Capturing the Gains 2014

Improving wages and working conditions in the Bangladeshi garment sector: the role of horizontal and vertical relations

Nazneen Ahmed¹
Dev Nathan²*

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¹ Bangladesh Institute of Development Studies, Dhaka
Email: nahmed@bids.org.bd

² Institute for Human Development, New Delhi, and Duke University, US
* Corresponding author
Email: nathandev@hotmail.com

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Abstract
This paper deals with changes in wage and working conditions in the garment industry in Bangladesh. It focuses on economic upgrading of the industry brought about by functional upgrading. Such upgrading and changes in market conditions have increased firm revenues per worker. The paper then discusses the local situation related to workers’ organization and struggle, which recently resulted in increases in wages and improvements in working conditions. It deals with the impact of a high geographic concentration of workers and high growth of the industry in terms of increasing the voice of workers and forcing government and the industry to improve wages and working conditions. These improvements were the result of changes in horizontal relations within the garment global production network. The paper then looks at the role of vertical relations, between buyers and suppliers, in constraining such improvements. The paper ends with a consideration of the way in which combining vertical and horizontal relations could be brought into the tripartite industrial relations structure.

Keywords: wage, working conditions, voice, economic and social upgrading, horizontal and vertical relations

Authors

Nazneen Ahmed is Senior Fellow, Bangladesh Institute of Development Studies, Dhaka, Bangladesh.

Dev Nathan is Professor, Institute for Human Development, New Delhi, India, and Visiting Fellow, Center on Globalization, Governance and Competitiveness, Duke University, US.

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### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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</thead>
<tbody>
<tr>
<td>BEPZA</td>
<td>Bangladesh Export Processing Zone Authority</td>
</tr>
<tr>
<td>BGMEA</td>
<td>Bangladesh Garment Manufacturers and Exporters Association</td>
</tr>
<tr>
<td>BKMEA</td>
<td>Bangladesh Knitwear Manufacturers and Exporters Association</td>
</tr>
<tr>
<td>CAGR</td>
<td>Compound Annual Growth Rate</td>
</tr>
<tr>
<td>CMT</td>
<td>Cut-Make-Trim</td>
</tr>
<tr>
<td>CPD</td>
<td>Centre for Policy Dialogue</td>
</tr>
<tr>
<td>CPO</td>
<td>Chief Purchasing Officer</td>
</tr>
<tr>
<td>CPRC</td>
<td>Chronic Poverty Research Centre</td>
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<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<tr>
<td>CtG</td>
<td>Capturing the Gains</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<tr>
<td>EPZ</td>
<td>Export Promotion Zone</td>
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<tr>
<td>ESRC</td>
<td>Economic and Social Research Council</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FLSA</td>
<td>Fair Labor Standards Act</td>
</tr>
<tr>
<td>FOB</td>
<td>Free-on-Board</td>
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<tr>
<td>GATE</td>
<td>Greater Access to Trade Expansion</td>
</tr>
<tr>
<td>GNI</td>
<td>Gross National Income</td>
</tr>
<tr>
<td>GPN</td>
<td>Global Production Network</td>
</tr>
<tr>
<td>IART</td>
<td>Institute of Apparel Research &amp; Technology</td>
</tr>
<tr>
<td>ILGWF</td>
<td>International Ladies Garment Workers Federation</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MFA</td>
<td>Multi-Fiber Arrangement</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental Organization</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
</tr>
<tr>
<td>RMG</td>
<td>Readymade Garment</td>
</tr>
<tr>
<td>SCI</td>
<td>Sustainable Consumption Institute</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<td>US</td>
<td>United States</td>
</tr>
</tbody>
</table>
Introduction

In 2011, Bangladesh became the second largest garment exporter in the world, second only to China. Between 2006 and 2010, the minimum wage in the garment sector had increased by 33 percent, but in 2012 and 2013 horrific incidents of fire and building collapse took the lives of thousands of workers. Accounting for these contradictory developments is the central purpose of this paper.

During the post-MFA (Multi-Fiber Arrangement) period, from 2005 onwards, the Bangladesh readymade garment (RMG) industry grew at a rate of more than 25 percent per year. However, since the arrival on the scene of garment exports from Bangladesh in the late 1970s, and even now, Bangladesh has often been held up as an example of the ‘race to the bottom’ in the global competition for contracts and jobs (as an example, see Muhammad 2011). In the 1990s, the prevalence of child labour in the garment factories of Bangladesh was the centre of European and US campaigns against ‘sweatshops’. Even after the elimination of child labour, the country’s garment factories were still held up as examples of poor wages and working conditions. The continuing series of incidents of fire and building collapse has served only to confirm the unsafe working conditions of garment workers.

After a brief background section on the organizational structure of the Bangladeshi garment industry, this paper discusses changes in wages and working conditions. This discussion is based on a combination of primary field data collected through interviews with workers in factories, and secondary data. Interviews were conducted with workers in factories both within export promotion zones (EPZs) and outside these.

The changes in wages and working conditions are then placed within the context of upgrading of Bangladeshi firms, moving from just cut-make-trim (CMT) to free-on-board (FOB) production. This is followed by a discussion of the links between economic upgrading of firms and social upgrading of workers. The various buyer initiatives for better compliance and their impact are discussed next. Social upgrading, however, is not only a matter of buyer pressure but also, possibly more importantly, a result of workers’ struggles. After considering the role of workers’ associational power in improving wages and other working conditions, we look at the limits that vertical relations in global production networks (GPNs) place on social upgrading, arguing for the necessity of modifying vertical relations in order to extend the extent of social upgrading of workers’ conditions. This is illustrated with a historical discussion of the role of redoing of vertical relations in dealing with sweatshops in the US garment industry in the 20th century. The paper ends with a concluding section bringing together the analysis of workers’ associational power and firm agency in upgrading in GPNs.

Bangladesh garment industry: organization and structure

The garment industry in Bangladesh has two main sections – knitted garments (sweaters, T-shirts) and woven garments (shirts, trousers etc.). The industry started with woven garments, carrying out the characteristic CMT segments of work. Over time, however, knitwear has become more important in the product mix, going up from just above a 15 percent share of exports in 1992/93 to just below a 50 percent share of exports in 2011/12 (calculated from BGMEA 2013). In recent years, then, the knitwear segment has grown rapidly.

This growth could be the result of the ‘China effect’, as higher wages in China have led to the shift of some labour-intensive production segments to other countries (see Chandra et al. 2013 for a
comprehensive analysis of this phenomenon; also Frederick and Staritz 2012 for an analysis vis-à-vis garments). An important factor in the changing composition is the higher local value added in knitwear compared with wovens. With yarn now produced locally, value added is 75 percent in the case of knitwear as against 25 percent in the case of wovens (BKMEA and IaRT, 2010-2011: 4).

Overall growth of the garment industry in Bangladesh owes to a combination of three factors: early government initiatives to support the industry, trade preferences and the China effect.

Garment factories operate in two kinds of locations, those within EPZs and those outside. Initially, foreign direct investment (FDI) was allowed only within EPZs. After 2005 this restriction was withdrawn, but even after that there was not much FDI outside the EPZs (Frederick and Staritz 2012). Besides generally being larger in size, EPZ units have stricter monitoring of work conditions, undertaken by a system combining the Bangladesh Export Processing Zone Authority (BEPZA) and a system of ‘counsellors’, who carry out regular factory checks.

