



Supply chain series | Navigating ESG in Bangladesh and Vietnam's apparel trade

Alphinity is launching an insight series to share perspectives on ESG considerations within various supply chains. In the first note of this series, we delve into the trends and obstacles encountered by apparel players in Bangladesh and Vietnam. By drawing on first-hand experience we have gained valuable insights on the different social challenges in each country and have deepened our understanding of primary focus areas within our investments.

Introduction

In March, Alphinity's ESG analyst visited Bangladesh and Vietnam to engage directly with apparel factory workers, NGOs, industry bodies and companies. The purpose was to gain a better understanding of the ready-made garment (RMG) industry and identify specific ESG issues that require attention within our portfolios.

Accompanied by Impactt, a consultant group specialising in human rights management, we visited five factories in Dhaka and Ho Chi Minh City supplying the likes of **H&M**, **Calvin Klein**, **Big W** and **Just Jeans**. We held discussions with key stakeholders including the **Bangladesh Garment Manufacturers and Exporters Association (BGMEA)**, the **Vietnam Chamber of Commerce and Industry (VCCI)** and **Vietnam Textile and Apparel Association (VITAS)** which reaffirmed the industry's growth and consideration of key sustainability matters moving forward.

Representatives from **H&M**, **Marks & Spencer** and **Primark** presented us with sleek ESG strategies covering supplier environmental targets and worker wellbeing in their factories. Yet, third-party perspectives from the **RMG Sustainability Council** and **Better Work** emphasised concerns still voiced by workers such as low wages. This report summarises four key insights from the ground and proposes questions that investors can explore to enhance their management of ESG issues within the apparel supply chain.

Key insights

1. Garment production in Vietnam and Bangladesh is set to grow, demanding more attention on human rights
2. There are hidden consequence of ESG targets set by brands
3. Low wages and working conditions require specific attention
4. Equality is an emerging consideration under the human rights banner

Insight 1: Garment production in Vietnam and Bangladesh is set to grow, demanding more attention on human rights



Humid, cramped and fast-paced floors reflect working conditions in many Bangladesh garment factories | **Kaniz Garments, Dhaka**

The fashion industry has seen spectacular growth in the 21st century. It is now valued at over \$2.5 trillion USD and employs more than 75 million people worldwide.ⁱ Examining US import data, countries such as India, Bangladesh and Vietnam have steadily claimed their share of the textile and apparel market from China (Figure 1).

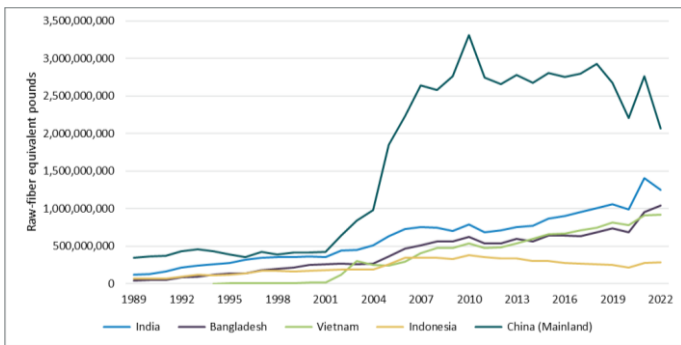
With forecasts predicting a growth rate exceeding 35% by 2027, we believe that the fashion industry shows a promising outlook (Figure 2). This presents a great economic opportunity for developing countries in Asia. However, it's important that this growth is undertaken responsibly to avoid negative environmental and social impacts.

