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## **CHALLENGES FOR GARMENTS SECTOR IN BANGLADESH AFTER 2004: AVENUES FOR SURVIVAL AND GROWTH**

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### **Abstract**

The spectacular growth of garments sector in Bangladesh in recent years has dramatically changed the landscape of export composition of the country. Once heavily dependent on exports of primary products led by Jute, the economy of Bangladesh is now experiencing almost 76% export contribution from Ready Made Garments (RMG). With the blessings of cheap labour, pressure for globalization of production based on location economies as well as the favourable treatment from developed countries, Bangladesh and some other developing countries have gradually become the global players in international trade in RMG. However, with the implementation of GATT convention issued at the conclusion of Uruguay round of negotiation, the Multi-fiber Arrangement (MFA) facility which was extended to favour least developed countries in exporting garments and textiles, is going to be phased out after 2004. Consequently, the

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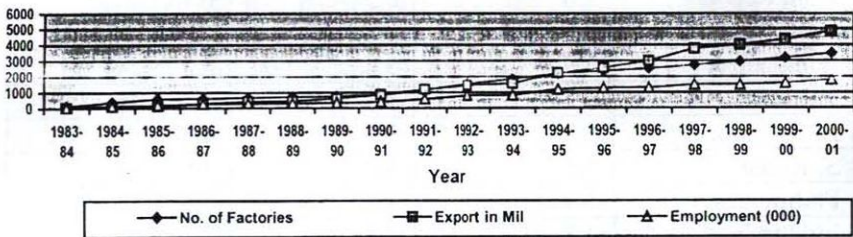
beneficiaries of MFA, including Bangladesh will face severe competition in the unprotected world market. Therefore, the major challenge of the garments industry in Bangladesh is to get prepared for survival and growth after year 2004. This paper is meant to put some lights on this issue. The overall development of competitiveness in RMG sector is contingent upon the initiatives from government, Industry Association (BGMEA) and the firm itself. The paper focuses on the facilitating role of the government and considers the role of BGMEA in developing professionalism, industry advocacy and quality of working life in the industry. Finally, the role of firm-management to improve the competitiveness through the exploitation of an array of tools like, supply chain management, relationship marketing, collaborative arrangement, exploitation of production and Information Technology etc. are highlighted.

## **1.0 Introduction**

Extraordinary performance of RMG sector has radically changed the landscape of export from Bangladesh. The industry had been experiencing a phenomenal growth in last 15 years. Now it has become the major conduit of hard currency of Bangladesh contributing around 76% of the total export earnings. By taking advantage of an insulated market under the provision of Multi Fiber Arrangement (MFA) of GATT, it could attain a high profile in terms of contribution to GDP, foreign exchange earning, industrialization and employment generation within a short span of time. RMG sector is now the most important manufacturing sector in the country. It employs 1.8 million workers, of whom 80% are women. It also plays a pivotal role to promote the development of other key sectors of the economy, like banking, insurance, shipping, hotel, tourism,

road transportation, railway container services etc. Ancillary industries producing cartons, poly bags, woven labels, hangers, buttons, sewing thread, strapping band, gum tape etc. have emerged in large number with the growth of the sector. In the name of backward linkage, considerable entrepreneurial efforts have been focused to the growth of textile sector in the country.

Chart # 1: A Brief Picture of RMG Industry in Bangladesh



Source: Export Processing Zone. (See table # 6 in appendix for data).

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Presently, the Bangladeshi apparels are being exported to 90 countries. United States is the single largest buyer (45.24%) of Bangladeshi apparel. The countries that rank next to USA are Germany, UK, France, Italy, Netherlands and Belgium. The apparel export from Bangladesh comprises both woven items and knit items. Within a very short span of time, this sector of the economy expanded by leaps and bounds and Bangladesh has been able to curve a good share in international market as a major RMG exporting country.

**Table 1: Apparel Imports into US market by country during 1997-99**

Country	1997	1998	1999
World	100	100	100
Mexico	13.7	15.4	16.4
Honduras	6.4	6.2	6.7
China	8.3	7.1	6.5
Dom Rep	7.0	6.5	6.1
Hong Kong	6.5	6.7	6.0
Bangladesh	5.9	5.8	5.5
Taiwan	5.2	4.8	4.5
El Salvador	3.8	3.7	4.3
S. Korea	2.8	3.8	3.8
Philippines	3.9	3.7	3.6
Indonesia	3.5	3.4	3.1
Thailand	2.5	2.6	2.7
India	2.8	2.8	2.7
Costa Rica	2.7	2.4	2.5
Sri Lanka	2.8	2.6	2.4
Guatemala	2.1	2.2	2.2
Canada	1.6	1.8	1.9
Pakistan	1.7	1.7	1.7

**Source:** US Customs data, (adapted from Bow, 2000).

The above table indicates that Mexico is by far, the largest exporter of RMG to the US market followed by China, Honduras, Dominican Republic, Honk Kong, etc. As an exporter, Bangladesh holds sixth position in the race. However, in terms of growth rate, Bangladesh had registered a downward slope in serving US market.

According to the statistics of the World Bank, the apparel exports from Bangladesh registered an annual growth rate of 81.3% over the period of 1970-87 compared to 19.9% for Malaysia, 21.1% for Sri Lanka, 21.6% for Pakistan, 23.8% for Mauritius, 31.2% for Indonesia and 34.1% for Jamaica (World Bank 1990).

However, with all its glory and achievement, the RMG sector of Bangladesh is now the most vulnerable to the onslaught of global competition. After December 2004, the time earmarked for the phasing out of MFA as per the auspices of *Agreement on Textile and Clothing* (ATC) of WTO, the country will expose to the competition from world over. On top of this, the recent award of US concession towards 48 countries of Sub Saharan Africa and 24 countries of Caribbean Basin to have duty free access to US market, has added to the vulnerability of our RMG sector after year 2004. Moreover, the clothing industry worldwide is getting more and more competitive. To describe the severity of competition, Emanuel Weintraub, a veteran industry consultant said, "The clothing industry in new millennium is getting **tough, tough and rougher**". (Desmarteau, 2000).

