STAR

Workers of five garment factories of Tuba Group demonstrate in front of the BGMEA headquarters in the capital yesterday, demanding salary arrears. Delwar Hossain, owner of the company, is now in jail over the Tazreen Fashions fire that killed 112 workers.

Inspection tensions add to garment industry's woes

REUTERS, *Dhaka*

IT took Western safety inspectors only about an hour to tour a factory the size of three football fields before ordering a partial shutdown of Sonia & Sweaters Ltd, a Bangladesh clothing supplier to Wal-Mart Stores Inc and Debenhams.

Two weeks later, the group that the inspectors represented changed its mind and allowed the factory to stay open, even though none of the repairs they suggested had been carried out.

Such erratic decision-making poses a new set of problems for Bangladesh's $22 billion garments industry, whose safety record has been under the microscope since the collapse of a factory near Dhaka that killed more than 1,100 workers last year.

More than a year after the public outcry that spurred Western retailers into demanding better standards from the factories that make their clothes, it also highlights the practical complexities of improving the conditions of millions of poor workers whilst also safeguarding their jobs.

Export growth in the sector has slowed as buyers turn to India, Myanmar, Vietnam and Cambodia because of concerns over workshop safety, higher wages and political instability.

Now factory owners say they are concerned about arbitrary shutdowns and meeting the cost of demands for remedial work, while workers worry about who will pay their wages if their workplace is temporarily closed.

"We went through inexplicable harassment during this whole process, and I am sure they don't care about that," said Sonia & Sweaters Director Mahabubur Rahman, of his experience of the inspection.

"But with their trigger-happy attitude, I am left wondering if they at least care about the workers, who they are meant to protect, because nobody has to explain to them what the implication of one factory shutdown is."

The garment industry accounts for 80 percent of Bangladesh's exports, and turmoil in the sector has put at risk the livelihoods of nearly 4 million garment workers, mostly women.

The collapse of the eight-storey Rana Plaza building in April 2013 brutally exposed the inadequacy of the safety regime in Bangladesh, where 5,600 garment factories are inspected by different local agencies that often lack sufficient technical equipment and the required expertise.

The disaster led to the creation of the Accord on Fire and Building Safety, an inspection group led by European retailers, and the North American brands-led Alliance for Bangladesh Worker Safety, which together are scrutinising around 2,100 factories.

The groups, which have a mandate to recommend the closure of dangerous factories and demand repairs, are now embroiled in a debate over the inspection process and the question of who pays for upgrades and wages while factories stand idle.

Making the situation worse, almost all global retail brands have opted to stay out of the arguments between inspection agencies and suppliers, according to industry officials.

When the inspection groups were set up, retailers did not commit to pay for improvements they demanded—some Bangladesh factory owners are very wealthy and politically connected—but agreed to discuss assistance with wages and improvements if owners could not afford them.

Wal-Mart spokesman Kevin Gardner said, as a founding member of the Alliance, the company's contributions have made funds available to help factory owners make necessary repairs and to support workers who may be temporarily displaced.

This includes an initial worker safety fund of nearly $50 million and growing, and more than $100 million in access to low-cost capital funding to improve fire and structural safety. Debenhams declined to comment.

Reuters obtained copies of two inspection reports on Sonia & Sweaters which showed the factory's civil engineer tried to warn Accord inspectors that their assessment that insufficient steel had been used in the building columns was inaccurate.

The steel was later found to be adequate for operations to continue. Company managers told Reuters that documents on the building's load-bearing capacity sent to the inspectors after their assessment were overlooked. That oversight was only acknowledged after the factory's senior management physically carried the documents to the Accord's Dhaka office.

The Accord assessed the number of steel bars in each column as 14-20, the lower range of which would be considered unsafe, whereas company officials said it was 32-35.

"We advised them to close down the top floor immediately and go for a detailed engineering analysis," Brad Loewen, chief safety inspector of the Accord, said.

Loewen said the owners returned and challenged the numbers with their own documents. The Accord stuck with its findings, but decided to consider the steel strength of each column was 20 bars, at the top of its range, rather than 14, which meant operations could continue, he said.

Sonia & Sweaters had cleared a safety inspection by Wal-Mart in 2013, according to a report published by the US retailer in November last year.

The Western inspection groups, between them, have so far shut 14 factories and asked five factories to partially close, according to government data.

Senior advisor to the Alliance Ian Spaulding said the group has been careful with the issue of factory shutdowns and has been working closely with the government on the issue. Five factories have been shut down as a result of their recommendations, he said.

The legal authority to shut factories rests with the Bangladesh government, and decisions to do so are reviewed by a government-appointed panel that includes one member each from the Accord and Alliance and two civil engineers from the Bangladesh University of Engineering and Technology (BUET).

READ MORE ON B3

How can we rein in capital flight?

AL MAMOON

IN a pre-budget meeting, economists citing a study informed the finance minister that capital flight worth around $1.5 billion (Tk 12,000 crore) is taking place a year from Bangladesh. The minister did not wonder. He rather cited a 2011 study of the Finance Division of his own ministry which revealed that the underground economy in Bangladesh is growing faster at a rate that we have never seen before. It now accounts for 62.75 percent of our GDP; meaning, if our GDP is Tk 11,810 billion, currently the size of the underground economy is Tk 7,410 billion. Common wisdom dictates that capital flight is sure to take off amid such a black economy.

