



A podcast about the economics of trade & policy
with Chad P. Bown

Episode 177. How the Rana Plaza factory collapse changed global supply chains

New research examines how NGOs, consumers, and major retailers responded to the outrage following the 2013 tragedy in Bangladesh.

[Episode webpage](#)

February 12, 2023

Transcript

(lightly edited)



Chad Bown: On April 24, 2013 a building collapsed in Bangladesh.

The Rana Plaza housed hundreds of workers employed at garment factories that made clothing for European and American brands.

CBC News: *There has been another horrific incident at a garment factory in Bangladesh. An 8-story building collapsed today, killing at least 145 people, and injuring hundreds of others...*

Chad Bown: After days of digging through the rubble, more than 1,100 people were dead and over 2,500 were injured. Some had been trapped for days.

The Rana Plaza disaster was the second major industrial accident in Bangladesh in less than six months. The previous November, a fire at a separate garment factory catering to Western clothing companies had killed over 100 workers.



A podcast about the economics of trade & policy
with Chad P. Bown

The Rana Plaza incident triggered a massive response by non-governmental organizations. NGOs in Bangladesh began new campaigns for better working conditions and safety improvements at factories that were part of western clothing supply chains.

Following such a tragedy, NGOs play a tricky role. One thing they do is to “name and shame” companies and shine a spotlight on any bad behavior. At the same time, if they push things too far, NGOs run the risk of potentially hurting the very workers in a country like Bangladesh that they are trying to help.

This episode looks at what happened after the Rana Plaza collapse and all of these efforts by NGOs. Did western consumers change what they were buying? Did western companies change from whom they were sourcing?

To help us answer these questions, on the line this week from Paris, I am joined by a very special guest.

Pamina Koenig: My name is Pamina Koenig. I'm a professor at the University of Paris I and the University of Rouen.

Chad Bown: Pamina Koenig has some incredibly important research examining the economics of NGOs and what happened after the Rana Plaza collapse.

Chad Bown: Hi Pamina.

Pamina Koenig: Hi Chad.

Chad Bown: You are listening to an episode of *Trade Talks*, a podcast about the economics of trade and policy. I'm your host, Chad Bown, the Reginald Jones Senior Fellow at the Peterson Institute for International Economics in Washington.

BANGLADESH, CLOTHING EXPORTS, AND SUPPLY CHAINS

Chad Bown: Bangladesh gained its independence in 1971. At the time, Bangladesh suffered from extreme poverty – it was the second poorest country in the world.

In the decades since, Bangladesh has made tremendous progress. It is now a lower middle income country. In terms of income per person, its peers are countries like Honduras and even



A podcast about the economics of trade & policy
with Chad P. Bown

India. In a country of 170 million people, more and more women in Bangladesh are entering the labor force, and more and more children are enrolling in schools.

Exports – and the jobs supported by those exports – have been an important part of Bangladesh’s slow but steady economic progress.

Pamina Koenig: Exports have played an important role in its industrialization and especially exports specialized in garment manufacturing. Today garments are 90 percent of its exports and Bangladesh exports to developed countries such as the United States, Europe, and other Asian countries. What we are talking about here are t-shirts, trousers, baby garments and jerseys, as well as underwear.

Chad Bown: Clothing exports are hugely important to the Bangladesh economy. The garment factories in Bangladesh are not selling directly to the United States or to Europe. They are part of supply chains, and the factories are working through major western retail brands.

Pamina Koenig: The garment factories are knitting final goods, final items, for well-known brands sold all over the world. You could have retailers selling in the whole world – well-known names like Zara, Benetton for Italians, and Mango or Lee Cooper. You could also have companies that sell mostly at home that would be known in Germany like Adler. Three French companies were producing in Bangladesh at the time we worked on the topic – Camaieu was working there, Carrefour and Auchan too. American companies like JC Penney and Walmart, and Canadian companies too were present and were manufacturing in Bangladesh, like Loblaw’s or JoeFresh.

