THE CLOTHING CURSE: INSTITUTIONAL CAUSES AND POLITICAL CONSEQUENCES OF CLOTHING EXPORT DEPENDENCE IN DEVELOPING COUNTRIES

by

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DISSERTATION ABSTRACT

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Title: The Clothing Curse: Institutional Causes and Political Consequences of Clothing Export Dependence in Developing Countries

Readymade garments (RMG) or clothing industry is the most important manufacturing export for poor and developing countries. Low capital requirement, high labor intensity and simple technology make the industry a natural starting base for internationally competitive manufacturing. In the last seventy years of growth in RMG exports, many formerly underdeveloped countries embarked on manufacturing export-led economic development with a start in RMG exports. These countries rapidly expanded and diversified their manufacturing sectors and climbed up the ladder of economic development. However, in recent decades, some of the leading clothing exporting countries seem to be stuck in long-term concentration in clothing exports without expected diversification and upgrading in industries. These clothing export-dependent countries also witnessed increasing authoritarianism in their ruling political regimes. This

dissertation seeks to explain these phenomena in political economy of developing countries with theoretical arguments, cross-country empirical analysis and case studies.

The main argument of the study has three basic parts. First, distinctive sectoral characteristics of the RMG export industry make the sector a less suitable launching pad for industrial upgrading and diversification. Second, if a developing country where RMG export industry has become established, lacks state capacity to implement industrial policy, then the country is likely to fall into extended dependence on RMG export. Third, extended apparel export dependency changes the distribution of power among political and economic elites to the extent that democracy reversal by incumbent takeover becomes more likely.

Although the dissertation focuses on RMG industry, the building blocks of the arguments are generalizable to characteristics of all mainstream manufacturing and service export sectors, and institutional quality in developing countries. The arguments and explanations therefore have significant ramifications in political economy of development for poor countries.

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DEDICATION

To the memory of my father

Delwar Rahman

(1933 – 2012)

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CHAPTER I

INTRODUCTION

1.1. Readymade garments industry in developing countries

Readymade garments (RMG) industry, where the main input fabrics are cut and sewn to produce garments of internationally standardized sizes and styles, is one of the most important manufacturing industries for developing countries. Among all major internationally traded manufactured products, RMG is the largest industry where poor and developing countries, rather than rich and developed ones, command the overwhelming share of the total global exports. In 2018, value of world Ready-made Garments (RMG) or Clothing exports totaled $ 505 billion (WTO, 2019) with more than 70% of the exports originating from low-income and lower middle-income developing countries. While China dominated with 31% of the total clothing exports, the rank of top clothing exporters contained many poor and developing countries like Bangladesh ($33 b), Vietnam ($28 b), India ($16.5 b), Indonesia ($8.9 b), Cambodia ($8.1 b), Haiti ($ 3.8 b), Honduras ($3.8 b) (WTO, 2019).

For a significant number of developing countries, RMG is the only substantial manufacturing export and the most important economic sector in the country. For example, in 2018, RMG comprised 86% of total exports from Bangladesh, 70% from Cambodia, 89% from Haiti, 48% from Sri Lanka[1]. Many of the RMG exporting countries are among the least developed countries (LDCs) of the world and RMG manufacture and export has been one of their main, if not the main, path out of poverty and underdevelopment. RMG industry is also termed as clothing or apparel industry in literature, reports and popular media, and I will use those terms interchangeably throughout this study.

International trade in RMG took off when some U.S. firms shifted manufacturing operations to Japan and other East Asian locations in the 1950s to take advantage of low labor costs (Rosen, 2002, p. 323). The firms were also seeking to benefit from U.S. government support for development of industry and economy in that region for impeding

[1] Data from Observatory of Economic Complexity (OEC, 2021) website https://oec.world/en

communist encroachment. In the next decades RMG became a prototypical starter industry for developing countries seeking economic growth through export-led industrialization. Classic features of apparel industry that remain true till today; for example, low start-up capital, manual intensive labor, low economy of scale, simple and mature technology, etc., made it very suitable for capital-poor and labor-abundant countries as a gateway to international manufacturing trade (Palpacuer et al., 2005).

Annual global apparel export trends and data over the last fifty years trade statistics show a pattern of turnover among the top ranks of RMG exporters from developing countries from 1970 to 2000. For example, South Korea and Taiwan were among top-twenty clothing exporters in the 1970s and 1980s, but they were replaced by a host of new countries like Thailand, India, Dominican Republic in the 1990s. New countries like Bangladesh, Vietnam, Cambodia joined ranks of top exporters in 2000s. As wage levels in some of the rapidly industrializing East Asian and South-East Asian countries went up, their apparel industry became uncompetitive, and countries upgraded and diversified into more value-adding manufacturing exports that can absorb higher wages (Gereffi, 1996). However, as figure 1.1 shows, some of the least-developed countries which became reliant on RMG export for economic development since 1990s, have failed to diversify their export portfolio and are still heavily dependent on the industry two decades later.

Several countries like Bangladesh, Cambodia, Sri Lanka, Haiti, Honduras, have not only been mainly exporting garments for many years, but their economies have become highly dependent on the industry. 15% of all females in Bangladesh between the age of 16 and 30, work in the RMG industry (Heath & Mubarak, 2015). In 2018, more than 700,000 people in Cambodia were directly or indirectly employed in the apparels industry, comprising nearly 8% of all people aged 15 to 50, (Lawreniuk, 2020). 90% of Haiti's exports is just ready-made apparels. Moreover, these countries were among the lowest wage apparel exporting countries at the end of 1990s and they are still among the lowest wage countries at the end of the decade of 2010s (Worker Rights Consortium, 2013; Barrett & Baumann-Pauly, 2019).

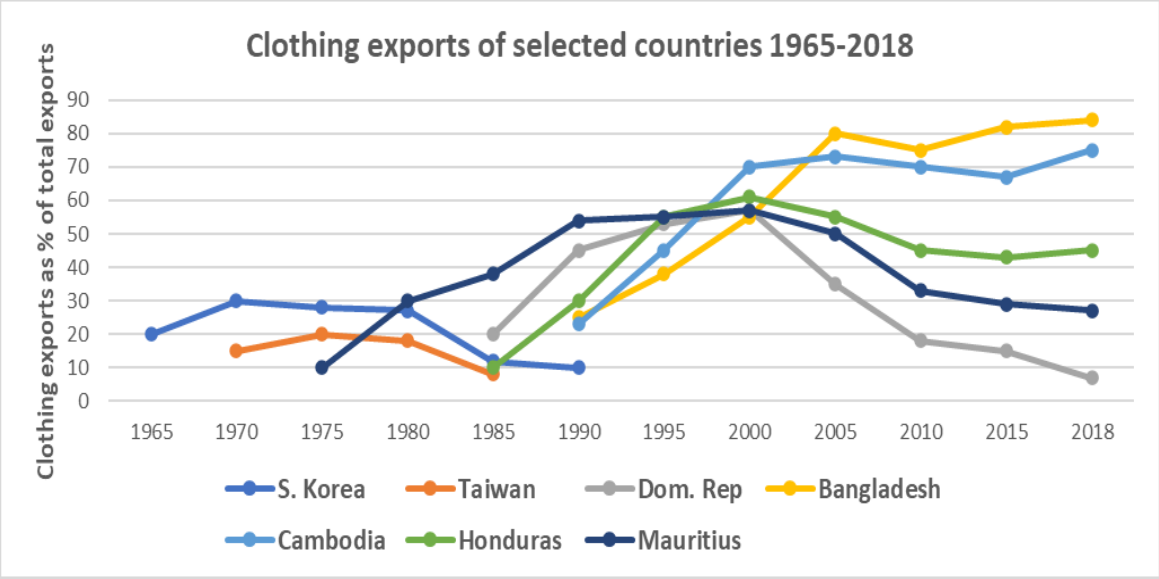

Figure 1.1: Annual clothing exports as percentage of total exports for selected countries during the period 1965 – 2018 (WTO data, 2019)

This pattern of dependency in some of the RMG exporting countries has been going on for more than two decades. This observation automatically leads to the question, why are many developing countries not following the path of export diversification and upgrading from the beginning in RMG industry, the path blazed by diverse countries like Korea, Taiwan, Philippines, Thailand, Dominican Republic, Mauritius, and others, but rather seemed to be stuck for a long time in the low wage, lower value RMG export rung of the ladder? If for some reasons, these countries are really stuck in RMG export, then this phenomenon has important implications for development policies for clothing exporting countries. Some day in near future, new, cheaper wage locations for RMG industry with large labor pool will syphon demand away from these countries or automation will completely transform readymade clothes manufacturing and trade. These countries then may experience severe economic and societal downturn.

As the major industrial sector, main export product and largest source of manufacturing employment, RMG industry has positively transformed economic and social indicators of the export dependent countries. Unlike the economic and social trends however, a negative trend in national politics has become apparent in many of these countries. After decades of contentious party politics, Bangladesh and Cambodia have become effectively one-party states following widely disputed elections in 2018. Sri

Lanka's national government has become increasingly authoritarian over the last decade. Honduras had a right-wing coup in 2009 to oust a labor-friendly president and since then politics and elections have been barely democratic.

We can observe a general pattern of negative relationship between clothing exports and democracy in all developing countries. Figure 1.2 shows a scatter diagram representing 61 developing countries that had clothing exports at least 3% of total exports in any year in the last three decades. The X-axis represent level-and-change of clothing exports as percentage of total exports, from 2006-2007 period to 2014-2015 period. The Y-axis represents democracy score from the V-Dem Polyarchy score of V-Dem institute in the period 2018-2019[2]. Each dot thus represents a country's state of democracy in 2018-19 and its level-and-change in clothing exports from 2006 to 2015. Level-and-change is a composite measure that reflects both levels of clothing exports in 2006, 2015, and positive or negative change in levels from 2006 to 2015.

The scatter diagram in figure 1.2 shows a negative relationship between clothing exports and democracy. However, this relationship is not necessarily causal. It may be poor countries are more dependent on clothing exports because of their low wages and we know that poor countries tend to be less democratic than more developed countries. Chapter 6 provides more sophisticated analysis of cross-country data to demonstrate negative association between clothing exports and democracy. Chapter 4 provides theoretical arguments and general evidence for such a causal direction.

The RMG industry is not just the main export in some of these countries but the dominant economic sector employing a significant portion of working age population and binding the powerful economic and political elite of the country in a strong network of relationships. It is intuitive that these decades-long relationship among the elites, and between the elites and the mass of labor, would affect the politics of these countries. According to Marx, "the mode of production of material life conditions the general process of social, political and intellectual life" (1911, p. 20).

[2] A detailed description of V-Dem institute Polyarchy score is provided in Chapter 6.

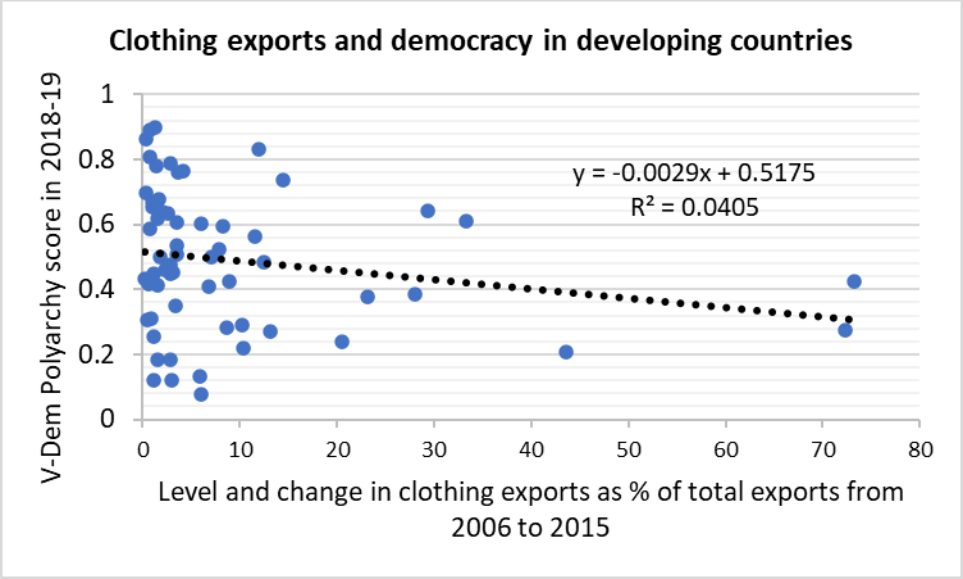

Figure 1.2: Scatter diagram of 61 developing countries showing relations between their level of apparel exports from 2006 to 2015, and their state of democracy in 2018-19.

This study seeks to answer two questions. First, what are the factors and conditions that lead economies of some developing countries towards extended dependency on clothing exports?

Second, how are the political institutions in those countries affected from this sustained dependency on clothing exports? I try to answer these questions from theories and studies in comparative political economy and industrial organization, from cross-country large-N statistical analysis, and with case study. Although the subject and focus of the study is apparel industry, the basic causal processes and their effects investigated in the study are generalizable to all economic sectors in which developing countries often specialize and become overly dependent. The study therefore has broader implications for developing economics.

1.2. The argument in brief

The argument of the paper has three basic parts. First, distinctive sectoral characteristics of the RMG export industry make the sector a less suitable launching pad for industrial upgrading and diversification. Second, if a developing country where RMG export industry has become established, lacks state capacity to implement industrial policy,

then the country is likely to fall into extended dependence on RMG export. Third, extended apparel export dependency changes the distribution of power among political and economic elites to the extent that democracy reversal by incumbent takeover becomes more likely.

The RMG export industry, like all other globally traded industries, services, agricultural products and natural resources, has some distinct sectoral characteristics. The industry is generally distinguished as a labor-intensive, low-skilled, low wages, low value-adding, simple and mature technology sector with high asset specificity. Apart from textile industry, which provides the main input to RMG in forms if knitted and woven fabrics, the apparels industry does not have significant input-output linkages with other major industrial sectors. The industry also has comparatively lower technology and business learning requirement for becoming globally competitive. Because of distinct sectoral characteristics of apparel industry and trade, if an underdeveloped country is endowed with favorable factor conditions and have trade treaties with major export destinations, the country can rapidly develop a sizable apparels export sector from humble beginnings. The favorable conditions include abundant supply of cheap labor, minimum infrastructural and institutional support, access to port and logistical facilities, etc.

However, because of RMG industry's lack of input-output and technological linkages with other industries, high asset specificity and other characteristics, the industry does not provide much help for industrial diversification and upgrading. Developing countries need significant state capacity to implement industrial and economic development policies if they want to diversify into more value adding industries and services like machinery, electronics, information technology and software. Complex products and services need higher national institutional capacity to be competitive in the world while simple and standard products like RMG can thrive in low-capacity institutional environment. Apparel exporting countries with weak state capacity find it difficult to diversify and upgrade, and thus become more dependent on the RMG industry for economic growth.

Sustained dominance of one industry in the economy of these countries also leads to change in national politics through change in distribution of power among political, economic elites and the labor. Industry owners become a narrow group of powerful

economic elites with cohesive interests who pursue particularistic benefits from regimes in power. By incorporating the powerful and cohesive garments business elite, the regimes build a powerful winning coalition that can withstand challenge from political opponents. The RMG industry also provide steady income to the regimes in form of revenue and substitution of public spending. Incumbent regimes use this income to strengthen their coalition, develop and use coercive power of the state to overpower political opposition. Finally, the RMG industry is infamous for labor repression since wage suppression is the main way to remain competitive in international trade. Labor-repressive industrial regime in dominant industrial sectors is not compatible with democratic politics because of complementarity of national level institutions. In contentious electoral politics, opposition can easily sway significant labor votes by promising better wage levels, worker rights. Incumbent regime therefore subverts democratic electoral process with tacit and explicit support from the garments business elites.

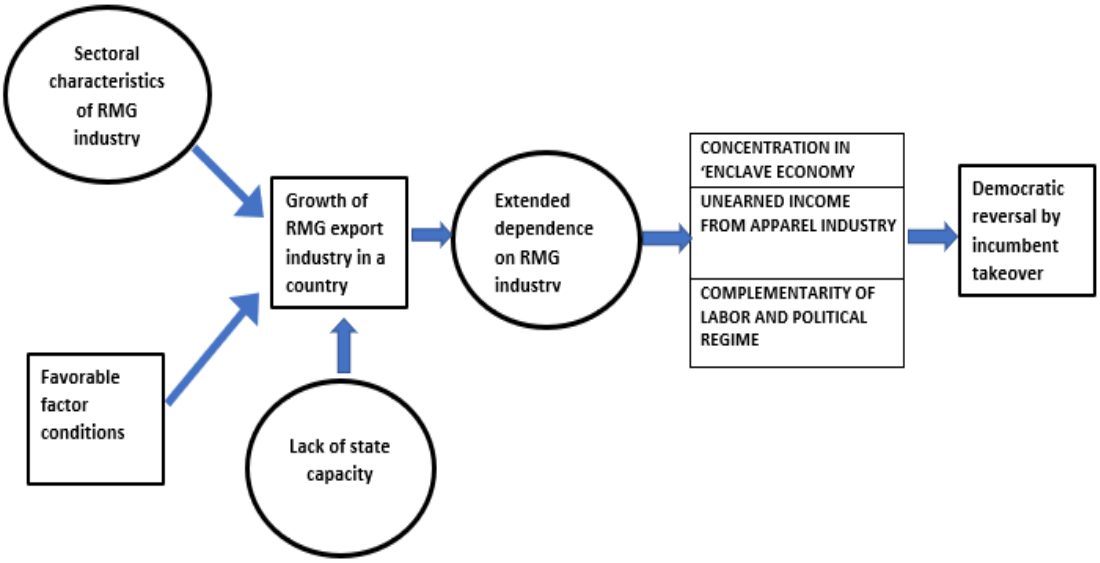

Figure 1.3: Schematic representation of the argument of the study. Sectoral characteristics and lack of state capacity leads to extended dependence on RMG industry, and extended dependency on RMG in turn lead to democratic reversal through incumbent takeover.

The study aims to prove two hypotheses regarding the phenomena of long-term dominance of RMG industry in some countries and democracy reversal in those countries.

Hypothesis 1: In developing countries where apparel export industry has gained a foothold, lack of state capacity lead to high export dependence in the industry.

Hypothesis 2: In developing countries with weak state capacity, extended dependency on apparels exports lead to democracy reversal.

1.3. A short history of the beginning of international apparels industry and trade

Readymade garments industry began with two innovations in the mid nineteenth century Britain, invention of mechanical sewing machine and standardization of dress sizes. In 1846, Elias Howe of Britain invented the industrial sewing machine and few years later Isaac Singer invented the home sewing machine[3]. By 1850, there were 100,000 people employed in Paris clothing industry, in London 70,000 (Godley, 1997). However, the key innovation that initiated mass production of readymade garments was standardization of dress sizes in England in the 1860s (Godley, 1997). This allowed fabrics to be pre-cut and pre-assembled before customers had inspected the goods. Readymade clothing industry took off in USA particularly spurred by the enormous demand of military uniforms during the Civil War.

From the very beginning, the RMG industry was characterized by its high labor intensity, poor working conditions and low wages. The first reason was that the margin of value added in sewing and assembling pre-cut fabrics is low and to maximize profit, owners depressed wages as much as possible (English, 2013). The industry is labor intensive because the basic workstation had to be human operated and thus is the main bottleneck in the production process. Fabrics, natural or synthetic, are soft and limp. No machine has been devised yet that can handle feeding the sewing machine automatically with different sizes of pre-cut fabrics (Godley, 1997). Even today, while automation and robots have revolutionized manufacturing in almost every industry, the RMG industry remains in the traditional production process. Low wages, repetitive simple task are reasons why RMG has been a highly gendered workplace since nineteenth century as business owners exploited historically gendered notions of women's work and wages (English, 2013).

[3] (Monet, 2014). Ready-to-Wear: A Short History of the Garment Industry (2019). https://bellatory.com/fashion-industry/Ready-to-Wear-A-Short-History-of-the-Garment-Industry

Hundreds of thousands of young women were working in sweatshop conditions in major cities of the world by the turn of 20th century; the term 'sweatshop' originating from the industry itself (Godley, 1997).

Although RMG was a significant manufacturing industry in all industrialized countries in early 20th century, international trade in readymade clothes did not become significant until the 1950s (Bonacich, 1994). In contrast, international trade in textiles, the fabrics used in making clothes, had been the most traded products for most of human recorded history. In 1913, textile fabrics and their raw materials accounted for more than third of exports of manufactured goods in the world (Carreras-Marín, 2012). Manufacture of textiles have been at the forefront of industrial revolution in countries since early 19th century, Britain first, USA and Western Europe in midcentury, Japan in late 19th century. Unlike RMG, textile manufacturing is a capital and technology intensive industry with new innovations in fabrics and production occurring continuously. Even in 2018, the top ten largest exporters of textile include advanced, high wage economies like Germany, USA, Italy, Korea, Taiwan (WTO, 2019). While readymade garments is an ideal entry industry for poor, underdeveloped countries, a key contention of this study is the claim show that, unlike textile, RMG is not a good ladder industry for industrial upgrading but often a likely source of trap conditions.

International trade in readymade garments took off in the 1950s, when US manufacturers and retailers shifted production and started buying from Japan (Bonacich, 1994). Rebuilding Japan's textile industry was large part of US-led postwar rebuilding of Japanese economy. By 1955, Japan's textile industries represented 40% of all industrial exports (Rosen, 2002; p 42). Japan had a huge surplus in high quality textile production, a considerably cheaper work force than USA. Apparel retailers therefore started sourcing from Japan as US wages and cost were rapidly increasing relative to the rest of the world. Following Japan's lead, South Korea and Taiwan also began to produce and export RMG to USA in the 1960s, which was the largest export market in the world. However, the total volume of RMG export still remained small compared to textile and other manufacturing products. Annual RMG import to USA in 1981 US$ was 300 million in 1962, $ 1.7 billion in 1972, $ 7.3 billion in 1982 (Bonacich et al., 1994). Textiles and apparels were among

the traded goods with highest tariffs in the developed world for protection of millions of jobs. When the GATT round reduced tariffs on most products to less than 5% by 1974, quantity restrictive Multi Fiber Agreement country quotas was imposed on RMG products (Rosen, 2002). In spite of quota restrictions and other measures, the gap between labor wages in USA, Western Europe and the poor developing countries became so great by the 1990s that retailers began to outsource production to cheaper locations in ever-increasing numbers. In just 5 years, from 1995 to 2002, RMG sector jobs in USA fell from 814,000 to 358,000 (Nordås, 2004). An industry that was a significant part of western metropolitan economy and society, almost entirely shifted to the developing world.

1.4. Review of literature and contribution of the study to the literature

This study strides four different but interrelated research streams and debates in industrial economy and political economy. The study uses theories, findings from each field and contributes in them. The first question in the debates is, whether sectoral characteristics of globally traded industries affect domestic institutions of host countries? The second debate is on the role of state capacity in economic upgrading of developing countries. The third stream of studies is on the endogenous relationship between economic organization and political institutions of developing countries. The fourth stream studies determinants of labor regimes in an industry and the complimentary relationship of labor regimes with other national institutions.

1.4.1. Sectors versus nations

It is a well-known and well-established fact that different global industries vary in their primary characteristics, such as technology, human capital, global market structure. Industries have been categorized as low, medium or high technology, based on technological activities, R&D intensity, human capital intensity, etc. (Hatzichronoglou, 1997; Lall, 2000). Industries are also classified according to differentiation of their products in markets, labor cost component, economies of scale (Lall, 2000). RMG is generally recognized as a typical low-technology industry with high labor intensity,

undifferentiated product and low scale economies. These primary global characteristics of industries contribute to secondary characteristics that reflect industrial organization in different national economies. These secondary characteristics include inter-industry linkages (Antras et al., 2012), geographical agglomeration (Ellison & Glaeser, 1997), firm-size distribution (Kumar et al., 1999), position in global value chains (Gereffi, 1996), types of labor regimes ((Bechter et al., 2012), etc.

While most of the industries are connected to global trade, they are also situated in countries with different historical, institutional contexts. An important debate in the study of economic organization and political economy of nations is whether the global sectoral characteristics or national contexts matter more in determining different aspects of industrial organization of an industry, such as agglomeration, labor relations, firm-size distribution, GVC participation etc., (Bechter & Brandl, 2015; Bechter et al., 2012). Intuitively, both matter but the relative importance of sectors vs nations is an important question.

Crouch (1993) and Traxler et al. (2001) have shown that industrial relations in European countries can be traced to national 'path dependencies' that go back more than a hundred years back. Studying economies of developing countries, Waldner (1999) has argued that there are national level systemic constraints upon process, product and intersectoral upgrading and for that reason productivity and innovation in almost all the firms in a sector of a country are markedly different than another country. Studying economic organization of Thailand, Doner (2009) has also argued that the 'national trumps the sectoral' but a few vital sectors can exhibit characteristics that are at odds with the modal national pattern if national elites reach a consensus on those sectors' importance for the national economy.

Feenstra and Hamilton (2006) on the other hand, elaborated on the determinative role of global markets in a comparative study of the economic transformation of South Korea and Taiwan, where they concluded that economic organization of a country arises from competition of firms in interconnected markets within and across countries as they self-organize around the axes of competition. Thus, characteristics of economic organization do not precede participation in value chains but are reflexive consequences of

participation in global production and trade networks (p 256). The steadily expanding Global Value Chain (GVC) literature also argues that competition in global market is an exogenous source of influence on economic organization of countries via sectoral characteristics. Gereffi (1996), a pioneer in study of GVCs, argued that there are essential differences among industries in basic characteristics like technology, competitive environment, labor intensity, and these characteristics have critical importance in shaping industrial governance structure and strategies that countries should pursue to succeed in global trade.

Arguments of this study relies on the hypothesis that the global sectoral context exerts more causal influence in economic organization of industries than country contexts. Using different studies of different industrial characteristics and their effects on industrial organization, I show in chapter 2 that characteristics like agglomeration, firm-size distribution, input-output linkages, human capital intensity, asset specificity, are different for different industries and the differences are consistent across the countries. There is no existing study that systematically chronicles the variation of sectoral characteristics of industries and classify the industries and thus this is a contribution of this study to the literature.

Studying employee relations patterns in industry sectors of European countries, Bechter & Brandl (2015), Bechter et al. (2012), also found that the variation of industrial relations systems within a sector (across countries) is significantly lower than within a country (across sectors). Sectoral characteristics or sector as a unit of analysis, is therefore a valid methodological tool in comparative study of countries.

Part of the argument of this study is directly inspired by Michael Shafer's "Winners and Losers: How Sectors Shape the Developmental Prospects of States" (1994), where Shafer argued that developing countries' ability to transform economic structure depends on the sectoral characteristics of the leading sectors. Shafer used a selection of characteristics, capital intensity, economies of scale, production inflexibility, and asset specificity to create a typology of economic organization and describes their effect on reform process. However, this study uses a more eclectic selection of sectoral

characteristics because it aims to cover more sectoral effects than just variation in state capacity for economic restructuring.

1.4.2. Industrial policy and state capacity

There has been a long-running debate in development economics about the need and efficacy of state-guided policies in transforming underdeveloped countries towards sustained economic growth. Studying the success of East Asian economies in structural transformation of the economy, an influential body of literature in the late 20th century argued that this success vindicated state-guided economic development over market failure-correcting neoliberal economics for developing countries (Amsden, 1989; Evans, 1995; Wade, 1990). However, there were strong pushback against state-guided industrial transformation from powerful institutions and renowned academics, who prescribed that the market-driven approach, generally associated with the Washington Consensus, is the more effective way for economic development of poor countries. According to Rodrik (2019) however, there have been a renewed interest and appreciation of effectiveness of industrial policy among policymakers and academics in the recent years but there is still ongoing debate about guiding ideas and scope of policies.

One of the main debates is whether a developing country should adopt policies that closely conforms to its comparative advantage from factor endowments or policies that defy comparative advantage through government intervention for specific sectors or industries, are more effective (Lin & Chang, 2009). Justin Lin, Chief Economist of World Bank, 2008-2012, has argued that aim of industrial policies should not defy current comparative advantage greatly because the optimum industrial structure of a country is endogenous to its factor endowments, namely capital, labor, human capital, and geography. Taking large, factor-defying leaps is not only costly but also more likely to fail. Growth and dependency on apparels export therefore would not be greatly concerning as the countries are merely following their comparative advantage.

Ha-Joon Chang, on the other hand, argues that developing general capabilities is not enough for industrial upgrading because technology, capital, human capital, infrastructure, and institutions are often not general-purpose but industry-specific (Lin & Chang, 2009). A country can only become competitive in an industry by going through the

process of learning by doing the industry. The process often takes long time and need to be supported by government. Recent cross-country, large-N studies have also demonstrated that countries that have defied their comparative advantage by targeting sectors for which they were not currently competitive, tend to upgrade and diversify their industrial exports more effectively than conforming countries (Lectard & Rougier, 2018).

This debate is highly relevant for the scenario of overdependence on apparel exports. Apparel export success is highly correlated with factor endowments of the countries (Gereffi, 1999). However, dependence on factor endowments is not sustainable in longer terms. Change in international competitive scenario, change in international trade regimes and other institutional contexts, can suddenly leave a single export-dependent country high and dry. Withdrawal of Multi-Fiber Agreement in 2005 left many apparels export-dependent countries like Tunisia, Jordan, Maldives, Nepal in grave economic difficulties. A similar shift can occur in international trade anytime due to exogenous and endogenous reasons. This study argues and tries to demonstrate that, because of the unique sectoral characteristics, apparel industry is a specially inferior launching pad for industrial diversification that follows comparative advantage. The industry can become a dead end of industrialization if effective policies do not initiate successful ventures in more value-adding and more technologically sophisticated industries.

The argument in this study also draws support from the 'resource curse' literature in political economy. The main argument in the literature is that sustained dependence on natural resource sectors like oil, minerals, tend to adversely affect political institutions or economic structure of countries (Ross, 2015). Some scholars on the other hand, have inverted the argument by proposing that rather than natural resources causing weakness in economic and political institutions, it is the weakness of national institutions, particularly lack of state capacity, that causes countries to overexploit natural resources and cause overdependence (Menaldo, 2016). Menaldo (2016) has termed this as 'institutions curse'.

The argument in this paper builds on 'institutions curse' theory in proposing that weak state capacity causes resource-poor countries to depend on labor-intensive exports due to failure of pursuing effective industrial policies and high transaction costs acting as barriers of curating broad and inclusive economic sectors. This is the first of the two main

hypotheses of the study. While Menaldo (2016) has focused his study on oil resources, I have applied the framework to apparel industry, showing that many of the sectoral characteristics of an enclave resource sector, are similarly applicable to apparel industry in the developing countries. So far, there has been no formal study of a manufacturing industry as a potential source of resource curse. Chapter 3 elaborates the theoretical framework and causal explanation for application of 'institutions curse' to apparel industry while chapter 6 reports large-N, cross country analysis of data supporting the first hypothesis of the study.

1.4.3. Political curse of readymade garments

The RMG export industry overwhelmingly dominate economy of some of the developing countries. A central tenet of the study of comparative political economy is that a country's economic system and political system are interrelated with causal links. The second main objective of this study is to causally connect economic organization of RMG export-dependent countries with their national politics, and I largely draw from the endogenous development of institutions literature to make the connections. The well-known Acemoglu et al. (2005) dynamic model of endogenous institutions, proposes that national institutions determine distribution of economic resources in a country, and ownership of economic resources in turn determines the de facto distribution of political power. De jure political power of groups, classes and individuals in a country is determined by current political institutions while de facto political power is largely determined by both political institutions and current distribution of resources. Current de jure and de facto distribution of political power in turn determine future distribution of resources and future state of political institutions.

In their seminal work, North et al. (2009) argued that while in developed countries, exercise of political power of groups and individuals is channeled by de jure institutions and law, in most developing countries de jure institutions or laws are not usually binding constraints. In developing societies, informal, limited-access institutions, maintained by distribution of rents, privileges and policies among individuals, groups and organizations, structure political behavior and expectations. The relations of rent and privileges, rather

than laws and customs, solve the commitment problem between principles and agents. Stability and reproduction of the institutions are maintained by a double balance: a correspondence between the de facto distribution of violence potential and political power on the one hand, and the distribution and organization of economic resources on the other hand (North et al., 2009). In this study, I claim and try to show that, in developing countries, long-standing dependence on RMG industry change the distribution of resources in such a way that political power becomes concentrated in favor of incumbents, and that leads to change in political institutions.

Social conflict approach, in which interest groups, their mobilization, their coalition building and strategic interactions, are main building blocks for explaining how de jure and de facto distribution of power, changes political institutions, is the dominant paradigm in rational choice institutionalism. Class-conflict theories focus on conflict and cooperation among economic classes with unequal wealth distribution ((Boix, 2003). According to these theories, greater inequality inhibits democratization because economic elite fear redistribution that generally occurs in democracy. Inter-group theories on the other hand argue that the main socio-political cleavage is not among classes but among groups that own or are employed in different economic activities (Ansell & Samuels, 2014), for example industry, agriculture, resource extraction etc., or between incumbent political elite group vs rival groups seeking to challenge incumbents with help of economic groups (Albertus & Menaldo, 2018). My argument is built on an inter-group model of social conflict where political elites are divided by incumbency, economic elites and general people are divided by a dominant industry. I use the Selectorate model (De Mesquita et al., 2009, 2010) of change in political institutions and outcome of institutions to explore the inter-group strategic interaction arising out of a dominant RMG industry.

The 'political resource curse' literature has used endogenous theories of social conflict, de facto power distribution, selectorate, and others, to explain how dominance of natural resources in the national economy of developing countries, effects political institutions (Ross, 2015). Apart from signature 'point resources' like oil, gas and minerals, theories of resource curse have been applied to plantation agricultural commodities like coffee, cocoa, sugar (Isham et al., 2005), foreign aid (De Mesquita & Smith, 2009),

remittance income (Ahmed, 2012) and even renewable energy resource like hydroelectricity (Eisgruber, 2013). This paper argues that many of the sectoral characteristics of natural resources and agricultural commodities causing the political resource curse phenomenon in developing countries, are also present in low-technology, labor-intensive manufacturing like the apparel industry and thus dominance of such an industry can also impede democratization. So far, no one has made that argument in comparative political economy and therefore, this is the unique contribution of this study. I detail the causal argument with supporting evidence in chapter 4 while chapter 6 contains large-N, cross country analysis that supports the hypothesis that increasing concentration in RMG industry causes erosion of democracy in developing countries.

1.4.4. Complementarity of labor regimes and political regimes

One of the main arguments I use to support hypothesis 2 of the study is that the unique sectoral characteristics of the RMG industry make the industry notoriously labor repressive the world over and when RMG becomes the leading industry in a country, complementarity of labor regimes and political regime make RMG export dependent countries less likely to be democratic. Some new studies in the recent decade have produced a body of work that argues that structural determinants or sectoral characteristics of labor and industry, affect how labor relations and political management of labor evolve in a country.

Mares (2003) and Swenson (2002) have argued that preferences of business and labor, in responses to structural conditions that may change over time, are key factors in emergence of business and labor institutions. Mares (2003) argues that characteristics like firm size, skill intensity of labor explain variation in business support for worker social welfare policies. Swenson (2002) shows that differences in initial structural conditions like scarcity of labor explain why USA developed a more labor-unfriendly regime while Sweden adopted labor-friendly institutions.

Alexander Kuo (2011) has developed an account of emergence of collaborative employer's association from structural conditions of business and labor during critical historical moments in western, industrialized countries. He argues that firms select collaborative or repressive labor strategies based on the level of redistributive threat posed by labor. Chapter 5 of this study follows the basic argument in Kuo's (2011) model to account for the emergence of industrial relations but also departs in some important ways. First, the framework in this paper includes a more extensive list of structural characteristics that contribute towards structural capacity of business and labor than only industrial heterogeneity. Second, this framework uses a common framework for structural power for both business and labor, unlike Kuo's (2011) qualitatively different redistributive threat of labor and collective action of business. Thirdly, Kuo (2011) does not incorporate the role of state or regime in the model; in our model the regime is critical in the power balance between business and labor. Overall, this study argues for greater importance of sectoral characteristics in formation of industrial relations in developing countries because strength of formal institutions is historically weaker in these countries than in politically developed countries.

Adaner Usmani (2018) has argued that the gap in disruptive capacity of labor and business explains a large part of probability of democratic transition in developing countries. In his analytical model, the ability of labor to disrupt business and economic life of the nation, depends on structural factors like the types of industry, the amount of skilled labor employed. This study and chapter 5 also build on Usmani's (2018) contention that the redistributive threat posed by labor in form of disruptive capacity, is an important driver of democratization. However, Usmani (2018) does not include variance in business or elite capacity to thwart labor demands, and influence government, which I argue is also an important determinant and incorporate in my general theoretical model. Moreover, while Usmani (2018) only focuses on likelihood of democracy, the analytical model in chapter 5 discusses several democratic and undemocratic regime-types as outcomes.

The argument also builds on the theory of complementarity of institutions developed by Masahiko Aoki (2001). Complementarities arise when one type of institution become more viable in one domain because of fitting institutions in another domain.

Literature on institutions have discussed complementarity among national industrial organization and national financial institution, labor market, product market, social welfare system (Aoki, 2001; Amable, 2016). Rodrik (1999) has briefly argued that democracy is highly unlikely in labor repressive regimes because labor repression and wage suppression, is difficult to maintain with extension of political rights to labor. In chapter 5, I show how sectoral characteristics give rise to four different ideal-typical type labor regimes and how these four different labor regimes are complementary with four ideal-typical political regimes. This is also a unique and original contribution of this study in the literature.

1.5. Roadmap to the rest of the study

The next chapter (2) provide a setup of the study by cataloguing and classifying, primary and secondary sectoral characteristics of several major internationally traded industries and services. The industries are apparel, chemicals, mining, metal processing, electronics, machinery, information technology (IT) services and tourism (hotels). In doing so, the chapter demonstrates that domestic sectoral characteristics of industries are consistent across countries and thus they are valid explanatory variables in comparative study of industries and their effects on society and politics.

Chapter 3 seeks to answer the question why some developing countries have become overly reliant on apparels export for a long time and are failing to upgrade and diversify their exports. I answer the question by first demonstrating that the unique sectoral characteristics make the apparels industry a poor candidate for launching pad of industrial upgrading and diversification. I then argue that among apparels exporters, countries that lack state capacity are more susceptible to become reliant on apparels export and fall into a low productivity trap.

Chapter 4 makes the argument that sustained concentration in apparels industry causes democracy reversal in developing countries. The sectoral characteristics of the industry create an enclave economy with a powerful and cohesive economic elite group. The industry changes distribution of power among political elites by disproportionately helping the incumbent with income and substitution effects. Finally, because of

complementarity of institutions, repressive labor relations in the leading industry leads to political repression.

Chapter 5 chapter develops a general analytical framework of labor relations showing how industry-specific characteristics provide different levels of structural power to business and labor in an industry and different combinations of relative structural power of business and labor, lead to different types of industrial relations. The model shows four ideal-typical relations as outcome: collective labor repression, collective collaboration, individual collaboration and individual repression. Because of complementarity of labor relations in the leading industry and political regime, these four ideal-typical labor relations lead to four different types of political regime, democracy, right-wing authoritarianism, populist authoritarianism, and autonomous predatory regime. I then show the applicability of the analytical framework through structural analysis of the apparels industry and a brief discussion of labor and political regime complementarity in apparel export dependent countries.

Chapter 6 lays out and discusses several large-N, cross-country test of data to show support for the two main hypotheses of the study. First, I conduct an analysis of data from apparel exporting countries to show that state capacity is negatively associated with apparels export, meaning lower state capacity makes dependency on RMG exports more likely. I then conduct test on all developing countries to show that increasing apparels export is associated with lower productivity growth. This supports the contention of the study that, because of the sectoral characteristics, apparels industry makes a country more likely to fall into a low productivity trap. I then conduct tests on data from developing countries to show that increasing apparels export is associated with democracy reversal. Finally, I show that increasing garments exports in developing countries is associated with worsening labor rights. In all these large-N tests, the main problem in establishing causality is endogenous relationship between the main explanatory variable and dependent variable. I use Systems GMM and several other methods to address this problem of causal identification

Chapter 7 is a case study of Bangladesh as a typical case for the causal arguments of the study. I discuss the history of Bangladesh's politics, economic development and

growth of apparel industry to show by process tracing that the different arguments about causes and consequences of apparel export concentration, are indeed taking place in Bangladesh.

Chapter 8 concludes the study with commentary on the scope, limitation and implications. The chapter also provides a tentative plan for further works to bolster the study and make the arguments more comprehensively supported.

CHAPTER II

SECTORAL CHARACTERISTICS OF LEADING INDUSTRIES AND THEIR INSTITUTIONAL EFFECTS IN DEVELOPING COUNTRIES

2.1. Introduction

Every significant industry and services, whose products are traded freely in the world market, have a set of characteristics that are generally similar across the countries of the world. These characteristics include the technology of production, the type of human skills required in production, the exchange relations the industry has with other industries and services, international market of the outputs of the industry. Sectors are defined as a type of economic activity that is typified by a distinctive and coherent set characteristics variables (Shafer, 1994; p. 10). For example, metal processing, chemical industries, light manufacturing, industrial crop production, peasant crop production, hospitality services, each of these sectors may contain many different industries that share common characteristics like technology, human capital, product market. Analysis of sectoral characteristics is therefore an industry-based description, distinct from geographical region-based or institutional environment-based analysis of industrial economy and organization.

Sectoral characteristics largely determine preferences and preference realization capacity of the main actors in an industrial relation, owners, labor, government (Shafer, 1994; p. 9). Preferences and capacity of actors in turn are determinative for the institutional features of an industry in the national economy. However, there is an ongoing debate in political economy regarding the relation between sectoral organization of the economy and national society and political institutions. The debate revolves around the question of emergence of economic organization of leading sectors in developing economies; whether development of social and political institutions leads to preference formation and thus economic organization of the leading sectors (Waldner, 1999), or whether global characteristics of the sectors determine national sectoral characteristics that affect development of national institutions through actor preferences (Shafer, 1994). A sector is called leading when it is one of the major economic sectors through which the country is

connected to the world trade and is a significant source of employment and revenue in the national economy.

This chapter strives to demonstrate that there are some sector-specific characteristics of industries and services that are generally invariant across the developing countries and when one or more of these industries and services become a leading sector of the economy, they exert significant formative influence on the national society and political institutions. I analyze and review existing literature of industrial organization and political economy to find several prominent invariant sectoral characteristics, categorize industries according to those characteristics and then discuss how these industries affect society and politics. The overall objective in this discussion is to distinguish sectoral characteristics of apparels or ready-made garments (RMG) export industry in the developing countries and develop hypotheses regarding the industry's influence on society and economy. However, before the discussion of sectoral characteristics and industry classification, I need to establish the validity of causal influence of sectoral characteristics on institutions and society. Existing scholarship suggests that there is a bidirectional relationship between national sectoral characteristics and national socio-political development. However, if a significant number of prominent invariant characteristics are found across the countries for different industries, then we can establish an exogenous origin of national sectoral characteristics, which then supports a causal effect of national sectoral characteristics on society and politics.

While individual sectoral characteristics, for example firm-size distribution, agglomeration, input-output matrix etc., are being extensively studied in social sciences and industrial organization, there aren't any systematic compilation of invariant cross-national characteristics and their effects in existing literature. An organized discussion of a collection of characteristics and their effects, enables us to study effects of industries or sectors on national development, which is often the more important question than effects of individual characteristics. This study therefore helps characterize leading industries according to their characteristics and effects and advances our understanding of political economy of industrial sectors.

I have selected eight different industries, comprising both goods and services, that are often a leading sector in developing economies. The industries are Apparel, Chemicals, Mining, Metal Processing, Electronics, Machinery, Information Technology (IT) Services and Tourism (Hotels). From cross-national and case studies conducted on these industries, I classify them according to a select group of sectoral characteristics. The aim of the classification is to demonstrate how a leading apparel industry, is similar and different in socio-political effects in comparison of other industries.

2.2. Sectors or countries?

Structural transformation of the economy through industrialization has been the main route for socio-economic development of underdeveloped countries in the modern era, and that's why study of industrial relations and industrial organization have been key parts of comparative political economy of development. Industrial Relations is the study of the interactive relations between employers, employees and the state while Industrial Organization studies structure and behavior of firms in the market of their products. Comparative industrial relations is the study of similarity and variation in employment relations across countries, generally aggregated at the national level. Comparative industrial organizations similarly studies differences in national structure, interrelations and behavior of firms competing in the international and domestic markets. Traditionally, focus of industrial relations and organization have been on individual industry-sectors and their characteristics while comparative studies focused on countries as the unit of analysis (Bechter et al., 2012).

In comparative political economy studies of developing countries, there is a recurring debate on whether the main unit of analysis should be national or sectoral because, while there are clear differences in economic relations and organization between countries, the variation within countries and between sectors are often large, or even larger, than between countries (Bechter at al., 2012). Waldner (1999) has argued that in developing economies there are national level systemic constraints upon process, product and intersectoral upgrading and for that reason productivity and innovation in almost all the firms in a sector of a country are very different from firms in another country. Studying

economic organization of Thailand, Doner (2009) agreed with Waldner (1999) that the 'national trumps the sectoral' but argued that a few sectors can exhibit market strength that is at odds with the modal national pattern if national elites reach a consensus on those sectors importance in face of systemic pressures on the country. Focusing on regional level dynamics, Schneider (2013) has argued that Latin American countries, because of their historically unique and strong economic relationship with developed countries of North America and Europe, developed a hierarchical form of capitalism where Multinational Corporations dominates high productivity and high profit, internationally traded sectors while politically connected family businesses dominate low productivity sectors. This has resulted in regionally distinct form if industrial organization and relations in Latin America.

However, another stream of literature on comparative studies of industrial relations and organization focused on sectors as the major source of variation. Hollingsworth et al. (1994) hypothesized that globalization has reduced importance of nations and increased importance of sectors as units of analysis and mapped out characteristics features by qualitative comparison of case studies across nine sectors and eight countries. Feenstra and Hamilton (2006) elaborated on the determinative role of markets in a comparative study of the economic transformation of South Korea and Taiwan, where they concluded that economic organization of a country arises from competition of firms in interconnected markets within and across countries as they self-organize around the axes of competition. Prices of capital, goods, labor in the domestic and international markets of a value chain express power and strategy of actors in the competitive struggle. Since value chains differ on prices and cross-market interconnectedness of firms, their differences exert independent influence on the organization and economic performance of economies. Thus, characteristics of economic organization do not precede participation in value chain but are reflexive consequences of participation in global production and trade networks (p. 256).

The steadily expanding Global Value Chain (GVC) literature also argues that competition in global market is an exogenous source of influence on economic organization of countries via sectoral characteristics. Gereffi (1996), a pioneer in study of GVCs, argued that there are essential differences among industries in basic characteristics like technology, competitive environment, labor intensity, and these characteristics have

critical importance in shaping industrial governance structure and strategies that countries should pursue to succeed in global trade. Firm size distribution is an important industry characteristic that is influenced by technology, product and labor market, regulatory institutions and other factors. Using data on firm size distribution across industries in 15 European countries, Kumar et al. (1999) showed that contribution of sectoral effects in variation in firm size within and across sectors, far outweighs country effects.

The thesis of this chapter is directly inspired by Michael Shafer's "Winners and Losers: How Sectors Shape the Developmental Prospects of States" (1994), where he argued that developing countries' ability to transform economic structure depends on the sectoral characteristics of the leading sectors. Shafer also uses a selection of characteristics, capital intensity, economies of scale, production inflexibility, and asset/factor specificity to create a typology of economic organization and describes their effect on reform process. However, this study uses a more eclectic selection of sectoral characteristics, and the effects of the characteristics are also wider ranging than variation in state capacity for economic restructuring.

We can see that existing scholarship suggests a simultaneous relationship or codetermination between national sectoral characteristics and national institutions in a developing country. To establish a causal effect of sectoral characteristics on institutions, we need to find exogenous variable that is highly correlated with national sectoral characteristics but not affected by national institutions. Sectoral characteristics that are invariant across countries have such desirable properties because they are not determined with institutions of one country, and they are only correlated with institutions through domestic sectoral characteristics. International sectoral characteristics thus acts as instrumental variables for domestic sectoral characteristics in explaining variation in domestic social, political institutions (Figure 2.1). An objective of this chapter is to demonstrate that sectoral characteristics and their variations are stable across countries and therefore are causative factors for domestic socio-political variations.

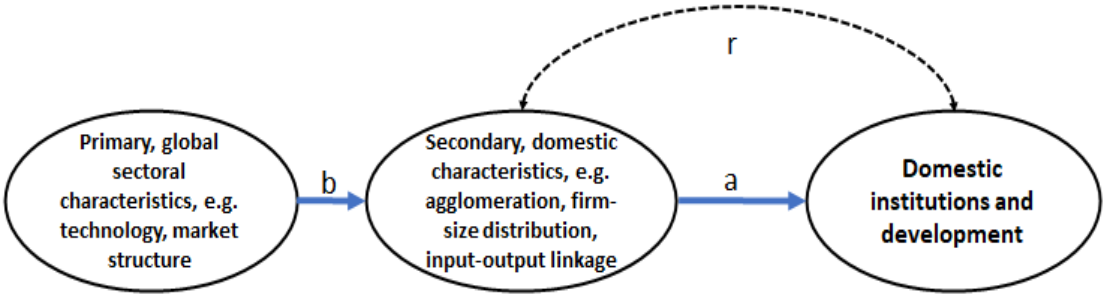

Figure 2.1: International, and therefore exogenous to national, origin makes cross-country sectoral characteristics appropriate instruments for domestic sectoral characteristics.

2.3. A selection of industry characteristics and their effects

In this study I surveyed and selected a list of characteristics that studies have shown to be displaying significant cross-national invariance. However, as the subsequent discussion shows, there are substantial overlap between the characteristics since they are often manifestations of some more basic level attributes. In this section, I first discuss a few basic characteristics of industries, list secondary derivative characteristics that are main explanatory variables in this study and then mention a select group social and political effects of those characteristics before elaborating in the next sections.

Without going into specifics, we can describe that nearly all industries and services are distinctive in (i) the technology of production, (ii) materials and services that are input and output of the industry, and (iii) the structure of domestic and international markets for the industry. These basic characteristics directly influence many secondary characteristics, some of which are selected in this study for their cross-national invariance and socio-political effects. They are (1) asset specificity, (2) position in product space, (3) power in global value chains, (4) position in input-output matrix of products and services, (5) firm-size distribution, (6) agglomeration and (7) level and intensity of human capital.

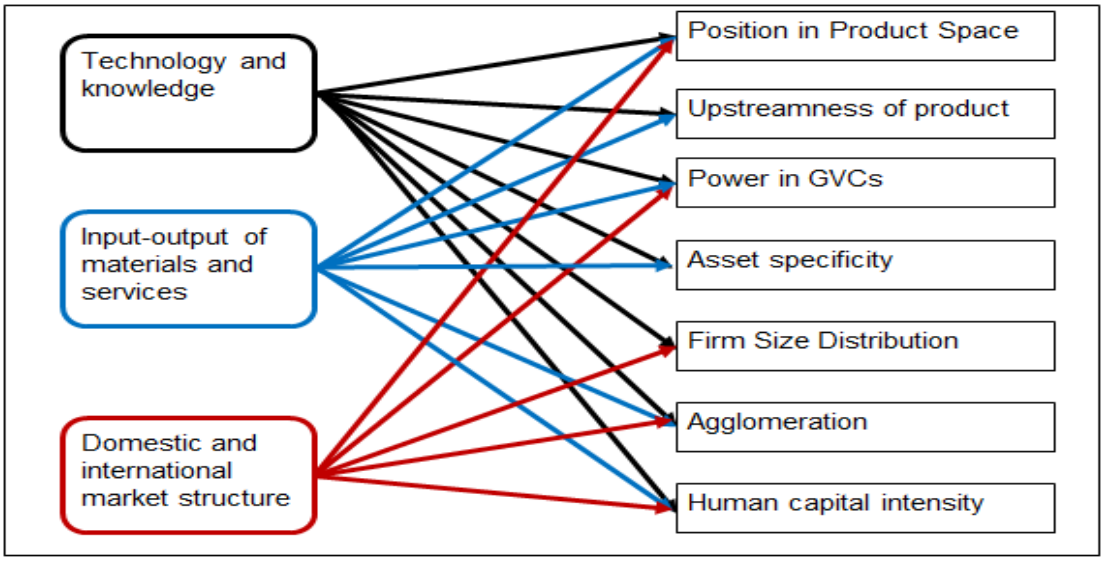

Figure 2.2: Primary sectoral characteristics and their relations with secondary characteristics

2.3.1. Technology and knowledge

Technology and knowledge of production processes are perhaps the most distinctive of sectoral characteristics because it is apparent that different products and services require different technology and knowledge. The most widely used taxonomy of sectoral economic activity today is the OECD International Standard Industrial Classification of economic activities (ISIC) which in the earlier revisions was confined to manufacturing industries but now also includes service industries. In the primary study by Hatzichronoglou (1997), technological classification was created by grouping industries by direct internal R&D intensity and estimates of indirect R&D acquired through purchases of intermediate inputs and capital goods. R&D intensity is defined as the ratio of R&D expenditure to an output measure, usually gross value added or gross output (OECD, 2016).

Table 2.1: OECD taxonomy of industries based on their R&D intensity. From Hatzichronoglou (1997).

R&D Intensity as % of GVA	Manufacturing	Non-Manufacturing
High >20	1. Computer, electronic and optical products (24.05)	1. Software publishing (28.94)
Medium-high 5 - 20	1. Chemical products (6.52) 2. Machinery and equipment (7.89)	1. IT and other information services (5.92)
Medium 2 - 5	1. non-metallic mineral products (2.24) 2. Basic metal (2.07)	
Medium-Low .5 - 2	1. Textiles (1.73) 2. Wearing apparel (1.40)	1. Telecommunications (1.45) 2. Mining and quarrying (0.80)
Low <.5		1. Financial and insurance activities 0.38 2. Accommodation and food service activities 0.02

2.3.2 Input-output of materials and services

A significant amount of manufacturing and service output of firms in a country is not consumed or exported but used by other firms in other sectors within the country as inputs. Intermediate goods and services also comprise a substantial part of international trade. Inter-industry input-output matrices of goods and services not only provide information about stages and value addition of products but also inform about the relative position of industries in the economy and world trade. Albert Hirschman (1958) famously discussed role of input-output (I-O) linkages among sectors in economic development of countries. Inter-industry linkages become denser and more active as an economy develops. According to Hirschman, one of way linkages promote growth is by increasing economy

of scale in firms. Demand from backward linkages enables upstream firms to grow through economy of scale while forward linkages reduce cost of inputs for downstream firms.

2.3.3. International market structure

A key characteristic of an industry that is highly influential in shaping other characteristics of economic organization of an industry is the international market structure, which consists of factors like number and influence of domestic and international competitors, price of capital, goods and labor, location of production and consumption, opportunity of markup in prices etc. Different competitive environment resulted in very different economic organization of industries in the developing countries. For example, economic organization of agricultural products like coffee, labor intensive manufacturing like apparel, extractive industry like mining, higher-technological industry like electronics, are very different largely due to different market condition for these products. According to Feenstra and Hamilton (2006), nature of demand in the global value chain explains more of economic organization of leading sectors in developing countries than production process because the networks that characterize economic organization do not precede participation in value chain but are reflexive consequences of participation (p. 256).

2.3.4 Effects of characteristics on society and politics.

(a) development of state capacity – The ability of a state to collect taxes from the people and economic organizations, is a core measure of state capacity in study of political economy (Tilly, 1990). In the developing countries, most of the revenue come from value-added tax on goods and services, and corporate income tax rather than personal income taxes; thus, leading industries, their inputs, products and services are import source of revenue. Characteristics of an industry influence the process and extent of tax gathering by the state and thereby influence state capacity.

(b) economic upgrading opportunity– Hirschman (1958) pointed out that ability of an economy to create new product industries, upgrade existing products, move up the value

chain depend upon links between existing industries and new economic activities. Industry characteristics thus directly influence economic upgrading opportunities.

(c) demand of human capital - development of human capital and economic development of a country are intimately related but the direction of causality is not clearly identified. Development economists and policy makers previously argued that increasing the supply of human capital by increased access to schooling and training would lead to economic development through productivity gain. However, studies on developing countries have shown that supply of human capital need to be accompanied with expansion of demand through creation of economic opportunities that increase returns to education, otherwise only increasing supply depresses education premium (Rodrik, 2004). An industry that uses high human capital create demand for education and skills in the country while a low human capital industry does not provide adequate incentives to citizens and government for human capital development.

(d) size of employment generation- for poor developing countries the quantity of employment generated in manufacturing is very important for national economic development because even low wage, labor intensive manufacturing jobs represent significant productivity gain for their economy with large number of people employed in agriculture or household work.

(e) capacity of collective action by firm/business owners- how characteristics of an industry affect ability of owners to undertake collective actions to influence government policy, manage bureaucratic control, and repress or bargain with labor.

(f) capacity of collective actions by workers- ability of workers to take collective actions to influence industry owners, government.

Owners and workers of a firm are in a strategic contention over returns to the productive assets of the firm belonging to owners. The returns on assets or profits are shared by both owners and workers. Workers can generally demand an increased share of the returns only by threat of disruptive collective actions. Owners can counteract workers' demand either on individual firm-basis or collective owners' association basis. Kuo (2011) argues that the nature of owners' response or the labor management regime, depend upon

relative balance of owners' and workers' collective action capacity. When differences among firms within an industry is low, owners have a similarity of interests, and they can collectively act with industry labor with less cost to themselves. However, when heterogeneity among firms is high, owners find collective action to be costly. Developing upon Kuo's thesis (2011, 2015) and the industry effects on owners' and workers' collective action capacity detailed in this study, I lay out a typology of expected labor management regime in an industry in the following table[4].

Table 2.2: Types of labor management regimes in an industry from owners' and workers' collective action capacity

		Owners' collective action capacity	
		Low	High
Workers' collective action capacity	Low	Individual labor repression	Collective or individual labor repression
	Medium	Individual labor repression	Collective labor repression
	High	Individual collaboration with labor	Collective collaboration with labor

[4] In Kuo's (2011) typology of labor regimes, the sources of variation are redistributive threat posed by workers and industrial heterogeneity. Industrial heterogeneity refers to diversity of interest and composition among firms in industry that affect owners' collective action capacity. Rather than just industrial heterogeneity, I also discuss other sources of commonality and variation in owners' interest in this chapter. Therefore, I used Owners' collective action capacity directly as a source of variation. I also used workers collective action capacity in this chapter to represent redistributive threat posed by workers. In Chapter 5, I further discuss and elaborate on developing a typology of Industrial regime that originate from sectoral characteristics of an industry. The following is the table developed by Kuo (2011: p 81).

Table 2.2.1 Types of labor regime according to industrial heterogeneity and redistributive threat

		Industrial Heterogeneity	
		Low	High
Redistributive threat posed by workers	Low	Collective or Individual Repressive Strategy	Individual Repressive Strategy
	Medium	Collective Repressive Strategy	Individual Repressive Strategy
	High	Collective Collaborative Strategy	Individual Collaborative Strategy

2.4. Sectoral characteristics and their developmental consequences

2.4.1 Asset specificity

Asset specificity means the cost of moving factors (capital, facilities, technology, labor) from one economic activity to another. Williamson (1983) described four kinds of asset specificity found in economic organizations. Site specificity (immobile assets tied to location); physical specificity (based on technology and design of assets); human specificity (skills that depends on work relations and learning by doing), and dedicated assets (based on tie to fixed customer). According to Shafer, (1994, p. 14) high asset specificity of a sector resulting from large investment in sector-specific factors, and difficulty of shifting these factors to another sector or industry, incentivizes leading actors of the sector to resist economic restructuring efforts, both from state and private sectors. Zahariadis (2001) found evidence that asset specificity not only influences political behavior of an industry but also political outcomes. More asset-specific sectors lobby more for subsidies, and they obtain more subsidies. Boix (2003), Acemoglu and Robinson (2006) argued that more asset-specific sectors develop closer ties with regimes because they have higher stakes in maintaining favorable policy environments. Hiscox (2002) argued that high asset specificity in sectors that are connected international trade create cleavage among same factors owners with other industries, i.e., it pits owners against owners and workers against workers of different industries.

The relationship between human skill specificity and worker collective action is not definitive. Iversen and Soskice (2001) argued that workers with specific skills will demand more job security for their investment on skill acquisition. Goldthorpe and Goldthorpe (2000) on the other hand argued that workers with specific skills have little fear of replacement and thus are not motivated for collective action. Employees with low specific skills are more fearful of job security and thus seek collective protection more vigorously.

