CONNECTING THE DOTS

New opportunities for the garment industry


A. R. CHOWDHURY

AFTER years of strong growth, China's textile and apparel exports are now losing market share in key markets. In 2011, 54% of total US imports of textiles and apparel came from China, compared with 56% the previous year. The main reasons are rapidly rising land and labour costs in China and the steady appreciation of the Chinese currency renminbi. The wages of rural migrants in China have increased at an average of 15% per year since 2005, while the renminbi has appreciated by over 30% against the US dollar since it was de-pegged in 2005.

The migration of low-end manufacturing, such as textile and apparel, out of China is likely to continue in the near future. Cost alone is not the only factor driving some companies to source elsewhere. An aging population and labour shortages in some regions in China are important factors for securing other sourcing destinations. Vietnam, which has been steadily increasing its market share in recent years, looks set to be the main beneficiary of this trend. Wages are approximately half the level they are in China, while the political scene is stable.

Although Vietnam may lack China's sophisticated supply-chain network, as a member of the Asean free-trade area, it can import raw materials such as denim and cotton duty free to be stitched together and shipped abroad. Moreover, given its close proximity to China, Vietnam is still able to benefit from existing supply-chains.

However, Vietnam will not be the only beneficiary. Poor infrastructure, especially port facilities, remains a potential bottleneck on future expansion. And while labour costs in Vietnam may be half the level they are in China, they are rising rapidly too. The textile trade is notoriously footloose. Therefore, it may not be long before suppliers look for a cheaper alternative to Vietnam.

This is where Bangladesh comes into the picture. A recent survey by the consulting firm McKinsey found that although Western buyers are evaluating a considerable number of sourcing options in the Far East and Southeast Asia, including Cambodia, India, and Pakistan, many of them view Bangladesh as the next hot spot.

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With about $15 billion in exports in 2010, ready-made garments are the country's most important industrial sector; they represent 13% of GDP and more than 75% of total exports. Recent surveys carried out by the consulting firm McKinsey and the accounting firm KPMG identified attractive prices as the most important reason for purchasing in Bangladesh. Price levels will remain highly competitive in the future, since significant efficiency increases will offset rising wage costs.

With 5,000 factories employing about 3.6 million workers (of a total workforce of 74 million), Bangladesh is clearly ahead of other Southeast Asian suppliers in terms of capacity of the ready-made-garment industry. It also offers satisfactory levels of quality, especially in value and entry-level midmarket products.

Besides labour cost and duty advantage, raw materials and real estate costs are also cheaper in Bangladesh. There is also no doubt that Bangladesh is benefitting from various preferential trade agreements providing tax free entry into several dozen countries.

But Bangladesh has its own challenges to overcome. Impediments to investment include unreliable power supply, high real interest rates, corruption, and weaknesses in law and order. So what can Bangladesh do to overcome these challenges and utilise its huge potential?

First, inefficient infrastructure, including transportation and energy supply, is the single largest bottleneck hampering our garments industry. This issue will become even more important in the future, since buyers want to source more fashionable products with shorter lead times. The government needs to prioritise improvement in this area and start to upgrade power systems. Fortunately, a number of steps have been taken in this regard.

Second, although labour and social-compliance standards have improved over the past few years, suppliers vary greatly in their degree of compliance. Environmental compliance is just beginning to get attention.

Third, the suppliers' productivity must improve not only to mitigate the impact of rising wages but also to close gaps with other sourcing countries, such as India and Cambodia, by satisfying new customer needs for more sophisticated products. Lack of investment in new machinery and technologies and the insufficient size of the skilled workforce, particularly in middle management, is also hampering growth in this industry.

Fourth, access to raw material is crucial for clothing exporters. Lack of backward linkages and Bangladesh's dependence on imports create sourcing risks and lengthen lead times. Compounding the problem is the volatility of raw-material prices in recent years. The development of a local sector could improve lead times.

Fifth, political stability is a prerequisite for attracting foreign investors. Political unrest, strikes, and the absence of ease of doing business are major concerns of foreign investors.

The three main stakeholders -- the government, suppliers and buyers -- must work together to realise the potential of Bangladesh's ready-made-garment market. The government's top priorities for investment should be developing infrastructure, maintaining political stability, reducing corruption, and providing education and trade support.

