RMG sector: navigating the challenging times ahead

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BANGLADESH'S export performance in the first quarter of fiscal 2014 has been quite robust -- export earnings were 21.2 percent higher than the corresponding period of fiscal 2013. Excepting the negative growth in the Canadian market (-1.4 percent), export was high in all major markets (EU 27 percent, USA 15.7 percent).

Exports record in quarter 1 would imply that a growth of 10.3 percent will be required over the next nine months to reach the target of 12.9 percent planned for the whole of fiscal 2014.

In regards to RMG exports, performance in Q1 of fiscal 2014 was equally impressive. Growth of RMG was 24.2 percent, with knitwear recording a rise of 24.4 percent and woven wear 23.9 percent over the corresponding period of fiscal 2013.

RMG exports will need to register a growth of 8.6 percent over the next three quarters from the same time last year if the overall RMG growth target of 12.2 percent for fiscal 2014 is to be achieved. This appears to be an attainable target in view of current trends and emerging market signals.

However, a number of factors will make the journey over the upcoming months a particularly challenging one to navigate.

Firstly, the high RMG growth in the first quarter was based on a relatively low growth of 3.8 percent posted in the first quarter of fiscal 2013. There was, thus, a favourable base-line effect. In October-June of fiscal 2013, RMG growth was 15.7 percent. This would imply that growth over the next three quarters will have to be attained on the relatively more robust performance record and higher base line of the preceding year.

Secondly, over the next few months, the orders placed in the post-Rana Plaza tragedy period will start to be reflected in the export figures. As of now, market intelligence is not transmitting any disquieting signals.

However, much will depend on Bangladesh's ability to undertake the needed homework and implement the various action plans that have been put in place in view of the Rana Plaza incident.

These include various activities envisaged as part of tripartite agreement, ILO Work Plan and measures to be taken under the purview of 'Accord' and the 'Alliance'.

In matters concerning work place safety of workers and employees in the RMG sector, zero-tolerance should be the overriding motivation. Any failure in this regard will also put the RMG sector at a disadvantage in addressing the generalised system of preferences (US-GSP review in December 2013, EU-GSP review in January, 2014), assuaging the concerns of consumer groups in developed country markets and, most importantly, in dealing with the major buying houses. There should be full commitment in this regard on the part of all involved stakeholders. This is critical to safeguarding the medium to long term interests of the sector.

STAR

In matters concerning safety of workers in the garment sector, zero-tolerance should be the overriding motivation.

Thirdly, in spite of Bangladesh's good performance in both the EU and the US markets, Vietnam has been outperforming Bangladesh in the US market and Cambodia in the EU market.

In recent years, market share of all these three countries have gone up at the cost of China whose exports and market share have continued to decline, particularly in the US market.

In the foreseeable future, the advantage and attention that Bangladesh has enjoyed thanks to the China plus one policy pursued by major buyers is likely to face increasing competitive pressure from Vietnam, Cambodia and also India, among others. Bangladesh will need to keep competitors on the radar screen and calibrate policies and initiatives accordingly.

Fourthly, Bangladesh's RMG export performance received a positive jolt in the EU market in recent times, thanks to changes in the rules of origin for woven-RMG products under the EU-GSP scheme. The initial advantages resulting in higher exports, which arose from Bangladesh's capacity to access the preferences, is likely to taper off over the medium term. Bangladesh will need to be cautious about this prospect.

Fifth, a sharp depreciation of the currencies of some of Bangladesh's competitors, particularly India, has put Bangladesh to some disadvantage. A market analysis at disaggregated level shows that, for example, in the EU market, out of Bangladesh's ten topmost (six digit-level) knitwear items eight items figure among India's top ten items (for wovenwear the number is six).

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Get a grip on quality of raw materials: Barua

STAR BUSINESS REPORT

INDUSTRIES Minister Dilip Barua yesterday stressed the need to establish a strong regulatory mechanism to control the use of substandard raw materials in the production process.

