are a total of 15 state/region arbitrary bodies in Myanmar. In the last stage, there is a union level arbitrary body made up of five worker representatives, five employer representatives and five government representatives.

There are two types of disputes that the Labour Dispute Law 2012 tries to address: individual disputes and collective disputes. The Labour Dispute Law of 2012 defines the individual disputes as dispute between the employer and one or more workers relating to existing laws, rules, regulations and by-laws, and perceived violations of collective or employment agreements. Collective disputes are disputes between one or more employer or employers' organizations and one or more labour organizations.

These disputes are resolved following the process illustrated below. At the TCB and AB level, the decisions are made through a tripartite system where the employer, workers and government representatives vote to come to a final decision.

Individual Dispute Process



Collective Dispute Process



5. Economic and Social Upgrading Linkages

Several studies have analyzed the relationship between economic and social upgrading (Barrientos et al. 2010; Kumar 2010; Salido & Bellhouse 2016; Marcato & Baltar 2017), investigating whether social upgrading is endogenous to economic upgrading or not. Among the various studies, Bernhardt (2013) investigated whether overall (economic) upgrading had occurred among apparel exporters of selected developing countries.

To understand in greater detail the interlinkage between economic and social upgrading in the garment industry in Myanmar, this paper used the firm and worker datasets and matched the interviewed workers to their firm representatives' response, resulting in 47 firms with 148 interviewed workers. Among these firms, 17 were firms that had undertaken economic upgrading;^{xxvi} all of them having pursued process upgrading. The remaining 29 firms did not upgrade.

The intention of the exercise was to explore the relationships between social and economic upgrading to shed light on whether, and how, firm upgrading strategies enhances the firm worker well-being. Moreover, with the findings it wished to inform relevant stakeholders on managing the transition toward higher-value added processes and improve labour productivity toward strengthening the link between economic and social upgrading.

5.1 Up-Skilling for Higher-Skilled Workers in Process Upgraders

When looking at whether process upgrading led to improvements in worker training -- an indicator of social upgrading, 37 percent of the workers in process upgrading firms received in-house training in the last twelve months. Similarly, 39.8 percent of workers in non-process upgraders received in-house training. Thus, in terms of in-house soft skills or technical training provision there are no significant differences between the two types of firms.

However, when one looks at the outside training provided to workers, there was only one firm that had undertaken process upgrading that offered outside training to a quality control officer. These findings suggest that both types of firms are not paying attention to up-skilling their operators (in the firm or outside). When looking at special training provided to recently promoted workers, the nine firms that did so were process upgrading firms. This suggests that process upgrading firms tend not to recruit new workers, rather they train them by providing outside courses.

5.2 Job Satisfaction and Wage Satisfaction in Process Upgrading Firms

Another pillar for social upgrading is worker's well-being, measured in terms of reported satisfaction. Workers in all surveyed firms appear to have similar levels of job satisfaction, averaging

xxvi As discussed in Section 4, originally 27 firms were involved in economic upgrading.

at 0.91 among process upgraders and 0.92 among non-upgraders.^{xxvii} It appears then that at first glance economic upgrading did not lead to social upgrading in terms of training provision and reported job satisfaction. However, when looking at wage satisfaction, workers in non-upgrading firms appear to be relatively more satisfied (0.72) than their counterparts (0.60).

While skilled operators appear to be the most satisfied with their job, they were the most dissatisfied group with their wages. In contrast, higher levels of reported job and wage satisfaction was reported among semi-skilled workers and supervisors across all firms. The results in this study may be partly due to the small sample size, where there are more workers employed in non-process upgrading firms, but another recent study

on the garment sector in Myanmar (CESD 2018) also draws the same inference where workers in higher positions were reported to be less satisfied with their salary.

