

# 1.1 1979. the country, only ten years old

[Business](#), [Industries](#)



1. 1 The Evolution of the Garments Industry The evolution of Bangladesh's garment industry began around 1979. The country, only ten years old at that time had minimal exports which meant that the Multi-Fiber Arrangement (MFA), an agreement which imposed quotas on the quantities that could be exported, was not in place. The Daewoo Corporation of South Korea took advantage of this opportunity and set up a production base in Bangladesh called Desh Ltd. The employees received training as a part of their employment in South Korea, two years after which they left Desh to start their own garment businesses.

1 By 1982, the government had realized the potential of the garment industry and started providing incentives to the fledgling garment industry. A scheme called Export Performance Benefit was introduced which offered better exchange rates for exporters of non-traditional items. This also boosted the remittances from Bangladeshis working abroad. The government established Bonded Warehouses which could contain raw materials imported without payment of duties and taxes on submission of evidence of export orders. 2 Exporters of manufactured products were given a refund of customs duties paid on the import of raw materials that were used in the production of goods exported.

The duties on import of machineries to be used for export production were removed. The government allowed the exporters to open Letters of Credit for the required imports of raw materials against their export Letters of Credit in such sectors as Ready Made Garments (RMG) and leather goods. Exporters of non-traditional items were offered lower interest rates of 8-10 percent as opposed to 14-16 percent that was offered normally. 3 The government also

offered rebates on income tax to exporters. The exporting firms located in Export Processing Zones (EPZ) enjoy various incentives such as tax holiday for 10 years, duty free imports of spare parts, exemption from value added taxes and other duties. The government also donated land to garment producers in Narayanganj and Gazipur. All the aforementioned policies, mixed with small, intermittent but consistent devaluation of the Taka acted as a catalyst in incentivising export based industry growth in Bangladesh. 4Even after the MFA was enacted, it favored Bangladeshi producers because it protected them from foreign competition and because a more generous export quota was given to Bangladesh than to India and Sri Lanka.

5 Another important event in 1986 was that the Export Promotion Bureau of Bangladesh and the United Nations Development Programme (UNDP) sent several Bangladeshi knitwear producers to Italy, Germany and Poland, which helped the producers understand the latest production techniques and export market conditions. 6In developing countries, very rarely do we find success stories of government roles in formulating conducive policies for industrialization but in Bangladesh the government played a very positive role in concretizing the emergent garment industry. Government's focus on encouraging export-led industrialization was the main objective behind such government initiatives. Along with that, the role of banks was of utmost importance as lower interest rate attracted more business for the garment industry. The birth of Bangladeshi RMG industry has many lessons for Pakistan where the government is reluctant to repay tax refunds to exporters and banks have high mark up. 1. 2 Bangladesh's Growing International

Presence Landlocked between two Asian economic giants i. e China and India, Bangladesh has a growing trading role in the region.

52% of its trade is concentrated in Asia while the European Union and North America are its two other major trading partners. Its GDP has improved in the last decade owing to its export led growth (see Figure). Moreover, the exports of Bangladesh are dominated by ready-made garments and even though it is a non- producer of cotton, Bangladesh has become one of the major exporters of ready-made garments (RMG). The Ready Made Garments constitute almost 80 percent of exports of Bangladesh.

7Furthermore, Bangladesh is the 55th largest export economy in the international arena. In 2015, Bangladesh exported \$35. 7B and imported \$38. 3B. It resulted in a negative trade balance of \$2.

6B. In 2015 the GDP of Bangladesh was \$195B and its GDP per capita was \$3. 34k. If we compare the Bangladesh exports of 2015 with 2005, we will come to know that exports of Bangladesh have increased three times i. e. in 2005, its exports were \$ 11 B and its imports were \$13B. The top exports of Bangladesh, according to the 1992 revision of the HS (Harmonized System) classification are: 8 a. Non-Knit Men's Suits (\$5.

6B) b. Knit T-shirts (\$5. 28B) c.

Knit Sweaters(\$4. 12B) d. Non-Knit Women's Suits(\$3.

66B) e. Non-Knit Men's Shirts(\$2. 52B) The top export destinations of Bangladesh are: 91.

United States of America (\$6.19B) 2. Germany (\$5.17B) 3. United Kingdom (\$3.53B) 4.

France (\$2.37B) 5. Spain (\$2.29B). On the other hand, major imports include: 10 a.

Heavy Pure Woven Cotton (\$1.33B) b. Refined Petroleum (\$1.

25B) c. Light Pure Woven Cotton (\$1.12B) d. Raw Cotton (\$1.

01B) e. Wheat (\$900M) And the top importing origins are,

11 1. China (\$13.

9B) 2. India (\$5.51B) 3. Singapore (\$2.22B) 4. Hong

Kong (\$1.

47B) 5. Japan (\$1.36B) 1. 3 Internal Competitiveness The garments industry boomed in less than three decades showing how the country's internal competitiveness helped the industry to become an exemplary industry by setting a high growth rate in the total economy of the country. According to Md. Sheik Sadi, a friendly environment, experience, cheap labor, availability of cheap energy such as natural gas, land and small capital are some of the main factors that supported the industry to grow in a very short time with a very high growth rate. The success stories of Bangladesh also reveal the truth that the labor cost for the production is not only cheap but it is cheaper compared to its' other international competitors. The per hour labour wages of Bangladesh, Pakistan, China and India are 0.

25, 0.40, 0.35 and 0.60 respectively.

