

Is the Bangladesh safety accord enough?

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FOLLOWING the worst industrial accident ever seen in Bangladesh, the loss of 1,131 lives and many more maimed and injured, it is not surprising that the rest of the world wants to step in and help Bangladesh solve its problems.

There has been a need for garment buyers, international trade unions and governments to be seen doing something in the aftermath, and consumers from around the world have been calling for safer factory conditions in Bangladesh.

It is in this context that the Bangladesh Fire and Building Safety Accord, more commonly called the Geneva Accord or the EU Accord, has been put together. In fact, planning for this accord had started some time ago, initially as a GIZ plan; the work was then expedited following the Tazreen factory fire.

Clearly, the horrific Rana Plaza collapse catalysed the process further with many major international companies, alongside IndustriALL Global Union and UNI Global Union, agreeing to work together to implement the accord as quickly as possible. Launched in April at the ILO offices in Geneva, it is hence known as the Geneva Accord.

But is an accord put together largely by foreigners and buyers in the best interest of the garments industry in Bangladesh?

The accord has some good points but sadly, excludes many of the factories that most need help and reform. It does not address the financing required to facilitate the reform. Since the accord has been put together by the buyers, large companies buying garments from Bangladesh, it relates only to the factories that these buyers are sourcing from. It is not, by any means, an industry wide solution and most certainly will not prevent another 'Rana Plaza' style disaster in the future.

The best case scenario following implementation of the accord would be that noncompliant factories would be demolished and market forces would ensure that new compliant factories might be built in their wake and over time, the industry would be



The Rana Plaza collapse on April 24 that killed 1,131 people raises concerns over workers' safety in factories.

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more compliant and able to attract more foreign investment.

The worst case scenario following the accord's implementation is vastly different. It might suggest that more than five hundred factories might be closed in Dhaka and as many as one million people be out of work, which would lead to riots on the streets. It is a big risk but given that even talk about closing a single factory in recent weeks has led to riots, the risk of social unrest is very real.

One might suggest that there is less risk involved in doing nothing. The garments sector has been on a trajectory of improvement for many years and continues to improve. Maybe the risks of doing nothing are actually less than the risks of implementing a partial solution.

Clearly, an industry wide solution is necessary. The garments sector is the single largest industry in this country, employing 4 million people, contributing to more than 70 percent

of exports and a significant part of GDP. A foreign devised partial plan imposed on such an important industry is not the way forward.

It is of particular concern to me that two large international trade unions would be championing a plan that could potentially lead to the loss of many jobs. The role of trade unions is to make jobs more secure and working conditions better. Maybe they are rushing into the implementation of a plan following the Rana Plaza tragedy just so that

they can be seen taking some action, however incomplete that action is. It reminds me of a saying I often refer to, 'bad decisions are made in haste'.

We all want to see a stronger and safer garments industry in Bangladesh and the only people that can make this happen are those from this country. In light of this, a group of concerned individuals from various industries, including garments, came together and wrote plan that includes the whole industry. It has a path to compliance for all noncompliant factories, ideas and suggestions for the financing of these and suggestions for the long term strengthening of the industry.

The 10-point RMG reform plan was released at a seminar last week. The working group behind the plan collaborated widely, both inside and outside the industry, both at home and abroad. It is a plan for Bangladesh by Bangladesh and puts the needs and issues of the whole garments industry first. It looks holistically at the industry and has suggestions for the immediate, medium and long term.

The 10-point plan does not apply blame to any sector but seeks to resolve issues within the industry. Factories that are severely non-compliant are not ignored in this plan. It is suggested the factories receive appropriate financing to relocate and become compliant. It is important that Bangladesh does not lose capacity or jobs in its garments industry and that the issues with noncompliant factories are resolved in a timely and safe manner, ensuring that Bangladesh can still supply its customers and maintain growth.

Right now, the garments industry needs a plan that is inclusive and collaborative, as the 10-point plan is. It needs the government, BGMEA, manufacturers, multilateral and bilateral donors to all work together behind a single inclusive plan.

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CPD ANALYSIS

Economic implications of hartal

CONTINUED FROM YESTERDAY

HEIGHTENED confrontational politics, marked by frequent hartal, particularly during the run up to the national parliamentary elections, is not uncommon in Bangladesh. It may be recalled that prior to all the three national elections that took place since the 1990s, the country experienced spells of general strikes. On previous three occasions since the 1990s, imposition of hartal became more frequent in the fifth year of successive democratic regimes (FY1996, FY2002 and FY2007). No doubt, disruptions caused by hartal had adverse consequences for the economy. It appears that FY2013 will not be an exception in this regard. In connection to this, one may recall that, CPD in January 2013 observed that "the government has settled ... with moderated economic growth, investment and employment prospects. Regrettably, even this modest ambition could come under serious challenge in view of the looming uncertainties in the political front."

