

Bangladesh rmg sector

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For example, with the removal of the Multi-Fiber Agreement (MFA) in 2005, fear of imminent doom stroked in the hearts of the garments owners.

Despite the adverse predictions of different studies, the RMG sector of Bangladesh managed to pull through the abolishment of the MFA unscathed. Bangladesh later secured a position under the Generalized System of Preference (GSP), which allowed the country to enjoy privileged trade links with the Western producers. However, after the most recent tragedy of Rana Plaza where more than 1200 garments workers lost their lives, the US government suspended the GSP of Bangladesh.

Even though EX. promised not to withdraw GSP for Bangladesh it comes with stipulations attached. In this circumstance, the question that everyone is compelled to ask themselves is- " Will the RMG sector of Bangladesh collapse with the recent crisis it is faced with, or will it be able to hold its ground? "

The Evolutionary Path of the RMG Sector Before delving further into the recent crisis and its impacts, let's first identify the contribution of RMG sector in Bangladesh economy and its strengths that led to its immense growth over the last few decades.

RMG sector is the highest foreign exchange generating sector of Bangladesh, constituting 79% of total export and around 22 percent of total GDP in FYI 2012-13. It is evident from graph 1 that the sector's contribution to total export and economy as a whole has only increased over time. Currently it employs 44 million worker 80% of which are women. Therefore, it would not be wrong to say that RMG sector has become the lifeline of Bangladesh economy.

Graph: ARM export and Total Export hourly wage rate of ARM Sector source: BAGGAGE Graph 2: Minimum Source: ILL The global hegemony of Bangladesh in ARM sector can be ascribed to the fact that it enjoys a competitive advantage in terms of low wages and lax regulation that transformed into competitive global prices. With a minimum wage of USD 0.26 per hour, the rate is one of the lowest in the world (see Graph 2). The biggest earner of foreign exchange in Bangladesh has also been showered with favorable incentives such as back-to-back LLC, import and customs duty rebates and short and long term interest rates discount.

Harnessing on its cheap labor, Bangladesh ARM sector has found a strong foothold to sustain on its own. For example, the MFC quota system which had initially acted in favor of the Bangladesh ARM sector was phased out in allowing the abolishment. According to the McKinney report 2011, Bangladesh has all the potential of becoming the no. 1 apparel sourcing hotshot replacing China. Buyers at the cost of labor wages According to Doug Miller, professor emeritus of supply chain ethics, " In Bangladesh, you have a glut of buyers in search of a cheap product wanting to place enormous orders, and the capacity is built hurriedly. With a clause of deferred payment in letter of credit (L/C) I. E. The formal loan agreement for purchases, merchants in Bangladesh get products shipped out and release payments to manufacturers after months of delay of as much as 6 months. With payment being deferred, Bangladesh manufacturers are actually forced to subsidize the buyers. Garment-makers take loan, free of interest for 90 days, against the L/C in executing orders. So, for the period beyond 90 days, manufacturers have to fork out 1 PC interest.

Moreover, an order worth a dollar that a buyer places actually does not add up to a dollar. On different pretexts and through underhand dealings, they take back almost 25 cents, leaving the manufacturers to complete the job with the remaining 75 cents with which the manufacturer buy fabrics and accessories, make clothes, pay establishment costs, ship out clothes, and are expected to pay workers reasonably and make good profit as well. Factory installations are shoddy, workers' lock in and lead times are too tight- all in order to minimize costs and attend to stringent deadlines.

Since victims fear veering off foreign buyers, the central bank and garment owners' association has not yet initiated a reform. The Current Crisis Today there is a vast network of some 5, 000 garment factories in Bangladesh, far more than any other low-wage country. They aim at churning out clothing quickly and cheaply without bothering to comply with rules and worker safety standards. Faced with a government imposed minimum wage of USED 38, the average factory owner seeks cost minimization by tweaking other variables such as infrastructure, power and freight.

Such hard core profit seeking behavior has resulted in a regulatory disaster. According to Bangladesh institute of labor studies, at least 730 workers were killed and 4, 700 garment workers have been injured in ARM accidents between years 1990 to 2012. Five deadly incidents from November 2012 through May 2013 brought rocker safety and labor violations in Bangladesh to world attention. However, the biggest, deadliest disaster so far has been the collapse of the factory building in Saver which has led to the death of over 1100 workers.