EPZ factories, however, comprise a relatively small proportion of total factories and employment in the garment industry. In 2012, there were 403 garment units in the EPZs, with about 323,000 workers. These comprise less than 10 percent of the total number of garment factories or employment in the industry.

In terms of the production network, garments firms can be divided into three tiers. Tier 1 firms are those that secure orders from buyers or intermediaries. They are generally the larger units, usually employing 2,000 or more workers. There are about 1,000 Tier 1 firms, accounting for some 20 percent of the total number of garment firms in the industry (Birnbaum 2013).

Tier 2 firms are medium-size units with a few hundred workers. They are sub-contracted by Tier 1 firms and are often used to fill capacity gaps or to produce specific lines. The important characteristic of these firms, however, is that most of them do not get orders directly from buyers. They are also outside the ‘compliance net’ of buyers, whose compliance audits are confined to those to whom they give direct orders. Some medium-size units do get direct orders, when the buyers are not able to complete their buying requirements from the larger units. The Tazleen factory, where a fire in November 2012 killed more than a hundred workers, was one such medium-size factory that had obtained some direct orders from a large buyer.

Tier 3 firms are those supplying inputs, various items of trim or accessories. With the growth of Bangladesh’s garment industry, suppliers of various accessories, such as zips, set up factories within the country, using the FDI route.

What is important about the structure of the garment industry in Bangladesh, particularly when compared with that in neighbouring India, is that there is not that large a layer of informal enterprises, either unregistered workshops or home-based work. There is, of course, a large unregistered, informal manufacturing sector, but it is not in the garment industry (see ILO 2013). But there is some informal garment work in Bangladesh (ICF International 2012), even if it is not as large as in India. Why does Bangladesh not have much of a small-scale and informal sector in RMG export manufacture?

There used to be small manufacturing units in the garment sector. But, as Bangladesh has specialized in large-volume supply, these small units have not been able to continue in the business. They have not grown into medium units, but have just vanished from the scene. In
addition, Bangladesh manufactures very little in terms of hand-embroidered garments. Such hand embroidery, as seen in the case of New Delhi (see Bhaskaran et al. 2010), tends to be carried out at home by women and often involves child labour. Bangladesh has some hand embroidery, for example of *nakshi katha*, for export. But this work comes under non-governmental organizations (NGOs) such as BRAC, and is a small part of Bangladeshi exports. In any case, it does not come under the supply-to-order RMG sector.

The garment industry is largely within the three tiers noted above. But ‘largely’ does not mean entirely. There is an informal sector, taking single-task orders through a sub-contracting route. And it is in this informal sector that child labour still exists, most often working along with parents and other family members, on jobs taken on contract. These contracts are used when Tier 1 suppliers are stressed on having to service large and quick orders (ICF International 2012).

In India, the substantial existence of child labour at the household level, where it is both legal and difficult to monitor, has not allowed for an elimination of child labour in the garment industry (see Bhaskaran et al. 2010). In Bangladesh, on the other hand, once child labour was eliminated at the easily monitorable factory-level, the main issue became one of handling rehabilitation. However, the continued existence of some child labour in the informal sector, linked to the formal sector by sub-contracting chains, needs to be noted.

**Wages**

The competitiveness of the RMG industry of Bangladesh rests largely on the availability of low-cost workers. The government has increased the minimum wages of RMG workers three times during the past 18 years, in 1994, 2006 and 2010 (Table 1). A minimum wage for unskilled workers was first introduced in 1994 and was set at Tk 930 ($23.25 at that time) per month. In 2006, responding to a large episode of labour unrest, which often halted production in many apparel factories, the government Minimum Wage Board increased the entry level wage to Tk 1,662 (around $24.80), as against Tk 930 in 1994. The salary levels of the upper-grade workers were also adjusted. In 2010, workers again started an agitation for higher pay, following which the Minimum Wage Board again increased the minimum wage of RMG workers, this time to Tk 3,000 ($43.40 at the then prevailing exchange rate) at the entry level, coming into effect from November 2010. But, while increasing the base or entry-level wage, the wage structure was changed to reduce the gap between workers working at different levels. This reduction of the gap between junior and senior workers, and between low-skilled and skilled workers, in turn led to another round of industrial unrest.

The recent horrific incidents of factory fire (December 2012) and building collapse (March 2013) have led to further demands for not just improvements in safety and working conditions but also wage increases. The government has responded to wage demands by agreeing to ask the Minimum Wage Board to revise the minimum wage.

It may be noted that there was a 38 percent increase in the minimum real wage of RMG workers in the four-year period between 2006 and 2010; this was much higher than the increase of just 8.8 percent in the previous 12-year period (between 1994 and 2006).

In order to assess the extent of the wage increase and its impact, a survey of workers and management personnel in both EPZ and non-EPZ factories was conducted using semi-structured questionnaires. In the case of EPZ factories, 36 workers of various levels and two management personnel of two RMG factories in the Dhaka EPZ were interviewed. In the case of outside-EPZ
factories, 75 workers engaged at various levels in different RMG factories outside the EPZ were interviewed. The managers of 16 RMG enterprises were also interviewed, in order to understand their attempts to cope with the wage increase.¹ Both male and female workers were interviewed. The sample is admittedly small, but the purpose of the sample study was to understand some details of the changes in wages. The main argument of this paper is based on the increases of minimum wage, where the data are unambiguous.

### Table 1: Inflation-adjusted minimum wage

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual minimum wage rate per month (Tk)</th>
<th>Inflation-adjusted wage rate that would keep the real wage at the previous level</th>
<th>Increase in real wages (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>930</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>1,662.5</td>
<td>1,526.9</td>
<td>8.8</td>
</tr>
<tr>
<td>2010</td>
<td>3,000</td>
<td>2,242.6</td>
<td>38.3</td>
</tr>
</tbody>
</table>

*Note:* Inflation-adjusted wage rates have been calculated by adding each year’s average inflation rate with the previous year’s value.

*Source:* Own calculations for columns 3 and 4 based on minimum wage rate.

The two EPZ factories surveyed are woven RMG factories with an annual turnover of $23.6 million and $10 million (in 2010), respectively; each has more than 2,000 workers. The non-EPZ factories surveyed are smaller than the EPZ factories. Out of the 16 surveyed non-EPZ factories, 7 are woven product factories and 9 are knitwear factories. Of these, 15 are individually owned; the remaining factory has more than one owner. The average yearly turnover of these factories in 2011 was Tk 100 million (around $1.25 million). The main products of these factories are T-shirts, followed by pants and different woven products. On average, these factories have 1,200 workers, with 61 percent of them women. The participation of women workers in the sample factories was lower than the widely accepted national average of 70 to 80 percent women in the industry. In the current case, the reason for a lower proportion of women workers may be the dominance of knitted RMG products in the sample, which are predominantly manufactured by men.

