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**Bangladesh: A Labor Paradox**


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REPORTAGE

# Bangladesh:

## A Labor Paradox

EDWARD BEARNOT

DHAKA, Bangladesh—Color floods the main roads of this mega-city's industrial belt. Saffron scarves flutter in the hot, dusty wind, billowing against green and fuchsia *salwar kameez*—products of the textile mills that line these streets for miles. A sea of people shuffle along sunbaked, garbage-strewn roads wearing plastic flip-flops, the crowd thick with young faces packed 10 across and hundreds deep. Some are smiling, some are sullen, and most are women. They walk past rows of tea stalls and scrap metal hawkers, heading home to the sprawling slums that grow like the ubiquitous purple hyacinth around the factories. The crowd brings the heavy traffic to a begrudging halt.

This mass of human vitality is just a fraction of Bangladesh's garment workforce—a few of the more than 3 million women and men who knitted, dyed, washed, sewed, finished, ironed, packaged, and shipped close to $20 billion worth of clothes last year. Bangladesh is in the first stage of its industrial transition, which has taken the form of explosive growth in garment making. Bangladeshi manufacturers have a substantial competitive advantage over most other nations. The proportion of the population at or below working age is among the highest in the world, with close to 70 percent of Bangladesh's 150 million people under the age of 35. The vast majority can, or will soon be able to, participate productively in the economy. This is referred to as the "demographic dividend," which, when combined with a low cost of living and high population density, yields very low labor costs. This youth bulge has been the most significant driver of business to Bangladesh's ready-made garment sector—the largest and fastest growing manufacturing industry in Bangladesh.

With the demographic dividend boosting the economy, Bangladesh is now the second largest exporter of garments in the world and has watched its GDP grow by an average of 6 percent a year over the last decade. This impressive, stable growth has correlated strongly and predictably with plummeting birth and mortality rates, ballooning school enrollment, and rising per capita income. The masters of industry and the members of central government, however, have made few investments in the physical and human capital needed to sustain such a high level of growth, keeping millions of laborers working inefficiently and unsafely for 22 cents an hour.

## THE ALTERNATIVES

Despite the low wages, the 2.5 percent of the population who are employed in garments consider themselves quite fortunate, especially compared to the alternatives. Hasma, a quiet, thoughtful 24-year-old mother of two, comes from a small southern city on

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HUZZATUL MURSALIN

the banks of the Ganges River. Her family, which is among the more than 60 million Bangladeshis living in extreme rural poverty, rented a small plot of land where they lived and grew rice. Her family, unable to pay for her to attend school, sent her to Dhaka when she turned 14 to work as a domestic servant for a middle-class family. She was paid 800 taka, or $10 a month, to cook, clean, do laundry, and care for the family's children. While the family housed and fed her, they quickly stopped paying her salary, and she had no way to retaliate without also becoming homeless.

When her father died in 2005, Hasma moved in with her sister and brother-in-law, who introduced her to a friend who worked at a textile factory. Soon, she started running fabric from one work station to another for about $20 a month, though she was forced to give her entire salary to her brother-in-law, who often spent it gambling or drinking bootlegged rice wine. Eventually, she moved into a hostel for female garment workers, paying three-quarters of her wages for room and board but enjoying the company of other young women like her. An older woman at her factory mentored her, and Hasma learned to use a variety of sewing machines. In 2009, she leveraged her new skills into a promotion to sewing machine operator with a salary of $62.50 a month, covering food, rent, and clothing, as well as the $12 a month she spends on child care as her husband, a rickshaw driver, prefers to sleep all day and refuses to babysit. She has enough money to service the $200 in loans she took after her daughter was born and was only given half the maternity payment she'd been promised. She can also put a few dollars each month into a savings account that generates a healthy return.

Garment making has provided Hasma a way out of poverty and given her financial independence as a mother and sole household income earner. But for Hasma, life is still a daily struggle. When asked what she would do with more money each month, she quickly responded that she would send her daughter to school and to a doctor for regular checkups. But when asked if she ever regrets moving to Dhaka from the countryside, her answer is unequivocal, "There was no future for me there. I've forgotten about that life. Here I can earn. Here I can decide my future."

