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Bangladesh, With Low Pay, Moves In on China

By VIKAS BAJAJ

GAZIPUR, Bangladesh — The eight-lane highway leading from the Bangladeshi capital, Dhaka, narrows repeatedly as it approaches this town about 30 miles north, eventually depositing cars onto a muddy, potholed lane bordered by mangroves and small shops.

But this is no mere rural backwater. It is the sort of place to which foreign manufacturers may increasingly turn, if the rising wage demands of factory workers in [China](#) prompt companies to seek new pools of cheap labor elsewhere.

Already, in factories behind steel gates and tall concrete walls, tens of thousands of workers, most of them women, spend their days stitching T-shirts, pants and sweaters for [Wal-Mart](#), H&M, Zara and other Western retailers and brands.

One of the Bangladeshi companies here, the DBL Group, employs 9,000 people making T-shirts and other knitwear. Business has been so good that the company is finishing a new 10-story building with open floors the size of soccer fields, planted with row after row of sewing machines.

"Our family needed the money, so we came here," said Maasuda Akthar, a 21-year-old sewing machine operator for DBL.

As costs have risen in China, long the world's shop floor, it is slowly losing work to countries like [Bangladesh](#), Vietnam and Cambodia — at least for cheaper, labor-intensive goods like casual clothes, toys and simple electronics that do not necessarily require literate workers and can tolerate unreliable transportation systems and electrical grids.

Li & Fung, a Hong Kong company that handles sourcing and apparel manufacturing for companies like Wal-Mart and [Liz Claiborne](#), reported that its production in Bangladesh jumped 20 percent last year, while China, its biggest supplier, slid 5 percent.

"Bangladesh is getting very competitive," William Fung, Li & Fung's group managing director, told analysts in March.

The flow of jobs to poorer countries like Bangladesh started even before recent labor unrest in China led to big pay raises for many factory workers there — and before changes in Beijing's currency policy that could also raise the costs of Chinese exports. Now, though, economists expect the migration of China's low-paying jobs to accelerate.

And while workers in Bangladesh and other developing countries are demanding higher pay, too — leading to a clash between police and protesters earlier this week in a garment hub outside Dhaka — they still earn much less than Chinese factory workers.

Bangladesh, for instance, has the lowest garment wages in the world, according to labor rights advocates. Ms. Akthar, who is relatively well paid by local standards, earns about \$64 a month. That compares to minimum wages in China's coastal industrial provinces ranging from \$117 to \$147 a month.

"The Chinese firms that are beginning to get into trouble are producing textiles, rubber footwear and things like that," said Barry Eichengreen, a professor of economics and political science at the [University of California](#). "And there are lots of countries in South Asia and East Asia and in Central America that would like to fill this space."

But Bangladesh has its own challenges to overcome.

China's combination of a vast population of migrant workers, many with at least elementary school educations, along with modern roads, railways and power grids in its industrial provinces, has bestowed it with manufacturing capabilities

that countries like Bangladesh cannot offer. Beijing also provides low-cost loans and other incentives to its industries that other countries have trouble matching for theirs.

Most of Bangladesh, meanwhile, suffers blackouts six to seven hours a day because it has not invested enough in power plants and natural gas fields — deficiencies that the government is working on but that will not be eliminated quickly.

The country has a literacy rate of only 55 percent — compared with more than 92 percent in China. As a result, workers in this country are only one-fourth as productive as the Chinese in making shirts, jackets and other woven clothes, according to a report by the Center for Policy Dialogue, an independent research organization based in Dhaka.

Despite its handicaps, Bangladesh nearly doubled garment exports from 2004 to 2009. And the industry now employs about three million people, more than any other industrial segment in this largely agrarian country of 160 million. From June through November last year, garment exports accounted for more than 80 percent of the country's total exports of \$7.1 billion.

Among developing countries, Bangladesh is the third-biggest exporter of clothing after mainland China, which exported \$120 billion in 2008, and Turkey, a distant No. 2, according to the [World Trade Organization](#).

And with nearly 70 million people of working age, Bangladesh could probably absorb many more of China's 20 million garment industry jobs.

Still, some of the changes in China could prove to be mixed blessings for Bangladesh. If China allows its currency, [the renminbi](#), to trade more freely, Bangladeshi exports would become more competitive.

But a stronger renminbi could also hurt Bangladesh by raising the price of machinery and fabric imported from China, its biggest supplier, said Ahmed Mushfiq Mobarak, an assistant professor of economics at the Yale School of Management. Over time, Bangladesh could buy more from other countries, like India, but those countries first would need to build up significant production capacity.

And as in China, workers in Bangladesh have started demanding higher pay. In recent weeks, labor protests have periodically shut down garment factories as thousands of workers battled police in Dhaka and other garment hubs like Gazipur. Late last month, police clashed with about 15,000 protesters on a busy Dhaka street lined with garment factories. In one exchange, a clutch of protesters lobbed bricks at police officers from an alley opposite the Outright Fashion factory, before fleeing as the officers charged at them with batons, tear gas canisters and the hot, colored water used to both disperse protesters and mark them for later identification.

Garment workers are demanding a 200 percent increase in the minimum wage, to 5,000 taka (about \$71) a month — which is how much workers with several years of experience now earn. The government, which plans to announce a new minimum wage soon, last increased it in 2006, to 1,662.50 taka (about \$24). Since then, inflation has been as high as 9.9 percent a year.

"Most garment workers live in slum areas where one room costs 2,000 to 3,000 taka," said Mushrefa Mishu, president of the Garment Workers' Unity Forum, an association that claims to represent more than 60,000 members.

Labor leaders want the government to make it easier for workers to form unions — very few factories are unionized today — and to require higher safety standards and better working conditions.

In January, H&M, Wal-Mart, Gap, Tesco and other Western clothing buyers [asked the Bangladeshi government](#) to raise the minimum wage and reset it every year, although the group did not specify what the wage should be. A spokeswoman for H&M, Malin Bjorne, said the company was willing to pay more for clothing to help support higher wages. It is unclear whether other companies would do the same.

But factory owners here argue that a big increase in wages would make them uncompetitive against Vietnam and other big producers, which have higher labor costs but also have better infrastructure and are more efficient producers. If that happened, Bangladesh's China opportunity could prove all too fleeting, they say.

"If it's 5,000 taka, I would close all my factories," said Anisul Huq, a former head of the Bangladeshi garment industry's

trade group and a factory owner whose customers include H&M and Wal-Mart. “Even if it’s 3,000 taka, lots of factories will close within three or four months.”