

Economic Policy Paper
on
**A High Value Added and Export Oriented Business Sector:
Ready Made Garments (RMG)**

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1. Background

The Readymade Garment Industry of Bangladesh has become the largest foreign exchange earning sector, exporting apparel of all sorts to the USA, Europe and other developed countries. The Readymade Garment (RMG) industry of Bangladesh tells an impressive story about the leadership of private enterprise and the country's successful transition to a major export-oriented economy. The country registered its first apparel export in 1978, but the progress since the early 1980s has been simply phenomenal. It has by now become a colossal industry, earning the lion's share of the country's foreign exchange and providing the nation's women with the largest formal employment.

The role of the RMG sector in our national economy can hardly be over-emphasized. There has been a steady development in our RMG export field during at least the last decade and a half but in the last few years it has been unique. The export of RMG recorded an average growth of 21.53% since 1994-95. The growth of export in the RMG sector from 1993 to 1999 shows that in 1993 it amounted to 61.4% of the country's total export income, and by 1999 the it was 76.05%. This indicates how rapidly the export of the RMG has grown (see Table 1)

Table -1
Development of the Export of RMG Sector

YEAR	Export of RMG (in Mln. US\$)	Total Export (in Mln. US\$)	Share of RMG's to Total Export
1993-94	1555.79	2533.90	61.40
1994-95	2228.35	3472.56	64.17
1995-96	2547.13	3882.42	65.61
1996-97	3001.25	4418.28	67.93
1997-98	3781.94	5161.20	73.28
1998-99	4019.98	5312.86	75.67
1999	2810.38	3695.46	76.05

Source: Bangladesh Export Statistics, Export Promotion Bureau (EPB) (Compiled).

The share of annual national export income from other sectors such as frozen food and jute goods together is not more than 12% of the annual national export income (see Table 2).¹

Table -2
Development of the Export (in Million Taka) of different Sectors from 1993 to 1999

Commodities	1993-94		1994-95		1995-96		1996-97		1997-98		1998-99	
	Amount	%										
Woven	51 47.21	50.97	7360.53	52.85	7970.65	50.20	9529.18	50.65	12900.18	55.09	14320.80	56.18
Knit	1052.58	10.42	1577.37	11.32	2447.12	15.41	3250.11	17.28	4266.17	18.22	4967.67	19.49
Total RMG	6199.79	61.40	8937.9	64.17	10417.77	65.61	12779.29	67.93	17166.35	73.31	19288.47	75.67
Frozen Food	638.91	8.31	1225.93	8.80	1283.01	8.08	365.65	7.26	1333.13	5.69	1316.17	5.16
Tea	152.14	1.51	131.54	0.94	135.51	0.85	162.39	0.86	21 5.36	0.92	184.99	0.73
Raw Jute	227.23	2.25	318.74	2.29	371.12	2.34	495.29	2.63	488.94	2.09	344.14	1.35
Chemical Product	21 6.73	2.15	431.65	3.10	402.68	2.54	461.89	2.46	363.21	1.44	380.19	1.49
Leather	670.16	6.64	810.52	5.82	865.86	5.45	832.35	4.42	863.21	3.69	807.20	3.17
Jute	1130.89	11.20	1278.62	9.18	1345.29	8.47	1353.45	7.19	1276.82	5.45	1457.78	5.72
Grand Total	10097.59	100.00	13928.46	100.00	15879.09	100.00	18813.04	100.00	23416.37	100.00	25491.10	100.00

Source : Bangladesh Export Statistics, Export Promotion Bureau (EPB) (Compiled).

¹ How the RMG sector has grown and the employment in this sector developed in comparison with other sectors of the economy are shown in Annex 1 and 2.

Back in the 80s, a large number of private sector initiatives were taken in manufacturing sectors like the RMG industry. The RMG industry has enjoyed a meteoric rise from less than 50 factories in 1983 to over 3000 in 1999. In between this period, the level of employment has increased from some 10,000 to approximately 1.5 million today (see Table: 3); with its share of employment in the manufacturing industry increasing from a mere 2% to over 15%.

Table-3

Year	1983	1987	1991	1995	1999
No. of Factories	50	629	934	2268	3000

Source: Bangladesh Statistics, EPB

Women are the most disadvantaged section of our population, whereas in the apparel and garment industry they are the prime movers of this labor-intensive industry. About 90 per cent of the workers are women, comprising of almost 70% of all female employment in the nation's manufacturing sector. This industry has also created a vast scope for employment at all levels of production including management, supervision, etc. This sector has uplifted the neglected section of the population, thus radically transforming the socio-economic condition of the country.

Bangladeshi entrepreneurs took advantage of the Multi-Fiber Arrangement (MFA) and the Generalized System of Preferences (GSP) to successfully capture a significant market share for Bangladeshi garments in Europe and the US. A substantial number of entrepreneurs, managers, supervisors, technicians, and workers, etc. are reasonably proficient in all relevant aspects of the industry. Almost all major retailers, brands and importers of Europe and the US buy garments from Bangladesh, and many have set up offices here. They have invested time and money in transferring critical know-how, and establishing strong and long-term relationships. Even in trading, Bangladeshi entrepreneurs have made their slow but sure entry. Under these circumstances Bangladesh must look at the future of RMG exports after 2004 with strong optimism. The human capital and customer preference must be leveraged to its full potential, rather than lost due to illogical and unnecessary pessimism about the future.