So to face the reality, the government, the association of garments exporters (BGMEA) as well as the factory management needs to be prepared before it is too late. The present paper is an effort to put some lights on the challenges and the ways out to face those challenges is years to come. The paper is structured around four main points, like, success factors of RMG industry in Bangladesh, current and forthcoming challenges for this sector, downsides of Bangladesh as a garments exporting country and finally, the recommendation of measures to face the challenges, especially after 2004. The recommendations have been put forward in line with the role of government, BGMEA and individual firm management.

This paper is prepared on the basis of both primary and secondary data. Primary data were collected through personal interview with a number of owners and executives of Garments factories located in Chittagong through unstructured questionnaires. A good number of books, journals and newspaper were consulted as a source of secondary data.

## **2.0 Success Factors for Growth of RMG Sector in Bangladesh.**

Emergence of Bangladesh as a major garments exporting country is a story of not more than 15 years. No other sector of the country could register such a spectacular growth in a short span of time. So, naturally the question arises, what are the underlying factors that lead to such huge stride in this industry? Following are the factors that are commonly attributed to the success of RMG industry in Bangladesh.

### **2.1 Concessions from International Community**

One major factor related to the considerable development of RMG sector of Bangladesh is concession from international community in the form of *Quota* and *GSP facilities*.

**Quota:** Quota system based on the MFA, a violation, of the spirit of GATT, actually was the most important immediate catalyst in the genesis of the garment industry in Bangladesh. It is a quantitative limitation imposed by the importing country to restrict the total number of garments, which can be imported legally from a particular country to the importing country on an annual basis. Quotas have existed since the mid 1960s. Only when a country's export volumes reach a certain level a quota is imposed. For Bangladesh, quota for the US market in certain apparel categories was imposed beginning in 1985, while other less contested categories remain quota-free. Allocation of quota to the countries on the basis of past performance skews the playing field in favour of early players. The larger exporting countries in the preceding year receive greater proportional share of the quota for the next year. Thus quota ensures a secured market for older manufacturers and keeps aside new players irrespective of their level of efficiency. Thus large quota allocation for countries like Bangladesh and Indonesia ensures that manufacturers of these countries are in a position to ship

their products to US market in larger quantity than those of the countries with smaller quota allocation. At present Bangladesh enjoys largest quota allocations in 19 categories from US. According to EPB source 85% of RMG exports to US market and 77% to Canada market from Bangladesh are under quota.

**GSP (Generalized System of Preference):** Bangladesh had been granted duty free status known as GSP, by European Union since 1992, provided the garment is made from fabric woven or knit in Bangladesh. Recently EU has changed the rule of origin and introduced *SAARC cumulation rule* where the fabric is allowed to source from any of the SAARC countries. This rule of origin gave Bangladesh a strong competitive advantage over its other Asian rivals. Now the RMG exports to EU from Bangladesh account for around 50% of its total exports in this sector.

So the concessions from international communities in terms of *quota* and *GSP facilities* have remarkably skewed the balance of competition in world market favourably for Bangladesh. It ensured a secured, less competitive market for Bangladeshi manufacturers and resulted in unprecedented enthusiasms among the entrepreneurs in the country. Without such concessions the development in this sector would not have been taken off.

## ***2.2 Hardworking Cheap Labour Force with Female Domination***

Undoubtedly, the low wage of workers was one of the most vital reasons why RMG industry has switched to Bangladesh and continued to prosper. The low wages more than offset the lower skills and productivity of Bangladeshi workers in compared to the workers in competing manufacturing nations such as, Sri Lanka and Philippines. Moreover, recruitment of female workers at operative level has been a strategic decision of the entrepreneurs that ensured two benefits. Firstly, it matches with the tradition of the society

where women are more attuned with sewing jobs. Secondly, it ensures the supply of more compliant workforce resulting in weak unionization of the workers, the worst threat that an entrepreneur faces in Bangladesh.

### **2.3 Policy Support of the Government**

Fortunately, the RMG sector received favourable policy supports from all successive governments in the country. Back-to-back L/C, bonded warehouse, Initial support in terms of cash incentives, export credit guarantee schemes, tax holiday etc have been very much instrumental to develop this sector. However, two important measures are considered the most influential policy support for the phenomenal growth of this sector. They are (1) Back to back L/C and (II) Bonded warehouse.

**Back to back L/C** facilitates the exporters to collateral their export L/C for opening L/C for importation of fabrics. In the absence of *back-to-back L/C*, the exporter would have to obtain export credit from the local institution to import fabrics and other necessary accessories, that would have been difficult for many new comers as well as small entrepreneurs due to two constrains: *the non availability of credit without collateral* and *the high interest cost*.

**Bonded warehouse** is another excellent support measure of the government. As a successor of *duty drawback* facility, under the *bonded warehouse facility*, 100 % export oriented garments factories are allowed to import fabrics and other accessories at free of duty payment. These imported inputs would be strictly accounted for and the material would be stored under the lock in the go-downs at the factory premises subject to inspections by the customs authorities. It was a marked improvement. It saved the factory owners the opportunity cost of time and resources that were needed to get back the duty already paid and it also called for less financial resource, as duties did not have to be paid at the time of the import. In some



sense, this new scheme brought in the equivalence of an Export Processing Zone (EPZ) at each garment factory location and help providing a level playing field to the exporters. Under the new scheme the local entrepreneurs could effectively compete in the world markets as it gave them access to fabrics and other accessories at the most competitive prices in the global markets.

## 2.4 Dynamic Entrepreneurship

The entrepreneurship in RMG sectors was rather reactive. It was incubated under the shade of protected market, low capital requirements, low gestation period as well as favourable government policies. However the early entrepreneurs could create a significant bandwagon effect in this sector. Huge influx of entrepreneurs from all economic classes and all walks of life could create a stir in the entrepreneurial practices in the economy. A survey conducted by Quddus, M and Rashid, S in 1993 on the social and demographic characteristics of the apparel entrepreneurs from a sample of 49, came out with the following results:

**Table 2: Social and Demographic Characteristics of the Apparel Entrepreneurs in Bangladesh**

Name of variable	Findings
Age	86.1% are in the 50.0r less age group 50% are in the 40 or less age group Mean age 41.86 years
Formal Education	100% have matriculation 88.9% have at lest a Bachelor degree.
Fathers occupation	38.2% have business/trading background 14.7% were self employed 47% belonged to the fixed income group
Activity Immediately before RMG	20% had ownership in other industries 20% owned trading /export import business 37.1% where employed in private business
Moe of Acquisition	63.9% set up the firm from scratch 16.7% bought it from other party

**Source:** Quddus, M and Rashid, S (2000), *“Entrepreneurs and Economic Development: the remarkable story of garment exports from Bangladesh”* University Press Limited, Dhaka. p.88.

