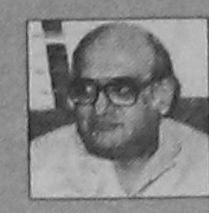
Future of the RMG Sector

The Need for a Strategic Initiative

By



Rehman Sobhan

All efforts relating to the future of the RMG need to be addressed on an emergency basis. Further delay in designing a long-term strategy for the RMG sector could be fatal to its survival and would impact on the livelihood as well as social status of close to two million households now dependent on the growth of this industry.

THE readymade garment (RMG) industry has for nearly a decade served as the mainstay of Bangladesh's impressive export growth. RMG has replaced the jute sector as the dominant source of exports from the country and today, in gross terms, accounts for 75 per cent of her commodity exports. Without RMG's export growth our Balance of Payments position would be in a critical state today and aid dependence, now down to two per cent of the GDP, would again escalate. During the 1990s the RMG sector has also served as the principal source of growth in the manufacturing sector. Indeed without the export-oriented growth registered in the RMG sector our manufacturing sector growth, low as it is today, would be halved. This growing dependence on RMG to underwrite export growth has led to a rising export concentration ratio which is no less acute than the dependence on jute exports in the 1960s and 70s. This could eventually pose serious problems for the sustainability of our export growth in a more competitive global trading environment.

In various studies and policy dialogues organised at the *Centre for Policy Dialogue* (CPD) over the last five years attention has been drawn to the implications of the Bangladesh's growing dependence on the RMG sector and the consequential danger to our export growth from the phasing out after 2005, under WTO rules, of the markets guaranteed to the country under the prevailing *Multifibre Arrangements* (MFA). Dr Debapriya Bhattacharya, Executive Director, CPD and Professor Mustafizur Rahman, Research Director at CPD, have written and spoken extensively on the problems which lie ahead for the RMG sector. The need for an anticipative strategic policy response to these emerging hazards has been constantly emphasised by CPD and a variety of other researchers and business groups. In response to these mounting concerns about the impact of the WTO, CPD has embarked on an in-depth review of the prospects of the RMG sector as part of its ongoing programme on analysing the implications of the WTO for the country's development prospects.

CPD's preoccupation with the RMG sector have been most effectively captured in a recent study on *Textile and Clothing Industry of Bangladesh in a Changing World Economy* undertaken by Professor Sadequl Islam, a visiting research fellow at CPD. In this study, Islam has analysed the underlying dynamics of the country's RMG sector in the context of a fast changing world economy. In the course of this study Islam has traced the changes in global competitive advantage in the textile and RMG sector in the context of the managed trading regime associated with the MFA. He has thereby provided a valuable perspective on the emergence of a category of developing countries (DC), such as Bangladesh, as exporters of RMG and has, in the process, analysed the structural changes in the composition and origin of DC exports which have created such export opportunities for Bangladesh.

Such an analytically insightful exercise has been particularly serviceable in identifying Bangladesh competitive potential in the global trading system through estimating our *revealed comparative advantage* (RCA), in various RMG export categories. This unique data set computed by Islam on RCA's for Bangladesh and its principal competitors is based on measures of wages and productivity in the RMG sector estimated for a range of countries. Such valuable information will help the policymakers to better understand the nature of the prevailing and prospective competitive regime facing the country in terms of products, competitors and markets.

Studies by Islam, Bhattacharya, Mustafizur Rahman and other scholars, as well as the Ministry of Textiles, have drawn attention to the importance of preparing for a more competitive future by designing a trade and industrial policy which will spell out an agenda for action for the country's textile and clothing sector in the years ahead. Notwithstanding the dynamic growth of Bangladesh's RMG exports, which today accounts for 75 per cent of our commodity exports and employs 1.5 million workers, 80 per cent of whom are women, no serious effort has been made by our policymakers to put in place a doable long-term strategy for the sector.

