

## The Crocodile Tears of the Fashion Industry over the 1000 Deaths of Rana Plaza

[Since the tragic collapse of a textile factory in Bangladesh, western textile companies have enforced higher safety standards there - and have made workers pay for it...](#)

The worst industrial accident since the Bhopal tragedy in 1984 occurred in April 2013 when the Rana Plaza textile factory in Bangladesh collapsed. Over a thousand workers lost their lives and around 2,500 others were injured.

The western fashion labels and retail chains that had their products produced there received a lot of public criticism. After some hesitation, they assumed some responsibility and made compensation payments. They also put pressure on their suppliers in Bangladesh to implement higher work security standards to prevent this from happening again. The government in Bangladesh raised the minimum wage for textile workers after the accident.

World Bank economists Laurent Bossavie, Yoonyoung Cho and Rachel Heath have recently published a study entitled "The Effects of International Scrutiny on Manufacturing Workers" to examine what has improved and worsened for workers since Rana Plaza. The result is surprisingly ambiguous.

The inspections carried out by the western textile chains have fulfilled their stated purpose: the safety of workers has improved considerably. There are fewer accidents at work and abuses, especially against the female workers, have become less common.

### **Tough love for Asian workers**

However, there are also dark sides. The contractual situation of the workers became more precarious. Since Rana Plaza, the fraction of workers with permanent employee status has shrunk.

Even more importantly, the wages of textile workers, which had already been very low by international standards, have fallen sharply, especially wages for women - despite the increase in the minimum wage.

The minimum wage had previously been so low that the increase was only relevant for a small proportion of the workforce. The fact that wages were considerably reduced for workers above the minimum wage carried more weight. As a result, the previous wage advantage of workers producing textiles for export was lost. This advantage had been particularly large for women because there are few jobs for them outside the textile sector in Bangladesh. The loss of wages for women was correspondingly large.

Textile production, mainly for export, is the most important industrial sector of Bangladesh. The sector's share of the country's exports rose from half in 1995 to over 80 percent in 2015. More than four million mostly low-skilled workers are employed in contract manufacturing of textiles, which is 40 percent of all industrial workers.

The sectoral minimum wage for the lowest skill level was equivalent to \$ 38 a month before the disaster, after which it was increased to \$ 68 a month. Five years later, in September 2018, a further increase to the equivalent of \$ 95 was decided.

In response to the Rana Plaza accident, the European clients of the textile industry founded the agreement on fire and building safety in Bangladesh, the American ones the alliance for worker safety in Bangladesh.

## Money and more

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In the European agreement, the signatories committed to push their suppliers to carry out regular security checks and, if necessary, to help them invest in correcting the defects. The U.S. alliance has been more reluctant to fund problem-solving efforts, but was similar otherwise.

For the factory operators in Bangladesh, the higher standards enforced by the customers meant higher costs, writes the World Bank and mentions in almost in passing, how the workers in Bangladesh were made to pay the bill for their higher security: The increase in cost coincided with increasing pressure from the textile factories' customers to lower prices.

This combination of higher costs and lower prices forced some factories to restrict production, others to give up. The negotiating position of textile workers deteriorated accordingly. Their wages fell by an average of over eight percent. The decline was as much as 20 percent for female employees, and five percent for men. Women were hit harder, because they had fewer options for work outside the textile sector.

### Motivation matters

A comparison with the effects of certified fair trade shows that motivation is very important when western countries try to influence working conditions in developing countries. The textile companies, which forced their suppliers in Bangladesh to implement higher safety standards and at the same time depressed the already low purchase prices, did so to appease a critical public in their home country, which had been incited by a single safety event and likely to forget soon.

In contrast, buyers of fair trade coffee are willing to pay a surcharge so that the producers have a better living. That seems to work as intended, as Raluca Dragusanu and Nathan Nunn found in a study on Costa Rica. According to their research, a fair trade certificate leads to higher sales prices and sales, especially at times of low coffee prices, when the guaranteed minimum prices become binding. The incomes of families working in the coffee industry are increasing.

Consumer pressure on branded companies can also make great strides for workers in developing countries if the pressure is aimed at improving the welfare of workers. This was the case in the 1990s, when there were large-scale boycott campaigns against companies such as Nike, Adidas and Reebok for having their sports shoes manufactured in Indonesian sweatshops under very bad conditions and at extremely low wages.

As Ann Harrison and Jason Scorse showed in a 2010 article published in the American Economic Review, these campaigns led the Indonesian government to raise minimum wages significantly. The affected brands made commitments to improve the working conditions in their supplier factories and to increase wages. Since suppliers did not have to cut prices at the same time – as was the case in Bangladesh after RanaPlaza - the economists did not find any significant loss of employment as a result of these measures. [19.1.2020]