### 3.0 Challenges And Drawbacks of RMG Sector in Bangladesh

Textile and apparel industry throughout the world have traditionally drifted by cost advantages, and it played a significant role at the initial stage of the economic development of the developed nations. The age-old concept of *Comparative advantage* explains the tendency for advanced nations to specialize in capital-intensive activities, while less developed areas focus on labour-intensive products. In line with this doctrine, the apparel industry has received tremendous impetus in Bangladesh, as it offers comparative advantage in *cost of labour*. On top of this, being a least developed country Bangladesh received special concession under Multi fiber arrangement of GATT. All these accelerated the hyper growth of RMG sector in Bangladesh. However with the conclusion of Uruguay Round of GATT and emergence of WTO, now we are going to face a more liberal trade regime around the world based on economic fundamentals rather than political considerations. Moreover, being a resource poor developing country Bangladesh has several drawbacks in facing competition with its strong rivals.

Consequently the survival and further growth of the apparel industry in Bangladesh is going to confront a formidable challenge in near future, especially after December 2004 when the concession under MFA will be phased out. The challenges and drawbacks can be grouped as external and internal factors:

#### 3.1 External Factors

##### 3.1.1 Challenges of Globalization

The term *globalization* has become a common parlance now-a-days. The word has been chosen as a suitable concept for describing the ever-intensifying network of cross boarder human interactions. Ronald Robertson, (1992) one of the pioneers of globalization discourse, described *globalization* as a concept that *refers to both the*

*“compression of the world” and “intensification of consciousness of the world as a whole”* Here the “global compression” refers to an increasing level of interdependence between national systems by the way of trade, cultural exchange, military alliance etc. Today the way we live our lives on this side of the globe has immediate consequence on the people living in other side of the globe. Shift in preferences in Europe and America, for example, deeply affect jobs in the East. The other concept in the definition “intensification of global consciousness” is a relatively recent phenomenon. It means an increasing probability that individual phenomenology will be addressed from the viewpoint of entire world rather than national and local perspective. For example, now we are concerned about issues like peace, pollution, human rights etc. in international perspective. Violation of human right in any part of the world for instance, is condemned worldwide. Thus *globalization* has its implication in both *economic* as well as *social* sphere of life.

On economic front, it emphasizes on free flow of capital, goods and services across the boarder. In other words, it de-emphasizes the artificial barriers in the form of tariff and non-tariff barriers that restrict competition on the basis of economic realities. It follows the doctrine of social Darwinism: *survival of the fittest*. The logic behind this is simple: *allowing efficient producers to operate will enhance welfare of world consumers*. For good or bad, the process of globalization is on the way. International organizations like WTO and others are relentlessly paying efforts to develop a regulatory framework to ensure a liberal trade and investment regime across the world. Consequently, the states around the globe are under constant pressure to reduce all sorts of barriers in international trade and investment. In line with this prescription, Bangladesh and other under developed countries are going to be deprived of the protections in the form of quota and other concessions they receive from the developed world. So naturally it will be a major challenge for these

states to keep up their exports to the developed countries in the forthcoming open competition.

On social front, globalization emphasizes on social well being of people across the countries. To make the field more level playing, globalization stresses on the social, environmental, ethical and health standard to be maintained across the boarder to avoid *social damping*.

If harmonization in these areas is not brought, the firms from countries, especially developing where these standards are far slacker will gain competitive advantage over their rivals in developed parts of the world. On this argument the RMG sector of Bangladesh has been put under the microscope and facing stringent regulations regarding child labour, better work environment, health and environment standard, workers' democratic right etc. from international community. Inability to comply to these standards in future will lead to serious blow toward this sector.

Thus, the ongoing process of globalization has put the RMG sector of Bangladesh under double sword. One is related to free and competitive market and the other is related to social, environmental, ethical and health standard to be maintained in the workplace.

### 3.1.2 Uneven Competition

In the unprotected free market Bangladesh is going to face formidable challenge from very strong rivals in RMG sector. The major rivals in this market are Mexico, Honduras, China, Dominican Republic, Hong Kong, Taiwan, El Salvador, South Korea, Philippines, Indonesia, Thailand, India, Costa Rica, Sri Lanka, Guatemala, Pakistan etc. These rivals have competitive advantage over Bangladesh in terms of (1) their proximity to the market (Mexico, Honduras, Dom Rep. El Salvador, Guatemala, Macao, Costa Rica etc.) (ii) Having sound backward integration (China

Hong Kong, S. Korea, Taiwan, India, Pakistan etc.) and (iii) proximity to the source of raw materials (Indonesia Philippines, Thailand etc.). So it is obvious that Bangladesh apparel manufactures are going to face tough competition against the uneven rivals in near future.

In addition to this, recently, under Trade Development Act (TDA 2000) Bill on May 19, 2000, 48 countries of Sub Saharan Africa and 24 countries of Caribbean Basin were allowed to have duty free access in US market in textile and clothing articles under certain conditionality. This biased favour to these countries has an obvious adverse effect on the RMG exports from Bangladesh to US market.