## SECURING THE FUTURE

To secure stable growth in the face of falling birth rates and a diminishing demographic dividend, the Bangladeshi economy—and the garment sector in particular—must invest in a safe, stable, and technologically skilled workforce. This will require improved physical infrastructure like electricity, roads, and, as was made tragically clear in a massive factory fire in November 2012 and the building collapse in April 2013, factory facilities themselves. These changes will require reinvestment of profits from an increasingly productive workforce, a necessary step that will also increase the cost of labor incrementally over time.

Further complicating the investments needed to modernize the garment sector, annual inflation in Dhaka is close to 10 percent. Water, power, and transit infrastructure are already overwhelmed. Level wages in the face of rapid inflation in the cost of living will not cover basic necessities such as housing and food. So workers will protest, preventing factories from operating smoothly. In 2012, rents were raised on housing four times in garment worker neighborhoods of Gazipur, Ashulia, and Savar. On each occasion, workers demonstrated for days, throwing rocks and burning buses, forcing factories to reduce operations or shut down entirely.

If factory owners, the central government, and international stakeholders fail to invest in the garment industry, it will continue to grow and be profitable for perhaps another decade. After that, the cost of labor will be too high and efficiency too low to justify manufacturing simple, low quality goods. Without investing in workers' skills and the basic infrastructure needed to move up the value chain, the youth bulge will age without gaining skills or generating enough income to support even the 2.2 children each woman is expected to raise. Such a reduced population growth—the fertility rate has fallen to 2.2 from 4 in the last 20 years—will result in a deflation of the youth bulge. The base of manufacturing workers will age, and this demographic will become an economic liability—an old, unskilled workforce with little savings, whose earnings will fail to keep pace with inflation. Their children, who could be part of the wealthiest generation in the history of the country, will be much less likely to join the ranks of a middle class and more likely to toil in the same industries, producing the same low-quality goods as their parents. That is, of course, provided international buyers and manufacturers of low quality garments have not already made their transition to new lower-wage countries in Africa.

## INVESTMENTS—NOW

As a first step to invest quickly and effectively in a safer, more efficient garment sector, it's essential that members of the various industry groups, including Bangladesh Garments Manufacturers and Exporters Association and Knitwear Manufacturers and Exporters Association, address the high rate of worker turnover. This ranges from a low of 10 percent in an average month to more than 50 percent during the two month-long religious festivals. The high probability of workers leaving is a key driver of low efficiency and leads to widespread refusals by factories to invest in the training of workers or creating a more safe, comfortable, and happy work environment. Human resource officers at most factories recruit and hire enough workers each year to fill all openings more than twice over in anticipation of and response to rapid worker movement.

Of course, there are several reasons for workers' migration from factory to factory. Rima, 17, was forced to leave her job when she got married, as her husband's family thought it inappropriate for her to work outside the house. Rufiqul, 27, left the factory where he had worked for 10 years after a conflict with management. Three-quarters of his coworkers were fired and the rest asked to continue working on reduced wages, with no guarantee or timeline for any change. Finding an offer of 20 percent higher starting salary at a nearby factory, all soon departed. A better salary is the reason most often cited by workers and employers for changing jobs. There are some cases of workers leaving for as little as $2 more per month, resulting in a poaching war between neighboring factories. This in turn lowers efficiency by forcing managers to repeatedly hire and train new workers.

> TO FORM SOCIAL BRIDGES BETWEEN WORKERS AND MANAGEMENT, WORKER COMMITTEES SHOULD BE FORMED IN ALL FACTORIES.