Chad Bown: The way it works is that these western brands – Walmart or Benetton or Zara or Carrefour – have a contracting arrangement with local garment factories in Bangladesh.

Pamina Koenig: They order the final product that is to be manufactured in the garment factories in Asia, and there in Bangladesh. They send all the characteristics of the final product that should be made there. They don’t own these garment factories. They contract with them. They receive the final products and then they import it directly.

Chad Bown: Garment factories in Bangladesh were set up, back in 2013, in a way that was pretty typical for the industry.

Pamina Koenig: The garment industry in Bangladesh at the time, in 2013, was very, very labor intensive. A garment factory is an entire floor that is filled up with sewing machines that are



A podcast about the economics of trade & policy
with Chad P. Bown

distributed in rows. Behind each sewing machine, you would have a person, mostly women, sewing and stitching, during long hours.

In these garment factories, the sewing machines are very heavy and they vibrate a lot. You can imagine the effect when there's a whole row of sewing machine that are on and vibrating at the same time.

Chad Bown: The tragedy that would ultimately arise took place at a building called Rana Plaza, near Dhaka, Bangladesh's capital city.

Pamina Koenig: The Rana Plaza is a building that was built in 2006. The owner's name was Sohel Rana, and the building from the beginning on had three problems. First, it was built on ground that was not stable; the ground was swampy. Second, the building violated basic rules because it was only meant to hold five floors and not more. In the end, it held eight floors. And third, it was meant to host shops and offices. But in no case was it meant to hold garment factories with sewing machines that could vibrate and that would necessitate a lot of electricity. And on the top three floors, there ended up being lots of garment factories – entire floors filled up with sewing machine, with people, and also with power generators that they had to start when there was no electricity.

Chad Bown: Rana Plaza was built on unstable ground. It had more floors than the regulations allowed. While it was supposed to house offices and shops, the extra three floors on the top of the building were filled with garment factories. Those garment factories not only had hundreds and hundreds of workers, but also heavy sewing machines that would vibrate like crazy. And on days when the electricity went out, the factory owners would fire up portable power generators that would make things shake even more.

THE RANA PLAZA COLLAPSE

Chad Bown: What happened?

Pamina Koenig: On April 23rd the story started because they saw cracks in the walls of the building. So the building was entirely evacuated, including the people working in the garment factories, in order to take time to inspect the walls. In the same afternoon the owner, Sohel Rana, came back and said that people should go back to work, which they were forced to do the next morning on April 24th. In the morning all of these people had to go back to the garment factories, go back in the front of their sewing machine in all of those floors.



A podcast about the economics of trade & policy
with Chad P. Bown

The day started with the power outage. So they had to bring in the power generators and to start them in order to have electricity to start the sewing machine. When the power generators were started, that created even more vibrations than only the sewing machine.

And on April 24th in at 8:57 in the morning, the building collapsed. At the end of the day, more than 1,100 people were dead, and more than 2,500 were injured.

Chad Bown: The building collapsed. Eleven hundred people were dead, and thousands more were badly injured. The incident generated headlines all over the world. It was the worst ever industrial incident to hit the garment industry.

THE NGO RESPONSE TO RANA PLAZA

In the aftermath of the tragedy, a number of organizations from civil society stepped in.

Pamina Koenig: What happened is that NGOs, labor unions, and the International Labor Organization (ILO), came together and thought about how to compensate the victims and also try to think how to prevent other such industrial accident from happening.

They created the Rana Plaza arrangement, which was signed in November, 2013 and within this Rana Plaza arrangement there was a trust fund, the Rana Plaza Donor Trust Fund, in which the companies that were named as responsible – the retailers that were contracting with the knitting factories – should finance and give money to compensate the victims that were still alive and the families of the people that had died in the accident.

Chad Bown: NGOs like the Clean Clothes Campaign worked hard to figure out which foreign retailers had ties to Rana Plaza. And when the NGOs confronted those retailers, there were mixed reactions.