By 2005, the VVTO agreement will become effective and the protection of quotas will disappear so that all countries will have little option but to liberalize imports of garments from any supplying country. On a level playing field Bangladesh garment exports will naturally face strong competition as a result Bangladesh will also have to look carefully at the rules of origin that will be in force at that time.

2. Forces Behind the Development

The success story of the Readymade Garments sector of Bangladesh is based on employment generation and increasingly high value addition, thus smoothening the path for growth and development of the country. The apparel and garment industry propels sectors such as banking, finance and insurance, cargo, shipping and transport, entertainment and hospitality, research and education and a lot more. The mentioned performance of the industry has been possible due to:

- The Government of Bangladesh has always been concerned about the sector's growth and has played an active role as a catalyst to solve various complexities, whenever intervention was necessary.
- The cheap but disciplined and regimented workforce has been key for the success of this industry.
- The entrepreneur class has been dedicated and motivated to the country's economic prosperity.
- The quality of the manufactured apparel, which has been increasingly recognized by our international buyers and end users all over the world.
- Buyers' response has been encouraging through repeat orders. The industry has been producing all sort of apparels for all seasons and has managed to get repeat orders for every season.
- The import policy of Bangladesh has been flexible and friendly for import of accessories.
- Although there are accountable anomalies, the financial institutions, both nationalized and private, have been serving to assist this sector.
- Readymade garment industries have managed to maintain the confidence of the buying class and others in the business.
- Although the backward linkage textile industry is not adequate for the needs of the RMG industry, it has been supporting regular manufacturing and supply systems to some extent.

3. Bottlenecks Retarding the Growth of the Readymade Garment Sector

This vital and vibrant export oriented industry has been facing some problems from local forces, which may be termed weaknesses (or the Nation's weakness), and some problems caused by forces beyond our geographical/political boundary, which may be termed as threats to our industry. The Readymade Garment Industry is already 20 years old but during the last two decades no planned, fruitful policy to build up a backward linkage textile industry to feed the RMG industry has been taken by the authorities. Even the existing textile industries are not capable of producing high standard fabrics to offset the foreign ones from the market. Shortage of capital necessary to develop local sources for quality fabrics/yarn is a major weakness. The reason behind the shortage of capital, however, can be attributed to the socio-economic condition of the country; enabling foreign direct investment could however, compensate for this. Furthermore although the Government has responded to the RMG industry's requests for devaluation of the local currency – the Taka – from time to time, it has failed to decrease the current rate of interest. At the same time, our financial policy measures are not sufficient to attract entrepreneurs to invest in the textile industry. Anomalies in the banking sector, problems at the port, vindictive political environment, bureaucratic shackles, electricity crisis, currency adjustment policy pursued by the country, and the lack of some policy support from the government to sustain the country's falling competitiveness against its competitors in the international market are other serious weaknesses.

Without 'miscellaneous' expenditures no file moves, no UC is cashed, no imported raw material released. There are many eager hands in the public service agencies that the industries have to fill with ready cash. Without this practice no job can be done timely. The public service agencies work very slowly and 'speed' money becomes the only solution to hasten the procedure. This is however done increasing by miscellaneous expenditures. The raw materials the industry imports, say, within 7 days, take an additional 15 days to reach warehouses from the Chittagong port. About 54 formalities (with miscellaneous expenditure) have to be observed to release a shipment of raw materials. These formalities increased the industry's lead-time against overseas competitors.

The weaknesses, which have been mentioned above, could be classified in following categories:

- Unstable political environment and unfavorable law and order
- Insufficient development of political measures for the RMG sector
- Inadequate financial measures
- Infrastructural bottlenecks
- Inefficient service support
- Inappropriate development management and institutional initiatives

3.1 Unstable Political Environment and Law and Order

3.1.1 Political Instability

Due to the last non-cooperation movement in 1995-96 the industry suffered a loss of about Tk. 4,500 crore (Tk. 45 billion) and about 300 factories were forced to take loans of over Tk. 200 crore (Tk. 2 billion). Due to hartal (general strike) and other such political programs, problems such as order cancellations and stock-lot gluts arose in the ready-made garment industry. Banks started showing its reluctance to open L/Cs. Ultimately many affected factories were on the verge of winding-up and declaring bankruptcy. The export oriented garment industry bore production losses equivalent to Tk 6-9 crore (Tk. 60-90 million) per hour.

During the last three years, the country went through about 200 working days of *hartal*. In the interest of 1.5 million workers and owners of over 3000 garment factories, the political differences should be solved politically in the parliament.

3.1.2 Unfavorable Law and Order Situation

The disrupting law and order situation is another heavy constraint which hinders not only the development of the national economy but also the development of the export-oriented RMG sector. Due to the depreciating law and order situation, the interest of both the employers and the employees are being affected.