1. 4 Low-cost Energy The main energy that is required to function the garment factories is natural gas and electricity as far as Bangladesh garments' industry is concerned. Bangladesh is blessed to have a natural resource like gas but natural gas is mostly used in the process of heating. Although natural gas is only used for the process of heating, the demand is still increasing steadily. The main reason for the rise of the use of natural gas in the garment industry is the low price of the gas.

According to Petro-Bangla the price of a thousand cubic feet of natural gas, is 165. 91 Bangladesh taka, which is equivalent to 1. 55 euro. 12 36 The price of other source of energy that is required in the garments industry is electricity.

And the price of electricity in Bangladesh is very low compared to other countries that are considered the competitors of Bangladesh in the garment industry. Bangladesh has the lowest cost of electricity in the world which is 0. 07 dollars kilowatt per hour.

Although, China, who is the biggest competitor, has a moderate price of electricity that is 0. 11 dollars kilowatt per hour, out of the biggest competitors Thailand has the highest price rate of electricity, is 0. 17 37 dollars kilowatt per hour. Thus, the chart clearly proves that Bangladesh low energy price gives the garments industry an advantage in the competition.

1. 5 Lessons for Pakistan Pakistan can learn a lot from Bangladesh's example and has the potential to dominate the market since it is also a major cotton producer and build on the capacity for producing finished goods

which can earn more revenue. These lessons include, a) Trade Liberalization: Since the government began to liberalize trade, it has had a positive impact on the economy since market forces have been allowed to dictate the policy direction undertaken by the government in order to assist the private sector in order to allow foreign and local investors to capitalize on the potential which Bangladesh's markets promise. 13b) Accepting the transfer of technology: As the garments industry has evolved, new machines and methods have come to the fore to increase productivity. Moreover, in order for the industry to develop, new technological trends had to be catered in order to accommodate the market demands and drive up competitiveness of goods. c) Power supply policy and costs: As discussed above, Bangladesh has had a consistent policy of focusing on low costing power supply solutions which Pakistan can use as well instead of relying on expensive options to generate power with. d) Social progress driven by the garments sector: Women are heavily employed in the garments industry which has led to more women empowerment initiatives while on the other hand the growth of the garments industry has increased the demand for skilled labor which has allowed the government and private sector to kick start various educational initiatives including driving up primary school enrollment to initiate vocational training programs. e) Facilitating trade, employment and economic growth by the garments sector: The garment's sector became a catalyst for not only contributing to the GDP but also to enhance the potential for further trade and boosting employment as the industry grew.

- f) Focus on becoming a primary goods exporter to a tertiary goods exporter: As Bangladesh is not a big cotton producing country, it focused on producing ready made garments in order to earn more revenue. As a result, its policies are all driven to further develop its exporting potential as a finished goods destination which contributes more positively towards the economy. Pakistan needs to focus on developing its potential as a tertiary goods exporter in order to earn greater revenue.
- g) Improving trade ties with neighbors and building on regional trade markets: Even though Bangladesh's main markets lie in the United States of America and the European Union, it has began to explore and capitalize on regional markets and focus more trade deals with its neighbors especially China and India. Favorable trade deals not only favor Bangladesh in order to cater to its growing working class, but also earn more revenue by cutting down major transportation costs and tapping into new markets. Pakistan can, similarly, work on similar deals and facilitate the growth of its trading potential.
- h) Improving education and enrollment: Education standards and enrollment statistics have improved as the Bangladeshi garments sector has developed. As the demand for skilled workers has increased, the need to get trainings and have an education have increased as well. Pakistan can, in a similar vein, learn from Bangladesh's example and also facilitate better educational opportunities by focusing on a dynamic policy to develop its industry which can lead to the development of its educational sector as well.
- 14 i) More vocational trainings to develop unskilled labor into skilled: As Bangladesh focuses on becoming a middle-income economy by 2021, it has



begun a campaign to produce more skilled labor which can not only be employed within Bangladesh but also go abroad in order for its remittances to grow. On the other hand, Pakistan already has a plethora of workers in destinations such as the Middle East and the European Union; however, they are mostly unskilled. Such vocational training programs may help in the long run in increasing remittances and being an additional source of revenue.

j) Improving Coordination: Groups such as the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and the government of Bangladesh are actively focused on better coordinated policies on trade and investment related matters between departments, ministries and the private sector. <sup>15</sup> As a result, a framework with all stakeholders on board is formulated which can direct policy related matters and provides a platform to address all issues. In Pakistan, such coordination is still lacking and requires more government – private sector partnerships.

k) Back to back letter of credit – Commercial banks assist the imports of inputs of garment sector exporters against the export orders placed in their favor by garment sector importers. Since the risk of the banks is accepted as being limited, banks have played an active role in helping the garments sector to keep developing and remain competitive. <sup>16</sup> Pakistan needs to develop initiatives where the banking sector can play an active role and assist local investors and local groups to develop the sector as well so that the dependency on foreign investment, although important, can be mitigated as well. The Bangladeshi garments industry has remained competitive and has expanded over the last decade.

It remains a positive example of how foreign investment can ignite growth and is the sector is further facilitated by the development of successful local firms. However, the success of the garments sector would not be possible without the active participation and collaboration of the government and the industrial associations which worked to create effective policies to regulate and develop the sector. The transfer of technology and market forces remained central as issues like power sector supply, tax refunds and bank credit mark-ups further created a conducive environment for Bangladesh to become the regional and international market player in the garments sector that it is today.