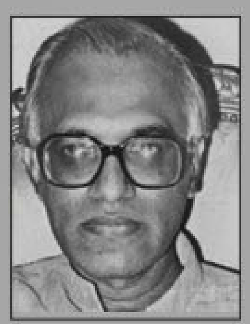
Fixing the minimum wage in the garment industry

Have we done our homework?



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Since 2006, when the minimum wage in the garment industry was last fixed, the cost of living has increased by about 25 percent and the consumer food price index by about 30 percent. Workers' demand for wage increase is thus understandable.

THE government is reportedly finding it difficult to arrive at a consensus regarding fixing a minimum wage for the garment industry. It is reported that while the workers are demanding a threefold increase in the monthly minimum salary - from the existing Taka 1,662 to Taka 5,000 - the factory owners are ready to offer up to only Taka 2,500 a month. Both sides seem to have their own perspectives and reasoning with no meeting point in sight. At the end of the day, however, the government will have to give its verdict anyway. In order to promote good owner-labour relationship and to avoid further labour unrest, it is absolutely essential that the rationale of the government's decision is made clear to all stakeholders. To establish such a rationale, a number of questions need to be answered.

How much room is there in the exporters' profit margins for allowing wage increases?

We need to know the size of the pie before we can decide about how the pie is to be divided between workers and factory owners. For this, one has to have a reliable estimate of the earnings from so-called cutting and making, net of all operating costs, and then determine the shares of wages and profits in it. The estimates may be in respect of an 'average' factory that is taken to be representative of the whole industry. If the existing shares are found to be 25 and 75 percent for wages and profits respectively, a threefold increase in the wage bill will still leave a 25 percent profit share. If, on the other hand, the wage share is 40 percent, such a wage increase is evidently an arithmetic impossibility. Beyond such basic arithmetic, one has to look at the profit rate in relation to the investments made by the factory owners to see if such profits are in excess of what may be considered as reasonable. It will serve the owners' long-run interest to come up with objective and reliable evidence; otherwise there is a risk that public perceptions are shaped only by anecdotes.

How will the average wage be affected by the minimum wage?

For profitability, what matters is the average wage per worker, not the minimum. The employers claim that the average wage including all benefits is substantially higher than the minimum wage rate that is under contention. The total wage bill will not therefore necessarily increase by the same proportion as the minimum wage; it will depend on how wages and salaries at different levels will have to be readjusted to maintain appropriate differentials conducive to work incentives.

To what extent an increase in wages will lead to a restructuring of the garment industry?

Casual observation suggests that there is a great deal of variations across the myriad of firms in the garment sector in respect factory size, production efficiency and profitability. We need a quantitative sense of this phenomenon in order to assess whether and to what extent of the garment industry will have to be restructured following a mandatory increase in the minimum wage. Marginal and inefficient factories may have to close down while the efficient ones will be able to increase their share of the market. Such a process is not obviously painless.

From the point of view of workers' standard of living, what is a socially acceptable minimum wage?

Although there is no easy answer to this question, we should at least have some plausible criteria to go by. The income needed to meet a minimum standard of living is a well-known criteria, although there will be disagreement about what that minimum is. It should be in the employers' own interest to provide for a minimum standard of living that ensures worker efficiency. However, this motivation on the part of employers may not work because of the temporary and floating nature of the workforce in the garment industry. Although we do not know for certain, the way garment workers contribute to their family income is likely to be characterized by their typical age-gender profile. Even less is known about the life-cycle earning patterns of garment workers: can the majority of them graduate from poverty after leaving their job in the garment industry? What is the likely income of a garment worker in alternative occupations? The less is the workers' perceived gains from employment in the garment industry in relation to other alternatives, the less will be their stake in the survival of the industry and the more will be the likelihood of worker unrest.

How are the export prices of garments fixed in dollar terms?

