RMG SECTOR

Coping *with* post-MFA changes and challenges

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THE fluctuating fortunes of Bangladesh's export-oriented RMG industry were on prominent display in the recent past, when during the initial months of FY2008 (July-August) following consistently high growth rates demonstrated over the past several years, the sector experienced a sudden downturn. RMG exports declined by 23.5 per cent and 5.1 per cent respectively in July and August, 2007 compared to the comparable months of 2006. Thankfully, the sector started to recover by September and October with modest growth rates of 9.3 per cent and 5.8 per cent respectively. What is truly reassuring though is that in November, 2007 exports posted phenomenal growth rates of 40 per cent and 26 per cent, for knitwear and wovenwear respectively (33 per cent on average for the entire RMG sector). However, the fact remains that the growth rate for the first five months of the current fiscal year (July-November) was only 1.5 per cent (woven 3.2 per cent and knit 5.8 per cent) higher compared to the corresponding period of FY2007, against the target of 18.0 per cent set for the entire FY2008. To attain the FY2008 target of $11.0 billion, Bangladesh's exports will need to rise by 25.7 per cent over the next seven months compared to the matched period of FY2007. This is indeed a challenging task.

It is pertinent to recall here that the phase-out of the Multi Fibre Arrangement (MFA) on December 31, 2004 as per the Agreement on Textile and Clothing (ATC) of the WTO, had brought to an end the "managed" global trade regime in apparels and textiles. This had several implications for the global trade of apparels. Apparel manufacturing and exporting countries could now operate without the quota-restrictions, importers had an opportunity for open sourcing, retailers could now take advantage of competitively priced supply, and consumers could reap benefits in terms of broader choices and lower prices. Global trade in apparels was significantly boosted by all the above-mentioned changes: evidently, global apparels projection for 2007 was about $300 billion which was 23 per cent higher compared to the last pre-MFA phase-out year, 2004. Although the MFA phase-out created a window of opportunity for countries such as Bangladesh, there were formidable challenges for realizing those potentials.

It is a matter of proud record that following the MFA phase out for two successive years, our RMG sector was able to successfully meet the uncertainties of the evolving global trading regime of apparels. Export of apparels had increased from US$5.7 billion in FY2004 to US$6.4 billion in FY2005, registering a growth rate of 13 per cent; export of RMG had further increased to US$7.9 billion in FY2006, experiencing a much higher growth rate of 23 per cent; in FY2007, exports reached $9.2 billion, posting a further growth of 19.3 per cent. Export of knitwear products, including sweater, had registered quite impressive growth, with their combined export poised to outstrip wovenwear export this year for the first time in Bangladesh's RMG-export history. Since the local value addition is about 50-60 per cent for knitwear, as against 25-30 per cent for wovenwear, this structural change would imply that Bangladesh is at present capable to retain more foreign exchange through export of RMG. Between FY2000 and FY2007, gross export earnings have more than doubled whilst net export earnings have increased by almost two and half times. On average, if Bangladesh used to retain 38 cents to a dollar a decade back (FY1997), in FY2007 she retained 45 cents to a dollar, a rise of about 18.4 per cent. This is a commendable performance. A large number of new factories, especially of knitwear and particularly the sweater subcomponent, were established in recent years whereby this dynamics of change have enhanced intra-sectoral product diversification in our RMG sector.

Several factors have contributed to Bangladesh's rising earnings from apparels export. First, important changes have taken place at entrepreneurial and enterprise levels through better compliance and restructuring which have had positive impact on the sector's overall performance. Second, the global apparels pie has been increasing although a large number of apparels producers in developed countries were forced to exit, in view of the increasing competitive pressure. If Bangladesh is able to only retain her current global apparels market share of 3 per cent, her total apparels export may be expected to rise significantly in future. Third, imposition of safeguard measures on certain categories of Chinese apparels in the EU and the US markets, which are expected to end by 2007 and 2008 respectively, has helped Bangladesh in securing her global position in apparels trade. Fourth, the shift in the structure of our apparels production favouring knitwear, where Bangladesh has strong backward linkage-induced comparative advantage, has proven advantageous to Bangladesh. Fifth, preferential market access in developed countries have provided Bangladesh considerable competitive edge over non-GSP recipient exporters.

