



The Asia Foundation



[OCCASIONAL PAPER NO. 1, JULY 2010]

Competitiveness in the Garment and Textiles Industry: Creating a supportive environment

A CASE STUDY OF BANGLADESH

Dr. Sanchita Banerjee Saxena, *Associate Director, Center for South Asia Studies, University of California, Berkeley*
Véronique Salze-Lozac'h, *Regional Director for Economic Programs, The Asia Foundation*



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The Asia Foundation

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ACKNOWLEDGEMENTS

This study is the result of a collaborative effort between The Asia Foundation and the Center for South Asia Studies at the University of California, Berkeley, and has been financially supported by The Asia Foundation and the former International and Area Studies Dean's Office at UC Berkeley. The two co-authors of this study benefited from the expertise and connections of Dr. Naushad Faiz and Ms. Naureen Fatema who organized the meetings and assisted in conducting the interviews. Our special thanks go to all the actors who agreed to meet with us and share their views on Bangladesh's garment sector: public officials, international buyers, factory owners, managers and workers and more specifically the Ministry of Commerce, the Ministry of Public Works, the Ministry of Labor and Employment, the Ministry of Textiles and Jute, the Export Promotion Bureau, the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA). This analysis would not have been possible without their support.

We also benefited from valuable information from media reports on RMG issues compiled by PROGRESS (Promotion of social, environmental and production standards in the ready-made garment sector)¹.

Finally, our special thanks go to the staff of The Asia Foundation in Dhaka, and particularly to Kim McQuay, Dr. Farouk Chowdhury and Said Al-Muti for their assistance in the organization and analysis.

ABBREVIATIONS

ATC: Agreement on Textiles and Clothing

BKMEA: Bangladesh Knitwear Manufacturers and Exporters Association

BGMEA: Bangladesh Garment Manufacturers and Exporters Association

MFA: Multi-Fiber Arrangement

WTO: World Trade Organization

RMG: Ready Made Garment

¹ PROGRESS is a joint program of the Bangladesh Ministry of Commerce and the German Federal Ministry of Cooperation and Development (BMZ), implemented by GTZ.

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I. Executive Summary

“In the near term, policies to promote competitiveness in countries that depend on apparel export should focus on two key objectives: reducing turnaround time, which is increasingly important to buyers...and reducing other costs of doing business. But cutting costs should not mean just squeezing wages. Success in this market depends on finding ways to improve productivity, which should have positive spillovers for other sectors as well.”²

The latest figures on the state of the world economy remain grim. The garment industry, among many others, is a particular victim of this global financial and economic crisis. With rising unemployment in the E.U. and the U.S., consumers have reined in spending. This dropping demand in the U.S. and Europe is adversely affecting an industry that has been a key export sector and a main source of employment and foreign exchange for the last 25 years. In Bangladesh alone, the garment sector employs more than 3 million workers, of which 85 percent are women. In late 2008 and early 2009, U.S. and E.U. retailers reported margin losses as high as 30 percent. By adapting their purchasing habits — postponing purchases, buying smaller volumes and driving harder bargains — international buyers have raised the pressure on suppliers. With capacity in developing countries almost twice as high as demand, a veritable battle for orders is going on. More than ever before, the garments market has become a buyer’s market.

In this highly competitive environment, factories and countries are always striving to make a difference that will attract international buyers. Garment factories in Asia have made impressive progress in increasing their industries’ productivity. To fully enjoy the fruits of their efforts, factories need to operate in a business environment that will help them reduce their costs and respond to demand in the most effective way. More than ever before, faced with the challenge of keeping their country “on the map” for buyers, Asian garment-producing countries need to improve their competitiveness by focusing on the general business environment in which these factories operate.

Questions about the future of the garment sector in Asia are not new; these questions recur whenever there is major change in the international economy, underlining the vulnerability of this sector to external shocks and high competition. This was already the case in 2005, with the phase-out of the Multi-Fiber Arrangement (MFA), the system of quotas that governed much of the global market for textiles and apparel for more than 30 years. Although data from the last few years show that many countries, including Bangladesh, Cambodia, and Pakistan, have not drastically lost market share as many predicted, these countries cannot afford to become complacent. Since 2005, the major issues faced by smaller Asian garment-producing countries in their efforts to maintain the industry and stay on the buyers’ map have been productivity and competitiveness in the sector.

Our research study explores the idea of “competitiveness” in the garment sector in Bangladesh from the point of view of five key players in the industry: a) international garment and textile buyers, b) government officials, c) garment factory owners, d) garment factory middle managers, and e) garment factory workers. We conducted structured, in-depth interviews in Dhaka with international buyers, government officials, middle managers and factory owners, and focus groups with factory workers, in order to understand: 1) how do each of these players define competitiveness; 2) is there a disconnect among them in their perceptions about competitiveness; 3) what factors do they consider important to productivity at the factory level and at the country level; and 4) what specific improvements do they think need to be made to maintain Bangladesh’s share in the global garment and textiles market?

² Bhattacharya, Debapriya and Kimberly Elliot (2005). “Adjusting to the MFA Phase-Out: Policy Priorities.” Washington D.C.: Center for Global Development.

In Phase I (early 2008) our data showed that those in this sector clearly believed that Bangladesh's strengths lay in lower costs, the quality of basic products, and strong relationships with buyers. There was also a universal sense among government officials, factory owners, and employees that China was ahead in productivity, and that this was the main area where Bangladesh needed to improve. However, China was not the biggest worry among those interviewed; countries like Vietnam, and to some extent Cambodia and Sri Lanka, were perceived as fiercely competing with Bangladesh on price. This feeling was supported by some evidence that, while Bangladesh's exports had not dropped in volume, profits had recently begun to decline.

In Phase II (late 2008) we noticed a greater feeling of confidence among stakeholders in the sector, and ambitions for the country to grow even more than before. The question for most stakeholders was more one of physical capacity. We also witnessed a clear linking of productivity with improved working conditions, a positive work environment, and corporate social responsibility, rather than with decreased wages.

We argue that an international trade strategy (the end of the MFA), international garment buyers, and international NGOs, combined with coalition-building among the key stakeholders in the garment sector, have resulted in some significant changes at both the country and the factory level that will allow Bangladesh to remain competitive. Changes are taking place, not only in the policy arena, but in the larger society, that will have an impact on attitudes about gender, class, labor, etc. There still is a way to go, but these positive changes will allow the country to withstand the 2008 economic crisis and the lifting of the Chinese safeguards.³ Bangladesh can do well in the garment and textiles sector, but if the country wants to expand even more, it will need to make investments in human capital and technology, rather than just reduce input costs. Investing in these areas will allow the industry to offer the added value that it needs to go the extra mile.

Based on our research findings, we offer some policy recommendations to improve efficiency at the factory level, including providing improved benefits to workers, and developing coalitions between the private sector and local and international NGOs, as well as among factories, to establish industry standards. We also suggest reforms of the business environment that could provide an overall boost, not only to the garment industry, but to the economy as a whole.

This project is part of an ongoing process that must engage all the key stakeholders in the garment industry in working towards changes that are necessary to keep the country competitive.

³ As of January 1, 2005, quantitative restrictions on Chinese imports were officially phased out-under the auspices of the WTO. By means of the US-China Safeguard Provision ("Safeguard Provision"), the US has contracted with China to allow the US to institute restrictions on Chinese imports for three additional years between January 1, 2005 and December 31, 2008.

II. Introduction

Since 2005, The Asia Foundation's Economic Reform and Development Program has been engaging Asian countries on the issue of competitiveness in the post-quota world. The Foundation has worked on several programs, and published studies to help smaller Asian countries in their efforts to maintain the industry and stay on the buyers' map. These activities have stressed the fact that many of the key questions that Asian countries face revolve around the notions of productivity and competitiveness:

- Can improved productivity prevent job losses and support the future development of the industry?
- Which elements of productivity or competitiveness are most instrumental for each country?
- And more importantly, what measures are required at the factory, the industry, and the country level to improve productivity and competitiveness in the post-MFA world?

Back in 2005 we were asking **which countries will survive?** Contrary to earlier predictions, many of the “unexpected” countries did survive; in fact, many countries, including Bangladesh, Cambodia, and Pakistan, initially *increased* their garment exports to the United States (measured in both value and volume) after the MFA phase-out. Three years later, the interesting question was: **what factors are important for countries hoping to maintain market share in garments and textiles?** Now, at the end of 2009 the question in Bangladesh seems to be: **how can this sector explode and grow as never before?** “Bangladesh is doing well after the end of the MFA, but we are not satisfied. We have the potential to grow more...[the question is] do we want to do 25 billion dollars of business, or stay at 10.5 million?” (BGMEA⁴ president).

Like 2005, 2008 was an important year in the global garment and textiles industry: 1) Vietnam entered the World Trade Organization (WTO) in 2007, and has turned out to be one of the leading competitors for Bangladesh; 2) U.S. and E.U. textile safeguards on China were set to expire on January 1, 2009; 3) the U.S. GSP⁵ was on hold at least through 2010; 4) there was some evidence of a slow decline in imports from countries like Bangladesh and Cambodia in 2007; and 5) 2008 saw the economic slowdown and recession in the major markets of the U.S. and E.U.

To better understand the points of view of the main actors in the garment industry on these key notions of productivity and competitiveness, we conducted structured, in-depth interviews in Dhaka in January and November of 2008 with four groups of stakeholders: international buyers, government officials, factory owners, and middle managers. We also conducted focus group discussions with factory workers. We tried to understand each group's basic notions of competitiveness, and what they viewed as the key factors at the factory level and at the country level. While there were disagreements between these different groups on various issues, productivity was identified overwhelmingly as the most important factor for ensuring Bangladesh's competitiveness. Respondents also believed that productivity was the main area where individual firms, and Bangladesh as a whole, needed to improve.

Over the last several years of working in this sector, we've seen attitudes and the industry mature. The end of the quota system marked the beginning of an era of positive change and improvement in Bangladesh. In an interview late 2009, BKMEA⁶ president Fazlul Haq recognized that there were other factors behind the good performance of Bangladesh besides cheap labor. He said timely delivery, price and quality made Bangladesh more attractive than rival countries⁷. More importantly, different groups

⁴ BGMEA: Bangladesh Garment Manufacturers and Exporters Association

⁵ The U.S. Generalized System of Preferences (GSP) is a program designed to promote economic growth in the developing world by providing preferential, duty-free entry for about 4,800 products from 131 designated beneficiary countries and territories. GSP was instituted on January 1, 1976, by the Trade Act of 1974. Congress has authorized GSP through December 31, 2009. See <http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp>

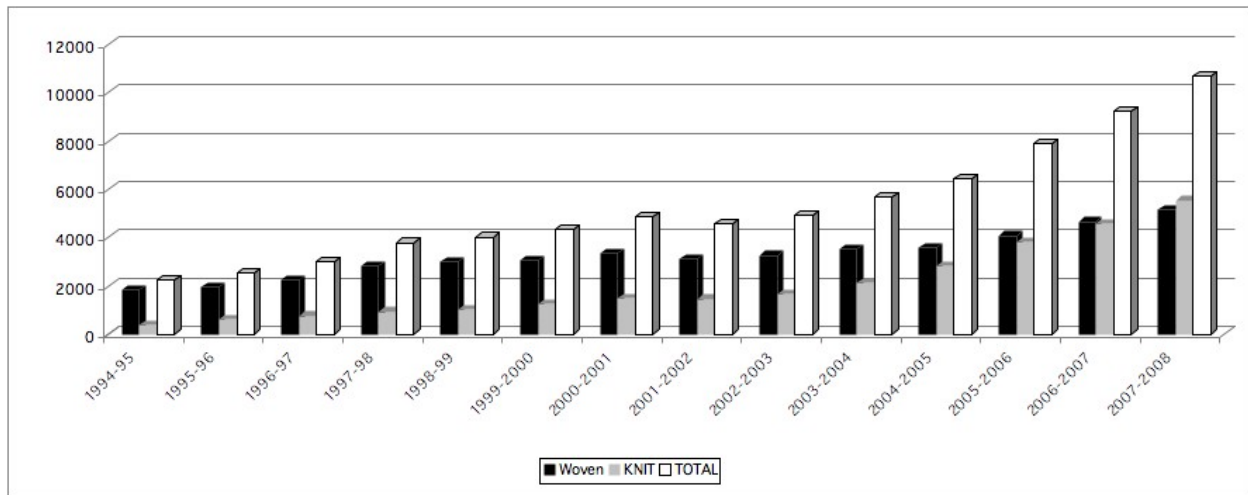
⁶ BKMEA: Bangladesh Knitwear Manufacturers and Exporters Association

⁷ *The New Age*, Sunday, September 27, 2009 “RMG stands tall in U.S. market” by Shakhawat Hossain

have stepped up, and through coalition-building have seized the opportunity to make significant changes, from increasing wages and enacting safety measures in factories, to changing perceptions about the labor force. Given these positive steps, Bangladesh will certainly be better able to withstand the current economic crisis (See figure 2). In less than a year, we have also seen a convergence of opinion among the surveyed groups regarding what remains to be done for this sector. There is still a long way to go, but positive steps have already been taken to increase the nation's competitiveness.

