Signing up to safety laws does workers more harm than good

JAGDISH BHAGWATI and AMRITA NARLIKAR, for The Financial Times

A disaster is, as they say, too good to be wasted. Sadly, several western groups have exploited tragedies in the Bangladesh clothes-making industry to bamboozle their governments and global retail brands into actions that are self-serving, while attempting to disguise them as beneficial to the nation and its workers. They also divert attention from a superior response that serves Bangladesh better.

So consumers have blamed those companies that buy "cheap", often high-fashion, garments for the unsafe conditions in Bangladesh's factories because low prices allegedly lead to skimping on safety. The EU has proposed that Europe's future trade agreements accord "a more prominent place" to health and safety considerations. The US, under pressure from the labour unions, has suspended Bangladesh from the World Trade Organization's Generalized System of Preferences until safety standards in factories are improved and wages are increased.

Already, responding to the refrain of the "high cost of cheap goods", and intimidated by hundreds of thousands of protesting social-media signatures, many European brands have agreed to accept responsibility for safety lapses in Bangladeshi-owned and managed garment factories via the Accord on Fire and Building Safety in Bangladesh.

But such accords fly in the face of the fact, known to safety experts, that responsibility for maintaining standards lies with factory management and owners alone. Remember that exit doors existed but were closed by the management. And these managers are Bangladeshi. This is also why most US brands have correctly refused to sign agreements that pin legal liability on them if anything goes wrong.

As it happens, the brands have been responsible, by buying garments from these locally owned factories, for one of the most remarkable improvements in the well-being of Bangladeshi workers, exactly as in China where export performance over decades led eventually to labour shortages and hence to rapid improvement in wages and working conditions. The garment industry in Bangladesh has nurtured 4m jobs, most of which have gone to women, and has provided the driver for growth in a country still awaiting the comprehensive "liberal" reforms that transformed India after 1991.

Labour organisations, by pressurising suppliers to increase wages prematurely, will deprive Bangladesh of this advantage and render its products uncompetitive in global markets. The Workers' Rights Consortium, which has tried to muscle its way into the aftermath of the Bangladesh tragedies, argues that profits can simply be converted into higher wages. This is a fallacy, of course, since the garment industry worldwide is immensely competitive and does not have the excess profits that would absorb higher wages.

Again, there is no correlation between unionisation and safety. In the US, industrial fires have become rare while unionisation rates have fallen to negligible levels in the past four decades. The garment industries in Vietnam and China have experienced few fires, even though unions do not exist. In addition, the notion that union officials will become safety experts is quixotic.

Equally, there is no guarantee that the brands that have been guilt-tripped into accepting responsibility for Bangladeshi units (over which they have no control) will not quietly seek to move to locations with better governance systems. Since the possibility of future fires cannot be ruled out, the possibility of being tainted is also very real; why take this risk? In fact, Disney in the US has already said it will shift out of Bangladesh. So in these ways, too, Bangladesh and its garment workers will stand to lose.

The appropriate way to improve safety in Bangladeshi manufacturing is not to scapegoat the brands but to recognise that the blame belongs to the indifference of the owners of the factories where safety is neglected. If western governments are to play a creative role on safety, they need to use aid agencies such as USAid to provide technical experts on safety for all industrial factories to countries such as Bangladesh. All else is not just irrelevant; it also promises to do untold harm.

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STAR/FILE

A woman breaks down in tears in search of her loved one after the collapse of Rana Plaza in Savar.

India new FDI rules show welcome long-termism

ANDY MUKHERJEE

HURRAH for long-termism. India has decided to open up local industries, including its telecoms sector, to greater foreign participation. It may not create a rush of new investments, but it should lead to a modest improvement in confidence.

Vodafone is one company that may benefit at the outset. Foreign companies can now own 100 percent of telecoms operators, up from 74 percent. Piramal Enterprises, the Indian drugmaker that owns 11 percent of the UK operator's Indian business, wants to exercise its option to exit. Vodafone can now buy out its partner without having to find another local buyer, or go through the hassle of a local listing.

