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BANGLADESH AS AN EMERGING TIGER IN APPAREL MARKET: CHALLENGES AND STRATEGIES

By Muhammad Mohiuddin¹.

The paper attempts to identify the prospects of Bangladesh's ready-made garments (RMG) industry in the post-MFA period by analyzing the current scenario, strength and weakness of Bangladesh's RMG and potential competitiveness in the world market in the coming years. The investment in backward linkages industry, market diversification, favorable government policies, improved governance and infrastructure, preferential access to markets and above all the local entrepreneurial agility have kept the Bangladesh's RMG industry vibrant in post-MFA era. Bangladesh's RMG is now a matured industry and likely to be able to face successfully the challenges ahead and maintain the competitiveness in the global RMG market.

Introduction:

The Ready-Made Garments (RMG) industry occupies a unique position in the Bangladesh economy. It is the largest exporting industry in Bangladesh, which experienced phenomenal growth during the last 20 years under the quota system of MFA. The abolition of quota system thus brings new challenges for Bangladesh's apparel industry to continue its current status and enhance it in a free flow of apparel trade era. In this paper, I am going to explore these possibilities. In order to do so, in first and second section, I will discuss the emergence and structure of the RMG industry in Bangladesh. The third section will discuss the post-MFA era, fourth and fifth section will be devoted for the prospects, challenges and strategies for Bangladesh's RMG in new world trade order in apparel.

Emergence of Readymade Garments (RMG) sector in Bangladesh

Background of RMG industry in Bangladesh since beginning of '80s

The growth and development of the RMG industry in Bangladesh was the result of an international "managed trade" regime in the apparel. Thanks to the quota restrictions, many companies were obliged to relocate their sourcing and production facilities in the low cost under-developed developing countries. The operation of MFA quotas in the process led to exporting opportunities in countries where textile and clothing were not traditional export items. Many international business firms, facing binding quota restrictions in their own countries, had relocated part of their production and trade to other relatively poor developing countries including Bangladesh. The quota system ensured the time to develop and learn the skills required in the production and marketing. Thus the RMG business started in Bangladesh as a result of a joint-venture between a South Korean and Bangladeshi firm in the late 70s as a negligible non-

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traditional sector with a narrow export base. Within five years of the start, it emerged as a promising export earning sector in the '90s. Over the past two decades, RMG export earnings have increased by more than 8 times with an exceptional growth rate of 16.5 percent per annum. In 2006, earnings reached 8.9335² billion USD, which was only less than a billion USD in 1991. Excepting 2002, the industry registered significant positive growth throughout this period (Table 1).

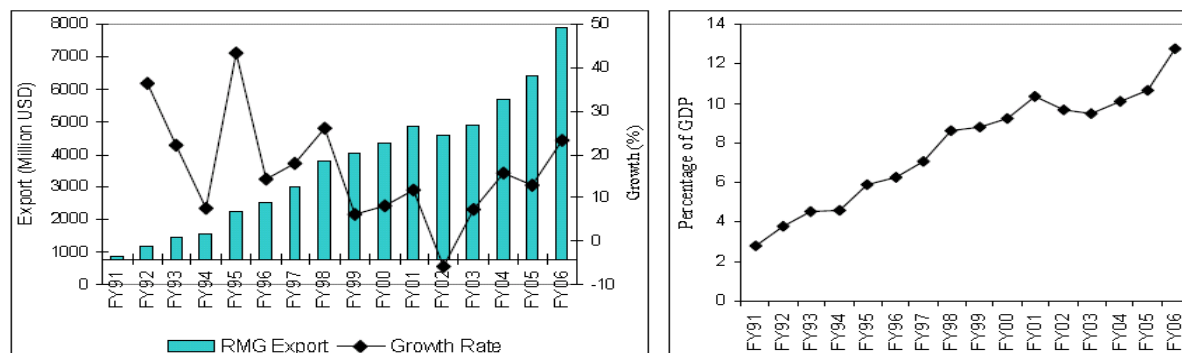
	Woven Garments		Knitwear		Total	
	Value	Volume	Value	Volume	Value	Volume
2000/01	9.1%	7.4%	17.8%	15.9%	11.7%	10.8%
2001/02	-7.1%	7.8%	-2.5%	20.8%	-5.7%	13.3%
2002/03	4.3%	7.4%	13.3%	9.1%	7.2%	8.2%
2003/04	8.6%	9.3%	29.9%	32.4%	15.8%	19.8%
2004/05	1.7%	2.0%	31.3%	31.1%	12.9%	16.6%
2005/06	13.5%	17.9%	35.4%	37.4%	23.1%	28.9%
2006/07 H1	24.1%	25.7%	32.00%	31.87%	27.9%	29.4%

Sources: Export Promotion Bureau; and Fund staff calculations.
1/ Fiscal year ending June 30.

Table 1: Growth of RMG Exports, 2000/01–H1 2006/07 1/

Importance of RMG sector to Bangladesh Economy

The RMG is the largest single economic sector in Bangladesh which contributes to 76% of national exports and 90% of manufacturing goods exports.



Source: Export Promotion Bureau (EPB) and Economic Trends, Bangladesh Bank

Table 2: Trend of RMG Export Volume, Export Growth and Contribution to GDP

In terms of GDP, RMG's contribution is highly remarkable; it reaches 13 percent of GDP which was only about 3 percent in 1991. It also plays a pivotal role to promote the development of other key sectors of the economy like banking, insurance, shipping, hotel, tourism, road transportation, railway container services, etc.

