

Shadow & Substance

Osama Taseer

STANDING at the threshold of the New Millennium, the Readymade Garment (RMG) sector of Bangladesh, is contemplating a big catastrophe. Phasing out of the Multi Fibre Agreement (MFA) by end of December 2004, will put Bangladesh in open competition. Without the cushioning of the Quota Regime, the RMG manufacturers feel insecure. Add to this the multifaceted non-tariff barriers. These are — the labour standards, gender indifference, child labour, environmental issues — just to name a few. As if these were not enough, the sector has to deal with the chronic delay at the ports and clearing points. Logistics in never standard, the operating procedures have to be altered to get out of variable situations e.g. power disruptions, strikes, red tapism etc. These self-inflicting wounds are very difficult to heal. Although the share of the RMG is 76 per cent of the national exports, the genuine manufacturers are obstructed at different levels to carryout a smooth business. As the momentum gather to have different pre-qualifications to sustain export to the Developed Nations, the RMG sector is now fast getting into terms with issues like ISO 9000 & 8000. By then turn of the century, many more issues can attain serious proportions — they are the Ecological and other environmental quality requirements.

In the very recent past the RMG sector grew based on entrepreneurial skills and hard work of the industry owners and workers. A quality product was the only prerequisite to become a Quality Vendor (this is based on the theory that shipments are made on schedule unless specified otherwise). However, this has changed dramatically within a very short span of time. The Harkins Bill and Child Labour issue started featuring high up on the agenda and RMG sector had to rise and deal with the challenge on unequivocal terms. The cooperation between the BGMEA, ILO & UNICEF worked well and Bangladesh established their rightful place as a Child Labour Free Industry. As evident from this example, although many manufactures were following Child Labour Free Production Floors, the issue had to be tackled collectively. No single manufacturer is a solution, he can at best be an example. The collective efforts of the whole industry had to be put into force to negate this harmful infiltration.

Taking the Child Labour issue as the beacon of hope, leaders have to initiate a very committed campaign to tackle the other tariff & non tariff barriers. All factors are equally important to sustain a creditable growth of the sector. The Financial Express Report on 16th October 1999 gives an alarming note of the declining exports. The Think Tank & Industry Leaders have to move quickly and formulate policies implemented in quick response.

The absence of any clear cut guidelines have contributed to the fall of many sectors in Bangladesh. If we are inspired by the lecture of Dr Yunus on the IT Sector on 15th October 1999 at the Justice Ibrahim Memorial Lecture, we are not but be less inspired to sustain the biggest sector of the country! The potential of the RMG is still not fully utilized & harnessed by Bangladesh, a major change in our attitude can credit us with much better dividends. The fact of the matter is that our products are "salable" in the developed countries, if so than what are the "impediments"? Unlike many Bangladeshi products which do not meet International Standards, our garments are distinctly "marketable." The demanding world of fashion will always expect more, but that can be matched with better technical expertise, better machines & more experienced work force. However, the policy matters have to be sorted out. Life the Child Labour Issue, makers have to realize the hazards of fire & requirements of fire escapes. These are absolutely necessary. But things like labour standards, pay scale, environmental issues have to be dealt at the highest level. A pragmatic guideline has to be issued keeping in view the social standards and national economic indicators in mind. The industry needs to bargain if unrealistic issues & time frames are imposed. The sincerity of conviction has to be there on our part only then can we impress upon the other party regarding the ground conditions prevailing in Bangladesh. A better political understanding among the different parties can also help a lot to reduce the gap in different school of thoughts. If the nation comes first then the political parties have to retreat to lower priorities for themselves. The Global Trade Politics is a very complicated game & stakes are extremely high. No country is willing to lose out, and all the LDC and regional countries dealing in Textile & Garments are our competitors. The Global Market of Textile and Garments has not increased in the recent times, therefore any single country is gaining at the loss of others. Therefore, the question of survival is high on the agenda, and any desperate attempt to survive is only justifiable!

The sooner our leaders and experts deal with these matters, the better chance we have to survive. And grow. The shadow of uncertainty has to be faced in substance, it is the only way we can overcome or short-comings and endeavor into the future.

The writer is the coordinator of the YEP Forum and member of the RMG Industry.