The fatal accidents occurring in regular interval have put the bright future of Bangladesh ARM sector in Jeopardy. One of the five criteria that buyers look into while evaluating a destination/country as a major sourcing market is risk (as outlined in a report by McKinney, 2011). Taking that into account, recent incidents in Bangladesh point out that there has been a surge in the risk factor surrounding the readmes garments (ARM) sector in Bangladesh.

Following the collapse of Ran Plaza, the Western companies are now already seeking new sources of ready-made garments.

Well known companies already contemplating a move out, fearing that association with Bangladesh factories would damage their reputations. Low wage that once has been the main attraction circumstance it is only natural that competitors like China, India and Vietnam will snatch business away from Bangladesh. Regulations The regulatory disaster that the Bangladesh ARM sector is facing now is a result of years of negligence and malfeasance. Laws ensuring the rights of workers are in place, but are scattered, outdated and not enforced properly. A National Labor Law Commission was formed in 1992 to enact a Labor Code.

The National Trade Union Leaders of The Labor Law Review Committee was reconstituted in 1998. However, workers' rights are highly violated and trade unions are very weak. In 2008, the government had enacted the Dacha Metropolitan Building (Construction, Development, Conservation and Demolition) Rules aimed at ensuring construction of any structure in the capital Dacha in compliance with the prevailing construction deadlines. However RAJAH, the Capital Development Authority, has failed to enforce the

law seriously which further adds to the flimsy regulatory framework governing workers' safety.

Regulatory Capture The failure by the governmental bodies in Bangladesh to ensure the proper enactment of safety standards reflects "regulatory capture" that occurs when policymakers or regulatory bodies favor special interest groups rather than working in the interest of the public. The perfect example would be the sanction of building permit of Ran Plaza in Savar. The design of the building was not architecturally sound but was granted by an RAJAH office that wasn't authorized to issue such permits to begin with but he did it anyway in exchange of a bribe; thus serving the interest of the building owner.

The regulatory agencies such as the Ministry of Labor and RAJAH, created to act in the public interest, instead advance the commercial or special concerns of interest groups that dominate the industry or sector it is charged with regulating. Understandably the authority seems to turn a blind eye on this very matter as at least 10 percent of Bangladesh parliament members are direct owners of about 5000 garment factories in Bangladesh.

The apparent inter-involvement reflects in the way there have been no convictions on any of the major disasters that had resulted in hundreds of deaths and injuries prior to the collapse of the Ran Plaza building in Savar in May 2013. The businessmen-UCM-politicians fear the pullout of Western buyers responsible for their profit margins as well as Bangladesh's contribution to the economy should the costs of implementing the regulations properly cause higher prices.

Stakeholders' Response Since the collapse of the building Ran Plaza and the corresponding international attention it has received, the reputation of Bangladesh ARM sector and its international buyers are in Jeopardy.

Companies like Disney, Orion etc have terminated import from Bangladesh while major US importers like Walter have not made any concrete commitment to improve the working conditions of the factories from which they import clothes for its outlets. Most of the big global companies have decided to stay and try to improve safety in their contractors' factories and build inspection of some factories under which millions work.

The most severe blow that the Bangladesh ARM sector has faced after the Tragic Ran Plaza incident is the suspension of Generalized System of Preference (SSP) facility provided by the US overspent. This action comes as a result of Bangladesh government's failure to improve working conditions and ensure worker safety inside the country. In the short run, the suspension from US SSP is projected to reduce export by a meager 0.8 % as ARM products (which make up most of the US import from Bangladesh) are not included in the list of duty-free products in SSP.

However, the cancellation of SSP will translate to major export loss for industries like ceramic products, processed and frozen prawn, tobacco, etc as these products used to enjoy duty free entry in US market. Most importantly, Bangladesh image as a trade partner of the USA is tainted. Therefore, the prospect of future export growth of Bangladesh in US market seems dimmer as this may discourage US and other foreign investors, new and old, from venturing into Bangladesh. Nonetheless, the US government

has assured that the suspension is temporary and accordance with the provided guideline will result in reinstatement of the facility.