The industry employs more than two million people, or about 40 percent of manufacturing sector employment, 90 percent of whom are women (Rhee 1990; Toai 2004) which eventually helps the country's social development, woman empowerment and poverty alleviation. The industry supports

² Bangladesh Garment Manufacturers and Exporters Association, <http://www.bgmea.com/data.htm>

indirectly about 10–15 million people. Over the past 20 years, the number of manufacturing units has grown from 180 to over 4400, 95 percent of which are locally owned.³

Competitive Factors contributing to the rise of garment industry in Bangladesh

There are many factors that contributed to the rise of the apparel industry in Bangladesh. Most firms acknowledged three internal factors: favorable government policy, cheap labor force, entrepreneurial skills and two international factors: quota provided by USA and GSP scheme provided by EU as the top five reasons⁴ for the spectacular growth of this industry in Bangladesh. The results of the survey are given below in table 3:

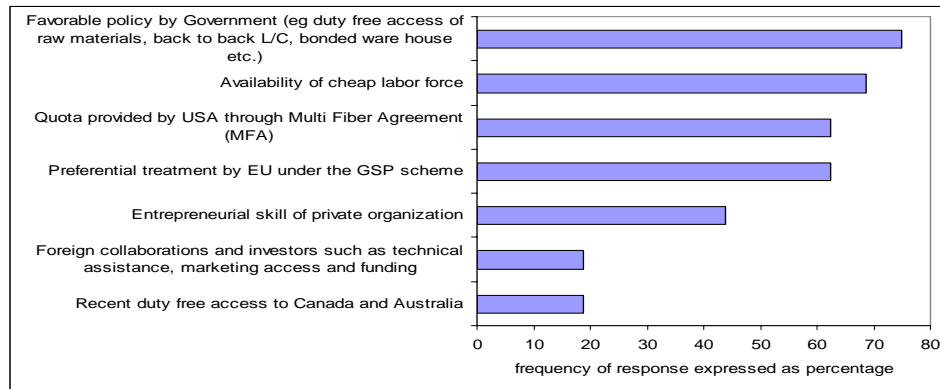


Table 3: Factors contributing to the growth of RMG in Bangladesh.

Favorable Policy by Government

The government came out with some policies which triggered the business growth and the entrepreneurs took the chance to gain on it.⁵ The privileges enjoyed by RMG sector through government policy are back to back Letter of Credit (L/C), bonded warehouse, Cash Incentives and reduced income tax rate.⁶ Back to back L/C was granted only for 100 percent export garment industry and considerably eased the financial load of the local entrepreneurs,

Bonded warehouse facilities provided further support which allowed exporters to import their inputs tax and duty free (Dowlah 1999).⁷ Additionally in 2004, government reduced the corporate income tax from 30 to 10 percent for RMG industry and from 30 and 35 percent to 20 percent for textile firms until June 30, 2006. Government also operates a Cash Compensation Scheme (CCS) through which local suppliers for RMG industry receives a 10 percent of the value added of export garments. From 2001 to 2003, CCS generated around Tk. 6 billion (or over \$100 million) which further supports the growth (Montfort & Yang 2004)⁸.

³ Mlachila Montfort and Yongzheng Yang, 2004.

⁴ Md. Abbas Uddin, Curtin University of Technology, Australia, 2006.

⁵ With low factor prices and policy support, a sector can grow rapidly and can be extremely profitable. Export of RMG industry of Bangladesh lead this example, with a growth rate around 28 percent since 1985, highlight this phenomenon (Sanjay Kathuria, Will Martin and Anjali Bhardwaj, 2001).

⁶ For details policy framework for apparel sector, please see Debapriya Bhattacharya and Mustafizur Rahman, 2000, p8-9.

⁷ Also see Rock (2002), Quddus (1996), Montfort (2004)

⁸ The rate has been subsequently reduced to 25 percent in FY01.

Availability of cheap labor and low energy cost

The second most important factor was cheap labor. Bangladesh is one of the cheapest on labor wages, even compared to the standard of the South Asian region (see Table 4). The wages are unlikely to increase due to vast unemployment rate that exists in the country and lack of alternative work opportunities specially for rural women who constitute 90% of the RMG work force .

Table 4: Hourly wages of apparel industry in selected countries⁹

	Bangladesh	Nepal	India	Pakistan	Sri Lanka	China	Indonesia	Vietnam
Hourly wages in US\$	0.24	0.31	0.60	0.40	0.45	0.69-0.89	0.40	0.40

Bangladesh has around 70 millions of available low cost workers who could be easily trainable and engaged in the apparel sector. As mentioned earlier, the vast majority of the workers in the RMG are women who possess historically skills in embroidery and stitching clothing. Concerning the energy cost, Gas burned energy cost in Bangladesh is less than two cents/KWH in compared to 9.33, 6.72 and 7.84 cents/KWH in India, Pakistan and China, respectively¹⁰.

Quotas of USA and GSP provided by EU

Third and fourth most important factors considered by the firms were international: quotas provided by the US through the MFA which was initiated in 1985 and preferential treatment by EU under the GSP scheme. The MFA has been called ‘the most celebrated case of global market sharing arrangement,’¹¹ which was designed to protect the textile and garment industry of developed countries,¹² due to increased imports which was accompanied by unemployment rate.¹³ However, this restriction proved to be a blessing for Bangladesh as mentioned earlier.

With an assured market through quota, the firms gained experience through ‘learning by doing’ and at the same time made further growth to enter into new product and market diversification. Whereas GSP Scheme provided unrestricted duty free access into the EU countries as a part of LDC, who use domestically produce fabric to make exported garment as an intensive to boost backward linkage.¹⁴ MFA ensured a market to USA, which was used by the firms for woven exports. This is because woven exports traditionally relied on imported input from around the world.¹⁵

Local Entrepreneurial Ingenuity

The fifth, not the least, important factor that emerged is the entrepreneurial skill of the private organization, which (Rhee 1990) described as the ‘catalyst model’ of the development. Entrepreneurs in

⁹ Source: Islam (2001) for annual wage data and Siddiqui (2004) for hourly wage data

¹⁰ Mr. *Quamrul Ahsan, Ph.D*, State of Cotton & Textile Industry of Bangladesh, 2010 and Beyond , Cotton Bangladesh, www.cottonbangladesh.com

¹¹ R. Kumar and S. Khanna (1990), cited in Qudus (1996, p18)

¹² According to a World Bank/IMF study, MFA has cost the developing world 27 million jobs and \$40 billion a year in lost exports. Source: http://en.wikipedia.org/wiki/Multi_Fibre_Arrangement, May 26, 2006

¹³ In the UK, employment in the apparel sector declined by over 50 percent in the period 1973 to 1993.

