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Should We Blame Walmart and Nike for the Factory Collapses in Bangladesh?

By Mari Tanaka

No. Trade in fact appears to improve workplace conditions in developing countries despite the recent factory injuries. Factories exporting to European customers in particular have significantly better worker treatment than those supplying Asian and local customers.

While almost everyone agrees on the economic gains from free trade, the risks it may pose to workers has become a central issue in trade policy following factory fires and collapses in Bangladesh. Anti-globalization protesters have criticized the large apparel retailers like Walmart, Primark, and H&M, as they previously protested against Nike for employing child labor in Pakistan. But should they be blamed? My view is no. My research on workplace conditions in Myanmar actually concludes the opposite. Factories

exporting to foreign buyers—particularly those to Europe and the United States—are in fact providing a better workplace than non-exporters. They tend to be held to tougher standards by their customers in Europe and the United States than firms selling to local customers. Consequently, trade provides incentives for local factories to comply with international labor standards, helping them access profitable export markets.

Data collection on workplace conditions in Myanmar garment factories

This year, I have been working on developing and administering a survey of firms in Myanmar to investigate the impact of exporting on factory

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About The Author

Mari Tanaka is a fourth-year Ph.D. candidate in the Stanford Department of Economics. Her main research sets a focus on the rapid trade opening in Myanmar to evaluate the causal impacts of export and multinationals on domestic firms and workers. She has been collecting firm-level data on productivity, management and workplace safety in Myanmar, supported by SIEPR, SEED GSB, FSI, and Department of Economics. She has also been engaged in a variety of research projects regarding with economic development in Bangladesh, Vietnam, and 18th Century's Japan. Mari was born and raised in Tokyo, Japan and received M.A. in Economics from the University of Tokyo in 2010 and B.A. in International Studies from International Christian University, Japan in 2008.



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Picture 1. Tailors inside a factory



workplace conditions with SIEPR and the Stanford Institute for Innovation in Developing Economies (SEED). Together with local survey staffs, I visited and directly interviewed 175 managers of garment manufacturing firms operating in Myanmar and discussed safety practices in their establishments (see Picture 1 for a typical sewing section).

To compare workplace environment across plants, it is necessary to obtain data on well-defined measures of workplace conditions. To define good working conditions, I used international labor standards advocated by the International Labor Organization (ILO) and major nonprofit certifying institutions. The ILO standard is called “Core Labor Standards,” including freedom from forced labor, nondiscrimination

in the workplace, effective abolition of child labor, and freedom of association and the right to organize and bargain collectively. In addition, broader definitions of labor standards include safety of workplace and fair working hours, prescribed by standard certifying institutions such as Worldwide Responsible Accredited Production (WRAP) and the Fair Labor Association (FLA). I combined all of these labor standards to measure workplace conditions comprehensively.

Through pilot interviews, I identified several questions by which our team could measure compliance with standards in our interviews with plant managers. Some sensitivity was needed, such as for questions regarding child labor and discrimination. To ensure comparability of the

answers across plants, I avoided subjective questions like “does the plant have good safety measures?” as the definition of “good” varies among managers. Instead, I collected data with specific questions like “Is there a hospital list in case of emergency?”

The survey asked the following 8 questions in 4 areas:

- Fire safety: What precautionary measures are taken for the case of fire?
- Injury safety: Does the plant have a record of injuries (e.g., cuts and burns)? Is there a nurse or a doctor at the plant? Is there a hospital list in case of emergency?
- Communication: Does the plant hold regular meetings with the workers’ leader? What is the position of workers’ leader? Is there a suggestion box?
- Hours of work: How many hours does a typical worker work per week?

The next step was to create summary scores and to compare the scores across factories. For each of the four dimensions above, I scored the answers consistently across plants from 1 to 5 by defining simple procedures: number of fire safety measures, number of positive answers for the injury

safety dimension, frequency of meeting with basic level workers and existence of a suggestion box for the communication dimension, and a score counting “hours of work above the local labor law provision” for the hours of work dimension.

Exporting and multinational factories tend to provide a better workplace

The results of the study are striking. The average workplace score of the exporting plants is significantly higher in every dimension. Figure 1 shows the average workplace scores of the domestically owned plants with more than 20 workers. Despite recent media attention

to the factory fires in exporting factories, the 81 exporting factories are providing much better working conditions than their 85 non-exporting counterparts.

Moreover, the data show the 24 multinational plants in the survey tend to provide better workplace conditions in every dimension compared with domestically owned plants. These results tend to contradict the image of “sweatshop” factories of brand-name multinational companies.

The largest difference comes from fire safety. Factories in developing countries are prone to fire accidents due to poor construction, for example, resulting in the leakage of

electricity and the frequent re-connection of power after blackouts. In garment factories, where new workers come and go on a monthly basis, visible and easily understandable indicators showing directions to escape are considered to be very important (see Picture 2 showing exit sign and route map). In this aspect, the exporting factories are better equipped with the recommended safety measures: 83 percent of exporters have fire exits while only 49 percent of non-exporters do. To ensure the reliability of the answers, the survey team recorded what was actually observed at a plant during a visit. In 29 percent of exporting plants, the team observed fire exits (with visible exit signs), while the team found them in only 14 percent of non-exporting factories.