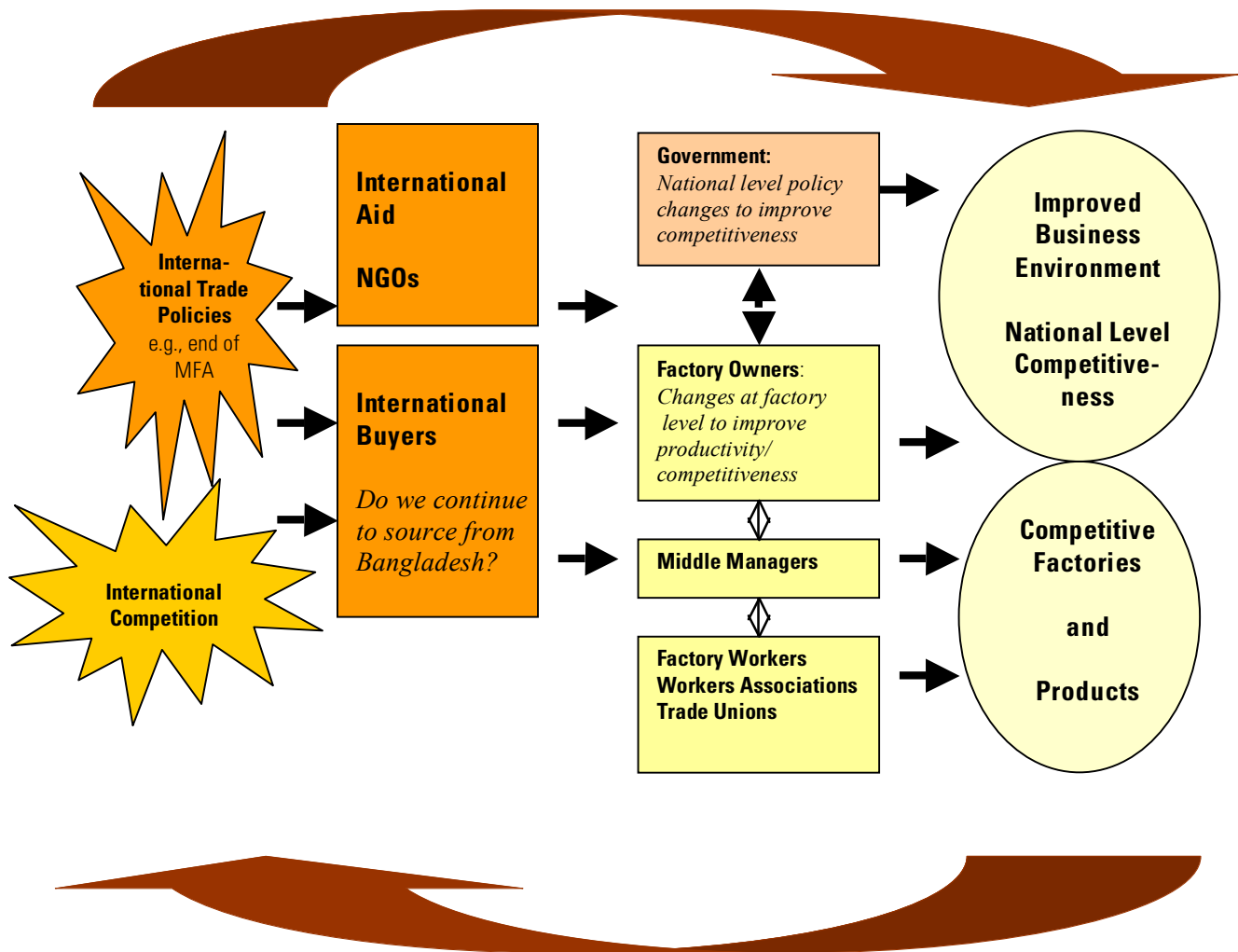
Figure 1: Total apparel exports from Bangladesh (1994-2008) in millions of USD

Source: BGMEA (Bangladesh Garment Manufacturers and Exporters)



In Figure 2 we show the relationship between the various groups, and the influence of external factors on reforms at both the national and the factory level. In our study, we asked respondents what needs to occur at both levels, and we tried to gauge their perceptions of these changes. Over the last three years, due to coalition-building and increased dialogue among the stakeholders, 1) a consensus has begun to emerge among the different groups regarding key reforms for the sector to grow, and 2) different stakeholders have begun to regard each other's interests and activities more positively.

Figure 2: Actors in the dynamics of change



III. Background and Literature Review

A. The Multi-Fiber Arrangement (MFA) system

International trade of textiles and garments, and globalization in this industry, are not new phenomena. In fact, apparel is one of the oldest export industries, and has served as the “starter” industry for many export-oriented countries, especially in Asia (Abernathy 2002; Gereffi 2002). Garment and textile “outsourcing” first began in Japan, Hong Kong, Taiwan, and South Korea. In the 1980’s, the industry shifted much of its production to Southeast Asia. In the last decade, South Asia and Latin America have come to the fore as important locations for the production of garments and apparel that are sold throughout Europe and North America.

To quell the fear in developed countries that garment and textile jobs would be lost to these lower-wage developing countries, the Multi-Fiber Arrangement was established in 1974, and though initially meant to be a temporary measure, it remained in effect for twenty years, until 1994. The MFA restricted garment and textile imports to the United States, Canada and the European Union by allocating quotas to countries in the developing world. Garment and textile producing countries were assigned a maximum quantity they could legally export during a specific time frame (SOMO 2004). In 1995, The Agreement on Textiles and Clothing (ATC) was established under the World Trade Organization (WTO). The ATC mandated a phase-out of all quotas over a ten-year period.

Though the MFA originated as a protectionist measure to benefit developed countries, many developing countries also benefitted, as they were able to establish an industry based on a guaranteed market share as a result of the quota system. Countries combining quota protection and abundant low-cost labor saw this labor-intensive industry develop rapidly, as local and international investors seized the opportunity, providing thousands of jobs to previously unqualified populations. However, *because* market share was guaranteed, the quotas also created complacency and lack of competitiveness. “The quota regime forced the customers to move from the most productive factories in the most efficient countries, down scale...”⁸ In addition, the quota system often contributed to corruption and political cronyism, as quotas could be allotted to politically influential firms, or sold to the highest bidder.

The East Asian exporting countries used garment exports as a stepping-stone to move into light manufacturing, and eventually into more sophisticated exports like electronics and other more capital-intensive goods. In fact, the quota system actually constrained these countries, pushing them to move towards more sophisticated exports. However, countries like Bangladesh did not feel much incentive to make this transition, nor did they build infrastructure that would allow for a full commodity chain. Under quotas, countries like Bangladesh did not even feel the need to develop other industries (like cotton, etc.), because it was more lucrative to use imported textiles to fulfill the garment product quota.⁹

⁸ Interview with David Birnbaum, November 28, 2006

⁹ Saxena 2007

Table 1: Bangladesh's RMG exports as a percent of total exports

Year	RMG % of total
1983-84	3.89
1985-86	16.05
1988-89	35.24
1990-91	50.47
1992-93	60.64
1997-98	73.28
2000-01	75.14
2003-04	74.79
2006-07	76.04
2007-08	75.83

B. The end of the quota system: pushing for policy reforms

International influences on domestic policy change

Considering the heterogeneity of development levels and of social and economic environments among the various garment-producing countries, many feared that the end of the quota system would make countries like Bangladesh vulnerable to other exporting countries, and render its industry uncompetitive in the global garment and textiles market. However, our work in this sector over the last five years demonstrates the important influence of an international trade rule on domestic policy change. A combination of external factors, including international trade rules, international buyers, and international NGOs, as well as coalition-building and dialogue among the key stakeholders, have been influential in enacting key changes at the country and factory level. Bernstein and Cashore (2000) identify four distinct paths of nondomestic influence on public policy. According to their article, Path Two: International Rules “...highlights the importance of international policy-making processes, such as issue-specific treaties, trade agreements, or policies of powerful international organizations” (p. 78). The authors argue that the influence of the rules can be an important incentive for domestic policy change, especially if a loss of markets might result from noncompliance. Path One: Market Dependence is also crucial in the Bangladesh case, as international actors such as buyers and NGOs have been able to put pressure on business and government to make significant changes.

Competitiveness in the post-MFA era

Studies conducted prior to 2005's quota phase-out predicted that once quotas were lifted and all WTO members had unfettered access to developed countries' markets, many of the smaller Asian countries would drastically lose market share. These early studies and simulations also predicted that China would benefit the most from the quota phase-out, as a surge of garment and textile exports was expected to the detriment of the smaller exporting countries (Avisse and Fouquin 2001; Diao and Somwaru 2001; Terra 2001).¹⁰

¹⁰ For a full discussion of predictions, see USITC, chapter 2

If the distorted quota system under the MFA ironically actually helped less competitive enterprises acquire guaranteed market share, now these countries must focus on competitiveness, productivity and efficiency. Much of the earlier literature argued that competitiveness means lower costs of inputs, and that this was how countries would be competitive post-quota. However, recent literature on the post-MFA environment (Tewari 2006; United Nations 2005; Kelegama 2005)¹¹ argues that simply focusing on lower costs in the post-quota era will not be enough to ensure competitiveness in the garment and textiles industry. They cite innovation and quality as important factors for firms wanting to retain a share of the global market: "...a narrow focus on relative prices, low wages and large scales — the standard attributes of a traditional growth strategy — obscures precisely the factors that are central to sustaining export competitiveness today. ...global competitiveness in the apparel industry today requires competencies that go well beyond traditional factors of relative price and low wages" (Tewari, 2006).

Although the quota system is no longer a reality, other trade policies and import/export strategies are in place, or are being negotiated and developed. International trade policies remain an important element balancing pure market forces. Moreover, the financial and economic crisis of late 2008 has added another challenge for developing countries heavily dependent on garment exports.

¹¹ Tewari (2006) also cites the following authors as making this point in recent years: Piore and Sabel (1984); Tandler (1997, 2002); Appelbaum and Batt (1994); Abernathy et al. (1999); Berger (2006); Bair and Dussel (2006).

Box 1: The New Partnership for Trade Development Act

Though domestic policy reforms to improve competitiveness are crucial for these garment exporting countries, another key factor affecting access to market is the restrictions these countries face when exporting to the United States. Bangladesh, Cambodia, Laos, Maldives, Nepal, and Sri Lanka all must pay high tariffs to enter the U.S., but not to enter the European Union. These countries in the Global South face a distinct disadvantage when exporting to the United States, because they are not part of a regional trade agreement like NAFTA or AGOA. Because their imports face high tariffs, their total U.S. market share is drastically reduced in comparison with their neighbors who receive duty-free access for many of their exports. Abernathy (2005) points out in his work that Bangladesh is the top supplier of T-shirts to the E.U. market, but not to the U.S., despite identical cost structures. The E.U. grants Bangladeshi apparel tariff-free entry, while the U.S. does not. This skewed trade policy certainly hurts countries like Bangladesh that face fierce competition in the post-quota garment industry, with countries like Vietnam increasingly gaining market share. A bill to rectify this discrepancy, The New Partnership for Trade Development Act, was introduced in November 2009 by Rep. James McDermott (D-WA). In summary:

This bill amends the African Growth and Opportunity Act and the Trade Act of 1974 to require the President to provide duty-free treatment of all articles (without quantitative limitation) from qualified beneficiary countries that have been designated: (1) a sub-Saharan African country; and (2) a least-developed beneficiary country. (Effectively, provides an additional trade preference program for sub-Saharan African countries and least-developed countries.) Prescribes requirements regarding significant apparel suppliers. Terminates a country's eligibility for preferential treatment: (1) on December 31, 2015; or (2) if the President certifies to Congress a successful conclusion of the World Trade Organization's (WTO) Doha Development Agenda Round of Negotiations on or before such date, on December 31, 2019, with specified exceptions.