In this relation it should be mentioned that the Factories' Act and labor laws of the country are old and do not support the development of the export-oriented RMG sector. The changed environment must be reviewed and in this process all interested and involved parties should be integrated.

3.2 Inefficient Development of Political Measures for RMG

3.2.1 Unsuccessful Initiatives for Foreign Direct Investment in the Export Oriented RMG Sector

The proper authorities have duly resolved that the Board of Investment (BOI) would not approve any Foreign Direct Investment (FDI) proposal in the RMG sector without seeking recommendation from the BGMEA. However, it is being observed that the BOI continues to decisions without seeking any BGMEA recommendations. Any further foreign investment in the garments industry must be considered in light of the technological modernization in this sector, i.e. whether the foreign investment is promoting technology transfer. The export-oriented RMG sector would welcome foreign direct investment and encourage foreign financial and technical assistance in the backward linkage textile sector as there is a dearth of fabric, both in quantity and quality, in the country.

3.2.2 Inefficient Efforts to Increase Quota in USA and Other Important Countries

This is a topic that is not only an integral part of US Senator Harkin's personal political agenda but is also an issue of vital importance to the fate of Bangladesh's readymade garment industry.

BGMEA has been trying to enter the US market with an additional 30% quota over the present level. Although, on the face of it, a 30 percent raise might seem too large in actuality it would comprise an increase of less than one percent of the total amount of imports entering the United States. The increase would, however, be very vital and beneficial for Bangladesh.

The increase is being pursued so as to compensate the apparel export losses Bangladesh suffered due to the anti-child labor propaganda that followed the introduction of the Child Labor Deterrence Act, popularly known as the Harkin's Bill. After suffering export losses since 1992 with the signing of the historic MOU on elimination of child labor from the garment industry of Bangladesh, the country's RMG industry started recovering in late 1996. Due to the Bill, it has been roughly estimated that the industry lost its market in the USA and other parts of the world by about 15-20% annually.

While the BGMEA is trying for such a compensatory quota increase, the US House of Representatives has passed a Bill liberalizing trade with Sub-Saharan Africa (SSA) by a vote of 233 to 186, a smaller majority than the 350 votes projected by the Bill's backers. The measure now goes to the Senate, while there are doubts whether the body would even act on the Bill this year.

The measure is aimed at 48 SSA countries that have committed to market-based economic reforms and trade liberalization, and grants them free-access to the US market for a range of products. The US would also lift the textile quotas currently imposed on Mauritius and Kenya.

As a direct result of the SSA (Sub-Saharan Africa) Bill, Congressman Philip Crane, a backer of the Bill, estimates that Sub-Saharan African countries will immediately be able to double their present volume of export to the USA. SSA countries presently share about 1% of the USA's apparel imports. Within a decade, they will be able to triple their present export to the

USA.

If the SSA Bill is passed, the benefits to the SSA countries will be at the cost of developing countries like Bangladesh. Experts say the Bill would encourage textile and apparel producers in China and other Asian countries to flood the US market with garments partially assembled in Africa from Asian fabrics, as well as to Trans-ship apparel made in the Far East to the US market via SSA. Experts see in the legislation a rule of origin requirement that is far weaker than the rule of origin in effect between NAFTA partner countries. That is, by means of transshipments and other unfair means other textiles exporting countries will try to enter the US market through SSA countries. LDC like Bangladesh that lack in sound backward linkage industries will suffer terribly.

Considering all these points, the BGMEA has been pursuing for a 30% quota increase for the US market. It will provide the garments industry in Bangladesh with an opportunity to export apparel worth about US\$ 400 million and to employ another one million workers. Although BGMEA representatives have initiated a strong drive towards achieving this target, visited the USA and met key Congressmen, Senators and other government representatives, it is still not considered sufficient effort to achieve such a large national interest issue; concerted efforts from the proper levels of Government are needed. Accordingly during the March 2000 visit to Bangladesh by President Bill Clinton of the United States, both the Government of Bangladesh and the BGMEA had requested for an increase in the textile quota and for the merger of certain categories, inline with the formal proposal submitted to U.S Government in November 1998. It is certainly a step in right direction.

3.2.3 Insufficient International Marketing Support

In order to expand the market share and survive in the up coming free global competition in the international market, product diversification appears to be an indispensable strategy. The more varied the product line and range, the better the competitive strength. As for our access to other markets, efforts are being made to enter Japan and other far east markets, however, presently we are mainly dependent on EU markets and the U.S. We know that if we put all our eggs in one basket, our risk is higher. We can reduce the risk by putting our eggs in several baskets. When the GSP crisis arose we knew that our whole EU market was going to be disturbed, when quota matters created a problem we had to give extra efforts to keep our export earnings from falling. The EU market share accounts for 50% and the U.S. market shares for over 40% of our RMG exports. The above statistics justifies further market diversification. The government should ensure assistance from international organizations like WB, IMF, UNDP, WTO and international Chambers to support the export-oriented RMG sector.