¹⁴ However, IMF 2004 report argued, large rents generated by quotas and government assistance may have weakened incentives to improve productivity (p 30).

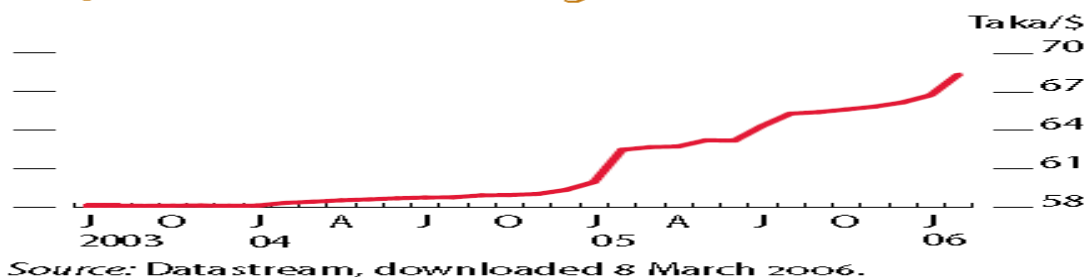
¹⁵ for details about knitwear sector see http://www.sedf.org/spe_events4_knitwear.php May 14, 2006

the garment industry started business from a zero base, with no or little assistance. ‘It was indeed a difficult environment, fit for only bravest entrepreneurs’ (Quddus 1993, p 30-31), entrepreneurs saw the opportunities that were lying ahead, grabbed them and boldly put their ideas in practice. As good practices and knowledge got diffused and enterprises developed, the government responded by coming up with policy and administrative reforms that facilitated the growth of the industry. Thus, entrepreneurs created an environment at the early stage, proved their importance to others, showed their dynamism to reform policy (Mahmood 2002).¹⁶ Whenever necessary, firms found their own way to sustain and grow in a critical situation. Bangladeshi RMG entrepreneurs are resilient to any type of internal and external shocks. The continuous growth of the Bangladeshi RMG industry despite the threats of Chinese and later Vietnam’s accession to the WTO, 9/11 and the phase out of MFA in 2005 proved their entrepreneurial agility. They were quick learners and took a cautious approach all the time in a new situation. Another factor which has also helped the RMG sector to grow is the composition of the RMG entrepreneurs. A survey of garment entrepreneurs carried out in 1993 shows that 23 percent of respondents were retired civil or military bureaucrats, 89 percent had at least a bachelor degree and 32 percent had studied abroad (Quddus and Rashid, 2000). Thus, a large number of educated, mature and experienced individuals have been attracted to the garment industry. The presence of such dynamic persons as entrepreneurs doubtlessly stimulated the growth of this industry in ways delineated above.

Favorable exchange rate

The favorable exchange rate of Bangladesh currency Taka with the USA dollar helped also the Bangladeshi RMG products to be competitive in world market.

2.14.11 Nominal exchange rate



Characteristics of Bangladesh’s RMG sector.

Dependence on imported inputs for Woven Garments

Most of Bangladesh’s woven apparel exports use 50-70% of imported contents even though the textile sector also continuously increasing their production capacity over the last decade however not with the same pace like the apparel sector. So Bangladesh is a net importer of textile and a net exporter of apparel. The knitted apparel is not dependant on imported raw materials and can use local inputs 95% to 100%¹⁷. On the other hand, woven sector is dependent on imported fabrics and in consequence have lower value addition and could not reap the benefits from the DFQG(duty free quota free) from the access to the EU market.

¹⁶ See Rhee (1990), Quddus (1993, 1996), Quddus and Rashid (1996)

¹⁷ My discussion with Mr.Kamal Uddin, Executive (Research and Development),BKMEA, Dhaka, Bangladesh.

Market Concentration

The disadvantage that most literature revealed is too much market concentration towards EU and US and too much product concentration in certain items (Khundker 2002; Rahman and Raihan 2001). Bangladesh exports, more than 90 percent its garments, to European Union and USA (Table 2). MFA from the US and GSP provided by EU was the reason for this market concentration. Even after 2004, in the open market, the scenario is almost the same due to the safeguard that are imposed by US to china for export surge.

Table 6: Major Export Destination and their share in total apparel export

	export 2003-04 million\$	% of total of export	Export 2004-05 million \$	% of total of export
EU	3664.427	64.45	3945.653	61.48
USA	1628.588	28.64	2026.091	31.57
Canada	256.4	4.51	307.941	4.80
other countries	113.148	1.99	114.391	1.78
Australia	3.739	0.07	7.299	0.11
Japan	19.786	0.35	16.302	0.25

Source: Export Promotion Bureau

Product Concentration

Product concentration is another worry for apparel industry. Only five items dominated the export market throughout its history (table 7). These five items; shirts, trousers, t-shirts, jackets, sweaters constitute around 80 percent of the total apparel export. Even in two months of FY 2005-06, with an open market these five items still dominated the export basket. The reasons are partly due to the safeguard restriction and partly the mastery has been gained by the firms.

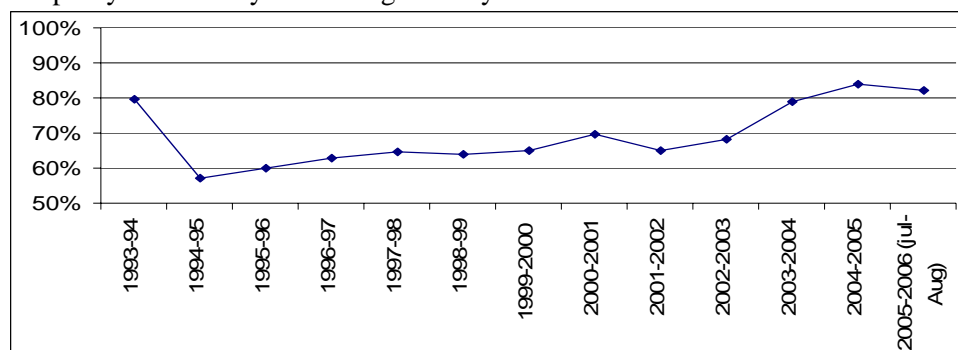


Table 7: Year wise share of five major export items i.e. shirt, trouser, t-shirt, jacket, sweater¹⁸.