The key points of the guidelines are * Fast track registration of unions * Increase the number of government labor inspector * Proper implementation of Factory standard and stricter punishment for failure to imply * Assess architectural soundness and fire safety of all apparel units * Close or relocate risky factories * A hotlist for workers to unanimously report fire, building safety and rights violation * Amend PEG law to match international standard * Prevent harassment and violation against labor activists and resolve ongoing dispute The repercussion of SSP suspension will be much more severe if adopted by European Union (EU) since unlike USA, garments products enjoy SSP facility in EU. EU had previously threatened to remove preferential access of Bangladesh ARM reduces in EU market if the government did not take measures to improve the working condition in Bangladesh factories. They have called for immediate safety improvements, and said they were considering changes in Bangladesh duty-free and quota-free status to encourage more responsible management by the country's garment industry.

The United Nations labor agency, International Labor Organization (ILO) had also sent an inspecting team a week following the building collapse, and has called for greater commitment and social dialogue for the overall regulation of the ARM industry. ILO has welcomed an agreement signed by some international fashion brands and retailers, and trade unions to prevent workplace disasters. Thus there is increasing oversight by the international

community to oversee the safety of the industry drivers. Response of Bangladesh Government and Regulatory Bodies Back home, the government of Bangladesh is working to amend the Labor law to make it time-befitting as well as protect the interest, rights and security of workers. RAJAH has also started an inspection of unauthorized factory buildings.

Moreover the Anti Corruption Commission (AC) will look into the alleged irregularities in the Manufacturers and Exporters Association (BAGGAGE) have also issued a list of tests and standards that must be met by all the factories. This list includes: reports of soil tests and structural design to assess the suitability of the building to be used as a factory, to remove generators from the roof to the ground floor, to install equipments that would aid in a disaster and so forth. These were requested of all factories and are to be submitted by the end of May, 2013. For the owners, the course of action is to initiate compliance with the international standards and assist BAGGAGE in all activities y providing the reports asked of in time.

They also need to educate and train their workforce on the steps to take in the event of a disaster and also conduct regular fire drills. Response of Civil Society The civil society has also raised a voice and become increasingly involved in the brewing demand for regulatory reform. Not only have individuals and organizations offered assistance to the collapsed building victims but many have also offered corrective measures. Sir Faze Abed, founder of BRACE, has asserted that instead of Western buyers pulling out, the buyers should invest in ensuring workers' safety assure while the workers must also coalesce into unions and engage in collective bargaining.

The government must also end neglecting worker safety issues and ensure justice for the owners' criminal negligence. Nobel Laureate Dr. Muhammad Yunus has recommended two proposals: one is for the Bangladesh government and foreign buyers to jointly fix a minimum international wage level, and work on increasing labor productivity, specialized labor skills, and build buyers' trust in order to remain competitive. The second is to set up a Workers' Welfare Trust Fund, so that the international buying company will pay 10% of the amount it has agreed to pay the garment factory owners to work in the welfare of the workers. A citizen action group can also be created in order to accelerate the positive changes taking place in business.

Conclusion The RMG sector as the biggest foreign exchange earner in Bangladesh, is considered a "national treasure", therefore a tacit bi-partisan agreement between the politicians and businessmen to protect it was an outcome, albeit blindly. However the failure of regulations and prevailing of criminal negligence can be mitigated by stricter law enforcement and by the presence of a proper non-partisan regulatory body or watchdog to ensure transparency, mitigated corruption and the assurance of worker safety. For the government, the most important action is to ensure enforceability of the steps that need to be undertaken. More often than not, it is seen that there is a flurry of activity right after an accident, which dies out soon with no significant changes that would prevent such an accident from being repeated.

Trade unions and labor activism must not be shut down by the new Industrial Police to ensure transparency and accountability of the workers and their

rights. The workers must be allowed to organize themselves and be allowed to function as gracious counterpart of the existing ARM owners' associations, not simply as appendages. The ARM sector to demolish the entire sector if not addressed immediately. These include: poor infrastructure, low compliance to international standards, weak supplier performance and workforce supply, overconfidence on imported raw materials and lastly poor economic and political stability. The government must act swiftly to avert the impending doom one of the most important industries in the Bangladesh