3.3 Inefficient Financial Measures

3.3.1 Inefficient Financial Support For Backward Linkage Industries

Since 1974 international trade in textiles and clothing has been guided by various restrictions on a global or regional basis under MFA. The entire business in apparel and garment industry has been subjected to bilateral quota negotiated under MFA. The arrangement of bilateral quotas and restrictions on import under MFA has begun phasing out from January 1995 and the process will be complete by 2005. Therefore there will be no more quotas and the only barrier to import penetration will be the normal rules of competitiveness such as price,

quality, service, fashion and tariff.

Again, the GSP scheme is keen on the basic rules of origin and to meet this rule we need to mobilize the textile sector to feed the RMG sector. Investment in a textile industry will not be viable unless the government reforms its policies for financial support. The cost of financing the linkage projects must be brought down, as was done by India and other competitors of Bangladesh during the initial period of developing their textile sector. Cash incentives should continue. In addition, long term loans must be available at reasonable interest rates. Although the current nominal rates are around 12%, the actual cost of fund to the entrepreneurs amounts to between 20% and 24% after various adjustments. This is quite high a rate and discourages investment in this sector. The Commercial Banks need not maximize its profits at the cost of the RMG industry. The government may direct the Banks to make reasonable profit and lessen the rate of interest for the RMG sector substantially, say, to 6% to 7%. This of course does not mean that the Bank should not take necessary precautions against possible defaulters.

Investment in backward linkage industries for greater supply of raw materials to the RMG sector, particularly in composite textile mills, is quite large. The entrepreneurs will need equity capital from financial institutions. Currently a 50:50 debt-equity ratio is enforced. To encourage investment in this sector, the Government should moderate the ratio to a reasonable 80:20 level.

If all the backward linkage industries in spinning, weaving, dyeing, printing and processing are to be developed by 2004, a total of Tk. 210 billion will be needed for investment. The Government should create a special fund of at least Tk. 150 billion to provide equity capital to sound entrepreneurs who can come up with the balance 20% equity. It is worth mentioning here that similar support is available in many countries including India.

Given the investment needs and future uncertainty, it is questionable if Bangladesh will be able to invest Tk.210 billion in order to develop the total capacity in the backward linkage industries required to meet the RMG demand in 2005. To be self-sufficient in the production of export quality yarn and fabrics is neither necessary nor feasible nor wanted. The traditional supply of cotton yarn and fabrics from foreign countries may decline due to the phasing out of MFA. Some of Bangladesh's fabric supplying countries, facing the competition of total globalization after 2004, may not have the surplus to export while others may find it more profitable to expand their own garment industry.

Subsequently Bangladesh must create opportunities to generate a certain new capacity to spin yarn, weave cloth and process Grey fabric. Like Hong Kong and Singapore, which trade quite normally, RMG will have to remain partly dependent on imported yarn and fabric. This, however, should not create a serious problem for Bangladesh to remain competitive in the world market after 2004. Therefore the RMG industry needs to be restructured only partially; a limited number of composite mills, a large number of independent spinning mills and processing units need to be established. One of the easier avenues of gaining success in this respect may lie in modernization of dying or decedent mills.

3.3.2 Unfavorable Taxes and VAT for RMG Exports

The tax burden on the export oriented garment sector is reducing the competitiveness of Bangladesh-made garments in the international market against products from competing

countries. In Addition to incentives for aggressive marketing, several countries, including our neighboring ones, are totally exempting their export sectors, including RMG, from all export taxes to help supplement competitiveness and boost exports in the international market. Although included in the 1996-97 Export Policy, the export oriented RMG industry has not yet been brought within the purview of taxation.

While the world is in transition from MFA to GATT to WTO, the country is still being constrained further, partly through old ideas. The industry has got to take its best lead before the international players in the industry are at full pace, otherwise there will be little scope for recovery.

3.3.3 Unfavorable Tax for New Investment in RMG Export Sector

International experiences show that facilities like a tax holiday could promote national and foreign investment. For the sake of a healthy economic development of the country, it is expected that with proper taxation policies in place investment in the export-oriented RMG sector in the country can be canalized.

3.3.4 Inadequate Adjustment of the National Currency with the Currency of International Competitors

With Bangladesh's competitor countries adjusting their currencies downward, ranging from 25 percent to even as high as 550 percent, the downward adjustment of our local currency – the Taka has become imperative.

Considering currency devaluation by competitor countries like Indonesia, Thailand, Korea, Philippines, India, Pakistan, Sri Lanka etc., to successfully pursue the export-led growth, our government should have a similar strategy to increase the country's external competitiveness. Against aggressive currency devaluation by our competitor countries, our real trade-weighted effective exchange rate is still insufficient to maintain competitiveness vis-à-vis our neighbors and potential competitors in the world export market. It must be properly adjusted. We cannot back step from steadily adjusting our currency by observing the strategy our competitors are taking. If devaluation is not conducive to the general national economic development of the country, an alternative must be worked out which best make more of our exporters competitive in the international market.

3.3.5 Unfavorable Value Addition for High Valued RMG Exports

Just because of the rigidity in the Value Addition criteria, high value items manufactured in the country are failing to enter the international market. For example, the margin that we can retain by producing one gown may not be secured by producing even 10 basic shirts. We had potential but because of our rigid value addition policy we are losing a huge amount of foreign currency. Besides earning foreign currency for the nation, relaxing this criterion could further develop the skill of the workforce, which in turn would not only support the economic development of the country but would make it one of the nation's most valuable resources.

