Inception, Survival and Success of Bangladesh Ready-made Garments Industry in World Economy

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Abstract: This paper takes an attempt to understand the readymade garments industry of Bangladesh which made its appearance in the global market in 1970s. Since then there have been various important events which took place and made impact in the exporting business regarding RMG sector. A sequential approach has been taken to understand the inception of the garments business in Bangladesh and how it has grown over the years with the support of various internal and external factors. A major growth in business has been observed in the 1990s but the business also faced major hurdle in the year 2004 when Multi-Fiber agreement was phased out. We take a look at how Bangladesh have survived this scare and became a top player in this arena overcoming formidable oppositions.

1. Introduction
Bangladesh has long been regarded as an underdeveloped country of South East Asia which has very little means to support its internal economic schemes from viable sources. This country has been known to the western world as a typical bottomless basket case where it is strewn by natural calamities every year round. In the developed world the picture of Bangladesh has been a story of hunger, poverty and flood wrecked habitat only be compared with third world countries. But this phenomenon has changed in the last couple of decades. Like most other developing countries of the world, the economy of Bangladesh has largely been depended on agriculture with subsistence agricultural practices which was unable to contribute to the sustainable development of the country. It is understandable from the fact that the low land-person ratio is a dominant factor in the lack of sustainable growth for the overall economy. The turnaround that Bangladesh’s economy has seen through late 1970s till 2015 is breath taking and has been a talking point for the developing world. This country has shown valiant effort and stubbornness in the ready-made garment industry and now considered one of top players in this arena.

The tremendous success in the readymade garment export has exceeded all optimistic expectations and this industry has been contributing heavily in the total exports from Bangladesh with roughly 81.68% of the portion (BGMEA 2014-15, EPB). Currently RMG sector has the best potential than any other sector in Bangladesh to contribute in the economy and generate employment on a steady basis. Around 4 million workers are directly employed with RMG sector in more than 4000 factories. This has not been a smooth ride for the entrepreneurs who had been pursuing in this sector for sustainability.

In the early 1970s, the manufacturing output accounted for 44 percent of the total manufacturing output which was heavily depended on Jute related items. But the demand for Jute and jute made items started to fall at a steady rate which was the then cash crop of this country. In the last two decades there has been a significant shift in the resource-based exports to process-based exports and from a significant dependence from primary commodities to manufactured ones in the export basket. We have seen a parallel shift in the jute-centric export structure to RMG-Centric one with the result that the degree of concentration in exports has gone up since 1990s. About three-fifths of the total exports come from the knit and oven based RMG sectors.

2. Methodology
The study has been undertaken largely based on secondary data. A good number of research documents have been covered. It is also important to mention here that depth interviews and discussions have taken place with people who are working closely in the garments sector with varied capacities. A trend analysis approach has been taken to evaluate the business performance in the post-MFA era by the leading garments exporting nations.

3. Initiation Stage
Within only two decades the RMG sector has become the most dominant export sector in Bangladesh. This sector has utilized the power of around 4000 plus ready-made garments where a staggering four million workers are employed on a regular basis. These numbers are really very encouraging for any RMG enthusiast if we make a deeper look at how this industry has evolved and matured from its operations which started back in the
late 1970s. This successful path of ready-made garment industry was paved back in 1978 where there only a handful of such organizations doing their operations. At that point of time there had been only 9 garment factories operational and making roughly around 1 million dollars worth of export. These factories were involved in both local and foreign market operations. One of such garments factories were Reaz Garments which was set up back in the 1960s like a tailoring shop only offering its service to the local people. It served the local markets as a tailoring shop and changed into a garments factory back in 1973. Its first formidable export was worth 13 million Francs to a Paris based firm which imported Bangladesh-made Men’s Shirt, a number roughly 10,000 units in the year of 1978.

But the main milestone was set in 1977 by Desh garments which was a joint venture between Desh and Daewoo Company of South Korea. Daewoo provided the necessary technical and other expertise to the factory which at that time eventually became the largest and most modern garments factory I the whole South East Asia. Desh and Daewoo sent around 130 workers and management staff to South Korea for training in the state-of –the-art modern facility of Daewoo in Pusan, South Korea. These 130 trained personnel came back from Pusan after 6 months of training and became the most reliable and skillful workforce of Garments industry at that time. The Daewoo-Desh partnership saw a major 6 line garments factory set up which employed around 600 workers at that time period. With a capacity of 5 million pieces per year and an investment of 1.3 millions USD was a big boost to the initial phase of development of the Garments industry.