Comparative statement on export of RMG and total export

Year	Export of RMG (in Million US\$)	Total Export of Bangladesh (in Million US\$)	% of RMG's to total export
1983-84	31.57	811.00	3.89
1984-85	116.2	934.43	12.44
1985-86	131.48	819.21	16.05
1986-87	298.67	1076.61	27.74
1987-88	433.92	1231.2	35.24
1988-89	471.09	1291.56	36.47
1989-90	624.16	1923.70	32.45
1990-91	866.82	1717.55	50.47
1991-92	1182.57	1993.90	59.31
1992-93	1445.02	2382.89	60.64
1993-94	1555.79	2533.90	61.40
1994-95	2228.35	3472.56	64.17
1995-96	2547.13	3882.42	65.61
1996-97	3001.25	4418.28	67.93
1997-98	3781.94	5161.20	73.28
1998-99	4019.98	5312.86	75.67

Apparel Export to major markets in 1998-99

Countries	Woven	Knit	Total	% of Total
Austria	12.41	7.45	19.86	0.49
Belgium	84.85	66.75	151.6	3.77
Denmark	18.33	30.01	48.34	1.20
Finland	9.74	5.90	15.64	0.39
France	184.27	138.15	322.42	8.02
Germany	421.48	161.00	582.48	14.49
Greece	2.31	0.8	3.11	0.08
Ireland	8.06	3.87	11.93	0.30
Italy	153.03	61.46	214.49	5.34
Netherlands	137.17	79.96	217.13	5.40
Portugal	2.12	1.00	3.12	0.08
Spain	38.74	20.38	59.12	1.47
Sweden	36.39	24.30	60.69	1.51
UK	280.81	114.86	395.67	9.84
Total EU	1389.71	715.89	2105.60	52.38
Canada	62.09	29.37	91.46	2.28
USA	1475.59	262.73	1738.32	43.24
Others	57.57	27.03	84.60	2.10
Grand Total	2984.96	1035.02	4019.98	100.00

Source: Export Promotion Bureau (EPB)

Garment Manufacturing in the Next Millennium

FROM its humble beginnings of exporting 40,000 shirts per year to Germany in 1977, the RMG sector has enjoyed rapid growth since the mid 1980s. The RMG sector also grew because of the low amount of initial investment, an estimated US\$ 200,000 to US\$ 300,000 worth financial investment is adequate for entry. In addition, the labour intensive and simple production process was ideally suited to the large number of workers who became quickly trained by the factories themselves. As a result, technical know-how and buyer contacts spread rapidly among the business community and the RMG boom continues into the 1990s. Evidence of its success are ample in 1997-98 (July-May), it contributed 73.18% to total export earnings at 3392.45 million US\$. This growth is directly proportional to the growth in the numbers to factories since 1992, the number of factories has grown from 834 to 2704 in May, 1999.

The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) is the industry trade body and represents the export oriented garment manufacturers and exporters of the country. Since its inception in 1977, BGMEA has enjoyed active support from the government. They undertake various activities such as implementing the MoU on child labour elimination,

