The garment sector: strength, prospects and challenges

Faaria Tasin

THE world set the spotlight on Bangladesh and strongly questioned the integrity of the garment industry after the country's one of the most shocking tragedies on April 24. Fear of GSP cancellation by the EU made the business mood gloomy and anxiety increased as the country's industrial backbone and mightiest pillar of foreign exchange came under threat. Is the garment industry strong enough to endure this pressure? Are the problems toxic enough to jeopardise the future health of the industry? What are the prospects and scopes of improvement? Let's have a look.

The industry generates a total of $19 billion in exports and employs 3.6 million workers dispersed among 5,400 factories. Currently the sector accounts for 78 percent of exports and contributes 16 percent to the gross domestic product.

Expectations of rapid industrialisation in future years invariably indicate further growth of the garment sector. This is also because China, the largest exporter of manufactured garments in the world, is losing its appeal in the apparel realm due to labour shortages and higher wages. A McKinsey report suggests that 86 percent of the chief purchasing officers in their survey wanted to move out of China, and Bangladesh is their next preferred destination. The country is expected to gain much of China's share in the cut-throat apparel terrain.

Cheap labour is abundant, some of them willing to work at a wage rate of $0.20 an hour. This is less than a fifth of the labour costs in China. Capacity is another primary advantage. With a total of 5,400 factories, Bangladesh is clearly ahead of other garment suppliers, for instance, Indonesia has 2,450 factories, Vietnam 2,000 and Cambodia 260.

Another key prospect lies in the size of the global apparel business which is worth $1 trillion a year. According to Bangladesh Knitwear Manufacturers and Exporters Association, the EU and the US are the two largest importers of Bangladeshi garments and 86 percent of the total exports are serving these two giants. But how big is our 86 percent in the sphere of total garment demand in the EU and US? The number may seem meager, because Bangladesh caters to only 6 percent of their total apparel demand, as opposed to China, which serves 30 percent.

The current average wage rate in the sector is one of the lowest in the world. Though minimum wages were raised in November 2010, a study by the Fair Wear (a non-profit lobby group) found that some workers were receiving less than the new minimum; nearly a quarter were reassigned to lower pay grades. Recipients of the new minimum wage salaries were not necessarily better off, since inflation soared as high as 12 percent the following year. Yearly ramp-up of wage rates which help negate the effects of rising inflation are absent in the sector.

Low levels of work safety also pose a massive problem. Between 2000 and 2013, more than 15,000 lives perished in garment industrial disasters caused by fire, building collapses or stampedes. Fire breakouts are the most common, with two out of three accidents recounting to faulty fire extinguishers and electrical short circuits. Though industrial accidents are a recurring phenomenon, the trend is not exclusive to Bangladesh.