In terms of implementation of the increase in minimum wages, no significant difference was found between the EPZ and non-EPZ factories.² All surveyed workers said they had received higher salaries since November 2010, but the increase was not given all at once. The wage was gradually increased over a period of two to three months. Table 2 presents details of the actual salaries workers of various grades received. It is interesting to note that, although workers received higher salaries, many of them were not aware that this owed to government intervention. For instance, half of the Grade 7 workers were not aware of this government intervention. Grade 7 workers are beginning workers, most likely to be fresh migrants from rural areas.

¹ Whereas workers were chosen randomly from factories in Gazipur and Dhaka districts, factory managers were chosen randomly from factories in Dhaka and Tangail.

² Moreover, many comparisons could not be made between EPZ and non-EPZ factories as the survey of EPZ factories was conducted during the preliminary phase of this study by administering a limited questionnaire.
Table 2: Breakdown of the monthly salary received by workers

<table>
<thead>
<tr>
<th>Grade</th>
<th>Basic pay</th>
<th>House rent</th>
<th>Transport allowance</th>
<th>Medical allowance</th>
<th>Other regular benefits</th>
<th>Total salary (without overtime)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7,862.50</td>
<td>3,595.00</td>
<td>500.00</td>
<td>200.00</td>
<td>1,742.00</td>
<td>15,024.50</td>
</tr>
<tr>
<td>2</td>
<td>6,170.00</td>
<td>2,448.00</td>
<td>500.00</td>
<td>200.00</td>
<td>1,236.00</td>
<td>10,574.00</td>
</tr>
<tr>
<td>3</td>
<td>4,150.42</td>
<td>1,576.83</td>
<td>500.00</td>
<td>200.00</td>
<td>1,185.17</td>
<td>7,695.75</td>
</tr>
<tr>
<td>4</td>
<td>2,780.00</td>
<td>1,112.00</td>
<td>500.00</td>
<td>200.00</td>
<td>1,156.00</td>
<td>5,748.00</td>
</tr>
<tr>
<td>5</td>
<td>2,362.50</td>
<td>945.00</td>
<td>500.00</td>
<td>200.00</td>
<td>1,095.83</td>
<td>5,103.33</td>
</tr>
<tr>
<td>6</td>
<td>2,270.83</td>
<td>908.33</td>
<td>500.00</td>
<td>200.00</td>
<td>1,151.67</td>
<td>5,030.83</td>
</tr>
<tr>
<td>7</td>
<td>2,018.18</td>
<td>807.27</td>
<td>500.00</td>
<td>200.00</td>
<td>928.18</td>
<td>4,430.91</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

In addition to their regular salaries, workers also receive overtime payment, details of which are presented in Table 3.

Table 3: Monthly overtime and total income of workers of different grades

<table>
<thead>
<tr>
<th>Grade</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Mean</th>
<th>Regular wage</th>
<th>Total wages (Tk)</th>
<th>Total wages ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5,000</td>
<td>3,600</td>
<td>4,494</td>
<td>15,024.50</td>
<td>19,528.50</td>
<td>250</td>
</tr>
<tr>
<td>2</td>
<td>3,200</td>
<td>1,550</td>
<td>2,930</td>
<td>10,574.00</td>
<td>13,504.00</td>
<td>173</td>
</tr>
<tr>
<td>3</td>
<td>2,350</td>
<td>1,500</td>
<td>2,058</td>
<td>7,695.75</td>
<td>9,753.75</td>
<td>125</td>
</tr>
<tr>
<td>4</td>
<td>1,425</td>
<td>1,350</td>
<td>1,390</td>
<td>5,748.00</td>
<td>7,138.00</td>
<td>92</td>
</tr>
<tr>
<td>5</td>
<td>1,250</td>
<td>1,100</td>
<td>1,181</td>
<td>5,103.33</td>
<td>6,284.33</td>
<td>81</td>
</tr>
<tr>
<td>6</td>
<td>1,150</td>
<td>1,100</td>
<td>1,133</td>
<td>5,030.83</td>
<td>6,163.83</td>
<td>79</td>
</tr>
<tr>
<td>7</td>
<td>1,100</td>
<td>1,000</td>
<td>1,009</td>
<td>4,430.91</td>
<td>5,439.91</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

Note: Takas have been converted to US dollars at the current (May 2013) rate of Tk 78 = $1.

Total wages (regular wage plus mean overtime payments) range from $70 for entry-level workers to $250 at the highest worker level. This should be compared with Bangladesh’s 2008-2012 gross national income (GNI) of $65 per month (calculated from World Development Indicators 2013). The lowest rung of garment workers is just above the average per capita income for the country. With a purchasing power parity (PPP) conversion factor of 0.4 (see World Bank 2013), this gives a monthly income at the entry level of $175 PPP per month, or $5.80 per day.

A large survey of 1,200 workers conducted by Awaj, a workers’ organization, in March to April 2013, estimated a total wage, including overtime, of Tk 6,300 for woman sewing machine operators with two to five years’ experience (Awaj et al. 2013: 40). This would place the worker in Grade 6 or 5, for which our survey gave a wage, including overtime, between Tk 6,163 and 6,284. There is thus a correspondence between the findings of the two surveys.

The workers were initially happy with the new wage but there was dissatisfaction among them as regards the annual increment. Previously, returning workers used to enjoy an annual increment of 10 percent over the total wage, not including overtime. After the new wage fixation, however, the annual increment was tied to basic pay only, that is, not including medical and other allowances. Some workers feel that, if they were to get an annual increment in accordance with the previous rule, then they would have benefited even without an increase in their basic wage.

All surveyed workers agreed that the increased wage had helped them improve their lifestyle, especially in terms of providing them with better food and better clothing, as well as facilitating repayment of loans for those who had taken these out. Some were also able to send more money to their family members back in the village. However, they noted that the increase in salary was still
not enough to allow them to save regularly in the long run. In general, they felt the change in wages was not very substantial.

Working conditions

Working conditions have a number of aspects. These include the space provided for workers, whether adequate or cramped; lighting; provision of toilets; and safety equipment and materials, such as first aid boxes. The poor working conditions of workers have been underscored by the recent (March 2013) building collapse (Rana Plaza) and outbreaks of fire, including at the Tazleen factory in December 2012 (Miller 2012). The various buyer compliance norms that have been instituted basically include working conditions on the shop floor and do not go into the observance or otherwise of building codes. There is, in general, however, large-scale violation of building norms in Bangladesh, and garment factories are no exception. Meanwhile, the high density of workers in RMG factories means violations of building regulations are likely to have very high fatality rates, with the Rana Plaza collapse ranking as one of the largest industrial disasters in the world in terms of deaths.

A number of agencies monitor observance of compliance norms. In the EPZs, there is a system of ‘councillors’ who report on compliance with norms. Outside the EPZs, where the bulk of the factories are located, NGOs are often engaged in carrying out audits on behalf of buyers on the issue of compliance.

Are there any sanctions in the case of violation of norms? In the EPZs, three consecutive monthly reports of non-compliance can lead to the cancellation of the import–export licences of a factory. Obviously, factories in the EPZs are keen that they should not lose their licence, as that would put them out of business. But others who get direct orders are also under pressure to be compliant. One of the suppliers, in fact, openly stated, ‘Things are changing and if I do not comply, I cannot get the orders’ (McKinsey & Company 2011: 13).

