STUDY OF

THE GROWTH AND STAGNATION OF MANUFACTURING THE GARMENTS INDUSTRIES OF BANGLADESH

A Project Thesis

Prepared by

Syed Masum Ahmed Choudhury

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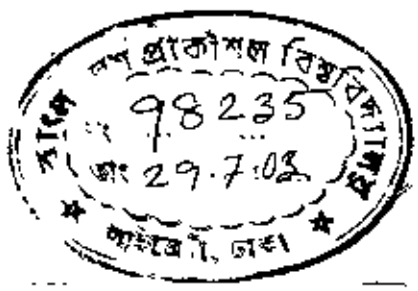

Department of Industrial and Production Engineering
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Candidate's Declaration

It is hereby declared that this thesis or any part of it has not been submitted elsewhere for the award of degree or diploma or publication

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Author

ABSTRACT

The economy of Bangladesh was mainly based on agriculture for a long time. The post independence Government tried to develop industries by taking the policy of nationalization which could not contribute an expected result. Then after 1975, when the political scenario of Bangladesh was changed, then the government shifted to emphasize on privatization and took different favorable policies. This attracted the country's entrepreneurs to establish industries.

At the same time some international framework under different agreement helped us in industrial development especially in Readymade Garments. Bangladesh started exporting RMG in a small scale in the year 1978. But now the total export in this sector is about 4.5 billion US$ per year. It contributes around 76% of the total export of the country. The contribution in GDP is about 4.3%. Now about 1.6 million labors are working in mort than 3500 garments industries. Among them almost 80% are women.

This sector contributes in national economy by direct foreign currency earning as well as indirectly by creating the scope of establishing backword linkage industries, banks, insurance, ports, hotels & tourism, transport, telecommunicotion etc. It also affects positively in increasing the purchasing power of the people and that helps to expand our consumer morket.

Although Bangladesh's RMG sectar enjoys different quota system and other facilities under international policies and got room of facilities by the government as well in export. But in the changed condition of international policies as well as post WTO environment Bangladesh is facing a challenge in this sectar from early nineties.

The paper discussed about the growth in the garment sector during the 80's and 90's and related technological, socio-economical and fiscal policies. The changing situation of highly competitive market arisen due to introduction of WTO, globalization, SA8000 multi fiber act, generalized system of preference, labor market, micro-macro environment etc has somewhat lead to the stagnation and erosion in the sector. The reasons for such stagnation have been identified and suggestions are made for overcoming all the related external and internal constraints. The external canstrains includes duty free access, the integrated framework for technical assistance, compliance with non-tariff barriers, market diversification etc. The internal constraints such as reducing the lead time, bockward linkage, port facilities, infrastructural problems, enhancing productivity, strengthening the efficiency, training, impraving industrial relation etc are included and suggestion were made for the covering the stagnation toward achieving the growth.

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ACRONYMS

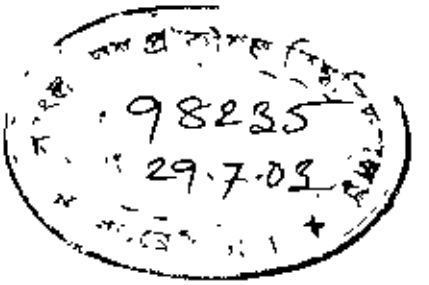
ASEAN	Association Of South East Asian Nation
ATC	Agreement On Textile And Clothing
BBS	Bangladesh Bureau Of Statistics
BGMEA	Bangladesh Garments Manufacturers And Exporters Association
BIDS	Bangladesh Institute Of Development Studies
BIFT	BGMEA Institute Of Fashion Technology
BIM	Bangladesh Institute Of Management
BITAC	Bangladesh Industrial And Technical Assistance Center
BOI	Board Of Investment
BRAC	Bangladesh Rural Advancement Committee
BSCIC	Bangladesh Small & Cottage Industries Corporation
BTMA	Bangladesh Textile Mills Association
BTMC	Bangladesh Textile Mills Corporation
BTRC	Bangladesh Telecommunications Regulatory Commission
BTTB	Bangladesh Telegraph And Telephone Board
C&F	Clearing & Forwarding
CA	Chartered Accountant
CAD	Cash Against Documents
CAD	Computer Aided Design
CBI	Caribbean Basin Initiative
CDS	Central Depositary System
CITI	Clothing Industry Training Institute
CNPA	Comprehensive New Plan Of Action
DEDO	Duty Exemption And Drawback Office
DESA	Dhaka Electric Supply Authority
DFI	Direct Foreign Investment
EPB	Export Promotion Bureau
EPIDC	East Pakistan Industrial Development Corporation
EPSIC	East Pakistan Small And Cottage Industries Corporation
EPZ	Export Processing Zone
FFYP	Fifth Five Year Plan

FOB	Free On Board
FY	Financial Year
GATT	General Agreement On Tariff And Trade
GDP	Gross Domestic Product
GOB	Government Of Bangladesh
GSP	Generalized System Of Preference
GSS	Gono Shajjaya Shangstha
HDI	Human Development Index
HRD	Human Resource Development
ICD	Inland Container Depot
ICT	Information Communication Technology
IDBP	Industrial Development Bank Of Pakistan
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
IT	Information Technology
LC	Letter Of Credit
LDC	Least Developed Countries
LFS	Labor Force Survey
MFA	Multi Fiber Arrangement
MGF	Matching Grant Facilities
MSH-TAI	Management Science for Health-Technical Assistance Inc.
MVA	Manufacturing Value Addition
NAFTA	North American Free Trade Agreement
NBR	National Board Of Revenue
NCB	Nationalized Commercial Bank
NGO	Non-Government Organization
NIFD	National Institute Of Fashion Design
NIIP	New Industrial Incentive Package
NPO	National Productivity Organization
NTP	National Telecommunication Policy
OCED	Organization for Cooperation in Economic Development
PDB	Power Development Board
PICIC	Pakistan Industrial Credit And Investment Corporation
PIDC	Pakistan Industrial Development Carporation

PSI	Pre-Shipment Inspection
REER	Real Effective Exchange Rate
RMG	Ready Made Garments
SA	Social Accountability
SAARC	South Asian Association for Regional Cooperation
SAPTA	South Asian Preferential Trade Agreement
SD	Supplementary Duty
SSA	Sub Saharan African
TEU	Total Equivalent Unit
TQM	Total Quality Management
TRIMS	Trade Related Investment Measures
TRIPS	Trade Related Aspects of Intellectual Property Rights
UCEP	Under Privileged Children's' Education Program
UNCTAD	United Nations Conference On Trade and Development
UNFPA	United Nations Family Planning Association
UNICEF	United Nations International Children Emergency Fund
USAID	United States Agency for International Development
USTDA	United States Trade and Development Act
VAT	Value Added Tax
VSAT	Very Small Aperture Terminal
WTO	World Trade Orgonization

Chapter-1

INTRODUCTION



1.1 Introduction

Bangladesh is still predominantly an agrarian economy with nearly a quarter of the Gross Domestic Product (GDP) originating in agriculture. As the supplier of raw materials and wage goods, and a major earner of foreign exchange, agriculture plays a critical role in the overall development of the economy. Agricultural income also constitutes the main source of domestic demand for manufactured goods and service. Hence, rapid growth of the overall economy remains contingent upon satisfactory growth of the agricultural sector. But, limited availability of land, slow pace of technological development and restricted scope of enhanced value addition imposed limits on the prospect of rapid agricultural development. Also, in the global market, agricultural products suffer from unfavorable movements in the terms of trade.

In contrast, these limitations are much less acute in the case of industry, which renders the industrial sector more suitable for spearheeding economic development and assuming the role of the *engine of growth* for the overall economy. The association between economic development and structural shift from agriculture to industry is well evidenced in both developed and developing countries. In countries like Bangladesh, which face the problem of limited resource base and rapidly growing labor force and where the scope of sustained growth in agriculture remains severely constrained due to a variety of socio-economic factors, the need for and the urgency of such structural shift towards industry assume special importance. The imperatives of industrial development become even stronger in the context of the "export-led growth strategy", which developing countries like Bangladesh are required to adopt to circumvent the restrictive size of their domestic markets and to integrate themselves with the globalize world economy. The region now called Bangladesh had shown potential for industrial growth in several historical points but could not sustain. Despite constraints and weaknesses cottage industries continued to survive from extinction for thousand years, but could not expand to create a, sustainable industrial base. It faced major setback at the very beginning of British colonial rule. Coercive actions against artisans, destruction of small enterprises followed by permanent settlement in land tenure system and discriminatory trade policy practices were institutionalized as anti-industrial strategies. In the later part of British rule, same industries were, allowed to flourish in India, but these industries were mostly concentrated in the vicinity of the port areas like Kolkata, Madras and Mumbai. Bangladesh region continued to remain as peripheral one.

At independence in 1971, most observed of the newly emerge country took a pessimistic view about the development of Bangladesh. Many thought that the country will remain pormanently

locked in a 'below poverty level equilibrium trap'. Although there is a little room for complacence Bangladesh has made a way from there. About two fifth of the economy now connected with the global economy through export-import factor and commodity markets; the degree of oponness of the economy currently stands at 40% Bangladesh can now rightfully claim that she has graduated from a predominantly aid receiving nation to a trading nation.

The export-oriented "Ready Made Garments" sector has made contribution to this abovementioned transformation of Bangladesh economy. The role of our RMG entrepreneurs, domestic fiscal and financial, institutional policy support and incentives put place by successive governments, substantial RMG supportive linkage activities within the domestic economy and global market opportunities combined to create a story which is, to bo the honest and true, unparallel in the developing world. When jute and jute goods were loosing their traditional markets, with the prospect of drastic fall in foreign earnings it is the RMG sector, which comes in first to replace it, and then to overtake it. While traditional export sector could not yield expected results, the RMG sector gradually injected dynamism in the export as well as the domestic economy through backward and forward linkage economic activities.

1.2 Objective of the Study

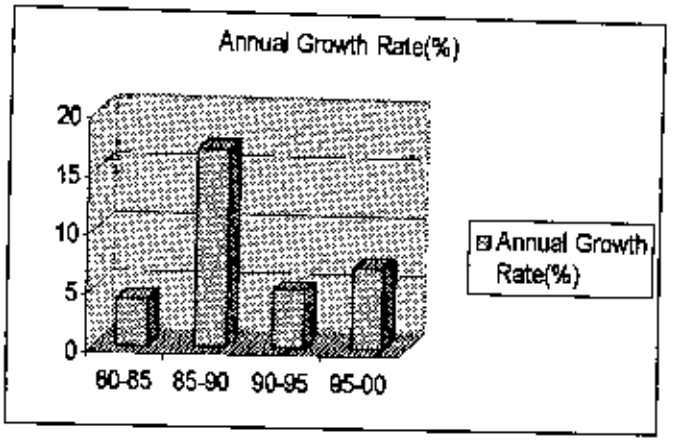
As Table 1.1 and Fig.-1.1 below shows, global trade in ready made garments was worth around US$200 billion in 2000, and accounted for 4.3% of total world manufactured exports. Clothing exports grew rapidly during the period 1985-1990, with an annual growth rate of 17%.During the 1990s the rate of growth slowed, but has again picked up since 2000 following two years of little or no growth. It is unclear, however, whether the current down turn, since mid 2001, will allow this global improvement to be sustained for much longer.

Table- 1.1: World Trade in Textiles and Clothing, 2000

Value	**US$ 199 billion**
Annual Growth Rate	**%**
1980-85	4
1985-90	17
1990-00	6
1998	1
1999	0
2000	7
Share in world merchandise trade	**3.2**
Share in world export s of manufacturing	**4.3**

Source: BIDS

Fig.- 1.1: Growth Rate of RMG Export in Total Manufacturing Export



In addition to the rapid growth in the global RMG sector, the most marked feature is the shift in production from developed to developing countries (Table1.2). In 1980, the major developed and developing countries separately accounted for around 30% share of world RMG exports. By 2000, the share of total world RMG exports accounted for by the major developing countries had risen to 42% whilst that of developed countries had fallen to around 20%. Furthermore, there were significant changes within the developing world. While some countries demonstrated impressive growth in garment exports (e.g. Mexico and Turkey), there was a virtual disappearance of garment exports from many of the newly industrialized economies such as Korea and Taiwan.

Table- 1.2: Structure of Global Garment Trade, 2000

	Value in Billion US$	Share in World Exports/Imports (%)		
	2000	1980	1990	2000
Major Developed Countries	42.19	31.8	27.8	21.1
Major Developing Countries	83.07	31 5	38.6	42

Source: BIDS

The Bangladesh's export position to the leading world markets are mainly the EU and the USA. While not a major supplier to Japan (unlike Vietnam), Bangladesh is an important player in the EU and the USA markets. It was the fourth biggest exporter of woven garments to the EU in 2000 and sixth largest exporter of knitted garments to the USA.

A striking feature of the current structure of global garment industry is the extensive variation amongst the leading suppliers to the three major global markets- the EU, USA and Japan. Although there are a few similarities, there is only one country, China that makes it into the top 10 of all three markets. There is a very strong regional component to the top ten exporters to each major market. Leading regional supplies to the US market include Mexico and several countries from the Caribbean Basin. Turkey, as well as Eastern European and North African countries are among the top ten exporters to the EU, whilst almost all top ten exporters to Japan are in Asia.

The garments industry of Bangladesh started rising since late 70s and reached to a peak up to early nineties. Than stared a stagnation due to world economic policy and different regional agreements. Bangladesh had to face challenges of competition of some other developed and developing countries. In this research work an attempt has been made to find out the reasons for the stagnation and the probable solutions to achieve a maximum growth.

1.3 Methodology and Organization of the paper

This is an analytical research based on mainly secondary source of data set. But a small scale survey has also been operated within some garment industries. Compiling both types of data a conclusion has been drawn about the stagnation occurred in this particular industrial sector and has made suggestions for the flourishing of the sector

In the following second chapter attempt has been taken to get an idea about historical chronology of the industrial enterprises from British regime to till date. It helps to understand the gradual changing pattern of industrial formation and entrepreneurship.

The following two chapters are focused on factors for overall industrial development and the strategies of development.

The fifth chapter deals about the growth of the 'Ready mede Garment' sector in Bangladesh. Then in the following parts the laber market situation for RMG sector and the sector's contribution to the society as well as economy has been discussed.

After that, concentration has been made into some technical aspect related to the development of the garment industries.

In fine, in chapter ten the reasons of stagnations have been analyzed and probable suggestions were made for overcoming the problems and the way of growth.

Chapter-2

HISTORICAL BACKGROUND OF MANUFACTURING INDUSTRIES

2.1 Introduction

At the time of independence in 1971 Bangladesh was a predominantly agricultural country that inherited a tiny manufacturing sector, 80 percent of which owned either by Pakistani business houses or state agencies. Only 18 percent of those owned Bengali were mostly small industries. Table-2.1 given below depicts more vividly the structure of ownership of industrial enterprise prior independence in 1971.

Table-2.1 Structure of ownership of industrial enterprises prior to independence

Ownership	*Number*	*Value (million taka)*	*Share (%)*
EPIDC	53	2097	34
Private (Non Bengali)	725	2885.7	47
Private (Bengali)	2253	1118.8	18
Private (Foreign)	20	38	1
Total	3051	6137.5	100

Source: Sobhan and Ahmed (1980)

In 1972 more than 600 large, medium and small enterprises were nationalized mostly of which was the leftover by the Pakistani non-Bengali owners. Six sector corporations were formed to manage and operate those enterprises. Nationalization of industries, in fact, took place due to the compulsion of the prevailing circumstances rather than as a part of planned economic decision. The events that follow nationalization provide evidence that there wes no preperetion or well-planned design to build public sector in an effective way. Apparent anarchy, bad management and wrong decisions in public sector resulted in systematic leakage of resources and contributed to create a 'black' economy. It also helped a portion of private sector to grow.

Subsequently, it was not long to reverse the process of building a strong public sector. In the beginning, private investment in industry was discouraged by imposing a ceiling of 2.5 million takes .It wes, however, revised to taka 30 million in 1974 and the end of 1975 it reached to taka 100 million. In 1976 a new industrial policy was announced where ceiling was withdrawn and different incentives for private (especially foreign and export oriented) sector investment were initiated. In March 1975, disinvestments board was formed to better coordinate and to intensify the process of disinvestments.

In order to analyze the industrial system, growth and stagnation of garments industries in Bangladesh who is contributing about 76% for foreign exchanges during 1985-2000 it is necessary to have a brief

history of Industrial system along with the entrepreneurship development and the contribution of the state in this respect. In the following paragraphs the historical growth, stagnation behavior is given for the three regime British, Pakistan and Bangladesh respectively.

2.2 Before 1947

Before 1947 Bangladesh was a part of British India. During the British rule, the policies in respect of the public sector and of Industrial development had to suit the priorities of the Imperial Order. Quite naturally, the British rulers pursued a policy package that manifested two characteristics.

(a) The exploitative relation between the United Kingdom and India, i.e., it served the imperial interest and subordinated India's interest and
(b) The dominance of the British over the Indians. At least up to 1914, India being the biggest single protected market for export from the U.K. was subjected to a policy under which the government extended patronage to British manufacturers to the effective exclusion of others. This was strengthened by a policy of reservation of positions of profit for the British.

The first generation of India entrepreneurs came from an enlightened group of the educated class-doctors, lawyers and landlords in addition to a few financiers and traders. The British entrepreneurs concentrated on plantation and extractive industries, trade, construction and manufacturing. The Indian entrepreneurs concentrated primarily on trade and industries for local consumption. The relative composition of Indian entrepreneurs as well as the relative position of British and Indian groups changed over time. After the First World War the trading class as a group emerged as the dominant one in the Indian entrepreneurial class. In this also, those with special links with the ruling class fared better. With the government policy of profection, the Indian entrepreneurs expanded their involvement in industry. This historical development also saw a concentretion of industry in Calcutta (for Jute) and Bombay-Ahmedabad (for cotton) and rise of primarily non-Bengali as well as non-Muslim entrepreneurship in the early part of the century. During the inter- war years and particularly during the Second World War, one notices a great expansion of Indian entrepreneurial endeavors, due to the weakening of links between the Indian economy and that of the metropolis and the need to meet the need of the war error. There existed a marked economic disparity between the non- Muslim entrepreneur and professionals who were predominantly in trade and industry and the Muslim upper class who controlled landed interest and the Muslim middle and lower income groups. The situation was complicated by social, demographic, political and administrative factors. At the time of the withdrawal of the British from India, the Muslim trading and industrial bourgeoisie was small in number and they gradually migrated to Pakistan over the first few years following the partition of India in 1947.

During the primacy of British rule in India, the public sector was limited, following the decades of the laissez faire philosophy and socio-politico-economic interest of the ruling class. Thus the prime concern was administration for law and regulation for protecting the imperial interest. The government monopoly was retained in the sphere of post, telegraph and telephone as well as telecommunication. But in the sphere of roads and ocean and air communication the government encouraged private enterprise, as in the cases of banking and insurance. Even social areas such as health and education received limited government attention.

2.3 From 1947 to 1972

During Pakistan period, situation did not change much in favor of local entrepreneurship to grow. In 1947. There were only a handful of large-scale industrial units -a few cotton Textile mills with 99,000 spindles and 2,583 looms; a few sugar mills with a total capacity of 39,000 tons; one cement factory with a capacity of 100,000 tons; and a number of jute balling presses and in 1949/50, contribution of the manufacturing sector to the GDP was only about 3 per cent. Large scale enterprises contributed just over half a per cent". In the 1950s and 1960s the manufacturing units established in the then East Pakistan were mainly Jute and Cotton industries and these were mostly established by the West Pakistani business house or by the state agencies like East Pakistan Industrial Development Corporation (EPIDC). Bengali participation in establishing industries was not significant. State sponsored industries and private sector dominated by non-Bengali entrepreneurship shaped the industrial sector in this region.

Land reform in 1961-62, discriminatory allocation and development policy constrained industrial potential in the then East Pakistan. The leading Pakistani economist Mahbub ul Haq observed the situation in the early 60s and iterated "investment in East Pakistan fell short of its saving as a result of a compulsory transfer of savings from East to West Pakistan, Gross investment was 5 per cent". He categorically stated that, "it appears that 4 to 5 percent of East Pakistan's income has been transferred annually to West Pakistan and that the rate of transfer increased in the first plan period. Consequently, he continued narrating the situation prevailing here at the time "East Pakistan lags far behind West Pakistan in respect of most economic and social overhead facilities.... East Pakistan is predominantly a rural society, depending on agriculture for its sustenance, employment and export. It is less diversified and far more vulnereble to fluctuations than West Pakistan, Its industrialization is rudimentary, its monetization is limited, and its financial suporstructure is inedequate. It has undergone a very modest structural change in the last ten years."

Establishment of Pakistan Industrial Development Corporation (PIDC) in 1950 and its division for the two wings (EPIDC & WPIDC) in 1962, Pakistan Industrial Credit and Investment Corporation (PICIC) in 1957, the formation of East Pakistan Small Industries Corporation (EPSIC) in 1957 and Industrial Development

Bank of Pakistan (IDBP) in 1961 were all aimed at patronizing entrepreneurs to develop state sponsored industrial sector in the then Pakistan. But the growth of East Pakistani entrepreneurs in the process remained insipid. Only a handful of local investors' participated but that was also dependent on state support, because "on average, private Bengali investors contributed about 24 percent of the investment in the establishment of jute mills while 19 percent came from public equity and 58 per cent from public loan advance; and in fact, in some cases, the share of the Bengali entrepreneur in the finances need to set up a jute mill was as low as 10 percent."

Pakistan inherited this outlook of limiting the role of public enterprise to the extent possible and of encouraging a small group of migrant of native trading bourgeois through all kinds of incentives, as was done by the British for the British interests in India. The industrial policy announced a year after independence-limited public ownership to the manufacture of arms and ammunition, the manufacture and operation of railway, telephone, telegraph and wireless and generation for hydroelectric power. The Economic Appraisal Committee emphasized the role of the government as regulator, general administrator, promoter and facilitator, but noted the need for expanded state involvement in agriculture, finance, transport and social sectors. In pursuance of the policy of entrepreneurial support, a number of agencies were established in the public sectors including the Pakistan Industrial Development Corporation(PIDC) initially with the responsibility of promoting industries in jute, paper, heavy chemicals, heavy engineering including iron and steel, shipbuilding, fertilizer, cement, sugar and textiles. PIDC was to seek association of private capital of divest the units to them after successful operation.

In spite of the proclaimed reliance on private enterprise, the first Five Year Plan of Pakistan (1955-60) provided for concomitant expansion of the public sector for growth of the economy and support of the private initiative. The expansion of the public sector was sought to provide agriculture extension services for making modern inputs, including irrigation and field control measure, available; to build capacity for transport, communication and electrical power; to establish financial institutions for short and long term credit for general commerce and specialized activities, to promote education training and research and in the field of industry, the PIDC was to work towards the growth of a national industrial entrepreneurial class and in doing so would absorb the initial risk of the individual venture in new areas. During the First Five Year Plan period, the total revenue expenditure of the provincial and central government in the East Pakistan increased from Rs.1710 million in 50/51-54/55 to Rs.2540 million and total public sector development expenditure increased from Rs.700 million in 50/51-54/55 to Rs.1970 million. The private sector investment increased from Rs.300 million to Rs.730 million for the corresponding period.

It can be seen from the above discussion that the public sector in East Pakistan continued to expand and remained the main instrument for development. However, this aggregate picture hides the basic character of the public sector outlay. The character of the outlay reflects the character of the group in power and the

character of the influential external group, which provided finance to carry out the programs. The important characteristic of public sector investment is investment in infrastructure for helping private enterprises to utilize public resources. Agriculture production is completely under the control of the private sector British rule did not play meaningful role in is development.

This role of promoting Bengali industrial entrepreneurs was ably supplemented by the publicly owned or controlled financial institutions ably supplemented this role of promoting Bengali industrial entrepreneurs. The Industrial Development Bank of Pakistan lent Rs.1060 million in Bangladesh to finance 229 manufacturing industries. The Pakistan Industrial Credit and Investment Corporation had lent Rs. 1,148 million to 148 industrial projects. The Equity Participation Fund provided equity support of Rs. 38.5 million to 82 firms in Bangladesh. The investment corporation of Pakistan had financed equity investment of Rs. 39.1 million. In addition, it underwrote public issues arrangement, it was possible for Bengali entrepreneur with proper links to own and manage a substantial industrial unit with a minimal investment. There were 70/75 percent loans, most of which came in foreign exchange from the development banks; of the equity EPIDC picked up half of the remaining 30/25 percent; a part could come as equity participation and then the rest could be provided through land, labor contracts, recycling surplus from over-valuation of imports and a loan against mortgage from commercial banks. In the area of small industries, the EPSIC provided entreproneurial support through a financing operation, which was extended literally to a thousand projects.

