Can Managers Be Trusted?

Looking at the Bangladesh Ready Made Garments Industry

Anan Hossain

Lampert Fellowships in Public Affairs

Colgate University, Class of 2017
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Introduction

For predominantly agriculture based economies, the industrial sector has often served as the catalyst of growth. Switching to the industrial sector offers high wage employment for the workforce, and increases productive capacity and productivity through entrepreneurship, innovation and introduction of technology. These countries can also take benefit from the higher value added products and earn foreign exchange by exporting these manufactured products. Moreover, these industries support the country’s growth through backward and forward linkages and ancillary services. This is especially true for an agriculturally dominant economy like Bangladesh’s. The RMG\(^1\) industry of Bangladesh has been the backbone of its industrialization and has indeed served as a catalyst for its growth.

The RMG industry has emerged as one of the fastest growing manufacturing industries in Bangladesh’s economy. The industry has grown almost exponentially since the 1970s, and currently accounts for over 80% of Bangladesh’s total exports (EPB\(^2\) 2014). It also employs over 4 million workers (BGMEA\(^3\) 2014). It thus offers a valuable income source for many Bangladeshis, not just those directly hired by the RMG factories, but also those working in its backwards and forwards linkages and ancillary services.

However, as dominant as the industry is in Bangladesh’s economy, it has come under a lot of pressure recently. Events such as the Rana Plaza collapse and the Tazreen Fire (Hassan

\(^{1}\) Ready Made Garments – This industry manufactures clothing items that are not just knitwear and woven wear and sweaters, but also other final consumption items like towels, napkins, bedding, etc.

\(^{2}\) Export Promotion Bureau – A semi-independent government agency under the Ministry of Commerce, entrusted with promoting exports of Bangladesh

\(^{3}\) Bangladesh Garments Manufacturers and Exporters Association – One of the Largest trade associations in Bangladesh representing the RMG industry
2014) have brought to light the poor building safety and working conditions for some of these RMG factories. This has resulted in retailers placing strict compliance standards on RMG factories. These compliance standards are just one of the many pressures the RMG industry is facing today. These forces are both positive and negative, and rise from internal sources such as management, labor productivity and capital intensiveness, to external ones like government support infrastructure, competition and the emergence of new markets. Collectively, these forces have placed Bangladesh’s pivotal industry in a critical position, and placed the managers and owners as a pivotal source of information in the industry.

In this paper I attempt to analyze whether these managers and owners can be used as a reliable source of information regarding these issues. I do so by categorizing the information obtained through the semi-structured interviews into major issues that affect the RMG industry, and analyze the similarity between the management’s responses and the existing data on those issues. I firstly collate all interview data and see if there are patterns among the responses made by the managers. Then I see whether there is data from secondary sources which corresponds to the claims made by the interviewees, and then see if this data complements or contradicts the claims made by the interviewees. As this is an exploratory case study specific to the RMG industry, these major issues are ones that are pressing to the RMG industry as identified by the interview data. The secondary data consists of journal and periodical articles, reports from governmental and non-governmental organizations and external stakeholders and RMG-specific trade data. My working hypothesis is that these RMG owners and managers cannot be trusted as a reliable source of information.
Background of RMG industry and Literature Review

The RMG industry is one of the largest industries on Bangladesh. During the 1970s, Bangladesh’s manufacturing output focused heavily on jute. However, the international demand for jute declined, causing Bangladesh to switch from a jute exports to RMG exports. Yunus and Yamagata (2012) discuss how this process took about in the 1980s. They mention how the RMG industry was initiated as a result of Foreign Direct Investment, technology transfers and joint ventures between South Korean Firms and Bangladeshi Firms. They also discuss the role of government in the supporting this industry. According to their report it was the removal of investment ceilings which allowed multinationals to form these joint ventures and invest, causing the number of firms and export volume to increase rapidly in the 1980s. The government also assisted via financial features like the back-to-back L/C\(^4\) eliminating the need for cash for working capital and foreign exchange. They also removed import tariffs on raw materials and machinery. Thus the government assisted in breaking down the high barriers to entry and encouraging more factories to be set up in Bangladesh.

One main reasoning for Bangladesh’s strong performance in the RMG sector, along with the low wage argument, was the Textile and Clothing Quotas\(^5\) maintained by industrial counties. Much research has been done on whether the removal of these MFA quotas under the ATC would hamper the previously growing RMG industry. Both Mlachila and Yang (2004) and Haté

\(^4\) Back-to-Back Letter of Credit, a credit system allowing RMG exporters to import inputs against export orders, eliminating the need for working capital, and allowing expedited access to raw materials. See Yunus and Yamagata (2012) for details

\(^5\) A system of short-term and long term agreements on the export of textiles and apparel between countries from 1974 to 2005. These were later consolidated to the Multi-Fiber Agreement, a system of allotments and quotas established in 1994 to be phased out by 2005. This was done under the Uruguay Round Agreement on Textiles and Clothing (ATC) by the World Trade Organization. See Mlachila and Yang (2004) and Haté et al. (2005) for further details
et al. (2005) explore Bangladesh’s prospective vulnerability, however both arrive at different conclusions. Mlachila and Yang (2004) argue that Bangladesh’s inability to capitalize on these quotas by diversifying its RMG exports will ensure its weak competitiveness as these quotas are removed. Háté et al. (2005) argue that even though most of the literature and trade data points towards a loss in trade volume post MFA, recent data makes that viewpoint inconclusive. They are therefore ambiguous about Bangladesh’s progress. Yunus and Yamagata (2012) mention similar studies which express the similar viewpoint, achieved either through quantitative analysis or via an equilibrium model. The trade data from EPB shows that Bangladesh has grown consistently after the MFA phase-out however, possibly suggesting that Bangladesh had, to some extent, managed to overcome the deficiencies such as poor infrastructure, governance, widespread corruption, etc. as suggested by Mlachila and Yang (2004).

Yunus and Yamagata (2012) mention labor unrest as a key issue that the RMG industry faces. They cite rising labor unrest in the form of strikes, protests and picketing as a major concern, and present steps taken by the Bangladesh government in the form of structured wage rates and minimum wages as an attempt to address this problem. Indeed, the government has made an attempt to address the wage issue through the Labor Act (2006) and its amendments during 2012 and 2013. Yunus and Yamagata (2012) only discuss the impact of the first Labor Act, and argue that the stakeholders must take further steps to tackle this problem of worker unrest. After the Rana Plaza and Tazreen Fire incidents, the Minimum wage Board of Bangladesh passed the RMG minimum wage gazette in December 2013, increasing minimum

wages and readjusting the wage structure specifically for RMG workers (Minimum Wage Board 2013). This paper looks at the effect of the recent wage increases and minimum wage restructurises on the factories' cost pressures.

