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The Competitiveness of Ready Made Garments Industry of Bangladesh in Post MFA Era: How Does the Industry Behave to Face the Competitive Challenge?

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Author's contribution

This work was solely carried out by the author. The author read and finally approved the manuscript

Research Article

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ABSTRACT

The challenges that originate from changes in the global trade regime and the relative competitive environment in the global markets are reasons for deep concern for Bangladesh. Because of quota system abolition many of the less efficient suppliers will lose quota rents and market shares as they are forced to compete with more efficient suppliers among developing countries. Since 1974, Bangladesh was enjoying a quota free access of garments under the Multi- Fibre Arrangement (MFA). But the phase out of the Multi- Fibre Arrangement (MFA) has completed in 2005 under the Uruguay round of GATT (General Agreement for Tariffs and Trade) in 1994. The freeing of trade in textiles and clothing has created a formidable challenge to the Bangladesh Ready Made Garments (RMG) Industry. The phase-out of the MFA, emergence of competitors such as China, India, Vietnam, Turkey, Mexico and African nations have negatively impacted on the fortunes of Bangladesh RMG sector. Dependence on imported raw materials, political instability, turbulent economy, high bank interest rates, lack of government incentives, poor knowledge of international marketing, port problem, poor infrastructure and labor union are some of the internal problems of Bangladesh RMG. This sector is being incrementally faced with the burden of obligations imposed by the developed countries in the guise of compliance issues. There are two types of views about the future of Bangladesh Ready Made Garments (RMG) Industry after MFA era. The optimistic view

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emphasized that Bangladesh had held a strong position in the global market due to its abundant supply of cheap labor. On the other hand the pessimistic view revealed that there is no opportunity for Bangladesh to survive in the competition. This paper is prepared in the context of phasing out of the MFA and its impact on the export performance of Bangladesh Ready Made Garments (RMG) industry.

Keywords: Ready Made Garments (RMG); MFA (Multi Fibre Arrangement); quota system; competitiveness; export potential; international trade.

1. INTRODUCTION

The RMG industry in Bangladesh has developed from outside pressure rather than emerging to meet local demands [1]. The increasing wages in the clothing producing countries paved the way to establish RMG industry in Bangladesh, as the countries started looking for low-wage situation of factories [2]. The industry is the most prominent export oriented industry of the country which has achieved very significant growth during last two decades [2]. Now there are about 4,000 RMG industries in the country with export earnings of \$6.40 billion per year. The industry employs about 2 million workers with 80% participation of women labor force. RMG industry alone fetches 79% of the total export earnings of the country [3]. The export income from the industry is among one of the top three sources of economic development and GDP growth of the country [4].

Two factors such as cheap labor force and captive market under quota system facilitated the development of RMG industry in Bangladesh. The favorable policies of the governments in the form of duty, preferential tax, tax holidays, duty free machinery inputs, central warehouse facilities, letter of credit facilities without deposit, loans at low interest rate etc. have also supported the growth of the industry [5].

2. BACKGROUND OF MFA

Since 1974, the world textile and clothing trade has been regulated by the GATT approved Multi-fibre Arrangement (MFA). It is an exception to the GATT's (General Agreement on Tariffs and Trade) principle of non discrimination. MFA came into effect to set the rules and regulations for apparels and textiles trading. These rules provided the framework for bilaterally agreed-upon quantitative restrictions set by major importing countries which took trade in textiles and apparels products beyond the basic GATT principles through the imposition of export quota for particular countries (The Centre for Policy Dialogues, 2003).

The World Bank defined MFA as:

“The hallmark of quota restrictions on imports into developed country markets of T&C products from a number of developing countries. The 1994 Agreement on Textile and Clothing (ATC), reached with the establishment of the WTO, stipulated phasing out all quota restrictions under MFA by 31 December 2004 and the full integration of T&C products into the multilateral trade disciplines. Accordingly, the quota restrictions were withdrawn by all countries by the agreed date, and T&C entered the uncharted waters of quota-free trade”.

With reference to the objective of the MFA, Article 1.2 from its text reads as:

“The basic objective shall be to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textiles products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive affects in individual markets and on individual lines of production to both importing and exporting countries” [2].