### 3.1.3 Poor Country Image

Unfortunately, Bangladesh has poor country image in international arena. Mostly it is known as a country of floods, cyclone, strike and political chaos. Most news related to Bangladesh, published in international magazine and newspapers are negative to the image of the country. The evaluation of Bangladesh by the Transparency International as the most corrupted country in the world for last two consecutive years has added to the poor image of the country. One recent report published in one of the national dailies has focused on the evaluation of Bangladesh by the state owned Export-Import Bank (Exim Bank) of USA. The US bank has put Bangladesh in the list of *unreliable countries* for international investment. The evaluation is based on the political, social and economic conditions of the countries. In their classification of countries on an 8-point scale, (8 indicates the most unreliable) Bangladesh has been rated 6 while India, Sri Lanka, Bhutan, Maldives and Nepal have been rated 3,5,5,5 and 7 respectively. The report also mentioned that the foreign banks are seriously planning to impose a *country risk fee* on Bangladeshi businessmen for import L/C. (Prothom Alo, 15/11/2002)

The image crisis of our country also revealed from the interview of garments owners. One of the garments owners shared his bitter experience about the image of the country to the authors, as he said:

In early 1980s, during early years of my business, I was visiting Norway with my product samples. I was in a meeting with the Board of Directors of a large retail chain store there. Before we stepped into the business talk, one of the directors asked me a few embarrassing questions about Bangladesh. How do you live in bamboo-framed daises? Do you have pure water to drink? etc.etc. In fact, I was totally unprepared for such questions and in the negotiation table it was difficult for me to relate these questions to the purpose for which I was visiting Norway. Later, she explained that last night she watched a documentary on Bangladesh in television and got the impression that the people in that country lead an extremely miserable life.

So if this is the impression of a buyer about the country in general, it is not unlikely that they will have a tendency to underestimate our capabilities. Apart from general crisis of image in international community, Bangladesh has a fragile commercial relationship with United States, the principal importer of our readymade garments. The unresolved issue of export of gas and private port have put Bangladesh at the cross fire in its relationship with US government. All these, resulted in our failure to bargain out any favour from international community in general and US government in particular.

### **3.2 Internal Factors**

#### **3.2.1 Poor Backward Linkage**

Despite dramatic advancement in exports of RMG for last two decades, Bangladesh could not make any significant headway in sourcing its own raw materials, especially fabrics. Still it imports 10-20% of knit fabrics and 80-90% woven fabrics of its requirements

from outside. This dependability on outside sources is a major competitive disadvantage of Bangladeshi manufacturers.

### 3.2.2 Long Lead-time

Unfortunately, long distance from both its major markets, USA and EU, importation of raw materials, port congestion, strike, poor roads etc have turned Bangladesh as the country with longest lead times in the world. Most Bangladeshi factories using locally available fabric quote 75-90 days, while those using imported solid-dye fabrics need 120 days. Current Asia average would be about 60-90 days. Those using imported yarn fabrics (where yarn must be dyed before being woven into patterns), printed fabrics (made to the customers design specs) or doing sweaters quote 135-150 days, while outwear makers settle for 150-180 days. Asia average for these final items would be 90-120 days plus freight time to final destination. (Bow, 2000)

The head of a leading bangladeshi buying house says that if he could save 15-20 days from his 120 day lead time he could pick up 20% more business. The irony is that many makers have been able to ship with shorter lead times, but they cannot do so consistently. (bow 2000)

### 3.2.3 Price Only Competitive Tool

A manufacturer can compete in terms of price, quality and/or delivery time. Unfortunately, due to lack of backward integration, dearth of good designers, backdated technology and various other disadvantages, the Bangladeshi garments manufacturers cannot serve upscale market with premium price. The hidden cost in doing business with Bangladesh has placed it as a manufacturer of long run easy style garments for which the buyers are not ready to pay even a single extra cent. The only competitive tool that attracts international buyers for Bangladeshi apparel is its extremely low price. The precarious scenario of Bangladeshi Apparel Industry can easily be

grasped from the value it received from the buyers which is measured in terms of *Square Metre Equivalent*.

**Table 3: Value Per SME (Square Metre Equivalent) for leading Apparel Exporters to US (US imports) for Year 1997,1998 and 1999.**

(Listed in order of ranking by total value of apparel exports to US market for Year 1999)

Country	Value imports YE1999 (US\$bn)	1997 SME Value	1998 SME Value	1999 SME Value
Mexico	\$ 7.54	\$3.24	\$3.26	\$3.26
China	\$4.37	\$4.73	\$4.74	\$4.80
Hong Kong	\$4.26	\$5.32	\$5.25	\$5.07
Dom. Republic	\$2.34	\$2.77	\$2.81	\$2.73
Honduras	\$2.16	\$2.27	\$2.34	\$2.29
Taiwan	\$1.97	\$3.51	\$3.42	\$3.09
Philippines	\$1.79	\$3.59	\$3.66	\$3.54
Indonesia	\$1.69	\$4.10	\$3.86	\$3.84
Bangladesh	\$1.68	\$2.16	\$2.19	\$2.17
Canada	\$1.60	\$6.45	\$6.10	\$5.96
India	\$1.53	\$4.22	\$4.22	\$4.02
Thailand	\$1.51	\$4.50	\$4.26	\$3.87
El Salvador	\$1.33	\$2.44	\$2.44	n.a.
Sri Lanka	\$1.27	\$3.74	\$3.93	\$3.76
Guatemala	\$1.23	\$4.06	\$4.05	\$4.04
Macao	\$1.02	\$5.27	\$4.91	\$4.86
Costa Rica	\$0.82	\$2.78	\$2.67	\$2.37
Pakistan	\$0.73	\$3.20	\$3.12	\$3.08

**Source:** US Customs data.

The above table indicates that apparel exports to the US from Bangladesh have the lowest value (slightly over \$2 SME) compared to any other major exporter worldwide. Averages for the countries who specialize in lower cost commodity items, like Mexico, Even El Salvador and Honduras are also substantially higher than that of Bangladesh. As regards South Asian countries, India's SME value is over \$4, Sri Lanka is nearly \$4 and even Pakistan holds steady above \$3. So in these circumstances, to survive in the long run, Bangladesh needs to diversify its market with more quality products.



### 3.2.4 Poor Control Over Supply Chain

A prototype supply chain of apparel looks like as follows:

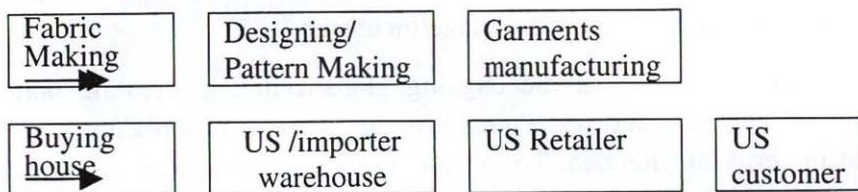


Diagram # 1: Supply Chain of clothing industry

In the long supply chain of garments industry, most Bangladeshi entrepreneurs concentrate only in manufacturing, popularly known as cutting & making (CM) function. Poor textile base, lack of modern equipment and expert technicians, dearth of executives with good marketing skills, most garments makers leave other functions of the supply chain on foreigners, especially to China, Taiwan, and Hong Kong. Consequently, they are always at the vagary of the major players in the supply chain.