Many papers focus on the competitiveness of the RMG industry. While Haider (2007) focuses on it directly, it is an indirect part of the analysis of Yunus and Yamagata (2012), Mlachila and Yang (2004) among many others. Yunus and Yamagata mention that apart from the international regulations and safeguards, and “proactive domestic policy”, it’s competitiveness can be classified into three categories, low wage rates, government policies and internal dynamism of the industry. They comment on Bangladesh having low wage rates relative to its competitors such as China, India and Vietnam, but also having a low labor productivity. It is important to note that the wage rates of both male and female workers have risen, but there is little evidence towards a similar rise in their labor productivity. Therefore, it is important to take both these metrics into consideration when commenting on wage rates being a competitive factor. Yunus and Yamagata (2012) comment that the low wage advantage is a superficial argument specifically because of Bangladesh’s low labor productivity relative to its competitors. Yunus and Yamagata (2012) comment on helpful government policies that have allowed the RMG garments to flourish. They attribute policies such as the Back-to-Back Letter of Credit and

[7] It is important to note that the wage restructure was introduced by the Minimum Wage Board on December 2013 as a result of increased pressure from Human Rights groups, Bangladesh and Global Media outlets, Foreign Buyers. This pressure was a result of incidents such as the Rana Plaza Factory Collapse and the Tazreen Fire and the increase of resulting tension and labor unrest. Further information can be obtained from North (2013), AWAJ Foundation (2014) among multiple other domestic and foreign news sources.
Bonded Warehouse\(^8\) facilities, encouraging duty free access to inputs. They also mention the role of the external organizations like the BGMEA and aspects such as technology transfer as some of the main sources of Bangladesh’s competitiveness. The role of BGMEA and technology in general will be covered in detail later in the paper.

It is important to note that the existing literature leaves out a few key components in the RMG industry. In discussing the industry’s growth, there is very little research into the impact of political instability in the industry. Yet my interviews with multiple stakeholders in the industry, especially the owners and management show that the unstable political nature of the country does have a negative impact on the industry and their individual factories. There is conflicting opinions on exactly how this effect manifests and what sections of the production process and business it effects. This maybe a reason why there seems to be a lack of literature on this topic. However, there is a lot of non-scholarly commentary on the topic. Bose and Paul (2014) comment on some aspects of this political instability and how it is affecting these RMG manufacturers. Their article is one of the many that highlights the issue of political instability, yet there is no literature surrounding it. Perhaps this is because political instability is difficult to measure in the first place, and its affect on an industry, both direct and indirect are difficult to quantify. Still, it is important to address an issue which is a part of everyday life of the owners, managers, buyers and workers and other stakeholders in Bangladesh’s RMG industry.

There is some literature on the issue of compliance, as described in Yunus and Yamagata (2012) and and Haider (2007). Both authors suggest compliance is an important factor in

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\(^8\) A system where imported inputs (such as raw materials) are cleared through customs duty-free against export orders, allowing expedited processing times and duty-free imports. See Yunus and Yamagata (2012)
deciding the competitiveness of Bangladesh’s RMG industry. Yunus and Yamagata (2012) mention the adaptability of Bangladesh’s RMG industry as a sign of its “deep rooted” competitiveness. They do so by referring to Bangladesh’s successful ability to solve its child labor issues in the 1990s. It is important to note that dealing with child labor is just one of many ethical business issues which Bangladesh’s RMG industries face. Haider more accurately comments on it as an issue which Bangladesh needs to tackle in order to move forward. He mentions poor working conditions and health and safety standards as a major issue Bangladesh faces, even though Bangladesh was supposedly able to deal with the issue of child labor issue.

The existing literature also leaves out the role of management in the industry. There is little commentary on manager sentiments, outlooks and how they affect the industry. Yet from the interview data, the outlook of RMG owners and manufacturers are vital to the survival of their factories in the next few years and ultimately the position of the industry. There is no commentary on how these managers function, what their goals in the industry are, their decision making processes, and their views on the industry. Therefore, the existing literature, to a large extent, leaves out the cultural nuances that shape the goals and objectives of the owner and the manager. The literature also leaves out the impact of the short-term and long-term decisions in terms of operation, business ethics, efficiency, capital intensiveness, and more importantly, leaves out the rationale and justification behind this decision-making.

More importantly, the existing literature does not consider whether the claims made by these managers are legitimate. While most of the literature focuses on quantitative data and incidences in the industry, there literature that works with manager claims specifically (like the report by Berg et al. (2011) and the Global Competitiveness Report by Schwab (2014)) fails to consider whether this interview data can be trusted as a reliable source of information. They use
the managerial interview data to make predictions and analysis, assuming that this data is reliable. In the case that it is not, which it very well may in some circumstances, their recommendations become unreliable. This paper tries to look at this specific issue, and identify the conditions under which management interview data can be used as a reliable source of information.
**Issue of Compliance**

The issue of fire and safety compliance has become synonymous with the Ready Made Garments industry ever since the Rana Plaza incident on April 2013 and Tazreen fire on November 2012. These news events have been showcased in both domestic and international media, resulting in buyers placing compliance standards on RMG factories. Domestically, organizations such as the National Tripartite Plan of Action on Fire, Electrical Safety and Physical Integrity (NAP) have been set up by the government and facilitated by the ILO to set up safety training and factory inspection (Khatun (2014)). Organizations such as Alliance and Accord\(^9\) have been established that govern these standards, and most of the buyers are paying closer attention to the work and safety standards they have placed on the RMG manufacturers. The typical process a factory goes through is fairly straightforward. A certain standard for building safety and worker conditions have to be met by a RMG factory in order to be compliant. The circumstances are very broad, and cover topics from factory safety and construction standards, to standards for workplace safety, security, ethical conditions, etc., building on the codes of the NAP and working with organizations such as the International Labour Organization (ILO). Factories which are signatories of Alliance and Accord, or accept orders from participating buyers are subject to factory inspections to ensure that these health and safety standards are met, or are in the process of being met\(^{10}\).

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\(^9\) Two major organizations in charge of creating, maintaining and overseeing agreements between buyers and sellers with the intent of improving safety in Bangladeshi RMG factories. Alliance deals with North American Apparel buyers, while Accord deals with European ones.

\(^{10}\) Some interviewees report that there are a few buyers which do not enforce these standards, and are willing to give orders to non-compliant factories. This is not the majority however, and as compliance standards get stricter, this practice will gradually diminish.
According to managers and owners, the first issue is the huge costs these standards place on factories. While it is true that these standards are a set of criteria, and different factories meet these standards to certain extents, there are almost no factories are fully compliant to these standards. Therefore, all factories have to incur these costs to attain compliance. For some factories the costs are so huge that it is not possible for the factory to stay in production. For example, factories which form agreements with Accord have to undergo a Detailed Engineering Assessment (DEA), and have to meet a certain standard level. This is expensive and time-consuming on its own, but the real cost comes with the steps needed to reach the standard. For some manufacturers, this may involve shutting down the factory of operation and relocating to a new factory. The initial capital investment required to do so is almost impossible for many factory owners, forcing them out of business.