In the economy of East Pakistan, non-Bengalis dominated the modern private sector. They controlled 30% of fixed assets in modern industry and they were preponderant in banking, insurance, trade and construction. Because of state patronage, there occurred a concentration of economic wealth in the hands of 43 business houses of which only one was Bengali. The political process in Pakistan, particularly during the presidency of Ayub Khan, attempted to create a Bengali capitalist class through patronage, which felt a material stake in the perpetuation of the regimes. This period saw the emergence of 36 Bengali controlled units in jute, 25 in contain textiles, 10 in other industries, 16 in jute export, 12 in inland water transport, 12 in insurance, 2 in banking, 39 in import trade and the material advance of Bengali civil servants, professional and others. These groups constituted the Bengali upper bourgeois with a comprador character at the time of liberation in 1971.

2.4 From 1972- 1975

The Pakistan Army and counter confrontation by 'Freedom Fighters' and the Indian Army liborated Bangladesh in December 1971 after nine months of military operations. The liberation movement was led by the Awami League because of their sweeping victory in the first ever general election held in 1970. The Awami League's strength was largely drawn form the lower middle class, rich peasants and petty

bourgeois. In the manifesto in the 1970 election, the Awami League promised the establishment of socialist economy, nationalization of banking, insurance, jute, cotton textile, basic and heavy industries, land reform to change the structure of land ownership in favor of the landless and tax reforms to relieve the common man. Not much attention was paid to it, as the Awami League itself termed the election as a referendum for the autonomy of East Pakistan, which would virtually turn Pakistan into a loose confederation.

At liberation, the liberators inherited a paralyzed provincial administration, which had to be converted into a national administration to take up the task of policy making for a devastated economy and a divided society. The war damaged much of the physical facilities in the transport, power and telecommunications sectors. In the financial sector, except for two small banks, one financial institution and 14 small insurance companies, all others and their headquarters in Pakistan and there was no Central Bank to start with. In the trade sector, the disappearance of non-Bengali houses severed past links with the outside world and state trading had a small establishment to cater to the needs as perceived by them. In the industrial sector, non-Bengalis owned 30% of the fixed assets and there was an established public sector industrial corporation. The dislocation came because of the departure of non-Bengalis, who left with whatever liquid assets they could muster in connivance with the banking sector; the hurried appointment of administrators for the abandoned units, whose raw material and finished goods stocks were sold without accounts or accountability by them; the occupation of factories by workers and self-promotion of politically strong groups. This was complicated by lawlessness all around. These conditions were left to Sheikh Mujibur Rahman to respond to the mood of change and transform the class base of his political power. He seemed to specify the militants through pronouncement of socialism while his loyalty to his colleagues forced him to maintain the middle class character of the party and thus of the state.

Between 10 January 1972 and 26 March 1972 issues related to abandoned property, nationalization and public sector were debated within the cabinet, the party, the bureaucracy, the intelligentsia and the pressure groups. The outcome of this debate, through the personal intervention of Sheikh Mujibur Rahman, was the taking over of all abandoned units with a book value to take 1.5 million or above, to be placed under newly organized industrial sector corporations. These limits were later made applicable to transport, service and other sectors. The lesser units were to be disinvested through public bidding, with a built in preference for workers cooparatives. Further, the decision was extended to nationalize jute and textile industries owned by Bangladeshis. The banks and insurance companies were also later nationalized. But the dialectics did not end with the pelicy pronouncement by the powerful Prime Minister The nationalization policy expanded the public sector in manufacturing from 53 to 250, excluding departmental undertakings. This meant that 89% of all industrial fixed assets came under public ownership.

Consequently, the dependence on the public sector increased. In the First Five Year Plan (1973-78), out of a total financial outlay of Take 44,520 million, only Taka 5,030 million was expected to be invested by the private sector. This is barely 11.2% of the total.

Table: 2.2 Structure of Manufacturing Sector in Bangladesh (1991/92) by Scale of Operation

(Value in million taka)

Segments	No of Firm	Fixed Assets	Persons Engaged	Gross Output
Large				
(a) Private units with 50 or more workers	5627(1.05)	114030.56	1489606(37.07)	285259.79(60.76)
(b) State owned units	208(0.04)	58164.70	219630(5.47)	23144(4.85)
Medium: Units with 10 to 49 workers including handlooms	33617(6.26)	48760.31	727816(18.10)	92469(19.86)
Small: Non-household units with less than 10 workers including handloom	118286(22.04)	n.a	337675(8.40)	39603 07(8 44)
Cottage: Household based units with leas than 10 workers	379007(70.61)	3560.56	1244096(30.96)	28984.13(6.12)

Source: WB-USAID, 1996

From Table-2.2, we get a concise picture of the size, composition and performance of the manufacturing sector in early 1990s.Large industries being 1.09 percent of total number claim about 66 percent of total output and employ about 43 percent of workforce in manufacturing. In this scale of operation private sector now dominates the scene. Number of enterprises, however, is the largest in cottage level that stands nearly 71 percent, which produces only 6 percent of gross output, but employs abeut 31 percent of labor force in Bangladesh

2.5 From 1975-1990

In 1982 another 'new industrial policy 'was declared which was later revised in 1986. Afterwards the industrial policy announced in August 1991 allowed individuals to invest upped TK. 300 million without seeking permission from the government. The series of industrial policies devised since 1976, in fact moved in a linear fashion in the sense that all subsequent policies peved the way to further liberalization of private investment, privatization, opening up sectors for investment, providing incentives for export oriented and foreign investment. In the process of denationalization, by 1992, number of enterprises

under the corporations came down to 154, as a result, sector corporations were trimmed in operation and their command over production was substantially reduced.

2.6 From 1990 and onward

In 1990 another new Industrial Policy was declared. The objective of that policy is to evolve a realistic industrial reform program after a careful evaluation of the problems and prospects of the existing industrial units. In this regard in-depth studies were undertaken to assess the problems of various industrial units and suggest corrective actions. It was another objective was to assisting industrial growth in the medium and long term. That was to pave the way of rapid expansion of the existing private sector and for its transformation into more competitive market economy. To ensure these objective

- regulatory complications and controls were reduced
- a market based competitive price and interest structure were developed
- expanded export-oriented, export-linkage and efficient import-substituting industries
- encouraged industries which are most utilizing local raw materials and ingredients
- dispersed the industrial base over a large geographical area to keep the socio-economic balance.
- encouraged agro based and agro supportive industries
- expedited development of the labor intensive industries through acquisition and improvement of appropriate technology.
- measures were taken to improve the productivity of the existing industries and the product quality.

As a result an Industrial sector became the most rapid developed sector in the economy for last one decade. More than 10 billion dollars were invested by both foreign and domestic entrepreneurs and a job created for more than 30 million in this sector.

But the rapid trade liberalization of the early 1990s had both positive and negative impacts on the manufacturing sector. The positive impacts resulted from easier access to imported raw materials while the negative impacts were due to displacement by competing imports. While import of paper facilitated growth of industries using paper as the input, e.g. laws, rules, books and periodicals etc, the paper industry itself experienced negative growth throughout 1990s due to displacement by competing imports.. A wide range of small and cottage industries, which are based on imported metals, chemicals, plastics etc, were net beneficiaries. They faced less displacement because their products were competitive and catered to an income group whose consumption basket is less import-intensive. A recent study corroborates this story of mixed impact of trade liberalization on the manufacturing sector. The study found that during the period of 1992-93 to 1997-98, a majority of the firms experienced growth in total factor productivity. About 30 per cent of the sample firms, which belonged mostly to metal works, steel re-rolling and rubber products, however, showed decline in total factor productivity.

As would be expected, Bangladesh's exports have failed to climb up the value ladder significantly during the past two decades. The readymade garments industry, which has been the prime mover of exports during this period, remained concentrated at the relatively lower end of the market segment producing mainly T-shirts, pajamas, ordinary shirts, shorts, caps, women's and children's wear etc. Diversification into higher valued jackets, shirts of complicated designs, and *brand* items etc has been slow. Similar has been the experience with the export of leather goods.

While adverse impact on inefficient import substituting industries is not an unexpected outcome of trade liberalization measures, in the case of Bangladesh the displacement by competing imports seems to have been more substantive due to rapid implementation of the import liberalization measures without prior announcements. Thus, an important shortcoming of Bangladesh's approach to trade liberalization has been the failure to announce in advance the timetable of planned changes in the trade policy. Such prior announcements would have given more time to the local firms to adjust and respond to the ensuing competition from imports. The other major limitation of the past trade liberalization measure in Bangladesh is that it has not been accompanied by complementary reforms in other areas to facilitate adequate supply response to the liberalization measures. Special areas of deficiency were the non-availability and high cost of credit, irregular supply of power and other utilities, deficient transport and communication infrastructure, poor and unreliable port facilities, deteriorating law and order situation, bureaucratic red-tapism and lack of improvements in labor skill. All these factors raised the cost of doing business in Bangladesh rendering the products of domestic industries less competitive against imports.

2.7 Growth and Development of Garments Industries in Bangladesh

Trade in textile and clothing is, probably after agriculture, one of the most regulated sectors in the world. It remains so even after the liberalization efforts of the Uruguay Round. The Multi Fiber Arrangement (MFA), introduced in 1974, attempted to bring some order to an ever increasing number of bilateral trade agreements that restricted the exports of textile and clothing from developing to industrialized countries. Its aim was to provide temporary respite to developed country producers to undertake the changes necessary to compete against lower costs producers from the South. It has, however, provides an effective framework for extending the protected position of developed country garment manufacturers, while also providing some developing countries preferential quota access to leading markets.

Starting in late 70's as a small nontraditional sector of export, Ready-made Garment (RMG) emerged as a promising export earning sector of the country by the year 1983.It was not until the early 80's that other clothing exports such as Korea and Sri Lanka facing quota restrictions in the main export markets, had to look for alternative and quota free locations to produce garments. Garments exports enjoyed phenomenal

growth and in 1985 the US and other countries imposed quota on Bangladesh. Since 1992 access to EU market has been regulated by the GSP. Bangladesh, as a LDC, has virtually tariff and quota free access to EU market, mainly for several categories

There seems to be a general agreement that even taking the extremely low wages in Bangladesh into account, the key behind the success of Bangladesh garment export industry is its quota free character and the imposition of quotas on some of its main competitors. Bangladesh was quota free in the EU and in the USA it faced quotas only 14 categories, about the same as India, the country with the least items under quota restrictions.

Struck by the 70s' political turmoil in Sri Lanka and price hike in other Asian countries, garment buyers in the international markets explored the potential of the newly born Bangladesh. Fortunately, with the timely policy support from the government, entrepreneurs' talent and efforts as well as the labor of the work force, the ready-made garment (RMG) industry could impressively succeed and the buyers got confidence in it. Now its development rate is, on an average, 20% por annum. With a huge supply of cost-effective labor force, country's economic factors are in favor of development in this relatively low capital and high labor intensive industry.

Historically, apparel exports from Bangladesh have grown at an annual rate of more than twenty percent, roughly doubling every three years. In 1996-1997 the exports in gross terms equaled three billion dollars. At this rate, these exports could potentially reach six billion dollars by the year 2000 and possibly exceed ten billion dollars in the not too distant future. However, in the year 2004, the Multi-Fiber Arrangement (MFA) quotas will end, ushering in a globally competitive market for clothing products. One of the most important factors responsible for the success of this industry has been dynamic entrepreneurship. In fact, it was believed that the garment entrepreneurs should receive a national award for their creative initiatives in overcoming the crises during this period. The industry presents a model that entrepreneurs in other sectors could emulate with benefit. The many hurdles the industry overcame in 1998 include the floods, the shocks from the most severe economic collapse and currency devaluation in East Asia economies in recent history, and other domestic crises.

Starting with 19 RMG industries in the country for export of garments now it is nearly 2700 industries are functioning in the country. Of the total 2700 units, about 1932 garment factories are located in Dhaka while about 1 55 and 415 factories are located in Naryanganj and Chittagong respectively. These 2700 garment factories having about 1.5 million workforces is earning 73% of the country's total foreign currency. About 1 5 million people are directly dependent on this sector. The growth of Freight Transport, Bank, Insurance, hotel etc. in the country is the gift of the garment industry. In a nutshell, the garment industry has become the pivot of the country's economy.

The growth rate in overall exports from Bangladesh peaked in 1994-1995 at 40 percent a year. However, export growth has remained strong. Currently, the garment exports alone bring in close to four billion dollars in gross terms. The imports of fabrics and related intermediate goods account for $2.3 billion resulting in net earnings of approximately $1.7 billion. The garment and knitwear exports accounted for the bulk of these exports. The knitwear sector has been especially dynamic in recent years Given the fact that the market for knitwear exports is unprotected by quotas, this bedes well for the post MFA future of the industry. Bangladesh apperel experts can now point to a proven track record of successfully competing in the global competitive environment. Unfortunately, other potentially promising exports from Bangladesh- leather, jute goods, and frozen foods - have not fared as well over this peried. This has accontuated the already narrow expert base of the country and is a matter of concern for policymakers. The excessive dependence of the economy on the garment sector for foreign exchange earnings and export growth demands pelicies that would diversify the export base of the economy.

Chapter-3

FACTORS AFFECTING INDUSTRIAL PERFORMANCE

3.1 Introduction

To achieve the desired output i.e the optimum performance of industries depends on different factors. Some of these come out from inside the industry and some other due to external reason. These have to control for better industrial growth. A number of factors are discussed bellow.

3.2 Industrial Sickness

In the industrial sector of Bangladesh, except for a small subset of the sector, which comprise mainly of export industries and a handful of domestic market oriented industries; bulk of the industries stagnated or experienced retarded growth over the past two decades. The cumulative losses of consecutive years and repeated failures in debt servicing have pushed many of these enterprises into a state of industrial sickness, a phenomenon that is not uncommon in the context of market driven industrialization process. However, industrial sickness in Bangladesh seems to differ from cases of such sickness in developed market economies both with regard to causes and consequences. While recessionary trends, displacement by new products, changes in demand patterns or crisis in the supply of inputs are some of the common causes of industrial sickness in the developed economies, the problems in Bangladesh seem to relate more to irregularities in industrial finance, inadequate working capital finance, management inefficiency and unfavorable trade and exchange rate policies of the government. Similarly, while industrial sickness in developed economies ultimately lead either to takeover, merger and restructuring for fresh start of the enterprise or declaration of bankruptcy for its final exit, industrial sickness in Bangladesh seems to perpetuate without any resolution.

In 1997, the Ministry of Industry received applications from 1960 private enterprises claiming to be sick. Of these, about 1265 enterprises were manufacturing units with 10 or more workers. These constituted about 4.4 per cent of all manufacturing enterprises and 6 per cent of employment belonging to manufacturing units with 10 or more workers. Many sick units did not apply to be listed with the Ministry of Industries Hence; the true number of sick manufacturing enterprises is likely to be significantly higher than that reported above.

The highest incidence of sickness (28.4 per cent) was observed in the case of Textiles followed by Food Manufacturing (14.3 per cent), Non-electric Machinery (5.7 per cent) and Leather Products (5.4 per cent). The dominant size category of sick enterprise was 10-49 workers (54.2 per cent). Most of the sick units (58.5 per cent) were sanctioned during the period 1981-85 while another 23.4 per cent were sanctioned during 1986-90. About 74 per cent of the applicants were interested in rehabilitating their projects while the rest expressed their desire to exit.

A recent sample survey of about 200 sick manufacturing enterprises showed that problems relating to finance were the main reasons behind the sickness of the enterprises. Comparison with a sample of non-sick units in similar activities showed that a higher proportion of the sick units had availed institutional finance. The share of debt in capital financing at start up was 39 per cent for the sick units, which was more than double of that observed in the case of non-sick units (19 per cent). During the period between start up of the enterprise and the survey, the share of debt increased by 24 per cent in the case of sick units while they increased by only 2 per cent in the case of the non-sick units. Thus, the sick enterprises since their inception started with a heavy burden of debt and over time this burden intensified along with the collapse of operation of the enterprises.

In most of the sick units the feasibility study of the project was done by the financing bank. Nearly 42 per cent of the owners of the sick units thought that the quality of the feasibility study was unsatisfactory. In contrast, 89 per cent of the non-sick units had carried out their own feasibility studies and only 4 per cent of them considered the quality of the study to be unsatisfactory.

Non-availability of working capital on time has been one of the most pervasive problems of financing contributing to sickness of the enterprises. About 92 per cent of the sample sick units had applied for working capital loan but only 11 per cent were provided with such loans. Again, whatever working loan was provided, it was not delivered timely in many cases. Nearly 59 per cent of the sick units that got the sanction of working capital loan were deprived of full use of loan due to non-availability of the loan on time.

3.3 Industrial Finance

The traditional source of industrial term lending in Bangladesh since the Pakistan days was Development Financial Institutions (DFIs). During the late 1970's and early 1980's the DFIs indulged in extensive term lending that were motivated more by political patronage distribution and collusion between borrowers and agency personals rather than by the soundness of investment proposals. As a result, these institutions ran into huge amounts of loan default and became virtually defunct once aid agencies cut off the flow of fund for further disbursement of term loan.

The vacuum in industrial financing continued for some time until in the early 1990s, the nationalized commercial banks (NCBs) sharply raised their level of term loan. The disbursement of term loan by the NCBs increased from Tk.3580 million in 1990-91 to Tk. 22,140 million in 1994-95, indicating an annual compound growth rate of 57.7 per cent.

The explosive growth of term lending by the NCBs was fought with two critical problems. The main source of fund for these term lending was the bank's own loan able fund based on the depesits with the banks. This means that the banks were borrowing short and lending long – an unviable arrangement for long

term industrial financing. Secondly, the quality of the loans suffered from the same types of problems as were observed in the case of the DFI lending. It is not surprising, therefore, that the number of non-performing loans of the NCBs started piling up quite rapidly. By the end of 1996, classified loans increased to a staggering level of Tk. 110,545 million, which was 31.1 per cent of the total loan portfolio of the banking system in Bangladesh. The share of NCBs within the classified loans was nearly 64 per cent. About 72 per cent of all classified loans were categorized as "bad loans" as on June 30, 1997.

The experience of the 1990s has proved the point that commercial banks in Bangladesh are inappropriate replacement of the DFIs for meeting the country's potential demand for term loan financing. Because of inadequacy of expertise and mismatch in the maturity structure of their asset portfolio (loans) and liabilities (deposits), these banks are not designed to serve this purpose. Indeed, the DFIs came into existence in the Pakistan days precisely because of these limitations of the commercial banks to provide term loan.

The virtual demise of the DFIs and stricter control on term lending by the NCBs, has nearly starved the industrial sector of Bangladesh of institutional credit in recent years. A number of investment companies that came into existence to cater to this need totally failed to realize their statutory objective because of their limited capacity to mobilize funds and their conscious choice to operate as quasi-commercial banks. The contribution of non-banking financial institutions including the leasing companies has so far been limited in attending this concern. The growth of the stock market and the inflow of FDI have also been grossly inadequate to make up for the short fall in institutional finance. This deficiency in industrial finance was largely responsible for the persistence of the high interest rate and the consequent slowing down of the industrial sector in the second half of the 1990s.

Clearly, there is need for new institutional initiative to resolve the problem of industrial finance in Bangladesh. It will need to be sponsored by the government as joint venture so that the agency can generate funds from a wide range of sources including NCBs, local private banks, foreign banks, investment finance companies particularly those attached to international development agencies, GOB, global financial market, FDI, non-resident Bangladeshis and the local capital market. However, the main distinguishing feature of the institution will be that it will be run in line with best practice methods of investment financing, which will require highly competent professional staff devoted to identifying investment opportunities and following them through marketing of outputs of supported enterprises. The government may finally disinvest its share to the private sector and must guarantee the full autonomy of the institution and its purely professional operation at all stages.

3.4 Trade Liberalization

Historically, Bangladesh like many other developing countries pursued a development strategy that was geared towards import substituting industrialization. The economic case for this inward looking strategy was built around the arguments of conservation of scarce foreign exchange and the need to create an industrial base through the provision of protected domestic market. The main shortcoming of this autarkic strategy was that it created a distorted incentive structure resulting in allocative and productive inefficiency; it also gave rise to anti-export bias and discouraged growth of export. To promote export in the face of this bias, special export incentive schemes were put in place. With regard to inefficiencies entailed in import substitution, the proponents of the strategy argued that it would be minimized in the long run through domestic competition.

The outcome of this autarkic policy, however, has been disappointing in terms of export development, balance of payments situation, and development of the overall economy in sharp contrast to the rapid growth of the East Asian economies, which followed a more outward oriented development strategy. Disenchanted with the import substitution strategy and pursued by donor conditionalities, the policy makers in Bangladesh as also in other developing economies, began to tilt towards a more open-economy policy since the late 1970s. In implementing the policy reforms, Bangladesh like other developing economies undertook substantial trade liberalization and adopted a market oriented exchange rate policy.

Bangladesh carried out wide-ranging trade policy reforms during the past two decades. The reforms covered both tariff and non-tariff barriers. With regard to non-tariff barriers, the focus has been on deregulation of import procedure and elimination of quantitative restrictions. In the case of tariff barriers, the attempt has been to rationalize the tariff structure, reduce the number of duty slabs, and bring down tariff rates and their dispersion amongst similar commodities.

Bangladesh has come a long way in terms of dismantling its non-tariff barriers. The system of import license has been virtually eliminated and the Control List of Banned and Restricted items have been brought down to a minimum. Table 3.1 shows the change in the level of quantitative restrictions between 1986-87 and 1997-2002 measured at the four-digit level.

Table 3.1: Number of 4-digit H.S.-Lines under Quantitative Restrictions

Reasons	Item	1986-87	1990-91	1997-2002
Trade Reasons	Banned	252	93	5
	Restricted	151	47	6
	Mixed	86	39	17
Non-trade Reasons		61	60	96
Total		550	239	124

Source: Ministry of Commerce, Import Policy Orders

As a least developed country, Bangladesh has been exempted in the Uruguay Round of agreements from making commitments regarding tariff reduction. However, rationalization of the tariff structure has been one of the key elements of trade policy reforms in Bangladesh. Prior to 1986, the tariff code had 24 tariff slabs, which were not based on easily discernible principles for assigning different rates to different products. The duty rate varied widely, not only among different industries, but also between products in the same industry depending upon the type of importer, end use of the product, geographical location of the firm, or the size category of the industry.

Between 1980/81 and 1990/91, Bangladesh's total exports in current US $ value grew at an annual compound rate of 9.2 per cent (Table 3.2). The annual growth rate was 14.4 per cent during the period 1990/91 to 1999/00. In fact, Bangladesh experienced double digit export growth in most of the years during the 1990s. However, the growth rate took a nosedive to 2.9 per cent in 1998/99 but bounced back to 8.3 per cent during the following year (1999-2000). During the first 6 months of 2000-01, exports in current US $ has registered 23.3 per cent growth over the same period last year.

Imports, on the other hand, grew at an annual compound rate of 4.4 per cent and 10.9 per cent during 1980/81-1990/91 and 1990/91-1998/99 respectively. The gap between export and import widened from $1572 million in 1980/81 to $1792 million in 1990/91 and further to $2814 million in 1999/00, although the share of export earnings in import payments steadily rose from 31 per cent in 1980/81 to 67 per cent in 1999/00.

The openness of the economy as measured by total external trade as a proportion of GDP went up from around 21 percent in 1980/81 to nearly 30 per cent in 1999/00 with the share of export in GDP rising from 5 per cent to 12 percent during the same period.

Table 3.2: Exports and Imports of Bangladesh during 1980s and 1990s

Description	1980/81	1990/91	1999/00	Annual compound growth rate (%)	
				1980s	1990s
Export (million $)	710	1718	5752	9.2	14.4
Import (million $)	2282	3510	8566	4.4	10.4
Trade deficit (million $)	1572	1792	2814	1.3	5.1
Export as % of import	31.1	48.9	67.1		
Export as % of GDP	5.0	7.3	12.1		
Import as % of GDP	16.0	15.0	17 9		
Openness of the economy (%)	21.0	22.3	30 0		

Source: Export Promotion Bureau and World Bank

The rapid trade liberalization of the early 1990s had both positive and negative impacts on the manufacturing sector. The positive impacts resulted from easier access to imported raw materials while

the negative impacts were due to displacement by competing imports. While import of paper facilitated growth of industries using paper as the input, e.g. *bidi*, books and periodicals etc, the paper industry itself experienced negative growth throughout 1990s due to displacement by competing imports. In the case of silk industry, the pre-weaving silk activities were adversely affected by the large-scale import of silk yarn while weaving of silk fabric got a strong stimulus from easier availability of imported yarn. A wide range of small and cottage industries, which are based on imported metals, chemicals, plastics etc, were net beneficiaries. They faced less displacement because their products were competitive and catered to an income group whose consumption basket is less import-intensive.