A lot will depend on whether the garment exporters will be able to pass on a part of the increased wage cost to the foreign buyers without adversely affecting the volume of export. In a perfectly competitive global market, an increase in Bangladesh's export price will divert global demand to other countries. But competition may not be that perfect. Foreign buyers may often be in such a strong position as to be able to dictate price in order to appropriate any surplus profit generated in the garment industry. In that case, they may be willing to absorb a part of the increased wage cost in their offer of price without reducing their volume of orders. In order to derive appropriate policy conclusions in this regard, we need to be better able to understand the characteristics of buyer-supplier relationships in garment export from Bangladesh.

Do we understand the relationships among cost of living, the exchange rate and the wage bargain?

Since 2006, when the minimum wage in the garment industry was last fixed, the cost of living has increased by about 25 percent and the consumer food price index by about 30 percent. Workers' demand for wage increase is thus understandable, particularly since the minimum wage fixed in 2006 is considered to have been far too low in view of the increase in the cost of living taking place preceding that year. However, during this time, the exchange rate of taka against dollar has remained virtually unchanged. Even if we assume that the dollar price of garment export has withstood the pressure of global recession, exporters' net earnings per unit have at best remained the same in nominal taka terms. These macroeconomic trends partly explain the prevailing tension in the industry.

It does not follow, however, that Bangladesh Bank should intervene in the foreign exchange market to deliberately depreciate taka, say, by buying foreign exchange and accumulating more reserves than it is doing now. This may only add fuel to domestic inflation and hinder economic recovery in other ways. Instead, the exchange rate may be allowed to adjust on its own if and when import and investment activities gather momentum. Meanwhile, we need to think of measures to help the industry remain competitive while providing for a minimum standard of living for workers. The government's offer to provide food rations for garment workers is a step in the right direction.

Wahiduddin Mahmud is an eminent economist and a former adviser of caretaker government.

Are they adequately paid?

Scanning our power scenario

Our power scenario will not change in the next five to ten years, only the demand and supply gap will decrease -- given the real power shortage, and the fact that most (+80%) of our power plants of today may not be running after the next five years. Therefore, privately owned or private-public partnership power projects are a sure and attractive venture for any investor.

S.A. MANSOOR

Power generation and supply in Bangladesh are in a precarious position today. Load shedding is a common feature; day and night! The power is mostly (over 70%) coming from unreliable plants that are over 20 years old. These plants had no major overhauls over the last few years because they cannot be taken off-line for regular maintenance and overhaul. They are stopped for breakdowns, and only emergency repairs are carried out.

Components for many of these plants are no longer being manufactured and spares are not available. Compounding the situation is our growing shortage of natural gas; which is the main fuel for almost all our power plants.

It is no wonder that our power shortage is possibly over 1,200 MW during the maximum demand period (6pm. to 10pm.). During the day also, power demand is no less, as the lighting load is replaced by commercial, irrigation (mostly in rural areas) and industrial loads. This sorry picture sums up our critical power supply situation today.

As a desperate measure, the government has hired a number of rental power plants through direct negotiation for a 3 to 5 year period. During this period some old plants can be overhauled, while others now under purchase or construction can be brought on line. The rental power plants to be installed between 2013 to 2015 are listed in the Table -1: Table-1.

Meanwhile, some privately owned power plants, some of which are gas-fired, are expected to come on-stream. Some old public sector gas-fired plants could be shutdown for much needed overhaul, and provide the gas for the plants tabled below. These may be on-line by December 2010 at the earliest. However, the completion dates are possibly optimistic, and delays of 6 months cannot be ruled out. Their rated output of these power plants is summed up in Table-2.

Of the 10 plants, the top six are gas-fired; while the other four are liquid-fueled, and should be on full load as soon as they are commissioned. Meanwhile, another eleven power plants are expected to come on line. This is shown in Table-3. However, the implementation process is long and slow, and the plants may come on line possibly sometime in late 2012 -- or even later.

The total estimated power supply demand and power generation from 2011 to 2015 is projected in Table-4.

During 2011-2015 we may have to take out the very old, unreliable and fuel-guzzling power plants, which will be too expensive to repair and overhaul, and replacement may be cost effective for these over-aged plants! This important management decision has to be taken by the government in overall national interest.

