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FROM COMPLIANCE TO COMPETITIVENESS: THE GROWING IMPORTANCE OF LABOUR ISSUES FOR BANGLADESHI EXPORTERS IN THE EUROPEAN UNION AND THE UNITED STATES

Selim Raihan

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Australian Government
Department of Foreign Affairs and Trade

Policy Paper Series

From Compliance to Competitiveness: The Growing Importance of Labour Issues for Bangladeshi Exporters in the European Union and the United States

Selim Raihan[1]

August 2026

[1] Dr Selim Raihan is a Professor at the Department of Economics, University of Dhaka, and Executive Director at the South Asian Network on Economic Modeling (SANEM). Email: selim.raihan@gmail.com

Publication: August 2026

The study is funded by the Australian High Commission, Dhaka. The views and observations presented in this policy paper are those of the author and do not necessarily reflect the views of the Australian High Commission. The author is fully responsible for any errors/views/opinions contained in this research.

Suggested Citation

Raihan, S. (2026). *From Compliance to Competitiveness: The Growing Importance of Labour Issues for Bangladeshi Exporters in the European Union and the United States.* SANEM & Australian High Commission Policy Paper Series. SANEM Publications, Dhaka, Bangladesh.

Published by

South Asian Network on Economic Modeling (SANEM)
Flat K-5, House 1/B, Road 35, Gulshan 2, Dhaka 1212, Bangladesh
Phone: +88-02-58813075
Email: sanemnet@yahoo.com
Website: www.sanemnet.org

Abstract

Bangladesh's ready-made garment (RMG) industry has become the world's second-largest apparel exporter. Its growth rested on low labour costs, a large workforce, and preferential access to the European Union, while the United States developed into its largest single-country market. That model is now under pressure. The EU has moved from mainly voluntary corporate responsibility to binding rules on due diligence, sustainability reporting, and forced labour, although the 2025-26 Omnibus reform narrowed the reach of some measures. The United States relies more heavily on buyer codes and customs enforcement, especially against goods linked to forced labour. At the same time, Bangladesh's graduation from Least Developed Country (LDC) status will gradually reduce the tariff preferences that helped offset weaknesses in productivity and compliance.

This article argues that labour standards are no longer a peripheral ethical issue. They now influence market access, buyer selection, shipment clearance, and export competitiveness. It reviews the evolution of labour governance in Bangladesh, explains the different regulatory approaches of the EU and the United States, and examines the costs and opportunities facing exporters. The main challenge is distributional: large factories are better placed to absorb new compliance costs, while smaller firms and subcontractors risk exclusion. A durable transition will therefore require stronger public enforcement, practical support for smaller exporters, shared industry systems, and closer coordination with development partners.

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1. Introduction and Background

Bangladesh's transformation from an agrarian, aid-dependent economy into a leading apparel exporter is one of the country's most significant development achievements. The RMG sector provides the overwhelming share of merchandise export earnings and directly employs several million workers, most of them women. Many more livelihoods depend on transport, logistics, accessories, finance, and other activities linked to garment production.

The European Union and the United States have been central to this success, but in different ways. Duty-free, quota-free access under the Everything But Arms (EBA) arrangement helped the EU absorb roughly half of Bangladesh's apparel exports. The United States offers no comparable preference, yet remains the country's largest single-country market because Bangladeshi firms can supply large volumes at competitive prices.

For much of the industry's history, competitiveness rested on low wages, a large labour supply, and preferential market access. Labour conditions were treated mainly as a domestic governance issue and drew international attention largely after major accidents. Two linked changes have overturned that approach.

First, trade-linked labour governance has become more demanding. The EU now connects trade preferences to labour and human rights obligations and has adopted rules that require large buyers to examine risks beyond their direct suppliers. The United States has followed a narrower but forceful route through Section 307 of the Tariff Act of 1930, the Uyghur Forced Labor Prevention Act (UFLPA), and private buyer codes. Second, Bangladesh's trade position is changing. LDC graduation in 2026, followed by a three-year transition before EBA preferences are expected to end around 2029, means that tariff protection is declining just as compliance costs are rising (Daily Star, 2026a; ADB, 2024).

This article addresses three questions. Why have labour issues become central to Bangladesh's trade with its main Western markets? What do the changing EU and US regimes require from exporters? And where do the risks and opportunities lie?