The proximate reason behind informal trade is the scope of arbitrage opened up by the asymmetric relative prices for a tradable commodity caused by the diverse trade restrictive factors such as tariff and non-tariff barriers. The price differentials have declined over time because of trade liberalization measures in individual countries but they are still high enough to encourage informal trade. Several factors have contributed to the persistence of significant border-price differentials. In the first place, the pace and extent of trade policy reform varied significantly with Bangladesh carrying out more extensive reform than India. Secondly, the three rounds of SAPTA negotiations failed to have any significant impact, as the product categories with highest export potentials did not receive adequate preferential treatment and vestiges of non-tariff and para-tariff measures and stringent rules of origin rendered the benefits of tariff reductions virtually ineffective. Finally, the exchange rate policy of Bangladesh discussed below, also contributed to the persistence of price differentials.

3.5 Exchange Rate Policy

To enhance export competitiveness, the government of Bangladesh has been pursuing a market oriented exchange rate policy. Bangladesh shifted from a fixed exchange rate regime to a 'managed' system of floating exchange rate in 1979 under which the nominal exchange rate was allowed to adjust with fluctuations in the currencies of major trading partners. Since then, frequent depreciation of the nominal exchange rate of Taka was made in small amounts over the years. The adjustment aimed at keeping the Real Effective Exchange Rate (REER) unchanged or depreciates it marginally.

Further steps towards liberalizing the exchange rate regime were undertaken during the 1990s. In October 1993, the government announced its intention to move to current account convertibility. Finally in 1996-97, Bangladesh government accepted the conditions of Article VIII of the IMF by making the Taka fully convertible for international current account transactions. Other measures include permission to exporters to retain a part of their foreign exchange earnings, enhanced foreign exchange entitlements for business and travels, withdrawal of restrictions on non-resident's portfolio investment, greater flexibility of the authorized foreign exchange dealers with respect to fixing the selling and buying rates and foreign

exchange liquidity etc. Restrictions on the remittances of dividends, royalties, and the repatriation of capital have also been lifted.

During the same period, other economies of South Asia that are important export competitors of Bangladesh also followed a competitive exchange rate policy Taka has been devalued against dollar by about 53% since 1989/90. But other South Asian economies devalued their currency by an even greater extent as a result of which Taka has appreciated vis-à-vis Indian and Pakistani Rupee eroding the competitiveness of Bangladeshi exports (Table 3.3).

Table 3.3: Trend in Exchange Rate

Year	Taka per US $	Taka per Indian Rupee	Taka per Pakistani Rupee
1980-81	16.34	2.04	1.65
1984-85	25.96	2.15	1.73
1989-90	33.33	1.93	1.58
1995-96	40.72	1.24	1.27
1999-00	51.00	1.17	0.99

Source: World Bank, World Development Indicators

To ascertain what impact these reform measures had on export, one needs to look at the trend in the "Real Effective Exchange Rate (REER)". The estimation of the real exchange rate, however, is often problematic because of the difficulty in finding appropriate domestic and international price indices. In the case of Bangladesh, it has been found that alternative choice of price index causes REER to appreciate rather than depreciate. However, the balance of evidence tends to suggest that depreciation of REER has been relatively small during the reference period.

The evidence implies that the flexibility of exchange rate in Bangladesh was restricted by the attempt to safeguard the REER. To the extent that the REER deviated from the true equilibrium exchange rate, this approach to exchange rate adjustment may have eroded the competitiveness of Bangladesh's exports to some extent. One indication of this is the appreciation of taka vis-à-vis the currencies of India and Pakistan, who are major competitors of Bangladesh's main export items. The evidence also implies that while the pursuit of the market oriented exchange policy was generally supportive of export growth, exchange rate adjustment did not provide the key stimulus to growth of expert in Bangladesh.

The appreciation of taka vis-à-vis Indian rupee also contributed to increased illegal imports from India causing displacement of many indigenous products. Studies have indicated that during 1990s, illegal imports from India had a rising trend Cotton saree, silk saree, made up textiles, rolled fabric, sugar, toiletries, milk powder, bicycle, auto parts, electric fan etc are some of the major manufactured items illegally imported from India.

3.6 Fiscal policy

Custom duty is the single largest source of tax revenue accounting for nearly 27 per cent of tax revenue in 2000-01. VAT was introduced at a flat rate of 15 per cent in 1991 as a trade neutral consumption tax. But a number of VAT exemption cases still exist and as of now VAT covers only a small part of retail sales. VAT from domestic sources account for 14 per cent of tax revenue while the share of VAT on imports in tax revenue is nearly 20 per cent. Supplementary duty (SD) was introduced to enable flat VAT rate to be enhanced by sumptuary taxation, intended to apply equally to imported and domestic luxury goods. In 2000-01, SD on imports accounted for 7 per cent of tax revenue while the share of SD on domestic product was about 11 per cent.

Current fiscal incentives to industry include five to seven years' tax holiday depending on the geographical location of the enterprise. There is also the provision of accelerated depreciation allowance in lieu of tax holiday. Import of capital machinery and spares are also exempted from VAT and enjoy tax rebate depending on location. However, there are three other duties on imports, which though individually small at 2.5 per cent level, collectively raise the cost of import by a significant level. These are: (a) advance income tax, which is very often not offset against the importer's actual obligations, (b) infrastructure development surcharge, which was introduced in 1998 as a temporary revenue measure but has not been phased out, and (c) regulatory duty, an instrument that was discontinued a decade ago but not legally abolished so could be reintroduced for revenue reasons as an alternative to raising the top customs rate.

Export industries are provided with a variety of fiscal incentives. Currently, enterprises exporting at least 80 per cent of their products are identified as expert industries. Enterprises located in the Export Processing Zones are allowed to import raw materials; supplies and capital goods free of duty and are exempted from income tax for ten years after setting up the enterprise. Export industries located outside EPZ also enjoy duty free import of capital machinery and are provided duty-free access to imported input through the provision of duty drawback. Currently, a flat rate of drawbacks is applied under which drawback is paid on the basis of pre-determined input coefficient and periodic calculation of the average percentage of value of customs, excise duties, and sales tax for the product. There is also the facility of bonded warehouse for 100 per cent export and "deemed export" oriented industries. Exporters of handicrafts and cottage industry products are fully exempted from income tax. Other export industries enjoy 50 per cent tax rebate.

A cash compensatory scheme is administered by the Bangladesh Bank at the rate of 25% of FOB export value to promote backward linkage. The facility has been made available to readymade garments,

hosiery, and specialized textiles units that are either not covered by bonded warehouse and duty drawback facilities.

3.7 Legal and regulatory framework

The legal and regulatory framework in Bangladesh is characterized by pervasive, archaic, unnecessary laws, vague and discretionary regulations, and flawed and weak enforcement. Amongst these, the following are some of the more critical ones.

- Contract enforcement and dispute resolution – the courts face a huge backlog of cases and current procedures facilitate delaying tactics.
- Bankruptcy – a recent law has improved the legal basis but it is not clear how well its implementation will fare.
- Copyright protection – Bangladesh is covered by the TRIPS agreement, but local firms lack the knowledge of their rights and obligations.
- Labor laws – existing laws are inadequate to discourage politicization of labor relations, which has been a major deterrent to investment. Trade union activities were earlier not allowed in the EPZs. But under pressure from some of the OECD governments, perticularly USA, Bangladesh government has agreed to allow trade union activities in EPZs by 2004.
- Land titling and transfer procedures remain very cumbersome and corruption prone.
- Company registration and factory licensing – Investment sanctioning requirement has long been abolished and registration of enterprises made voluntary. But investors still complain about a lot of regulatory requirements, which they need to fulfill before an enterprise can be set up. These include, trade license to be obtained from local municipal authorities, environment safety clearance to be obtained from the department of environment, registration with the Inspector of Factories, export registration with the Export Promotion Bureau, import registration with the Controller of Import, VAT registration with the revenue department etc. While the case for enterprise registration for the purpose of safety and public health, environmental concerns, fiscal purposes and monitoring etc is well taken, in the absence of coordination between different authorities, the entrepreneurs have to obtain these clearances separately from each agency involving duplication of efforts, time loss, harassment and unofficial payments.

3.8 Infrastructure

Infrastructure constitutes one of the major impediments to industrial development in Bangladesh. It is widely acknowledged that greater investment and/or better performance from existing infrastructure facilities would have high returns in terms of reduced costs of doing business. In a recent perception survey of a sample of exporters, it was found that exporters considered electricity and port facilities to be the most serious infrastructure related bottlenecks encountered by them (Table 3.4).

Export Diversification Project Coordination Unit under Ministry of Commerce, GOB conducted a survey titled "Study of Constraints to Growth and Diversification in the Export Sector in Bangladesh" in August 2001.The results of the survey can be summarized in the following table.

Table 3.4 Infrastructure Constraints to Growth and Diversification in the Export Sector

Constraints	Severity of the problem (% of respondents)			Average score[2]
	No problem[1]	Moderate	Severe	
Electricity	4	25	70	4.66
Customs	5	28	67	4.62
Port services	4	36	60	4.54
Telephone	44	47	9	3.46
Air freight	59	24	17	3.45
Water	62	28	10	3.16
Rail transport	67	31	1	3.16
Road trucking	81	16	3	2.85
Security/police	90	7	3	2.03

[1] "No problem" includes excellent or good service received

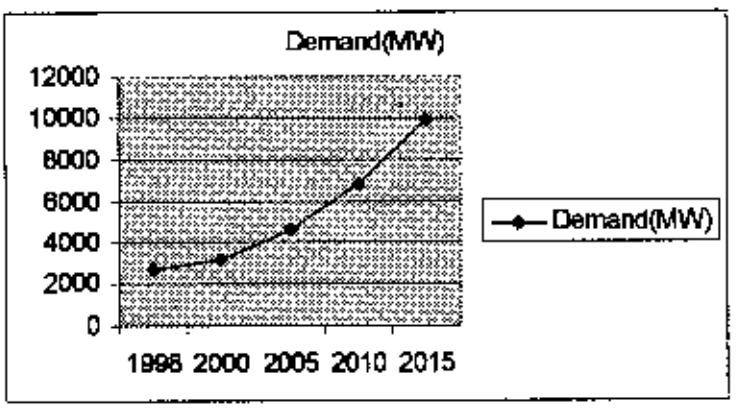
[2] Score based on: Excellent = 1, good service = 2, no problem = 3, moderate = 4, severe = 5

Source: World Bank Staff Survey

3.8.1 Power

Bangladesh faces serious problems of power shortages. Power generation capacity in 1999 was 3681 MW. But average daily generation in 1998-99 was 66 per cent i.e. 2400 MW. Average daily demand for electricity during this period was 2650 MW, which amounted to a daily load shedding of 250 MW. Accordingly, consumption of electricity per capita in 1999 was only 110 kW, which is less than one third of por capita electricity consumption in South Asia. Demand for electricity grew at a rate of 8.5 por cent during the past decade but supply has grown at an average rate of 4.8 per cent only. The supply demand gap has thus been widening over time. The annual load shedding duration was 113 hours in 1991 and 763 hours in 1995 and 2870 hours (33 per cent of total operating hours) in 1997-98.

Fig.-3.1: Power Supply Demand Pattern



The main reason behind the power shortage is lack of new investment as well as inadequate maintenance of the existing capacity. Due to lack of maintenance investment there is a continuous deterioration in the operating efficiency and quality of service. Plant efficiency is estimated at about 30 per cent. Up to 20 per cent of electricity is lost due to aging transmission lines. There are acute shortage of funds for the maintenance of the power infrastructure The financial crisis of the power sector are largely due to rampant corruption and serious management deficiencies within parastatal power organizations Power Development Board (PDB) and Dhaka Electric Supply Authority (DESA). There are problems of overstaffing and high system loss averaging more than 30 per cent, and large unpaid dues. The combined net system-loss of PDB and DESA in one year is estimated at US$100 million, which could in itself, provide the necessary invest able fund for at least one 250 MW gas turbine. The outstanding due on DESA alone is Tk. 2.5 billion. Apart from internal problems of its power system, Bangladesh has also been exposed to a complete disruption in the availability of ODA for the power sector from its multilateral and bilateral donors because of the slow pace of reform in the sector required under World Bank's Energy Sector Policy Loan of 1989, and also due to changed policy of donors for using FDI for power sector. Demand forecasts suggest that maximum demand would grow from 3150 MW in 2000 to 4600 MW in 2005 and to 6780 MW in 2010. Finally, by 2015 maximum demand would reach 9900 MW. To meet the forecast demand will require investment of US$4.4 billion in generation and US$2.2 billion in transmission during the current decade. The overwhelming need to generate and add around 1200-1500 MW of electricity to the present system up to 2002 is inescapable. Given the supply shortage scenario, the government formulated a private power policy in October 1996 with a view to attracting FDI. Agreements were signed within 2 years (1997-99) for three 100 MW each floating barges. During the same period, 2 major land basod contracts were also signed for supply of power of about 800 MW (combined cycle) capacity by 2002. The government has also taken several steps to augment PDB electricity generation capacity. The opening of the power generation activities to the private sector has been a positive development. But pouring more power into the system is not the only way of coming to grips with problems in this sector. Much more needs to be done with regard to outdated transmission and distribution lines, load management and above all huge system, transmission and distribution losses.

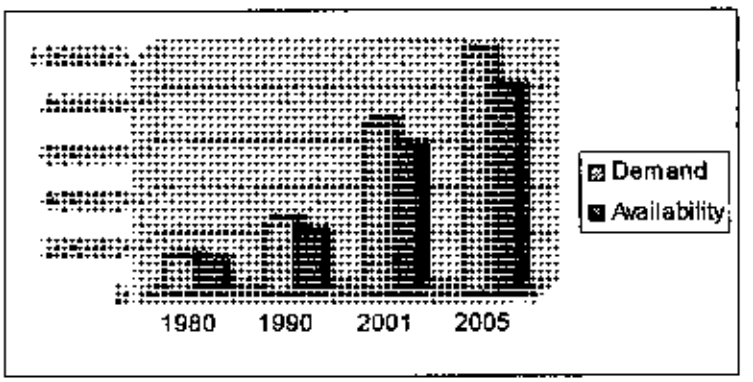
3.8.2 Port

Dysfunctional operation of Chittagong port impeses high costs on the economy. Port activities are often struck by indisciplined labor force. Even when it is in operation the port is highly inefficient. Handling of a 20 TEU equivalent ship costs $660 in Chittagong against $360 in Colombo and $220 in Singapore. Apart from high monetary costs inflicted by these inefficiencies, it has also earned Bangladesh a poor reputation for delivery in the time-sensitive and highly competitive markets for garments, shrimp and other experts.

3.8.3 Telecommunications

Telecommunications infrastructure constitutes the backbone of today's information technology. The high rates of return and the extensive social and economic benefit that Bangladesh can derive for wider segment of the society through the application of information technology critically hinges on her ability to rapidly upgrade the existing telecommunication infrastructure. By world standard, the existing telecommunication facility in Bangladesh is a primitive one. In 1980 there were 120,000 telephone lines in the country, which increased to 241,190 by 1990. By 2001, number of telephone lines increased to 590,000. The current teledensity of 0.5 telephones for every 100 persons compares very unfavorably with 1.5 in India and 2.5 in Pakistan. Digital technology was first introduced in the domestic telephone network in the late 1980s. Currently, 71 per cent of the telephone lines are digital.

Fig.-3.2: No. of Telephone Demand and Availability Comparison



By 1981, the country had two earth stations for satellite communications and more were added during 1990s. These earth stations are much too small for the requirements of data communications. Data communication is therefore done with VSAT connections to satellite, a method that does not give all the bandwidth necessary for large Internet provision. The appropriate provision for high-speed data communication is Optical Fiber Gateway. When the Asian IT Highway - the undersea optical fiber cable in the Bay of Bengal - was laid in early 1990s, the government declined participation. The present government is now looking for a cost-effective way of connecting to the IT Highway through arrangements with Singapore Telecom for laying a submarine cable between Bangladesh and Singapore. BTTB's performance has been extremely poor; it takes years to get fixed telephone connections, costs are high and the service highly inefficient. The sector was opened up for private investment in 1994. Since then the opening up of the mobile telephone sub-sector for private investments improved the situation somewhat. The use of Bangladesh railway's fiber optic cable by one of the mobile phone operators has significantly improved local telephone service. There are some 654,318 mobile telephones provided by the private sector in 2000-01 of which 123,370 have link with BTTB network while the rest 530,943 are

mobile-to-mobile subscribers. There are also a large number of private Internet Service Providers. Additional improvements of domestic service and low cost reliable access to international communications will require breaking BTTB's monopoly further and setting up an independent regulatory body to oversee BTTB's activities. Recent important steps towards the development of the telecommunications sector include enactment of National Telecommunications Policy in 1998 (NTP 98) and relaxation of controls by the public body Bangladesh Telegraph and Telephone Board (BTTB) The NTP98 has the provision for setting up an independent regulatory Bangladesh Telecommunications Regulatory Commission (BTRC).

3.9 Effect on RMG Sector:

The structure of export has changed significantly over the past two decades. Bangladesh seems to have made the transition from resource-based to process-based exports. In 1980-81, primary commodity constituted nearly 29 per cent of total exports. In 1990-91, this share came down 17.8 per cent and further down to 7.9 per cent in 1998/99 (Table 3.5).

Table 3.5: Changing Structure of Export: 1980-81-1999-00

(Million $)

Item	1980-81	1990-91	1999-00	Growth (%) 1990-1999
Raw jute	119 (16.8)	104 (6.1)	72 (1.3)	Negative
Tea	41 (5.8)	43 (2.5)	18 (0.3)	Negative
Frozen food	40 (5.6)	142 (8.3)	344 (6.0)	10.3
Other primary	9 (1.3)	17 (1.0)	35 (0.6)	8 4
Manufactured goods	501 (70 6)	1411 (82 2)	5283 (91.8)	15.8
Jute goods	367 (51.7)	290 (16.9)	266 (4.6)	Negative
Leather & leather goods	57 (8.0)	136 (7.9)	195 (3.4)	4.1
Woven garments	3 (0.4)	736 (42.9)	3083 (53.6)	17.3
Knitwear	0 (0.0)	131 (7.6)	1270 (22.1)	28.7
Chemical products	11 (1.5)	40 (2.3)	94 (1.6)	9.9
Total Export	**710 (100)**	**1717 (100)**	**5762 (100)**	**14.4**

Figures within parentheses show % share in exports

Source: Export Promotion Bureau

However, when one takes a closer look at the disaggregate picture, the feature that strikes the eye is the shift from jute-centric to garments-centric export. In 1980-81, raw jute and jute goods together constituted 68 per cent of total exports. Between 1980-81 and 1998-99, export of both raw jute and jute products declined in absolute terms and their total share came down to only 7 per cent in 1998-99. In contrast, woven and knit garments together accounted for less than 1 per cent of exports in 1980-81. Their combined share in exports rose to nearly 76 per cent in 1998-99

The evidence presented brings out the basic weakness of Bangladesh's export sector. In spite of the rapid growth in export, particularly of manufactured exports, the export base has remained extremely narrow In fact, it has become narrower during the 1990s. The observed growth in export has been propelled mainly by growth in the export of garments - both woven and knit. Two other items that registered significant growth during the 1990s are frozen food and chemical products.

If one looks behind the export performance of Bangladesh, one finds that the spectacular growth of garments industry was triggered by the relocation of their trade in Bangladesh by East Asian exporters in an attempt to circumvent binding quota restrictions in their own country imposed under the Multi-Fiber Arrangement (MFA) particularly for the North American market. This resulted in the direction of Bangladesh's garments export to remain focused towards USA and Canada.

Table 3.6: Percentage Distribution of Exports by Destination

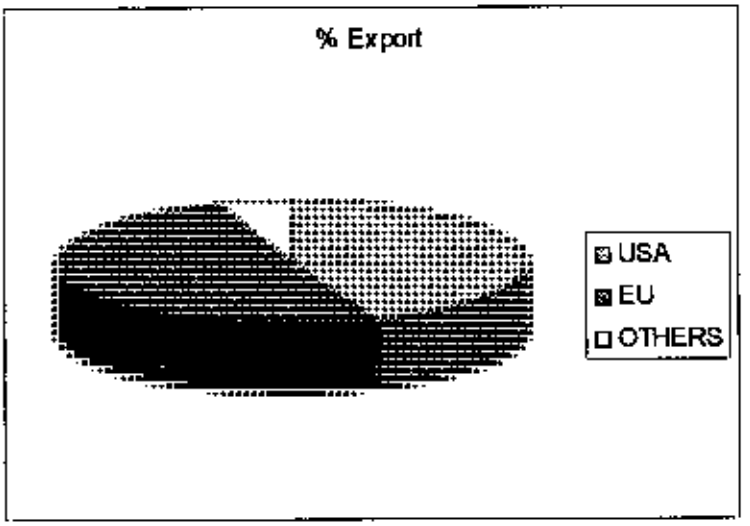
Year	% of Export to USA	% of Export to EU	% of Export to Other Countries
1991-92	49.14	46.42	4.44
1992-93	48.72	45.69	5.59
1993-94	38.08	55.43	6.49
1994-95	45.15	49.36	5.49
1995-96	39.33	55.17	5.50
1996-97	41.49	54.11	4.40
1997-98	44.23	51.14	4.63
1998-99	43.24	52.38	4.38
199-2000	45.83	49.93	4.24
2000-2001	45.24	50.49	4.27
Average	**44.05**	**51.01**	**4.94**

Source: BGMEA

The other factor that contributed towards the rapid growth of apparels sector particularly of knitwear in Bangladesh was the zero-tariff access to the EU markets under the Generalized System of Preference

(GSP). A significant proportion of exports to EU, most of which were textile products, were covered under the GSP facility. Because of these twin benefits of MFA and GSP, 97 per cent of all apparels exports from Bangladesh were directed towards North America and EU markets even in 1998-99.

Fig.- 3.3: Export Destination Percentage



Two issues are of concern in connection with direction of export - (a) the spread of the export market, and (b) the share of growing economies in the export market. If the export of a region is narrowly directed to a handful of economies, it remains vulnerable to fluctuations in the economic performance of these economies. Again, a larger share of the developed and growing economies in the export market indicates a higher incidence of income-elastic products in the export basket and hence higher potentials for growth of export along with the growth of these economies.

As would be expected, Bangladesh's exports have failed to climb up the value ladder significantly during the past two decades. The readymade garments industry, which has been the prime mover of exports during this period, remained concentrated at the relatively lower end of the market segment producing mainly T-shirts, pejamas, ordinary shirts, shorts, caps, women's and children's wear etc. Diversification into higher valued jackets, shirts of complicated designs, and *brand* items etc has been slow. Similar has been the experience with the export of leather goods. Jute goods, another important item of manufactured exports lost in unit value due to displacement by synthetics and slowing down of world demand. In the case of primary commodities such as raw jute, tea, and frozen food, export price index virtually stagnated. The overall export price index thus, registered only modest rise during the past two decades (Table 3.7). With the import price index rising by a higher margin, the terms of trade deteriorated during the 1990s. The situation became particularly bad in 1998-99 when all major export items of

Bangladesh except woven RMG, experienced decline in unit value by a margin of 5-40 per cent. As a result the overall export price index rose marginally by 0.6 per cent. This was largely the aftermath of East Asian financial crisis that led to worldwide fall in commodity prices, and it contributed significantly to the sharp fall in Bangladesh's export earnings in that year.

Table 3.7: Price Index of Export and Import

Description	1979-80	1990-91	1999-00	Yearly growth (%) 1979-1999
Export Price Index	100	101.9	140.6	1.7
Import Price Index	100	107.4	158.0	2.3
Terms of Trade	100	94.9	89.0	Negative

Source: Export Promotion Bureau

Thus, rapid trade liberalization carried out by Bangladesh does not seem to have contributed to broad based growth of export industries. The observed growth in export has been very narrowly based facilitated mainly by MFA and GSP and supported by pro-active export promotion measures of the government.

Chapter-4

STRATEGY FOR INDUSTRIAL DEVELOPMENT

4.1 Introduction

The review of the past industrial sector performance of the country and analysis of the factors that contributed to or hindered its growth suggest the following as important elements of a strategy for industrial development.