Rubana Huq, managing director of the Mohammadi Group's Ready Made Garment (RMG) facilities and member of a working group to reform the garment sector that includes members of the production, financial, and legal communities, argues that the most critical changes to increase worker tenure and reduce unrest are those that allow owners and managers to "bridge the trust deficit." The first step is communicating regularly and transparently with employees at monthly Workers Participatory Committees, where owner and top management attendance is mandatory. By law, Worker Participatory Committees and Worker Welfare Committees exist in all factories with more than 50 employees, though they are almost never permitted to negotiate actively. The right of workers to strike is outlined in articles 37 and 38 of the Bangladeshi Constitution, but union-led, reform-oriented strikes are practically non-existent as a result of legislation that bans unionization in special "export processing" zones and in whole sectors like healthcare, and prohibits strikes when they are deemed to harm "the national interest." To form social bridges between workers and management, worker committees should be formed in all factories and should serve as a frontline for airing grievances and formulating solutions. Workers must be empowered to participate collectively in evaluating their progress and have the opportunity to engage with management productively, and owners must build social capital with workers to increase trust and reduce migration.

MONEY EARNED BY FACTORIES FROM SELLING JHUT, SCRAPS LEFT OVER FROM CUTTING PATTERNS, SHOULD BE DEPOSITED IN A WORKER-WELFARE FUND.

The expansion and development of these worker committees would help address what foreign consultants have identified as a major industry gap. When Bangladeshi garment workers are asked what more they want from their job, most immediately respond "higher salary" or "more overtime." Few talk about "workplace safety." Aside from higher wages, three other basic requests are most often repeated: to be treated respectfully by their supervisors, on-time salary payment, and a decent work environment. One American consultant observes that changes in supervisors' attitudes "speaks to the lack of mutual respect between workers and management, and the damaged relationship negatively impacts skill development, productivity, firm allegiance, and the bottom line for factories."

The relationship between workers and managers must be built in lockstep with concrete investments in the physical infrastructure needed to modernize the industry and increase worker satisfaction, allowing garment manufacturing to grow sustainably into the future. In an article in Dhaka's *Financial Express*, Rubana Huq outlined in detail the costs associated with addressing three of the most fundamental development concerns: constructing adequate housing for 2,000 workers ($288 per occupant), constructing and operating schools for the children of workers ($8.40 per child per month), and training workers at custom built facilities in convenient locations ($8.75 per worker per month). Huq acknowledges that these and other critical investments, like preventing the leeching of toxic runoff from penetrating the water table and relocating many of the most unsafe factories, will take time.

The need for closer relations between workers and owners is echoed by labor activist Nazma Akter, who leads one of Dhaka's largest garment workers unions and welfare foundations. "There must be a complete change in attitude by ownership [regarding] how they think about and behave towards workers," she says, singling out a lack of education about the rights and benefits of workers under existing Bangladeshi law. "There are many protections for workers in the laws of Bangladesh, but the workers do not al-

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ways know what they are entitled to." For example, under the Bangladesh Labor Act of 2006, factories with more than 100 workers or total assets of more than $125,000 are mandated by law to create a "participation fund" and a "welfare fund" for employees, and to distribute five percent of net profits to workers each year. There are also rules guiding remuneration for maternity leave (for up to two live-born children), death, total disability, and "providence" retirement payments after 11, 15, and 25 years of employment. Some factories also have pay schemes for attendance, productivity, quality, and efficiency, though workers often neither know about nor understand them.

Given this lack of understanding among workers, it would be difficult to introduce even more complex benefits packages that improve employee retention. But there are some simpler alternatives. Huq has proposed that the money earned by factories from selling *jhut*, scraps left over from cutting patterns, should be deposited in a worker welfare fund, and that some portion of the funds should be placed in a rotating, high-interest fixed deposit account on behalf of the workers. Another idea supported by both Huq and Akter is a loyalty bonus, or additional monthly compensation that accrues over time. It is widely accepted that rates of retention rise dramatically once workers have been in a factory for more than a year, when they settle nearby, build relationships with colleagues and superiors, and become accustomed to daily life. By clearly linking a substantial bonus to employment longevity, a company can provide its workers a lump-sum payment for skills accumulation and factory loyalty.