Other telecom operators will be able to simplify complex ownership structures designed to keep foreign investments within permissible limits. Often the vehicles were an illusion anyway, since the economic interests of overseas partners were already higher. That at least means more work for lawyers and bankers, even if it doesn't remove the regulatory uncertainty around Indian telecoms.

Defence is another shift – non-Indian companies can own more than 26 percent in local operations if they bring in undefined "state-of-the-art" technology. India's huge defence procurement needs make it a juicy market for the likes of Lockheed Martin, which has a small joint venture with the Tata Group. Though it isn't clear who will be acceptable to the security committee that must clear proposals involving foreign participation of more than 26 percent.

Elsewhere, the effect on investment may be slight. India's GDP is growing at its slowest pace in a decade, and inflation is near double digits. But showing openness to long-term foreign funding is significant. It suggests intent to replace the economy's reliance on hot money with more stable sources of overseas financing. That's a far better way of funding India's yawning current account gap.

This longer-term thinking deserves credit. New Delhi has been wedded to short-term fixes, like curbs on gold imports, to meet its funding challenges. There may be a double boost, if foreign investors who buy stocks and bonds also feel more confident – making their "hot" money a bit less so. Whisper it, but the rupee, which has slid 12.5 percent since October, may no longer be a one-way downward bet.

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European towns smarting from financial trouble

AFP, Paris

ALTHOUGH Europe has not seen the kind of spectacular bankruptcy experienced by the US industrial hub Detroit, many towns and local authorities have been in dire financial straits since the 2008 financial crisis:

GREECE: Mired in recession for more than five years, debt-ridden Greece has obtained aid from the International Monetary Fund and the European Union which has allowed it to avoid bankruptcy.

The state's difficulties have had knock-on effects for local authorities and municipalities, but no town or city has declared bankruptcy.

As a condition for its IMF and EU aid, Greece has put in place several austerity plans.

Some services have been withdrawn, the salaries of civil servants have been greatly reduced and pensions slashed. Public services function less and less, hospitals and universities have been merged and civil servants have been forcibly transferred.

National and local taxes have been massively hiked to fill the empty coffers.

ITALY: The country has faced brutal budget cuts at every level, from the central state to municipalities, via the provinces and regions.

Numerous cities have had serious difficulties balancing their budgets, including Rome, Naples, Palermo, Parma and to a lesser extent Milan.

Italy has also faced the problem of bad loans sold by different banks, but no city has gone bankrupt on this account. Milan has sued four foreign banks.

SPAIN: No city has so far been officially declared bankrupt, but a lot of municipalities are struggling under the weight of debts and need state aid.

The government on June 28 agreed a rescue plan aimed at helping 536 towns which are incapable of meeting their financial obligations.

The majority of them are situated on the coastal regions, like Andalusia and Valencia, where the real estate boom brought in large amounts of cash, which has since dried up.

For lack of cash towns have been forced to slash jobs, sell part of the public heritage and have been unable to pay for certain public services, including street cleaning and school meals.

FRANCE: Local authorities cannot in principle go bankrupt because they are obliged to have a balanced budget. They can, however, be placed under state control in case of disproportionate investments, which often happens in the smaller communes.

Since the 2008 financial crisis numerous local authorities have fallen victim to bad loans and have sued the Franco-Belgian bank Dexia, a major lender to local governments.

France and Belgium have moved in to rescue the bank after the global financial crisis left it over-extended and unable to raise funding due to risky investments that had turned sour.

G20 puts growth before austerity, seeks to calm markets

REUTERS, Moscow

THE Group of 20 nations pledged on Saturday to put growth before austerity, seeking to revive a global economy that "remains too weak" and adjusting stimulus policies with care so that recovery is not derailed by volatile financial markets.

Finance ministers and central bankers signed off on a communique that acknowledged the benefits of expansive policies in the United States and Japan but highlighted the recession in the euro zone and a slowdown in emerging markets.

"While our policy actions have contributed to contain downside risks, those still remain elevated," the statement said. "There has been an increase in financial market volatility and a tightening of conditions."

Indications that the US Federal Reserve would scale back its monetary stimulus dominated the two-day talks in Moscow, with emerging markets most concerned by a resulting selloff in stocks and bonds, and a flight to the dollar.