4.2 Privatization

Bangladesh's experience with privatization clearly shows that the process cannot be hastened unless the government decides to assert political will in favor of privatization. This will mean giving the Privatization Commission the support it needs in the form of leadership, operational autonomy, and staff resources to do its work efficiently. Setting a firm timetable for privatization may also be helpful in sending a clear signal to the bureaucrats and public enterprise staff who may continue to oppose the program. To address the problem of inadequate number of bidders, the Privatization Commission should carry out prior feasibility study through independent experts to identify the units that need to be liquidated and not privatized. The Commission's involvement is also needed to expedite the resolution of the problem of outstanding debt with creditor banks and registration of sale. The government will also have to take necessary measures to reduce social cost of labor adjustment through appropriate safety nets and by helping retrenched workers on targeted basis to reintegrate into the laber market.

4.3 Fiscal Incentive

Fiscal incentives to export industries should be continued and extended further. For this purpose, the definition of export industries should be broedened to include enterprises exporting at least 60 per cent of their out put. To stimulate backward linkage, the requirements should be brought down to 50 por cent for "deemed exporters". The coverage of bended warehouse facility should also be extended to new export industries.

Despite the use of flat rates for repayment of duty, the prevailing system of duty drawback remains cumbersome. The process of duty reimbursement should be left with dealing banks so as to make the process more efficient and less costly.

The prevailing cash compensation scheme of 25 per cent of export value lacks adequate safeguards to prevent abuses. Moreover, the scheme cannot be continued due to WTO regulations. Hence it needs to be phased out and replaced by appropriate measures to ensure competitiveness of domestic industries.

Corporate tax for industrial companies whose shares are publicly traded currently stands at 35 per cent while the rate for those companies whose shares are not publicly traded is 40 per cent. These rates compare unfavorably with many South and South East Asian countries. Hence appropriate downward revision in the corporate tax rate needs to be made so as to allow Bangladesh to be attractive in a regional context.

4.4 Development Of The Capital Market

A comprehensive plan should be designed to address the reasons for the stock market boom and bust of 1996 with a view to restoring investor confidence through greater transparency and accountability of the trading of the exchanges. The plan to introduce the Central Depository System (CDS) should be speedily implemented in this regard. Updating the rules and regulations guiding these institutions in order to facilitate surveillance and enforce compliance of rules should strengthen the stock exchanges. Plans should bo taken up to develop professionalism amongst the market operators, specially the dealer-brokers. New and wide-renging instruments should be introduced, which provide minimum returns with certainty to investors, such as preferred stocks, equity warrants etc.

4.5 Up-Gradation Of Technology

Globalization has been changing the dynamics of world trade and the notion of competitiveness. The increased level of international competition has led to internationalization of production and has stimulated technological innovation. The traditional approach to raising competitiveness was reduction in unit cost of labor. But the decisive factors in world competition today are production related scientific and technological research, the training and systematic upgrading of human resources and management skills compatible with the global economy. As mentioned earlier, deficient skill and technology are major supply-side bottlenecks in Bangladesh that have constrained growth and diversification of the industrial base in general and the export sector in particular. Also, the need for technological improvement has assumed special importance in the light of enhanced health, sanitary and phytosanitary standards being imposed by importing countries as non-tariff measures to retain protection after reducing tariff as part of WTO agreements. Skill and technology up gradations are also necessary for attracting foreign direct investment in high-tech industries and for complementing the efforts of trade liberelization measures by facilitating adequate supply response. In this respect, the government should enhance investments in vocational training systems and make them more relevant to current needs of the industrial sector. Technical training institutions in the public sector are mostly poorly equipped and staffed. Public institutions such as Bangladesh Institute of Management (BIM), Bangladesh Industrial and Technical Assistance Center (BITAC) and National Productivity Organization (NPO) etc need to be strengthened to cater to the needs of skill and technology development. There should also be support to in-factory skill up

gradation and training activities through fiscal and other incentives. Technology acquisition, adaptation and up gradation must be given top priority and Bangladesh should be actively involved in global and regional initiatives in support of transfer of technology favoring developing countries and the LDCs.

4.6 High Priority For Energy And Infrastructure Development

The opening up of the energy and infrastructure sector for private investment has facilitated inflow of considerable foreign investment into these sectors. Further progress in these area will require restructuring and reform of the relevant parastatal bodies such as Power Development Board, Dhaka Electric Supply Authority, Bangladesh Telegraph and Telephone Board, Chittagong Port Authority, BIMAN etc to provide more room and efficient support to the private sector, and creating complementary infrastructure facilities such as generation, transmission and distribution of power, optic fiber gateway for telecommunications and information technology. A critical area of action in the next decade will have to be the improvement in the physical facilities and management of the country's major ports, to facilitate the growth of trade and commerce. A master plan should be designed for transforming Bangladeshi ports into regional hubs. Concrete steps need to be taken towards this by developing inland container freight stations at strategic industrial and commercial locations to enable multi-modal handling of containers. Meanwhile, private investment in competitive services should be encouraged vigorously. In this respect the decision to allow establishment of private EPZ should be implemented expeditiously.

4.7 Improving Tax Administration

The customs clearance procedures for importing inputs and for external shipment of exports are cumbersome, time-consuming and characterized by rent seeking behavior of concerned officials. The progress already being made in reforming customs and improvements in VAT and income tax administration should be accelerated and made sustainable through appropriate reorganization of the National Board of Revenue (NBR) to provide strong incentives for integrity and good services to the taxpayers. The customs reform should be extended to cover Chittagong Port Authority and other agencies present at sea, air and inland cargo terminals to ensure speedy import and export clearance. The outstanding problems relating to Pre-shipment Inspection (PSI) should be resolved and effective implementation of the system should be ensured.

4.8 Improving Industrial Statistics

The state of industrial statistics in Bangladesh is dreadful. Firms preparing to produce or acquire goods can learn very little about potential demand and supply from the official data on existing production. The requirement to register with the BOI has been made optional, and moreover BOI data shows only

intended investment with no clue whatsoever regarding realized investment. There is urgent need for revamping the industrial statistics wing of the Bangladesh Bureau of Statistics (BBS). Coordination between different registration authorities should also be sought to obtain consistent set of information on industrial investment, output and employment.

4.9 Attracting Foreign Direct Investment

Globalization has been changing the dynamics of world trade and the notion of competitiveness. The increased level of international competition has led to internationalization of production and has stimulated technological innovation. The decisive factors in world competition today are production related scientific and technological research, the training and systematic upgrading of human resources and management skills compatible with the global economy. Deficient skill and technology are major supply-side bottlenecks in Bangladesh that have constrained growth and diversification of the industrial base in general and the export sector in particular. Also, the need for technological improvement has assumed special importance in the light of enhanced health, sanitary and phytosanitary standards being imposed by importing countries as non-tariff measures to retain protection after reducing tariff as part of WTO agreements. Skill and technology up gradations are also necessary for attracting foreign direct investment in high-tech industries and for complementing the efforts of trade liberalization measures. In this respect, the government should enhance investments in vocational training systems and make them more relevant to current needs of the industrial sector. Technical training institutions in the public sector are mostly poorly equipped and staffed. Public institutions such as Directorate of Continuing Education, BUET, Engineering Staff College, IEB, Bangladesh Institute of Management (BIM), Bangladesh Industrial and Technical Assistance Center (BITAC) and National Productivity Organization (NPO) etc need to be strengthened to cater to the needs of skill and technology development. There should also be support to in-factory skill up gradation and training activities through fiscal and other incentives. Technology acquisition, adaptation and up gradation must be given top priority and Bangladesh should be actively involved in global and regional initiatives in support of transfer of technology favoring developing countries and the LDCs.

4.10 Export Promotion

Exporters in Bangladesh are required to surrender most of their foreign exchange proceeds. Hence, for subsequent import purposes they remain locked into the L/C system, especially its deferred payment back-to-back version. This raises exporter's costs. One means provided by Bangladesh Bank to give exporters an alternative to the back-to-back L/C system comprises of the Export Development Fund. This is a facility to rediscount working capital advances by commercial banks to pay for their exporter client's raw material imports. The size of the fund needs to be expanded substantially as it now covers only 1 per

cent of RMG's import needs. Provision of a facility by the Bangladesh Bank with external support to underwrite the risks associated with "Cash Against Documents" (CAD) can also help ease the problem of export financing The Matching Grant Facility (MGF) to encourage diversification of export items and market development should be expanded. Producers' association should be encouraged to utilize this facility to establish export market intelligence for their member firms.

4.11 Supportive Measures For Small And Cottage Industry

Small and cottage industries call for special attention because of their labor-intensive character and their focus on catering to the demand of low and medium income consumers and the capacity for import substitution. Recent studies confirm that the reforms did have positive impacts, which are reflected in a fairly rapid growth of the sector during the past decade. However, because of their structural weaknesses the small and cottage industries may need more pro-active policies for their development beyond the removal of the policy biases. These include increased public investment in the sector particularly in the area of training, extension, research, market promotion etc., provision of finance, and preferential fiscal measures. There is urgent need for legislative reforms to expand and simplify the use of non-real estate security for facilitating access of small and cottage enterprises to institutional finance and the implementation of an effective credit guarantee scheme.

4.12 Capacity Building Of Related Organizations

A major challenge of Bangladesh in the coming days will be to ensure compliance with her commitments under the WTO rules. These are expected to have important implications in terms of the manner in which industrial and external sectors of the economy will need to operate in future. WTO provisions and commitments in the area of TRIPS, TRIMS, GATS and AOA will require important regulatory changes in such areas as subsidies, tariff regimes, conformity with patents, and copy rights standards etc. There will be the need for familiarizing the producers and exporters with the provisions of these agreements as well as with the procedure to achieve standards such as ISO-9000 and ISO-14000. Bangladesh will also need to play a more pro-active role in putting into effect the S&D commitments in the area of trade related technical assistance and ensuring greater market access and preferential treatment for her exports. Finally, there should be arrangements to support exporters in countering unjustified anti-dumping or countervailing actions through litigation and arbitration in the dispute settlement body of the WTO. The capacity of the WTO cell of the Ministry of Commerce will need to be revamped accordingly.

4.13 Emphasis On Specialized Sectors

To attain a high level of contribution to GDP, the latest Industrial Policy has emphasis the need to concentrate to some specialized sector such as Readymade Garments, Textile, Leather and Leather

Products, Information Technology, Agro-Based Industries These have identified as the main thrust sectors of Bangladesh's industrial outlook.

4.13.1 Retaining competitiveness of RMG exports beyond 2005

The concern with competitiveness of Bangladesh's RMG sector after 2005 has so far remained confined to efforts towards setting up of backward linkage industries. But there is need for careful assessment of the long-term viability of the different segments of backward linkage industries on considerations of cost effectiveness. There is also the urgent need for attending other factors that significantly influence the competitiveness of Bangladesh's export, which includes skill up-gradation and training arrangements for the workers, better management practices, improved maintenance of machinery, adoption of better technology, better working conditions, political unrest, frequent power failures, deteriorating law and order situation, high dependence of the exporters on intermediaries, delays in port clearance, port congestion, corruption and bureaucratic red-tapism, and the problems of export finance. As mentioned earlier, there is very little skill up-gradation and training arrangements for the workers in the clothing industry. Entrepreneurs are reluctant to invest in the training of workers because of high turnover rates. The situation calls for collaboration between the chamber bodies, the government and national and international training institutes. The successful establishment of the design and fashion institute is an example in this context. There is also the need for the use of better management practices, improved maintenance of machinery and adoption of better technology for raising the level of productivity at the plant level. Although the incentives provided in the export sector in Bangladesh are not insignificant, there is formidable difficulty in actually accessing such incentives. The result of a recent survey shows that it takes on average 12 days for export oriented inputs to be released through the customs, 9 days for clearance for exporting a shipment, 7 days to clear all the documents required for exports and 52 days to obtain refund from the Duty Exemption and Drawback Office (DEDO). Bangladesh will also have to attend the questions of work environment and labor standards in the garment factories. The sooner this is done better will it be for the industry as it will help improve the moral and motivation of the workers and will contribute significantly towards raising labor productivity in the industry.

Chapter-5

GROWTH OF GARMENT INDUSTRIES IN BANGLADESH

5.1 Introduction

The export oriented RMG sector in Bangladesh, started its journey in the late 1970 as well as non-traditional sector of export. Bangladesh exported RMG worth only US$ 69 thousand when Reaz Garments exported its first consignment to USA in 1978.By FY 2002, within a span of about two decades exports have gone up to $4.5 billion which is 76% of our total export. Over the past decade alone, the sector registered a phenomenal growth rate of 15% per annum, which is impressive by the standard. In fact; this was an exceptionally high growth rate for emerging industry anywhere in the world. The industrial base which was sustained such high growths also enjoyed a robust expansion, from less than 50 factories in 1983 to more than 3400 in 2002, with the number of RMG workers reaching approximately 1.5 million.

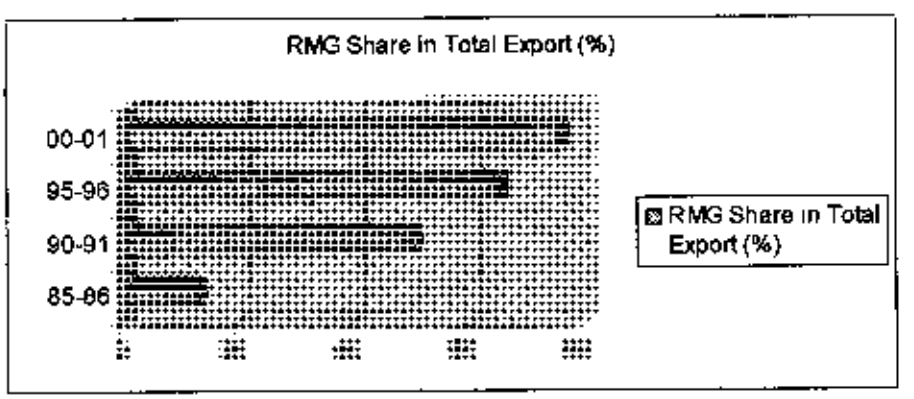
Table-5.1: Contribution of RMG in the National Export Earnings

Year	RMG Export (In million US$)	National Export (In million US$)	Percentage of RMG (%)
1983-84	31.57	811.57	3.89
1988-89	471.09	1291.56	36.47
1993-94	1555.79	2533.90	61.40
1998-99	4019.98	5312.86	75.67
2001-2002	4583.75	5986.09	76.57

Source: BGMEA

Despite many difficulties faced by the sector over the past years, its continues to show robust performance, competitive strength and, and of no less importance, social commitment. RMG's contribution to Bangladesh economy is well known, well appreciated and well respected. However often times the magnitude of this sector has been given over the past years and also the support it is currently seeking from the government.

Fig.-5.1: RMG Share in Total Export



In FY 2002 Bangladesh exported RMG products worth 4.5 billion US$. Her share in total US imports of apparels was 3.2%, in EU it was 3.3% and in Canada it is 3.0%. Bangladesh is known in these countries as a small country with a strong presence. The RMG sector has helped put Bangladesh in the map of the world. Everywhere, where our RMG products go, it serves as a flagship of the country, its roving ambassador including peoples' interest in Bangladesh both as tourist and investment destination. These are the impacts, which are difficult to quantify, yet without which the country perhaps would not have been able to project itself to a trajectory of high growth and higher standard of living. Thus RMG contribution to Bangladesh, both direct and indirect, needs to be recognized for what it is. The RMG sector played a significant role in the social metamorphosis in a broader context. It contributes in developing the Human Development Index (HDI) indicators such as woman empowerment population control, education, environmental awareness, elimination of child labor etc providing 1.8 million people, of whom 80% are woman workers. It promotes the development of other key sectors of the economy, including textile, banking, transportation and insurance. Several million more jobs in Bangladesh are linked to the clothing sector.

The readymade garment sector has made the workingwoman a matured, disciplined and regimented workforce. Change in woman's social status and their firm participation in household decision making is the contribution of the garment industry. The industry helps the woman workforce in creating saving and empowerment.

Bangladeshi exports have recorded substantial increase in terms of gross earning, yet the receipts thereof are largely dominated by those from only four or five items of which the readymade garment sector contribute lion share. In fact, the country has become too much dependent on this industry. The following Table 5.2 shows the rapid growth scenario of RMG sector.

Table 5.2: RMG Industry in Bangladesh

Year	RMG Export in Million US$	Share of Knitwear in RMG Export (%)	RMG Share in Total Export (%)	Employment (No. In Million)	No. of RMG Factories
1985-86	116.2	-	12.44	0.198	594
1990-91	866.82	15.13	50.47	0.402	834
1995-96	2547.13	23.49	65.61	1.29	2353
2001-02	4583.75	30.25	76.57	1.82	3712

Source: BGMEA

This rapid development of the sector is based on some national and international facilities. Some of the impertant factors are discussed bellow.

5.2 International Issues

5.2.1 Multi- Fiber Agreement (MFA)

In order to protect its local manufacturers the MFA allows an importing country to impose import duty and quantitative restrictions by quota.

Bangladesh's largest customers in the USA and the EU take advantages of such barriers now to limit the exporters of many countries like China, India, Pakistan and Indonesia. Bangladesh is in a favorable position under MFA as it allows greater market access. Here Bangladesh has a very high quota in the US. There has no duty and no quota in the EU for Bangladesh.

The Agreement on Textile and Clothing (ATC) made under the auspices of the Uruguay Round of trede agreements stipulates phasing out of MFA by the year 2005. The ATC sets out provisions to be applied by members during a transition period for the integration of the textiles and clothing sector into GATT 1994. The ATC cannot be extended.

Initially, Bangladesh was given "quota free" status because its RMG industry was underdeveloped. The number of garment factories grew rapidly after 1983/84 following the relocation to Bangladesh of quota- limited shifting from the Republic of Korea and also from Sri Lanka. After January1985, a number of countries impesed quota on imports of garments from Bangladesh under the Multi-Fiber Arrangement (MFA) as Bangladesh emerged as a good regular supplier of apparels.

The competitive strangle of the RMG sector was due to the availability of cheap female labor. There are as many as 31 categories of apparels exported from Bangladesh to USA, which are subject to quota restrictions, and 14 categories in Canada. This meant that even if Bangladesh agreed to supply these categories on better terms or at lower prices, it could not exceed the quota limit. Quotas were not binding for Bangladesh, as utilization rates were usually less than 100 per cent. But quota provided guarantee market for Bangladeshi garments in USA and Canada without facing any competition, as buyers were looking for locations where quotas were available.

5.2.2 Generalized System of Preferences (GSP)

The market access conditions of the EU for RMG products from Bangladesh is determined by the EU regulation on the Generalized System of Preferences (GSP) since 1992. The bilateral agreement initialed on 29 December 1994 was an important textile and garment trade policy between the EU and Bangledesh. The categories were 4 (t- shirts and under vest), 6 (trousers) and 8 (men's and boys woven shirts). Export licenses were to be issued by Export Promotion Bureau.

Virtually no quantitative restrictions apply for these categories. This bilateral agreement is expected to expire on 31 December 2004

The basic rule of the present GSP was that of 1995 where duty free accesses were provided to Bangladesh if accompanied by Certificate of Origin as a least Developed Country (LDC). Since November 1997, Bangladesh has obtained permission to apply derogation from the rules of origin conferring preferential tariff treatment for RMG products imported into the EU. RMG products manufactured in Bangladesh on the basis of imported woven fabrics or yarns originating from ASEAN countries (excluding Myanmar) or SAARC countries were to be considered as products of Bangladesh origin subject to specific quantitative annual ceilings, Since January 1999, EU has changed the regulation of origin for knitwear products to two stages of operation, Hence. Yarn can now be imported from any competitive sources world wide for knitting and Cutting and Making (CM) operations,

5.3 Domestic Issues

5.3.1 Role of the Private Sector

The growth of the industry resulted from external factors, role of a catalyst as well as conducive government policies. The competitive strength of the RMG sector was due to the availability of cheap supply of female labor. Before employment in RMG women in Bangladesh were confined to the precinct of the household. The role of a catalyst was important to bring these women out of their home as well to cleat mid-level managers, The most critical factor in the success of the garment industry in Bangladesh was tile on-the-job training and the back-to-back letter of credit under the special bonded warehouse facility, Moreover, The government provided various export promotion measures since 1978 as discussed below.

Bangladeshi entrepreneurs took advantage of MFA and GSP facilities to successfully enter the US, Canada and EU market. There grew up a large number of managers, supervisors and skilled workers. The RMG industry has also propelled the growth of banking, insurance, shipping and transport sector. Now the RMG sector has earned the respect of being a good quality regular exporter. Considering the linkages effects. The future development of Bangladesh's industries sector and service sector (partially) would go greatly depend on the future of the RMG industry.

5.3.2 Continuity in Policies in Successive Government

The government has played the role of facilitating the private sector by taking conducive policies. The continuity of policies pursued towards industrialization has been a key factor in the growth of

the RMG industry. The validity of the export and import policy were subsequently increased from six months to one year, and then to two years. Finally it is now for five years, this will create confidence that policy reversal will not take place in the short run. Some of the policies, which benefited the RMG industry, were:

- Decontrol of the reserved sectors;
- Ceiling on private investment was abolished;
- Incentives for export-oriented industries were published in the newspapers and implemented through the guide to investment 9th September, 1978;
- Export Credit Guarantee Scheme (1978);
- Garment in the Free Sector- (no permission needed) 1983;
- Back-to-back L/C and bonded warehouse facilities;
- Successive industrial policies including Structural Adjustment Policies (1985/86-1992/93) continued support for the RMG industry.

The shift towards private sector led and export-led growth started since late 1970s. The New Industrial Incentive Package (NIIP) 1978 was not however, formally published as a policy at that time, although its provisions were announced in the press. The NIIP 1978 was published as New Industrial Policy (NIP) 1982, which has, been widely acclaimed for being a corner stone in policy shift.

5.3.3 Highly Competitive

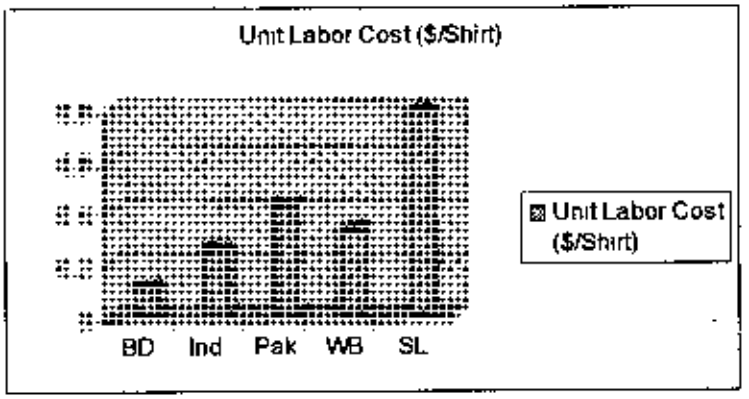
In a highly competitive international market, it is the price and quality, which determine the competitive position of a supplier. Bangladesh can beat its competitors on account of price, which is low due to low labor cost. That Bangladesh has a comparative advantage in hourly wages can be seen from Table 5.3 Unit labor cost is also the lowest for Bangladesh Productivity por worker for shirt is higher than that of Sri Lanka, but almost the same as in India.

Table: 5.3: Unit Labor Cost

Country	Unit Labor Cost ($/Shirt)	Wages ($/Year)	Productivity (Shirt/Worker)
Bangladesh	0 11	290	2536
India	0.26	668	2592
Pakistan	0.43	1343	3100
West Bengal	0.33	595	1828
Sri Lanka	0.79	570	719

Source: WB & USAID

Fig.-6.2: Unit Labor Cost Comparison



The following Table 5.4 shows that the average prices for Bangladeshi products compared to other exporters to the USA. This gives an idea about the highly competitiveness of the product.

Table 5.4: Average Prices of Imported Apparel in USA by Major Exporters

(In US$)

Country	Men's Knitted Shirt	Women's Sweaters	Men's Woven Shirt	Men's Trousers & Cotton Breeches
Average	**6.14**	**7.84**	**6.77**	**8.94**
China	9.35	9.36	8.20	9.49
Hong Kong	10.99	9.65	8.52	10.24
Indonesia	8.18	6.60	8.00	9.20
Malaysia	9.03	-	9.74	-
Pakistan	5.30	-	-	-
Philippines	8.10	6.94	8.24	9.12
S. Korea	-	6.14	6.76	-
Sri Lanka	8.10	-	5.57	-
Thailand	8.28	6.06	-	-
Bangladesh	**4.12**	**4.48**	**5.07**	**6.55**
El Salvador	4.23	-	-	-
Guatemala	4.79	-	7.55	8.79
Costa Rica	5.71	-	-	8.13
Honduras	4.67	-	5.44	8.99

Source: IFC (1999)

They are generally the lowest among the major suppliers to the USA in their respective categories. The prices are 21 per cent and 42 per- cent lower than the average USA import price, for knitted men's cotton shirt and women's sweater. Hong Kong, Macao, China, Malaysia, Mexico, Sri Lanka and Thailand are the suppliers of high valued products. The countries which specialize in low valued products like Bangladesh are El Salvador, Guatemala, Costa Rica and Honduras. The price

of products from China is almost double of that from Bangladesh. For woven men's shirt, China's price is around 60 percent more. Bangladesh is also the most inexpensive source for trousers amongst the major supplies. The average prices are 26 percent lower than the total USA imports. At present China is competing for the products of the same price range as imported from Indonesia and Philippines. Of these four products among the SAARC countries, India is exporting only men's woven shirts, Pakistan exports only men's Knitted shirts and Sri Lanka exports men's knitted chilliest and men's woven shirts. But average prices are higher in these countries than that of Bangladesh. This suggests that India has diversified to other products Although at present neither India nor China are competing with Bangladesh in low end products imported by USA, but may change their strategies after 2004. Bangledesh needs to move up markets and diversify its products.