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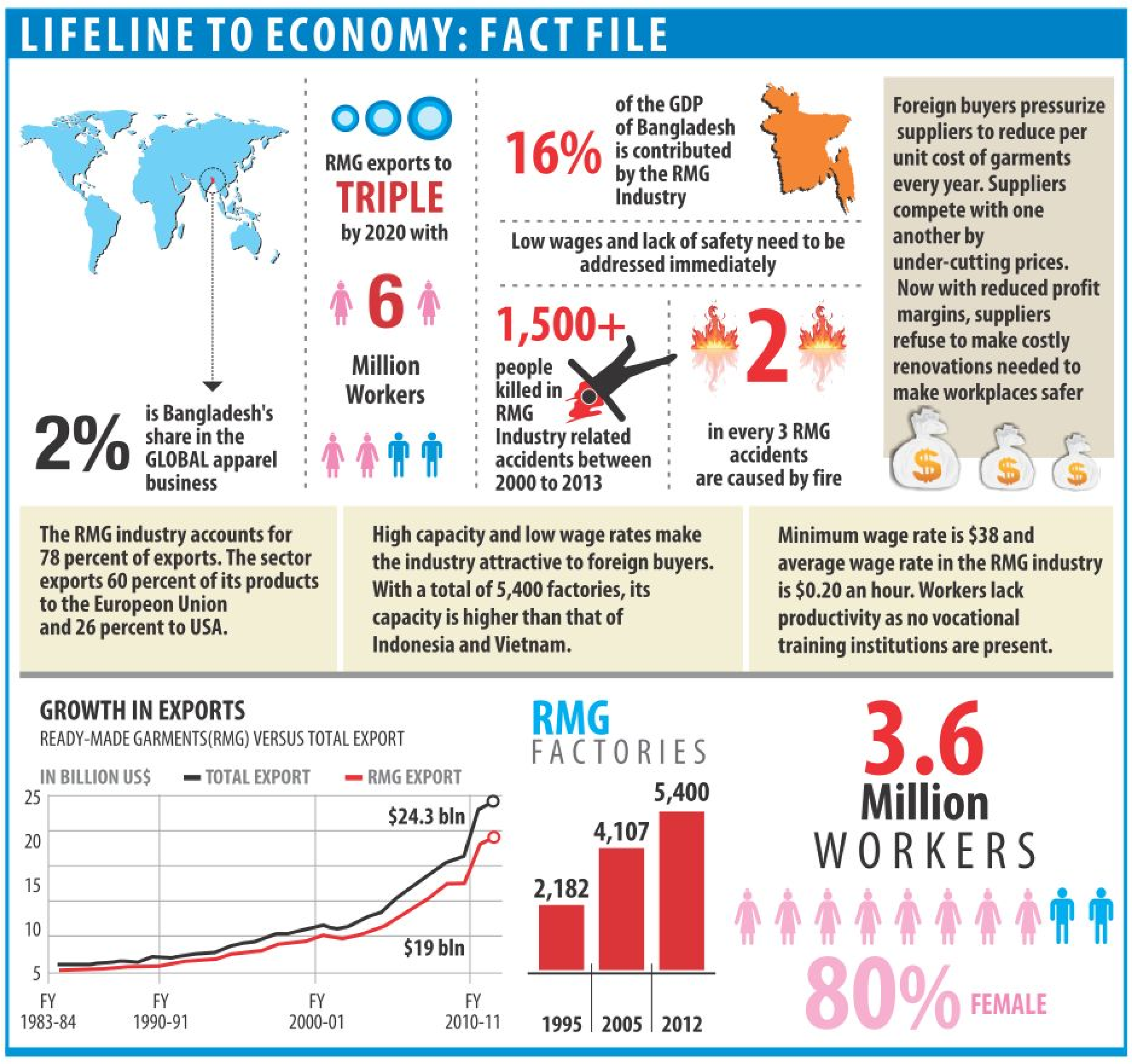

How important is GSP status?

Faaria Tasin

WHAT makes Bangladeshi readymade garments so attractive to the Western countries? The EU alone is gobbling up 60 percent of our garment exports and the US comes in second with 26 percent. Are our products made with a magical concoction that makes it irresistible to the Westerners? The answer is yes. For any good creation, we need an impeccable mix of fine ingredients. Our ingredients in this case are price, capacity and the EU's GSP status.

Price is a key element which draws buyers closer. Since wages are low, it gives the country a competitive edge in low costs of production. Capacity is our second ingredient and a total of 5,400 factories make the country's capacity higher than that of rivals like Indonesia and Vietnam.

However, the final ingredient which gives our garments that extra zing is GSP status. GSP is an instrument by which developed nations help the poorer countries foster more trade. For instance, with the EU's GSP status, Bangladesh garment products can enter the European market duty free; in its absence, it has to pay 12 percent import duties for most products. This status helps decrease the cost per unit of garments, causing the demand to rise. This not only helps the garment industry but also the entire economy. Increased trade means higher export earnings which help promote further industrialisation, leading to higher economic growth.

Now let us look at a more concrete example. Bangladesh's apparel exports to the EU made a leap since January 2011 when it allowed GSP for Bangladeshi garments made from imported fabrics. Previously, Bangladesh used to enjoy the GSP benefit only for those garments made from local fabrics.