Shafer (1994) argues that high asset specificity makes a sector easy to tax; thus, if the leading sector in a developing country has high specificity, the state develop sector specific pockets of efficiency in tax collection system to monitor leading sector but do not develop wide and penetrating tax institutions for other sectors with low specificity. Boix,

(2003), Acemoglu and Robinson (2006) also argue that high asset specificity makes a sector easier to tax.

Kim (2018) calculated an Asset-specificity Index of industries based on capital asset types provided in the 1997 Capital Flow Table published by the US Bureau of Economic Analysis. A sample of industries can be grouped in the following way according to the index.

Table 2.3: Asset specificity of industries grouped in three classes.

Asset specificity Index	High	Medium	Low
Industries	Apparel (.724), Tourism/Hotels (.937)	Electronics (.647), Machinery (.647), Chemicals (.63)	Minerals (.557), IT servicing (.603) Metal Processing (.618)

According to Williamson's (1983) formulation, specificity of technology and knowledge is an important factor in physical or capital specificity of an industry, particularly when R&D leads to learning by doing effects (Zahariadis 2001). Thus, a high asset specific industry will use technology that is little used by other industries while less specific industry's technology will be widely used. Cai and Li (2019) uses patent citations connecting different technology sectors to form an inter-sectoral knowledge diffusion network and measure a sector's importance in knowledge diffusion (Table 2.4). Technological Applicability- the ability of a sector of contributing knowledge to the entire network is measured by summing up a sector's weighted links with other citing sectors multiplied by each sector's ability to absorb knowledge from others.

Table 2.4: Inter-sector industry technological connectivity based on cross-sectoral patent citation. Cai and Li (2019).

21	Office Computing and Accounting Machine	0.6879
32	Electronic & communication Components and Accessories	0.5946
9	Miscellaneous Chemical Product	0.0418
22	Special Industry Machinery, Except Metal Working	0.0414
4	Industrial Organic Chemistry	0.0302
15	Primary and Secondary Non-Ferrous Metal	0.0273
2	Textile Mill Products	0.0102
14	Primary Ferrous Products	0.0063

Proposition: High asset specificity of an industry increase collective action capacity of the owners.

Proposition: High asset specificity of the leading industry decrease state capacity of collecting revenue in a developing country.

2.4.2 Agglomeration

Ever since industrialization began in Britain, studies in economic geography observed the pattern that firms in the same industry tend to be located closely and thus develop distinct industrial clusters. In his landmark study, Marshall (1920) argued that geographical agglomeration takes place mainly because firms want to reduce cost of moving goods (transportation), cost of obtaining appropriate labor (common labor pool) and cost of obtaining both innovative and tested knowledge of doing business (knowledge spillover). Thus, an industrial area where firms can realize those benefits more than other areas, is known as a Marshallian District.

However, there are marked differences across industries in the characteristic ways factors cause agglomeration. For example, there are great variations in ways industries use within sector and across sector input-output goods linkages, in ways industries use specific

skilled labor or general, interchangeable labor, in ways industries use innovative, changing technologies vs mature, stable technologies, etc.

Ellison and Glaeser (1997) developed an industry-based index of geographic concentration (called the EG index or γ index) which takes a value of zero if employment (or output) is only as concentrated as if plants are located completely randomly in the population while a value of one means it would be completely concentrated. Using a dataset of U.S manufacturing industries, they found that Apparel is a high agglomeration industry, Chemicals is medium, while Metal processing, Electronics, Machinery are low agglomeration industries. Marcon and Puech (2003) used a distance measure of concentration that counted average number of neighboring firms within a circular radius and used it to measure industry agglomeration in the Greater Paris area of France. They also found that Apparel and Textiles are significantly concentrated while chemical, electrical, machinery industries are dispersed at all distances.

Although there are significant differences in industrial agglomeration patterns between developed and newly developed countries, studies have shown that the order of agglomeration among main sectors are broadly similar. Fan and Scott (2003) computed Herfindahl index (H-index) values for two-digit industrial sectors in Chinese province to assess overall level of spatial agglomeration. They found that in China Electronics, Apparels have high agglomeration while Chemicals, Machinery, Metal processing have low concentration. The difference in agglomeration in Electronics assembly and manufacturing between China and USA/ Europe can be attributed to value chain position for developing countries.

Table 2.5: Industries grouped in three categories based on their geographical agglomeration characteristics

Agglomeration	High	Medium	Low
Industries	Apparel, IT services. Tourism	Electronics	Chemical, Machinery, Metal Processing

According to Shafer (1994: p. 37), geographical concentration of firms of an industry increases collective action capability of business owners because they can organize and lobby government more effectively for common benefits. Shafer also argues that geographical concentration enables labor collective action capacity because a great number of workers live and work at a limited geographical area (1994: p. 40). However, Fuller (2017) argues that concentration of workers in geographical areas or special economic zones, create division among the national working class as government and owners are enabled in implementing targeted policies rather than national policies.

Shafer (1994: p. 42) also argues that agglomeration in the leading sector leads to specialization of national institutions, infrastructure oriented towards the concentration of firms. State capacity is thus negatively affected because special interests can collude with the state more easily. Representatives of dispersed sectors on the other hand lack similar clout to affect institutions and organizations of the state.

Proposition: High agglomeration in an industry is associated with increased collective action capacity of firm owners.
Proposition: High agglomeration in an industry is associated with increased collective action capacity of workers in that industry.
Proposition: High agglomeration in an industry is associated with less developed state capacity of extracting revenue.

2.4.3 Firm size distribution

Firm size distribution, the way organizations of different sizes are distributed within a sector or across the sectors in a country, is an important feature of the economic organization of a country. Theories of endogenous growth suggest that much of the economic growth in a country occurs through growth of existing economic organizations and much of the effects of size on growth occur through innovative activities within organizations (Pagano and Schivardi, 2003). Thus, growth and evolution of small and medium-sized enterprises (SMEs) are important indicators for a health of an economy. Several measures of firm size are found in literature, for example sales, total value added,

number of employees. Employee number is a popular measure in studies because coordination cost, which is a variable in both technological and organizational theories of firms, is directly related to number of employees but not their productivity (Kumar et al., 1999).

Equilibrium size distribution of firms within and across the sectors is determined by production function at firm level, returns to scale, ability of entrepreneur, technology, market size, labor market, regulatory environment, financing, political institutions, etc. (Pagano and Schivardi 2003). Some these factors are individual firm specific; some are characteristics of industries or sectors, and some are national. Using data on firm size distribution across industries in 15 European countries, Kumar et al. (1999) showed that contribution of sectoral effects in variation in firm size within and across sectors, far outweighs country effects. Champonnois (2008) used data on 3.3 million firms from 23 European countries to create an industry-country panel and found that industry fixed-effects explain three-times more of the differences in firm size dispersion than country fixed effects. A lot of recent theoretical analysis show why industry effects are very important in determining equilibrium firm size distribution.

Kumar et al. (1999) used employee-weighted coefficient of variation (CoV) as measure of dispersion of firm size within sectors in a dataset of 15 European countries from 1992-1993. A small value of CoV implies the industry distribution has thinner tails (less proportion of small and very large firms). A thick-tailed firm-size distribution (as opposed to thin-tailed) in terms of employee numbers means that high number of people are employed in large and small-sized firms than mid-sized firms (Figure 2.3). In Figure 2.3 The dotted line shows a firm size distribution where more of employees work in middle-sized firms but the thick-tailed like shows more employees working in large size (in terms of employees) firms and small-sized firms. Calculation of Kumar et al. (1999) showed that labor-intensive industries like apparel, hotel, mineral extraction sectors have higher dispersion while capital intensive industries like chemicals, metal Processing, electrical and general machinery industries have lower dispersion. However, firm-size distribution

in the electronics assembly industry in developing countries is more skewed towards large firms[5].

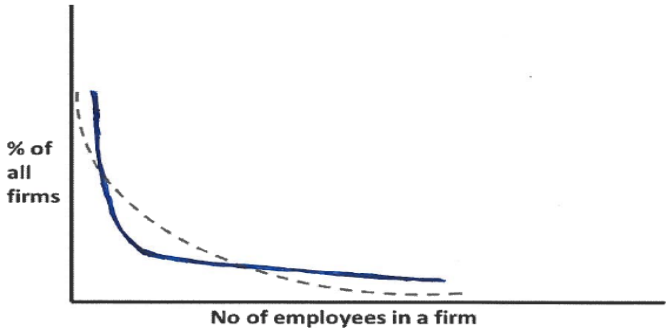

Figure 2.3: Thick and thin-tailed firm-size distribution. The dark line represents a thick-tailed distribution with most people working in large and small firms. The dotted line represents a thin-tailed distribution.

For developing economies, firm size distribution is important not just for economic growth but for a host of other social and political issues. Studies have argued that, in general, large-strong firms pursue lobbying to further business interest while small firms resort to bribe (Harstad and Svensson, 2011). Small firms are too dispersed and heterogeneous for political governments to effectively monitor while large firms have resources to interact with political powers. Mid-size firms face dual pressure from political rent-seeking and low-level bribery, that's why they prefer programmatic policy governance rather than clientelistic politics (Bennedsen et al., 2009). According to Shafer (1994: p. 37), because state institutions find it more difficult to monitor and extract revenue from many mid-sized firms than a few large firms, a thick tailed firm-size distribution help develop state capacity and autonomy.

According to Shafer (1994; p. 39), a distribution that has more people working in large sized firms than mid-size firms, strengthens collective action capacity of business owners. Owners of large firms find it easier to co-ordinate among themselves, they can maintain compliance to collective action and sanction the non-compliant. The reward for collective action is significant and visible for owners of large firms. Thus, owners can not only develop close coordination with government but also exercise higher collective

[5] https://unctad.org/en/Docs/iteipc20056_en.pdf

control of the workers in the industry. Traxler (1995) also noted that owners of large firms tend to associate more than small firms. However, concentration of workers at large firms also strengthens collective action capacity of labor (Shafer 1994, p. 40). High number of people working at a common working place increase organizating possibilities. Management and owners also can find controlling large number workers difficult.

Proposition: A thick-tailed distribution (more people working in large and small firms than in mid-sized firms) of firm size in an industry is associated with increased collective action capacity of firm owners.
Proposition: A thick-tailed distribution of firm size in an industry is associated with increased collective action capacity of workers in that industry.
Proposition: A thick-tailed distribution of firm size in an industry is associated with less developed state capacity of extracting revenue.

2.4.4 Position in Product Space

Hidalgo et al. (2007) used an outcomes-based measure of product sophistication to develop the concept of 'Product Space'. This approach assumes that productive factors are relatively specific to specific products and therefore closely related products are more likely to be produced in tandem because they require similar institutions, infrastructure, physical factors, technology, and their combination. Highly dissimilar products, on the other hand, are less likely to be produced together in the same area. A country's comparative advantages in number and variety of products are therefore limited by its mix of productive factors or capabilities.

Hidalgo et al. (2007) developed a network representation of the product space by determining maximum spanning tree of pairwise product links. The representation shows that product space of exports has a core-periphery structure where the core is composed of densely connected metal products, machinery and chemicals, while rest of the products

form the periphery (Figure 2.4)[6]. A prominent feature of the network is that clothing products form a strong and separate peripheral cluster while textiles form another cluster with more connections to the core.

Sparse sections and dense patches characteristics of the product space imply that evolution of a country's product mix is highly path dependent since pattern of comparative advantage generally evolve through moving from capabilities of existing products to nearby, related products (Hausmann & Hidalgo, 2011). The mix of products and their levels of complexity are good proxies of the knowledge and capabilities available in an economy because they are finer grained than aggregate measures of human capital like years of schooling (Hidalgo, 2015). Productive structure of an economy evolves by expanding to proximate products. That's why a country's current mix of products are found to be correlated with current income level and predictive of future growth because countries tend to converge to the level of income determined by complexity of the productive structures (Hidalgo & Hausmann, 2009).

Countries with fewer or more limited capabilities can find diversification into unrelated products hard to accomplish because acquisition of new capabilities is a difficult process and rewards are not immediate if current product-mixes are isolated in peripheral clusters far from the core in product space. Hausmann and Hidalgo (2011) argue that countries with few capabilities face low incentives to the accumulation of additional capabilities and thus can be stuck in a *'quiescence trap'*.

[6] The figure and the research can be found at the website of Science Journal https://www.science.org/doi/10.1126/science.1144581. This influential research and its representation show that RMG has a conspicuously unique position among the products.

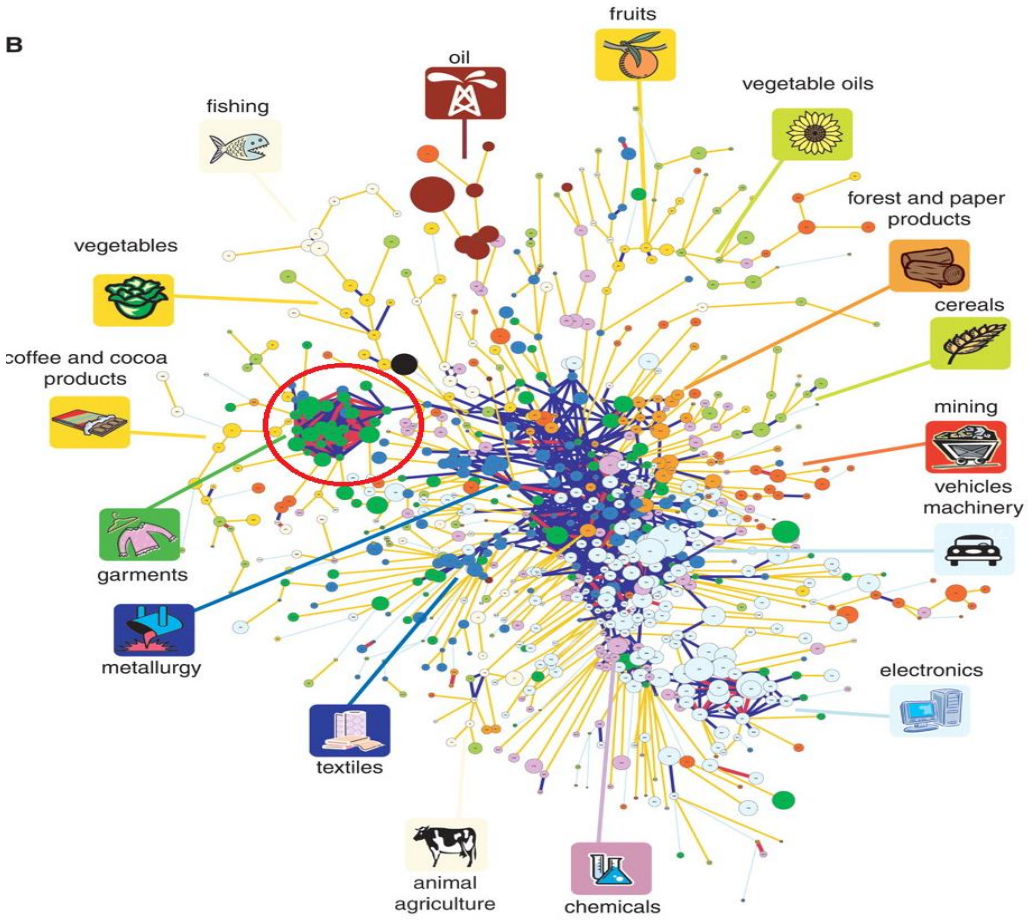

Figure 2.4: Network representation of the product space by Hidalgo et al. (2007: p 483). The figure shows how different product clusters are closer or distant to each other in terms of similarities in capability. Apparels product cluster is marked in red by author. This network was laid out using a force spring algorithm and retouched by hand.

From the product space representation, we can derive two general properties for each product, (i) the size of the cluster (number of closely related products) harboring the product, (ii) closeness of connection to the core cluster. For products of a developing economy, size of cluster is directly associated with expanding economic and employment opportunities through related products (intensive margin). Closeness of connection to core cluster is associated with economic upgrading (growth through expanding extensive margin), diversifying (restructuring). From the position of product space of products of our sample industries, we can categorize them in the following way.

Product space was originally developed with goods trade data and excluded services because international trade in services is not as finely disaggregated as goods (Hidalgo et al., 2007). Stojkoski et al. (2016) used aggregated service and goods trader data and ranked them according to their complexity. They found that some services exports like IT services have generally higher complexity indices because countries are generally able to trade in services only after acquiring capabilities in complex goods. Travel services however rank low in complexity (Table 2.6).

Table 2.6: Size and location of industries in the Product Space based on Hidalgo et al. (2007) and Stojkoski et al. (2016).

Industries	Size of Cluster	Closeness to core cluster
Apparel	large	Separate and sparsely connected
Mining	small	Separate and sparsely connected
Electronics	large	Separate but closely connected
Chemicals	small	Within core cluster
Machinery	medium	Within core cluster
Metal processing	medium	Close to cluster
IT services	large	Close to cluster
Hotels and Tourism	medium	Separate and sparsely connected

Proposition: The larger the size of the cluster an industry is located in the Product Space, the more is employment opportunity.

Proposition: Increased distance from the core cluster is associated with less opportunity for human capital development.

Proposition: Increased distance from the core cluster is associated with less opportunity for economic upgrading.

2.4.5 Upstreamness and downstreamness of products

Measuring position of different industries in the input-output (I-O) hierarchy of products and services have become an important objective of studies because of the

significance of I-O in contribution to overall economic growth. Upstreamness refers to distance to final demand of an industry's products or the average number of stages between production and final consumption. Antras et al. (2012) developed a measure of upstreamness of a sector that equals the dollar amount by which output of all sectors increases following a one dollar increase in value added in the sector. Using 2002 USA manufacturing I-O table, they found that Apparels, Electronics goods have low upstreamness, IT equipment and services, Machinery production have medium upstreamness while Metal Processing, Chemicals and Mining industries have high upstreamness. Using European STAN, I-O data for 2005, they found the measure stable across countries with US and overall European measure of upstreamness correlated at .85.

Fadinger et al. (2018) used I-O sectoral multiplier, change in aggregate income caused by a one-percent change in productivity of one specific sector, to investigate I-O structures across countries of different levels of income. They found that while high-multiplier sectors of rich countries tend to be dominated by service sectors, the high-multipliers in poor countries featured service and non-service sectors. However, their ranking of sectors I-O multiplier in low- and medium-income countries is quite similar to Antras et al (2012) ranking in rich countries. Jones (2013) also found high degree of similarity in I-O matrices across countries with different levels of development. This again supports the sectoral perspective that countries generally produce the same globally traded product with similar technology and processes.

Table 2.7: Industries grouped in three categories based on their level of upstreamness

Upstreamness level	High	Medium	Low
Industries	Chemicals, Metal Processing. Mining	IT services, Machinery	Apparel, Electronics, Tourism

Ernest Liu (2019) developed a statistic for policy effectiveness in intervening in a sector- distortion centrality- that captures marginal social value of policy expenditure. It is a ratio of sectoral influence - aggregate effect of marginally expanding sectoral resources-

and equilibrium sectoral size. Upstream sectors that supply inputs to many downstream sectors, tend to have highest distortion centrality and thus are more important in policies of economic development. Acemoglu et al. (2016) found that technological developments in upstream industries play a significant role in the future pace and direction of innovation and technology development in other sectors; the possible reason could be that improvements pass down the network and accumulate multiplicatively.

Proposition: Upstreamness of an industry is associated with increased opportunity for human capital development.

Proposition: Upstreamness of an industry is associated with increased opportunity for economic upgrading.

2.4.6 Power in global value chains

With production and consumption of most goods and services spread across multiple firms and often many countries, Global Value Chain (GVC) is a defining characteristics of world trade today. A GVC refers to "the full range of activities that firms and workers perform to bring a specific product from its conception to its end use and beyond" (Gereffi & Fernandez-Stark, 2011). The activities include research and development (R&D), design, production, sales and marketing, consumption and recycling, etc. GVCs have been traditionally studied and analyzed more at industry than country level because the theoretical underpinning of GVC suggest sources of variation are greater at the industry level. Studying spatial fragmentation of GVCs across industries and institutional settings, Bair and Mahutga (2012) found that industry specific differences in spatial fragmentation are generally constant across different institutional contexts.

Two key concepts provide lenses though which study and analysis of GVCs are generally done: governance and upgrading (Lee and Gereffi, 2015). The top-down way leading firms in GVCs integrate diverse activities of many firms within the value chain while pursuing their own interests, is referred as governance. Upgrading is the bottom-up strategies pursued by firms and regions to improve and expand positions within GVCs. One of the earliest and most influential theory of GVC governance was the buyer-

driven/producer-driven distinction made by Gary Gereffi (1994). According to him, in buyer driven GVCs, non-producing, buying firms tend to be the leading organization in terms of power and producing firms are bound to decisions of buyers through design, purchase, marketing and other main functions. In producer-driven GVCs, the main manufacturer is usually the lead firm that coordinates the value-addition network. Gereffi (2001) describes the main sectoral characteristics of the two types of GVCs (Table 2.8). However, the drive-ness of industries are often evolving, and the power relations can change. Electronics assembly and manufacturing was significantly more producer-driven three decades ago but over the years brand-name buyers have gained significantly more power over producers from developing countries.

Table 2.8: Main Characteristics of Producer-Driven and Buyer-Driven Global Commodity Chains (Gereffi, 2001)

	Producer-Driven Commodity Chains	Buyer-Driven Commodity Chains
Drivers of Commodity Chain	Industrial capital	Commercial capital
Core Competencies	Technology, R&D, production	Design, marketing, brand
Barriers to Entry	Economies of scale	Economies of Scope
Network relationship	Investment based	Trade based
Predominant network structure	Vertical	Horizontal
Typical Industries	Automobiles, computers, aircraft, machinery	Apparel, footwear, toys

Although the buyer/supplier-driven dichotomy of GVCs became popular and widely used, it also attracted criticism for failing to illustrate multiple/mixed forms of governance, elaborate on theoretical mechanisms of governance and predict change in governance forms over time. However, power relations captured in the buyer/supplier driven dichotomy is still uniquely insightful in explaining positional power in the GVCs. Power is very important for developing economies because bargaining power not only

allows firms to extract economic concessions from lead firms of GVCs but also help determine future upgrading opportunities (Mahutga, 2014).

In a seminal paper that helped build theoretical framework of in-house and offshoring of production in GVCs, Antras (2003) showed that within a GVC, capital-intensive goods are transacted within lead-firm boundary while labor-intensive goods are traded at arm's length. This results from interaction of transaction-cost minimization and comparative advantage in a model with incomplete-contracting, imperfect competition and product differentiation. Grossman and Rossi-Hansberg's (2008) theory of global production focuses on tradable tasks that require either skilled or unskilled labor to produce intermediate and final products. According to their model, the extent of offshoring in a GVC is determined by the trade-off between offshoring costs of each task and the wage differential between the offshoring country and the offshoring destination.

GVCs pattern of lead-firm drive and extent of offshoring have direct effect on industry labor standards and collective action capacity of labor. According to Riisgaard and Hammer (2011), in the producer-driven GVCs, the close co-ordination required for quality and schedule of producing complex products is a source of power for labor in negotiations with owners or lead-firms. In buyer-driven chains, where production is often taking place in distant places and lead firms undertake designing, branding, retailing roles, brand awareness of mass consumers is often the source of power for labor. Although there are lot of variations in power of labor within a type of GVC, Layna Mosley argues that the offshoring dimension is overall the critical factor for working conditions in GVCs, with less power for workers and lower industry labor standards in buyer-driven chains that offshore in distant geographical locations (Mosley, 2011; p. 44).

For the developing countries, participating in GVCs represent not only economic growth through exports but also opportunities for economic transformation through productivity growth and movement of labor and productive factors like capital, from lower to higher-productivity firms and sectors, the process of upgrading. In other words, upgrading is producing higher added-value products or performing higher added-value

tasks in GVCs. Humphrey and Schmitz (2002) identified four types of upgrading that firms or groups of firms can achieve in GVCs. (1) Process upgrading is transforming into superior production technology. (2) Product upgrading is moving into more sophisticated products that provides higher value-added. (3) Functional upgrading is performing more sophisticated business functions or more skill-intensive activities. Finally, (4) Intersectoral upgrading is a country joining in GVC of a new industry that is more value-adding than the existing GVCs.

Sectoral characteristics directly affect different upgrading opportunities and trajectories of GVCs in different industries. For example, due to high power asymmetry in captive GVCs, product and process upgrading may be possible or supported, but functional upgrading is likely to be impeded (Gereffi, 2005). Tian et al. (2019) sought to measure economic upgrading in GVCs that has taken place at sectoral and country level in the recent decades. They developed eight indicators for three different upgrading. (1) Process upgrading –(i) Labor productivity growth, (ii) Capital compensation growth, (iii) Capital intensity growth; (2) Product upgrading- (i) Growth of value-added exports, (ii) Growth of the share in value added exports, (iii) Growth in unit value of exports; (3) Skill upgrading – (i) Growth in skill intensity of employment, (ii) Growth of high-skilled labor exports. Tian et al. (2019) used exploratory factor analysis (EFA) on these eight factors on 40 countries and 34 industries in the World Input–Output Database (WIOD, 2013 Release, Dietzenbacher et al., 2013) for the period 1996-2009 to investigate multidimensionality of upgrading. From their ranking of industries based on average level of upgrading scores across the period, we can make the following classification of our set of industries.

Table 2.9: Industries grouped according to upgrading potential.

Upgrading level	High	Medium	Low
Industries	Electrical, Chemicals, Machinery	Metal Processing	Apparel, Tourism (hotels), Mining

Proposition: Buyer driven GVCs are associated with less collective action capability of workers.

Proposition: Buyer driven GVCs are associated with less demand for human capital.

Proposition: Buyer driven GVCs are associated with less opportunity for economic upgrading.

2.4.7 Labor and human capital

In the modern global economy, a regular day to day job is the primary mean obtaining wealth, health, welfare and overall well-being for most of the people around the world. Different sectors and industries are characterized by very different kind of occupational mix that can have different welfare implication for the workers (Gereffi, 2006). These occupational mixes are distinct enough for different industries that studies have shown a region or metropolitan areas overall occupational structure can be approximated by looking over the industrial structure (number and types of industries) of that area (Barbour & Markusen, 2007). Thus, from national or regional development perspectives, the types of industries and types of jobs they provide are very important factors.

Social upgrading is the process of improvement of rights of workers and quality of their jobs (Barrientos et al., 2011). This can include number of jobs created, wage level, work security, schedule of work, opportunity for skill development, opportunity to change jobs vertically or horizontally. Social upgrading of industries means improving conditions of freedom, equity, security and human dignity. Qualitative measurements include labor conditions and enabling rights, such as freedom of association and collective bargaining. Gereffi and Guler (2010) identified five different categories of work in the industries and services of Global Value Chains. Barrientos et al. (2011) discussed how these different types of jobs are related with measurable social upgrading indicators. The information is summarized in Table 2.10.

Table 2.10: Different levels of social upgrading in different industries.

	Small-scale, household-based work	Low-skilled, labor-intensive work	Moderate-skilled, varied labor-intensive work	High-skilled, technology-intensive work	Knowledge-intensive work
Social Upgrading	High quantity of jobs, Low wage, low security, low job and skill improvement opportunity	High quantity of jobs, Low wage. Low security, low job and skill improvement opportunity	Medium quantity of jobs, medium wage, medium security, medium job and skill improvement opportunity	Low quantity of jobs, high wage, high security high job and skill improvement opportunity	Low quantity of jobs, high wage, medium security, high job and skill improvement opportunity
Examples	Agriculture, Artisanal manufacturing	Apparel, Footwear, Hotels	Electronics	Machinery, Chemicals,	IT Software

One way to measure the skill-level of labor in an industry is to look at the human capital intensity, which is a usually measured by the percentage of labor with high-school completion or college education. Ciccone and Papaioannou (2009) looked at 1980 Integrated Public Use Microdata Series. (Revision 2) for industry-level measure of schooling intensity in 28 industry sectors in USA. used Chinese 1998–2007 Annual Survey of Industrial Firms (ASIF) maintained by the National Bureau of Statistics of China to compare human capital intensity in US and Chinese industries (Table 2.11). They found that worker education level in Chinese firms is highly correlated with that of their US counterparts, thus suggesting that human capital use in remarkably similar in industries across countries.

Table 2.11: Human capital usage in industries, USA and China. Based on Ciccone and Papaioannou (2009) and Che and Zhang (2018)

	Share of employees with college degree or above	
Industry	USA (1980)	China (2004)
Apparel	.051	.048
Footwear	.037	.040
Metal Processing	.097	.088
Electrical Machinery	.163	.159
Machinery	.139	.138
Chemicals	.217	.142

Human capital intensity in industries of developing countries has been associated with worker power and labor standards. Rudra (2002) used skilled labor as indicator of potential labor power because they are better able of overcome collective action problem than unskilled labor, generally smaller in size and are not easily replaceable. Kimeldorf (2013) also found that organizing success of workers is associated with high replacement cost and scarcity of skilled labor is a principal component of high replacement cost.

Proposition: High human capital intensity of an industry is associated with higher collective action capability of workers.

Proposition: High human capital intensity of an industry is associated with higher demand for human capital in the country.

Proposition: High human capital intensity of an industry is associated with higher economic upgrading opportunity in the country.

Proposition: High human capital intensity of an industry is associated with lower number of manufacturing jobs created in a developing country.

2.5 Sectoral characteristics of apparel industry and their implications for economic development and domestic institutions

Based on our discussions in this chapter, I identify the sectoral characteristics of RMG industry and the implications of the characteristics for society, economics and politics of developing countries, in the following table (2.12).

Table 2.12: Sectoral characteristics of international apparel export industry and their developmental consequences

Sectoral characteristics of apparel industry	**Implications of the characteristics for the society, economy and politics**	**Overall implications**
Position in product space- apparel comprise a large cluster sparsely connected and distant from the core cluster	The larger size of the cluster of apparel industry is associated with increased employment opportunity but less opportunity for human capital development and less opportunity for economic upgrading.	Overall, the characteristics of apparel industry results in higher capacity of collective action by owners and medium disruptive capacity for labor. This results in a collective labor repressive regime according to Kuo's (2011) framework. Apparel industry also leads to less demand on human capital development and lower opportunity for economic upgrading and diversification. Apparel industry is also easy to tax, therefore state capacity of collecting revenue is not aided by growth in apparel industry.
Upstreamness of product- Very low.	Low upstreamness of apparel industry implies lower opportunity for human capital development and lower opportunity for economic upgrading.	
Power in GVCs – Low, buyer-driven GVC	Because of high buyer power in apparel industry, workers have less collective action capability and there is less demand for human capital. Economic upgrading opportunity is also low.	
Agglomeration – High	High agglomeration of apparel industry increases collective action capacity of both firm owners and workers. High agglomeration of apparels also decreases state capacity of extracting revenue.	
Firm size distribution- thick tailed distribution	Thick-tailed distribution of the apparel industry implies increased collective action capacity of firm owners and workers in that industry. A thick-tailed distribution of firm size of apparel industry implies less developed state capacity of extracting revenue.	
Human capital intensity - Low	Low human capital intensity of apparel industry decreases collective action capacity of workers. It also deceases demand for human capital in the country. Low human capital intensity of the industry leads to large number of labor-intensive jobs but lower economic upgrading opportunity.	
Asset specificity - High	High asset specificity of apparel industry increases collective action capacity of the owners and decreases capacity of collecting revenue	

2.6 Conclusion of chapter 2

Because of global value chain rationalization and consolidation, a number of developing countries have emerged as hubs of production for some industries (Cattaneo et al., 2010; p. 8-10). These globally traded industries are often the leading export-economy sector of developing countries. As leading sectors, these industries exert significant influence in the social and political development of the host countries. This chapter compiles notable social and political effects of industries discussed in Industrial Economics, Political Economy literature and attempts to create a ranking scheme of prominent globally traded industries according to those effects. Analysis of the literature shows that industries vary significantly in key characteristics, different characteristics have distinct effects on society and politics, therefore internationally connected leading industries have differential effects. Understanding the differential effects of leading industries in society and politics of developing economies, is essential in study of comparative political development.

CHAPTER III

CAUGHT IN A CLOTHING TRAP:

WHY SOME DEVELOPING ECONOMIES ARE OVERDEPENDENT ON CLOTHING EXPORTS

3.1. Introduction

As the major manufacturing export industry for underdeveloped countries, clothing industry has been central to structural transformation and economic growth of those countries in the recent decades. Many of these clothing exporting countries, such as Bangladesh, Cambodia, have been widely hailed as development successes and role models for other least-developed countries (Lin & Monga, 2019). However, laudatory coverage of the economic success of these countries often elides the disconcerting fact that their manufacturing export has often been highly concentrated in just one or two labor-intensive, low-skilled, low-value adding industries like clothing or footwear, for many years. Rather than a being a ladder to industrial upgrading and economic diversification, for some countries, RMG industry becomes a sink or trap of industrial concentration and dependence. This chapter aims to illustrate and explain this phenomenon of concentration and dependency on the apparel industry.

Analysis of World Trade Organization trade statistics over the decades, shows a clear turnover among the top ranks of RMG exporters from developing countries. For example, South Korea and Taiwan were among top-twenty clothing exporters in the 1970s and 1980s, but they were replaced by a host of new countries like Thailand, India, Dominican Republic in the 1990s. New countries like Bangladesh, Vietnam, Cambodia joined ranks of top exporters in 2000s. Table 3.1 shows how the ranks of top 15 apparel exporting countries to the USA market changed from 1970 to 2019.

Table 3.1: The table shows how the ranks of top apparels exporters to USA changed by the decade. USA was the largest export market until 2000s, when European Union became the largest destination[7].

Top 15 apparels exporters to United States by $ value					
1970	1980	1990	2000	2010	2019
Japan	Hong Kong	Hong Kong	China	China	China
Hong Kong	Taiwan	China	Mexico	Vietnam	Vietnam
Taiwan	Korea	Korea	Hong Kong	Indonesia	Bangladesh
Korea	China	Taiwan	Korea	Bangladesh	India
Italy	Mexico	Philippines	Dom	Mexico	Indonesia
Philippines	Philippines	Italy	Republic	India	Cambodia
Canada	Japan	Dom	Honduras	Honduras	Mexico
Un	Italy	Republic	Indonesia	Cambodia	Honduras
Kingdom	India	Mexico	Taiwan	Italy	Pakistan
Mexico	Singapore	India	Bangladesh	Thailand	El Salvador
Israel	France	Indonesia	Thailand	Pakistan	Nicaragua
Germany	Macao	Singapore	India	El Salvador	Sri Lanka
France	Dom	Malaysia	Philippines	Malaysia	Jordan
Spain	Republic	Thailand	Canada	Sri Lanka	Guatemala
Austria	Sri Lanka	Bangladesh	Italy	Nicaragua	Italy
Singapore	Un	Sri Lanka	El Salvador		
	Kingdom				

As wage levels in some of the East and South-East Asian countries went up with economic growth, their apparel industry became uncompetitive, and countries upgraded and diversified into more value-adding manufacturing exports that can absorb higher wages (Gereffi, 1999). Export upgrading is the process of gradually increasing share of more technologically complex, higher value-adding products and reduce dependency on labor-intensive and primary products. Successful export upgrading from low-skilled industries

[7] Data taken from the website of Office of Textiles and Apparels (OTEXA) of Department of Commerce, US government. https://otexa.trade.gov/msrpoint.htm

like apparels occurred not just in Newly Industrialized Countries (NICs) of East Asia, but also in many countries throughout the world including Costa Rica, Dominican Republic, Thailand, Malaysia and recently Vietnam.

However, as figure 1.1 in Chapter 1 shows, some of the least-developed countries which became reliant on RMG export for economic development since early 2000s, have failed to diversify their export portfolio and are still heavily dependent on the industry two decades later. This presents a puzzle why some countries remain overdependent on clothing exports while others manage to diversify and upgrade. In this chapter, I classify overdependent as countries whose clothing exports exceeded 50% of total exports for at least 10 years during last three decades and whose clothing export share still exceeds 40% of total exports till 2018. There are seven such candidates among developing countries with at least one million population. They are Bangladesh, Cambodia, Haiti, Honduras, El Salvador, Sri Lanka and Lesotho.

In these dependent countries, apparels industry not only comprises the bulk of exports but also dominates the overall manufacturing sector. According to 2013 Manufacturing Industries Survey of Bangladesh, of the 3669 large manufacturing establishments employing more than 250 workers, 3110 were just apparel and textile factories (BBS, 2013). The 2011 Economic Census of Cambodia (NIS, 2013) shows that 72% of total 410 large manufacturing establishments belonged to apparel sector. In 2018, more than 700,000 people out of a total Cambodian population of 15 million, were directly or indirectly employed in the apparels industry (Lawreniuk, 2020). 90% of Haiti's exports is just ready-made apparels.

Even as a concentrated and dominant sector, RMG manufacturing and export provide vital service in the economy of developing countries. The industry helps towards structural transformation of the economy from subsistence agriculture to manufacturing and becoming essential part of global value chains. The export earnings help maintain current account balance in the face of rising imports in a growing economy. Most importantly, by providing jobs that are often far better paying than domestic alternatives, the industry lifts millions of poor men, women and their families out of extreme poverty.

Despite their economic contributions, a dominant, labor-intensive, low-skilled industry can also create conditions whereby the host country fall in into a low-productivity trap and fail to graduate into the league higher-productivity, more-advanced economies. Moreover, economic growth gradually makes the country uncompetitive in the low-wage, low-productivity manufacturing trade. This results in a middle-income or lower middle-income trap for developing countries, a phenomenon widely witnessed and studied in the recent years (Doner & Schneider, 2016). Thus, there is great developmental implications for the question why some developing countries seem to have locked into a longstanding dependence on apparel exports while other countries have successfully diversified and upgraded? Although the literature has discussed different theoretical scenarios of dependence on low-technology manufacturing, there has not been any empirical and quantitative studies that have investigated sectoral characteristics and institutional context of overdependence in a particular industry in detail. This study aims to fulfil that gap in literature.

In this chapter, I propose an answer and support the answer subsequently with cross-country quantitative analysis in chapter 6. The answer is in three parts. First, I argue that specific sectoral characteristics of the apparel industry, make diversification and upgrading away from the industry difficult for underdeveloped economies, and create conditions for an enclave sector. Second, higher state capacity enables countries to successfully implement industrial policies that transform the economy away from labor-intensive, low value-adding manufacturing. Finally, weak state capacity in developing economies, condemns them to overdependence on enclave economies like apparel export industry. Apparel industry do not help revenue gathering capacity of the country, thus creating a cycle of overdependence. The following diagram shows the basic causal directions of the argument.

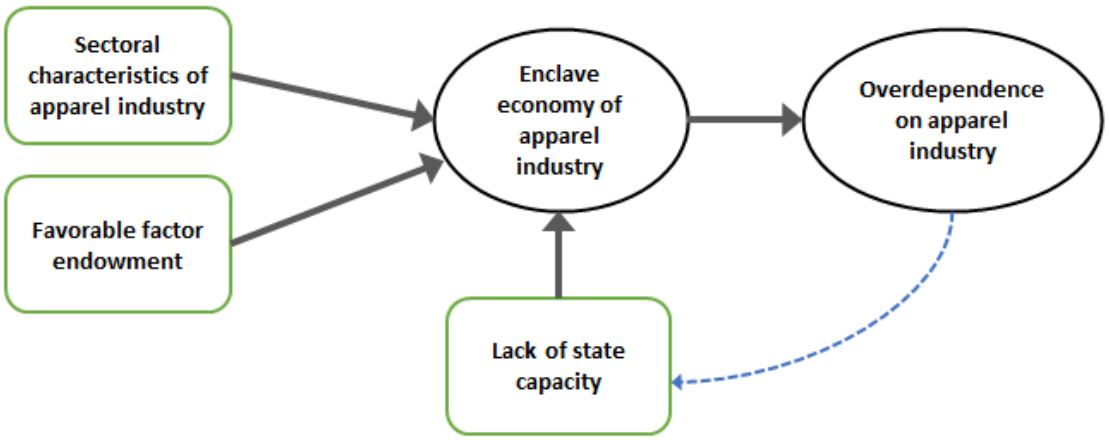

Figure 3.1: How sectoral characteristics of apparel industry and lack of state capacity, lead to overdependence of apparel exports; scheme of the causal argument of the paper.

Thus, the proposition that I am trying to prove in this chapter is that, in countries that are favorably endowed with factors suitable for apparel industry growth and export, lack of state capacity causes overdependence on apparel export. This chapter tries to support the proposition through discussion of political economic theories, studies, general information and general statistical analysis while chapter 6 shows detailed cross-country regression analysis of relations between state capacity and clothing exports. For now, to set the stage for the validity of the proposition, I show some general statistical correlation between state capacity and clothing exports.

There are 41 countries whose clothing exports comprised at least 5% of total export for at least three years in the three decades since 1990 and for whom relevant data is available. I am using state capacity index developed by Hanson and Sigman (2020) that uses Bayesian latent variable analysis to make a composite of most of the important dimensions of state capacity discussed in literature, for example bureaucratic capacity, fiscal capacity, monopoly of force, information capacity, extractive capacity, etc. I averaged state capacity index and clothing export as percentage of total export of these countries for two periods, 2000-2009 and 2010- 2015. The following figure (3.2) shows scatter diagram of state capacity of countries and their clothing exports during these two periods. The X-axis shows increasing state capacity and Y-axis apparels as % of total

exports. The trendlines of scatterplot clearly shows that there is a negative correlation between state capacity of countries and their clothing exports.

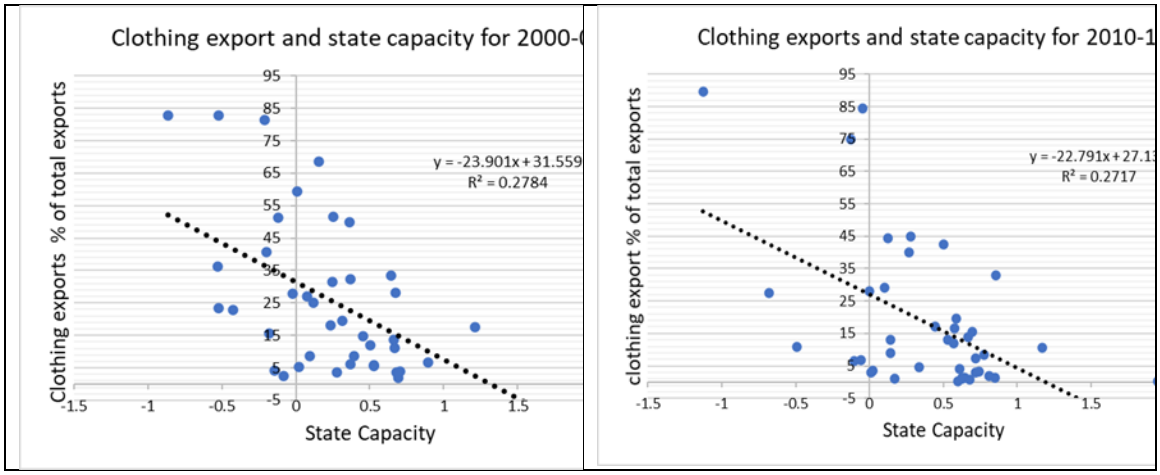

Figure 3.2: Relation between state capacity and clothing exports in 41 developing countries for the two periods 2000-09 and 2010-15[8].

The conditions that create overdependence on apparel exports are not unique to the industry. Other manufacturing and service sectors also share many of the characteristics of apparel industry that can generate overdependence. Tourism, mineral extraction are close analogues to this, often-observed, scenario of overdependence on an enclave industry. If lack of state capacity in implementing industrial policies, rather than having good policies, is the main reason for overdependence in low-productivity sectors, then developing state institutional capacity should be emphasized as a pre-requisite for sustained economic growth.

3.2. Government interventions in industrial development, essential or unnecessary?

The argument in this chapter proposing that sectoral characteristics and lack of state capacity cause overdependence on apparel exports, draws from three different streams of literature from international trade, industrial economics, development economics and political economy. The first is discussion how sectoral characteristics of industries are

[8] Data on state capacity from Hanson and Sigman (2020). Data on clothing exports from Observatory of Economic Complexity (OEC), https://oec.world/.

linked with industry-led economic development. The second is the importance of state capacity and industrial policy for developing countries. And the third stream is political economy of resource dependence, also known as the 'resource curse' literature. In chapter 2, have discussed about sectoral characteristics of apparel industry regarding the position of the industry in global value chains (GVCs), labor-intensiveness, low economies of scale, low inter-industry linkages, high propensity to geographical agglomeration, high asset-specificity, low demand for human capital, and other characteristics. Here, I will briefly discuss about the debate in literature about the need for effective government intervention in the economy for development and the role of institutions in creating dependency in particular sectors of economy.

However, many late-developing countries initiated their export-led economic growth on low-technology products like apparels but later successfully upgraded and diversified into higher technology, higher-value adding products. A large and influential stream of political economy studies have argued that this success vindicated state-guided economic development over market-failure-correcting neoliberal economics for developing countries (Amsden, 1989; Evans, 1995; Wade, 1990). Dani Rodrik (2004) has argued that industrial policy has shown to be an effective tool for governments of developing countries to overcome market failure and other obstacles in the way of structural economic change and state capacity is a fundamental determinant of the success of state-led economic transformation through industrial policy or other strategies.

Although importance of industrial policy in economic upgrading and diversification has been gaining widespread acceptance in the last two decades, there is still ongoing debate about guiding ideas and scope of policies. One of the main debates is whether a developing country should adopt policies that closely conforms to its comparative advantage from factor endowments or policies that defy comparative advantage through government intervention for specific sectors or industries, are more effective (Lin & Chang, 2009). Justin Lin, Chief Economist of World Bank, 2008-2012, has argued that aim of industrial policies should not defy current comparative advantage greatly because the optimum industrial structure of a country is endogenous to its factor endowments, namely capital, labor, human capital, and geography. Ha-Joon Chang, on the

other hand, argues that developing general capabilities is not enough for industrial upgrading because technology, capital, human capital, infrastructure, and institutions are often not general-purpose but industry-specific (Lin & Chang, 2009). A country can only become competitive in an industry by going through the process of learning by doing the industry. The process often takes long time and need to be supported by government. Recent cross-country, large-N studies have also demonstrated that countries that have defied their comparative advantage by targeting sectors for which they were not currently competitive, tend to upgrade and diversify their industrial exports more effectively than conforming countries (Lectard & Rougier, 2018).

This debate is highly relevant for the scenario of overdependence on apparel exports. Apparel export success is highly correlated with factor endowments of the countries (Gereffi, 1999). By all accounts, countries that are highly dependent on apparel exports, have experienced immense economic and social benefits from the industry. Question naturally arises about the prudence of pursuing ambitious industrial policy when conforming to comparative advantages has shown to be greatly rewarding. However, dependence on factor endowments is not sustainable in longer terms. Change in international competitive scenario, change in international trade regimes and other institutional contexts, can suddenly leave a single export-dependent country high and dry. Withdrawal of Multi-Fiber Agreement in 2005 left many apparels export-dependent countries like Tunisia, Jordan in grave economic difficulties. A similar shift can occur in international trade anytime due to exogenous and endogenous reasons.

The argument in this study also draws support from the ‘resource curse’ literature in political economy. The main argument in the literature is that sustained dependence on natural wealth tends to adversely affect political institutions or economic structure of countries (Ross, 2015). However, cross-country quantitative and qualitative studies have failed to conclusively show the political resource curse connection and scholars have put forward many conditional arguments to reclaim the resource curse theory. Some scholars on the other hand, have inverted the argument by proposing that rather than natural resources causing weakness in political institutions, it is the weakness of political institutions that causes countries to overexploit natural resources and cause

overdependence (Menaldo, 2016). A principal reason for overexploitation is that high fiscal transaction costs in weak capacity states force them to depend on enclave sectors for revenue (Levi, 1989). This argument has been called the 'institutions curse'. The argument in this chapter builds on institutions curse theory in proposing that weak state capacity causes resource-poor countries to depend on labor-intensive exports due to high transaction costs acting as barriers of curating broad and inclusive economic sectors.

3.3. Sectoral characteristics and clothing trap

In this section, I propose and argue that the global apparel export industry has some specific sectoral characteristics that make diversification and upgrading from apparels difficult for developing countries and make them more susceptible to getting locked into clothing export dependence.

Although textile and clothing industries are often lumped together in studies as T&C, they are very different in all aspects of industrial organization. Textile involves production of natural (cotton) or synthetic fibers (nylon, polyester) and then making fabrics out of them. The main processing in clothing industry is sewing of garments from fabrics. Textile industry is significantly more capital intensive than clothing, with expensive machines for spinning, knitting, weaving etc. One person sewing clothes with one machine has been the basic production unit of clothing industry since mechanical sewing machines was invented in early 19th century. Nearly two centuries later, the clothing remains a low technology, labor-intensive with low start-up cost and limited economies of scale industry (Brenton & Hoppe, 2007). One of the reasons that clothing industry has remained labor-intensive is that sewing has so far resisted automation as it has proven extremely challenging to make robots excel at delicate handling of soft, flexible materials like fabrics[9]. The following Figure 3.3 shows monthly minimum wages in the industrial sector for a selected group of countries. The information shows that labor costs are significantly lower in countries that are overdependent on apparel exports.

[9] https://spectrum.ieee.org/robotics/industrial-robots/your-next-tshirt-will-be-made-by-a-robot

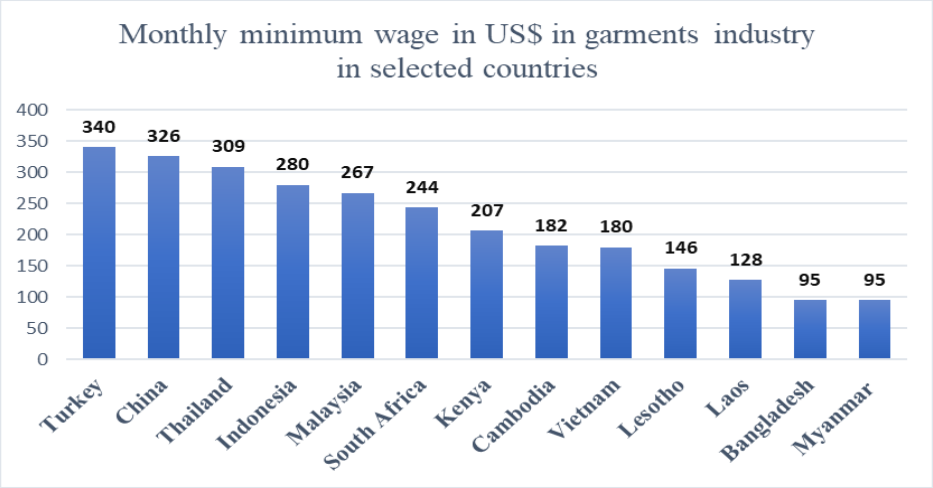

Figure 3.3: Monthly minimum industry wages in selected countries in 2019. Source: Barrett and Baumann-Pauly (2019).

Apparel production process is clearly separated into capital-intensive fabric production, labor-intensive sewing and knowledge-intensive designing phases (Fukunishi et al., 2014). When the post-WW-2 revolution in international transportation and communications made geographical dispersion of the main processes of apparel production feasible, the industry became one of the first industries in the new globalized supply chains. A global value chain (GVC) refers to "the full range of activities that firms and workers perform to bring a specific product from its conception to its end use and beyond" but performed globally across many countries (Fernandez-Stark & Gereffi, 2019). A key issue in classification of GVCs is which actor in the chain, e.g., producer, buyer, transporter, has more power of control and coordination than the others. Based on this distinction, GVCs are usually divided as "buyer-driven" or "producer-driven" chains (Fernandez-Stark & Gereffi, 2019).

The apparel, industry is a prototypical buyer driven GVC since it is characterized by aggressive global sourcing by large discount chains (Walmart), brand marketers (Liz Claiborne) and private labels (JC Penney) from the developed world (Gereffi, 1999). Value addition and profits in buyer-driven GVCs are generally concentrated in research, design, sales, marketing functions; for that reason, controlling lead firms keep these functions in-house while outsourcing less-profitable production and assembly processes to overseas locations where labor cost is low. Because of sourcing strategy of buyers and sectoral

characteristics of the industry, export-oriented apparel firms have high propensity to geographically agglomerate compared to most other industries (Ellison & Glaeser, 1997). Industrial agglomeration takes place because firms want to take advantage of common labor pool, common physical, financial, institutional infrastructure and proximity to buyers. After the expiry of Multi-Fiber Agreement (MFA) treaty and then again after the 2008 financial crisis, buyers and intermediaries focused on strategic and most capable suppliers, which has led to country level consolidation as leading supplier countries have increased their share of global apparel export (Cattaneo et al., 2010; p. 8-10).

The Multi-Fibre Agreement (MFA) was implemented in 1974 by developed economies to ease the transformation of the apparel industries in those high-wage countries in face of highly competitive exports of developing economies (Lopez-Acevedo & Robertson, 2012). Under the agreement, countries could negotiate textile and clothing import quotas for individual countries bilaterally. Imposition of country quotas by major importers like USA, Europe, restricted clothing exports of highly competitive exporters like Korea, Taiwan, China, and opened way for clothing exports by countries in Latin America, South Asia, Caribbean, and Africa. However, the MFA was scheduled for expiry after 2005 and after the expiry of bilateral quotas, apparel exports from many countries dwindled as production shifted to more competitive locations. Countries experiencing overnight drastic reduction in apparel exports after 2005 include Dominican Republic, Fiji, Jamaica, Maldives, Nepal, among others. Thus, reduced dependency on apparel exports in recent decades happened not just for export and industrial upgrading but also for lack of economic competitiveness.

Characteristics of apparel industry and trade, make location features like labor cost, supply of labor, ability to produce a wide range of products, access to sourcing materials, transit time and cost, physical and bureaucratic infrastructures, important country-specific sourcing criteria for buyers. Studies have shown importance of these criteria for apparel sourcing, in addition to features like trade agreements, government incentives, stable exchange rate (Staritz, 2011). Since 2005, countries of Sub-Saharan Africa have experienced decline in their already small share of global apparel export despite abundant supply of low-cost labor, geographical proximity, favorable treaties with Europe and North

America. The reasons for this decline are lack of regional linkage for input material, lack of financial and bureaucratic infrastructure, longer lead times (Staritz, 2011). Consolidation of apparel GVCs in competitive locations has raised entry barriers for new countries as buyers now demand a wider range of manufacturing and non-manufacturing capabilities and services at lower costs.

The apparel industry in developing countries is also characterized by low input-output (I-O) linkages with other industries and sectors apart from the textile industry, which is the main backward linkage for the industry. Moreover, the industry is very downstream in inter-industry linkages, which reflects that the product of the industry directly goes to consumers rather than other industries (Antras et al., 2012). High export orientation coupled with lack of linkages with other domestic industries- constitute an 'enclave economy' nature of the apparel industry (Heron, 2006).

Enclaves are parts of national economy that are somewhat isolated from the rest of the economy because of fewer sectoral, geographical, social linkages. Albert O. Hirschman (1958) argued that linkages among economic sectors, financial ties, labor connections are key sources of inclusive economic growth, and lack of linkages among sectors is a critical handicap in industrial development of many poor countries. According to Hirschman (1981: p.75), "[…] *linkages capture much of the development story […]; development is essentially the record of how one thing leads to another*…". Exporting industries are especially important in inclusive growth because world export market is significantly larger than domestic market, and export growth can induce investment in other domestic sectors through linkages.

Economic enclaves are often associated with geographic regions, but they also can be dispersed across the country. Some of the distinguishing characteristics of economic enclaves are high specialization in one activity that use one or more factors intensely, high dependence on exports, dominance of few large firms, a concentrated labor pool physically uprooted from other parts of the country and weak integration with local economy (Phelps et al., 2015). Economic enclaves are also often associated mineral and petroleum-based industries in the developing world, but different manifestations of enclave are found in the

globalized economy in such diverse areas as export processing zones (EPZs), tourism resorts, offshore banking and financial havens, logistic hubs etc. (Phelps et al., 2015).

An industry or sector is tied with the rest of the national economy and society by many types of linkages. Figure 3.4 shows some of the linkages discussed in development literature that play important role in inclusive and sustainable economic growth.

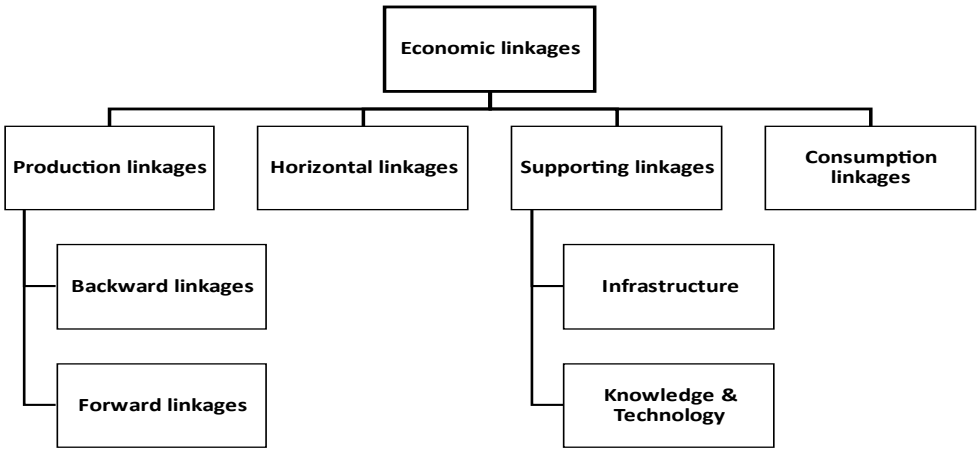

Figure 3.4: A classification of various industry linkages that are important for economic development of a country.

There are two types of production linkages an industry can have with other firms and services. Forward linkages are established when final product of an industry is used as inputs to other firms while input suppliers, subcontractors, service providers make up backward linkages to an industry. Hirschman (1958) argued that production linkages are the most important drivers of industrial development because growth of an industry attracts investments in both forward and backward linkage firms. Recent scholarship has demonstrated that policy support for industries that have higher backward linkages, has been especially effective in industry-led development of East-Asian countries (Liu, 2019). Nathan Lane (2021) on the other hand argues that policy support for industries with high forward linkages, for example Heavy Chemical Industries (HCI), was crucial in rapid industrial upgrading of South Korea in the 1970s. Apparel industry has very low forward linkages as the product is almost directly shipped to final consumption and the industry

also has comparatively lower backward linkages with other principal industries (Antras et al., 2012; Heron, 2006).

Horizontal linkages are established when knowledge, skills and technology developed in one industry can be also used in other sectors. For example, production technology of industries like machinery, computing machines, chemicals, heavy engineering, are easily transferrable to many other industries. Technology and knowledge of apparel industry is very industry-specific and thus difficult to transfer to other industries (Cai & Li, 2019). Horizontal fiscal linkages are established when profit, revenue, taxes from an industry are invested in development of other sectors, (Hirschman, 1981). Fiscal linkages are easy to develop when they are backed by existing production linkages because of reduction of uncertainty. Investors feel more secure in transferring profit from related industries.

An industry also establishes links with non-industrial sectors of the country through shared infrastructure, common human capital developed in schools, universities, training centers. Growth of an industry spurs investment in these supporting sectors also, which in turn supports growth of other industries. In developing countries, supply of human capital needs should be attended with demand from industry sectors, otherwise premium of education and training gets lower and future supply is discouraged (Rodrik, 2004). Although apparel industry shares physical and institutional infrastructure with many other industries, it is widely known for low-human capital usage. Apparel industry growth spurs public and private investment in shared physical infrastructure like roads, electricity, ports, banks etc. but creates little demand for human capital from educational and training institutes. Consumption links are between industry production and domestic consumers. Apparel industry in developing countries is almost exclusively focused on exports, therefore generating sparse links between domestic consumers and the industry.

Apparel industry's lack of linkages with other industries, simple and mature technology, low demand of human capital and other characteristics, create conditions favorable for falling into a trap-like dependency for host countries. Literature has studied and discussed several causal mechanisms that can lead to such occurrence.

A great portion of entrepreneurial, organizational learning in industries involve tacit knowledge. Tacit knowledge is the knowledge in economic activity that cannot be codified and put into manuals but must be learned through practice and repeated doing over time, a process also known as 'learning by doing' (Polanyi, 1967). For a firm, tacit knowledge necessary to join world trade involves running production technology and business processes at productive level, operating complex organizational setup involving many people and skills, using communication, marketing at international level and many other day-to-day processes, small and large.