## 4.0 Recommendations for Survival and Growth

At the backdrop of the bleak scenario of RMG sector in Bangladesh, it is clear that the problems related to this sector are both macro and micro. Therefore, the solutions to the problems in order to ensure the survival of this vital sector needs attention from both government and firm. Apart from this, being the industry spokesman of garments manufactures, Bangladesh garments manufacturers and exporters association (BGMEA) also has its significant role to play in this connection.

### 4.1 Government Responsibilities

In a free market economy, government is not expected to participate in business but the role of government as a facilitator can never be over emphasized. Nothing is exception in case of garments sector. Problems related to lead-time, poor country image, and lack of backward linkage etc. are more or less contingent on government

initiatives and measures. The government of Bangladesh can take the following measures to help boost the RMG sector.

#### 4.1.1 Initiating a Garments Village/Incubator

As we have seen the ongoing globalization in creating both *market pressure* and *social pressure*, the garments manufacturers are at the crux of dilemma. To remain competitive they need to reduce price in one hand and to survive against the allegation of *social dumping*, they need to increase salaries, improve working condition and comply with other social and environmental standards on the other. All these obviously call for reducing overheads. And that is where the government can come foreword considering the social and economic significance of the sector.

The creation of *garments village* or *incubator* where the manufacturers will be given all infrastructure and utility facilities at reasonable prices and where they will gain scale economy on various administrative, commercial and social services leading to substantially low overhead.

#### 4.1.2 Strong Commercial Diplomacy

In the changed landscape of international politics after dismantle of the ussr, Bangladesh government has emphasized on commercial diplomacy as the creed of its diplomatic endeavor. However, so far it could not achieve any significant success in this connection. Diplomatic posts outside have a meaningful role to play in terms of public relations and business relations to create a good image of the country. In fact, with the change in emphasis from political diplomacy to commercial diplomacy, the rationale and criteria for measuring success of the diplomatic posts should also be changed with more stress on commercial success.

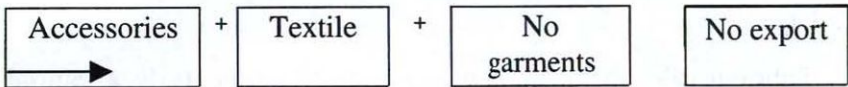
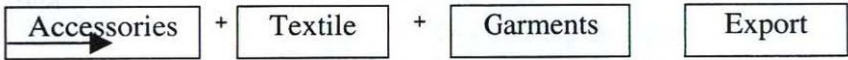
Recent failure to get concessionary treatment from us government in relation to RMG exports is a serious blow to this

industry. In fact diplomatic success depends on relationship building. It is a continuous process and there is no plug and play system. So, the government should emphasize on building relationship on a continual basis rather than making one shot attempt to gain advantage of situation.

#### 4.1.3 Role of Government In Relation to Developing Backward Linkage

Fabric/textile, the main raw material of garments is a capital intensive, technology prone industry. In relation to international standard, the textile industry in Bangladesh is still in infancy. The existing capacity in the country can meet about 80-90% of knit fabrics requirement while for woven fabrics, it can satisfy only 10-20% of the requirements. Moreover, the cost and quality of fabrics are also found less in cases with foreign sources than the domestic sources. The manufacturers usually buy their fabrics from China, Hong Kong, Taiwan etc. Besides, sometimes the buyers specify the sources of raw materials and the manufacturers do not have the choice about the supplier of fabrics. So to serve the export market the manufacturers often have to rely on foreign sources which harts the sales of domestic suppliers of fabrics. Therefore, in relation to government support, a sort of conflict of interest is observed between textile and garments sector within the country. In this circumstance, there is a dilemma for the government: *which sector to support*. If it encourages textile sector in line with the *infant industry argument* through tariff and non-tariff barriers, the apparel manufacturers will face hardship to get their raw materials resulting in loss of export market. On the other hand, if importation of fabrics is allowed without restriction, the indigenous textile industry will not have its market to sustain its growth.

The following definition of cause in terms of *method of difference* can be a useful guide for determining the priority sector for the government :



Therefore,



So, the above equations support the proposition that the export earning is dependent on garments manufacturing. If it survives the other sectors will have their market as OEM (original equipment manufacturer) to foreign countries otherwise not. Therefore it is obvious that to maintain and increase export earning the government should provide necessary supports to the RMG sector. Any measure that hurts RMG sector is not beneficial for the country. However, this prescription should not be taken naively. If textile sector is not developed, the survival of RMG sector is also at stake in the long run. So, undoubtedly, the government should take appropriate policy supports for textile sector also. Duty free importation of machinery, cotton, cash subsidy to bridge the price differentials with international market etc. Can be given for a certain period so that the industry get chance to reduce its average cost to international standard through learning experience and scale economy.

#### **4.2 Role of Bangladesh Garments Manufacturers and Exporters Association (BGMEA)**

As a natural concomitant of growth in garments sector, Bangladesh garments manufacturers and exporters association (BGMEA) came into being in 1983. Initially it started with only 19

members, and now 3562 small and medium sized privately owned garments factories are registered with BGMEA. Being the spokesmen of garments manufacturers, it has three roles to play: (a) defensive role i.e. to safeguard the interest of the industry and its members, (b) offensive i.e. creating opportunities for well being of its members and finally, (c) disciplining role i.e. developing professional ethos and encouraging and ensuring that they are followed by the members in their way of doing. Like other professional bodies in the country, BGMEA is quite active in defensive and offensive roles but very much passive in connection to its third role, i.e. developing and ensuring professional ethos for its members.