Extends through FY2015 the preferential treatment of apparel articles wholly assembled, or knit-to-shape and wholly assembled, or both, in one or more lesser developed beneficiary sub-Saharan African countries (regardless of country of origin of the fabric or yarn and in an amount not greater than the applicable percentage of the aggregate square meter equivalents of all apparel imported into the United States in the preceding 12-month period). Directs the President to establish a Trade and Development Review Panel. Revises the prohibition against designating certain import-sensitive articles and agricultural products from a beneficiary developing country as eligible for preferential treatment under the generalized system of preferences (GSP). Authorizes the President to designate such articles as eligible for preferential treatment if the Secretary of Commerce and the International Trade Commission (ITC) determine that: (1) such duty-free treatment would not cause or threaten to cause material harm to a U.S. producer of the same or like article or to a U.S. supplier of inputs or components to the same or like article; and (2) not providing preferential treatment to an article would cause or threaten to cause material harm to producers of such articles in any of the beneficiary developing countries. Revises factors the President must consider when determining whether to designate an upper middle-income country or a country that has a gross national income of at least \$1 trillion dollars as an eligible beneficiary developing country for preferential treatment under GSP. Includes among such factors the extent to which the country provides preferential market access to articles from: (1) least-developed countries; or (2) sub-Saharan African countries. Revises rule of origin requirements, particularly for determination of the percentage of the appraised value of an article and its application to the Commonwealth of Puerto Rico and the U.S. Virgin Islands.

Extends the GSP through December 31, 2019. Establishes within the Executive Office of the President: (1) an Office of Trade and Competitiveness for Least Developed and African Countries; and (2) a Trade Capacity Coordinating Committee for Least Developed and African Countries.

This bill is currently stalled in Congress, and though it is an important start, the question for countries like Bangladesh is: is it enough? There has been quite a bit of controversy surrounding this piece of legislation from those who fear that reducing quotas on Bangladeshi imports will hurt many of the African countries that enjoy duty-free access through AGOA. From the Bangladeshi point of view, the bill's labor rights may be too stringent, not allowing the country to even qualify for quota-free access. The duty phase-out plan is also seen by many as too slow and incremental.

Though Bangladeshi factories overall have continued to do well since the quota phase-out, there are crucial reforms that need to be undertaken to improve productivity and working conditions. Limiting access of Bangladeshi imports to the U.S. market may not be the best way to encourage the reforms that still need to be completed.

IV. Perceptions of Competitiveness

Competitiveness means different things to different people. To an economist, it may mean how well a country is performing compared to other countries as reflected in the standard of living and changes in national productivity. To a policy maker, it may mean how a new regulation changes the ability of affected businesses to compete. To a business owner, it may mean changes in profitability as reflected in market share for its goods and services in a low-cost market place. There is no clear-cut definition of competitiveness that is acceptable to all. Thus, it is necessary to interpret competitiveness as best suits one's needs and mission.

The OECD defines a nation's competitiveness as "the degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term." Some scholars claim that nations themselves do not compete; rather, their enterprises do. There is no doubt that competitive enterprises are the main engines of a country's competitiveness. However, over the past 30 years, the economic responsibilities of governments have — for better or worse — increased so much that it is simply impossible to ignore their influence on modern economies. Recent studies on employment by the OECD clearly underline the role of nations in shaping the environment in which enterprises operate, thereby influencing their competitiveness. A significant part of the competitive advantage of certain nations today stems from aggressive incentive policies such as tax breaks, subsidies, etc., which are designed to attract foreign investment.¹²

There are a host of these “other” factors besides cost that contribute to competitiveness. So it is crucial to understand what competitiveness means to different stakeholders, and how to ensure that all stakeholders are on the same page when it comes to making the necessary improvements to ensure competitiveness. For years, Bangladesh has been a low-cost producer due to the MFA, and has not risen above that. Under the MFA, Bangladesh focused on a low-road strategy that did not pursue innovation or efficiency, nor was there any incentive to improve productivity or working conditions. The end of the quota system seems to have forced both the industry and the Government to think more creatively and to focus on ways to stay on the buyers’ map. This study shows how all actors have become more conscious of, and committed to, improved productivity and competitiveness, while retaining their own definitions of these concepts.

Many studies on competitiveness have looked at labor productivity and adopted a benchmarking approach to make practical recommendations on ways to improve the output of factories.¹³ Other studies have tried to understand what buyers are looking for in various countries. Our study complements these studies by looking at the perceptions and ideas behind the notion of competitiveness, from the perspective of the key players in the industry. We wanted to see if there was consensus or disagreement in these perceptions among the various actors, especially between buyers on one hand, and key players such as government officials, who set policies, and factory owners, who set policies and standards in their particular factories, on the other hand. Finally, we wanted to understand how workers view competitiveness, and what policies could be employed to help them increase their productivity and efficiency. This analysis will help design policies and initiatives to improve the various indices of productivity.

This study also echoes a regional program entitled “Fostering Economic Reforms to Mitigate Job Losses in Garment-Exporting Countries,” implemented in 2005-2006 by The Asia Foundation in Bangladesh,

¹² Stéphane Garelli (2002). “Competitiveness of Nations: The Fundamentals.” International Institute for Management Development (IMD), Director of the World Competitiveness Project.

¹³ Nathan Associates Inc. for USAID “Measuring Competitiveness and Labor Productivity in Cambodia’s Garment Industry.” June 2005.

Sri Lanka and Cambodia, with funding support from USAID. The Asia Foundation's approach to improving competitiveness in the garment sector was based on engaging the three main parties — employers, employees and government representatives — in a constructive dialogue about the common issues faced by the garment sector in each country, in order to build momentum for policy changes necessary to improve their capacity to compete in a quota-free environment. In each country, this nine-month program mapped the sector's current projects and stakeholders, convened a series of tripartite meetings to improve understanding of the local and international business environment and identify common areas for reform, provided technical assistance to tripartite participants in their pursuit of reform efforts, and convened a multi-country workshop in Bangkok that allowed program participants to share best practices and experiences since the expiration of the MFA.

A concluding remark made by participants in the series of tripartite meetings was that, rather than focusing on quotas, in all three countries the government, the private sector and the workers should each take responsibility for their roles in improving competitiveness and productivity in the sector. The question of China and the removal of safeguards on that country in 2008 loomed large initially, but it was emphasized that each country should focus, not on quotas or trade restrictions, or even on China itself, but on the strengths and weaknesses of their own industries. At the multi-country workshop in Bangkok, which concluded this program, the general feeling among both the experts and the participants was that there is room for everyone in the industry, as long as each country moves ahead. The challenges each country faces are different, but each country must be flexible and transparent in order to remain competitive in the ever-changing global context. It was mentioned by factory owners at the time that China had achieved success because the government built a structure that allowed people to work, had been reliable in its promises to the industry, and had provided education dedicated to the industry, with four universities in Shanghai alone. The 2008 deadline was not the issue; the challenge was for Bangladesh, Cambodia, and Sri Lanka to take steps similar to China to support the industry. By continuing to work together in addressing issues of business environment and trade policy, education and infrastructure, political stability, management of labor relations, and corruption, it was felt that the competitiveness of the sector in each country would improve.

V. Methodology

This study was conducted in two phases. The pilot phase, in late 2007 and early 2008, was used to test the interview questionnaire, make contacts with government officials and factories, and understand overall trends in the sector three years after the phase-out of the MFA. The second phase, in late 2008, took some key findings from the pilot phase, and incorporated additional questions into the questionnaire, as well as adding another key group to the set of interviewees. Based on the first set of interviews, we found that middle managers in factories were often a key link, and often a key impediment in making factories productive and providing workers with a good work environment. Thus, in the second phase, we felt it was important to add middle managers to our study, to understand their perspective and concerns, and to recommend ways that their role in factory management could be improved.

In this study, it was important for us to focus on a smaller number of respondents chosen on the basis of expertise and information, rather than a large number of respondents who would be interviewed with a closed ended survey. And all of the respondents had a stake in the issue that we were researching. These interviews sometimes veered away from the written guide, but they allowed us to gather rich information about the sector at large, competitors, labor issues, etc. A quantitative study at this stage would have lost the nuances.

Interviews

We conducted in-depth, structured interviews with government officials from the Ministry of Commerce, the Ministry of Labor and Employment, and the Export Promotion Bureau; twenty factory owners (from medium and large factories, sub-contractors for export and direct exporters) and middle managers; as well as with the immediate past president of the BGMEA. We also conducted three in-depth case studies with international buyers who have operations in Dhaka. In each case the person interviewed was the one responsible for sourcing decisions and for selecting factories. We were able to integrate multiple perspectives by using a carefully worked out guide with open- and closed-ended questions, with some checklists common to all respondents. This allowed us to get different aspects of one issue. Most interviews were conducted in English, while some were conducted in both Bangla and English.

Focus groups

We conducted seven focus-group discussions with a total of 33 factory workers — men and women — with the idea that workers would feel more comfortable discussing various issues with other workers present. Factory workers were randomly selected from various garment factories in Dhaka. The age of respondents ranged from 15 years to 38 years. Education ranged from no formal schooling to completion of 10th grade. Years of experience in the garment sector ranged from six months to 15 years. The focus groups were conducted in Bangla and then translated to English for analysis.

Interviews and focus groups were conducted by consultants Naushad Faiz and Naureen Fatema, as well as by the authors. The interview guide and this research study was designed by the authors, who also conducted the analysis.

Interview guide

Respondents were asked general questions about the state of the garment industry internationally and in Bangladesh, factors influencing competitiveness at the country and factory levels, policy changes that have occurred or need to occur, and who is responsible for enacting such changes.

All respondents were asked to pick the top five factors (out of a list of 29) that were the most important in making Bangladesh competitive. These factors were grouped into nine broad categories:

- Trade
- Political climate and natural endowments
- Policy environment
- Labor
- Factory capacity
- Costs
- Infrastructure
- Financial environment
- Productivity

VI. Main Findings

The responses of the different respondents have been compared over time to give an idea of the evolution of their perceptions of the position of Bangladesh's garment sector on the international scene, as well as the role of government and of general labor conditions.

Table 2: Perceptions- then and now

	Tripartite meetings 2006	Interviews early 2008	Interviews late 2008
<i>Role of government</i>			
<i>International buyers</i>	Need to improve overall business environment with a special focus on political stability, education, and costs of production.	Efforts have been made to facilitate trade.	There has been political stability in Bangladesh, and the government has made some improvements in infrastructure.
<i>Government</i>	Government has tried to help the sector by focusing on trade agreements and access to markets.	Government has tried to help the sector by focusing on job retrenchment and training.	N/A
<i>Factory owners</i>	Government needs to facilitate labor relations with workers, and improve infrastructure.	Government not concerned about the sector; focused on unnecessary policies like job training.	Government has made some progress on important reforms.
<i>Factory workers</i>	Fear that increased competition will mean poorer labor conditions and lost jobs.	Government not concerned about the sector.	The government passed a higher minimum wage. Now it needs to be implemented across all factories.
<i>Position of Bangladesh in the garment industry</i>			
<i>International buyers</i>	Moderately worried	Confident	Confident
<i>Government</i>	Moderately worried	Confident	Confident
<i>Factory owners</i>	Worried	Confident	Ready to explode
<i>Factory workers</i>	Worried	Worried	Confident
<i>Factory conditions</i>			
<i>International buyers</i>		Satisfactory for their own suppliers.	Positive for their own suppliers.
<i>Government</i>	Acknowledged need to improve practices and implementation.	Satisfied with progress made.	Positive
<i>Factory owners</i>	On the defensive. Focus on labor costs.	Acknowledged need to improve.	Acknowledged the importance of labor conditions for improved productivity.
<i>Factory workers</i>	Worried	Improved but not satisfactory.	Discrepancy between the discourse and the facts.

1. Factories confident about the post MFA competitive environment

For the most part, when reflecting on their state of mind at the time of the MFA phase-out, government officials and factory owners declared they were quite confident about the future of the garment industry in Bangladesh.

