

# Determination of Minimum Wage for Garments Worker in Bangladesh Ensuring Firms Profitability

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## ABSTRACT

This topic is related to the poor people or the subsistence peoples of Bangladesh. People who work as labor in the garments sector are the low income peoples. With the Government's recent declaration of minimum wage as 3000 taka, the concern is whether this minimum wage is sufficient for them or not, having the profitability concern of the firms. For this reason it is necessary to take a basic consumption bundle (including food as well as nonfood items) and its market prices. Then fixed a wage which is minimum for the garments worker to maintain their life standard. After doing this we had to count the profitability of the firm at this wage. It is still possible for the firms to make profit with this increased minimum wage.

Without any profit the firm will not continue their production. So it is important that the firms make profit and maintain their production and the labor does not loose job. If \$43 (tk3000) is fixed as the new minimum wage of a Bangladeshi RMG worker, he or she will still remain the lowest paid in the world. It is obvious that an entry level garments worker should get at least 5547.5 taka per month as wage which is the minimum wage. Lower than this would make the workers unable to sustain.

**Keywords:** *Unit labor cost, Poverty level, Food expense, and Input procurement.*

## 1. INTRODUCTION

Practical policy making depends on a number of influences. Policy is a function of political organization and depends on a variety of factors including the nature of the government, the sources of its power and the forces exerted by other organizations. Wage in the garments sector is such kind of policy making in which a policy maker should look at both sides. One is the labor who works in the garments industries (most important factor of inputs) and other is the owner of the industries who has a huge investment as plant and equipment in those firms. They also have to pay salaries to the workers before they earn any profit. Without profit no one would like to make a huge investment in any project. So to suggest a wage rate we should look both the labor and the firm's point of view.

In the 1980s, there were around fifty factories employing only a few thousand people in Bangladesh. Currently, there are around five thousand manufacturing units. The RMG sector contributes around 78 percent to the total export earnings (BBS, 2012). In 2007 it earned \$9.35 billion. This sector also contributes around 13 percent to the GDP, in 1991 which was only around 3 percent. Of the estimated 4.2 million people employed in this sector, about 80 percent of them are women from rural areas (BBS, 2003).

The Minimum Wage Board had recommended that the wage of an entry-level RMG worker should be Tk 3,000 per month in 2010 (Bangladesh Economic Review, 2011), which is 80 per cent more than the previous minimum wage. The parliamentary panel made the

recommendations as it felt that runaway inflation had badly eroded the RMG workers' wages that were set about five years ago. Many factory owners criticized the government for imposing such a steep increase of wages without taking into account the problems faced by the RMG sector. RMG owners argued that the new wages would be an unbearable burden because of low profit margin and low price of products due to intense competition in the global market. The goal of this paper is to make such kind of wage which is better for all.

## 2. LITERATURE REVIEW

In the 1980s, there were around fifty factories employing only a few thousand people in Bangladesh. Currently, there are around five thousand manufacturing units. The RMG sector contributes around 78 percent to the total export earnings (BBS, 2012). In 2007 it earned \$9.35 billion. This sector also contributes around 13 percent to the GDP, in 1991 which was only around 3 percent. Of the estimated 4.2 million people employed in this sector, about 80 percent of them are women from rural areas (BBS, 2012).

Several authors have analyzed aspects of the garment industry in Bangladesh. Of the various aspects of the industry, the problems, the working conditions of female workers and wage of the workers have received the greatest attention. There are several studies including the Bangladesh Institute of Development Studies (BIDS) study by Salma Chowdhury and Protima Mazumdar (1991) and the Bangladesh Unnayan Parisad (1990) studied on this topic. Both of these studies use accepted survey and research methodology to analyze a wealth of data on the social and economic background of RMG

sector. Wiig (1990) provides a good overview of this industry, especially the developments in the early years. One of the few studies on the Bangladesh apparel industry to be published in a reputed journal in the U.S. is that of Yung Whee Rhee (1990) who presents what he calls a “catalyst model” of development.

Hossain and Brar (1992) consider some labor-related issues in the garment industry. Quddus (1993) presents a profile of the apparel sector in Bangladesh and discusses some other aspects of the industry. Quddus (2006) presents results from a survey of apparel entrepreneurs and evaluates the performance of entrepreneurs and their contribution to the success of this industry. Islam and Quddus (2006) present an overall analysis of the industry to evaluate its potential as a catalyst for the development of the rest of the Bangladesh economy.

### 3. DATA COLLECTION

For the assessment, both primary and secondary data were collected. Personal interview technique was applied while filling up the questionnaire on respondents.