It is highly likely that production may shift to China when quotas are eliminated. For example, in 1991 Sweden eliminated all quotas on textile and clothing products and a massive shift took place towards China, whereas countries in South-East Asia and South Asia hardly profited, Also when Canada unilaterally removed quotas on shirts/blouses, there was again a massive shift towards China and particularly a large shift away from Bangladesh.

It is also important to analyze the trend in the growth of clothing import to USA during the ATC period 1994-99. Bangladesh has improved her position from 8th to 7th in the USA market in terms of value of imports, but her position has remained unchanged at 4th in terms of volume of import. Mexico has become the leading importer to USA with an average percentage increase by 38 per cent. During this time import from Bangladesh increased by 12-13 per cent, Beside Mexico, El Salvador and Honduras have become important importers of garment to USA. But import from China and India has grown very slowly, Table III further shows that El Salvador and Honduras are close competitors for Bangladesh in USA market for men's knitted shirts. Mexico also competes with Bangladesh for men's woven shirt and men's trousers.

Chapter-6

LABOR MARKET SITUATION IN GARMENTS INDUSTRY

6.1 Introduction

The labor market in RMG sector of Bangladesh has made an epoch making contribution by providing about 1.8 million people of which 80% are women. This has influenced the socio-economic condition in different ways. So for the future improvement of the sector the large labor force deserves proper attention.

6.2 The Labor Force And The Problem Of Underemployment

Providing employment for the new entrants into the labor force and for the large number of currently under-employed workers in Bangladesh main development challenge. The 1991 Labor Force Survey estimated the country's work force to be 51.2 million people. Since than, the labor force has been growing by 3% per year, so that for 1994 it was estimated to be around 56 million people. More than 1.5 million people enter Bangladesh's labor market annually.

The majority of workers are unaffected by labor regulations. Bangladesh has three types of labor market rural informal urban informal and formal. The formal labor market is characterized by a contractual employment relationship and is governed by labor laws and regulations that protect the worker, such as minimum wages and allowances and limitations of the employer's ability to fire employees. The rural and urban informal labor markets are not covered by protective labor regulations. The informal sectors dominate the labor market. In 1991, 47.2% of the labor forces were classified as unpaid family workers; 15.4% were classified as self-employed; 13.9% were classified as casual workers and only 11.7% hed full time wage employment- and roughly one-third of those work in the public sector. About 68% of the work force s employed in agriculture; 20% of the labor force works in the service sector, and 12% are in manufacturing.

6.3 Employment And Wages

In 1988, BBS conducted the first ever census of non-farm activities. It has provided three broed types of economic units. (a) permanent establishment (b) temporary establishments and (c) household premise based establishments. According to it's final report, it recorded 531 thousand manufacturing units of which 365 thousand (68.7%) were household premise based, 1653 thousand (31.2%) had permanent establishment and the rest 0.5 thousand (0.1%) were temporary establishments. Total number of employment generated was 3.09 million where 56% was in the permanent establishments. The census also showed that in 1982/83 and 1983/84,

despite increase in firm coverage the reported size of employment decreased". Overall stagnation and declining trend in some manufacturing sub-sectors can also be treced in another data set. Labor force survey (LFS) conducted periodically by Bangladesh Bureau of Statistics (BBS) provides extensive data set on employment scenario. In the Table-6.1 we have data from three surveys conducted between 1989 and 1995/96. According to this data set, labor force participation increased from 50.1 million to 54.6 million. Similar trend can be found in Agriculture, Forestry and Fishery combined and Construction, Trade, Hotel and Restaurants, Transport etc. Amongst the sectors where employment has decreased, manufacturing shows the highest rate of decline. Here employment decreased by nearly 50 percent. In 1989, employment in manufacturing was 7 million; it came down to 5 9 million in 1990/91, and by 1995/96 it further decreased to 4.1 million.

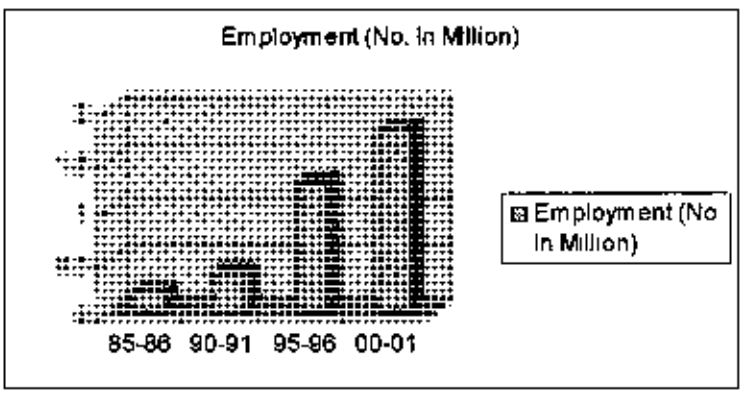
Table-6.1: Employment in Different Sectors

(Million)

Features	LFS, 1989	LFS, 1990-91	LFS, 1995-96
Total	50.1	50.2	54.6
Agriculture, Fishery, Forest	32.6	33.3	34.5
Mining	0.1	0	0.0
Manufacturing	7.0	5.9	4.1
Construction	0.6	0.5	1.0
Trade, Hotel, Restaurant	4.1	4.3	6.1
Transport, Storage	1.3	1.6	2.3
Business, Service	0.2	0.3	0.2
Community	1.8	1.9	5.1
Household	2.4	2.3	1.2

Source: Bangladesh Bureau of Statistics, Labor Force Survey

Fig.-6.1: Employment in RMG Sector in Bangladesh



6.4 Labor Competitiveness In Garments

A survey data indicates that Bangladesh's unit labor costs in garments are probably lower than in any other South Asian country. This corroborates other evidence from industrial surveys and the fact that garment exports have been expanding rapidly, which indicate that Bangladesh is very competitive in this area.

Table-6.2: Unit Labor Cost ($/dozen)

	T-shirts			Men's Shirt			Jeans		
	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.	Max.
Bangladesh	1.37	1.00	2.00	2.96	2.25	3.60	5.94	5.00	8.02
Vietnam	2.50	1.87	3.86	4.44	2.64	6.63	4.81	4.05	7.72

Source: World Bank staff calculation from survey data

Table 6.2 shows that Bangladesh unit labor cost for T-shirts are much lower than in the comparators. Similar analysis was carried out for jeans and men's shirt and supported the same conclusion of Bangladesh's competitive superiority in the garment sector vis a vis the other south Asian comparators. It is important to note that the two key factors determining unit labor costs (wages expressed in dollars and productivity) work in Bangladesh's favor. In T-shirts, it has the lowest wage of all countries and higher productivity among all comparators, except India.

A new regional competitor is emerging in the garments market. Vietnam is quickly becoming an important competitor for foreign investment in the garment sector. To avoid losing market share, it is important that Bangladesh ensure continued labor competitiveness vis-à-vis Vietnam. The data presented in the Table. 6.2 provides some cause for concern, since it shows that Vietnam is more competitive in producing jeans and Bangladesh's unit labor cost advantage in other product lines is much smaller than its advantage vis-à-vis other south Asian countries. Under unit labor force producing jeans in Bangladesh may be as such as 21% higher than in Vietnam. However Bangladesh's unit labor cost for T-shirt and man's Shirt remain lower by some 53 % and 37% respectively.

Table 6.3 shows that Bangladesh's unit labor cost advantage in producing T-shirts far exceeds the macro-gap. The wage premium Bangladesh garments workers receive in lower than that received by workers in all comparators except Sri Lanka.

Table 6.3: Decomposition of the Difference in Unit Labor Costs For T-Shirts

(Percent difference with Bangladesh [a/])

	Overall Gap [b/]	Macro Gap	Wage Gap [c/]	Productivity Gap [d/]
West Bengal	-105	-14	-57	-33
India	-81	6	-89	2
Pakistan	-133	-58	-95	20
Sri Lanka	-194	-80	13	-127

Source: World Bank staff calculation from survey data

a/ Calculated as the natural logarithm of the ratio of the variable in Bangladesh to its value in the comparator. A negative figure implies a cost advantage for Bangladesh. Also, note that columns (2), (3) and (4) must add up to column (1)

b/ Defined as the natural logarithm of the ratio of unit labor costs in Bangladesh as the comparator

c/ The wage premium is defined as the sector's average wage divided by the agriculture wage, the wage-gap is the natural logarithm of the ratio of the wage premium in Bangladesh to that of the comparator country.

d/ Defined as the natural logarithm of the ratio of labor productivity in Bangladesh and the comparator.

6.5 Special Labor Market Problems

Faster growth and greater job opportunities will benefit most workers, but some may be left behind and require specific assistance. Two such groups come to mind: women who face labor market discrimination and child labors that are denied the opportunity for education and better life.

6.5.1 Gender Issues

Women face egregious employment discrimination in Bangledesh. Even within South Asia, Bangladesh has one of the lowest female economic activity rates(11%).In all sectors, working women in Bangladesh earn less than similarly situated men and are more severally affected by unemployment.

Table-6.4: International Comparison of Activity Rates (%)

(excludes unpaid family helpers)

Country	Year	Male	Female
Bangladesh	1989	53.1	10.6
India	1981	52.7	19.8
Pakistan	1991	49.4	6.8
Sri Lanka	1990	54.2	32.1
Malaysia	1987	56.5	31.1
Indonesia	1989	51.2	34.0
Egypt	1989	47.6	6.1

Source: ILO, 1991

Employment discrimination in Bangladesh manifests itself perhaps most significantly in the fact that woman have little access for formal employment. More than 80% of all female workers are unpaid family helpers, compared to only 20% of all female economically active woman are agriculture workers. These figures reflect barriers to better urban employment. Indeed, only 4.5% of working women (compared to 13.1% of men) have managed to enter the formal employment sector. Moreover, women have been unable to obtain government jobs. Even though 15% of these formal jobs are theoretically 'reserved' for them, women occupy only 6% of government positions. This situation is worse in public sector corporation, where only 2% of employees are female. In addition, nearly 1 in 5 women with a university degree is unemployed(compared to only 1 in 50 men),indicating that educated women are denied equal access to higher paying jobs and careers that ate normally available to university graduates. Female workers are also paid lower wages than male. Micro studies indicate that female workers in the rural and informal sectors earn between one-third to half of male wages. Government labor market interventions, such as minimum wages, maternity leave, restrictions of women's working at night etc., appear to be largely ignored and to have very little impact on the welfare of female workers.

6.5.2 Child Labor

As a result of poverty and the 'unattractiveness' of the education system, child labor is widespread in Bangladesh Although Bangladesh ban child labor, the regulations have proved unenforceable and more than 6 million between the age of 5 and 14 are listed as economically active-20% of all children in this age group and 12% of the labor force. Most of these children are mistreated in 'sweat shops' Nearly two third of the economically active children are unpaid helpers of family farms. However, some children do work for long hours in unhealthy conditions in the urban informal market And any child labor involves sacrificing the child's present education, as well as future prospects that require education, for immediate economic gain. Though nearly all countries have law against child labor, yet the ILO estimates that in 1990 there were 78.5 million economically active children under the age 15 in the world, nearly 8 million of them under the age 10.UNICEF's estimate of child labor are even higher. They calculate that in 1991 eighty million children aged 10 to 14 were engaged in work so long or arduous that it interfered with their development. Legislation banning child labor has a symbolic value as an expression of society's desire to eradicate this practice, but will be ineffective unless accompanied by measures to shift the balance of incentives away from child labor and toward education. Such an agenda needs at least two ingredients: safety net protection for the poor and broader opportunity for quality education.

6.6 Gender Issues and Child Labor in RMG Sector in Bangladesh

The experience of garment sector where 80-85% of workers are women provides indications of the benefit to household's society of increased female labor force participation. Women's participation in the formal labor market leads to important changes in intra-household relationships A study of female garment workers shows that 57% of them have control over their salaries-this is very different from the situation in rural areas women are generally prevented from claiming a right over family income. Women employed as skilled workers and in better paying jobs tend to have a more important decision-making role. They sped a higher percentage of their income on education of family members than male workers in the same enterprise. Also, marriage prospect improve as girls earn as income, which relieves perent from a sense of urgency to "marry off' their girls. Thus, another positive impact of female employment is to rise the age of marriage and reduce fertility. The survey indicates that most workers are unaware of minimum wage and that 42% of women workers are paid less than the minimum. Most workingwomen prefer a formal job in garments, even if they do not get maternity leave or are paid below minimum wages, to being an unpaid helper in agriculture.

Bangladesh Garments Manufacturers and Exporters Association (BGMEA) has taken so many projects with collaboration of UNFPA, MSH-TAI costing about 323000 US$ to facilitate general health care, reproductive health program and raising awareness about national labor laws and safety rules.

The recent efforts aimed at eliminating child labor from the garment industries provide a positive example of what could bo done to deal with the problem. They involve collaboration between employers, workers, governments, NGOs and multi-lateral agencies (ILO and UNICEF). They involve a serious attempt dealing with root cause of child labor poverty and lack of education possibilities.

BGMEA in association with ILO, UNICEF and some NGOs like BRAC, Surovi, UCEP, GSS etc started non-formal education program for elimination of child labor. For the former child labor they are providing skill development training and education. After that they will be supplied with micro-credit for income generating projects. The project has estimated cost of 1.2 million US$.

Chapter-7

RMG CONTRIBUTION TO ECONOMY and SOCIETY

7.1 Macro Contribution

The Bangladesh RMG industry, with its woven and knit sub-component, is a predominantly export oriented sector, with 95% of the woven and 90% of the knit exports being directed to foreign markets. The cumulative foreign currency earnings by the sector, since 1978, when first export registered, are estimated at 36.6 billion dollars Bangladesh's RMG export stood at 4.58 billion US$. In FY 2002 this sector contributed 76.6% of the total Bangladesh export of 5.9 billion US$ in the same year. RMG export in FY 2002 was equivalent to 9.5% of Bangladesh's GDP over the corresponding year. At present the local value addition by the RMG sector is estimated to be 45%. Accordingly local value addition by the RMG in 2002 was about 2.1 billion US$ which was equivalent to 4.3% of GDP for the same year. This can be understood from the following table.

Table-7.1: Contribution of RMG Sector to Bangladesh Economy (In 2002)

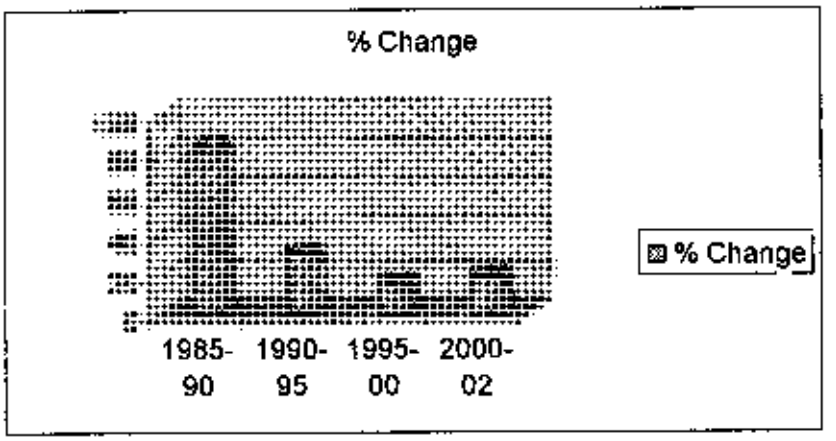
Sector	Contribution of RMG Sector to Bangladesh Economy (Million US$)	Share in Total RMG Export (%)
Local Fabric Inputs	952.97	20.79
Imported Fabrics and Other Inputs	2484.88	54.21
Employment	329.13	7.18
Linkage	90.81	1 98
Banking	36.5	0.79
Insurance	5.90	0.12
Professional Service	3.61	0.08
Tours and Travels including Hotels	4.42	0.10
Engineering Services	14.17	0.31
Machinery Trade	30.64	0.67
Shipping and Port	64.92	1.42
Transport Sector	27.32	0.60
Petrol and Lubricants	2.86	0.06
Real Estate	26.24	0.57
Information & Communication Technology	9.88	0.21
Others	6.44	0.13
Direct Payment to GOB	8.83	0.18
Indirect Payment to GOB	127.67	2.78
Gross Margin	356 61	7.82
Total Export	**4583.80**	**100.0**

Source: Estimated on the basis of Analysis of Statements of Accounts of Selected RMG Units

Considering that the total manufacturing sector's contribution to GDP was about 15.6% in FY 2002, it would be seen that RMG sector contributed about 29.7% of the manufacturing GDP in the year.

This sector registered a rapid growth in the eighties due to different national and international favorable conditions but stared decreasing from nineties but now it is a matter of hope that as government of Bangladesh has taken so many steps nationally and internationally, especially BGMEA is taking a very impressive role for the enhancement of export the situation is being improving day by day.

Fig.-7.1: Trend In Bangladesh's RMG Growth Rate



7.1.1 Emergence of knit-RMG:

The growth dynamics of the sector over the last decade evince two clearly discernible phases: during the initial period it was woven-RMG which dominated the structure of apparel export, whilst in recent years which could be termed as a second phase, it is the knit-RMG which emerged as no less of an important segment in the RMG sector with its share growing up steadily and local value retention fast approaching the level of woven-RMG.

7.1.2 Diversification

Within the apparels sector, Bangladesh has been able to accomplish product diversification. RMG sector has been able to extend its product link from T-shirts, pajamas, ordinary shirts, shorts, caps, women's and children's wear to shirts of complicated designs and jackets; and some brand items have also emerged where the total value added both the earnings and the local value retention (Table 7.2).

Table-7.2: Main Apparel Items Exported From Bangladesh

(in million US$)

Year	Shirt	T-Shirt	Trousers	Jackets	Sweater
1993-94	805.34	225.90	80.56	126.85	-
1994-95	791.20	232.24	101.23	146.83	-
1995-96	807.66	366.38	112.02	471.73	70.41
1996-97	759.57	391.21	230.98	309.21	196.60
1997-98	961.13	388.50	333.28	467.19	296.29
1998-99	1043.11	471.88	394.85	393.44	271.70
1999-2000	1021.17	563.58	484.06	439.77	325.07
2000-01	1073.59	597.42	656.33	573.74	476.87
2001-02	666.18	403.98	449.18	296.82	362.23

Source: BGMEA

The performance of the industry in achieving the goal of diversification into higher valued products during the first three years of the plan period has not been very satisfactory. Table 7.3 shows that only 5 items accounted for 64 per cent of apparel exports in 1996-97. In 1998-99, the share of the same items in total apparel export rose to 67 per cent. Thus, very little product diversification has been achieved in the industry during this period.

Table 7.3: Product Composition of Apparel Exports

H.S. Code	Description	Exports in 1996-97		Exports in 1998-99	
		Million Taka	% of All Apparel Export	Million Taka	% of All Apparel Export
6205	**Men's or boys' shirt**	27,706	21.7	43,027	22.0
6203	Men's or boys' suits, trousers	24,319	19.0	37,004	19.0
6110	Jerseys, pullovers, sweaters	10,989	8.6	17,659	9.0
6204	Women's or girl's skirts, trousers	9,664	7.6	21,015	10.8
6201	Men's or boys' overcoat, anoraks, wind jacket	8,745	6.8	12,196	6.2
	Sub Total	**81,423**	**63.7**	**1,30,901**	**67.0**
	Others	46400	36 3	64474	33.0
	Total	**127823**	**100.0**	**195375**	**100.0**

Source: EPB

The product concentration also led to the continuation of market concentrations. As Table 7.4 shows, Bangladesh's apparel export has continued to be overwhelmingly dependent on the US and the EU markets.

Table 7.4: Market Concentration of Apparel Exports

Year	% of Apparel Export		
	USA	EU	Other Countries
1996-97	41.5	54.1	2.1
1997-98	44.2	51.2	4.6
1998-99	44.8	51.0	4.3
1999-00	45.8	49.7	4.5

Source: EPB

7.1.3 Incremental Contribution

its share in the country's incremental export growth best brings out the increasing importance of the apparel sector in the Bangladesh economy. Table 7.5 shows that the growth of the sector was enough to push up the aggregate export growth rate, and also compensate for the shortfalls in the export earnings in other sectors.

Table 7.5: Annual Incremental Contribution of RMG Exports

(As % of Total Incremental Export)

Year	Incremental Contribution
1984-85	67.2
1989-90	59.5
1994-95	57.8
1998-99	92.8
1999-00	75.59
2000-01	71.01
2001-02	57.46

Source: Computed from EPB Data

7.1.4 Value Addition in the Manufacturing Sector

The RMG sector contributed to value addition activities in the total economy of the country. It adds value within the sector as well as to the overall manufacturing sector. Table 7.6 shows that the contribution of RMG sector in Bangladesh manufacturing value added (MVA) went up from 6.5 per cent in 1993-94 to 30 percent in 1998-99. Ratio of the MVA to RMG value added was about 0.3, implying that 10 per cent growth of RMG exports leads to an increase in the MVA by 3 percent.

Table 7.6: Value Added Ratio (VA) and Contribution of RMG to Manufacturing Value Addition (MVA) of The Country

Indicators	1981-82	1993-94	1997-98	1982-94	1994-98	1982-98
Output	171	54937	175096			
Input	128.2	44652	133090			
RMG VA	42.8	10285	42006			
VA to output (%)	25.0	20.0	24.0			
MVA	23447	159215	203626			
Share of RMG VA in MVA	0.18	6.5	20.6			
Growth of RMG VA				58.0	42.2	53 8
Growth of MVA				17.3	6.3	14 4
Ratio of MVA to RMG VA				0.298	0 15	0.27

Source: Nath 2001

7.1.5 Employment Creation and Wage Bill

RMG sector is one of the major employers in the economy. Total employment at present stands at about 14 lakh about 70 per cent of which are women. As a matter of tact in the 1980s a large part of the incremental labor force in the manufacturing sector was absorbed by the RMG sector. The RMG workers received US$ 315.25 million as their wage in FY 2002. This purchasing power contributed significantly to the growth of the economy through its multiplier impact in terms of consumption expenditure and savings.

7.2 Sectoral Contribution

7.2.1 Backward and forward Linkages

Growth of RMG sector has spawned a whole new set of linkage industries and facilitated expansion of many service sector activities. The RMG industry not only propelled the growth of spinning, weaving, dyeing and finishing industries, production of accessories and spare parts, but also rendered large externalities by contributing to other economic activities in such areas as banking, insurance, real estate, packaging, hotels and tourism, recycling, consumer goods utility services and transportation.

As shown in Table 7.7, the RMG sector has overwhelmingly high backward linkage with textile sector providing fabrics, yarn and other ancillaries. It has important backward linkage with utilities such as electricity, gas, and machinery and spare parts supplying sectors. It has forward linkage with transport, communication, banking and insurance and trade services. Besides, there is a considerable subcontracting linkage within the sector. The buying house also plays important role towards bringing the manufacturers and buyers of the finished goods closer. As the input-output table shows, the RMG

value-added ratio to output stood at 19% in 1993-94. Since then the RMG sector has undergone important changes, with substantial movements in terms, of enhanced value addition. This, the proportion of direct value addition by the RMG been taken to be 25% for the purpose of our estimates.

Table-7.7: Input-Output Ratio with Different Sector

Inputs Supplying	Sectoral Input-Output Ratio
RMG	0.004
Yarn	0.59
Petroleum and its Products	0.002
Urban Building	0.009
Electricity	0.0044
Gas	0.000173
Public Administration	0.00081
Banking and Insurance	0.000164
Communications	0.002

Source: Nath 2001

Though the country had some base in cotton textile industry even before the emergence of export-oriented RMG sector, its linkage with global market was insignificant. Realizing the importance of the backward linkage industry in terms of supplying export quality yarn and fabric to satisfy the need of the growing RMG sector, the Bangladesh government took an early initiative to declare the textile sector as a thrust sector. Since the textile policy was put in place in 1995, the sector registered remarkable growth. In response to the incentive provided by the government and a ready market provided by the RMG industry, private sector came forward to invest in backward linkage industries. Backward linkages and other related activities marked remarkable progress in the last decade, particularly since mid 1990s.