While many of the claims of these owners are negative, and the implications of their claims seem far-fetched, there is some evidence to justify their claims of higher costs. The number of BGMEA member factories have decreased rapidly since the aforementioned events and resulting compliance standards. In 2012-13, the number reached a peak of 5876, just to fall drastically to 4296 by 2014-15. These are just BGMEA members (BGMEA 2014), with the total number of RMG factories much larger (6984 according to the Bangladesh Bureau of Statistics (2012)). These owners claim that land is expensive to purchase, and most of them cannot afford to make this investment, forcing these non-compliant factories to run out of business. The situation is dire for factories which have not shut down yet. According to some owners and Moazzem (2014) it takes approximately 3 crore taka to fully make an existing factory compliant, which is more than what most owners claim they can afford.
Some owners also report that buyers are not providing the funds or cheaper capital sources they had committed according to the agreements made by Alliance (2013) and Accord (2013). This does not seem to be a systematic problem, as other owners reported that buyers like Walmart provide access to credit at sub-market interest rates. But the majority view is of the former. Consequently, the majority of interviewees comment that even more factories are destined to shut down within the next few years, as buyers start increasing the stringency of these regulations and more buyers start adopting these regulations. There is not sufficient evidence to support this argument as the information provided by the owners is conflicting. However, there is also no substantial literature supporting these claims made by the owners that the buyers are not providing the funds they have promised through the agreements on Accord and Alliance. Therefore, it becomes difficult to judge whether the managers are providing reliable information as there is a lack of secondary sources supporting or contradicting their claim.

An RMG owner’s only source of revenue is the the CMT (cut, make & trim) or OEM (Original Equipment Manufacturing)\textsuperscript{11}, and according to owners, it does not look like it is going to increase. On the contrary, owners report that buyers are them by consistently reducing the CMT charge, while at the same time forcing them to increase their overheads. It is hard to support this claim through literary sources, as this is usually an internal business matter and these individual rates were not available upon request. However, these claims from owners were unanimous, so it is important to note that even without secondary evidence, the increasing supply of RMG factories could be forcing prices down.

\textsuperscript{11} Full definitions available at Fernandez-Stark \textit{et al.} (2011)
Another claim made by some owners is the concept of sub-contracting, i.e. when a primary factory (possibly compliant/ heading towards compliance) gives orders to a secondary, non-compliant factory. These factories never received orders from buyers in the first place, and the concept of sub-contracting itself makes a factory non-compliant. Therefore, these factories were forced to either become compliant and receive buyer orders, or shut down. Some interviewees reported this subcontracting is still happening. It is difficult to measure this, as this is a non-compliant action which is not reported. A large portion of owners reported the opposite, i.e. stringent overview from the buyers which prevented factories from sub-contracting orders. The lack of literature on this specific topic of sub-contracting orders adds to the existing conflicting information, and therefore it is difficult to determine whether this issue is prevalent in the RMG industry.

Many owners claim that larger RMG manufacturers fare better in regard to compliance than small or mid-level factories. Many of these larger manufactures have easier access to capital, streamlining their process towards compliance. This capital maybe sourced from the larger accumulated business profits, more lenient borrowing terms from public and private financial institutions, or simply the capital supposedly guaranteed from the members of Accord (2013) and Alliance (2013) as highlighted in their statements. Owners claim that larger factories also tend to have better relations with a select number of buyers, as they often take higher-volume orders, and so buyers are more likely to work with them. The evidence of this can be seen through joint ventures between the buyer, an organization like the ILO, and the RMG manufacturer, focusing on a segment of compliance or an aspect of business like better worker-employer relations, improving worker productivity, etc., as reported in Fernandez-Stark et al. (2011). There is no secondary literature supporting the claims of larger companies having more
access to capital, but as mentioned before, Fernandez-Stark et al. (2011) mentions how larger companies may have better/ more proactive relations with buyers.

Owners report the opposite being often true for smaller firms. With lesser access to capital and weaker relationships with buyers, small firms suffer the most during this process of compliance. Smaller factories are also at a worse position because of their factory size and location. For example, there is a tendency for many smaller factories to be situated in one big building complex. That was the case for the manufacturers in the Rana Plaza incident, and this is now regarded as being non-compliant. Smaller factories also tend to be older factories, which were set up at a time when government licenses for RMG industries were offered in bulk, without much notice to the RMG factory conditions as per Yunus and Yamagata (2012).

Managers report that these smaller non-compliant factories might start catering only to buyers who are not focused on compliance. It is important to note the lack of literature into how compliance standards are held either by the factories themselves, or from the buyer’s side. Therefore, the claim that some buyers simply do not adhere to these compliance standards, while seemingly unlikely (give organizations such as Alliance and Accord) cannot be established as false.

The more interesting thing to note is the manufacturer’s comprehension, reaction and anticipation of these changes. Most of the owners interviewed were not surprised by the issue of compliance. While it is true that new rules concerning compliance were created and enforced after the incidents in 2012, the issue of compliance had always been present for Bangladeshi RMG factories. In fact, some of the new rules made by Alliance and Accord were built on pre-existing rules created by the government of Bangladesh and individual ethical codes set up by large buyers. Therefore, it was not that the aspect of health and safety of workers and buildings
never existed in the minds of these RMG manufacturers and their practices, but more so that these aspects were ignored or overlooked. According to RMG owners, before the incident, most buyers would only care about two things; whether the products were of an acceptable quality, and whether they were shipped on time. There were some larger buyers who had incentives for business ethics, corporate social responsibility and such, but the main goals were always efficiency, quality and on-time delivery. As long as these RMG factories produced these goods quickly, cheaply and fairly well, most buyers did not actively look at their production process. Some owners described factory visits pre-2012 as showcases, where the factories would quickly hide its child laborers, clean up the spaces and only show buyers what they wanted to see. It was as if all parties turned a blind eye towards safety and security. As mentioned before, there is almost no pre-existing literature supporting or contradicting these nuanced claims by the owners, and thus no way of verifying these claims. If they are to be true, however, it does shed light into the lack of business ethics concerning this industry.

There was a small fraction of owners, especially those taking orders from larger buyers, who claimed to be more proactive in the compliance process. Some owners interviewed started addressing the issue of compliance from as early as 2008, and therefore when compliance became an issue, they were better prepared to tackle the matter. This notion is supported by Fernandez-Stark et al. (2011) who report owner-buyer joint ventures already taking place in their report. This was a minority of owners. When asked, almost all owners criticized the buyers and media for pushing the idea of compliance on the factories, leaving them to bear all costs and diminishing their business prospects. Most owners implied that they follow the rules of compliance because they had to in order to continue receiving orders. Very few owners responded saying that this movement towards business ethics and corporate social responsibility
needed to happen, and even though it hurt their business prospects, it was a morally good thing. Fewer actually took steps towards worker and building safety before the incidents of Rana Plaza and Tazreen Fire. They argue that while buyers may have the same compliance standards for factories in any supplier country, Bangladesh’s unique exposure to the international media warrants for a stricter adherence to these rules. As what was mentioned before, it is very difficult to establish the legitimacy of these claims, as none of these claims are neither supported nor contradicted by any literature or reports.
**Political Instability**

Political instability and Bangladesh go almost hand in hand. Since Bangladesh’s liberation from Pakistan in 1971, this country has been plagued with political instability. This has manifested in the form of political corruption, political unrest, and subsequently labor unrest and insurgency. According to the Global Competitiveness Report by Schwab (2014), Bangladesh ranks a 129th out of 144 countries when it comes to public institutions. The dominance of political instability is apparent in some of its sub-indexes, with Bangladesh ranking 135th in ethics and corruption and 122nd in undue influence. These indicators show that Bangladesh is seriously lacking when it comes to ethical government practices and unbiased government decision-making. These processes play a significant role in all industries, but especially the RMG industry, as that is the biggest manufacturing and export industry in Bangladesh. This data is supported by the interviews, which shed light on how the RMG industry is affected by the different aspects of political instability.