### 4. LIMITATIONS OF THE REPORT

Since our study is based on both primary and secondary data, there is a possibility of getting fake information. If the surveyed personnel provide us with any fabricated information about their opinion of their organization, then the report findings may be erroneous. Above all, this study is weak in some points. The notable ones are as under:

- The survey was conducted in a very short time so we were not able to collect more information.
- The questionnaire contains some questions that, if answered properly, might damage the company’s image. In this type of questions, the respondents might provide socially acceptable answers. This risk was unavoidable.
- Another limitation of this study is the person’s private information were not disclosing some, data and information for obvious reasons, which could be very much useful.
- Lack of proper authority to conduct the interview program.

### 5. RECENT ECONOMIC CONDITION OF BANGLADESH

Bangladesh's real GDP is expected to grow at 7.5 percent in 2012-13, which is estimated to be higher than that of developing countries (5.2 percent) and lower than that of South Asia (6.9 percent) (Bangladesh Economic Review, 2012). Bangladesh's growth would remain much ahead and equal to that of developing countries.

Today, the number of people in the world suffering from hunger and poverty has risen to more than

one billion and Bangladesh is not immune to this reality. Overcoming challenges to food security has played and continues to play a significant role in the development agenda of Bangladesh. Bangladesh’s food security is still fragile and major challenges remain. The levels of child stunting, underweight, wasting, and childhood anemia are very high in Bangladesh, as are levels of maternal chronic energy deficiency and anemia. Moreover, the recent spikes in global food and energy prices have taken their toll on Bangladesh and deepened food insecurity. Bangladesh economy is currently undergoing a transition from adversaries of global economic meltdown although the country has been identified to be least affected one.

Overall inflation in Bangladesh is characterized by the trend in food inflation, which has a weight of nearly 65 percent in national level with 67 percent in rural and 57 percent in urban areas (Bangladesh Economic Review, 2012). Since larger weights of food items in the consumption basket of the poor, high inflation impacts the poor more adversely and also economic growth of the country negatively. Inflation, particularly food inflation, in the country is determined by demand side factors as well as by supply side factors both in domestic and international level. Lack of competition in the market, temporary disturbance in supply due to seasonal shocks and other factors, inadequate storage and warehouse facilities, drawback of transportation and communication, and alike other factors are considered as major reasons behind domestic supply shocks. Conversely, in the international level, volatility of prices of food price, oil, and other essential commodities impacts significantly on domestic prices due to transmission through imports, which are considered to be key drivers of imported inflation.

As the time goes on the economic condition changes and there has been changes in peoples living standards. There is another factor we need to consider is that the rate of inflation. In 2011-12 the rate of inflation was on double digit, say 10.99% (Bangladesh Economic Review, 2012). It is becoming very difficult for the garment’s worker to maintain their living expenses by their limited income.

Furthermore, high growth of liquidity and demand deposit, private sector credit, market capitalization, and inflow of remittances are the main demand side drivers of inflation. For Bangladesh, it is important to consider relative importance of both sets of factors for curbing inflation and maintaining stability in the market in order to maintain human security. The stock market is not stable for a longer period of time. Peoples who are involved in this sector are suffering a lot as they do not have enough money to reinvest in the market. As it is the source of capital for investments, the industrial sector will face some liquidity problem is near future.

Recent evidence reveals that the inflation, especially food inflation of marginalized groups, is much higher than that of BBS' CPI. The food inflationary pressure had always been higher for marginalized groups farmers, rickshaw/van-pullers, day-laborers and small traders than the average household. This clearly indicates that low income group suffered from economic insecurity than the common people.

## 6. OVERALL CONDITION OF GARMENTS SECTOR

### 6.1 Unit labor Cost

Bangladesh has the cheapest unit labor cost in South Asia (Table 1). It costs only 11 cents to produce a shirt in Bangladesh, whereas it costs 79 cents in Sri Lanka and 26 cents in India. Clearly, Bangladesh's comparative advantage lies in having the cheapest unit labor cost.

**Table 1:** Unit labor cost, 1994

Countries	Unit Labor Cost (\$/Shirt)	Wages (\$/Year)	Productivity (Shirts/Worker)
Bangladesh	0.11	290	2536
India	0.26	668	2592
Pakistan	0.43	1343	3100
Sri Lanka	0.79	570	719

Source: Zohir, S.C., 2000.

### 6.2 Working Hours

Though the wages are low, the working hours are very long. The RMG factories claim to operate one eight-hour shift six days a week. The 1965 Factory Act allows women to work overtime up until 8 o'clock at night. To meet delivery deadlines, however, women are virtually compelled to work after 8 o'clock. Sometimes they work until 3 o'clock in the morning and report back to start work again five hours later at 8 o'clock (Jamaly and Wickramanayake 1996). They are asked to work whole months at a time without a single day off, in contravention of the Factory Act, which stipulates that no employee should work more than ten days consecutively without a break (Jamaly and Wickramanayake 1996; Ahmad 1996). The condition does not improve much in recent years even became worst.