The central argument is straightforward. Labour standards now affect whether a firm can enter a buyer's supply chain, retain orders, and clear goods at the border. Firms that treat compliance as a one-time audit exercise may lose market access. Those that build credible systems for worker protection, record-keeping, and traceability may turn compliance into a source of reliability and comparative advantage. The issue is, therefore, not only whether Bangladesh adopts new laws, but whether public agencies and firms can implement them consistently.

2. Evolution of Labour Issues in Bangladesh's Export Sector

Bangladesh's RMG industry emerged in the late 1970s and grew rapidly under the Multi-Fibre Arrangement quota system. The EBA initiative, introduced in 2001, later gave Bangladesh and other LDCs duty-free, quota-free access to the European market (Raihan, 2024). Domestic measures reinforced this opportunity. Back-to-back letters of credit, bonded warehouses for duty-free inputs, and export incentives helped EU-bound apparel exports rise from about two billion dollars in 2001 to more than twenty billion dollars by the early 2020s (Raihan, 2024).

The same model also contained a serious weakness. Very low labour costs were sustained partly by weak enforcement of labour law, limited inspection capacity, and restricted space for independent trade unions (ADB, 2024). Low prices supported export growth, but factories, workers, and ultimately the country's reputation carried risks that were not reflected in production costs.

Those risks became impossible to ignore after two disasters. The Tazreen Fashions fire on 24 November 2012 killed at least 112 workers; many reportedly could not escape because factory exits were locked (Human Rights Watch, 2015; Amnesty International, 2024). Five months later, on 24 April 2013, Rana Plaza collapsed after workers had been ordered into a visibly unsafe building. More than 1,100 people died, and several thousand were injured (Amnesty International, 2024; Daily Star, 2026b).

The disasters exposed failures at several levels: unsafe buildings, weak inspection, limited worker voice, purchasing relationships that rewarded low prices, and international brands that often lacked effective oversight beyond their immediate contracts. They transformed factory safety from a domestic concern into a question of global buyer responsibility.

The most consequential response was the Accord on Fire and Building Safety in Bangladesh, a legally binding agreement signed in May 2013 by more than 200 brands, retailers, and trade unions. A parallel Alliance for Bangladesh Worker Safety covered many North American brands. The Accord inspected structural, fire, and electrical safety and required factories to correct identified hazards within specified periods (EBSCO Research Starters, 2025; International Accord, 2026).

The International Labour Organization also launched a programme in September 2013, coordinated with the National Tripartite Plan of Action. Its first phase inspected more than 1,500 factories, trained over 800,000 workers on occupational safety, and supported the return to work of Rana Plaza survivors (ILO, 2024a; ILO, 2024b). Amendments to the Bangladesh Labour Act in 2013 and 2018 eased some restrictions on union formation and strengthened provisions on compensation and occupational safety, although enforcement continued to lag behind the law (BDLD, 2026).

In 2020, the RMG Sustainability Council (RSC) took over the Accord's Bangladesh operations. Governed jointly by manufacturers, brands, and trade unions, it continued factory inspections, remediation monitoring, safety training, and an independent complaints mechanism (BGMEA, 2020; RSC, 2026). By the mid-2020s, most factories under its oversight had completed the large majority of safety measures identified in initial inspections (International Accord, 2026).

Labour law reform continued. The Bangladesh Labour (Amendment) Act 2026 eased union registration thresholds, prohibited the blacklisting of union members, extended maternity leave, created a Workplace Accident Compensation Fund, and introduced protections aligned with ILO Convention No. 190 (UNI Global Union, 2026; Global Law Experts, 2026). The reform followed sustained international pressure, including a 2019 complaint under Article 26 of the ILO Constitution concerning labour inspection, freedom of association, and collective bargaining (Mondaq, 2026; Nasim, 2026).

Yet the transition remains incomplete. EPZ workers still lack full trade union rights, anti-union discrimination cases are often unresolved, and workplace deaths remain high. IndustriALL-affiliated monitoring recorded 1,190 workplace fatalities in 2025, an increase despite stronger formal protections (IndustriALL, 2026). Bangladesh has, therefore, improved its legal and safety framework, but implementation remains uneven across factories and groups of workers.