## SUBCONTRACTING CONUNDRUM

In addition to lowering high rates of migration through investments to boost worker happiness and efficiency, major reforms are needed in the practice of sub-contracting—using the capacity of smaller, cheaper firms to do simple tasks like labeling, button sewing, or basic stitching. Bigger firms use this system to increase the number and size of orders they book while widening profit margins. Sub-contracting allows owners to avoid the expensive capital expenditure required to expand and the risk of excess capacity if international buyer demands were to wane, even momentarily. Sub-contracting has driven the development of the entire Bangladeshi garment sector into a spiral of often fraught relationships since cost savings passed upward by sub-contractors to direct-contractors often institutionalize unsafe working conditions. Both the factories in the Rana Plaza complex that collapsed and the Tazreen factory that burned down were stitching garments for international buyers like Sears, Wal-Mart, and C&A on sub-contracts from other local firms. While international buyers now formally prohibit a factory from sub-contracting, top Bangladeshi officials concede privately that the practice is understood by the biggest global brands to be widely prevalent. By officially refusing to allow factories to sub-contract, foreign buyers attempt to shield their legal liability in case of a disaster and protect their shareholders from loss, but they also perpetuate unsafe and unsustainable practices.

Bangladesh's more than 5,000 garment factories can be divided into three general tiers based on their facilities, customers, and, arguably, quality of employment. Tier 3 factories make up some 80 percent of all factories and are referred to by Akter as "modern-day sweat shops." These factories—which generally have fewer than 50 employees working on eight production lines with minimal technological innovation and low marginal efficiencies—are situated in massive, multi-use facilities that house workers, a variety of manufacturers, and shops in low-income and industrial neighborhoods of Dhaka. They most often operate as sub-contractors, booking orders from other local factories rather than international buyers or brands. Low overhead, rock bottom labor costs, and poor compliance with laws that set working hours, sick leave, and overtime and maternity leave allow these factories to operate at costs up to 25 percent lower than Tier 1 and 2 factories—and it is immediately apparent how those savings can be realized.

The first step inside a Tier 3 factory is met with a wave of damp, stagnant air and the smell of feces. In narrow aisles and stairways, garment workers carrying piles of fabric or half-made garments jostle with manual laborers with heaps of dry cement or piles of bricks balanced precariously on their heads. The ceilings of the sewing floors are low, and, despite ceiling fans, the cramped quarters and lack of external ventilation leave the air tart with body odor. When the power goes out—often unexpectedly during a rainstorm or for government load shedding—the backup generator kicks in, powering sewing machines, a few lights, and fewer fans. Walls and floors shake menacingly, a result of low-grade building materials and poor structural integrity. These tremors intensify when generators are placed on the upper floors, a common practice.

According to a working group on Ready Made Garment Industry reforms, Tier 1 and 2 garment manufacturers represent one-fifth of all Bangladeshi firms but control more than 80 percent of the sector's production capacity. These larger and more efficient factories have been constructed outside downtown Dhaka in single-purpose structures designed specifically for garment manufacturing, and employ up to 5,000 workers at a time. Both Tier 1 and Tier 2 factories have systems in place in case of emergencies and generally comply with laws regarding working age and hours. The main difference between the two groups is that while Tier 1 firms book their orders through international buying houses like Hong Kong-based Li & Fung or direct relationships with brands like Levi's, Wrangler, Tesco, GAP, Calvin Klein, Eddie Bauer, Land's End, Marks & Spencer, Wal-Mart, Target, Sears, and H&M, Tier 2 factories book only some of their capacity directly. They may also take on substantial sub-contracting assignments from Tier 1 factories unable to complete their orders on time or at cost.

