Sub-regional cooperation can be the answer to the deadlock of regional integration in South Asia

Selim Raihan

Though there is a strong demand for a deeper regional integration in South Asia, the progress has been rather slow. Actual implementation of agreements often does not match the declared ambitions, and in this context, lack of political will and leadership, institutional weaknesses and capacity and resource constraints have been argued to be the major impediments. The political rivalry between India and Pakistan has often constrained the SAARC to be a functional regional forum. The recent cancellation of the SAARC summit is such an example.

In order to take forward the regional integration process in South Asia a good and effective initiative is the Bangladesh, Bhutan, India, Nepal (BBIN) initiative, which is a sub-regional coordinative architecture of countries in South Asia. BBIN operates through Joint Working Groups (JWG) comprising official representation from each member state to formulate, implement and review quadrilateral agreements. Areas of cooperation include water resources management, connectivity of power grids, multi-modal transport, freight and trade infrastructure, focused on the subcontinent’s north east, it endeavored to cooperate on trade, investment, communication, tourism, energy and natural resources development. Its objectives have been expanded over years to incorporate substantial land and port connectivity.

The economic needs and drivers for a deeper integration in the BBIN sub-region are more prominent compared to these countries’ integration with the rest of South Asia. Especially, a deeper integration among the BBIN countries is very important to place BBIN as the gateway for further integration with China and Southeast Asian countries. The political economy drivers also seem to be more favorable. In the context of some structural factors, especially the political rivalry between India and Pakistan which has confined the progress of SAARC, and landlockedness of Nepal and Bhutan, the BBIN sub-regional initiative has seen a greater interest from the political elites from these four countries. The extra-regional drivers for BBIN are also favorable as there are growing interests from international organizations like the Asian Development Bank (ADB) and the World Bank for improvement in connectivity and infrastructural development in this sub-region.

As far as intra-BBIN trade is concerned, there are substantial potentials for the rise in intra-regional trade. However, despite that India has already provided almost full duty-free-quota-free of its market access to exports from South Asian LDCs, Bangladesh, Nepal and Bhutan are facing escalated challenges to at least secure and then to increase their exports to the Indian market. These challenges are related to their limited export capacities, lack of diversification of their export baskets, and various non-tariff measures (NTMs) and procedural obstacles (POs) due to inadequate infrastructure and lack of support facilities both at home and in the Indian market. However, streamlining of NTMs and removal of associated POs are very important as such actions are likely to intensify further market integration in the BBIN sub-region through development of regional value chains. These will also encourage larger intra and extra regional investments in the BBIN sub-region which can be instrumental for growth integration among these countries. To make these happen there is a need for policy integration among the BBIN countries.

Domestic capacities of the exporters in Bangladesh, Bhutan and Nepal need to be improved to meet different international standard requirements. Unless and until these exporters develop their capacities, they will not be able to diversify exports and become competitive in the regional and international markets. A number of supply side factors at home can actually undermine the exporters’ competitiveness and constrain economic and export diversification. These factors are directly associated with the domestic production and investment environment. Most prominent of these factors are access to finance, weak physical infrastructure, inefficient ports and high transport costs, shortage of skilled workers, technological bottlenecks, lack of entrepreneurship and management skills, lack of information, and high costs of doing business.

There are some signs of heightened ‘new’ commitment among political elites of the BBIN countries. The recent speedy resolution of land boundary agreement (LBA) between Bangladesh and India, the positive reception of the India-Bangladesh Maritime Arbitration Award announced in July 2014, establishment of border haats along the border between India and Bangladesh, and the BBIN Motor Vehicle Agreement are signs of such ‘new’ political commitments.

However, the aforementioned ‘new’ commitments have not yet been translated much to resolve the issues related to NTMs and POs discussed above. There is a need to put renewed emphasis on this. There are some recent initiatives by the Government of India to solve the trade infrastructural problems at the border by setting up of Integrated Check Posts (ICPs) at major entry points on the land borders between Bangladesh and India. Two such ICPs have been put in place recently. Such ICPs need to be established at the borders between India and Nepal and India and Bhutan.

There is also a need for cooperation among different institutions in the BBIN countries to deal with NTMs and removal of POs. Cooperation is needed in a number of areas for harmonization of TBT and SPS measures, Mutual Recognition Agreements (MRAs) among respective organizations of these countries, and for introduction of increased automation of their customs clearance procedure.