The impact of political instability on the RMG industry can possibly be divided into two sections, party politics and labor insurgency. It seems plausible that if the labor is politicized, an increase in political instability would likely lead to a political workforce, and in times of strikes, unrest, there would be labor insurgency and strikes in individual factories. This seems even more likely in this labor force is unionized, as a labor union (or trade union) could have a political agenda and exert this political power in the form of labor insurgency. The case for Bangladesh’s RMG industry is quite interesting. As Yunus and Yamagata (2012) report, there was no condition for the existence of trade unions in the RMG factories. This is changing now however, as according to Khatun (2015) provisions for trade union were set up post Rana Plaza. While the creation of labor union seems to be a justified decision given the inattention to worker rights and
safety in these factories, these same RMG factories are put in a difficult position of these trade unions are corrupted by party politics. There seems to be traction among owners that most of the labor unions are politicized, i.e., these labor union leaders have a clear political agenda, and often align themselves and their views to a certain political party. When questioned whether labor union influence is prevalent in these factories, almost all the interviewees reported a lack of labor union influence. Studies such as Yunus and Yamagata (2012) add evidence behind the validity of the lack of a unionized RMG labor force, although there seems to be no research behind the prevalence of politicization of these unions. Therefore, it becomes difficult to agree with the latter part of the owners’ and managers’ claims.

Moreover, the interviewees reported very little labor insurgency where there is a political agenda, citing that most of these workers are not involved in a union or in any sort of party politics. The overwhelming rhetoric is that most of these workers are poor and cannot risk going on strike without significantly hampering their standard of living. On rare occasions when these workers do go on strikes, production managers and floor supervisors stated it is because their neighborhoods are controlled by political thugs, and thus the workers are forced to comply to the thugs’ wishes. Yunus and Yamagata (2012) do report that Bangladesh suffers from large amounts of labor unrest, but specify the cause on this unrest being low wages and working conditions, not politically-driven labor unrest. In fact, according to them, there is a tendency for political parties to not get involved in the RMG industry, signaling that both the people and government understand the importance of this industry to the economy. This view was almost unanimously expressed in the interviews.

How might the RMG owners cope with the introduction of labor unionization in the RMG industry while trying to reduce its potential for politicization? One solution, as a few RMG
owners pointed out, is the creation of labor-employer committees, where democratically elected representatives from the workers would regularly meet and discuss needs and expectations with both lower and upper level management. According to owners and Fernandez-Stark et al. (2011), this is one of the initiatives taken by the RMG factories in consultation with the ILO, and introduces effective communication lines between the management and workforce. Owners claim this bypasses the issues related with politicized labor unions, and successfully represents the worker’s needs. While these initiatives are taking place, there is not sufficient data to comment on its prevalence in them RMG industry. Neither is there any literature commenting on the effectiveness of these initiatives, as articles such as Fernandez-Start et al. (2011), report on its existence, not impact. It is interesting to note that slowly these changes may be implemented into these RMG factories, as this does seem like a viable solution, at least in theory, to the problem of politicized labor unions and labor insurgency.

The other aspect of political instability which negatively impacts the RMG industry is the political unrest created by the parties. While there is little evidence of political parties being directly involved in the RMG industries, most owners report that political unrest has a significant negative impact on their factory operation and manufacturing process. The impact of political unrest can be broken down to two aspects, buyer uncertainty and cost pressures. Most owners report that buyer uncertainty caused by political instability causes buyers to place orders in other countries. This does not necessarily mean that buyers pull out of Bangladesh completely, but rather diversify risks by placing orders from different countries\textsuperscript{12}. This problem is clearly

\textsuperscript{12} This aspect will be covered further when talking about Bangladesh’s position regarding its competition.
identified in multiple articles, including Berg et al. (2011), and thus it is fair to say that the owners’ concerns regarding buyer uncertainty due to political instability is valid.

According to owners, that tends to happen is that for a firm, older buyers are likely to reduce order volume, while new buyers are hesitant to visit factories so that they can make the orders. This is apparent especially during periods like the most recent election, which according to some manufacturer, occurred during buying season. However, there were some opposing views which suggested that established buyers are not really concerned with political unrest as they have experienced it for a long time and know that it poses minimal risk to on-time delivery. There is not sufficient evidence supporting these claims, but is interesting to note that if these differences between old buyers and new ones exist, this could very well impact the Bangladesh RMG industry if the structure of the market changes.

The second aspect of political instability are its cost pressures on the RMG industry. These are caused by delays in the industry, either during production or transportation. According to owners, apart from the occasional labor absenteeism, the political strikes or hartals have almost minimal impact on a factory’s production. The effect of this absenteeism can be significant however. According to production managers, strikes can often prevent workers from safely arriving to the factory, leading to absenteeism. The impact really depends on the role of the worker. For example, a regular machine operator’s absenteeism does not have that much on an effect on production, it is just one worker out of 2000 or so for a large factory. However, if a factory line manager is absent, efficiency is significantly hampered for that production line. This is even more crucial for workers with specialized jobs, like graphic designing templates, or research and development and quality testing. These claims seem plausible given that the rate of political strikes in the country, as stated in Ahsan and Iqbal (2015). While they do no specifically
address the issue of worker absenteeism during hartals, they due note that these hartals can cause production delays. Ahsan and Iqbal (2015) also report that hartals can result in entire factories shutting down, which, quite surprisingly, most RMG manufacturers dismissed as a possibility. This contradicting view between the owners opinions and literature raises an interesting question as to which claim is more valid, as owners argue that most politicians who hold these strikes understand the importance of the RMG industry and try to keep it outside the influence of these hartals.

The main cost of political instability is the delays in transportation of raw materials and final goods. The majority of RMG manufacturers accept orders where they are responsible for procuring the raw materials, making the product and finally shipping it to warehouses overseas, i.e. both inbound and outbound distribution along with production (OEM). Political instability in the form of party politics, nationwide hartals, hamper the timeline of production by delaying both inbound and outbound logistics. Ahsan and Iqbal (2015) analyze the short-term effects of these hartals on Bangladeshi RMG export data, and state that due to the high demand for timeliness in the industry, a hartal lowers total daily exports for an average RMG form by 7.3% on the day itself, and cumulatively by 2.3% over a 7-day period. They also state that RMG manufacturers have a 2.2% probability of using costlier air transport during periods with hartals.

Interviews with owners add more context to this story. With political instability not only is the firm’s export value and therefore revenue reduced, but its relations with buyers are affected as well. Almost all RMG factories in Bangladesh produce clothes for the mass market, which is built on seasonal demand and thus requires on time deliveries. As described by Ashan and Iqbal (2015) owners have to respond to rapid changes in demand, with very little stocks of inventory. Timeliness is crucial, and hence buyers respond harshly to delays. Delays may result in lower
volumes ordered by buyers in the future, or no future orders at all. This is what makes the effect of *hartals* so strong for RMG firms. RMG manufacturers are forced to respond to expensive measures to counteract this problem. The unanimous agreement of owners and Ahsan and Iqbal (2015) add legitimacy to this issue, making it more likely to be a real problem that the RMG industry faces.