Pamina Koenig: The NGOs really investigated. They actually went into the rubble in order to look for name tags. As it was a garment factory, they were, of course, remains of the building, but there were also name tags of items that were knitted and stitched in the building.

They found these name tags and they prepared a list of companies that were the first ones to be considerate as responsible for this accident because they were contracting with the garment factories in the building that collapsed. In the end, the NGOs found a list of 29 international companies, western companies from OECD countries.



A podcast about the economics of trade & policy
with Chad P. Bown

There were very heterogeneous reactions. Some companies accepted immediately to take responsibility. Some other companies denied having contracted with those factories, even though name tags from their home brands had been found in the rubble. And finally, there were also companies that were sourcing from Bangladesh, but that were not contracting with the Rana Plaza factories, that accepted to immediately to participate in the donor trust fund and provide money.

WHAT NGOS HOPED TO ACHIEVE

Chad Bown: At this stage, the first thing the NGOs wanted was for the foreign retailers contracting with Rana Plaza factories to contribute to the trust fund, to support the victims and their families.

But the NGOs also wanted more.

Pamina Koenig: For the NGOs it is important to note different items. First, they made sure that companies would not behave like that in the future. They organized so that companies had to commit to accept future inspections in their factories when they were contracting with the suppliers.

The NGOs did two other important things. First, they asked for there not to be a boycott from consumers on goods manufactured by those firms and on goods manufactured in Bangladesh. And second, they asked manufacturers not to leave the country, not to leave Bangladesh and manufacturing in Bangladesh.

Chad Bown: For workers in Bangladesh, it was a potentially big deal that the NGOs asked foreign consumers not to engage in a boycott and that they asked the retailers not to leave Bangladesh.

Pamina Koenig: Because if you call for a boycott, you are likely to decrease the manufacturing within the country that you want to protect. So that was not the way they wanted to proceed.

NGOs attracted the attention of consumers to the fact that consuming that many items of the fashion industry – that was maybe not the way to go – maybe consumers had to think about their consumption patterns.



A podcast about the economics of trade & policy
with Chad P. Bown

Chad Bown: NGOs have multiple objectives here. Big picture, they want to shine a spotlight on fast fashion and perhaps convince consumers in Europe and in America to change their spending patterns to a more sustainable model for the fashion industry.

But NGOs aren't governments. They really have only one main policy instrument. NGOs work through the media to generate outrage – naming and shaming companies.

But when using that tool after a disaster like this, the NGOs have three things in mind. First, they wanted the companies to compensate the victims. Second, they want companies to spend money to prevent the tragedy from happening again. NGOs want the companies to improve the safety of their garment factories and allow for inspections. But third, the NGOs also want trade to keep flowing. They do not want consumers to boycott these retailers, and they do not want the retailers to stop sourcing from garment factories in Bangladesh. If either one of those things happen, that will only hurt the workers the NGOs are trying to protect.

But there is clearly a tradeoff. If NGOs push naming and shaming too hard, maybe the consumers don't buy from Bangladesh or these companies leave Bangladesh, and that hurts the workers. But if the NGOs don't push hard enough, then maybe the companies don't bother to improve working conditions, and that hurts the workers too.

NGOS AND THE TRADE RESPONSE TO THE RANA PLAZA COLLAPSE

Chad Bown: Pamina's research looks into some of that third objective: what happened to international trade flows in response to the Rana Plaza collapse and the NGO campaigns. Did consumers change what they were buying? Did western companies change from whom they were sourcing?

Pamina Koenig: We want to start with the fact that we have this list of companies that have been identified as contracting with the Rana factories. So let's call these companies the 'Rana Firms,' because they had been importing from Bangladesh and directly from the building that collapsed.

You have two groups of firms. You have the Rana Firms, and then you have all the non-Rana Firms – i.e., all the other importers that are also importing apparel into France.

