Workplace safety must for Bangladesh to become RMG leader

Analysts speak at seminar on garment sourcing

STAR BUSINESS REPORT

BANGLADESH needs to ensure workplace safety immediately if it wants to be the world's biggest readymade garment exporter, analysts said.

Workplace safety has become the biggest challenge for the garment industry in the aftermath of the Tazreen fire that left 112 workers dead.

The garment industry has overcome three major challenges -- child labour, elimination of multi-fibre agreement quota and global financial crisis -- successfully over the last two decades, said Debapriya Bhattacharya, a distinguished fellow of the Centre for Policy Dialogue (CPD).

"Workplace safety is now the fourth challenge. It is possibly the biggest challenge the sector has faced to date."

Bhattacharya said Bangladesh is at a crossroads now: the country needs to decide whether it would entertain conspiracy theories and do nothing, or take the necessary steps to prevent such incidents happening again.

"I think opportunities will bypass us if we fail to ensure workplace safety. These will go to other countries such as Myanmar and Cambodia."

Bhattacharya's comments came at a seminar on the opportunities for the RMG sector in the changed global scenario, organised by the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) at the capital's Westin Hotel on Sunday.

In her keynote speech, Nazneen Ahmed, senior research fellow of Bangladesh Institute of Development Studies, said Bangladesh, now the second largest garment exporter after China, is on the radar of all European and American apparel buyers.

The country has witnessed robust growth in the non-traditional markets such as Japan, China, Korea, India, Chile and Mexico as well, she said.

Over the last three years, Bangladesh's RMG exports' share in the non-traditional market has increased from 6.88 percent in fiscal 2008-09 to 12.10 percent in fiscal 2011-12, she said.

The BIDS analyst said the Chinese economy is now in transition from being a manufacturer of low-cost products to a more value-added and high-tech industry, due to the rising labour costs.

China has to pay average wages from $400 to $500 a month compared to $70 to $100 in Bangladesh.

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A rallying cry for fire safety

THE NEW YORK TIMES

THE deaths of about 400 workers in two recent fires at Asian garment factories that made clothes for American and European brands should outrage consumers and become a rallying cry for higher safety standards. Just as the 1911 fire at the Triangle shirtwaist factory in New York ushered in a sweeping overhaul of industrial regulations in this country, these tragedies should lead to comprehensive changes in developing countries that have become the biggest suppliers of clothes to the Western world.

Accounts of the fires, in Bangladesh and Pakistan, clearly show that there would have been few, if any, deaths had the factories met basic safety standards. Owners of both factories had barred windows to prevent theft, and neither building had usable or safe fire exits, making it impossible for the workers to escape the flames and smoke. At the Bangladesh factory, Tazreen Fashions, managers initially stopped workers from leaving by dismissing a fire warning as a false alarm.

These fires were the latest in a series of garment factory calamities. The Clean Clothes Campaign, an anti-sweatshop group, estimates that more than 500 workers have died in factory fires in Bangladesh since 2006, not counting the most recent disaster. That country has more than three million workers employed in the clothing industry and is now the world's second-largest exporter of garments, after China.

The loss of life is all the more horrifying because most safety violations are obvious as is the need to correct them. Global brands and retailers like Gap and Walmart could pay for improvements to factories in countries like Pakistan and Bangladesh. While the governments of these countries must do more to enforce higher safety standards, real change will come only if buyers of clothing put their economic muscle behind the effort.

News reports about an April 2011 meeting on factory safety in Bangladesh appear to indicate that Walmart and other retailers have been unwilling to pay the higher prices for clothes that would be needed to make factories safer. Labour groups say a roughly 3 percent annual increase in prices paid to the factories would be sufficient to make the needed improvements. That is a small expense to safeguard the lives of millions.

RASHED SHUMON

Scissors are seen in a pile of ashes after a fire killed at least 112 workers at Tazreen Fashions in Ashulia on November 24.

