

FOCUS

RMG Industry: The Limits of Backward Linkages

There are at least two reasons which make the strategists and owners of RMG (ready-made Garment) factories in Bangladesh concerned about the future of this industry. First, if MFA is phased out by the end of 2004, Bangladesh will not continue to have guaranteed orders from the buyers which it now receives. It receives orders because it holds large quotas of certain product categories. Although quotas have harmed some countries, they have helped Bangladesh RMG industry to boom. In the absence of quota the RMG industry will face tougher competition in the post-MFA world apparel markets. Even it may not be able to survive in the changed environment that will prevail in 2005 and thereafter.

Second, with the implementation of the Agreement of Textile and Clothing under the supervision of WTO, the import duties on apparel will either be eliminated or reduced drastically. This will wipe out the value of GSP, at least most of it. The GSP tends to be more valuable to the exporting countries while duty is high in the importing countries. If benefits of quota and GSP are gone then Bangladesh will be in trouble unless it formulates and implements appropriate strategies to cope with the future challenges.

The impact of the phasing out of MFA and of the reduced benefit of GSP is difficult to predict because there are many other factors that are likely to play in determining the overall impact. However, the general feeling is

that the impact will be pervasively negative unless Bangladesh takes adequate precautionary measures. Of the many measures, the most frequently suggested one is quick establishment of backward linkage industries.

In the case of RMG industry, backward integration calls for establishing more spinning mills to produce export quality yarn, more weaving mills to manufacture export quality fabrics, and creating new capacities for dyeing the greys, processing, printing and finishing the fabric before it is cut and made into apparel.

All these new capacities can be established into composite mills or established as independent units. The primary goals of developing the backward linkage industries are to increase domestic capacity with a view to reducing dependence on imported raw materials (yarn and fabric).

The phenomenal growth of the RMG sector has not been supported by corresponding growth in the requisite backward linkage facilities, leaving the sector largely dependent on imported fabrics. Currently the local mills can supply hardly 7 per cent of the fabrics needed to keep the hundred per cent export-oriented RMG (apparel made of woven fabric) industry running. (The situation of the knitwear is however much better off). One assumption is that the local production of yarn and fabric will reduce the total unit cost of apparel produced in Bangladesh. The whole operation will shorten the lead-time. This will in turn

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by Hafiz G.A. Siddiqi

enable us to sell our products at competitive prices. It's needless to emphasise that price is the single most important factor that will determine our success or failure in the post MFA world market.

The trade in textile and clothing has been regulated for almost three decades by GATT-sponsored MFA which embodies elements of non-tariff barrier. At the core of MFA is the device of limiting exports to ceilings for predetermined product categories from individual exporting countries. It is a limit or quota imposed by the importing country on the exporting country after bilateral negotiation between them. However, the least developed countries, including Bangladesh, enjoy special treatment within the framework of MFA. For example, Bangladesh was given the quota-free status because at the initial stage its RMG industry was deplorably underdeveloped. But gradually, as the RMG industry of Bangladesh became relatively stronger, the importing countries particularly USA and Canada imposed quota from 1985 incrementally. Anyhow, the industry has achieved phenomenal growth partly under the protection of quotas used by large buying countries like USA and Canada. The GSP facility pro-

vided by the EU is another factor that contributed greatly to the phenomenal growth of this industry.

But the questions are: how much new capacity Bangladesh must create in spinning, weaving, dyeing, printing and processing to meet the demand for RMG in and after 2005? Is it necessary to achieve self-sufficiency in the production of yarn and fabric? Is self-sufficiency feasible? Can the new mills be cost-effective? Will it reduce lead-time? What is the total investment that will be needed to develop the required number of backward linkage industries? Are Bangladeshi entrepreneurs capable of raising the required investment fund?

Are non-economic factors such as infrastructure (inefficient transport system, inadequate port facilities, less than state of the art information technology, etc), trade unionism, law and order situation, etc conducive to the promotion of complete backward integration?

Given the history and experiences of Bangladesh, the answers are NO. Reasons abound in support of this conclusion.

First, no country is self-sufficient in the production of yarn and fabrics used in garments it exports. At least a large portion of raw materials are

imported.

Second, a huge amount of equity capital will be needed. According to one estimate, a total amount of Tk. 71000 crore (at 1999 prices) will be needed to attain self-sufficiency in yarn, fabrics, dyeing and processing by 2005. The amount is too large for Bangladeshi entrepreneurs to generate. The joint venture with FDI is a possibility. But there are too many "ifs" and "buts" which will make the whole proposition uncertain.