About US$ 0.5 billion of investment came to sector in the last five years of the 1990s by the private sector. Many new mills have come under operation and some others are being set up. As of 2002 Bangladesh Textile Millis Association (BTMA) comprise 524 members with 158 Spinning mills, 312 Weaving mills, and 58 Dyeing and Finishing mills which meet a substantive part of cotton yarn requirement for circular knit export, cotton fabric requirement for woven export and domestic requirement for yarn and fabric. Again, installed capacity in Spinning increased from 0.76 million in 1984 to 1.46 million in 1995 and to 3.2 million in 2002 (BTMA). Currently BTMA member spinning mills have 3,000,000 spindles; Table-7.8 below illustrates the growth in the spinning sector since 1980.

Table-7.8: The Growth In Spinning Sector Since 1980

Year	No. Of Mills	Spindles	Growth
1980-85	24	547662	
1986-90	44	929130	70%
1991-95	76	1456846	57%
1996-2002	158	2910204	99%

Source: Bangladesh Textile Millis Association (BTMA)

Actual production capacity in weaving has increased from 190 million meter in 1996 meter to 830 million meter in 2000. Dyeing and finishing capacity also increased from 366 million meter to 680 million meter within this time. With expansion of production capacity, capacity utilization rate also marked some improvement.

In FY 2002 the domestic textile and fabrics producers' had a share of about 38% in the total export earnings accrued from the RMG sector. This was equivalent to about 495 million dollars in FY2002.

There is a captive yarn-fabrics market of 3 billion dollars at present, providing ample scope for the growth of backward linkage industries. To cater to the requirements of garment industries, a good number of accessory industries have also been set-up, which earns approximately Tk 200 crore per annum from the RMG sector.

Data on machinery import (1989-1999) reveal that import of textile machineries ranged between 10%-17% of total machinery import (Table 7.9)

Table-7.9: Import of Textile Machinery

Year	Total Import of Textile Machinery (In Million Taka)	Total Import of Capital Goods (In Million Taka)	Ratio of Textile Machinery (%)
1988-89	1056920	11230000	9.41
1990-91	1998319	16110800	12.40
1992-93	2952158	17252000	17.11
1994-95	2132009	21695000	9.83
1996-97	6283155	45025000	13.95
1998-99	31357241	291424173	10.76
2001-02	52375659	418002067	12.53

Source: NBR Data

7.2.2 Banking and Insurance

Growth of RMG sector and the related activities have contributed much to the robust growth of the financial sector in Bangladesh. In FY 2002 the banking sector earned about 37 million dollars from the business with the RMG sector in the form of interest and charges and L/C charges. More than one-tenth of the commercial bank' asset portfolio belongs to the RMG and the textile sector of the country. In FY2001 commercial banks lent Taka 4400 crore to the textile sector, while the amount lent to the woven-RMG sector was Taka 812 crore. The export financing businesses of the commercial banks largely depends on the textile and RMG sectors. The RMG sector received Taka 2175 crore as export-finance in FY2001 which was 46.14% of the total export-financing portfolio of the banks. A World Bank survey revealed that almost all firms (98%) are the clients of the commercial banks.

The RMG sector has also contributed to the growth of the country's insurance sector. On average, every year the premium paid by the RMG sector to the insurance companies was about 6 million dollars. All firms have their machines and plants insured and, additionally, 87% of importers of input and 15% of the RMG exports get their imports/exports insured.

7.2.3 Shipping and Logistics

The RMG sector has contributed to the shipping business in Bangladesh and stimulated setting up of several container yards, expansion of port facilities to handle large container trains, increase of cargo handling and storage facilities. RMG manufacturers also extensively use services of Clearing and forwarding agents for the purpose of customs clearance of inputs and finished goods. It is estimated that port uses fees earned from the RMG sector amount for more than 40% of the income of the port authority. RMG sector contributed to earnings worth about 65 million in FY 2002 by the Shipping business of the country by way of port charges, C&F Agent's commissions, freight charges, forwarding charges etc.

7.2.4 Transport Communication

The growth and development of inland transport services to a considerable extent owe to the growth of the RMG industry. Both wheel transport service and railway service are widely used by RMG sector for activities related to manufacturing and cargo movement. The concept of covered van emerged in Bangledesh for safe transportation of the RMG products in particular. In 2002 the inland transport industry received revenue from the RMG sector is estimated to be about 27.3 million dollars.

7.2.5 Contribution to Government Exchequer

The RMG sector contributes to the government exchequer both directly and indirectly. In FY 2002 the sector paid 6.3 million dollars as stamp and postage, license renewal fee etc. Besides paying direct taxes i.e., Income Tax these garments industries pays also Value Added Tax (VAT) to government exchequer. They also pay import duties at the import stage of their raw materials.

Payments made for visa form; license form, GSP form and other forms to the Export Promotion Bureau amounted to 58.85 million dollars in FY2001 (Table 7.10). The sector also paid US$ 2.4 million to the government as direct taxes in FY 2002.

Table-7.10: Charges Provided To EPB by the RMG unit (Year 2001)

Components	Existing Rate (In Taka)	Unit Used	Earning (In Million Taka)
Visa Form (USA)	40	61061	2.44
License Form (Canada)	20	5382	0.11
GSP Form	50	53913	2.70
CO Form	20	60000	1.20
Allocation & Transfer Form	20	40013	0.80
Clearance Form	40	19408	0.78
Visa Fee (For 24 hours Delivery)	500	61061	30.53
Visa Cancellation Fee	100	882	0.09
New Registration Fee	2000	150	0.30
Registration Renewal Fee	1000	2929	2.92
Duplicate/Replacement issue of GSP	1000	100	0.10
Duplicate/Replacement issue of CO	1000	100	0.10
GSP Issue Fee	200	53913	10.80
CO Issue Fee	100	60000	6.00
Total			**58.87**

Source: EPB

7.2.6 Professional Service

The RMG sector extensively uses professional services from CA firms, legal agencies, and business consultants. In FY 2002 total payment for professional services is estimated at 3.61 million dollars.

7.2.7 Engineering Sector

The RMG industry paid 14.2 million dollars to the engineering sector which included payments to repairing and maintenance service industry (USD 4.29 million), electrical engineering (USD 4.38 million), transport vehicle maintenance service (USD 2.87 million), and machine tools service (USD 2.63 million).

7.2.8 Utility Services

Payment of Electricity bill by the RMG industry is estimated to be 14.74 million dollars in FY2002. Utility payments for gas, WASA etc. amounted to an additional 3.75 million dollars.

7.2.9 Information and Communication Technology

The RMG sector also plays a catalytic role in the growth of the country's ICT sector. The services consumed by the RMG industry generated revenue for the ICT sector. Payments for ICT services, which include communication, hardware and software services, are estimated at 9.88 million dollars in FY 2002.

7.2.10 Real Estate

Demand for real estate development by the garment industry to accommodate offices and factories of over 3400 garment units has generated a lot of activities in the Construction Industry. The RMG industries paid approximately 26.24 million dollars as factory, office and garage rent in FY 2002.

7.2.11 Hotel and Tourism

About 1000-1500 overseas apparel buyers and their representatives visit Bangladesh every year for business purpose. In FY2002 the RMG industry created a business of approximately 4.42 million dollars for the country's tourism industry.

7.2.12 Waste Recycling Industry

Approximately 0.2 million people are engaged in waste (mainly, the waste out pieces of fabrics) recycling industry of the country which get their materials by the RMG industries. With these waste materials, they are stuffing toys, patterns, quilts, cushions etc.

7.2.13 Emerging Consumer Market

The 1.6 million workers in the industry have created a large demand and for consumer goods. A regular source of earning increases the basic consumption needs such as improved diet, better healthcare, improvements in family utensils and housing conditions etc; the sector has created an increasing demand for consumption of low cost commodities, cosmetics items, dresses, footwear, fast food and other products. A whole industry has been created to service this growing demand and created employment opportunities for hundreds of thousands of people.

7.3 Backward Linkage

To raise the competitiveness of apparel exports, Bangladesh government has provided incentives for setting up of backward linkage textile industries. One such fiscal incentive is the duty free import of textile machinery. Available data for import of textile machinery (Table 7.11) shows that the industry has responded to this incentive and a new generation of textile units is coming up.

Table 7.11: Imports of Textiles Related Machinery

(Million Taka)

4-Digit Code	Type of Machinery	1994-95	1995-96	1997-98	1998-99
8445	Machine for preparing textile fiber	861	2862	2467	1593
8446	Weaving machine	420	1272	286	430
8447	Knitting machine	479	1049	736	637
8448	Extrude-draw machine	222	302	288	303
	Total	**1982**	**5485**	**3777**	**2963**

Source: NBR-ETAC database

As can be seen from the table, between 1997 and 1999 nearly 7 billion taka (approximately $135 million) worth of textile machineries has been imported by the Bangladeshi entrepreneurs. In 1999-2000, the amount of L/Cs opened for import capital machinery for the textile sector was to the tune of $90 million.

Another major incentive provided by the government for promotion of the backward linkage industry is the Cash Compensation Scheme under which a cash incentive equivalent to 25 per cent of the value of exported apparel is given. The cash compensation is given to the deemed exporter of the fabric in lieu of duty drawback facility As is evident from Table 7.12, the government has given a cash subsidy equivalent to $96 million in the year 1998-99 alone. While the amount of the back-to-back L/C in the total export has been increasing, its share in total export has been declining secularly. This indicates growing domestic supply capacity of fabric for the apparel industry.

Table 7.12: Share of Import under Back-to-Back L/C and Cash Subsidy

(Million $)

Year	Apparel Export	Import of fabric under Back to back L/C	Share of back to back L/C in total export	Cash Subsidy
1996-97	3001	1652	55.0%	18.38
1997-98	3784	1888	49.9%	49.68
1998-99	4020	1728	42.9%	95.87

Source: EPB and Bangladesh Bank

In fact as Table 7.13 shows, the share of local fabric in total fabric used for garment export has increased steadily during the 1990s.

Table 7.13: Domestic Supply of Fabric to Export Oriented Garments Industries

(Million meters)

Year	Total Fabric Demand of Export Oriented Garments Industry	Fabric Locally Supplied	Local Supply as a % of Total Demand
1993-94	890	45	5.1
1994-95	1049	104	9.9
1995-96	1298	169	13.0
1996-97	1457	231	15.9
1997-98	1768	317	17.9
1998-99	1877	356	19.0

Source: Ministry of Textiles

According to a study conducted by the Ministry of Textiles, the establishment of an adequate backward linkage for the RMG sector will need setting up of 135 spinning mills, 360 weaving mills, 327 dyeing and finishing mills, 1000 knitting units and 0.2 million new handlooms. The total investment cost for bringing this new capacity on-stream is estimated to be $1.8 billion. Thus, although the evidence presented above

shows significant progress made in setting up backward linkage industry, there is still a big gap between required and realizable capacity.

The large amount of investment required to set up the fabric supply capacity is difficult for the private sector to mobilize. There are also questions relating to the viability of some segments of the backward linkage activities. In particular, Bangladesh is considered to have cost disadvantage vis-à-vis India, Pakistan and China in spinning and weaving. Without the support of subsidy, the spinning and weaving activities cannot compete with the imported materials for garments export. No such cost disadvantage is, however, reported in dyeing and finishing.

The case for setting up the backward linkage industry is argued on three counts. First, it is expected to improve price competitiveness of Bangladesh's clothing products. Second, it will help to reduce the lead-time, which is now 120-150 days for Bangladesh, 19-45 days for Sri Lanka and 12 days for India. It is also feared by some that after the phasing out of MFA and accession of China into WTO, Bangladesh may face difficulty in sourcing raw materials from traditional suppliers such as India, China and Thailand, who will now be competing intensively in the export market. Third, backward linkage industries will help satisfy the rules of origin requirements of zero tariff facilities.

While the above arguments are well taken, the long-term viability of the different segments of backward linkage industries needs to be carefully assessed on considerations of cost effectiveness, since the current incentive system of cash subsidy can continue only up to 2004. It should be noted in this context that there has been little incidence of foreign investors moving into yarn or fabric production in Bangladesh as compared to other developing countries in South and Southeast Asia as well as Latin America.

There is also the urgent need for attending other factors that significantly erode the competitiveness of Bangledesh's export. As mentioned earlier, there is very little skill up-gradation and training arrangements for the workers in the clothing industry. Entrepreneurs are reluctant to invest in the training of workers because of high turnover rates. The situation calls for collaboration between the chamber bodies, the government and national and international training institutes. The successful establishment of the design and fashion institute is an example in this context. There is also the need for the use of better management practices, improved maintenance of machinery and adoption of better technology for raising the level of productivity at the plant level.

Attempts by developed countries to include issues of labor standard and other social clauses in multilateral trade negotiations have been successfully blocked so far. But recent events in Seattle, Washington and other places clearly suggest that these cannot be kept at bay for all time to come.

Moreover, even before agreements are reached at multilateral forums, pressures may be created at bi-lateral or even individual buyer's level for social labeling of exports. Bangladesh already had a taste of that through the Harkins's bill on the use of child labor in garments factories, and the recent threat of USA to cut GSP facility unless trade unions are allowed in the EPZs. There were also occasions when buyers insisted on examining the working conditions in the factories before placing orders. All this suggests that Bangladesh will have to attend the questions of work environment and labor standards in the garments factories sooner or later. The sooner this is done better will it be for the industry as it will help improve the moral and motivation of the workers and will contribute significantly towards raising labor productivity in the industry.

Amongst the exogenous factors, the most important causes of delay and cost escalations include: political unrest, frequent power failures, extortion and. deteriorating law and order situation. Unless concerted steps are taken to resolve these problems, Bangladeshi exporters will be disadvantageously placed against their competitors.

One other major limitation of the clothing industry of Bangladesh is the high dependence of the exporters on intermediaries (agents and importers) whose major role consists of supervising and financing garment business transaction, and who retain a large portion of the price margin. It is estimated that only 20-25 por cent of Bangladesh's garments exports are sold directly to retail groups and brand suppliers overseas. Bangladesh can raise the competitiveness of its products significantly by marketing directly and bypassing the intermediaries. To achieve this objective, the government needs to give targeted support to large groups and companies who have developed their own backward and forward linkages and have been successful in penetreting new markets.

Bangladesh also needs to improve the state of governance in the export sector management system. Delays in port clearance, port congestion, corruption and bureaucratic red-tapism inhibit the timely performance of the exporters leading to cost escalations.

In a recent survey, a sample of 14 major textiles and clothing producers and traders in Hong Kong were asked to indicate the relative importance of factors determining where they would buy clothes or invest in a quota free world. In order of importance, the ranked factors were (i) politics and stability in the host country, (ii) quality of transportation infrastructure, (iii) quality of telecom infrastructure, (iv) labor cost, (v) education and training of labor and (vi) nature of policies affecting trade and investment.

The phasing out of MFA is so designed that bulk of the clothing categories under quota restrictions will be integrated only at the last stage, i.e. beginning January1, 2005. So, Bangladesh has still some time to prepare itself to face the onslaught of competition after full integration has taken place. However, as part

of the implementation scheme of the ATC, the quota limits of each exporting countries are being increased at each stage of integration. Thus, during January 1, 1995 to December 31, 1998, quota has been expanded by 16 per cent for each quota bound country. The expansion will be 25 per cent during January 1, 1999 to December 31, 2001. The level of quota utilization under enhanced limit gives the signal weather one exporting country is being displaced by another or not. The evidence on quota utilization by Bangladeshi exporters after the first two rounds of increase in quota shows that quota utilization came down from 100 or near 100 per cent level to levels between 75-87 per cent for nearly 5 categories of traditional items.

The threat of displacement by competing exporters has become stronger after the enactment of United States Trade and Development Act 2000 (USTDA), under which 72 countries of the sub-Saharan and Caribbean region have been granted duty-free and quota free access to the US market, which includes 33 of the 48 countries currently belonging to the group of LDCs. While Bangladesh must prepare itself to face eventual competition after 2005, it needs to seek similar support in the form of duty and quota free access for its clothing export during the interim period from its major trading partners, perticularly, USA, Canada and Japan.

7.4 Textiles For The Domestic Market

Bangladesh's spinning industry comprise of public sector mills under Bangladesh Textile Mills Corporation (BTMC) and private sector mills under Bangladesh Textile Mills Association (BTMA). Some of the spinning mills are stand-alone units while others are composite ones and include fabric production/processing. As of June 2000, there were a total of 141 spinning units of which 114 were in the private sector and 27 were in the public sector. The number of private spinning mills rose sharply from 22 in 1985-86 to 44 in 1991-92 and then to 114 in 1999-00. Between 1991-92 and 1999-00, the increase in the number of installed spindles was nearly 156 por cent. Excepting two acrylic spinning units located in the EPZs; there are no foreign owned spinning units in Bangladesh.

Table 7.14 shows the trend in demand and supply of yarn in Bangladesh. As can be seen from the table that the domestic production of yarn was 63 million kg in 1993-94, which met 19 per cent of total yarn demand of 328 million kg. The share rose to nearly 24 per cent in 1998-99 when local production reached the level of 147 million kg against a total demand of 608 million kg. The increased share was provided by the private sector mills alone. The public sector mills are equipped with out-dated machinery and are chronicelly loss-making concerns. During the first two years of the FFYP, yarn production increased at an annual rate of 12 per cent, which fell far short of the FFYP target of 35 per cent based on projected terminal year (2001-02) output of 522 million kg.

Table 7.14: Demand and Supply of Yarn during 1990s

(million kg)

Year	Demand for yarn			Yarn production broken down by		
	Local market	Export market	Total	Public sector	Private sector	Total
1993-94	190	138	328	17	46	63
1994-95	219	192	411	18	79	97
1995-96	244	220	464	15	98	113
1996-97	255	248	503	17	110	117
1997-98	273	300	573	8	132	140
1998-99	296	310	606	10	137	147
Yearly Growth (%)	**9.3**	**17.6**	**13.1**	**Negative**	**24.4**	**7.5**

Source: Ministry of Textiles

The weaving sector in Bangladesh consists of 7 public sector mills under BTMC, about 1119 private sector mills and decentralized power-loom enterprises and another 212 thousand handloom units. About 70 per cent of the fabric originates in the handloom sub-sector. There are no foreign enterprises in the weaving sector.

Domestic production of fabrics in 1996-97 was 1163 million meters. The FFYP set a target output of 3651 million meters in the terminal year of the plan (2001-02), which implied an annual compound growth rate of 27 5 per cent. As can be seen from Table 7.15, average annual growth of fabric output during the first two years of the FFYP was about 10.7 per cent, which though respectable fell significantly short of the target. Against a target of per capita consumption of domestic cloth of 15.4 meters in the terminal year, the corresponding figure for 1998-99 stood only at 8.4 meters.

Table 7.15: Projected and Realized Production of Fabrics

(million meters)

Item	1996-97	2001-02 Projected	Projected rate of growth (%)	1998-99	Realized rate of growth (%)
Fabric for domestic use	932	2037	16.9	1068	7.0
Fabric for RMG production	231	1614	47.5	356	24.1
Total fabric production	1163	3651	25.7	1424	10.7
Handloom production	585	690	3.0	670	5.8
Mill production	564	2953	39.3	653	15.6
Population (million)	123.8	132.5	1.4	127 5	1.5
Per capita production for local consumption (meter)	7.5[a]	15.4	14.3	8.4	5.8

[a] Per capita cloth consumption in 1996-97 was 12.9 meters, the balance being met from imports

Source: Planning Commission and Ministry of Textiles

As mentioned earlier, domestic production of fabric for export oriented RMG factories has increased significantly over the past decade. But in spite of the 25 per cent cash subsidy incentive, 80-90 per cent of

the woven fabric and 30-40 per cent of the knit fabric for the RMG industry is still imported from abroad. Bangladesh has also failed, so far, to attract any foreign investment in fabric manufacturing.

Similarly, there exists significant gap between domestic consumption demand for fabric and its local production. The FFYP estimated per capita domestic demand for fabric in 1996-97 to be 12.9 meters As shown in Table 7.15, only 7.5 meters or 58 per cent of this demand was met locally. The plan estimated per capita domestic demand for fabric in 2001-02 to be 15.2 meters. In 1998-99, per capita local production of fabric for domestic consumption reached the level of 8.4 meters. The gap between domestic demand and supply of fabric is met by imports – both legal and illegal.

The spinning and weaving industries in Bangladesh have traditionally enjoyed high protection through tariffs and quantitative restrictions. During the early 1990s, restrictions on import of yarn were removed but fabric imports are still restricted. Almost 25 per cent of all 8-digit HS code lines in textiles are under quantitative restrictions. Import bans are in place for all woven fabrics, and gray cloth imports are restricted to export oriented industries. This resulted in high effective protection to the weaving industry. Recent estimates show the weaving sector to be the recipient of the highest level of (statutory) effective protection ranging between 60-70 per cent.

However, both with regard to price competitiveness and product quality of its fabric products, Bangladesh compares unfavorably with competitors such as India, Pakistan and China. Low labor cost provides Bangladesh with relatively low conversion cost. But labor cost constitutes less than 10 per cent of the value of output while raw material account for around 60 per cent of the cost of gray fabric. High costs of imported inputs, particularly cotton, puts Bangladesh at a relatively disadvantageous position vis-à-vis her competitors. Similarly, deficient technology causes the quality of Bangladeshi fabric to be inferior.

Because of import restrictions, the incidence of illegal imports of fabric, particularly from India, is quite high Cotton and silk saree, made-up textiles, rolled fabric and winter clothing were found to be major items of illegal import from India in recent studies. There is also significant leakage of imported duty-free fabric from the RMG factories into local markets This has caused erosion of the statutory effective rate of protection resulting in lower realized level of effective protection rates.

To meet the additional demand for fabrics both for local and export markets, Bangladesh should rapidly expand its dyeing and finishing facility based on imported gray fabric, since Bangladesh does not have particular cost disadvantage in dyeing and finishing in comparison with her competitors. Adequate financing should be provided by the government for expanded dyeing and finishing capacities to be set up in the private sector. To facilitate production for the RMG sector, import of gray fabric needs to be continued under bonded warehouse facility. For domestic market, quantitative restriction on the import of

gray fabric should be converted to tariff and set at level that will discourage illegal imports At the same time, vigorous efforts should be made to improve the state of technology in the weaving sector. The targets set in the FFYP to modernize the weaving mills and replace handloom by automatic and semi-automatic looms have remained largely unrealized.

7.5 SOCIAL CONTRIBUTION

7.5 1 Women Empowerment

It is well recognized that women's participation in income generation activities leads them a better status within the family and provides them with considerable freedom. A job ensures equitable access to household resources (nutrition) and larger investment on female human capital (health and education). An employment opportunity draw attention to women's needs for public facilities such as transportation, communication, safety etc. and creates a demand for policy response in these areas. It also has created a demand for education and health. As the income by the female member reduces dependency on male income it reduces their vulnerability. It also reduces the possibility of domestic violence against women. Expansion of women's employment has contributed positively to the improvement of the drills behaviors of the poor people since women tend to be better savers.Table-7.16 shows the change in different social indicators of the garments workers which indicate a positive change.

Table-7.16: Indicators of Social Changes In Garment Workers

Indicator	Male		Female	
	Before	After	Before	After
Takes Decision Alone	62.8	77.0	26.4	43.3
Goes Out Alone	90.3	92.0	19.9	47.5
Buys Alone	71.7	85 0	23.3	44.4
goes to Market	84.5	77.0	11.5	21.3
Does Cooking	9.3	13.3	59 8	60.1
Do not Do Housework	37.8	48.9	3.4	14.7

Source: BIDS Survey

Employment in the RMG industry has provided direct access to cash income for the first time to many poor women, A survey, conducted by the BIDS in 1997 showed that for 96 percent of the female workers in the non-EPZ areas, work in the garment industry was the maiden wage employments, The survey also showed that woman were taking up such roles paying for house rents and schooling expenses for their children or brothers and sisters. Despite the fact that they have lower income the female garment workers were spending the same amount as the male workers on the studies of their family members. The same survey further showed thet female workers were spending their earnings on their marriage, thus taking a big burden off their families. The independent earnings also allow these women to have a grater share in

household decision-making. Evidently, wage work at the garment industry has empowered women and improved their status.

7.5.2 Savings

Regular earning enables a large number of the garment workers to go for some savings. Workers investing on family pension schemes etc. create savings- A BIDS survey conducted in the early 1990s found that 21 percent of both male and female workers aged 15 years and above had there own bank accounts. A higher proportion of workers (30 percent) had bank accounts in the EPZ. Findings showed that women are on average better savers than men and save about 7.6 percent of their otherwise small income.