“There was a lot of discussion, awareness, articles written...not panic, a lot of factory owners thought it would be okay [after the MFA phase-out].” (Factory owner)

“We were not at all worried. We were confident that nothing would happen to our industry (knitwear) because of the MFA phase-out. Our buyers had the confidence that (a) China would not be able to

deliver all products to all countries, (b) the quality of products from Bangladesh was better, and (c) they — the buyers — didn't want to put all their eggs in one basket.” (Factory owner)

“...the market of Bangladesh is established. International buyers are happy, and Bangladeshi suppliers are confident about competing with China.” (Official from the Ministry of Labor)

These declarations differ somewhat from the minutes of the tripartite meetings held in 2005-2006, which show less confidence among factory owners and international buyers, who were then pressing for reforms to ensure the future of the industry in Bangladesh.

2. Mixed feelings about the role of the Government before the phase-out

According to government officials, owners and workers, there was plenty of discussion before the phase-out, but while government leaders felt it was very effective, owners and workers did not. Government officials felt that they did quite a bit to prepare workers, but it appears they were short-sighted and ineffective.

“We have been working with the private sector for the further development of this sector. They expect the government to provide services to them in line with their necessity. The government is providing maximum services (policy, cost minimization, smooth supply lines etc.) in spite of limitations so far.” (Ministry of Commerce official)

“The discussion [with the government] concentrated on policy reforms, productivity, training of workers, and compliance issues. The discussion was effective, in that it raised the awareness of garment factory owners and other stakeholders. However, the government, which was late in acting, did not change its policies...The government organized seminars and workshops; however, they could not conduct these in an effective manner.” (Factory owner)

“The government is indifferent about the garment industry. It seems the government does not attach any importance to this industry.” (Factory employee)

In late 2008, however, other stakeholders seemed to have a more positive perception of government actions to aid the sector. Workers and owners started seeing the effects of some laws that were passed in 2006, and buyers and owners mentioned some infrastructure improvements, like increased capacity of the Chittagong port. Most agreed that the government really needed to focus on more improvements, especially with respect to power generation, as well as on management training.

“The sector has evolved recently. There is a good dialogue with the government...the government has done a good job...there have been some improvements in the last few years.” (Factory owner)

“The government has made some progress, but it needs to be more proactive to support investment projects and improve infrastructure.” (Factory owner)

Some workers mentioned the need for government to monitor implementation of the laws, because owners do not always comply.

“Government should be involved in training managers about the laws, and buyers should pressure the government for implementation [of the laws].” (Factory worker)

3. Buyers' strategies remained stable

Most owners did not find that the strategy of buyers changed after the phase-out. Besides cost, quality and the capacity of factories, including competence of the labor force, seemed to be important reasons for continuing to source in Bangladesh

"We felt the heat at the time [after the phase-out] but the buyers did not leave us." (Factory owner)

"The company intends to steadily increase its sourcing from Bangladesh by 10-15% each year."
(International buyer)

"Price is important but buyers first look at samples and then place orders, so quality is more important." (Factory worker)

"That [political instability] put buyers off in placing orders in Bangladesh. Now business has been smooth; nothing is disturbing it. We have to deliver on time in a politically stable environment. If buyers' confidence goes up, then business goes up. Political stability is huge." (International buyer)

4. Lifting Chinese safeguards is not a fear

Most factory owners are not worried about the lifting of Chinese safeguards, though some government officials expressed some concern. A detailed study by the Institute of Apparel Research and Technology (2007)¹⁴ found that Bangladesh has a comparative advantage in 14 knitwear products over China. The study recommends that Bangladesh focus on factory productivity rather than trying to extend Chinese safeguards.

"China is not a factor...they are a big market, but they are not competitive in T-shirts...what is left, we [Bangladesh] will take..." (Factory owner)

5. Responding well to the 2008 economic crisis

The sector was confident that Bangladesh's garment industry could weather the 2008 economic crisis, though many did say that they have seen international orders decrease in some factories. Workers were more worried about layoffs. When workers were asked whether they could work outside the garment sector, most girls felt they had very few options. Many said that if they were to leave the garment sector, they would go back to their villages and not work (ADB report¹⁵). Factory owners also felt that, even with decreasing international demand, Bangladesh could preserve its market share.

"Buyers are more cautious. They are not sure what impact the crisis will have. They have a 'wait and see' attitude. But China's share may go down [if they are not price competitive], and some of their orders may come to Bangladesh because of the lower price." (Factory owner)

6. Factory competitiveness: divergent perspectives

Respondents were asked to select the factors that they believe are the most important to ensure the competitiveness of factories. The factors most often cited are summarized in the table below.

¹⁴ Sayem, Abu Sadat Muhammad, et. al. 2007. "Impact of Removing E.U. Safeguard Measure Against China on the Knitwear Export of Bangladesh and other LDCs after 2007." Dhaka: Institute of Apparel Research and Technology.

¹⁵ "People's Republic of Bangladesh: Social Protection of Poor Female Workers in the Garment Sector in the Context of Changing Trade Environments Project." December 2007, Asian Development Bank.

Table 3: Factors affecting factories' competitiveness – late 2008

Factory Workers	Factory Owners	International Retailer
Quality of product	Speed to market	Low cost/Quality/Reliability/ Pre-production assistance
Wages	Productivity of workers	Speed to market/Labor standards
Good working conditions/Healthcare	Good working conditions/Healthcare	Ability to deal with sophisticated designs/materials
Training	Long standing prior relationship with your buyer	
	Living wages for workers	
	Technological advancements	
	Pre-production assistance/Ability to deal with sophisticated designs/materials	
	Training of workers	
	Low cost	

When asked what makes their factory competitive, factory owners viewed good working conditions and the provision of healthcare as very important. *“If they [employees] are healthy, not sick, it is helping us, helping our productivity...”* (Factory owner). Following from other recent studies, it is not just cost, but a combination of factors that is important at the factory level.

Among workers, the perception of what constitutes good working conditions has evolved over time. In 2006, workers were asking for basic needs to be met — increased wages, healthcare, safety, etc. In 2008, we started hearing more about improving attitudes towards workers, giving them respect and listening to them. Now, many in the sector, including factory owners, are talking about establishing a positive work and factory culture, motivating workers, and fostering communication.

“We need to talk to the workers and among ourselves, and we need to ‘build a bridge.’ Ideally, there should not be a bridge, and we should be on the same shore...these workers could move mountains if only we could motivate them.” (Factory owner, late 2008)

“We are willing to work hard, but we need respect.” (Factory worker, late 2008)

“Management should improve their attitude, then that would improve our productivity.” (Factory worker, late 2008)

In late 2008, workers still linked productivity to increased wages: *“If wages are increased, the quality of work will improve and more buyers will come...”* (Factory worker). But they spoke increasingly of the importance of better working conditions. Interestingly, some owners had also begun to make this connection: *“If you don’t offer comfort for workers, how can you increase productivity?”* (Factory owner). This discourse was not so consistently heard in 2006. The message that productivity is not just about labor costs, but also about improved capacity of the work force to deliver higher volumes at the right quality level, is making its way.

On wages, which remain a high priority for workers, much is expected from the Government.

“The government should fix the wages of workers...I have worked in this factory for five years. My starting salary was Taka 1,900 per month. I still get Taka 1,900 after 5 years. My salary has not increased by even a Taka.” (Factory worker, early 2008)

But by the end of 2008 both owners and workers acknowledged help by the government in maintaining the minimum wage.

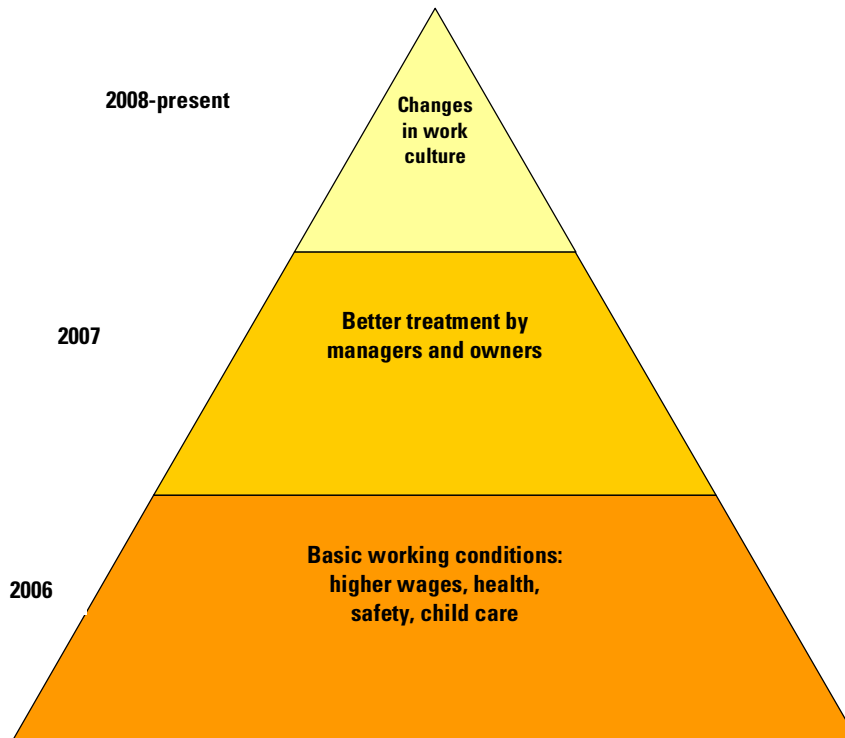
“The government monitors compliance, and tries to provide support to both the owners and workers. The security and law-and-order situation has improved. Most of the factories are paying the agreed minimum wage to workers.” (Ministry of Labor official)

For the international retailer in our study, it is cost *along with* quality, reliability and pre-production assistance that make a factory competitive. All of these factors were identified as pre-conditions for a factory to be trusted by the international buyer. Compliance of factories with national labor laws and international labor standards was also mentioned as a *sine qua non* for selection of a supplier for export to the U.S. and the E.U. Basic compliance is now considered by all actors as a necessary, though not a sufficient, condition for factories to remain competitive.

Increasingly, the role of the middle manager is seen as key to improved working conditions and productivity. In focus-group discussions, workers complained more about middle management than about factory owners. The latest discussions acknowledge the need to train management personnel, and even international buyers stressed the importance of such training:

“Training and motivation of workers and middle managers need to be improved. Middle managers often cause problems and labor conflicts... [There needs to be] a change in attitude among managers.” (International buyer, late 2008).

Figure 3: Evolution of the demands of factory workers



Box 2: Labor compliance — necessary but not sufficient? The example of Cambodia.

Cambodia is famous in the garment industry around the world for its Better Factories program, a labor compliance program run by the International Labor Organization (ILO) since 2001, when a trade agreement between the United States and Cambodia linked access to U.S. markets to improved working conditions in the garment sector. The program has been a model of cooperation between the ILO, the Royal Government of Cambodia, the Garment Manufacturers' Association in Cambodia (GMAC), and unions. The objective is to support the development of the Cambodian garment sector by guaranteeing a level of labor compliance viewed as a comparative advantage by international buyers. The program provides regular and independent reports on working conditions in factories according to national and international standards, and helps factories to improve working conditions and productivity.

While compliance with national labor standards is always mentioned by international buyers and most factory owners as a basic and necessary condition to attract prominent international buyers, it is less clear to what degree labor compliance is a comparative advantage for the industry. In other words, does labor compliance make the difference?

The case of Cambodia came up during the interviews with international buyers in Bangladesh (interviewees belong to the sourcing units, not to the compliance ones). Buyers unanimously declared that, to them, compliance with international standards of working conditions was a basic requirement. A factory that did not meet this criterion would automatically be disqualified as a source for exports to the U.S. or the E.U. The fact that Cambodia can offer this “guarantee” is definitely an advantage. However, buyers expressed concern about the risk of labor unrest, which they perceived, rightly or not, as being higher in Cambodia than in other countries. The additional costs and, more importantly, the uncertainty of delivery associated with this risk would automatically cancel out the edge provided by a good labor compliance image. Clearly, if the “good compliance” label is appreciated by international buyers, it is not sufficient to determine their buying decisions, as the prime sourcing criteria remain price, quality and lead time.