A World Bank report estimated the degree of export concentration at the firm level. As it turns out, of the 2387 exporting RMG firms in 2004, the top 500 firms exported 74 percent of total garment exports; the top 650, up to 81 percent.

	Cumulative export share (%)
Top 100 firms	40.5
Top 200 firms	53.0
Top 300 firms	61.9
Top 500 firms	74.3
Top 650 firms	81.0

¹⁸ Source: BGMEA and Export Promotion Bureau.

TABLE 8: Firm level export concentration, Source: Data from DG Textiles, EPB

Ownership in the garment industry

While FDI played a major role in establishing the RMG industry in Bangladesh in the beginning, the industry is now dominated by domestically-owned firms. Of an estimated 4,330 firms at the end of 2006, just 83 (less than 2%) were wholly or partially foreign owned (Table 9).

Fiscal Year	Domestically-Owned Factories	Employees	Average Employees per Factory
1996/97	2,503	1,300,000	519
2001/02	3,618	1,800,000	498
2005/06	4,220	2,200,000	521
Memorandum items (end-2006):			
Total employment in EPZ garment factories			122,098
Of which: In wholly and partially foreign-owned firms			95,559
Number of wholly and partially foreign-owned firms in EPZs			83
Sources: Bangladesh Garment Manufacturers and Exporters Association; Bangladesh Export Processing Zones Authority; and Fund staff calculations.			

Table 9 : Ownership characteristics and employments.

All FDI was restricted to the EPZs by law until 2005. Key differences between firms with FDI and those that are domestically owned are that productivity in the firms with FDI is estimated to be 20 percent greater than in domestic RMG firms and the average number of employees in firms with FDI is substantially higher¹⁹. The fact that most of the investments are in local hands means Bangladeshi owners have a vested interest in the industry's future.

Rise of Knitwear sector in RMG industry in Bangladesh.

The RMG industry is broadly divided in woven and knitwear sectors. Though the woven sector's share in Bangladesh's RMG was much higher since the beginning, however this scenario is changing fast due to various factors in home and in international trading opportunities. From a total share in garment export earnings of 25 percent in 1997 knitwear exports rose to half of exports in the six months ending in December 2006 (table 10). In volume terms, knitwear now accounts for more than 60 percent of Bangladesh's garment exports.

¹⁹ World Bank (2005), p. 24

Woven and Knitwear Exports

(In millions of U.S. dollars)

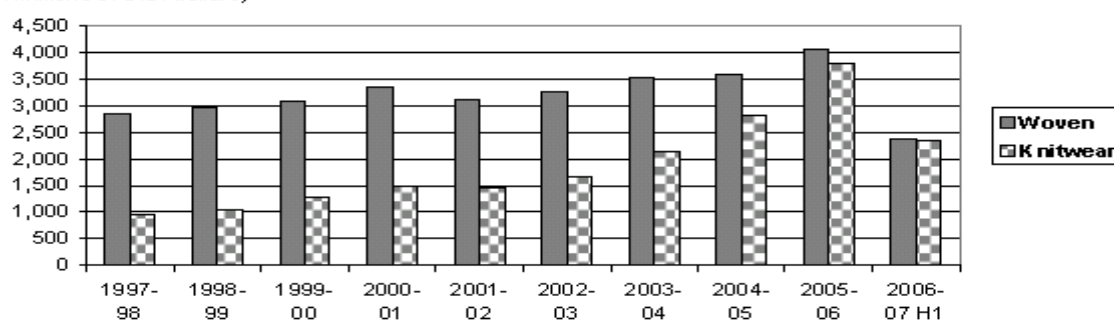


Table 10: Share of woven and Knit in RMG exports.

The recent data shows that even in value terms, knitwear sector has surpassed the woven sector in export share of the RMG from Bangladesh²⁰. Behind the leap is the creation of a vibrant yarn and dyeing industry that provides 'backward linkage' as well as the introduction of innovative fashion and design.

Inadequate Infrastructure (port and electricity)

According to many studies on Bangladesh's apparel sector's competitiveness, two bottlenecks are very often cited. They are the inefficiency in Chittagong port²¹ and lack of backward linkages industry in woven sector which use imported fabrics and thereby increase the lead time and do not qualify for the DFQF access to the EU market. Asian Development Bank technical assistance study in 2003 found that clothing producers in Bangladesh were likely to earn 30 per cent more if inefficiencies were removed at the Chittagong port (ADB, 2006). However, since the beginning of 2007 under the new administration and with the assistance of the ADB, the capacity of the Chittagong port is being upgraded, which should help to reduce lead-times for RMG orders. According to data from the Chittagong port authority and Ministry of shipping official, the efficiency of Chittagong port has been improved 40% in 2007²². Bangladesh lack also in producing enough electricity and the large RMG factories use private electricity generation facilities which increase the cost of production.

MFA phase-out and Bangladesh's RMG sector

The approximately ten billion dollar of export oriented RMG industry in Bangladesh was largely developed during the last two decades. The favorable quota restricted market share in the EU, USA and in Canada along with the low cost easily trainable work force and entrepreneurial agility of this sector were observed. However, the phasing-out of the MFA in 2005 was considered as a doomsday for the apparel industry in Bangladesh. Various studies such as (Montfort and Yang 2004; The World Bank 2003, 2005; Rahman and Raihan 2001; Sattar et al. 2006; Sattar et al. 2005; Minor 2002) have predicted the decline of the Bangladeshi RMG export in post-MFA era from the 1st January, 2005. However, the export data of the post-MFA era proved wrong the prediction of many studies done earlier. The RMG industry felt the initial shock in the first few months after abolition of quota. Export earning from woven garments decreased by \$50.87 million or 5.6 percent during January-March period of 2005, the first three months of the quota-free regime.²³ However, overall RMG exports from Bangladesh in the post-MFA world did not decline ;

²⁰ Knitwear emerges as No 1 export item, Vibrant yarn and dyeing industry behind success, Refayet Ullah Mirdha, Daily star.

