Ready Made RMG Garments

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The next generation

In 30 years, the sector grew to nearly 80 percent of exports. Now, aging RMG pioneers are handing over the businesses to their children

REFAYET ULLAH MIRDHA

NUSRAT Bari Asha, 30, keeps a picture of herself with her father on a small table behind her chair, opposite a vase of lilies, a source of inspiration in her day-to-day Dhaka-based business, even though he is still in his office, a few steps away.

The director of Benetex Industries Ltd, a Rupganj-based garment group, was planning the production of an order to a large American buyer Monday-- she did not want to reveal the unsigned contract's details -- in her meticulous office in the posh Baridhara's "DOHS" area. In between, she forcefully instructs mid-level officials on her visit to one of her seven factories later that day. And gives an interview.

"I have to do a lot of work at a time," Asha says, "because management style has changed a lot over the years. Now that the market is open, we have to compete a lot globally, which was not present during my father's time."

After a textile marketing degree from the University of Philadelphia's college of textiles, Asha started her career as trainee merchandiser in her father's business group 10 years ago. Despite her rare level of training, being a young businesswoman in her father's firm has meant facing some challenges in being promoted above males many years older, and still does in the running of the business, she says.

"Acceptance of a female and of a fresh entrepreneur is difficult," she says. "Nobody wants to accept a woman and young entrepreneur."

Asha and her team have to work until 9pm many nights to serve the global apparel buyers. They now focus more on fashion-forward designs and embroidered-accent garments to chase higher margins, because production costs are rising.

"As one of the decision-makers of the group, I have opened showrooms in Manhattan, New York, and plan to open another showroom in the EU," Asha says.

During her father's time, the industry thought only of production, not productivity. "But I think productivity must be the new survival mantra," she says.

The second-generation businessmen in the RMG sector is much more computer-savvy than earlier, she says: "I started three shifts in my company -- one shift for Hong Kong, another for Bangladesh and another for dealing in US affairs," Asha says.

"We need to balance between the old and new management styles, because we are more tech-driven now," she adds.

She says her business grew 14 percent in 2009, exporting $75 million. The number of workers under her is now 10,000.

Abdul Momin Mondol, managing director of Mondol Group, took the reins of his father's business in the middle of this year. He joined as a marketing and planning official 10 years ago. Sales in 2009 hit $105 million, with a growth of 15 percent.

A business graduate of East-West university, Mondol says there is a world of difference between the old and new generations' management styles.

"During my father's time, he used to execute the orders taken by buying house agents," he says. "The business style was different; now I try for direct communication with the buyers and I take the advantage of technologies."

"Now I have to manage 26,000 workers in 21 units in my group," he says. He says he introduced new techniques and hired experts to reduce production costs and minimise waste because of intense global competition in apparel business.

He complains that the gas and power shortage has hampered growth. But he minimises his own challenges compared with those his father faced in establishing the company.

"Almost all systems have already been set up," he says. "As a result, we do not face major problem in management."

Similarly, Shafiqul I Sarker Sohel joined his father's Purbani Group as a director 11 years ago, and brought a new business style.

"I have developed the corporate structure in my company," he says, adding he has been growing the business well, but margins are thinner than in his father's day.

Sohel, a UK business graduate with a postgraduate degree in economics from the US Pennsylvania University, says technology makes the management easier.

"In my father's prime, he struggled to manage 1,000 workers," he says. "Now I am managing more than 7,000 workers and other officials."

Mostafa Quamrus Sobhan Rubel, managing director of Dragon Group, also joined his father's business in 2000 as a production and planning official.