Recent figures from the industry tend to show that Cambodia may be more vulnerable than Bangladesh to the global financial and economic crisis that is violently hitting the garment sector worldwide. According to figures from the Ministry of Commerce, garment exports from Cambodia dropped by nearly 20% in the first two months of 2009, compared with the same period in 2008. A closer analysis shows that the situation varies depending on export markets: exports to markets others than the U.S., the E.U. and Canada have actually grown, but the overall situation remains worrying. Bangladesh, and Cambodia's close neighbor Vietnam, have actually seen their exports to the U.S. continue to grow during the same period. For Cambodia, which relies on the garment sector for almost 80 percent of its exports, the situation is critical. It is therefore not surprising to see some factory owners in Cambodia questioning the value of labor compliance as a comparative advantage for their country's industry. They are also becoming quite skeptical about the declared commitment of international buyers to labor compliance, and claim that higher labor standards haven't stopped retailers from demanding ever-lower prices.

It is difficult to know where the Cambodian garment industry would stand if it didn't have the reputation both of complying with labor standards, and being able to “prove” it, thanks to the Better Factories monitoring. The question today is whether the “labor compliance” label will help Cambodian garment factories mitigate the impact of the international crisis. The reality is that, even if compliance with labor standards is a must, and has definitely helped keep Cambodia on the map of international buyers, more must be done to improve the competitiveness of the country and the productivity of its factories. This is an on-going process that the government, the private sector and partners like the ILO are deeply involved in.

At a time of crisis, the challenge of linking good labor compliance to increased productivity and competitive costs is more acute than ever. Facing this challenge requires the commitment of the social partners (government, employers and unions), as well as buyers and consumers, to ensure that Cambodia can build on its successes. It also suggests that this commitment of a whole industry to higher labor conditions must be backed by a general improvement of the business environment. Without continuing efforts to reduce the cost of doing business in Cambodia — the cost in money and time of administrative tasks, the uncertainty of delivery times, etc. — the “labor compliance” label will be in danger from price competition.

Table 4: Stakeholders view of factors affecting Bangladesh's competitiveness

Stakeholders	Factors Affecting Competitiveness for Bangladesh	
	Comparative Advantages	Comparative Disadvantages
Factory Workers	<ul style="list-style-type: none"> • Low cost of labor • High quality of products • Fast and efficient workforce • High labor supply • Reasonable targets set 	<ul style="list-style-type: none"> • Dependent on import of raw materials (e.g. thread) • Untrained, inflexible and abusive mid-level management • Lack of facilities (emergency stairs, first aid training, safe drinking water, child care, etc.) • Political disruption drives buyers away. • Poor infrastructure
Factory Owners	<ul style="list-style-type: none"> • High quality of products • Cheap labor • Workers are quick learners and good at their work. • Availability of labor (unskilled) • Favorable tax policies and incentives • BD makes marginal profit and offers better prices. • Big 'hub' of closely located factories makes it easier for buyers to visit/inspect (as opposed to China where factories are widely scattered). • Buyers prefer the hospitable and cooperative nature of Bangladeshi entrepreneurs. • Many owners and managers can communicate effectively with buyers in English (unlike, for example, China). 	<ul style="list-style-type: none"> • Lack of backward linkage¹⁶ causes high lead time, is expensive, and causes dependence on subcontractors for accessories (e.g., buttons), which are not always up to standard quality. • Poor infrastructure leads to shipment delays (e.g., collapse of the bridge in Dhk-Ctg road requires a roundabout route taking an additional 24 hours). • Exchange rate fluctuation (e.g., "UK orders in £, but when we deal with China we import in \$, and some 20% devaluation occurs in the process"); plus BD Tk is going strong against foreign currencies. • Access to finance is very costly (15% short term, 14% long term). • Shortage of skilled labor • Major competition within the country • Lack of technology to produce complicated designs • Bargaining power of workers • Negative country image portrayed by the media.
Mid-Level Managers	<ul style="list-style-type: none"> • Standard of quality is higher than average ("sweater quality is best in BD"). • Worker spirit is high & quality of labor is comparatively high. • Cheap labor, therefore cheaper manufacturing cost, better price offered. • High production capability 	<ul style="list-style-type: none"> • Backward linkage missing; dependency on import for raw materials causes high cost plus shipment delay. • Workers have low productivity (relaxed, low literacy, low motivation). • Political and social unrest (lack of social security) • Lack of infrastructure
International Buyers	<ul style="list-style-type: none"> • Cheap labor • High production skills • Improving quality • Competitive prices • The GSP system favors Bangladeshi export. • BD has become vertical in its linkage. • Spirit of the country (worker, entrepreneur, etc) • English speaking 	<ul style="list-style-type: none"> • Lack of fashion/trend sense • Lack of backward linkages • Lead time, though time needed to deliver has reduced in the last 2 years (with improvement in port facilities). • BD did not devalue its currency, whereas India, Pakistan and others did.
Associations (BKMEA/BGMEA)	<ul style="list-style-type: none"> • Labor force is easily trainable, has good knowledge & understanding, and is of high quality. • Good communication between the private sector and the government 	<ul style="list-style-type: none"> • Mid-level management has low training, productivity, philosophy, etc. • Shortage of <i>skilled</i> workers • Poor infrastructure

¹⁶ The term relates to the link between a firm and its suppliers and the use by one firm or industry of inputs produced by another firm or industry. In this context, it refers to the link between the garment factories and the suppliers of fabric (textile industry) or other inputs, and the network of economic interdependence it creates within the sector.

7. Bangladesh's competitiveness

Productivity was consistently mentioned by all those interviewed as important to Bangladesh's competitiveness. But other elements were also mentioned.

Labor, whether for its low cost or its adaptability, is mentioned unanimously as the key comparative advantage of Bangladesh, while bad infrastructure and lack of backward linkages are most often mentioned as impediments to Bangladesh's competitiveness. Some buyers even expressed their appreciation for an intangible quality that is present in Bangladesh among its entrepreneurs and workforce.

"Industry is resilient, entrepreneurial spirit. It is that spirit that keeps me here..." (International buyer)

Price is constantly mentioned by factory owners as the basic criterion for competitiveness.

"The buyers will buy their products from the cheapest sources. Bangladesh is offering competitive prices. The cost of production has gone up in China due to increase in wages. Garment prices have also gone up in other countries..." (Factory owner)

But as other studies have also found, if good price and quality remain the fundamental requirements, international retailers want "more" from countries like Bangladesh. Buyers also expect reliability, full package production, and a quick time to market.

Results show that the perceptions of the different stakeholders converged during 2008. In early 2008, when asked about competitiveness, factory workers and owners focused on labor compliance and production costs, while international buyers considered these only as prerequisites, and were focused on other factors. The factors mentioned by one international retailer at the time were, in order of importance: 1) productivity, 2) quality of labor, 3) politics and stability in the country, 4) ability to carry out 'full package' production, 5) time to market, 6) labor cost, and 7) labor skills, a ranking that workers and factory owners came to share by the end of 2008.

The role of the Government in helping the country to be more competitive internationally has been stressed by the factory owners as well as the international buyers. Although both categories insisted on the need for more efforts on infrastructure, trade facilitation and costs of production, they acknowledged the commitment of the Government to the sector.

As sector expert David Birnbaum said in a workshop in Cambodia¹⁷, exporting countries are not successful because of low-cost labor; they are successful because of priorities. Our study shows that in Bangladesh, the different stakeholders feel that the Government has decided to treat the garment industry as a priority, and to be more responsive to the needs of the sector.

¹⁷ "Building a Strategic Vision for the Future: Cambodia's Place in the Global Industry." Phnom Penh, Cambodia, June 2009. A workshop organized by the Cambodia Skills Development Center (with funding support from USAID).

Table 5: Factors for competitiveness seen as important by stakeholders in Phase I

Factors	Buyers	Government officials	Factory owners	Factory employees
TRADE				
International trade policies		X		
Trade agreements				
Time to market	X			
Potential for new customers/new markets		X		
POLITICAL CLIMATE AND NATURAL ENDOWMENTS				
Politics and stability in country	X	X	X	
Geographic proximity to markets				
Presence of raw materials in the country			X	
LABOR				
Labor compliance		X	X	X
Quality of labor	X	X		X
Labor costs	X			X
Education and training of workers				X
Risk of strikes				
Labor relations		X		X
FACTORY CAPACITY				
Ability to carry out “full package” production	X			
Quality of garments produced				X
Strong prior relationships of international buyers with factories within the country				
Technology upgrades in factories		X		
COSTS				
Costs of production		X	X	X
FINANCIAL ENVIRONMENT				
Export credit schemes				
Loans at lower rates			X	
INFRASTRUCTURE				
Quality of transportation infrastructure				
Quality of telecom infrastructure				
PRODUCTIVITY				
Productivity	X	X	X	X
POLICY ENVIRONMENT				
Lack of restrictions on capital				
Country’s tax policies and incentives				
Policies affecting labor force (health, wages, safety, etc.)				
Existence of EPZs and bonded warehouse facilities				

In Phase I, buyers mentioned “time to market” and “ability to carry out a full package production” as factors important to Bangladesh’s competitiveness, while none of the other stakeholders mentioned these factors as the top factors for competitiveness. All other stakeholders focused on factors like “labor compliance” and “cost of production,” which were not mentioned by buyers at all in early 2008. What is

noteworthy is that in Phase II all other stakeholders did highlight “time to market” and “ability to carry out a full package production” as top factors influencing competitiveness. All stakeholders also mentioned “labor compliance” as an important factor in Phase II. This shows two things: 1) the various stakeholders’ views are converging towards a consensus on these issues, and 2) Bangladesh’s post-MFA priorities include becoming more than just a low cost leader, by offering other advantages such as “time to market” and “full package production,” as the literature argues (Tewari 2006; United Nations 2005; Kelegama 2005).

Table 6: Factors for competitiveness seen as important by stakeholders in Phase II

Factors	Buyers	Factory owners	Middle managers	Factory employees
TRADE				
International trade policies		X		
Trade agreements		X		
Time to market		X	X	X
Potential for new customers/new markets				
POLITICAL CLIMATE AND NATURAL ENDOWMENTS				
Politics and stability in country	X	X		
Geographic proximity to markets				
Presence of raw materials in the country	X	X	X	X
LABOR				
Labor compliance	X	X	X	X
Quality of labor	X	X		X
Labor costs	X	X	X	
Education and training of workers			X	X
Risk of strikes				
Labor relations			X	
FACTORY CAPACITY				
Ability to carry out “full package” production		X	X	X
Quality of garments produced			X	
Strong prior relationships of international buyers with factories within the country			X	
Technology upgrades in factories			X	X
COSTS				
Costs of production		X	X	
FINANCIAL ENVIRONMENT				
Export credit schemes				
Loans at lower rates			X	
INFRASTRUCTURE				
Quality of transportation infrastructure			X	
Quality of telecom infrastructure		X	X	
PRODUCTIVITY				
Productivity			X	X
POLICY ENVIRONMENT				
Lack of restrictions on capital				
Country’s tax policies and incentives	X			
Policies affecting labor force (health, wages, safety, etc.)	X			
Existence of EPZs or bonded warehouse facilities				

8. Strengths and weaknesses

Overall, stakeholders agree that the workforce is the main asset of the country, provided that more effort is put into increasing its productivity. Indeed, while productivity is seen as one of the most important factors in making Bangladesh competitive, it is also cited as one of the country's top weaknesses. The next top weaknesses mentioned by stakeholders are, in order of importance, poor infrastructure (*"There is only one cargo train service per day between Dhaka and Chittagong"* — International retailer), long lead times, lack of backward linkages, poor working conditions, and weak design and fashion details.

Strengths include cheap labor and good quality products. Factory workers are the most convinced of the quality of their work (*"Quality is very good...otherwise we [Bangladesh] have nothing"* — Factory worker), while factory owners acknowledge that they have to evolve towards more added value and integration of key stages like design (*"Factories need to be more innovative; too many do basic products. Need to adjust to changes in the market"* — Factory owner). On the international demand side, Bangladesh is acknowledged as being very well positioned for basics, but buyers also see need for improvement in integrating additional stages into the value chain: *"Bangladesh should keep basics, but value-add, and [develop] home grown designs..."* (International buyer).

