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The impact on RMG and remittances

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ON Tuesday, January 06, 2009, one of the oldest and also one of the largest British retailer Woolworths closed their business forever. Woolworths had 807 stores in England and its collapse leaves 27,000 people out of work. Since the start of financial crisis, many prominent retailers have collapsed and Woolworths is the latest case. Now, is there any implication of this collapse of Woolworths for our RMG industry? The answer is profoundly yes.

On one hand, the Woolworths had a large retail clothing segment and the website says - it regularly sources clothes from Bangladesh, besides Hong Kong and China. So, with their collapse, some factories in Bangladesh have already lost future orders. As the numbers of collapsing retailers are increasing in USA and UK, it's for sure that some more factories in Bangladesh are going to lose orders.

On the other hand, 27,000 people who have lost their job in Woolworths will now consume significantly less which means less clothing sales. In the most conservative estimate, in total at least 100,000 (one lakh) people will lose job in UK, just in the retail sector. And, if other sectors (banking and manufacturing) are included, the estimated job losses in UK this year will be around 3 lakh. In case of USA, the figure is more depressing. According to US Labour Department, a total of 2.4 million people have lost job in 2008, and the number of people continuing to claim jobless benefits reached 4.62 million the highest level since 1982. The financial crisis which started in the end of 2007 in the US is now spreading fast to EU economies. Spain and very recently, Germany, have seen significant job losses which according to IMF, OECD and other international institutions will surge in the next six months.

This panic of losing job at any moment has forced people in these economies to tighten their belt on consumption. Whenever any reporter asks a person, "Where will you cut your spending?" The most common answer is "I will go less in restaurants and eat more at home, buy less clothes and furniture, and stop purchasing gadgets that do not require emergency upgradation." So, 'clothes' are one of the segments which will see significant decline in 2009. Some market analysts are forecasting that world apparel demand is to fall by 15 percent in 2009. (The Vietnam government announced recently that textile and apparel orders from USA dropped by 20 percent in the fourth quarter of 2008 compared with those of the same period in the previous year.) It is now clear from world income data that consumer income began to decline in late 2007 across all major economies, thus setting the stage for a contraction of apparel demand in 2009 and may also be in 2010. So, this will be the first year in many decades which will see a drop in cotton consumption and apparel manufacturing.

But, there is always a silver lining in a period of crisis and fortunately the RMG sector of Bangladesh is currently positioned in a way that can achieve significant growth even in this adverse scenario. What is that silver lining? RMG products that Bangladesh exports to USA are low cost item, income elasticity of consuming these goods should necessarily be inelastic. Thus the fall of the income of USA consumers will affect our RMG exports to some extent. But it will not hurt severely our exports, as there are many factors that are working in favour of our export expansion. Reduction in income leads consumers of high and medium cost RMG items to substitute their consumption with the low cost RMG items that might help Bangladesh to keep the pace of growth of RMG exports.

In this period of financial crisis and recession, the sales in discount retailers (Wal-Mart and Marks & Spencer are the largest discount retail chain in USA and UK respectively) have been increasing tremendously as the customers main concern is now low price rather than brands. Both of these discount retailers procure significant amounts of clothes from Bangladesh as we are the cheapest supplier of apparel among the 10 largest apparel exporting countries. And, trends show that in this time of record number of job losses and consumer spending downturn, price competitiveness suddenly become the core issue leaving the quality behind. Thus, it can be widely expected that (i) the discount retailers in developed countries who are currently procuring apparel from Bangladesh will increase their purchase size, and also (ii) other discount retailers who currently are not procuring from Bangladesh will soon start purchasing from Bangladeshi garments if targeted and appropriate marketing approaches are taken.

What the government currently needs to do is to make sure that Bangladeshi garments can remain price competitive in this turbulent environment. For this purpose, government needs to take some policy actions immediately (i) opening up and simplifying the yarn import from any country (local yarn producers usually charge at least 10 percent more than international price), (ii) reduce the price of basic foodstuffs so that the wage rate remains stable, (iii) slash the interest rate on loans made and future loans (India and China slashed interest rates by more than 2 percentage point in the last 3 months to reduce the manufacturing cost) and (iv) increase the cash incentive by 2 to 3 parentage points on current rate (the rationale of increase in cash incentive percentage is operating in low price segment means low profit margin, but these companies had to continuously invest in machineries to become more price competitive in future. The low profit margin usually is not sufficient to cover the investment needs so cash incentive can fill the gaps.)

There are many important aspects of 2009: (i) the world economy is entering in a critical period of recession and deteriorating consumption levels, (ii) as per the USA-China apparel accord, all the remaining quotas in 32 categories have been removed from Chinese apparel export from 1st January this year, and (iii) on the very same date, Vietnam started to enjoy duty free access to Japanese apparel market because of a free trade agreement. We hope that government should take bold and immediate decisions on recommended policy suggestions and also swiftly address any new situations as the situation is becoming worse and difficult in the next one to two years.

There is also another important implication of Woolworths example for our economy other than RMG export. It is very possible that there are some Bangladeshi expatriates among the 27,000 employees who lost their job in Woolworths. Any job loss by a Bangladeshi expatriate results into less remittance flow to his family in Bangladesh. So, with increasing job loses throughout the developed economies and large emerging economies, a threat of less remittance flow in the coming months is increasing.

Remittance is a very important component of our economy. In the last year, 2008, Bangladesh received around US$ 9 billion as remittance and remittance has turned out to be the largest 'net foreign currency' earning sector in the country. We finance our large and increasing trading gap of import and export by this remittance. Bangladesh receives its remittance mostly from the Middle East, the top destination of unskilled workers. The largest employing sector for Bangladeshi expatriates is the construction sector followed by plantation and industry sector. In the mid 2008, the financial crisis which originated in USA reached the Middle East in terms of lower oil prices, overnight capital flight from the Middle East Stock Exchanges which lost over 60% of their value in just two weeks, and less demand of luxury real estate from European and American.

The skyrocketing property price which was the main reason of the construction boom soon evaporated. The international banks in November, 2008 published a report which shows that real estate prices has declined at least by 40 percent and it is expected that the price will fall further by 50 percent within next three months. As a result, observing that property price is still falling, the Dubai and Abu Dhabi governments in December 2008 asked the developers to postpone all new projects and develop only the ongoing projects which were not finished. This is very grim news for Bangladesh (i) As soon as the ongoing projects finish, there is a large possibility that the construction workers will be sent back to Bangladesh. (ii) As no new projects are going to start in immediate future, Bangladesh will not be able to send new workers in these countries.

The only good news is Saudi Arabia, the largest employer of the Bangladeshi expatriates, is planning for a massive construction project to get rid of the financial crisis and also diversify its economy from oil. The government, therefore, immediately needs to draw a plan in association with the Saudi government to obtain the highest benefit of this newly planned construction boom. And, for the expatriates who will come back home because of job loss, the government needs to arrange training programmes as per the preference of these repatriated workers and help them go back again.

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