3.3.6 Anomalies in the Functions of the Banks

The RMG sector has been one of the main catalysts contributing to the tremendous development of the banking and insurance sector of the country. While foreign banks, under different heads, charge only 0.25% for first the US\$50,000 + 0.125% for whatever rest

amount, our banks charge rates from 10-16% straight. Presently our commercial banks are earning over Tk 2,000 crore (Tk. 20 billion) per year from the export-oriented sector. Over the years some bank charges have increased to even three times the charges from 1985. Even now there are some regulations and services which hinder performance of the export-oriented RMG enterprises. These are:

01. Regulating approval from the Bangladesh Bank for creating Forced/Demand Loan by lien banks.
02. Considering of *Back-to-Back* PAD/Forced Loans as default loans.
03. Considering overdue FBP against the liability of any UC as default loans.
04. Enforcing mandatory compulsions in the ECG policy.
05. Regulating the obtaining of prior permission from the Bangladesh Bank for exporting goods against stock-lot.
06. Regulating prior approval for discount from the Bangladesh Bank and EPB.
07. Allowing 45 days from the date of document negotiation for fund remittance in the event of remittance being delayed.
08. Allowing private commercial banks to charge "UC Acceptance Charges" fees which the Nationalized Banks do not.
09. Applying the Banking Companies Act, passed by Parliament on 13 March 1997, also for the export-oriented Readymade Garment Sector of the country.
10. Holding the readymade garment exporters responsible if the proceeds against their exports are not realized owing to the reasons beyond the exporters' control.
11. Banning of the Realization Clause when opening L/Cs.

3.3.7 Inadequate Cash Support and Export Performance Benefit

The disbursement of alternative cash assistance has increased recently. This should not be a cause for alarm, however, stringent measures to ensure that genuine users of local yarn are being benefited should be put in place. Till date, less than 15 percent of the yarn and fabric demand in the RMG industry is being met from local sources. Hence the Alternative Cash Assistance scheme deserves to be continued until the industry achieves a sustainable development in the backward-linkage industry.

In the past, the Alternative Cash Assistance was used to give garment manufacturers and exporters help to increase garment exports. But since early the 1990s it has been given to the local fabric producers to encourage direct export or use of local yarn fabrics in the RMG industry. Appreciating the Government's gesture toward the local yarn and fabric manufacturers, our observation are that since the garment manufacturers and exporters are the ultimate exporters of local yarn and fabrics, if they were encouraged to use local yarn and fabrics under the same scheme, as in the past, the ultimate objective of this scheme would be achieved through further usage of local yarn and fabrics.

While transaction and overhead costs have increased considerably, the garment manufacturers and exporters are still buying local fabrics and yarn at higher prices in comparison to the prices of imported fabrics/yarns. In the international market, we are losing our market share to our competitors, who besides enjoying several export-benefits also enjoy tax-free status for all their export income.

Moreover, in the past, the Export Performance Benefit (XPB) used to be provided to the RMG manufacturers and exporters to encourage export earnings. Presently in the international market, competition has been intensified due to the entry of new competitors.

Without such a benefit scheme, garment manufacturers and exporters of Bangladesh are losing their competitiveness in the international market.

3.4 Infrastructural Bottlenecks

3.4.1 Port Congestion and Crisis

Due to unchecked interest by a section of politicized dock laborers, the Chittagong Port has remained closed for about 30 days during the last three years. Go-slow and congestion are chronic problems. Chittagong port being the largest seaport in the country contributes to 80% of import and 75% of export of the total international trade. As the normal activities in export and import are hampered due to the complexity created by various reasons like dock labor unionism, go slow principle, strike etc. usage of the seaport by traders has been disturbed and declining. This is definitely influencing the national economy negatively. The Garment Exporters and Garment input importers have been facing problems in export and import for years. It is worth mentioning that due to delay in unloading of raw materials for the Garment Industry, it is not possible for the entrepreneurs to produce the garments within the Letter of Credit (L/C) period. Thus the L/C becomes invalid and the exporters face great financial loss. Consequently, buyers are losing interest in trade with Bangladesh. Moreover the entrepreneurs have to take the responsibilities of the loss on their own shoulders. A large number of garment factories are classified as sick as they have been unable to recover from the stock-lot problem, which is also one of the causes for bottlenecks in the port area.

Heavy congestion in the Chittagong port has been prevailing for the last four years. This congestion affects the normal activities of the port. Loading and unloading of goods are always delayed and ships remain in the outer anchorage for long periods of time. As a result, port utility has been lessened which is also damaging the reputation and image of the port internationally. The handling equipment at the port is insufficient to cope with the rising volume of the export-import business from the garment industry and other export oriented industries. The country should start setting up new jetties immediately to increase the loading and unloading capacity of the Chittagong Port because an average size jetty takes about 4 years to be set up.

The port is taken hostage by a handful of people for their egotistic interest, posing a serious threat to the export-trade of the country. The government should play a stronger role in addressing the port crises. Handing over port activities to private sector enterprises perhaps can ensure a sustainable solution.