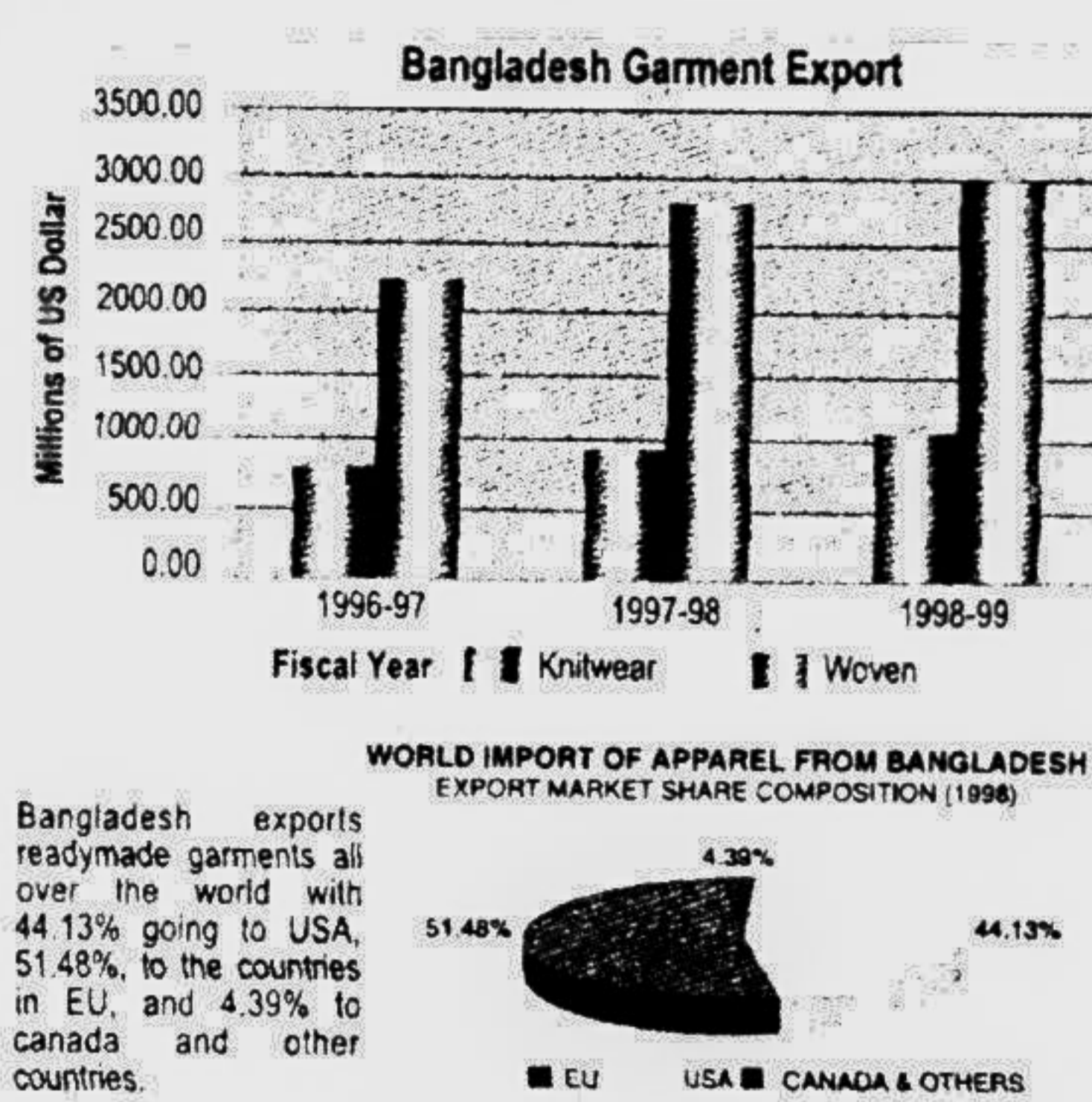
running the Earn and Learn Programme, implementing safety measure standards against fire hazards, co-sponsoring with GoB, ILO and UNDP the welfare measures for workers, etc.

The RMG industry has thrived over the years by changing its practices when they were deemed necessary by forces inside and outside the country e.g. abolition of child labour was undertaken under pressure from the International Labour Organisation and the UNDP. Buyers are particular in giving order to child — labour free factories. Similarly, buyer pressures have grown for the installation of fire extinguishers and fire exits in factories. These spiral steel staircases running down the length of the factory stand testimonial to the ability/willingness of factory owners to change due to international concern, buyer pressure and government regulations.

BGMEA is a signatory to the Multi Fibre Agreement (MFA), which will be phased out by 2004. Exporters will no longer be given preferential access into the US and the EU markets. BGMEA is also a signatory of the GATT — which liberalises trade in Garments. As of January 1, 2005, the Agreement of Textile and Clothing (ATC) will be integrated into the GATT and Bangladesh will face open competition in the world market.

The RMG firms are already gearing themselves

Rezwan Selim



for business in a free-trade world where competitors like China will hold major advantages. Thrust is on product diversification, market diversification and lowering the cost of manufacturing (CM). Entrepreneurs are actively searching for ways and means of procuring raw materials at lower prices, possibly from domestic sources and producing better quality and more sophisticated product manufacturing.

being set up in neighbouring countries, pressure is being put on environmental and social issues. Water being used in the factories now need to be treated both for worker consumption as well as for washing purposes. Water, which is being used to wash garments now need to be treated before being emitted from the factory. For this process, water treatment plants are required which is a substantial investment, and in most cases it is two or three times the actual cost of the manufacturing plant itself. Social issues now mean

more than just having a fire escape and payment of salaries on time. Now buyers require the factories to have child care centres, dormitories, canteens, documents proving that the countries regulations regarding health care etc are being strictly followed. Standards are being formulated whereby factory floors need to be chalked out as to where what should be kept and clearly marking out exits and fire fighting equipments. Fire Alarm Systems are becoming mandatory.