On 1st January 1995, MFA was substituted by the W TO Agreement on Textiles and Clothing (ATC) which lay out a step by step process for the final withdrawal of clothing quotas [25]. Under the provisions of ATC, the quota under MFA was terminating over a 10-year period and after the integration, regular GATT safeguards have been applied [6]. Nordas concluded the four possible consequences of phasing out of MFA: First, there is a political gain where the acceptability of multilateral trading system is experiencing severe difficulties. Second, there are efficiency gains from the elimination of quotas which led to an unjustified global allocation of textiles and clothing. Third, there is a loss to ATC exporters as they are not enjoying the quotas to export certain volumes. Fourth, there is the gain to consumers who can enjoy quality products at competitive price [7].

3. OBJECTIVES

The aim of the research is to identify the export performance and challenges facing by the ready-made garments industry in Bangladesh in the post quota free globalized market.

The objectives of the research are:

1. To analyze the impact of quota system (Multi Fibre Arrangement) abolition on the readymade garment industry of Bangladesh.
2. To critically examine the competitiveness of the industry in major international markets due to global economic policy changes.
3. To explore the export potential of the industry in future
4. The prospects of Bangladesh RMG industry since the abolition of MFA

4. LITERATURE REVIEW

The concept of competitiveness is a broad concept. Its meaning, applications differ from firms to firms, industry to industry and nations to nations. Different authors have defined competitiveness from different point of view. Haider identified some factors such as labor cost, unit cost, interest rates, innovativeness, exchange rates, distribution of networks, transaction cost, institutional factors etc. for measuring the competitiveness [8]. Mutsune argued that At the macro level (national level) environment determines competitiveness in which firms operate such as the strength of financial sectors, depth of national deficit, the level of trade barriers, and diversification of industries and the development of infrastructure [9].

However, Dollar and Wolff denied the macro level of competitiveness. According to them competitiveness is difficult to answer because the competitiveness of a country is not a well defined economic term. Competitiveness is a meaningful term when applied to firms in particular industries. In support of his view, the authors have provided an example of Japanese automobile industry. Japanese firms are very competitive in the production of midsize automobiles. It is impossible, however, for one nation's firms to be competitive in all

industries. Japanese firms are not particularly competitive in the production of heavy-duty vehicles [10].

Porter said that competitiveness is not only driven by input costs, locations with some important endowment and supply of cheap labour [11]. Fujimoto provided special attention on the capability development. According to him the development of capability of a firm enhances the long term sustainability of its competitive performance [12].

Different authors have provided different opinions on the issue of phasing out of MFA and their possible impacts on the competitiveness of Bangladesh RMG industry. Nordas concluded the four possible consequences of phasing out of MFA. Chowdhury, Ali and Rahman depicted that due to the rules and regulations of WTO most adversely affected country will be the LDCs like Bangladesh. According to him, Macroeconomic instability may arise as it will distort the market condition. Moreover, this will create an increase in competition which will not only create problems for the female labor force of the garments sector but will also increase the risks regarding their empowerment, dependency syndrome and even they may choose prostitution [13].

Rahman implied that apart from China, new entrants like Cambodia, Vietnam and Lesotho are expected to pose a formidable challenge to some of Bangladesh's markets. The author argued that some of the competitors of the Bangladesh RMG industry enjoyed the preferential access to international markets, especially to USA under the initiatives such as NAFTA, CBI (Caribbean Basin Initiative), US-Vietnam trade agreement, European Free Trade Areas and other Bilateral foreign trade agreements [14]. Huda, Karim and Ahmed (2007) suggested that the new era of quota free trade has created a huge opportunity for growth but at the same time scientifically managed foreign competitors should also be taken in account. The practice of strategic human resource development will be an efficient measure to utilize the opportunities and counteracting threats [15]. On the other hand, according to Ahmed and Hossain [16], Bangladesh cannot compete long with its only comparative advantage of cheap labor. The country needs to establish its own backward linkage industry by decreasing the number of back to back letters of credit. They also suggested that Bangladesh needs to increase the import of new technologies so that the domestic firms can improve their efficiencies, reduce cost and remain competitive in the global market.