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The October, 2016 issue of Thinking Aloud focuses on ‘Challenges in Regional Integration in South Asia’. The first article “Sub-regional cooperation can be the answer to the deadlock of regional integration in South Asia” concentrates on the need and the challenges for stronger integration process in the sub-regional integration among Bangladesh, Bhutan, India and Nepal (BBIN). The article emphasizes on trade facilitation, streamlining NTMs, the removal of procedural obstacles, and investing on exporters’ capabilities to help boost the intra-regional trade and investment among these countries. The second article titled “Tapping on the trade-investment nexus for improving bilateral economic cooperation between Bangladesh and India” analyses the current pattern of bilateral trade between these two countries and emphasizes on large FDI from India into Bangladesh for enhancing bilateral cooperation. The article highlights the recent initiatives by the governments of the two countries in building stronger relations to enhance bilateral trade by focusing on better infrastructure, liberalizing trade and taking initiatives for boosting FDI. There is no denying that accelerating bilateral trade and investment between the two countries will create extensive growth opportunities that will in turn reduce inequality and poverty in these two countries. In this issue SANEM interviews Dr. Prabir De, Professor, Research and Information System for Developing Countries (RIS), New Delhi, India, on the issues of SAARC and regional integration. Dr. De focuses on the need for political stability and integrated systems to achieve potential outcomes. He also talks about the challenges in the region and how the countries can overcome those challenges to benefit from regional integration. Finally, the fourth page provides a brief of all the events that took place in the month of September.

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South Asian Network on Economic Modeling
Tapping on the trade-investment nexus for improving bilateral economic cooperation between Bangladesh and India

Selim Raihan and Farazi Binti Ferdous

Bangladesh and India have long bonds in culture and history. Despite such bonds and neighborly proximity, economic cooperation between the two countries has remained far below potential. A number of studies have shown that bilateral trade and investment offer immense opportunities for accelerating growth and reducing poverty in Bangladesh and India. These studies suggest that India could become a major player for accelerating the growth of intra-industry trade and uplifting foreign direct investment (FDI) inflow to Bangladesh. Also, for India, Bangladesh could become an additional source of trade as well as a critical destination for investment thus addressing many concerns relating to the economic isolation of its backward Eastern and North-Eastern states. Furthermore, better connectivity between Bangladesh and India through multi-modal transport and transit facilities will further enhance the strength of the economic relations between these two countries. Although it experiences annual volatility, the overall trade between Bangladesh and India has increased over time, and the balance of trade remained heavily in favor of India. Total exports from Bangladesh to India increased from US$ 50.2 million in 2001-02 to US$ 527.2 million in 2014-15 (which was only 0.1% of India’s total import). The share of Bangladesh’s exports to India in the country’s overall export increased from 0.3% to around 1.5% during the same period. On the other hand, India’s exports to Bangladesh increased from about US$ 1019 million in 2001-02 to US$ 5.8 billion in 2014-15 (around 2% of India’s total export). At present, India is the second largest import source for Bangladesh. In 2014-15, the share of Bangladesh’s import from India was around 16% of the country’s total import from the world. 

Looking at the product details we find that in recent years Bangladesh’s exports to India (Figure 1) have been dominated by readymade garments (RMG) (HS code 6) and jute products (HS code 5). Bangladesh also exports products like textile articles, edible fruit and nuts, salt, fish, inorganic chemicals, mineral fuels and raw hides and skins. In contrast, large parts of Bangladesh’s import from India have been raw materials and capital machineries (HS codes 5 and 8) (Figure 2) which are used in Bangladesh’s export-oriented industries. Bangladesh and India are also tied by non-tariff measures (NTMs) and procedural obstacles (POs) due to inadequate infrastructure and lack of support facilities both at home and in the Indian market.

It is noteworthy that readymade garments (RMGs) has become the major item in Bangladesh’s export to India on account of duty-free market access granted by India. In 2009-10, the share of RMG was more than 28% in total export of Bangladesh to India, which rose to 34.3% by 2014-15. However, studies have shown that there are many products in which Bangladesh has large export capacities, but actual exports to India are either very low or zero. For example, Figure 3 shows that although for products in the HS categories of 02, 16, 24, 41, 46, 64, 65 and 67, Bangladesh has either the full or significantly partial export capacities to meet India’s import demand, actual exports to India are zero. Similar observation also holds for Indian imports to Bangladesh. Therefore, there is enormous scope for raising bilateral trade between the two countries. There is a need to explore carefully, how different NTMs and POs and lack of trade facilitation affect such prospects. Necessary measures should be taken to improve the scenario. In order to address the trade infrastructural problems at the border, lately, there are some initiatives by the Government of India to set up Integrated Check Posts (ICPs) at major entry points on the land borders between Bangladesh and India. Two such ICPs have been launched recently, and they are expected to boost bilateral trade.