3. Labour Standards in International Trade

The connection between labour standards and trade can be understood as a sequence. International standards influence the laws and trade policies of importing markets. Those rules shape the contracts and sourcing requirements of global buyers. Buyer requirements then determine what exporting factories must document and improve. Factory performance, in turn, affects price, reliability, reputation, and market access.

This sequence matters because compliance is no longer confined to a factory inspection. A buyer may now need evidence about subcontractors, worker complaints, overtime, and the origin of cotton or yarn. A weakness several stages down the supply chain can, therefore, affect the commercial position of the lead exporter.

The ILO's Decent Work Agenda, adopted in 1999, provides much of the language now used in trade instruments. It rests on employment creation, social protection, rights at work, and social dialogue (ILO, 2024b). Core labour standards cover freedom of association and collective bargaining, the elimination of forced labour and child labour, non-discrimination, and, more recently, occupational safety and health.

Bangladesh has ratified most core ILO conventions. Ratification, however, is only the starting point. EU monitoring and buyer assessments increasingly examine whether national laws, inspections, court decisions, and factory practices give effect to those commitments (CPD, 2018; CPD, 2019).

Corporate expectations have also changed. Corporate social responsibility (CSR) began largely as a voluntary and philanthropic practice. It gradually developed into an expectation that firms should identify and manage the social and environmental effects of their operations. Environmental, Social and Governance (ESG) reporting widened the focus to include investor disclosure and business risk.

Human rights due diligence goes further. It is an ongoing process through which a firm identifies actual and potential harm, prevents or reduces that harm, monitors its response, reports what it has done, and provides or supports remedy where harm occurs (OECD, 2018). The OECD garment and footwear guidance translates this principle into six practical steps, from embedding responsible conduct in management systems to remediation (OECD, 2018; Net Zero Compare, 2026). The EU's later use of this guidance in binding legislation shows how voluntary expectations have gradually become legal obligations.

Three forces explain this shift. First, Rana Plaza demonstrated that voluntary commitments without independent verification or legal consequences could not prevent systemic harm. Second, global value chains are multi-tiered and often opaque. A lead buyer may know its direct supplier but not the subcontractor, fabric mill, spinner, or cotton source behind the final product. Mandatory due diligence is designed to close that information gap.

Third, labour enforcement now intersects with geopolitical and industrial policy, particularly in the United States. Restrictions linked to the Xinjiang Uyghur Autonomous Region combine human rights concerns with wider strategic competition. Their effects extend beyond China because exporters in countries such as Bangladesh must show that prohibited inputs have not entered their supply chains.

4. The European Union's Changing Trade and Labour Regime

The European Union has developed the broadest labour-related trade regime facing Bangladeshi exporters. Three parts of this regime need to be distinguished: conditions attached to trade preferences; corporate rules on due diligence and reporting; and product controls concerning forced labour. They operate through different legal channels, but together they increase the amount of evidence expected from suppliers.

The EU has long linked trade benefits to human and labour rights through bilateral agreements and the Generalised Scheme of Preferences. Bangladesh currently receives the most generous GSP treatment under EBA, which offers duty-free, quota-free access to all products except arms, subject to respect for international conventions (Just Style, 2020).

Graduation changes this position. Bangladesh is expected to retain EBA-equivalent benefits for three years after leaving LDC status, but could lose them around the end of 2029 unless the transition is extended (Daily Star, 2026a). The revised GSP framework, Regulation (EU) 2026/1395, will apply from 1 January 2027. Bangladesh would then need to qualify for GSP+, which offers duty-free access on around two-thirds of EU tariff lines but requires effective implementation of twenty-seven international conventions, fifteen concerning human and labour rights (CPD, 2019; Razzaque et al., 2024). EU monitoring missions have repeatedly stressed freedom of association, collective bargaining, and the elimination of child labour, prompting Bangladesh to submit successive reform roadmaps (EEAS, 2023; Just Style, 2020).

A second layer consists of corporate legislation. The Corporate Sustainability Due Diligence Directive (CSDDD) entered into force in July 2024. In its original form, it required large EU and non-EU companies to identify, prevent, reduce, and remedy human rights and environmental harm across their chains of activities. Bangladeshi garment factories could, therefore, be examined as upstream suppliers, while lead companies could face civil liability for supply-chain harm (ERM, 2024; White & Case, 2024a).