Hiebert pointed out that Bangladesh produces few of the inputs to manufacture garments. He also added that China can supply textile and garments 40% cheaper than Bangladesh. The competitors like China, India and Pakistan will be the winners because they have a low cost efficient workforce and invested heavily on new equipments and have efficient backward linkages. He recommended that Bangladesh has to invest heavily on its infrastructure to remain competitive [17]. Kumar also pointed out on similar views of infrastructural problems of Bangladesh RMG industry. According to him garment factories are not being able to use its full capacity of production due to shortage of power. The author argued that due to shortage of power the cost of production is increased to 25 percent [18].

Chowdhury et al. argued that Bangladesh RMG sector is growing with old and inefficient technology. Hence, trained manpower, innovative technology, available raw materials, better working environments and effective supervision of workforce will bring out the best from the industry. On the other hand factors like export policy, infrastructure, economic development and regional agreements will reduce the external barriers of the industry [19]. Compliance issue is very important for Bangladesh industry. The issue of child labor was

solved successfully by Bangladesh but other issues like minimum wages, factory location, suffocating environment, fire exits, separate lunch room, women common room and toilets are some of the major compliance issues that needs to be addressed to maintain the compliance standards referred by foreign buyers [20].

5. METHODOLOGY

This research by its nature relies on descriptive research design because the researcher attempts to explain the crucial features of Bangladesh readymade garments industry in post MFA era. Because the previous knowledge about this research is in advanced level, the researcher avoids the rigorous research feature of exploratory study that requires extensive interviews with many people and designs a comprehensive investigation. Rather the researcher will rely on survey among a small sample to collect primary data. The researcher has collected primary data by carrying out a close ended questionnaire survey among 15 managers working in different garments industry (See list of managers in appendix A). The primary data was collected initially by sending e-mail questionnaires to some of the managers. The author was able to get only 6 responses through email even though every possible effort was made to get all the responses by online. As there was not enough response, 9 respondents were surveyed personally by the researcher.

The author has used purposive sampling technique in this research. Reeves and Harper defines purposive sampling as taking slices through organization, selects people because of the positions they occupy (Reeves and Harpe, 1981 quoted in Jankowicz, 2005) [21]. Managers are selected as respondents because they are the key informant of the status of Bangladesh RMG industry-people who have specialized and unique knowledge and experience of the issue the researcher is trying to find out. While selecting the managers, the author has made it sure that the managers occupy the strategic positions of the company and are working before and after the quota system so that they can compare different scenarios. The advantage of such technique is that the researcher feel confident that the data gathered will reflect perspectives pertinent to the inquiry being undertaken [22].

According to Gay and Diehl Samples should be as large as possible [23]. On the other hand, Bancroft and O'Sullivan argued that sample size tend to be matter of judgment rather than a matter of calculation [24]. The researche has chosen 15 managers from different garments companies located in Dhaka, Gazipur and Narayongonj where most of the garments factories in Bangladesh are located.

6. RESULTS AND DISCUSSION

6.1 Export Destination

Table 1 shows that he combined export of garments from Bangladesh to USA and European Union (including UK) is 94.7%. The export of garments to Canada and other countries are 2.6% and 2.6% respectively. Bangladesh Bank quarterly report also shows that USA and EU accounts 83.43% share of garments exports from Bangladesh in 2005-06 while other countries accounts 16.57% during same year [16]. This reveals that the garments export from Bangladesh is still very much dependent on USA and EU while the diversification of market is at primitive stage.

Table 1. Export destination

Category label	Code	Count	Responses (%)
USA	1	14	36.8
EU	2	14	36.8
UK	3	8	21.1
Canada	4	1	2.6
Others	5	1	2.6
			Total responses = 38

6.2 Cost of Production

The survey results from Table. 2 show that the cost of labor covers the most substantial portion of total production cost in Bangladesh RMG industry. The Financial express (2008) validate the findings of primary data by saying that the cost of labor of Bangladesh RMG industry is lowest among its competitors. This reveals that the RMG industry of Bangladesh enjoys cost competitiveness in global market with its lowest wage rate as the cost of labor covers a substantial portion of total production cost.