So far BGMEA could achieve some commendable success in a number of areas like initiating measures for elimination of child labour in collaboration with ilo, establishing fashion and design centre, quota administration and so on. However, being the apex body of the garments manufacturers it has far more roles to play to face the upcoming pressures emanating from rapid pace of globalization. The following measures deem important to be initiated by bgmea:

#### 4.2.1 Marketing

As most garments factory in the country are either small or medium sized, they lack both resources and motivation to pursue active marketing to create demand of their products. So BGMEA, as the collective platform of the industry, can initiate marketing efforts. Presently BMGEA is conducting some marketing functions, like organizing export fair, launching web page, sending delegates to major markets, initiating Bangladesh caucus<sup>2</sup> etc. However, these are not sufficient to face future challenges. It needs to be more

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<sup>2</sup> A group of 18 Congressmen who have agreed to help BGMEA to get the bill passed by the US Congress for quota free and duty free status.

aggressive; the effort should be taken more violently and frequently. They have to search for new markets like East European market, Japanese niche market, far eastern and middle eastern market in more pragmatic way.

#### 4.2.2 Quality of Working Life

This is the most important role that BGMEA can and should play. Worldwide garments factories are considered as *sweatshops*, where the rights of the workers are violated, working environment is very poor and sufficient safety and security measure are not installed. Recent upsurge of social consciousness among the policy makers and pressure groups in developed countries has led this industry to shift to the less developed areas of the world where standard for working condition are more slacker. On this ground, now the American apparel manufacturers associations (AAMA) is planning to conduct a “worldwide responsible apparel production program” as an international plant certification plan based on the practice of social, ethical legal and human standard in the workplace. (Rabon, 1999). Now people, especially in developed countries are not only interested in “what” is produced but also “how” it is produced. Though these types of ideas nurtured in the west are still in the form of recommendations, but in near future these will take the form of stringent regulations.

So far, Bangladesh could not make a good image in terms of its workplace environment in garments factories. Issue of child labour, lake of safety measures in the workplace (incident of burning and its death toll) and inhumane treatment of workers [as one research unveiled the heartfelt comment of a garments employee, “we toil from dawn to dusk. But we are even denied of adequate drinking water so that we need not go to toilets” (Daily Star, October 7, 2000)], poor wages, irregularities of payments etc. Are common problems related to the garments industry in our country. So the

garments factories should be alert beforehand. The BGMEA, should develop professional *code of conduct* for its members incorporating workplace standard.

At this bleak picture of the industry the BGMEA should come forward with initiatives like establishing school for the dependents of the employees, providing combined medical facilities etc. BGMEA has started some of these efforts. A recent initiative about group insurance is also a good attempt in this regard.

### **4.3 Role of Firm Management**

By definition, in a market economy, individual firm is destined to get the ultimate payoff: loss or profit of the venture. The role of government is only facilitative. One message that globalization carries is that *competition is not between country, rather it is between firms*. If a firm is run with true professionalism and business acumen, it will survive the global competition. The firm with government backup and concessions will not find its way in the thorny roads of global competition and ultimately disappear.

So, crying for government support and concessionary treatment will not assure the survival of a firm in the post MFA era. Gone are the days when lack of professionalism was bridged by the favourable treatment from government and international community. Now the only way to survive is to think and act professionally. In line with the forthcoming competition, the firm can initiate the following, measures to remain globally competitive.

#### **4.3.1 Determine Competitive Priorities**

To face competitive battle, a firm can opt for a set of competitive priorities on the basis of the level of competition, customer expectations and the strengths and weaknesses of the firm itself. A firm chooses its competitive priority around four major factors like

cost, quality, time and flexibility on what basis a firm can compete in the market place. (Krajewski and Ritzman 1999).

**Cost:** In a price sensitive market, producing goods at a lower cost is the most compelling priority for a firm. To compete based on cost, management must address labour, materials, scrap, overhead and other costs to design a system that lower the per unit cost of product or service.

**Quality:** Two competitive priorities deal with quality. Firstly, *high-performance design*, it includes superior features, greater durability and close tolerance and the customers are ready to pay premium price for it. Secondly *consistent quality*, it means producing goods that meet design specifications consistently and form dependable relationship with its customers.

**Time:** In order to complete on the basis of time there are three options to a firm, firstly, *fast delivery or shorter lead-time*, it is the elapsed time between receiving a customers order and filing it. Secondly, *on time delivery*, it indicates the frequency with which delivery time promises are met. Manufactures measure *on-time delivery* as the percentage of customer orders shipped according to promised schedule.

**Flexibilities:** the most important priority related to flexibility is *customization*, indicating the ability to satisfy the unique needs of each customer by changing product design and variety. Considering the realities and the constraints as a whole, the following set of options can be the best possible combination of competitive priorities for Bangladeshi manufacturers:

Cost	: Low cost operation
Quality	: Consistent quality
Time	: Fast delivery and/or On time delivery
Flexibility	: Customization



#### 4.3.2 Exploitation of Production and Information Technology

In order to remain competitive in the world market a firm needs to update the level of technology that it uses in all three aspects of its business, such as 1) Procuring order/creating demand. 2) Manufacturing of goods /services and 3) Selling/distributing of goods. In case of RMG sector this principle is equally true. Significant advancement in technology related to apparel making like designing, pattern making, sewing etc. have already made the business more techno-based that ensure better and consistent quality, less wastage and less time. It changes the rule of the game of the business. In one study, Arif and Mamun (1997) have shown a comparative picture of the *computer aided design* and *manual operation* in apparel industry.

**Table 4: Comparative Figures of Computer Aided Design (CAD) and Manual Operation**

Particulars	Done by CAD	Manually one
Pattern marketing (Per month)	140 units	80 units
Fabric consumption (Per month)	80 units	20 units
Per unit cost	US\$ 0.20	\$ 0.45
Accuracy	100%	50% .70%
Efficiency	92%-97%	Below 80%
Time required (Per unit)	3-5 minutes	60-90 minutes

**Source:** Arif, M.A.A. and Mamun M.A. (1997), "Exploitation of information technology for competitive advantage and experience of ready-made garments industry." *South Asian Journal of management*, New Delhi, April-June.

Competitive battle in garments industry where quick response to the changing fashion and fast delivery coupled with low price is very important, the firm management should adopt state of the art technology in line with their market segment. For low and medium end products, there should be a right choice of balance between automation and manual operations. For up scale market where high performance quality is desired, there is no choice but to automate the

process to the maximum extent. Installing modern technology requires huge influx of capital in this business. But so far, RMG is considered a low capital-intensive business and consequently most RMG factories have been established as either private limited or family owned sole proprietorship business. So it is obvious that to face the demand for more automation the management needs more capital. One way to solve this problem is to go for public.