It is now time that RMG owners addressed these issues to compete with countries like Thailand, Vietnam, Cambodia, China and India who are already adhering to these regulations. Producing the right quality and delivering on time will now be taken for an obvious factor. History has shown that the management behind running RMG factories are flexible and want to adhere to changes. This is a good sign because the next millennium may just see factories with such facilities staying in business and other gradually shutting down. Another important factor that will undermine our competitiveness is government intervention. It is quite obvious that most factories will not be able to come up with water treatment plants. Here the GoB should take steps to provide community plants that can be used by factories. Competitiveness in the international arena also de-

pends on availability of raw materials locally. As of date most of the RMG's are using imported fabrics/yarns. This scenario needs to change in order to reduce lead time offered to buyers. Competing countries mostly have raw materials sources at hand. And in Bangladesh we do not. Again the GoB must realise and arrange funds to set up spinning and weaving mills for the RMG factories to survive. Perhaps we will always remain import based as we do not grow cotton but another way to look at this problem is to look at the quality of the cotton yarn coming from India and Pakistan. It is of very poor in quality. So this factor will force local spinners to buy cotton from better quality growers elsewhere and thus ensuring a better quality product.

All said and done we must realise that our position in the world-wide scenario of garment makers is threatened. All quarters need to pull forces in order for us to survive, may it be the banking sector, the private sector, the government agencies and mostly the RMG sector who probably have the most at stake. We must admit that the RMG sector is an important sector in the financial environment of Bangladesh and all must be done for it to remain viable, feasible and attractive to foreign buyers.

The writer is the Managing Director of Softex Cotton (Pvt) Ltd.

Expectations from Our Garment Sector

WHEN textiles quotas come to an end finally on December 31st 2004, there will have been many winners and probably even more losers as protection given to manufacturers in the importing countries and to exporters will have disappeared. Importers will no longer be forced to source their needs from any holder of quotas whether they are strong or weak suppliers.

The expectation is that suppliers who provide the necessary level of service to buyers will continue to be successful but that companies who don't support buyers to the full will fall to the wayside. This thinning out process will apply in Bangladesh as well, as in all the other supplying countries. This will also apply in the importing countries as manufacturers in the higher cost countries will become less and less competitive and manufacturers in Western Europe and North America especially will finally be exposed to free trade and almost no protection. Consequently many garment manufacturers will be forced to close down. This will create opportunities for further increases in imports of garments of all types at accelerated rates.

Manufacturers will have to ensure that they will be as competitive as possible as in terms of quality, ser-

vice and cost, so that they have chance of holding a good market position. Many companies will be forming joint ventures with companies in higher cost countries; while others will go it alone by making adjustments in their performances in order to prepare themselves fully to the new era in trading.

At the same time the government policies will have to be modified to provide the opportunities for exports to grow than world trends. The government's fiscal policies and regulatory framework together with the labour, manpower and education including vocational training policies may lead to distortions in the competitive performance of the industry. This short list is not all embracing as other aspects such as infrastructure, communication, import/export policies, investments and research and development considerations that also form part of government's responsibilities. The industries will have to be sharpened and enhanced so that the grand opportunities that are there for taking in the new millennium will have to be completely utilised for the development and upliftment of Bangladesh as a whole.

V K Sharma
The writer is the Country Manager of Vivon Enterprises Ltd.

Restrictions on Textile Products

The imposition of restrictions on imports leads to a rise in the prices of imported products, as the quantities imported are less than those demanded by consumers. Import restrictions thus penalize consumers, who pay higher prices. As to whether the importer or exporter benefits from the premium resulting from the high price depends on where the licensing system is administered. If it is at the importing end, the importer is able to capture part of the difference between the normal import price and the wholesale price in the importing country. On the other hand, if the licences are issued by the exporting countries, exporters are able to appropriate part of the premium, by charging higher export prices.

Under MFA, the licences required for the administration of restrictions are issued by exporting countries. When the quota restrictions are removed, exporting enterprises will not be able to claim the premium and will have to charge lower export prices. The decline in the value per unit of exports is expected to be compensated

by a rise in earnings resulting from the growth in export volume following the removal of restrictions. However, the growth of trade will in practice depend on the elasticity of demand (i.e. whether demand will increase with the fall in prices). Demand for textiles in most restraining markets is generally assumed to be elastic. But, at the enterprise level, the main issue is whether it is elastic for the particular category of textiles — say shirts and children's clothes — which the enterprise is exporting and on which restrictions have been removed. If it is not, the enterprise may not benefit from the removal of restrictions and may even lose unless it is able to diversify its production and exports into other lines for which demand is elastic.

The removal of restrictions will lead to increased competition among supplying countries in the restraining importing market. As restrictions under MFA are applied on a discriminatory basis, the impact of such competition on different supplying countries could vary.