The latest findings from the Global Slavery Index indicate that G20 countries collectively import \$148 billion worth of apparel and \$13 billion worth of textiles each year. Both ranked in the top five industries at risk of forced labour, alongside electronics, solar panels and palm oil.ⁱⁱ

With apparel production set to grow in Bangladesh and Vietnam, it may come with a risk that working conditions and the prevalence of modern slavery worsen:

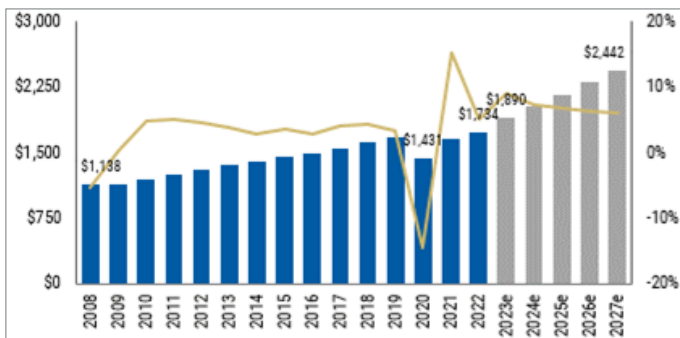
- **Bangladesh:** As a primary industry, RMG contributed to 9.3% of GDP in FY22. The sector made up 82% of total exports, earning \$45.7 billion USD in revenue.ⁱⁱⁱ Discussion with the BGMEA confirmed that Bangladesh is eyeing a 10% share of the global apparel market by 2025 (currently ~7%) and has set an export target of \$100 billion USD by 2030.^{iv}
- **Vietnam:** Textiles and garments stands as the second-largest export category after smartphones and electronics. In 2022, exports in this sector reached \$44 billion USD in 2022, representing 6.3% global market share. According to VITAS, this could reach \$47-\$48 billion USD in 2023.^v

Figure 1. US cotton textile and apparel imports, by origin



Source: USDA, Economic Research Service using data compiled from reports by the U.S. Department of Commerce, Bureau of the Census

Figure 2. Global apparel & footwear market & YOY growth rate



Source: Morgan Stanley (\$ US billion, %)

Insight 2: There are hidden consequence of ESG targets set by brands



Garment factories supply to multiple brands and face short-term contracts and low prices | **Kaniz Garments, Dhaka**

Pressure has been building for companies to set targets or goals to mitigate supply chain risks. So far, most have spanned environmental issues such as emissions and waste. As examples, **Schneider Electric** have committed to reduce 50% of carbon emissions from its top 1000 suppliers and **H&M** have promised to reduce supply chain emissions by 56% and increase recycled material by 2030. Environmental data is a reasonably objective measure of operational performance and can therefore reflect supplier quality and long-term resilience.

Addressing social considerations in the supply chain presents a greater challenge. Issues such as low wages, overtime and working conditions are more difficult to measure. Nevertheless, social targets in the supply chain are emerging. **Loreal** have committed that all its' strategic suppliers' employees will be paid a living wage by 2030, covering their basic needs and those of their dependents. Similarly, **Kmart** are seeking to achieve a living wage for its factory workers.

Although we consider supply chain ESG commitments a good practice, a hidden consequence that we suspect will be relevant to many different supply chains was revealed on the trip. The ESG cost is often shouldered by factory owners alone.

We found that two characteristics in the RMG industry aggravate the problem:

1. **Prices are low:** Large brands leverage their market share to negotiate discounts while expecting better ESG performance in line with their supply chain commitments. We heard that price per garment has decreased annually in Bangladesh over the last five years.
2. **Contracts are short-term and variable:** Although one would presume a long-term relationship is preferred to maintain quality and supply, the saturation of factories in these markets and the short fashion cycle creates an extremely variable contract environment. Contracts can be as short as six weeks and subject to cancellations and short lead times.

Low prices and contract uncertainty means that factory managers face a difficult question: Will investment in better wages, water treatment facilities and renewable energy pay off in the long term? Or will brands move to the lower cost factory in the next contract?

Companies that issue ESG commitments beyond direct operations may appear constructive and responsible on paper. However, it is crucial that brands collaborate with suppliers and place contracts in favour of more sustainable factories. Support could take the form of direct investments, green loans, or by establishing more stable and predictable orders. These indicate to suppliers that investment in environmental practices and decent work programs are worthwhile. This in turn can promote supply chain resilience and reduce risk for the brands.

