FORTUNE

A TAL factory in Dongguan, China, in May 2013. The company claims to make one in every six dress shirts sold in

CAN OUTSOURCING BE IMPROVED?

Searching for lessons after the Bangladesh catastrophe.

THE DAY AFTER the Rana Plaza factory crumbled in suburban Dhaka, Bangladesh, the death toll numbered 225. In the immediate aftermath, a disaster specialist optimistically told the Los Angeles Times, "We were lucky; it could have been much worse." For three weeks volunteers combed through 600 tons of rubble and were occasionally pelted with rocks thrown by outraged crowds. When recovery halted, the final toll was not lucky at all: 1,127 bodies. You'd be hard-pressed to pick a lower point for outsourcing or a better example of the high cost of cheap labor.

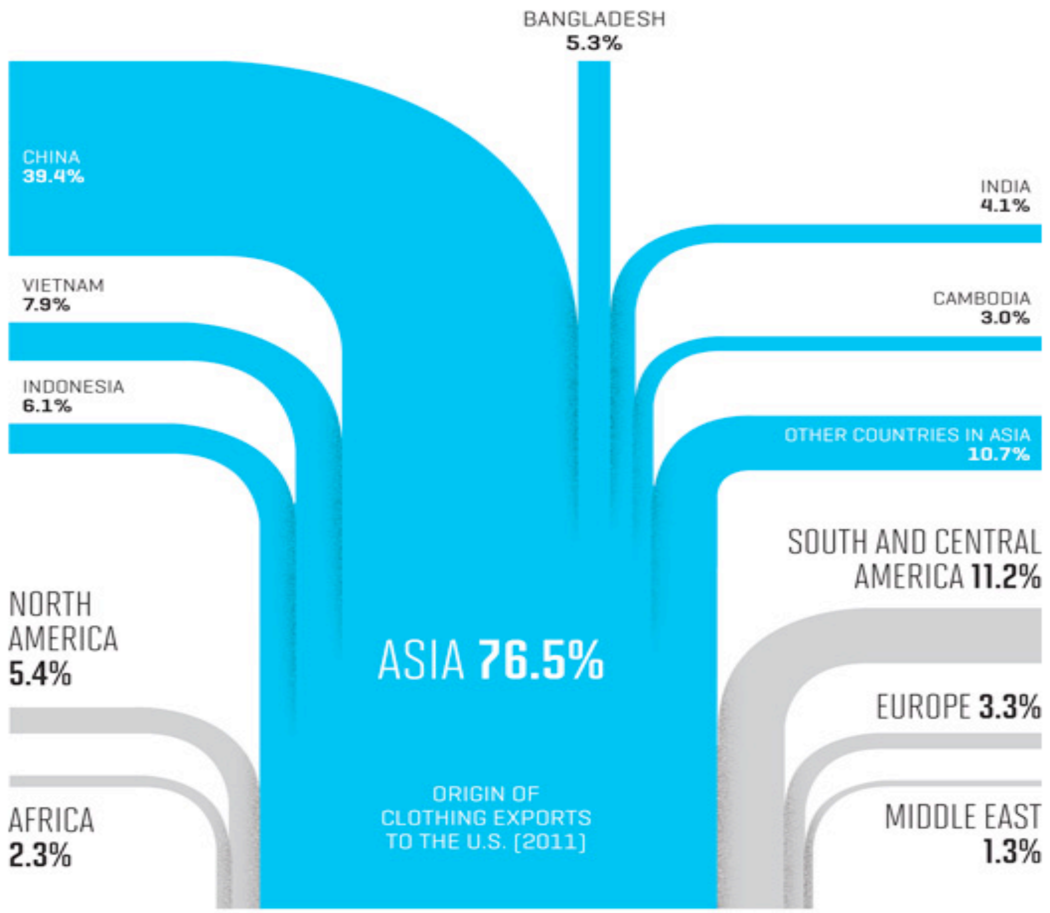
The past two decades have provided plenty of reasons to believe that relying on low-wage workers overseas has made multinationals complacent about their safety, beginning with Nike's sweatshops in the early 1990s and continuing up to this past November, when a fire in another Bangladesh factory killed 112 workers, mostly young women, trapped behind locked doors. Some of the companies manufacturing in Bangladesh have rushed forward with promised improvements -- H&M and Inditex (the parent company of Zara) signed an accord to improve laborers' safety and pay in the country. But what would real reform look like? If Rana Plaza represents the worst of outsourcing, is there any model that is best? What can the world learn from companies that get it right?

"Costs are rising everywhere we go. There's no running away from that," says Roger Lee, CEO of TAL Group, a manufacturing giant based in Hong Kong that has factories in China, Vietnam, Thailand, and Indonesia. TAL claims to make one out of every six dress shirts sold in the U.S. In the face of rising costs for labor and materials, Lee, the third generation in a family business, is looking for ways to make other gains. TAL manages some of J.C. Penney's supply chain, stocking shirt inventories in Penney retail stores from half a world away, thereby reducing inventory waste. The savings help prevent Penney from having to shave costs in other areas, such as labor and safety, so that Penney can continue sourcing to TAL, which at one China campus has a karaoke room and a library for workers.

A decade ago, Nike took a different tack to improve its manufacturing. The company was plagued by stories of poor working conditions and underpaid labor, so in 2004 it promoted Hannah Jones, a former reporter, to revamp its approach. After examining nearly 1,000 factories, Jones, who covered social action for the BBC, asked the board to publicly reveal online all of Nike's factories. "It was a pretty scary move for us," says Jones. Though Nike remains far from perfect, with its supply chain in plain view (at nikeinc.com/pages/manufacturing), it is now accountable for all infractions. "Frankly, it allows civil society to do what they do best," Jones says: Observe, report, and keep the company in check.

Still, such large, systemic fixes can't grapple with the fact that most workers' fates remain tied to the laws (or lack thereof) in their home countries. Richard Locke, a professor of political science and management at MIT, studied outsourcing for the past 10 years before concluding that private oversight isn't enough. "We need to bring government back in," he says, offering the example of Cambodia, a country reliant on the apparel industry after years of genocide and civil war. The U.S. allowed the country to expand its exports on the condition that labor standards show steady improvement. The Cambodian government has since replaced U.S. oversight, and it now licenses for export only factories that have met the standards of the International Labour Organization. Bangladesh, take note.

Where clothing in the U.S. comes from



China leads, but Bangladesh is the fastest-growing market for manufacturing America's clothes. Lax regulation has helped the Southeast Asian nation's clothing exports rise 27% from 2010 to 2011. The U.S. accounts for 21% of the world's clothing imports; the European Union, 45%.

SOURCE: WTO

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