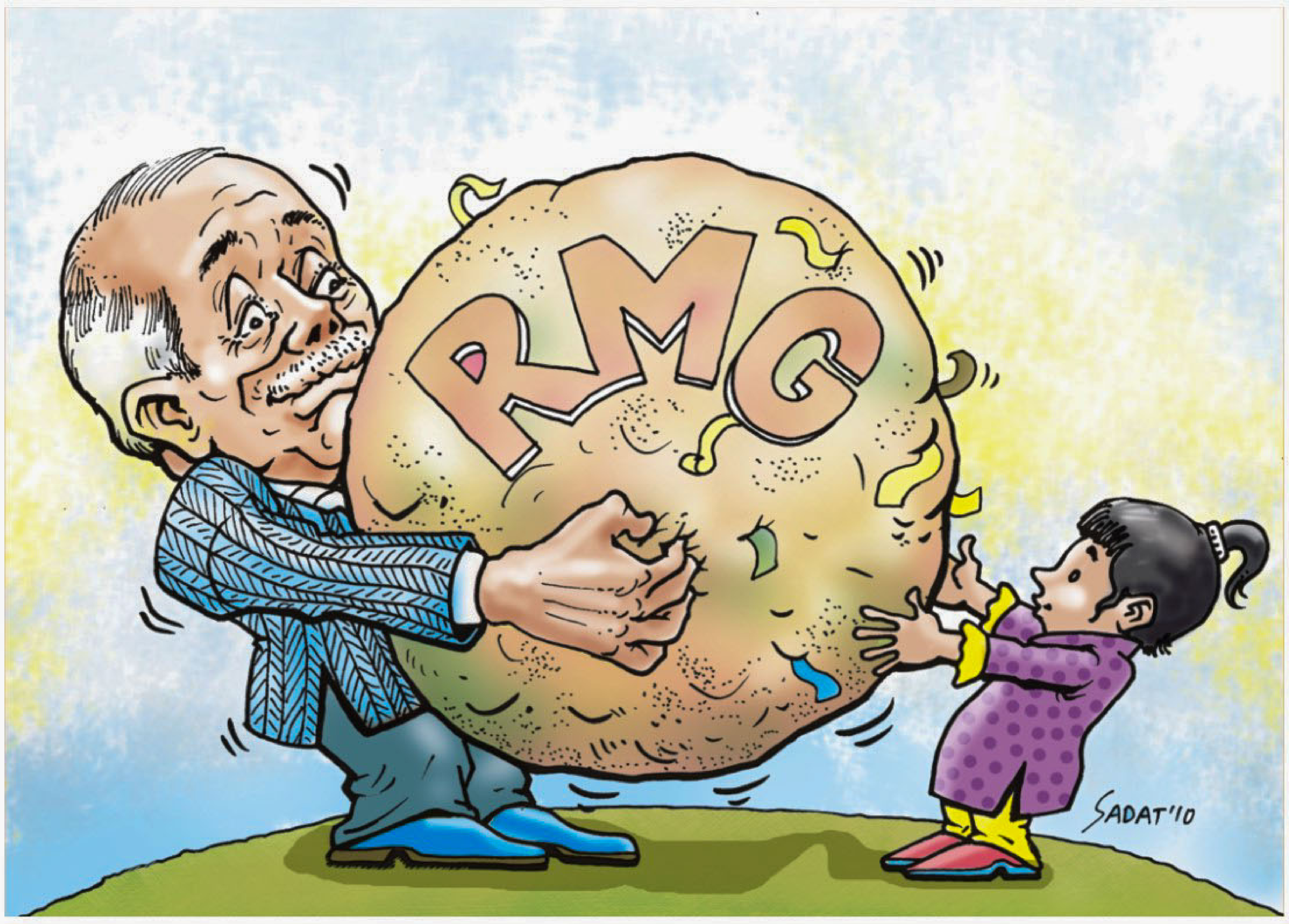
"To me, management in a company is a teamwork," says the head of one of the country's largest sweater companies. "I do not face any problem in managing such a large group, as I also respect other officials," he says.

He says he wants to grow the business through practicing efficient management. Rubel, a UK graduate of business studies at Nottingham Trent University who also has a US MBA, has been trying to reduce production costs to increase his profit margin.

His group exported apparel worth $48 million in 2009 and manages 10,000 workers. "I am trying to expand my business without a bank loan because the 15 percent interest rate takes away the profit," he says.

Rubel says the RMG export would cross $35 billion in next 10 years. Bangladesh's slice of the global apparel market is increasing, as China shifts to other sectors, he notes.

reefat@thedailystar.net



Nusrat Bari Asha

The low down on Euro tariffs

Zillul Hye Razi, trade adviser with the Delegation of the European Union to Bangladesh, recently agreed to share his expertise in several current trade issues that affect Least Developed Countries (LDCs) in general and our nation in particular with readers of The Daily Star. Below, he clarifies recent changes in European Union tariffs, known as the Generalised System of Preferences (GSP), among other issues.

REFAYET ULLAH MIRDHA

How are the new rules of origin of the EU's GSP different from before, and how will this affect Bangladesh?

Bangladesh, like other LDCs, has already been enjoying duty- and quota-free status in the EU market through the Everything But Arms scheme of GSP. However, GSP utilisation (duty-free entry) remained low for some products. For example, less than 30 percent of men's basic woven shirt exports qualify for GSP because they are made from imported fabrics. This reflects the inadequate domestic supply of export-quality woven fabric (the development of which requires huge investment compared to current investment in the knit sector).