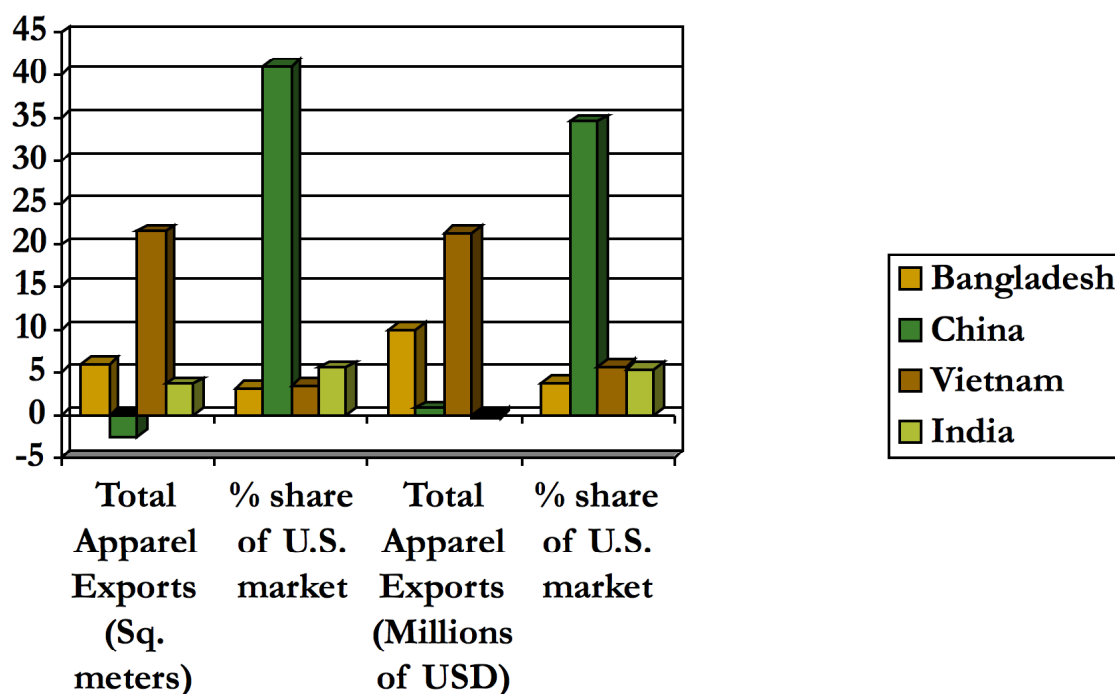
9. Main competitors

Not surprisingly, China is seen as the main player in the garment market, with stakeholders mentioning low cost and high productivity, strong government support, availability of raw materials, and good infrastructure. As the table shows, China has the largest U.S. market share among Bangladesh's competitors. However, it is interesting to note that from 2007 to 2008, the direction of change in Chinese exports to the U.S., measured in square meters, was negative. Realistically, Vietnam was often cited as the "real competitor" to Bangladesh, due to many of the same factors as China. As Figure 4 shows, the percentage change of exports to the U.S. from Vietnam between 2007 and 2008 was much larger than that of China during the same period. Vietnam tends to be followed by Sri Lanka, Cambodia, and India; Bangladeshi respondents, however, were quite optimistic about the capacity of Bangladesh's garment sector to remain a key player on the international scene.

"The experience of post-MFA had been positive. The 'fear' of China has made us intensify our efforts to increase productivity." (Factory owner)

"Bangladesh is looking to be in the permanent # 2 spot..." (Factory owner)

Figure 4: Percentage change in exports to the U.S. between 2007-2008 of Bangladesh and its competitors (Data from the U.S. Dept. of Commerce, Office of Textiles and Apparel)



This optimism is shared by international buyers. When asked to rate countries according to their competitiveness, international retailers ranked China highest with a 5, followed closely by Bangladesh with a 4, the same level as Pakistan and Indonesia. If Bangladesh is appreciated for the cost and quality of its products, Pakistan's strength lies in the presence of a textile industry and the availability of raw materials, two elements that were often mentioned as important disadvantages for Bangladesh. The very low ranking of Sri Lanka was attributed by the respondents to the ongoing conflict there. This political situation has improved in the last few months, which will certainly help Sri Lanka benefit from a better image among buyers.

Table 7: Perception of competition from other countries

Country	Rating	Factors
Bangladesh	4	Cost, capacity, quality (needle work)
Sri Lanka	1	Labor cost, capacity, political problems
India	3	Product mix (variety), textile base, raw materials availability, IT
Cambodia	3	Very small country, low capacity
Pakistan	4	Fabric and textile base, availability of raw materials
Indonesia	4	Infrastructure, capacity, costs
China	5	Closer to fabric base, price, product mix, infrastructure

10. Productivity

“Real productivity is about 38-40% in Bangladesh, when it is 70% in China. The objective is to increase it to 65-70% in Bangladesh.” (Factory owner)

Simply put, productivity is the ratio between inputs and outputs. Output is measured by the number of garments produced by a line of sewing machine operators in a specific time frame. Labor efficiency is the comparison of the time spent working productively to the total time spent at work. However, our interviews show that productivity includes a number of different variables, and that the perception of what influences productivity varies based on who is being asked:

Technology

“Investment in right machinery is important, can’t just have cheap labor.” (International buyer)

“Technology needs to be updated to go to more complicated products with more added value...we shy away from complicated products because we are not equipped in terms of technology and education... R&D in production is zero, R&D in design is zero, R&D in management is zero. We need some to improve productivity.” (Factory owner)

Work environment: training and communication

“Productivity is key. Once you solve that issue, you solve all others. A good environment is important to improve productivity.” (Factory owner)

“Big need to improve productivity by training of managers, and then workers...also training in engineering techniques and technology. It is not only training; it is the MINDSET that’s important.” (Factory owner)

“Productivity in Bangladesh is not going up because of basic unrest among workers. Entrepreneurs are disconnected from the floor; they don’t go to the factories and meet with the workers. The worker/owner link is missing. The dialogue with the workforce needs to be strengthened. From buyers we need help to increase productivity. We need more skills in production, design, and management.” (Factory owner)

Basic benefits and comforts

“If I don’t have to worry about whether I can feed my baby, I can be more productive.” (Factory worker)

Box 3: Corporate Social Responsibility as a management style — the example of Ananta

When one arrives at the Ananta production site in the suburbs of Dhaka, the place doesn't look much different from any other modern factory: a succession of large, well-lit rooms where hundreds of sewing machines, operated by mostly women, are lined up with great discipline among colorful piles of garments. On the freshly painted white walls, larger posters remind workers of internal regulations and basic safety procedures. In a corner of the room, however, one wall seems to be dedicated to more personal notices. Several posters inform workers about activities offered by the company itself. Workers are encouraged to express and develop their talents in singing and dancing classes, to join the soccer team, or to try some gardening as part of a natural resource management awareness activity. They can also take first aid or fire safety training, and they can donate blood for local hospitals. Whether it is personal development, professional training or social activities, the more than 7000 workers at the company have an abundance of activities to pick from. Other opportunities offered by the company to its workers include savings plans, emergency funds, and a collective transportation program.

Ananta is not a community center, a training facility or an NGO. It is a successful, profitable company that has expanded rapidly over the last few years, and hopes to expand further. The company exports to the U.S. and E.U. markets, and counts among its clients the most famous international brands. What differentiates Ananta from many other companies we visited in Bangladesh is the commitment of its owners and managers to improving the quality of work and the quality of life of its employees as a way to boost productivity and product quality. Workers are continually trained and tested to improve their performance; they are kept informed about safety and health issues, and they are provided with services such as day care and transportation to help them concentrate on their tasks. Management explains this somewhat paternalistic system both as a commitment to business ethics, and as a very pragmatic approach to better business. "Running your business ethically doesn't mean you won't make money," explains the manager, "and it is not because we are making money that we are doing all of this. It is because we are doing all of this for our workers that we make money."

This awareness that good labor conditions and compliance make good business sense seems to be gaining ground in Bangladesh. As the owner states it, "All of this effort in improving labor conditions is for business. At the end of the day, if it is not for business, it is useless for all of us."

On the way out, a large bright poster hanging across the hall catches the eye. Large golden letters express the support of the company and its workers for a smiling young man. This young worker at Ananta is also a talented singer, a finalist in a TV contest. Not only does Ananta's implementation of Corporate Social Responsibility give it a competitive advantage that contributes to its development and profitability, it also nurtures new talent for the country.

VII. Filling the Perceptions Gap

Changes in the international structure of competition have forced stakeholders in the garment industry in Bangladesh to come together to make this crucial sector more competitive. Although in early 2008 there were still clear disconnects among the different stakeholders, the trend has been towards more consensus in the different actors' appraisal of their industry's international standing.

Disconnects between the government and factory owners and workers included the feeling that the government was focusing on the wrong policies to address the end of the quota system — on worker retraining and retrenchment, for example, when most agreed that the priority should be on improving infrastructure. Government officials have recognized this now, and are ready to adjust their policies to fit the needs of the sector.

“Discussions led to the formulation of a project for retraining workers. However, it was not needed, because the phase-out did not result in job losses.” (Ministry of Labor official)

Business owners and workers also differed in their view of the importance of consulting and informing the labor force. Workers complained about their lack of information, and often felt they were not adequately informed or involved in new measures to change their working conditions and improve their productivity. This lack of information led to misunderstandings, and the feeling that promises were often used for public relations, but were not always implemented.

“Sometimes I hear from BBC that such-and-such leader of BGMEA said he will do this and that for the workers, but I have not directly heard any leader saying this.” (Factory worker)

Moreover, the feeling among workers interviewed was that their needs and requests were not adequately communicated to the factory owners by middle management, creating a situation of miscommunication and misunderstanding.

“Owners are kept in the dark (by management staff) and not told about the need/demand of the workers.” (Factory worker)

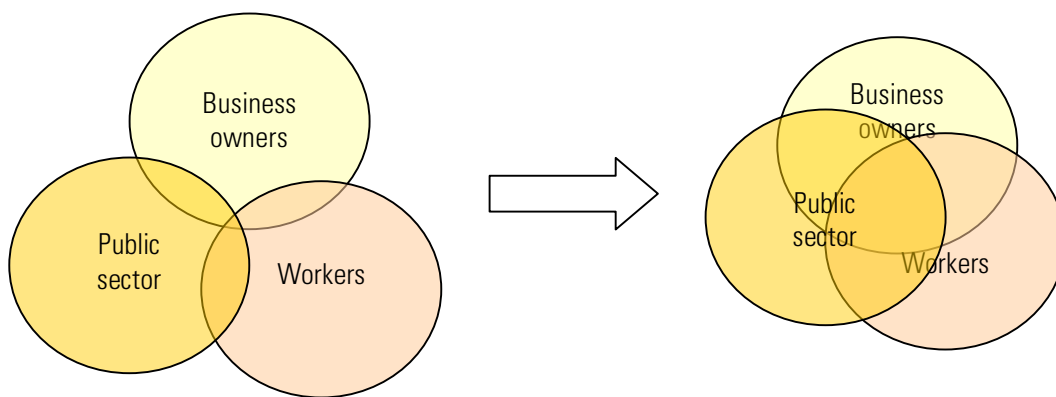
Although both international buyers and other stakeholders in Bangladesh agreed that competitiveness needed to be improved, they often diverged on priorities and how best to address these needs. Government officials insisted on trade policies and negotiations from government to government. Factory owners wanted infrastructure improvements to lower their production costs. Workers were focused on improving working conditions as a way to improve their productivity.

At the end of 2008, however, we see more convergence on the issues.

- Buyers, owners, and workers agree: The government has made some progress on infrastructure, though more is needed.
- Owners and some middle managers acknowledge the effects of a positive work culture and good working conditions on productivity.
- Buyers want more than just cheap labor, and insist on quality and reliability; and owners also see the necessity of providing value-added products.
- All stakeholders agree that middle managers are the problematic link between the different groups, and that more attention needs to be paid to them. Training is also mentioned by all as a key to greater productivity. In the second phase of the research study, we interviewed middle managers, and asked respondents more specifically about their role in factories, and improvements that need to be made: *“Need more training — need to ‘professionalize’ the middle management”* (Factory owner). One owner commented that middle managers need to be “groomed,” i.e. to be trained in some of the “softer” people skills, not just hard core managerial skills.

It is clear that the garment industry and relationships among its various actors have matured in the last few years: *“The sector has matured. Without the development of workers and management, we cannot be productive”* (BGMEA president). But although there has been significant improvement, not all of it has “trickled down” to the workers. Workers complain that national labor laws are enacted, but not always enforced. Owners may be progressive, but they don’t manage workers on a daily basis, leaving day-to-day management on the work floor to middle managers. These middle managers are often badly trained and badly perceived by workers. However, even workers acknowledge that some progress has been made overall. If young workers who are just entering the sector still find working conditions difficult, older respondents all confirmed that they have seen changes over the last few years: *“Owners are listening to us more now...buyers are paying attention (and putting pressure), laws are changing”* (Factory worker).