To what extent, backward integration should be done? In the backward linkage chain, weaving and spinning components need more investment. On the other hand, dyeing, processing, and finishing capacities can be created as separate units with relatively smaller investment. Bangladesh should establish only a small number of composite mills combining spinning, weaving, dyeing, processing and printing facilities. It should not commit huge amount of investment in composite mills. Rather it should invest more in increasing the number of dyeing, processing, and printing units. It can import greys, and process them domestically. In these sub-sectors, value addition per unit of investment is likely to be higher. And investment required for individual

units should be affordable to Bangladeshi entrepreneurs.

Third, backward linkage is only a partial solution. Even if we are able to establish a few more composite mills, and separate units of spinning, weaving, dyeing, printing and finishing units, we may not be able to achieve our main goal: to remain competitive in the post-MFA world market. To make the backward linkages meaningful, each of the new units must be cost-effective; productivity must be high enough. If we cannot produce the fabric or yarn at a cost which is equal to or lower than that of the imported materials then the sustainability of the industry will be in jeopardy.

Therefore, question of productivity and operational efficiency must be given due consideration before we go for backward linkage in a big way.

Fourth, to be sure, I do not suggest that backward linkage will not be of much help. It will certainly help. But it should be developed only to the extent it is desirable. What I want to emphasise is that establishment of backward linkage industries has its own limitations. If Bangladesh wants to retain its leading position in the changed post-MFA world market of apparel, it must take other necessary steps as

well. For example, backward linkage must be supported by cost reduction measures. One should note that wages (which are very low in Bangladesh) are relatively small portion of the total unit cost. The direct labour cost (wage) is less than 4 per cent of the FOB cost of a shirt stitched in Bangladesh. Fabric costs are standard which are given. But there are other costs, such as costs of doing business, which are invariably high in Bangladesh. These costs may be the result of the delay in transportation and communication due to inadequate infrastructures, bureaucratic inefficiency, undisciplined trade unionism, lengthy procedures to complete custom formalities, congestion at the port which delays shipment, hawala, corruption, etc. To enjoy the benefit of backward linkages, these costs must be reduced to a level which is comparable to international figures. Of these costs, there are some which the industry itself can reduce. For example, stitching time can be reduced and the number of rejects can be minimised if workers and supervisors are given proper training. Through compliance to ISO quality may be assured. But there are some costs which can hardly be reduced by the industry; only the government can reduce them. For example, improving the port facilities, reducing the delays at custom points and the like.

Fifth, backward integration must be supported by forward

linkage which demands taking over major marketing activities by the Bangladeshi manufacturers-exporters. They need to build up their own marketing capabilities. They should aim at minimising the use of external marketing intermediaries who take away the major share of earnings. They should develop their marketing capabilities so that they can distribute their apparels through their own outlets located in the target markets, say in USA and EU. However, it is admitted that for most Bangladeshi manufacturers, it is difficult to have their own marketing outlets in USA or EU. At least they should be able to bypass the services of the foreign buying houses which now dominate the marketing of garments produced in Bangladesh. As is well known, marketing intermediaries suck out almost 75 per cent of the profits. Forward linkages should also include well-planned product development, product diversification and market diversification. Market research including research on fashion design facilitates diversification of products and markets. This means that backward linkage must be supported by other steps mentioned and must be integrated with forward linkages which will provide the Bangladeshi exporters additional competitive edge in pricing.

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Fun and Games

Despite our ever-increasing enemies of laughter, we must learn to laugh more. And despite our ever-greedy developers and builders, whatever maidans and open spaces we still have must be kept as maidans and open spaces for our deprived but enthusiastic young sportspeople.

Ardesir Cowasjee writes from Karachi

We have much too much gloom and doom surrounding us it is high time we had some fun and games.

"My centre is giving way, my right is in retreat; situation excellent. I shall attack." During the closing months of World War I, so said Ferdinand Foch (1851-1929), Marshal of France, of Great Britain and of Poland, and Commander of the Allied Forces. Foch is generally accounted as the leader most responsible for the Allied victory. King Albert I of Belgium said of him: "That man could make the dead fight."

That was over eighty years ago. Time moves on, but this country has failed to move on with it. We are not at war. Our right is not in retreat. However, the situation may not be excellent. On October 19, 2000, front-page headlines informed us: "Anti-Pakistan utterances leaders to be dealt with strictly: 'Govt'"; "[Dawn]: 'Anti-Pak rhetoric not to be tolerated'"; (The Nation); "Cabinet warns of stern action against anti-Pak statements. Seeks report on statements of Altaf, Muttahida delegation, Magri, Mumtaz Bhutto" (The News).