Of course freedom of expression is a fundamental right in a democratic society. However, when shutdowns are imposed and enforced frequently and violently, they involve significant economic costs for producers, consumers, investors and the economy as a whole. Assessing the economic implications of hartal is thus important from three perspectives: (a) capturing the transmission channels of impact; (b) getting a sense about the costs and (c) influencing the discourse towards a search for alternatives. Although other categories of political shocks also persist in Bangladesh given the current circumstances, there is value in doing a meticulous analysis of shutdown as a standalone phenomenon.

Political unrest has been a cause of concern for many countries around the world irrespective of their political regime or the state of development. Experience from global literature suggests that political conflicts can have significant detrimental impact on an economy. Indeed, domestic conflicts under certain conditions could push countries towards a fragile state status. Fragile and conflict-ridden countries do not have the ability to develop mutually rewarding and constructive relationships within their societies

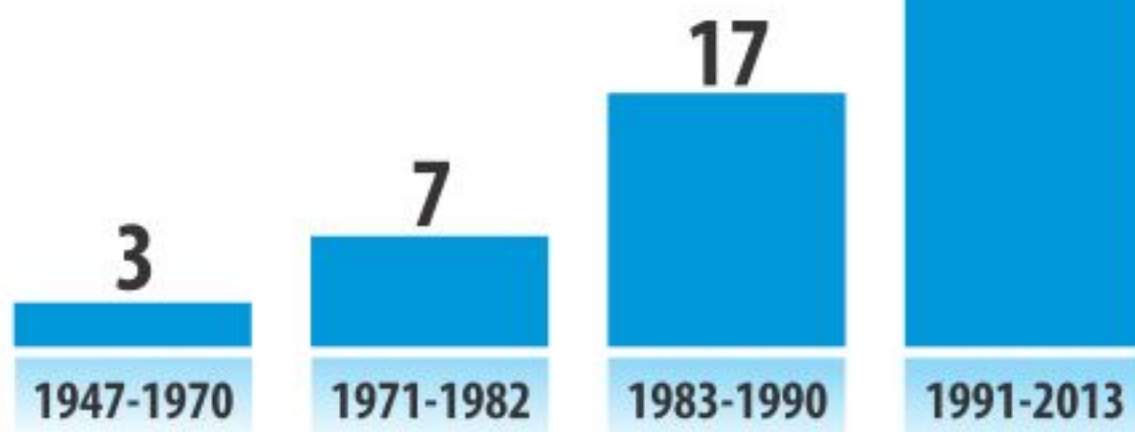
and often suffer from a weak capacity to undertake governance functions (OECD, 2012). These countries are more vulnerable to internal and external shocks, and in turn face instability.

Arguably, given the dominance of informal sector in economies like Bangladesh, adverse impact of shutdowns could be lower when compared with more developed countries.

Aisen and Veiga (2011), in a study of 169 countries and using five-year periods between 1960 and 2004, found that escalated levels of political instability are

INCIDENCE OF AVERAGE HARTAL PER YEAR

SOURCE: BASED ON SANGBADPATRE HARTALCHITRA BY AJAY DASGUPTA; AHMED, IMTIAZ (2011); ODHIKAR; ASK AND CPD



associated with lower levels of GDP growth rates. According to the authors, the major transmission channels were decline in productivity growth and lower level of physical and human capital accumulation. Alesina and Perotti (1993) also found that socio-political instability adversely affects investment. Aisen and Veiga (2006) concluded that political instability leads to higher inflation in developing countries.

A recent study by Khandelwal and Roitman (2013) analysed the impact of political instability on a number of macroeconomic indicators covering eleven selected countries of the Middle East and North African (MENA) region in the context of the Arab Spring. The authors concluded that political instability coincided with a large decline in real GDP growth rates in the MENA region. They also estimated that output generally remains below the potential for following four years after the initial drop due to political instability, and it takes about five years for the economy to bounce back. In case of unemployment, it would take between 4 to 5 years to revert back to the pre-crisis level in an economy. It was also observed that the countries in transition (e.g. Egypt,

Tunisia and Yemen) experienced significant decline in real GDP in 2011 due to political instability.

As evidence bears out, hartal in Bangladesh is becoming more frequent in recent decades. Average hartal per year was significantly higher (46 per year) under the democratic governments (1991-2013) compared to the earlier regimes. It may be observed from the same figure that the occurrence of shutdown has been on the rise.

From the recent hartal experience one can identify following eight stylized facts:

i. Frequency (incidence) of hartal

CGE RESULTS OF 1% DECLINE IN SUPPLY OF CAPITAL	
INDICATORS	OUTCOME (% change from base year)
GDP at market price	-0.9
Exports	-2.4
Imports	-0.8
Household consumption	-0.8
Government deficit	7.1
Revenue loss of the government	-0.7
Employment of labour	-0.9
Fixed investment	-0.1

SOURCE: AUTHORS' ESTIMATION

has increased significantly; ii. Shutdowns are now being called even during the weekends; iii. Calling hartal to press economic issues is now less common; iv. Hartal-opposing parties are more active during the hartal periods; v. More decentralised shutdowns have emerged, e.g. at district and upazila levels; vi. New actors are entering as hartal protagonists in addition to the traditional political actors; vii. Shutdowns are becoming increasingly violent, often leading to death and injury including those not involved (e.g. the attacks on religious minority groups); viii. Number of deaths of members of law enforcing agencies in connection with hartal is on the rise.