3.4.2 Frequent Interruption in Energy Supply

For nearly the last two years the electricity crisis has been unparalleled. To better describe the situation it would be safe to say that the power grid has been at its peak capacity for the last decade or two. A survey in the RMG sector in May 1997, indicated that in Jan-May 1997, the RMG sector had already suffered losses in excess of Tk.1700 crore (Tk.17 billion). Presently on an average, we are losing production worth about US\$ 1.6 million per *day* (or, US\$ 46.4 million per *month* and US\$ 561.6 million per *year*) just owing to the electricity crisis alone. For obvious reasons the chain-effect is more serious. RMG production could be increased by 10-15 % if reliable power supply was available.

3.4.3 Congestion in Road and Railway Communication and Traffic Jam

A good transport system is a prerequisite for economic development. A lack of it creates road congestion, as a result it may take a longer time to get imported raw materials from the port and transport the finished product to the port from the factory. It also causes additional transport costs. A congestion-free road and rail communication, especially between Dhaka and Chittagong, linking the garment industry is vital for further development of the export-oriented RMG sector.

3.5 Inadequate Service Support

3.5.1 Unfavorable Service Charges for Air Cargo

It is a common practice that garment factories import goods by air, paying very high freight rates, only when the speedy delivery of finished goods is the prime requirement of the buyer. Thus, damage, misplacement, dislocation of raw materials and delay in clearance thereof grossly affect the delivery schedule of the finished goods. The replacement of damaged or missing raw materials is not only expensive, but also time consuming and involves onerous Customs/Bank formalities. The irony of the whole system is that the importer is not spared from the onus of paying duties/taxes for non-export of finished goods due to damage in fabric.

In the seaport at Chittagong, the Port Authority acts as Bailee on behalf of all carriers and thus goods land under the port's tally along with remarks as to the condition in which goods have out-turned, stored consignment-wise/shipping mark-wise etc., no such system prevails at ZIA. Neither the Civil Aviation nor Bangladesh Biman act as "Bailee" and as such there remains a vacuum of accountability for misplacement and/or damage to goods. Unlike the seaport at Chittagong or Mongla, at ZIA the importer or their C&F agents are unable to see the condition or storage position of the goods and have to depend on Biman Loaders for "produce of goods". In the examination section a highly irregular practice is being followed by Biman when certain a percentage of goods are required to be produced for inspection purpose, the C&F agents are made to sign that all goods have been duly produced before the actual inspection. Only then does Biman produce the goods.

Therefore at the time of delivery if the loaders fail to detect any goods, in that case only tally marks are made on the reverse side of the photocopy of Air Way Bill which is retained by Security and only an entry for short received is made in their Delivery Register. The C&F agents are not given any official documents for the short receipt.

Even inside the canopy area there are storage tracks where goods are required to be stored according to the last digit of Air Way Bill Number, but the loaders for obvious reasons scatter single consignments in different tracks while stacking.

3.5.2 Incompetent, Slow and Corrupt Custom Services

It is obvious that with the rapidly expanding export business of the country the pressure on customs office has increased immensely. The globalized export business demands not only prompt but qualified services, because missing documentation could cause loss of international customers. Therefore it is not enough to employ sufficient **personnel** in the custom office but they must also be trained. The custom office must be provided with modern technical support and its services must be computerized. The government has already taken some steps in this direction, but it has to be strengthened.

3.6 Inadequate Development Management and institutional Initiatives

3.6.1 Inadequate Exchange of Views between BGMEA and the Board of Directors of the Nationalized Commercial Banks

BGMEA, the single largest trade organization, has been leading the RMG industry to become the biggest export-earning sector in Bangladesh. This sector has propelled the financial sector of the country to new heights. The sector also involves a huge amount of capital investment from the Nationalized Commercial Banks (NCB). The Bank's recovery of loans from this sector has been positive and the sector's contribution to the Bank's earning has been quite considerable. But the financial activities of the NCBs are not sufficient to fasten the export-import procedure for this industry. Moreover, the government's policy to reform the public sector banking institutions has not been working to simplify the complex system.

If representatives from the BGMEA could be included in the Board of Directors of Nationalized Banks and the Bangladesh Bank, this would help solve the different banking problems faced by the garment industry and thus help the economy in a positive way.

3.6.2 Unequal Opportunity for RMG Export Oriented Industry

The government's policy to attract foreign investment in Bangladesh is quite impressive. This policy, however, shows some inequalities. Under the bonded warehouse system every export oriented garment factory is an EPZ, but factories in the EPZ enjoy more benefits than those outside the EPZ. Even in Japan, all export-oriented factories enjoy such benefits. If these inequalities were eliminated and export oriented garment units outside the EPZ were provided with similar benefits to those industries in the EPZ, it would certainly support to increase export and earn more foreign currency for the country.

3.6.3 Indecisive regional Re-location Policies for Export-Oriented RMG Enterprises

To help reduce the environment pollution in the city and provide garment workers with adequate residential facilities, garment factories need to be shifted to the outskirts of the city. Government's "khas" (own) lands beside the Dhaka-Chittagong highway could be allocated for setting up of garment villages and to accommodate the workers of the export oriented garment industry. This could relieve not only the pressure on the environment of the city but also traffic jam and population and other related pressures.