Bangladesh's RMG sector has sustained its growth over the last two decades on the initiatives of a new generation of entrepreneurs and the insufficiently recognised labours of young women workers who remain the principal source of value addition in the industry. However this dynamic export growth of RMGs has not translated into promoting backward linkages with the domestic economy. Until the recent explosive growth of the knitwear sector of the RMG industry the principal growth sector had been woven apparel, where local value addition was in the range of 25 per cent. Since this sector was largely based on assembling imported intermediate inputs into apparel, the growth of RMG exports contributed little to secondary industrial growth in the textile industry or other related industries. It has instead contributed to a highly concentrated pattern of industrial growth over the last decade. Indeed, whilst RMG exports expanded exponentially the domestic textile industry was exposed to a decline in production. Not only did the domestic textile industry not develop to feed a captive RMG sector but it was exposed to unfair competition from duty-free imports of textiles either through illicit leakage of fabrics into the local market from the bonded warehouses of the RMG exporters or from cross-border smuggling of textiles. Furthermore, the formal policy regime governing the RMG sector encouraged dependence on imports rather than the stimulation of the domestic textile industry.

BGMEA versus BTMA

The recent agreement between Bangladesh and the European Union over relaxing the *rules of origin* provisions under the GSP system on offer to the former, originated in pressure from the BGMEA who were anxious to retain access to competitively priced imports of yarn and fabric from our neighbours. However, such an agreement was far from welcome to the *Bangladesh Textile Manufactures Association* (BTMA) who saw the move as a further inducement to the RMG sector to perpetuate its dependence on imported intermediates, particularly from its SAARC neighbours, at the expense of the local textile industry.

It must be recognised that some tension prevails between our local textile industry and the new dominant RMG exporters who have become comfortable with their dependence on imported inputs to ensure their global competitiveness. Historically speaking, the cotton textile industry was the pioneer of industrialisation in Bangladesh and the first textile mills were set up in the 1930s. But this sector has, in the last 20 years, even after its privatisation in the mid-1980s, failed to modernise itself and has gradually lost its competitiveness in a more liberalised trading environment. However, in recent years we have seen the emergence of a few modernised textile enterprises in the spinning, finishing and dying sector as well as a smaller number of weaving mills all designed to serve the RMG sector. Grameen Bank has also played a pioneering role in linking the handloom sector with RMG exports through the development of *Grameencheck* as a fabric for export. The fast growing knitwear exporters within the RMG sector have been able to draw upon the new enterprises set up to manufacture export-quality yarn. Since the knitwear sector's local value addition is as high as 60 per cent compared to 25 per cent for woven apparel the growth of knitwear exports is particularly conducive to promoting more backward linkage.

It should be kept in mind that the new textile units, which have been set up in the last decade, continue to depend on a 25 per cent export subsidy in order to supply inputs to the RMG sector at prices, which are competitive with other Asian exporters. This export subsidy for

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local input suppliers to the RMG sector is permitted under WTO rules for least developed countries (LDC) such as Bangladesh, but this concession is only available for a limited number of years. Furthermore, an export subsidy has to be paid out of Bangladesh's public exchequer so that local taxpayers actually bear its cost. These tax payers may be unwilling to underwrite such subsidies for an indefinite period, particularly if local inputs to the RMG sector expand rapidly, thereby increasing the burden on the budget.

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No free lunch in the USA

Islam's study has pointed out the emerging hazards after 2005, of an open trade regime where China and India, Bangladesh's principal competitors in the RMG market, will no longer be restrained by quotas from making inroads into our traditional markets in North America and the European Union. Indeed, Bangladesh now has to take cognisance of the new threats to its major markets in the United States posed by the recent legislation by the US Congress which has offered

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quota free and duty free access to the US market to the countries of Sub-Saharan Africa (SSA) and the Caribbean. A recent CPD policy brief prepared by Bhattacharya and Mustafizur Rahman points out that in the short run some of our most promising RMG exports to the US could be undercut by Caribbean suppliers such as Costa Rica and Honduras whilst, over the medium term, further inroads into our market could be made by SSA exporters. The CPD study points out that Bangladesh cannot afford to be complacent about this boost to our competitors offered by the US government for both political as well as humanitarian reasons.