Level of technology is an important determinant of the amount and complexity of tacit knowledge. Tacit knowledge in simple, mature technologies like apparel industry are easier and quicker to absorb through learning-by-doing than more complex technologies like chemicals or machinery (Khan, 2009). Mature and standard technology, lack of economy of scale, well-known routines, make the learning-by-doing process in the apparel industry such relatively short that once an garments export cluster emerges in a country, new firms with adequate capital can be brought in-line for exports very quickly, a phenomenon labelled 'born-to-export' firms (De Astarloa et al., 2013).

Apart from industry-specific factors, absorption of tacit knowledge of an industry in a country also involve productivity, formal education and other aspects of human capital. Since human capital in a country is likely to improve only slowly without large and effective government intervention, requirement of learning-by-doing for absorption of tacit knowledge explains why developing countries can get stuck in a low-technology learning trap (Khan, 2009). For firms in developing countries, breaking into international trade of higher technology, more complex products require not only lengthy period of learning-by-doing but also uncertain success of investment in learning because of level of productivity and human capital in the country. Firms generally can only be induced to embark on lengthy learning process by sustained and effective government support.

Technological learning and capability development of a country is localized around the industries where success is achieved (Khan, 2009). Therefore, a country's profile of exports in products and services, is a good reflection of the technological capabilities and learnings within the countries. Developed countries possess diverse and large number of capabilities and therefore they can produce many different products, complex and simple,

at world competitive level. Underdeveloped countries on the other hand, usually can boast only a limited set of capabilities and thus can produce only simpler, more common products for the world market. When the capability set of a country is limited, product diversification is difficult because acquisition of one or two more capabilities to the limited list, may not be enough for successful production of a more complex product. On the other hand, addition of one or more capabilities in a developed country with many capabilities, provide lots of opportunities from diversification. Because of this uncertainty on returns to addition of capabilities, countries with a limited set of capabilities, are disincentivized from expanding it and can fall into a low capability 'quiescence trap' or a trap of development stasis (Hausmann & Hidalgo, 2011).

Countries that have developed dependency on clothing exports, also have seen lower productivity growth compared to other developing countries. The following figure (3.5) shows growth in output per worker (GDP constant 2011 international $ in PPP) in selected developing countries in the last three decades. Output per workers is averaged over the decades 1991-1999, 2000 -2009 and 2010-2019. The '+' marked countries are those whose exports are still overdependent on clothing exports, while the other countries have successfully diversified and upgraded their export from clothing and other labor-intensive products.

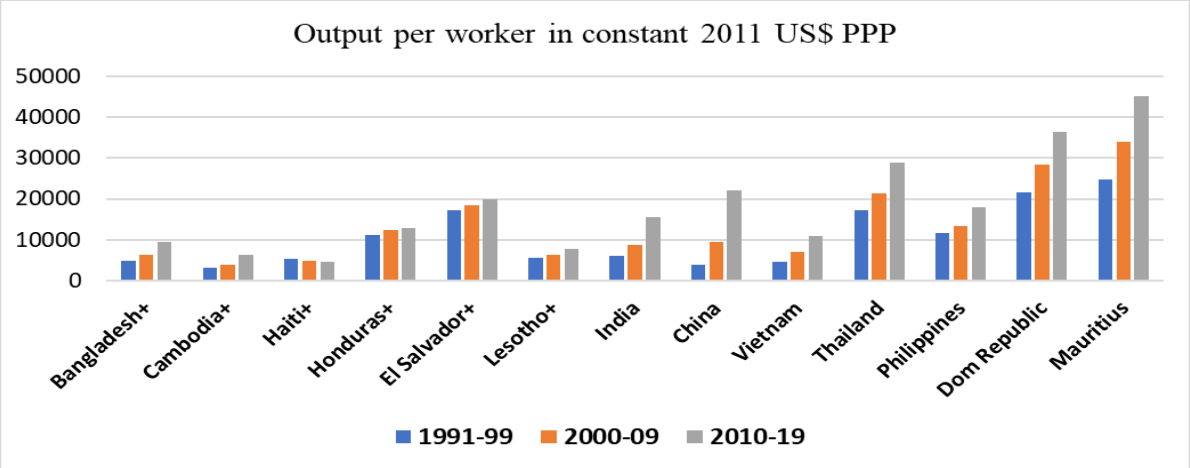

Figure 3.5: Change in output per worker in selected countries from 1991 to 2019 averaged over decades. The + marked countries are overdependent on clothing exports while other

countries are successful diversifier of exports. Data from International Labor Organization (ILO) website[10].

Probability of falling into a quiescence trap is higher for a developing country specializing in products that are less similar with other products in terms of underlying technology and capability requirements. In the discussions about sectoral characteristics in Chapter 2, I mentioned the influential research by Hidalgo et al. (2007) in developing the 'product space' of country and product relatedness based on the empirically demonstrated fact that closely related products are more likely to be produced in a country because they require similar capabilities. The figure in their paper starkly shows that apparels form a distant, sparsely connected but large product cluster on their own while textiles form another cluster with more connections to the core[11]. Peripheral location of product implies specific factors of production that cannot be easily reorganized in production of other products. However, the size of the cluster means that there is lot of opportunities for export growth within the cluster of garments products.

The apparel industry is distant from other products and services in terms of technology also. Chapter 2 shows that not only technology of clothing sector is very asset specific but also the technology has little commonality and exchanges with productions technologies of other sectors. Specialization on apparel production therefore do not provide significant sharing of expertise in producing other internationally traded goods and services.

Competence trap, learning trap, quiescence trap, all these scenarios discussed in literature indicate that labor-rich, resource-poor countries can get locked into apparels export dependency unless it can muster significant efforts for economic upgrading. This dependency on an apparel-export led path of economic growth can last until the exhaustion of supply of low-cost labor diminish competitiveness in apparel assembly and OEM (Original Equipment manufacturing). Original equipment manufacturer is a company that produces parts and equipment that may be marketed by another manufacturer or brand

[10] International Labour Organization. (2020). ILOSTAT database [database]. Available from https://ilostat.ilo.org/data/.

[11] Refer to figure 2.4 in chapter 2. The distinct and separate apparel cluster is marked in red.

marketeer. Maintenance of competitiveness for labor-intensive OEM do not require development of human capital, development of forward and backward linkages with other industries, development of high capacity national economic and bureaucratic infrastructure.

Export data suggests that after a country crosses a threshold level of per-capita income, per-capita export of garments begin to plateau and decline. The following figure-6 shows annual per-capita garments export for four countries at various levels of per-capita GDP. The horizontal axis represents natural log of per-capita GDP (at constant 2000 US$), while the vertical axis shows real per-capita export of garments[12]. The chart shows that export from Thailand and Philippines began declining after reaching a certain level of income, Sri Lanka's export growth has slowed as the income level approached threshold level. Meanwhile export from Bangladesh is growing rapidly as the income level is still sufficiently below threshold levels.

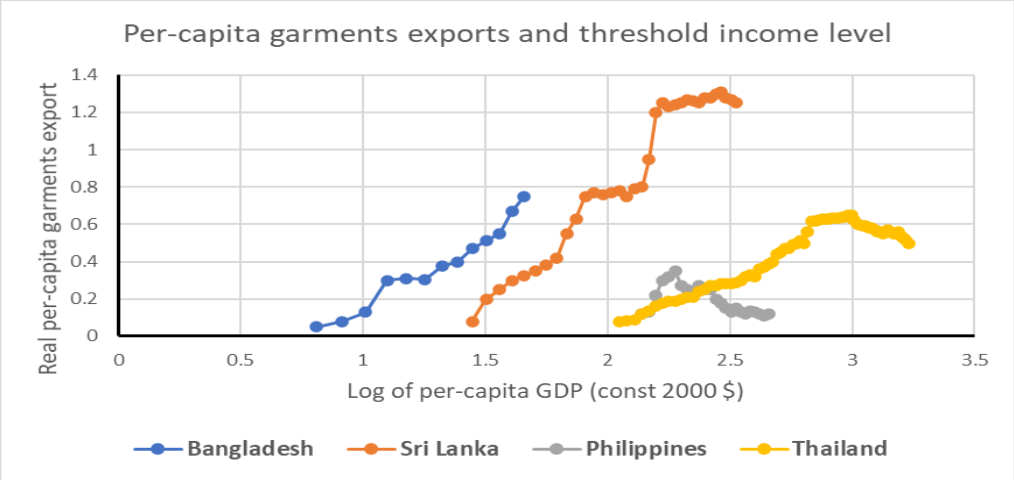

Figure 3.6: Per Capita Income and Per Capita Garment Exports of Selected Countries, showing threshold income level of apparels export competitiveness.

3.4. State capacity and industrial policy

Sectoral characteristics and factor endowments by themselves do not condemn a country in long-term apparel export dependency. Since the 1970s, many developing countries have successfully diversified and upgraded their manufacturing and service

[12] Data from World Bank (2012). "Consolidating and Accelerating Exports in Bangladesh".

industries from high dependency from apparel exports. For example, Korea and Taiwan in the 1970s, Costa Rica, Thailand in the 1990s, Dominican Republic in the 2000s. Some of these countries successfully leapfrogged in industrial development by defying the path of development dictated by comparative advantage of factor endowments. Why are some countries more successful than others in diversifying their manufacturing and service exports?

Comparative political economy of development shows that a necessary ingredient for industrial upgrading is state capacity. Lack of state capacity constrains ability of governments to implement policies necessary for industrial upgrading that go beyond comparative advantage of endowments. In addition to significant autonomy from private interests, the state needs administrative, logistical, and technical capacities for successful policy implementation (Evans, 1995). An influential body works on political economy of late industrializing countries have identified state capacity as the critical factor in industrial transformation of developing countries (e.g., Amsden, 1989; Evans, 1995; Wade, 1990). State capacity occupied such importance in late development because it helped provide a nonmarket source of discipline to private actors for productive use of resources, coordinate agents and organizations, set long-term confidence in behavior of state, and establish economic development as predominant goal of the country. Scholarship has shown that the most important ingredients of state capacity for economic development are a competent bureaucracy, nodal organizations for policy, and embedded autonomy of state with the private business sector (Evans, 1995).

Mann (1986) defined state capacity as the ability of state institutions to effectively implement policies within the territory the state claims to govern. Industrial policies are interventions by governments for changing or improving structure of economic production of the country; changes that wouldn't have occurred without interventions (Rodrik, 2004). Governments of nearly all developing countries want to pursue transformative industrial policies; many of them even do not lack knowledge about good policies, but most of these governments lack the ability i.e., the state capacity to carry those policies out (Besley & Persson, 2013). State capacity provides causal connections between development policies adopted by states and policy outcomes. Because of sectoral characteristics, different

industries require different level of state capacity for successful foundation in a country, thus countries at different levels of state capacity can only successfully implement distinct industrial policies based on their factor endowments, state capacity and industry characteristics.

Berwick and Christia (2018) conceptualizes and describes state capacity through the challenges states face with respect to extraction, coordination, and compliance. Extractive capacity, the most used definition, refers to the ability of the state to secure resources from the citizens and organizations within the jurisdiction. Coordination capacity is the ability of government administration to effectively coordinate collective action among organizations and citizens belonging to both public and private sectors. Compliance capacity relates to both the ability of the state to overcome principal–agent dilemmas within public sector and the ability to secure cooperation from elites and citizens.

State capacity to implement policies is required for industrial transformation because market prices and forces cannot reveal future profitability of industries that are developed in defiance to comparative advantages. Markets cannot signal how to allocate resources optimally for future industrial transformation because of externalities. Two key externalities that inhibit incentives for industrial upgrading and diversification are information externalities and coordination externalities (Rodrik, 2004). Coordination externalities arise from the fact that development of competitive new industries also require investment in many other upstream and downstream industries and activities belonging to both public and private sphere. Upgrading to new industries need financial and physical infrastructure, managerial expertise, skilled labor supply etc. In a developing country, where many of these facilities are not present, private entrepreneurs cannot be expected to provide and coordinate all these necessary inputs. Coordination externality is higher for industry sectors that require more backward linkages, have higher demand for skilled labor and managerial expertise, and need more extensive physical infrastructure.

Another market failure in industrial upgrading occurs due to information externalities (Rodrik, 2004). Development of competitive new industries entail mastering the tacit knowledge in technology and management of production and discovery of the cost structure for profitable production. However, market not only does not compensate for the

significant and uncertain period of learning, but also often do not reward the first successful entrepreneur or discoverer. Rather than risk taking industry pioneers in a developing economy, the followers often are better positioned to reap benefits of cost discovery and learning by doing. For these reasons, governments have to step in and support pioneering entrepreneurs during the period of cost discovery with loss financing; government backed support for innovators investing in cost discovery and learning by doing (Khan, 2009). The more complex the technology of production, the greater the need for government support for pioneers in a developing country.

International economics studies shown that the more complex the products of an industry, the more differentiated and larger the input-output matrix, the thicker the interfirm network of the industry, the higher the quality of national institutions like legal-judicial systems, financial system, law enforcement, tariff system, bureaucracy are required for the industry to be competitive (Levchenko, 2007; Nunn & Trefler, 2014). Industries that produce simple and standardized products with undifferentiated inputs, have small input-output matrix and simple interfirm networks, can be competitive in even low-quality institutional environment. This difference in comparative institutional advantage means that countries with high quality institutions generally specialize in complex, high value-adding products like aircraft, automobiles, IT and software, while countries with low quality institutions, are only competitive in simpler, commoditized products like apparels, footwear (Levchenko, 2007). This complementarity between industry characteristics and national institutional characteristics explains comparative advantage of traded products to a far greater extent than endowments of capital and human capital (Nunn & Trefler, 2014).

Complexity of production in an industry is also directly related to enforcement and compliance capacity of the state in enforcing contracts between business entities. The more complex the products of an industry, the more differentiated the input and output matrix, the thicker the interfirm network, the more is the industry's dependence on formal contract enforcement for stable operation. Thus, the quality of legal, judicial and other contract supporting institutions of a developing country is crucial in attracting and hosting industries with higher-valued and more complex products (World Development Report, 2020). Countries with weak enforcement and compliance capacity are far less likely to attract

complex industries. Boehm (2018) used average number of contract enforcement disputes per buyer-seller paired relationship as a measure of contract enforcement intensity of different sectors (Figure 3.7). His finds that sectors vary widely in their requirement of legal and judicial services.

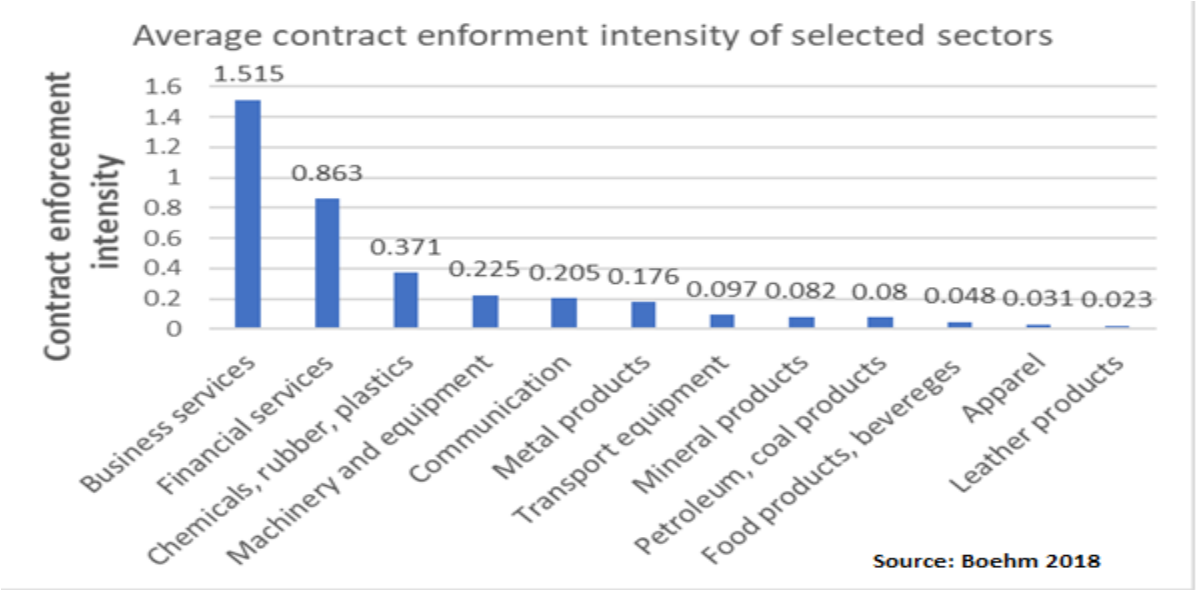

Figure 3.7: Business contract enforcement intensity of selected industries.

Industries with more backward and forward linkages, more complex technology, higher demand for skilled labor, require higher state capacity for successful founding in developing countries. However, these kinds of industries generally have the higher returns in terms of financial and human capital that developing countries seek most eagerly. The theoretical relationship among complexity of a project to establish a new industry in a country, expected return on the project and binding constraints of state capacity, can be illustrated with the help of the following figure adapted from Maloney and Nayyar (2018).

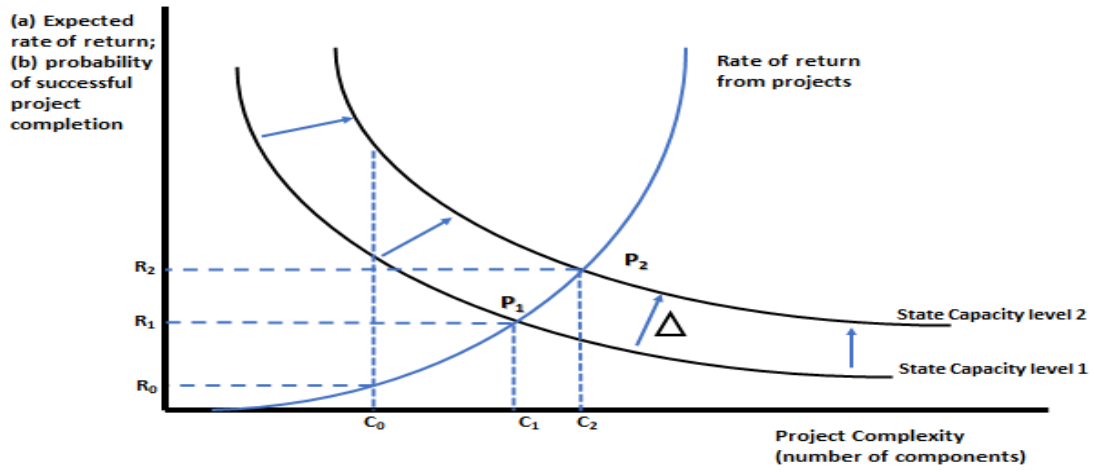

Figure 3.8: Relationship among state capacity, complexity of industry projects and expected rate of return.

The horizontal axis of the diagram in figure 3.8 represents project complexity (number of components in a project). Components include everything from tangible assets, technology to intangible knowledge, expertise. The vertical axis represents both (a) rate of return from projects and (b) probability of successful project completion. The upward sloping curve represents rate of returns with increased project complexity; more complex projects have higher returns. The downward sloping curves represent probability of successful project completion with increased complexity at a given state capacity. More complex projects have less probability of success. However, if state capacity of a country increases significantly, the whole downward curve shift upward and probability of completion increase substantially.

For a country at state capacity level 1, the most complex project it can feasibly expect to complete is P_1 with level of complexity C_1 and expected return R_1. More complex projects will have lower probability of successful completion and thus lower expected return. However, if state capacity of the country increases by a significant amount, the curve shifts right and up to level 2 and the most complex feasible project is at P_2 with complexity C_2 and rate of return R_2. With increased state capacity, a country can feasibly implement projects to establish more complex industries in the economy and achieve higher rate of returns.

Characteristics of different industries, different levels of state capacity of countries, their factor endowments and changing conditions in global trade, create different industry policy space for countries. Development economics has shown that there is a wide array of industrial policy instruments for countries to pick and fit into their respective policy space. Economists have studied and promoted these policy instruments with different frameworks. Hausmann & Rodrik (2003) proposed a hierarchy of policies for promoting industrial innovation, based on their information externality on productivity performance. According to them, government-backed finance is superior to export subsidies in identifying successful innovators from copycats or laggards and export subsidy is better than trade protection for the same objective. However, successful implementation of targeted policies like government loans or firm-specific subsidies require more state capability for resisting political influence of policy beneficiaries and other moral hazards. State capacity enables a government to monitor, reward and punish (withdrawal of support) policy beneficiaries, a "carrots and sticks" approach that has been greatly successful in developing economies (Hausmann & Rodrik, 2003).

A general and popular framework of studying industrial policies is categorizing them as 'horizontal' and 'vertical' policies (Felipe, 2015, p. 5). Horizontal policies refer to government supports that can be used by a wide range of firms, industries and sectors. Examples of such policies include development of infrastructure and institutions, development of human capital, tariffs and trade barriers, etc. Vertical policies favor particular firms, industries or sectors. Examples include targeted policies for attracting foreign investment in a sector, government loans, subsidies for a firm or industry, developing specific infrastructure and institutions like setting up a quality testing facility, specific training institutes. Both types of policies have problems and opportunities, but scholars generally agree that successful implantation of vertical (selective) policies require greater state capacity and institutional capabilities (Kuznetsov & Sabel, 2011). A country with higher state capacity can successfully use both horizontal and vertical policy instruments but a less capable state is much less likely to successfully implement vertical policies for complex and high-return industries.

Economic history of developing countries has demonstrated successful application of all kinds of industrial policy instruments. High-capacity states like South Korea, Taiwan successfully used horizontal policies like import restrictions, vertical policies like government finance, buying unsold production for industrial development (Hausmann & Rodrik, 2003). Development of Korean heavy industries in steelmaking, chemicals and shipbuilding are textbook examples of effective use of state capacity in targeted industrial policies. Hausmann and Rodrik (2003) contrasted East Asian industrial development with relative lack of success in Latin America due to lot of carrots (promotions) but too little sticks (discipline). However, Latin America also boasts examples of industry-led development through horizontal policies in countries that did not use the disciplinary power of state capacity directly. Costa Rica used its state capacity on human capital development to successfully attract high technology industries and services along with other horizontal policies like expansion of export subsidies (Sanchez-Ancochea, 2006). Dominican Republic has used Special Economic Zones and infrastructure development to successfully diversify from low-technology manufacturing like apparels.

The clothing export dependent countries do not lack industrial policies for diversification and upgrading. Developed with help of international organizations, government policy documents going back for decades, emphasized determination to upgrade manufacturing into high value products (Bangladesh Industrial Policy, 2005 and 2010). However, what these governments lacked was capabilities to successfully implement the policies.

Bertelsmann Stiftung (foundation) of Germany publishes annual indexes of countries based on in-depth assessments of their political and economic transformation, and governance performance since 2006[13]. The governance performance index is derived from four governance performance components: steering capability, resource efficiency, consensus-building, international cooperation (Egbejule et al., E., 2021). Of these components, steering capability (prioritization. Implementation, policy learning) and resource efficiency (efficient use of assets, policy coordination, anti-corruption policy) are directly associated with policy-making ability of the state. Steering capability index

[13] Data on Bertelsmann foundation's various indexes in available at https://www.bti-project.org/en/home.html?&cb=00000

expresses how much the government manages economic reforms effectively and can achieve its policy priorities. Resource efficiency index refers how much the government makes optimum use of available resources. The following figure (3.9) shows average annual steering capability and resource efficiency scores for the period 2012 -2018 for 41 developing countries that were apparel exporting in the last three decades since 1990. The government effectiveness scores are correlated with the countries' average apparel export percentage during 2012 – 2018. The figures clearly show that there is a negative relation between extent of apparel exports and government effectiveness.

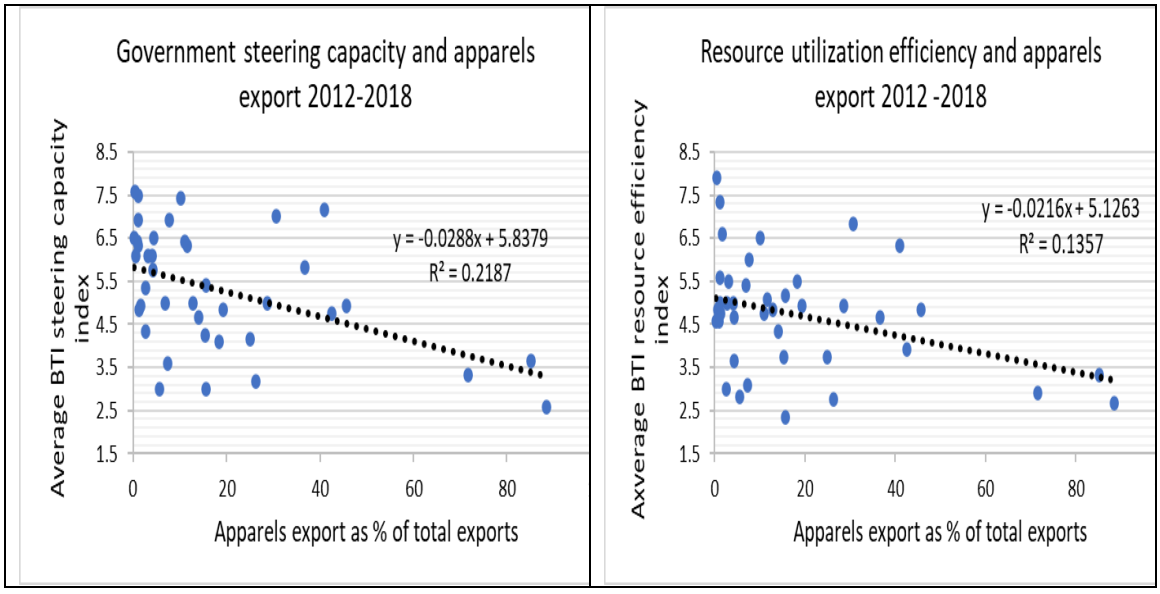

Figure 3.9: Relationship between RMG exports of a country and its institutional governance capacity through a scatter plot.

Analysis of data on state capacity of developing countries show that countries overdependent on clothing exports generally have significantly lower state capacity than clothing exporting countries that are not overdependent and countries that have successfully upgraded and diversified their export base. The size of direct taxes on incomes of individual and businesses with respect to total taxes is a popular measure of state capacity (Besley & Persson, 2014). The following figure shows average income taxes on individuals and corporations as percentage of GDP for a selected group of countries for two periods, 2000-2005 and 2011-2016. We can see that countries that are overdependent on apparel export industry (Bangladesh, Sri Lanka, Cambodia, Haiti) have low direct tax

to GDP ratio while countries that have diversified their economies from apparel sector (Dominican Republic, Mauritius, Vietnam etc.), have higher income tax earning in their revenue structure.

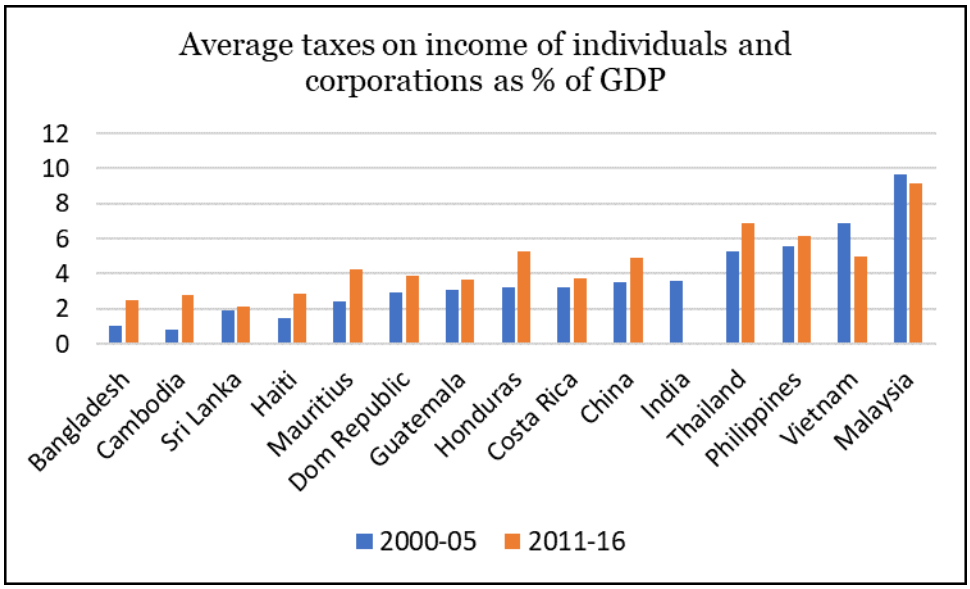

Figure 3.10: Direct income tax as percentage of GDP for selected countries. (Source: Our World in Data[14]).

It is difficult for countries with weak state capacity to pursue selective industrial policy for complex, high-return products. However, ruling elites may reach consensus on supporting certain vital sectors or industries with special institutions and infrastructure (Evans, 1995). Such "pockets of efficiency" is underdeveloped countries usually support agricultural industries like sugar or coffee, extractive industries like mineral products. Weak but stable industrial policies can also create pockets of efficiency in low-capacity countries for labor-intensive manufacturing like apparels. Bangladesh became the 2nd largest exporter of apparels by virtue of special support provided to the industry. The selective policies include special economic zones with guaranteed infrastructure support, streamlined import and export procedures, special financial instruments like back-to-back line of credit, bonded warehouse facilities, etc. (Ahmed et al., 2014).

While "pockets of efficiency' may be enough for simple manufacturing exports, they are not sufficient for complex, higher-value products like electronics, machinery,

[14]Website page https://ourworldindata.org/taxation

chemicals etc. Bangladesh's inability to gain a foothold in the consumer electronics export, is an example of state failure in implementing vertical policy. For, more than two decades, Bangladesh government and international development agencies have been asserting the need for Bangladesh to upgrade and diversify its exports, but without any success. In 2011, Samsung Electronics proposed a $1.25 billion investment in export processing zone of Chittagong, Bangladesh for an export-oriented manufacturing unit that would employ more than 50,000 workers (Lopez-Acevedo et al., 2017). Consumer electronics assembly and export units not only require large amount of land and factory space but also efficient customs and excise services for clearing the numerous complex parts and services that flow across many national boundaries very quickly. Complexity of projects of electronics assembly plants is orders of magnitude higher than apparel manufacturing units. Bangladesh government and Export Processing Zone authority failed to meet Samsung's requirements and in 2014 Samsung withdrew from the project and shifted to Vietnam where the government quickly fulfilled Samsung's demands (Ahsan, 2014). In 2019, Vietnam's electronics exports exceeded $100 billion; nearly $60 billion of which came just from Samsung's investments[15]. In comparison, Bangladesh's electronics exports are nonexistent, less than $100 million in 2019.

3.5. Overdependence on an enclave garments industry

I have argued that because of specific sectoral characteristics of global apparel industry and trade (e.g. low labor cost, low technology, low economy of scale, low backward and forward linkages, agglomeration etc.), once a country gains a significant foothold in apparel exports because of favorable factor endowments (e.g. plentiful supply of low cost labor, geographic location), apparel industry remains in the country as a major economic sector until growing labor costs render exports uncompetitive in the international market. I have further argued that countries with weak state capacity, find it difficult to diversify and upgrade manufacturing exports through industrial policy. Bringing the two threads of arguments together, I contend that sectoral characteristics (mainly linkages) and

[15] https://en.nhandan.vn/business/item/9674202-electronics-fuelled-vietnam%E2%80%99s-expanding-exports.html

lack of state capacity leads to overdependence on unearned income from an 'enclave' garments export sector in developing countries.

Although apparel industry's lack of various linkages tends to create an enclave economy in developing countries (Heron, 2006), the contribution of the industry in the national economy of those countries is hard to exaggerate. Apparel is often the only significant manufacturing export for these countries and the industry is central to export-led economic growth. 85% of Bangladesh's total exports is just apparel, for Cambodia it is more than 70%, Haiti 89%, Honduras 45%, El Salvador 50%[16]. In the last two decades (2000-2019), export growth in these countries has been unprecedented (300% - 900%), and bulk of the growth came from garments exports. The foreign exchange earned from exports boost the balance of payments of these countries, which otherwise would face shortfall in their current accounts. The exporting firms convert the foreign exchange to local currency for paying salaries, wages, suppliers, utilities, taxes and many other local payments that are crucial for the national economy. By providing millions of jobs to unskilled workers who otherwise would be unemployed or working in already labor-surplus agriculture, the industry leads structural transformation of the national economy.

The apparel sector generally does not significantly contribute to national revenue earning through direct taxes because of many tax facilities extended towards the industry by governments (Lopez-Acevedo & Robertson, 2012). The industry usually does not have any export taxes, import of inputs are also given tax breaks; often foreign investors are given exemption on profits and profit repatriation. However, the industry contributes significantly to national exchequer though income taxes on salaries and wages, consumption taxes on goods and services used by millions of workers and their families, payments and taxes on utilities and in many other ways. Multiplier effect of the industry in the overall economy is substantial because as a labor-intensive industry, a significant portion of the export earnings go to workers who spend it in the domestic economy as basic consumption.

[16] https://oec.world/en/profile/country/slv/

The apparel export industry provides many of the benefits of a growing productive sector in a developing economy, foreign exchange, employment, taxes and revenues, structural transformation, etc. As discussed previously, this significant flow of economic benefits does not make strenuous demand on government, state institutions and society. In chapter 2, I discussed how growth in apparel industry do not help the revenue gathering capacity of the state significantly. A clothing industry can thrive in absence of strong state capacity, high human capital, effective institutions as long as favorable factor conditions remain, and the government maintains pockets of efficiency for the industry. This fortuitous development for the state creates a resource for the government and the state that is close to what Moore termed as 'unearned income' (Moore, 2001). Unearned incomes are the revenues that the state obtains without having to put lot of organizational and political efforts in working with the citizens and private interests. Earned incomes are, by contrast, revenues where state has to put significant organizational and political effort to extract, for example income taxes, property taxes, corporate taxes, inheritance taxes etc.

When a weak capacity state is sustained by a steady source of unearned income, the state is disincentivized to pursue long-term institutional reforms and state building that are essential for expanding the fiscal base of the state with earned income. Political Economy literature studies this development as part of 'resource curse' phenomenon (Ross, 2015). In percentage terms, apparel sector's contribution to GDP in many of these dependent countries is similar to oil and mineral sector's contribution to GDP in some of the traditionally labelled resource-cursed countries like Nigeria, Myanmar, Iran etc.

Why would weak capacity states be disincentivized from seeking earned income from a diversified economy in addition to unearned income from an enclave economy when it can reasonably be assumed that all states seek to maximize revenue to the extent that maximization do not choke off economic growth? Margaret Levi argued in '*Of Rule and Revenue'* (1989) that rulers in developing countries want to maximize revenue, but they are constrained by their relative bargaining power with respect to economic elites, their transaction cost of running organizations capable of monitoring, extracting and punishing revenue collection, and their discount rate of time-horizon and perceived security of rule. An important insight in Levi's argument is reduction of transaction costs by quasi-

voluntary compliance by taxpayers; when citizens are reasonably assured that the state will identify and punish all tax-cheaters, they voluntarily pay their full taxes and thus reduce organizational effort of the state to collect both earned and unearned income. In a high-capacity state, legal, administrative, fiscal capabilities go together because the same institutional setup generally underpin all these dimensions of state capacity (Besley & Persson, 2009).

Low-capacity states' ability to expand revenue base through economic transformation is constrained by their high transaction costs, low bargaining power and high discounting of time-horizon of power, hence their lack of extractive capacity. We discussed previously how lack of coordination and compliance capacity hinder state's ability to overcome information and coordination externalities necessary for successful industrial policy. However, successful industrial policy results from bipartite interaction of state and private sector (Rodrik, 2004). Private entrepreneurs in developing countries also face high transaction costs due to underdeveloped and inefficient institutions, infrastructure. Reducing transaction costs for entrepreneurs and making credible commitment for long-term institutional and infrastructural support, are central to any industrial policy.

In absence of significant state capacity, governments cannot implement successful industrial policies for expansion of the revenue base and cannot make credible commitments to the private sector for investing in costly and risky, industrial upgrading and diversification (Rodrik, 2004; Menaldo, 2016). Revenue maximizing governments of states with less capacity, therefore depend more on the unearned income from enclave economies and regressive taxation. Menaldo (2016) has termed this condition as 'the institutions curse'; weak institutions condemning countries to depend more and more on unearned income resources in lieu of developing diversified and upgraded economic sectors. The necessary 'pockets of excellence' created by selective commitment of institutions and infrastructure, are generally within the abilities of even weak states. As shown in chapter 2, apparel industry does not help in development of state capacity to gather revenue. Therefore, weak capacity states become even more reliant on the apparel industry for different direct and indirect revenue incomes. Revenue and rents from the

protected enclave economy support the ruling coalition if favorable factor conditions remain.

Political economy literature has shown that there is an endogenous relationship between state capacity and overdependence on enclave sectors (Menaldo, 2016). As our discussion proposes, weak state capacity leads to increasing dependence on a narrow and protected sector of the economy. However, the bargaining power of ruling coalition also depend on the distribution of resources, aka, structure of the economy (Levi, 1989). A less diversified economy preserve the low bargaining power of ruling coalition, vis-à-vis economic elites. Low bargaining power of ruling coalition is a feature of weak state capacity. Weak state capacity therefore is both a cause and consequence of overdependence on enclave garments industry.

However, both level of human capital and quality of national institutions (e.g., state capacity) have been identified as critical drivers of economic and industrial upgrading in developing countries (Pageorgiou et al., 2014). Using data from 146 countries over the period 1950- 2010, Barro and Lee (2013) found that an additional year of secondary and tertiary education has significant positive effect on national productivity in developing countries. Analysis of data also shows that most of the countries we are identifying as clothing export-dependent, have been lagging in human capital development since 1960s and 1970s (Suri et al., 2011). Therefore, question naturally arises whether clothing overdependence is caused by lack of state capacity or lack of human capital.

Acemoglu et al. (2014) have argued and shown that level of human capital is not exogeneous for economic development but is conditional upon quality of national institutions. Institutions are fundamental determinants while human capital, physical capital are proximate causes. Since individual's choice for personal educational attainment has important externalities for society and country, state capacity is necessary to overcome market failures in education, allocate resources effectively and strategically, monitor and discipline national educational infrastructure (Hanson, 2015). All governments intervene in educating the citizens; controlling for national income level, the effectiveness of intervention is largely determined by state capacity.

3.6. Conclusion to chapter 3

This chapter seeks the answer to the puzzle why many developing countries in recent decades, unlike the newly industrialized countries of previous decades, have failed to diversify and upgrade their manufacturing exports, and instead have been overwhelmingly dependent on low-skilled manufacturing exports like ready-made garments, for a long time? I attempt to answer the question with theory-building from comparative political economy literature and cross-country empirical data analysis. The thrust of the argument is that distinctive sectoral characteristics of the international apparels manufacturing and trade, and lack of state capacity to implement industrial policy in host countries, condemn some countries in an ever-increasing dependence on apparels export. Analysis of a cross-country dynamic panel data supports the argument.

Taken together, my argument and findings suggest that investment in developing state capacity to supervise and discipline the industrial economy, is more important for sustained economic development than merely having appropriate industrial policies. The results have important implications for both governments of newly developing countries and international development organizations.

CHAPTER IV

SEWING FOR AUTOCRACY: DOES DEPENDENCE ON APPAREL EXPORTS HINDER DEMOCRACY IN DEVELOPING COUNTRIES?

4.1. Introduction

In 2018, elections for the national parliament took place in Bangladesh, a country in South Asia and in Cambodia, in Southeast Asia. In Cambodia, the ruling party retained power with hundred percent seats by the virtue of banning the main opposition party from contesting in the election. In Bangladesh, the ruling party took 95% of seats by using the full force of police, bureaucracy and political organization to crackdown on the opposition and intimidate the voters from voting (Freedom House, 2019). However, this kind of lopsided elections were not usual politics in Bangladesh or Cambodia. National elections in these countries in the past, although not free and fair, were contested affairs where the opposition had fairly good chance to demonstrate surprisingly good outcomes in their favor.

These two Asian countries have very little in common in history, society, culture but they share an almost identical track in political trajectory in the last ten years, a path that is paved with increasing political violence, authoritarianism and one-party absolute dominance of national politics. However, there is another aspect in which these two countries are very similar; economies of these two countries are highly dominated by a ready-made garment (RMG) or apparels industry whose products comprise more than three-fourth of total exports. This apparel-industry dominance is also longstanding, since the 1990s apparels has been the overwhelming component of exports from these countries.

Apparels industry has been dominating the economy of some of the developing countries to an astonishing scale. According to 2013 Manufacturing Industries Survey of Bangladesh, of the 3669 large manufacturing establishments employing more than 250 workers, 3110 were just apparel and textile factories (BBS, 2013). The 2011 Economic Census of Cambodia (NIS, 2013) shows that 72% of total 410 large manufacturing establishments belonged to apparel sector. In 2018, more than 700,000 people out of a total

Cambodian population of 15 million, were directly or indirectly employed in the apparels industry (Lawreniuk, 2020). 90% of Haiti's exports is just apparels.

Curiously, comparative political economy of developing countries, has not yet studied the probable effect on national politics from this one industry's sustained domination of national economy and many aspects of society. According to Marx, "the mode of production of material life conditions the general process of social, political and intellectual life" (1911). In this chapter I argue that, while the social and economic impact of apparel industry in many of the countries that are most dependent on the sector, have been generally positive, the long-term political effect has been towards less inclusion and more authoritarianism.

General political news and events from these countries show a such a trend towards authoritarianism. I mentioned Bangladesh and Cambodia earlier. Sri Lanka maintained an impressive record of democratic politics despite a decades-long bloody civil war that ended in 2009 but has tuned increasingly authoritarian in the recent years under political leadership of Rajapaksa brothers (Freedom House, 2019, 2020). The apparel industry brought economic and social stability in Haiti, the poorest country in the western hemisphere, and for a while it seemed democratic politics is also getting a foothold. However, since the controversial 2016 presidential election, politics has become increasingly violent and arbitrary, with postponements of national and local elections[17]. Honduras, another apparel-export dependent country in Central America, has remained plagued with political violence and the 2017 presidential election has been widely condemned as unfair[18].

Apart from political news, the trend in published annual country indexes of political freedom, also show that, on average, apparel export-dominated countries have become less politically free than similar developing countries. Here I define a dominating industry as a sector whose exports exceeded 50% of total exports for at least 10 years during last three decades and whose export share still exceeds 40% of total exports till 2018. There are six

[17] https://www.cnn.com/2021/02/12/americas/haiti-president-constitution-us-support-crisis-intl/index.html

[18] Freedom House country reports. https://freedomhouse.org/country/honduras/freedom-world/2019

countries, with at least two million population, that can be regarded as apparels-dominated according to this criterion, although there are several other countries close to the threshold. The six countries are Bangladesh, Cambodia, Haiti, Honduras, El Salvador, and Sri Lanka. Freedom House Political Rights Index score is based on a 1-7 scale with rating of 1 representing the most-free conditions and 7 the least free. The figure 4.1 shows that while political rights in rest of the developing countries have gradually improved over the period, it has worsened in apparels-dominated countries.

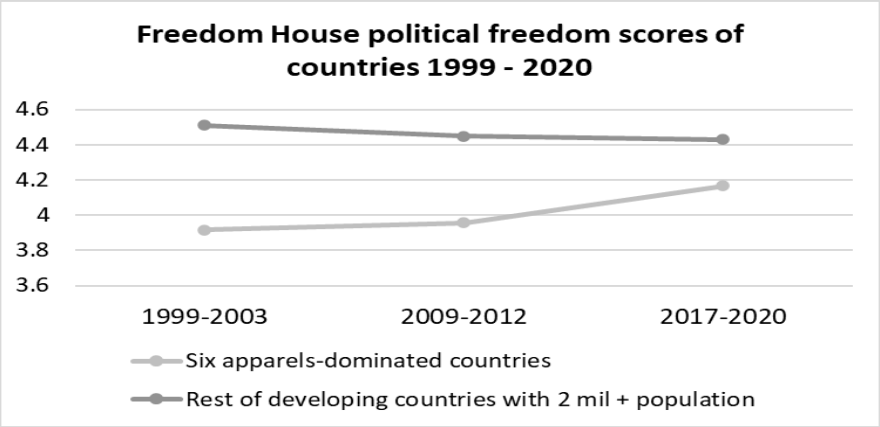

Figure 4.1: Change in political freedom between apparels export-dominated countries and rest of developing countries.

We can observe a general pattern of negative relationship between clothing exports and democracy in all developing countries. Figure 4.2 shows a scatter diagram representing 61 developing countries that had clothing exports at least 3% of total exports in any year in the last three decades. The X-axis represent level and change of clothing exports from 2006-2007 period to 2014-2015 period. The measure of level and change is calculated by finding the change in clothing export share from 2006 to 2015, converting it to a positive ratio and then multiplying it with export share in 2015. The resulting number therefore not only reflects the level of clothing exports in 2014-15 but also how the share changed from 2006 to 2015.

The Y-axis represents democracy score from the V-Dem Polyarchy score of V-Dem institute in the period 2018-2019[19]. Each dot thus represents a country's state of democracy in 2018-19 and its level and change in clothing exports from 2006 to 2015. The

[19] A detailed description of V-Dem institute Polyarchy score, and other indexes is provided in Chapter 6. https://www.v-dem.net/en/

scatter diagram shows a negative relationship between clothing exports and democracy. However, this relationship is not necessarily causal. It may be poor countries are more dependent on clothing exports because of their low wages and we know that poor countries tend to be less democratic than more developed countries. Chapter 6 provides more sophisticated analysis of cross-country data to demonstrate negative association between clothing exports and democracy. In this chapter, I am going to develop a theoretical argument to support such a causal direction.

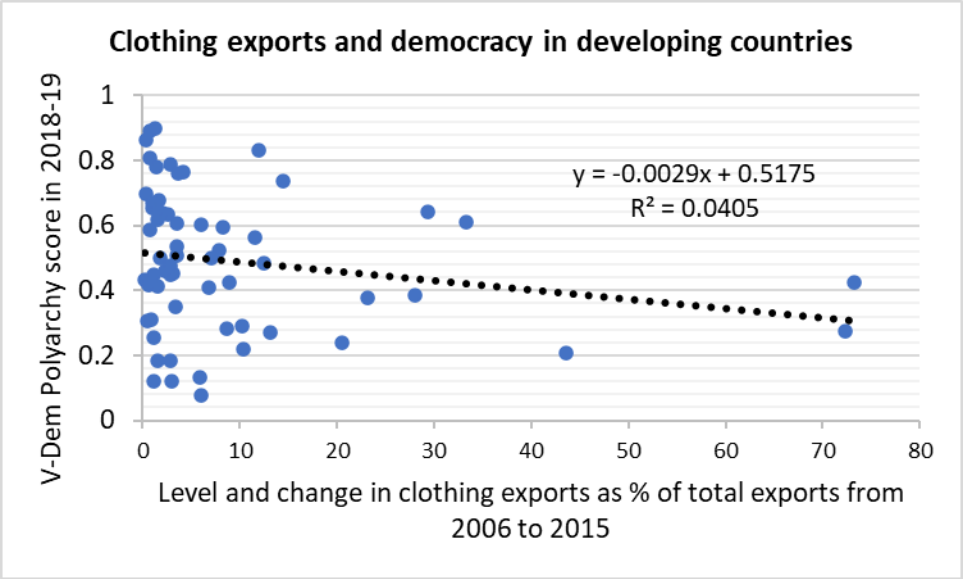

Figure 4.2: Scatter plot of relationship between clothing exports and democracy in developing countries. Level and change in clothing export is a constructed measure that reflects level of clothing exports in 2015 and how much that level changed from 2006.

I am proposing a political economy explanation and analysis of democracy-reversal in apparel-export dependent countries. My explanation is based on three main causal processes. First, a high concentration in one industry leads to a small, coherent group of economic elites whose interests are served by less inclusive politics. Second, the apparel sector generates large amount of unearned income for incumbent regimes, enabling them to repress political opponents and remain in power undemocratically. Third, to maintain the labor repressive industrial regime necessary to maintain international competitiveness in apparels, business owners and political leaders collude to thwart democratic expansion of political rights to workers. The unique sectoral characteristics of apparels industry and

trade are at the basis of all three causal processes. I also argue that weak state capacity to extract revenue from the general economy and implement industrial policy is a scope condition for these effects to occur. The argument is depicted in figure 4.3.

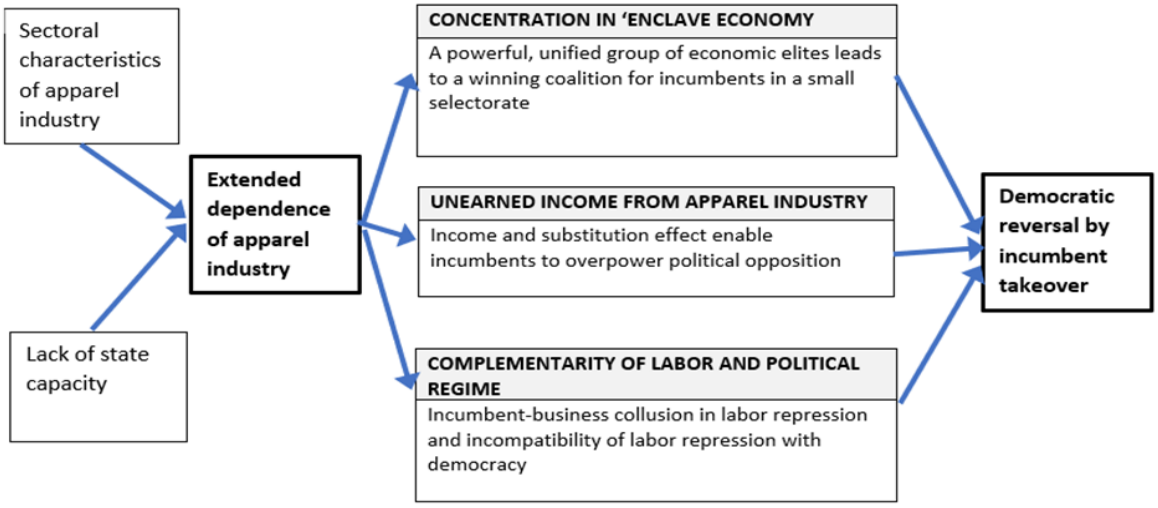

Figure 4.3: How apparel export dependency can lead to democracy reversal, scheme of the causal argument.

The political economy of apparel industry in these countries has lots of similarity with the industrialization via crony capitalism phenomenon witnessed in East and Southeast Asian countries after WWII (Kang, 2002). The same story of close business and political regime collusion to generate privileged access and informal rent transfers, has taken place in apparel industry. Unlike the developmental stars of Asia however, the unique characteristics of apparel industry has not generated spillovers that led to growing economic complexity and modernization in other industries and sectors. On the other hand, large apparels sector in weakly institutionalized countries has led to a self-reinforcing equilibrium where political regimes are unable to credibly commit to the larger part of the population (Menaldo, 2016). I compare this scenario as the proverbial 'Golden Goose', jointly owned by incumbent regimes and apparel industry owners. This golden goose however requires distinct environmental conditions for continuing and thriving. These conditions, although beneficial for the apparel industry, are not salubrious for institutionalization of democracy.

The plan of the chapter is as follows. First, I briefly discuss genealogy of our theory in political economy literature. Then I point out the unique sectoral characteristics of apparels industry that make the political effect more likely to occur. In the main theory section, I lay out the three causal processes and supporting evidence. After that I present a game theoretic model to demonstrate how unearned income from an economic sector, the golden egg in our parlance, results in incumbents relying on ever smaller size of a group of elites, to hold on to power.

This research is directly related to the debate surrounding an ongoing 'democracy recession' in developing countries (Diamond, 2015). Diamond noted that from 1975 to 2006, every year the total number of democratic countries in the world increased but since 2006 number of electoral democracies have not only stalled but there has been a perceptible decline. At the same time, for the developing world, the last two decades have been a period of unprecedented economic growth and growth in international trade. Breakdown of electoral democracies in the developing world, while they are experiencing robust economic growth, is a conundrum that needs rigorous study because of the implication for the lives of billions of people. I argue that dependency on apparels export, is one piece of that puzzle, among many others.

4.2. Political concentration from sectoral concentration in literature

Causal arguments made in this paper largely draw from the endogenous development of institutions literature in comparative political economy. According to Acemoglu et al (2005) dynamic model of endogenous institutions, de jure political power of groups, classes and individuals in a country is determined by current political institutions while de facto political power is largely determined by both political institutions and current distribution of resources. Political power is the ability to influence institutional forms and policy outcomes. Current de jure and de facto distribution of political power in turn determine future distribution of resources and future state of political institutions.

In their seminal work, North et al. (2009) argued that while in developed countries, exercise of political power of groups and individuals is channeled by de jure institutions and law, in most developing countries de jure institutions or laws are not usually binding

constraints. In developing societies, informal, limited-access institutions, maintained by distribution of rents, privileges and policies among individuals, groups and organizations, structure political behavior and expectations. The relations of rent and privileges, rather than laws and customs, solve the commitment problem between principles and agents. Stability and reproduction of the institutions are maintained by a double balance: a correspondence between the de facto distribution of violence potential and political power on the one hand, and the distribution and organization of economic resources on the other hand (North et al., 2009). In this paper, I claim and try to show that, in developing countries, long-standing dependence on RMG industry change the distribution of resources in such a way that political power becomes concentrated in favor of incumbents, and that leads to change in political institutions.

The dominant view in current rationalist paradigm of comparative politics holds that political institutions and institutional change occur from balance of power and resources of groups through their strategic interactions. Based on how these groups are formulated, we can see two main types of theories of political change through strategic conflicts, inter-class theories and inter-group theories. Class-conflict theories focus on conflict and cooperation among economic classes with unequal wealth distribution ((Boix, 2003). According to these theories, greater inequality inhibits democratization because economic elite fear redistribution that generally occurs in democracy. Inter-group theories on the other hand argue that the main socio-political cleavage is not among classes but among groups that own or are employed in different economic activities, for example industry, agriculture, resource extraction etc. (Ansell & Samuels, 2014) or between incumbent political elite group vs rival groups seeking to challenge incumbents with help of economic groups (Albertus & Menaldo, 2018). Elites are defined by their disproportionately large share of economic and political power. My argument is built on an inter-group model of social conflict where political elites are divided by incumbency; economic elites and general people are divided by a dominant industry. I use the Selectorate model (De Mesquita et al., 2009, 2010) of change in political institutions and outcome of institutions to explore the inter-group strategic interaction arising out of a dominant RMG industry. The Selectorate model is a popular theoretical model in comparative political economy that characterizes evolution of political institutions as outcome of rivalry for

power among political groups; a ruling coalition that help the regime maintain hold on power, the excluded political rivals, and the pool from which these supporters are drawn, the selectorate.

A field of political economy studies has used endogenous theories of social conflict, de facto power distribution, selectorate, and others, to explain how dominance of natural resources in the national economy of developing countries, effects political institutions. This 'political resource curse' literature argues that resource endowments like hydrocarbon and mineral resources, impede democratization in developing countries by providing a significant source of unearned revenue (Ross, 2013). This unearned income enables incumbent leaders to disregard democratic accountability to the people and buildup repressive forces to suppress political opposition. Apart from signature 'point resources' like oil, gas and minerals, theories of resource curse have been applied to plantation agricultural commodities like coffee, cocoa, sugar (Isham et al., 2005), foreign aid (De Mesquita & Smith, 2009), remittance income (Ahmed, 2012) and even renewable energy resource like hydroelectricity (Eisgruber, 2013).

While the literature on a putative resource curse from export of primary commodities, is large and growing, desirability of manufacturing growth in developing countries for socio-political development seems self-evident. Unlike resource extraction or agriculture, participation in globally traded manufacture require large and trained labor force, investment in technology, human capital, infrastructure, and many other modernizing steps that are regarded positive for political development. However, this paper argues that many of the sectoral characteristics of natural resources and agricultural commodities causing the political resource curse phenomenon in developing countries, are also present in low-technology, labor-intensive manufacturing like the apparel industry and thus dominance of such an industry can also impede democratization. So far, no one has made that argument in comparative political economy and therefore, this is the unique contribution of this study.

4.3. Sectoral characteristics and apparel export dependency

According to the studies, resources like oil and minerals, plantation crops, have several special sectoral characteristics that make them potential source of political resource curse. The resource sectors are a direct source of rent to the political elite and bound the economic elite with them through patronage network (Ross, 2015). The sectors usually have a geographic and economic concentration with less linkages with other productive sectors, creating an enclave within national economy (Isham, 2005). The size distribution of businesses in such sectors is skewed right meaning a few very large firms dominate many small firms (Isham, 2005). The assets employed in the sectors are generally fixed and specific, limiting their mobility or use in other sectors (Ross, 2015). Resource sectors also do not require higher level of human capital (Wiens et al., 2014). In this section, I propose that the global apparel export industry has some of these characteristics of resource sectors and few other characteristics, that can engender political resource curse under suitable conditions.

Although textile and clothing industries often used to be frequently lumped together in studies as T&C, they are very different in all aspects of industrial organization. Textile involves production of natural (cotton) or synthetic fibers (nylon, polyester) and then making fabrics out of them. The main processing in clothing industry is sewing of garments from cut fabrics. Textile industry is significantly more capital intensive than clothing, with expensive machines for spinning, knitting, weaving etc. One person sewing clothes with one machine has been the basic production unit of clothing industry since mechanical sewing machines was invented in early 19th century. Nearly two hundred years later, the clothing industry remains low technology, labor-intensive with low start-up cost and limited economies of scale (Brenton & Hoppe, 2007). One of the reasons that clothing industry has remained labor-intensive is that sewing has so far resisted automation as it has proven extremely challenging to make robots excel at delicate handling of soft, flexible materials like fabrics[20].

[20] https://spectrum.ieee.org/robotics/industrial-robots/your-next-tshirt-will-be-made-by-a-robot

A main feature of international trade in manufacturing and commodities today is global value chains (GVC), which refers to "the full range of activities that firms and workers perform to bring a specific product from its conception to its end use and beyond" (Gereffi & Fernandez-Stark, 2011, p. 7)[21]. The apparel, industry is a prototypical buyer driven GVC since it is characterized by aggressive global sourcing by large discount chains (Walmart), brand marketers (Liz Claiborne) and private labels (JC Penney) from the developed world (Gereffi, 1999). Value addition and profits in buyer-driven GVCs are generally concentrated in research, design, sales, marketing functions; for that reason, controlling lead firms keep these functions in-house while outsourcing less-profitable production and assembly functions to overseas, where labor cost is much lower.

Another important characteristic of the apparel industry in developing countries is that the industry has very little input-output (I-O) linkages with other industries and sectors apart from the textile industry, which is the main backward linkage for the industry. The industry is also highly downstream, meaning the products directly go to consumers, usually foreign, rather than other industries (Antras et al., 2012). Export orientation coupled with lack of linkages with other domestic industries- create an 'enclave economy' nature of the apparel industry. Technological knowledge and assets of the apparel industry is therefore very specific and standardized, meaning they have little connections with other mainstream industries and have low economic adaptability. Apparel products also have undifferentiated commodity like properties, there is little difference in price or quality in a khaki trouser produced in Bangladesh and one in Honduras.

Another salient characteristic of apparel industry that contributes towards the enclave economy nature is that export-oriented apparel firms have high propensity to geographically agglomerate compared to most other industries (Ellison & Glaeser, 1997). Industrial agglomeration takes place because firms want to take advantage of common labor pool, common physical, financial, institutional infrastructure, common security apparatus for labor control. Apparel factories tend to cluster in Special Economic Zones around set up near large cities and ports. More than 90% of Bangladesh's 4500 apparel

[21] A short discussion by Gereffi is available at https://reports.weforum.org/manufacturing-growth/why-the-world-suddenly-cares-about-global-supply-chains/?doing_wp_cron=1638049386.3727350234985351562500#view/fn-11

factories are clustered around the capital city Dhaka and the main port city Chittagong[22]. There were 558 apparel factories in Cambodia in 2013; of them, 394 were in the capital city of Phnom Penh and 110 in nearby Kandal and Kampong Speu provinces[23].

A thick-tailed firm-size distribution (as opposed to thin-tailed) in terms of employee numbers means that high number of people are employed in large and small-sized firms than mid-sized firms. Kumar et al. (1999) showed that labor-intensive industries like apparel, hotel, mineral extraction sectors have higher dispersion while capital intensive industries like chemicals, metal Processing, electrical and general machinery industries have lower dispersion. Apparel sectors in developing countries are characterized by few large firms employing many thousands of people and generating bulk of the export income.

Recent studies in international trade and economics have shown that the more complex the products of an industry, the more differentiated and larger the input-output matrix, the thicker the interfirm network of the industry, the higher the quality of national institutions like legal-judicial systems, financial system, law enforcement, tariff system, bureaucracy are required for the industry to be competitive (Nunn & Trefler, 2014). Industries producing simple and standardized products with undifferentiated inputs, having small input-output matrix and simpler interfirm networks, can be competitive in even low-quality institutional environment.