Similarly, in terms of education levels, workers in university and university graduates reported similar levels of job satisfaction (0.90) as their lesser educated peers (0.93). However, in terms of wage satisfaction, this group was the most dissatisfied^{xxviii} (0.59). Process upgrading firms appeared to employ more university graduates in proportion to lower educated workers. The positive correlation between position and educational levels in terms of job dissatisfaction was also found in a study (Gupta 2008) in the garment sector in India pointing to the prevalence of such labour market failures.

xxvii Satisfied=1, not satisfied=0

xxviii High school and below groups reporting 0.69

Conclusion

Myanmar has benefitted from integrating to the global value chains. Since the lifting of sanctions and Myanmar obtaining its GSP status, the number of garment factories has increased, export volume and job creation in the garment sector have benefitted. Foreign firms appear to be more receptive to the opportunities of GVC integration in comparison to their local counterparts. The study found that half of the firms engaged in economic upgrading with process upgrading being the most predominant. But this process upgrading tends to be in low-cost in nature; for instance, rearranging workflow, or relying on modest improvements in machinery improvements such as going from a manual foot pedal to an electric foot pedal in sewing machines.

Larger firms, this study finds, tend to be more active in process upgrading. The firms that engaged in product upgrading are very few and no firms undertook functional upgrading. This reflects that the garment sector in Myanmar is not engaged in high value-added activities yet. Such dynamics could be explained by the local regulatory environment or business environment that may not be conducive to product or functional upgrading. Conversely, the main driver for the firms to upgrade was an increase in orders. The decision to upgrade therefore appears to be demand-driven. This underscores the importance of the business model that the parent company or the factory has drafted in terms of their possibility to upgrade.

The presence of some firms in the country was solely to take advantage of the low cost of labour, whereby the parent firm outsourced only its CMP process to Myanmar. On the other hand, domestic-owned firms did not find it affordable to engage in upgrading. CESD (2018) reported that lack of skilled labour, lack of capital/investment and availability of raw material in domestic market were the main challenges to move from CMP to FOB. Thus, these findings must be considered when revising and promoting the upgrading of the garment sector and the upcoming NES revision. In addition, given that there are a variety of actors and export destinations, buyer and firm associations should be more proactive in enhancing sectoral coordination.

With regards to social upgrading, many firms experienced employment growth in the last 12 months, especially female operators. Most of the operators received wages above the stipulated minimum wage. Productivity-related bonuses contributed significantly to their overall total salary above the basic salary and overtime wage. In terms of some of the other benefits, sometimes workers were reluctant to claim them -- maternity benefits for instance -- because claiming them would affect their bonus.

Despite the fact that firms highlighted the lack of skilled workers as one of their main challenges, this study found that skills development opportunities for operators were lacking, possibly affecting the productivity of garment

firms. High turnover rates among workers are another major deterrent for firms investing in skills training, including specialized training. Some workers revealed that they faced more pressure to meet productions target in parallel with the overall salary increase. The paper found that more than half of both firms and workers reported no changes in their factory's facilities or in their working conditions in the last 12 months. Nonetheless, over two-thirds of workers expected that their working conditions will improve in the upcoming year.

A workers' living conditions are an important indicator of social upgrading. This study found that most migrants live in hostels or rented houses, which account for a significant portion of their salary. Interviews and field observation highlighted the precarity of accommodations for a large number of workers. Despite the fact that the government of Myanmar has established a labour dispute resolution mechanism at different levels -- factory, township, state/region - labour disputes remain a central topic in managing peaceful industrial relations in the sector. This study found that a complaint mechanism was available in many factories. Most workers preferred to express

their concerns through a complaint or suggestion box or directly to their supervisors rather than pursue formal proceedings.

With regards to the relationship between economic upgrading and social upgrading, the results of this study are mixed. Evidence indicates that the average workers' wage in process upgrading firms was higher than their counterparts. Overall, these findings seem to hint that economic upgrading has a slight impact on social upgrading, possibly contributing to stabilizing labour mobility. However, it appears that workers in process upgrading firms are slightly more dissatisfied with their wages which could be due to the large number of skilled workers are working in these firms. Finally, the study did not find any reduction in overtime, improved working environment, more workers with employment contracts, nor more training for production workers in process upgrading firms. The relationship between economic and social upgrading in Myanmar is therefore tenuous and more policy measures are needed to ensure that integration into value chains yield better outcomes for more workers.