The Bangladesh government will have to make out a well-argued case during the forthcoming meeting between President Clinton and Prime Minister Sheikh Hasina in October to persuade the US government to extend a similar unrestricted access to our exports to the U.S.A that they have offered to SSA and the Caribbean. We can argue that Bangladesh is a special case which merits such concessions or that the USA should not limit its market concession to SSA, who are mostly classified as least developed countries (LDCs) and should exclude other LDCs, including Bangladesh in the provision of unrestricted access to the US market. If the US government is to take these suggestions seriously Bangladesh will have to do its homework so that they can present a cogent case for concessions. However, we should have no illusions that such decisions on offering trade concessions to any country are not made by any government in the US, strictly on the merits of the case. Access to the US market is today recognised as a vital strategic asset at the disposal of the US in the same way as aid was once used as a political instrument in earlier decades and is still so used for particular countries. Privileged access to the US market may, thus, require some *quid pro quo* from Bangladesh to the US, and will not come as part of a free lunch for our PM at the White House.

A strategic initiative

It is evident that the emerging trading environment over the next decade for Bangladesh's RMG exporters is going to be much more competitive than in the managed trading regime of the last two decades which provided opportunities for our breakthrough into the North American and European market. Bangladesh can, therefore, no longer persist with a *laissez faire* approach to this sector but will urgently need to design a workable strategy for securing the future of the RMG sector and will have to demonstrate a credible capacity to implement this strategy.

Regrettably, Bangladesh has remained without a strategic vision for the future of the RMG sector over the lifetime of three successive regimes. The RMG sector was born twenty years ago, based on work orders, design and intermediate inputs originating from abroad. However, over two decades the RMG sector has largely remained dependent on such external sources for its economic viability whilst the weak backward linkages of this sector have failed to capture the attention of our policymakers. It was pointed out by the writer and other economists as far back as the late 1980s that the GOB should take steps to build backward linkages for the RMG sector with the domestic economy. In a public address 10 years ago I had suggested that, *for export-oriented industries such as garments we should focus on investment in promoting backward linkages so that within the next five years around 80 per cent of foreign exchange cost in importing fabrics and other inputs for garment export is domestically manufactured. This should include a definite programme to both modernise and organise the handloom sector to service the garment exporters* (Shaheed Engineer's Memorial Lecture, 11 February 1990).

A strategy for the RMG sector to address the issue of backward linkages should have been put in place at least 10 years ago which would have ensured that a modernised, competitive textile industry would have been in place to meet most of the input needs of the RMG sector by 2005. Such a strategy should have equipped the RMG sector to move into higher value added export products, to develop local design capacity and to access directly retail buyers abroad. Such a strategy would have helped to develop a policy regime and trade negotiating strategy which would have enabled Bangladesh to stay competitive in our principal export markets and to contain pressure from import competition from trade blocs whether in the EU, NAFTA or through special facilities offered to Caribbean and SSA exporters.

Available studies by Islam and other scholars have provided a valuable basis for designing such a strategy for the textile and RMG sector, which could serve as an input into the work of a high-level Task Force which needs to be put in place by the GOB, the BGMEA and the BTMA to define the future of the sector. Such a strategy will have to move beyond mere policy exhortations and will need to put in place a machinery to execute this strategy. This will need to identify sources of finance from prospective foreign investors, local private investors, donors and the GOB to underwrite the investments needed for promoting the backward linkage process as well as to identify the entrepreneurial agents who will use these resources to build a competitive textile industry. Innovative efforts to establish backward linkages for the RMG sector with a modernised and corporatised handloom sector on the lines of the Grameen Bank initiative should also be addressed so that export growth can also be used to stimulate the growth of the rural economy.