By capital flight we understand an exodus of financial assets, capital in particular, from one country to another in ways that are not part of normal transactions. There are a heap of reasons for such abnormal movements. Two of them, however, top the list: i) a lack of stability, ii) country-specific risks, including inflation, volatile political environment and ill governance. We have them both. So far the most open economies have shown the least vulnerability to capital flight and the economies with capital controls that restrict the transfer of assets proved to be more prone to it. Ours is no exception; we have too many red lights on capital outflow in official channels.

Many observers suggest that political instability and uncertainty are particularly important in explaining flight of capital: residents faced with such uncertainty and instability take their money and run to avoid the possibility that the government may in one way or another erode the future value of their asset holdings. An econometric case study on capital flight suggests that political instability is the single most significant cause of capital flight from Bangladesh, while increases in corporate income taxes, higher real interest rate differentials between the capital-haven countries and Bangladesh, and lower GDP growth rates also significantly contribute to capital flight. Besides, it is a global reality that the very genesis of money will decide whether to stay back at the country of origin or to travel to a new country. A large sum of contractual cuts, rents, commissions and all unearned money which is not reported, not disclosed and not taxed are sent to safer destinations.

Now, how does the money cross borders? There are more ways than one can imagine. As per a Bangladesh Bank official, these are: under-invoicing of exports, over-invoicing of imports, smuggling, retaining of the indenting commission in the overseas countries, use of hundi (also called hawala by Indians), and remitting money through normal banking channels for fake payments. Other factors include taking assistance of non-bank financial institutions where supervision and regulation are shaky, and abrupt use of electronic channels through off-shore financial centres where regulation is almost non-existent. Electronic transfers are the most popular medium today while the most traditional one, cash-carry, still exists.

It is now widely believed that Malaysia is enjoying growing popularity among Bangladeshis to offload capital. Why is that? Why not Dubai, Singapore or other cities? Indeed they all are on the shopping list. Kuala Lumpur emerges to be the hot spot for its easy accessibility. Color money has a proven tendency to move to migrant worker concentrations. The meant to be remitted money from workers community is collected, credited to designated accounts and never actually remitted but their families receive the money here anyway. The capital rather stays back instead of flying. KL got the initial vibe this way. In addition, it offers loving features: KL has the world's third lowest cost of rent and Consumer Price Index, fourth lowest cost of business occupancy, and seventh lowest tax rates in the world. Conducive environment for business, investor friendly environment and tax policies, excellent infrastructure, supportive financial sector and political stability make her stand apart in Southeast Asia. Today Bangladeshis are known as the second largest community in their second home project.

READ MORE ON B3

AFP

Toyota Motor Executive Vice President Mitsuhisa Kato introduces the company's sedan-style hydrogen fuel cell vehicle (FCV) during a press preview at a Toyota Motor showroom in Tokyo yesterday. Japanese auto giant Toyota will start selling its first fuel cell sedan this financial year, with a price tag of around $70,000.

China's plane demand surges but bumpy ride ahead

AFP, *Shanghai*

ALREADY Asia's biggest aircraft buyer, China is developing its own passenger planes and building scores of airports but its aviation expansion faces turbulence from slowing growth and inadequate infrastructure.

As the country's carriers spend billions on jets to serve a growing middle class taking to the skies in ever-increasing numbers, passengers face constant delays and longer flight times owing to military limits on airspace and poor management.

Three of the mainland's airports are among the world's 20 busiest, with Beijing in global second place on 78 million passengers a year, behind only Atlanta in the United States.

At the same time, Beijing was worst in the world for delays last year with only 18 percent of flights on time, followed immediately by Shanghai, according to the website www.flightstats.com.

Angry Chinese passengers have on occasion stormed onto runways, fought with staff and smashed equipment, with dozens refusing to leave a delayed Hong Kong Airlines flight bound for Shanghai last week, reports said.

China is scrambling to address the rapid growth in demand by ramping up investments in aviation infrastructure.

The country's airlines carried 350 million passengers last year, up nearly 11 percent from 2012, official figures show, and the country's civil aviation authority said it will have more than 230 airports by 2015, up from 193 last year.

China Eastern agreed to buy 80 of US aircraft maker Boeing's 737 jets, valued at more than $8 billion, earlier this month after Europe's Airbus won a similar-sized order from China Southern. Regional outfit Shandong Airlines and yet-to-be-launched budget operator 9 Air took 50 Boeing 737s each.