Another striking difference is found in the injury safety measures. Long hours of sewing are potentially dangerous. On average in the sample, workers work for 10.1 hours per day in the same posture, which leads to chronic fatigue and occasionally causes injuries during sewing and cutting. These problems are among the reasons that international labor standards recommend easy access to a nurse’s office as well as some rest to prevent such accidents. The data show exporting

Figure 1. Exporting and multinational factories have better workplace safety



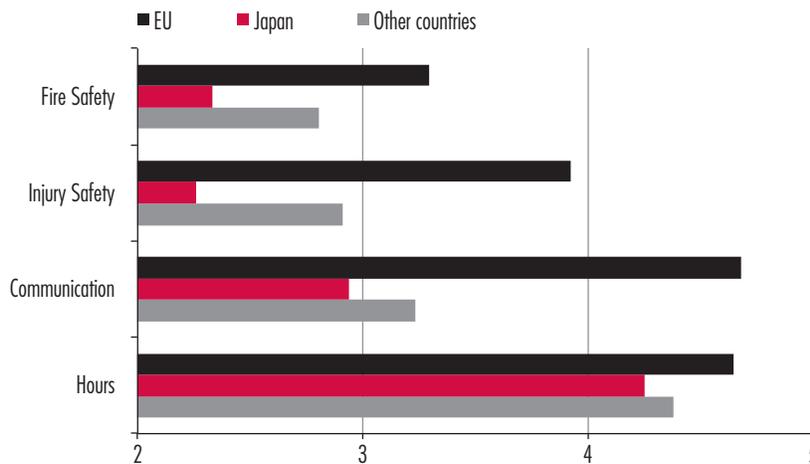
Workplace scores (1: worst, 5: best) constructed from the answers to the 8 workplace condition questions.

Picture 2. Fire safety in a multinational factory



Exit signs, route maps with escape directions and a picture of a fire drill – something I never saw in domestic non-exporting factories

Figure 2. Factories exporting to EU have the best workplace safety



Workplace scores (1: worst, 5: best) constructed from the answers to the 8 workplace condition questions by export destination.

Notes: The above are the estimated average scores of factories exporting all of its products to the indicated destination.

factories are significantly more likely than non-exporting ones to have a nurse, a hospital list, and an injury record at the plant.

The figures on collective bargaining and communication with workers also tend to be better in exporting firms. In Myanmar, unionized collective bargaining is still very much in the infant stage. Before the 2011 reforms, people could be arrested for going on strike. The new labor law in 2011 formally allowed collective bargaining, but the workers have only just started to realize their rights. The data show that the exporting factories are helping this movement, more frequently meeting with workers' leaders and collecting opinions through suggestion boxes.

Why are the exporting factories better?

Comparison of working condition measures across export destinations is informative to understanding why exporting factories are better. The survey data show that exporters to EU countries tend to provide a better set of working conditions compared with exporters to Asian countries, such as my homeland Japan (see Figure 2). This evidence supports the hypothesis that there are differences in underlying consumer and investor

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preferences that are influencing global supply chains to comply with international labor standards. A striking difference in the degree to which consumers care can be seen in how media reported the factory fires and collapses in Bangladesh. While the BBC repeatedly reported the factory collapses of Rana Plaza in Bangladesh, listing the names of buyers and suppliers involved, no such information was reported in Asahi, one of the most popular newspapers in Japan.

The preferences of consumers and investors seem to trickle down to factories through the requests by the retailers. Large apparel retailers in advanced countries, particularly Europe and the United States, are concerned about a possibly deteriorating brand image by being labeled as using sweatshop factories. I often heard factory managers say

that buyers requested more fire safety measures and an international labor certificate. For the suppliers, the higher prices offered by the large apparel retailers provide an incentive to implement a better workplace.

There are potentially several other reasons that exporting factories are providing better workplace conditions. For one, exporting factories employ more workers; therefore the average cost of implementing safety practices per worker is lower (e.g., hiring a nurse). In addition, providing better workplace conditions might improve workers' motivation and the retention rate, potentially leading to improvement in productivity, which would be more valuable for exporters facing the larger market. However, while these hypotheses are consistent with the finding that exporting factories are better overall, they

do not explain why exporters to the EU score even better, as the average employment size in exporters to the EU is not significantly larger than to Japan.

So while the events like the Rana Plaza collapse in Bangladesh are truly awful, banning Western firms from these countries will only make the situation worse. Desperate factories will have to turn to local markets, which rarely insist upon minimum worker safety standards. Instead, if we want to help workers in developing countries, we should use our power as customers to reward firms that support their workers. Buying from firms known to promote worker well-being is the best way to ensure globalization continues to improve workers' lives in developing countries.

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Stanford University
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