Insight 3: Low wages and working conditions require specific attention

In Bangladesh, labour management and safety standards have improved while low wages and poor working conditions prevail.

Catalysed by the Rana Plaza collapse in 2015, we observed that Dhaka's RMG sector has seen a remarkable shift. The largest global apparel names signed The Accord, a landmark agreement to fund fire and structural safety improvements within supplier factories. Since then, the wellbeing of apparel workers has markedly improved alongside the introduction of a regulated minimum wage in 2018 (8000 taka a month, ~\$110 USD).

Engaging in dialogue with the **BGMEA** and **Better Work** we discovered considerable progress to address modern slavery and worker safety in the region. This observation was supported by views from Impactt's due diligence and audit programs. The results revealed that forced and child labour practices are now relatively uncommon in tier 1 RMG factories in Bangladesh.

Despite this progress we found that workers still struggle with low-skilled roles, long working hours to make up for low wages, limited breaks, cramped working conditions and gender inequality. We believe these are the primary issues that brands – and investors – should direct their attention to in Bangladesh.



Fire and structural safety have improved since the Rana Plaza collapse | **Natural Denim, Dhaka**



Factories visibly warn against use of child labour | **Pioneer Knitwear, Dhaka**

Different factory conditions and wage structures emphasise the need for country-specific analysis.

The distinction between Bangladesh and Vietnam's factories reaffirmed the need for investors and companies to take a region-specific approach to address social and human rights issues.

Vietnamese garment factories generally exhibit lower modern slavery risk than Bangladesh. We witnessed air-conditioned floors and better working conditions in Ho Chi Minh's factories compared to those in Dhaka. Vietnam's exports tend to focus on higher margin goods and productivity is incentivised by paying workers per garment, on top of a guaranteed base wage. This practice cuts out the need for supervisors, in turn creating a better work atmosphere.

We found that repetitive and low-skilled tasks such as cutting fabric and fading jeans were automated in Vietnam due to high labour costs. These were manual procedures in Dhaka as cheap and abundant labour has hampered investment into automation. The minimum wage in Bangladesh could increase for the first time in five years – as much as 20% in 2024. While positive for workers, this will add cost pressures to factories if brands are not willing to raise prices as a result.

Insight 4: Equality is emerging under the human rights banner



Female workers are under the watchful eye of mostly male supervisors throughout Bangladesh | **Kaniz Garments, Dhaka**

We believe there is growing sophistication in the way that equality is considered within a human rights approach. The International Bill of Human Rights and the International Labour Organisation identify the right to non-discrimination and freedom from discrimination from work, respectively, within their definitions.

With this in mind, we believe that gender equality and access to opportunity warrant investigation within the supply chain as they are fundamentally tied to human rights considerations. For example, we observed that:

1. **Gender inequality is prominent in Bangladesh:** Most supervisors were male, and higher-skilled roles that were "too difficult" for women were reserved for men. Two factories we visited in Bangladesh offered on-site childcare for working mothers. In the absence of strong maternity leave programs, this is a step to support income for women and continued female participation through motherhood.

2. **Factories in Vietnam portray a gender-balanced workplace, but face other workplace issues:** Foreign direct investments in Vietnamese factories is becoming more common. Managers, often Korean or Chinese, can struggle communicating with workers on the floor. Verbal abuse, bullying and other forms of harassment as a result of language barriers is a priority within Better Work's program.
3. **Unions support a stronger female voice and better employment terms:** Unionised factories in Dhaka cited productivity improvements, reduced absenteeism and lower turnover. The government has supported the role of unions to improve working conditions since Rana Plaza. On the other hand, Vietnam's only apparel union is a government arm. But with legislation changing next year, independent unions will be permitted and we hope that the worker voice is strengthened as a result, particularly in relation to working conditions and psychosocial safety.