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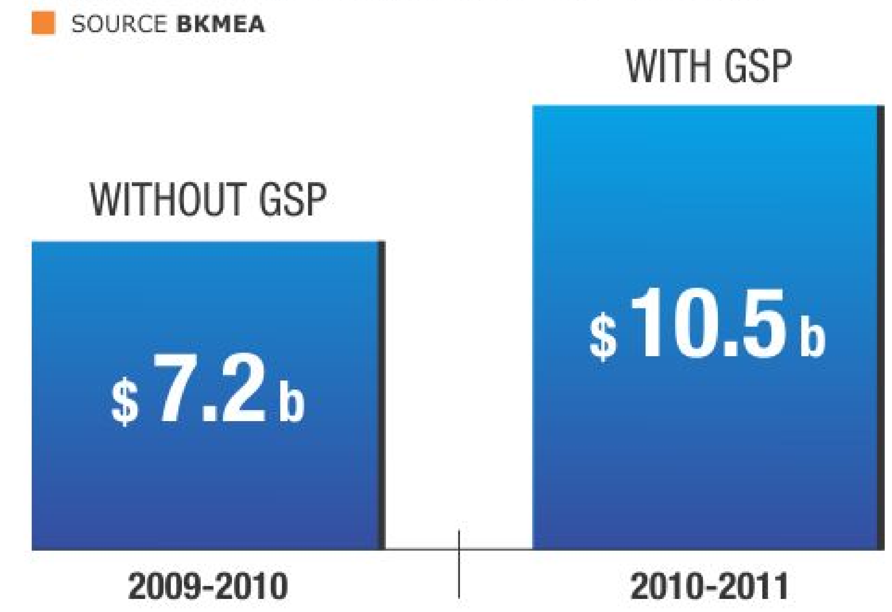

Does inequality help growth or hurt it?

Chrystia Freeland

ONE of the most urgent questions in economics today is the connection between inequality and growth. That is because one of the big economic facts of our time is the surge in income disparity, particularly between those at the very top and everyone else. The other big fact is the recession set off by the financial crisis and the consequent imperative to jump-start economic growth. Figuring out the relationship between these two tent-pole issues is therefore a good way for economists to spend their time.

There are two main and contradictory ideas about how that relationship might work. One is that inequality is the price of robust economic growth. If the private sector is thriving, the most successful capitalists will be getting very rich. Creating a system that allows -- indeed, encourages -- the best and the brightest to pull away from everyone else is how you shift your economy into its highest gear.

There is, however, another theory, and it has been winning adherents in the aftermath of the financial crisis. In this view, rising inequality is not a symptom of a fast-growing economy or an incentive that will help create one. Instead, too much income inequality crushes economic growth.

There are different arguments for why that might happen. One is that high income inequality creates an unstable system that is vulnerable to costly booms and busts. Another is that when too much of the income goes to the very top and not enough goes to the middle, spending slumps -- how many yachts does a plutocrat need? -- putting a brake on growth.

David Howell, a professor of economics at The New School in New York, has written a draft paper for the Center for American Progress, a progressive research group, that investigates the first argument. Howell argues that the United States and Britain have acted over the past three decades on what he calls the laissez-faire theory, that the equation of rising inequality and increasing gross domestic product is correct.

As Howell puts it, "the laissez-faire case for high inequality is grounded in the belief that growth in output and employment depends mainly on strong incentives to work and invest."

Howell tested that view by comparing the United States and Britain to their peers. He asked whether "compared to other rich countries, US income inequality has paid off in relatively high growth." His answer: not particularly. He finds that "there is no simple correlation between our measures of growth and income inequality."

That may come as a surprise to many Americans, who are accustomed to hearing, as Howell explained, "that the US middle class is doing relatively well, at least compared to Europe, because of productivity growth and because we allow higher inequality."

But the reality is that at least some of those allegedly sclerotic European economies, dragged down by their highly redistributive welfare states, have outperformed the United States.

"What we see is Sweden having really good productivity growth by all measures, despite much more modest increases in inequality and starting at a much lower level," he said.

"The US is anywhere from an O.K. to middling performer in the Age of Inequality," Howell said, using his term for our era. But while his work suggests inequality is not needed to get growth, he does not show that inequality actually hurts growth either: "I don't show a strong measurable inverse effect."

Lars Osberg, an economist at Dalhousie University in Nova Scotia, takes on this second argument – the case that inequality, at least beyond a certain point, can stifle growth.

He, too, adopts a comparative lens, looking at Canada, the United States and Mexico.

Osberg argues that a growing chasm between those at the very top and everyone else imperils the overall economy. His worry is financial instability.