Table 2. Cost of Production

	Frequency	Percent	Valid percent
Cost of labor	9	60.0	60.0
	5	33.3	33.3
	1	6.7	6.7
Total	15	100.0	100.0

6.3 Lead Time

According to the survey in Table 3, most of the respondents have said that they maintain a lead time of 66 to 95 days to export the garments. Only 26.6% of the exporter's have said that they take 35 to 65 days to export their products which are the global benchmark for exporting garments products. But the country is slowing improving to reduce its lead time by initiatives of increasing factory efficiency, transport system and streamline the port facility.

Table 3. Lead time

	Frequency	Percent	Valid percent
30-50 Days	2	13.3	13.3
51-65 Days	2	13.3	13.3
66-80 Days	5	33.3	33.3
81-95 Days	3	20.0	20.0
Above 95	3	20.0	20.0
Total	15	100.0	100.0

6.4 Market Share

The Table 4 shows that 73.3% of the respondents said that the market share of garments export has increased since 2005 which means the RMG industry of Bangladesh maintained

its growth even after the abolition of preferential market access to USA and EU. If we compare these findings with secondary data source we can see that the export of garments has increased from 336901 million BD currencies in 2003-04 to 734651 million BD currencies in 2007-08 (Foreign Trade Statistics of Bangladesh, 2009).

Table 4. Market share

	Frequency	Percent	Valid percent
Increased	11	73.3	73.3
Decreased	2	13.3	13.3
Unchanged	2	13.3	13.3
Total	15	100.0	100.0

6.5 Profit Margin

The empirical data shows that most of the respondents have said that their profit margin have either declined or remained unchanged since 2005. The profitability of RMG industry of Bangladesh is affected by the problems like cut prices by buyers, soaking of profit in the name of compliance and increased costs of raw materials, transport and infrastructure.

Table 5. Profit margin

		Frequency	Percent	Valid percent
Valid	Increased	3	20.0	20.0
	Decreased	8	53.3	53.3
	Remain Unchanged	4	26.7	26.7
	Total	15	100.0	100.0

6.6 Market Diversification

The analysis of empirical data in Table 6 reveals that 66.7% of the respondents are looking for new market to keep export growth while 28.57% of the respondents are not exploring to new markets. The data findings demonstrate that the industry is trying to reduce its dependency on two markets for the long term sustainability and growth. The countries like Russia, Japan, Brazil and China are offering potential market access for RMG industry of Bangladesh. In order to access to these markets the government of Bangladesh and entrepreneurs are taking many steps like trade shows, diplomatic visits and use of regional co-operations.

Table 6. Market diversification

		Frequency	Percent	Valid percent
Valid	Yes	10	66.7	66.7
	No	5	33.3	33.3
Total		15	100.0	100.0

6.7 Incidents

The Table 7 shows that the most common incident happened last four years was the go slow of business which means the industry was affected by the quota system abolition many times. But the previous data of export shows that the industry has absorbed the shocks by maintaining the positive export growth. The industry faced some incidents of lockouts, boycotting, strikes and picketing during last four year.

Table 7. Incidents

				Valid
Valid	Lockout	1	6.7	6.7
	Go Slow	7	46.7	46.7
	Boycotts	1	6.7	6.7
	Strikes	3	20.0	20.0
	Picketing	3	20.0	20.0
	Total	15	100.0	100.0

6.8 Government Support

The Table 8 shows an interesting picture that none of the respondents have said that the government policy is not very supportive to the industry while only few of the respondents said that the policy is supportive. Most of the respondents said that government policy is either moderate favorable or not favorable. It is very difficult for the RMG industry of Bangladesh to compete in the open market without the proper help of government.

Table 8. Government support

Category Label	Code	Responses (%)
Very supportive	1	0%
Supportive	2	21.43%
Moderate supportive	3	57.14%
Lack of support	4	20.40%

6.9 Potential Measures in Future

The diversification to new markets, government support, development of support industries and reduce lead time are the key issues among the respondents that need to be addressed after the abolition of quota (Table 9). The respondents also suggested that effective measures should be taken for product diversification, participation of foreign investors in market development, improving labor skills and factory modernization.