Can compliance reports be bought? There is no reason to believe this cannot happen. But, both experts on corporate social responsibility (CSR) and buyers generally report an improvement in compliance. More than 90 percent of the chief purchasing officers (CPOs) of international buyers whom McKinsey interviewed reported an improvement in compliance standards, with 26 percent of them stating that the level of compliance had improved significantly during the five-year period before 2011 (McKinsey & Company 2011: 12). However, the CPOs also pointed out that there was a high degree of variance in the compliance standards among suppliers. Out of 5,000 suppliers, just about 50 100 are thought to have attained very high standards of compliance (ibid.: 13).

For those who have been studying or observing garment factories in Bangladesh over the past two decades, however, there is little doubt about the noticeable and general improvement in standards, although serious issues of violations of building and safety laws do still remain to be addressed.

But there is a critical lacuna in the monitoring of working conditions: the difference between Tier 1 and Tier 2 firms. The former are the firms that get direct orders from buyers. They generally tend to belong to the group of compliant firms. The Tier 2 firms, however, secure sub-contracted orders from Tier 1 firms and obviously get a smaller margin than that offered by buyers’ purchase prices. The Tier 2 firms are also smaller in size, with from about a few hundred to about a thousand workers. They are usually not subject to compliance audits and are generally understood to have
poorer working conditions. They are often located in residential areas and workers carry on their work in very cramped spaces.

Other studies have reported a difference between directly contracted and sub-contracted firms. In a CPD (Centre for Policy Dialogue) GATE (Greater Access to Trade Expansion) survey in 2008, 16.7 percent of workers in sub-contracting firms reported accidents resulting from poor electrical systems, and also that all sub-contracting firms locked emergency exits (Khatun et al. 2008: 43); EPZ factory workers reported no such accidents and 4.5 percent of workers in non-EPZ directly contracting firms reported such accidents.

Another study, this one of 10 garment factories in Bangladesh, 5 compliant and 5 non-compliant, found that the compliant factories were those with direct orders from international buyers, whereas the non-compliant factories worked on sub-contracts. Compliant factories received ‘direct orders from reputed buyer and also better product price from the buyer’ (Baral 2010 129). In addition, the compliant factories were about three times as large as the non-compliant factories. The former had a turnover of just below $1 million, whereas the latter had only around $300,000.

Two tentative statements can be made about Tier 2 firms. First is that they consist of the bulk of the non-compliant firms; second, they are the ones that have been involved in the recent fire and building collapse incidents. The Rana Plaza had a few thousand workers in it, but they were divided among a number of firms with a few hundred to a thousand workers each. These fall in the category of medium-size firms. We put this statement in a preliminary manner, but it needs further investigation – whether the killer violations of building safety norms are concentrated in the Tier 2, non-compliant factories.

Of course, since the Tier 2 firms act as sub-contractors to Tier 1 firms, particularly taking up the slack when there is a seasonal rush, there is a responsibility that extends down from the buyers through to Tier 2 firms. In mentioning such responsibility one should not omit the government, which has the main responsibility in terms of seeing building norms are not violated. However, concerned that such regulation would increase costs and could reduce competitiveness, the government, as stated by the Bangladesh Commerce Minister, admitted that oversight had been lax because they wanted the jobs (Dattta 2013: 13).

**Economic upgrading**

Supplier firms in developing countries do not merely take and stick to orders from lead firms. Even in the initial MFA quota-hopping investments by South Korean firms, such as in the Desh–Daewoo investment, there was substantial capability development through both capital import and training (Rhee 1990). As the title of Rhee’s paper suggests, those trained by Daewoo acted as catalysts for developing local capabilities.

The issue that needs to be analysed post-1990 is whether capability building ended with these first investments, and whether CMT firms in Bangladesh remained within the bounds of CMT activities. In the terms being used by Capturing the Gains (CtG), the question that needs to be considered is: What happened to economic upgrading within the garment GPN? This is the vertical dimension of the GPN relationship (see Coe and Hess 2012; Neilson and Pritchard 2009). Here, it is important to move beyond a static division of labour analysis to a dynamic analysis of the economic upgrading strategies of firms in developing countries within a GPN framework.
While moving beyond a static and fixed division of labour analysis, it is also necessary to take into account buyer strategies and the manner in which they change. For instance, do buyers tend to develop longer-term relationships with suppliers? Or, are they entirely footloose in awarding annual or even seasonal contracts?

An increase in wages and improvements in working conditions both require some commitment of finance. If profit rates are to be maintained, there must be some increase in revenues per employee. Economic upgrading resulting in an increase in revenue per employee is a favourable condition for social upgrading in the form of an increase in workers’ wages. In the 12 non-EPZ factories covered in the survey, revenues per employee increased by 33 percent in 2010 before the minimum wage increase. The managers of firms reported that revenues increased because of not only higher volumes but also higher prices for the products supplied, as Table 4 shows.

**Table 4: Unit prices of selected products produced in the surveyed factories**

<table>
<thead>
<tr>
<th>Product</th>
<th>Average $ price per unit</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby wear</td>
<td>2.50 2.40 2.67</td>
<td>6.8</td>
</tr>
<tr>
<td>Full shirt</td>
<td>9.50 10.00 10.50</td>
<td>10.5</td>
</tr>
<tr>
<td>Half shirt</td>
<td>8.00 8.50 9.50</td>
<td>18.8</td>
</tr>
<tr>
<td>Jogging top</td>
<td>10.00 11.00 12.50</td>
<td>25.0</td>
</tr>
<tr>
<td>Jogging pants</td>
<td>2.45 2.75 2.33</td>
<td>-5.0</td>
</tr>
<tr>
<td>Sweater</td>
<td>4.00 4.50 5.00</td>
<td>25.0</td>
</tr>
<tr>
<td>T-shirt</td>
<td>4.50 5.40 5.86</td>
<td>30.2</td>
</tr>
</tbody>
</table>

**Source:** Survey findings.

With garments such as shirts, T-shirts and sweaters dominating the product mix of the 12 surveyed factories, the price increase over the three years ranged from 10.5 percent in 2009 to 30.2 percent in 2011. The increase in unit value, however, did not occur only in the surveyed factories. In the case of garment exports from Bangladesh as a whole too, there was an increase in the unit value, both during the two-decade period of 1990-2009 and even over the more contemporary period of 2000-2009. The increase in unit value over the period 1990-2009 at 16.86 percent (Bernhardt and Milberg 2011: Table 5, p.23) was not very large. However, to put it in a comparative international perspective, the increase in the unit value of garment exports for Bangladesh (16.86 percent) was higher than for either India (10.96 percent) or China (13.25 percent); the unit export value of Vietnam almost stagnated, with a minimal 1.35 percent growth (ibid.).

This increase in the unit value of exports in Bangladesh took place in conjunction with a change in the composition of garment exports – away from woven garments towards knitted garments. These figures are clear indicators of economic upgrading of the garment industry in Bangladesh.