²¹ More than 90% of export and imports are done through this port.

²² My discussion with Mr. Harun-or-Rashid, Deputy chief (Development), Ministry of shipping, Bangladesh, and article on Chittagong Port. <http://www.jajaidin.com/details.php?nid=48716> 8th January, 2007.

²³ Export Promotion Bureau Bangladesh

rather, data show that export growth during January-July 2005 was substantial to end the fiscal year 2004-05 with a growth of 13 percent, with knit garments registering phenomenal growth of 31 percent (Sattar et al. 2006, p5).²⁴

Table 11: Growth pattern of woven and Knitwear Categories

Year	Woven	Knitwear	Total RMG Export
2002-03	4.28	13.34	7.16
2003-04	8.59	29.88	15.76
2004-05	1.70	31.26	12.87
2005-06	13.50	35.38	23.11

Source: Export Promotion Bureau (EPB)

Although imposition of the safeguard measures in last quarter of the 2005 against Chinese export surges to the EU and USA market helped Bangladesh RMG products to gain more market share in both markets, the Bangladeshi exports were still gaining market share in the USA and after suffering losses in the beginning it came back on the growth path in the EU market.

Table 12: Apparel import to the USA between January-July, 2005

	January to July 2005 value in US\$			
	Value (US \$)		Change (%)	
	Jan-Jul 05	Jan-Jul 04	2005	2004
World	1,553,211,164	1,236,412,437	25.6%	14.0%
China	183,813,436	41,550,874	342.4%	40.5%
India	183,378,977	151,716,394	20.9%	31.6%
Hong Kong	178,685,853	175,154,776	2.0%	9.0%
Bangladesh	173,863,710	121,594,712	43.0%	15.8%
Indonesia	131,027,583	92,321,692	41.9%	14.8%
Sri Lanka	71,063,210	50,917,310	39.6%	11.6%
Vietnam	63,782,147	48,033,250	32.8%	54.0%
Philippines	55,180,299	54,494,106	1.3%	5.4%
Italy	51,516,233	48,463,990	6.3%	16.4%
Turkey	44,165,847	32,066,621	37.7%	53.1%

Source : ITCB data.

The reason behind these two different impacts in two most important markets for Bangladeshi RMG is that Bangladesh had DFQF (duty free quota free) access to the EU market and despite the fiercest competition from the Chinese products. It could survive and in some cases specially for knitwear, it could gain market share. Bangladesh had already come through a long way to develop its back-ward linkage industries in knitwear and it could provide at least 90% of the inputs for this sector locally and could compete with china in every aspect of quality, design and lead time for low to medium end products. On the other hand, in woven sector Bangladesh lost the market in the beginning where it could not enjoy DFQF facilities as the value addition of this sector was below the threshold for enjoying these advantages. For the USA market, Bangladesh was constrained by quota system in knitwear garments export. That's why after the removal of the MFA, Bangladeshi Knitwear gained market share along with the Chinese and Indian products.

²⁴ Golam Sarwar Milon , BGMEA Director.

Turning to the very recent data in post-MFA period, Bangladesh RMG export looks more promising in three of its leading markets i.e USA, EU and Canada. Data from the office of Textile and Apparel, Department of commerce of the USA, show that Bangladesh's RMG become second largest source of apparel import to the USA in volume and sixth largest in value terms.

In the EU market, Bangladesh become second largest apparel exporter in volume and third in value term. (Table 13 and 14).

Shipper	Knitted Clothing					Woven Clothing				
	2005 Volume Change (%)	2006 Volume Change (%)	2004 Volume Share (%)	2005 Volume Share (%)	2006 Volume Share (%)	2005 Volume Change (%)	2006 Volume Change (%)	2004 Volume Share (%)	2005 Volume Share (%)	2006 Volume Share (%)
China	53.76	-2.00	24.46	33.99	29.92	39.32	4.69	36.03	46.13	45.30
Bangladesh	7.29	16.64	15.57	15.10	15.82	-13.03	23.66	9.29	7.43	8.63
Indonesia	-8.82	23.24	3.00	2.47	2.74	-8.26	17.41	2.22	1.87	2.06
Vietnam	16.21	193.57	1.12	1.17	3.10	12.55	116.06	1.77	1.84	3.72
Cambodia	-7.79	23.48	1.56	1.30	1.44	-10.56	-8.37	0.56	0.46	0.39
India	17.53	4.50	6.01	6.39	5.99	22.04	9.99	3.70	4.15	4.20
El Salvador	39.12	794.17	0.02	0.03	0.21	-	-	-	-	-
Pakistan	-17.77	23.89	3.19	2.37	2.64	-0.48	7.74	3.14	2.88	2.91

TABLE 13: EU Apparel Imports in 2005-2006, Volume (kilograms) Change and Volume Share²⁵.

Exporters	Value '06	Share'06	Percentage change		
			2000-06	2005	2006
China	25780	18.3	20	43	12
Turkey	10405	7.4	12	4	2
Bangladesh	5775	4.1	16	-5	31
India	5153	3.7	14	27	16

Table 14: Market share in value term in the EU in 2006.

Bangladesh becomes second largest exporting country in apparel to Canadian market in 2006.

Exporters	Value 09/06	Share09/06	Change in		
			Annual growth	Percentage growth	2006
		%	2000-06	2005	2006
China	3232	50.3	25	51	23

²⁵ Source: adopted from the WTO data base.

Bangladesh	434	7.0	27	5	19
USA	350	5.3	-3	-6	1
India	345	5.2	6	8	5

Table 15: Market share in value term in Canada in 2006²⁶

From these market data of Bangladesh exports of RMG products to the leading three markets where Bangladesh export more than 90% of its apparel products, it can be concluded that post-MFA era has not diminished the prospects of Bangladesh apparel exports rather it shows the prospects of growing in new environment although with new strategy and market segments. In the next section, prospects and challenges of Bangladesh's RMG exports will be explored in post-MFA era.