Bangladesh and India have to tap on the trade-investment nexus for improving their bilateral economic cooperation. The horizontal and vertical integration of Indian and Bangladeshi industries could help to improve scale economies, especially for Bangladesh, and help Indian firms gain from the use of cheap labor in Bangladesh. However, in terms of sources of FDI inflow in Bangladesh, the US, the UK, and South Korea top the list of countries, and FDI from India is still very low. 

Lately, there have been a number of initiatives between Bangladesh and Indian governments to improve the investment situation. The Bangladesh Power Development Board and the Indian National Thermal Power Corporation have signed a memorandum of understanding in 2010 to set up two coal-fired power plants, each of which will have a capacity of 1,320MW, with partnership shared equally between both. Furthermore, recently, Bangladesh has offered India to establish two Special Economic Zones (SEZ) for Indian companies. Launching of these SEZs is expected to substantially increase Indian FDI into Bangladesh.

In 2015, Prime Ministers of India and Bangladesh contracted international gateway of internet service in Agartala and supply of 100MW power to Bangladesh from Tripura. India is already supplying 500 MW of power to Bangladesh, and supply of another 500 MW was also announced during Indian Prime Minister’s visit to Bangladesh in 2015. On the other hand, the bandwidth connection came as Bharat Sanchar Nigam Limited (BSNL) and Bangladesh Submarine Cable Company Limited (BSCL) signed an agreement for leasing of international bandwidth for Internet at Akhaura. As a result, Agartala has become third station connected to submarine cable for Internet bandwidth after Chennai and Mumbai. The internet bandwidth export to India from Bangladesh will enable reliable and fast internet connectivity for the people of Tripura as well as other parts of India’s northeastern region.

It is expected that the latest shipping arrangement between Bangladesh and India would make faster movement of goods between these two countries. Currently, such shipments are routed via Colombo or Singapore. Also, it takes around 20 days for a shipment by land. However, the direct shipping is expected to reduce the time to around 7 days, as there is no longer a need for transshipment at Colombo. The service will play a vital role in decongesting the border points and bringing down the cost and transit time involved. This improved arrangement of connectivity would bring better efficiency and thus provide the best competitive freight rates to the advantage of the industries. The aforementioned points reflect the fact that there are heightened political commitments among the governments of both Bangladesh and India to make the bilateral economic cooperation through different initiatives. Such initiatives need to be materialized at the earliest. As for Bangladesh, to make the most out of such initiatives, there are a number of challenges though. The country needs to significantly improve the business environment for attracting FDI, as the latest World Bank’s ranking of the ease of doing business shows that Bangladesh’s position dropped two steps to 174 out of 189 countries due to stalled regulatory reforms. Finally, besides abovementioned economic issues, still there are some bilateral issues between Bangladesh and India, which need to be resolved for enriching mutual trust and confidence for greater economic cooperation. For example, border killing is an issue that strains India-Bangladesh relations as the victims are often ordinary people of Bangladesh living in border areas. This needs to stop, for which a political decision at the highest level is necessary. Also, the water-sharing issue between India and Bangladesh is yet to be solved properly, which undermines a lot of the developmental prospects. However, it can be hoped that these issues will be solved with the heightened commitment among political elites of the two countries for a deeper economic cooperation.

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Also benefit from non-economic areas

Dr. Prabir De is a Professor at the Research and Information System for Developing Countries (RIS). He is also the Coordinator of ASEAN-India Centre (AIC) at RIS. He works in the field of international economics and has research interests in international trade and development. He is an Adjunct Fellow of the Institute of Chinese Studies, New Delhi and SANEM. He was a Visiting Fellow of the Asian Development Bank Institute (ADBII), Tokyo; and Visiting Senior Fellow of United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Bangkok. He has been conducting policy research for the Government of India and several international organisations. He was also a visiting faculty member of the Calcutta University. Professor De has a Ph.D. in Economics from the Jadavpur University, Calcutta. He has contributed several research papers in international journals and written books on trade and development. He is also the Editor of South Asia Economic Journal, published by Sage.

SANEM: The 19th SAARC Summit has been postponed, how will this affect the future of regional integration in South Asia?

PD: Following India, Afghanistan, Bangladesh and Bhutan have also pulled out from the coming SAARC Summit. Most likely, the 19th SAARC Summit will be postponed. Terrorism and trade cannot go together. So, India had to withdraw from this year’s SAARC Summit. No doubt SAARC integration process will slow down further. This will heavily affect LDCs who depend on SAARC. Pakistan, and in particular, South Asian integration is moving towards East, which is happening already. So, smaller economies, since they are most vulnerable, will have to reorient their integration process with BBIN, BIMSTEC, ASEAN, BIM, etc. China will formally get into this new emerging scenario where Bay of Bengal becomes a pivot.