The Corporate Sustainability Reporting Directive (CSRD) complements this approach by requiring large companies to disclose social and environmental performance, including labour conditions in their supply chains. Due diligence concerns the process used to manage harm; reporting concerns the evidence a company publishes about its risks, actions, and results. For suppliers, both can generate detailed information requests.

The 2025-26 Omnibus I reform significantly narrowed both regimes. The final Omnibus Directive (EU) 2026/470 entered into force in March 2026 after agreement between the Council and Parliament (Weil, 2026; Gibson Dunn, 2026; DLA Piper, 2026). CSDDD now mainly covers EU companies with more than 5,000 employees and over €1.5 billion in net turnover, along with comparable non-EU companies and certain large franchising arrangements. CSRD generally applies above 1,000 employees and €450 million in net annual turnover. The compulsory climate transition plan under CSDDD was also removed (DLA Piper, 2026; Consilium, 2026; Accountancy Europe, 2026).

The narrowing does not remove the issue for Bangladesh. Fewer European firms are legally covered, but the largest apparel buyers, which account for much of Bangladesh's EU-bound exports, generally remain above the thresholds. These buyers are likely to continue passing information and risk-management requirements to suppliers through contracts. Member States have until July 2028 to transpose the revised CSDDD, and the amended rules apply from July 2029 (Accountancy Europe, 2026).

The EU Forced Labour Regulation adds a product-based control. It entered into force in December 2024 and will apply from 14 December 2027 (Covington & Burling, 2024; Fieldfisher, 2025). Unlike the US approach, it is not tied to one region. Any product made with forced labour at any stage of production can be prohibited from the EU market, regardless of origin (White & Case, 2024b; Squire Patton Boggs, 2026).

Enforcement will be supported by a central portal and risk database drawing partly on information from organisations such as the ILO (eucrim, 2025). The Regulation also refers to CSDDD due diligence systems. For a Bangladeshi exporter, this means that buyer questionnaires, corporate reporting, and product-level forced-labour checks are not separate exercises; they may use the same underlying evidence and reinforce one another (Fieldfisher, 2025).

In practical terms, suppliers will need reliable records at factory and sub-supplier level, evidence of worker grievance and remedy systems, participation in buyer risk assessments, and traceability beyond the first-tier factory. A buyer may ask not only where a garment was sewn, but also where the fabric, yarn, and raw material originated.

The central difficulty is not simply the volume of paperwork. Information must be consistent, verifiable, and available quickly when a buyer or regulator asks for it. Large factories may be able to build these systems internally. Smaller factories and subcontractors often cannot, making shared systems and targeted support essential.

5. Labour Standards in the United States

The United States follows a different model. It relies less on comprehensive sustainability legislation and more on customs enforcement and private buyer codes. Bangladesh has never received an EBA-type tariff preference in the US market; apparel generally faces standard Most Favoured Nation tariffs. Competitiveness has therefore depended heavily on price, scale, and dependable delivery (Cascale, 2025). Even so, the United States remains one of Bangladesh's largest markets, with annual exports worth several billion dollars (Cascale, 2025).

The legal centre of the US regime is Section 307 of the Tariff Act of 1930, which prohibits imports made wholly or partly with forced or indentured labour (CBP, 2026a). Customs and Border Protection enforces the ban through Withhold Release Orders and, since December 2021, through the UFLPA. The UFLPA presumes that goods connected to the Xinjiang Uyghur Autonomous Region were made with forced labour. An importer must rebut that presumption with clear and convincing evidence (CBP, 2026b; Congress.gov, 2021).

By August 2025, CBP had detained more than 16,700 shipments valued at nearly 3.7 billion dollars, with apparel, footwear, and textiles among the most affected categories after electronics (CSIS, 2025). Bangladesh is not a designated region under the law. The risk arises because many garment producers use cotton, yarn, or fabric sourced from China. US importers may, therefore, require documentary proof that no restricted input entered the supply chain (ArentFox Schiff, 2026a). CBP's Focused Assessment programme also treats a written forced-labour policy and verification procedure as evidence of reasonable care (ArentFox Schiff, 2026b).