Prospects and challenges ahead

The post-MFA era brings formidable opportunities to raise the exports market share for Bangladesh RMG products in established markets as well as in new markets. However, this opportunity comes with enormous challenges from the textile and apparel giants like China and India as well as some new players such as Vietnam and Cambodia. China, the largest clothing and textile exporter of the world, along with India, another giant in textile in the world, are thought to be the main competitors of Bangladesh and have a number of advantages. As the market has become quota free, these countries are naturally going to be more competitive. In this backdrop of the RMG industry, what will happen to Bangladesh's RMG export, will it sustain or even flourish in a fiercely competitive market of 311²⁷ billions of dollar?

Although China is a formidable competitor, in the longer run it faces some problems. Its wage levels are rising (10-15%/year), especially in the southern and coastal province of Guangdong and Shanghai, the hearts of the export garment industry. Although moves to the interior of China to access lower wages are possible in principle, interior provinces suffer from poor infrastructure, long distances to market and it is difficult for firms to persuade managers to relocate. Also, people from the interior are becoming less willing to migrate and live in dormitories, which has been a way in the past that the coastal regions have ensured a labor supply. More fundamentally, there will be a future labour shortage as China's one-child policy affects first population growth and reduces the size of the working population. Some regions are trying to get out of T&C (like Shanghai).

The competing growth of other industries drawing on the labor force, migration to higher value added and high technology sector and buyers preference for diversified portfolio of sourcing locations are likely to slow the sharp growth of Chinese apparel export and unlikely to create the 2005 type of apparel export floods. Mayer (2005) argues that the shift of labor-intensive activities in textiles and clothing away from the first tier NIEs towards other Asian countries has clearly reflected industrial upgrading associated with wage increases and a move in production and export patterns towards more technology-intensive goods. Based on a Heckscher-Ohlin type trade model that concentrates on relative endowments of labour, land, and human capital, Mayer and Wood (2001) show that China's comparative advantage is not in low-skill-labor-intensive production, such as clothing, but in manufacturing sectors with higher skill content. This phenomena has been reflected in higher unit prices for US apparel imports from China and India in the

²⁶ Calculated from "Trade liberalization and the Canadian clothing market", by Diana Wyman, Canadian Economic Observer, December 2006, Statistics Canada – Catalogue no. 11-010

²⁷ Apparel market figure for 2006, WTO.

first five months of 2006²⁸. In comparison, Bangladesh's apparel falls in low-end volume driven segment. According to Professor Zhan SU²⁹, China has also adopted new industrial policy since 2004 with a view to concentrating more on high technology and knowledge intensive sector and reducing the dependence on the labor intensive quantity driven mass production sector such as garments.

China's pegged currency with estimated 40% undervalued Yuan was one of the competitive factors for Chinese apparel in the international market. However, the Yuan was appreciated 11% (7.3568 to \$) since China de-pegged it from the U.S. dollar in July 2005³⁰. With an estimated reserve of 1400 billion dollars, rising export earnings, trade surpluses and foreign pressures are likely to further appreciate the Yuan and diminish the Chinese competitiveness of labor intensive sectors like apparel.

India is considered to be the second most important competitor to Bangladesh apparel exports. India has one of the largest textile industries in the world and can fulfill more than 98% of its fabric demands. It has also expertise in designing. However, despite these formidable advantages, India's performance in apparel exports is not satisfactory comparing to China and even Bangladesh. In real value term, India's exports earnings are slightly larger than Bangladesh's (9.5\$ billion in 2006), however Bangladesh leads in all the three largest apparel market in the USA (only volume), EU and Canada in Value and volume terms. The reason behind this is the Indian government's policy of considering the apparel production as a small-scale industry (SSI) sector. Apparel units with larger investments were allowed to operate only as export-oriented units (EOUs). As a result, India's apparel sector is highly fragmented and is characterized by low levels of technology use. The competitiveness of India's apparel sector is adversely impacted by an inadequate domestic supply of quality fabrics. Fabric imports are subject to high duty rates and other domestic taxes that increase the cost of imported fabrics. Lack of adequate infrastructure also hinders the Indian emergence in apparel markets. The rising wages (10-15%/year), complicated labor rules and regulations, several stages (city, state and central) of bureaucratic hurdles and strong rupee (14% appreciation in 2007³¹) are also hindering the competitiveness of Indian apparel exports in international market. However, thanks to some government reforms and opportunities in the international markets, Apparel sector in India is rising and concentrating on medium to high value items. Small and specialized Indian apparel enterprises are more competitive in small volume but high value added products contrary to the Bangladesh's volume driven strategy.

Despite the technological development, the apparel sector is still highly labor intensive sector. The buyers specially the giant retailers who buys the bulk of apparel products from the exporting countries give high importance in cost effective imports. Being a lowest cost wages among the competing countries with established markets and good quality products in low-end segments, Bangladesh's apparel is likely to be competitive in international market. According to various researches, Post-MFA sourcing strategy will be concentrated on few countries (7-10 countries) with huge import orders rather than quota oriented dispersed sourcing strategy in 50 or more countries. Bangladesh is the 4th largest net apparel exporter in the world (table 22), and will likely to be among these concentrated countries.

²⁸ [Peter Harrison](http://emergingtextile.com), emergingtextile.com

²⁹ Professor Zhan SU, Professeur titulaire de management international et de stratégie de l'entreprise
Directeur du Groupe d'études et de recherche sur l'Asie contemporaine (GÉRAC), Laval University, Canada.

³⁰ Source: Xinhua 21st December, 2007.

³¹ Reserve bank of India, <https://cdbmsi.reservebank.org.in/cdbmsi/servlet/login>

Table 16: Leading exporters in apparel in 2006.