Another indicator of economic upgrading is the increase in garment export earnings per worker, which is a rough measure of productivity. Productivity per worker is important in that it indicates the possibility of increasing wages. If export earnings are taken as a measure of industry revenue, per worker export earnings increased by 75.5 percent, from $2,718.38 in 1999/00 to $4,772.42 in 2011/12 (Table 5).
Table 5: Garment export earnings per worker

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of workers (millions)</th>
<th>Export earnings ($ million)</th>
<th>Export earnings per worker ($)</th>
<th>Increase in export earnings per worker (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999/00</td>
<td>1.6</td>
<td>4349.41</td>
<td>2718.38</td>
<td></td>
</tr>
<tr>
<td>2009/10</td>
<td>3.6</td>
<td>16204.65</td>
<td>4501.29</td>
<td>65.5</td>
</tr>
<tr>
<td>2011/12</td>
<td>4.0</td>
<td>19,089.69</td>
<td>4772.42</td>
<td>6.0</td>
</tr>
<tr>
<td>Increase 1999/00-2011/12</td>
<td></td>
<td></td>
<td></td>
<td>75.5</td>
</tr>
</tbody>
</table>

Source: Calculated from BGMEA (2012/13).

There are, thus, clear indications of economic upgrading by the Bangladeshi garment export industry. How did this come about? The increase in export earnings per worker does not itself tell us what brought about this change. It could have been the result of either higher price realization or higher productivity per worker with a stagnant or even lower price realization. However, the increase in export earnings per worker means there has been a reduction in costs, which could have been brought about by economizing on logistics and related non-manufacturing costs (functional upgrading) or a reduction in the manufacturing costs themselves (process upgrading). Further research would be needed to identify the factors that led to economic upgrading.

Bangladesh works largely in the CMT segment. On the whole, this segment does not require very skilled labour. Most workers engaged in CMT work have to be just literate enough to be able to read letters and numbers. Management requirements are also not very complex. There are capital costs, but the capability requirements to operate in the CMT segment are not very substantial. Consequently, the pure CMT segment of garment manufacture would not get a price above the competitive market price. For that, it would be necessary to take up functional upgrading and move into work segments that require more skills to perform.

Quite early on, suppliers in Bangladesh had acquired sample preparation and re-engineering skills. There is also clearly enhanced capability in supply chain management, seen in the increase of direct orders vs. orders through intermediaries. During earlier decades, a large portion of the orders used to be sourced through intermediaries, who undertook overall supply chain management. Now, however, the prevalent trend is mainly that of direct sourcing by buyers, which means suppliers undertake the acquisition of the necessary fabric and overall supply chain management. The McKinsey & Company (2011) report estimates that 72 percent of the European and US buyers in Bangladesh source their products directly; this fact is endorsed by the 66 percent of suppliers who stated that they focused on working directly with international buyers. The CPD study (Khatun et al. 2008) reported that direct sales had increased between 2001 and 2005 – from 45 percent to 76.7 percent in EPZ firms and from 24.3 percent to 56.8 percent in non-EPZ firms. At the same time, the average stock of machinery in surveyed units increased by 100 percent in EPZ firms and about 50 percent in non-EPZ firms over the same period (ibid.: 37-38). The rise in the proportion of direct sales and the increase in average stock of machinery are both indicative of upgrading by RMG firms.

The high degree of direct sourcing is an indicator of improved supply chain management capabilities, advancing from CMT functions to what has been called FOB functions (Frederick and Staritz 2012). Direct sale is likely to result in higher prices and returns than sales through intermediaries, wherein the intermediaries would keep their own profit on the supply price.

Two other factors have enabled some suppliers to improve their bargaining position: the development of ‘preferred supplier’ arrangements and of new markets other than in the US and European Union (EU). Bangladesh has acquired a reputation for supplying good-quality and large
orders for lower- to middle-end markets. Over time, a number of buyers have entered into ‘preferred supplier’ arrangements, wherein they work with suppliers to improve quality, productivity and compliance with labour standards. These developments indicate that relations between suppliers and buyers are not so footloose. Somewhat sticky buyer–supplier relations are prompted by the transaction cost involved in setting up new suppliers. Thus, provided a supplier is of reasonable quality, a buyer might prefer to work over a period of time with ‘preferred suppliers’. In fact, 84 percent of CPOs interviewed by McKinsey described their supplier relationships as ‘long-term’ (McKinsey & Company 2011: 13).

A long-term relationship with buyers is likely to yield somewhat higher returns for suppliers than a short-term relationship. In turn, gaining confidence from continuing orders, suppliers could invest in machinery and equipment that would further increase their productivity and improve quality. This point is reinforced by the fact that 85 percent of CPOs interviewed in the McKinsey survey expected suppliers to upgrade their outputs into more sophisticated products, which would be possible only if acquiring orders fostered increasing confidence among them.

In addition to the confidence emanating from long-term relationships with buyers, another factor that has helped improve the bargaining positions of Bangladeshi suppliers is the growth of new markets, that is, markets other than the traditional North Atlantic markets. Exports to the Japanese market from Bangladesh have been rising very fast during the past few years. This indicates that RMG manufacturers in the latter country have succeeded in producing high-end and high-quality products. The interest of Japanese buyers in the RMG products of Bangladesh has immense implications for economic and social upgrading in supplying factories. In order to ensure quality, Japanese buyers usually bring a total package, specifying not only design and materials but also the technologies to be used, to their sourcing countries. Thus, Japanese buyers have set up local offices to monitor quality at the production stage and to ensure the use of the right technology. They also invest in the skills development of workers.

In addition, discussions with suppliers revealed that sweater makers deliberately sought out markets in the southern hemisphere, such as Brazil and South Africa. Their different winters would help sweater makers spread the process of sweater making over the year, thereby reducing the pressure to seasonally lay off workers or reduce wages, which has often been an occasion for worker protests.

The growth of new markets is accounted for not only from the southern hemisphere but also from other emerging economies such as China and India. For instance, the Indian denim maker, Arvind, announced that it would set up a large-scale garment factory in Bangladesh, in collaboration with a Bangladeshi company. Overall, garment exports to the emerging markets had a compound annual growth rate (CAGR) of 56 percent during 2008-2010 (McKinsey & Company 2011: 9).

The growth of these alternate markets has strengthened the bargaining position of sellers. The McKinsey report went so far as to talk of a transition from a buyers’ to a suppliers’ market. It pointed out, ‘The most developed suppliers have even begun choosing their customers very carefully—at times, even breaking off ties with long-established buying partners in order to upgrade their customer base’ (McKinsey & Company 2011: 19). The growth of supplier capabilities, of long-term relationships with buyers and of new markets all point to the strengthening of the bargaining position of Bangladeshi suppliers vis-à-vis buyers.
From economic to social upgrading

Contrary to the usual prognostications of local capitalists or the owners of CMT firms, an increase in wages and an improvement in working conditions need not result in the much-feared loss of international competitiveness. To put it in another way, there is scope for reworking wage and working conditions even within the bottom-of-the-ladder CMT factories. As seen in this paper, there has been a substantial increase in the wages of garment workers and an improvement in their working conditions. These still do not amount to what the International Labour Organization (ILO) terms ‘Decent Work’, and the minimum wage in Bangladesh is not yet a living, family wage, but there can be no doubt that these are ‘Better Work’ conditions. Further, this has been done without any seeming loss of competitiveness, as the Bangladesh CMT industry keeps growing. Even after the increases, the Bangladesh minimum wage is less than half that in competing countries – $39 per month against $80 in Cambodia, $71 in India, $79 in Pakistan and $78 in Vietnam (ILO 2013).