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Annex

Table A1

An Example of Skills Grading System in a Factory

| Grade | Points | Skill Bonus (MMK) |
|--|--------|-------------------|
| A+ | 96-100 | 23,000 |
| A | 91-95 | 20,000 |
| B+ | 86-90 | 18,000 |
| B | 81-85 | 15,000 |
| C+ | 71-80 | 13,000 |
| C | 60-70 | 10,000 |
| Criteria for Allocation of Points | | |
| Meeting Production Target | | 60 Points |
| Attendance | | 10 Points |
| Followed Firm's Dressing Guidelines | | 10 Points |
| Tidy Work Environment | | 10 Points |
| Disciplinary Behavior | | 10 Points |

Line Supervisor, Production Manager/Management representatives are responsible for inspecting and grading workers.

The production target rate is decided after the pre-production stage, were a worker representative and a firm representative pilot test the duration of the sample.

Table A2

Migration Status and Age Group by Employment Contract, Region and Gender

| Total | Age | Employment Contract | | | | | No Contract | | | | |
|------------------------------------|-------|---------------------|--------|------|--------|-------|-------------|--------|------|--------|------|
| | | Total | Yangon | | Bago | | Total | Yangon | | Bago | |
| | | | Female | Male | Female | Male | | Female | Male | Female | Male |
| Migrant (< 5 years) | 43.07 | <20 | 5.94 | - | 0.5 | - | | 1.49 | 0.99 | 0.5 | 0.5 |
| | | 20-24 | 7.92 | 1.49 | 0.99 | 0.5 | | 3.96 | 1.49 | 2.48 | - |
| | | 25-29 | 3.47 | 0.5 | - | 0.5 | | 2.48 | - | - | - |
| | | 30-34 | 2.97 | - | 0.99 | - | | 1.49 | - | - | - |
| | | 35+ | 1.49 | - | - | - | | - | - | - | - |
| Migrant (> 5 years) | 29.21 | <20 | 1.49 | 0.5 | - | - | | - | - | - | - |
| | | 20-24 | 6.93 | 0.5 | - | - | | 2.97 | - | - | - |
| | | 25-29 | 7.92 | - | 0.99 | | | 0.99 | 0.5 | - | - |
| | | 30-34 | 1.98 | - | 0.5 | | | 1.49 | - | - | - |
| | | 35+ | 0.99 | - | 0.5 | | | 0.99 | - | - | - |
| Non-Migrant | 27.72 | <20 | - | - | 0.5 | 0.5 | | 0.5 | - | - | - |
| | | 20-24 | 3.47 | - | 2.97 | 0.99 | | 0.5 | - | 0.5 | 0.5 |
| | | 25-29 | 3.47 | - | 2.97 | 0.5 | | - | - | - | 0.5 |
| | | 30-34 | 1.49 | 0.5 | 1.49 | | | 0.5 | - | 0.5 | - |
| | | 35+ | 1.98 | - | 1.98 | 0.5 | | 0.5 | - | - | - |
| 73.76 | | | | | | 26.24 | | | | | |

Source: Worker's Survey data (CESD-JJN 2018)

Table A3

Perception on Factory Facilities and Services between Workers and Firms (percent)

| | Perceived Improvements within 12 months | | | | | | | | | |
|------------------------------|---|------|----------|------|-----------|------|----------|------|------------------------|------|
| | Significantly Improved | | Improved | | No Change | | Worsened | | Significantly Worsened | |
| | Worker | Firm | Worker | Firm | Worker | Firm | Worker | Firm | Worker | Firm |
| Leave Policy ^{xxix} | 2 | 4 | 37 | 20 | 53 | 56 | 9 | 20 | - | - |
| Childcare/Family Care Policy | 13 | - | 38 | - | 50 | 100 | - | - | - | - |
| Fire Training | 2 | 6 | 30 | 26 | 64 | 68 | 3 | - | 1 | - |
| Equipment/ Facilities | | | | | | | | | | |
| Toilet | 4 | 56 | 34 | 8 | 51 | 36 | 12 | - | - | - |
| First Aid Kit | 4 | 4 | 32 | 32 | 56 | 64 | 9 | - | - | - |
| Air & Heat Control | 4 | 4 | 32 | 28 | 59 | 66 | 5 | 2 | - | - |
| Protective Gear | 3 | 4 | 23 | 24 | 73 | 73 | - | - | 1 | - |

Source: Worker and Firm Survey data (CESD-JJN 2018)

xxix Maternity leave has excluded in the leave policy section. Please check Section 5.3 for a detailed analysis on this issue.



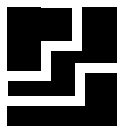
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