In addition to production technology, in this age of information, the exploitation of IT is also considered as the source of competitive advantage for firms. Installation of database, use of software for inventory control and integrating these with those of supplier and buyer will definitely enhance the efficiency of an organization.

Moreover, in the upsurge of *e-commerce*, especially in developed countries, the need for having a smart web page is also seem to be very important. It is far more important for up scale goods manufactures. Web page is now considered as a powerful marketing tool. One considerable implication of e-commerce is that it eliminates middlemen. The buyer can directly communicate with the supplier. So, a firm should design its web page in a very professional way and up date regularly. Having a web page now a day has its indirect benefit also. It gives an impression that the firm has modern outlook and believes in professionalism.

Unfortunately, the bangladeshi entrepreneurs are lagging far behind in this regard. Only a handful of manufacturers have their web sites. So, the firm in this sector should design web page for better marketing and relationship building.

#### 4.3.3 Increased Marketing Efforts

Greater efforts in marketing must be made. Most bangladeshi entrepreneurs depend on others to market their products. Interestingly, this dependence is not only because of lack of ability

but also because of unwillingness to take the hassle of finding and convincing a potential customer. It is obvious that contacting buyers directly has its payoff. The elimination of intermediaries means greater margin as well as better understanding of the buyers. So the Bangladeshi exporters will have to travel overseas and search niche markets and contact directly to the buyers. The successful and large organizations already started their own marketing endeavors. *Mr. Sinha, one of the most successful entrepreneurs, told that he preferred to deal with the top management of large american department stores such as, jc penny. This helped him establish the goodwill that came from personal relationships and contacts.* [Quddus, M. & Rashid, S. (2000) p. 189]

#### 4.3.4 Relationship Marketing

In apparel business, Bangladeshi manufacturers deal directly with the suppliers of fabrics in the upstream market and large buyers/buying houses in the down stream market. In other words, the Bangladeshi manufacturers deal with large organizations rather than individual customers. Consequently, it is very important to establish a “win-win” relationship with the customer organizations by practicing *relationship marketing*.

Already there has been a shift from transactions to a relationship focus in Marketing. Customers become partners and the firm must make long-term commitments to maintaining those relationships with quality, service and innovation (Webster 1992). Relationship marketing (or Relationship Management) *is a Philosophy of doing business, a strategic orientation that focuses on keeping and improving current customers, rather than on acquiring new customers* (Zeithaml and Bitner, 1996). The primary goal of relationship marketing is to build and maintain a base of committed customers who are profitable for the organization. To achieve this

goal, the firm will focus on the *attraction, retention and enhancement of customer relationships*. (Teal, 1991)

Perpetual relationship with customers pays off with great many benefits to both the customers and the seller. The customers can reduce their transaction costs, receive more tailor made services and special attention from their suppliers. For supplier organizations customer retention promises a number of benefits like increased purchases from the customer over the years, reduced cost of transactions, free advertising through word of mouth, and more indirectly, loyalty from own employees (as there is a fixed market which in turn, indicates more guaranteed job) [Zeithmal and Bitner, 1996].

So the intelligent marketers seriously think and act for retaining their existing customer base. In this connection, Leonard Berry and A. Parasuraman (1991) have prescribed a three-level retention framework to bind the customer closer to the firm. The framework prescribes that a firm should gradually develop a strong financial, social and structural bondage with its customers. The firm should offer price incentives to its enduring customers i.e. It should offer discount price to its loyal customers. It also should stay in touch with clients to trace their changing needs, provide personal touches like cards and gifts, and share personal information with clients. Finally, the firm management should fine-tune the organization of activities in line with the demands of the clients, such as, offering tailor-made products / services, maintaining separate storage space, appointing specialized executives to look after particular customer etc.

**Table 5: Relationship Marketing Framework**

Level	Type of Bond	Degree of product/Service Customization	Primary Business instrument
1	Financial	Low	Price
2	Financial and Social	Medium	Personal Communication
3	Financial, social and structural	Medium to high	Total service

**Source:** Berry, L. L. and Parasuraman, A. (1991), *Marketing Services*, Free Press, New York. (Adapted)

Another strategy related to customer retention is dealing with customer complaints. “The customer who complains is your friend. Customers who don’t complain are likely not to come back and further they may influence other customers not to try the products.” (Zeithmal and Bitner, 1996). Building on this notion, the organization needs systems to track and identify failures and solve problems quickly, before it is too late.

One more point related to relationship marketing is customer appreciation. By providing the products and services as promised and then thanking the customer for the business firms can go a long way toward retaining individual/organizational customers. This appreciation is more preferable to be done in personal way. Since face-to-face communication, telephone call or personal letters (addressed to the right person with correct spelling and current title) are more effective than impersonal letters addressed to “dear valued customers”.

#### 4.3.5 Collaboration with Foreign Partners

Bangladeshi manufacturers largely depend on foreign sources for supply of fabrics in one hand and getting orders and distributing their products on the other. So, besides relationship marketing, entering into short term and long-term collaborative arrangement with other

parties in the supply chain is crucial for survival in years to come. In the supply chain they can make strategic alliance to build relationship-oriented partnership where the company try to immerse itself into the corporate culture of its buyers and learn how they do business.

Many global retailers are now starting to partner with their major suppliers and sharing sales information usually by giving the supplier access to the retailer's computerized inventory management system. Once the suppliers can track sales, the next logical step is for the supplier to build inventory according to which styles, sizes and colours are selling. After that, the supplier sets up a system whereby the individual retailers stores order directly from the supplier with the supplier acting as the wholesale warehouse. (Bow 2000)

The long run collaborative arrangement may take the form of joint venture: equity sharing, technology licensing, and participation in management. This type of collaboration is very crucial for the survival in post MFA era. This would provide much needed stability and increase in growth potential in the industry.