Chad Bown: Pamina has extremely detailed firm-level data for France. And she has two types of clothing retailers. She has companies in France who were sourcing from the Rana Plaza in



A podcast about the economics of trade & policy
with Chad P. Bown

Bangladesh – they are on the list of 29 companies identified by the NGOs. Those are the Rana Firms. Then there are other companies in France who were not sourcing from Rana Plaza.

Pamina is going to look at three different scenarios.

Pamina Koenig: The first scenario is the Bangladesh scenario. Imagine that all imports of firms importing from Bangladesh into France had been affected, potentially because of a demand driven story. Potentially because people remembered that it happened in Bangladesh, but did not really remember the name of the companies that were involved. Whenever they would go into a shop, people would look at the name tags and say if it was made in Bangladesh, then I'm not buying it.

That may be a possibility, but it also could have been supply driven. For example, imagine that all the companies were confronted with higher cost within Bangladesh because there were more inspections of their work and higher costs than before the scandal. In that case, it could also decrease all imports from Bangladesh and there would be no specific additional effect on the Rana Firms.

Chad Bown: What did you find in this first scenario?

Pamina Koenig: France did not stop importing clothes from Bangladesh. On the contrary, what we find is that Francis imports from Bangladesh are very stable and even increase during the whole period that we study.

Chad Bown: France continued to import clothing from Bangladesh overall. There is no evidence that French consumers had a boycott of clothing from Bangladesh in the aggregate. There is also no evidence at this stage that any costs of compliance with the new inspections pushed by the NGOs hurt the supply of garment companies selling from Bangladesh.

So if you were to stop there, you would think that nothing happened in response to the Rana Plaza collapse.

But Pamina did not stop there. The second scenario she looked at was the Rana story.

Pamina Koenig: The Rana story imagines that all the companies that were contracting with the Rana factories saw their imports decrease – i.e., not only their imports from Bangladesh, really all of their imports.



A podcast about the economics of trade & policy
with Chad P. Bown

If it's demand driven, you can imagine that people remembered the names of the firms that were involved. For example, they remembered that Zara was involved, that Camaieu was involved, that Carrefour was involved, and all those companies that were in the building and also selling in France. Imagine that people don't even go to these shops anymore.

So wherever the item was produced in the end – Bangladesh, Thailand, China, etc. – all the imports of those companies decrease.

Chad Bown: For the companies that had been sourcing from Rana Plaza – Camaieu, Carrefour, Zara, Benetton, retailers like that – did those companies' imports from the world into France stop? Is there any evidence that French consumers boycotted those companies?

Pamina Koenig: No, it was not the Rana Firm story. What we observe is that Rana Firms are very stable in their overall imports – i.e., their imports from all countries.

Chad Bown: So French consumers are not boycotting Camaieu, Carrefour – those companies total imports into France from the world were not falling. What do you do next?

Pamina Koenig: There's our third scenario, which we call the Rana-from-Bangladesh story, where we imagine that the effect is very focused. So it is only the imports of the Rana Firms from Bangladesh that decrease.

That is what we find. We find that Rana Firms did see a decrease of the share of their import that is coming from Bangladesh. So although their overall imports did not change, the share of their imports that comes from Bangladesh saw a decrease.

Chad Bown: This is really important. Pamina does find evidence that – for retailing companies in France that had been involved in sourcing from Rana Plaza – those companies imports from Bangladesh do go down. But the imports from Bangladesh do not go down for those retailers that had not been sourcing from Rana Plaza.

Now, there are potential demand and supply reasons why those very specific imports fell. Pamina started by examining whether this result was driven by a demand story.

Pamina Koenig: If it is demand driven, it's a very, very specific boycott that consumer presented. Well, maybe a consumer went into those shops – into Benetton, Carrefour, and Zara – and maybe they selected the items that were not manufactured in Bangladesh, but if they were manufactured in Bangladesh, then they stopped buying, they pulled away.