"The added savings of the increasingly affluent must be loaned to balance total current expenditure," he writes, "but increasing indebtedness implies financial fragility, periodic financial crises, greater volatility of aggregate income and, as governments respond to mass unemployment with countercyclical fiscal policies, a compounding instability of public finances."

This is a variation of an argument by Raghuram Rajan, a politically center-right professor at the University of Chicago, who has suggested that rising income inequality was one of the drivers of the financial crisis. As income inequality increased, and the incomes of the middle class stagnated, the US government responded by increasing the consumer credit available to the middle class.

In the short term, that was a win-win solution: consumption, and therefore the economy, grew, and the middle class was quiescent because stagnating incomes were masked by increasing consumer debt. But in the medium term that Goldilocks scenario broke down – the middle class consumption bubble, and the Wall Street bubble it helped finance, popped with devastating consequences.

Both Howell and Osberg are skeptical, at best, of the value of rising income inequality as a driver of economic growth. When you put that conclusion together with the arithmetic of democracy -- rising income inequality means a majority of voters are on the losing end of the deal -- a political backlash seems inevitable.

"Go back to the 1920s or the 1870s and economists were worried about the stability of the capitalist system," Osberg said. "One of the things the 1930s experience teaches us is there are some catastrophic outcomes which can happen."

The investing class and the academic world are focused on those dangers. "Can capitalism survive?" is one of the trendiest conference topics among red-blooded capitalists and left-leaning professors alike. So far, at the ballot box and on the street, this question has not been as salient. That does not mean it will not be in the future – and in ways we cannot predict.

Chrystia Freeland is the managing director and editor, Consumer News at Thomson Reuters.

Yahoo! to buy blog-maker Tumblr for $1.1b

AFP, *New York*

YAHOO!'S board has approved a deal to purchase the popular blogging platform Tumblr for $1.1 billion in cash, The Wall Street Journal reported Sunday.

The deal, if confirmed, would be the largest for Yahoo! since Marissa Mayer took over as chief executive last year and could help the struggling Internet pioneer regain traction with younger Internet users.

Neither Yahoo! nor Tumblr commented on the report. But Mayer has scheduled a news conference in New York on Monday at which the company said it will unveil "something special."

Yahoo! has been looking at a range of acquisitions since Mayer took over as chief executive last year and vowed to revive the company, which has faded in the face of competition from Google.

Tumblr could be key to Yahoo!'s strategy because of its popularity with younger Internet users. A survey this year conducted by the online data group Survata found Tumblr more popular than Facebook among those aged 13 to 25.

While Tumblr generates very little cash, bringing it in the Yahoo! family could offer the potential for new advertising and other revenue sources.

Douglas McIntyre, analyst at 24/7 Wall Street, said the deal "looks too rich" for a company that has only generated a reported $15 million in annual revenues.

"If Yahoo! cannot significantly lift Tumblr sales, the deal will be a bust," McIntyre said. "It is worth keeping in mind that Yahoo! is struggling to increase its own revenue."

Trip Chowdhry at Global Equities Research said the deal could make sense if Yahoo! creates incentives for the Tumblr team. "They have a very difficult time recruiting smart engineers," Chowdhry said.

"They need the team committed to stay at least four years. So the deal should be cash and stock. Cash is bad because it creates no incentives for Tumblr employees. An asset means nothing if the talent leaves."

Founded in 2007 and headquartered in New York, Tumblr says it has more than 108 million blogs, 50 billion postings in 12 languages and 175 employees. The website ranking site Alexa lists Tumblr as number 32 in terms of global popularity.

The Journal said Yahoo's board unanimously approved the deal in a meeting by telephone on Friday and that it could be announced Monday.

According to the technology website AllThingsD, which is part of the Journal's parent company, Tumblr founder and chief executive David Karp will get a large cash windfall and also stay at Yahoo! for four years, retaining control over the service.

Yahoo! recently failed in a bid to take over the online video site Dailymotion after the French government, which owns a stake, quashed the deal. The California firm is now reported to be interested in another video website, Hulu.

Mayer is seeking to help Yahoo! regain its former glory, by emphasizing social media and mobile Internet.

Tumblr has grow into one of the most popular social media sites, but has also been dogged by copyright issues.