Another Korean firm named Yangones initiated the first major equity based partnership with a Bangladeshi firm Trexim Limited back in 1980s. Bangladeshi partner contributed to the 51 percent of the equity into the newly formed firm namely Yangones Bangladesh. It exported its first major consignment of padded and non-padded jackets to Sweden in December 1980.

4. Government Support

It is easy to assume that most under developed countries fail to give proper support to the emerging industry in their economy. They lack in basic understanding of the required support and policy based frame work for quick boost in the potential foreign currency earning industrial sectors. Unlike many of such under developed countries the role played by the Bangladesh government was really remarkable. It is important to note here that the first consignment of the shirts that were exported was done by a state-trading agency- The Trading Corporation of Bangladesh in the 1970s.

Bangladesh augmented its industrial trade policy framework from Pakistan which focused on bureaucratic control of a largely private industrial sector with emphasis on import substitution and possible exclusion of foreign investment. Right after independence in 1971, the government of Bangladesh due to its socialist origin intended to keep a strong control of the all major business institutions including jute, cotton, textiles and most of the banks. There was a limit imposed on private and foreign direct investment. After 1975, a number of socialist policies of the previous regime were reversed to more pro-market economy and the new government intervened more into the economic development process. Thus, it gave way to easier investment and loan disbursement processes. The investment limit was set to 100 million USD and later it was also withdrawn in 1978. This gave rise to the major interests from internationally acclaimed investors from South Korea who made joint ventures with Bangladeshi counterpart to initiate major investment initiatives. In the early 1980s the government gave permission to import duty free capital machinery imports for many entrepreneurs in Bangladesh, which subsequently gave rise to the number of garments factories to 634 by the end of year 1985. Exports increased from 1.3 million USD from the FY 180-81 to USD 116.2 million by the year 1985.

In case of developing countries, there is major rigidity and lack of responsiveness from the part of government in adapting new policy and innovative ideas but it was quite extraordinary in Bangladesh case where government took into account the innovative ideas and recommendations made by the garment entrepreneurs in incorporating them into policy and legislations. Some of these key financial aspects that played a major role in the expansion garments industry were the inclusion of back to back L/C and bonded warehouse facilities. The back-to – back L/C system paved the way for rapid industrial expansion as it lessen the need for cash as working capital and the need for foreign exchange. These policies boosted the net foreign exchange earnings for the country. In 1993, it was legislated that, back-to-back L/C amount cannot exceed the value of mother L/C, meaning that the purchase of intermediate material for the production will not exceed 70% of the amount as mentioned in the mother L/C. This ensures a net 30% earning of foreign exchange of the total export value.

Bangladesh government has continuously supported the industry by rationalizing the tariff, taxes on imports of capital machinery, raw materials, dyes and chemicals and reduction of interest in long term and short term loans. As gesture of forward looking attitude, Bangladesh government has offered
lucrative incentives for using local fabrics in export oriented garments industries. To bolster the industry, companies can import capital machineries duty-free as well as cotton. To ease the environment more, Bangladesh government has recently taken measures to encourage foreign investment that would improve backward linkages in the industry.

5. MFA phase out scenario and counter measures

Garments and clothing industries are vulnerable to trade restrictions due to trade frictions with various countries and regions. Historically it has been observed that after the Second World War Japan maintained a self-enforced trade restrictions with US markets as it dramatically made enormous progress in the textile markets and their boom had frustrated the then US and European markets in the time period of 1957. The US, Canada and European countries also maintained a trade import restrictions on the textile and garments goods for a short period of time in the 1960s and unfortunately it was also been followed by a much longer period of time during the years of 1962 and 1974. In a consequence, a restricted trade regime was perpetuated by the Multi-Fiber Agreement (MFA) on international trade in garments sector and it came into effect from 1974.

In 1995, when the World Trade Organization (WTO) was launched, it was assumed that the restricted trade arrangement by MFA would be phased out by 1st January 2005. In the early times of 2005 it was witnessed that the exports from China and India to US and European markets skyrocketed at a very brisk pace and those governments were forced to introduce a trade restriction that would see a rather slower growth of imports from China and India. The US and the European countries introduced a more effective measure that would see a controlled growth by putting ceilings on the volume imports that can be made from China and India. US has put in place a rigid 10 percent annual growth rate from year on year basis that was eventually liberalized in 2008.