Before proceeding, we should discuss what better work and its dimensions mean. Better work relates to two types of movements. First is the movement from being unpaid, and usually unacknowledged in the case of women, family labour to being waged income earners. There is also the intermediate category of the self-employed, such as those who take microcredit loans and run tiny businesses. In either case, there is a big difference between the minimum wage earned by a starting garment worker and what she could get in the village. In the case of self-employed, microcredit-based work, the difference could be at least 100 percent higher income (Rehman and Islam 2012). In addition to the wage earned, substantial benefits in terms of self-esteem and social respect come from being a garment worker, as discussed in a considerable literature on women garment workers in Bangladesh (Danneker 2000; Kabeer 2000). The creation of more than 4 million jobs in the industry has been an important factor in the decline in the incidence of poverty in Bangladesh from just below 50 percent in 2000 to around 31.5 percent in 2010 (ILO 2013).

The above type of social upgrading, particularly for young women migrating from rural areas, owes to the very creation of garment jobs in the country. The second type of better work movement relates to the wage increase and improvement in working conditions for those who are already wage employees in the industry. This is the social upgrading that we connect with the possibilities created by economic upgrading and thus higher net revenues of garment firms in the country.

What are the factors that have translated economic into social upgrading? An increase in wages and an improvement in working conditions are not things that come about automatically, as CtG research took as its very starting premise. It requires certain conditions of worker agency, possibly both local and international, and government intervention, coupled with GPN-style corporate governance, to bring about such improvements. These are, in a sense, the locally embedded conditions or horizontal relations (Nielsen and Pritchard 2009) that come into play during the course of transformation of economic upgrading by developing country firms into the social upgrading of workers’ conditions.

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3 Decent Work includes the following: employment opportunities; adequate earnings and productive work; decent working time; combining work, family and personal life; work that should be abolished; stability and security of work; equal opportunity and treatment in employment; safe work environment; social security; and social dialogue, employers’ and workers’ representation (ILO 2012: 15).
Of additional interest here is the implication of the observed transformations of wage and working conditions for female workers, who are employed for their supposed docility (Danneker 2000). But there has been a transformations of these workers in the course of their over two-decade long involvement in production for global markets. As one observer wrote, ‘the women workers became a new social force in the labour movement […] though RMG workers do not have trade union rights, they have created the strongest workers’ mobilization in recent years in Bangladesh’ (Muhammad 2011: 26). Right in 1999 it was pointed out that ‘concentration on the actual exploitation has left hardly any room for the analysis of the modes of resistance and networking as strategies of women workers to cope with and reshape the ongoing changes’ (Danneker 1999: 2).

Does the geographic concentration of around 4 million workers, of whom 70 percent are women, largely in two clusters (in and around the capital city of Dhaka and the port city of Chittagong) have almost inevitable consequences for worker organizations and their struggle? This question concerns both women and workers as such.

**Worker struggles**

An important factor in a key part of social upgrading, that is, an increase in minimum wages, has been the growth of worker struggles in the garment industry. Such struggles not only create problems of public order but also could adversely affect the country’s main export earner. For these reasons, the struggles of garment workers prompt political responses by the government of the day. As noted by the ILO, wage increases in the garment industry have usually followed ‘mass protests and strikes that disrupt the industry’ (ILO 2013: 9).

The more than 4 million workers in garment factories are mainly situated around two centres, Dhaka and Chittagong. Such large geographic concentrations of workers also have consequences for worker organizing and struggle.

In the 1980s or early 1990s, the condition of being a garment worker was a novelty. In addition, given the fact that this was the one sector of modern industrial work that women could enter as independent income earners, garment work was, for some, a prized job, despite the low wages and poor working conditions. However, over a period of more than two decades, such jobs for women have become routine on the Bangladesh labour scene.

Further, the rapid growth of the industry has meant it is relatively easy for a worker to quit a job she does not like and shift to a job in another factory. The exit possibility is shown by the attrition rate, or the rate at which individual factories lose and have to replace workers. McKinsey & Company (2011: 15) estimates the attrition rate of workers at more than 5 percent; Impactt (2012) puts it at around 12 percent. The ability to switch jobs reduces the pressure to remain quiet about the negative aspects in any job, or, to put it in a positive manner in Hirschmannian terms, the possibility of exit gives more scope for voice. This indicates a difference from the earlier situation, characterized as one wherein there was no possibility of workers having a voice (Ahmed 2004).

The growing voice of garment workers, including women, who comprise 70 percent of the total workforce, is now seen in the numerous instances of worker struggle against low wages and poor working conditions. The past decade has seen numerous instances of ‘wildcat’ or unannounced strikes. Starting as flashpoints for airing grievances in a particular factory, these strikes often spill over into many factories in the area. For instance, on 23 September 2007, a strike in the Tejgaon...
region involved many factories and about 25,000 workers. This is just one example, and there are many other similar instances of problems originating in one factory and then spreading to the entire area. More recently, in September 2013, there was another round of strikes around Dhaka. These frequent strikes by women workers have led to a change in the characterization of women garment workers, as seen in statements such as ‘sudden outburst of mostly docile garment workers for higher wages’ (*The News Today* 2012).

Although there are trade unions, many strikes are not led by these. Again, while women do not dominate the leadership of these unions, there are also separate organizations of women garment workers. Many advocacy groups propagating women’s rights are active among garment workers. Overall, there is a multiplicity of organizations in the RMG sector. But many strikes and related struggles are of the unorganized variety.

In addition, the struggle by Bangladesh garment workers to improve their working and wage conditions has gained considerable international support. The International Garment and Leather Workers’ Federation (now part of IndustriAll), of which the late Neil Kearney was General Secretary, was prominent in securing international support for the struggles of Bangladeshi garment workers.

The importance of garment workers in terms of their numbers and their presence on the social landscape of Bangladesh has made them a force to reckon with, and governments are compelled to respond to their needs and demands. These struggles and the response of various governments at the national level have been key factors in the social upgrading that has followed economic upgrading in the Bangladesh garment industry.

But their successes have been limited. Even in life-threatening matters, workers’ voices are scarcely heard. For instance, in the Rana building collapse, workers reported the cracks but were forced to come back to work the next day, which is when the building collapsed. It is instructive to note that in the same building there was a bank branch, which was closed on the day of the crash because of the cracks seen the day before. Bank staff could get their branch closed, but garment factory workers could not.

In the wake of the Rana disaster, the government announced it would make registration of unions easier. Lists of workers wishing to form a union will no longer be submitted to the management for ‘checking’, which used to lead to intimidation. While workers’ councils could in some manner function at the factory level, a wide unionization is necessary to carry forward the movement to establish workers’ voices. This could also see a shift from the persistent pattern of wildcat strikes to more orderly protests and negotiations, or mature industrial relations (Miller 2013).

Workers’ struggles, however, have not been the only type of pressure for social upgrading. Buyers, under pressure from civil society organizations and trade unions in their own countries, have also put pressure on suppliers to improve labour standards.