Most clothing brands and retailers also seem unwilling to commit to changes that could improve safety for workers who earn as little as $37 a month in places like Bangladesh. Companies continue to advocate the use of voluntary auditing and inspection regimes that are not up to the challenge.

In the case of Tazreen Fashions, Walmart says it stopped ordering clothes from the factory after its auditors found safety violations. Nevertheless, orders from Walmart channelled through subcontractors found their way to the factory. If companies insist on using such daisy-chain outsourcing, they must make sure every link in the chain is governed by the same rules, and they cannot be wilfully ignorant of how their contractors operate.

Gap announced in October that it would start a fire-safety campaign for its suppliers in Bangladesh and help them get loans totalling $20 million to make factory improvements and provide $2 million in grants to pay workers while their workshops closed for renovations. Other companies, like H&M, also have fire-safety programmes. But these initiatives are not subject to outside scrutiny and verification.

What's needed is an independent and robust inspection system that is legally enforceable and run by safety professionals. A group of international and Bangladeshi labour organisations have been working on such an effort, but they have been able to get only two companies -- the PVH Corporation, which owns the Tommy Hilfiger and Calvin Klein brands, and the German retailer Tchibo -- to agree to it. The proposal would provide for an independent chief inspector who would oversee detailed and periodic inspections, based on internationally recognised fire-safety standards, of factories that make a majority of the clothes bought by the companies that sign the agreement.

The companies would bear the costs of improvements through higher prices for clothes and grants to workers who miss workdays because of renovations. The cost of the inspection programme to each company would vary by the firm's size, but it would be capped at $500,000 a year. Most important, the contract would be legally binding and could be enforced through arbitration and the courts in the companies' home countries.

The labour groups and the two companies have agreed that their system will go into effect only when two more major clothing businesses sign on so that more factories could be covered. More brands should step up and embrace this effort.

While this approach advanced by the labour groups is not perfect -- for example, it applies only to Bangladesh and ends after two years -- it provides a solid foundation for meaningful improvements. If successful, it could become a template for international businesses operating in other developing countries, like Pakistan, India, Vietnam and Cambodia. This could be one step toward ensuring that goods headed for American markets are not made in conditions that could well cost workers their lives.

This editorial appeared in print on December 10 in The New York Times.

Islamic banks to expand: study

REUTERS, *Manama/Kuala Lumpur*

ISLAMIC banks are set to expand as they compete increasingly with conventional lenders in attracting mainstream customers, according to a report by consultancy Ernst & Young released on Monday.

The total of all commercial banks' Islamic assets is estimated to reach $1.55 trillion this year, $1.8 trillion in 2013 and over $2 trillion mark, the report said. Gulf-based Islamic banks now have $450 billion in assets, about 30 percent of the total.

Islamic banks will grow as they focus on customers who expect more than just sharia-compliance in terms of products and service and have traditionally relied on conventional banks.

"Success will be defined in the core markets through the transformation of Islamic banks so they are able to compete with the much bigger, conventional boys for mainstream customers," Ashar Nazim, Islamic financial services leader at Ernst & Young, said.

Islamic finance follows religious guidelines such as a ban on interest and on pure monetary speculation, with its core markets in the Middle East and Southeast Asia.

The role of pure Islamic banks will also become important by comparison with banks that deliver products just through Islamic windows at their existing branch networks.

"There is no truly fully fledged Islamic bank (that stretches) across international markets or even regional," Nazim said.

He identified a group of 20 Islamic banks as likely candidates to become significant regional institutions. They now account for 55 percent of total Islamic banking assets after having grown over the past three years at an average rate of 16.2 percent a year, Nazim said.

"It is a lopsided industry at this point ... only 13 Islamic banks have $1 billion or more in equity," Nazim said, adding that the difference between small and large Islamic banks will widen.

Between 100 to 150 new financial institutions could be launched in the next five to seven years to cater to markets that are new to Islamic finance or have low rates of penetration including Egypt, Libya, Indonesia, Pakistan and Bangladesh, he predicted. Ten of the 25 fastest growing emerging markets have large Muslim populations.