Given our rapidly decreasing natural gas, two large coal-fired plants are planned, and are now under feasibility study (Table-5). They are being set up under pubic and private partnership (PPP); which is the logical way out; given the time-lines for setting up of these plants shown below are to be considered. It is expected to be on line late in 2015, as stated by government; but in our view it is fairly optimistic.

With our dwindling natural gas resources, and the availability of large good quality (low S) coal, the logical choice would be to go for coal-fired combined-cycle plants; with the waste heat being utilised for subsidiary power generation.

Immediate measures must be taken for coal mining, so that coal is available and stock-piled at the proposed plant site not later than October/November 2014. This is a very important and critical issue, given the delay in deciding the method for mining the coal.

To sum up, our power scenario will not change in the next five to ten years, only the demand and supply gap will decrease -- given the real power shortage, and the fact that most (+80%) of our power plants of today may not be running after the next five years.

Therefore, privately owned or private-public partnership power projects are a sure and attractive venture for any investor. Our government should actively pursue potential investors, to ensure some semblance of power supply stability in Bangladesh.

Engr. S.A. Mansoor is Technical Adviser, Spectra Group.

How bright is our power prospect?

Table 1

Company Name	Location	Capacity (MW)	Fuel	Price/ Kwh	Hiring Period in Years
Agrico	Khulna	55	Diesel	14.39	3
Agrico	Ghorashal	145	Diesel	14.39	3
Desh Energy	Siddhirganj	100	Diesel	13.39	3
Bangla Diseel	Narayanganj	50	Diesel	13.79	3
KPCL	Khulna	115	HFO	7.78	5
Summit	Modanganj	102	HFO	7.78	5
IEL Consortium	Kodda	100	HFO	7.78	5
Dutch Bangla Power	Gazipur	100	HFO	7.78	5
Bangla Track	Chittagong	100	HFO	7.76	5
Sinha Power	Chapai Nawabganj	50	HFO	7.77	5
PDV Powertech	Meghnaghat	100	HFO	7.70	5
IFDC Volcan Energy	Nawapara	40	HFO	7.77	5
Power Pac	Keraniganj	100	HFO	7.78	5
Northern Power	Katakhali	50	HFO	7.76	5

Table 2

Sl. No	Plant Location	Capacity (MW)	Fuel	Completion Date	Present Status
1	Shikalbaha	150	Gas/Oil	May 2010	Implementation Delayed
2	Sidhirganj	2×120	Gas	May 2010	Implementation Delayed
3	Fenchuganj	90	Gas	July 2010	Implementation Delayed
4	Ashuganj	62	Gas	April 2010	Implementation Delayed
5	Fenchuganj	50	Gas	June 2010	Implementation Delayed
6	Bogra	20	Gas	June 2010	Implementation Delayed
7	Bheramara	110	Diesel	June 2010	Implementation Delayed
8	Thakurgaon	50	Diesel	June 2010	Implementation Delayed
9	Noapara	100	HFO	November 2010	Under Construction
10	Barisal	50	HFO	December 2010	Under Construction

Note: Serial numbers 1 to 3 is under Public Sector and the rest are Private Rental Plants

Table 3

Sl. No	Location	Capacity (MW)	Fuel	Expected commissioning date	Remarks
1	Faridpur	50	HFO	July 2011	NOA Issued
2	Dohazari	100	HFO	July 2011	NOA Issued
3	Baghabari	50	HFO	July 2011	NOA Issued
4	Hathazari	100	HFO	July 2011	NOA Issued
5	Daudkandi	50	HFO	July 2011	NOA Issued
6	Katakhali	50	HFO	Sept 2011	NOA Issued
7	Bera	100	HFO	Sept 2011	NOA Issued
8	Gopalganj	100	HFO	Sept 2011	NOA Issued
9	Shantahar	50	HFO	Sept 2011	NOA Issued
10	Sylhet	150	Gas	Dec 2011	Under Const
11	Chandpur	150	Gas/Oil	Dec 2011	Under Const

Note: All these plants are in Public Sector. All are peaking plants, except the last two 150 MW units .