The first segment is regarding ground transport to the ports in Chittagong. Around times of political unrest, RMG manufacturers report that they are forced to pay the truck drivers up to five times more than the standard rate for transporting the goods. This is in addition to hiring security for the trucks to deter political protestors. This is a common occurrence, and between inbound and outbound operations, drastically increases their transportation and logistic costs. The second portion is shipping by air. If it is too late for the product to reach by sea shipping, RMG manufacturers are forced to ship the products by air. This method does reduce shipping times, but is a much more expensive option for RMG manufacturers, especially when large volumes of goods have to be shipped. Thus these practices chip away at the margins for these RMG manufacturers. Ahsan ad Iqbal (2015) comment that air shipping is used by owners as an emergency shipping option, and it is substantially more expensive than freight. They do not validate the owner’s claims of paying the truck drivers more/ adding more security, although they do not necessarily deny it either. Ashan and Iqbal (2015) report, along with the owners, that transport delays are significant in the industry, which seems to validate the owners’ claims regarding these issues.
Wage Determination

The issue of wage determination and labor productivity have always surrounded the RMG industry. According to Yunus and Yamagata (2012), Bangladesh RMG factory works have lower wages than that of its competitors like Sri Lanka, China, India and Vietnam. Haté et al. report Bangladesh having significantly lower wages in the RMG sector than its South Asian counterparts, and signify low wages as a source of Bangladesh’s competiveness. Mlachila and Yang (2004) list Bangladesh’s low wages as its key competitive advantage. These are some of the many studies which attribute Bangladesh’s rise as an RMG manufacturer to its low competitive wages. According to the World Bank (2013), minimum wages in competitors like Vietnam and China were respectively twice and ten times more than that of Bangladesh.

Managers report that Bangladesh’s competitive wages, however, are a double edged sword. While they are indeed very low, and do give Bangladesh a competitive advantage, the entire issue is not as simple as this. Haider (2007) reports that these low wages are so low that it is considered labor exploitation. Haider reports that these wage levels (0.39 per hour at $2002) cannot be sustained from humanitarian perspective. According to Yunus and Yamagata (2012), not only are Bangladesh’s RMG workers worse off in terms of wages, but they are also much worse off than workers in competitor countries in terms of living standards. They contribute low wages and living standards as major reasons for labor unrest in Bangladesh, mentioning that most garments factories do not follow the rules and regulations of either domestic organization (the Labour Act, 2006) or international ones (ILO conventions). This includes all sorts of labor discrimination, such as untimely payment of wages and bonus for workers. Add that to the constant inflation experienced in the last few years (between 6.5% and 10.6% for FY05-FY13, as
per the World Bank (2013)), and it is understandable why there is such pressure to increase wages in Bangladesh, specifically wages in the RMG industry.

Most owners report that the wages are going to increase because of the increased pressures of compliance. According to the World Bank (2013) The recent events at Tazreen Garments and Rana Plaza have strengthened concerns about the low working conditions and compensation to RMG workers. As a result, the pre-existing pressure from labor unions, human rights organizations and such have increased, leading the Government of Bangladesh to pledge to raise RMG workers’ minimum wages. As a result, not only has a new Labour Law been passed on July 15, 2013, but, the Minimum Wage Board has implemented a restructure of Bangladesh’s wages starting December 2013. As a result, Bangladesh’s minimum wage was raised from TK 3,000 ($39) in 2010 to TK 5,300 ($68), hopefully giving these workers enough to have decent standard of living (Khatun 2015). A study by the Center for Policy Dialogue by Moazzem and Raz (2014) attempts to determine the minimum wage for RMG workers based on their costs of living, and arrive at a monthly minimum between TK 6,918 and 14,856. Granted, the average RMG worker earns more than the base level of TK 5,300, but their now adjusted wages are still lower than what is considered adequate. With inflation expected to continue, the pressure for higher wages in the RMG industry will continue.
**Labor Productivity and Technology**

It is true that through these initiatives, the wage gap between Bangladeshi RMG factories and those of its competitors is decreasing. However, the majority view from the owners seems to be that Bangladesh’s low wage advantage is nullified because the Bangladeshi RMG workers are not as productive as their counterparts. This view is resonated through multiple independent sources. Mlachila and Young (2004) compare the value added of majority RMG manufacturers and find that Bangladeshi workers have the lowest value added, less than one-fifths of Chinese RMG workers. Yunus and Yamagata (2012) report that low wages helped Bangladesh compete in the international market, but labor productivity was always an issue among Bangladesh RMG firms. Berg *et al.* (2011) highlight the productive gap between Bangladesh and its major competitors like China, India, Pakistan and Cambodia, with Bangladesh only being 77% productive compared to China’s baseline of 100%.

According to most owners, as wages keep in increasing without subsequent increases in labor productivity, Bangladesh’s unsustainable comparative advantage will slowly disappear and soon other countries like Vietnam and Cambodia will start picking up its RMG orders. Some owners report that this is already happening now. The World Bank (2013) highlights that improving labor productivity is one of the main steps that Bangladesh has to take to remain competitive in the RMG market. They suggest that improving skills and literacy will allow Bangladesh to move up the ladder in terms of product quality and lead to higher productivity along with higher wages for the workers.

It seems that the labor productivity of Bangladeshi RMG workers is improving. Data by the BGMEA and the Bangladesh Export Promotion Bureau show the annual output per worker
has been increasing for the last few years\textsuperscript{13}. This is most likely due to initiatives taken by the RMG factories, organizations like the BGMEA and buyers in an attempt to improve labor efficiency. As Fernandez-Start \textit{et al.} (2011) reports, the BGMEA launched a plan in 2008 in an attempt to increase labor productivity, diversify products and markets, and invest in R&D and human resources. This, along with joint-ventures between factories, buyers and organizations like the ILO, have resulted in the set up of initiatives focusing on tackling productivity. Projects such as the Promotion of Social, Environment & Production Standards (PROGRESS) have set up operator training centers in parts of Bangladesh in an attempt to improve labor efficiency. Buyers such as H&M have established joint-ventures with factories, setting up training centers for workers in-house to establish these goals. Some owners report that these initiatives are being set up in their own factories, and slowly but surely, they expect labor efficiency to rise. Some owners are introducing their own workshops and initiatives, aimed at providing induction training to new workers and helpers and eventually increasing efficiency. Owners say that the aspect of labor efficiency has grabbed the attention of all major stakeholders in the industry, and surely will be an important factor in their future decision-making. Moreover, these claims by the owners seem to be supported by the pre-existing literature.

The cause for concern is that, according to owners, these initiatives such as this are few and far in between. Fernandez-Stark \textit{et al.} (2011) report that although both public and private sector initiative have been set up, most of the funds go towards the private sector initiatives, and

\textsuperscript{13} See Appendix, Figure 1. This is using a rough calculation of export value per worker. A better estimate for labor productivity would have been export per hours worked, which is not possible as the relevant data is not available. Also, the author suspects that the number of workers as provided by the BGMEA might not be entirely accurate, as it has remained constant over the last few years.
there is very little private sector support for these public sector initiatives. Also, these joint-ventures are normally set up in factories which have long stable relationships with buyers, which is a handful of the many RMG factories in Bangladesh. Most factories and their owners say they are too preoccupied with factory inspections and compliance standards to worry about improving labor efficiency.

