

RMG sector: Challenges versus opportunities



LITON RAHMAN DRINKNEWS

The situation in the global economy should be researched carefully. The owners and the government should explore new markets for apparel products, particularly focusing on emerging markets. More than half of global economic growth is now driven by emerging markets. However, Bangladesh's PR skills are relatively underdeveloped. This is reflected by the fact that it has failed to showcase the country in the 2010 Shanghai Expo, the largest business gathering ever.

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THE raging controversy over wage hike in the readymade garments (RMG) sector continues. This is happening at a time when the industrial structure in China, the world's largest exporter of apparel products and one of

the major competitors of Bangladesh, is undergoing rapid transformations. While the China shift could benefit Bangladesh's RMG in the medium to long run, the industry faces some short-term challenges largely owing to economic problems in the advanced economies. While the emerging markets returned to

the high growth path following the great recession of 2008-09, the advanced countries' economic outlook remains gloomy. The hope of economic recovery is overshadowed by continuous job losses in the United States (US) and the sovereign debt problem on the both shores of the Atlantic. Further, most countries in Europe are announcing a series of austerity measures that could slash their demand for imported goods and services significantly. Both Europe and the US remain Bangladesh's major exports markets. Amidst the global financial crisis Bangladesh's apparel exports have not had much impact largely owing to the massive fiscal stimulus packages in the advanced world. However, the recent austerity measures and a less than rosy outlook of advanced economies could affect Bangladesh's apparel sector adversely. This indeed limits the RMG owners in Bangladesh revising labour cost upward, particularly at the scale the workers have

been demanding. However, there is also a silver lining as far as the industry's prospects are concerned. China is increasingly focusing on the development of high-end manufacturing and services, given the structural needs of its economy. Beijing has also decided to allow a gradual appreciation of its currency in the wake of relentless pressure from the US and Europe. China's undervalued exchange-rate policy is believed to be a cause of strain in the global economy. The rising unit labour cost and upward adjustment in its currency mean that a plethora of low-end manufacturing jobs will eventually be moving out from China. Indeed, many jobs have already moved inland from China's coastal areas and some low-end manufacturing units are relocating to Vietnam. The shortage of workers is particularly acute in the country's two major manufacturing hubs -- the Pearl River Delta and the Yangtze River Delta. In Guangdong province there was a shortage of half a million workers in 2009. Following this development, of late, the minimum wage in Beijing has increased to 960 Yuan (\$142, Tk. 9,800). There is no unique minimum wage in China. It is set locally according to standards laid out by the central government. Moreover, following the recent financial crisis, there is a realisation in China that the country's current growth model that relies excessively on exports and investment needs to be rebalanced, with a greater emphasis on consumption. Development of high-end manufacturing and service sectors is the key in this regard. China's move towards a vertical economy could create much room for Bangladesh, given the latter's abundant supply of labour. Bangladesh's other competitors in the neighbourhood, India and Pakistan, are not in a good shape owing to the former's dilemma with its economic openness and the latter's overwhelming political problems. India's economic openness bars its apparel sector taking the currency advantage -- undervalued exchange rate -- that the Bangladeshi RMG sector enjoys, given the huge capital inflows in the country that makes the Rupee exchange rate highly volatile. Moreover, India's labour market is highly inflexible, a major problem in its industrial structure. This leaves Bangladesh, Indonesia and Vietnam to augment their market shares in the wake of the China shift. Given the structural shift in China and a bleak economic outlook of the advanced countries, the authorities in Bangladesh must understand the changes clearly before taking ad hoc decisions. There are three stakeholders as far as the RMG sector is concerned -- the plant owners, the workers and the government. The workers' fight against unsustainably lower wages in RMG is understandable given the growing cost of living in Dhaka. Nevertheless, they must accept the fact that it is the cheap labour cost that has made Bangladesh a competitive place for apparel manufacturing. Nonetheless, the recent hike in China's minimum wage will help Bangladesh to maintain its low cost advantage despite the likely upward wage adjustment in the RMG sector. The government cannot escape its responsibility by merely announcing a minimum wage and letting the law enforcers go after the protesters. The successive governments in Bangladesh have failed to provide the required infrastructure and uninterrupted energy supply, making per unit production cost in Bangladesh more expensive than most of its competitors, if one isolates the wage cost effects. The high energy cost and the poor infrastructure are neutralising Bangladesh's cheap labour advantage -- leaving a squeezed margin for the producers. Unfortunately, the deadweight loss arising from the government's poor service delivery is mostly shared by the workers. The situation in the global economy should be researched carefully. The owners and the government should explore new markets for apparel products, particularly focusing on emerging markets. More than half of global economic growth is now driven by emerging markets. However, Bangladesh's PR skills are relatively under-