As was observed, frequent shutdowns have significant negative consequences for the Bangladesh economy. This is true for past years and, regrettably, FY2013 is also not an exception. In case of all three occasions in the past, GDP growth rate had declined as incumbent governments moved towards the finishing line of their regimes. It is apprehended that FY2013 will undergo a similar experience. Manufacturing sector's growth rates during the aforesaid three spells were also affected, while investment (as a share of

GDP) stagnated. A number of attempts were made in the past to estimate the loss arising from frequent shutdowns. An assessment of the methodologies used in these studies would show that these estimates (as per the methodology) were on the high sides. It is also noted that, affected stakeholders are trying to pursue more innovative approaches to reduce losses arising from hartal.

Shutdowns have significant adverse impact on such sectors as transportation and the retail sector. In contrast, there are certain sectors in the economy (e.g. min-

ing, agriculture and the energy sector) which are perhaps less affected by hartal. Extent of losses arising from hartal varies in accordance with level of enforcement and nature and gravity of the incidences which occur. There are various transmission channels through which hartal impacts on the economy. The tracking process is based on micro-evidence of impact of shutdowns on economic growth observed over the early months of 2013. Three primary channels were identified: transport disruption, property damage and uncertainty.

Inflation: moderated but high
The steady fall in food inflation helped to ease the overall inflationary pressure during the first half of FY2013. Since November 2012, non-food inflation also started to plunge. The latest available figure from Bangladesh Bureau of Statistics suggests, in April the annual average inflation was 7.8 percent. One may recall that, CPD in January expected inflation to come down to 7.7 percent at the end of the year. Food inflation came down to 7.2 percent (from 10.5 percent in June 2012), while non-food inflation was 9.3 percent (from 11.1 percent in June 2012).

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Reforming Myanmar courts investors at 'Asia's Davos'

AFP, Naypyidaw, Myanmar

MYANMAR touted its dramatic post-junta reforms Wednesday in a bid to entice foreign investors as hundreds of world leaders and industry chiefs visited the long-isolated nation for Asia's edition of the World Economic Forum.

Some 900 delegates from more than 50 countries gathered in the capital Naypyidaw for the three-day WEF on East Asia -- a regional version of the annual gathering of business and political luminaries in the Swiss resort of Davos.

Foreign firms are queuing up to enter the country formerly known as Burma, tantalised by the prospect of a largely untapped market with a potential 60 million new consumers in addition to Myanmar's pool of cheap labour. They include Coca-Cola, which has returned to Myanmar after an absence of more than 60 years with a new bottling plant, as well as consumer products giant Unilever which will soon start production in the country.

"This event is really going to raise the visibility of Myanmar to the economic community outside of the country," Heang Chhor, senior partner at global consultancy McKinsey & Co, told AFP.

"Beyond the usual suspects such as agriculture, energy and mining and infrastructure most (foreign) companies are still looking at the potential of Myanmar. What are the opportunities lying out there in the next 20 years?" he said.

The interest works both ways, with Myanmar desperately short of jobs, skills and infrastructure to drive an economic revival and lift its people out of poverty. "Our country very much lags behind... we lack contact with the other markets," said Wah Wah Maung of the national planning and economic development ministry, adding the forum is a chance to "market our nation".

President Thein Sein's quasi-civilian government has surprised the world since coming to power two years ago with dramatic political and economic changes that have led to the lifting of most Western sanctions. Hundreds of political prisoners have been freed, democracy champion Aung San Suu Kyi has been welcomed into a new parliament and tentative ceasefires

have been reached in the country's multi-ethnic civil wars.

On the eve of the conference, former general Thein Sein said in a radio address to the nation that all remaining prisoners of conscience would soon be freed.

Activists say some 200 political prisoners remain in jail and accuse Myanmar of using a series of headline-grabbing amnesties for political gain.

Both Thein Sein and Suu Kyi are scheduled to address the forum on Thursday, but many participants are eager for a chance to meet face-to-face.

"Many important people are trying to



Myanmar opposition leader Aung San Suu Kyi (R) smiles after attending an energy summit as part of the 22nd World Economic Forum on East Asia, at Myanmar International Convention Centre in Naypyidaw yesterday.

see the president," a government official told AFP as the WEF got underway. "But of course he cannot meet everyone."

After years lagging behind its more developed neighbours, Myanmar is now taking steps to revive its impoverished economy.

The currency was floated last year, there are moves to give the central bank more independence and a new foreign investment law has been passed, catching the eye of foreign executives.

At the same time some delegates struck a note of caution for Myanmar as it opens up to the outside world, urging authorities to harvest new knowledge but resist investment that exploits the country.

"Investors need to abide by the standards within the country or world," Han Thar Myint, a spokesman for Suu Kyi's National League for Democracy party, told AFP at the forum.