A separate Task Force may be put in place to identify programmes for upgrading the skills, providing an acceptable working environment and building a stake for the workers, particularly the women workers, who contribute so much to the value addition in the RMG sector. The work of Task Force should thus help the government and RMG sector to upgrade the productivity of the workers in the RMG sector which remains crucial to sustaining the export competitiveness of this sector in the days ahead. Such a process will also improve the earning capacity of workers as well as enhance the self-worth and wellbeing of the workers and particularly women workers in the RMG sector. The presence in Bangladesh's metropolitan areas of such large numbers of women workers employed in the formal labour market represents something of a social revolution. These women workers have contributed to sustaining their families in the rural areas, to a possible rise in the age of marriage and to a social acceptance of the reality that a woman's place is not limited to the household but extends into the workplace.

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National Agriculture Policy

A Good Plan Yet to be Implemented

by Dr Mujibur Rahman Khan

THE government has, for the first time in the history of Bangladesh, published the National Agriculture Policy last year (April 1999). It was long overdue since creation of Bangladesh. The Prime Minister mentioned in the preface of the Policy that the Father of the Nation had started preparation of the National Agriculture Policy in the light of our constitution. But unfortunately he could not complete the task. After 27 years of independence her government has accomplished the constitutional obligation by formulating the National Agriculture Policy. She further mentioned that agricultural development faced several obstacles in the past due to the lack of a pragmatic policy like this.

The overall objective of the Policy is to make the nation self-sufficient in food through increasing production of all crops including cereals and ensuring a dependable food system for all. It has 18 specific objectives of which a few most pertinent ones are cited below for ready reference:

- ensure a profitable and sustainable agricultural production system and rise the purchasing power by increasing real income of the farmers;
- increase production and supplies of more nutritious food crops thereby ensuring food security and improving nutritional status;
- develop marketing system to ensure fair prices of agricultural commodities;
- introduce an appropriate institutional system of providing credit to ensure the availability of agricultural credit in time;
- produce and supply agricultural commodities as required by the industrial sector;
- reduce import of agricultural commodities and find out newer opportunities for increasing exports as well;
- create opportunities for establishing agro-procesing and agro-based industries;
- update the agricultural system in the light of the Agreement on Agriculture under WTO, SAFTA and other international treaties by protecting the national interest;
- develop contingency management system to combat natural disasters.

Detailed policy guidelines have been described on the following aspects: Crop Production Policy, Seeds, Fertilizers, Minor Irrigation, Pest Management, Agricultural Mechanization, Agricultural Research, Agricultural Extension, Agricultural Marketing, Land Use, Agricultural Education and Training, Agricultural Credit, Government Support for Agricultural, Production and Contingency Plan, Food-based Nutrition, Environmental Protection in Agriculture, Women in Agriculture, Coordination among the Government Agencies, Reliable Database. A few important policy decisions related to some of the above aspects are summarized below:

Crop diversification program with increased cropping intensity instead of a single crop based cropping pattern such as rice has been identified as the main strategy of crop production policy. Production of minor cereals wheat and maize will be increased and the crop diversification programme will cover potato, pulses, oilseeds, vegetables, fruits and spices.

BADC's seed distribution programme will be strengthened to the extent of ten percent of the total demand from a small portion at present. In the light of the prevailing seed rules the government will retain the opportunities already provided to the private sector for production, import and marketing of seeds side by side with the public sector. With a view to increasing supply of quality seeds, private sector agencies participating on the seed production programs will be allowed to market their 'truthfully labeled seeds' side by side with the government agencies.

Farmers will be encouraged to use **balanced fertilizer** for long run sustainability of soil fertility. Steps already undertaken to popularize the use of granular urea as a means of reducing excessive use of urea fertilizer will be strengthened. The use of organic manure, bio-fertilizer and compost will be encouraged. Distribution of fertilizers in the private sector will continue. But, the public sector will import fertilizer, if necessary, to ensure its supply and availability in time.

Efforts will be made to reduce irrigation cost by **improving irrigation efficiency,** promoting appropriate technology, increasing irrigation command area and upgrading irrigation management.

Integrated pest management (IPM) will be the main policy for controlling pests and diseases. And in order to gradually reduce dependence on draft power, efforts will be made to grow farmers' interest on **mechanization** as well as to provide credit facilities for the purpose.