Academics and researchers have generally attributed the remarkable growth of RMG exports from Bangladesh to the Multi-Fiber Agreement (MFA); bilateral quota system imposed by developed apparel countries, and low wages in Bangladesh (Siddiqi, 2004; Razzaque 2005; and World Bank, 2005). The initiation of this industry was started by Korea and Hong Kong to get access to the importing country markets by channeling productions through Bangladesh’s granted quota access. In the first 5 years of the post-MFA era, global clothing trade was less of an illustration of shifting production rather an emerging center of growth. Although the shift in global trade did take place to the countries like China, India, Vietnam and Bangladesh but it was not as dramatic as it was predicted. Most of the clothing exporters did not see a sharp decline in their exports volume as the numbers were more or less the same as before.

6. Post MFA Era

The empirical data shows that Bangladesh exports in RMG sector has grown in a consistent pace since the MFA phase out process and has shown little similarities to the data as predicted by the experts. According to the data presented by the Export Promotion Bureau (EPB), the exports from Bangladesh in the RMG sector after the quota free regime has grown at around 19 percent per annum. The growth recorded for the fiscal years 2005, 2006 has shown a higher than average of 23.6 percent. In absolute terms the earnings between July 2004 and June 2007 has shown an extra 4 billion USD which is 75 percent higher than that of 2003-04. It is a great success of Bangladesh government and definitely to the garments manufacturers that Bangladesh comes as a winner in the post MFA phase.

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7. Factors contributing to Bangladesh’s success

One of the most obvious reasons behind the supremacy in pricing that Bangladesh enjoys is due to the availability of cheap labor. If we look at it from a historical perspective, all the countries that have gained advantage in apparel and textile manufacturing had access to cheap labor. The case is no different for Bangladesh. Being a developing and populous country there is no shortage of cheap labor here. This has been instrumental to fight in the global market place with bigger and more experienced countries. It is true that one may question the quality of labor and productivity but when price becomes one of the most critical factors of production, a semi-skilled labor may do the job for the country. The following graph depicts a more current scenario of monthly minimum wages that are paid in different countries in the RMG sector.

Another reason behind the Bangladesh’s success is due to the duty free access to some markets like Japan, Australia and EU. This has definitely contributed positively when it was solidifying its position in the international arena.

Bangladesh Garments sector has been hugely supported by the government of Bangladesh. Over the years, government has taken number of steps to simplify the trade arrangements internally and externally. These have helped the garments manufacturers to have solid launching base to push their growth. Some of the supports initiated by the government includes; bonded warehouse facilities, duty drawback incentives, cash compensation scheme and the facility of procuring raw materials. A stable political atmosphere in most of the times in 2000-2016 has helped the industry to grow at brisk pace.

In a recent report it has been observed that Bangladesh now enjoys the top spot in exporting denim pants in the EU market beating China. Now it enjoys a 21.8 percent market share in the mentioned market as per study made in 2016.
Although USA used to be the main garments market for Bangladesh for a formidable period of time but the entrepreneurs had always been trying to get into new markets. One of those markets were the EU. EU has substantial demand for readymade garments from low cost origins. Bangladesh used to have a cooperation agreement with EU which concluded in 2001. “Bangladesh has been a WTO member since 1995 and, as a least developed country, benefits from the EU’s "Everything but Arms” arrangement, which grants duty free, quota free access for all exports, except arms and ammunition” reads the European Commission website in the Bangladesh chapter.

8. End Notes

The emergence of Bangladesh as one of the top exporter of readymade garments was not anticipated at all. The withdrawal of quotas by the US was regarded as a major blow to exporting countries which were supposed to be effected by the change in policy. Reality has been quite different as time passed and it became evident that the sheer professionalism and skills that have developed in many countries including Bangladesh will go a long way to create a sustainable business case for the country. Bangladesh was not only benefited by the low cost labor but we also need to recognize the entrepreneurial mindset Bangladeshi businessmen who utilized all its strengths to overpower the global challenges. Now, in the 2017 the future just seems brighter as the country is targeting USD 50 billion worth of export through RMG sector by 2021. The target is not very ambitious if the country can only manage a mere 11% growth year on year. But, it is also to be noted that the micro and macro-economic factors should stay positive to achieve such fit. For now, it is safe to say that Bangladesh is on course.

References