Apparel industry characteristics and trends in its trade have created a development scenario where, once a low-income country gains a significant foothold in the apparel GVC by virtue of meeting the requirements, it remains competitive, and gains share in apparel exports until the exhaustion of supply of low-cost labor diminish competitiveness in assembly and OEM (Original Equipment manufacturing). Original equipment manufacturer is a company that produces parts and equipment that may be marketed by another manufacturer or brand marketeer. Maintenance of competitiveness for labor-intensive OEM do not require development of human capital, development of forward and backward linkages with other industries, development of high capacity national economic

[22] http://people.stern.nyu.edu/twadhwa/bangladesh/maps.html 2015 report by NYU Stern Center for Business and Human Rights.

[23] http://www.sithi.org/temp.php?url=bhr/bhr_list.php Map published by Cambodian Center for Human Rights ("CCHR").

and bureaucratic infrastructure. This creates a scenario where a country can stay attached to an apparel-export led path of economic growth without making significant efforts to diversify and upgrade economic structure, invest in human capital.

4.4. From dependence on RMG to authoritarianism

In this section, I will explain how extended dependency on an apparel-exporting sector can reduce political contestation in developing countries by changing the distribution of power among political organizations and solving commitment problem for authoritarian takeover. Authoritarian takeover by an incumbent takes place when a democratically elected incumbent undermined key pillars of democracy by incremental changes, abolishing or manipulating elections being the main thrust of tactics. According to Svolik (2015), incumbent takeover is by far the most common way democracies in developing countries break down, more than coups, revolutions or civil wars.

Probability of democracy reversal increase because the changed distribution of power enables the incumbent to build winning coalition from the selectorate more easily than political challengers (De Mesquita et al., 2005). The incumbent is helped by three processes RMG industry, (i) economic concentration in an 'enclave industry', (ii) unearned income from a growing export sector, and (iii) complementarity of political regime with a labor-repressive regime.

In our social conflict approach to institutional change from RMG industry dominance, there are three main groups of people with political power in the national economy and divisions within groups. The groups and their preferences are laid out in the following table.

Table 4.1: Main political and economic groups in an apparel export-dominated country

Groups	Subgroups	Preferences
Political Elite	Incumbent	Stay in power and maximize economic rent and revenue
	Opposition-challenger	Obtain political power
Economic Elite	Apparel business owners	Maximize policy favor to apparel sector
	Owners of other industries, asset	Maximize policy favor to their respective sectors
Organized Labor	Workers in apparel industry	Maximize wages and political-legal rights in the apparel sector
	Workers in other industries and sectors	Maximize income and political-legal rights in their own sectors

To explain how these groups and their preferences in an apparels industry dominated country make incumbent takeover more likely, I will use the popular and influential Selectorate theory (de Mesquita et al., 2005). Selectorate (S) is the set of people in a polity who has a say in determination of the ruler and who has access to private and public goods distributed by the ruler. Private goods, like rents and privileges, can be distributed selectively while public goods are nonexcludable and all the selectorate benefit from it. Political leaders seek to build a winning coalition (W), a minimum subset of S that is necessary to win or retain ruling power. The size of S and W vary according to the circumstances of a country and the regime type. In an electoral democracy, S is all the voting population and W is a plurality or majority of selectorate. In non-democratic regimes, S is much smaller, generally people with varying power belonging to bureaucracy, armed forces, business, political organizations. W in non-democracies is the coalition with the most power; power accumulated from all its members. Between the ruler and the challenger, whoever manages to build and retain a winning coalition, wins ruling power. Figure 4.4 is showing how RMG industry owners, non-RMG owners, organized RMG labor and organized non-RMG labor comprise various groups within selectorate of a developing country.

Members and groups in S have varying power (Sekeris, 2011). Coalition leaders want to build the most powerful W, but they also want to keep the size as small as possible. Small W not only enables leaders to provide more selective benefits per member but also enable more efficient monitoring of members. De Mesquita et al. (2005) argued that maintaining W with selective benefits is easier for incumbents than for challengers because the incumbent is already providing benefits to members of W while challengers are mostly promising benefits, promises that are not certain. Small, cohesive but resourceful business groups are particularly favored as winning coalition members because such groups generate resource for the coalition and leader, and they are easier to bind within W with targeted, selective benefits. When building and maintaining winning coalition become easier, incumbent turnover become less likely.

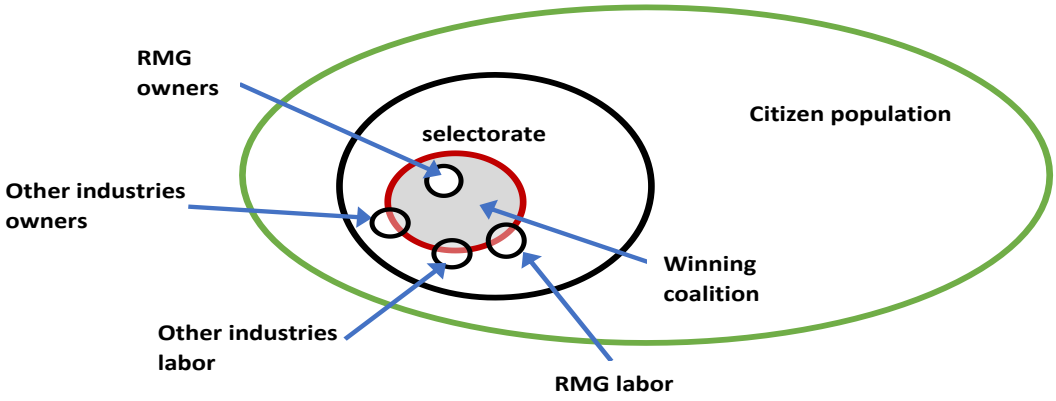

Figure 4.4: The selectorate and winning coalition in an RMG-industry dominated country.

An authoritarian regime is always afraid that significant parts of the winning coalition could be enticed away by rivals by promises of better privileges. Authoritarians in states with weak capacity to extract revenue also has a fiscal problem, they are unable to raise enough revenue to build coercive capacity and provide sufficient public goods to general people at the same time. An economic or industry sector like RMG industry that is owned by a limited group of economic elites and at the same time generate significant amount of revenue and rent, solves both the commitment and fiscal problem for aspiring authoritarians (Menaldo, 2016). Sector-specific benefits and privileges earn the incumbent support of a group of economic elites, the revenue help build coercive capacity and rents generated in the sector locks-in the incumbent and elites in a tight patron-client

relationship. The apparel sector becomes a jointly owned ‘golden goose’ whose longevity becomes a mutual high priority for incumbent and industry owners.

Weak state capacity is a scope condition for this thesis. The argument of this paper is that, in countries lacking strong state capacity, sustained dominance of apparel export industry makes democracy reversal by incumbent takeover more likely. Regimes in high fiscal capacity states do not depend on one sector or industry because they can extract revenue from all sectors including economic elites, technologically complex and interlinked sectors, income of general citizens (Menaldo, 2016).

I shall now examine the proposed three main causal processes by which apparel dependency make building winning coalition easier for incumbents in developing countries.

4.5. Economic concentration in an apparel export industry

I previously discussed in the sectoral characteristics section that apparel industry in the developing countries is generally agglomerated in geographical clusters near large cities or ports, have a dispersed firm-size distribution with large firms dominating many small firms, employs large number of low-skilled labor in a technology of production that is quite mature, simple and standardized, and produces an undifferentiated commodity. Thus, when the apparel industry in a country becomes a dominating economic sector, its owners comprise a cohesive and powerful economic elite group with clear interests and specific political policy preferences. Political economy literature generally agrees that a concentrated and powerful economic elite in a developing country, pursues particularistic relation with political elites, a behavior that can lead to less inclusive politics (Przeworski, 1986). In the selectorate framework, incumbents find it easier to incorporate the apparel industry elite within the winning coalition with selective and exclusive benefits, like tax and tariff privileges, special financing instruments, special economic zones with infrastructural support, etc. (Ahmed et al., 2014).

According to Przeworski (1986), democracy is a process of institutionalized uncertainty in realizations of preferences. In democracies, capacity of groups to realize

interests through institutional politics is shaped by their resource share, but the outcomes are never certain because even resource-poor groups can build coalitions, use issue salience to win victories in electoral politics and policy negotiations. Powerful groups in nondemocratic regimes have high degree of control over policy outcomes while less powerful have negligible control. For this reason, authoritarian politics is more likely when one group of economic elite has clear advantage over all others (Przeworski, 1986). A diverse economy produces a diversity of economic elites with diverging interests, making any one group in control of policy-making less likely (Ahlquist & Wibbels, 2012).

Apparel industry's lack of linkages with other domestic industries and sectors create an enclave economic sector that is little affected by inefficiency, violence, bad governance in other sectors. According to Cox, North and Weingast (2019), a complex economy that has specializations cutting across social, economic and political cleavages, is a necessary condition for open-access order with institutionalized politics. In a developing country with dominant enclave sector, difficulty of building cross-sectoral coalitions, both among business owners and organized labor across sectors, can make collective actions to remove an increasingly autocratic regime difficult (Acemoglu, Verdier & Robinson, 2004). In the selectorate framework (Figure 4.4), since incorporating a dominant, enclave RMG industry owners is enough to build a winning coalition among the economic elite, incumbents do not court other business groups with similar zeal. Successful exclusion or only partial accommodation of other business owners, labor from RMG and other industries, enables incumbents to build and maintain winning coalition easily.

Apparel industry's high asset specificity also skews policy preference of owners. The incentive to lobby for particularistic favors increase with asset specificity since the assets have little other use and owners do not have the flexibility to diversify their productive activity. Thus, economies dominated by specific assets see more elite resistance to democratization as they dislike uncertainty of a democracy (Acemoglu & Robinson, 2006).

Long-term and high concentration of apparel industry in the national economy has created a very powerful group of economic elites in many of the apparel export-dependent countries. Their economic and political clout are demonstrated by the strength of the

industry owners' associations in national politics and participation of the owners themselves in national level politics. Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Garment Manufacturers Association in Cambodia (GMAC), Sri Lanka Apparel Exporters Association (SLAEA), Honduran Association of Maquiladoras (AHM), Association des Industries d'Haiti (ADIH) and such owners' associations are generally the most powerful business group in their respective countries[24]. These associations have controlling influence over government policies regarding the industry, labor-relations, foreign trade (Yardley, 2013b; Ear, 2013). USA Senate Office of Public Records show that Haiti's ADIH, an association of only 100 business owners, spent on average $150,000 every year in lobbying from 2014 to 2019, an exorbitant amount for such a poor country[25].

Not only apparel exporters are very influential in national business and economic environment, but they are also often integral and important part of political elite. In the last contested parliamentary election of Bangladesh held in 2008, more than 31 of total 300 members of parliament were direct apparels industry owners, while many other members were indirectly related with the industry (Yardley, 2013b). After the deadly thirty-year long Sri Lankan Civil War was over in 2009, a government-military-business nexus, business mainly represented by apparel exporters, began a militarized nation-building effort by building factories in the war-ravaged areas and recruiting female labor from local population (Ruwanpura, 2018). Commenting on the symbiotic relationship between government and GMAC in Cambodia, a scholar said, 'it is unclear who captured whom' (Ear, 2013). Haiti's economy and politics have always been dominated by a limited group of elite families and their businesses (Naidu et al., 2021). No political leaders could stay in power for long without support of these elite families who were instrumental in orchestrating coups and upheavals against populist leaders in the 1994, 2004 and in 2010s. While previously these elite families were mostly landowners, importers, from 1990s many of them became RMG exporters as apparel business took off in Haiti. Presently most of the

[24] https://www.bti-project.org/en/reports/global-dashboard.html?&cb=00000
[25] https://www.opensecrets.org/federal-lobbying/clients/summary?cycle=2019&id=F213826

powerful political and economic elites are also in RMG business and known as 'sweatshop barons'[26].

4.6. Unearned income from apparel industry

Unearned incomes are the revenues and resources that the state obtains without having to put lot of organizational and political efforts (Moore, 2001). Earned incomes are, by contrast, revenues that only grow with investment in people and the economy and where the state must put significant organizational effort to extract in working with the citizens and private interests, for example income taxes, property taxes, corporate taxes, inheritance taxes etc. Comparative studies have argued that windfall of unearned income tend to extend the tenure of political leaders in non-democratic countries while in established democracies, it increases the probability of the incumbent returning to power in elections (Ahmed, 2012). The apparel export industry provides many of the benefits of a growing productive sector in a developing economy, for example more foreign exchange, mass employment, taxes and revenues, without making strenuous demands on capability of governance, state institutions, and general society. A clothing industry can thrive in absence of strong state capacity, human capital development, effective sociopolitical institutions, as long as there are favorable factor conditions, namely low labor cost and abundant supply of labor, and the government maintains pockets of efficiency for the industry (Ahmed et al., 2014). A dominant apparel sector thus has many of the essential properties of windfall unearned income.

Unearned income helps incumbents consolidate power in autocracies and non-democracies mainly via two mechanisms, income effect and substitution effect (De Mesquita & Smith, 2010). In brief, income effect is the resource becoming available to the incumbent for spending at their discretion while substitution effect is the wealth accruing to the country that frees the incumbent from obligation of spending for public goods, thus adding to their discretionary resources. In the selectorate framework, unearned income

[26] Elite families like Apaid, Bigio, Boulos were behind coups in 1994 and 2004 and currently control much of Haiti's politics. They also are large stakeholders in Haiti's RMG export industry. https://canadiandimension.com/articles/view/racial-capitalism-and-the-betrayal-of-haiti

from a concentrated source enables incumbents to keep winning coalition size small and spend more on selective goods to the coalition to maintain its loyalty. The next section of the chapter demonstrates this with an analytic model of strategic interactions.

Incumbents pursue several spending strategies for consolidating power and marginalizing political opposition. A common strategy in spending unearned income in developing countries is expansion of the public sector, both in terms of employment and in wage level, for creating a loyal and powerful support base (De Mesquita et al., 2003). Incumbents also expand the repressive capacity of the state, police and army generally, to bankroll repression of opposition and deter democratization (Ross, 2015). Windfall unearned income not only changes the fiscal capacity of the incumbent regimes but also alters their preferences regarding loss or retainment of power; incumbency becomes significantly more valuable (Robinson et al., 2006).

In Cambodia employee compensation as percentage of public spending has steadily grown from 35% in 2003 to 45% in 2016[27]. Higher level of spending in bureaucracy compensation can be observed in most of the apparel dependent countries. In South Asia, employee compensation as percentage of public spending in the period 2010 – 2015 was much higher in the two, apparel export-dependent countries Bangladesh (23%) and Sri Lanka (27%) than neighboring India (9%) and Pakistan (5%)[28]. Cambodia's high level of spending in government salaries is an outlier in Southeast Asian region, only natural resource-dependent Laos has similar level of salary spending.

This higher spending on public sector compensation and benefits have helped incumbent takeover of political power in these countries. Bureaucracy in Bangladesh has historically been notoriously politicized with public servants at all levels maintaining close relations with main political parties. In 1996, it was the breaking away of a significant group of senior bureaucrats from the incumbent regime and pledging loyalty to the opposition movement, that precipitated turnover in political power (Rashiduzzaman, 1997). However, with the help of generous pay and other benefits, incumbent regimes in more recent years have managed to keep rebellion among bureaucrats under tight lid. There

[27] https://ourworldindata.org/government-spending
[28] https://ourworldindata.org/government-spending

were no open breaking in bureaucratic ranks during much bloodier opposition movements in 2013 and in 2018.

A dominant apparels export industry not only generate revenue for the state but also create many jobs, generate domestic production of industrial inputs for the factories and demand for consumer goods by the workers. This great boost to the national economy and society, occurring largely without significant investment in technology, human capital, productivity, also create a substitution effect of unearned income by reducing public demand for more social spending and political accountability (Ross, 2001). According to Rodrik (2004), national technological expertise and innovation is usually not constrained by supply but demand. Lack of demand from business and organizations for skill and innovation, dampen investment on human capital upgrading. The apparel industry as an archetypal example of low-skilled, labor-intensive industry, thus dampening rather than stimulating demand for government spending on higher education and other human capital investments.

Because of revenue generated from the industry, governments have less reliance on direct taxes on incomes of citizens and therefore either levies lower income taxes or invests less efforts in extracting. Citizens tolerate significantly more economic inequality and political corruption than they would otherwise (Auty & Gelb, 2001). Consequently, incumbents can further divert revenue income to investment in coercive apparatus and patronage goods. According to the selectorate framework, more spending on patronage and less public spending, help consolidate the winning coalition of incumbents.

The following figure shows average direct income taxes on individuals and corporations as percentage of GDP for a selected group of countries for the years 2014-2017[29]. I also pair it with Government expenditure on education as percentage of GDP for the years 2010-2017[30]. For useful comparison, the countries are grouped regionally, South Asia and Southeast Asia. We can see that countries that are overdependent on apparel export industry (Bangladesh, Sri Lanka, Cambodia) have low direct tax to GDP ratio and lower government spending on education, compared to their neighbors. Remarkably,

[29] https://ourworldindata.org/taxation
[30] https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS

Bangladesh and Sri Lanka have lower income tax and education spending than Nepal, a much poorer country that do not export significant amount of apparels. Laos in Southeast Asia is a natural resource dependent country.

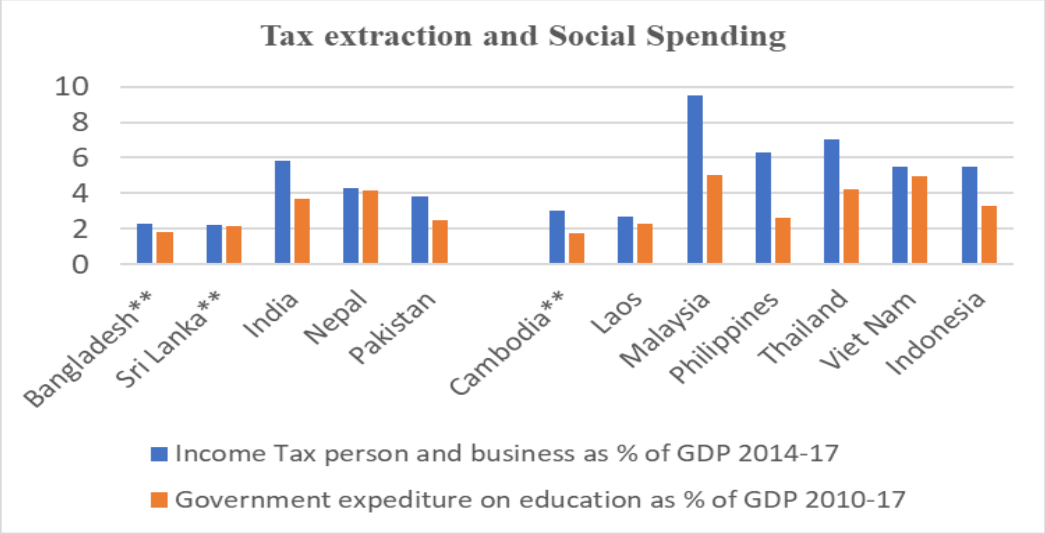

Figure 4.5: Income tax extraction and public spending on society in selected countries

Incumbent regimes of RMG export-dependent countries divert the money from social spending to spending on coercive apparatus of the state, mainly police and army. Increased spending on security forces not only enable the regimes to crack down on political opposition but also control labor movements and unrest in a notoriously labor repressive industry. From 2009 to 2019, Cambodia's budgetary expenditure on public security went up by 506% and defense spending by 427%, while total budgetary expenditure only increased by 354%[31]. Bangladesh's budgetary allocation for police increased by 700% from 2001 to 2013 while total budget only went up by 520% in the same period[32].

The apparels industry is also source of large amount of economic rent that upholds a clientelist political system where political elites provide privileged access to rents to selected economic elites in exchange of political and economic support. Rents are profits

[31] Data of budgetary from Cambodia's government website on budget, http://www.cambodianbudget.org/index.php?page=00124

[32] . Data on police from Biswas (2018). Data of total budget from Centre for Policy Dialogue (CPD), Bangladesh, website, https://cpd.org.bd/.

earned in economic activities beyond what is possible from market rate. The apparel industry generates massive profit for business owners by virtue of industry specific financial instruments, trade policies, credit facilities, special infrastructural support, tax breaks, close connection with politicians and bureaucrats, and other privileged accesses (Ahmed et al., 2014; Hassan & Raihan 2017; Ear, 2013). This sets the apparel industry apart from other industries and economic sectors that are plagued by the huge transaction costs that are characteristics of doing business in developing countries. Commenting on the tax privileges enjoyed by apparel owners, the Bangladeshi finance minister observed: 'In recent years we have seen the birth of a new rich class, but government cannot collect adequate tax from this class.' (Ahmed & Shah, 2013).

In crony capitalism, there is competition among political elites also for economic and political support from business and industry owners. Incumbents offer existing privileges while aspiring opposition offer promises of better privileges. Economic support from businesses flow to both incumbents and opposition according to the current balance of political power and prospects of future power (Kang, 2002; Hassan & Raihan 2017; Khan, 2010). Incumbent governments want to restrict business support of opposition parties while increase own support. The apparel industry's high geographical concentration, similarity of business interests, standard technology and business process, dependence on state-supported financial instruments, make monitoring of political support, rent collection and distribution, much easier than other more complex sectors. A dominant apparel sector thus helps incumbent monopolization of rent collection and political support.

Most of the apparels export-dependent countries suffer from high political and bureaucratic corruption. The following chart shows Transparency International's annual Corruption Perception Index (CPI) score average for 2018-2020 for a select group of countries[33]. The scores range from 0 to 100 and lower the score, the more corrupt the country. The chart shows that in their respective regions, apparels export-dependent countries (marked with double stars) are among the least transparent. There are many other compelling reasons why these countries are more corrupt than neighbors, level of per capita income for example. However, many field studies have documented that apparels sector is

[33] https://www.transparency.org/en/cpi/2020/index/nzl

source of extraordinary amount of illegal payment to politicians and bureaucrats in these countries.

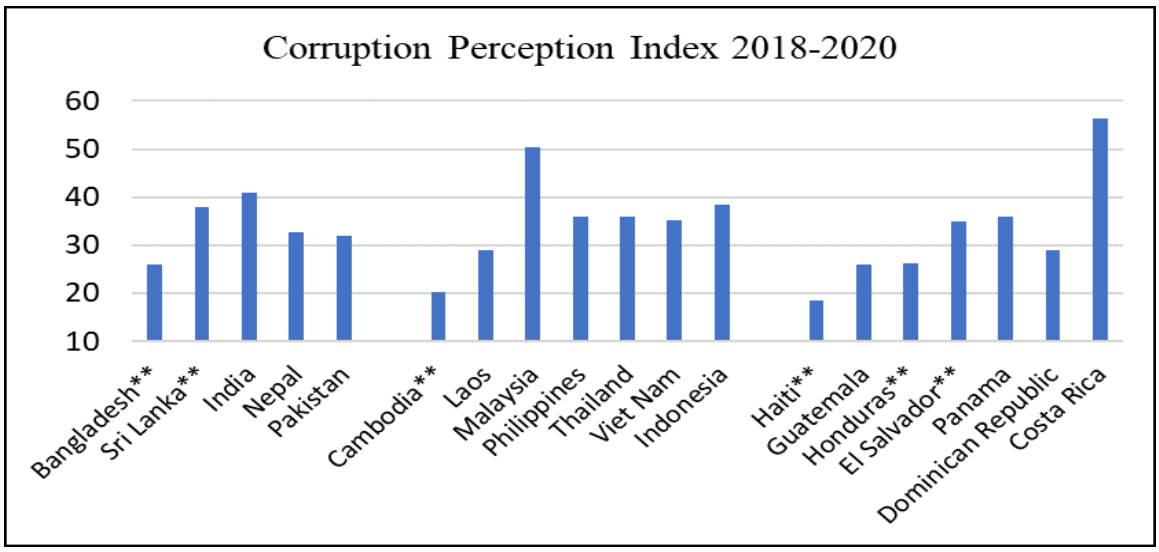

Figure 4.6: Patronage and corruption in apparel exporting countries in comparison with neighbors

Ahmed et al. (2012) documents that paying protection money to local political leaders is a regular cost of doing business for apparel industry owners in Bangladesh. As one owner told them "If you're in big trouble in Dhaka (the capital city), 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" (p. 265). The industry pays a significant amount to bureaucrats for regular business operations like bonded warehouse facility, environmental clearance, logistic support, VAT certificate etc. Conducting a survey on 92 apparels exporters, Asadullah & Chakravorty (2019) found that average annual informal payments to government officials amounted to US$ 23,330. Multiplied by more than 4,000 operating industry units, this side payments comprise a significant source of rent extraction by politicians and bureaucrats. In Cambodia, the garments industry pays as much as ten percent of the total export revenue (currently more than US$ 10 billion per annum) in informal payments (Ear, 2013).

4.7. Labor repression and business collusion in apparel industry

RMG industry in developing countries are characterized by powerful owners' groups and weak-fragmented organized labor because of the characteristics of the industry and trade. This power differential between owners and labor, and prevailing logic of competitiveness, wage suppression, make RMG one of the most labor repressive industries in the world. Since small but powerful winning coalition is easier to manage than large coalitions, incumbents incorporate the powerful owners in the winning coalition and exclude the large labor force by providing political support for labor repression (Figure 4.4). Since national-level industrial relation is closely related to the state of national political institutions of countries because of complementarity of institutions (Aoki et al., 2001), labor-repressive regime in the dominant industry leads to politically repressive regime. Institutions are complementary because one type of institution become more viable in one domain (e.g., political) from fitting institutions in other domains (e.g., industrial, social). When businesses in a dominant national sector have high mobilization capacity while labor has low disruption capacity, industrial relations is characterized by collective labor repression and the complementary political regime type is right-wing authoritarianism (Chapter 5).

Democracy becomes unsustainable in such regimes because labor repression and wage suppression are difficult to maintain with extension of political rights to labor (Rodrik, 1999). If free and contested election happen in a labor-intensive country with collective labor repression as the modal industrial relations, opposition parties will naturally seek electoral support of the labor with promises to address their grievances. Incumbent regimes therefore seek to undermine free elections at every opportunity they get. The regimes also subvert rule of law by taking control of the legal organs to maintain labor repression. At the same time governments of right-wing regimes provided selective benefits to associations of businesses for maintaining the winning coalition and helping business to repress labor. Close business-regime ties increase the coercive capacity of the state and make democratic transition less likely (Albertus & Menaldo, 2012). Examples of such regimes include East Asian countries South Korea, Philippines, Indonesia in the 1960s

and 70s (Kang, 2002) and various Latin and Central American dictatorships in 20th century (Schneider, 1998).

The apparel sector employs a significant number of industry labor in many developing countries, but these workers are often physically and organizationally separate from national labor in other industries because of worker composition, technical skills and geography. Since labor constituted a high portion of production costs but the overall margin of value added is low, apparel industry owners have been recruiting young women as main labor force historically because poor young girls work for significantly less pay (English, 2013). Women workers are also replaced regularly to deter demands for job promotion and higher wages. Women still comprise bulk of labor in the industry, 60 percent in Honduras (2008), 83 percent in Cambodia (2009), 73 percent in Sri Lanka (2008), 80 percent in Bangladesh (2011) (Lopez-Acevedo & Robertson, 2012).

High asset specificity, geographical agglomeration in special economic zones, lack of cross-sectoral linkage, mature and low technology of production in the apparel industry also results in a large, low-skilled labor force with low connections with labor employed in other industries (Fuller, 2017). This fragmentation in labor and general people also lessen democratizing pressure upon regimes because large, cross-sectional labor movement has traditionally been one of the most significant threats to regime stability. Haggard and Kaufman (2016) found that mass mobilization from below, by united efforts of labor unions, civil society organizations, university students, was a critical factor behind most of the democratizations that happened in the Third Wave between 1980 and 2008. Participation of apparel workers in national labor organizations, industry or national workers unions, has been historically low compared to other industries (Anner, 2011). As figure 4.4 shows, governments and business owners collude to weaken organized labor by fragmenting and restricting unions.

The International Trade Union Confederation (ITUC) is the world's largest federation of labor unions representing labor organizations from more than 160 countries[34]. Since 2014, ITUC has been publishing annual reports on state of labor rights in countries

[34] https://www.ituc-csi.org/

and violations of rights by governments and employers. The organization also publishes an ITUC Global Rights Index, ranking countries on a scale of 1 -5. Countries where labor rights are most secure are ranked 1 while countries with almost no de facto labor rights are ranked 5. The following figure shows the ITUC average annual score for six apparels-dominated countries (Bangladesh, Sri Lanka, Cambodia, Haiti, Honduras, El Salvador) for the period 2014 – 2020 and compares the score with other developing countries in ITUC list with at least two million population. There were 51 such countries.

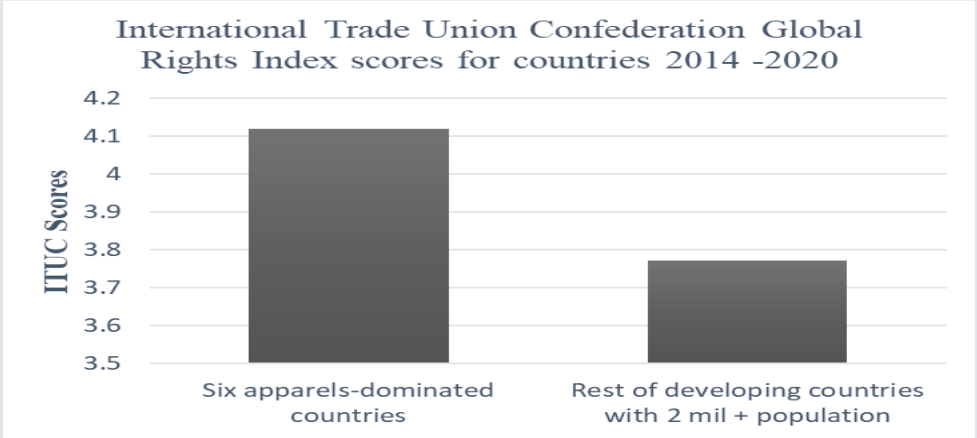

Figure 4.7: Difference in labor rights index between apparels export-dominated countries and rest of developing countries.

Although elections in Cambodia were never free and fair, until recently they were somewhat contested with opposition having some probability of winning. In the last contested election of 2013, the opposition showed gains unanticipated by the ruling regime (Un, 2019). In the 2013 Parliamentary elections and in 2017 local elections, the opposition gained significantly in the capital Phnom Penh and surrounding rural areas, home of most of the apparel workers and their voting place (Lawreniuk, 2020). Promise of better labor rights and wages for apparel workers helped the opposition gains. The ruling Cambodian People's Party (CPP) regime aggressively sought to deny political opposition and labor any significant political space. The ruling party used legislature and courts to severely restrict operations of civic organizations like unions and to outright dismantling of main opposition political party (Un, 2019). In the 2018 national elections, where the main opposition party and leaders were not allowed to participate, the ruling party took hundred percent of seats. Both government-business collusion and labor political mobilization, contributed towards

the authoritarian turn in Cambodian politics that sought to preserve the labor-repressive, wage-suppressive industry regime (Lawreniuk, 2020).

Apparels labor in Honduras is comparatively more organized because of the legacy of strong agricultural labor (mainly banana workers) movements in the 1950s (Anner, 2015). Owners are also collectively well organized and the political struggle between apparel workers are often violent. In a bid to gain popularity, leftwing populist President Manuel Zelaya announced 60% increase in industry minimum wages in early 2009 (Fasquelle, 2011). Business owners reacted furiously and used national media to depict Zelaya government as completely hostile to the prosperity of Honduran economy. In June 2009 the military ousted Zelaya with a coup that was enthusiastically supported by the business elite and a right-wing government took over (Fasquelle, 2011).

In Bangladesh, although organized labor in the Apparels industry is riven with political factionalism, the urban and suburban areas that are home to large apparels clusters, belong to parliamentary constituencies that voted most reliably in anti-incumbency in all the contested elections since 1990. Establishing coercive control over these anti-incumbency prone areas, has been priority for all governments for both political and labor control reasons. The current incumbent Bangladesh Awami League (BAL), which came into power in 2008 national election, established a special force called Industrial Police in 2010 to control labor agitations in industrial clusters. The force was supposed to be a neutral force for maintaining security for both business and labor, but almost always works for collective and individual interest of business owners (Yardley, 2013b).

After the victory in the controversial and uncontested 2014 election, the ruling BAL offered a special compact to the business elites of Bangladesh. The regime offered political stability, absence of the crippling national strikes, full support of state in labor control and repression, selective credit and policy benefits in return of credible commitment to the regime through no public demonstration of demand for democracy. The government informally put forward a model of one-party dominated national politics of crony capitalism and economic growth for Bangladesh, roughly following Malaysia's developmental path during the 1980s to 2000s (Pritchett et al., 2017). Apparels business and BGMEA were awarded more specialized privileges in tax deductions, cash incentives

and almost total power to shape and craft all kind of policies regarding the most important national industry (Pritchett et al., 2017). The regime conducted a highly controversial election in 2018 where they took more than 90% of seats with incredible vote tallies (Riaz, 2019). With business acquiescence, Bangladesh's turn from competitive clientelism to single-party authoritarianism became complete.

4.8. A model of strategic interaction among political elites in presence of unearned income

In this section, I present a formal model of strategic interaction between incumbent and challenger in a non-democratic setting and in presence of a large apparel industry producing unearned income for government. The model is based on the Selectorate framework of De Mesquita et al. (2003), Smith (2008), which has been widely used in the last two decades in studies of democratization, democracy reversal and authoritarianism. The selectorate (S) is the set of individuals whose aggregated verdicts decide who will hold power in a country. In democracies, the selectorate is the voting population but in non-democracies, the selectorate is much smaller. Generally economic and political elites, senior bureaucrats and military officers, private violence specialists like mafia, comprise the selectorate in non-democracies. Among the selectorate, Winning Coalition (W) is the minimum sized group necessary to win or retain power. Thus, maximum size of necessary $W \leq S/2$.

To win over selectors, incumbents and challengers offer to spend public goods on all citizens and private goods to targeted selectors. Public goods are government spending on health, education, infrastructure that help the economy grow and satisfy all citizens. Private goods are privileged patronage goods and services given to the members of winning coalition. In democracies, all voters are selectors therefore almost all spending is public goods but in non-democracies, there is a mix of government spending on private and public goods.

Regimes earn income to finance these spending. In our model, income comes from two sources. First is the tax on the general economic output, which is a function of public

spending or investment. Secondly, unearned income from an economic sector that is not dependent on government investment. Income from this sector generates by virtue of natural endowment like natural resources, cheap labor supply, access to trade routes. A central claim of this paper is that a large apparel-exporting industry acts like a significant source of unearned income in a developing country.

The strategic interaction model presented here is adapted from Smith (2008) model of selectorate politics. However, there are a few differences. First, I have only two strategic players, incumbent and challenger, while Smith has a third player, a revolutionary. Secondly, unlike Smith's infinite horizon, I adopt a two-period model with non-democratic elections and revenue earning occurring at each period. I reason that since political power contests happen periodically even in non-democratic settings, adopting infinite horizon is less realistic. Thirdly, unlike Smith, I use comparative statics in equilibrium condition to see how endogenous variables public and private spending change with the size of exogenous unearned income. In this I follow the approach by Desierto (2018).

The incumbent I is currently in power, challenger C is a political rival. The country has N tax paying citizens, of them a much smaller group of individuals comprise the selectorate, S in our non-democratic setting. Thus S $\ll$ N. The minimum number of selectors necessary to win or retain power is W, the winning coalition. If the incumbent can hold on to W, he will retain power but if the challenger manages to pry away at least one member of incumbent W to own coalition, he will win power.

In our two-period game, in each period government spends and challenger proposes to spend public goods g per citizen and private goods p per winning coalition member. At the end of each period government collects R unearned revenue from privileged sector and N$tf(g)$ from the general economy. $f(g)$ is the output per capita which is a function of public spending and t is the income tax rate. Following general economic theory, $f(g)$ is concave and thus first derivative $f_g > 0$ and second derivative $f_{gg} < 0$.

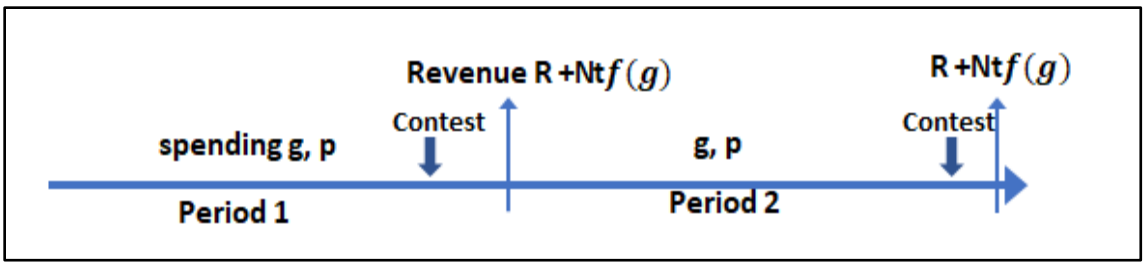

Figure 4.8: A two-period model of government spending and income from taxes and unearned sources

Incumbent's net utility in current period is income minus spending

$R + Ntf(g) - Ng - Wp$ so, the budget constraint is $Ng + Wp \leq R + Ntf(g)$ ----- (1)

In each period, each selector has utility $v(g) + u(p)$ from public good and private good received. From concavity of utility, $v_g > 0, v_{gg} < 0$ and $u_g > 0, u_{gg} < 0$. In the first period, with the need to form a minimum winning coalition and given the budget constraint (1), the maximum amount of private and public goods per capita that the Challenger C can offer is given by the optimization

$$g_C, p_C = arg \max_{g,p} v(g) + u(p) \quad subject\ to\ Ng + Wp \leq R + Ntf(g)$$

Since the budget constraint will be binding at maximization, we can derive the relation

$$p_C = \frac{R+Ntf(g_C)-Ng_C}{W} \qquad -----(2)$$

g_C is the maximum public spending per capita that solves the F.O.C of $v(g) + u(p)$, therefore putting the relation (2) in $v(g) + u(p)$ and deriving the FOC w.r.t g_C

$$v_g(g_C) + \frac{Ntf_g(g_C) - N}{W} u_p\left(\frac{R + Ntf(g_C) - Ng_C}{W}\right) = 0 \ ----(3)$$

Plugging (2) in the Second Order condition of $Ng + Wp$ also shows that g_C, p_C obtains the maximum

Challenger offers g_C, p_C for the current period and g^*, p^* for the period after the political contest to her winning coalition W. However, according to de Mesquita et al

(2003) members of a challenger's current W is not certain to be included in challenger's W after the contest should she win over the contest and become political leader.

This is a critical distinction in the Selectorate model. The incumbent has already developed an affinity with his W because he is providing them with private good and they are bonded by co-management of political power and shepherding the unearned income sector. They know they will not be thrown out of the coalition unless they demonstrate disloyalty. The challenger has not developed such an affinity with her W. Thus, a challenger can easily change her winning coalition with new selectorate members once she wins power. Thus, a member of challenger's current W is only likely to be in the next period W with a probability of $\frac{W}{S}$ (all selectorate members equally likely), provided the challenger wins. However, members of incumbents current W, can be fairly confident that they will be also part of incumbent W if he retains power. Since only members of winning coalition obtains private good from the political leadership, the best offers a member of challenger W is expected to get currently is

$$v(g_C) + u(p_C) + \delta\left\{v(g^*) + \frac{W}{S}\, u(p^*)\right\} \qquad \text{---------- (4)}$$

δ is the discount factor for next period expected payments.

To maintain the winning coalition and retain power, the incumbent needs to offer vector of private and public goods over the two periods, whose utility is at least as good as those of the challenger's best possible offer (4).

$$v(g) + u(p) + \delta\{v(g^*) + u(p^*)\} \geq v(g_C) + u(p_C) + \delta\left\{v(g^*) + \frac{W}{S}\, u(p^*)\right\}$$

Although the challenger may entice with better offer g_C, p_C today, a member has better expected offer of private goods from incumbent in the next period $u(p^*) \geq \frac{W}{S}\, u(p^*)$. At equilibrium, the offers will be equal, and we obtain the relation

$$v(g) + u(p) - v(g_C) - u(p_C) + \delta\left\{\left(1 - \frac{W}{S}\right) u(p^*)\right\} = 0 \qquad \text{--------- (5)}$$

So, the incumbent I faces an optimization problem of maximizing net utility $R + Ntf(g) - Ng - Wp$ subject to constraint (5). I then obtain the Lagrangian

$$L = R + Ntf(g) - Ng - Wp + \lambda \left[v(g) + u(p) - v(g_C) - u(p_C) + \delta\left(1 - \frac{W}{S}\right)u(p^*)\right]$$--- (6)

FOC of the Lagrangian w.r.t the three endogenous variables g, p and λ are

$$L_g = Ntf_g(g) - N + \lambda v_g(g) = 0 \quad \text{------- (7)}$$

$$L_p = -W + \lambda u_p(p) = 0 \quad \text{---------- (8)}$$

$$L_\lambda = v(g) + u(p) - v(g_C) - u(p_C) + \delta\left(1 - \frac{W}{S}\right)u(p^*) = 0 \quad \text{----------}$$

(9)

At equilibrium, these are the conditions that enable incumbent to maintain minimum winning coalition W and hold on to power. I am interested to know what happens to endogenous variables g, p as size of exogenous variable R, unearned income from an industry, changes. To derive the comparative statics of g, p w.r.t R, I totally differentiate (7), (8) and (9) w.r.t R and obtain the following system of equations in matrix from

$$\begin{bmatrix} (Ntf_{gg} + \lambda v_{gg}) & 0 & v_g \\ 0 & \lambda u_{pp} & u_p \\ v_g & u_p & 0 \end{bmatrix} \begin{bmatrix} \frac{\partial g}{\partial R} \\ \frac{\partial p}{\partial R} \\ \frac{\partial \lambda}{\partial R} \end{bmatrix} = \begin{bmatrix} 0 \\ 0 \\ \left(\frac{u_p}{W}\right) \end{bmatrix} \quad ----(10)$$

Using Cramer's Rule on (10) I obtain

$$\frac{\partial g}{\partial R} = \frac{\frac{-\lambda v_g u_p u_{pp}}{W}}{-Ntf_{gg}u_p^2 - \lambda v_g^2 u_{pp}} \quad ----(11)$$

and

$$\frac{\partial p}{\partial R} = \frac{\frac{-Ntu_p^2 f_{gg} - \lambda u_p^2 v_{gg}}{W}}{-Ntf_{gg}u_p^2 - \lambda v_g^2 u_{pp}} \quad -------(12)$$

Since $v_g, u_p > 0$ and $v_{gg}, u_{pp}, f_{gg} < 0$, both $\frac{\partial g}{\partial R}$ and $\frac{\partial p}{\partial R}$ are positive, meaning provision of public goods and private goods per capita are increasing with increased unearned income. However, the rate of increase is smaller with size of winning coalition W. The larger the winning coalition, the smaller the provision of private and public goods, and vice versa. For, any given W, the difference in rates of private and public goods offered with increased unearned income is,

$$\frac{\partial p}{\partial R} - \frac{\partial g}{\partial R} = \frac{\frac{-Ntu_p^2 f_{gg} - \lambda u_p^2 v_{gg} + \lambda v_g u_p u_{pp}}{W}}{-Ntf_{gg}u_p^2 - \lambda v_g^2 u_{pp}}$$

We can reasonably assume that a selector will have higher utility for private goods than public goods. Then the net amount $-\lambda u_p^2 v_{gg} + \lambda v_g u_p u_{pp}$ becomes positive because $v_g < u_p$. Holding $\lambda u_p^2 v_{gg} \cong \lambda v_g u_p u_{pp}$ I obtain

$$\frac{\partial p}{\partial R} - \frac{\partial g}{\partial R} = \frac{\frac{-Ntu_p^2 f_{gg}}{W}}{-Ntf_{gg}u_p^2 - \lambda v_g^2 u_{pp}} \qquad ----(13)$$

Which is positive and significant since it is multiplied by the size of whole population N and divided by W which is much smaller than N. Thus, provision for private goods increase at a faster rate than provision of public goods with increased unearned income and this effect increases with small sized winning coalition W.

Comparative statics of the equilibrium conditions shows that it is Incumbent's interest to keep W small. A small W means selectors have lower probability of being included in challengers W in the next period and incumbent can afford to promise less private and public goods in the current period. I argue here that a large apparel export industry leads to a smaller group of economic elites necessary for incumbent's retaining of power. A smaller W also means that greater opportunity for incumbent to build high affinity with his winning coalition through continuing provision of private goods.

4.9. Conclusion

Although, as the previous discussion shows, the traditional view of clothing export-industry as an effective starter industry towards industrial diversification and upgrading is somewhat misplaced, the significant contribution of the industry in leading socio-economic development in many developing countries is undeniable. Clothing export-led economic growth have provided job opportunities and means to escape subsistence-level poverty for tens of millions of families in Asia. Middle East, Africa and Latin America. However, while many clothing-exporting countries have diversified their economy and upgraded towards more value-adding exports, some developing countries seems to be stuck in a cycle of dependency on clothing exports. In this chapter, have argued that extended clothing-export concentration affects a country's political institution by changing the distribution of economic and political power of organizations. I have argued that the net effect is a decrease in contestation at the top levels of politics through increase of relative power of the ruling coalition with respect to its horizontal opponents. I provide support for this argument in chapter 6 by empirical analysis of 128 developing countries for the period 1989 to 2015, analysis that supports the contention that increase in clothing export concentration has a negative effect on political freedom of a country.

This finding has important implications for citizens and policymakers of developing countries with high clothing export concentration. Many of them regard apparels industry as a primary vehicle of economic development. This study shows that dependency on clothing exports not only exposes a country to danger of getting stuck on a path of a less diversified economy, but also it deters the development of the country's political institutions towards more democracy. Policymakers who regard these outcomes as less than desirable should plan and implement policies in advance so that paths leading to more political and economic diversification become more likely.

Undoubtedly there are many other causes that could be contributing towards the relative lack of democratic openness in the countries overly dependent on clothing exports, and similar countries. There could be third variables, common across these countries, contributing towards both export-concentration and democracy recession. The scope of this study has precluded close examination of alternate explanations of the observed trends in explanatory and dependent variables. Case history studies that compare between countries

experiencing clothing export-dependency and countries that have diversified and ungraded their economy, is a logical next step in research. Another necessary step is development of a larger cross-country database with more variables for more robust, exhaustive and multi-method empirical investigation of causal link between clothing export-dependency and democracy.

CHAPTER V

A THEORY OF STRUCTURAL ORIGINS OF INDUSTRIALRELATIONS AND POLITICAL INSTITUTIONS, WITH APPAREL INDUSTRY AS A CASE STUDY

5.1. Introduction

In April 2013, the building housing 'Rana Plaza' garment factory collapsed outside Dhaka, Bangladesh, killing more than 1100 people in the worst industrial disaster in modern times. Thousands of young women and men worked daily in the most horrible sweatshop conditions in the multi-storied building that collapsed due to shoddy construction and total disregard of safety rules[35]. A hundred years ago in 1911, a fire at the Triangle Shirtwaist factory in New York City killed 146 garments workers, again mostly young women, in one of the deadliest industrial disasters in 20th century. Lack of safety provisions and poor working conditions were the main reason for that disaster also. The two incidents, hundred years apart, in two very different countries, show that working conditions and labor regime in an industry have great persistence over time and place. The readymade garments or apparels industry, because of the prevailing business logic of wage suppression, remains an archetype of repressive labor relations.

In the last hundred years, many industries have spread out from the industrialized countries to the underdeveloped world and have become dominating industrial sectors of many developing economies. For example, an overwhelming majority of large factory units in Bangladesh and Cambodia belong to just one industry, apparels. Intuitively, growth of a leading industry sector exercises special formative influence upon social and political institutions of developing countries that are just embarking upon stages of modernization. Characteristics of a dominant industry often defines the most important class and business-political relations in a developing society. Despite this apparent significance, comparative political economy literature has not substantively addressed how industry-specific

[35]A comparison of the two different incidents, one hundred years apart, is made in https://learning.blogs.nytimes.com/2014/04/08/text-to-text-bangladesh-factory-safety-and-the-triangle-shirtwaist-fire/

structural characteristics gives rise to different types of business and employment relations in developing countries and how this institutional variance of industrial relations is embedded in broader political context.

This chapter proposes and elaborates an analytical framework showing how industry-specific characteristics provide different levels of structural power to business and labor in an industry. Structural power is defined here as the capacity to influence decision-making of other actors in strategic interactions. The actors in this model are business firm, labor and government. Different combinations of level of structural power of business and labor, lead to different types of industrial relations in an industry. The model shows four ideal-typical relations as outcome: collective labor repression, collective collaboration, individual collaboration and individual repression.

Industrial relations of a dominant industry is embedded within a hierarchy of national and local institutions, where the political regime is usually the most powerful institution. Our model of structural power of business and labor shows that, due to complementarity of institutions, and demand-and-supply of institutions from actors, specific types of industrial relations regimes make specific types of political regime more likely. The actors in the model, business, labor and government, want to realize their policy preferences by changing the institutional environment of politics through exercise of their structural power. Equilibrium institutional outcomes, like labor regime, business association activity and inclusivity of political regimes, reflect the distribution of power among actors. The political regime outcomes in our analysis are, democracy, right-wing authoritarianism, populist authoritarianism, and autonomous predatory regime. Since sectoral characteristics is exogenous to national institutions to a large extent, and sectoral characteristics is a significant source of industrial relations, I argue that institutions of industrial relations in dominant sectors have substantial causal precedence to political institutions over longer timeframe.

Finally, I show applicability of the analytical framework through structural analysis of the export-oriented apparels industry and a brief discussion of labor and political regime complementarity in apparel export dependent countries.

5.2. Literature on structural origins of labor regimes

The research in this paper addresses two long-standing questions of comparative industrial relations and comparative political economy. The first question is, how do institutions of industrial relations of different industries in a country, come into being? Second, how does industrial relations of a dominating or a modal economic sector, affect institutions of national politics?

John Dunlop first put forward a general theory of industrial relations in his book 'Industrial Relations Systems' (1958)[36]. According to Dunlop's systems perspective, industrial relations is a system comprised of three main actors -workers, employers and the government- interacting within certain environmental context– the market, technological characteristics and distribution of power in society and binding ideologies-, that generate complex rules for defining relative status of actors and for governing the workplace.

Since then, a main debate in comparative industrial relations has focused on whether country or sector comprise the most relevant level of environmental context for origin of rules and institutions (Hollingsworth & Streeck, 1994). Some scholars have argued and tested the proposition that industrial relations vary among countries mainly because economic organizations are embedded in national social-political traditions and are therefore path-dependent on national institutional trajectory. Others have proposed that sectoral characteristics like technology, product markets, are more determinative for economic governance structure of industries. They also argue that growing internalization of sectoral economies, in form of one international market of products, finance, supply chain and sometimes labor, have facilitated the trend towards cross-national convergence in sectoral governance (Bechter et al., 2012). Proponent of national level of analysis, however, point out that governance of labor markets and employment relationships are often kept insulated from "pure" markets and are therefore less amenable to international convergence (Hollingsworth & Streeck, 1994). Empirical studies of cross-national and inter-sectoral variation in employment relations in highly integrated regions like European

[36] Revised edition by Harvard University Press in 1993.

Union have shown that, despite decades of globalization, both national and sector-specific factors retain significant explanatory power (Bechter et al., 2012).

Persistent intra-national and inter-sectoral variation in industrial relations with time and international exposure suggest that sector-specific characteristics have important causal role in explaining institutional forms. In that vein, researchers have argued that preferences of business and labor, in responses to structural conditions that may change over time, are key factors in emergence of business and labor institutions (Mares, 2003; Swenson, 2002). Mares (2003) argues that characteristics like firm size, skill intensity of labor explain variation in business support for worker social welfare policies. Swenson (2002) shows that differences in initial structural conditions like scarcity of labor explain why USA developed a more labor-unfriendly regime while Sweden adopted labor-friendly institutions.

Alexander Kuo (2011) has developed an account of emergence of collaborative employer's association from structural conditions of business and labor during critical historical moments in western, industrialized countries. He argues that firms select collaborative or repressive labor strategies based on the level of redistributive threat posed by labor. This study closely follows the basic argument in Kuo's (2011) model to account for the emergence of industrial relations but also departs in some important ways. First, the framework in this paper includes a more extensive list of structural characteristics that contribute towards structural capacity of business and labor than only industrial heterogeneity. Second, this framework uses a common framework for structural power for both business and labor, unlike Kuo's (2011) qualitatively different redistributive threat of labor and collective action of business. Thirdly, Kuo (2011) does not incorporate the role of state or regime in the model; in our model the regime is critical in the power balance between business and labor. Overall, our study argues for greater importance of sectoral characteristics in formation of industrial relations in developing countries because strength of formal institutions is historically weaker in these countries than in politically developed countries.

The second part of the research question investigates the causal connection between industrial relations in dominant sectors and political institutions. Social Science has been

discussing the role of organized business, organized labor, in development of political institutions of developing countries for long time (Rueschemeyer et al., 1992; Schmitter, 1985). However, no clear consensus has emerged about the nature of their contribution towards reducing political inequality (democratization) in those countries.

Rueschemeyer et al. (1992) argued that strong representation of capitalists through business associations is necessary for democracy consolidation. Olson (1965). On the other hand, pointed out that powerful, concentrated groups like business associations are highly effective in pursuing own particulate interests that generally go against more economic and political equality. In the late developing economies, the state has been more directly involved in the economy and business associations in those countries often resisted democratization in fear of losing privileged access to the state (Schneider, 2004). Collective labor organizations have long been regarded as one of the few ways' poor, working class people in developing countries exercised power in politics and redressed their political inequality (Lipset, 1983).

Adaner Usmani (2018) has argued that the gap in disruptive capacity of labor and business explains a large part of probability of democratic transition in developing countries. In his analytical model, the ability of labor to disrupt business and economic life of the nation, depends on structural factors like the types of industry, the amount of skilled labor employed. This paper also follows Usmani's (2018) contention that the redistributive threat posed by labor in form of disruptive capacity, is an important driver of democratization. However, Usmani (2018) does not include variance in business or elite capacity to thwart labor demands, and influence government, which I argue is also an important determinant. Moreover, while Usmani (2018) only focuses on likelihood of democracy, the analytical model in this paper discusses several democratic and undemocratic regime-types as outcomes.

Like Usmani (2018), this study fills a gap in the growing endogenous political development literature ((Boix, 2003; Acemoglu & Robinson, 2006). There is little to dispute that democracy and capitalist economic development have endogenous relationship since economic change shifts patterns of inequality and class capacities, which are determinants of institutional change. However, literature has largely ignored how different

patterns of capitalist economic development, for example growth through different types of industry, have enabled capacity of political actors in society to influence each other in different ways and thus have made different types of political institutions more likely.

5.3. Structural power of business and labor

Structural power of business owners and laborers in an industry depend on sectoral characteristics of the industry. Power is a relational concept; power of an entity only makes sense in relation with other entities. Weber defined power as “the ability to impose one’s will on the behavior of others" (Weber, 1922). A rational choice definition of power is “the ability of an actor deliberately to change the incentive structure of another actor or actors to bring about or help bring about outcomes” (Dowding, 1991; p. 48). Incentive structure of an actor contains, among others, the set of alternatives available, actor’s understanding of probabilities associated with different alternatives, actor’s valuation of alternatives, fear of losing the bargaining.

The power relations in our model are among the business firm owners, laborers in an industry and the regime in power. There is a distinction between possession of power and the exercising of the power. Capacity is generally understood to be the possession, and power is realizing or exercising of the capacity. I am arguing that different sectoral characteristics of an industry affect the capacity of business and labor to influence others and thus change power relations. I term the aggregate range of capacities of business determined by sectoral characteristics as Mobilization Capacity; for labor, the term for similar aggregated capabilities is, Disruption Capacity.

Mobilization capacity of an industry is the ability of business owners to acquire and use, individually and collectively, material and intangible resources for influencing regime and industry labor towards realization of owners’ interests. The concept of this aggregated capacity is developed from the Resource Mobilization theory of Social Movement literature. The theory explains how social movements utilize, organized human and material resources to overcome collective action problem through provision of selective and collective incentives to members of large groups (Oberschall, 1973; McCarthy & Zald,

1977). Resource Mobilization theory also emphasizes importance of social, economic structures in determining resources and opportunities available to interest groups. The main premise of mobilization capacity of groups is that self-interested individuals can pursue collective goals more effectively if they can aggregate and organize resources held by dispersed individuals.

Structural mechanisms that enhance mobilization capacity of businesses in an industry vis a vis labor and regime, can be divided in two main groups: (i) economic mobilization, and (ii) collective action capacities of businesses. Economic mobilization capacity of businesses originates from the fact that firm owners command economic resources in form of capital. Economic resources enable businesses not only to often outlast labor in direct conflicts, but also bring the political regime to the side of businesses. Economic resources enable business to lobby governments more effectively for influences but far more influential is the capital's ability to disrupt economic life of the society with the threat of divestment. In "Capitalist Development and Democracy", Rueschemeyer et al. (1992) pointed out that threat of disinvestment push regimes to adopt positions that are favorable to businesses because maintaining the economic life of the society, is top priority for any regime. As Haggard et al. (1997, 38) put it "capital votes twice: once through the organized pressure it can bring to bear on the political process, again through its investment decisions." Labor can also accumulate significant economic resources to use instrumentally for influencing political regime, but that capacity in generated through collective action and organization of many workers, not from ownership of resources.

Businesses gain structural power from their collective action capacity. Firms can act alone or collectively in a group to influence regime and labor but acting as a collective purposeful group multiplies the power of firms. For that reason, business owners in an industry or in across many industries have historically formed associations. Business associations are ''organizations through which a group of interdependent firms, typically in the same industry, pool their resources and coordinate their efforts so that they may 'speak with one voice' on matters of shared interest'' (Barnett, 2018; p. 214). The main functions of business or employers' association in an industry are to act as a countervailing

force to organized labor and to advance the collective interests of owners in the state and regime.

The benefits of association are not costless, firm owners must bear significant costs to reap benefits of successful associations. Most important is the loss of freedom and flexibility. Association members have to abide by minimum and maximum wage levels and many other industry standards set by associations. These constraints impose substantial costs on firms operating in competitive labor and product markets. Firms also have to bear membership costs by contributing resources to the association. Effective industry associations are not bare boned but highly resourced organizations that has wherewithal to influence regime and bear the considerable cost of enforcing decisions within the membership (Kuo, 2011). However, high structural capacity enables firms in an industry to bear the cost of mobilization.

Structural conditions also endow workers of an industry varying degree of power to influence business owners and the regime. Since their power is mainly wielded by the threat or potential threat of disrupting the economic activities that are so important to owners and regime, I call this power, disruption capacity of labor (Usmani, 2018). Labor can disrupt firm profit, share value, production, reputation, brand value, and labor can also disrupt economy of the country. This disruption capacity is gained through two main channels, (i) collective action, and (ii) bargaining capacity of labor. The ability of workers to take large scale collective actions, either through institutionalized unions or through temporary movements, has historically been the main structural power of labor. Collective action capacity of labor has traditionally played a pivotal role in both political and economic spheres by challenging the power of elites through actions like general strike, work stoppage, street movement, pressure campaigns and other disruptions (Haggard & Kaufman, 2016).

Workers also have structural bargaining power over owners and regime by virtue of their work, skill and position in the industry and economy. Erik Olin Wright (2000: p. 962) divided this structural power into marketplace and workplace bargaining power. Individual and groups of workers have marketplace bargaining power according to their

skills, their replaceability in the labor market. Labor gain workplace bargaining power from their position in the production place, the position of the industry in the overall economy.

Workers also have to incur significant costs of collective action (Usmani, 2017). This includes putting away time and resources for association activity, overcome anti-union policies and actions of owners and when workers decide to collectively resist, bear cost of no-work for a long period. When workers have high structural capacity, bearing cost of collective action and disruption is easier. However, for workers with low disruption capacity, the costs may be prohibitive.

5.4. Propositions of structural power derived from industry characteristics

Here I identify and discuss, industry characteristics that have significant bearing upon structural power of business and labor.

5.4.1. Economic output

As I discussed earlier, the special leverage businesses have over regime and state is the power of capital (Rueschemeyer et al., 1992). Ownership of capital enables business owners not only to exercise the threat of disinvestment but also provides them with material resources to instrumentally influence the regime (Haggard et al., 1997; p. 38). Therefore, it follows that the capacity of business owners in an industry to influence the regime is commensurate with the size of the economic output of the industry (Kuo, 2011; Schneider, 2004). The larger the share an industry commands in the national economy, the more influence the business owners wield over the state and regime. We can see the examples of such corresponding influence from coffee producers in Guatemala, Colombia, clothing exporters in Bangladesh, Cambodia, electronics producers in Malaysia, Thailand, etc.