Private governance fills much of the remaining space. Large US buyers, including Walmart, Gap Inc., PVH Corp., Nike, and VF Corporation, use supplier codes covering core ILO standards, child and forced labour, and factory safety. Compliance is assessed through first-party, buyer, and independent audits, often alongside programmes such as Better Work Bangladesh and RSC oversight.

The result is a regime that is legally narrower than the EU model but can still produce rapid commercial damage. A traceability gap may delay a shipment, trigger additional testing, or lead a buyer to cancel orders. Investors also increasingly treat labour and human rights failures as financial risks. For exporters, therefore, private contract requirements and customs enforcement work together, even though they arise from different institutions.

6. Emerging Challenges for Bangladeshi Exporters

The new compliance architecture imposes real costs, but not equally. Factories may need to finance structural repairs, fire and electrical safety, wastewater treatment, worker grievance systems, staff training, and digital records. Large, vertically integrated and LEED-certified exporters have already made many of these investments. Small and medium exporters, and the informal subcontractors used to manage order peaks, face a much heavier burden (World Bank, 2026).

This creates a basic tension. The least visible firms often have the weakest systems, yet new rules are designed precisely to uncover risks beyond the first-tier supplier. A lead factory may, therefore, be commercially exposed to a subcontractor over which it exercises limited oversight.

Public enforcement remains uneven. Despite ILO-supported investment since 2013, the Department of Inspection for Factories and Establishments (DIFE) still has limited resources relative to the scale of the sector. Gaps are greatest among small, subcontracted, and non-Accord facilities outside regular RSC oversight (ILO, 2024a).

Freedom of association presents a similar implementation problem. Recent reforms reduced union registration thresholds and prohibited blacklisting and employer-controlled “yellow” unions. Yet international monitoring still reports delayed registration, harassment or dismissal of organisers, and weak penalties for anti-union discrimination (IndustriALL, 2026). EPZ workers remain under a separate framework that does not provide full trade union rights (Mondaq, 2026).

Other weaknesses extend beyond building safety. Minimum wages have often lagged inflation and living costs, contributing to periodic unrest. Unauthorised or poorly compensated overtime, heat stress, chemical exposure, and ergonomic risks also remain insufficiently addressed (IndustriALL, 2026).

Traceability adds a different kind of challenge. EU and US requirements may demand evidence about the origin of cotton, yarn, and fabric, not only the final factory. Large firms can invest in enterprise resource planning and specialised traceability systems; many smaller firms still depend on paper records. Multiple buyers may also request similar information in different formats, producing duplicate audits and “audit fatigue.” The OECD's alignment assessment seeks to reduce this duplication, but progress remains partial (OECD, 2026).

Together, these pressures may divide the industry. A group of large, well-capitalised exporters could strengthen its position because it can demonstrate compliance and absorb fixed costs. Smaller factories and subcontractors may lose orders or retreat into less visible domestic and informal markets.

The consequence would not be limited to firm ownership. Millions of workers, disproportionately women, depend on this second tier. A compliance strategy that protects market access but ignores adjustment costs could therefore improve standards in leading factories while displacing risk and employment elsewhere.

7. Opportunities and Strategic Responses

Compliance can nevertheless become a commercial asset. Post-Rana Plaza safety investment has reduced disruption, improved operational reliability, and strengthened buyer relationships in many covered factories (World Bank, 2026). Bangladesh also had more than 230 LEED-certified green garment factories by 2024, the largest number globally. These factories show that early investment can distinguish suppliers when buyers seek lower-risk and more sustainable production locations (Invest Bangladesh, 2026).

The gain does not necessarily take the form of an immediate price premium. It may appear as longer buyer relationships, fewer interruptions, eligibility for demanding sourcing programmes, and a lower risk of order cancellation. These benefits can still improve profitability over time.

Credible compliance can also support diversification. The World Bank's Country Private Sector Diagnostic identifies green RMG as a field in which policy reform could unlock investment and formal employment (IFC, 2025). The Export Competitiveness for Jobs project similarly found that non-RMG firms receiving support for environmental, social, and quality improvements achieved sales growth above programme targets and entered new markets (World Bank, 2026).

The same logic applies to foreign direct investment. Bangladesh needs stronger backward linkages in man-made fibre as global demand shifts away from cotton-based apparel. Investors considering these facilities will assess not only energy, land, and tariff policy, but also whether labour and environmental obligations can be met credibly across the supply chain.