Workplace culture issues such as bullying and harassment are exacerbated by hierarchy and the power that supervisors hold. This is problematic in garment factories, both from a gender standpoint in Bangladesh and a cultural standpoint in Vietnam. Better Work found that where supervisors are trained in their programs, production lines are as much as 22% more productive.^{vi}

Further analysis and questions to ask companies

Modern slavery is a complex issue that is region specific, dependent on a number of interrelated factors and will take many years to overcome. We therefore encourage companies to take a staged approach to manage *specific* issues that are *material* to the garment type and manufacturing region. For example, auditing for child or forced labour in tier 1 RMG factories is not likely to move the dial on issues that workers face daily. These include low wages, long hours, equality and general working conditions.

To that end, probing companies for better wages, maximum overtime hours, stronger contract terms and supplier gender diversity data may have more of a positive impact to the lives of workers. We came away from the visit with important questions centred on the belief that companies should be very specific in their approach and communicate outcomes clearly with investors:

Strategy and outcomes

- What are the core human rights issues that require attention in the largest suppliers? How do these issues differ by region and how are these nuances reflected in the human rights management approach?
- Which regions and supply chains require the most focus, and why? How is this assessed (internal process or external provider)?
- What are the metrics that demonstrate progress in the human rights strategy, and what will be reported externally to stakeholders?
- What is the average contract length in different supply regions?

Supplier ESG improvements

- How are suppliers supported to implement ESG practices such as renewable energy or higher wages?
- What is the appetite to pass along the cost of ESG improvements in the supply chain to the consumer? Has consumer tolerance for this been tested or trialled?
- Is gender diversity and culture considered in the supply chain human rights approach?
- What proportion of the supplier network is enrolled in external initiatives such as Better Work, green factory certifications or are unionised?

Other

- How has the price per garment changed, on average, across regions and/or garment type?
- How will the increase to the Bangladesh minimum wage next year impact garment prices and/or margins?
- What kind of circularity improvements can be made in the supply chain? What initiatives are in place to support closing the loop in fashion waste?

Equally, investors should meet their responsibility to respect human rights by encouraging companies to have a policy commitment, completing adequate due diligence processes, measuring progress and offering genuine remediation for victims.



Workers were proud to show us their homes. But intermittent electricity and lack of running water embodied the inequality and poverty through Dhaka even with a minimum wage in place | **RMG workers house, Dhaka**

Summary

The fast fashion business model of high volume, quick turnover and cheap prices is under the watch of consumers who are beginning to demand change. Companies are responding with ESG commitments in their supply chain, which may appear responsible on paper. But in practice, we discovered that garment factories often bear this ESG cost without the support of brands. Brands have a vital role to play in supporting factories to deliver on their own supply chain commitments.

We observed a genuine willingness among factory owners to create more environmentally sustainable and safer working environments. But while contract terms remain variable and garment prices are discounted, ESG improvements will be costly and difficult to finance for factory managers alone.

As much as some brands are making efforts to improve their supply chain practices, ultimately, their fashion business requires customers to continually purchase more goods. This stresses the need for more sustainable business models, circular practices, stronger ESG support for factories in developing markets, and a reshaping of the fast fashion industry more broadly.

Visiting two countries provided a useful comparison of the different human rights issues and social dynamics in each region. This reiterates the value to take a country-specific approach when investigating these complex issues.

With tightening modern slavery regulation, such as the EU human rights due diligence act and a review underway in Australia on the effectiveness of the Modern Slavery Act, it is important that companies uphold their commitment to human rights by managing specific and material issues in their supply chains.

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ⁱ [McKinsey](#) (2021)

ⁱⁱ [GSI](#) (2023)

ⁱⁱⁱ Bangladesh Bank Research Department

^{iv} [BGMEA](#) (2022)

^v [VITAS](#) (2022)

^{vi} [Better Work](#) (2021)