developed. This is reflected by the fact that it has failed to showcase the country in the 2010 Shanghai Expo, the largest business gathering ever. The emerging markets may not substitute the advanced world as the consumer of last resort, at least in the short run, but in the medium to long run they could become significant markets for Bangladesh's RMG products. Many emerging markets including China are developing domestic markets offering various incentives. The expansion of the auto market in China in 2008-2009 is the prime example. Moreover, as we observed in the case of China, an economy cannot suppress the prices of its non-tradables (housing, for instance) for long if the concerned economy undergoes a steady growth for decades. So, the exchange rates in China, Brazil and other emerging markets will gradually appreciate with their strong economic growth. The real exchange rate is nothing but the ratio of the goods and services that can be traded in international markets (e.g. an iPod) and those that cannot be traded (e.g. a haircut). Bangladesh's autarkic financial system can continue to afford offering the exchange rate advantage to its exporters. Economic literature suggests that undervaluation is a second-best mechanism for alleviating institutional weakness and market failures that tax the tradables. Market failure in Bangladesh is rampant and its institutions remain weak. This also means that owing to high opportunity costs, China, Brazil, South Africa and even India will increasingly abandon low-end manufacturing plants and start buying such products, including apparel, from Bangladesh, Indonesia and similar low cost producers. Such a scenario is not very unlikely in the near future. Bangladesh is one of the few countries that stand to benefit from such changes if the respective stakeholders act prudently. M. Shahidul Islam is a Research Associate at the Institute of South Asian Studies, National University of Singapore. E-mail: imonsg@gmail.com. (This article is written in the writer's personal capacity.)

To carry forward the memories of national heroes

Let us get together regardless of caste, creed, culture and political ideals to honour the deceased leaders for their deeds, and despise those who are threatening our future possibilities by dividing our nation. Let us decide to stick with love for each other because hate is too great a burden to bear.

Z.A. KHAN

OF late, we have noted with grave concern the use of offensive language against political opponents. We often feel highly embarrassed when the younger generation tells us that we want them to be sedate and polite towards those whom they interact with while we ourselves violate at ease the norms of behaviour that are supposed to make us civilised. They even doubt our professed commitment to uplift our image as a people who are tolerant and patient towards others' views, which is regarded as a golden rule of democracy. They think that we have left them in a political turbulence, which induces them

to decide against serving a nation that, even after about four decades of liberation, has not even decided whether to commemorate the heroes of our independence movement and the liberation war or to carry forward their memories to rebuild our nation in the contemporary mould. Our knowledge about how several nations have rebuilt themselves, emerging from the ashes of war, raises question as to why we have failed. To my mind, most of our four decades of independence have been spent in image building of the party icons of the past and present by blaming opponents. Why are we involved in such petty acts of immodesty and selfishness that put at stake the fate of the millions who hardly have any concern for anything other than

food, clothing and shelter? Perhaps no nation other than ours has spent so many working hours pondering over who gave us a nation. In the ultimate evaluation, Maulana Bhashani and Bangabandhu Sheikh Mujibur Rahman marshaled our nation by their inspiring role, and the rest was done by the 75 million Bangladeshis who fought the enemy with their blood and sweat. We may miss another truth if we fail to glorify the role of our *Mukti Bahini*, which was comprised of regular soldiers of the armed forces, members of the law enforcing outfits and tens of thousands of freedom fighters who formed the rank and file of the force in fighting, inspiring, planning and executing the war plan. We must also honour Shaheed Ziaur Rahman for turning the "bottomless basket," Bangladesh, into an emerging South Asian nation. Members of the young generation ask why we still make claims and counter-claims about what is already an established fact. Why do we rewrite our history every five years? Anybody who thinks our memory is so short as to forget what happened between the late '60s and early '70s must be suffer-

ing from schizophrenia. With utter sadness I have witnessed a great slide in the exuberance of our new generation about our glorious past because we have thrown them into confusion by contradictory statements pertaining to our historic struggle for independence. The tendency to carry forward their memory has created fierce divergence of opinion among of our polity belonging to different political faiths. The nation has witnessed the efforts of the two major political parties to desecrate the role of the opponent, which is nothing but a mean iconoclastic act that brought about massive indignation. To me, they are jealous, and unfit to show the way, lead the way and go the way. Such efforts may ultimately demean those great leaders. The fading exuberance of the young generation is resulting in their running away from the country, as if in a quest to protect their lives and liberty. The plummeting morale of the young generation has caused a brain-drain, which is limiting future possibilities for our national development. This is destined to cause partial impair-