### 6.3 Poverty Measurement

To measure the minimum wage at first we have to identify the poverty level. When we can identify the poverty level we can use this as a standard for determining the minimum wage. We need to ensure that by the minimum wage people can maintain their life standard above the poverty line. To ensure this we are using the different approaches to poverty measurement. In doing this we are concerned about both the food consumption and non-food consumptions.

### 6.4 Direct Calorie Intake (DCI)

Household is poor if its per capita calorie intake is less than the standard per capita nutritional requirement - 2,122 kcal per day. It was set by the UNICEFF, although government of Bangladesh set standard below this level as 1,800 kcal per day (BBS, 2012). This calorie intake can be maintained by different ways. We can choose low cost item as well as both low and high cost items which is necessary for good health.

### 6.5 Food Energy Intake (FEI)

Food poverty line is the monetary value of the food expenditure that allows households to just meet the stipulated calorie requirement. The FEI is normally derived through regression of the relationship between calorie intake and expenditure.

However, rural households are more willing to consume food that is cheaper per calorie. This could result in urban households appearing to be poorer than rural households even if in fact they are better off.

### 6.6 Cost of Basic Needs (CBN)

- A basic food basket is identified from the data on the basis of human need, consistent with our consumption patterns.
- The quantities in the basket are rated accordingly to correspond to the nutritional requirement of our people.
- The cost of acquiring the basket is calculated by adding the individual costs.

### 6.7 Food as our Indicator

The Economic and Social Development Research Project of JCTR decided to pick on food as its major indicator for measuring the cost of living mainly because food does take up by far the largest portion monthly income. Food expenses consume over 75% of the monthly income for the rural population and 63% for the urban population (BBS, 2012). Food is one of the primary necessities of life and its availability a good indicator of the levels of poverty.

The food situation in the country could be analyzed by looking at the status of *food security*. This is determined by comparing the income of a household and the cost of the minimum food requirement based on acceptable quantities of calories and proteins to enable members of a household to function normally. A household feels as food insecure if the income is not adequate to meet the cost of the required food. If the income is adequate, the household is classified as food secure.

### 6.8 Cost of Basic Needs in Monetary Term

From the previous discussion we can see that Food expenses consume over 75% of the monthly income

for the rural population and 63% for the urban population. For the Garments worker which is around 60%. Food is one of the primary necessities of life and its availability a good indicator of the levels of poverty. In this analysis I also give food 61% weight and non-food item 39% weight on average of Rural and Urban sector. We will not try to calculate this in PPP term because we are not comparing this to other countries & we are calculating this in taka, the Bangladeshi currency not in dollar.

Now we have to calculate how we can meet our 2122 kcal per day with minimum consumption basket.

**Table 3:** Per person costs in terms of calorie intake

Commodity	Calories/kg	Prices/kg	Need per day (kg)	Costs
Rice	2332	30	0.5	15
Dal	3636	110	0.025	2.75
Meat (beef)	2500	270	0.2	
Fish	1170	190	0.2	42.6*
Chicken	1860	180	0.2	
Egg per piece	82	9.5	1 pice	9.5
Oil	8750	140	0.02	2.80
Milk	1015	40	0.2	8
Potato	1131	22	0.2	4.4
Sugar	3990	60	0.02	1.2
Onions	737	35	0.2	7
Others	-	-	-	20
Total daily	-	-	-	113.25
Total monthly	-	-	-	3397.5

Average cost of Meat, Fish & Chicken.

**Source:** Prepared by the writer, Ibrahimpur bazaar, June 23, 2012.

These are the cost of only food items which is 61% of our total consumption. It is sure that these are not rich foods. They are only for survival. Besides this we also have to consume different non food items. Most of the labors in the garments sector are homeless. So they also have to pay rent of their houses.

A non-food poverty line is calculated by estimating the cost of consuming a basic set of non-food goods on the basis of poverty standard posted by food poverty line. That is the non-food poverty line will be set by the consumption on non-food item by the people whose consumption is equal to the food poverty line.

There is some nonfood expenditure (on average) given in the table 5.

**Table 4:** Per person cost of non-food expenditure

Item	Cost (Taka)
House rent	1200
Transportation	250
Medical care	300
Cosmetics	200
Others	200
Total	2150

**Source:** Collected by writer, Ibrahimpur bazaar, June 23, 2012.

Other than food garments workers also has to pay around 2150 taka which is around 39% of total expenditure. So the total cost becomes not less than 5547.5 taka. In context of Socio and Economic condition of Bangladesh it should be the minimum wage (Entry level).