The new rule allows duty-free access to all RMG (knit and woven) garments, even if these use fabric imported from anywhere in the world. This new rule will clearly have a very positive impact on Bangladesh's exports of woven products to the EU. It should also help Bangladesh attract buyers for high-value woven products, like ladies' fashionable dress, suits, jackets and blazers. I would also like to point out that the new rules of origin substantially reduce the domestic value-addition criteria for exports of industrial (non-textile items) items from LDCs. For example, exporting a bicycle from Bangladesh requires 70 percent domestic value addition under the current rules of origin for GSP. The new rule, for LDCs only, is set at only for 30 percent local value-addition. This should greatly encourage Bangladesh to diversify its exports into new products, so that it is not so heavily dependent on exports of RMG items.

What strategies should Bangladesh's exporters follow to take advantage of the new GSP regulations?

Exporters from Bangladesh will have new opportunities under the relaxed rules of origin. Clearly, exporters of RMG products made from imported fabrics will receive an immediate boost. However, the new rules will also greatly encourage the export of non-textile products manufactured from imported inputs. This means that the profitability of supplying intermediary inputs to the export sector will tend to be lower, and that businessmen should instead be looking for opportunities to establish assembly plants for exportable products that can be made from imported components.

Of course, to be competitive, exporters will still need to ensure that they have adequate access to infrastructure, and that they can attract the required workforce. The transport and communications network, port capacity and of course the supply of energy are all vital considerations. They will need to ensure that they comply both with the product standards required for exports to EU and with the social standards (notably of health and safety conditions at work) which are expected. Ensuring decent working conditions is becoming particularly important, as buyers and potential buyers of Bangladesh's export products are becoming increasingly sensitive to labour standards in the sourcing of their imports.

How will our backward-linkage industries be affected by the EU move?

It's certainly true that the backward-linkage industries in Bangladesh will face new competition from foreign suppliers of inputs for the country's export sector. This also happened in 1999, when the EU relaxed its rules for the knitted exports of all GSP beneficiary countries (more than 150 countries). Much concern was expressed at that time about the possibility of imported yarn flooding Bangladesh and, as a result, wiping out the spinning industries of Bangladesh.

However, the growth of the spinning industry in Bangladesh since then has shown that those fears were unjustified: the primary textile industries of Bangladesh have shown their capacity to compete in the yarn and fabric supplying of the country's export-oriented RMG industry. For example, Bangladesh's production of intermediary items, such as denim fabric, has made very significant progress over the years.

It's nevertheless clear that domestic supply cannot keep up with the growing demand of the RMG sector, in part because of the relatively heavy investments required for the production of export-quality fabrics for some items. Production lead-times are also an issue. Exporters need to be able to respond quickly to buyers who come to source their imports of RMG from Bangladesh, so they often need to use domestic fabrics as inputs rather than wait for imported fabrics to reach the factories.

Should our government agree to the EU's new GSP regulations, over the demands of the local spinning sub-sector?

In practical terms, the government will not have to make any decision about this matter. The rules of origin for GSP are decided by the EU, and do not require any separate agreement of any of the beneficiaries. Therefore, customs officers in the EU will not check the source of origin of the fabric of RMG items as long as the Certificate of Origin (not the GSP certificate) shows that it is made/tailored in Bangladesh.

Might an EU offer to waive all duties on certain items from Pakistan harm our exports?

Let me first clarify that the issue has nothing to do with Pakistan's application to become a beneficiary of GSP-plus, as has been incorrectly reported in some newspapers.

The EU submitted a proposal to the WTO to provide additional autonomous trade preferences, or duty-free access, to Pakistan -- initially for two years on 75 dutiable product lines. This proposal requires a waiver from the WTO's normal arrangements. The objective of this proposal is to help Pakistan, in addition to the humanitarian aid provided, to overcome the economic hardship that the country is facing following the unprecedented and devastating floods of 2010. The selected items amount to almost 900 million euros in import value, accounting for about 27 percent of the EU's imports from Pakistan. However, the EU's proposal does not include a waiver for the main RMG export items from Bangladesh to EU. Most of the items are yarns and fabrics, for which Bangladesh is not in competition with Pakistan in the EU market. The proposal also includes four categories of clothing/RMG with a quantitative ceiling or quota reflecting the annual average export from Pakistan.

Zillul Hye Razi