**Buyers’ pressures for compliance**

The dominant buyers of RMG products of Bangladesh include Wal-Mart, H&M, Marks and Spencer, Sears Holdings Global Sourcing Ltd., JC Penney, Tesco International and Nike Inc.,

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among others. Some of these buyers have initiated special programmes in their source factories to ensure labour compliance, freedom of association and skills development. Such initiatives are visible in both EPZ and non-EPZ factories. It needs to be mentioned here that all the RMG factories of Bangladesh are free from child labour. This is also an outcome of pressure exerted by the buyers in the mid-1990s.

The main instrument for checking on compliance is an audit. Large buyers’ offices carry out their own audits. Smaller buyers tend to engage a local company for the purpose. In any case, most of the staff who carry out the audits are Bangladeshi. The audit checks on matters like prevalence of child labour have worked well at the factory level, but they have not extended their reach into the relatively small informal sector (ICF International 2012).

Other audits deal with whether workers have contracts and are paid overtime, and the observance of some health and safety precautions, such as whether there are first aid boxes and toilets. These are spot-checks that are not usually random. This makes it easy for factories to arrange nominal compliance with these conditions and then withdraw it after the auditors leave.

More important, however, is that audits are in general perfunctory, taking account only of the easily observable. Fire precautions are not something such audits might uncover; nor is whether factories conform to building regulations. Of course, it can be argued that conforming to building regulations is a responsibility of government. However, given the high level of corruption in Bangladesh, large numbers of factory buildings do not conform to Bangladesh building norms. Even the headquarters of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) was declared by the High Court to be an illegal construction and ordered to be demolished.

While the Bangladeshi government surely has the main responsibility for ensuring factory buildings conform to norms, any such measure to improve building standards will involve costs. In the aftermath of the Rana Plaza disaster, a number of international buyers have come forward to put up some money for building improvements. This is a one-off commitment that could be made regular by setting up a quadripartite mechanism for industrial relations in GPNs.

Compliance by factory owners is probably not voluntary but has become a condition of business. However, at the same time, there is little doubt that compliance with labour standards has improved since the early days of the 1980s. But building norms and related safety standards have been neglected in the rush to increase capacity. As the ILO notes, ‘In response to a surge in demand for read-made garments from foreign companies, suppliers in Bangladesh have established factories and manufacturing sites without following building and safety codes and the Government of Bangladesh has not provided adequate regulatory oversight and enforcement’ (2013: 1-2).

**Limits of social upgrading without redoing vertical relations**

The advancement of workers’ representation and organizations of different types, whether unions or forms of NGOs, including global unions and international NGOs, is important for the development of workers’ voice. Workers’ organizations deal with direct employers and the government, which often supports the employers, in trying to secure improvements in wages and working conditions. These are, as one might put, it horizontal relations within a GPN, relations...
between suppliers or direct employers, workers and government. But the possibility of bargaining within horizontal relations is constrained by the outcome of relations between buyers and suppliers, or vertical relations within a GPN.

We look at vertical GPN relations in the Bangladeshi garment industry though Tables 6 and 7, utilizing data from Doug Miller (2013) and Khatun et al. (2008).

### Table 6: Summary of vertical and horizontal relations in the garment GPN, Bangladesh

<table>
<thead>
<tr>
<th>Garment style</th>
<th>Retail price ($)</th>
<th>FOB ($)</th>
<th>FOB as % of retail</th>
<th>Labour cost at living wage as % of FOB</th>
<th>Labour cost at living wage as % of retail price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men’s polo</td>
<td>23.00</td>
<td>2.50</td>
<td>10.86%</td>
<td>3.6-10.8%</td>
<td>1-3%</td>
</tr>
<tr>
<td>Men’s formal shirt</td>
<td>36.00</td>
<td>4.10</td>
<td>11.38%</td>
<td>3-9%</td>
<td>0.3-1%</td>
</tr>
<tr>
<td>Men’s 5-pocket jeans</td>
<td>22.50</td>
<td>5.50</td>
<td>24.44%</td>
<td>6.5-19.5%</td>
<td>1-3%</td>
</tr>
</tbody>
</table>

Source: Adapted from Miller (2013: Table 4).

Notes:
1. The price data are for 2006.
2. Living wage has been taken as Tk 5,000, as against the then-existing minimum wage of Tk 1,662 in 2006.
3. In columns 5 and 6, the first figure is for production at 100 percent efficiency, while the second figure is for production at 35 percent efficiency.

FOB prices as a proportion of retail prices varied from 11 percent to 24 percent for different types of garments. Bangladesh’s main exports are at the lower end, so FOB prices would tend to be around 11 percent of retail prices. This low ratio of FOB to retail prices certainly raises a question about the high margins earned by buyers and retailers: 75 percent to 88 percent of retail prices cannot be deemed to be normal design, branding and marketing costs, along with normal profits. The buyers earn a rent from wage arbitrage, which is the difference in wages in destination and manufacturing countries.

At the same time, labour cost as a proportion of FOB price is also low, ranging from about 3 percent to less than 20 percent, even at full efficiency. The costs of material inputs have not been separately calculated here, but a CPD calculation (Khatun et al. 2008) gives a margin profit margin of 6 to 7 percent, which is not very high. Given the competitive nature of the suppliers’ market, this relatively low margin is not unexpected.

### Table 7: Distribution of costs and profit margin (% per factory)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2004</th>
<th>2005</th>
<th>1992 (ISS Study)</th>
<th>1995 (BIDS Study)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial costs</td>
<td>77.0</td>
<td>77.4</td>
<td>73.0</td>
<td>64.0</td>
</tr>
<tr>
<td>Non-industrial costs</td>
<td>3.7</td>
<td>4.44</td>
<td>3.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Wage bill</td>
<td>12.3</td>
<td>11.9</td>
<td>11.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Profit margin</td>
<td>7.0</td>
<td>6.2</td>
<td>13.0</td>
<td>24.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Khatun et al. (2008, Table 21, p.41).
What the above shows are the relatively low margins of Bangladeshi suppliers. In addition, there are problems created by short-term contracts and short delivery times. Short-term contracts inhibit investments by suppliers in increasing capacity. Rather, they encourage forced overtime and other negative labour practices.

Wages are not a large part of costs, but ‘factory-owners are hard-faced about paying rotten wages not because they’re vital in themselves, but because they’re just about the only cost factories can control’ (Miller 2011: 12).

Given the relatively low margins of Bangladeshi suppliers, the question is: Are the buyers, retailers or brands jointly responsible along with suppliers and the Bangladeshi government for workers’ conditions in Bangladesh? If so, is some redistribution of rents from buyers to the supplying country needed to improve these conditions? A look at the manner in which the abolition of sweatshops was accomplished in the US will be helpful in answering these questions.

**Joint responsibility for factory conditions**

Sweatshops existed in the US garment industry right up to the 1950s. In a historical sense, one can see the sweatshop as not only the beginnings of industrialization but also the product of two factors – the separation of manufacture from design and marketing in conjunction with the Lewis-type transfer of surplus labour from agriculture, providing unlimited supplies of labour at a fixed wage, which need be just above the opportunity cost, that is, the agricultural income.