Figure 5: Changes in perceptions among the main actors in the last few years



VIII. Moving Towards an Improved Business Environment

“The end of quotas, and the ongoing churning in the global division of labor can be an opportunity for apparel firms to chart an alternative growth path based on deeper skills, innovation, design and quality upgrading, in addition to low unit costs.” (Tewari, 2006).

“A narrow focus on factor costs, scale, and relative prices, therefore, overlooks the fact that quite different policies may be required to help firms develop the production, design and organizational skills needed to compete in this new environment where buyers increasingly demand speed, quality, and progressively higher-value capabilities such as full-package supply, in addition to competitive prices...Policy makers and firms will need to pay explicit attention to cultivating these new skills through different means.” (Tewari, 2006).

Bangladesh has been able to weather the post-MFA storm, and has proven its ability to be a low-cost producer of quality goods. Now what does it need to go to the next level? Rather than just focus on reducing costs and keeping labor prices low, actors need to reach a common understanding that investing in areas such as training, labor conditions, infrastructure, etc., to increase productivity will ultimately be an advantage for Bangladesh. In late 2008, in the midst of the financial and economic crisis, factory owners showed remarkable confidence in the future of their industry in Bangladesh. Government officials were also confident of the capacity of the private sector to adapt and remain competitive when workers themselves were confident of their capacity to deliver quality products at a competitive price. Indeed, international buyers are showing signs that Bangladesh will remain among their top sources for Ready Made Garments (RMG).

“Bangladesh is positioned to grow by 20%. Bangladesh has nothing to be worried about if we can ensure political stability, and we can continue growth if we address the infrastructure and human resources issues.” (BGMEA president)

“India could be the number one beneficiary [of China losing market share due to higher costs]... Pakistan is out of the list of competitors because of political instability...there is only one fighter left: that is Bangladesh.” (Factory Owner)

“Bangladesh can be the China of the next ten years.” (Factory owner)

This faith in Bangladesh’s prospects needs to be nurtured and utilized to promote policies that create a business environment that will allow the private sector to take full advantage of its capacity to grow. However, the situation is still far from ideal, and all actors need to be mobilized to ensure that sustainable progress is achieved.

International buyers were also positive about progress made by Bangladesh in the last few years, but more critical about the long list of improvements still needed to fully meet the sector’s requirements.

Table 8: Perception of interviewed international buyers on progress made and to be made

Improvements: <i>“Things have improved: shipments are faster and easier. Bangladesh has improved lead time in the last 2 years.”</i> (International buyer)		As we go forward: <i>“Conditions have improved, but there is a bloody long way to go...”</i> (International buyer)	
Infrastructure	Human resources	Infrastructure	Human resources
Port facility has improved, and time required to export has been significantly reduced (3 days).	Increase in wages	Access to power	Implementation, monitoring of laws (wages, sick leave, etc.)
Customs regulations have improved.	Factory compliance	Administrative procedures for the Certificate of Origin and other documents.	Trainings for middle management.
	Attitude towards workers has improved.	Banking sector	Provide more information to workers, motivational trainings.

As indicated in this study, the main actors in the sector are convinced that there is more to competitiveness and productivity than just low labor costs. If investment in infrastructure to improve lead times and facilitate trade is key to Bangladesh’s competitiveness, developing and implementing supportive policies, and improving governance at the national and factory levels is also crucial. International buyers are not simply focusing on cost and the bottom line. Because buyers are looking for “more,” it is in the interest of government officials to enact policies that will increase worker benefits (wages, health care, etc.). It is also in the interest of factory owners to implement these policies, so that they will gain a workforce that is better skilled and more productive. Bangladeshi factories are no longer sweatshops with minimal labor standards and workers toiling away for 20 hours a day. Many factories are now focusing on becoming more efficient, with a happier and healthier workforce. Labor awareness, compliance issues, an improved public image, and changes in the conditions of global competition have all led to these improvements. Further positive developments in this area will compel the developed nations to look on the country more favorably.

“What the T&C sector needs is improvement in transport facilities and general infrastructure to decrease lead times. It needs better workers’ rights, and investment into human capital to create more productive factories producing better goods.” (Kelegama, 2005).

“Within the new competitive environment, time proximity is more important than low wages in defining competitiveness. It follows that countries should pay great attention to the logistical dimensions involved in their production and delivery chains.” (Kelegama, 2005).

The story of Bangladesh’s garment sector is a hopeful one. The country fell into this sector “by accident,” but now this industry has real potential to fuel economic growth, spur significant domestic reforms, and change societal attitudes about gender, class, labor, etc. International pressures have been significant in making positive changes, especially at the factory level. Now, international companies can take it to the next level by investing in the country:

“Buyers have made a lot of money in the business. They have not invested in the country at all to help improve infrastructures or environment. They do a few things, but whatever they do is negligible and not in line with their speech.” (Factory owner)

The discourse has changed positively in the last few years. Now the challenge is getting all actors to bring their actions into line with their words.

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X. About the Authors

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Ms. Salze-lozac'h has served as a lecturer at the University of Pittsburgh, and more recently taught graduate courses in project engineering, demand analysis and company creation to African and Asian professionals for the French Development Agency (Agence Française de Développement-CEFEF). She occasionally serves as a lecturer in a joint master's program of the French University Lyon 2 and the Royal University of Laws and Economics of Cambodia.

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Appendix 1

Garments Study Summary Table

Table 1: Summary of Competitiveness, Productivity and Recommendations by Stakeholders

Stakeholder	Factors Affecting Competitiveness for BD		Productivity Indicators & Factors Affecting it	Major Challenges (not necessarily comparative disadvantage of BD)	Recommendations/ Opportunities (besides addressing challenges & comparative disadvantages)
	Comparative Advantages	Comparative Disadvantages			
Factory Workers	<ul style="list-style-type: none"> • Low cost of labor • High quality of products • Fast and efficient workforce • High labor supply • Reasonable targets set 	<ul style="list-style-type: none"> • Dependent on import of raw materials (e.g. thread) • Untrained, inflexible and abusive mid-level management • Lack of facilities (emergency stairs, first aid training, safe drinking water, child care, etc) • Political disruption drives buyers away. • Poor infrastructure 	<ul style="list-style-type: none"> • Defined as “number of pieces per hour” • Abusive nature of mid-level managers (attitude, behavior, understanding, lack of discussions, etc.) • Facilities such as healthcare, nursery for children, etc. 	<ul style="list-style-type: none"> • Labor laws are not fully implemented & only ensured on buyers’ inquiry visits • Real wage is still low, though minimum wage has increased (due to overall inflation) • “Workers are paying [employment agencies] to migrate to garments sectors in other countries.” 	<ul style="list-style-type: none"> • Infrastructure development • Reduce dependence on raw materials • Improve buyer-owner-worker relationships and dialogues¹⁸ • Mid-level management training to eradicate abusive behavior • Owners must monitor managers’ behavior. • Salaries should be paid on time • Labor laws must be enforced by the government • Owners should communicate directly with workers at times • Production managers should discuss issues/ motivate workers. • Buyers should pay unannounced visits. • Adopt ‘good’ technology. • Political stability • Effective international trade agreements
Factory Owners	<ul style="list-style-type: none"> • High quality of products • Cheap labor (lowest in the world?) • Workers are quick learners and good at their work. • Availability of labor (unskilled) • Favorable tax policies and 	<ul style="list-style-type: none"> • Lack of backward linkage causes high lead time, is expensive, and causes dependence on sub-contractors for accessories (e.g. buttons) which are not always up to quality standards 	<ul style="list-style-type: none"> • Productivity low because of basic unrest among workers • Fuelled by media/ organizations. • Worker-owner relationship/ dialogues missing²³ • Need to improve productivity of 	<ul style="list-style-type: none"> • International pressure on compliance is costing owners²⁴ • Buyers don’t share compliance cost²⁵ • Inadequate financial support from banking sector (therefore entrepreneurs are shying away from value- 	<ul style="list-style-type: none"> • Develop infrastructure. • Increase the number of EPZs²⁶ or economic zones (‘village polli’) and develop effluent treatment plants • Produce design within the country • Management training and education required • Devalue currency since sector is import-dependent (“perhaps dual exchange rate” - Osama)

¹⁸ “BD is a small country. It’s supposed to be submerged in work. But disputes between workers and owners are driving buyers away. Both workers and owners are at fault. This is harming the industry. Owners must learn not to deceive us. If they look after us, we will look after them and everyone will benefit.” – Workers.

¹⁹ “Currency must move according to the market. This has been a sluggish movement by the government. As a result of this, India has absorbed the major chunk of China’s fallout (because of their strong currency), which was supposed to come to BD.” – Mr. Inam, Ananta Textiles.

Stakeholder	Factors Affecting Competitiveness for BD		Productivity Indicators & Factors Affecting it	Major Challenges (not necessarily comparative disadvantage of BD)	Recommendations/ Opportunities (besides addressing challenges & comparative disadvantages)
	Comparative Advantages	Comparative Disadvantages			
	<ul style="list-style-type: none"> incentives • BD makes marginal profit and offers better prices • Big ‘hub’ of closely located factories makes it easier for buyers to visit/inspect (as opposed to China where factories are widely scattered) • Buyers prefer the hospitable and cooperative nature of Bangladeshi entrepreneurs • Many owners and managers can communicate effectively with buyers in English (as opposed to, say, China) 	<ul style="list-style-type: none"> • Poor infrastructure leads to shipment delay (e.g. collapse of bridge in Dhk-Ctg road requires a round-about route taking an additional 24 hours) • Exchange rate fluctuation (e.g. “UK orders in £, but when we deal with China we import in \$, and some 20% devaluation occurs in the process”) plus BD Tk is going strong against foreign currencies¹⁹ • Access to finance is very costly (15% short term and 14% long term) • Shortage of skilled labor • Major competition within the country²⁰ • Lack of technology to produce complicated designs²¹ • Bargaining power of workers²² • Negative country image portrayed by the media 	<ul style="list-style-type: none"> workers and managers by improving mindset, motivation, etc., then skills • Technological upgrade • Need buyers’ support on maximizing productivity (R & D on production, design, development, management development, etc.) 	<ul style="list-style-type: none"> added products) • High turnover (about 20%) and garment workers migrating abroad (10%) create a shortage in labor supply 	<ul style="list-style-type: none"> • Buyers should invest in social/environmental issues in BD²⁷ • Ensure political stability (e.g. no loss in working days due to ‘hartals’ during the Caretaker government’s regime; this in turn has increased buyer’s dependence on BD) • Policy support (e.g. separate textile ministry) • The future of BD garment sector is secure for the next 3-5 years. There may be some problems with price, but the volume of orders is secure • Technology is improving (more accurate; automated & educated people can interpret) • Facilities such as banking and administration are improving

²⁰ “There are too many factories in BD (4500), so we are competing against one another; we can’t even make a curtain here since the maximum number of factories in a curtain is 40.” Osama Taseer, Tiffany’s.

²¹ “BD has the image branding of a low-end supplier. Therefore, there’s no way to grow. I want to produce suits, but who will I sell it to?” – Rubana, Mohammadi Sweaters.

²² “Workers here have bargaining power, and are arrogant, illiterate and of poor quality” – Moazzem Hossain, SMH

²³ “We know families can’t survive with 5000 Tk (per month). We need to talk to ourselves and accept that we are not being able to meet capacity. How to create the bridge between workers and owners?” - Rubana, Mohammadi Sweaters.

²⁴ “For example, previously, iron rods costing Tk 50-60 were used for detecting broken needles. Now, hand-held detectors costing Tk 6000-7000 are mandatory, and the company has to pay for it.” Mahmud Hasan, MD, Rising Apparels.

²⁵ “Buyers have made huge profits from Bangladesh, but haven’t invested anything back.” Osama Taseer, Tiffany’s.

²⁶ Export Processing Zones

²⁷ “Customers (buyers) tell us our comparative advantage is Compliance, but they are not willing to pay for it (or invest in it).” Osama Taseer, Tiffany.