(Billion dollars and percentage)

	Value	Share in world exports&imports				Annual percentage change			
	2006	1980	1990	2000	2006	2000-06	2004	2005	2006
Exporters									
China a	95.4	4.0	8.9	18.2	30.6	18	19	20	29
European Union (25)	83.4	-	-	26.9	26.8	8	12	3	5
extra-EU (25) exports	21.9	-	-	6.8	7.0	8	11	5	9
Hong Kong, China	28.4	12.3	14.2	12.2	9.1	3	8	9	4
domestic exports	6.7	11.5	8.6	5.0	2.2	-6	-1	-11	-7
re-exports	21.7	0.8	5.7	7.2	7.0	7	13	18	8
Turkey b	11.9	0.3	3.1	3.3	3.8	10	12	6	0
India b, c	10.2	1.7	2.3	3.1	3.3	9	0	39	11
Bangladesh b, c, d	7.8	0.0	0.6	2.1	2.8	...	24	23	...
Mexico a	6.3	0.0	0.5	4.4	2.0	-5	2	-2	-13
Indonesia	5.7	0.2	1.5	2.4	1.8	3	6	16	15
United States	4.9	3.1	2.4	4.4	1.6	-9	-9	-1	-2
Viet Nam d	4.8	0.9	1.7	...	28	9	...
Romania	4.4	...	0.3	1.2	1.4	11	16	-2	-4
Thailand	4.3	0.7	2.6	1.9	1.4	2	10	3	4
Pakistan	3.9	0.3	0.9	1.1	1.3	11	12	19	8
Morocco a	3.2	0.3	0.7	1.2	1.0	5	6	-6	14
Tunisia b	3.2	0.8	1.0	1.1	1.0	6	11	-5	2

Source: WTO trade data.

Bangladesh's competitiveness in apparel export does not rely only in competing with Chinese or Indian export items. Bangladesh has a large market of knitted T-shirts and knitted jerseys in Canada and it is also the largest supplier of men's woven shirts there. Within EU, Bangladesh commands 15 percent of cotton T-shirts, 13 percent of cotton woven men's shirts, 10 percent of acrylic jerseys and 5 percent of denim and cotton trousers. According to the unit value data, Bangladesh is by far the cheapest supplier in all these categories. There are many products with considerable export value where Bangladesh has comparative advantages and can further increase its production in quota free post-MFA era.

Canada represents an ideal example for quota free market era where there is no safeguard against Chinese products. Moreover, USA and Mexico enjoy DFQF exports. Due to the very liberal ROO and value-addition rules under Canada's MAI, virtually all of Bangladesh's garment exports benefit from duty-free access to the Canadian market. Bangladesh was, after China, the second largest garment exporter to Canada in 2006 and though the Canadian market accounts for below 10 percent of Bangladesh's garment exports it is a rapidly growing market. It drove away Mexico, USA and India to become second largest exporter in this market.

Bangladesh has also heavily invested during the last decade in backward linkages industry and increased production capacity in textile and in consequence the trends of back to back imports percentages for apparel production are declining over the year³².

Bangladesh's government policy of reaping benefit from Quota allocation has halted previously foreign direct investment (FDI) in apparel sector in the EPZ (Export promotion Zone) area. However, this restriction has been removed since 2005 after the MFA-phase out era and many investors not only from the high cost countries but also from countries like China, Pakistan and Srilanka are investing in Bangladesh' apparel sector. This opening to foreign investments is likely to bring new skills, technology, and network in international apparel trade and will enhance Bangladesh's competitiveness.

Bangladesh's prospect of becoming an emerging tiger in apparel trade does not come only from the competition in the USA,EU and Canadian markets. The rapidly rising middle class in the world's two top most rapidly emerging countries i.e China and India will become in medium to long term important destination for Bangladesh apparel exports. China imports annually around 2\$ billion³³ dollars of apparel and has accorded Bangladesh's 84 items duty free access to the Chinese market. Bangladesh enjoys also some preferential access to Indian market. Bangladesh is also gaining market share to other markets such as Japan, Australia, CIS (Russia and ex-URSS countries), GCC and NIEs. The declining garments and textile sector in many of these countries are being or will be located also to the low cost countries like Bangladesh.

Bangladesh is also likely to reap the benefit of free flow of apparel from an unusual source in the post-MFA era and after expiring of the safeguard against Chinese products in Europe and USA. Data show that during the removal of MFA in 2005, many countries and trade blocks such as AGOA, CBI, SCAFTA, NIE, MENA, Mexico had important negative trade growth even though some of these countries and blocks have preferential access to the USA, EU and Canadian market. The AGOA, CBI, SCAFTA countries are the competitors with Bangladesh in low-end segment of the apparel in the above mentioned markets. They combinedly export around 25\$³⁴ billion dollars annually and their decline in the post-MFA era will at least partly be captured by Bangladesh's competitive apparels (tables:17).

Table 17:Apparel Imports to the USA Since Quotas Removed

	Bangladesh	AGOA	AGOA LDCs	Western hemisphere ³⁵
Change since 2004	\$1.27 billion	-\$437 million	-\$122 million	-\$3.0 billion
Percent Change	58%	-25%	-17%	-15%
Competitiveness	Cheaper in 9 out of 10 products	1 out of 10	--	--
	Cheaper in 8 out of 10 products	--	--	2 out of 10 products

Source: U.S. Department of Commerce: 2004-YE July, 2007

Apparel exports from Bangladesh to the U.S. have grown by 58% since quotas were eliminated on January 1, 2005. The vast majority of their growth has come at the expense of textile and apparel

³² Future Prospects of Bangladesh's Ready-Made Garments Industry, and the Supportive Policy Regime, Md. Nehal Ahmed* and Md. Sakhawat Hossain, Bangladesh Bank quarterly April-june 2006.

³³ China customs, cited in *Asian Textile Business*; 2007; 623; ProQuest Asian Business and Reference.

³⁴ Calculated from the WTO trade data, 2006.

³⁵ NAFTA, CBTPA, CAFTA and ANDEAN.

producers in Sub-Saharan Africa and the Western Hemisphere, both of whom have experienced a precipitous drop in exports to the U.S. over the same period³⁶.