Meet the BGMEA President

Everybody is now contemplating the turn of the century. The New Millennium countdown has already begun! As Bangladesh enters the New Millennium, the state of the biggest industrial sector of the country is at crossroads. To take a more pragmatic view of the scenario, the YEP Forum Coordinator talks to the President of the country's biggest trade body 'BGMEA' Mr Anisur Rahman Sinha — a versatile & very successful businessman on his own right, talks informally regarding the different aspects of the industry.

YEP: First of all, heartiest congratulations on your assuming the office of the BGMEA president. We are very thankful to you for sparing this time from your busy schedule. I thank you not only from the members of the YEP forum, but from all the young entrepreneurs and professional of Bangladesh. I shall like you to comment on the state of the BGMEA as a trade body you inherited in March '99?

Anisur Rahman Sinha: After election I took over the office of the President on March 12, 1999. As a trade body BGMEA have been serving the interest of the members since the early 80's and prior to my assumption of the office there were 5 elected Presidents and I inherited the accumulated performance of the past Presidents.

YEP: What should be the role of BGMEA in the RMG Sector?

ARS: In my view the role of BGMEA in the RMG sector should be that of a forum where all members could look towards BGMEA for guidance in respect of formulation of policies, rules, regulations and getting them approved at the Govt level and also for acting as a spokesman for protecting the interest of its members. I feel that BGMEA should play the role of information provider to the members which would enhance their image and business.

YEP: You have proposed a number of steps to sustain & advance this most vital sector of the economy, we shall like to have views on some of them:

Backward Linkage?
ARS: As you know currently there is a debate going on regarding setting up of Backward Linkage Industries, the proponent for setting up of Backward Linkage Industries and the opponents have their own justifications. Recently, a study carried out by IFC on behalf of the World Bank has discouraged the setting up of Backward Linkage Industries. On the other hand BTMA is advocating for setting up of Backward Linkage Industries. In my view the justification or otherwise of setting up of Backward Linkage Industries should be based on thorough study of the strength and weaknesses of the overall textile sector carried out by internationally renowned consultants having adequate experiences. Unless such a study is carried out we cannot reach a conclusive decision on the issue of backward linkage industries.

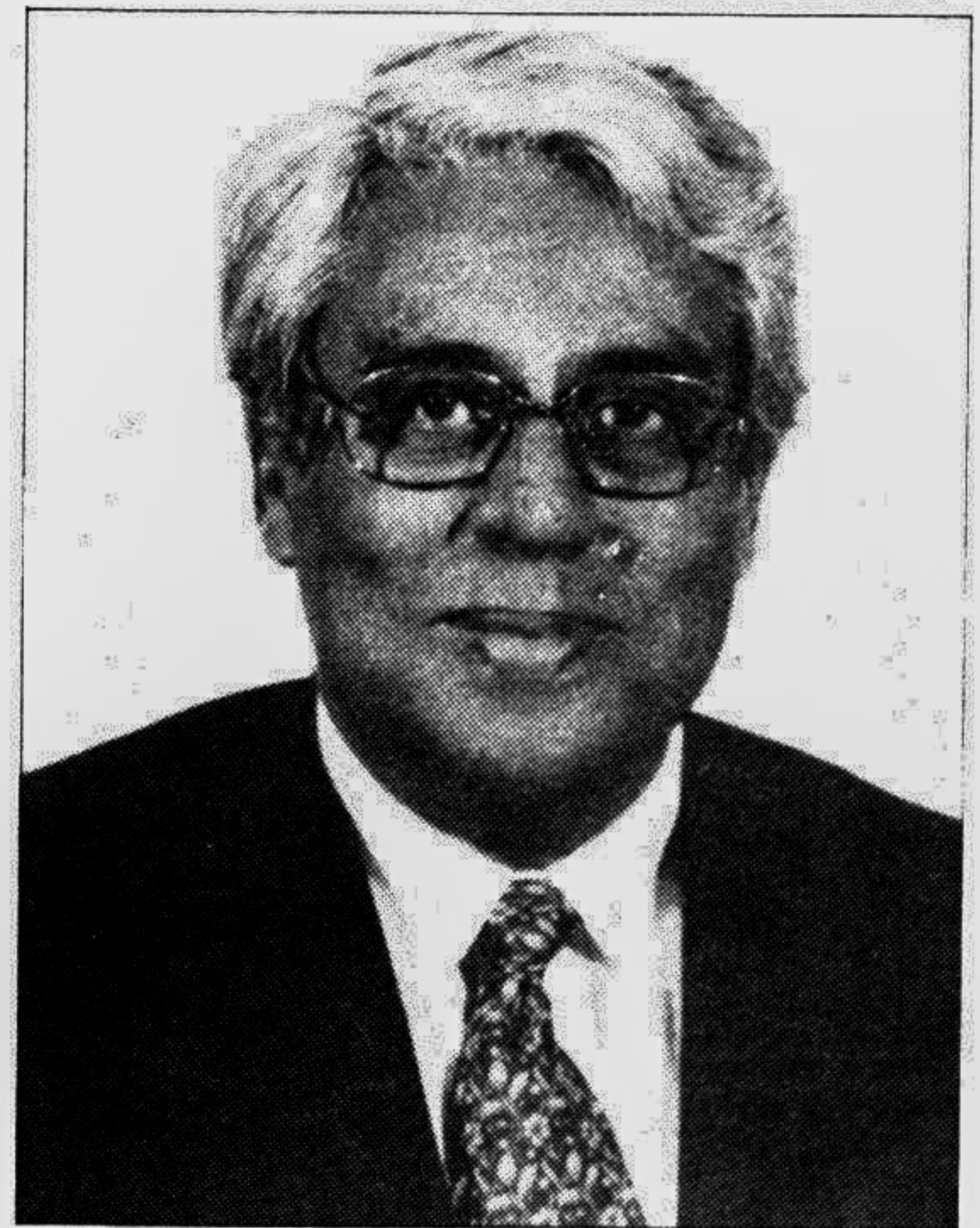
YEP: Advance Income Tax?
ARS: This has been an irritant since its inception and BGMEA has been very vocal on this issue and I am pleased to inform you that in the recent budget the deduction at source by way of advance income tax of 0.25% from export proceeds have been waived.