"It is an urgent need to protect consumer rights. We are lagging behind in making international standard legal frameworks to ensure the supply of safe and quality products to the market," he said.

An effective regulatory mechanism can be ensured with the proper functioning of the accredited laboratories, certification bodies and inspection agencies, he added.

Barua spoke at a workshop on national quality policy co-organised by the industries ministry and United Nations Industrial Development Organisation (UNIDO) at Sonargaon Hotel.

The government is now forming the national quality policy to help the country produce quality products, said Barua.

The policy intends to enhance Bangladesh's reputation as a provider of quality products and services to the international market, he said.

The European Union is one of the largest trading and development partners for Bangladesh, said Philippe Jacques, head of cooperation of the EU delegation.

The EU is supporting the government in strengthening policies in Bangladesh.

Currently, Bangladesh has a trade surplus with the EU countries, said Jacques. Last year, the country exported goods and services worth 9.2 billion euros to the EU, while imports were worth only 1.5 billion euros, he said.

The EU is supporting a more diversified export structure for Bangladesh for better trade benefits. Bangladesh has been enjoying a duty and quota free market access to markets in the EU since 2001, said Jacques.

"The EU will remain engaged with Bangladesh (to help overcome its challenges)."

Over 170 participants representing government bodies and agencies, trade bodies and corporates took part in the workshop.

Industries Secretary Mohammad Moinuddin Abdullah and UNIDO Chief Technical Adviser David Holbourne also spoke.

Mindset of lenders is the biggest challenge for green banking: Atiur

STAR BUSINESS REPORT

LENDERS have to change their mindset for the sake of the country's 'green growth', Bangladesh Bank Governor Atiur Rahman said yesterday.

"Mindset and attitude is the biggest challenge for structured green banking practices," Rahman told a conference on the International Sustainable Banking Forum 2013 at Radisson Blu Water Garden Hotel in the city.

The central bank and the International Finance Corporation co-organised the programme.

The governor said the bankers should not have a mindset that the environmental guidelines could damage and hinder the growth of business. "It's for your own interest and for long-run growth of your profits."

Serge Devieux, director for South Asia of IFC; Kyle Kelhofer, country manager of IFC's office for Bangladesh, Bhutan and Nepal; chief executives of different commercial banks and financial institutions and officials of central banks and regulatory commission of different countries attended the programme.

Green banking has been identified as one of the major drivers of sustainable economic growth in developing countries.

BANGLADESH BANK

Bangladesh Bank Governor Atiur Rahman speaks at International Sustainable Banking Conference 2013 at Radisson Blu Water Garden Hotel in the city yesterday.

The forum has discussed how governments can improve their investment policy framework to reduce the risk and attract long-term private finance in support of green growth.

Multi-country experience on this issue has also been discussed at the forum.

The BB also issued guidelines in 2011 on green banking practices.

"We are committed to pursuing digital, nearly paperless, sustainable, green banking operations by making best use of the information technology and related professional skills," Rahman said.

The governor said banks in Bangladesh have been advised to finance solar energy, bio-gas plants, effluent treatment plants (ETP) and Hybrid Hoffman Kiln in brickfields under refinance programmes.

"We have introduced Tk 200 crore refinance scheme at 5 percent interest rate in 2009-10 against bank loans for investments in solar energy, ETPs and biogas plants," he said.

Serge Devieux said this is a key conference for sustainable banking, which will generate valuable insights and ideas for the policymakers to pursue green financing in a more effective manner.

BB Deputy Governor SK Sur Chowdhury also spoke on the occasion.

Amazon tries free, on-time delivery to lure India online

REUTERS, *Bangalore*

FREE shipping on a 100 rupee book. Delivery times guaranteed to the minute. These are some of the incentives the world's biggest online retailer Amazon.com Inc is using to entice Indians to shop on the web, a sector where growth has been stifled by payment problems, low Internet usage and a challenging logistics environment.