The lines between the top two tiers of factories are often blurry. For example, one large composite factory with 30 production lines—an integrated facility capable of knitting, dying, washing, cutting, stitching, finishing, and packing millions of garments a year—is its company's flagship factory, housing an elegant corporate headquarters and meeting rooms for guests, buyers, and auditors. During a period of political unrest during the spring of 2012 that strained production countrywide, this factory regularly subcontracted sewing, finishing, and packing orders to nearby Tier 2 firms. Jafar, who asked that his full name not be used, fearing retaliation, is part owner and managing director of one of these sub-contractors. He also happens to be production manager of an internationally owned Tier 1 factory located a few kilometers away. He spends several hours each morning and evening looking after his own Tier 2 factory—which assembles and stitches pre-cut knit and woven items on subcontract—while spending the rest of the day overseeing direct contract orders in a Tier 1 factory that has both European and Bangladeshi flags waving in its courtyard.

In several meetings, Jafar makes clear that the facility and employment standards at his day job are far more stringent than at his own factory, because the chairmen of the Tier 1 company insist that their factory meet the requirements of the company's international customers. "If we want to do business with the big buyers, they will send auditors," explains Jafar, who laments these visits and all the bureaucracy involved, "They want to know everything, to see everything, and to do things the way they want is very expensive."

His Tier 2 factory is a five-year-old, two-story facility with 10 production lines and occupies every inch of his uncle's quarter-acre plot in an empty pasture off the main road. While practically overflowing its boundaries, the building is clean, well lit, and ventilated. The employees appeared noticeably younger than in most Tier 1 factories. The front portion of the lot is occupied by a large warehouse filled to the ceiling with towering mounds of finished t-shirts packed in bulk bags and about to be shipped to the Middle East labeled "waste." The unimpressive packaging helps Jafar avoid taxes and increase profit margins.

THIS AGREEMENT DOES NOT HOLD INTERNATIONAL MANUFACTURERS LEGALLY RESPONSBLE FOR DISASTERS THAT TAKE PLACE IN THE FIRMS THEY PATRONIZE.

Though Tier 1 and 2 factories have far fewer issues of reported safety violations than Tier 3 factories, public interest lawyers and union leaders say workers often still struggle with late or nonpayment of salaries, maternity leave, and overtime. Tazreen, the factory owned by Tuba group that burned down in November 2012 killing 112 workers, was a Tier 2 factory completing an order for 300,000 girls' shorts for Wal-Mart at the time of the fire. Wal-Mart has denied responsibility and refused to pay damages to victims and their families.

The first step toward eliminating poor working conditions in subcontracting firms is simple. International brands must acknowledge the economic necessity of subcontracting and allow firms to do so when necessary. Only then can social compliance responsibilities be transferred from firms who take orders directly from international buyers to their sub-contractors. Manufacturers that subcontract would have to report the location and nature of this activity on a regular basis and be held responsible for the working conditions in those factories. It is only by bringing the dangerous, concealed practices of subcontractors into the view of international buyers (and consumers) that the industry can begin to regulate them. One plan proposed by Huq of the Mohammadi Group stipulates that the estimated 250 Tier 1 factories in Bangladesh each take public responsibility for 20 sub-contracting firms. Tier 1 factories would patronize, monitor, and report on their subcontractors, submitting a list of names and addresses to industry regulators and their own international buyers. When a Tier 1 plant first begins a relationship with an international brand under this new scheme, they would fully disclose the sub-contractors they intend to use. Akter believes this proposal, though promising, hinges on enforcement: "If international buyers continue to insist on the lowest possible price for a garment without considering the effects of these prices on working conditions, then Tier 1 and 2 factories will continue to use the cheapest sub-contractors. International brands must first acknowledge there is a problem and commit to addressing its roots, not superficially like we've seen so far."

FACTORY OWNERS ARE EMPOWERED TO DESTROY UNIONS BY SIMPLY FIRING WORKERS WHO ARE LEADERS OR MEMBERS.