Buyers should help to increase the supply chain's efficiency and transparency and increase their support for lean operations and electronic data exchange. They should also build closer relationships with suppliers and improve their own operational execution. Their long response times, the complexity of internal procedures involving the merchandising and sourcing functions, and a large number of last-minute changes slow down the overall process.

While Bangladesh has some very promising advantages in certain dimensions in the garments industry, a number of challenges remain. Only if these challenges can be overcome will Bangladesh's garments industry continue to prosper.

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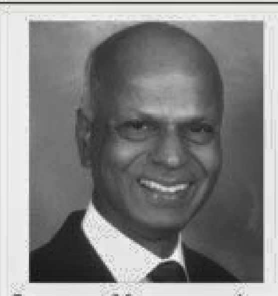
LETTER FROM EUROPE

Should we worry about the future of the dollar?


CHAKLADER MAHBOOB-UL ALAM

THE United States Federal Reserve System was established in 1913. It is, no doubt, the most powerful central banking authority in the whole world. Every word uttered by its chairman is examined with care by national and international financial institutions. Why?

Among other things, the Federal Reserve controls the benchmark interest rate of the US dollar, which serves as the reference rate for most financial transactions. Aside from the inevitable impact it has on the US economy such as inflation, unemployment, gross domestic product, foreign trade etc., it also affects the value of the dollar in the currency market.

Now, one may ask: Why so much fuss about the exchange rate of one single currency? Why do the central banks of most countries, particularly the Asian ones, monitor the exchange rate movements of the dollar on a daily basis?

The dollar is the currency of the world's largest economy, most international financial transactions are conducted in dollars, economic data of the world are expressed in US dollars, and most foreign currency reserves of the central banks -- several trillion dollars -- are kept in this currency.

Before answering these questions it would be interesting to know how over the last several centuries the dollar has come to acquire such an important position in the global financial system.

Needless to say, there are several versions of the history of the dollar but almost all are, in one way or another, related to the history of Spain. In 1535, Mexico belonged to the Spanish empire and large silver mines had already been discovered in that territory. According to the most reliable version, Charles I, King of Spain and Emperor of Germany, fresh from Flanders to Spain, gave orders to mint silver coins similar to those circulating in Europe under the name of "thaler." It seems the Mexicans were not accustomed to the sound of the letters "th" and so they replaced it by a clear "d." Thus was born the silver "daler," which circulated freely not only in the Spanish territories but also in the English colonies of North America.

It was Alexander Hamilton, the brilliant secretary of the treasury of George Washington, the first president of the United States, who adopted the "daler" (the Mexican silver coin) as the new nation's own currency. Following the phonetics of the English language, it soon acquired the name "dollar."

President William McKinley, who destroyed the last vestiges of the Spanish empire in the Cuban War, and perhaps unwittingly launched the US on the path to eventually becoming the sole successor to the vast global empires of Britain and Spain, decreed that after March 1, 1900 "the value of the dollar would cease to be quoted in silver and would be quoted in gold." The victory of the United States in the Second World War converted the dollar into the world's only currency (reserve currency) that could be used anywhere in the world for all sorts of transactions.

At the Breton Woods Conference, New Hampshire (1944), the US government promised to deliver one ounce of gold for every 35 dollars, if so required by any country. The world recognised and accepted the position of the US not only as the foremost military power in the world but also as the first economic power. Therefore, most people thought that they could rely on the commitment of the US to honour its promise to change their greenbacks for gold at any time, if they so wished.

Unfortunately, they were wrong. What changed the situation? In order to finance the Korean War, the government of the US started issuing vast amounts of dollar bills without adequate gold or silver backing. This process continued all through the sixties of the last century. The situation became unsustainable when some of the central banks became nervous and discreetly started changing part of their dollar reserves for gold. Finally in 1971, President Richard Nixon cancelled the commitment to change greenbacks for gold but kept printing more and more money without enough gold or silver backing.

Now we can come back to the central issue of this article: Why is the exchange rate of the dollar against other currencies so important? Well, this is primarily due to four reasons: the dollar is the currency of the world's largest economy, most international financial transactions are conducted in dollars and the economic data of the world are expressed in US dollars. The other factor which is equally important is the fact that most foreign currency reserves of the central banks -- several trillion dollars -- are kept in this currency. No wonder "the strength of dollar affects trade balances, capital flows, growth rates, profits, share prices, inflation rates, interest rates and even the relative size of the economies" of the world. (*The Economist*)

In fact, the value of a foreign currency is determined largely by the law of supply and demand, hence the importance of having a current account surplus. Persistent current account deficit of a country creates pressure on the currency. The current account deficit of the US is high, which is financed by borrowing from the rest of the world. To complicate matters further the US also suffers from budget deficits. Its national debt is uncomfortably high. Now the questions are: If the US as a country has got both fiscal and current account deficits and the interest rate is so low, why does the world lend money to the US and how long will it continue to do so?