7.5.3 Child labor

Over the recent years, international debate on child labor has intensified. The elimination of child labor is also among the core labor standards in the ILO Convention. The Harkin Bill Placed at the US Senate entitled "The Child Labor Deterrence Act of 1993", which called for the elimination of child labor in, the expert oriented manufacturing and mining industries. As a consequence many garment industries has to retrench child workers from their factories. In many countries these retrenched children ended up in more strenuous and less-remunerative jobs or worst turned to begging in the street. The Bangladesh RMG sector set a unique example through collective efforts, which eventually led to the development of safety-net program for the child labors. The BGMEA/ILO/UNICEF Child Labor project in the garment industry of Bangledesh, funded by the International Program on the Elimination of Understanding (MOU) signed by the BGMEA and two international organizations, the ILO and UNICEF, with the aim of progressively phasing out child labor from more than 2,500 factories that are members of the association.
The key Clements of MOU were:

(a) A fact-finding survey to determine the extent of child labor in the garments industry,
(b) The establishment of an education program in which identified child workers should be enrolled,
(c) The establishment of a monitoring and verification system;
(d) The provision of income compensation in the from of a monthly stipend of Tk. 300, the equivalent of (at that time) US$ 7, the costs are to be shared by on fifty--fifty basis by BGMEA, the ILO and other donors.

Many of the retrenched child workers have been placed in Schools and are receiving a Monthly stipend. Football manufacturing industry of Pakistan has been following the globally acclaimed BGMEA Model of Child Labor Elimination. BGMEA has so far spent over 600,000 US dollars for the Project.

Successfully addressing of this issue has created a very favorable image about Bangladesh abroad and promised continued market access for the sector.

7.5.4 Population Control

Employment opportunities especially for women created positive impact on family planning and population control in the country. Independent workingwomen are getting more conscious about the advantage of a small family, and are exposed to modern family planning methods. Working adolescent girls tend to avoid early marriage as they have their own source of income and are self-dependent. The mean age at marriage for girls working in RMG factories tend to be higher than the national average.

Chapter-8

EFFECTIVENESS OF PRODUCTIVITY

8.1 Introduction

In general concept productivity and expertise are used synonymously. The word 'productivity' has been playing an important role in 'Economic Policy Planning'. By "productivity" it is usually mean that the ratio of input & output where output does not only measure the created merchandise but also the satisfaction and pleasure associated with making it. Input also consists of different elements.

There is a misconception regarding production and productivity. Production is the ultimate output or volume. In other way, the result of the relation between input and output is the production. When the elements of production increase then, the production also increases. Increasing the inputs without bothering about the cost can increase production. For example, the increase in labor force resulting from population increase, increase; in raw material due to increased natural wealth etc. this increased input will result in increased output. This is very usual. On the other hand, the productivity related with both the input and output. Productivity can be measured as input/output.

Here in this chapter the ways and means of increase of productivity in Reedymade Garments sector have been discussed. Before that we focus on the necessity of increasing the productivity and the factors those affects the productivity in manufacturing industries are focused.

8.2 Necessity of Increasing the Productivity

The worker needs more wages to lead a better life while the industrialist needs to increase their capital. The only solution here is to increase productivity. It is very necessary for export management. It also initiates good practices like good working condition, humanity etc. It also helps to increase the GDP and to build infrastructure.

Necessity and benefits of job training and obstacles prevailing in productivity enhancement is the central to the learning improvements and competitiveness of an enterprise. For effective and innovative actions to be undertaken for increasing productivity, the latter performance will first have to be analyzed for weaknesses and strengths. However, the analysis of productivity cannot be accomplished by employing empirical methods alone; it also requires the dynamic and pessive analysis of both the managerial activities and behind it and the learning climate in general. Improvements in productivity can be promoted through courses and training events of varying length and intensity.

Training does not increase the productivity only. It also has some other benefits. To create an atmosphere of cooperation instead of conflict in the enterprise between the management and workers. For efficiency and job satisfaction and for start good practices in the working places training is a must. Training makes the workflow smooth, enhance quality and skills and as well as reduces supervisory cost. Timely training helps to make effective decisions & eliminate extra tasks and operation.

8.3 Factors Influencing Workers Productivity:

The workers productivity is influenced by different factors. Some important factors are described below:

8.3.1 Climate of the Work Place:

Climate has a very important effect on working environment. Scorching and humid weather makes a worker tired. It makes very tough to do works for a long time attentively. On the other hand the people in cold and dry zone are comparatively efficient. To say about the subcontinent, "The Indian industry will never reach the European and American standard of efficiency even if they try to copy in detail their technique, moral ethics and production method. This is because of the hot and humid climate of India".

8.3.2 Wages:

As the wage level and standard of living is related to each other, it is clearly recognized that, wage influences the quality. If a worker knows how to spend his earning, then he can spend his earnings in the right way and thus can also improve his efficiency. Wage also affects the mentality of the workers. The more the wage of a worker, the more he can get attentive in the works.

8.3.3 Working Environment:

Productivity is also related to the working environment. The factory that has a very poor working condition will ultimately get a very poor output

8.3.4 Tools:

Sometimes the level and nature of mechanization influences the productivity. That's why the use of modern technology is of modern technology is of utter importance now a day. Sometimes week management creates problems. It works as an obstacle to grow efficiency.

8.3.5 Trade Union:

If the workers are well organized inside and outside the organization, then, the productivity will also increase. But one thing to remember is that, the effort should be aimed at productive objective. Else, productivity will not increase.

8.3.6 Education:

True education enhances man's ability Education helps to build the character of a man. Thus an educated worker becomes more efficient because he takes his job as a responsibility.

8.3.7 Welfare:

There is a positive relationship between the productivity of the workers and the welfare activities taken by the management. It increases the ability of the workers because they know that management is providing all the necessary support they want for their welfare.

8.3.8 National Characteristics:

Efficiency of a worker also depends on his or her heritage & nationality.

8.3.9 Character

Honesty and faithfulness towards duty also increases people's productivity. A dishonest worker can never be an efficient one. Only work environment does not influence the efficiency of a worker. Family life also influences. The worker who faces adverse situation in a family is like to become upset. And the consequence is less productivity. Moreover there is the possibility of absence.

8.4 Way of Increase Productivity in RMG Sector in Bangladesh

Bangladesh's RMG sector has mainly developed for its low laber cost. But only low- cost of labor may no longer be sufficient to maintain the status quo because textile giants (like China and India) and low cost producers (like Vietnam, Nepal, Cambodia etc.) may bypass Bangladesh any time. Through preferential support from US TDA-2000, SSA and CBI countries, with 20% price advantage compared to Bangladesh, may also capture the major market share of Bangladesh. Their price is already competitive than our products because of quota free and duty-free access to the USA market. Furthermore, continuous innovation in textile technology has down the intensity of labor content and reduces the cost of production

significantly. Continuous efforts should, therefore, be offered to reduce the cost of doing business by increasing productivity. To enhance the productivity of labor, intensive training is essential. Surprisingly there is hardly; if any such training center for garment workers in Bangladesh. The capacity of recently established 'BGMEA Institute of Fashion and Technology (BIFT)' is extremely limited and it is aimed at produces only technicians like engineers and fashion designers to replace high paid foreign experts in the industry. Recently a number of privates owned institutions have been established to increase the number of skilled personnel in this industry. Among them NIFD (National Institute of Fashion Design) is serving this fertile industry with trained manpower in the field of Fashion Design, Pattern making & Grading, Textile Design, Apparel manufacturing Marketing & Merchandising courses. Bangladesh Government should take similar steps, in cooperation with BGMEA, to establish training institutes/centers for RMG workers, inspectors, supervisors and others. Recently the joint effort of IPE department of BUET, SCDF and DCE of BUET to train the mid level managers of the garments industries is a good start towards strengthening the efficiency.

It is tough to practically measure the real size or number of input especially in the areas of calculating the adverse effect on the health of the labor. At the same time, assessing pleasure and satisfaction of the worker is almost next to impossible. The reason is that the concept of "division of labor" enables one to do a certain piece of work repeatedly and thus aptly. And thus most of the workers cannot see the end products of the parts they are engaged to produce. The consequence is that, workers have no such satisfaction or they cannot really imply that.

So, the whole thing is that, "productivity" is related to labor, capital, management and other aspects of production. Hence productivity is related to both direct and indirect factors.

There is numerous ways to increase productivity. Some of them are as follows:

8.4.1 Efficient labor:

Efficiency can enhance by providing labor. Moreover, hard work often increases productivity.
That's why motivation is needed.

8.4.2 Increase the Quality of Raw Material:

When the raw material is good, there is more possibility that the productivity will increase.

8.4.3 Cooperation between the Management and the Workers:

The management can motivate the workers by providing the incentive scheme and other welfare activities. Thus management can have the faith of the workers and thus increase the productivity.

Management efficiency can also increase the productivity. It the management can efficiently manage the work force then the productivity will increase. Measuring productivity is an important aspect to measure the efficiency. But measurement needs indicator. This can be measured it by the units of output & inputs But one has to be careful in selecting the units. The units should reflect the actual relationship between input and output. Again units may vary industry to industry.

Now the measures of inputs also can vary like outputs from industry to industry. One thing to remember is that the efficiency of result depends on the efficiency of selection of measures The selected unit should be able to measure both internal and external result. In this connection some thing that the unit "Taka" is the best.

8.4.4 Productivity and quality control:

Productivity is analyzed in a quantitative and a qualitative manner. Activity is analyzed from numerical results as well as from a qualitative view such as capacity, method and work environment of the activity. A quantitative indication of productivity is the numerical measurement of the activity performance, while the qualitative analysis looks at the composition of the activity.

8.5 Recommendations:

- New procedures and work practices takes time for worker to learn. So training is very essential to adapt with the new systems.
- Improving organization of work processes is the best way to increase productivity since it can be achieved with better or no cost.
- Introduce fragment changes in tasks to stimulate the workers attention.
- Set up semi-autonomous groups to improve efficiency and reduce supervisory cost. . Introduce discussion between employees and workers representatives. Discuss the findings with the workers.
- Training for employers on how to improve occupational safety and health.

Finally, practicing some good practices that can otherwise cut cost and enhance productivity. Currently BGMEA is working with ILO for coming up with some of such practices. Moreover, they have another plan with ILO where ILO would investigate what type of training is needed for Bangladesh to enhance productivity coming ahead.

Chapter-9

TECHNICAL COMPETENCE AND IMPROVEMENT OF PRODUCTIVITY

9.1 Introduction

The economical and social importance of RMG sector in Bangladesh is something that needs very little explaining these days. Newspaper articles on this issue, coverage by the T.V. and Radio on it, seminars and workshops and concerns being expressed in government levels are almost daily happenings of the current times. Bangladesh is on the threshold of a completely free world market for facing the severest challenge of competition at every aspect of international business. Since export of RMG occupies a very large portion (about 70% in terms of value) of our total export business this sector is destined to receive the major shock of the free world trade contest.

But unfortunately this sector, which is the only economic lifeline, has entered very crucial times. Even before landing on to the real tough time of beyond year 2004, it has already started facing utter difficulties. The current world situation has pushed the RMG business into an arena where they are to fight against many odds that are posing like many attacking tentacles of octopuses. Some of these include:

- Fight against the rise of the 72 Sub-Saharan and Caribbean countries after TDA 2000 with quota free and duty free access to the US market
- Gradually easing and lifting quota situation and emergence of China as mightier RMG manufacturer and exporter to benefit from the quota free business environment
- Ever increasing cost of production in Bangladesh due to constant rise of prices of utility and other services, etc.
- The fact that majority of the RMG manufactories of the country still remain less efficient and poorly managed
- Recession in the USA
- The catastrophic effect of September the 11 and the Iraq war on the world economy

9.2 Improvement Strategy Beyond Free Market Economy

So 'Improving Productivity' are the key words that deserve special attention and very clear understanding. Increased productivity means increased efficiency. If the industry is more efficient it is less expensive. So in the changed scenario beyond year 2004 we have to count the following factors to increase efficiency.

- Price competitiveness
- Precision of work i.e. product quality

- Ability to ensuring shorter lead time
- Readiness for quick and proper responses to the various needs of customers i e. lab-dipping, sampling, attending mails, on time shipments, etc.
- Promotions i e. offering new styles, fabrics, ideas etc. to customers
- Product Development expertise and capabilities
- Observance of factory compliances and ethical practices

All the factors mentioned above affects the business. But one receives a direct thrust from the first four of them. If one can't offer competitive prices it does not get business. Also they will not get orders when buyers have no confidence in there product quality. Same results await if one is infamous for lousy timings of shipments. Evidently one need to excel in all these departments, which won't cost. So to achieve competitiveness in prices, attain standard quality level and improve enormously of deliveries they have to-

- Improve productivity or plant efficiency by-
    a. training the operators and supervisors to improve their skill
    b. engaging work-study staff to calculate Standard Minute Value of each of the operations of the style intended to produce and setting production targets
    c. using gauges, folders, attachments etc.
    d. minimizing defects percentages and reducing repair and re-work
    e. motivating workers and staff.

- Ensure quality products by-
    a. practicing Total Quality Management (TQM)
    b. preparing and following a quality manual for products
    c. training the Quality Control and Quality Assurance personnel
    d. using gauges, folders, attachments and other modern working aids as and where necessary
    e. introducing Traffic Light System etc.

- Improve the delivery schedules by-
    a. improving merchandising efficiency and ensuring efficient inventory management
    b. improving the productivity
    c. improving the quality
    d. reducing the re-work
    e. ensuring excellent machine maintenance and thus reducing machine breakdown, rework, etc.

Now let's refer to the subject matter of this chapter. "Requirement of technical competence and improving productivity in RMG Industry". In order to safeguard the strong presence in the open market at least Bangladesh must ensure its improved productivity and achieving the target of higher level of overall efficiency. There are also other important aspects that needs to be improved too. These are-

1. Ensure best utilization of overall manpower engaged in all departments,
2. Reduce cutting loss & wastage,
3. Improve marker efficiency,
4. Saving from purchases etc.
5. Improve internal communication system by introducing computer network within the company so that managers have quick access to useful data.
6 Ensure broader use of the accessibility to the Internet and derive multifarious benefits from it.
7. Introduction of a good incentive system.

Improving productivity is not a easy job. Mere wishing won't help, nor the sincerest efforts only. If the efforts are aimless and not following the correct procedure then one won't achieve it. Correct procedure often is the correct technique.
Technical competence is the key words behind many successes. One have to be competent technically to improve productivity, quality, reduce re-work, improve the machine to manpower ratio from an extravagant 1. 3 to about 1: 1.5 (in Sri Lanka a good RMG factory has this ratio as good as 1 : 1), improve utilization of raw-materials, and so on.

9.3 How To Be Technically Competent

The management have to first identify the key people in the company. Then try to assess their technical competence. After knowing that who are the weak links, have to arrange training programs for them, either at the premises or at suitable outside places like BGMEA Institute of Fashion & Technology. Identification of weaknesses or problem areas is very important. But this is only halfway toward solving them. The ultimate target is not to get the satisfaction of treating the patient but to have the patient cured. Having the trained people posted in their respective places, have to assess their performances against the target. Than have to commend their achievements and criticize their failures and give them further targets. A constant follow-up work would be required to turn all the best practices into a permanent habit. The at length discussion of various aspects of achieving technical competence would require a lot of time. So we would restrict our discussion on just a few of them and limit them in a few words only-

- Use of gauges/templates/folders etc. would do a lot of tricks. It will improve productivity, ensure quality, reduce rework, reduce operators fatigue, enable perform more than one operation in one machine at a time; help reduce number of helpers/operators etc.

- Ergonomic design of the workplaces of sitting and standing workers will reduce the fatigue and will improve the productivity.

- Proper work station layout along with a good balancing of workstation will also increase the productivity.

- Upgrading and modernizing the factory by using programmable machines (where affordable), sewing machines with under trimmer mechanism, special machines etc. - this will also help to reduce helpers and improve productivity.

- Introducing CAD (Computer Aided Designing) into the cutting room. This will increase the efficiency of paten making and paten grading, and improve marker efficiency through enough practices. It will help to reduce manpower in the cutting room, help to save from purchasing pattern boards and preserving markers.

- Use of computer software in HRD department, in production, in stores, in merchandising department, in accounts department etc. Local packages are available nowadays at affordable prices. Effective use of these packages is possible after a little training of the users. This, once done, would help to save a lot in terms of reduced manpower, improved efficiency, better and faster communication amongst the departments, lesser mistakes, easy and very quick accessibility to the data bank within the network.

- Introduction of bar-code to all the production places will enhance the cost-effective timings, unearth the bottlenecks and will lead to operator's efficiency. This system can guide the incentive system in RMG industry.

Chapter-10

REASONS FOR STAGNATION and SUGGESTIONS FOR GROWTH

10.1 Overcoming External Constraint

External issues are those over which Bangladesh has no direct control to solve. At best it can influence through her policies and bilateral and multilateral negotiations. These issues include: intense competition from low cost sources, frequent policy changes of importing countries, introduction of new policies giving preferential treatment to competitors (TDA 2000) etc. TDA-2000, NAFTA, Bi-lateral agreement between USA and many other countries like Jordan, Israel made our export highly competitive. Global recession and the terrorist attacks in the US on 11 September 2001 also affected the global economy. The garment export is, for the first time, showing negative growth. Hence it should think about product and market diversification and compliance with sensitive social issues.

10.1.1 Seeking Duty Free Access

In a free market condition it may be difficult for the Least Developod Countries (LCD's) to be competitive. Elimination of quotas under MFA will not reduce garment exports if measure like preferential access is undertaken The disadvantaged position of the LDCs has been addressed by ATC as well as in other declarations of WTO ministerial meeting in Singapore in 1996. A decision was taken at the meeting, where was agreed that LDC's would be given duty free access for their products to avoid 'marginalization. European Union (EU) has also indicated its decision to grant duty-free access to the products of LCD's. On the other hand, the declaration also renews WTOs commitment to the observation of internationally recognized core labor standards. The report suggests that the international Labor Organization (ILO) is the competent body to set and deal with these standards.

At the Seattle Ministerial meeting the LCD's have managed to articulate a set of well thought out proposals, which is called Comprehensive New Plan of Action (CNPA) for ensuring successful integration of LCD's into the global trading system and arresting further marginalization. The CNPA had contained provisions of duty free, quota free and non-reciprocal access of all LDC products into markets of the developed countries. As there was no consensus on these in the Seattle meeting, the LCD's should therefore address these issues in multilateral and bilateral forums.

It is important to note that on 19th May 2000, Sub-Saharan Africa (SSA) and Caribbean Basin Initiative (CBI) countries have been granted duty free access from October 1, 2000 to September 30, 2008. The major exporters are Mauritius, Lesetho, South Africa and Kenya who are likely to compete with Bangledesh. Out of the 48 LDC countries 33 countries were in the SSA and CBI. There are 15 LCD's in

Asia. Hence, for the rest LCD's bilateral agreement may be sought for duty free access to USA. The common elements of the eligibility criteria for the SSA and the CBI countries are: (a) country provides internationally recognized workers rights and (b) has a system to combat against Corruption. Hence, in case Bangladesh seeks preferential access, these would be the minimum requirements for eligibility. Bangladesh would therefore have to decide whether such conditions are acceptable. Other conditions were fabric made of USA yarn, USA thread for SSA countries. There are clauses for GSP and surge mechanism. For the CBI countries, the apparel cut and assembled in CBI needs to be made from US fabric made or US yarn. It is not clear whether fabric dyed and finishing is allowed. In both case transshipment penalties are includes and handloom articles, and made and folklore articles are duty free if certified by the country. Certificate of origin is also needed. Therefore, in case of duty free access Bangladesh may have to: (a) use USA cotton/USA yarn/USA fabric; (b) follow core labor standard; (c) have certification of origin from the customs; (d) develop a system to combat corruption.

In order to follow the eligibility criteria of internationally recognized workers rights there is a need to appreve and enforce the Labor Law Reform Report 1994 in Bangladesh. This report has reviewed all the existing labor laws and has made the following changes: appointment letter to be made compulsory, maternity leave to be provided for two surviving children, workers need to give 60 day's notice to leave jobs, standard working hours for women are to be followed, provision for a one-day weekly leave, equal wage to be paid to man and women for equal work; fine for not paying the minimum wage, group of establishment at the same location can form one union; unions should be as per ILO guidelines. These provisions will certainly help improve the wage and working conditions of the RMG sector if they are properly enforced. Moreover, NGOs and trade unions need to create more awareness about labor laws and monitor implementations. Unless efforts are made to improve these aspects, trade related employment would continue to provide dead-end, low-skill jobs with poor working conditions, intensifying traditional segregation.

10.1.2 Integrated Framework for Technical Assistance for LDCs

As a follow-up of the first WTO Ministerial Meeting held in Singapore in December, 1996, a High-Level meeting on Integrated Initiatives for LDCs' Trade Development was held in 1997. An integrated framework for trade- related technical assistance; including human and institutional capacity building to support least-developed countries in their trade and trade related activities was developed. In order to improve the overall capacity of least- developed countries to respond to the challenges and opportunities offered by the trading system, it was agreed that six agencies, namely, IMF, ITC, UNCTAD, UNDP, the World Bank and the WTO would provide trede related assistance to enhance their supply response.

The implementation of the Integrated Framework for Trade-Related Technical Assistance Activities has been very slow. Through the intagrated framework Bangladesh can seek to enhance her competitive

strength by raising her domestic capabilities to respond to the global challenges. Hence, as a follow-up of the integrated framework, a need assessment study began in Bangladesh in September 1997. Subsequently, all the six multinational agencies prepared a joint integrated response to that needs assessment. ITC together with UNCTAD prepared an Integrated Country Program aimed at strengthening the supply capacity of Bangledesh in May 1998. The process of implementation of the integrated framework has been very slow and it took two years for the process to come to a Round Table Meeting (RTM) where a draft report on Multi-year Program was presented in January 2000. This RTM was the first of its kind in Asia. A list of 34 trade-related technical assistance projects has been identified as priority projects. Of the 21 sectional projects there are only two related to the RMG sector. There is only one fashion institute, which is funded by BGMEA and World Bank. There is a proposal for another Italian aided fashion institute. Ironically, in 1995, Cotton Textile was declared as the "thrust" sector in the textile policy. But "textile as a thrust sector" has been totally ignored! Surprisingly, there are no projects regarding Cotton textile restructuring. There were several projects, which UNCTAD and WTO showed interest but were not in the priority list. At the round table meeting held on 22 January, 2000 to discuss the trade related technical assistance, it was agreed that the assistance, channeled to the projects must be in addition to the regular funds which are earmarked for Bangladesh by bilateral and multilateral donors agencies The meeting suggested that there was a need to (a) prioritize the projects; (b) create a separate wing to co- ordinate private sector project; (c) IT sector needed priority attention; (d) taking the bottom up approach may not be appropriate as reference to WTO rules and regulations in public as will as private sector was lacking.

The WTO cell of the Ministry of Commerce needs to be expanded to a division and it needs to be manned by trade cadre persons. So that there is continuity in trade related issues. In order to disseminate WTO rules and regulations, there is a need to have a focal point in the key ministries which would be arrested by the WTO, such as ministry of Agriculture, Ministry of Industry (patent design), Cultural Ministry (copy write), ministry of textile (ATC), NBR and Tariff Commission (anti dumping) EPB and Ministry of Environment (Sanitary and phytosanitary measure). Newsletters could be developed on WTO rules and regulations and disseminated this is one way of creating awareness both in the pubic and the private sector about WTO regulations beyond 2004. Even the farmers and firms needs to be aware of the effects of WTO regulations. Trade associations may be involved for dissemination.

10.1.3 Compliance with Non-tariff Barriers

Companies are under considerable pressure from their customers, public and government to demonstrate their commitment to ethical purchase policies. Internationally recognized labor right is one of the clauses for providing duty free access to USA. The USA buyers have already started imposing Social Accountability (SA) standard on textile and clothing exporting countries .Certification process SA 8000 was developed for an international standard, which is robust, and independently auditable, hence, it is

likely that it may be mandatory to have SA 8000 certification in the near future. Exporters may also require to use social- labeling to assure consumers in importing countries that SA 8000 standards lave been met. Hence in order to remain competitive firms will have to meet SA 8000 standard. This is likely to increase cost.

In order to comply with SA 8000 there are four stages in the process of becoming certified. The World Bank Project on Matching Grant Fund (MGF) is currently providing 50 per cent grant for SA 9000 certification. This year, there were 10 RMG firms certified with the help of MGF. There is a need to have a separate project to provide MGF for SA 8000. The BGMEA have arranged seminar for creating awareness about compliance with SA 8000 An early compliance will give a competitive edge. Hence, Bangladesh could make compulsory by the year 2002.