At the national level, the opportunity is to broaden the meaning of “Made in Bangladesh.” The established brand rests on competitive price and high-volume production. It could increasingly include reliability, responsible labour practice, and environmental performance, a direction already promoted by industry bodies (Cascale, 2025).

Branding alone, however, cannot substitute for evidence. Credibility requires functioning grievance systems, consistent records, and regular dialogue between workers and management. The National Social Dialogue Forum created under the 2026 Labour Act amendment could help move disputes from periodic confrontation toward negotiation, provided it has genuine representation and a clear role in resolving problems (Global Law Experts, 2026; UNI Global Union, 2026).

8. Policy Recommendations

Government action should follow a clear sequence. First, DIFE needs sustained financing, skilled inspectors, and the capacity to reach subcontracted and non-RSC factories. Second, labour courts and the new Alternative Dispute Resolution Authority need time limits, adequate staffing, and transparent case management so that complaints, particularly anti-union cases, do not remain unresolved.

Third, public agencies should create a coordinated digital framework for factory and compliance information. Exporters should not have to submit the same records repeatedly to different authorities. A common framework could also make evidence more credible to buyers, while appropriate safeguards would be needed for confidential business and worker information.

Fourth, trade diplomacy must prepare for the end of EBA preferences. Bangladesh should seek workable GSP+ terms, flexible rules of origin, and a gradual rather than abrupt transition around 2029. Negotiations with other major markets should proceed in parallel so that exporters are not excessively dependent on one preference scheme.

Businesses should treat compliance as part of production strategy, not as an expense incurred only before an audit. The first priority is to map suppliers and subcontractors and identify where information is missing. Firms can then invest in digital records, grievance handling, worker participation, and traceability in stages, beginning with the risks most likely to affect market access.

Larger exporters can move earlier into ESG reporting and help regular subcontractors improve their systems. Smaller firms will need proportionate requirements, shared services, and access to finance. Genuine worker engagement is essential: a complaints channel that workers fear using will satisfy neither due diligence nor effective risk management.

BGMEA, BKMEA, and other industry associations can lower the fixed cost of compliance. Shared traceability platforms, pooled training, and greater acceptance of common audit results would reduce duplication for smaller members. The RSC provides a useful example of how brands, producers, and workers can share an oversight structure.

Associations should also maintain structured engagement with EU and US buyers and regulators. Their objective should be practical alignment of information and audit requirements, not weaker standards. This would support the OECD's effort to reduce overlapping assessments while preserving credible verification.

Development partners can support the transition through three channels: technical assistance for inspection and dispute resolution; affordable finance for safety, environmental, and traceability investments; and training for public officials and enterprise managers on due diligence and reporting. The World Bank-IFC Export Readiness Fund offers a useful model for targeted firm support.

Coordination matters. Separate programmes from the ILO, World Bank, ADB, and bilateral partners can create new reporting burdens if they use different standards. A common results framework and a division of responsibilities would make external support more useful to government and firms.

9. Conclusion

Labour standards have moved to the centre of Bangladesh's trade relationship with the EU and the United States. The two markets use different instruments. The EU combines preference conditions, corporate due diligence, reporting, and a product-based forced-labour ban. The United States relies more on customs enforcement and private buyer requirements. For Bangladeshi exporters, however, the practical message is similar: market access increasingly depends on credible information about labour conditions and the origin of inputs.

This shift coincides with LDC graduation. Bangladesh may face lower tariff preferences at the same time that compliance costs rise. Firms with weak systems could lose orders even before a formal regulatory sanction, because buyers may avoid suppliers that are difficult to verify. Yet early investment can also improve reliability, deepen buyer relationships, and open higher-value or non-apparel markets. Compliance is therefore both an adjustment cost and a potential source of competitiveness.

The central policy question is how to prevent that transition from benefiting only a small group of large exporters. Stronger inspection and dispute resolution, support for smaller firms, credible freedom of association, shared information systems, and active trade diplomacy are all required. These measures should be sequenced and coordinated;

otherwise, repeated audits and fragmented projects may raise costs without improving outcomes.

Sustainable labour governance remains necessary first and foremost because workers are entitled to safe conditions, fair treatment, and effective voice. It is now also necessary to protect the market access on which Bangladesh's export-led development depends.

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