Some owners voiced that improving working conditions may lead to a more productive labor force. This view is presented by Razzaue and Eusuf (2007), who predict that improving the work environment for workers may well lead to an improvement in their productivity\textsuperscript{14}, and so it the benefits of better working conditions outweigh their costs. They also claimed that the increased labor productivity will have very little impact in case of Bangladeshi RMG factories. The share of labor in the RMG value chain is quite low, and for Bangladeshi RMG firms, whose source of revenue is OEM, it represents a small portion of their costs. The interviews with the managers represent the same ideas as Razzaue and Eusuf (2007), with raw materials accounting for the bulk of the costs, and labor around 5-10\%. Thus even large increases in labor productivity may not really have proportional reductions of costs.

Some managers reported that it is not just the lack of skills and education that affects labor productivity but also machinery. As the World Bank (2013) reports, the cost of production not only depends on factory wages but also the quality and age of machinery. Fernandez-Start et al. (2011) highlight the process of improving productivity through capital investment in the form of newer, more productive machinery and then training workers to use the machinery efficiently.

\textsuperscript{14} According to Razzaue and Eusuf (2007), Ahmed et al. (2004) analyses the relationship between better working environments and labor productivity in the context of Bangladesh. They note that the data in Ahmed et al. (2004) did not include any RMG manufacturers, and therefore, this inference might be irrelevant.
The majority view seems to be that there isn’t enough capital investment in new machinery. Berg et al. (2011) note the lack of investment in new technologies and machinery, citing it as a major source of Bangladesh’s low productivity. Therefore, the literature seems to support the owner’s views regarding capital machinery.

Owners report that there have been attempts from both the public and private sector to tackle this issue. Some firms are looking into automating certain aspects of production, like introducing technologies like Computer Aided Design (CAD), Computer Aided Manufacturing (CAM) etc. The government is helping this sector by allowing duty-free import of capital machinery, thereby reducing the cost and the hassle of obtaining these new technologies. Yunus and Yamagata (2012) report annual trade fairs organized by institutes like GARMENTECH Bangladesh allow for effective technology transfer. These fairs showcase the latest technology specifically geared towards RMG production, and effectively allow for propagation of these technologies to the RMG factories. Indeed, many factories report slowly phasing out older machinery with newer, more productive models, those that can produce more with less manpower. Therefore, there seems to be evidence to this issue regarding machinery being tackled.

The main bottleneck, according to most owners, is access to capital. Investing in these new machineries will increase productivity, but at the expense of high set-up and maintenance costs. With compliance standards and rising wages, owners are finding it very difficult to invest in the latest machinery. Bangladesh’s high interest rates\textsuperscript{15} also ensure more difficult access to capital. Without easy access to capital and decreasing margins, Bangladeshi RMG manufacturers

\textsuperscript{15} See https://www.bb.org.bd/econdata/intrate.php
find it difficult to invest in these new technologies and machineries. Although no literature seems to make this specific argument, there does seem to be evidence that Bangladesh’s high interest rates is deterring further investment and capital acquisition in this sector.
Management and Organization

Interestingly, a small section of managers reported that the problem may not lie solely in labor productivity but in management and organizational practices. Berg et al. (2011) report that the existing challenges that the RMG industry faces will worsen unless there is an increase in skilled workers. One assumes that this would translate to an increase in worker productivity, but they highlight the lack of skilled middle management positons as an equally important issue. Berg et al. (2011) highlight that educational institutions and technical institutes geared towards the RMG industry are almost nonexistent. They suggest that suppliers make active conscious efforts to improve both top level and middle level management, instead of waiting for the government to do so. They also suggest providing structured in-house training for both workers and middle management. Razzaque and Eusuf (2007) highlight managerial inefficiency as another barrier for firms, and claim that some firms are not able to increase productive capacity or produce higher value added items as they lack the organizational structure and efficiency in management. The World Bank (2013) also suggest that skill building should not be limited to just line workers, but also involve management. It is interesting to note that a minority of the managers reported management and organization as an issue that the RMG industry faces. This understatement of the issue regarding managerial inefficiency is interesting to note, as may be because these owners and managers are inherently unaware of, or choose to ignore inefficiencies in their decision-making processes.

Some manager report that the aspect of managerial and organizational efficiency has not been fully realized yet. Like the issue with improving labor productivity, this involves a diverse range of stakeholders, will need both public sector initiatives from the government and private sector initiative from firms, organizations like BGMEA and other institutions. Fernandez-Start et
al. (2011) report multiple initiatives taken by both public and private sectors in order to improve the workforce. Organizations such as the BGMEA University of Fashion and Technology (BUFT)\textsuperscript{16} have been catering directly to the RMG industry in terms of providing skills training for mid-level management and fashion design. Multiple privately owned universities now offer a B.S in Textile Engineering, providing most of the skills needed to directly enter as production managers and factory managers. According to Fernandez-Start et al. (2011), the Department of Textiles (DOT) have set up 4 colleges, 6 undergraduate-level textile institutes and offer vocational training for textiles in 40 institutes. Public universities have also followed suit, and the government has responded by setting programs in even more universities and colleges in Bangladesh.

With all these initiatives, it would seem that Bangladesh is setting up adequately to tackle the problem of management efficiency. Owners report the reality as being quite different. Most interviewees were hesitant to talk about managerial efficiency. Those who did, however, presented a stark view of this often-ignored component of the RMG industry. Owners report a discrepancy between the impact of these aforementioned initiatives and their actual impact. Owners report a very high turnover rate for mid-level managers, with most managers quitting within a few years of employment in the factory. Interviewees complain that even textile engineers are prone to this sort of activity, and they are usually attracted by management jobs in communication, retail and banking. They claim that the low level of management retention is due to the management positions and opportunities being relatively less lucrative. For one, management in banking and telecommunication is often higher paid than their textile

\textsuperscript{16} Set up in 1999 by the BGMEA, previously known as the Institute of Fashion and Technology (BIFT).
counterparts. Interviewees also report that jobs in those industries are valued higher by society, and so there is a natural inclination towards those industries. This seems to play into the vicious cycle of managerial inefficiency, as owners report hesitancy to setting up in-house training initiatives for mid-level management. Owners also tend to employ their relatives as managers of their factories with the idea that these managers will be more loyal and more transparent with the owners. The few interviewees who spoke about manager tendencies reported a complete lack of formal hiring processes, hiring structure, and thus a subsequent lack of organizational structure. There is no literature that looks into hiring practices within the RMG industry, so it is difficult to substantiate the claims made by the managers regarding the concept of managerial inefficiency and manager hiring practices.

