

Some important concerns for the future of RMG

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Recent labour uprisings and violence have created concern about the future performance of our ready-made garments (RMG) industry that performed satisfactorily in the first year of the volatile global free trade (apparel & textile) environment after MFA phase-out in January 2005. The RMG industry has proved itself a mature industry after MFA phase-out. We must address the ongoing upsurge and violence by the garment workers (especially in DEPZ area) with meticulous insights.

Irregular payment of wages is common in RMG. The factory owners justified their action by saying that they only attempted to control the movement of workers. We frequently read news stories about unpaid wages of workers for three or four months in several factories. In most of these cases, the government as well as BGMEA/BKMEA failed to ensure timely payment leading to distrust among workers. This void has been filled by labour unions whose credibility has long been questionable. On 12 June, a joint agreement was signed by BGMEA, labour representatives and government that has addressed wage rates and issues concerning the working environment. Increasing productivity is the only mantra to flourish. Therefore, paying more in wage will reward the factory owners by increasing productivity. As an established industry RMG is capable of implementing this pay hike, and thereby enhancing their competitiveness in world market.

Three issues

While most of the analysts and business people usually focused on US and EU market dynamisms, there are surely other crucial issues that are appreciably shaping global trade. Particularly in the context of Bangladesh, the following issues are to be considered with importance: 1) Governmental support to RMG industries in China, Vietnam and India, 2) Implications of recent WTO accession agreement between US and Vietnam, and 3) Shifting of RMG factories across different countries in search of sustainable business.

While analyzing China's supreme position in this competitive market, we generally ignore its government's assistance in this sector. According to US National Council of Textile Organizations (NCTO), at least 40% of the apparel exported by China is produced in state-owned enterprises. The Chinese government has long been providing cheap money to these enterprises along with private entrepreneurs in upgrading their machineries. According to OECD report 2004, China's import of textile and clothing machinery increased from about US\$

2 billion to more than US\$ 5 billion between 2000 and 2003. These state-owned enterprises emphasised sustainable employment generation, which enabled China to decrease price significantly in both the US and the EU market. In the US market, China's price declined 11% across all apparel categories based on square meter equivalents (SMEs) in the first quarter of 2005 compared to the corresponding period in 2004 and the price declined further 20.2% in EU market. In contrast, the price of Bangladeshi products declined only 8.6% in EU market. Thus the Chinese state-owned enterprises pose a serious threat to other apparel exporters like Bangladesh.

Vietnam, a mixed economy like China, also produces a bulk share of the exported textile and apparel in state-owned enterprises (47.8% of total output according to 1999 Statistical yearbook of Vietnam, though at present this share is assumed to be around 30%). Vietnam's export to US jumped from US\$ 49 million in 2001 (69th largest exporter) to US\$ 2.9 billion in 2005(7th largest exporter). The investment statistics may explain this success – state-owned enterprises had invested US\$ 230 million from 1996 to 2000 while they invested almost US\$ 900 million from 2001 to 2005 under the umbrella of the Vietnam government. According to its next five-year plan (2006-2010), the Vietnam government will invest US\$ 3 billion further to catch up with China in capacity and competitiveness.

Though almost all studies dealing with the probable MFA phase-out effect have pointed out India as a major gainer, India has failed to exhibit superb performance. Since 2004 India has been providing subsidies, within the WTO rules, by creating a Technology Upgradation Fund (TUF) to support investment (Textile firms borrowed from commercial banks at lower-than-market rates, the difference being re-financed from TUF) for upgrading machineries to enhance the capacity and productivity (World Bank, 2005). Up to now Indian government disbursed US\$ 41.7 million under this programme. US\$ 49.94 million is now in the pipeline and government allocated further US\$116.16 million for this year (Bharattextile.com).