YEP: Effective Exchange rate & Incentive for Export?

ARS: I feel, to compensate for the recent devaluation in our competing countries our rate of exchange needs to be readjusted, so that there is an effective rate of exchange which will give us the benefit to remain competitive, otherwise we will be losing to our competitors as their products would be more attractive in so far as the prices are concerned to the buyers. As regards incentive for exports I feel that Govt should take some policy measures so that our transaction costs are reduced which will ultimately reduce our cost of production. So how the Govt would assist us would be their choice. We are saying that we are not competitive as situation exists now.

YEP: Import of Raw Materials without Master L/C & Back to Back L/C?

ARS: As you know our competing countries have the advantage being the producers of fabrics and accessories which enables them to execute their orders in the shortest possible time whereas in Bangladesh our lead time due to the importation of fabrics and accessories are such that we cannot execute our orders within 90 days on receipt of L/C's. Today buyers are demanding a shorter lead time, as such we support the Government's Policy of allowing raw-materials without Master L/C and Back to Back L/C however, these should be under very strict control so that there no misuse.



YEP: Venture Capital in the RMG Sector?

ARS: This has been absent in the RMG sector and I feel this should be encouraged in the absence of institutions for long term lending.

YEP: What is your vision for the RMG in the New Millennium & how do you propose to attain them?

ARS: In the new millennium I feel the RMG could take a leap forward provided policy support by way of elimination of the problems currently faced such as opening of Back to Back L/C, infrastructural handicaps increased transaction costs — these are all internal impediments. On the external impediments we have no tariff barriers such as core labor standard, work place code of conduct, environmental issues, social welfare programmes which are being demanded by the buyers. We can either take a positive view of the situation and work towards their fulfillment or be apathetic to the situation. A unified stand of our members will be needed if we are to fulfill the above. This way we will not only be focused towards the new Millennium but will enable us to position ourselves better in the post MFA era from 2005.

YEP: What prospect does this sector hold for the young & new entrepreneurs and professionals?

ARS: We feel RMG sector has created a pool of entrepreneurs and has provided a golden opportunity for development of the management of professionals which can only be filled by the young professionals and day is not far away when professionals will give the RMG sector their first priority in choosing their careers.

YEP: Do you have any special scheme for young and dynamic entrepreneurs?

ARS: At BGMEA we have a Standing Committee for Young Entrepreneurs, this shows the commitment of BGMEA in developing the young and talented entrepreneurs to whom we can hand over this industry, when we retire.

YEP: Will you be interested to face the young in a Dialogue on the RMG Sector if we can organize it?

ARS: Yes, I will be more than happy.

YEP: Thank you Mr. President for your time.

Interviewed by Osama Taseer