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Opportunity and Challenges of Fair Trade in Bangladesh in the Context of Globalization

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1. Globalization and its Challenges

Of late, many scholars have tried to assess the impact of globalization in developing countries. Scholars such as (Gilder 1989; Featherstone 1990, Giddens 1990) argue that the processes of globalization especially the expansion of capital have negative impact on human culture, society, class and gender relations. Other scholars such as (Harvey 1989; Gilory 1993) argue that globalization has created the gap between rich and poor, have and have-nots and the growing marginalization of people at the local level and the global environmental degradation have been a grave concern for many.

In Western countries, the political debates about globalization are mostly centered on the issues of labor standards and the mushroom growth of sweat-shops in developing countries. These sweat shops are featured with low wage, unhygienic working conditions, irregular payments, child labor, and lack of

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trade unions. This criticism of globalization has led movements in Western nations supported and guided by local activist groups and by a global network of NGOs.

Globalization as an ideological package has an impact in the economic landscape of Bangladesh as well. The incorporation of the Bangladesh national economy into the international economy is gradually increasing. All successive governments in Bangladesh tend to design economic policies so that more foreign direct investment and trade can boost national economic growth and to tackle many social problems among others- the issues of unemployment in the country.

2. Globalization and Bangladesh Garments Industry

With a moderate growth rate in 1980s, the Bangladesh economy moved towards rapid economic globalization in the 1990s through trade liberalization, the abolition of quotas and other non-tariff barriers and initiatives more geared towards the promotion of trade and encouragement of foreign direct investment (FDI). This openness in Bangladesh economy can be viewed as a response to globalization that facilitated the process. As many globalization scholars argue, countries like Bangladesh will be better off from participation in global economic process through trade and investment. Thus, through some liberal economic policies, Bangladesh has seen greater economic growth over the last twenty years and the projection for future economic growth will also be higher if the right economic policies are in place.

Since the beginning in the late seventies, the garment industry has steadily become the highest export-earning sector in Bangladesh. A study by Berg & Hedrich (2011), suggest that the ready-made garments (RMG) industry has

earned USD 15 billion, which is over 75% of total export earnings in 2010. The RMG sector is considered the most thriving sector contributing to 13% of national GDP in Bangladesh and with 12% per year average growth rates and this growth will continue to grow in the coming years. Capacity, a diversified portfolio, strong performance and long-term experience have made Bangladesh one of the most attractive sourcing destinations for international buyers. However, there are some challenges ahead for the Bangladesh garments industry, including lack of energy and sufficient infrastructure, unstable compliance standards, a dwindling low-wage workforce, child labor, lack of sufficient raw materials, economic and political instability and poor governance.

While there are debates about the actual number of garment factories in Bangladesh, it is estimated that around 1000 factories in and around Dhaka. The main products for the garments industry are shirts, t-shirts, jeans, jackets, shorts, ladies-wear, caps, bed sheets, and various forms of sportswear.

Most garment factories are concentrated in big cities like Dhaka and Chittagong and are located in multi-storied buildings with far below standard working conditions compared to global standards. The working conditions vary from compliant to non-compliant factories. Except a few compliant garment factories, non-compliant sub-contracting garments factories go unnoticed and often unregulated and have poor working conditions. Most garment factories employ young female workers as they are unmarried and have less family responsibilities. Often times, workers are unaware of their rights and are paid low wages and on irregular payment schedules. Working overtime hours is a regular phenomenon in garment factories especially during the peak time of the production cycle. Amongst other reasons, lately, a lack of sufficient salary

and timely payments of overtime has brewed unrest in garments factories throughout Bangladesh.

In recent years, due to rising production costs in China, India and other sourcing countries, Bangladesh has become a hot spot of completed garments suppliers for the international market. To remain globally competitive, Bangladesh needs to ensure compliance and work standards in this sector. The biggest international buyers for Bangladesh are from the US and Europe.

3. Fair Trade: A Promising Strategy

It seems that Fair Trade movement can suit well to address many of the challenges of garment industries in Bangladesh. By and large, Fair Trade is a kind of trade relationship that helps getting improved wages for workers and access to better working environments, health and education to the group of marginalized workers in the developing countries. Fair organizations connect producers and workers in developing countries with the importers, retailers, and consumers in developed countries. It adopts a market based approach which provides labeling to the Fair Trade goods which help the willing customers to pay higher price to compensate the cost associated with improved wages, working environments, education and health of the workers.