SANEM: To what extent have we met the expectations of SAARC?

PD: There is no denying that SAARC regional integration process has gained momentum with implementation of SAFTA. However, the current political relation between India and Pakistan and Bangladesh and Pakistan is not very much conducive to SAARC integration process. To a large extent, smaller economies are yet to be optimally benefitted from the SAARC integration process.

Regional integration does not work well when we have political conflicts, shallow integration arrangements and lack of regional cohesiveness. South Asia is a unique case in point, where despite having all ingredients, economic integration has never picked up the required pace. Countries like Bangladesh, India and Sri Lanka have been trying their best to give it a life. But, a similar move from other member countries is not always forthcoming. Nevertheless, SAARC has to move fromFTA-based integration arrangement to a comprehensive arrangement, where member countries also benefit from non-economic areas, particularly cultural and political issues. FTAs are the case of the past. Comprehensive cooperation is the new trend among developing countries.

Implementation is very important, merely signing of the FTA is not enough. FTAs are not fully implemented in South Asia. In implementing FTAs, we also need to keep in mind that regional integration can only be successful if it unleashes new competition that lowers prices, introduces new technology and gains productivity. Has SAFTA helped Bangladesh to improve its overall productivity? One must investigate all these, at least for academic purpose.

FTAs also give rise to negative effects, including rise in poverty and inequality. Has our region made any concerted effort to deal with such social issues? Perhaps, not yet. Coordinated efforts are necessary to realize sustainable growth and development in South Asia.

SANEM: How important is political will in implementing regional integration in South Asia?

PD: Political tension is not uncommon in South Asia. It has started in various forms soon after the region got fragmented in 1947. Political cooperation has been the weak link of the relation between India and Pakistan or between Bangladesh and Pakistan. India and Pakistan had wars in the past. It is the fact that political tension is the sole factor slowing down the SAARC integration process. As a result, sub-regional arrangements like BBIN has picked up the pace. Now, a group of business people and diplomats are even advocating pursuing BIM (Bangladesh, India and Myanmar) subregional cooperation. Until the political conflict is resolved permanently, which I doubt, SAARC integration process will continue to follow the second or third best path.

The incentive to intensify political dialogue is also not there.

SANEM: How can India play a proactive role in steering regional integration?

PD: South Asia has been deeply and structurally influenced by India. South Asian countries acknowledge it. Given the diversity of the region, India’s active involvement in SAARC is crucial in order to achieve higher pace of regional integration. India has been proactive in the integration process. India is the first country in South Asia to help facilitate LDCs’ export to Indian market by removing duties in most of the items before the stipulated deadline. Apart from trade, India has been playing a key role in education, energy, health and physical connectivity areas. We need India in developing value chains in the region. India’s private sector, technology and market size are important assets for creation of regional value chains and also global value chains from South Asia. This is yet to happen. Services trade is an area where engagement of India and other South Asian countries would be ‘win-win’ for all the members of South Asia. Services trade offers complementarities. South Asian countries have to identify the barriers to trade in selected services and remove them gradually. For example, signing an agreement in education may help South Asian countries to recognise the degrees or diplomas offered by them, thereby leading to generate higher trade in educational services. South Asian countries have to facilitate FDIs, operate a business friendly environment, play an active role in regional connectivity, to mention a few. Afghanistan represents an important gateway for South Asia to Central Asia and vice versa. The opening up of Afghanistan represents a further scope of strengthening SAARC. A regional MVA would strengthen the SAARC integration where participation and support of all SAARC member countries is essential. South Asian countries shall also strengthen their integration with Northeast and East Asian countries. However, all depend on political peace and tranquility.

SanEM: How can the recent bilateral cooperation between Bangladesh and India and also between India and Sri Lanka play roles in uplifting the regional integration process in the region?

PD: Bilateral cooperation is the building block for regional cooperation and integration. This is very important. However, we need to understand that too many bilateral integration arrangements in a given region sometimes become counterproductive. Trade diversion happens and countries ultimately lose interest. We have to minimize the costs so that regional integration process gets an identity and strong participation of stakeholders. Sustainability of regional integration is a must. India and Sri Lanka are currently negotiating the ECTA. Sri Lanka is also negotiating an FTA with Singapore. These bilateral FTAs not necessarily will strengthen the regional integration process, provided they have complementarities. Ultimately we need to see how much value addition these bilateral agreements do in terms of generating political, social, and economic wealth. There are several non-performing or low utilising bilateral FTAs like Sri Lanka – Pakistan FTA, which do not facilitate regional integration, in a greater way. On the other hand, a stronger bilateral cooperation between India and Bangladesh or Sri Lanka and India is dividend-creating. We need to support these agreements and implement the commitments. Trade facilitation by means of harmonisation of standards and customs procedures and cooperation in transport infrastructure is very important, which can be done by bilateral and/or regional level. So, bilateral agreements must cover trade facilitation issues.