LDC countries where Bangladesh belongs enjoy DFQF export to the major developed markets. However, this is not the case for Bangladesh in the USA. Bangladesh pays among the highest tariff rates ranging from 15 to 20% and amounting annually about 500\$ million for its exports to this vast market³⁷. Currently, a preferential trade bill named NPDA has been submitted to the congress; if passed, this will open a new era for Bangladesh's apparel exports to the USA.

Strategies and policy recommendation

Bangladesh's RMG sector has shown formidable resilience in the face of increased competition in the post-MFA. Micro-level data analysis shows that Bangladesh's RMG will be competitive in the post-MFA era and even after the expiration of safeguards against Chinese products. However, In order to remain competitive and consolidate market share and also to reap from the free market opportunities, there are some challenges to overcome in product selection, backward-linkages industry development, encouraging FDI, infrastructure and human resource development and preferential market access negotiation in existing and potential markets.

- Selected Items:

In a fiercely competitive apparel market where the competitors are the giants like China and India, Bangladesh might concentrate in the selected items. Bangladesh can gain competitive advantages over them rather to compete in whole gamut of the apparel products.

- Backward linkages industry and SAARC Cumulation.

It's necessary to further develop Bangladesh's backward linkages industry (i.e. textile) specially in the woven sector in order to fulfill the current and increasing demand of the RMG industry. Bangladesh can also encourage relocation of textile industries from the high cost developed countries. In the mean time, Bangladesh can fully avail the opportunity of DFQF access to the EU market in woven products by using fabrics from the SAARC countries. In quota era, however, in order to improve local textile sector, Bangladesh did not fully use the DFQF export facilities with fabric from the SAARC countries. In a changed fiercely competitive market era, Bangladesh can easily increase its exports in woven with imported fabrics where it lacks local inputs. Only 40% of Bangladesh's woven garment meet RoO requirements for DFQF access to the EU³⁸ and have fared less well. Currently, Bangladesh enjoys DFQF access to the EU for 95% of its knitwear as this sector can procure locally most of the inputs, thereby contributing to the very rapid growth of Bangladesh's exports of knitwear to the EU.

- Encourage FDI and Cooperation in apparel and Textile sector

Bangladesh kept the quota advantages for local entrepreneurs during the quota era and did not encourage FDI in apparel. But in current quota free trade regime, Bangladesh can encourage FDI in apparel sector along with the textile sector. The FDI can also bring new technology, know-how and enhance

³⁶ <http://www.unitehere.org/>

³⁷ Prof. Muhammad Yunus, Nobel Laureate and Managing Director, Grameen Bank, Bangladesh, senate finance committee, written testimony on US Trade Preference Programs: How well Do They work? Washington DC, 16th May 2007.

³⁸ Mr. Zillur Hay Razi, European Union office, Dhaka.

productivity. Bangladesh needs to work on image building and publicize the advantages of investment opportunities in apparel (and also in textiles). Bangladesh must join hands with leading textile as well as apparel makers in China, Hongkong, South Korea and Turkey to encourage them to relocate the part of their production to Bangladesh. The latter should also improve cooperation with the leading consumer goods retailers such as WalMart, Costco, GAP and Carrefour. The RMG entrepreneurs from Bangladesh should make their strategies and policies in terms of the Value chain rather than the final products as the strategy of the coopetition (cooperation+competition) among the leading players are more sustainable than the blind competition.

- Infrastructure Development and Reducing the Lead Time

One of the major hurdles Bangladesh RMG sector faces is the inadequate infrastructure and has, in consequence, longer lead time comparing with China and Vietnam. Bangladesh should further improve physical infrastructures such as sea-ports capacity and efficiency and relocation of garments factories from the congested city centers like Dhaka, the national capital. The proposed garments villages and developing the Dhaka-Chittagong high-ways belt for garment industries can save it from congestion of the cities.

- Human Resource development

Although with huge population Bangladesh is in shortage of technically qualified personnel for product development and design as well as in middle management. The private sectors with the help of the public sector can work on improving skills and develop capacity in this field.

- Preferential Market Access

Bangladesh is a LDC (least developed country) and many WTO clauses urge the developed countries to open their market for preferential access of LDC products. However, Bangladesh is among the few LDCs which do not enjoy this access to the USA market. Bangladesh needs to pursue the developed countries such as the USA for preferential access to their markets as well as diversify export markets in the advanced emerging countries such as Russia, Brazil, South Korea, Mexico, China, India and the GCC.

Conclusion:

Bangladesh has been able to maintain its current growth momentum, driven by rapid export expansion, in spite of MFA phase out and other shocks. It's very clear that the predicted decline of RMG industry in Bangladesh did not take place and instead, The RMG industry has improved competitiveness and raised exports value. Though the completely phasing out of safeguards against the Chinese products at the end of 2008 and the accelerated competition are yet to come. If The recent data of the beginning of 2008 and quota-free-safeguards-less Canadian market are any example of market trends in 2009 and beyond, then Bangladesh can expect to become the second largest net garments exporter in apparel. In order to reach to that point, It requires also continuous development of the sector and allied industries and fair access as a LDC country products to the USA market.

Abbreviation used:

AGOA (African Growth and Opportunity Act),

BGMEA (Bangladesh Garment Manufacturers and Exporters Association),
 CBI (Caribbean Basin Initiative),
 DFQF (Duty Free Quota Free),
 EPZ (Export Promotion Zone),
 FDI (Foreign Direct Investment),
 GCC (Gulf Cooperation Council),
 GSP (Generalized System of Preference),
 LDC (Least Developed Countries)
 MFA (Multi-Fibre Agreement),
 MENA (The Middle East and North Africa),
 NIE (Newly Industrializing Country),
 NPDA (New Partnership for Development Act),
 RMG (Ready-Made Garments), EU(European Union)
 SCAFTA (South and Central American & Caribbean countries),

*Abbreviation list can be given in footnote after the acknowledgement if there is space or before the bibliography.

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