Non-Government Organizations (NGOs) play the leading role in global Fair Trade movement. Among many things, NGOs oversee certification, labeling and licensing of the Fair Trade logo in the global market. The two prominent of such organizations are Max Havelaar in Netherlands and Transfair USA in the States. Lately, all such organizations have formed an umbrella organization named FLO (Fair Trade Labeling Organizations) which provides certification labeling and licensing of all Fair Trade products. Currently, global Fair Trade

products includes coffee, tea, cocoa, banana, cane sugar, rice, seed cotton, nuts and oil seeds, wine grapes, fresh fruits, dried fruits and vegetables, fruit juices, herbs and spices, flowers and plants and sports balls etc. The generic principles of Fair Trade are;

Fair Price: Fair Trade ensures fair prices of each good plus a fair trade premium set by FLO.

Fair Working Conditions: Workers should enjoy safe working conditions, freedom for worker association, and minimum legal wage with an average regional standard across occupations.

Democratic and Transparent Organizations: Producers in cooperatives can democratically decide on their management and investment of revenues and keeping of account for verifications.

Environmental Sustainability: The production processes does not produce anything harmful for the environment such as soil erosion, water supplies and waste disposal.

Economic Sustainability and Access to Credit: Buyers agreeing upon long term purchasing contracts with producers and providing advance payment for the products.

4. Major Issues and Concerns about Fair Trade

Despite enormous potentials, Fair Trade faces some criticisms from various corners. A few concerns raised by (Hiscox, 2007) are discussed below.

Price manipulation and Overproduction:

The prices of Fair Trade products are often accused for having a manipulated price tag, which is beyond the regulations of market determined price.

Thus, many see this price as a threat to the ‘natural’ principles of the market. Thus, the critics fear that this manipulated pricing will lead to the overproduction of certain Fair Trade commodity, restricting the product diversity in the market.

Fair Trade certified products have different supply and demand side of it. Thus, within that market, this should not be accused of market manipulation. In the context of garment industries in Bangladesh, a strong supply chain is already in place. The Fair Trade movements can tap into this market to provide a signal in the garment industries and make them understand the potential benefits for all the stakeholders. Thus, workers minimum wage and the Fair Trade premium are priced in the market.

Benefit for the producers:

It is argued that extra price given by the consumers not necessarily goes to the producers. A study by Nicholls and Opal (2004) suggest that an increase of 20 cents per pound of Fair Trade banana in the US, resulted only 5 cents benefit to the actual banana growers. Other players in the supply chain such as retailers, wholesalers and importers all have to take their own share from the increased price of the Fair Trade. Study also suggest that retailers often lured to charge more to the consumers as they consider that consumers are willing to pay more as they are aware about the cause of the higher prices of Fair Trade products.

To overcome this challenge, one might suggest a direct linkage between the producers and consumers which again requires a new set-up of network. This is of paramount importance if the Fair Trade business to thrive. The establishment of such network requires expertise, resources and associated knowledge

and skills to complete the robust work of supply chain management. Given the present strength of Fair Trade, it seems impractical to choose this route.

Elimination of child labor:

Many fear that the elimination of child labor under the age 15 by Fair Trade principle may results further trouble for children. As many developing nations, families are dependent on their children's income and there is no direct relation that those jobs will be replaced by the adult workers in the family. In this regard, some safety-net programs for children (denied from the formal Fair Trade industries), should be adopted with strict regulation and guidance from the FLO. The family should be given required money for school.

Apart from these issues other concerns such as understanding the needs of the people in particular local context. Sometimes the grand and totalizing narratives of Fair Trade falls short on taking into consideration of the dynamic and complex local practices of people, economy and the power and gender dynamics of the producers and can result into local disposition of identity, material practice, and 'ethical' market (Moberg 2016).

5. Opportunities of Fair Trade in Garment Industries Bangladesh

There is a debate on whether Fair Trade model can be applied to manufacturing industries such as apparel industries. So far, Fair Trade items largely are the foods, dried fruits, fresh fruits, vegetables, beans, fruit juice, herbs, spices, coffee, tea, nuts, oil seeds, banana, etc which are not manufactured in industries. The attempts to bring manufacturing goods under the umbrella of Fair Trade requires robust coordination and framework which is difficult to

achieve.

Slowly but steadily, Fair Trade movements in Bangladesh is making its marks. Currently, there are thirty four Fair Trade organizations and an umbrella organization named -ECOTA Fair Trade Forum- a national network of Fair Trade organizations, is working towards the promotion of Fair Trade in Bangladesh. In Bangladesh, the flagship Fair Trade products such as Handicrafts continue to be the dominant Fair Trade product. Despite modest success in handicrafts, local artisans often fear for not having business contracts through Fair Trade. This handicraft sectors in Bangladesh faces some challenges which in turn hinder the expansion of this sector through Fair Trade. Studies on handicrafts in Bangladesh are limited. The existing literature on handicrafts highlights the opportunity and challenges of this sector. Most studies (Arefeen & Salam 2007; Siddiqui 2007, Rahman 2014) suggest the weak infrastructure, lack of access to information, credit, and raw materials and supply chain management remain as major challenges for this sector. Handicrafts in Bangladesh still viewed as a luxury items thus demands for these items are limited to some philanthropic people and organizations that cares for the story behind the product. Handicrafts in Bangladesh have a niche in both local and global market. For a large-scale expansion of this sector, producers should use the thousands retailer shops across Bangladesh to reach out millions of local buyers. For international market, a linkage needs to be established between the local producers and global consumers through Fair Trade.