10.1.4 Market Diversification

Bangladesh has so far exported apparels to almost 85 countries; its export is concentrated only in two large markets, USA and EU. Because of larger quotas granted by USA and GSP privileges provided by EU. More than 95% of our garments are exported to these two markets. Canada as a single country buys about 2.3% of our total export.

The export share to the USA is 45.24% in 2000-2001, which is 3.74% less than that of the year 1991-1992; however, the corresponding share to the EU has experienced an increase of4.9% than the year 1991-92. Thus, the increment in the EU share has simply replaced the declining share in the USA market, which suggests that instead of diversification, Bangledesh's export market has still remained concentrated in these two areas over the past decade. The combined market share of the USA and EU has thus increased from 95.56 percent to 95.73 per cent between 1991-92 and 2000-2001.

Recently Canada has provided Duty and Quota free access of apparels of Bangfadesh to Canadian Market. It should try to expand the market share to Canada, which is now only 2-3%.

But exploring new market is costly There is a lack of knowledge about how to enter new market and new products. Out of a total of US$ 2,068,575, disbursed under Matching Grant Fund (MGF), the RMG sector demanded US$ 561495, i.e. 27 per cent. As the market and product studies are costly and 50 per cent is provided by MGF, these information could be procured by the Ministry of Commerce and then distributed to the relevant trade association. This will reduce duplication of efforts.

Bangladesh could explore other developed markets like Japan, Sweden, Australia and New Zealand. Other emerging market is South Africa, Russia, India and Brazil. It should also try to capture these two

markets by putting greater efforts. There is also market in the middle-east: namely the Hajj market where each Hajj market where each hajis buys apparels "Tupi", rubber sandals, towels for ahram, beads and prayer mats. This markat is currently captured by China. Bangladesh could use regional cooperation lika the OIC to enter the Hajj market duty free.

There is a need to move up market for the RMG products. At present the. Back-to-back L/C can be 75 per cent of the value of the original L/C. But for high value added products it could be 80 per cent. There is a need to raise these limits to 80 and 90 per cent. Respectively. This would make RMG export compotitive in the international market. There is a need to set up forward linkages by having own marketing capebilities. This will reduce the marketing margin of the intermediaries. Bangladeshi's needs to set up their own buying houses and diversify products and markets.

10.2 Overcoming Internal Constraint

Internal problems include: cost reduction strategies, establishing backward' linkages, ensuring efficient management of ports and attaining political consensus on treating RMG as a top priority industry and to keep it out of all sorts of political disturbance.

10.2.1 Reducing Lead Time for Export

In order to be competitive, reducing lead-time is crucial for Bangladesh Lade time for orders placed in Bangladesh amounts to 120 to 150 days from the date of order to the date of shipment from Chittagong. This is one of the major obstacles to the RMG business. Such long lead-time results due to many factors. The lack of domestic supply source of fabric is only one factor responsible for the low level of responsiveness. The use of local fabrics would reduce lead-time by four weeks. Besides developing backward linkage industries there is a need to provide private bonded warehouse and port facilities, solving infrastructure and financial problems and reduce bureaucratic delays especially custom delays.

10.2.2 Beckward Linkage Industry

In textile and clothing trade usually two types of countries are involved: One typo consists of those with beckward linkage industries such as China, India, Thailand, Indonesia, Korea, Taiwan, Hong Kong etc. Another typo includes countries, which export clothing, but depends on imported textile for manufacturing clothing such as Bangladesh. Nepal. Sri Lanka and some Middle East and African countries. When there will be no quota those countries that produce textile are likely to have for varied linkage clothing industries. The countries in the second group will face difficulty in being competitive as lead-time is almost double.

Although the RMG industry is already 20 years old no attempt has so far been made to build up backward linkages textile industry to feed the RMG industry. The RMG industry is highly dependent on imported raw materials because Bangladesh does not have the capacity' to produce export quality fabric. Orders are placed by the buyers on a cutting and making (CM) basis. Whereby the buyers supplied the fabrics from their Geneva sources or recommended suppliers abroad. Presently. Bangladesh import 80 per cent of woven fabric and 40 per cent of the knit fabric. According to BGMEA, the development of the textile industry is imperative In view of impending changes of quota free environment. There is a captive market of 3 billion meters of fabric annually. The GOB estimates that Bangladesh will need Tk. 240 billion investments for the backward linkage industries. But till date there has not been any move for raising such funds. Shortage of capital for backward linkage industries is the major weakness. Although Bangladesh offers' excellent incentives for foreign investment still they are not coming in a big way for investment in the textile sector. India, who produces cotton, has emberked on a program of Indian Rs. 25000 crores to its investors at an interest rate of less than 6 per cent to re-vamp its entire textile industry.

Considering the importance of textile in 1992 cotton textile was declared as the 'thrust sector'. Textile policy was formed in 1989 and revised in 1995. The objective of the 1995 textile policy was: (a) to attain se1f-sufficiency in textiles for meeting local demand as well as for supplying fabric to the export- oriented RMG industry and (b) to export fabric directly through the development of the private sector. The export-oriented RMG industry has played a vital role in the development of the textile accessories industry such as buttons, buckrem, labels, packaging etc. There is no conclusive evidence on how far backward linkage industries would be competitive for Bangladesh. The IFC (1999) report suggests that the spinning sector would not be able to survive without the porcent cash incentive of 25 per cent paid to those fabric manufacturers who use locally spun yam. Moreover, labor productivity in Indian weaving sector is higher and labor cost In Pakistan are around 7 per cent lower compared to Bangladesh. Although Bangladesh has cost advantage in terms of power, which accounts for 10-15 per cent of the cost, this is neutralized due to high import duties and taxes levied on auxiliary materials, such as spare parts. Export oriented mills in India and Pakistan are allowed to import such goods duty free. Moreover, raw cotton is about 20 per cent and 15 per cent cheaper in India and Pakistan respectively. At present China and India are the main suppliers of fabric to Bangladesh. In a recent study, it was argued that current productivity in textile industries is not a good indicator to evaluate the prospect of textile industry. Productivity could increase with improvement in technology.

But a crucial issue of backward linkage would depend on under what "rules of origin" condition Bangladesh will get duty free access In USA. The best option would be to get USA cotton rather than yam or fabric. Duty-free and quota free access to be sought from January 2001. Even if Grey cloth is imported from USA under the "rule of origin" then there will be a need to have Effluent Water treatment plant for

dyeing and printing industries. These dyeing and printing industries could be located in one EPZ so that the plant is cost-effective.

Two indicators of backward linkage industries are: (a) import of machinery and (b) tax holiday data on investment and employment. Yamagata (2000) has compiled the trade statistics on import of machinery from Bangladesh Bureau of Statistics Foreign Trade Statistics of Bangladesh. As most of the machineries used in textile are imported this is a good indicator of trend in vestment in textile industry. About 25 per cent of the machineries are imported from Japan and another 25 per cent from China and India.

Data on private sector investment in textiles are limited; tax holiday data are the only available source of information on new investment and employment in large-scale industries during 1997-2000. In 1999, about 78 percent of employment and 41 per cent of investment were created in the RMG sector, while cotton textile sector created 8 per cent of additional employment and 27 per cent of additional investment in the large-scale sector.

10.2.3 Provide Private Bonded Warehouse and Port Facilities

In order to order the lead-time, there is a need to establish private sector bonded warehouse facilities as Bangladesh imports most of the fabric for clothing. At present only 12-15 per 12-15 per cent of woven and about 60 per cent of knitwear is being met from local sources. On an average, after orders are placed, it takes about 20-25 days for transshipment of the imported fabric to reach Chittagong port. At the port another 4-7 days are needed to release the fabric. Hence, if there is a private bonded warehouse facility, then entrepreneurs can stock fabric espocially gray cloth. Moreover, if there is a Deep Sea Port then the Mother-Vessel can anchor in the Deep Sea Port and the fabric can reach Chittagong port in 8-12 days. Also alternative port at Mongla needs to be developed further. Prtvate sector participation in port development needs to be encouraged.

Bangladesh garment export in volume is increasing @ 15 percent for the last 20 years. The facilities of Chittagong Port and Mongla Port have not increased at the same rate. The handling capacity of Chittagong Port is 1.5 lac Total Equivalent Units (TEU), whereas last year Chittagong Port handled more than 3 lacs Total Equivalent Units (TEU). The containers kept stuck up in the Port and many containers remain jammed for 15-20 days, which is required to be released within three days. Bangladesh have exported 101 million dozens, 111 million dozens and 124 million dozens of apparel in the year 1998-99, 1999-2000 and 2000- 2001 respectively. The amount became 140 million dozens in 2001-2002, whereas it is depending only on Chittagong Port. Towards keeping a future demand, if it is unable to find an alternative solution to this problem it would jeoperdize country's total economy. To complete the export

procedure in due time, it is very essential to collect raw materials at right time. If the raw materials remain idle in the container at Chittagong Port for 10-15 days, the apparel industry would definitely face a serious negative impact.

To complete the process of import and export activities smoothly,

- It is necessary to introduce modern handling equipment at 'Inland Container Depot (ICD), Dhaka' as well as at Chittagong port.
- The port requires highly skilled professionals in dealing with port activities smoothly.
- Considering the bulk shipment of apparel export in the future, it is necessary to increase the space capacity of the port.
- The port should oporate 24 hours a day, 7 days a week to reduce the turn around time for container vessels
- Stop all toll collections that take place at the entry and within the port. These tolls cause delay and increase costs.
- Establishing new container terminal to ease congestion of the existing port
- The computerization of these port facilities will further strengthen its efficiency.
- Improve alternative port facilities at Mongla.
- Introduction of modern machineries for port operation.

10.2.4 Solve Infrastructure Problem

About 80 por cent of the fabric for RMG is imported and about 90 per cent of the exports are shipped from the Chittagong Port. Most of the factories are located in Dhaka and Chittagong. Thus, there is a need to have additional rail track for the Dhaka-Chittagong route and an expressway. Power disruption and intermittent power supply is a crucial problem. This makes production plan difficult. Hence, measure needs to be introducod to provide uninterrupted power supply to all RMG enterprise as well as textile industries. Small electricity generation plants may bo set up for the industrial zones as well as those aides where garment factories are concentrated.

10.2.5 Solve Financial Sector Problems

The lending rate is the highest in the region. The interest rate should be lowered to 6-7 percents. There is poor bank-client relationship due to which processing is delayed. Also trained and competent people are needed for processing work. In case of RMG, site L/Cs has no charges but deferred L/Cs has 0 9 per cent charges. All L/Cs should be treated similarly. To solve the stock lot problem, there is a need to implement block account as done for the leather sector, through segregating loans.

10.2.6 Reduce Custom Delays

Delays in clearing are the main problem in customs. Those factories located in the EPZ as the custom clearing is not done at the port do not face these delays. There is a need to develop similar process for other factories. A custom clearing zone may be established in Comilla, which will be computerized. Clearance within the same day needs to be ensured to reduce lead-time. Relationship between custom authorities and exporters needs to be improved. There is a need to simplify custom and port procedures. Moreover, custom rules should not be changed without notification.

10.2.7 Diversifying into New Products

The export of Bangladesh is highly concentrated in two major markets: EU and USA. In 1998/99, Bangladesh exported 52.4 per cent of its RMG to EU. The market share of EU has increased since mid-1990s due to duty-free and quota-free access to EU. In 1998/99, Germany was the main buyer (14.5 per cent), followed by UK (10 per cent), France (8 por cent), Netherlands (5 4 per cent) and Italy (5.3 per cent). During 1998/99, Bangladesh exported 43.2 per cent of its RMG to USA, while to Canada it was 2.3 per cent. The narrow base of RMG exports is a matter of great concern and about 45 per cent of its export will be is vulnerable to competition after 2005. Bangladesh has very little access to Japan, China and Indian markets for RMG export. Duty free access for RMG may be sought for access to these countries on a bilateral basis.

Not only the RMG export has been limited to small number countries, but also the products are not diversified. Bangladesh exports few RMG products such as shirts, T-shirts, shorts, jackets, trousers and sweaters. As mentioned earlier these are products for the low end of the market. During the ATC period 1994-99, some diversification has taken place as the share of shirts fell from 63 per cent in 1994/95 to 40 percent in 1998/991. Diversification has taken place to higher value products like trousers and sweaters. Bangladesh can expand its production for the low end of the market where it has a competitive advantage as well as move upward to high priced fashion clothing.

To be internationally competitive, Bangladesh needs to expend its product range and should begin producing fashion-wear and higher value added items. Product diversification is essential to meet the challenges of the post-MFA world.
Sufficient capacity building is required for such diversification, which involves improving skills such as fashion design and cutting as well as upgrading technology.

10.2.8 Enhancing Labor Skill and Productivity

BGMEA with assistance from the World Bank in the form ot MGF has set up the Institute of Fashion and Technology (BIFT) in January 2000. The institute will produce skilled fashion and design personnel to make more value edded products to meet the challenges after phasing-out of MFA. The Institute has a

teaching staff of 21 and four expert teachers from abroad. As many as 11 graduates and master degree holders have been sent to Sri Lanka for a six months training and will join as instructors of the institute. At present about 6000 foreigners are working as specialist in various Garment industries. Some of them will be employed as part-time teachers. The institute is expected get affiliation with the University of Dhaka and link with Nottingham Trent University of UK.

As 6000 foreigners are working in the garment factories, it suggests that there is a shortage of factory managers. This is because Bangladesh does not produce MBA with major in production. They usually have a major in finance and marketing. Thus, it is urgent to introduce production major in the MBA courses. Scholarship could be introduced to such major to encourage more students to take this specialization. Also the Fashion Institute needs to be used in a better way to meet the demand of the garment sector. Moreover, Bangladesh now has a skilled workforce, which could readily adapt to handling more complicated designs. Appropriate training is needed to move up market.

There is a need to improving the textile technology institute. This Institute produces few graduates but there is a greater demand for such skilled workers. Moreover, the technology used at the Institute is obsolete. Hence, There is a need to expand and moderns the textile institute.

To increase productivity, workers must be trained and working condition needs to be improved. Training facilities in collaboration with true government, BGMEA and international organization can be set up for garment workers and managers. Computerized information system can also reduce lead-time. Besides improving working condition, timely payment of wage and overtime, subsidized fount, subsidized transport, providing free medical facilities and protection against fire hazards are likely to motivate workers and improve productivity.

The labor productivity in RMG is lower than countries like China, Korea or even Sri Lanka, Workers must be trained and well motivated to increase productivity, Necessary steps must be taken at the industry level to train and motivate workers

The aim should bo to move the industry to the different regime, where competition will bo based on higher productivity, to meet the new challenges of the post-MFA era. A more concerted action plan should have been needed in this regard.

10.2.9 Retraining of the Affected Workers

The phasing-out of MFA will have differential impact on knit and woven clothing in the garment industry Women form about 65-70 per cent of the labor force in woven garment manufacturing, while their proportions are only 30-35 por cent of the labor force in knitwear manufacturing. The share of woven

RMG in total export to USA is 78 percent and that of knitwear RMG is 22 per cent. But in the EU these shares are 52 por cent and 48 per cent respectively. Hence, the phasing out of quotas in the USA will have differential impact on men and women working ill the RMG Industry and is a matter of great concern.

It is expected that in Bangladesh all factories cannot comply with labor standards. Hence. About half the firms will close down- mainly the smaller ones. But on the other hand, the successful ones are likely to grow in size. Moreover, the higher valued products are mostly of smaller orders and will therefore need a smaller skilled labor force. It is therefore felt that a large number of workers will bo losing their jobs. If the workers are given ID cards. Then these workers could be identified and retrained for IT or provided self-employment. If measures are not taken there the end up begin or becoming prostitutes.

10.2.10 Better Industrial Relations

Improved working conditions, better terms of employment, timely over time payment, health care services, etc are likely to motivate workers which in turn will improve productivity. Productivity increase eventually decreases cost.

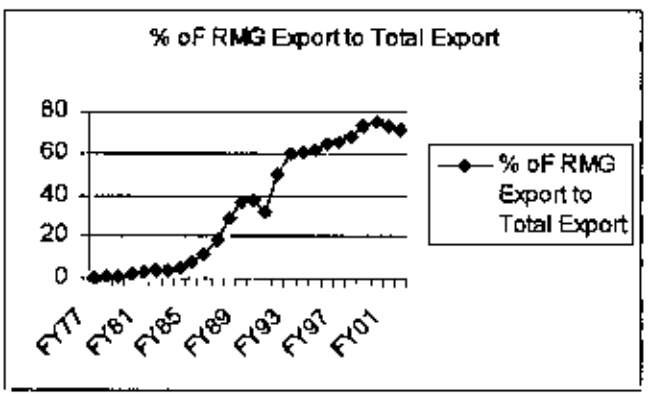
Chapter-11

CONCLUSION

A coordinated action plan is needed to face the challenges in ready made garments sector. The government must accept the fact that if RMG industry collapses, the entire economy of Bangladesh will be collapsed. There would not be enough time to develop another new export-oriented industry to stop the landslide. Therefore, it is necessary to make all out efforts to protect and promote this industry. All kinds of helps and support from government including cash incentives, duty and quota free access to USA market, to implement SAARC Regional Cumulating facilities, exemption of VAT from all export related industries, reduction of different bank charges, commissions from export-oriented industries, establishment of Central Bonded Warehouse and withdrawal of peak-hour rate will help us to minimize production cost and lead time which will ultimately help us to be competitive in the post MFA era after year 2004. The country must be made competitive in price, quality, lead-time etc.

There are several avenues by which negative economic shocks from these emerging economies can impact this export industry in Bangladesh First, several of these nations are also big apparel exporters in same markets to which Bangladesh exports apparel. A steep depreciation in their currency makes their products more competitive in both the open and the quota-protected apparel markets. In the markets protected by quotas, such a development would be a deflationary force pulling down the unit prices and the profit margins for Bangladesh apparel exporters. Second, given the crunch, these economies would try to export themselves out of their severe recession. In the recent crisis, these regional and international forces have greatly increased competition for Bangladesh exports. Third, to help them recover from their downturn, the U.S. government and others have already relaxed quota restrictions on exports from the worst affected economies, making the playing field more difficult for Bangledeshi exporters. Fourth, prior to this crisis, some of these nations were potentially big investors in Bangladesh in the textile and infrastructure projects. Their economic troubles have meant a dramatic scaling back in their direct investments in Bangladesh.

Fig.-11.1: Export Trend of RMG in Bangladesh



From the above chart it can be seen that in recent days a little rescission being observed in export. So it should be taken care of in strong manner.

Partly as a result of the East Asian economic debacle, there was a massive return of Bangladeshi workers from this region that has swelled the urban labor force pool from which garment factories recruit their workers. Second, when some of these economies weakened, their ability to compete was impaired from the economic or political collapse. This could mean new opportunities for those competitors who were unaffected by the economic crisis. Finally, Bangladesh has tried to take advantage of the crises by demanding from the U.S. equal quota concessions, pointing to its efforts in reducing the underage worker problem in the apparel factories.

One of the biggest threat to apparel exports in Bangladesh comes from the financial sector. Although it does not anticipete a financial panic similar to the Asian crisis since the influx of short-term foreign investment (hot money) and borrowing by the private and public sector has been rather limited in Bangladesh, there are some similarities. One common element that is shared with these affected economies is a weak banking sector with little transparency or central bank control. Elements of crony capitalism and moral hazard are certainly present in Bangladesh, especially in the nationalized banking sector and in credit markets. According to the World Bank-Asian Development Bank report, the financial sector in Bangladesh remains fragile with 33 porcent of the portfolios of the NCB's and domestic private banks in the non-performing category. Notwithstanding the fifty billion taka of taxpayer money that was used to re-capitalize the nationalized commercial banks (NCBs) in the early 1990s, the system-wide capital inadequacy today is estimated to be taka 133 billion. This situation could cause the entire banking system to collapse as a result of a large external shock or even from a domestic shock such as a run on a major financial institution. One important lesson from the East Asian crisis is that moral hazard and the resulting financial panic can be very costly for an economy, even when the fundamentals are sound. Without fundamental reforms in the banking sector, the financial sector in Bangladesh remains susceptible to a financial panic where a speculative price bubble crashing in the real estate sector or elsewhere in the economy could start a systemic self-fulfilling crisis. Such a collapse could seriously impact apparel exports, which are critically dependent on a healthy banking system for the institutional support in exports and for short-term financing.

Other potential hazards include an overvaluation of the taka compared to the currency of its competitors Despite the repeated devaluation in the recent past, according to the World Bank, the taka remains overvalued in real terms. This could undermine the long- term competitiveness of the industry. Finally, in the year 2004, under the Uruguay Round Agreement on Textiles and Clothing, MFA quotas will be phased out. Bangladesh will lose its preferential access to its most important markets and will have to compete with India, China and other apparel exporters in a truly global competitive environment. Many

apparel firms in Bangladesh are not ready for this change, although the more efficient larger firms that have diversified their products and markets are expected to do well in the post MFA world.

Finally, it is anticipated that the biggest source of problems for the apparel export industry is likely to be domestic, not external. The politicians could seriously damage this sector by creating instability and attempting to achieve their goals by violent means in the streets instead of the parliament. The bankers, the bureaucrats, and the politicians remain a source of threat. In their attempt to further extract rent from this sector, they could undermine the long-term viability of this industry. The failure of the law enforcement forces to control the menace of mastans and toll collectors may create a climate that debilitates commerce and production in the economy. Labor disturbances and frequent disruptions in the Chittagong port also remain a source of concern to exporters in general. Increased contacts between factory owners and the union leadership would help the industry. Garment workers remain one of the hardest-working segments of the labor force in Bangladesh. The working conditions and benefits for workers should improve as the industry matures and human capital increases. In the long run, this is the best defense against labor union agitation. Investing in worker training and in improved working conditions would certainly enhance productivity. The apparel factory owners must be proactive instead of reactive on this important issue.

Steps must be taken to penetrate into new and potentially rich markets. Diversification of markets into Russia, India, Japan, ASEAN countries and other regions outside the European Union and North America is necessary. Diversification of products, particularly move from low end to high end products

To formulate and implement product diversification as well as market diversification strategies, the following activities must be undertaken: market research on product design and development, market promotion through trade fairs, exhibition etc., and human resource development through training. The Fashion Design Institute needs to be strengthened.

Support for the establishment of backward linkage industries, but with propor assessment of international competitiveness, with a focus on dyeing and finishing units and on smaller units, which are less capital intensive and less risky as investments.

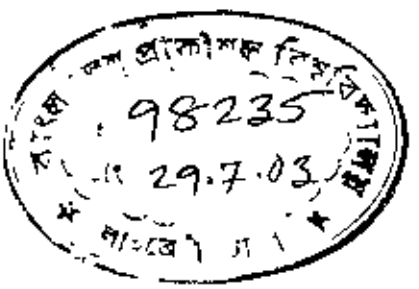
Encouragement for relocation of factories outside main city areas, which will help the members, better fulfill their commitments to the workers and the international buyers' community. BGMEA is working for setting up garment villages. Once the proposed garment villages are set up, it would be easier to ensure all compliance, including providing better work place safety and accommodation to the workers and employees on the campus.

It is important for Bangladesh to understand the real strength and weakness and the strategies of its competitors. For that Government must undertake a detailed study to prepare comprehensive strategic plan, which will help Bangladesh for taking specific action plan. This might be a counter strategy to face the challenges and win over the competitors during the post MFA era. To prepare this strategic plan, an active collaboration between the government and the entrepreneurs is essential.

Golden days of this business are history now and 'survival of the fittest' situation prevails. BGMEA have to prove its competence in every departments of its trade. Dependence on imported fabrics will continue to exist beyond year 2004 and yet have to survive by competing and winning against China, India, Pakistan and 72 other privileged countries. They have advantages, which Bangladesh do not have. So it is necessary to acquire some merits over them that will help to beat them. And one of those would be its overall technical superiority and becoming competitive. According to the Director, C.I.T.I. (Clothing Industry Training Institute) of Sri Lanka, the total earning of the country's RMG sector is 2.5 billion US$ from about 900 factories whereas in Bangladesh it is less than 5 billion US$ from over 3000 factories.

In fine, analyzing the facts prevailing in the garments industries it can be said that the medium and large firm will survive and small ones will die. Factories with compliance, quality and good delivery will exist. They need purposefully built factories and seek direct orders from retailers. They must maintain price competitiveness MFA will affect woven in both USA as well as EU but Knitwear and sweater will survive if GSP continues. Duty free access to USA and EU is essential for the survival of woven RMG and for that rules of origin should be carefully considered. The lead time must be reduced and measures to be taken for balance of payment crisis and mass unemployment of woman.

The RMG sector in Bangladesh is now at a crossroad, facing the challenges of globalization and competition. So to maintain its international competitiveness in RMG exports after MFA phase out in 2005 Bangladesh should move in the right way of management and policy. That will remove the stagnation and ensure the desired growth in RMG sector.



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