A podcast about the economics of trade & policy
with Chad P. Bown

We don't think it is a demand-driven response because that would be asking a lot from consumers – to go into the Carrefour, to go into the Auchan and select only the items that were not made in Bangladesh and pull away from all the products that were manufactured in Bangladesh and that had a 'Made-in-Bangladesh' tag. And continue purchasing within Carrefour and within Auchan, all of these other goods that are manufactured elsewhere and not in Bangladesh.

Chad Bown: Pamina's evidence from her second scenario also makes the demand explanation unlikely. French consumers continued to buy lots of imported garments at these Rana Plaza sourcing companies like Carrefour, Zara, Benetton – she has evidence of that – it is just their imports are now coming in from places aside from Bangladesh.

OK, so if it was not a demand explanation – consumers were not changing their behavior – the story has to be something on the supply side. Consumers are being provided with a different choice. So companies have changed what they are offering.

The first supply side explanation could be the collapse of the Rana Plaza itself. That event destroyed some of Bangladesh's production capacity. But how much?

Pamina Koenig: Potentially the effect that we measure is only driven by the destruction of capacity. In order to understand whether this is the answer you have to compare, on one side, the amount that was manufactured in the building and, on the other side, the amount of imports that disappeared.

When you compare both, you see that in no way could the destruction of the building be the sole explanation for the size of the effect that we observe in imports. There may have been this problem that they could not have imported for one, two, or three months, and that they started to diversify. But definitely they decided to change their provider in larger magnitudes.

Chad Bown: The capacity that was destroyed when the Rana Plaza collapsed did matter, but the total drop in imports from Bangladesh for these companies was so big that that was not the explanation.

The next thing to examine, on the supply side, is from where else these Rana Firms were sourcing aside from Bangladesh.

Pamina Koenig: What we did is to look at alternative origin sources for garment manufacturing. So we looked at whether the Rana Firms had a relative increase in their imports from other countries that were not Bangladesh. And what we found is that indeed there are four countries



A podcast about the economics of trade & policy
with Chad P. Bown

which the Rana Firms start importing more just after the shock. And those countries were Portugal, Turkey, Morocco, and a little bit of Poland.

Chad Bown: Now, Pamina does not have the data in this paper to answer the question – but I wanted to know her theory (some potential explanations) – for why these Rana Firms had decided to source less from Bangladesh and more from Portugal, Turkey, Morocco, and Poland instead.

Pamina Koenig: Those countries share some common characteristics, so those can point to potential explanations. First, those countries are closer to the final destinations of Western consumers there are closer either to Europe or to the Mediterranean area. And second potentially those countries have more stringent and more secure work environment which can make potentially reassure consumers that companies are not remaining in Asia, close to Bangladesh, where the labor conditions were not being respected.

LOOKING BACK: WHAT THE NGOS ACHIEVED

Chad Bown: Going to back to the NGOs, it looks like they did not get everything that they wanted. While there was no evidence of a consumer boycott, perhaps in anticipation or worry that one might be coming, there is some evidence that Rana Plaza sourcing retailers moved their buying out of Bangladesh to other foreign factories in countries closer to France. This is despite the NGOs asking the retailers not to leave Bangladesh.

Stepping back, I asked Pamina how she would characterize the NGOs and what they achieved, in light of the tragedy.

Pamina Koenig: The NGOs tried to highlight what those firms had done and attract the attention of consumers to the fact that it was not a good thing to continue buying fast fashion items. But also they didn't want to call for boycotts of goods made and manufactured in Bangladesh. So it was a very nuanced move that NGOs had to do.

What they achieved is indeed to have companies work on getting working condition and labor conditions better in Bangladesh and in Asian countries in general. They attracted the attention of all suppliers to the fact that it was their responsibility to make sure that within the whole global value chain, labor conditions were respected throughout. I.e., the retailers were responsible even though they don't own those garment factories.



A podcast about the economics of trade & policy
with Chad P. Bown

Chad Bown: For the NGOs watching over these companies after the Bangladesh tragedy, there was one other slight difference this time around.