3.6.4 Acknowledgement for the Needs of a Cabinet Committee for export-Oriented RMG

A cabinet committee headed by the Hon'ble Prime Minister of the country should be formed to solve specific and unforeseen problems in the export-oriented RMG sector. The committee may meet quarterly to review the overall situation of the export-oriented RMG and take necessary measures to promote RMG exports.

3.6.5 Recognition of the Necessities of Delegation of Responsibility of the Government

Export-led development has become imperative for survival in the changed environment of the world economy. To respond to the demands of the export business, the establishment of a

Private Export Promotion Bureau has also become imperative. In view of the recent quota bungling by the corrupt EPB officials and quota brokers, it must be considered whether EPB activities relating to quota matters should be handed over to BGMEA.

Recent international development in this respect supports this view. Pakistan's new textile quota management policy for 1998 to 2004, for example, has been deregulated. Conceding to the call for quota and duty free trade in textile and clothing by the year 2005, the country's quota management has been dramatically shifted, almost in toto, from the official agency Export Promotion Bureau Pakistan to the 15 private sector associations dealing with knitwear, woven garments, made-ups and yarns & fabrics.

3.6.6 Recognition of the Necessity for an “Apparel Board”

Solving specific and unforeseen problems of the exporters of the RMG sector from policy making to implementation in every phase needs prompt service from the Government.

Following the example of the Tea and Jute Board, the setting up of an “Apparel Board” has become very essential to free the industry from time wasting bureaucratic shackles and make it more dynamic.

3.7 Recognition of the Role of Education and Training to Improve Labor Productivity

The experiences of the industrialized countries of the world show that improvement in working conditions and work organization can result in increased productivity and competitiveness. This has been also been demonstrated in Bangladesh by entrepreneurs of small and medium sized enterprises who have taken voluntary action to improve working conditions and labor productivity. Improving the productivity in this industry could thus result in making these enterprises more competitive. In Bangladesh, the garment industry is the major employer of the disadvantaged section of the population – the women. Increased competitiveness in the industry will also bring economic advantage for the women and make them socially safer.

The work force contributing to this sector comes mostly from the disadvantaged areas and thus workers lack the proper education and training. These workers are not highly skilled and their contribution sometimes results in more rejected products. It is the skilled laborer and technicians who play the vital role in the development of the industry. The employment of a disproportionate number of unskilled labor by the garment factories in Bangladesh results in low productivity and comparatively more expensive apparels. Measures to enhance worker contribution should take place immediately. Vocational training for increased labor productivity should include graduation/diploma programs at the plant level to ensure sustained improvement of the industry's productivity. As a means, conventional vocational training institutes all over Bangladesh should be developed to teach the base level human resource for advanced technology. Moreover, necessary steps should be taken both by the government and the private sector to establish more fashion and technology institutes according to the spirit of the age. The work force in this sector should be well aware of the modern technologies as well as the fashion of the buying countries.

4. Recommending Measures to Ensure Full Uses of the Potential of the Export Oriented RMG Sector to Increase Export Income of the Country

To ensure expected development of the export oriented RMG sector and the use of its full potential and capacity to increase the foreign exchange income of the country, the following measures must be introduced:

4.1 National Political Measures

- Introducing measures to ensure a national political consensus so that the export oriented sector would remain unconditionally unaffected under any political circumstances.
- Introducing measures to ensure a sound law and order situation so that all operations of the export-oriented factories can take place without any kind of interruption and hindrance.

4.2 Developmental Political Measures

- Introducing attractive financial incentives and other incentives to promote investment in the export oriented RMG sector.
- Introducing non-bureaucratic and easy operating practical policies to encourage foreign direct investment in the export oriented RMG sector.

4.3 Marketing Support Measures

- Ensuring trade diplomatic measures to convince the USA and other such developed politically important trade countries to increase its RMG export quota for RMG export from Bangladesh.
- Providing international marketing support for the export-oriented RMG sector, i.e. helping exporters from the RMG sector visit international Trade-Fair and buyers abroad.
- Supporting quality management, proper export documentation, and, in cases of difficulties, ensuring payment from abroad.

4.4 Financial Measures

- Providing financial, legal, institutional and all other support for backward linkage industries in the export-oriented RMG sector, so that this sector can be relatively independent from import and improve its competitiveness in the international market.
- Exempting taxes and VAT for RMG exports, so that the exports can become more competitive in the international market.
- Providing long term Tax Holidays to encourage new national and foreign investment in the export-oriented RMG sector.
- Carefully adjusting the exchange rate of the national currency to the currencies of the international competitors so that national economic development is not affected but the export-oriented RMG sector gets the necessary financial incentives and the support.
- Making value addition for high value items flexible, so that high valued RMG exports can become competitive in the international market.
- Removing all anomalies from the functions of the Banks and introducing the

following steps to support export-oriented RMG enterprises:

- Requirement of obtaining approval from Bangladesh Bank for the issuance of Forced/Demand Loan by the lien banks should be withdrawn.
 - Back-to-Back PAD/Forced Loans should not be considered as default bans. Loans of this nature should be converted into interest-free block Accounts and amortized against future export proceeds.
 - Overdue FBP created against the liability of any VC should also not be considered as default loans.
 - Mandatory compulsions set forth in the ECG policy should be waived.
 - Procedure of obtaining prior permission from Bangladesh Bank for exporting goods against stock-lot should be withdrawn.
 - Negotiating Banks should be authorized to consider discounts up to 20%.
 - Condition for obtaining approval for discount from the Bangladesh Bank should be relaxed and discount approved by the EPB should be treated valid.
 - Forty-five days, from the date of document negotiation, should be allowed for fund remittance. Overdue interest should not be charged in the event that the remittance is delayed.
 - Private commercial banks should immediately cease charging "VC Acceptance Charges" as done by the Nationalized Banks of the country.
 - Laws should be enacted announcing that the Banking Companies Act passed by the *Jatiya Sangshad* (the Parliament) on 13 March 1997 is not applicable to the export-oriented Readymade Garment Sector of the country.
 - Readymade garment exporters should not be held responsible if proceeds against their exports are not realized owing to the reasons beyond their control.
 - Opening of UC based on Realization Clause should be re- introduced.
- Working out policies in co-operation with BGMEA providing cash support to encourage better export performance.

4.5 Infrastructural Supporting Measures

4.5.1 Measures To Remove Transport Congestion

- Removing port congestion so that export-import operation can take place without any kind of delay, a holding export schedule is not only a precondition to satisfy the buyer but also to improve the business image of the country abroad.
- Ensuring a rush-free and well-developed Road and Railway communication, so that urgent transport between the export-oriented RMG enterprises can take place without delay.
- Ensuring prompt transportation of export goods to the port and transport of import goods from the port to the corresponding enterprises.
- Regulating air cargo charges so that it does not affect the competitiveness of export-oriented RMG sector.
- Ensuring the delivery of air import shipment so that delivery without any delay is assured.

4.5.2 Measures to Ensure Uninterrupted Power Supply

- Introducing measures to ensure uninterrupted power supply to all export-oriented RMG enterprises, so that they can operate normally and at its full potential and capacity.

4.5.3 Measures to Ensure Appreciating Customs Service

- Computerizing custom services and equipping it with a modern communications system to ensure prompt services.
- Freeing the custom procedure and services from all anomalies and corruption.

4.6 Development of Managerial and Institutional Measures

- Integrating BGMEA representatives in the Board of the nationalized Banks to ensure prompt financial operation in the export-import business of the export-oriented RMG enterprises and to speed up and promote investment in the export-oriented RMG sector.
- Providing the export-oriented RMG sector similar facilities given to the enterprises in the EPZ, because in fact there is no difference between these two groups of enterprises
- Establishing RMG villages so that unhindered operations of the export-oriented RMG enterprises can be ascertained and the productivity increased by providing healthy accommodation to the employees of these enterprises. This will help keep the capital city free from environmental pollution, which is partly done by these enterprises. This will also relieve city from the unbearable traffic jam.
- Establishing an Apparel Board composed of persons from the policy making and implementing body of the government to ensure support and assistance for the export-oriented RMG sector.
- Forming a Cabinet committee headed by the Hon'ble Prime Minister, which should meet quarterly to solve especially unforeseen problems of the export oriented RMG sector instantly.
- Privatizing EPB or permitting a parallel private institution for the services that are provided by EPB so that prompt and qualified services are ensured.

4.7 Measures to Ensure Development of Human Resource

- Creating educational facilities for the labor force from export-oriented RMG enterprises.
- Providing training opportunity for labor and management from export-oriented RMG sector.
- Organizing workshops, seminars and symposiums to explain the necessity and importance of discipline, qualified workers, and improved productivity for export, national economy development & the welfare of the workers themselves.

5. Conclusion

In the garment fashion industry today strategic life cycles are measured in weeks and months rather than years. The information age has resulted in globally interconnected communities, electronic commerce, and instantly accessible knowledge. To succeed in this new environment the focus of the garment entrepreneurs will have to sharply shift from the conventional way they have been doing business (i.e. with a focus only on replication and efficiency) to one of "innovation". Knowledge, flexibility and agility will be the keys to success. The substantial but mediocre critical mass of "Human Capital" will have to be rapidly upgraded to a much more "Creative Mass". Companies in the garment business will have to train, recruit and retain highly creative and ambitious employees and create a new business culture, which is dynamic and rewarding and focused on hard work, ideas, talents and creativity. Such "intellectual Capital" in the western world is very expensive. The development of such "intellectual capital" in Bangladesh will become its most formidable competitive advantage.

Bangladesh should focus to become a dominant player in the global market, but this is not easily achievable. Nevertheless it must become the country's single-minded mission and the message should be broadcast loud and clear by captains of industry and trade as well as the political leaders in Government and in the opposition. Bangladesh should endeavor to become the international "Garments Valley" of the world at all costs. The objective should be to switch from a low price point, inflexible, product driven, low quality apparel producing country to a world-standard, customer driven, flexible, high quality, higher price point garment producing center.

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