Well, the answers are easy. In the short term, while the world retains its confidence in the US as a potentially solvent country, it will continue to finance its wars and its profligate spending habits. The size of its economy inspires confidence. There is also the fact that since the US has become the world's sole military superpower, its creditors believe that it would somehow manage to get out of its current economic difficulties.

But in the long term, the situation may become unsustainable. As Professor Paul Kennedy of the University of Yale writes: "We live in a world where one single country possessing only about 5% of the earth's population, has roughly 20% of its G.D.P., spends almost 50% of its total defense expenditures, and freely prints bills that account for 65-70% of global foreign-currency reserves." He is, of course, referring to the United States of America and the dollar.

Professor Kennedy concludes his article by saying: "Even in the shorter term, I guess I would be looking a little more keenly at the current distribution of my portfolios. And, as an international author, I am happy to take my fees and royalties in many currencies, just to be on the safe side." In other words, Professor Kennedy prefers diversification to concentration in US dollars alone. For the sake of long-term stability of the global economy, international investors and governors of central banks would do well to pay heed to Professor Kennedy's advice.

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IN MEMORIAM

Justice Murshed: Indefatigable crusader

NURUL KHAN


Justice Murshed

JUST as Basic Democracy made the holding of free general elections impossible, the might of the military behind the supreme commander Gen. Ayub Khan held everyone in awe during the last decade of united Pakistan in the sixties. But many rulers, after long periods in office, make the grave error of believing themselves and their power to be indestructible. They became intolerant to criticism and endeavour to crush the opposition. The period I speak of was a time when the government had a powerful control over the legislature. The judiciary was the only independent institution in the country and the sole avenue for establishing the principles of justice and some semblance of the rule law.

But this called for men of courage and integrity who could move the conscience of the nation. No one else fitted such a role in a fuller manner than Justice Murshed ,the then chief justice of East Pakistan High Court.

Behind his handsome appearance lay an extraordinary mind. I met him for the first time in the latter part of 1964 in the Old High Court Building. A judge, in addition to his intellectual powers, needs to be a man of integrity; made of strong moral fibre in order to be impartial to the various disputing parties who came to him for justice. He cannot afford to be intimated or persuaded by any side. Justice Murshed enjoyed a reputation of a man who could not be made pliant through flattery.

As a junior officer I had not expected the warm welcome which he extended to me. When one is in the proximity of a truly great man one senses a feeling of encouragement in oneself.

My conversation with him was encouraging as he remarked that an officer who could prove his worth stood a chance of being elevated to the Bench (High Court). He added that the profession of a judge was an extremely independent and ethical calling where one could obey his conscience and above all derive an immense amount of moral satisfaction.

I was very pleased with these statements and began working in earnest. Justice Murshed on occasions appreciated my work as an addl. district and session judge. Being inspired at 31, I became the country's youngest district judge, and later became law secretary to the government of East Pakistan.

It is my firm belief that Justice Murshed's guidance, and the value he placed on the work of the law courts, was a source of inspiration for us and made us all eager to work. He knew all the district judges, personally on a first name basis and treated them with affection. He knew those district judges who could quickly disposes off cases. This is extremely relevant in discussion of Justice Murshed's qualities because he was personally responsible for restoring a sense of purpose and vitality in the lower (district) judiciary.

He keenly appreciated the difficulties of lower court judges and undertook numerous tours of district courts. During these visits he called upon them to fearlessly defend truth and justice in the lively speeches delivered in excellent English. These visits would, thus, cause the local administrators not only to be attentive to the chief justice but also to the local judiciary. The prestige of the local judiciary was greatly enhanced by these tours.

Has the nation extended full recognition and respect to this great man of indomitable courage? A time will come in the near future when this question will need to be answered. Are we to remain a nation without a history of its great men? Are we to forget our great men? I do not believe this to be possible. We must live with the memories of the great figures who are no longer with us. Justice Murshed is, thus, remembered on his death anniversary today.

The writer is a former Secretary.