Proposition 1: The larger the share of an industry in national economic output, the greater the economic mobilization capacity of businesses.

5.4.2. Agglomeration

Ever since the first industrial revolution in Britain, a pattern emerged showing that firms in the same industry tend to be located close together in geographical clusters.

However, there is significant difference among industries in extent of geographical agglomeration because of the different ways industries use input-output linkages with other industries, use generally or specifically skilled labor, use interchangeable labor, require common infrastructural support and other differences. Studies on agglomeration of industries, both in developed and developing countries, have shown the consistent difference among industries in the geographical clustering or dispersion (Ellison & Glaeser, 1997; Fan & Scott, 2003). Apparel and textile are among the industries that are highly clustered, chemical, machinery least clustered, while electronics firms are found moderately clustered.

Geographical concentration of firms of an industry increases the collection action capacity of owners. This can happen through several mechanisms. Agglomeration leads to higher membership density in associations which increase effectiveness (Doner & Schneider, 2000). Proximity of firms results in close alignment of owners' interests vis a vis organized labor. High density and proximity lead to more effective monitoring and policing of members and membership benefits. This increased collective action capacity mean that business owners can organize and lobby government more effectively for common benefits (Shafer, 1994). Business owners also can take more effective collective action against organized and individual labor in clustered rather than dispersed firms.

A large number of workers working in a geographically concentrated area also increases the labor disruptive collective action capacity. Workers from many firms can unite to form formidable coalitions that can pose formidable challenge to both owners' coalition and ruling regime. Historically, concentrated industrial districts have played large roles in political movements by labor. However, agglomeration of in an industry can also leads to decreased bargaining capacity and collective action capacity of labor if the industry uses very similar labor skills. Kimmeldorf (2013) showed that workers in agglomerated industries are easier to replace than geographically dispersed industries because of a readily available, common labor pool. This results in lower bargaining power of labor. Fuller (2017) argues that geographical clustering of an industry create division among labor in that industry and nation-wide labor. Geographical concentration can prevent spreading of a worker's movement and enable the regime and business owners to deal with industry

labor in isolation from rest of the country. I contend therefore that overall effect of agglomeration on labor disruption capacity is weakly positive.

Proposition 2: High agglomeration in an industry is associated with increased collective action capacity of business owners.

Proposition 3: High agglomeration in an industry is associated with moderately increased disruption capacity of labor

5.4.3. Firm size distribution

Firm size distribution, the way organizations of different sizes are distributed, is a distinctive characteristic of an industry. Both country and industry-specific factors contribute to size distribution of firms, but scholars have found that industry effects far outweigh country effects (Kumar et al., 1999). Concentration in size distribution means that more of production or economic activity taking place in a few large firms in an industry, while dispersed distribution represents more even production across many medium and small firms. Studies have shown that labor-intensive industries like apparel, hotel, mineral extraction sectors have more concentration in few large firms and many small firms while technology-intensive industries like chemicals, metal Processing, electrical and general machinery industries have more even distribution of sizes (Kumar et al., 1999).

Olson (1965) argued that effective collective action is easier in groups with more concentrated size distribution than with more evenly distributed groups. Large groups with many members close to the median size experience more free-riding problem inhibiting collective action. However, free riding is not as much of a problem in groups where a few large members dominate economic activity. Large members not only have more resources available for collective action, but they also benefit disproportionately from it. Large members therefore try to ensure provision of collective good in spite of free riding by many small members. Studies have found support for Olson's postulation that large firms make more contributions in collective effort and industries with higher share of firms above a size threshold exhibit higher intensity of political activity (Bombardini, 2008).

According to Shafer (1994, p. 39), a distribution that has more people working in large sized firms than mid-size firms, strengthens collective action capacity of business owners. Traxler (1995) also noted that owners of large firms tend to associate more than small firms. However, concentration of workers at large firms also strengthens collective action capacity of labor (Shafer 1994, p. 40). High number of people working at a common working place increase organizing possibilities. Working individually, owners also can find controlling large number workers more difficult.

Proposition 4: A thick-tailed distribution (more people working in large and small firms than in mid-sized firms) of firm size in an industry is associated with increased collective action capacity of firm owners.

Proposition 5: A thick-tailed distribution of firm size in an industry is associated with increased disruptive capacity of workers in that industry.

5.4.4. Input-output of material and service

Most of the manufacturing and service output of firms in a country is not consumed or exported but used by other firms in other industries as input. Different industries are thus linked with each other by an input-output network. For an industry, all other industries and services supplying input are upstream of that industry while the receiving industries are downstream. Input-output multiplier of an industry is a measure of the value-added share of the industry, the number of sectors to which the industry supplies and the intensity with which its output is used as an input by other sectors (Fadinger et al., 2018).

Workers in an industry gain disruptive power from the industry's location in the input-output matrix of national economy (Perrone et al., 1984; Wallace at al., 1989). Work stoppage an industry disrupts demand of supplying industries and supply of client industries. Therefore, workers in bottleneck industries, with many supplying and buying firms, have high bargaining power over both owners and regime as they can cause significant economic disruption. Although workers gain disruption power both from the size of the upstream and downstream of the industry, Wallace et al. (1989) found that

workers in receiving industries have higher economic standing, organizational strength and more militancy, a reflection of their higher bargaining power.

Proposition 6: Workers in an industry gain higher bargaining power with larger upstream supply network and/or larger downstream receiving network.

5.4.5. Asset specificity

Asset specificity refers to the cost of moving factors (capital, facilities, technology, labor) from one economic activity to another. In an industry with high asset specificity, capital, facilities, labor are tied to specific production or service activity and cannot be easily changed to another activity if needs arise. Asset specificity is a distinctive industry characteristic that has wide variation across industries. Apparel, hotels are industries with high asset specificity, while mineral extraction, metal processing, IT services have low specificity (Kim, 2018). Electronics, chemical industries have medium level of asset specificity.

Asset specificity has long been associated with political behavior of asset owners. Owners in high specificity industries are wedded to the economic activity as they cannot move their investment easily. This immobility incentivizes owners to seek favorable policy environment and security from the state and regime for their industry investments. According to Freiden (2018, p. 39), this common interest creates a unity of purpose, a homogeneity of preferences among owners of asset-specific industries; a unity that aids in political collective action. According to Shafer, (1994, p 14) high asset specificity of a sector resulting from large investment in sector-specific factors, incentivizes leading actors of the sector to resist economic restructuring efforts, both from state and private sectors. This resistance to restructuring facilitates collective action.

Proposition 7: High asset specificity of an industry increase collective action capacity of the owners.

5.4.6 Power in global value chains

Consumption and production of goods and services in all industries of the world are now part of global value chains that spans across multiple firms and many countries. A GVC refers to “the full range of activities that firms and workers perform to bring a specific

product from its conception to its end use and beyond" (Gereffi & Fernandez-Stark, 2011). Studying spatial fragmentation of GVCs across industries and institutional settings, Blair and Mahutga (2012) found that industry specific differences in spatial fragmentation are generally constant across different institutional contexts.

GVC governance refers to the top-down way leading firms in GVCs integrate diverse activities of many firms within the value chain while pursuing their own interests. One of the earliest and most influential theory of GVC governance was the buyer-driven/producer-driven distinction made by Gary Gereffi (1994). According to him, in buyer driven GVCs, non-producing, buying firms tend to be the leading organization in terms of power and producing firms are bound to decisions of buyers through design, purchase, marketing and other main functions. In producer-driven GVCs, the main manufacturer is usually the lead firm that coordinates the value-addition network. Although the buyer/supplier-driven dichotomy of GVCs has attracted criticism for failing to illustrate multiple/mixed forms of governance, the power relations captured in the buyer/supplier driven dichotomy is still uniquely insightful in explaining positional power of firms in the GVCs.

GVCs pattern of lead-firm drive and extent of offshoring have direct effect on industry labor standards and collective action capacity of labor. According to Riisgaard and Hammer (2011), in the producer-driven GVCs, the close co-ordination required for quality and schedule of producing complex products is a source of power for labor in negotiations with owners or lead-firms. In buyer-driven chains, where production is often taking place in distant places and lead firms undertake designing, branding, retailing roles, brand awareness of mass consumers is often the source of power for labor. Although there are lot of variations in power of labor within a type of GVC, Layna Mosley argues that the offshoring dimension is overall the critical factor for working conditions in GVCs, with less power for workers and lower industry labor standards in buyer-driven chains that offshore in distant geographical locations (Mosley 2011, p. 44).

Proposition 8: Buyer driven GVCs are associated with less bargaining power of workers.

5.4.7. Labor and human capital

Different sectors and industries are characterized by different mix of labor skills that can have different welfare implication for the workers in developing countries. Gereffi and Guler (2010) identified five different categories of work in the industries and services of Global Value Chains. They are (i) small-scale household-based work, (ii) low-skilled, labor-intensive work, (iii) moderate-skilled work, (iv) high-skilled, technology intensive work and (v) knowledge-intensive work. Large numbers of industrial jobs have opened up in the developing world in the last few decades because of globalization. However, most of these jobs require low to moderate skills.

Rudra (2002) has shown that low-skilled workers in developing countries face high collective action problems despite large number of them working in close geographical proximity. Among the reasons are low education, irregular hours, difficulties or organizing women workers, easy replaceability of low-skilled workers from large surplus labor pool, etc. Workers in industries requiring lots of skilled work, for example heavy industries or white-collar workplaces, are easier to organize and historically the main recruiting grounds for powerful labor organizations in developing countries. Kimmeldorf (2013) also found that organizing success of workers is associated with high replacement cost and scarcity of skilled labor.

Proposition 9: High human capital intensity of an industry is associated with higher collective action capability of workers.

5.5. Equilibrium institutions, industrial and political regimes

5.5.1. Business associations and labor regimes

In this section, I put forward an analytical model of emergence of labor regime and collective business organizations from strategic interaction of labor, business, and government. Previously I discussed how different sectoral characteristics confer structural power in different ways to business and labor of an industry. Our model will show that the relative bargaining power of business and labor obtain from structural characteristics, not only determines industry wages in the short term, but also determines the equilibrium

industry institutions in the longer term. Proceeding with the description of the model, let us first specify the players, their preferences, their set of available actions and their payoffs.

There are three players in the model: firm owners in an industry, workers or labor in an industry, and the regime in power in the developing country. Labor and firm owners are contending over division of a pie, the leftover gross margin after total costs (excluding wages and benefits) are deducted from total sales of products of firms in industry. Share of labor in the pie is wages and share of owners is profit. Labor and owners have different utility functions on their share of the pie, but their utility is directly increasing with the size of their share. Thus, utility maximizing labor and owners want to get the largest possible portion of the pie.

The theoretical model of wage determination between business and labor by Svejnar (1986) show that the pie of gross margin is divided according to power of the two parties. Svejnar (1986) was first to incorporate relative power between labor and owners in a formal model of bargaining process for determining wage. In his model bargaining power is the exogenously determined power of the parties that enables them to realize gain above the disagreement outcome. The breakdown or disagreement outcome, bargaining power of the parties and individual fear of disagreement of the parties jointly determine the division of pie.

If X is the total amount to be divided, X_L, X_O, the share of labor and owners respectively, then $X_L + X_O = X$.

Let Y_L and Y_O be the exogenous bargaining power of labor and owners, and $f_L(x)$, $f_O(x)$ are fear of disagreement of labor and owners at the amount x. Fear of disagreement at x or $f(x)$ is inverse of a party's boldness of betting the total present gain for a small potential winning. Boldness here is the of probability of losing x (and getting disagreement amount) per dollar of potential winning. A party with high fear of disagreement at x will be willing to take only very small probability of loss against a small potential win. A player's fear of disagreement is entirely dependent on its own utility function. Business owners, because of their wealth, generally have far lower fear of disagreement than labor and therefore willing to take more risk of disagreement at the similar lever of gain.

Aumann and Kurz (1977) showed that, in a bargaining situation, player i's fear of disagreement with the amount x_i at hand is

$f_i(x_i) = \frac{U_i(x_i)}{U_i'(x_i)}$ where U_i the utility function of player i.

According to Svejnar's (1986) model, the equilibrium solution of bargaining over division of X, will satisfy the following condition,

$$\frac{f_L(X_L)}{f_O(X_O)} = \frac{Y_L}{Y_O} \quad \text{where } X_L + X_O = X \qquad \text{----------} \quad (1)$$

Thus, the parties will make offer and counteroffers on division of X until the ratio of their fear of disagreement is same as the ratio of their exogenously obtained bargaining power.

However, players in this strategic interaction have no way to correctly estimate each other's power unless the power is displayed through actions. Owners and labor have distinct sets of actions available in the interaction and each action require different level of relative structural power over the other side to overcome the costs of collective mobilization. The actions are listed in Table CCVCV for owners and labor in increasing order of required relative structural power and cost of collective action (for labor cost of disruption and for owners cost of mobilization). Collective action for both owners and labor are more costly than individual action and require more structural power, but higher structural power enables the agents to bear the costs more easily.

Cost of collective action for labor and firm owners, and their structural power corresponds to two dimensions of power that affect likelihood of institutional change in Rational Choice framework; relative opportunity costs facing actors considering change and their mobilizational capacity to overcome resistance to change (Hall, 2010). Organizing and going into conflict entail costs and risks, both business and labor are cognizant of these considerations. Higher structural power implies more capacity to organize and overcome mobilization-disruption costs.

Table 5.1: Repertoire of actions for labor and business with increasing cost and power.

Labor actions		Firm owners' actions	
Individual Collaboration Individual Conflict Collective Collaboration Collective Conflict	↓ Cost of disruption	Individual Collaboration Individual Repression Collective Collaboration Collective Repression	↓ Cost of mobilization

For owners' available actions are: individually collaborate, where individual firms collaborate with firm workers for settling wage share; individually repress, individual firm owners repressing wage demands of firm labor and imposing own settlement; collectively collaborate, where most of the firm owners in an industry collectively bargain and collaborate with collective labor organizations; and finally, collectively repress, firm owners collectively repress workers of the industry to impose wage share. For labor, available actions are individually collaborate, individual conflict, collectively collaborate and collective conflict. For labor also, induvial action is firm based while collective is across many firms in the industry. Conflict is the action labor select individually or collectively, when they have realistic probability of resisting the division imposed by owners.

The government is the third-party in this strategic interaction, not just as effective third-party enforcer of rules and agreements among owners and labor, but also as an interested player. The main interest of political governments is to stay in power, a secondary interest that is generally closely aligned with the primary interest (not always) is economic prosperity of the country. Health and growth of main industries are important to the government, particularly when these industries are export-oriented and source of foreign exchange in addition to jobs. Firm owners of main industries thus have significant leverage over the government by virtue of their control over investment and operation of the industry. Moreover, business owners of main industries are often influential part of the ruling coalition of developing countries. That is why governments generally support

business owners in enforcing their repressive or collaborative labor management system when labor has significantly lower structural power than owners (Usmani, 2018).

However, labor can severely disrupt critical industries and the economy if it has sufficient structural power. For that reason, government is more evenhanded between labor and owners when labor has high structural power, and the usual action is supporting, and upholding collaborative agreements reached between labor and owners.

Labor and owners take actions in interaction to maximize their share of the gross margin after cost. Relation 1 shows us that they can do that by taking actions that display their highest level of structural power. However, costs of disruption and cost of mobilization are relatively high when the players have low structural powers. Labor and owners balance these countervailing considerations in selecting the best response to each other's action towards realizing most favorable division possible. I will now discuss the different equilibrium action profiles for different power configurations of labor and owners. We should emphasize here that these equilibrium outcomes are probabilistic- most likely strategic interaction outcome in given power configurations.

Assuming labor and firm owners can have two levels of structural capacity, high and low, we have the following four power configurations.

{Labor disruption capacity, Owners' mobilization capacity}: {Low, High}, {High, Low}, {Low, Low} and {High, High}.

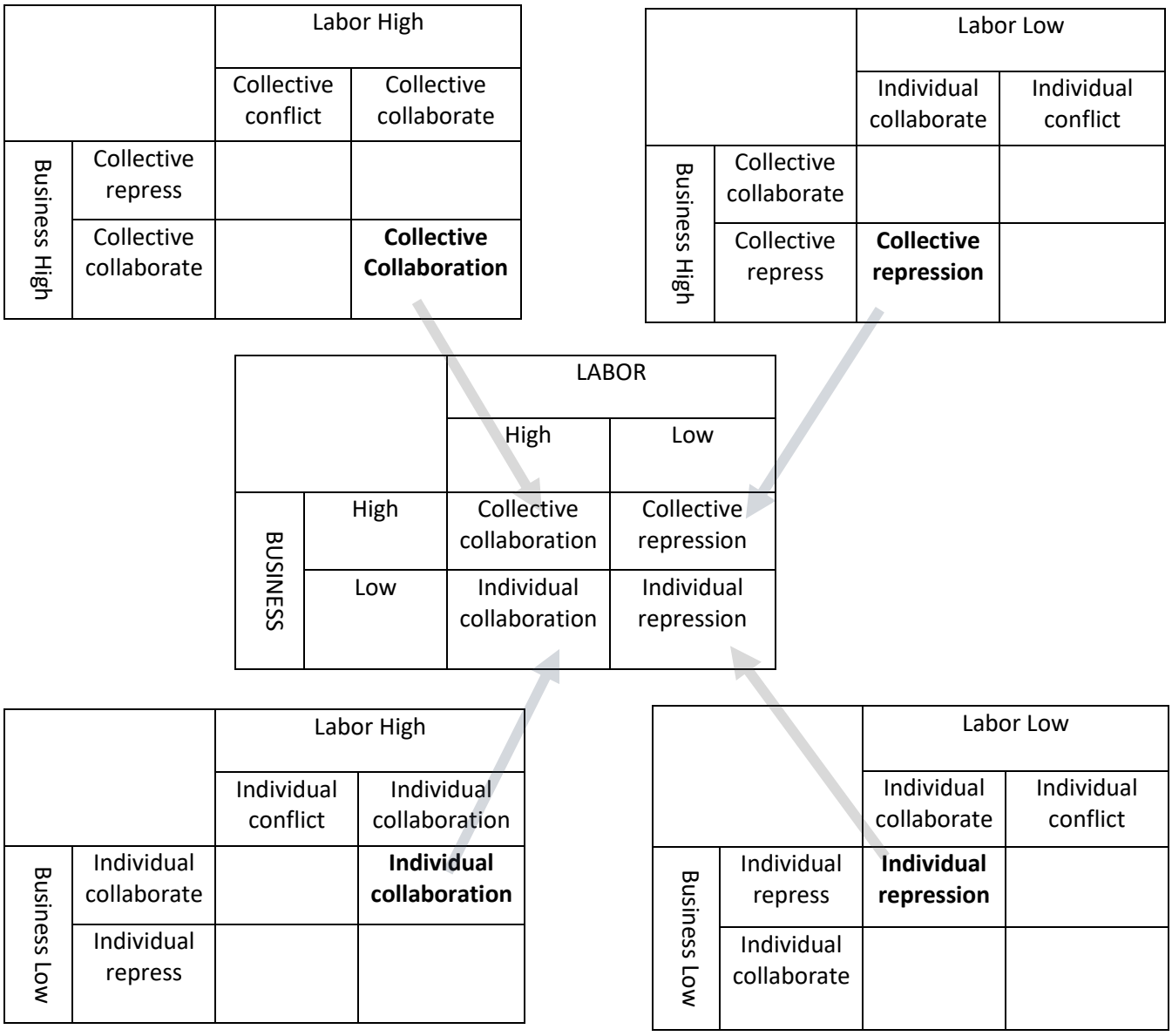

Figure 5.1: Four equilibrium industrial relations regimes from four configurations of business and labor structural power.

When owners have high mobilization capacity, but labor has low disruption capacity, owners will favor collective repression strategy because not only owners have low cost of mobilizing collectively but also this strategy provides them with highest power differential with labor. Moreover, government support powerful owners' group with

different state apparatuses, including coercive forces. Exercise of power changes incentive structure of other players and collective repression makes pursuit of collective disruption by low-capacity labor not only prohibitively costly but also very unlikely to succeed. Powerful owners' collective associations also actively discourage or repress labor efforts to collectively organize. Labor has options to individually resist or collaborate with owner's association. Rather than risky disruption, labor chose more often to collaborate with owners to extract as much wage concession as possible under the circumstances. I later show that apparels export industry is a typical collective repressive industry.

When labor has high disruption capacity, but owners have low mobilization capacity, owners no longer find it worthwhile to spend resources for collective action. Moreover, government is more evenhanded in dealing with a high-capacity workforce. Labor has wherewithal to pursue individual and collective actions, however, since firm owners are individually collaborating, labor by construction find it more worthwhile to collaborate with individual firm owners (Kuo, 2011). Not only this individual firm-based strategy allows labor to extract maximum wage from firms highly differential in productivity and profitability, but also lets labor avoid expended resources for mostly redundant collective action.

When labor and owners both have high structural power, the expected best responses are collective association by both sides. Both sides will find it more worthwhile to collaborate collectively for wage share rather than risk disagreement and conflict. High technology and high-skilled products, like automobile, machine-tools, chemicals, are examples of such industries. When labor and owners both have low structural capacity to disruption and collective action, owners opt for individual repressive strategy. Labor can choose to individually disrupt or collaborate but is more likely to opt for collaboration as the best response. The main reason is that government generally supports owners when capacity of labor of low and that support tips the scale against probability of success of labor disruption. Small-holding agriculture is an example.

The equilibrium behavior of labor, business and government described in the model is determined from exogeneous parameters, structural power of labor and business. However, equilibrium behavior only become institutionalized when both strategic behavior

of agents and institutions that govern behaviors become self-enforcing, that is behavior is best response determined endogenously in repeated interactions (Aoki et al., 2001; Greif & Laitin, 2004). Another way to describe self-enforcing equilibrium is where no one party can unilaterally defect and overcome rest of parties in agreement, making staying in equilibrium the best option.

According to Greif and Laitin (2004), exogeneous parameters like structural power can become endogenized if self-enforcing outcomes of strategic behavior, affect or change the parameter values in ways that lead to long-term behavioral change. One way that can happen when change in shared beliefs of agents become institutionalized (Aoki et al., 2001). Recall that perception or belief of players about each other's structural capability is also part of definition of power and players in strategic contention over an asset settle on a division that is commensurate with their fear of disagreement (Relation 1). Behavioral changes are reinforcing if their effect on parameters increase the range of situations where the institution is self-reinforcing, in other words make institution more robust. However, behaviors can also undermine or restrict the range of self-enforcing situations, making the institution fragile.

In our model, an example of a self-enforcing behavior would be when business owners use their power to form an association for collective action. Once formed, firm owners can use the organized strength in the next interactions with labor with much lower opportunity costs and higher freedom. Repeated use of association strengthens institutions of collective action by owners. Example of a self-undermining behavior would be continued collaborative repression in a rapidly growing, labor-intensive industry. Because of collaborative repression, labor cost can be very low and industry highly competitive internationally. If the industry grows rapidly in agglomerated spaces, number of workers with similar grievances will also expand significantly. Through socialization, large number of workers may gradually change belief about effectiveness of collective disruption and alter their previous acceptance of labor repression. The equilibrium is undermined if distribution of benefits does not match the underlying distribution of power of the agents. In this way endogenous growth of industry can change structural conditions of the industry

and self-undermining process reach critical levels, where institutional change becomes highly likely.

5.5.2. Industrial regimes and political regimes

The first part of the model demonstrates how industrial relations in an industry can arise from strategic interaction of business owners, labor, and government, and vary according to structural characteristics of the industry. Institutions of an industry can also shape national-level industrial relations. Often one industry dominates the whole economy and society in developing countries, for example, mining industry, oil industry, apparel industry, coffee or similar agricultural industry, are predominant industrial sectors in many countries. Also, several industries in a country may be sufficiently similar, to have comparable industrial relations, thereby becoming the modal form of national-level institutions affecting plurality of labor (Kuo, 2011).

National-level industrial relations is closely related to the state of political institutions of countries. There are many ways national-level political and industrial institutions can affect each other but here I will discuss two widely examined mechanisms in literature, institutional complementarity and demand-supply of institutions.

Equilibrium institutions in different levels and domains of the country like industrial relations, finance, labor market, politics, are not isolated from each other but are part of an interdependent institutional environment. Just like the general equilibrium model, where the economy is made of partial equilibrium of many markets, strategic choices made by players in one institutional domain influence choices of players in another domain where the first institution acts as environmental parameter (Aoki et al., 2001). Same player can inhabit different domains or act as principal-agent with other players of a different domain. Institutional complementarity occurs where agents "choices are parametrically affected by prevailing rules of action choices (institutions) in other domains", giving rise to "interdependencies of institutions across domains" (Aoki et al., 2001, p. 208). Complementarity thus arise when one type of institution become more viable in one domain because of fitting institutions in another domain. Literature on institutions have discussed complementarity among national industrial organization and national

financial institution, labor market, product market, social welfare system (Aoki et al., 2001; Amable, 2016).

Another mechanism that can explain development of complementarity between different domains of political economy, is demand and supply of institutions. When agents or social actors like business owners, labor, of one institutional domain, believe that an institutional change in another domain would significantly improve their bargaining power in the original domain, they are likely to mobilize resources to change the environment of the target domain (Krampf, 2019). This creates a demand for institutions. However, institutions are generally supplied or ratified by political actors whose main goal is to continue in power with the most powerful coalition possible (Amable, 2016). Therefore, political actors seek to provide institutions that distributes benefits to different societal groups according to their capacity for providing political support or posing disruption threat. For social actors, complementary institutions strengthen their payoffs while political actors regard institutions that jointly bolster their supporting coalition, as complementary. Thus, a matching distribution of benefits with distribution of power, drives parallel changes in different institutional domains.

Since actors in different institutional domains of a country have different levels of power to affect other domains, there is a hierarchy of institutions where actors of higher-level institutions can significantly change other institutions, but subordinate institutions can have only little or modest effect (Amable, 2016). Actors in national politics generally have the highest ability to affect change but institutions of industrial relations, finance are also populated by powerful national level actors. The main actors in our model of industrial relations in a dominant industry, labor, business owners and government, are powerful actors in political domain also and therefore capable of effecting changes in either domain.

Both business and labor of an industry, do not have any special preference for or against democracy in the political domain of institutions. They are primarily interested in securing or advancing their share of the profit from the industrial relations regime. They also want government redistribution (taxing and spending) to favor them rather than their counterparts. To realize their goals, business and labor mobilize their available resources in the industrial domain to change the environmental parameters of the political domain so

that institutions there become complementary to their interests. Business and labor know firsthand that nature of political institutions is a critical determinant of economic distribution in society (Acemoglu et al., 2005). Structural power from industry thus gets transferred to political domain and institutions become complementary.

I now here present a simple analytical model of emergence political regimes from strategic interaction among business, labor of a dominant industry and political actors in national arena. The primary objective of business firms is to maximize their profit share in the industrial relations with labor. The secondary goal is minimizing government tax burden and maximizing government spending benefits. In this simplified version of the political economy, government taxes business owners (income tax, corporate tax, import and export duties) and labor (payroll tax, consumption taxes). Government also spends money that benefits owners (business infrastructure, special credit facilities) and labor (social welfare). For business, both objectives can be pursued in parallel and that entails generating the maximum difference in power with respect to labor and with the support of government. Business uses its high or low mobilizational capacity from industry, for either of two actions, support or oppose the government. Through these actions, business seek to change the action environment of the political domain and obtain institutions that are complementary to its interests.

Primary objective of labor is also maximizing the wage share in industrial relations and secondary goal is minimizing government tax burden and maximizing government spending benefits. Labor uses its high or low disruption capacity to influence the government in providing favorable institutions. Actions of the labor are support or opposition to the government.

Similar to the industrial relations model, the main interest of political governments in the political model. is to stay in power; a parallel secondary interest is maintaining health of the industry, which is the main economic sector. In pursuing that goal, government design or change political institutions that will distribute industry profit and tax-benefits in such ways that will maintain the coalition necessary for power and will thus reinforce the institutions. Support from coalition is necessary for continuance of political institutions but in this model only government can design or change political institutions. For simplicity's

sake, I assume that there is no variation in government capacity to provide different kinds of political institutions. Studies have shown that state capacity is associated with labor rights in a country, but the relationship is conditional on existing political institutions (Berliner et al., 2015). Structural characteristics of dominant industry is also associated with development of state capacity in a country (Shafer, 1994). However, the relationship of state capacity with nature of political regimes is not linear and for that reason I am not treating state capacity as a structurally determined variable.

Depending upon the balance of power of business and labor in the dominant or modal industry, government of a developing economy provides four complementary ideal-typical political regimes, right-wing authoritarian, populist authoritarian, predatory autonomy and democracy. When businesses in the dominant sector have high mobilization capacity and labor low disruption capacity, industrial relations is characterized by collective labor repression and the complementary political regime type is right-wing authoritarianism. Such regimes have close relations between powerful business associations and government, labor repression and wage suppression, low social welfare spending, and high political inequality between business and labor.

		LABOR	
		High	Low
BUSINESS	High	Democracy	Right-wing authoritarianism
		Collective collaboration	Collective repression
	Low	Populist authoritarianism	Predatory autonomy
		Individual collaboration	Individual repression

Figure 5.2: Industrial relations regimes and their complementary political regime-types

Democracy is highly unlikely in such regimes because the prevailing logic in the dominant sector, labor repression and wage suppression, is difficult to maintain with extension of political rights to labor (Rodrik, 1999). If free and contested election happen in a labor-intensive country with collective labor repression as the modal industrial relations, opposition parties will naturally seek electoral support of the labor with promises to address their grievances. Incumbent regimes therefore seek to undermine free elections

at every opportunity they get. The regimes also subvert rule of law by taking control of the legal organs to maintain labor repression. At the same time governments of right-wing regimes provided selective benefits to associations of businesses for maintaining the ruling coalition and helping business to repress labor. Close business-regime ties increase the coercive capacity of the state and make democratic transition less likely (Albertus & Menaldo, 2012). Examples of such regimes include East Asian countries South Korea, Philippines, Indonesia in the 1960s and 70s (Kang, 2002) and various Latin and Central American dictatorships in 20th century (Schneider, 1998).

When the dominant sector has high labor disruption capacity but low owner mobilization capacity, industrial relations is individual collaborative, and the complementary type of political regime is populist authoritarianism. Such regimes are characterized by large and powerful labor organizations closely aligned with the political regime, and high wage share, high government social spending for labor in the dominating sectors. In the industrial relations equilibrium described before, powerful labor not necessarily organized collectively because owners were individually collaborating on wage and collective organization has costs. However, in the political-industrial complementary regime, labor organizes collectively both in industry and politics because of increased ability to change environmental parameters in the political domain.

Although organized labor in a dominating sector is much larger aggregation of citizens compared to organized business, their high structural power is not directly equivalent to political equality and inclusivity at the national level because organized labor can also be focused on particularistic self-interest. Rather than agents of democratization, organized labor in the dominant sector often acted as the bastion and foot-soldiers of populist authoritarianism in many developing countries (Ahlquist, 2017). One of the main reasons for antidemocratic stance of organized labor is their close connection with regime created a barrier of privilege between them and the mass of unorganized labor, agricultural workers (Bellin, 2000). The combination of high structural capacity of labor but low capacity of owners in a sector was rare in developing countries because, apart from communist, socialist countries, owners of capital were seldom without power to influence regimes. However, several times in the 20th century, urban labor organizations in Latin

American countries like Argentina, Chile, Mexico had high structural power and part of populist authoritarianism regimes while the rural poor were excluded from political power (Schneider, 1998).

When both business and labor in the main economic sector have low structural power, the mode of industrial relations in individual repression and complementary political regime is unconstrained authoritarianism. Neither business nor labor can muster enough mobilization capacity to change the action environment in the political domain and the ruling regime can survive with the narrowest possible coalition without sharing political power with business or labor (Svolik, 2009). Without countervailing groups or associations, the ruling regime sets industrial, tax and spending policies according to their whim or exogeneous considerations (Fairfield, 2015). Such unconstrained authoritarianism often took the individual characteristic of ruler and institutional change in such personalistic rule usually occurs from chance, coup or exogeneous reasons. Many dictatorships in late 20th century Middle East and Africa, where the main sector of the economy was either state controlled (oil, mineral) or too underdeveloped (smallholding agriculture), are examples of unconstrained authoritarianism.

When both business and labor in the dominant or modal sector have high structural capacity, the equilibrium Industrial Relations is collective collaboration between powerful business associations and labor organizations, and the complementary political institution is democracy. Both business and labor have capability to change the action environment in political domain and their relatively equal mobilization and disruption capacity drive political institutions towards democracy (Usmani, 2018). Democracy is the political equilibrium because neither right-wing nor populist authoritarianism are self-reinforcing given the balance of power in the industrial domain. Democracy is not the ideal institution for business, labor, or government because the political equality of democracy does not match with their particulate interests. However, democratic political institutions bring several underlying mechanisms for reducing political and economic transaction costs, making democracy far better than other political regimes in self-perpetuating when disruption capacity of contending parties are very close (Svolik, 2019).

The first is reducing commitment problem for future distributions. Since capacity of both business and labor are so close, there is always temptation to abandon current collaborative agreement and use power in coalition with government for further grab of industry gross margin. Democratic institutions provide credible commitment from all parties to continue peacefully bargain for future distributions. Democracy provides more credible commitment than mere promise from government, business, and labor because democracy entails a web of power-limiting and participatory institutions that are difficult to reverse once set on path (Acemoglu & Robinson, 2006). Secondly, democratic elections provide an economically non-destructive method of obtaining information about respective structural capacity of business and labor (Svolik, 2019). Both business and labor can mobilize their capacity in the electoral arena, whose results give a reliable indication of their bargaining power. When powerful social actors agree upon a political institution, it is also the best response for the government to comply with the agreement because noncompliance would invite powerful anti-incumbent coalition (Weingast, 1997). Through democratic elections, an incumbent can always come back to power later even if he loses the immediate election.

Democracy is the complementary political institutions when business and labor both have high structural capacity in the industrial domain. However, that equality of mobilization capacity make democracy likely not inevitable. Outside of our model, if government can draw significant power and resources from sources other than business and labor, for example natural resources, ideological mass party, it can build state capacity to check mobilization of powerful business and labor, thereby resisting democratization (Haggard & Kaufman, 2016). Communist party led states like China, Vietnam are clear examples of states resisting democratization despite growing business and labor capacity. However, Haggard and Kaufman (2016) found that mass mobilization from below, from labor unions, civil society organizations, was a critical factor behind most of the democratizations that happened in the Third Wave between 1980 and 2008. Archetypical examples are South Korea and Taiwan during 1980s and 1990s, where growing structural capacity of the workers led to opening of the political domain. Growing structural capacity of labor was a direct and important factor also in the wave of democratizations in Latin America in late 20th century (Collier & Mahoney, 1997).

5.6. Apparels industry as a case study in complementarity of industrial and political regime

5.6.1. Structural power in the apparels industry

In this section I evaluate the export-oriented apparels industry by the sectoral characteristics that I identified as important determinants of structural power. As a low-technology, labor-intensive industry with a large global market, apparels is often the first manufacturing industry through which poor countries have embarked on export-led economic development. One way to gauge the economic importance of an industry is from the share of exports from that industry in the total national annual exports. Here I define a dominating industry as a sector whose exports exceeded 50% of total exports for at least 10 years during last three decades and whose export share still exceeds 40% of total exports till 2018. I find that there are six countries, with at least two million population, that can be regarded as apparels-dominated according to this criterion, although there are several other countries close to the threshold. The six countries are Bangladesh, Cambodia, Haiti, Honduras, El Salvador, and Sri Lanka.

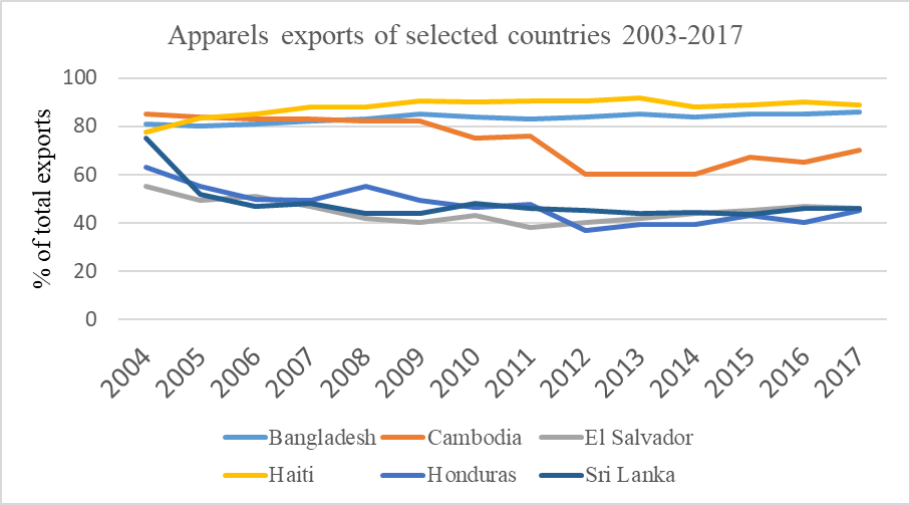

Figure 5.3: Annual apparels export of six apparels export-dominated countries.

The Apparels industry has a distinct firm-size distribution across countries. Kumar et al. (1999) used employee-weighted coefficient of variation as measure of dispersion of firm size within sectors in a dataset of 15 European countries from 1992-1993. Their calculations showed that labor-intensive industries like apparel, hotel, mineral extraction sectors have higher dispersion while capital intensive industries like chemicals, metal

Processing, electrical and general machinery industries have lower dispersion. This right skewed dispersion in firm sizes, where most of the employees are working in large firms while significantly less number are employed at mid-sized firms, is also observed in apparel industries across developing countries.

According to 2013 Manufacturing Industries Survey of Bangladesh, only 8.5% of industries were large (more than 250 employees) but they employed 60% of all manufacturing workers (BBS, 2013). Of 3669 large establishments, 3110 were apparel and textile factories, thus employing overwhelming number of large establishment workers. The 2011 Economic Census of Cambodia (NIS, 2013) shows that 72% of total 410 large manufacturing establishments belonged to apparel sector. In 2018, more than 700,000 people out of a total Cambodian population of 15 million, were directly or indirectly employed in the apparels industry (Lawreniuk, 2020).

Apparel is one of the most agglomerated industry across developed and developing world (Scott, 2006). Ellison and Glaeser (1997) developed an industry-based index of geographic concentration (called the EG index or γ index) which takes a value of zero if employment (or output) is only as concentrated as if plants are located completely randomly in the population while a value of one means it would be completely concentrated. Using a dataset of U.S manufacturing industries, they found that Apparel is a high agglomeration industry. Fan and Scott (2003) computed Herfindahl concentration index (H-index) values for two-digit industrial sectors in Chinese province to assess overall level of spatial agglomeration. They also found that apparels industry is highly agglomerated in mainland China.

Apparel factories tend to cluster around large cities and ports where there are lot of supply of low-skilled labor and infrastructure support. In many apparels-exporting countries, clothing factories dominate Special Economic Zones set up for export manufacturing. More than 90% of Bangladesh's 4500 apparel factories are clustered around the capital city Dhaka and the main port city Chittagong[37]. There were 558 apparel

[37] http://people.stern.nyu.edu/twadhwa/bangladesh/maps.html 2015 report by NYU Stern Center for Business and Human Rights.

factories in Cambodia in 2013; of them, 394 were in the capital city of Phnom Penh and 110 in nearby Kandal and Kampong Speu provinces[38].

Apparel is an industry whose products have very little use to other industries and the industry also consumes less inputs from other economically significant industries. Using 2002 USA manufacturing I-O table and European STAN, I-O data for 2005, Antras et al. (2012) found that Apparels industry has low upstreamness value. Fadinger et al (2018) used I-O sectoral multiplier to rank industries across countries with different levels of development; their results show that Apparels has low multiplier in poorer countries as well.

I discussed earlier researchers have found apparels is one of the industries with highest Asset-specificity Index (Kim, 2018). Another way to determine specificity of assets in an industry is to measure specificity of technology and knowledge used in the industry. A high asset specific industry will use technology that is little used by other industries while less specific industry's technology will be widely used. Cai and Li (2019) uses patent citations connecting different technology sectors to form an inter-sectoral knowledge diffusion network and measure a sector's importance in knowledge diffusion. Their results show that technology in clothing and textile industry is highly specific and have little general usage.

Since the earliest days of industrialization, apparel industry has been the archetypical example of a low-skilled, labor-intensive industry. This has remained the pattern to date across countries in all levels of development. Che and Zhang (2018) used Chinese 1998–2007 Annual Survey of Industrial Firms (ASIF) maintained by the National Bureau of Statistics of China to compare human capital intensity in US and Chinese industries. They found that worker education level in Chinese firms is highly correlated with that of their US counterparts, thus suggesting that human capital use in remarkably similar in industries across countries. Their results show that, apparel is one of the industries with lowest human capital intensity.

[38] http://www.sithi.org/temp.php?url=bhr/bhr_list.php Map published by Cambodian Center for Human Rights ("CCHR").

The main reason apparel industry is low-skilled is that little expertise and experience in required to master the use of sewing machines. Fukunishi et al. (2014) found that apparel workers in Bangladesh progress from shop floor helpers to full machine operator status in less than a year. Low-skill and labor intensity are reasons why poor young women has comprised bulk of apparel labor since the early days of the industry in the 19th century. Since labor constituted a high portion of production costs but the overall margin of value added was low, industry owners historically recruited young women and children, who worked for significantly less pay, for the low-skilled jobs. Women workers are also replaced regularly to deter demands for job promotion and higher wages. Women still comprise bulk of labor in the industry, 60.0 percent in Honduras (2008), 83 percent in Cambodia (2009), 73 percent in Sri Lanka (2008), 65 percent in Bangladesh (2011), (Lopez-Acevedo & Robertson, 2012).

From the discussion of structural characteristics of Apparel industry in developing countries, we can derive levels of structural power that business owners and labor gain from these characteristics.

Table 5.3: Tabulation of sectoral characteristics of apparels industry and their corresponding level of structural power for business and labor.

Structural Characteristics	Level for apparel Industry	Implication for Business Owners	Implication for Labor
National economic output	High	High mobilization cap.	
Agglomeration	High	High mobilization cap.	Moderate disruption cap.
Firm-size distribution	Skewed large	High mobilization cap.	High disruption cap.
Input-output matrix	Low connectivity		Low disruption cap.
Asset specificity	High	High mobilization cap.	
Power in GVCs	Low		Low disruption cap.
Human capital in labor	Low		Low disruption cap.

The derivation shows that, in countries where apparels is a dominant sector of the economy, business owners have high mobilization capacity and labor has overall low

disruption capacity. According to our theoretical framework, the prevailing industrial relations would be characterized by powerful business associations and collective labor repression. These characteristics of industrial relations in the dominating sector will pull national political institutions towards complementary right-wing authoritarianism. These predictions of the theoretical framework are supported by state of business-government relations and general statistics of labor and political rights indexes of developing countries of the world. Associations like, Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Garment Manufacturers Association in Cambodia (GMAC), Sri Lanka Apparel Exporters Association (SLAEA), Honduran Association of Maquiladoras (AHM) and such owners' associations are generally the most powerful business group in their respective countries[39].

The International Trade Union Confederation (ITUC) is the world's largest federation of labor unions representing labor organizations from more than 160 countries[40]. Since 2014, ITUC has been publishing annual reports on state of labor rights in countries and violations of rights by governments and employers. The organization also publishes an ITUC Global Rights Index, ranking countries on a scale of 1 -5. Countries where labor rights are most secure are ranked 1 while countries with almost no de facto labor rights are ranked 5. The following figure shows the ITUC average annual score for the six apparels-dominated countries mentioned previously for the period 2014 – 2020 and compare the score with other developing countries in ITUC list with at least two million population. There were 51 such countries.

[39] https://www.bti-project.org/en/reports/global-dashboard.html?&cb=00000
[40] https://www.ituc-csi.org/

Figure 5.4: Difference in labor rights index between apparels export-dominated countries and rest of developing countries.

Comparison of political change between apparels-dominated countries and rest of the developing countries is illustrated in Figure with annual Freedom House Political Rights Index from 1999 to 2020. Freedom House PR score is based on a 1-7 scale with rating of 1 representing the most-free conditions and 7 the least free. The figure shows that while political rights in rest of the developing countries have gradually improved over the period, it has worsened in apparels-dominated countries.

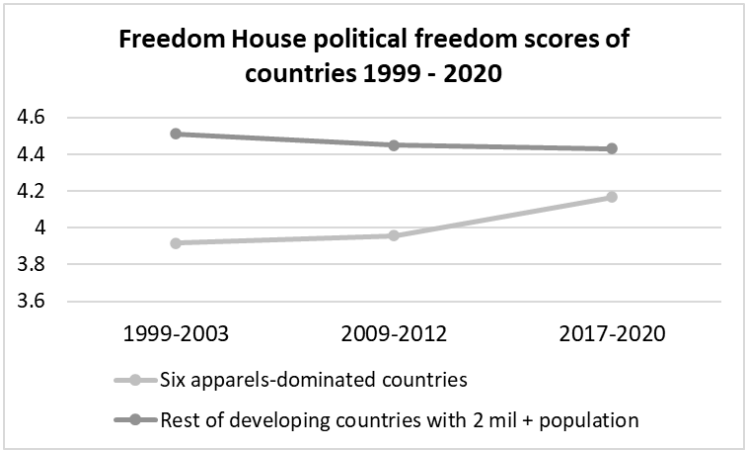

Figure 5.5: Change in political freedom between apparels export-dominated countries and rest of developing countries.

5.6.2. Short country cases, Bangladesh and Cambodia

In this section I will take the case study approach to show the formative effects of structural characteristics of Apparels industry on national industrial relations and political regime. I use Bangladesh and Cambodia as most typical cases to illustrate the causal processes put forward in our theoretical framework. Through pattern-matching examination on evidence from most typical cases, causal mechanisms proposed in theory may be confirmed or dis-confirmed (Seawright & Gerring, 2008).

Strong, industry-wide and centralized business association is a defining feature of Apparels industry both in Bangladesh and Cambodia. Bangladesh Garment Manufacturers and Exporters Association (BGMEA) is the apex and largest association of apparels manufacturers and exporters in Bangladesh, although some of the BGMEA members are also part of Bangladesh Knitwear Manufacturers and Exporters Associations (BKMEA), a smaller, more specialized organization (Staritz, 2011). Apart from many industry-related functions like lobbying to government, running arbitration panels for disputes among owners, running international trade fairs, negotiating with international organizations, running training institutes, investor information services etc., BGMEA also performs several functions that are very much within purview of governments. For example, BGMEA issues Utilization Declaration (UD) and Utilization Permission (UP) certificates, which determine the quantity of raw materials manufacturers can import duty free against the number of units of clothing exported (Khan, 2013). With a few exceptions, BGMEA membership is necessary to obtain license to export apparels (Yardley, 2013b). This great range of association activities is officially funded by membership fees and service charges from the members based on volume of garment exported by members[41].

The counterpart to BGMEA in Bangladesh is the Garment Manufacturers Association (GMAC) in Cambodia, which performs similar functions. However, there is an important difference in member composition of these two associations. While most of the members of BGMEA are indigenous Bangladeshi businessmen, Cambodia's GMAC membership is overwhelmingly foreign, most of them from China and Hong Kong (Ear,

[41] https://www.bgmea.com.bd/home/faq/faqs

2013). This foreign composition of GMAC provides with additional political power and autonomy within Cambodia.

BGMEA and GMAC are highly powerful in the economic and political arena of their respective countries because of their representation of the interest of capital in the largest sector of the economy and collective action capacity. BGMEA developed close connections with main political parties in Bangladesh after democratization in 1990 and that connection only grew in width and depth with passing years (Khan, 2017). In the last contested parliament, more than 31 of total 300 members of parliament were direct apparels industry owners, while many other members were indirectly related with the industry (Yardley, 2013b). While politics in Bangladesh took undemocratic turn through unfair elections in 2014 and 2018, the power of business elites in government has only grown. BGMEA represents interests of owners in high levels of the government for not just industry related issues like labor, industrial security, logistics but also broader national issues of policy, infrastructure, finance.

One of the hallmarks of organized apparels business interest is the special debt and financing facilities provided to the industry (Khan, 2017; Yardley, 2013a). During the COVID-19 epidemic starting in March 2020, the government prioritized rescuing and financing the Apparels industry before everything else (The Economist, 2020). On the influence of BGMEA, secretary of a leading NGO on political reform said “the doors of the treasury are open for them. They extract all kinds of subsidies. They influence legislation. They influence the minimum wage. And because they are powerful, they can do, or undo, almost anything, with impunity” (Yardley, 2013b).

Effective and forceful collective action have also made GMAC the most powerful non-government organization in Cambodia (World Bank, 2009). The GMAC has established a unique relationship with the Ministry of Commerce and is the leading voice in the working groups of the Government-Private Sector Forum (G-PSF). The extent of GMAC’s clout goes beyond successful industry-wide rent-seeking through lobbying; the organization is so powerful that becoming a member of the organization is one of the prerequisites for getting government permission to export. A scholar commented on the symbiotic relationship between government and GMAC by ‘it is unclear who captured

whom' (Ear, 2013). A principal reason behind GMAC's power is that the industry is a main source of informal payments to government and bureaucracy, by one estimation ten percent of the total revenue of the industry (Ear, 2013).

Great imbalance in structural power between business owners and labor, and close government-business relationships, have made industrial relations in Apparels industry of developing countries, a paradigmatic example of collective labor repression. International Trade Union Confederation (ITUC) has consistently ranked Bangladesh and Cambodia among the ten worst countries for labor in their annual reports 2015-2020 [42]. These ignominious distinctions were mainly due to poor working conditions and absence of labor rights in the Apparels industry.

Overwhelming majority of workers in Bangladesh are not being able to get organized; less than 5% of workers in the Apparels industry, and between 3 to 10% of all industrial workers are members of trade unions (Berliner et al., 2015). This is mainly because excessively strict labor laws deter unionization efforts, government has arbitrary power to cancel a union's registration and business owners can threaten and attack unions with no fear of consequences (IUTC, 2017). The extent of business-government collusion exemplified by the creation of an Industrial Police in 2010 that was supposed to be a neutral force for maintaining security for both business and labor but almost always works for collective and individual interest of business owners (Yardley, 2013b). The Industrial Police is liberally used to suppress frequent wage and arrear pay demands of labor. When 50,000 workers went on strike and movement in protests over low wages in December 2018, the police violently assaulted workers to break up the movement and 11,600 workers lost their jobs (ITUC, 2020).

Dominated by apparels, Cambodia's national industrial relations is characterized as state–employer bipartism, which operates within a legal but ineffectual framework of tripartism (Ward and Mouyly, 2016). Cambodian government and GMAC have been closely allied to maintain wage suppression and labor quiescence as the primary competitive advantages of the apparels industry (Arnold & Hess, 2017). Government has

[42] https://www.ituc-csi.org/

enacted laws, despite opposition from domestic and international labor organizations, that impose severe limits on rights to strike, allow government and business to freely intervene in internal trade union affairs and penalize employers only minimally for unfair labor practices (ITUC, 2016). Anti-union discrimination of workers, forced overtime, low regards for concerns of women workers are regular features of industry units.

Unlike Bangladesh, labor unions are a common feature in Cambodia's Apparel industry; almost 80 percent of industry units have at least one union (Ear, 2013). However, high political fractionalization and strict control by government and business have rendered collective bargaining strength of the multitude of unions largely ineffectual (Ear, 2013). Government and business were so successful in wage suppression that real wages of apparels workers declined from 2001 to 2013 (Arnold & Hess, 2017). Large labor movements from 2014 onwards resulted in incremental jumps in wages but government used heavily armed police and mobilized army soldiers to violently quash gatherings of workers (ITUC, 2015).

Since 1990, apparels industry and export have steadily increased in Bangladesh and Cambodia and became the dominant sector in the national economy. Over the last three decades national parliamentary elections took place in these countries with relative regularity. Elections in the past, while not ideally free and fair, were somewhat contested and widely participated[43]. In the last few years political freedom has become severely restricted in these two countries as politics has taken a distinctly authoritarian turn. National elections in 2018 that were widely regarded as non-inclusive, uncontested and deeply flawed, solidified these two countries' authoritarian status (Freedom House, 2020). In July 2018 elections, the ruling party of Cambodia took 100% of the seats while their Bangladeshi counterpart tool 95% of seats in December 2018 elections.

The authoritarian turn in these two countries occurred due to many different reasons, some of them common and many are country specific. History of party politics, patrimonialism, support of a foreign power in shielding ruling parties from international criticism of authoritarianism, China for Cambodia and India for Bangladesh, are some of

[43] https://freedomhouse.org/ Freedom House country reports.

the causes that have been discussed in recent literature (Un, 2019). I here argue and try to show that institutional complementarity between collective labor repressive industrial relations and right-wing authoritarianism, is one of the causes behind this authoritarian turn in both countries.

First, let us recapitulate causal mechanisms that generate complementarity between collective labor repression and authoritarianism and shift national politics towards right-wing authoritarianism. Business associations use their collective action capacity to influence government in using its legal and coercive capacity to maintain labor repression. Government provides selective benefits to the focused group of businesses in the dominant sector to obtain their commitment for the ruling coalition and disregards demand for economic and political rights among wider groups of labor and citizenry. Labor seeks to break labor-repressive regimes through collectively agitating and seeking support from political opposition. Governments use coercive capacity gained from close collaboration with business to suppress labor agitations and break developing connections between labor and opposition. Most importantly, ruling regime seek to subvert electoral process so that grievances of the numerically significant labor cannot be transformed into political power democratically.

I discussed earlier that, although mostly comprised of foreign business owners, GMAC of Cambodia is the most powerful industry lobby with significant hold in the most powerful organizations of the state (Ear, 2013). Foreign owners in GMAC are so powerful that they have developed direct connections to security and law-enforcement forces of the state through diplomatic channels and often demanded targeted use of the state power to safeguard their business interests (Arnold & Hess, 2017). The Apparels industry also undermines rule of law in Cambodia through supporting the hierarchical patron-client structure of the state by informal payments that amounts as much as ten percent of revenue (Ear, 2013). Under the long-standing patron-client political leadership, greatly supported by the Apparels industry, domestic coercive capacity of the state has become strong while other dimensions of state capacity such as accountability, regulatory quality, bureaucratic effectiveness, have remained consistently weak (Un, 2019).

The rapid growth of the Apparels industry since the 1990s resulted in a large group of people who were separate from the traditional patron-client structure of Cambodia's largely rural society. By 2010, more than half a million people, nearly ten percent of total adult population, were working in the apparels factories that were mostly concentrated in and around the capital city, Phnom Penh. This large group became a new political constituency with similar demands based on wages, working conditions, living costs and civic amenities (Lawreniuk, 2020). With the ruling party fully supporting the labor repressive regime managed by GMAC, most of the workers gravitated towards the opposition party, who promised them significant increases in minimum wages and changes in repressive laws (Un, 2019). Results of the 2013 Parliamentary elections, the last contested election to take place in Cambodia, show that the opposition party's vote share dramatically increased in Phnom Penh and surrounding rural areas, home of most of the workers and their voting place (Lawreniuk, 2020).

Apparel labor movements for living wages and better working conditions intensified after the 2013 elections in which the opposition made significant gains, but the ruling party still retained power. Largest workers movements involving more than hundred thousand apparel workers took place in 2013 and 2014. The government used the security forces with lethal effects to suppress the workers movements and used the legal system to detain hundreds of labor leaders (Lawreniuk, 2020). The opposition again made significant gains in the local elections of 2017, mostly around the urban areas, showing once again that the old rural-based patron-client system is breaking down with industrialization and urbanization (Un, 2019).

The ruling party and business elites realized that the patron-client system and labor repressive regime would be difficult to maintain under the existing electoral authoritarianism where opposition and labor still have significant political space. After the 2017 local elections, the ruling party used legislature and courts to severely restrict operations of civic organizations like unions and to outright dismantling of main opposition political party (Un, 2019). In the 2018 national elections, where the main opposition party and leaders were not allowed to participate, the ruling party took hundred percent of seats. China, the main economic and industrial investor in Cambodia, shielded the government

from international outcry and pressure during this rapid turn to authoritarianism (Un, 2019).

Both government-business collusion and labor political mobilization contributed towards the authoritarian turn in Cambodian politics that sought to maintain the labor-repressive, wage-suppressive industry regime (Lawreniuk, 2020). The Apparels industry labor failed to transform its large number into democratic political power because of inherent weakness in disruption capacity. With mostly unskilled female workers who could be easily replaced, workers whose average employment duration is only 5-7 years, the structural capacity of the Cambodian apparels workers were too weak to overcome the coercive capacity of the regime through sustained bottom-up movement.

Both Bangladesh and Cambodia saw a sharp authoritarian turn in their politics in the latter half of 2010s, but there are important differences in their political trajectory. The same ruling party, Cambodian People's Party (CPP) has been in power since 1979, although contested national elections took place until 2013. Bangladesh on the other hand saw regular turnover of ruling party in elections from 1990 to 2008. The main reason for regular turnover was a constitutional innovation called 'Caretaker Government' that set up a neutral nonpolitical administration in charge of the country for a few months leading up to the election (Khan, 2017). General anti-incumbency feeling among the people and neutral election lead to change of ruling party between the two main parties at every national election up to 2008. Because of this lack of control of the electoral process, both parties, Bangladesh Awami League (BAL) and Bangladesh Nationalist Party (BNP), tried to dismantle or weaken the Caretaker government system whenever they were in power. But the distribution of political power among parties, government bureaucracy and armed forces, and the civil society organizations prevented unilateral power grabs (Khan, 2013).

All the while electoral turnover was taking place in the 1990s and 2000s, the influence of business in Bangladesh politics was growing steadily. Business owners are connected to higher echelons of political power as main source of donations and, since contesting elections even in a parliamentary seat is so expensive, as preferred candidates of political parties. In the 2008 Parliament, more than 60% of elected members were businessmen, many of them directly or indirectly connected with the Apparels industry

(Ahmed, 2019). Apparels business owners were well represented in both major parties and as BGMEA became the most powerful business lobby in the country, connections with successive governments only grew with every election.

The Apparels industry is closely involved in propping up the patron-client structure at all levels of governance in Bangladesh, from political party leaders to government functionaries at local level (Ahmed et al, 2014). The close reinforcement of patron-client relationship by the industry and apparels-export led economic growth have enabled successive governments to increase the coercive capacity of the state with respect to labor, civil society and political opposition, while legal and bureaucratic quality of governance has remained low (Ahmed et al., 2014; Berliner et al., 2015). Governments used this growing coercive capacity to crack down on both labor agitations and opposition political movements. Although organized labor in the Apparels industry is riven with political factionalism, the urban and suburban areas that harbored the concentrated apparels clusters, belonged to parliamentary constituencies that voted most reliably in anti-incumbency in all the contested elections since 1990[44]. Establishing coercive control over these anti-incumbency prone areas, has been priority for all governments for both political and labor control reasons.

A traditional mainstay in opposition political movement repertoire in Bangladesh is regionwide or national strikes that lay siege upon roads, railways, and ports to coercively shut down all private and public institutions including schools, offices, and factories. Locally known as 'hartal', these strikes are part of South Asian politics since early 20th century but during the democratic contestation era in Bangladesh after 1990, they were being used with increasing and unprecedented frequency (Ahsan & Iqbal, 2020). In the year before 2006 Elections there were 35 days of strikes while in the year leading to 2014 elections there were nearly 70 days of political strikes. The strikes were especially damaging to apparels exports because the industry depends on high speed, cost-minimizing, low inventory supply chain. Ahsan and Iqbal (2020) found that transport strikes not only significantly reduced probability of intime shipments, but also countries with higher political instability tend to have comparative disadvantage in higher value-

[44] http://www.amardesh.com/EADetailsYear.php?Year=1991. Election results website

adding apparel products. By 2010s, labor agitations for wages and benefits, and political instability from opposition movements against incumbents, were two of the biggest concerns for organized business interest in the Bangladeshi Apparels industry.

Bangladesh Awami League (BAL) won the 2008 national election with absolute majority, defeating the previous incumbent Bangladesh Nationalist Party (BNP). Soon after, BAL gradually maneuvered to politically marginalize BNP and remove the threat of electoral turnover. Using the Supreme Court, the ruling BAL dismantled the Caretaker government system, the only mechanism that delivered free and fair elections in the history of Bangladesh (Khan, 2017). The opposition mounted furious and mobilized effort to counter the government's subversion of the electoral process, but, using the increased coercive capacity of the state, BAL managed to check the opposition and returned to power in the 2014 election, held under BAL supervision and boycotted by the opposition.