REUTERS

The total of all commercial banks' Islamic assets is estimated to reach $1.55 trillion this year.

PROFITABILITY LAGGING

Even while growing, Islamic banks have experienced a decline in profitability, and their average return on equity lags behind that of conventional banks by 20 percent, Nazim estimated.

Return on equity for both Islamic and conventional banks has deteriorated since 2008 in the wake of the financial crisis, dropping to 12 percent in 2011 for Islamic banks, compared with 15 percent for conventional banks, the report showed.

This 3 percent gap is much wider than the 1 percent difference observed in 2008-2010.

The return on assets for Islamic banks dropped to 1.3 percent in 2011 from 1.7 percent in 2008, while rising for conventional banks to 1.7 percent in 2011 from 1.5 percent in 2008.

Operating expenses are 50 percent higher for Islamic banks, while their cost of funds still remain more competitive than for conventional banks, the report said.

Some banks have started to focus on improving efficiency and reducing costs, which could boost their profit margins by about 25 percent within two to three years, Nazim said.

"The severity of this performance challenge has put many Islamic banks in a difficult place. They have taken the decision to transform the way their business works," Nazim said.

How the United Nations could ruin the internet

JOHN C ABELL

THE Internet has sustained some pretty intense assaults in the past couple of years. There was the heavy-handed attempt to stamp out content piracy with SOPA/PIPA, the Federal Communications Commission's Net neutrality ruling, which many saw as splitting the baby, and that whack job who claimed to own a patent on the World Wide Web.

It is again open season on the Internet in Dubai, where the International Telecommunication Union, a United Nations agency -- whose mandate includes global communications -- is weighing proposals from many of its 193 member nations. Some of these proposals -- such as decentralising the assignment of website names and eliminating Internet anonymity -- would make enormous changes to the organisation and management of the internet.

The ITU meeting, which began on Monday, runs through Dec 14. Its agenda, and even the fact the proceedings are taking place at all, set off alarms among the Internet's guardian angels.

Among the most vocal critics are a founder of the Internet, Vint Cerf, and of the Web, Tim Berners-Lee. Theirs is not some misplaced paternal instinct or senior greybeard moment or cry for attention. These guys are worried. And if they are worried, we all should be.

Still not sure this is serious business? The US House of Representatives, which cannot agree on anything, voted unanimously to ban ITU regulation of the Internet before it even happens. The European Union did that last month, before the ITU even met.

Whether or not any policy directive emerges (or is abided by anyone) is not the point. The danger is in allowing any country to entertain the notion that Internet protocols can be put up for a vote.

It's not as if the ITU is inherently evil. The UN agency's previous convention, in 1988, focused on voice communications at a time when most phone companies were state-regulated monopolies. It took a global body to break up the cartels and ensure that phone service in every corner of the world adhered to global standards. This ensured that the system could work on the international level.

But the ITU has no inherent power to regulate the Internet. Nothing that makes the internet work, nothing that has made the internet great, has been the work of the ITU, which is inserting itself into this debate for the first time.

Today's scenario is the exact opposite of the phone system dynamic The internet has flourished exactly because it has always been a global standard, and some now want to regulate it at the state level.

There is an element of East-West, First-Third World envy in the proceedings. The Internet Corporation for Assigned Names and Numbers (ICANN), is a US-based organisation that controls the distribution of every Web address in the world.

Russia thinks ICANN's system can be improved upon. It wants countries to "have equal rights to manage their Internet including in regard to the allotment, assignment and reclamation of Internet numbering, naming addressing and identification resources."

That is a recipe for the chaos ICANN prevents.

Other proposals have a similarly power-hungry bent. One is a call to individually identify all Internet users -- ideal for an autocrat's retribution streak and surely on the wish list of every regime that sees the Internet as a metaphysical threat.

John Abell writes about tech, business and politics. Most recently he was Wired's Opinion Editor and New York Bureau Chief.