According to some owners, practices such as this ensure that managers keep performing at the same productive levels. There is no desire to perform better and become more efficient. Since most top-level and mid-level positions have no comparative hiring practices, managers are complacent about the large amount of job security. Having personal or familial relationships with the owner or other employees give them a high amount of job security, and most managers are content with keeping things the way they are. Some owners coincidentally described the process of management as “firefighting” in the sense that these mid-level managers are tackling problems as they arrive. There is no personal drive from the management to improve productivity and labor efficiency, and no desire to ensure problems do not happen in the first place. The current managers of this RMG industry lack both the skills and the desire to tackle the inefficiencies presented by their management, their management style is more reactive than proactive. Some interviewees took it one step further and claimed that this issue isn’t necessarily an RMG issue, but a cultural issue. According to them, there initial profit margins were so high
that most owners have the mindset that things are fine the way they are, at least regarding organization, production and management. They claim that there is no desire to push people to do their best, no source of internal competition and drive. It is very difficult to make any judgment on the reliability of these claims, as there is no pre-existing research into this topic. This makes the issue even more important, as the potential impact of these claims on the RMG industry could be very significant.
**Infrastructure**

Basic infrastructure like transportation, communication and essential services like electricity, gas and water may just be Bangladesh’s biggest problem in the long-term. According to the Schwab (2014), Bangladesh ranks 127th in terms of infrastructure, which is worse than all of its RMG competitors like Vietnam, Cambodia, India and China. Owners, along with Razzaque and Eusuf (2007) highlight it as a prime cause for concern for Bangladesh’s industrial and export growth.

Yunus and Yamagata (2012) highlight infrastructure as an area which the government should focus on, while Berg et al. (2011) highlight infrastructure such as utilities, road network and port facilities as the biggest limiting factors (as seen by buyers) when it comes to sourcing RMG from Bangladesh. The lack of infrastructure can be attributed to longer lead-times for RMG products in Bangladesh as congested roads and highways and the lack of deep-sea harbors prevent reliable and fast transport out of Bangladesh.

As both Berg et al. (2011) and most owners report, most RMG factories are located in Dhaka or Chittagong, and Chittagong port is the main seaport for garment export. As a result, the Dhaka-Chittagong highway is subjected to huge volumes of both raw materials and finished goods transport. With no other alternate routes, and increasing volumes with respect to road capacity, it is often congested to the point where a 4-hour journey can take up to 20 hours. The lack of a deep sea port prevents bigger, more capacious freighters from entering Bangladesh ports, and increase lead time by up to 10 days, according to Berg et al. (2011). Owners report that these freight transport finished goods to Singapore, where they are resorted and transported to their final destination. A deep see port would streamline this two-step process and drastically reduce lead times. An alternate form of transport, the Dhaka-Chittagong train, runs at one-tenth of the needed capacity, according to some logistics experts (see Berg et al. (2011). It is no
wonder why The World Bank (2013) places infrastructure issues as one of the most binding constrains for export-led growth in Bangladesh.

According to most owners, the issue of power and energy is just as important for Bangladesh as transportation and logistics. According to the World Bank (2013), Bangladesh ranks last among its Asian competitors in terms of power outages. There is a power shortage for RMG manufacturers, as the demand for electricity is much higher than Bangladesh’s current production. Most RMG owners say they need to have their own diesel generators so that they don’t have to rely on Bangladesh’s unreliable energy supply and frequent load-shedding. This becomes quite expensive in the long run with added fuel expenditures and machinery maintenance costs. There seems to be evidence that power and energy are a significant infrastructure issue to the RMG industry.

Most owners claim that the bigger problem lies not in the lack of infrastructure itself, but the lack of improvement in infrastructure. There is a difference between plans for infrastructure being made and those same plans being implemented. As multiple sources including the World Bank (2013), Berg et al. (2011) and Yunus and Yamagata (2012) point out, Bangladesh faces a large discrepancy between these two. Bangladesh’s problem with corruption and unnecessary bureaucracy often prevents completion of these infrastructure investments. As Berg et al. (2011) reports, Bangladesh’s low success rate on completing these infrastructure projects on time means that a quick, efficient solution is doubtful. This is not only true for transportation and logistics, but for Bangladesh’s energy crisis as well. Owners report that it often takes more than 6 months for a new factory to receive a gas license, and some owners resort to illegally buying gas from gas stations and transporting them to factories. Without a steady gas supply, segments of production like ironing are impossible, and with Bangladesh’s unnecessary bureaucracy, owners
have to take matters into their own hands if they want to retain buyers and generate revenue.

While there is no evidence for these specific claims made by the owners, there is overwhelming evidence of a lack of improvement in these areas according to the existing literature.
Changing International Markets

Bangladesh’s position in the international clothing market has solidified in the last 20 years. In a growing market, Bangladesh has risen to capture a significant portion of the market share.

According to the World Trade Organization (2014), Bangladesh’s share in clothing exports have risen from 0.6% of the world in 1990 to 5.1% in 2013. The only countries above it in terms of export market share at China at 38.6% and Italy at 5.2% (which can be ignored as it exports primarily within the EU). It’s closest competitors, Vietnam and India, both have 3.7 % of the market share. Even though it is one of the top exporting countries (second largest ignoring Hong Kong and EU), its competitors are very close in terms of export value. It is important to note that while Bangladesh has grown to be the second largest exporter of clothing, Vietnam has a similar market pattern. India’s share in the market is fickle (possible because of its difficulties regarding labor unions and structure, according to Berg et al. (2011)), while Turkey’s has been falling. Other countries like Cambodia and Indonesia can also present problems in the future for Bangladesh, but its main competitors remain India and Vietnam.

Owners claim that Bangladesh started in a position where it can be the alternative to China. This type of sourcing strategy is pre-meditated according to the existing literature, with Berg et al. (2011) reporting that apparel buyers planned to shift their business away from China to other countries as China was losing its competitive value, and identified Bangladesh as the top sourcing country. According to Berg et al. (2011), over 89% of respondents put Bangladesh as the top coursing country. Their primary reason was Bangladesh’s competitive advantage relative to competitors. Berg et al. (2011) mentions that the upward wage progression of RMG workers

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17 See Appendix, Figure 2
is something that buyers expect to happen as Bangladesh attracts more attention in the clothing market, and expect efficiency increases to counter these rising costs. Thus they expect Bangladesh to maintain this competitiveness in the near future.

Berg et al. (2011) also cited Bangladesh’s capacity potential as the second factor behind Bangladesh’s attractiveness. It is important to remember that since 2011, Bangladesh’s competitors like Vietnam and Cambodia have grown by roughly the same amount as Bangladesh in terms of share in world exports\textsuperscript{18}. India’s clothing exports have grown at even higher rate than that of Bangladesh. As these countries are increasing productive capacity, it seems that Bangladesh’s productive capacity is decreasing. Bangladesh’s 5000 RMG factories in 2011 have fallen to 4200, and even more are expected to go out of business as the issue of compliance becomes stricter. A few owners report that its workforce is about to decrease too. According to the BGMEA, Bangladesh has had the same number of RMG workers in the last 3 years (4 million), which may be because the pull towards urban areas like Dhaka and Chittagong are decreasing. There seems to be evidence surrounding the issue of decreasing capacity, as the as the BGMEA reports the number of factories to have decreased over the last two years. This is mostly due to the added requirement of compliance and these factories shutting down due to their inability to meet that. There is no evidence to support the manager’s claims that the workforce is decreasing, as there seems to be no indication of urban to rural migration as suggested in some owner’s claim. This seems more likely to be either speculation, or an issue affecting a single or small subset of factories.