Amazon's investors are counting on its international business and expansion to help drive growth and support its $165 billion market value, one of the highest among US firms.

India is Amazon's third emerging market investment after Brazil and China, and one Vice President and Country Manager Amit Agarwal said would take time to pay off.

Most Indians do not own a credit card, and less than half the 152 million Internet users have shopped online. Then there are the bad roads, the snarled bureaucracy and the petty bribery that greases business.

The potential, however, is vast.

Online retail sales in India are forecast to grow more than a hundred-fold to $76 billion by 2021 from just $600 million at the end of 2012, retail consultants Technopak said. E-tail sales in China, by comparison, are expected to grow to $650 billion by 2020 from around $200 billion in 2012, consultants McKinsey predict.

"A lot of invention is required to capture the potential of this market and our focus is to build this," said Agarwal, who returned to India to head Amazon's business after 14 years with the company in the United States.

"We are going through a lot of trial-and-error to fix problems on the ground," he told Reuters at Amazon's India office in the technology hub of Bangalore.

Indians, on average, spend between $24 and $35 per online transaction, a figure dwarfed by the $150-$160 spent by US shoppers online per transaction, according to data from US based analysts comScore and Retail Decisions.

Agarwal spent two years advising Amazon's founder Jeff Bezos at the company's Seattle headquarters, and believes Amazon's long-term strategy will work in India like it did in the United States, where the company ran up losses for years.

"Right now we are focused on giving customers great service and making sure they shop more," he added, sitting behind a large desk that he brought back with him from Seattle.

Amazon's biggest local rival is Flipkart, set up by two ex-Amazon employees in 2007 and which has yet to turn a profit.

Since July, Flipkart has raised $360 million from investors that include South Africa's Naspers Ltd. It said it aims to have $1 billion in sales by 2015.

Agarwal would not give any forecasts or figures, but said Amazon's investments in India have a 7- to 10-year horizon.

He said Amazon was building its own logistics network, which it can leverage when the rules change and it can sell directly to consumers. Indian regulations now prevent international e-tailers from making direct sales.

AFP

Employees prepare shipping orders at Amazon's San Bernardino Fulfillment Centre in California on October 29.

Reality hits charming Bhutan

BBC NEWS, *Thimphu*

A land of pristine natural beauty and spectacular scenery, Bhutan is a dream tourist destination. Visitors from far and wide marvel at its lush green mountains and silvery snow peaks together with the centuries-old fortresses and monasteries dotted across this Himalayan nation.

The citizens of Bhutan are regarded as being among the happiest in the world.

The country measures the quality of life of its people by their happiness, widely known as Gross National Happiness (GNH), rather than by its Gross National Product (GNP), striking a balance between the spiritual and material.

Bhutan remained relatively isolated until the 1970s.

Although the internet and television were allowed into the country only in 1999, the Bhutanese, particularly the youth, seem to have taken to such modernisations with ease.

The people are very active in social media, wear trendy clothes, use smartphones, drive the latest cars and go to karoke bars in the evenings.

There is also a construction boom in big cities such as the capital, Thimphu, as the demand to buy a house or flat increases.

But as modernity and consumerism take hold in the Himalayan nation, Bhutan is facing a host of problems, including poverty, youth unemployment, and growing public debt.

Bhutan's youth unemployment is around 7.3 percent, and its external debt has soared to nearly 90 percent of its Gross Domestic Product (GDP).

The Bhutanese Prime Minister, Tshering Tobgay, says it is time for Bhutan to face up to the reality.

"We have to admit that there is a problem. (We must) rein in the excesses of the government and the people and get down to the hard work of producing goods for ourselves and to export. There is no shortcut to economic growth," Tobgay tells the BBC.

Following a sharp increase in public debt, the authorities have restricted bank loans for houses and cars. As a result, car imports, mostly from neighbouring India, have nearly come to a halt.