Table 9. Potential measures in future

Category	Code	Count	Responses (%)
Foreign Investment	1	6	10.2
Diversification to new markets	2	10	16.9
Product Diversification	3	7	11.9
Factory Modernization	4	3	5.1
Improve labor skills	5	6	10.2
Reduce lead time	6	8	13.6
Develop own backward linkage	7	9	15.3
Government support	8	10	16.9
Total responses		59	100%

7. CONCLUSION

Evidence gathered with regard to performance of RMG industry in post MFA regime show that the phasing out of MFA and emergent of new competitors could not restrict the ongoing growth of Bangladesh RMG industry. The entrepreneurs of Bangladesh have demonstrated a remarkable ability to take the advantages of business opportunities that had emerged in quota free globalised world. Since 2005, the industry has continued its positive growth and the export income from the industry are expected to be double in next five years. A close look at the industry reveals that the industry has maintained its competitive strength in the market by exporting low cost apparels based on the availability of cheap labor. But the industry is also facing some internal problems such as poor infrastructure, lack of backward linkages, high lead time and market and product diversification. Some of the external threats to the industry are arising from regional agreements, competitor's actions, political instability etc. If the country can mitigate these problems effectively, the industry can grasp the opportunity to export unlimited merchandise by exploiting its comparative advantage of low cost and highly trainable labor force over other exporting nations.

However it is too early to comment on the competitiveness of Bangladesh RMG industry because; the industry has only gone through seven years after the abolition of quota. The long term sustainability of the industry depends on how it can handle all the obstacles and maintain its competitive strength in the global market. So, the issues related to the competitiveness of the RMG industry of Bangladesh in post MFA era needs to be further studied and examined.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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APPENDIX

SL	Name	Designation	Company	Address
1.	Md. Kamrul Hasan	Managing Director	Moon Beam Designer's Limited	82/4 Ibrahimpur C/A, Dhaka, Bangladesh
2.	Md. Nasir Uddin	General Manager, Production	The Delta Composit Knitting Ltd.	Zarun (South) Kasimpur, Gazipur
3.	Mazharul Islam Susan	Production Manager	Viyellatex Group	Gazipura, Tangi, Dhaka
4.	Aslam Parez	Manager, Production	Crony Group	Plot No-S, A-646, Fatullah, Narayanganj- 1400
5.	Md. Masud Rana	Finance Manager	Opex Washing Plant	Kanchpur, Sonargaon, Narayanganj
6.	Md. Monsur Ahmed	Commercial Manager	M.M composit knit Ltd.	CS-36, Teknogopara, Salna, Gazipur
7.	Mohammad Shajahan	Manager, Sales and Marketing	Shimrail Fashions Limited	324, Baipail, Bagabari Bazar, Savar, Dhaka
8.	Abul Kalam Azad	Director	Shaya Apparels Ltd.	Hatem Ali Complex, Singer Rd, Savar, <u>Dhaka</u>
9.	Mohammad Naser Khan	General Manager	Mymum Textiles Ltd.	Nayapara, Kashimpur, Gazipur
10.	Md. Mukit Hasan	Director	Moon Beam Designers Limited	82/4 Ibrahimpur C/A, Dhaka, Bangladesh
11.	Md. Rakib Hossain	Merchandizing Manager	Shimrail Fashions Limited	324, Baipail, Bagabari Bazar, Savar, Dhaka
12.	Tuhin Ahmed	Supply chain Manager	Mymum Textiles Ltd	Nayapara, Kashimpur, Gazipur
13.	Zakir Mahmud	Production Manager	Crony Group	Plot No-S, A-646, Fatullah, Narayanganj- 1400
14.	Ahmed Imtiaz	Logistics manager	Viyellatex Group	Gazipura, Tangi, Dhaka
15.	Shajahan Kabir	Commercial Manager	Shaya Apparels Ltd.	Hatem Ali Complex, Singer Rd, Savar, <u>Dhaka</u>

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