Hosts Russia said G20 policymakers had soft-pedalled on goals to cut government debt in favour of a focus on growth and how to exit central bank stimulus with a minimum of turmoil.

"(G20) colleagues have not made the decision to take responsibility to lower the deficits and debts by 2016," Finance Minister Anton Siluanov told Reuters. "Some people thought that first you need to ensure economic growth."

While the US recovery is gaining traction, China's export motor is sputtering, Japan's bid to break out of deflation has not reached escape velocity, and demand in the euro zone is too weak to sustain a job-creating recovery.

Officials backed an action plan to boost jobs and growth, while rebalancing global demand and debt, that will be readied for a G20 leaders summit hosted by President Vladimir Putin in September.

"We remain mindful of the risks and unintended negative side effects of extended periods of monetary easing," the statement said. "Future changes to monetary policy settings will continue to be carefully calibrated and clearly communicated."

In return for its pledge to 'message' its monetary policy intentions clearly, Washington managed to ensure that the text contained no binding fiscal targets, saying that consolidation should be "calibrated" to economic conditions.

Sources at the meeting said Germany was less assertive than previously over commitments to reduce borrowing to follow on from a deal struck in Toronto in 2010, with the improving U.S. economy adding weight to Washington's call to focus on growth.

With youth unemployment rates approaching 60 percent in euro zone strugglers Greece and Spain, the growth versus austerity debate has shifted - reflected in the fact that G20 finance and labour ministers held a joint session on Friday.

The crisis in the euro zone periphery has been exacerbated by capital outflows, and the communique pledged to move "decisively" with reforms to create a banking union in Europe that could revive cross-border lending.

"The debate between growth and austerity seems to have come to an end, as captured in the G-20's strong statement on growth and jobs," a senior US Treasury official said.

"The US chose to pursue macroeconomic policies that encouraged economic growth and jobs, with fiscal correction once private demand was strong enough to be self sustaining. The G-20 has acknowledged the importance of getting this balance right."

Exchange rates and the threat of competitive devaluations barely figured, delegates said - in contrast to an ill-tempered G20 meeting in February coloured by talk of currency wars.

Ben Bernanke's announcement two months ago that the Fed may start to wind down its $85 billion in monthly bond purchases sparked a panicky sell-off, particularly in emerging markets.

Investors were calmed by testimony to Congress this week by Bernanke, who is not in Moscow, although he said the exit plan from money-printing remained on the cards.

The G20 accounts for 90 percent of the world economy and two-thirds of its population - many living in the large emerging economies at greatest risk of a reversal of capital inflows that have been one of the side effects of the Fed stimulus.

"One thing we would like to emphasise is the importance of coordination," said Indonesian Finance Minister Chatib Basri, cautioning that scaling back policies of quantitative easing elsewhere "immediately affects" emerging markets.

The International Monetary Fund warned that turbulence on global markets could deepen, while growth could be lower than expected due to stagnation in the euro zone and slowdown risks in the developing world.

"Global economic conditions remain challenging, growth is too weak, unemployment is too high and the recovery is too fragile," Managing Director Christine Lagarde told reporters.

"So more work is needed to improve this situation."

China faced calls to encourage domestic demand-driven growth and allow greater exchange rate flexibility as part of wider efforts to rebalance the global economy which features a huge Chinese surplus and matching U.S. deficit.

Beijing on Friday offered an olive branch, removing a floor on the rates banks can charge clients for loans, which should reduce the cost of borrowing for companies and households. Yet this received scant attention at the G20 talks.

Japan, which holds an upper house election on Sunday, in turn drew criticism for giving little detail on structural reforms billed as the 'third arrow' of Prime Minister Shinzo Abe's economic turnaround plan, G20 sources said.

Finance Minister Taro Aso said Tokyo would strive to craft a credible fiscal plan by the time of the September G20 summit. Aso also said he would go ahead next April with a planned hike in sales taxes, key to stabilising Japan's public debt which, at over 200 percent of GDP, is the highest in the G20.

AFP

Participants of the G20 Finance Ministers and Central Bank Governors' meeting pose for a family photo in Moscow yesterday.