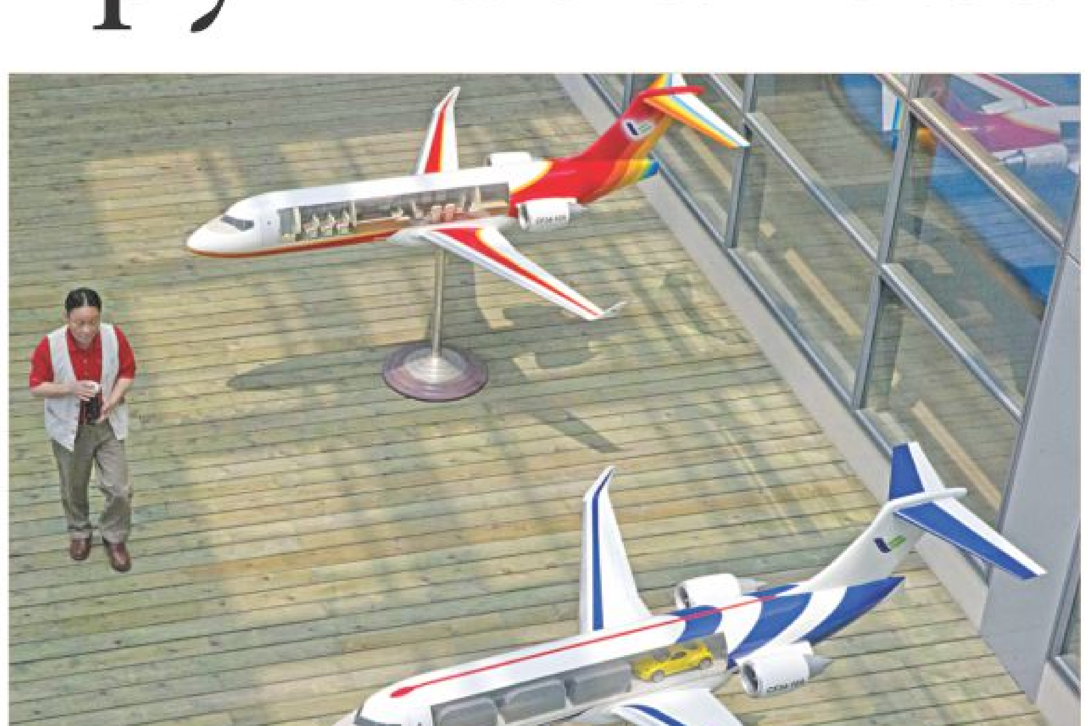
"We see Chinese urbanisation at record levels. Chinese GDP (gross domestic product), it's still at very good levels. Domestic consumption is growing," said Jose Eduardo Costas, senior vice president for market intelligence at Brazil aircraft maker Embraer.

"All these are very positive drivers," he said.

But he added that "infrastructure and air space authorisation in China may (still) continue to be a bottleneck".

Expansion in China's economy, the world's second largest, is slowing. Chinese Premier Li Keqiang in March announced a GDP growth target of "around 7.5 percent" for this year, below 2013's actual figure of 7.7 percent.

"GDP growth has often been a very close correlation to growth in air travel," said Mark Clarkson, business development director for Asia-Pacific for aviation intelligence, schedules and data provider OAG.



AFP

A man walks past model planes at the COMAC final assembly and manufacturing centre in Shanghai.

Etihad rescues crippled Alitalia with deal to take 49pc

AFP, *Milan*

EMIRATES airline Etihad Airways tied up a deal to rescue debt-laden carrier Alitalia on Wednesday by taking 49 percent of the Italian company.

The two groups gave no details of the value of the deal or of any conditions, but two key issues are huge debt and overstaffing at Alitalia which has lurched from crisis to crisis for years.

The deal, concluding tough negotiations which began at the end of last year, means that Etihad Airways is in effect rescuing Alitalia, playing a role which Air France once considered but then dropped because of the scale of the problems.

The agreement also marks a big step in the rise of Etihad Airways a young and rapidly growing company, which becomes a key shareholder in one of the old names of European aviation, and increases its reach into European markets and global routes.

Alitalia is now in the hands of private shareholders, but has its roots in the days when most European countries had their own state-owned airlines.

In recent years it has lurched from crisis to crisis, skirting bankruptcy, and beset by restructuring efforts and conflicts with staff.

The debt and staff cuts are believed to have been central sticking points in the negotiations.

Alitalia employs 12,800 and it is believed that about 2,200 jobs will have to be axed.

Etihad Airways has expanded rapidly in recent years, largely on a rise of air travel in the Gulf region of the Middle East.

In a joint statement, which provided no details, the two airlines said they had agreed the "terms and conditions of a proposed transaction whereby Etihad Airways will acquire a 49 percent equity stake in Alitalia."

They said they would tie up the deal as soon as possible subject to approval from regulators.

The chief executive at Alitalia, Gabriele del Torchio, said early in June that Alitalia would have to face a "complex, exhausting and painful" restructuring, but that there was "no alternative".

And he mentioned 2,200 job cuts.

Italian Transport Minister, Maurizio Lupi, in a warning on Monday to Italian trade unions which are strongly opposed to job cuts, said that Alitalia had but two options: "the plan for recovery with Etihad, or the abyss."

On June 11, Lupi mentioned that Etihad might make an initial investment of 560 million euros ($762 million). To this might be added "690 million euros in four years for the development and renewal of the fleet of aircraft."

The outlook with Etihad as a key shareholder is causing deep concern in northern Italy in case it reduces activity at Milan's Malpensa airport.