After the victory in the controversial and uncontested 2014 election, the ruling BAL offered a special compact to the business elites of Bangladesh. The regime will offer political stability, absence of the crippling national strikes, full support of state in labor control and repression, selective credit and policy benefits in return of credible commitment to the regime through demonstrating no demand for democracy in politics. The government informally put forward a model of one-party dominated national politics of business cronyism and economic growth for Bangladesh, roughly following Malaysia's developmental path during the 1980s to 2000s (Pritchett et al, 2017). Apparels business and BGMEA were awarded more specialized privileges in tax deductions, cash incentives and almost total power to shape and craft all kind of policies regarding the most important national industry (Pritchett et al., 2017). BAL again conducted a highly controversial election in 2018 where they took more than 90% of seats with incredible vote tallies (Riaz, 2019). With business acquiescence, Bangladesh's turn from competitive clientelism to single-party authoritarianism became complete.

There are important differences in the characteristics of the main actors of our model in Cambodia and Bangladesh. GMAC membership is mostly foreign while BGMEA comprises overwhelmingly Bangladeshi owners. Cambodia never had electoral turnover while Bangladesh had long experience in change in power through elections. Despite these

differences, we can see, operating in both countries, the same mechanisms of government-business collusion in labor repression, suppression of labor political power and use of business support to nullify electoral integrity. The processes show that our theoretical framework is applicable cross-nationally.

5.7. Conclusion of chapter 5

Apparel export industry is notorious all over the developing countries as a labor-repressive industry to various degrees (Anner, 2015). This chapter shows that origin of this type of labor regime is due to structural conditions of the industry. I demonstrate that relation by constructing a general analytical framework of labor relations showing how industry-specific characteristics provide different levels of structural power to business and labor in an industry and different combinations of relative structural power of business and labor, lead to different types of industrial relations. The model shows four ideal-typical relations as consequence of relative power combinations: collective labor repression, collective collaboration, individual collaboration and individual repression. Because of complementarity of labor relations in the leading industry and political regime, these four ideal-typical labor relations lead to four different types of political regime, democracy, right-wing authoritarianism, populist authoritarianism, and autonomous predatory regime. I then show the applicability of the analytical framework through structural analysis of the apparels industry and a brief discussion of labor and political regime complementarity in two apparel export dependent countries, Bangladesh and Cambodia.

CHAPTER VI
CROSS-COUNTRY ANALYSIS OF APPAREL EXPORT, STATE CAPACITY AND DEMOCRACY

6.1. Introduction

In this section, using cross-country time series data, I statistically test the two main hypotheses of the study and two supporting hypotheses developed in the arguments. They are

Hypothesis 1: In developing countries where apparel export industry has gained a foothold, lack of state capacity lead to high export dependence in the industry.

Hypothesis 2: In developing countries with weak state capacity, extended dependency on apparels exports lead to democracy reversal.

The supporting hypotheses developed within the arguments of the study are,

Hypothesis 3: In developing countries, increase in clothing export lead to lower likelihood of productivity growth in the economy.

Hypothesis 4: In developing countries, increased in clothing export lead to lower level of labor rights.

6.2. State capacity and clothing export dependence

In this section, I statistically test the theoretical proposition that extended clothing export-dependency in developing countries is caused by lack of state capacity. The hypothesis is that increase in state capacity results in decreasing clothing export-dependency. To test the hypothesis, I construct a time-series, cross-section, unbalanced panel of 41 developing countries covering the period 1989 -2018 and I mainly rely on dynamic systems GMM estimation approach. The dataset includes all the countries where ready-made garments exports comprised at least 5% of total exports for any three years within this 30 years period. Since we are interested to explain dependence on clothing

exports, restricting analysis on countries that had some presence of an garments export industry, provides controls for some non-institutional and non-economic factors that help make garments exports a possibility, for example sectoral characteristics of apparels, access to ports, geography and climate. A list of the 41 countries is provided at the end of chapter.

To construct a variable measuring dependence on clothing exports, I first use a country's annual ready-made apparels (knitted and non-knitted) exports as percentage of total exports. I obtained the data from MIT's Observatory of Economic Complexity (OEC) website[45]. The data is cross matched with World Bank's World Integrated Trade Solution (WITS) data on international trade[46]. A higher share of clothing exports in total exports represent dependence of the economy on clothing. However, as earlier discussed, a country's share of clothing exports can fall due to increased economic upgrading and diversification, for which state capacity is essential, or clothing exports can fall if the country becomes uncompetitive without upgrading. Changes international trade, expiry of treaty facilities, rising labor costs etc. can cause fall of clothing exports without diversification and upgrading.

Economic Complexity Index (ECI) developed by Hidalgo and Hausmann (2009) accounts for both the diversity of products in a country's export basket and relative sophistication of the products. Year by year change in ECI thus provides a good approximation of the level of export upgrading or downgrading of a country. A composite variable made of clothing export share and ECI can better capture the measure of clothing export dependency, whether decline in export share is more due to upgrading or due to un-competitiveness. However, the annual ECI index published in OEC website ranges from positive to negative. I converted it in a positive scale and made a composite with clothing export share. Higher value of this variable represents higher dependency on clothing exports.

Our main explanatory variable is state capacity which is a broad and multidimensional concept. Analyzing and using the core dimensions of state capacity

[45] https://oec.world/ The OEC website provides country export and import data segregated at HS1, HS2, HS3 and SITC 1, SITC 2, SITC 3 level.
[46] WITS data https://wits.worldbank.org/

found in literature, Hanson and Sigman (2020) have used Bayesian latent variable analysis to develop an index of state capacity that is at the conjunction of various indicators. Their index is highly correlated with indicators of bureaucratic capacity, fiscal capacity, monopoly of force, information capacity, extractive capacity, etc. standard dimensions. I used their index of state capacity as the measure of the explanatory variable.

There are obviously many country-level variables that can affect clothing exports. To ensure robustness of the regression results, I control the estimation with economic development and population. Per-capita income has direct effect on export competitiveness because of wage. I used GDP per capita data from Hanson and Sigman's (2020) state capacity database. For population size in each year, I used the World Bank data (World Bank, Population, 2020). I used log of GDP per capita and population as variables. Following Acemoglu et al. (2008), I construct 3-year panels by taking observations every third year. This results in maximum 10 observations for each country. Averaging over 3 years, rather than taking every third year would have smoothed out year to year fluctuations in export and state capacity index, but that would introduce additional serial correlation, making inference and estimation more difficult, which is confirmed by AR (2) results in unreported analysis. The following table (2) gives descriptive statistics of the variables in data.

Table 6.1: Descriptive statistics of variables for cross-country analysis of empirical data on clothing export dependence and state capacity

Variable	Observations	Mean	St. Dev	Min	Max
Cloth export%	400	22.095	22.191	.0938	90.52
Dependency	383	13.385	15.36727	.0500	66.15758
State Capacity	362	.21049	.5624921	-1.262	2.062
State Antiquity	362	.74750	.1379575	.3089005	.9963146
Log population	362	7.2598	.7180406	6.026825	9.137107
Log GDP per capita	362	3.332596	.4367387	2.286107	4.395689
Period	401	5.563	2.857797	1	10

I use a single equation model to test the hypothesis. The basic idea of the theory is that state capacity and existing export industry-infrastructure, dynamically affects export performance or dependence on clothing exports. I, therefore, test a standard dynamic model (autoregressive model of order 2) on the data, as defined by the following equation:

$$d_{i,t} = \alpha + \alpha_1 d_{i,t-1} + \alpha_2 d_{i,t-2} + \lambda SC_{i,t-1} + \beta X_{i,t} + \delta_t + \eta_i + \varepsilon_{i,t} \quad \text{--------} \quad (1)$$

Where $d_{i,t}$ is the clothing export share or dependence composite of country i in period t. $SC_{i,t-1}$ is the one-lagged value of state capacity of country i in period t. $X_{i,t}$ is the vector of time-varying control variables; here logged GDP per capita and logged population. η_i is country dummy to capture time-invariant unobserved differences across countries. δ_t is period dummies to capture common shocks across countries in a period, for example a global recession or change in trade regime. $\varepsilon_{i,t}$ is i.i.d error term that includes observable and unobservable omitted terms that can influence the estimation.

There are two significant problems in estimating the model in equation (1) with OLS or fixed-effects regression. First, endogenous relationship between clothing exports and, state capacity and other explanatory variables. Secondly omitted variables bias (Menaldo, 2016). Endogeneity is built in the model because the theory argues that there is reverse-causality between state capacity and state's dependence on a low-skilled industry like apparels. Omitted variables is also a potential problem because some undiscussed variables

may directly affect both state capacity and export dependency, for example, types of political regime.

Endogeneity and omitted variables introduce bias and inconsistency in OLS estimates. Fixed-effect eliminate several sources of time-invariant and time-varying omitted variable bias in panel data estimates but the problem of reverse causality from endogeneity remains. I use systems Generalized Method of Momentum (GMM) and an alternative measure to overcome the problem of endogeneity in estimating effect of state capacity on clothing export dependence. The dynamic systems GMM estimation developed by Arellano and Bover (1995) and Blundell and Bond (1998), first apply moment conditions in which lagging differences of variables expunge time-invariant fixed-effects. Second, the estimation uses lagged endogenous variables (including the dependent variable) and pre-determined variables as instruments free of time-varying error correlation. Generally, valid instruments are generated by lagging endogenous variables at least two times while lagging pre-determined variables once. Predetermined variables are assumed to be only correlated with past error terms while endogenous variables correlate with current and past errors. In this analysis, I treated export-dependence and state capacity as endogenous variables while income in form of GDP per capita is treated as predetermined.

Systems GMM is particularly useful for small period (T), large N, unbalanced panels, which is the case here. However, because creation of multiple lags of endogenous and predetermined variables, problem of instrument proliferation can arise, whereby number of instruments can exceed N (countries). Too many instruments can overfit endogenous variables and weaken Hansen test for validity of instruments and Hansen test of overidentifying restrictions (Roodman, 2009). Following Roodman (2009), I restrict proliferation of instruments by collapsing their numbers. I also follow Roodman (2009) in using two-step GMM with Windmeijer correction to correct for heteroscedasticity and serial correlation while producing more efficient estimates.

I report results from systems GMM and other estimates in Table 6.3 and 6.4 for the two measures of clothing export dependency, respectively clothing exports as percentage of total exports and the composite variable dependency. I use lagged dependent variable, one-lagged state capacity, one-lagged log GDP per capita and log population as explanatory and control variables. For additional check, I also report Pooled-OLS and Fixed-effect

regression results. Results across OLS, Fixed effect and systems GMM show a stable and robust pattern, the coefficient for state capacity is negative and significant in determination of clothing export dependency, implying that as a country's state capacity increases, its dependence on clothing exports decreases.

Tests for autocorrelation in disturbances and validity of instruments show that systems GMM instrumentation is valid. Across all GMM estimation, Arellano-Bond test of autocorrelation of second order AR(2) returns higher p-values (>1.00), thus satisfying requirement that the absence of the second-order serial correlation in disturbances is not rejected. Tests also show that heteroskedasticity and autocorrelation consistent Hansen J test of the over-identifying restrictions returns high chi-square values (p-value > 0.300). Thus, I cannot reject the hypothesis that the instrumental variables required by the GMM approach are exogenous.

Table 6.2: Cross-country analysis of clothing export dependency and state capacity; dependent variable clothing export as % of total exports.

Dependent Variable: Clothing export as % of total exports					
	POOLED OLS	FIXED EFFECT	SYSTEMS GMM	SYSTEMS GMM	POOLED-OLS with State Antiquity
Clothing exp (t-1)	.92594*** (0.000)	.63733*** (0.000)	.82060*** (0.000)	.87864*** (0.000)	.6202692*** (0.000)
State Cap (t-1)	-3.6471*** (0.002)	-4.1804* (0.071)	-11.521*** (0.000)	-8.8263** (0.05)	
State Ant (t-1)					-132.4142** (0.026)
Log gdp percap (t-1)	-1.12973 (0.441)	-9.9867* (0.100)		-2.8741 (0.69)	-18.47971*** (0.000)
Log population	.261755 (0.689)	13.403 (0.434)		-.021571 (.919)	25.98647*** (0.000)
Obs	318	318	359	277	318
Countries	41	41	41	41	41
Country Fixed Effect	NO	YES	YES	YES	YES
Year Fixed Effect	NO	YES	YES	YES	NO
No of Instruments			15	17	
R square	.90	.605			.965
AR(1)			0.002	0.006	
AR(2)			0.161	0.950	
Hansen overriding restrictions (p-value)			0.326	0.658	
Hansen exogeneity of instrument (p value)			0.754	0.421	

Numbers in parentheses are p-values. *, **, and *** denote significantly different from zero at the 10% level, 5% level, and 1% level, respectively. Intercepts are not reported.

Table 6.3: Cross-country analysis of clothing export dependency and state capacity; dependent variable composite of Economic Complexity Index and clothing export as % of total exports.

Dependent variable: Dependency, composite variable of clothing exports and Econ Complexity					
	POOLED OLS	FIXED EFFECT	SYSTEMS GMM	SYSTEMS GMM	POOLED-OLS with State Antiquity
Dependency (t-1)	. .9181 *** (0.000)	.5946*** (0.000)	.89203*** (0.000)	.8732 *** (0.000)	.58400*** (0.000)
State Cap (t-1)	-2.288*** (0.009)	-3.311*** (0.045)	-9.3637*** (0.000)	-9.232*** (0.002)	
State Ant (t-1)					-90.9558** (0.05)
Log gdp percap (t-1)	-1.360 (0.198)	-5.876 (0.177)		-.6480868 (0.808)	-11.3519*** (0.000)
Log population	.26153 (0.536)	5.8527 (0.635)		.594032 (0.650)	17.00636*** (0.000)
Obs	302	302	342	261	302
Countries	41	41	41	41	41
Country Fixed Effect	NO	YES	YES	YES	YES
Year Fixed Effect	NO	YES	YES	YES	NO
No of Instruments			15	17	
R square	.902	.743	0.004		.961
AR(1)				0.005	
AR(2)			0.074	0.773	
Hansen overriding restrictions (p-value)			0.507	0.881	
Hansen exogeneity of instrument (p value)			0.611	0.810	

Numbers in parentheses are p-values. *, **, and *** denote significantly different from zero at the 10% level, 5% level, and 1% level, respectively. Intercepts are not reported.

I use an alternative measure of state capacity that is free from two-way causation, as a final check on the robustness of the estimation. Bockstette et al. (2002) developed State Antiquity as a variable that captures the long historical legacy of indigenous, political state formation of a country. The variable takes account of 2000 years of history with modern era weighted higher. Their annualized country State Antiquity index range from zero to one and is available from the year 1930. State Antiquity is an effective predictor of state capacity because accumulation of different facets of state capacity, such as bureaucratic capacity, military strength, information capacity, tax capacity, etc., is generally result of long-running historical processes. State capacity is thus a "stock" variable, result of historical accumulation (Menaldo, 2016). State Antiquity is a good alternate measure of state capacity because there is there is almost no plausible causal path from clothing export dependency to State Antiquity, and thus there is no reverse causality. I obtained State Antiquity index data from Hanson and Sigman (2020).

I first regress State Capacity on State Antiquity, controlling for income, population and country effects, to determine the validity of the alternative measure. The coefficient is positive and significant ($p < 0.001$, R-sq = .938)), showing that State Antiquity is a valid measure. I then used pooled OLS to estimate the effect of State Antiquity on clothing dependence. Again, lagged dependent variable, income, population and country effects are controlled. Reported results in Table 6.3 and Table 6.4 show that coefficients on State Antiquity are negative and significant, thus supporting the important role of state capacity in reducing dependence.

6.3. Clothing exports and low-productivity trap

In this section I am going to investigate cross-country evidence of the relationship between RMG export dependency and productivity growth in the national economy. In chapter 3, I have argued that, because of the sectoral characteristics of the clothing industry, it is difficult for countries with weak state capacity to diversify and upgrade their industrial economy from an established base of low value-adding, low-productivity RMG export industry. I showed how the literature has discussed various related phenomena of

quiescence trap, learning trap, competency trap, which all are outcomes of a same basic dynamic of low productivity trap. There is a vicious cycle of productivity trap, clothing industry provides little opportunity for productivity growth and lack of productivity growth makes countries become ever more reliant on low-productivity, labor-intensive industries like clothing industry or resource extraction sectors.

To test the hypothesis on negative relationship between clothing exports and productivity growth, I have constructed a time-series, cross-section, unbalanced panel of 119 developing countries covering the period 1990 -2019. The dataset includes all the developing countries from all continents except Australia-New Zealand, for whom data is available. I have excluded countries that have experienced long-term war, civil war, foreign occupation during this period because such events have dramatic shocks in the natural evolution of the economy. Thus, countries like Iraq, Syria, Somalia, Liberia, Sierra Leone are not included in the dataset. A list of the 119 countries is provided at the end of the chapter.

The main explanatory variable is clothing export percent of annual total exports from a country. As mentioned in the previous section, I use data from MIT's Observatory of Economic Complexity (OEC) website, cross-matched with World Bank's World Integrated Trade Solution (WITS) data on international trade. For the dependent variable productivity of the national economy, For the dependent variable, I use data on annual labor productivity from International Labor Organization's (ILO) ILOSTAT database[47]. ILOSTAT provides data on annual labor productivity from 1991 to 2019. There are two measures of labor productivity in the data, a Purchasing Power Parity (PPP) measure in constant 2011 international dollars and a nominal measure in constant 2010 US$. I use both the measures for robustness check of the relationship. Cross-country comparison of time series productivity data is often problematic because of uncertainty (ILOSTAT, 2021). Controlling for country effects in the panel data addresses those comparison problems to a significant extent.

[47] ILOSTAT data on labor productivity https://ilostat.ilo.org/topics/labour-productivity/#

Many country-level variables that can affect productivity level and growth. To ensure robustness of the regression results, I control the estimation with economic development and population size. I also use fuel (petroleum) exports as percent of total export. I discussed in chapter 3 that the phenomenon of clothing export dependency has lot of similarity with dependency on oil resources in developing countries. Menaldo (2016) has illustrated relationship of state capacity and oil resource dependency with theoretical explanation and cross-country analysis. To isolate the effect of clothing exports from oil exports, I used World Bank data on fuel exports as percentage of total merchandizing exports[48]. I again cross-matched the data with OEC (2021) data and to fill in the gaps. I also use State Capacity variable used in the previous section as an additional control.

As in the previous section, following Acemoglu et al. (2008), I constructed the panel using annual data with two years gap in between. However, there is often great fluctuation in year-to-year exports in clothing and fuel from many developing countries. To smooth this fluctuation bout to avoid correlations in observations arising from averaging periods, I took two years average with two years gap in between. Thus, one observation includes four years. The period 1991 to 2019, yielded maximum eight observations per country. A table of the descriptive stats for the panel is shown below.

Table 6.4: Descriptive statistics of variables in data from 119 countries for cross-country analysis of relationship between clothing export dependence and productivity.

Variable	Obs	Mean	St. Dev	Min	Max
Productivity in 2011 $ PPP	936	266658.67	28847.1	1040.43	212139.5
Productivity in 2010 const $	945	12929.83	17408	406	130919
Clothing exp %	937	8.305	16.39	0	90.28
Fuel export %	912	19.65	29.61	0	98.322
Log population	933	6.975	.728	5.35	9.144
Log GDP per cap	928	3.255	.560	2.05	4.87
State Capacity	810	.110	.626	-1.485	2.074
Period	946	4.521	2.28	1	8

[48] https://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN

I use a single equation model to test the hypothesis. The basic idea of the theory is that annual level of clothing exports from a country, dynamically labor productivity growth in the economy. I, therefore, test a standard dynamic model (autoregressive model of order 2) on the data, as defined by the following equation:

$$P_{i,t} = \alpha + \alpha_1 P_{i,t-1} + \alpha_2 P_{i,t-2} + \lambda CL_{i,t-1} + \beta X_{i,t} + \delta_t + \eta_i + \varepsilon_{i,t} \quad \text{--------} \quad (2)$$

Where $P_{i,t}$ is the productivity level of country i in period t. CL is the one-lagged value of clothing exports of country i in period t. $X_{i,t}$ is the vector of time-varying control variables; here logged GDP per capita, logged population, fuel exports and state capacity. η_i is country dummy to capture time-invariant unobserved differences across countries. δ_t is period dummies to capture common shocks across countries in a period, for example a global recession or change in trade regime. $\varepsilon_{i,t}$ is i.i.d error term that includes observable and unobservable omitted terms that can influence the estimation.

Again, there are two significant problems in estimating the model in equation (2) with OLS or fixed-effects regression. First, endogenous relationship between clothing exports and, productivity and other explanatory variables. Secondly omitted variables bias (Menaldo, 2016). Like the previous estimate, I use systems Generalized Method of Momentum (GMM) developed by Arellano and Bover (1995) and Blundell and Bond (1998), to overcome the problem of endogeneity in estimating effect of clothing export on productivity. In this analysis, I treated productivity, clothing exports and state capacity as endogenous variables while income in form of GDP per capita and fuel exports are treated as predetermined. Following Roodman (2009), I restrict proliferation of instruments by collapsing their numbers. I also follow Roodman (2009) in using two-step GMM with Windmeijer correction to correct for heteroscedasticity and serial correlation while producing more efficient estimates.

I report results from systems GMM and other estimates in Table 6.5 and 6.6 for the two measures of productivity, respectively productivity in PPP constant 2011 US$ and nominal productivity in constant 2010 US$. For additional check, I also report Pooled-OLS and Fixed-effect regression results.

Results across OLS, Fixed effect and systems GMM show a stable and robust pattern, the coefficient for clothing exports is negative and significant in determination of productivity of a country, implying that as a country's clothing export increases, likelihood

of its productivity growth decreases. Clothing export is associated with likelihood of a low productivity trap.

Tests for autocorrelation in disturbances and validity of instruments show that systems GMM instrumentation is valid. Across all GMM estimation, Arellano-Bond test of autocorrelation of second order AR(2) returns higher p-values (>.100), thus satisfying requirement that the absence of the second-order serial correlation in disturbances is not rejected. Tests also show that heteroskedasticity and autocorrelation consistent Hansen J test of the over-identifying restrictions returns high chi-square values (p-value > 0.300). Thus, I cannot reject the hypothesis that the instrumental variables required by the GMM approach are exogenous.

Table 6.5: Cross-country analysis of labor productivity and clothing exports; dependent variable labor productivity in constant 2011 $ at PPP.

Dependent Variable: labor productivity in constant 2011 $ PPP					
	POOLED OLS	FIXED EFFECT	SYSTEMS GMM	SYSTEMS GMM	SYSTEMS GMM
Productivity PPP (t-1)		.	1.52*** (0.000)	1.496*** (0.000)	1.45*** (0.000)
Clothing exp (t-1)	-62.35*** (.013)	-116.7*** (.004)	-131.53** (0.025)	-120.93*** (0.010)	-99.6** (0.035)
Fuel exp (t-1)	127.44*** (0.004)	119.55 (0.196)		22.43 (0.312)	20.55 (0.302)
Log GDP per cap (t-1)	8268.1*** (.000)	13602.1*** (0.001)	-8524.7* (0.093)	-10114.28* (0.074)	-10388.1* (0.055)
State capacity (t-1)		2989.1** (.023)			1876.8 (0.406)
Log population (t-1)				-1052.12 (.208)	-1094.616 (0.261)
Obs	781	765	694	678	666
Countries	119	119	119	119	119
Country Fixed Effect	YES	YES	YES	YES	YES
Year Fixed Effect	NO	YES	YES	YES	YES
No of Instruments			15	19	22
R square	0.9663	0.6243			
AR(1)			0.059	0.054	0.056
AR(2)			0.753	0.703	0.611
Hansen overriding restrictions (p-value)			0.391	0.570	0.830
Hansen exogeneity of instrument (p value)			0.630	0.934	0.917

Numbers in parentheses are p-values. *, **, and *** denote significantly different from zero at the 10% level, 5% level, and 1% level, respectively. Intercepts are not reported.

Table 6.6: Cross-country analysis of labor productivity and clothing exports; dependent variable nominal labor productivity in constant 2010 US$.

Dependent Variable: nominal labor productivity in constant 2010 US$					
	POOLED OLS	FIXED EFFECT	SYSTEMS GMM	SYSTEMS GMM	SYSTEMS GMM
Productivity nominal (t-1)			1.335*** (0.000)	1.32*** (0.000)	1.31*** (0.000)
Clothing exp (t-1)	-34.47*** (0.006)	-59.60*** (0.009)	-61.066** (0.041)	-61.45** (0.033)	-44.70** (0.048)
Fuel exp (t-1)	63.09*** (0.008)	62.51 (0.245)		13.73 (0.184)	18.15** (0.044)
Log GDP per cap (t-1)	3186.04*** (0.000)	7614.57*** (0.000)	-4509.12* (0.079)	-5573.3* (0.062)	-6407.3** (0.025)
State capacity (t-1)		989.0 (0.159)		.594032 (0.650)	1786.88 (0.111)
Log Population (t-1)				-704.06 (0.194)	-745.2 (.207)
Obs	784	768	704	687	675
Countries	119	119	119	119	119
Country Fixed Effect	YES	YES	YES	YES	YES
Year Fixed Effect	NO	YES	YES	YES	YES
No of Instruments			15	19	22
R square	.9708	.668			
AR(1)			0.154	0.142	0.160
AR(2)			0.759	0.744	0.668
Hansen overriding restrictions (p-value)			0.299	0.661	0.799
Hansen exogeneity of instrument (p value)			0.279	0.754	0.638

Numbers in parentheses are p-values. *, **, and *** denote significantly different from zero at the 10% level, 5% level, and 1% level, respectively. Intercepts are not reported.

6.4. Clothing exports and democracy

Our second main hypothesis is that inn developing countries with weak state capacity, extended dependency on apparels exports lead to democracy reversal. In this section, I am going to describe cross-country analysis that supports the hypothesis.

To measure level of democracy in a country, I used Polyarchy index of V-Dem institute[49]. V-Dem Institute (Varieties of Democracy) is an independent institute for researching state of democracy in the world and based at the department of political science, University of Gothenburg, Sweden. Development and updating of different indexes are supervised by renowned comparative politics scholars like Michael Coppedge, John Gerring. The Polyarchy index is inspired by Dahl's (1971) conception of democracy as a combination of "freedom of association, suffrage, clean elections, elected executive, and freedom of expression" (Coppedge et al. 2017: 10). The index ranges continuously from 0 to 1. There are several reasons why I choose the relatively new Polyarchy index over other popular indexes like Center of Systemic Peace's Polity IV or Freedom House's Political Rights indexes.

Comparative analyses of democracy indexes have shown that Polyarchy index is better at discriminating levels of democracy of countries at both high and low level of democracy (Vaccaro, 2021). Other indexes do not have similar performance at both extremes. Secondly, Polyarchy puts elections and electoral democracy at the heart of the conception of democracy (Coppedge et al. 2017). As I have discussed previously in this study, subversion of elections by incumbents is the most common way democratic reversals have been taking place in developing countries in the recent decades and this is the main mechanism I used to show how concentration in RMG industry makes inclusive politics less likely. More importantly, V-dem polyarchy index is continuous, thus even small changes in democracy from year of year can be tracked for a country; Ordinal integer indexes like Freedom House, Polity, do not have this ability to demonstrate continuous and small changes.

[49] Varieties of Democracy (V-Dem) https://www.v-dem.net/en/

To test the hypothesis on negative relationship between clothing exports and democracy, I again used the previous time-series, cross-section, unbalanced panel of 119 developing countries covering the period 1990 -2019. I added Polyarchy index scores as the new dependent variable. The main explanatory variable is clothing export percent of annual total exports from a country. As mentioned in the previous section, I use data from MIT's Observatory of Economic Complexity (OEC) website, cross-matched with World Bank's World Integrated Trade Solution (WITS) data on international trade. The large and expanding body of comparative democracy studies show that many country-level variables can affect political state of a country. To ensure robustness of the regression results, I control the estimation with economic development and population size. I also use fuel (petroleum) exports as percent of total export. The 'political resource curse' literature argues that there is an endogenous relationship between dependence of oil exports and democracy in developing countries. I therefore also used fuel exports as an endogenous explanatory variable.

Endogenous institutions (Acemoglu et al, 2005) is the main theoretical tool I have used to develop a causal theory between apparels concentration and politics. The literature on endogenous institutions has shown that level of economic development (GDP per capita), economic concentration in form of oil exports, are endogenously related with level of democracy in a country. To correct for the endogeneity problem, I again used Systems GMM as the estimating tool. However, the hypothesis is that in countries with weak state capacity, increase in RMG exports lead to lower level of democracy. Weak state capacity is therefore a scope condition for this hypothesis. The analysis of data in the first section of this chapter showed that weak state capacity leads to increase apparel dependence. A potential causal link between state capacity and democracy, therefore, needs to be addressed.

The relationship between state capacity and democracy in developing countries is a highly debated issue in political studies. North et al (2009) have argued that transition to open access politics and economy only takes place when the state is able to control violence and establish rule of law. However, Migdal's (1988) argued that state capacity does not

lead to inclusive politics when, even the capable state is captured by powerful elite groups or political organizations. More recently, Acemoglu and Robinson (2019) have argued that the state and society both must be strong enough to counteract each other and provide a narrow corridor that protects political and economic freedom. To address a probable but yet undetermined confounding link between state capacity and democracy, and according to the scope condition of hypothesis 2, I therefore took the subset of countries with historically lower state capacity from the panel of 119 countries. I took countries with lower than 66 percentiles in average state capacity index scores during the period 2000- 2015, which yielded 79 countries. I used the battery of tests in both the 119 full panel and the subset of 79 countries with weaker state capacity. As Table 8 and table 9 show, the results are consistent in both panel sets. A list of the 79 countries with weak state capacity is provided at the end of chapter.

As in the previous section, following Acemoglu et al. (2008), I constructed the panel using annual data with two years gap in between. A table of the descriptive stats for the panel of 79 countries with weak state capacity, is shown below.

Table 6.7: Descriptive statistics of variables in data from 79 countries for cross-country analysis of relationship between clothing exports and democracy.

Variable	Obs	Mean	St. Dev	Min	Max
Polyarchy democracy score	623	0.392	0.1885	0.013	0.831
Clothing exp %	622	9.72	18.99	0	90.28
Fuel export %	604	20.08	31.30	0	98.322
Log population	621	6.90	.6335	5.35	8.43
Log GDP per cap	613	3.06	.5011	2.05	4.64
Period	628	4.521	2.28	1	8

I use a single equation model to test the hypothesis. According to the theoretical argument, annual level of clothing exports from a country, dynamically affect political inclusivity in the country. I, therefore, test a standard dynamic model (autoregressive model of order 2) on the data, as defined by the following equation:

$$D_{i,t} = \alpha + \alpha_1 D_{i,t-1} + \alpha_2 D_{i,t-2} + \lambda CL_{i,t-1} + \gamma F_{i,t-1} + \beta X_{i,t} + \delta_t + \eta_i + \varepsilon_{i,t} \quad \text{---------- (2)}$$

Where $D_{i,t}$ is the level of democracy of country i in period t. CL is the one-lagged value of clothing exports of country i in period t. F is the one-lagged value of fuel exports of country i in period t. $X_{i,t}$ is the vector of time-varying control variables; here logged GDP per capita, logged population. η_i is country dummy to capture time-invariant unobserved differences across countries. δ_t is period dummies to capture common shocks across countries in a period, for example a global recession or change in trade regime. $\varepsilon_{i,t}$ is i.i.d error term that includes observable and unobservable omitted terms that can influence the estimation.

Again, there are two significant problems in estimating the model in equation (2) with OLS or fixed-effects regression. First, endogenous relationship between clothing exports and democracy, fuel exports and democracy, and other explanatory variables. Secondly omitted variables bias (Menaldo, 2016). Like the previous estimate, I use systems Generalized Method of Momentum (GMM) developed by Arellano and Bover (1995) and Blundell and Bond (1998), to overcome the problem of endogeneity in estimating effect of clothing export on productivity. In this analysis, I treated democracy, clothing exports and fuel exports as endogenous variables while income in form of GDP per capita is treated as predetermined. Following Roodman (2009), I restrict proliferation of instruments by collapsing their numbers. I also follow Roodman (2009) in using two-step GMM with Windmeijer correction to correct for heteroscedasticity and serial correlation while producing more efficient estimates.

I report results from systems GMM and other estimates in table 6.8 for the full panel of 119 countries and in table 6. 9 for the panel of 79 countries with weak state capacity. For additional check, I reported Pooled-OLS and Fixed-effect regression results.

Results across OLS, Fixed effect and systems GMM show a stable and robust pattern, the coefficient for clothing exports is negative and significant in determination of democracy of a country, implying that as a country's clothing export increases, likelihood

of democracy reversal also increases. Clothing export is negatively associated with democracy in developing countries.

Tests for autocorrelation in disturbances and validity of instruments show that systems GMM instrumentation is valid. Across all GMM estimation, Arellano-Bond test of autocorrelation of second order AR(2) returns higher p-values (>.100), thus satisfying requirement that the absence of the second-order serial correlation in disturbances is not rejected. Tests also show that heteroskedasticity and autocorrelation consistent Hansen J test of the over-identifying restrictions returns high chi-square values (p-value > 0.300). Thus, I cannot reject the hypothesis that the instrumental variables required by the GMM approach are exogenous.

Table 6.8: Cross-country analysis of clothing exports and democracy for a panel of 119 countries; dependent variable labor productivity in V-Dem Polyarchy index.

Dependent Variable: Annual Polyarchy index (Panel of 119 developing countries)				
	POOLED OLS	FIXED EFFECT	SYSTEMS GMM	SYSTEMS GMM
Polyarchy (t-1)	0.440*** (0.000)	.0.453*** ((0.000)	.892*** (0.000)	0.8614*** (0.000)
Clothing exp (t-1)	-0.0013*** (.008)	-0.0014** (.026)	-0.0010*** (0.005)	-0.0011** (0.039)
Fuel exp (t-1)	-.0003* (0.053)	-.0004* (0.067)	-0.0005** (0.03)	-0.0006* (0.079)
Log GDP per cap (t-1)	-0.004 (.700)	0.017 (0.400)		-0.0092 (0.740)
Log population (t-1)	0.051*** (0.000)	0.042 (0.460)		-0.00808 (.290)
Obs	781	781	689	680
Countries	119	119	119	119
Country Fixed Effect	YES	YES	YES	YES
Year Fixed Effect	NO	YES	YES	YES
No of Instruments			15	19
R square	0.983	0.7772		
AR(1)			0.000	0.000
AR(2)			0.773	0.686
Hansen overriding restrictions (p-value)			0.738	0.479
Hansen exogeneity of instrument (p value)			0.753	0.407

Numbers in parentheses are p-values. *, **, and *** denote significantly different from zero at the 10% level, 5% level, and 1% level, respectively. Intercepts are not reported.

Table 6.9: Cross-country analysis of clothing exports and democracy for a panel of 79 developing countries with weak state capacity; dependent variable labor productivity in V-Dem Polyarchy index

Dependent variable: Annual Polyarchy index (panel of 79 countries with weak state capacity)				
	POOLED OLS	FIXED EFFECT	SYSTEMS GMM	SYSTEMS GMM
Productivity nominal (t-1)	0.4038*** (0.000)	0.418*** (0.000)	0.882*** (0.000)	0.869*** (0.000)
Clothing exp (t-1)	-0.0016*** (0.002)	-0.0017** (0.012)	-0.0009*** (0.004)	-0.0009** (0.015)
Fuel exp (t-1)	-0.00021 (0.323)	-0.00031 (0.229)	-0.0004* (0.083)	-0.00035 (0.200)
Log GDP per cap (t-1)	0.002 (0.861)	0.0105 (0.706)		-0.0147 (0.582)
Log Population (t-1)	0.0517*** (0.000)	0.02241 (0.833)		-0.0026 (0.817)
Obs	516	516	457	452
Countries	79	79	79	79
Country Fixed Effect	YES	YES	YES	YES
Year Fixed Effect	NO	YES	YES	YES
No of Instruments			15	19
R square	.9832	.7011		
AR(1)			0.000	0.001
AR(2)			0.352	0.466
Hansen overriding restrictions (p-value)			0.848	0.336
Hansen exogeneity of instrument (p value)			0.610	0.332

Numbers in parentheses are p-values. *, **, and *** denote significantly different from zero at the 10% level, 5% level, and 1% level, respectively. Intercepts are not reported.

6.5. Cross-country evidence of clothing exports and labor rights

In chapter 4 and chapter 5, I have argued that one of the causal processes that connect clothing export dependency to democracy reversal is that the clothing industry, because of its sectoral characteristics, is notoriously labor repressive and because of complementarity of institutions, labor repressive industrial relations in the dominant economic sector leads to politically repressive regime at the national level. In this section, I will discuss cross-country analysis of index-based evidence that demonstrate a link between level of clothing exports in an economy and the state of labor rights. The hypothesis is that,

Hypothesis 4: Increase in clothing exports from a developing country leads to a deterioration of labor rights in that country.

Investigation of the dynamic relationship between clothing exports and labor rights, require cross-country measures of labor rights that cover a significant period with regular intervals within the period. In chapter 4 and 5, I discussed and used International Trade Union Confederation (ITUC) annual global rights index for labor to illustrate a general pattern of worse labor conditions in clothing export dependent countries[50]. However, the index has begun coverage of countries only since 2014 and therefore inadequate for a more comprehensive cross-country analysis.

David Kucera of International Labor Organization (ILO) has developed a set of indicators of freedom of association and collective bargaining (FACB) rights of workers in 185 ILO member countries, beginning from 2000 with 5 year perioding interval (Kucera & Sari, 2019). The indicators are based on coding of violations from nine textual sources, including six from within ILO reports, ITUC annual reports as wells as study of national legislation. The overall indicator is composite of on paper legal protection of FACB rights in countries and indicator of de facto state of rights and occurrences of violations. The data is currently maintained in collaboration with the Center for Global Workers' Rights at Penn

[50] ITUC global rights reports and download page https://www.ituc-csi.org/ituc-global-rights-index-2020

State University and available at its website[51]. The overall indicator ranges from 0 to 10, with o being the best possible state of rights for workers while 10 being the worst. Cross-country indicators were published for 2000, 2005, 2009, 2012, 2015, 2016 and 2017. This data is being increasingly used in comparative studies of state of workers' rights, particularly for FACB rights that are directly related with international trade (Kucera & Sari, 2019). Thus, investigating the link between RMG exports and workers' rights is a fitting use of this indicator.

The main issue in determining the causal relationship between clothing exports and workers' rights is again endogeneity of institutions and economic structure. I have discussed the argument how growth in clothing exports can lead to worsening labor relations in host countries because of the unique sectoral characteristics of the industry. However, arguments can be also made that because of the sectoral characteristics of the industry, international trade in clothing shifts towards countries with worse working conditions and weak institutions protecting labor rights. Therefore, the issue of reverse causality is present in this relationship as well. In addition, there is issue of omitted variables. To address these concerns, I used systems GMM approach in addition to fixed-effect, panel data estimation in analysis of cross-country data.

I constructed two cross-country panels with FACB workers' rights indicators published for 2000, 2005, 2009, 2012, 2015, and 2017. I used corresponding values for clothing exports and control variables from the previous dataset. First, I built a full panel of all developing countries and second, a panel comprising only countries with weaker state capacity[52]. Since weak state capacity is a scope condition for the theoretical mechanisms connecting clothing export concentration with political institutions and complementarity

[51] Center for Global Workers' Rights at Penn State University http://labour-rights-indicators.la.psu.edu/

[52] In revision of the scores Kucera suggested dropping several countries from the data for cross-country comparisons because of suspected underreporting of violations and information bias. Kucera also suggested dropping some country-year observations for similar reasons. Dropping those countries, I obtain a panel of 108 countries for the full developing countries set and 71 countries for the panel with weak state capacity. Suggested corrections are available at http://labour-rights-indicators.la.psu.edu/docs/Method%20Paper.pdf

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of labor-repressive regime is one of those connecting mechanisms, I showed evidence for relationship among weak state capacity countries as well as all countries. List of countries in the full panel and the weak capacity panel are provided at the end of chapter. Descriptive statistics for the full panel and weak state capacity panel is given below.

Table 6.10: Descriptive statistics of variables in data from 108 countries for cross-country analysis of relationship between clothing exports and state of labor rights.

Full panel of 108 developing countries					
Variable	Obs	Mean	St. Dev	Min	Max
FACB overall indicator	641	3.89	1.885	0.00	8.39
Clothing exp %	751	9.01	17.52	0.00001	90.451
Log GDP per cap	750	3.350	0.55	2.086	4.922
Period	755	4.0	1.99	1	7
Weak state capacity panel of 71 countries					
Variable	Obs	Mean	St. Dev	Min	Max
FACB overall indicator	425	3.80	1.73	0	8.35
Clothing exp %	501	10.88	20.16	0.0001	90.45
Log GDP per cap	499	3.171	.5181	2.08	4.70
Period	504	4	2.00	1	7

I use a single equation model to test the hypothesis that increasing clothing exports leads to worsening of workers' rights (measured in FACB index) in countries. According to the theoretical argument, annual level of clothing exports from a country, dynamically affect workers' rights in the country, however the FACB data is constructed with 5 years of gap between observations. Because of this large gap between observations, I test a standard autoregressive model of order 1, instead of order 2 as in previous estimations, on the data, as defined by the following equation:

$$L_{i,t} = \alpha + \alpha_1 L_{i,t-1} + \lambda CL_{i,t-1} + \beta X_{i,t} + \delta_t + \eta_i + \varepsilon_{i,t} \quad \text{--------} \quad (4)$$

Where $L_{i,t}$ is the freedom of association and collective bargaining (FACB) rights indicator value of country i in period t. CL is the one-lagged value of clothing exports of

country i in period t. $X_{i,t}$ is the vector of time-varying control variables; here logged GDP per capita. η_i is country dummy to capture time-invariant unobserved differences across countries. δ_t is period dummies to capture common shocks across countries in a period. $\varepsilon_{i,t}$ is i.i.d error term that includes observable and unobservable omitted terms that can influence the estimation.

Like the previous estimate, I use systems Generalized Method of Momentum (GMM) developed by Arellano and Bover (1995) and Blundell and Bond (1998), to overcome the problem of endogeneity and reverse causality in estimating effect of clothing export on productivity. In this analysis, I treated FACB rights and clothing exports as endogenous variables while income in form of GDP per capita is treated as a predetermined variable. Following Roodman (2009), I restrict proliferation of instruments by collapsing their numbers. I also follow Roodman (2009) in using two-step GMM with Windmeijer correction to correct for heteroscedasticity and serial correlation while producing more efficient estimates.

I report results from cross-country, fixed-effects panel estimation and systems GMM estimates in table 6.11 for the full panel of 108 countries and the weak capacity state panel of 79 countries.

Table 6.11: Cross-country analysis of clothing exports and labor rights for panel of 108 developing countries and for panel of 71 countries with weak state capacity.

Dependent variable: Freedom of association and collective bargaining (FACB) rights overall indicator				
	Panel of 108 developing countries		Panel of 71 countries with weak state capacity	
	FIXED EFFECT	SYSTEMS GMM	FIXED EFFECT	SYSTEMS GMM
FACB (t-1)	0.1834*** (0.000)	0.694*** (0.000)	0.1933*** (0.000)	0.7361*** (0.000)
Clothing exp (t-1)	0.176* (0.085)	0.125* (0.096)	0.0192 (0.103)	0,0156** (0.029)
Log GDP per cap (t-1)	-.5354 (0.126)	0.0068 (0.985)	-0.3111 (0.447)	0.1175 (0.779)
Obs	528	528	348	348
Countries	108	108	71	71
Country Fixed Effect	YES	YES	YES	YES
Year Fixed Effect	YES	YES	YES	YES
No of Instruments		14		14
R square	.364		0.424	
AR(1)	0.000			0.000
AR(2)	0.952			0.661
Hansen overriding restrictions (p-value)	0.563			0.355
Hansen exogeneity of instrument (p value)	0.943			0.802

Numbers in parentheses are p-values. *, **, and *** denote significantly different from zero at the 10% level, 5% level, and 1% level, respectively. Intercepts are not reported.

6.6. Conclusion

In this chapter, I used cross-country econometric analysis of different variable measures to find empirical support for the two main arguments and two supporting arguments of the study. The analysis showed that in developing countries, lack of state capacity is dynamically associated with increased dependence on RMG export and higher economic concentration in RMG export is associated with decreasing level of democracy. As support of these two main arguments, I also find empirical evidence that increasing RMG export is negatively associated with productivity growth in the economy and increasing RMG export is also negatively associated with lower level of labor rights in the country.

Establishing casual direction in all these associations from cross-country data is problematic because the explanatory and dependent variables have endogenous relationships, reverse causality, confounding effects, omitted variable bias and other problems of causal inference. To address these problems, I used systems generalized method of momentum SGMM technique that used lagged differences of variables to get rid of time-varying error correlations and time-invariant fixed effects. Although this treatment solves some of the above-mentioned problems, it is not a conclusive method for establishing causality. Use of more sophisticated causal identification strategies, remain a goal of future works.

List of 41 countries in the cross-country analysis of state capacity and clothing export dependence

Albania, Bangladesh, Cambodia, China, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, India, Indonesia, Jamaica, Jordan, Kenya, South Korea, Laos, Lebanon, Lesotho, Madagascar, Malawi, Malaysia, Mauritius, Mexico, Moldova, Mongolia, Morocco, Myanmar, Nepal, Nicaragua, Pakistan, Panama, Peru, Philippines, Sri Lanka, Swaziland, Thailand, Tunisia, Turkey, Viet Nam

List of full panel of 119 countries in the cross-country analysis

Albania, Algeria, Angola, Argentina, Armenia, Azerbaijan, Bahrain, Bangladesh, Barbados, Belarus, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Burkina Faso, Burundi, Cabo Verde, Cambodia, Cameroon, Central African Republic, Chad, Chile, China, Colombia, Comoros, Congo, Democratic Republic of Congo, Costa Rica, Côte d'Ivoire, Cuba, Djibouti, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Ethiopia, Fiji, Gabon, Georgia, Ghana, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, India, Indonesia, Iran, Israel, Jamaica, Jordan, Kazakhstan, Kenya, South Korea, Kuwait, Kyrgyz Republic, Laos, Lebanon, Lesotho, Madagascar, Malawi, Maldives, Malaysia, Mali, Mauritania, Mauritius, Mexico, Moldova, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Niger, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Qatar, Russia, Rwanda, Saudi Arabia, Senegal, Serbia, Solomon Islands, South Africa, Sri Lanka, Sudan, Suriname, Swaziland, Tajikistan, Tanzania, Thailand, Gambia, Timor-Leste, Togo, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Uganda, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Venezuela, Viet Nam, Zambia, Zimbabwe

List of panel of 79 countries with weak state capacity in the cross-country analysis

Albania, Algeria, Angola, Azerbaijan, Bahrain, Bangladesh, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Colombia, Comoros, Congo, Democratic Republic of Congo, Côte d'Ivoire, Djibouti, Dominican Republic, Egypt, El Salvador, Equatorial Guinea, Ethiopia, Gabon, Georgia, Ghana, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Indonesia, Jordan, Kenya, Kuwait, Kyrgyz Republic, Laos, Lebanon, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mauritius, Moldova, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Panama, Papua New Guinea, Paraguay, Rwanda, Saudi Arabia, Senegal, Solomon Islands, Sri Lanka, Sudan, Suriname, Swaziland, Tajikistan, Tanzania, Gambia, Timor-Leste, Togo, Turkmenistan, Uganda, Uzbekistan, Venezuela, Zambia, Zimbabwe

CHAPTER VII

DEVELOPMENT WITHOUT GOVERNANCE AND AUTHORITARIZATION OF GOVERNMENT IN BANGLADESH

7.1 Introduction

For the first three decades since its independence and founding in 1971, Bangladesh, a country of 160 million people in South Asia, usually got mentioned in global media for Malthusian overpopulation, extreme poverty, vulnerability to natural disasters and climate change, paralyzing conflicts between main political factions, and similar stories of doom and gloom. In the last two decades, however, Bangladesh also has increasingly begun to be mentioned as a case of puzzling developmental success (World Bank, 2007). The puzzle or 'paradox' of Bangladesh's development is that, despite dysfunctional politics, poor governance, lack of natural resources, and other endemic shortcomings, the country has steadily maintained above average economic growth for more than thirty years and has overtaken some of the even richer neighboring countries in social indicators such as life expectancy, child and maternal mortality, female labor participation, etc.

While the recent socio-economic trajectory of Bangladesh has been a positive surprise, the trajectory of democracy in Bangladesh, during the same period, has been somewhat unexpectedly negative. After decades of squabbling but contentious electoral politics, Bangladesh in the decade of 2010-20, gradually but inexorably turned into a one-party state (The Economist, 2021), or in another term, an authoritarian hybrid regime (Riaz, 2019). The current state of single-party dominance and lack of political competition is unprecedented in Bangladesh's history.

In this chapter, I argue that 'development without good governance' and 'political authoritarization' are both outcomes of a same process of political economic evolution of Bangladesh; a process largely hinged on another significant national-level phenomenon for which the country is well-known, an overwhelming dependence of the national economy on the apparels export industry. In the last two decades, apparels or ready-made garments

(RMG) exports have consistently comprised more than 80% of total annual exports of Bangladesh and has grown from 5.5 billion US$ in 2000 to more than 37 billion US$ in 2019[53]. I argue that the remarkable growth of the apparels export industry is one of the main reasons why Bangladesh's economic and social indicators have flourished despite a lack of standard growth-supporting national institutions and infrastructure and increased economic concentration and dependence on the apparels industry have led to national democratic reversal through incumbent takeover. I make the argument with causal mechanisms from political economy theories of endogenous development of political and economic institutions and then support it through within-case process tracing, using Bangladesh as a typical case. A remarkable fact connecting the RMG industry and Bangladesh's much touted economic developments is that Bangladesh has consistently been a low-wage competitor throughout its RMG exporting history of four decades[54]. Bangladesh was among the lowest wage locations for RMG industry in the 1900s, in 2000s and continuing in 2010s. This lack of growth in wages puts a question mark on the whole developmental success story of Bangladesh.

The chapter is structured as follows; Section II presents the causal argument in brief and discusses some of the relevant literature. Section III outlines evolution of Bangladesh's politics, economy and society since independence in 1971. Section IV discusses the unique sectoral characteristics of the global apparels industry and traces the history of Bangladesh becoming the second largest exporter of ready-made garments in the 2010s from meager beginnings in the 1980s. The section also discusses some of the socio-economic effect of apparels industry and trade. Section V demonstrates how the sectoral characteristics of the apparels industry and lack of state capacity to effectively pursue industrial policy, resulted in failure of Bangladesh to upgrade and diversify manufacturing exports, and condemned the economy to increasing dependence on the apparels industry. Section VI explains how sustained economic dependence on a concentrated apparels industry has transformed the political settlement in Bangladesh from competitive clientelism to single-party

[53] Data from The Atlas of Economic Complexity. The Growth Lab at Harvard University. http://www.atlas.cid.harvard.edu.

[54] Table 1 and Figure 22 show that Bangladesh has consistently been a low wage location for decades. A fact that belies the inclusivity of Bangladesh's economic development story.

authoritarianism. Section VII shows how, despite international pressure and domestic opposition, the garments industry in Bangladesh remains a highly labor-repressive industrial regime and how, because of complementarity of institutions, labor-repressive industrial relations has led to political repression in national politics. Finally, section VIII discusses a few of the alternate explanations for democracy reversal in Bangladesh and concludes the case analysis.

This chapter contributes to the field of Bangladesh studies by providing a unified political economy theoretical framework to explain two of the most significant national level phenomena in the recent decades. While several studies have sought to explain growing dominance of the apparels industry in Bangladesh economy, and other recent works have discussed the authoritarian turn of Bangladesh politics, no one has yet provided an explanation linking the two trends of national economy and politics.

7.2. The argument in brief

Like all other globally traded major industries and services, apparels industry also has some distinctive sectoral characteristics. Ever since the 1950s, when RMG became a significant internationally traded product, the apparel industry has been characterized as a labor-intensive, low-skilled, low wages, low capital-intensive, simple and mature-technology industry and therefore a starter industry for capital-poor and labor-abundant poor countries as a gateway to international trade and industrialization of the economy (Palpacuer et al., 2005). Apart from textile industry, which provides the main input, the apparels industry does not have significant input-output linkages with other major industrial sectors (Hidalgo et al., 2007). The technology and business learning requirement for the industry to become globally competitive, are therefore much less extensive and time-consuming than most other industries.

Because of the distinct sectoral characteristics of the garments industry, if an underdeveloped country is endowed with favorable factor conditions and is part of trade treaties with major export destinations, it can rapidly develop a significant apparels export sector from humble beginnings. The favorable conditions include abundant supply of cheap

labor, required minimum infrastructural and institutional support, access to port and logistical facilities, etc. Precisely this scenario occurred in Bangladesh since the 1980s. From a mere 100 million US$ of apparels exports in 1982, Bangladesh exported over 1,000 million US$ in 1992 and over 5,000 million in 2000 (UN Comtrade, 2020).

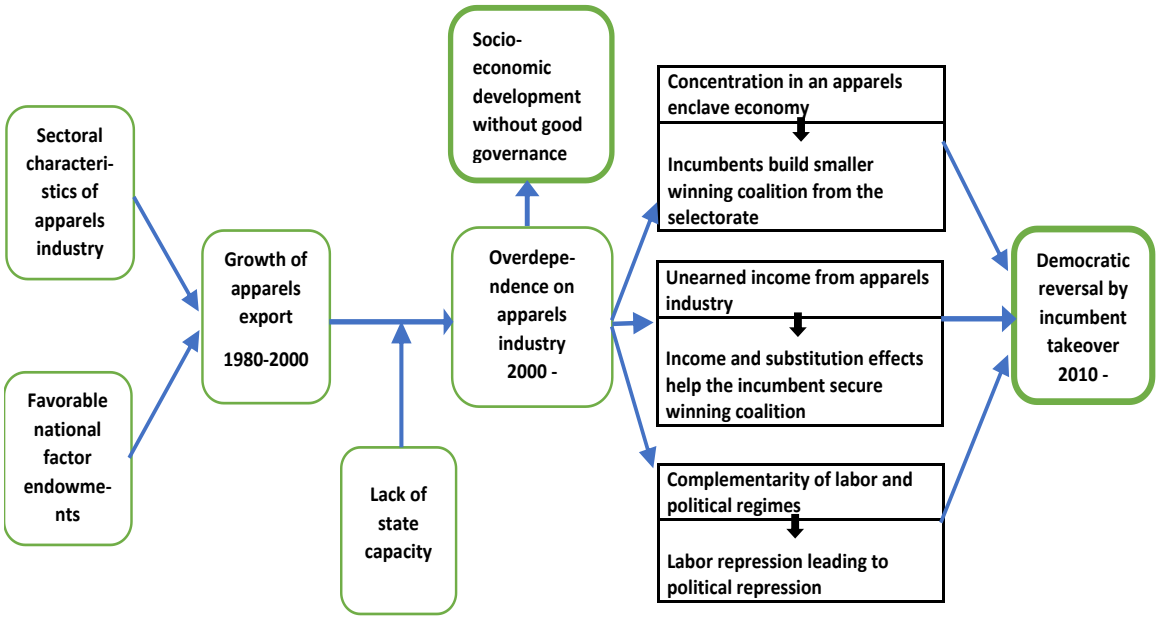

Figure 7.1: 'How apparel export growth and dependency have led to 'developmental paradox' and democracy reversal in Bangladesh, scheme of the causal argument.

Growth of an apparels export industry brings tremendous economic and social benefits to an underdeveloped country like Bangladesh. Foreign currency earned from export improve fiscal balance and supports import of essential capital goods for development. Millions of jobs created directly and indirectly by the industry help structural transformation of the country from agriculture to manufacturing and services. The low-skilled jobs, even if they are low-wages, provide substantial income to people who otherwise wouldn't have been gainfully employed. The garments sector, by providing jobs to young women and deferring their early marriage, also has beneficially affected social indicators such as maternal health, child mortality, educational attainment, etc., (Heath & Mobarak, 2015).

However, RMG is an undifferentiated commodity in the international market with high price-sensitivity and low margin (Palpacuer et al., 2005). A substantial portion of

apparels export earnings is spent on importing main inputs of the industry, fabrics and/or cotton. That's why RMG manufacturing is regarded as a typical low value-adding industry. Since the apparels industry has very sparse linkages with other major industries with higher value addition, such as metal, chemicals, machinery, electronics, growth of apparel industry do not directly help in industrial upgrading of the country (Liu, 2019). For these reasons, Bangladesh's official industrial policies of 1999, 2005, 2010 have emphasized developing more value-adding industries like electronics, information and communication technology (ICT), pharmaceuticals etc., as export diversification and upgrading goals (GOB Ministry of Industries, 1999; 2005; 2010). Despite all intentions and goals, export volume of these sectors has remained insignificant after twenty years.

History of comparative development of developing countries show that state capacity is a necessary ingredient successful industrial upgrading and diversification (Amsden, 1989; Evans, 1995). State capacity enables governments to implement industrial policies that aim for upgrading and diversification beyond the comparative advantage of natural endowments. More complex, higher technology, higher value-adding industries require greater state capacity for more sophisticated policies, simple products like apparels make less demand on state capacity. Analysis of various indicators of state capacity show that Bangladesh, like many other RMG export-dependent underdeveloped countries, has consistently been a weak capacity state since independence (Hanson & Sigman, 2020).

Failure to diversify and upgrade the manufacturing sector has meant that Bangladesh's economy has become concentrated and dependent on garments export industry in a highly unbalanced way. Not only nearly 85% of exports are from just one sector but also 85% of large manufacturing establishments employing more than 250 workers, are apparel and textile factories (BBS, 2013). More than half of all manufacturing employment is just in RMG industry while another 20% is in supporting Textile industry (World Bank, 2012). However, continued growth in apparels manufacturing and export have led to continued improvement of economic and social indicators, hence, explaining the Bangladesh development paradox to a significant extent.

I also argue that long-term economic concentration in one industry has changed national politics in Bangladesh. Comparative political economy studies have contended

and demonstrated that concentrated economic structure, whether in industry or in natural resources, can lead to a concentration of political power that subverts democracy (Kolstad and Wiig, 2018). The well-known Acemoglu et al. (2005) model of endogenous institutions, proposes that national institutions determine distribution of economic resources in a country and ownership of economic resources in turn determines the de facto distribution of political power. Mushtaq Khan's Political Settlement model (Khan, 2010) also argues that distribution of economic benefits determines distribution of political power among political organizations within and outside the ruling coalition. The political settlement of a developing country is the equilibrium outcome of distribution of political power of organizations.

Based on several causal mechanisms connecting distribution of economic and political power, I claim that sustained concentration and dependence on the garments industry, is one of the main reasons Bangladesh has experienced an unprecedented authoritarian turn in domestic politics in the 2010s decade. The steady growth of apparels industry has provided large amount of 'unearned income' to incumbent regimes of Bangladesh through two channels, 'income effect' and 'substitution effect' (De Mesquita & Smith, 2010). The garments sector has contributed significant amount of revenue to governments through direct and indirect taxes (income effect). By providing significant social benefits to the general people of the country, benefits for which governments did not have to substantially invest in social spending like health, education, etc., the garments sector enabled incumbent regimes to divert substantial revenue earnings to build up the coercive apparatus of the state and buyoff bureaucratic loyalty from the state to the party regime (substitution effect). Incumbent regimes since the 2000s have tried to use the bureaucracy and coercive organizations to politically repress and marginalize opposition, becoming successful at last in the 2010s.

Secondly, the garments industry has given rise to a narrow group of economic elites with cohesive interests, who have become vital to the national economy. Narrow elite group with cohesive interests pursue particularistic benefits from the state, which is inimical to democracy (Przeworski, 1986). The incumbent regime in Bangladesh has offered a compact with the garments elites whereby the government provided all the

privileges and particularistic demands of the industry owners in return for elite disregard for marginalization of democratic politics (Hassan & Raihan, 2017).

Thirdly, the apparels industry in Bangladesh is notoriously labor repressive (IUTC, 2017; IUTC, 2020), mainly because wage suppression remains the prevailing business logic of international apparels trade in most of the product categories. Labor-repressive industrial regime in dominant industrial sectors is not compatible with democratic politics because of complementarity of institutions (Rodrik, 1999; Aoki et al., 2001). In contentious electoral politics, opposition can easily sway significant labor votes by promising better wage levels, worker rights. In Bangladesh, the incumbent regime subverted the democratic electoral process with tacit and explicit support from the garments business elites.