Government of Bangladesh is beginning to realize the potentials of these sectors. Thus, some policy changes are on the table which might help this sector to thrive. Apart from offering special economic incentives to the export

oriented industries, government of Bangladesh (GoB) have started to offer moderate loans at low interest to SMEs (Small and Medium Enterprises) such as handicrafts so that they also can contribute in the national economic growth. SMEs own and run by the women also get some special policy support, which in turn then can contribute, to the women empowerment. Fair Trade movements should identify organizations in public and private sectors working for the improvement of this sector. Fair Trade movement can build network with those institutions to find out areas of collaboration and co-operations to boost the Fair Trade movement.

Product diversification remains key for Fair Trade business to grow further. In the West, variations in Fair Trade products are evident while in Bangladesh it is yet to take place. The two prominent sectors of Bangladesh are agriculture and manufacturing industry. This paper sees a window of opportunity for Fair Trade movement in Bangladesh thus argues for product diversifications of Fair Trade business where garments industry can be an opportunity to reap benefit from.

6. Fair Trade and Garment Industries in Bangladesh

In the context of rapid economic globalization, critics have argued many negative challenges of free trade and neo liberal economic policies on the marginalized producers in developing countries. Although over the last six decades, the Fair Trade movements has gained mentionable success in transforming lives and livelihoods of marginalized producers in developing countries, there remain opportunities for further growth in this business model. As a sustainable business model, Fair Trade provides opportunity for greater economic justice and to address the issues of poverty, inequality and

social justice for millions of Bangladeshis in the future.

Bangladesh as developing country is constantly seeking ways to become economically independent through trade and business. The rapid growth of export-oriented manufacturing industries such as garments industries in Bangladesh has become the pioneer industry in Bangladesh. This industry will continue to thrive if other pre-conditions are met (Berg & Hedrich 2011).

7. Fair Trade as an Approach to Overcome Challenges of Garment Industries

Minimum labor standard in garment industries has taken central stage in recent debates about how to improve the lives and livelihoods of the workers in the garment industries. Inclusion of minimum labor standard in bilateral, multilateral trade agreement and WTO framework has been the popular ways to ensure labor standard of these garment factories in developing countries. However, there are challenges too.

Ensuring labor standard by trade sanctions may not yield expected results. Failure to ensure labor standard by most developing countries led to severe negative impact on the economic growth of these countries. Lack of foreign direct investments and cutting of flows of investment ultimately will worsen the living conditions of the workers. Past experience suggest that most sanctioned governments are reluctant to alter relevant economic policies and institutions as they are more eager to take comparative advantage of the labor-intensive industries. Moreover, if the cost of labor goes higher the multinational corporations will fear less profit and move away for other cheap destinations which ultimately will lead to the poor situation of the workers.

After the *Rana Plaza* disaster, many initiatives, mostly by the forum and

association of the international buyers in the US and Europe are trying to lay out a framework so that win-win situation can sustain for all the stakeholders in this industry. ACCORD and ALLIANCE are two most powerful watchdogs from the European and US buyers who sort of oversee the improvement of compliance in garment industries in Bangladesh. The key point of discussion in the compliance is the price of the products. The suppliers in Bangladesh often argues for an increased price so that they can make their factories more compliant and can offer a better wages to their workers. On the other hand, international buyers refuse to pay more for their products. First, they think it is the responsibilities of government of Bangladesh to offer business environment so that garment industries can grow and secondly, they press the local owners to reduce their profit margin and invest more to be compliant at global market.

Given the midst of the debates, it seems that Fair Trade movement can explore the opportunity to work with all the movers and shakers of this industry at local and global levels so that workers in the industry can get the benefit from the principles of Fair Trade. However, it is important to mention that there are strong supporters for and critics against Fair Trade movements. Supporters consider globalization as an opportunity where business, economy and the producers of developing countries can prosper and thrive. On the other hand, critics argue that Fair Trade movement takes away the central issues of unequal trade and business and it is just a cover by the corporation to silence the existing criticism of giant corporations. Others also think that while globalization promises some opportunity but the model of Fair Trade itself is limited in its scope and the strict principles of Fair Trade can be counterproductive for many households with underage children.

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