Pamina Koenig: One important point is also is that those companies accepted to take responsibility for what happened within their value chain. And if we think of the first campaigns that took place in the 1990s against Nike, when Nike was producing in Indonesia and in Thailand, well, the first move of Nike was to not accept the responsibility. Nike said, it's taking place in within my value chain, and why should I be responsible?

Then the CEO of Nike, Phil Knight, changed his mind very rapidly, and in 1998 agreed that it was his responsibility to make sure that there was no slavery within its supply chain.

Chad Bown: As my last question, whatever happened to Sohel Rana, the owner of the building that collapsed in 2013 that killed all of those people?

Pamina Koenig: Sohel Rana was arrested in Bangladesh. He was arrested actually four days after the collapse on April 28th. And then his trial took forever. Even though the trial was delayed and took forever, Sohel Rana was sentenced for murder and went to jail in February 2022.

Chad Bown: Pamina, thank you so much for taking the time to join us.

Pamina Koenig: Thank you Chad. It was great.

THE ONGOING AGENDA FOR NGOS, POLICYMAKERS, AND WORKERS

Chad Bown: To wrap up this episode, I want to make three last points.

First, this amazing research on NGOs and changing economic activity after a crisis is really just the beginning. NGOs are playing a potentially huge role here. They watch over retailers and local contractors within their supply chains, naming and shaming if necessary. NGOs provide important public goods that governments so far have had difficulty providing themselves.

From a research perspective though, there is still so much about NGOs that we don't yet understand. We didn't get a chance to talk about it here, but Pamina has some other incredibly important research that begins to dig into these questions.



A podcast about the economics of trade & policy
with Chad P. Bown

Second, the problem these NGOs are highlighting is also clearly on the mind of today's policymakers.

Take the Biden administration's negotiations of IPEF, the Indo-Pacific Economic Framework. In IPEF, there is specific language "encouraging corporate accountability in cases of national labor law violations" as part of the scoping documents in Pillar I – the trade pillar – released last year.

Third, from a development perspective, the other important thing we always have to watch out for is the worker in a country like Bangladesh. The goal is to get the worker better wages and safer working conditions. NGOs also have to worry about making sure that those workers have job opportunities at all. If they push too hard, some of those industries and jobs may disappear and just end up fleeing to other countries.

For research and policy and workers, there is a lot more that needs to be done. We will continue to watch this space.

GOODBYE FOR NOW

Chad Bown: And that is all for *Trade Talks*.

A huge thanks to Pamina Koenig at the University of Paris I and University of Rouen. Do check out her new paper with Sandra Poncet titled, "The effects of the Rana Plaza collapse on the sourcing choices of French importers" – I will post links to this and some of her other research I mentioned on the episode page of the *Trade Talks* website.

Thanks to Melina Kolb, our supervising producer. Thanks to Sarah Tew, on digital.

As always, thanks to Collin Warren, our audio guy.

Do follow us on Twitter or Mastodon, we're on @Trade__Talks. That's not one but two underscores, @Trade__Talks.

<insert super funny double underscore joke here>. ■



A podcast about the economics of trade & policy
with Chad P. Bown

REFERENCES

Pamina Koenig and Sandra Poncet. 2022. [The effects of the Rana Plaza collapse on the sourcing choices of French importers](#). *Journal of International Economics* 137: 103576.

Pamina Koenig and Sandra Poncet. 2019. [Social Responsibility Scandals and Trade](#), *World Development* 124: 104640.

Pamina Koenig, Sebastian Krautheim, Claudius Löhnert and Thierry Verdier. 2021. [Local Global Watchdogs: Trade, Sourcing and the Internationalization of Social Activism](#), CEPR Discussion Paper 15878, February.

Sophie Hatte, and Pamina Koenig. 2020. [The Geography of NGO Activism against Multinational Corporations](#). *World Bank Economic Review* 34(1).