In the political settlement sections of the case analysis, I trace these causal processes and show how they connect growing dependence on a dominant garments sector with democratic reversal in Bangladesh.

7.3. A short history of political, economic and social development of Bangladesh

Bangladesh became independent from Pakistan in 1971 after a nine-month long war when hundreds of thousands of people lost their lives, millions were displaced, and physical infrastructure of the country suffered extensive destruction. Developmental challenges facing the new country, which was already known for pervasive poverty and recurrence of natural disasters, were formidable. Henry Kissinger, who as national security adviser to the US president, spared no effort to oppose Bangladesh's independence during 1971, famously but disputedly said that the new country will a "basket case" dependent on aid (Khan, 2014). History of the first two decades of Bangladesh seemed to have borne out this infamous but disputed prediction.

Bangladesh Awami League (BAL), the party that led the independence movement and war, under the leadership of Sheikh Mujibur Rahman, the leader of BAL and widely acknowledged as the father of national independence, formed the first government of Bangladesh in 1972. The constitution and political system were devised as a parliamentary democracy with a single chamber. However, governing the war-ravaged and poverty-

stricken country proved to be very challenging as there were insufficient resources and resource rents to satisfy demands of various powerful actors, organizations and general people (Khan, 2013). Amid growing socio-economic unrest Bangladesh held the first parliamentary election in 1973, which was marred with rigging by the ruling party (Riaz, 2016; p 130). BAL captured 97% of seats with 70% of votes.

In economic policy, the first government of Bangladesh moved away from pro-market, private-sector focused development of pre-independence regimes and, in keeping with many newly independent, postcolonial states of that era, oriented the national economy towards public sector focus, nationalization of industries and socialist planned economy (Khan, 2013). However, these policies failed to bring necessary growth in the economy and two economic shocks, the OPEC oil crisis of 1973 and a devastating domestic famine, greatly destabilized the economy and society (Lewis, 2011, p. 80). In a desperate attempt to keep the reins of the politics and society from spiraling out of control, Sheikh Mujibur Rahman declared Emergency in December 1974 and effectively turned Bangladesh into a one-party state (Mostofa & Subedi, 2020).

Figure 2 shows the evolution of democracy in Bangladesh through different political regimes, using Polyarchy index of V-Dem institute (V-Dem, 2019). The polyarchy index captures a maximalist conception of democracy by incorporating data and expert opinion on fundamental dimensions of democratic politics, such a fairness of election, associational freedom, inclusivity of citizens and freedom of expression. The figure shows how Bangladesh suffered the first democratic reversal in 1974-75 because of transformation into a one-party state.

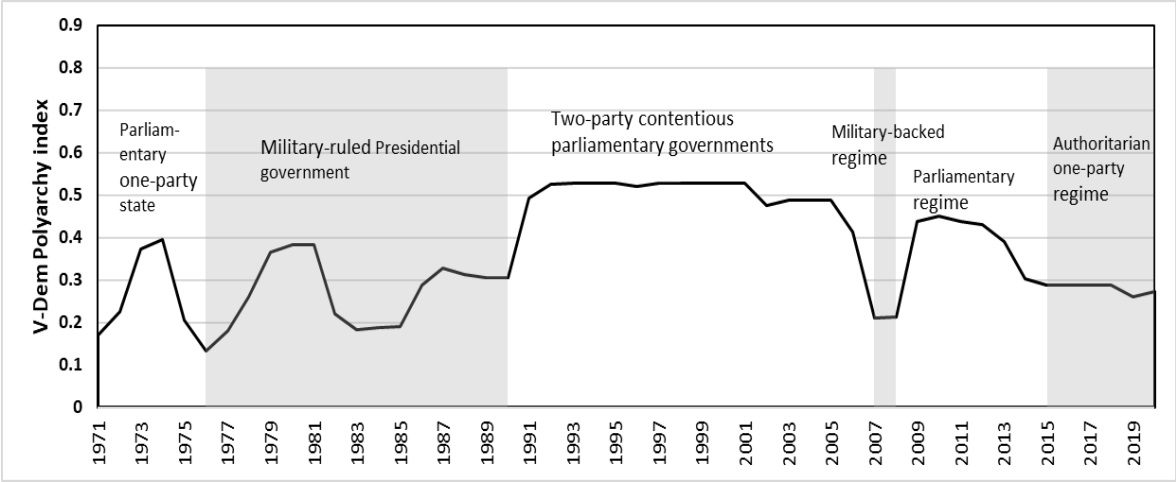

Figure 7.2: State of democracy in Bangladesh from independence till today through different political periods. Level of democracy expressed with Polyarchy index of V-Dem institute (V-Dem, 2019).

Sheikh Mujibur Rahman was brutally assassinated, and the government toppled by a coup by a group of military officers in August 1975. After a period of unrest, Ziaur Rahman, a general of Bangladesh Army became head of state. Ziaur Rahman's takeover initiated a period of military-backed Presidential rule that lasted from 1976 to 1990. Ziaur Rahman was president until 1981 and after his assassination by yet another group of disgruntled military officers, the Army chief General Hossain M Ershad became president and ruled until 1990. During these fifteen years of rule by general-presidents, national elections took place several times, but they were marred by extensive rigging in favor the regime (Riaz, 2016, p. 130). However, there were political spaces for parties, association activities by labor and civic groups, moderate press freedom.

In economic policy, the military presidents moved away from socialism and nationalization to privatization and private-sector focus (Ahmed et al., 2014). Several far-reaching economic and social changes occurred during these years that have shaped the political economy and society till today. First, the private sector-led RMG export industry, and the institutional support processes for RMG from the government, had its foundation and early expansion during this period. Second, private sector industry and services growth, increased aid, loans from the developed countries and international organizations, fueled economic growth and sectoral transformation of the country from heavy agriculture-dependence to more industry and services (Lewis, 2011). Figure 7.3 shows how structural

transformation of Bangladesh's economy occurred by the decades from the 1970s to 2010s. Another socio-economic development of 1970s was that large number of Bangladeshis began to go, first to the Middle East and later to Europe and Southeast Asia, as contract laborers and economic migrants (Lewis, 2011, p. 185). The money they sent home in form of remittances had huge impact on both macroeconomic stability and domestic economy (Figure 5).

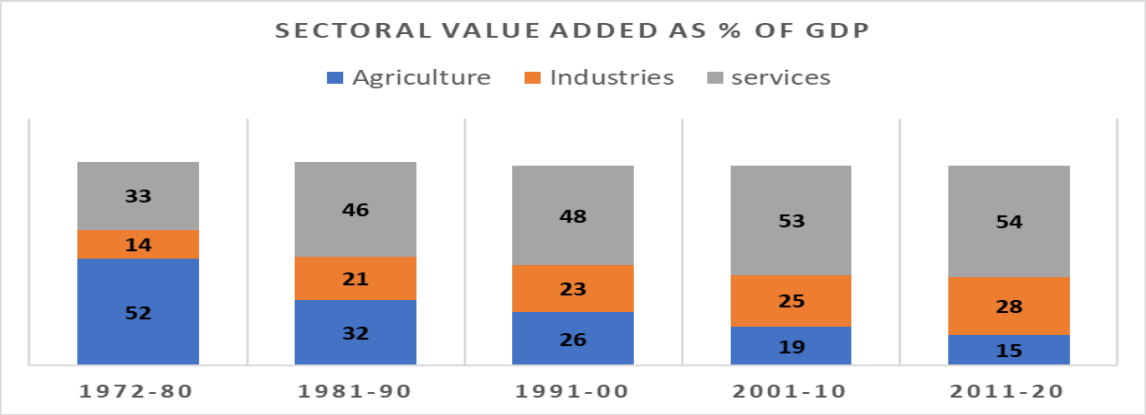

Figure 7.3: Sectoral transformation of Bangladesh economy through the decades shown by share of agriculture, industries and services as percentage of GDP. (World Bank data)

A significant development in Bangladesh in the 1970s was formation of Non-government Organizations (NGOs) by citizens and social entrepreneurs. These groups sprang up because resource-starved governments were failing to meet people's basic needs like food, health, education, etc. (Lewis, 2011; 114). A lot of developmental foreign aid went directly to these NGOs to bypass the inefficient, wasteful and corruption-prone government bureaucracy. Because of well-known activities of NGOs like Grameen Bank, BRAC, Bangladesh soon became famous in the world as a pioneer in NGO-led development. Although the overall developmental impact of NGOs remains disputed, it is undeniable that they made significant contribution in improving social indicators like literacy, children and maternal health, female employment, etc.

Growth of private sector, increasing flow of money from exports, remittances and aid, brought about another important development in Bangladesh's politics, growing influences of business and private actors in the political and economic governance of the country (Hassan & Prichard, 2016). Policy capture by powerful private actors, growing

collusion with government, initiated crony capitalism in Bangladesh that became more entrenched with each passing decade. Sectors that became most closely associated with political patronage were RMG, real estate, banks, transport (Hassan & Prichard, 2016).

During the 1980s, political opposition to the military-backed president H.M Ershad was mainly centered around two political parties; Bangladesh Awami League (BAL), a center-left party that led the independence movement and formed the first government, and Bangladesh Nationalist Party (BNP), a center-right party that was formed by the first military president Ziaur Rahman during his rule 1976-81. Political and popular opposition to President Ershad culminated in fall of the regime in December 1990 through a mass movement. After the overthrow of the military-backed regime, the political parties faced a dilemma. There was no elected government and Bangladesh never had a free and fair national election under a ruling regime. To overcome the distrust of election held under a political regime in power, the parties agreed to a system of a Caretaker Government (Lewis, 2011, p. 90). Under the system, national elections would be held by a short-term (3 months) caretaker government cabinet that is led by the chief justice of the Supreme Court and staffed by a small group of experts nominated by the main political parties. The only task of the caretaker government would be to ensure a free and fair national parliamentary election, with the winning political party immediately taking over government for the duration of the parliament.

The next two decades of Bangladesh's political history was characterized by a 'duo-politic partyarchy' of the two main parties, BAL and BNP (Hassan & Raihan, 2017). BAL is led by Sheikh Hasina, daughter of Sheikh Mujibur Rahman, the leader of Bangladesh independence and first head of state. BNP is led by Khaleda Zia, wife of Ziaur Rahman, the first military ruler. These two doyennes of political dynasties have been leading these political parties till today, for four decades. From 1991 to 2008, both parties took turn in political power that changed through caretaker supervised elections in 1991, 1996. 2001 and 2008. This regular turnover of incumbents made caretaker system deeply unpopular to the incumbent party but cherished lifeline for the party in opposition. The incumbent parties always tried very hard to subvert the caretaker system while the opposition mounted popular and violent protest movements to thwart the incumbents (Lewis, 2011, p. 93- 96).

This era of seesawing, violent politics of the two parties became known widely as the era of “battling begums”, begum being a Bengali word for doyenne (The Economist, 2013). The end of the era began in 2011, when BAL government, armed with absolute majority won in the 2008 election, constitutionally abolished the caretaker government system (Riaz, 2016, p. 90).

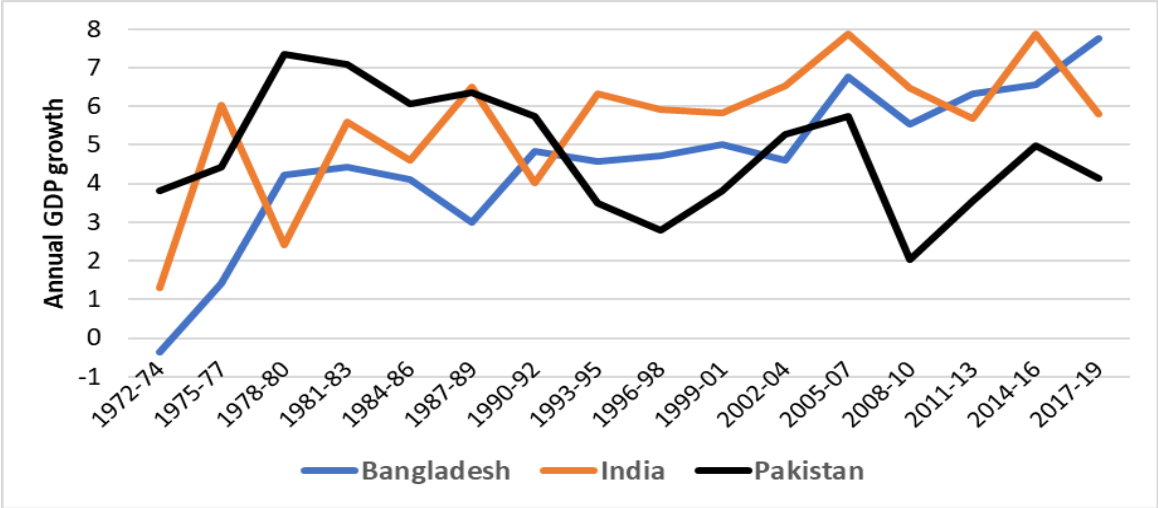

Figure 7.4: Annual GDP growth of Bangladesh, India and Pakistan showing steady and improving growth of Bangladesh. (World Bank data, 2019)

Throughout this politically fraught decades Bangladesh’s economy continued to grow steadily, with exports, remittances, services and agriculture being main drivers of growth. Figure 7.4 is showing 3-year average of annual GDP growth for Bangladesh, India and Pakistan from 1972 to 2019. The figure shows that Bangladesh has enjoyed steady growth of 5% and above since the 1990s, closely matching growth of India and far outperforming Pakistan. Exports (mainly RMG) and remittance earnings, drove lot of this growth. Figure 7.5 is showing that exports grew from 1.7 billion in 1990 to 44 billion in 2019 in current US$, with 11.4% average annual growth. Remittance income grew from 770 million to 17 billion in current US$ during the same period, at average growth of 10.8% annually (World bank, 2019).

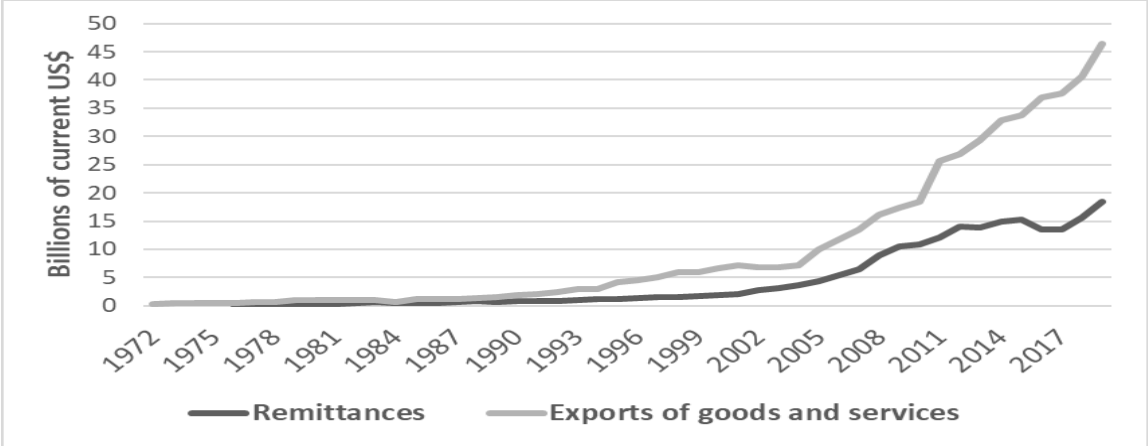

Figure 7.5: Growth of export and remittance income in Bangladesh. (World Bank, 2019)

Bangladesh's improvement in various social, health, demographic indicators are more remarkable than improvement in economic growth. Bangladesh started much behind in social and economic development that its richer, more economically advanced neighbors, India and Pakistan, but the country has overtaken the neighbors in many social indicators such as female income, female job participation, child mortality etc. Figure 7.6 is showing change in Life Expectancy at Birth for Bangladesh, India and Pakistan from 1972 to 2019 (World Bank, 2019). The figure clearly shows how Bangladesh overtook both India and Pakistan in a basic measure of social development like life expectancy.

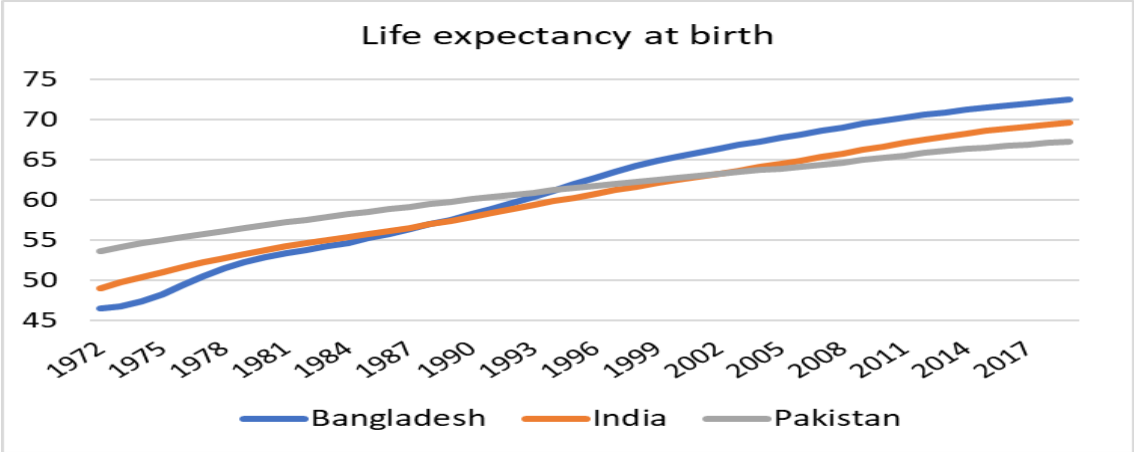

Figure 7.6: Life expectancy at birth for Bangladesh, India, Pakistan. (World bank, 2019)

7.4. Characteristics of international apparel industry and its growth in Bangladesh

The tradition of producing and exporting cloths in Bangladesh goes back thousands of years. In the ancient, medieval and pre-modern era, Bengal was known for its fine Muslin fabrics produced by expert weavers from cotton (Becker, 2015, p. 19). If we consider some of the distinctive characteristics of modern readymade garments (RMG) industry and trade, the industry seems tailor-made for a poor, populous country like Bangladesh. The primary characteristics of RMG industry are its labor-intensity, low wages, intense price competition over commoditized products and limited economies of scale (Brenton & Hoppe, 2007). One worker sewing fabrics in a machine has been the basic workstation since invention of sewing machines in 19th century. RMG industry has resisted automation and robots until now and women still constitute bulk of the apparels workers globally because the delicate task of handling soft, flexible fabrics as machine-feed require more nimble human hands (Guizzo, 2021).

One of the reasons the RMG industry is low wages because the technology of production in the industry simple, mature and requires little skill (Fukunishi, 2012). The simplicity and maturity of RMG technology imply that production units do not need to engage in substantial internal R&D for achieving regular output level and workers need not have high human capital. Many studies have confirmed that across national boundaries, RMG is one of industries with least human capital intensity (Che & Zhang, 2018). Labor-intensity and simpler technology are some of the main characteristics that differentiates apparels industry with the textile industry. Although textile, the main input for clothing, and clothing industries are often mentioned together in studies and media reports as T&C, they are very different in all aspects of industrial organization. Textile involves production of natural (cotton) or synthetic fibers (nylon, polyester) and then making fabrics out of them. Textile industry is significantly more capital intensive than clothing, with higher human capital requirement and expensive machines for spinning, knitting, weaving etc. Because of higher technology and human capital intensity in textiles, advanced, high-wage countries still retain competitiveness in textile fabric production while RMG has become primarily competitive for lower-wage countries.

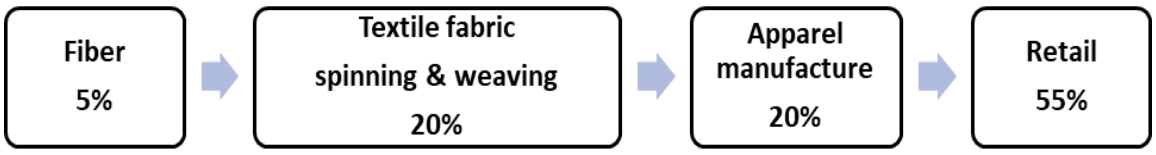

Figure 7.7: Approximate value addition in stages of production of a cotton shirt or a khaki trouser. (Tewari, 2005)

Figure 7.7 is showing approximate value addition for a conventional RMG item like men's cotton shirt or khaki trouser (Tewari, 2005). Thus, for a 10$ shirt, almost 2.5$ is spent on procuring the fabric, 2.0$ for cutting and sewing the shirt while the final retailer, the buyer, adds 5.5$. This shows brand buyers have the overwhelming power in global RMG value chain and obtain most of the profit. Almost one-third of Bangladesh's export earnings from apparel manufacture is spent on importation of cotton, synthetic fiber, fabrics and other inputs (OEC, 2021). In previous decades, the proportion was higher because there were very few Bangladeshi textile factories producing fabrics good enough for export products.

Another important characteristic of the apparel industry in developing countries is that the industry has very little input-output (I-O) linkages with other industries and sectors apart from the textile industry, which is the main backward linkage for the industry. The industry is also highly downstream, meaning the products directly go to consumers, usually foreign, rather than other industries (Antras et al., 2012). Export orientation coupled with lack of linkages with other domestic industries- create an 'enclave economy' nature of the apparel industry. An aspect of the enclave nature of apparel industry is clearly illustrated by the concept of 'product space' of country and product relatedness; developed by Hidalgo et al. (2007). In the product space, related products require similar knowledge, technology and capabilities, and there are likely to be produced together in a country but distant products, requiring distant capabilities, are less likely to be produced together. Network representation of the 'product space' shows that garment products form a large and distinct cluster that is distant from the core cluster of similar products like metal products, machinery and chemicals, electronics (Figure 2.4, chapter 2).

Learning-by-doing is the process by which firms in an industry gradually learn the technology, capability, implicit and explicit knowledge of production that make the firm

competitive in the global market (Khan, 2013). Because of apparel industry's simpler technology, low human capital, lack of knowledge and production linkages with other industries, the level of learning-by-doing required in the industry is significantly short. After a developing country gains a foothold in apparels export, expansion can be rapid because new firms that has adequate capital, can become ready to export very quickly, a phenomenon labelled as 'born-to-export' firms (De Astarloa et al., 2013). Apparels export from Bangladesh rapidly expanded during the period 1983-2010, largely because of exporting firms that emerged de novo (De Astarloa et al, 2013). A 1993 survey found that 23% of apparel entrepreneurs were ex civil servants or military officers with little experience in the industry (Khan, 2013).

Another significant characteristic is that apparel industry firms in the developing world tend to geographically agglomerate in clusters (Scott, 2006). Among reasons for clustering are, benefitting from common labor pool, common physical, financial, institutional infrastructure and proximity to buying agents. In recent decades powerful buying organizations in global apparel trade also encouraged country and regional-level consolidation in their supply chain. According to a 2015 NYU Stern Center survey, more than 95% of Bangladesh's 7000 apparel factories are clustered around the capital city Dhaka and the main port city Chittagong (Labowitz & Baumann-Pauly, 2015). Figure 7.8 (a) is showing distribution of industrial economic resources in Bangladesh, bulk of which are RMG and textile industry. The figure 7.8 is thus showing the extent of industrial concentration around centrally located capital Dhaka and the port city Chittagong.

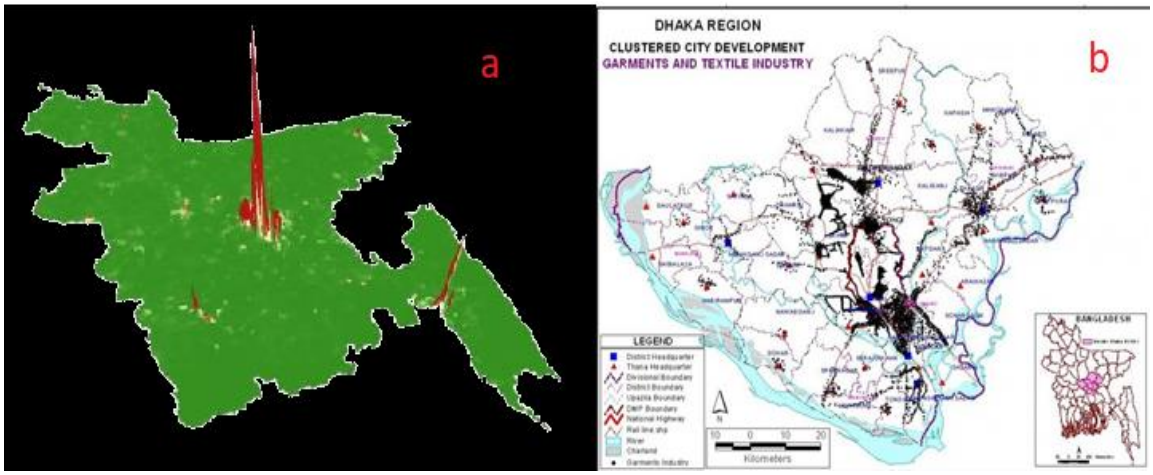

Figure 7.8: (a) Industrial concentration around Dhaka and Chittagong in 2009 in terms of total manufacturing output as expressed in heights of columns (from World Bank, 2012: p 1490. (B) RMG and textile industry concentration in and around Dhaka in 2005. (CUS Dhaka, n.d.)

Consolidation in apparel supply chain has also led to large factory units employing many hundreds of workers, obtaining the bulk of orders from foreign buyers. 2013 World Bank enterprise survey of 174 apparel factories employing 120,000 workers, shows that 81% of the labor (98,000) worked in 61 firms that employed more than 500 people (Enterprise surveys, 2017). Apparel industry in Bangladesh, like in other developing countries, is dominated by large business groups with large factory units.

These sectoral characteristics suggest that once apparel export industry gains a significant foothold in a country that has favorable natural endowments, for example large supply of labor, low wages, adequate infrastructure and institutions, ports and logistical facilities, apparel export generally increase rapidly until the country hits certain threshold, usually rising per-capita income and wage growth making apparel export less competitive. Figure 7.9 is showing precisely such a scenario occurring with annual per-capita garments export for four countries at various levels of per-capita GDP. The horizontal axis represents natural log of per-capita GDP (at constant 2000 US$), while the vertical axis shows real per-capita export of garments. The chart shows that export from Thailand and Philippines began declining after reaching a certain level of income, Sri Lanka's export growth has slowed as the income level approached threshold level. Meanwhile export from Bangladesh is still growing rapidly as the income level is still sufficiently below threshold levels.

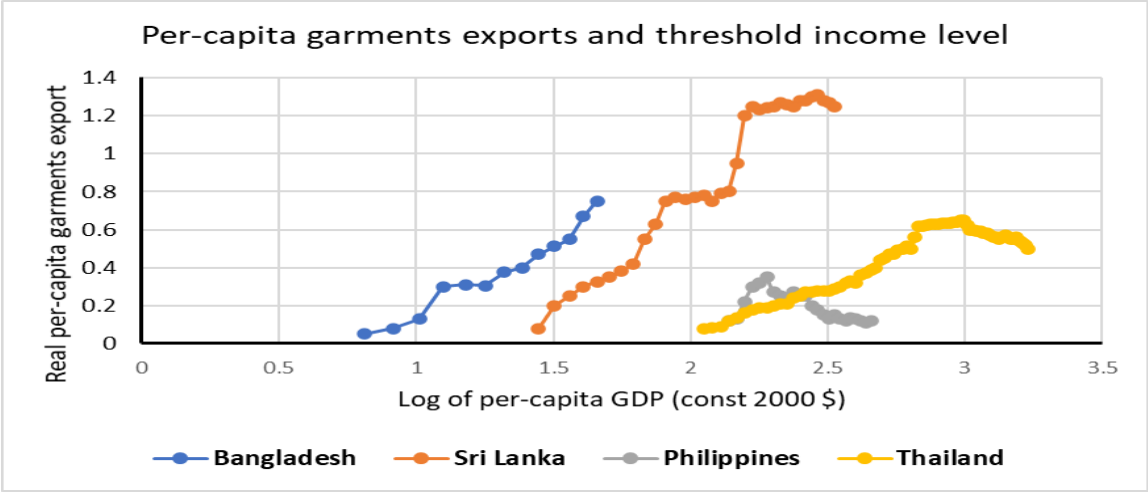

Figure 7.9: Per Capita Income and Per Capita Garment Exports of Selected Countries, showing threshold income level of apparels export competitiveness. Data from World Bank (2012), "Consolidating and Accelerating Exports in Bangladesh".

The story of the birth and rapid growth of Bangladesh's RMG exports begins with the quirks of an international trade treaty. In 1973, United States, which was the main market for apparels export passed Muti-Fibre Agreement (MFA) to protect its domestic apparels and textile industries from foreign import. MFA set bilateral negotiated quotas on developing countries who were exporting cloths to USA. However, MFA did not have quota with least developing countries that were exporting negligible RMG anyway. Under the MFA, competitive exporters like South Korea, Taiwan quickly hit the ceiling of export quotas. Korean and Taiwanese exporters sought to bypass the straight jacket of MFA by relocating some of their excess production capacities to other developing countries like Thailand, Malaysia, Philippines, Sri Lanka and Bangladesh. In 1979, South Korean conglomerate Daewoo began a joint venture in Bangladesh to produce and export RMG (Khan, 2013). Daewoo brought more than hundred Bangladeshi personnel to Korea to train them in the technology and business of apparels export. However, many of those people started their own production businesses when they went back to Bangladesh and the Bangladeshi RMG industry took off in the early 1980s.

Figure 7.10 is showing growth of Bangladesh's RMG export and total exports since early 1980s. The figure clearly shows that RMG export has been the overwhelming driver of Bangladesh's rapid export growth since early 1990s. Several favorable natural factors

and innovative institutional solutions made this explosive growth possible. A large, young labor pool willing to work for very low wages is the primary natural comparative advantage of Bangladesh in apparels export.

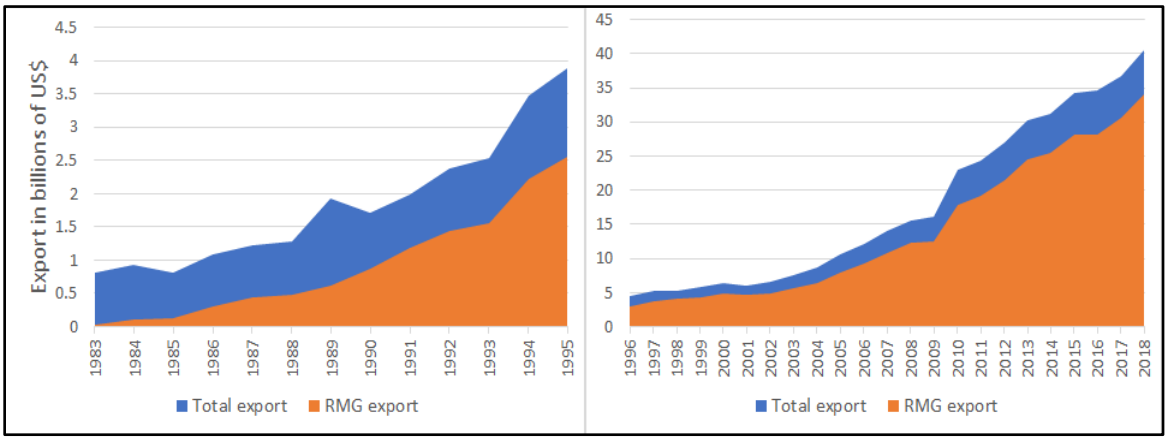

Figure 7.10: Bangladesh apparels export and total exports in billions of US$. Figure divided in two periods 1983-1995 and 1996-2018 to better illustrate the scale and ratio of apparels to total exports. (OEC, 2021).

Table 7.1 is showing wages in apparels sector in some selected countries. 2001 and 2011 data are real wages in 2001 US$ PPP while 2019 data is minimum wages. The comparison shows that Bangladesh has been consistently a low wage location among major apparels exporting countries. One of the main reasons wages in apparels sector is so low because Bangladesh is a poor and populous country (current population exceeds 160 million) with a large youth demographic bulge. Moreover, apparels sector has been able to find plenty of young female workers, who comprise the bulk of apparel sewing work worldwide, willing to work in difficult work schedules with low wages.

Table 7.1: Apparel industry wages in selected countries in 2001, 2011 and in 2019. 2001* and 2011* data is real wages in constant 2001 US$ PPP (Worker Rights Consortium, 2013). 2019^{+} data is set minimum wages in US$ (Barrett & Baumann-Pauly, 2019).

Apparels real wages in selected countries			
Country	2001	2011	2019
Bangladesh	93.7	91.5	95
Cambodia	161.9	126	182
India	150.2	160.6	-
Vietnam	182.4	254.78	180
Indonesia	134.9	186.6	280
Thailand	360.3	337.12	309
China	144.8	324.90	326

Table 7.2 is showing the rapid growth in number of apparels production units and number of people directly employed in the sector.

Table 7.2: Growth in number of factories and employment (by gender) in apparel industry. Data from Hossain et al, (2013) and BGMEA website.

Year	No of enterprises	Employment (millions)	Women percentage
1983	134	0.04	85
1985	594	.198	85
1990	834	.402	85
1995	2353	1.290	90
2000	3480	1.80	85
2005	4220	2.20	85
2010	4150	3.60	80
2018	4621	4.00	80

Several institutional innovations and cross-cutting political agreements also were critical for the tremendous growth of the industry. All governments since the first military government in 1976-81 remained committed to private sector-led economic development and special provisions for apparels as the crucial national economic sector. These special

provisions enabled the apparel industry to thrive despite Bangladesh's notoriously inefficient and corrupt bureaucracy, poor infrastructure, and lack of a well-developed private finance market in the early decades.

One of the first mechanisms that exporters in early 1980s started usingwas Bonded Warehouse system, which allowed manufacturers who exported 100% of their output, to import inputs like fabric, cotton, fiber without paying import duties or postpone paying duties until exportation (Khan, 2013). This allowed exporters to save both time and money from dealing with corrupt and slow customs clearance. Another mechanism was introduced in 1986–87 called back-to-back letter of credit (L/C) system (Ahmed et al, 2014). Under this system, Bangladeshi banks financed importation of necessary inputs against a confirmed order from a buyer as collateral. Since inputs costs could be as much as 30-40% of apparel products, this allowed manufacturers considerable risk mitigation and freedom to operate with much lower liquid capital.

In the 1990s, the government provided further special provisions to the apparel sector by allowing Bangladesh Garment Manufacturers and Exporters Association or BGMEA, the business group of industry owners, to issue trade (import) customs certificates to association member manufacturers; allowing import of duty-free raw materials and capital machinery against number of units of clothing exported (Khan, 2013). Another important export promotion step was setting up Export Promotion Zones (EPZ) near the port and capital city in early 1980s to attract foreign investment in export industries. Firms in EPZs enjoyed tax holidays, duty free imports of spare parts, exemption from value added taxes and other duties. All these innovations generally allowed garments manufacturers to bypass bureaucratic impediments to a significant extent and operate with high capacity in a capital-poor country.

Although apparel export was booming in the 1990s and early 2000s, Bangladeshi exporters were also waiting with great anxiety the approach of 2005 when MFA treaty with all the quota restrictions was set to expire. Exporters all over the world feared that after expiry of quota, China with its large, efficient and highly competitive textile and apparels industry, will move from merely being the world's largest apparels exporter to a virtual monopoly supplier. However, that fear proved groundless for wage-competitive producers

like Bangladesh, Cambodia, Vietnam, etc. Bangladesh's apparel export grew by 18% annually on average between 2005 and 2010 (BGMEA, 2020).

As the dominant industry, apparel has had tremendous impact in Bangladesh's economy and society. RMG sector directly contributed 13% to national GDP on average over the period 2014 – 2018 (Dhaka Tribune, 2019). When we consider the backward linkages of the industry with other sectors, the multiplier effect of apparels income on owners, employees and people associated with the sector, the contribution is substantially larger than 12-13%. The growth in exports also had benefitted macroeconomic balances of the national economy. Bangladesh's current account balance went up from negative 3% of GDP during the period 1976-80 to positive 1% of GDP during 2012- 16 (World Bank, 2019). In the 1970s and 1980s, Bangladesh government had to depend on large amount of foreign aid each year to plug budget deficits. Official development assistance (ODA) from foreign sources fell from 7-8% of Gross National Income during 1976-80 to 1-1.5% during 2012-16 (World Bank, 2019), largely due to apparels-fueled export growth and remittances flow. In the words of a veteran Bangladeshi economist and policymaker, 'Bangladesh is now a trade-dependent country, not an aid-dependent one' (Dhaka Tribune, 2021).

RMG's impact in the socio-economy of Bangladesh is no less remarkable because of the mass-employment generated by the labor-intensive industry. According BGMEA, 4 million people were directly employed in the industry in 2018 but a 2015 survey by Stern center of New York University found that the number could be as high as 5.1 million because of many informal industries operating as subcontracting firms to BGMEA factories (Labowitz & Baumann-Pauly, 2015). Almost 80% of these 5 million workers are women and the low-skilled RMG industry job is often the only formal job available to these workers who would otherwise be unemployed or working in subsistence manual labor. The scale of the employment effect of the industry is reflected by the fact that 15% of all females in Bangladesh between the age of 16 and 30, work in the RMG industry (Heath & Mubarak, 2015). Figure 7.11 is showing how poverty headcount as % of population at $1.90 a day (2011 PPP) fell in Bangladesh as employment in RMG industry rose (World Bank, 2019 and BGMEA website).

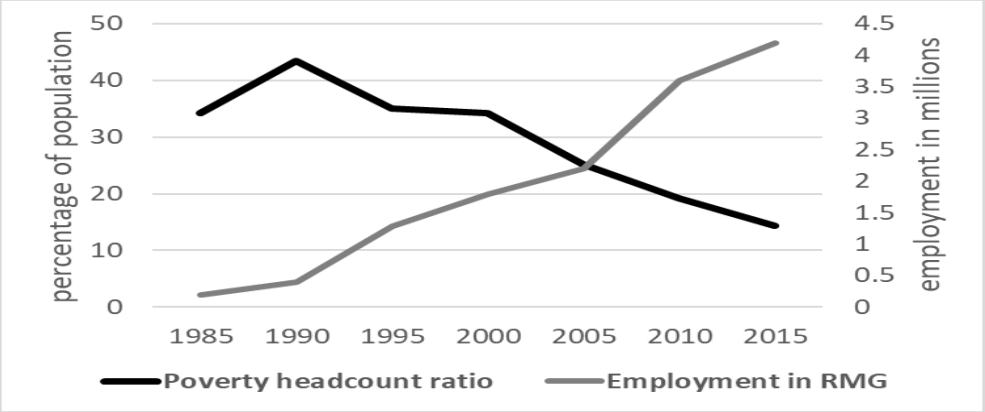

Figure 7.11: Growth in employment in RMG industry and fall in poverty headcount ratio. (World Bank, 2019 and BGMEA website).

Apart from poverty reduction, RMG industry has had great impact on social indicators of health, education, family, etc. Heath and Mubarak (2015) found that as much as 50% increase in female educational attainment can be attributed to RMG employment. There is an education premium in RMG employment, each year of educational schooling brings 3.7% increase in average wages. RMG employment creates general demand of increased literacy and numeracy among females. The prospect of RMG employment has also greatly reduced underaged marriage (a longstanding traditional aspect of Bangladeshi villages) and associated health problems. Heath and Mubarak (2015) found that RMG industry is responsible for 28% decrease in underage marriage and 29% decrease in childbearing among girls of 12 to 18 years of age. These results from Bangladesh are convergent with recent cross-country analyses showing that countries specializing in female labor-intensive exports experience lower fertility as females defer childbearing due to industrial wages raising the opportunity cost of having children earlier and in higher numbers (Do et al., 2016).

7.4. Growth without governance

The paradox of Bangladesh's economic development is that the growth has largely taken place in absence of more inclusive institutions, better governance. Over the last three decades, development economics has generally identified building institutional support as the more fundamental cause, beyond proximate causes of comparative advantage of natural

endowment, for sustained economic development of poorer countries (Acemoglu, 2003). According to Acemoglu (2003), key characteristics of development-friendly national institutions are, enforcement of property rights across society, constraints on economic and political elites on their exercise of power, and fairness in opportunity to succeed that is open to broad sections of the society. By almost all measures of institutional quality, Bangladesh ranks very low not only among its neighbors but in the world.

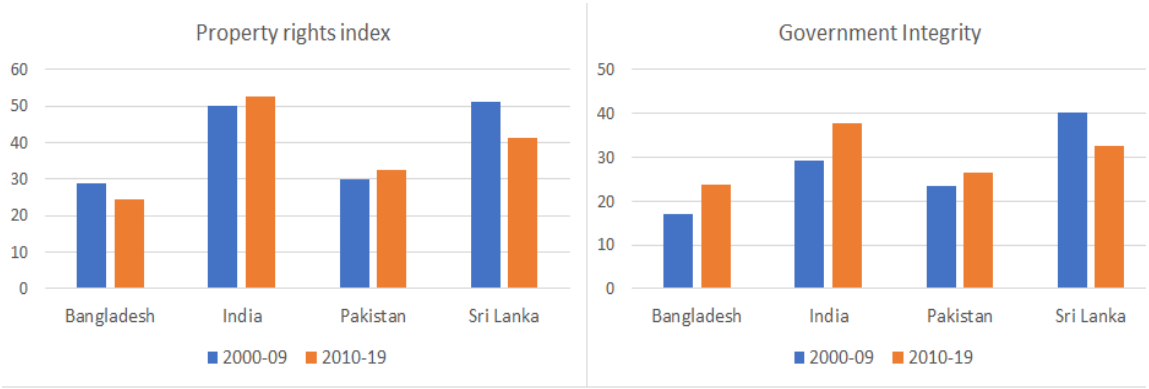

Figure 7.12: Property rights index and Government integrity index for South Asian countries. (Index of Economic Freedom, 2021).

In the annual ranking of Transparency International's Corruption Perception Index (CPI), Bangladesh ranks lower than all its south Asian neighbors (Corruption Perception Index 2020). During the period 2007 to 2019, average rank of Bangladesh was 143rd among countries of the world, India was 84th, Pakistan 128th, Sri Lanka 90th. Heritage foundation's annual Economic Freedom Index has Property Rights Index and Government Integrity Index as components of rule of law (Index of Economic Freedom, 2021). Government integrity expresses the extent to which government is free from corruption, patronage and influence. Figure 7.12 is showing average Property Rights Index and Government Integrity Index for Bangladesh, India, Pakistan and Sri Lanka during 2000-09 and 2010-19. The figure again shows that Bangladesh ranks at the bottom in institutional quality in a region that is known for poor quality of institutions.

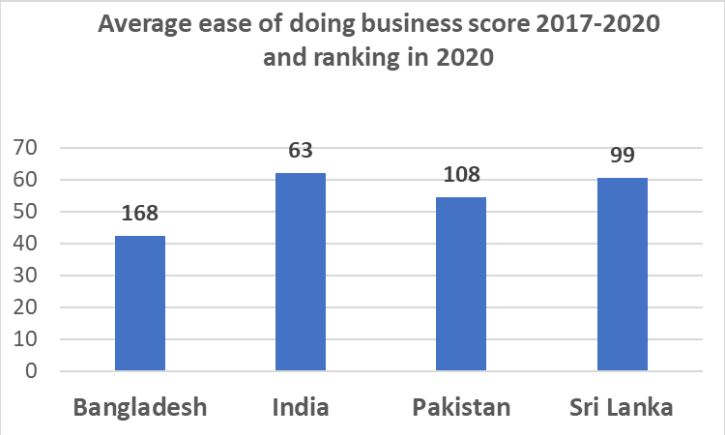

Figure 7.13: World Bank's Ease of doing business scores and ranks for South Asian countries. (World Bank, 2019)

Bangladesh's poor institutional environment makes business and entrepreneurial ventures difficult also. World Bank's Ease of Doing Business ranks world economies according to an index expressing how much conducive in the regulatory environment for starting and operating local business firms. Economies are ranked on their ease of doing business, from 1to 190. A high Ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm[55]. Figure 7.13 shows that in 2020, Bangladesh ranked 168 among 190 countries of the world, by far the worst position within South Asia. The inefficiency of institutional environment is reflected in the poor logistics of the industry, RMG lead times from order to delivery at buyer is 90-100 days for Bangladesh, 50-60 days for India and 30 days for China (Kader & Akter, 2014). However, because of significantly low labor costs, Bangladesh is still highly competitive.

The explanation of exponential RMG export growth in Bangladesh grown despite such poor state of institutions, has three parts. First, corruption and inefficiency of Bangladeshi governance institutions, although severe and endemic, are also stable and predictable. Secondly, as I have discussed in the previous section, successive governments of Bangladesh, in collaboration with RMG business owners, have devised several special institutional mechanisms for bypassing business-impeding national institutions. Finally,

[55] Data. World Bank. (2021). https://www.doingbusiness.org/en/data.

sectoral characteristics of apparel industry itself, make less demand upon the quality of national institutions.

In the apparel industry, like all other businesses, corruption and bribery in day-to-day operations like releasing goods in ports, transporting goods to and from factories, maintaining stable connections for utility services, keeping inspectors satisfied, maintaining peaceful relations with local politicians and thugs, are largely unavoidable (Ahmed et al., 2014). However, because the operations of apparel industry are simple, routine and well understood, this corruption is maintained at a stable and manageable level by all involved parties. According to business owners and (and many government officials), "the industry has grown despite government" in this institutional weak environment (Ahmed et al., 2014; p 3).

For the apparel industry, weakness of Bangladesh's institutions is counterbalanced by the fact that, the institutions are good enough for garments. Not all products and services require high quality national institutions to be competitive in the international market. Recent studies in international trade and economics have shown that the more complex the products of an industry, the more differentiated and larger the input-output matrix, the thicker the interfirm network of the industry, the higher the quality of national institutions like legal-judicial systems, financial system, law enforcement, tariff system, bureaucracy are required for the industry to be competitive (Levchenko, 2007; Nunn & Trefler, 2014). Industries producing simple and standardized products with undifferentiated inputs, having small input-output matrix and simpler interfirm networks, can be competitive in even low-quality institutional environment. Because of this comparative institutional advantage, countries with high quality institutions specialize in complex, high value-adding products like aircraft, automobiles, IT and software, while countries with low quality institutions can only be competitive in simpler, commoditized products like apparels, footwear (Levchenko, 2007). This complementarity between industry characteristics and national institutional characteristics explains comparative advantage of traded products to a far greater extent than endowments of capital and human capital (Nunn & Trefler, 2014).

In Section III I have discussed how the RMG industry in global economy is known for simple and mature technology, standardized inputs and products, and lack of input-

output linkage with other sectors. Bangladeshi RMG industry, although the dominant manufacturing sectors, ranks lower than other industries in input-output connections with external sectors. Masum and Inaba (2018) calculated domestic backward and forward linkage coefficients of economic sectors of Bangladesh and the top sectors from their calculation are shown in Table 7.3. Backward linkage indicates the interconnection of a sector with other sectors from which the sector obtains inputs. Forward linkage expresses the interconnection of a particular sector with other sectors to which, the sector supplies it products as inputs. Table 3 shows that Textile and Clothing industry is much less connected with other domestic sectors. Bangladesh's Textile and Clothing industry ranks lower in inter-sector connectivity even compared to T&C industries of other major RMG exporters. Masum and Kazuo (2019) calculated inter-sector input multiplier coefficient for T&C industry of selected Asian countries in 2011 and found that Bangladesh's T&C industry has low multiplier coefficient. Input multiplier, excluding within sector exchange, for T&C industries of Bangladesh was 0.07, for China 0.76, for India 0.17 and for Vietnam 0.64.

Table 7.3: Backward and forward linkage coefficients of the major industries of Bangladesh in 2016. From Masum and Inaba (2018)

Top Sectors	Backward linkage coefficient	Top Sectors	Forward linkage coefficient
Food, beverages and tobacco	2.49	Agriculture, hunting, forestry and fishing	6.64
Hotels and restaurants	2.49	Retail trade	5.13
Chemicals and chemical products	2.41	Basic metals and fabricated metals	4.78
Basic metals and fabricated metals	2.38	Inland transport	4.13
Leather, leather and footwear	2.27	Other community, social and personal services	4.10
Rubber and plastics	2.23	Wholesale trade	4.01
Wood and products of wood and cork	2.18	Chemicals and chemical products	3.40
Pulp, paper, printing & publishing	2.14	Electrical and optical equipment	3.37
Construction	2.12	Real estate activities	3.23
Textile and Clothing	2.05	Textile and Clothing	3.19

Because of simple and mature technology, technological progress in RMG industry is slower than most other industries. Technological progress and improvement in

management, operations are the main drivers of Total Factor Productivity (TFP) of an industry, a sector or an economy (World bank, 2012). Growth in capital, human capital and TFP together account for growth in economic output per working-age person, or labor productivity. However, growth in both human capital and TFP in Bangladesh has been lackluster and productivity growth mostly occurred due to increase in capital per worker or capital deepening (Ahmed & Chowdhury, 2019: World Bank, 2012). RMG industry, as the main export and manufacturing sector of Bangladesh's economy, is significantly responsible for the lack of total factor productivity growth because TFP growth in the industry itself has been largely nonexistent in the last two decades (Hossain & Oh, 2019; Fukunishi, 2012). TFP growth in Bangladeshi RMG factories has been lower than even poorer competitors like Cambodia, largely because Bangladeshi labor wage has been so low that TFP growth was not critical for competitiveness (Fukunishi, 2012). RMG business owners in turn justify the low wage in the industry citing low productivity of Bangladeshi workers (Fukunishi, 2012).

Because of RMG industry's lack of linkage with other sectors and lack of opportunity for TFP growth, Bangladesh's economic growth has been employment-intensive rather than productivity-intensive. While this growth has been tremendously beneficial to the economy and people, it also has created the classic conditions of falling into a 'low-productivity trap' (World Bank, 2012). In weakly institutionalized countries, absent effective government coordination, opportunity for economic growth comes from expansion of low-skill jobs or primary resource extraction. This can become a trap because economic growth without TFP growth is not enough to propel a country from lower-middle income to high-middle income and high-income category (Ahmed & Chowdhury, 2019). Only TFP growth can put a country in a sustained development trajectory because labor, capital, human capital, have property of diminishing returns but TFP does not.

Development studies in recent decades have emphasized that not all industries and services have the same consequences for growth and development. Products that are closer to the core cluster in 'product space' (Hidalgo et al, 2007), products that have many linkages with other products and services, products that require higher technological and human skill inputs, usually have greater TFP growth and value-addition potential (Hausmann & Rodrik, 2003). Examples of such products include transports, machinery,

chemicals, pharmaceuticals, information technology, electronics, software, business process outsourcing (BPO), etc.

Successive governments of Bangladesh, despite regular boasting of the success of RMG exports, have been acutely aware of the economy's lack of industrial diversity and lopsided dependence on the RMG industry. Government policy documents of 1999, 2005, 2010 and 2016 emphasized determination and support for upgrading manufacturing into higher value-adding products (Raihan & Khan, 2020). Especially consumer electronics, pharmaceuticals, ICT and software, have consistently been identified as thrust sectors for export growth for more than twenty years. However, in 2019, exports of each of these industries were around $100-200 million, completely dwarfed by more than $ 40 billion of RMG exports (OEC, 2021).

These policies failed to upgrade and diversify Bangladesh's exports mainly because the government lacked state capacity to implement the policies. State capacity can be defined as the as the ability of state institutions to effectively implement policies within the territory the state claims to govern (Mann, 1986). Industrial policies are government interventions in the economy to change economic structure; changes that would not occur with the interventions. Lack of state capacity limits government's ability to implement policies that are aiming to go beyond natural comparative advantage. Governments need administrative, logistical, technical capabilities and significant autonomy from private interests to pursue developmental policies (Evans, 1995). Studies on political economy of development of newly industrialized countries of East Asia have generally identified state capacity as the most important factor in state-led industrial transformation (Amsden, 1989; Evans, 1995). Those studies show that the most useful aspects of state capacity for economic development are a competent bureaucracy, nodal organizations for policy, and embedded autonomy of state with the private business sector (Evans, 1995).

Bangladesh has been lagging in development of state capacity among developing countries, even compared to neighbors. Figure 7.14 is showing change in state capacity for selected Asian countries from 1989 to 2015. I am using state capacity index developed by Hanson and Sigman (2020) that uses Bayesian latent variable analysis to make a composite of most of the important dimensions of state capacity discussed in literature, for example bureaucratic capacity, fiscal capacity, monopoly of force, information capacity, extractive

capacity, etc. The figure shows that Bangladesh's state capacity development is lagging even within South Asia.

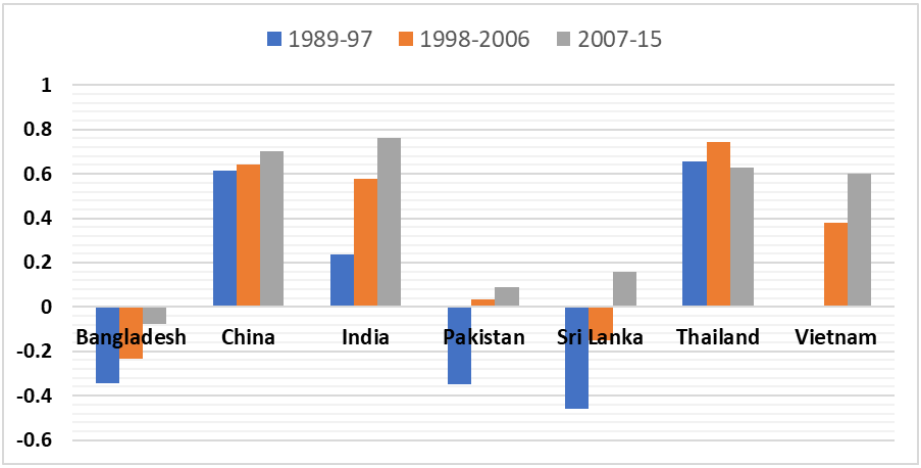

Figure 7.14: Composite state capacity index of selected Asian countries. (Hanson & Sigman, 2020)

Bangladesh has been described as a state lacking unified vision or coherence (Ahmed et al, 2014; p 262). Policymaking and implementation reflect the fragmented and less than capable nature of Bangladesh's governance. Industrial policy is formulated by Ministry of Industry but there is little coordination with other highly relevant bodies like Ministry of Trade, Ministry of Finance (Kathuria & Malouche, 2016). There is no coherent vision between import policy and export policy. Tariff policy, which is critical in industrial and export development, is set by Ministry of Finance that prioritize revenue collection rather than trade promotion. Ministry of Trade lacks expertise in international trade law, data analysis and research that are sorely needed to defend national interest in international trade negotiations (Kathuria & Malouche, 2016). A 2016 World Bank report points out that the Ministry of Trade employed just one statistician in 2012 (p, 119). A further indication of the lack of state capacity of Bangladesh is that the country has the lowest tax or GDP ratio among its South Asian neighbors (World Bank data, n.d.).

Industries with more complex technology, many differentiated inputs, thicker backward and forward linkage, require higher state capacity for successful founding in developing countries. Although there is a growing electronics industry in Bangladesh that is catering to domestic demand, a globally competitive industry has not taken off even after

more than two decades of industrial policy goals because of lack of state capacity to support a more complex industry. Unlike fewer and more standardized inputs of RMG, electronics industries require many parts with diverse technological content. Moreover, RMG industry is almost totally oriented for export, therefore there is a unity of purpose among owners across the industry. Meanwhile electronic industry not only has a divide according to domestic and foreign market orientation, but there is also a divide between manufacturers and assemblers (Khan, 2013). These divides mean that policies for electronics industries are susceptible to policy capture and policy subversion by powerful interests. Moreover, special institutional arrangements, as in place for RMG, for electronics industry is hard to implement and sustain because of product complexity and divided interests. Because electronics manufacture is dependent on many foreign-sourced parts, tariff structure is the main policy instrument for incentivizing development of domestic industry. However, Bangladesh's tariff authorities lack capabilities to enforce a complex tariff schedule and are prone to corruption (Khan, 2013). For example, businesses have abused the tariff incentives for manufacture by importing disassembled finished products as inputs and only assembled them domestically to sell as locally manufactured (Khan, 2013).

Export of consumer electronics should be a natural upgrading process for Bangladeshi manufacturing. Electronics manufacturing, although higher-value adding than RMG, has both technology-intensive parts and labor-intensive parts, and therefore a good step up for countries with abundant labor that are already well connected with global trade. In 2011, global electronics giant Samsung Electronics proposed a $1.25 billion investment in the export processing zone of Chittagong, the main port city, for an export-oriented manufacturing unit that would employ more than 50,000 workers (Lopez-Acevedo et al., 2017). Consumer electronics assembly and export units not only require large amount of land and factory space but also efficient customs and excise services for clearing numerous complex parts and services that flow across many national boundaries very quickly. Bangladesh government and Export Processing Zone authority, which is under the Ministry of Industry failed to meet Samsung's infrastructural and institutional requirements and in 2014 Samsung withdrew from the project and shifted to Vietnam where the government quickly fulfilled Samsung's demands (Ahsan, 2014). In 2019, Vietnam's electronics exports exceeded $100 billion; nearly $60 billion of which came just from Samsung's

investments. Bangladesh's electronics exports are still almost nonexistent, less than $100 million in 2019 (OEC, 2021).

When a weak capacity state fails to diversify and upgrade the export base, it becomes more and more dependent on the few exploitable sectors for revenue, economic and social development. Menaldo (2016) has termed this condition as 'the institutions curse'; weak institutions condemning countries to depend more and more on unearned income resources from exploitable sectors. In percentage terms, RMG sector's direct contribution to Bangladesh's GDP is quite similar to oil and mineral sector's contribution to GDP in some of the traditionally labelled resource-cursed countries like Nigeria, Myanmar, Iran etc.

7.5. From concentration in garments to political authoritarization

Natural comparative advantage but poor quality of state institutions in Bangladesh have led to economic dependence on RMG industry for a long time. I argue that this concentration in one sector is one of the major reasons Bangladesh has experienced democracy reversal and political authoritarization in the last decade (2010 -20). According to Acemoglu et al (2005) model of endogenous institutions, institutional environment of a country determines the distribution of economic resources. Ownership and distribution of economic resources in turn determines the de facto distribution of political power. Economic concentration has led to concentration in political power in Bangladesh. I argue that three main causal processes that have led to this outcome, concentration in an enclave economy, income and substitution effect on incumbents, and finally complementarity between labor repressive regime and politically repressive regime (Figure 1). I aim to explain political outcome in Bangladesh from these three causal processes with the Selectorate theory of De Mesquita et al, (2005). The first two mechanisms are discussed in this section and the third mechanism in the next.

These processes have led to democracy reversal by incumbent takeover in Bangladesh. Authoritarian takeover by an incumbent takes place when a democratically elected incumbent, fatally undermine key pillars of democracy by incremental changes,

abolishing or manipulating elections being the main thrust of tactics. According to Svolik (2015), incumbent takeover is by far the most common way democracies in developing countries break down, more than coups, revolutions or civil wars.

Extended apparel dependency has made incumbent political party overwhelming more powerful than the opposition, and incumbents have consistently used this imbalance to marginalize opposition in the violent, corrupt and informally institutionalized political environment of Bangladesh, for example by coopting all apparatuses of government, making elections lopsidedly unfair, jailing, or exiling opposition leaders, etc. During the period of 'democratic elections' from 1991 to 2010, opposition leaders, members of parliament have been frequent targets of violence, including assassinations, and thousands of party activists have been jailed on 'political' charges, victims of extra-judicial killing or 'forced disappearance' by law enforcement (Parvez, 2018). Political violence plagues all political parties in Bangladesh, but parties in opposition usually bear the burnt. These processes finally led to the current incumbent political party, Bangladesh Awami League (BAL), to decisively defeat and marginalize the opposition during 2008 to 2018 and turn Bangladesh into, effectively, a one-party state (Maitrot & Jackman, 2020).

Since independence 1971, Bangladesh never had a free and fair election with level-playing field under a political government. There were no elections under political governments where the ruling party lost. In Section II, I mentioned how the political parties, after the fall of military-backed government in 1990, devised a system of non-political, interim caretaker governments (CTG) to hold national elections. Caretaker governments held elections in 1991, 1996, 2001 and 2008 and in every election the incumbent party lost to the opposition. This regular incumbent turnover made caretaker system an anathema to the party in power and incumbent parties spared to effort to undermine or eliminate the CTG system. Politicization of bureaucracy, police, armed forces and using these organs of state to oppress and marginalize the opposition party, were the main strategies used by all political governments (Khan, 2017; Lewis, 2011).