#### 4.3.6 Collaboration Among Domestic Manufacturers

Protected market, focus on labour-intensive cutting and marketing (CM) operation only, fewer destinations (mainly US and EU) and favourable policy supports from government have led to less resource concentration in individual firms in this sector. Most garments factories in the country have been managed more or less as a family business and the most common form of business is "private limited". [Please see Table # 6 in Appendix (Quddus and Rashid 2000)]. So naturally most of the firms become *one-man show* and failed to develop a corporate culture based on professionalism. Less number of equity holders and lack of professionalism have resulted in less capital and fewer skilled manpower concentrated in one firm. In the post MFA era where competition is based on

efficiency, the firm that lack capital and/or professional vigor will definitely be in a disadvantageous position.

So, in order to survive in the post MFA era, the firm management should focus on organization building rather than personal judgment in managing its affairs. Management should be separated from ownership, skilled and seasoned professionals should be employed to look after the businesses. In order to bridge the shortage of capital, the firms can go for "public".

Another way of getting rid of less resource concentration is collaborative arrangement among firms. The firms can enter into short term and long-term partnership to make up their individual incapability in augmenting their business. The firms can go for *joint marketing*, *joint training*, and *cooperation in day-to-day business* etc. in the short run. In the long run they can opt for *joint investment*, especially in developing backward linkage.

Development of textile sector is a major precondition for survival in the quota free environment. Being capital intensive, so far only a handful of indigenous entrepreneurs came forward to establish composite textile mills to produce high quality fabrics that can cater to the requirements of the apparel industry in the country. In terms of government role, as mentioned before, there is a conflict of interest between RMG and textile industry. The garments manufacturers complaints that the textile owners take advantage of the government support to the fullest extent and do not share the benefits with them (RMG). The manufacturers find that the cost of fabrics sourced from domestic market is no less than that of the foreign sources, leaving no motivation to source from domestic market.

This *we-they* mentality between garments and textile sector is an alarming drawback for facing future challenges. At this crux of problem, the joint investment (joint venture) by a group of RMG

manufacturers as a backward integration can be a plausible solution. If a group of garments manufacturers collaborate in establishing textile mill, it will ensure their control over the source of raw material in one hand and the savings on transaction cost on the other. The conflict of Interest, will also not work here, as they are under the same ownership.

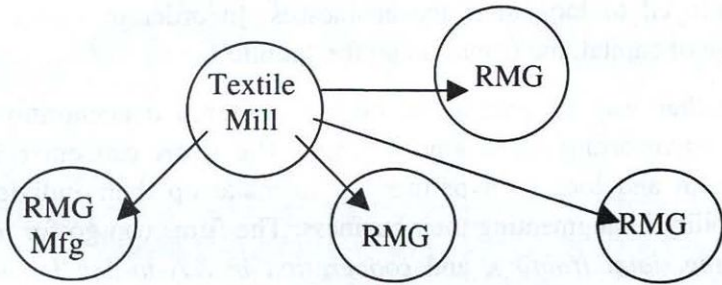


Diagram # 2: Joint investment by garments manufacturers in establishing textile mill.

## 5.0 Conclusion

RMG is the principal export item of Bangladesh. It contributes to the 76% of the total export earning. In terms of job creation, and multiplier effect on other sectors of the economy, it has become the dominant industry of the country. Within a short span of time this sector has marked a phenomenal growth. The major factors beneath the success are concessionary treatment from world community in the form of *quota* and *GSP facility*, inexpensive labour, favourable Government policy support and dynamic entrepreneurship. However, the golden age of this vital sector is going to be disappeared. December 2004, the time year marked for the abolishment of quota and GSP facilitates will lead to a competition based on efficiency and economic fundamentals. The major challenge in front of this



sector is to face the free market competition in one hand and the global pressure to maintain social, ethical health and environmental standard at the workplace on the other.

At this backdrop, the government, BGMEA as the industry representative and individual firm management have their respective roles to play to ensure the survival and growth of this sector after year 2004. Government should play its facilitative role in the form of *establishing garments village, commercial diplomacy and developing backward linkage*.

The role of BGMEA includes *strong marketing efforts, ensuring quality of working life and developing professional ethos among its members*. However, in the free market, major role lies with the individual firm rather than on government or any other organization. So, the garments manufacturing firms have their important roles to play to safeguard themselves from being melted away in the hot pot of free market. The firm should choose its suitable set of competitive priorities in the form of low cost operation, consistent quality, fast and on time delivery and customized manufacturing. The firm also should develop a relationship oriented business partnership with other players in the supply chain. Moreover, exploitation of production and information technology, proactive marketing efforts, collaborative arrangement with foreign and domestic manufacturers etc. can also be instrumental to help the firms ensure their survival and growth in years ahead.

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## Appendix II

**Table 6: A Brief Picture of RMG Industry in Bangladesh**

YEAR	EXPORT IN 000 DOZ	EXPORT IN MILLION US\$	EMPLOYMENT IN MILLION WORKERS	NUMBER OF GARMENT FACTORIES
1983-84	1143.55	31.57	0.44	134
1984-85	4209.09	116.20	0.128	384
1985-86	4762.58	131.48	0.198	594
1986-87	10818.68	298.67	0.283	629
1987-88	15717.81	433.92	0.306	685
1988-89	17064.21	471.09	0.317	725
1989-90	22608.84	624.16	0.335	759
1990-91	30566.63	866.82	0.402	834
1991-92	42836.02	1182.57	0.582	1163
1992-93	46717.44	1445.02	0.804	1537
1993-94	45166.00	1555.79	0.827	1839
1994-95	62512.00	2228.35	1.200	2182
1995-96	72005.00	2547.13	1.290	2353
1996-97	80986.40	3001.25	1.300	2503
1997-98	98194.37	3781.94	1.500	2726
1998-99	101449.95	4019.98	1.500	2963
1999-00	111905.77	4349.41	1.600	3200
2000-01	124017.05	4859.83	1.800	3480

Source: bangladesh export promotion bureau

**Table 7: legal status of firm ownership**

FORM OF BUSINESS	FREQUENCY	PERCENTAGE
SOLE PROPRIETORSHIP	2	5.55
PARTNERSHIP	3	8.33
PRIVATE LIMITED	30	83.33
PUBLIC LIMITED	0	0.00
TOTAL	36	100.00

Source: Quddus, M and Rashid, S (2000), "Entrepreneurs and Economic Development: the remarkable story of garment exports from Bangladesh" University Press Limited, Dhaka. p.82.