SANEM: What kind of measures should be taken to solve problems of NTMs and infrastructure inadequacy in South Asia?

PD: Original intentions of these measures were to facilitate national trade and integrate the economy with global market. Given the varied structure of the South Asian countries, economic, social and political gains from regional market could facilitate the countries global integration much faster in an inclusive manner. So far, the regional integration process in South Asia has been driven with little support from formal institutional arrangements. Market forces have not played a greater role so far. Regional integration, if done correctly, can work. So what South Asian countries might have to do is to adopt an agenda for building common markets in selective sectors gradually. For example, a South Asian Customs Union may remove the problems of NTMs for member countries. SANEM, under the leadership of Dr Selim Riahi, has done some seminal works on this area. Similarly, regional currency swap, regional bond market, regional single window in customs, regional standards, regional open sky in aviation, regional health facility, etc. are needed to take forward the SAARC integration process to the next stage. Ultimately, these would help facilitate South Asian Economic Union (SAEU). The bottom line is SAARC has to take initiatives to transform itself from a mere FTA-driven zone into an Economic Community, which could enhance the free movement of goods, services, investment, capital and skilled labour, and could contribute to the formation of a single market as well as a single production base. We also need to engage the dialogue partners in a constructive manner. ASEAN has several important lessons to offer to SAARC. We must learn from ASEAN. South Asia needs a stronger Secretariat, which can effectively drive the integration process. Finally, success would depend on how strongly South Asia is getting integrated with the world economy.

SANEM: Thank you very much.

PD: We are welcome.
SANEM is implementing the ILO project on “Improving Working Conditions in the Ready-Made Garment Sector”, funded by the Royal Netherlands Government, Canada and UK. This project aims to improve building safety, strengthen the labor inspection system, promote occupational safety and health, and support Rana Plaza survivors and the Better Work Bangladesh program. The survey will explore the working conditions, lives and opinions of the workers at the factory level. SANEM is going to conduct this survey using both quantitative and qualitative techniques. This study will engage workers, supervisors and managers at the factories to get an insight of their working conditions and ensure their well-being. Besides, perspective of stakeholders on important issues regarding RMG sector of Bangladesh will be included. This study is going to be inclusive in a sense that it includes insights from all possible stakeholders. This study will significantly contribute to the understanding of the dynamics of the RMG sector in Bangladesh as well as the initiative of ILO and Government of Bangladesh to improve the labour inspections system, strengthen working of conditions and factory safety.

SANEM launches a survey on RMG firms in Bangladesh

SANEM, in collaboration with the UNDP, has undertaken a project titled ‘Support to Sustainable and Inclusive Planning’. Under this project, a study on ‘SDGs Need Assessment and Financing Strategy’ will be conducted. General Economic Division (GED), of the Planning Commission, Government of Bangladesh is the recipient of this study. Bangladesh was a success story in achieving the MDGs and it is one of the frontrunners for implementing the SDGs. This study has brought different level of significance since Bangladesh is the first country ever where this kind of study is going to be conducted. Universality and diversity of SDGs make this kind of study more momentous. The study will focus on getting a precise and robust estimate of the cost for SDG implementation through identification of a comprehensive set of short and long term interventions, estimating available resources and resource gap for implementation of SDGs and preparing a feasible financing strategy.

Meeting with ADB held in Dhaka

Asian Development Bank organized a meeting on “National Consultation on the SASEC Sanitary / Phytosanitary and Technical Barriers to Trade (SPS / TBT)” on 28th September, 2016 in Dhaka. The meeting consisted of four sessions, including the introductory session chaired by Dr. Rose McKenzie, ADB and Mr. Manoj Kumar Roy, Additional Secretary, Ministry of Commerce, GOB. Dr. Selim Raihan presented the “Draft Terms of Reference for the Bangladesh National SPS / TBT Diagnostic Study” in the third session on “National SPS / TBT Diagnostic Study”, followed by a Q & A session.

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Mr. Nesar Ahmed, Director (Joint Secretary), WTO Cell, Ministry of Commerce, GOB and Mr. Shaquib Quoreshi, Secretary, MCCII were also presenters in a session. Representatives of Ministry of Health and Family Welfare, Ministry of Agriculture, Ministry of Fisheries and Livestock, FBCCI were also present in the meeting.

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