\textsuperscript{18} See the World Trade Organization (2014)
There also seems to be a shift in the composition of buyers. Owners claim that they are receiving more and more orders from countries like China, India, Brazil, etc., and predict that these orders will keep increasing in volume as these buyer economies grow and the demand for RMG goods increases in those countries. As Berg et al. (2011) point out, Bangladeshi RMG manufacturers are regularly trying to expand into new markets. They mention China, India, Australia, Brazil, and South Africa as new, emerging markets for the Bangladeshi RMG manufacturers to tap into. Berg et al. (2011) predict that as these countries grow, new waves of consumption-oriented middle class citizens will generate demand for low and mid-level clothing products. Bangladesh stands in the perfect position to fill up this excess demand and capture these markets. They predict the world market to triple its 2011 size by 2020.

The World Trade Organization (2014) highlights that the top importers are still the European Union at 37.9% of the market share (with 19.7% extra-EU imports), the United States at 18.9% and Japan at 7.0%. Countries like Canada and Russia make the top 5, with South Korea, Australia, Switzerland and China all between 1.1% and 2.2%. This does not tell the entire story. Annual percentage changes show that the top markets like EU and US are growing quite slowly, around 6% for EU and 3% for US in 2013, whereas countries like China, South Korea, UAE, Saudi Arabia, Turkey and Singapore exhibiting growth rates over 10%. It seems that the pre-existing markets are now saturated, and new markets are opening up in newer industrialized countries, exactly as Berg et al. (2011) and the owners had predicted.

To a large extent, Bangladesh’s export patterns have followed the changes in international markets for RMG. According to the Export Promotion Bureau (2015), the United States and European Countries still dominate in terms of market share (21% for the US and and 18% for Germany). The top 15 importers of Bangladeshi RMG products do not include any of
these newer prospective markets mentioned before. However, China’s RMG import growth rate is much higher than the US, or the world growth rates\textsuperscript{19}. The story is similar for countries like India, Brazil and Russia. RMG owners have similar responses to this data, as they see China, India, Brazil and Russia and other newly industrialized emerging as new markets. Most entrepreneurs argue that over the long run, these countries’ markets will continue to increase, and will eventually rival the North American and European markets. This makes sense, as these industrialized countries will have middle-class citizens who will generate demand for the low and mid-level clothing that Bangladesh manufactures.

The most interesting out of all these new markets is China. China is one of the fastest growing markets for clothing, but it is also the largest exporter of RMG. Granted, China exports much more that it imports ($177 billion vs $5 billion in 2014), but its growing imports suggests that China may end up being one of the largest markets in the next few years. Most owners attribute it to China’s own demands for affordable clothing, which it cannot satisfy with domestic production as a result of its rising costs. As a result, China is looking to other countries to satisfy its domestic demand, and Bangladeshi RMG owners are looking to meet that gap. Bangladesh’s Trade agreements with neighboring Asian countries like India, China and South Korea\textsuperscript{20} certainly help in this regard.

Owners also report that every year they are getting less and less orders from countries like the United States and European countries, and this might be a combination of saturated markets and Bangladesh’s poor compliance position. Owners argue that organizations like Alliance and Accord have mainly US and European members respectively. Therefore, buyers
\textsuperscript{19} See Appendix, Figure 3
\textsuperscript{20} See: \url{http://aric.adb.org/fta-country}, \url{http://www.mincom.gov.bd/reg_bil_trade.php}.
from these newer countries may not adhere to these compliance standards as strictly as US and European buyers. While this exact claim of the new markets having lower compliant standards is unsubstantiated, the overarching theme of new markets remains a big prospective as pointed out by both the interviewees and the pre-existing literature.
Conclusion

The Ready Made Garments Industry in Bangladesh has acted as a catalyst for the country’s recent growth and development. With recent developments, Bangladesh stands in a critical position. Until recently, Bangladesh stood as the best alternative to China in terms of RMG sourcing. Now it is facing both internal and external issues which have either short-term or long-term effect on RMG firms, or a combination of both these effects.

Within this context, this research tries to determine whether RMG managers can be trusted as a reliable source of information. By analyzing their responses and comparing them to corresponding secondary data, the study arrives at the conclusion that managers can be trusted as a reliable source of information only when looking at specific topic areas. In some, like the issue of Compliance, there is not much secondary data to support their claims. This makes sense, as this is a fairly new issue and only now is research taking place in the specific topic area. In others, like the issue of management and organization, not only are owners claims largely unsubstantiated, they are also sometimes contradicted, or self-contradictory (contradiction between the responses).

For the other issues like political instability, wage determination, labor productivity and technology, infrastructure and markets, there seems to be a general agreement among the primary and secondary data. It is important to note that this agreement does not always hold when looking at specific claims within these issues, or taking it one step further, the cause for some specific claims.

In one sense, they can be in the sense that they can identify these issues exist. Within the issues themselves, the variations in the data (both the primary responses and their corresponding secondary data) make it difficult to make generalizations about whether managerial responses
can be trusted. Hence further study is needed, possibly empirical, to see whether it is a reliable source of information.

The potential unreliability of this information makes it very difficult to use it for further analysis. This is especially important, as manager’s responses are used for exactly that purpose. Mane industry reports and other eminences from consulting firms, etc., use interview and survey data in their analysis. Reports like the Global Competitiveness Report (2014) rely solely on data like this for many of their ratings and indices. Reports such as this are used by investors, both foreign and domestic, by buyers and sellers within the industry and across the product chain, as well as other stakeholders. The repercussions of this unreliable data is thus inaccuracy in these reports, which biases the decision making of these stakeholders. Unless there is some reliability in the data, it becomes difficult to trust the reports which are so readily used and implemented
References


Appendix

**Figure 1**: Source: BGMEA, EPB, author's calculations

**Figure 2**: Source: WTO International Trade Database, author's calculations
Growth Rates of RMG exports from Bangladesh

Figure 3: Source: Export Promotion Bureau, author's calculations
Sample semi-structured Interview Questionnaire

1. In your opinion, how does political instability affect the RMG industry, in terms of production, buyer’s reactions, etc.? Can you comment on any cost increases, buyer uncertainties, and the translation of this political instability to labor insurgency?

2. How have buyer pressures changed after events such as Rana Plaza and Tazreen fire? How has this affected the costs of the industry? What other ways does this affect production and other functions of the RMG business?

3. How are the requirements to be compliant affecting the industry? Specifically, how is this affecting the size and growth of the industry, the ability to capture orders, etc.?

4. How has Bangladesh fared against its competitors like Vietnam, Cambodia, etc. as a result of these compliance pressures? Are there any other major issues which puts Bangladesh at an advantage/ disadvantage?

5. Do you see new markets opening up for Bangladesh? If so, how does Bangladesh stand in terms of receiving orders from these markets?

6. What do you think is the mentality of the industry (both of the owner’s and outside stakeholders like the general public, potential employees, academia, etc.) in terms of the future? specifically, what are its outlooks on increasing labor productivity, introducing automation, employing skilled managers, etc.?

7. Are the owners focused on the industry growing and becoming more productive, or just making profit? What is the outlook of owners in this aspect?

8. What role is the government playing in helping this industry adjust to these latest pressures? Do you think their role harms the industry or lets it flourish, and if so, how so?

9. Do you think the RMG industry in Bangladesh is ready for the change in compliance happening now? How do you see the industry in the future, in terms of capital intensiveness, growth, etc.?