Now what do these anecdotes tell us about the future of our RMG industry? Maybe the statement from Gereffi and Mernedovic (2003) will help to answer this question: 'Sustained competitiveness in the international apparel industry involves continual changes in economic roles and capabilities. New exporters constantly enter the global supply chain, which is pushing existing firms to cut costs, upgrade or exit the market. There is a need to run faster to stay in the same place.' Various publications by BKMEA and BGMEA have confirmed that large companies have invested substantially eyeing MFA phase-out. No statistics have revealed the true magnitude of this investment compared to other countries. While interviewing the entrepreneurs, they expressed that the measures resorted to by the Bangladesh government clearly express their pessimistic view toward RMG after MFA phase-out. Our government still lacks strong initiative that will ensure a sanguine future for our RMG.

Borrowing cost in Bangladesh is higher than that of all South Asian countries. Government must enforce capital investment in industries by ensuring enough premiums rather than just eliminating tariffs on machinery parts and providing VAT rebate. Electricity outages are a common phenomenon nowadays, and unfortunately the government has confirmed that the scenario will not improve before 2008. Under these circumstances, the government should provide interest-free loans to RMG factories to invest in gas generators.

Another issue is that in May '06, the US reached a WTO Accession Agreement with Vietnam that also encompasses apparel and textile sector. Vietnam has been under quota restrictions since 2003 in the US market. Since Vietnam is a non-signatory of WTO, the quota continues even today. Quota, for them, is now the major constraining factor in export growth. The agreement still needs consent from the US Congress before being put into practice. There is a great possibility that Congress will authorise the agreement within the next two months. The probable impact can be assessed from the Canadian import statistics in 2005 as Canada unilaterally has abolished quota restrictions on Vietnam. In 2005, while the growth rate for China was 53.88% and for Bangladesh it was a mere 6.02%, Vietnam experienced a phenomenal growth rate of 62.22%. The government must realize its massive implication on our RMG industry and take real time steps with active consultations with major development partners.

Finally, the relocation or shifting of industry has increased drastically over the years. Among Asian countries, South Korea, Taiwan, Honk Kong, Nepal, Lao PDR have experienced a decline in apparel export. While the small factories have closed down, the large ones are searching and shifting to suitable countries based on factor productivity, sustainability and profitability. According to various news reports, the hefty European textile manufacturers are also planning to shift to Asian countries to increase their competitiveness. In 2006, a few confirmed investment plans in India are US\$ 130 million by Camozzi Textile (Italy), US\$ 35 million by Hanug textiles, US\$ 20 million by Hansel textile (Germany) - while Bangladesh usually receive US\$5 to US\$ 10 million investment in a single project. Recently, German businessmen have expressed their eagerness to invest in RMG that will shift many production processes from Germany to our country.

Recent news stories reveal that factories are also shifting among South Asian countries. According to a report of 10 April '06 in The Financial Times, they confirmed that at least 20 companies will relocate in Bangladesh within this year due to our GSP facility and to escape 7.5% anti-dumping duty on bed-linen imposed by EU. Some Japanese companies are also planning to shift from China as both wage rate and anti-Japanese sentiment is rising. However, Bangladesh government rejected their precondition - to increase working hours for women so that they can work in night shift. Recently, India modified their labour law that permits this option. Our government must allure these investors actively rather than just

proposing tax-holiday, and other investment incentives. A World Bank (2005) study found that FDI in RMG not only creates more employment but also has a significant productivity spillover effect. For every 10 per cent increase in the productivity level of FDI in RMG, productivity of domestic firms increases by 1.4 per cent. Establishment of large FDI firms may also enhance the confidence of domestic producers and induce them to invest more.

However, though we lack a speedy, effective and efficient governance system, vigorous actions of businessmen, politicians, bureaucrats, and development partners could enhance our chance of survival in this still unpredictable apparel trade regime. We must remember that Bangladesh is an LDC that lacks the capability to survive if this lifeline industry of the economy declines. Therefore, the government, by keeping the WTO rules in mind, must actively support the industry economically and technically in substantial proportions.

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