## 7. FIRMS PROFITABILITY

Previously we were examining the minimum wage in the labor's point of view. Now we will try to find out that whether this increase in wage can make significant impact on firm's profitability. That is the firms could make profit or not by increasing the wage of the garments worker.

As we know there are four factors of inputs-Land, Labor, Capital, and Entrepreneurship. Labor is different than others as it is inherent in human body. It cannot be transferred to others and it is heterogeneous in nature not like other factor of inputs.

The phenomenal growth in RMG was experienced in the last decade. With about 2,600 factories and a workforce of 1.4 million, RMG jointly with knitwear accounted for more than 70% of total investments in the manufacturing sector during the first half of the 1990's. (DBP, 1994)

Given the very different types of garments that are produced, it is not possible to generalize about the value chain. But as a starting point the cost of a basic commodity product is broken down. The retail price of a men's cotton shirt is \$30.65. Even the total cost of the completed garment, at \$6.80 accounts for just 22% of the retail price. (MoF, 2010)

Even with low labor costs, the profit margins on the actual manufacture of the garment tend to be very thin. The retail price mark-up looks the most generous part of the equation, until one remembers that this is what usually pays for all the design and development of a product. There is thus a potential mutually beneficial shift that can occur, if more of that design and development work can be moved to the low-cost supplying company and country. The retailer can reduce costs, and the

supplier can expand into higher margin services. ICT can play a part in making this shift possible. That, more up-market, part of the industry employs higher-paid workers and has smaller production runs. The emphasis on design and capturing fashion tastes also means that a higher proportion of costs are incurred in developed countries, and may be less likely to shift towards the manufacturer. When garment production in this market segment is outsourced abroad, it is likely to be of higher value, and demand a more skilled workforce.

### 7.1 Production Planning, Input Procurement, Management and Accounting

After receiving orders from the customers, the RMG manufacturing firms carry out production planning. All firms (100%) perform production planning without any formal outside help. On the other hand, input procurement is carried out in almost 87% of the cases (64 out of 74) by the firms themselves if and when they are the direct suppliers to the foreign buyers. In 13% of the cases foreign buyers supply inputs to the RMG manufacturing firms. But RMG manufacturing firms that supply to the domestic RMG firms (for export) receive inputs from the latter in 100% of the cases. That is, in such cases, input procurement is done 100% outside the firm.

Management control and accounting are performed by almost all of the firms, and these are carried out internally except in the case of a few large and joint-venture firms where the services of external audit firms are used. Quality control is performed by all the firms, and it is done mostly internally (82%).

**Table 5:** Comparison of Cost Components in the Cotton Fabric Production

Cost Element	Cost (US\$/kg)	Percent of Total
Materials	0.411	41
Labor	0.042	4
Energy	0.063	6
Financial Cost (Interest+Depreciation)	0.494	49
Total	1.010	100

Source: DBP, 1994.

The wage costs are calculated on the basis of the wages paid to operatives and to skilled and unskilled labor for maintenance work. All social charges and shift-work premiums are included. For reserve personnel a percentage figure is added.

The different qualities of product often result in very different patterns of manufacturing. Basic garments increasingly tend to be mass produced by vertically integrated companies, with most manufacturing provided by low-cost suppliers. Beside this, the government

incentives for the spinning and weaving industries include a 15% cash subsidy of the fabric cost to exporters sourcing fabrics locally.

We can clearly see that the portion of labor cost is too small in context of huge investment in the Garments industry. Materials and Financial cost (interest+depreciation) has the 90% of the total costs, whereas the labor cost is just around 4% of total costs. So a huge change in labor cost may alter the cost of production by one or two percent. That's why increasing the wage rate would not affect the production cost too much.

### 8. CONCLUSION

If \$43 (tk3000) is fixed as the new minimum wage of a Bangladeshi RMG worker, he or she will still remain the lowest paid in the world. An RMG worker in China receives a minimum wage of \$144 (tk10000), in Vietnam \$90 (tk6200) and in Cambodia \$61 (tk4200). The entire wage are adjusted in purchasing power parity, it is giving us a certain view that how low our RMG workers get as wage.

It is obvious that an entry level garments worker should get at least 5547.5 taka per month as wage which is our minimum wage as mentioned earlier. Lower than this would make the workers unable to sustain. In the modern world where all the people are talking about equity, it is not accepted that one (garments owner) is driving a luxurious car and other (garments worker) could not sustains. Government should take necessary steps to make the condition better and easy for all.

In India, government provides 8% annual bonus in this sector, where in China it is 14%. In Bangladesh there is no such provision to encourage this sector rather here it is victim of various utility crisis and political exploitation. We think that our condition will become much better for us and by this we can make example for others in the world.

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