In the US, designers initiated the enterprise-based separation of design and marketing, called jobbers, from manufacturing units, or stitchers (Anner et al. 2013). Early retailers such as K-Mart also played a role in this separation of tasks (Hapke 2004). What did this separation of tasks mean for working conditions? At one level, it enabled the designers and marketers to concentrate rents from the garment industry in their hands. Manufacturing units, which did not require scarce skills, did not have to be given any part of these rents, as would have been the case in integrated garment units. With manufacturing enterprise profits at competitive levels, wages could not be above competitive levels. This was ensured by the Lewis-type transfer of international migrants who were surplus in European agriculture (ibid.).

The result of this development of a two-tier supply system was that conditions in the stitcher units deteriorated considerably, leading to sweatshop conditions. The present international system of GPNs extends the two tiers of designers-cum-retailers and stitchers from the national to the international level. It also produces the same type of sweatshop conditions, the difference being that the sweatshops are recreated in far-off Bangladesh, Cambodia or even China. How did labour in the US deal with sweatshops?

Most stitchers then, as now, were women. In New York and surrounding areas of New England they were members of the famous International Ladies Garment Workers Federation (ILGWF). They successfully argued\(^5\) that jobbers, who determined the prices paid to stitchers, were also responsible for sweatshop conditions and needed to be brought into the picture. They argued that ‘jobbers and contractors were part of an “integrated process of production” and as such, were jointly liable for wages and working conditions in contracting shops’ (Anner et al. 2013: 11). Tripartite agreements were then entered into between jobbers, stitchers and workers.

\(^5\) This is based on Anner et al. (2013).
In the contemporary GPN context, what the above experience means is that buyers need to be brought into the existing tripartite structure of industrial relations. What is possible at the horizontal level, where manufactures and workers, with government, settle work conditions, is constrained by the vertical relations between manufacturers and global buyers. As argued by Nova (2010), in Miller et al. (2011: 9), ‘If factories are going to start paying workers properly, protecting their safety in the workplace, providing legally mandated benefits that were previously denied, letting workers go home at a reasonable hour, and so on, costs are going to go up.’

These increased costs have to be borne somewhere in the GPN and shared between buyers and suppliers.

For increased costs needed to secure better working conditions for workers to be shared between buyers and suppliers, one would need to accept a doctrine of ‘joint responsibility’ for working conditions. The US Fair Labor Standards Act (FLSA) of 1938 introduces the notion of ‘joint employment’ of subcontracted workers. The FLSA applies to inter-state labour issues in the US. With the development of GPNs, it becomes necessary to extend the notion of joint employment and thus joint responsibility for workers’ conditions to the international level. Responsibility must necessarily have a financial connotation. If buying practices have an impact on labour conditions, then there would need to be a reform of buying practices. The so far ad hoc financial commitments made by buyers after each factory disaster would need to be replaced by regular commitments and a reform of buying practices.

The trinity of ‘stable orders, fair prices and safe factories’ (Anner et al. 2013: 1) sums up the manner in which vertical and horizontal relations interact in the GPN. Without the first two, the third becomes difficult, if not impossible. Without overlooking the culpability of local employers and governments, who cut corners supposedly to remain competitive, poor prices and unstable orders certainly contribute to the poor safety situation. Improving safety requires investment, and that is constrained by low prices and unstable orders.

After the Rana Plaza disaster, a number of global buyers have come forward to put up some money to improve factory safety conditions. Different schemes have been proposed by a group of largely European buyers, called the Alliance (2013), along with the ILO, and another group of US buyers, called the Accord (2013). The Alliance is based on a binding commitment, which can be subject to arbitration. The Accord is signed by European companies and international unions, with an ILO official to oversee the process. The Accord, of the main North American retailers and brands, pledges to contribute funds for building renovation to meet safety standards. Being a voluntary contribution, unlike the Alliance, it does not have a provision of arbitration. But whatever money is put into either of these schemes is a redistribution of some of the rents they have earned from sweatshop conditions. What is now needed is to make this part of a regular quadripartite system (manufacturers, workers, government and global buyers) to manage industrial relations in the garment industry in Bangladesh (Nathan 2013).

Any commitment of funds means an increase in costs. For individual buyers to undertake this increase is difficult, since costs go up. But at one level, the amounts involved are so little: just a few cents per piece of clothing. As Mohamed Yunus (2013), founder of the Grameen Bank, has suggested, there could be a surcharge of, say, $0.50 per piece, which could be used to invest in improving building conditions.

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6 See Miller et al. (2011), for a discussion of the relevance of the FLSA to the current GPN situation.
Conclusion

Wages in Bangladesh are still the lowest of major garment manufacturing countries. Incidents of fires and factory building collapses are only symptomatic of overall poor working conditions. But, even though they are nowhere near desirable standards of decent work, wages and working conditions have been improving. Enabling conditions for such improvements have been the economic upgrading by suppliers, mainly through functional upgrading. These changes, in turn, have been facilitated by more stable relations with suppliers and have resulted in higher earnings per workers.

Such higher earnings by firms, however, have led to some improvements in wages, in large measure because of the transformation of garment workers into a social and political force. More than 4 million workers, of whom 70 percent are women, form a significant concentration of workers. In addition, the rapid and continuing growth of the garment industry in the country has increased workers’ ability to exit from particular factories, certain of getting jobs in other factories. Numbers, and the possibility of getting a job after exiting another factory, could together have increased the voice of garment workers. This, in turn, has forced the Bangladeshi governments and factory owners to accede, at least partially, to demands for higher wages and better working conditions.

A long distance still has to be travelled before garment workers in Bangladesh can approach anything like decent work conditions. But the improvements that have taken place show that things are not standing still. The concentration of workers and the continuing growth of the industry together have created the conditions for workers to express their voice and secure some responses from governments, buyers and suppliers. International opinion is influencing buyer behaviour, while the threat of losing business is forcing both Bangladeshi owners and the government to take some action.

After the Rana Plaza disaster, the government of Bangladesh has removed the clause requiring that employers certify workers wishing to form a union, which used to mean a virtual permission was required from employers for workers to register a union. In addition, the government has announced the setting-up of a minimum wage board to consider an additional increase in the minimum wage.

The improvements that we have noted here are quite limited. Tackling the major issue of building safety will require much more investment. While the European group has agreed to a legally binding agreement, US buyers are not willing to submit themselves to such legal requirements.

But in one way or the other, the money buyers are putting into building improvement comes out of rents that international buyers have earned from using Bangladeshi suppliers and workers. While workers’ voice can make an impression on horizontal relations within the GPN, what can be done at this horizontal level is constrained by the vertical relations between buyers and sellers. In a more systematic manner, and not just in terms of ad hoc commitment of funds after disasters, there needs to be a redoing of vertical GPN relations so that supplying firms and countries get some part of what now accrues as rent to the buyers. A combination of redoing both vertical and horizontal relations is required to substantially improve wages and working conditions in Bangladesh’s garments industry.
References


Capturing the Gains brings together an international network of experts from North and South. The research programme is designed to engage and influence actors in the private sector, civil society, government and multi-lateral organizations. It aims to promote strategies for decent work in global production networks and for fairer international trade.