## REFORMS: TOO LITTLE TOO LATE

Following the Tazreen and Rana Plaza tragedies, reforms by international brands and the government have been quick to develop, but their relevance and effectiveness have been questioned widely by industry insiders. The first major reforms were announced in the weeks following the Rana Plaza building collapse in the form of two agreements on worker safety. The first of these documents, called the "Accord on Fire and Building Safety in Bangladesh," was developed, drafted, and signed by 73 of the largest international brands, including H&M, which is the single biggest buyer of Bangladeshi garments at over $2 billion a year. This agreement mandates inspections of 65 percent of direct contracting factories, bans those that do not comply with audits or fail to address violations immediately, and requires participating international firms to spend up to $500,000 a year on investments in safety. The agreement proposes, though does not mandate, that manufacturers should extend additional low-cost credit lines for investments in safety. Importantly, it also stipulates that the signatories can be found legally liable for damages if a disaster occurs in a firm from which they source. Though the agreement also asks manufacturers to disclose a list of sub-contractors with whom they work, it does not describe a system for verifying these records or extend inspections or legal liabilities to catastrophes in these sub-contracting firms.

The 15 major U.S. retailers who refused to sign this first accord—including Wal-Mart, Target, Sears, GAP, Nordstrom's, Macy's, J.C. Penny, and L.L. Bean—signed their own agreement, titled the "Alliance for Bangladesh Worker Safety." By insisting that 100 percent of the roughly 500 factories covered by the Alliance be inspected within the first year and by increasing the per-factory financial contribution to renovations and training up to a maximum of $1 million per manufacturer, this agreement appears marginally more aggressive than the European-based accord. However, this agreement does not hold international manufacturers legally responsible for disasters that take place in the firms they patronize and explicitly bans sub-contracting. Despite the important financial investments in safety renovations and training that these agreements will bring to the Tier 1 and 2 factories, they are unlikely to result in a substantial change in sector-wide working conditions or labor relations as they ignore the vast majority of factories, which do not deal directly with international buyers.

Reforms are needed in the laws that govern the garment industry and its constituent factories. Unfortunately, most reforms to date—like minimum wage increases in 2010 and the announcement of additional increases following Rana Plaza in 2012—have been knee-jerk reactions to overwhelming international and domestic pressure. In June 2013, the Bangladeshi Parliament passed amendments to the Labor Law that make several positive changes, like prohibiting factories from blocking exits, mandating fire drills every six months as opposed to 12 months, removing the requirement that government share the member lists of unions with employers, and lowering the required number of votes for a strike to two-thirds of members from three-quarters. However, the law still requires that more than 30 percent of a company's employees must agree to form a union for it to be recognized. In the United States, the proportion of workers needed to form a union is also 30 percent, but is calculated based on the number of employees in a single factory as opposed to an entire company. Many garment manufacturers have several small "units" located in different areas of the city and country. Facilitating communication and coordination between different individual factories perpetuates a very high bar for unionization. The new amendments also extend maternity leave for garment workers to four months from two months, but this still falls short of the six months enjoyed by public sector employees. Furthermore, unions are banned from having members who are not current employees of the factory and from hiring external advisers to help administer benefits, organize collective action, or negotiate. This empowers factory owners to destroy unions by simply firing workers who are leaders or members, and stalls the ability of a union to provide advice, support, and services to its members by starving it of external support. None of these reforms addresses the central issue of worker retention and sub-contracting, and makes more changes in the law that are detrimental to workers than beneficial

Only by addressing the core issues of worker retention and sub-contracting can the Bangladeshi garment industry—with the help of government, international buyers, and labor groups—make strides to increase efficiency, safety, worker happiness, and profits. A few basic proposals are not a roadmap to salvation, but they are concrete policies that could be put in place immediately. In time, unions should also be allowed to bargain collectively. The government should fortify its monitoring of work conditions and corruption, and manufacturers and international buyers should sacrifice short-term profits to make investments that will secure sustainable manufacturing in Bangladesh. If buyers and manufacturers do not shift their production paradigm from what Akter calls "the lowest cost at any cost," then Bangladesh's demographic dividend will have been squandered, and opportunities for millions of women to bring themselves out of poverty will be lost. ●