However, the disquieting setbacks suffered in early FY2008 are a stern reminder that there is no room for complacency. The market is becoming increasingly competitive and the pie on the table is growing in size, however, the number of guests is also on the rise and they are becoming increasingly aggressive! Bangladesh continues to remain on the radar screen of major buyers, but to ensure that this is the scenario in future as well, she will need to remain alert and aggressive.

One of the major reasons for the dip in the RMG export in July-August 2007 was that major buyers were reluctant to place orders, usually done with several months of lead time, in view of the then prevailing uncertainties in the country. Both buyers and producers need an environment that is conducive to placement of orders, and execution of orders through timely production, import of raw materials and export of outputs. A supportive policy, hospitable law and order and political environment, and overall good governance, are of crucial importance in this respect. Mutually acceptable labour-entrepreneur relationship is vital, reemphasising once again the need for maintaining core labour standards and ensuring compliance at enterprise level. We must remember that building a relationship of confidence with buyers take many years, but it takes only an untoward incident to result in disengagement. It is in the interest of all relevant stakeholders that a congenial environment is maintained in all the export-oriented RMG enterprises of the country.

The imperative for the above is reinforced by the fact that global market environment is becoming increasingly challenging and competitive. The quota imposed on apparel imports from China in the EU ended on 31 December, 2007 and similar restrictions by the USA are to end by 2008. Bangladesh had benefited from these quota-restrictions since the items on which exports ceiling of 7 per cent were imposed, are important items of export from Bangladesh. The global apparels market, post-2008, will be a truly derestricted market where price-advantage and lead time are likely to be the major defining factors for buyers, as well as consumers.

As is known under the current NAMA negotiations, the MFN tariffs on apparels are prime targets for reduction. This will lead to significant erosion of preferences in the EU (where MFN tariffs on apparels average 92 per cent) vis-à-vis countries that do not enjoy zero-tariff access under the EU's Everything But Arms (EBA) initiative. The prospect of enjoying zero-tariff access in the US market, under the DF-QF initiative of the WTO, is rather bleak due to the derogation allowed in the form of the three per cent exclusion list. There is every possibility that most of the apparel items of export interest to Bangladesh in the US market will be included in this exclusion list. In view of the existing high tariff on apparels in the US market (averaging about 15 percent), the need for vigorously pursuing the New Partnership for Development Act 2007 (NPDA 2007), introduced in the US Congress, cannot be over emphasised. Bangladesh should exploit all possible avenues for passing of this Bill by the Congress and simultaneously she will need to highlight her concerns with respect to some of the provisions in the Bill including rules of origin, enforcement of core labour standards, WTO-compatibility with regard to investment and intellectual property rights measures and our policy autonomy.

The way global trade in apparels took its place in the past is set to change further in near future and there are some indications to support this claim: Customer demands are changing; lead time has emerged as a defining factor in view of lean-retailing; and, demand on quality is on the rise. At a time when the price of almost all products are increasing in the global market, apparel items perhaps remain the only merchandise for which average prices are declining. This is truer for prices of basic items of apparels exported by Bangladesh with prices falling by about 10 percent over the last few years. Entrepreneurs' capability to offer better wages will hinge on their aptitude to raise productivity and move upmarket in terms of product quality.

Already there are early signs of consolidation, mergers and acquisitions in the RMG sector. However, a large segment of the enterprises is falling behind in this race. These enterprises will need to be supported through appropriate incentive packages to act as an adjustment mechanism and ensure that they can compete in the world apparels market. A recent field-survey based study conducted by the CPD showed that important changes are taking place in the export-oriented RMG sector of the country following the MFA phase-out, with respect to technological restructuring, backward and forward linkages, diversification of inputs and technology, product and process modification, productivity, capital and labour-output ratios, profitability, compliance assurance, market diversification and intra-RMG product diversification. There are clear signs that the 'smart' factories are doing exactly this through product modification. These trends need to be strengthened through appropriate policy support in the areas of technological upgradation, scaling up, support for fashion and design upgradation, creation of locational advantages, skill endowment initiatives, quality upgradation and creation of common facilities such as affluent treatment plants.

It is our good fortune that we have, through the combined efforts of all stakeholders, proven our competitive advantage in a market that is worth about 300 billion dollars at present. We must do the necessary homework to realize the potential opportunities emerging in this growing market at a time of increasing competitive pressure.

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