A two-dimensional agricultural research management programme one with low cost appropriate technologies for the small, marginal and medium farmers including women with a view to resolving their identified problems and the other with applied research through advanced research methodology will be followed

The new agricultural extension policy (NAEP) is currently under implementation with the objective of promoting sustainable technology for gradual development of the improved crop production system. The implementation of NAEP will be reinforced through necessary monitoring.

Proper marketing network will be established to facilitate timely marketing of agricultural commodities. To this end, development programmes will be taken up to promote processing of agricultural commodities and ensure fair prices of crops to both the growers and the consumers. And to ensure **maximum utilization of land,** bottom up planning through peoples participation and its implementation will be started from the mouza or village level.

Agricultural credit: To achieve the desired goal of the agriculture policy, regular monitoring at all levels of credit distribution will be strengthened. A monitoring and evaluation committee will be formed at the national level under the chairmanship of the Finance Minister for this purpose. The Minister for Agriculture will act as the alternate chairman. This committee will consist of the Governor of the Bangladesh Bank, Secretary of Ministry the Finance Division, Secretary of the Ministry of Agriculture, Member (Agriculture) of Planning Commission, Managing Directors of all the government financial institutions, Director General of the Bangladesh Rural Development Board (BRDB). One representative from the private sector organisations, one each from farmers' organization and Krishibid organization and three representatives from the NGOs involved in agricultural development activities, nominated by the government, will also be included in the committee as members. This committee will provide overall guidelines for the implementation of the institutional agricultural credit programme and make recommendations to the government for necessary actions reviewing the overall status of agricultural credit at the national level.

Activities of the district thana (now upazila) and union level agricultural credit committees will be accelerated. The committee in each tier has been restructured with addition of representative(s) from the NGO(s) and two progressive farmers. In each of the union, thana (now upazila) district and national agricultural credit committees, women representatives nominated by the government will be included as members. The inclusion of elected women representative in the union and thana (now upazila) agricultural credit committee will be made compulsory.

The government has been trying to simplify the procedures for agricultural credit disbursement. Meanwhile some new policies have already been introduced to this effect. But the Banks/financial institutions have to direct their credit distribution system by maintaining a balance between the simplification strategy and credit recovery as those institutions are to ensure recovery of disbursed credit, which constitutes the depositors' money. The committees on agricultural credit at different levels will basically act as the facilitators in disbursement and recovery of credit by monitoring, motivating people in repaying loans, recommendations through inquiry of complaints and overall coordination etc. While the sanction of loan will solely remain with the bank concerned the respective branch of that bank will be liable for recovery.

It is believed that proper implementation of the National Agriculture Policy will transform the crop production system, and for that matter the overall agriculture into a dynamic sector over time, which is expected to bring about significant positive changes in the economy of the country. In respect of time, the National Agriculture Policy will be evaluated and reviewed in the context of overall economic conditions of the country and the changing agricultural production system, and, accordingly measures will be taken to update this Policy.

More than one year has passed since its publication but unfortunately its implementation procedures have not yet started at the grass-roots level. For instance the agricultural credit committees at most of the upazilas and union levels have not yet been activated due to the delay in restructuring the credit committees. Even the meetings of the old committees are not being held at these levels for a long time. The leading bank member-secretaries of the credit committees at various tiers complain that the chairmen of the respective committees take the calling of meeting very lightly. It seems they have hardly any time to spare for holding the meetings of the credit committees. The district level committee meetings though held occasionally, they failed to activate the upazila and union level committees due to the lack of commitment, seriousness and understanding the importance of such committees. The pragmatic Agriculture Policy as it is viewed now cannot bring the envisaged benefit to the nation without supplying sufficient credit for all the agricultural activities starting from crop production, inputs supply, mechanisation and marketing up to processing and export. The attention of the National Agriculture Credit Committee (which is pivotal in implementing the entire National Agriculture Policy, as it is) needs to be paid more to this important national issue.

The writer is a General Manager of Bangladesh Krishi Bank, Sylhet Division. Views expressed in the article are the author's own.

TOM & JERRY

By Hanna-Barbera

James Bond

BY IAN FLEMING

DRAWING BY HORAK