Table 4

Year	Projected Capacity (MW)	Projected Demand (MW)	Shortfall (MW)	Remarks
2011	5,800	6,500	1,700	Some old plants may go off-line
2012	6,200	7,200	1,000	-do-
2013	6,500	7,700	1,200	-do-
2014	7,000	8,100	1,100	-do-
2015	8,300	9,000	700	Shortage to continue

Table 5

Location	Capacity (MW)	Ownership	Fuel	Expected Commissioning	Remarks
Chittagong	1300	PPP	Coal	March 2015	Feasibility stage
Khulna South	1300	PPP	Coal	March 2015	Feasibility stage

New words for a new era

A MAN AND A woman were sitting in a restaurant "accidentally" bumping their legs together under the table. Or in other words, they were at the early stage of a relationship which a friend of mine calls "kneegotiations."

That was just one of the new words that has been coined by readers over the past years. "New words" is a subject we return to every couple of years. Why? Because it enables your lazy host to repeat some old stuff. No, the real reason is that it exploits the GENIUS of this site's commenters. This is vital, since I am out of range of the Internet this summer.

"Every day, someone comes up with some new invention or habit or convention for which no word exists," Joseph Da Silva from Sri Lanka said. To provide inspiration, here's some greatest hits from the New Words file on my desk.

From the abovementioned Joseph:

Secretariot: When support staff go on strike and tear up the office.

Borediance: An audience which has fallen asleep.

Federal Reserve: Natural reticence which prevents financial officials from saying things like: "The economy's collapsing! Run!"

Xenaphobia: Fear of warrior princesses and other tough women.

Reader Tom Marrin suggested that instead of "Army and Navy" (the name of a famous clothes shop in the west), Asia should have stores called "Armani and Navy," for imitation designer clothes.

He also suggested a new noun, "abra-kebabra." He explained: "This is an illusion performed after a night getting drunk, whereby a kebab is made to disappear down the performer's throat, only to reappear a short time later on the back of a taxi driver's head."

Reader Therese Necio-Ortega came up with the word "Teension," which describes the state of agitation in a household caused by adolescent mood-swings.

She also suggested three new meanings of the word AIDS:

For herself: Acute Income Deficiency Syndrome.

For corrupt politicians: Amassed Income Deposited Somewhere

For office workers: As If Doing Something.

Meanwhile, a tech-y reader from South Asia came up with the following, which all have a technological theme:

Open-Collar Workers: People who work at home on computers and never get out of their pajamas.

Cobweb Site: A website that hasn't been updated for a year or more.

Selfsurfer: Egomaniac who types his own name into Google and Yahoo every day to see if anyone has mentioned him.

Grasian: Hair colourant that makes Asian hair black again.

Gaysian: Homosexual Asian.

Talking of this region, a reader who wished only to be known as The Stasian Master came up with these new words, all on the theme of modern Asians.

Abbreviasian: A shorter-than-average Asian.

Vexasian: An irritated Asian.

Emancipasian: Asian who achieves equality.

Agitasian: Asian who scored only 98 per cent in a math test.

Stagnasian: Asian in a rut.

Exploitasian: Underpaid Asian.

Flirtasian: Asian who laughs at someone's jokes because they have a desirable passport.

Sensasian: Asian who feels a desperate longing for rice while on lengthy business trip to Europe.

Procrastinasian: Asian trying to work out how many rich or otherwise useful people are going to be at a party before they decide to go.

Invasian: What Hong Kong people did to Vancouver.

Taxasian: Doomed attempt by governments on the east side of the world to get money from their citizens.

Temptasian: The desire among Asians abroad to skip social events and go home alone to eat comfort food.

Standardizasian: The false suggestion that Asians are a homogenous group, as often demonstrated in Mr Jam's column.

Ouch. Well, Stasian Master, I get your point, and I am not trying to commit the crime of evasian, but this column is subject to syndicasian, so I have to suffer a bit of generalizasian.

Can anyone think of any more?

For more tips on getting your visas quicker, visit our columnist at: www.vittachi.com.