In 1996, the incumbent Bangladesh Nationalist Party (BNP) refused to hold elections under CTG system and only after a protracted and violent movement, when even parts of bureaucracy and Chamber of Commerce of businesses joined the opposition in

giving an ultimatum, agreed to cede power to a CTG (Lewis, 2011; 93). In 2001, Bangladesh Awami League (BAL) ceded power to a CTG peacefully, but the interim CTG had to drastically overhaul postings at all levels of bureaucracy to undo all the politicization BAL did to create a favorable field for the election (Rashiduzzaman, 2002). In 2006, the incumbent BNP refused to undo critical politicization of bureaucracy and judiciary that would undermine the incoming CTG, and months of deadly violence culminated in another military takeover that lasted two years ((Riaz, 2016). There was an abortive military coup as well during the chaotic CTG transition of 1996.

BAL government finally abolished the CTG system in 2011 and held national election in 2013, withstanding boycott and deadly violence from the BNP led opposition. Deadly violence has always been a part of politics in Bangladesh, but during the period 1991 to 2015, when the two parties were continuously engaged in a struggle for power, violence and death became routine in politics. Figure 16 shows number of deaths from political violence every year from 2001 to 2017 (Parvez, 2018). Disregarding 2007 and 2008, when there a short-term military government, there were an average of nearly 315 violent deaths from politics from 2001 to 2014.

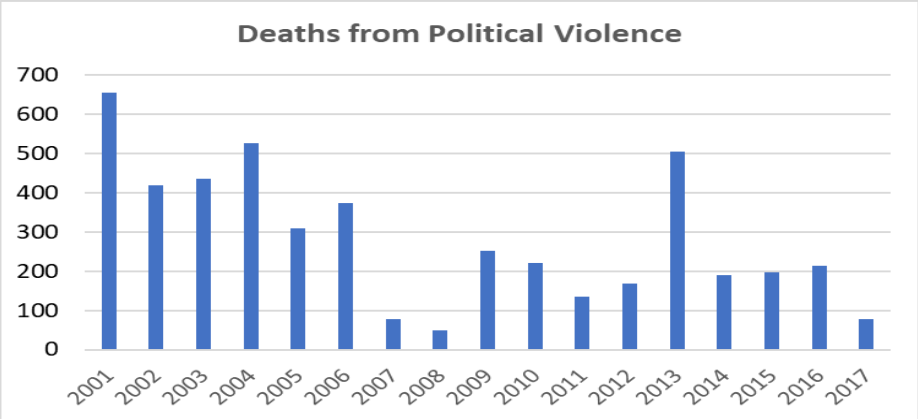

Figure 7.15: Deaths from political violence in Bangladesh, 2001- 2017. (Parvez, 2018).

This recurring violence stemmed from the fact that, in the corrupt, informally institutionalized politics of Bangladesh, incumbency is exceptionally rewarding, and opposition is excruciatingly punishing. Incumbency is highly rewarding because, not only the incumbent party exercises nearly unchecked power but also enjoys overwhelming

benefits of the corruption occurring in public and private sectors. Fighting corruption is not a priority for governments because this is the modus operandi of political rule in Bangladesh (Khan, 2017). Political leaders, politically connected businessmen and bureaucrats are the main beneficiaries of this corruption. The rewards from corruption have only grown with the growth of economy. Figure 7.16 shows estimates, by Global Financial Integrity (GFI), a Washington, DC-based research organization, of illicit money outflow from Bangladesh to foreign accounts and assets from 2004 to 2014 (Integrity, G. F., 2019). Bangladesh, still a least developed country, is among the top ranks of developing countries in terms of illicit money outflow. According to GFI, more than eighty percent of this outflow from Bangladesh takes place by fraudulent invoicing of international trade. Fraudulent invoicing is the method by which value of the exported or imported goods is officially declared to be lesser or greater than the actual to park the undisclosed amount in foreign accounts. Export under-invoicing is by far the more used channel (Integrity, G.F, 2019) and RMG industry, as the dominant export industry and large importer of inputs, is a big conduit of this flow of illicit money. By some estimates, even the GFI figures are too low and actual money outflow is much higher[56].

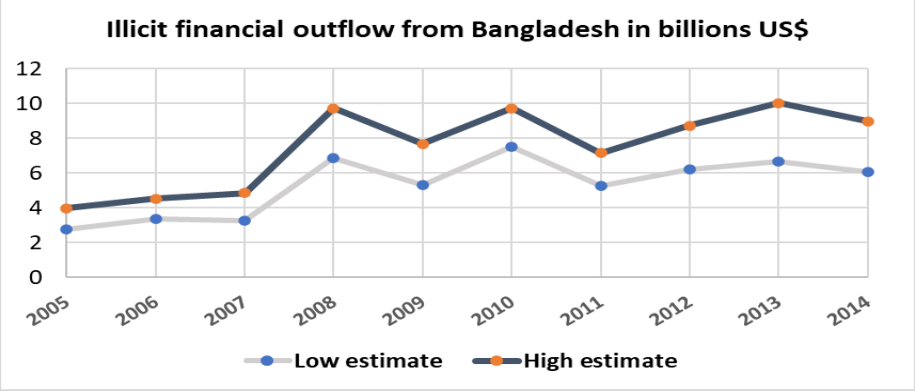

Figure 7.16: Illicit financial outflow from Bangladesh according to estimates of Global Financial integrity, Washington, USA. Figure adapted from Solaiman, S. M. (2018).

As the dominant industry, RMG sector is the source of significant money flow at local and lower-level politics also. Ahmed et al (2014) recounts how industry owners,

[56] Syed Ashraf Ali, 'Capital flight: An Enduring Conundrum' *Financial Express*, Dhaka (29 Jun 2016), Op-Ed

managers regularly bypass government agencies, courts and resort to local ruling party leaders for arbitration over disputes, smoothing of operational problems. Political parties, not police or courts, are usually sources of protection for doing business in Bangladesh. The industry also pays a significant amount to bureaucrats for regular business operations like bonded warehouse facility, environmental clearance, logistic support, VAT certificate etc. Conducting a survey on 92 apparels exporters, Asadullah & Chakravorty (2019) found that average annual informal payments to government officials amounted to US$ 23,330. Multiplied by more than 5,000 operating industry units, this side payments comprise a significant source of rent extraction by politicians and bureaucrats.

The general pattern of Bangladesh's national political evolution shows that, although four generally free and fair elections took place under caretaker governments in 1991, 1996, 2001 and 2008, each interim CTGs were themselves outcome of violent political confrontations. Incumbent regimes always sought to build a coalition of political actors and violence entrepreneurs, bureaucrats, police and armed forces, business owners, using resources of government and resources from patron-client relationships, to try to stay in power beyond electorally mandated period. Opposition in turn sought to build a coalition using similar actors, with the help of resources at hand and promises of future resource redistribution, to thwart the incumbents. Thus, following Acemoglu et al (2005), de facto distribution of power, rather than de jure power allocated by formal institutions like legislatures, courts, elections, has been the main determinant of political outcomes in Bangladesh. To explain how these repeated confrontations of power and resources changed the nature of political institutions and the very regime type, and how a dominant RMG industry played a critical role, I will use the popular and influential Selectorate theory (de Mesquita et al., 2005) of comparative political economy.

Selectorate (S) is the set of people in a polity who has a say in determination of the ruler and who has access to private and public goods distributed by the ruler. Private goods, like rents and privileges, can be distributed selectively while public goods are nonexcludable and all the selectorate benefit from it. Political leaders seek to build a winning coalition (W), a minimum subset of S that is necessary to win or retain ruling power. The size of S and W vary according to the circumstances of a country and the regime

type. In an electoral democracy, selectorate is all the voting population and winning coalition is a plurality or majority of selectorate. In non-democratic regimes, S is much smaller, generally people with varying power belonging to bureaucracy, armed forces, business, political organizations. W in non-democracies is the coalition with the most power; power accumulated from all its members. Between the ruler and the challenger, whoever manages to build and retain a winning coalition, wins power.

Members and groups in S have varying power (Sekeris, 2011). Coalition leaders want to build the most powerful W, but they also want to keep the size as small as possible. Small W not only enables leaders to provide more selective benefits per member but also enable more efficient monitoring of members. De Mesquita et al. (2005) argued that maintaining W with selective benefits is easier for incumbents than for challengers because the incumbent is already providing benefits to members of W while challengers are mostly promising benefits, promises that are not certain. Small, cohesive but resourceful business groups are particularly favored as winning coalition members because such groups generate resource for the coalition and leader, and they are easier to bind within W with targeted, selective benefits. When building and maintaining winning coalition become easier, incumbent turnover become less likely. Political economy literature argues that a concentrated, coherent and powerful economic elite in a developing country generally pursues particularistic relation with political elites, a behavior that can lead to less inclusive politics (Przeworski, 1986). A diverse economy has a diversity of economic elites with diverging and cross-cutting interests, thereby providing selective benefits is difficult. In a less-diverse economy that is dominated by an enclave economy, interests of political and economic elites remain insulated. Difficulty of building cross-sectoral coalitions with common interests, can make collective actions to remove an increasingly autocratic regime difficult.

In Bangladesh, like most other RMG export dominated countries like Cambodia, Sri Lanka, Haiti, Honduras, etc., apparel industry has constituted a concentrated, coherent and insulated group of economic actors that has become critical in the country's economy and politics. Simple and standard, production and trading process leads to coherence in interests of business owners. Special institutional provisions and lack of linkage with other

sectors create an enclave-like industry. The industry is also highly agglomerated geographically, thus complementing economic concentration with geographic concentration. The size distribution of the industry is skewed rightwards, meaning large unit owners dominate the industry in terms of employment and output. According to McGillivray (2004), these characteristics are hallmarks of an industry that seeks particularistic benefits from governments as a group. I argue that these characteristics of the RMG industry have created a politically influential group of economic elites in Bangladesh that has enabled incumbents to build and maintain a winning coalition more easily and thus changing the very nature of politics (Figure 7.17).

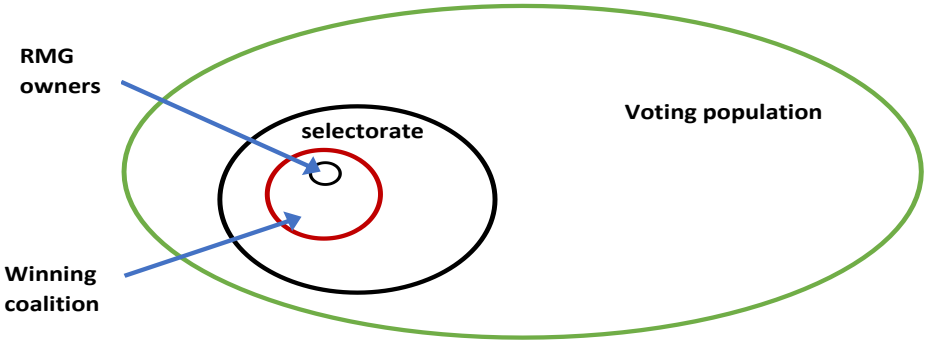

Figure 7.17: The selectorate and winning coalition in Bangladesh politics.

RMG industry in Bangladesh is highly organized and intimately involved in national politics and governance. Bangladesh Garment Manufacturers and Exporters Association (BGMEA) is the apex and largest association of apparels manufacturers and exporters in Bangladesh, although some of the BGMEA members are also part of Bangladesh Knitwear Manufacturers and Exporters Associations (BKMEA), a smaller, more specialized organization (Staritz, 2011). BGMEA is the most powerful business association in Bangladesh and every government since 1991 have maintained close relationship with the organization and tried to influence its leadership. I discussed in section IV how governments have outsourced many functions of RMG industry governance, for example licensing and monitoring import utilization, to BGMEA (Khan, 2013). BGMEA membership is also mandatory for obtaining license to export apparels (Yardley, 2013). The great range of association activities is officially funded by membership fees and service charges from the members based on volume of garment

exported by members. BGMEA represents interests of owners in high levels of the government for not just industry related issues like labor, industrial security, logistics but also broader national issues of policy, infrastructure, finance.

RMG business owners are also directly involved in national politics. In the 2008 parliamentary election, the last contested national election in Bangladesh, more than 31 of total 300 members of parliament were direct apparels industry owners, while many other members were indirectly related with the industry (Yardley, 2013). Power of business elites in government has only grown with every passing year. The last two mayors of Dhaka city, the capital and main economic hub of Bangladesh, have been ex-presidents of BGMEA who were given nomination by the ruling party for mayorship

The RMG industry have been enjoying unparalleled special privileges and facilities from successive government. Most important is the direct government support in labor repression and wage suppression that makes the industry so competitive and profitable. I shall discus business-government collusion in labor repression in the next section. The industry also is recipient of many special debt and financing facilities, tax privileges, subsidies (Khan, 2017; Yardley, 2013). These privileges have become more generous as the regime has become less democratic. The sector is privileged to such an extent that subsidies and tax-breaks given to this most important sector of the economy, exceeds the direct tax revenue from, the sector (Yardley, 2013). The sector's tax deduction at source went down from 1.2 per cent to 0.8 per cent in 2013, 0.4 per cent in 2014, and 0.3 per cent in 2015 (Asadullah & Chakravorty, 2019). Similarly, the cash incentive it receives, on export value, increased from 0.25 per cent in 2014 to 1.0 per cent in 2015. These changes in incentives should be contextualized with the fact that the current ruling regime faced the most tumultuous political challenge to its rule during the years 2013 and 2014. Regarding the influence of the RMG industry and its representative body BGMEA, secretary of a leading NGO on political reform said "the doors of the treasury are open for them. They extract all kinds of subsidies. They influence legislation. They influence the minimum wage. And because they are powerful, they can do, or undo, almost anything, with impunity" (Yardley, 2013).

There is no better illustration of government special treatment of RMG industry than the fiscal response to COVID-19 pandemic and the ensuing economic shock. In March and April of 2020, the government announced nearly $ 12 billion of liquidity support to businesses, services and banks in terms of low interest loans (Khatun et al, 2021). 65% of these loans were allocated for large businesses, bulk of which were RMG industries. Ministry of Finance records showed that by the end of October 2020, more than 80% of the funds allocated to RMG industry has been disbursed while other industries, small and cottage industries have received less than 30% of the allocation (Khatun et al., 2021).

Close alignment of the organized RMG industry with ruling political governments began to take shape in the 1990s and the connections grew stronger with passing years (Khan, 2017). Although organized leadership of the industry is highly politicized, ruling governments do not generally demand direct political support from individual industry owners. Because of the importance of the sector in the economy, ruling government generally allow a 'live and let live' environment of personal political affiliation of industry owners (Hassan & Raihan, 2017). However, ruling governments have strenuously tried to keep the leadership of business organizations under control since 1996, when defection of business organizations and business leaders to the opposition was a critical part in the fall of the incumbent government (Kochanek, 1997). In the pre-election turmoil of 2013-14 and 2018, there were no such defections as in 1996 and business organizations generally condemned violent political movements of the opposition, a position that only helped the incumbent.

While RMG industry's business-politics relations helped incumbents maintain their winning coalitions, the larger and more significant contribution to incumbent takeover came from 'unearned income' available to the rulers from the industry. Unearned incomes are the revenues and resources that the state obtains from the economy without having to put lot of organizational and political efforts, infrastructural and human capital investments (Moore, 2001). For example, income from natural resources, natural endowments. Earned incomes are, by contrast, revenues where the state must put significant effort to extract in working with the citizens and private interests, and which only grow with investments, for example income taxes, property taxes, corporate taxes, inheritance taxes etc. Unearned

income helps incumbents because they can use more resources and privileges to maintain their winning coalition.

Comparative studies have argued that growth of unearned income tend to extend the tenure of political leaders in non-democratic countries while in democracies it increases the probability of the incumbent returning to power in elections (Smith, 2008). Unearned income helps incumbents consolidate power in non-democracies mainly via two channels, income effect and substitution effect (Smith, 2008). In brief, income effect is the resource directly becoming available to the incumbent for spending at their discretion, for example revenue collected from the resources. Substitution effect is the resource becoming accessible to the incumbent from reducing the obligation of spending for social goods like health, education, thus adding to their discretionary spending ability. For example, large amount of remittance income from abroad provides lots of social goods to recipient communities, thereby lowering pressure on regimes for public spending (Ahmed, 2012).

The RMG export industry in Bangladesh displays lots of characteristics of an unearned income source for incumbent regimes. The sector has grown tremendously without development in institutions, state capacity, human capital, public health. Export income directly supports fiscal balance of the government, and the industry provides substantial revenue direct and indirect taxes. Bangladesh's revenue growth is thus significantly correlated with apparel export growth (Faisal, 2014). Not only the industry does not require high human capital in the society for growth but also, through mass employment for mostly young women, generate significant social welfare in the society. This, in effect has lessened pressure of successive Bangladeshi governments to provide social goods to placate the general people. Remarkably, despite posting three decades of steady economic growth, Bangladesh' social spending lags behind many of the poorer countries of the world. Bangladesh also collects less direct taxes like income tax, corporate tax, from the economy and collects more from indirect taxes on consumption, input imports and many other domestic taxes. Collecting indirect tax not only exerts less demand on state capacity but also lower accountability pressure from the people, who can monitor payments of direct taxes like income taxes, more easily.

The following figure (7.18) shows average direct income taxes on individuals and corporations as percentage of GDP for a selected group of countries for the years 2014-2018. I also pair it with average government expenditure on education and health as % of GDP for the years 2010-2018. Bangladesh not only collects less income tax but also spends less on health education than even Nepal, a much poorer country. This should be mentioned that Sri Lanka also is a highly RMG export-dependent country, although not to the extent as Bangladesh.

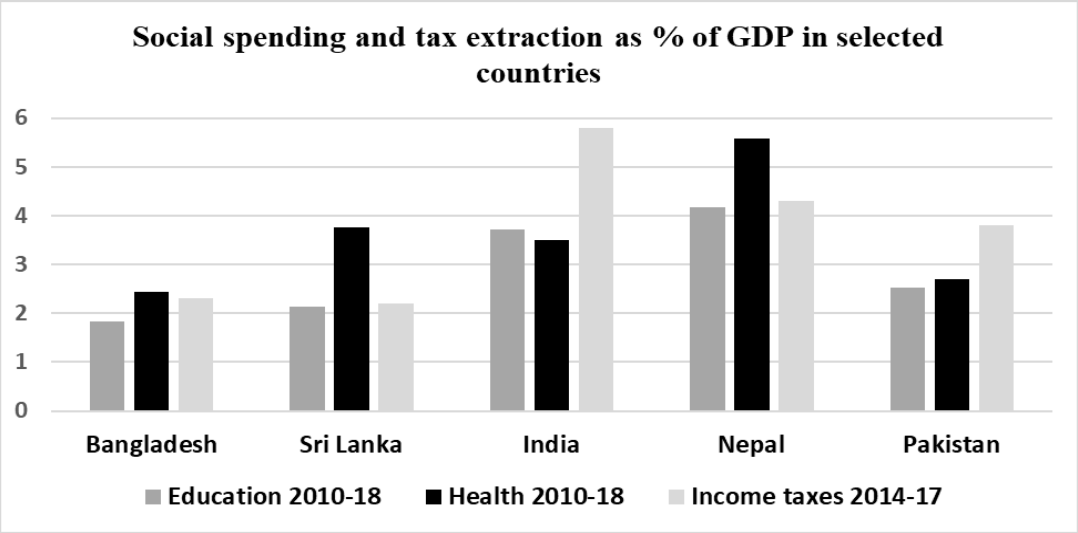

Figure 7.18: Incomes taxes collected, spending on health and education as % of GDP in South Asian countries. (World Bank data)

Incumbents have used this direct income from RMG industry growth and substitute income from not having to spend on public goods, to maintain their winning coalition and increase its accumulated power. Among their many strategies of spending this income, the main were increasing payments to bureaucrats and military, and increasing the coercive power of regime by building up law-enforcement forces. Budgetary allocation on Public Administration, which mostly cover government compensations, has grown from 10.8% of budget in 2009 to 14.4% in 2014 and to 18.5% in 2019[57]. Figure 7.19 is showing that US$ adjusted average salary for the top three grades of government pay scale has grown

[57] Center for Policy Dialogue (CPD), Dhaka budgetary analyses over the years. https://cpd.org.bd/

from $ 240 in 1991 to $ 855 in 2015[58]. Notably, big jumps in salaries were in 2009 and 2015, immediately after controversial elections took place and incumbents wanted to secure support in the bureaucracy.

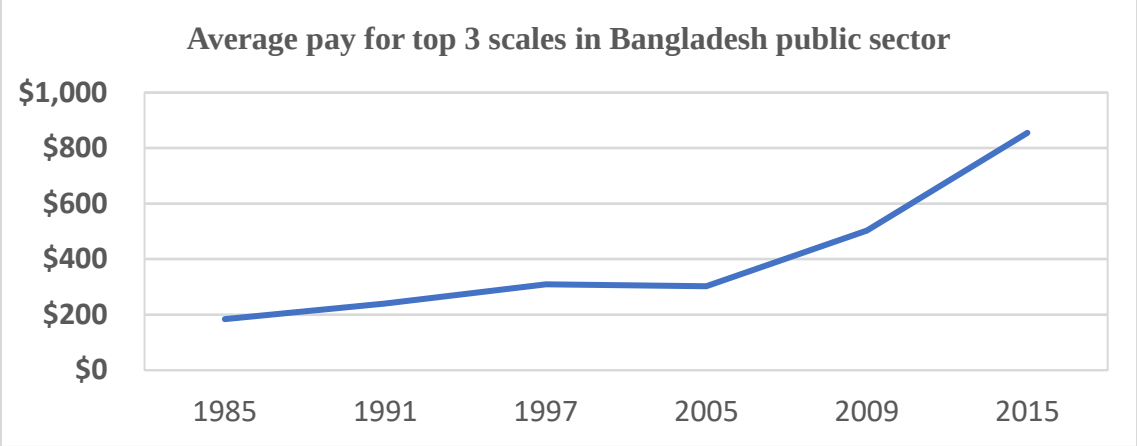

Figure 7.19: Growing public expenditure in payments to bureaucracy in Bangladesh

This higher spending on public sector compensation and benefits have helped incumbent takeover. Bureaucracy in Bangladesh has historically been notoriously politicized with public servants at all levels maintaining close relations with main political parties. In 1996, it was the breaking away of a significant group of senior bureaucrats from the incumbent regime and pledging loyalty to the opposition movement, that precipitated turnover in political power (Rashiduzzaman, 1997). However, with the help of generous pay and other benefits, incumbent regimes in more recent years have managed to keep rebellion among bureaucrats under tight lid. There was no open breaking in bureaucratic ranks during much bloodier opposition movements in 2013 and during the completely politicized 2019 election.

Incumbent government also used growing budgetary resources to massively increase and modernize the public order and law-enforcement capability. In Bangladesh, police forces traditionally have been the main organized forces of state-led political oppression. Figure 7.20 is showing how annual budgetary allocation on police has far

58 http://dsce.edu.bd/db/Pay_Scales_of_Bangladesh#Historical_Pay_Scales.28Salary_Scale.29_of_Bangladesh_Government

outpaced growth of total budget. From 2001 to 2013, expenditure on police has increased by 600% while total budget only increased by 400%.

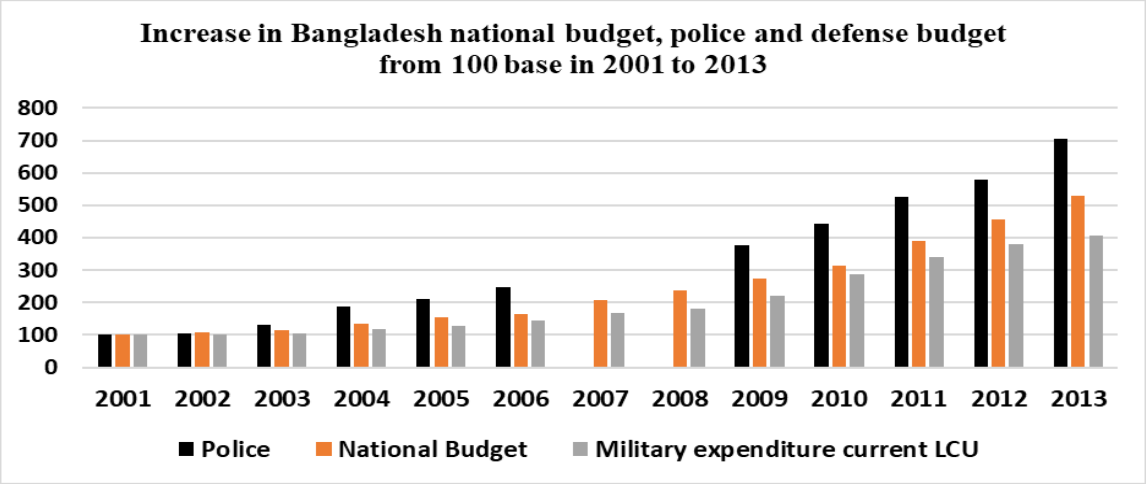

Figure 7.20: Growth in expenditure on police and military from a base 100 in 2001. Data on police from Biswas (2018). Data of total budget from CPD website. Data on military expenditure from World Bank data.

Political outcome of this massive increase in accumulated power of the winning coalition of incumbent became manifest in the election years of 2013 and 2018. After the ruling BAL government constitutionally abolished the caretaker system of holding national elections, January 2014 was scheduled for the first election under a political government. The opposition BNP and its allies boycotted the election and tried to thwart the election through street movements and sieges of major cities (Riaz, 2016; p 98-99). The months leading up to the election and the aftermath became the most violent and deadly year of political confrontation in Bangladesh in many decades. Nearly 700 people died and more than 30,000 were injured in clashes that mostly took place between law enforcement and opposition (Parvez, 2018). The incumbent BAL managed to withstand the opposition challenge mainly through no holds barred use of police and security forces (Riaz, 2016, p. 102-103).

After the tremendous show of coercive power of the winning coalition of the incumbent during 2013-14, political opposition became much subdued and violent confrontations subsided (Parvez, 2018). When the incumbent held national election again

in December 2018, the opposition participated with the awareness that the whole administrative and coercive power of the state is stacked against them. During the years 2014- 2018, all organs of the state, including Election Commission, Judiciary, became thoroughly politicized by ruling BAL government (Mostofa & Subedi, 2020). In the 2018 election, police and government officials themselves took control of the election in favor of the incumbent, in many cases occupying the polling center in the night before and finish stuffing ballots even before voting began ((Maitrot & Jackman, 2020). The BAL-led incumbent alliance won 90% of seats with 80% votes, a result that election observers, home and abroad, regarded as unrepresentative of the democratic will of Bangladesh's citizens.

7.6. Complementarity of labor repression and political authoritarianism in Bangladesh

A third mechanism by which the dominant RMG industry in Bangladesh has gradually led to democracy reversal and authoritarianism, is complementarity of national-level institutions. National-level industrial relations is closely related to the state of political institutions of countries because of complementarity of institutions (Aoki, 2001). Institutional complementarity occurs where institutional agents' "choices are parametrically affected by prevailing rules of action choices (institutions) in other domains", giving rise to "interdependencies of institutions across domains" (Aoki et al 2001., 208). Complementarity thus arises when one of institution become more viable in one domain (e.g., political) from fitting institutions in other domains (e.g., industrial, social, financial). When one industry dominates the whole economy and society in developing countries, for example, mining industry, oil industry, apparel industry, coffee or similar agricultural industry, other national institutions are strongly pulled towards complementarity with the dominant industrial relations.

When the dominant national sector is characterized by close business-politics relations and labor-wage suppression through business-politics collusion, the complementary political regime type is right-wing authoritarianism (Rahman, 2021). Democracy is highly unlikely to thrive in such regimes because the prevailing logic in the dominant sector, labor repression and wage suppression, is difficult to maintain with

extension of political rights to labor (Rodrik, 1999). If free and contested election happen in a labor-intensive country with collective labor repression as the modal industrial relations, opposition parties will naturally seek electoral support of the labor with promises to address their grievances. Incumbent regimes therefore seek to undermine free elections at every opportunity they get. At the same time incumbents provide selective benefits to associations of businesses for maintaining the ruling coalition and helping business to repress labor. Close business-regime ties increase the coercive capacity of the state and make democratic transition less likely (Albertus and Menaldo, 2012). Examples of such regimes include East Asian countries like South Korea, Philippines, Indonesia from 1960s to 1980s and various Latin and Central American dictatorships in 20th century.

RMG industry in the developing world is infamous for being an archetypical sweatshop industry where business-owners and governments collude to keep wages and benefits low. Bangladesh is no exception to that and has gained additional infamy for catastrophic industrial tragedies due to lack of worker safety and cutting of corners by unscrupulous businessmen (Ahmed et al, 2014). The International Trade Union Confederation (ITUC) is the world's largest federation of labor unions representing labor organizations from more than 160 countries[59]. Since 2014, ITUC has been publishing annual reports on state of labor rights in countries and violations of rights by governments and employers. Bangladesh has always obtained the lowest score in their ratings and has been identified as one of the ten worst countries for labor, every year from 2017 to 2020. These ignominious distinctions were mainly due to poor working conditions and absence of labor rights in the Apparels industry.

Wage suppression has been a key to the growth of RMG industry in Bangladesh. I discussed earlier (Table 1) how Bangladesh has a consistently one of the cheapest locations for RMG labor cost since the 1990s. As the dominant manufacturing sector, this suppression of real wages is reflected in the wage growth of the whole economy. Figure 7.21 shows average annual real wage growth and annual productivity growth for selected economies of South Asia and East Asia. In contrast to most of the neighboring countries, real wage in Bangladesh has shrunk during the decade, despite productivity growth.

[59] https://www.ituc-csi.org/

Suppression of organized labor activities and political participation of labor are among the main causes of lack of wage growth.

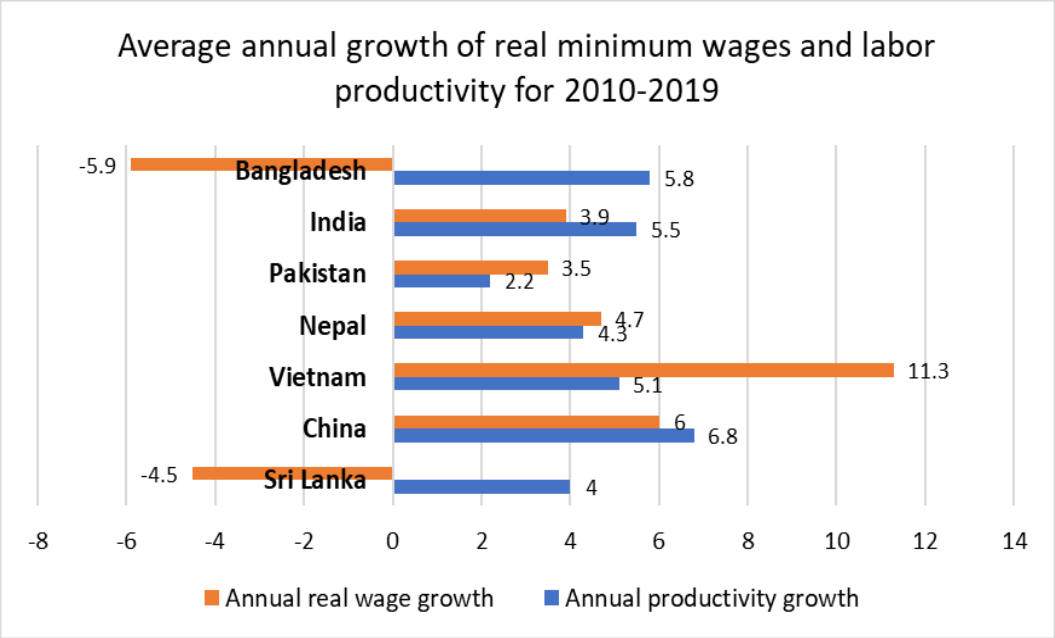

Figure 7.21: Average annual growth of real minimum wages and labor productivity in selected countries for the period 2010-2019. Figures calculated by Hossain (2021) using International Labor Organization (ILO) global wage reports.

Overwhelming majority of workers in Bangladesh are not being able to get organized; less than 5% of workers in the Apparels industry, and between 3 to 10% of all industrial workers are members of trade unions (Berliner et al, 2015). This is mainly because excessively strict labor laws deter unionization efforts, government has arbitrary power to cancel a union's registration and business owners can threaten and attack unions with no fear of consequences (IUTC, 2017). Apparel industry labor, who are mostly female, have insignificant commonality in skills and connections with labor in other industries. This characteristic has also prevented emergence of broad-based and cross-cutting labor organizations in Bangladesh.

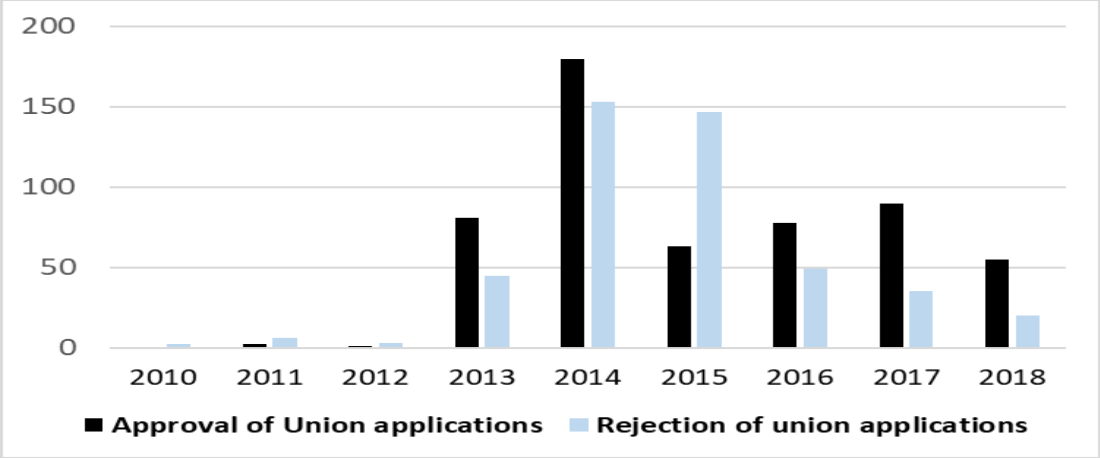

Figure 7.22: Number of applications from labor unions in RMG industry approved and rejected from 2010 to 2018. Data from Blair and Anner (2020)

The extent of business-government collusion is exemplified by the creation of an Industrial Police in 2010 that was supposed to be a neutral force for maintaining security for both business and labor, but almost always works for collective and individual interest of business owners (Yardley, 2013). The BGMEA even donated vehicles to the police force. The Industrial Police is liberally used to suppress frequent wage and arrear pay demands of labor. When 50,000 workers went on strike and movement in protests over low wages in December 2018, the police violently assaulted workers to break up the movement and 11,600 workers lost their jobs (ITUC, 2020).

The determined business-government collusion to undermine labor rights in RMG industry is best illustrated by industrial relations since the Rana Plaza disaster in 2013. On April 24, 2013, a large RMG factory building near Dhaka collapsed due to shoddy construction, killing 1,134 people and injuring more than 2,500 (Blair et al, 2020). It is the worst industrial tragedy in the world in 21st century so far and instantly made Bangladesh's state of labor, a scandal among all RMG buyer countries. Following the disaster, major foreign buyers, mindful of the possible consumer backlash, signed an initiative named ACCORD, on fire and building safety with international labor organizations and BGMEA. Government also passed an initiative called COMPACT, with facilitation from International Labor Organization (ILO), for improvements in labor rights and safety.

However, as soon as it became clear that the feared drop in exports following the Rana Plaza tragedy is not happening, government and business owners started backsliding

upon complying with Accord and Compact (Blair et al, 2020). In June 2016, the finance minister said in a meeting with RMG owners, "the Accord and the Alliance are like a noose around the neck. It is the most concerning issue right now," (The Daily Star, 2016). Ironically it was the continuous and robust growth in RMG exports that undermined the gains in labor rights in the industry. After an initial period of liberalization in the labor regime, the government and business owners re-exerted control. Figure 22 shows how government approval of unions in factory units were almost non-existent before 2013, rose sharply after Rana Plaza incident in 2013 and then fell off again after 2016.

Some aspects of the geography of political movements and labor repression in Bangladesh need to be illustrated to explain the complementarity between labor repressive regime and authoritarization of politics. In Bangladesh, political movements to unseat an incumbent or bend the incumbent to the will of opposition generally always focused on the metropolitan areas and specially, on Dhaka, the capital. Fall of a regime or yielding to opposition demands in 1990, 1996, 2006, were preceded by governments losing control of streets of Dhaka. That's why, control of Dhaka and the port city Chittagong has always been the highest priority of all incumbents.

The traditional main tactic in opposition political movement repertoire in Bangladesh has been regionwide or national strikes that lay siege upon roads, railways, and ports to coercively shut down all private and public institutions including schools, offices, and factories. Locally known as 'hartal', these strikes are part of South Asian politics since early 20th century but during the democratic contestation era in Bangladesh after 1990, they were being used with increasing and unprecedented frequency (Ahsan & Iqbal, 2020). In the year before 2006 Elections there were 35 days of strikes while in the year leading to 2014 elections there were nearly 70 days of political strikes. While the opposition tries to enforce the strikes by bringing in masses of political activists on the roads, the government strives to break the strikes by confronting the opposition with police and ruling party activists. Most of the deaths from political violence in Bangladesh happened during these confrontations.

The strikes were especially damaging to RMG exports because, not only the industry depends on high speed, cost-minimizing, low inventory supply chain, but also

most of the RMG industries are clustered around Dhaka and Chittagong, main arenas of political confrontations (Figure 9). Labor agitations for wages and benefits, and political instability from opposition movements against incumbents, were two of the biggest concerns for organized business interest in the Bangladeshi Apparels industry (Ahsan & Iqbal, 2020). Since overwhelming number of RMG industry units are located in these areas, workers protests, and movements are also concentrated around Dhaka and Chittagong. The bulk of industrial police units are also deployed around these RMG clusters.

Another relevant fact of political geography is that the urban and suburban areas in Dhaka and Chittagong belong to parliamentary constituencies that voted most reliably in anti-incumbency in all the contested elections since 1990[60]. While most constituencies outside these metro areas had reliable political leanings, urban voters showed more fickleness. During elections under caretaker governments, both incumbents and opposition curried favor of the huge voting mass of industrial workers with promises of better wages and rights. Establishing coercive control over these anti-incumbency prone areas, has been a priority for all governments for both political and labor control reasons. In these aspects, the interests of RMG owners in suppressing labor and incumbent interest in preempting opposition movements in metro areas, coincided.

After the victory in the controversial and uncontested 2014 election, the ruling BAL offered a special compact to the business elites of Bangladesh. The regime offered political stability, absence of the crippling national strikes, full support of state in labor control and repression, selective credit and policy benefits in return of credible commitment to the regime through no public demonstration of demand for democracy. The government has informally but repeatedly espoused a model of one-party dominated national politics of crony capitalism and economic growth for Bangladesh, roughly following Malaysia's developmental path during the 1980s to 2000s (Hassan & Raihan, 2017).

[60] http://www.amardesh.com/EADetailsYear.php?Year=1991. Election results website

7.7. Conclusion

I emphasize again that the growth and dominance of RMG export industry is neither the only nor the main cause of democracy reversal in Bangladesh. National political transformations are usually results of multiple causes acting together or independently. However, this article claims that RMG industry growth has significantly contributed to the political change in Bangladesh. I shall now briefly discuss two other probable causes of this change, one from political economy and another from democratization literature.

Comparative political economy studies have noted that foreign aid, remittance income in developing countries have effects of unearned income on politics and society (Ahmed, 2012). Aid, remittance flows often grow in countries that are weakly institutionalized and poorly governed. There is an income effect as these resource flow directly benefits government's fiscal balance and foreign exchange reserves. There is also a substitution effect as these income flows lessen pressure on governments to deliver public goods. I have mentioned in section IV that, over the years, foreign aid or overseas development assistance (ODA) has dropped to almost insignificance in Bangladesh. However, as figure 7.5 is showing, remittance flow from abroad is a huge national income source, second only to RMG industry. In 2017, nearly $14 billion of remittance officially came into Bangladesh; unofficial inflow substantially adds to those figures. The political effect of remittance flow therefore would complement effect of RMG industry in Bangladesh. Investigating this probable cause for democratic backsliding in Bangladesh is an important academic and policy issue.

Recent literature on democratization has pointed out that the wave of democratization in the nations of the world seems to have subsided in the last decade and a wave of autocratization seems to be in the way (Lührmann & Lindberg, 2019). Several causal mechanisms for such a wave have been proposed, for example authoritarian learning, where would be authoritarians learn processes of subverting democracy from other autocracies and apply them domestically. External pressure, by which powerful authoritarian governments enforce similar changes upon weaker and dependent countries, is another process. However, as I have argued in this paper, breakdown of democracy in Bangladesh seems to be largely a domestic process and it has occurred through

undermining of election integrity by incumbents. Democracy in Bangladesh was never institutionalized, a precarious balance of power among coalitions in the selectorate upheld semblances of democracy for two decades, 1990 to 2010, largely because of the compromise process of holding elections under caretaker government. Continuous growth and dominance of the RMG industry changed the distribution of resources and thus distribution of power, and thereby paved way for incumbent takeover by upsetting the balance.

A look at the state of democracy in the South Asian countries, countries with whom Bangladesh share historical, social and political affinity, show that there is no common trajectory of democracy (Figure 7.23). India, the region's largest country and the most consolidated democracy, has experienced some democracy erosion in the last decade but that happened largely because of political, social and electoral preponderance of the ruling Bhartiya Janata Party (BJP) in national politics; election integrity in India is still intact. BJP has suffered huge, unexpected losses in provincial elections. Meanwhile, trajectories of democracy in Pakistan, Sri Lanka, Nepal seem to be largely disassociated with Bangladesh.

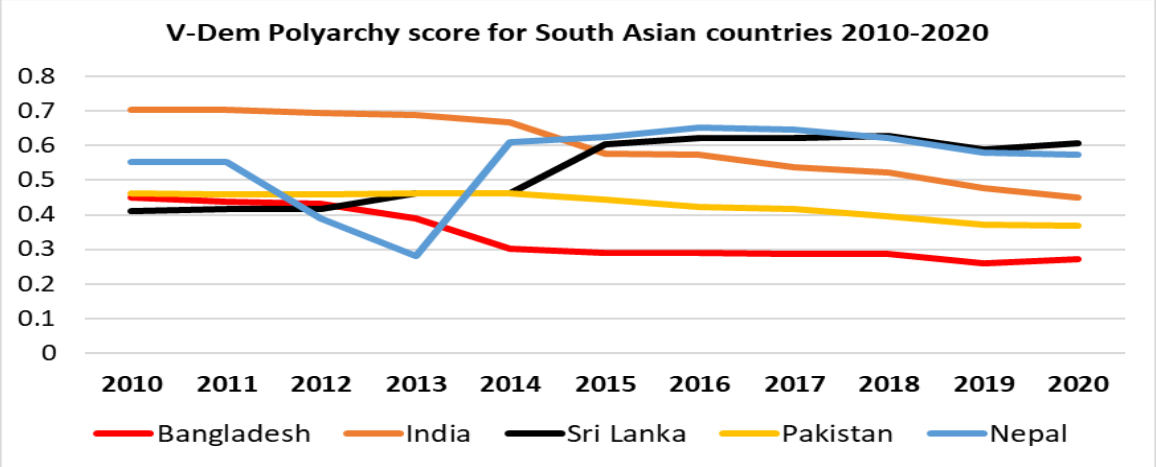

Figure 7.23: V-Dem Polyarchy index scores for countries in South Asia for 2010-20, showing diverging trends of democracy (V-Dem, 2019).

For developing countries, the path of growth is as important if not more than mere economic growth for development. Development economics has shown that the types of economic activities, the kind of exports a country relies upon for growth, have long-term

consequences for sustainability of development (Hausmann & Rodrik, 2003). The fact that after three decades of consistent economic growth built on exponential growth of apparels exports, Bangladesh is still one of the cheapest sources of abundant, low-skilled labor, calls into question the inclusivity of the growth. Development models like South Korea, Malaysia, models the authoritarian incumbent in Bangladesh touts frequently, achieved economic growth without inclusive and contentious politics, but their paths of growth were different. Even within authoritarian politics, those countries showed economic diversity, upgrading in manufacturing and exports, development of human capital, increase in public goods, increase in labor wages, growing strength in institutions of economic governance and state capacity. Very few of those desirable trends are significantly perceptible in Bangladesh. There are some indications that state capacity is increasing in Bangladesh with economic growth (Berliner et al., 2015). Whether this will increase fast enough and in ways that will enable Bangladesh to escape a low-productivity trap or a middle-income trap, is a most important question in Bangladesh's unfolding future.

CHAPTER VIII
CONCLUSION OF THE STUDY

8.1. What happens when an entire country becomes an industry-town?

Ever since the beginning of the industrial revolution, a recurring feature of economic geography of industrialization has been 'industry towns', cities and regions whose economies are overwhelmingly dominated by one type of industry. For example, textile towns, automobile cities, steel towns, etc. In these places, not just the economies but social and political relations were greatly shaped by growth, dominance and decline of the industry. What happens when a whole developing country, not just a city or a region, becomes dominated by an industrial sector? This question came to my mind and eventually inspired this study after the wake of Rana Plaza tragedy in Bangladesh in 2013, the worst industrial disaster in 21st century where more than 1100 RMG workers died in collapse of a shoddily built factory building that was workplace for nearly four thousand people[61].

In the aftermath of the disaster, it became clear to observers that the garments industry in Bangladesh locks in incumbent political regimes and industry owners into a strong coalition where the two groups of political and economic elite find great mutual benefits from collusion (Yardley, 2013b). These two groups support each other in realization of their political and economic preferences and the source of their sustenance is the stream of unprecedented economic resources generated by garments export. While RMG's centrality in elite politics becomes clear to observers, the role of the industry in general social transformation is also unmistakable. When more than 15% of all females aged from 15 – 30, in a country of 160 million people, work just in one industry, that industry's role as a driver of social change is indisputable (Heath & Mobarak, 2015).

This preponderance of apparels industry in national economy and society is not just a Bangladeshi phenomenon. The industry is similarly dominant in economies as far and wide as in Cambodia, Sri Lanka, Haiti, Honduras, Lesotho and other countries. RMG

[61] News reports suggest that the official death toll undercounts the real extent of the tragedy. 'Why Won't We Learn from the Survivors of the Rana Plaza Disaster?'
https://www.nytimes.com/2018/04/24/style/survivors-of-rana-plaza-disaster.html

export industry had beginning and growth in these countries largely from foreign sources, early foreign investments, technology transfers, reproduction of international trade and business practices. In almost all these heavily apparel export-dependent countries, we can see similar patterns in institutions of governance and political regime. Institutions of governance in these are weak and riven with corruption, economic elites hold great sway over the political regimes, the countries generally have become less democratic as economic concentration in RMG industry persisted for decades. From observing my home country Bangladesh's economy and politics for a long time and following media reports of other apparels export-dependent, developing countries, two questions formed in my mind. First, why these countries with poorly performing economic and political institutions, became highly successful in exporting RMG for many years? Second, how did many years of RMG exporting as the main manufacturing activity and the principal source of foreign income earned, affect the relations among the national political and economics elites?

This study strived to answer these questions using theories and methods from industrial organization, development economics and comparative political economy. The answer that I have found is this. Because of the unique sectoral characteristics of the international RMG export industry, a developing country that is favorably endowed with competitive factors, do not need high quality economic or political institutions to thrive and grow in apparels export. The relevant characteristics include low-skilled, standardized technology of RMG production, the industry's lack of linkage with other main globally traded industries, high asset specificity, buyer power-driven global value chains, etc. The favorable factors include large supply of low-wage labor, access to ports and logistics facilities, trade treaties with the biggest export destinations. However, the very same institutional environment that didn't prove to be hindrance for success in apparel exports, constrict the ability of the state to diversify and upgrade manufacturing exports into more value-adding, more technologically sophisticated products than readymade garments. Therefore, the country's general economy and political regime become ever more reliant on apparel industry as the principal source of foreign income and manufacturing employment.

Because of the sectoral characteristics of the industry, a long-standing dependence on RMG exports reshape power relations among the political and economic elites in significant ways. First, the industry creates a cohesive and powerful group of economic elites from industry owners, who find it in their interest to collude with incumbent regimes in order to maintain the principle logic of competitiveness of international RMG trade, low wage and low cost of production. The large flow of income from the industry to the government and the political patronage network, the mass employment and social benefits generated by the industry, also strengthen incumbent regimes vis-à-vis their political opposition by providing direct economic resources and by freeing governments from the minimum social spending necessary to quell social unrest. Incumbents use this economic resource to build coercive power to suppress political challengers. Because of complementarity of institutions at the national level, a labor-repressive industrial regime in the dominant sector of the economy leads to politically repressive regime. We can observe this trend in increasing authoritarization of regimes and democracy reversal in RMG export dependent countries.

This is in brief, the argument and findings of this study. I should point out that although apparels industry in developing countries is the subject of this study, the arguments and findings are generalizable across industries, services. A generalized statement of the study would be like this. Sectoral characteristics of economic activity, institutional environment and factor endowments, are largely determinative for structure of economic dependence or economic diversity in developing countries. When an economic sector becomes dominant in a developing country, its sectoral characteristics reshape power relations among the political and economic elites, thus influencing the type of political regime. We would expect similar characteristics in another industry or services would lead to similar outcomes of dependency and political relation, while successful export of industries and services with different sectoral characteristics producing different political, economic outcomes.

Global tourism and hospitality industry shares many of the sectoral characteristics of RMG industry. The industry has highly standardized products and services, agglomeration, firm size distribution dominated by large firms, lack of productive linkage

with other important industries, connected globally with value chains that are dominated by powerful business groups, low wage and labor repressive conditions and other similar characteristics (Mosedale, 2010; Bianchi & De Man, 2021). Studies have shown that favorably endowed developing countries with poor quality of institutions also develop overdependency on an enclave tourism economy and this dependency often shores up incumbent authoritarian regimes (Bianchi, 2018).

In rest of the sections of this concluding chapter, I will first discuss, step by step, the arguments and findings of the study, the future plan to extend the study for more robust empirical support and significance of the study for political economy literature and policy study for developing economies.

8.2. Dominating export industries and national institutions

The first building block in this study is distinctiveness and exogenous origin of sectoral characteristics of internationally traded, product and service industries in developing countries. Different industries have different primary characteristics such as technology, global market, and different secondary characteristics such as assent specificity, firm size distribution, human capital, labor relations input-output linkages, etc. When an industry becomes a leading or a dominant economic sector of a developing country, the industry characteristics play a role in the growth and evolution of national institutions of economic and political governance (Shafer, 1994). However, there is debate in literature about the extent to which inter-industry variation of secondary characteristics like labor relations, firm size distribution, agglomeration, etc., characteristics have domestic or international origin (Bechter et al., 2012). In chapter 2, I documented and categorized variation in sectoral characteristics of some of the well-known industries and services, and showed that domestic sectoral characteristics of an industry, are distinct and consistent across countries. Sectoral characteristics of RMG industry, when it becomes a leading or a dominant industry in a country, can therefore be use explanatory variables in comparative study of effects of industry in society and politics.

The classification of industries in chapter 2 shows that international apparels industry is a simple and standard technology industry with high labor intensity, an industry with low input-output linkages with other industries, and other distinctive characteristics. In chapter 3 I argue that, using theories and findings from the growing 'institutional comparative advantage' field of international trade economics, because these sectoral characteristics of apparel industry, even a country disadvantaged by poor quality institutions, can become successful exporter of RMG if it were favorably endowed with factors (Levchenko, 2007; Nunn & Trefler, 2014). However, if the country lacks state capacity to implement industrial policy, growth in apparels export is not accompanied by growth in more value-added, technologically complex products exports and the country's economy is pulled towards increasing dependence on the RMG exports. Because of sectoral characteristics, RMG export by itself fail to promote long-term productivity growth in the economy and thus a weak state capacity country become more exploitive and dependent on RMG exports. While chapter 3 lays out the theoretical argument connecting lack of state capacity with reliance on RMG exports, chapter 6 demonstrates the connection with cross-country quantitative analysis. In addition, cross-country analysis in chapter 6 also shows that increasing RMG export is associated with lack of growth in productivity. This supports the argument that RMG manufacturing growth do not lead to growth in industrial capability, thus facilitating more dependence on RMG exports in a vicious cycle.

Finding and explaining long-term political effect of clothing export dependency in developing countries, is a principal aim and inspiration of this study. It is evident that national level political changes in any country, are generally outcomes of many causes acting interactively or in parallel. The critical question for this study was, are the characteristics of RMG industry as the leading or dominant economic sector, having significant effect on institutions of political regime, and in what ways? I argue and try to demonstrate in chapter 4 that clothing export dependency is causally connected to political change, and this happens mainly through three causal processes. First, a leading apparel industry create a cohesive and powerful group of economic elites whose pursuit of particularistic interests in collusion with regime, undermine democracy. Second, unearned income and social benefits from the apparel industry help increase the coercive capability of regimes through income and substitution effects. Third, labor repressive employment

relations in the dominant apparels sector, is incompatible with electoral democracy. I demonstrate that these mechanisms are easily discernible in apparels dominated countries from news, statistics, studies, etc. A cross-country econometric analysis of data in chapter 6 on clothing exports and democracy indicators, support the hypothesis that increasing clothing exports is dynamically associated with lower level of democracy.

I further elaborate the mechanism of complementarity between national level industrial labor relations with types of political regime in chapter 5. The building block of this mechanism is a general theoretical framework linking sectoral characteristics of industries with their labor regimes, which is another important contribution of this study. The framework shows how different sectoral characteristics empower labor and owners differently and different power combinations give rise to different labor regimes. I show that four different ideal-typical labor regimes, collective collaboration, collective repression, individual collaboration, individual repression, arise from sectoral characteristics of an industry. I then show that because of institutional complementarity, four ideal-typical political regimes are compatible with these four labor regime types, democracy, right-wing authoritarianism, populist authoritarianism and predatory autonomy. Sectoral characteristics of RMG industry lead to collectively repressive labor regimes and this type of regime is compatible with right-wing authoritarianism.

I test the two main hypotheses of the study and supporting hypotheses by cross-country econometric analysis in chapter 6. With help of fixed-effect panel data estimation and systems generalized method of momentum (SGMM) techniques, I show that weak state capacity is indeed associated with increased dependence on RMG exports and dependence on clothing exports leads to democracy reversal in developing countries. I also use these techniques to show evidence for supporting hypotheses of the study. First, increasing clothing exports leads to lower growth in productivity of the economy, and second, increasing clothing exports is associated with worse working conditions and labor rights.

For further empirical support of the causal explanations of the study, I use discuss RMG industry in Bangladesh, the concurrent evolution of the economy and politics of the country with sustained dominance of the RMG industry, as a typical case study in chapter

7. Laying out the general argument of causes of RMG dependency and the political consequence of that dependency, I process trace these arguments in Bangladesh's economic, social and political developments and the RMG industry's role in those developments.

8.3. Limitations of the study and future extensions

This study has some limitations and there is further work remaining. The limitations mainly arise because of the causal claims about macro-level variables made in the study. Country variables such as state capacity, export composition, level of democracy, are not only related to each other in complex and interactive ways, but also are embedded in myriad causal pathways of political and economic development. Establishing a hypothesized causal relationship between any two variables, is a challenging task. In this study I used mechanistic evidence from general information and data, variance-based statistical analysis of cross-country data to support the causal claims. However, there has been a great change in recent decades in use of statistical methods for identification of causal relationships in social science. Techniques like instrumental variables, quasi-experiments, regression discontinuity design, are now viewed as more credible in establishing causal relationship than traditional regression techniques (Keele, 2015).

I could not find suitable instrumental variables for the main explanatory variables state capacity and clothing export dependence. I also could not design statistical analysis based on quasi-experiments or regression discontinuity design. This doesn't imply that they are not possible to do. I think with more dedicated search and higher expertise, estimation techniques like instrumental variable, exogenous shocks, discontinuity design, can be used to investigate the causal claims made in the study. Using these estimation techniques remain a future goal of the study.

An unfinished part of the study is additional country case analyses. In this study, I have analyzed Bangladesh as a typical case for tracing the proposed causal processes and tried to show that the evidence from Bangladesh, support the causal claims. However, since the causal claims of the study are general and seek to explain phenomena occurring across

developing countries, further country case analyses are necessary to strengthen the study. I have already selected and collected evidence on several other countries but the chapter on additional case studies remain incomplete due to time constraint. Table 8.1 is showing the selected country cases. I plan to complete writing the additional chapter as soon as possible.

Table 8.1: Case selection plan for further case studies based on variation in explanatory and dependent variables.

Cases of RMG export dependent countries and their outcomes in politics and economics			
Countries	Level of state capacity	Reduced dependence on RMG and successful diversification	Democracy reversal and increased authoritarization taking place
Cambodia	LOW	NO	YES
Dominican Republic	MEDIUM	YES	NO
Honduras	LOW	NO	Borderline political outcome

These additional country cases were selected, based on variation in explanatory and outcome variables. Cambodia, like Bangladesh, is a typical case for the study where lack of state capacity is responsible for dependence on RMG exports and where increased dependency has led to democracy reversal. Dominican Republic is also a typical case but with different values for variables in the proposed causal mechanism. Average to high comparative state capacity has led to reduced dependence on clothing exports and because of export-led economic diversification, democracy reversal has not occurred in the country. Honduras, the last country in the case studies, is a borderline between a typical and deviant case. Honduras has weak state capacity, and the country has not reduced dependence on clothing exports. Compared to the decade of 1990s and 2000s, democracy and electoral process in the country have deteriorated since 2009, when a right-

wing coup took place against a left-wing president[62]. Flawed elections have taken place in the 2010s decade but outside observers have not rejected the elections[63]. Because only partial democracy reversal took place in Honduras despite the economic concentration in clothing exports, a case study of the country would illuminate scope and contextuality of the causal claims made in this study.

8.4. Significance of the study and concluding remarks

Rapid reduction of global poverty and breaking away of billions of people from shackles of abject poverty in the non-western world in the last five decades, is one of the most remarkable changes in human history. This reduction in poverty is simultaneous with rapid growth in international trade from developing countries and many studies have supported the link between growth of trade and reduction in poverty (Bartley et al., 2015)[64]. Many formerly least developed countries have reduced poverty and became relatively prosperous through structural transformation of the economy through production and trade of goods and services that are in demand in the global market. However, this structural transformation of developing economies is, by a large extent, a path dependent process because countries can become competitive in new product or service through acquisition of capabilities, which include factors like capital, labor, knowledge and experience, that depend on existing capabilities and knowledge in the country (O'Clery et al., 2021).

This path dependency of structural transformation and economic development has generated a long-standing debate on whether developing countries should follow or defy their naturally endowed comparative advantage and existing capabilities (Lin & Chang, 2009). This debate is highly important because specialization in some traded products and services can not only lead to economic stagnation but also adverse institutional consequences (Ross, 2015). Political economists have pointed out that international trade

[62] Freedom House Political Rights (PR) index shows that Honduras was indexed consistently 2-3 in the 1990s and 2000s. 1 is the best state of Political Rights while 7 is the worst. However, since 2009 Honduras has consistently been ranked 4 till 2021.
[63] Freedom House annual country reports.
[64] World bank and WTO joint publication (2015). "The role of trade in ending poverty" (No. 97607, pp. 1-77).

affect domestic institutions by changing power balance and preferences of different groups (Rogowski, 1987). The nature or the sectoral characteristics of the products, determine the change in distribution of power and resultant effect on political, social and economic institutions. The impact of international trade in determining path of domestic institutional development, could be the most important source of long-run gain from trade for developing countries (Nunn & Trefler, 2015).

Although structural transformation through trade is highly path-dependent, it is not structurally deterministic. History of economic development has repeatedly shown that countries in all regions of the world has embarked on comparative advantage defying path of long-term development through informed economic policies and policy-supporting institutions of governance. The policies enabled countries to diversify and grow in products that not only enhance capability of countries but also provide basis for further capability development. In recent decades, industrial policy and development of policy-supporting institutions, have made a vigorous comeback as indispensable tool of sustainable development for underdeveloped countries (Stiglitz et al., 2013). Success and failure of industrial policies show the role of agency in political economy of development.

This study focused on international apparels industry and trade to illustrate this accumulated knowledge of economic development. Although apparel trade has lifted millions of poor people out of subsistence poverty and enabled some of the poorest countries to get on the path of economic growth, the institutional effect of this industry is not conducive for democratic development. The sectoral characteristics of the industry can condemn countries with weak institutions of governance to ever increasing dependence on the industry and the same sectoral characteristics can condemn the people of the country to democracy reversal and diminishment of political rights.

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