ment to our development goal, which is equitable distribution of national wealth and resources, freedom from servitude, empowerment, democracy with extended jurisdiction of the parliament, and protection of the right of universal franchise. I would like to preserve the memories of those great leaders as national treasures to inspire the future generation to inculcate the spirit of sacrifice, unremitting commitment and undiminishing zeal to work for the people's welfare, which was their goal. This calls for a resolve to commemorate these great leaders so that their acts of valour, propriety and commitment could be referred to for eschewing the political divide. The present leadership should come out of their present frame of mind and work for the people belonging to different political and religious faiths who fought hand-in-glove for our independence so that we feel inspired by their commitment and perseverance with which they pursued their objective, which was freeing us from the clutches of the West Pakistan clique. I call upon all our patriotic citizens not to get embroiled in the ongoing simmer-

ing criticism aimed at tarnishing the image of one by the other. Only timid leaders fear that they have something to lose if the image of the other remains unblemished. Let us not forget that the only thing that can stop fulfillment of our dream is us. Who does not know that bitterness consumes the vessel that contains it, and that those who do evil expect evil? I fear that if the blame-game continues then the entire nation will be doomed to decay. Let us get together regardless of caste, creed, culture and political ideals to honour the deceased leaders for their deeds, and despise those who are threatening our future possibilities by dividing our nation. Let us decide to stick with love for each other because hate is too great a burden to bear. We must not miss the opportunity to bask unitedly in our glorious achievements, whoever may be the claimant of the honour of inspiring our nation to fight for our independence to give us a nation. So, let us commemorate the memories of our great leaders instead of desecrating them for political reasons. Z.A. Khan is a former Director General of BISS.

The Internet never forgets

While waiting for laws and technology to catch up, maybe people will learn to have more empathy for those who have made mistakes. Even if the Internet never learns to forget, society could collectively learn to forgive. After all, you never know when the scrutiny will turn on you.

THAM YUEN-C *The Straits Times*

A friend once had a rather unflattering picture of himself posted on Facebook. It was snapped by his friend during a night of revelry and depicted him face red, eyes glazed, partying like an animal. The incident did not make him lose his job. But it did remind him that there was no quicker way for someone to spread information about him to his extended network of a few hundred friends, co-workers and acquaintances. So he decided to wrest control of his dented reputation -- he was dancing like John Travolta circa 1977 -- and deleted his

Facebook account. It was an extreme move but possibly quite enlightening, given the nature of the Internet. It forgets nothing. In fact, in the global village of today, the Internet has become town crier, spreading heat-of-the-moment tweets, whiny status updates and inane blog entries. Through search engines and social networks, the Internet has taken to alerting people about what others do. Facebook, the largest social networking site, signed up its 500 millionth user last week. That number represents 22% of all Internet users and they share some 25 billion pieces of content -- from pictures to videos and status updates -- each

month. The results of this sharing have sometimes been detrimental. A Singaporean man in his late 20s was fired last year after pictures of him attending a concert during sick leave were posted on Facebook by his friends. Earlier this month, the CNN editor for Middle Eastern affairs lost her job after she tweeted about her respect for Shiite cleric Grand Ayatollah Mohammed Hussein Fadlallah who had died. Examples of people caught in similar situations are being created daily, and because the Internet never forgets, the damage can extend into the future. A recent survey commissioned by Microsoft found that 70% of hiring managers and recruiters in the United States have rejected candidates based on the information they have found online about them. To mitigate the effects of this, legal academics have proposed tweaks to privacy laws. For example, prohibiting employers from searching certain databases before hiring. Yet, this limits only the effect of the fallout and does not actually prevent damaging information from going online. On the technology end, researchers have also been coming up with new solutions that will force the Internet to forget. For example, an open source application called Vanish has been developed by University of Washington researchers to automatically destroy information entered into websites after some time has passed. Even then, any information copied and reposted before it is destroyed can live on. That does not mean, though, that people should live as digital hermits. While waiting for laws and technology to catch up, maybe people will learn to have more empathy for those who have made mistakes. Even if the Internet never learns to forget, society could collectively learn to forgive. After all, you never know when the scrutiny will turn on you.



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