General Haider Sahib, people are talking against the national security, the army, the two-nation theory and geographical boundaries why don't you take action against them?" This is what Dawn reported General Pervez Musharraf as having said in the cabinet meeting of October 18. And, "You better know what is the punishment for talking against the Constitution," an interior ministry official is quoted as having told Dawn after the cabinet meeting. "The Cabinet decided that anti-state activities would not be allowed and anybody making statements against Pakistan would be dealt with severely," is quoted in The Nation as being an official statement made after the meeting.

The News reports: "Chief Executive General Pervez Musharraf chaired the meeting which was also attended by all the provincial governors. Though it was not an agenda item, the Chief Executive took the initiative of pointing out anti-Pakistan statements by certain political leaders and regretted the irresponsible attitude of these leaders. They can criticise my person, policies of the government, but they should not be allowed to talk against Pakistan," Musharraf told the cabinet as quoted by the source."

May we remind the general

that he has deprived the corrupt politicians of their very livelihood, of their bread and butter, not just their jam. So should they not cry, should they not protest? And should they not be allowed to say what they will? And should whatever they say not be treated with utter disdain? This takes me back to my school, BVS, to Gujarati Class III to my class master, Ranchordass Nagardass who welding the school cane with gay abandon used to say, "I will beat you, it will hurt, but you cannot cry."

Tharsa Manufacturing Company owned by Taimuljee Wadia, a pharmacist, was famous for the dispensing of Wadia's own special mixture "Tharsa (for external use only)" which was advertised as "A tried and proven remedy for paralysis, pneumonia, cramps, palpitation of the heart, heart disease, lumbago, pain in joints and bones, asthma, swelling in the throat, pain in the abdomen, swelling in joints, and rheumatic pains of all kind. Wounds caused by sharp iron can be successfully cured by Tharsa. Sold Everywhere."

In the chapter on cricket in Bombay, the book quotes from a speech given by Sir Pherozesh Mehta in April 1886 at dinner given in honour of the Parsi team that was leaving for England to play against the English team.

"I, gentlemen, remember the time about a quarter of a century ago when our co-religionists first took to cricketing. Those days are quite fresh in my mind from the fact of my being one of the very first who was engaged in this game. This fact was unknown to fame, and I am particularly glad to make a public announcement this evening that it was on the maidan outside the ramparts that the pioneers of cricket, proud of their bats and stumps, which were made by a native carpenter, had begun to play. Since then the game has flourished among us The days of my exploits on the cricket field have long since passed away, but to this day there is no more agreeable sight to me in Bombay,

while passing down Esplanade Road, than that of the whole maidan overspread by a lot of enthusiastic Parsi and Hindu cricketers, keenly and eagerly engaged in this many game.

"I may say that the object of the team in going to England is a very modest one. Cricket as you know is the national game of England. It has taken root among the Parsi community, and as artists go to Italy to do homage to the great Masters so now the Parsis are going to England to do homage to the English cricketers, to learn something of that noble and manly pastime in the very country which is its chosen home."

The team played 28 matches in England, one resulting in victory, 19 being lost and eight drawn.

Sir Dhanjiboy Bojanji (still living when the book was written) is described as being in his younger days "a true physical culturist, having been a pupil of the late Eugene Sandow, 'The Strong Man of Europe and the pioneer of physical culture, who a quarter of a century ago was called to Bombay by Sir Dhanjiboy to give him special physical treatment." Apparently, within a few months he acquired a marvellous physique and was considered to be one of the strongest men in India.

Sir Dorab Tata (1859-1932) as recounts the book "won his colours at Caius for cricket, rugger and soccer and played tennis for the college. Coxed a college boat. Won several sprint events on the cinder path, including a 120 yards. Varsity handicap. Was a member of the varsity long vacation cricket eleven in 1878. Won his colours at Caius for cricket, rugger and soccer and played tennis for the college. Coxed a college boat. Won several sprint events on the cinder path, including a 120 yards. Varsity handicap. Was a member of the varsity long vacation cricket eleven in 1878. Won his colours at Caius for cricket, rugger and soccer and played tennis for the college. Coxed a college boat. Won several sprint events on the cinder path, including a 120 yards. Varsity handicap. Was a member of the varsity long vacation cricket eleven in 1878. Won his colours at Caius for cricket, rugger and soccer and played tennis for the college. Coxed a college boat. 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