Stakeholder	Factors Affecting Competitiveness for BD		Productivity Indicators & Factors Affecting it	Major Challenges (not necessarily comparative disadvantage of BD)	Recommendations/ Opportunities (besides addressing challenges & comparative disadvantages)
	Comparative Advantages	Comparative Disadvantages			
Mid-Level Managers	<ul style="list-style-type: none"> Standard of quality is higher than average (“sweater quality is best in BD”) Worker spirit is high & quality of labor is comparatively high Cheap labor, therefore cheaper manufacturing cost, better price offered High production capability 	<ul style="list-style-type: none"> Backward linkage missing; dependency on import of raw materials causes high cost plus shipment delay Workers have low productivity (relaxed, low literacy, low motivation) Political²⁸ and social unrest (lack of social security) Lack of infrastructure²⁹ 	<ul style="list-style-type: none"> High wages Good facilities such as bonus/grant benefits, housing, food, health Good owner-worker relationship: owners/senior management visiting factories makes production managers’ job easier and keeps workers motivated 	<ul style="list-style-type: none"> Lack of mid-level training in every sector Demand for skilled labor is high, but supply is low, therefore price of skilled labor is increasing (opportunity for workers) According to Compliance Standards, overtime work has diminished, therefore overtime pay has diminished, and workers are unhappy Compliance is costly Sweater industry has seasonal employment 	<ul style="list-style-type: none"> Government should ensure workers do not protest or create disturbances (through dialogue, and ensuring their wages and facilities) Ministry of Labor should motivate workers through training, awareness-building on rights & responsibilities of workers and owners (e.g., through drama/movies/entertainment). Industries must be centralized with industrial zones (like EPZ), which have power and drainage facilities Laws to control worker turnover³⁰ Enforce labor laws More educated people are showing interest in the sector these days Capture the Indian market (develop marine routes)

²⁸ “During the caretaker government’s regime in the last 2 years, there was uncertainty about the next government, and therefore no large investments came into the country.” – GM, Southern Knitwear.

²⁹ “The World Bank and ADB are imposing too many conditions on us and misallocating resources. We are spending Tk 840,000,000 on ‘city beautification’ projects, but not enough on safe water supply or power.” - Tofazzem Hossain, GM, SMH.

³⁰ “We are using Compliance and benefits to attract workers. If we could provide housing, we may be able to attract more workers.” – Tofazzem Hossain, GM, SMH.

Stakeholder	Factors Affecting Competitiveness for BD		Productivity Indicators & Factors Affecting it	Major Challenges (not necessarily comparative disadvantage of BD)	Recommendations/ Opportunities (besides addressing challenges & comparative disadvantages)
	Comparative Advantages	Comparative Disadvantages			
International Buyers	<ul style="list-style-type: none"> • Cheap labor • High production skills • Improving quality • Competitive price offered. • the GSP³¹ • system favors Bangladeshi exports • BD has become vertical in its linkage (Jacqui) • Spirit of the country (worker, entrepreneur, etc)³² • English-speaking 	<ul style="list-style-type: none"> • Lack of fashion/trend sense • Lack of backward linkages • Lead time, though time needed to deliver has shrunk in the last 2 years (with improvement in port facilities). • BD did not devalue its currency, whereas India, Pakistan and others did 	<ul style="list-style-type: none"> • Defined as ‘needle point efficiency’ – i.e., how much time the garment stays under a needle • Inefficient machines lead to low productivity <p>Needed:</p> <ul style="list-style-type: none"> • Middle management training • Reduce waste (e.g. fabric waste). • Reduce time to produce and deliver • Invest in optimum machinery 	<ul style="list-style-type: none"> • Lack of facilitation at national level – e.g. infrastructure • Difficulty of banking procedures • Lack of training at worker, middle management and management levels (attitude, skills, rights, laws, etc) • Only a handful of buyers really concerned with quality are willing to invest in quality • Exchange rate (Tk vs \$) has been pegged; conversion from \$ to £ for buyers is disastrous³³ 	<ul style="list-style-type: none"> • Capture the Chinese market • Explore new markets, e.g., viscous silk for sportswear • Minimum wage should be adjusted so real wage increases • Associations should ensure their members are compliant • EPB³⁴ certificates/administration must be made easier • NGOs should run their findings past the Associations before exposing them (wrongly) to the media
Associations (BKMEA/BGMEA)	<ul style="list-style-type: none"> • Labor force is easily trainable, has good knowledge & understanding, and is of high quality • No other country wants to produce these garments (BGMEA) 	<ul style="list-style-type: none"> • Mid-level management has low training, productivity, philosophy, etc. • Shortage of skilled workers • Poor infrastructure 	<ul style="list-style-type: none"> • Shortage of skilled workers and mid level management leads to low productivity 	<ul style="list-style-type: none"> • “Price [buyer offered] has hit rock bottom and must be increased now.” (Mr. Baset, BKMEA) • Low price leads to low motivation, and hampers quality of work 	<ul style="list-style-type: none"> • Need government support (e.g., covert BIFT³⁵) to formalize university curriculum in marketing and design • Provide management training & education. • ICT development • Ensure political stability. • Adopt favorable international trade policies • Media must promote a positive image of BD to attract greater investment. • Create ‘knit villages’

³¹ Generalized System of Preference

³² “There are so many resistances, but entrepreneurs still survive. This spirit entices me and keeps me here” – Jacqui Gray, Tesco.

³³ “The speed of currency change is faster in India. We have to consider this in deciding where to source” – Jacqui Gray, Tesco.

³⁴ Export Processing Bureau

³⁵ BGMEA Institute of Fashion and Technology

Table 2: Impact of Trade Agreements and Recession on Garments Sector by Stakeholders

Stakeholder	Impact of end of MFA (post 2005)	Impact of end of safeguard clause	Impact of global recession
Workers	<ul style="list-style-type: none"> Quality improved.³⁶ 		<ul style="list-style-type: none"> Orders have dropped.³⁷
Owners	<ul style="list-style-type: none"> No impact, since BD produces low-end products. In fact, orders increased in the last few years³⁸ 		<ul style="list-style-type: none"> Sector will deteriorate due to financial crisis and exchange rate fluctuation. Buyers are confused & struggling (low Christmas sales in 2008 indicate low sales next year). Buyers are bargaining over price/ordering less/asking for rebates. China is shifting some orders to BD. Recession-tackling mechanism—adjust price/add value to products/catch a higher or lower end market (e.g. wash sector).
Managers			<ul style="list-style-type: none"> Terrible impact: exchange rate fluctuation, Euro vs. \$; Euro has been devalued, therefore loss for buyers, therefore orders reduced. Dual pressure on factories: manufacturing cost has increased with global increase in oil prices and wage increases, while buyers are pressing for lower prices due to recession.
Buyers	<ul style="list-style-type: none"> Products increased 30% post 2005 (Carrefour). No impact (Tesco) 	<ul style="list-style-type: none"> Positive impact on BD, since part of China's market will probably come to BD. 	<ul style="list-style-type: none"> Reducing orders³⁹ Recession may favour BD, since it produces low-end goods at cheaper prices (challenge: difficult to enter market without local partners).
Associations	<ul style="list-style-type: none"> Doing okay, but could attract more investment with improved infrastructure. 	<ul style="list-style-type: none"> Won't affect BD, since BD produces low-end/basic products, while China targets high-end products. China even subcontracts to BD. Chinese orders (knitwear) may come to BD if BD develops its industry. 	<ul style="list-style-type: none"> Buyers delaying shipment. Inventory increased (since finished goods require greater storage space). New orders coming in despite of recession.

Note:

All parties referred to infrastructure development as one of the most crucial factors for ensuring competitiveness and overall growth of the sector. This includes:

1. Improving the Dhaka-Chittagong highway (e.g., making it at least six lanes).
2. Improving the Chittagong port further. (The port has already been improved to some extent during the Interim government. Whereas turnaround time was 12 days previously, now it is between three and four days.)
3. Developing Mongla (in Khulna) as an alternative port to reduce the burden on Chittagong port.
4. Ensuring uninterrupted power supply.
5. Improving telecommunications.

³⁶ “We heard that RMG sector would be wiped out by 2005, and only the good factories would survive. So we tried to improve quality, and this may have improved overall quality.” – Workers.

³⁷ “We survive on overtime wages. No orders means no overtime for us, and it is difficult to survive.” – Workers.

³⁸ “As a race we are very resilient. Currently we think business will actually increase more.” – Rubana, Mohammadi Sweaters.

³⁹ “Because of the recession, people are thinking twice before buying extra clothes. Therefore, our stocks have increased, and we are reducing orders to stabilize or reduce stock flow.” – Jacqui Gray, Tesco.

Appendix 2

Competitiveness in the Garments and Textiles Industry: A Case Study of Bangladesh

Interview Guide: International buyers ⁴⁰

I. Profile

- a) Name of Company
- b) Type of products bought from Bangladesh
- c) How long has your company been buying from BG?

II. Pre-2005

- a) What was the attitude in your company prior to the MFA phase-out in 2005? Worry? Panic? Indifference?
- b) Was there a conscious effort to change sourcing strategy prior to 2005?
- c) Which group makes the sourcing decisions in your company?

III. Sourcing model

- a) Please describe your sourcing model (work through agents, wholly owned buying office, directly with factory, etc.)

IV. Changes in sourcing model post-2005

- a) Which scenario best describes your strategy with respect to number/type of factories post-2005?
 - i) Consolidate work in larger factories.
 - ii) Reduce the overall number of suppliers.
 - iii) Shift production within the same country, but reduce the number of producers through consolidation.
 - iv) Shift production from one country to another, but not necessarily reduce the number of producers.
 - v) No change.
- b) When do you foresee these changes taking place?
 - i) They took place immediately after 2005.
 - ii) They are taking place in 2007.
 - iii) They will take place after 2008.
- c) What changes in the roster of sourcing countries do you anticipate?
 - i) Company will expand its roster of sourcing countries (which countries will be added?)
 - ii) Company will maintain existing sourcing countries.
 - iii) Company will reduce the number of sourcing countries (which countries will you leave?)
 - iv) Country will shift the mix of countries, but basically continue to source in the same number of countries.

⁴⁰ Some questions informed by survey in “The Multi-Fibre Arrangement (MFA) Strategic Sourcing Impact: The Private Sector Perspective,” Business for Social Responsibility, 2004; and Andriamananjara et.al (2004), “Trading Apparel: Developing Countries in 2005.”

V. Business in top 5 sourcing countries

a) What are the top 5 countries where you sourced your business pre-2005?

Top 5 Countries pre-2005	Biggest advantage of this country?	Still in top 5 post-2005?
1.		
2.		
3.		
4.		
5.		

b) If there are significant changes, what are the primary reasons for the change?

VI. Competitiveness factors (have respondent complete this exercise)

a) How important are these factors in making a country competitive? (1 = not important at all. 5 = extremely important)?

Factor	Rating
1. Politics and stability in country	
2. Quality of transportation infrastructure	
3. Quality of telecom infrastructure	
4. International trade policies	
5. Labor costs	
6. Lack of restrictions on capital	
7. Potential for new customers/new markets	
8. Geographic proximity	
9. Trade agreements	
10. Strong prior relationships with factories within the country	
11. Education and training of workers	
12. Policies affecting labor force (health, wages, safety, etc.)	
13. Ability to carry out "full package" production	
14. Time to market	
15. Productivity	
16. Quality of garments produced	
17. Country's tax policies and incentives	
18. Loans at lower rates	
19. Export credit schemes	
20. Existence of EPZs and bonded warehouse facilities	
21. Technology upgrades in factories	
22. Labor compliance	
23. Industrial or labor relations	
24. Low risk of strike	
25. Other costs	
26. Quality of Labor	
27. Presence of raw materials in the country	
28. Other (please specify)	

b) Of all the factors scoring 5, rank those factors in order of importance:

- c) How would you rate the following countries as competitive, and what factors make it so?
(1 = not competitive at all. 5 = extremely competitive.)

Country	Rating	Factors
Bangladesh		
Sri Lanka		
India		
Cambodia		
Pakistan		
Philippines		
Mexico		
Indonesia		
Honduras		
China		
El Salvador		

VII. Labor Compliance

- a) Are you aware of the SA8000 standards on labor compliance?
b) If yes, is it part of your selection criteria when selecting a factory?

VIII. Doing business in Bangladesh

- a) What percentage of business do you currently have in Bangladesh?
b) For which markets?

- E.U.
- U.S.
- Asia
- Other
- All

- c) Of the top 5 factors that you ranked above as being very important, where does Bangladesh rate on these factors?

Highly ranked factor	Rating of Bangladesh on this factor

- d) What are the top three reasons for sourcing in Bangladesh?
e) What are the top three barriers/difficulties to doing business in Bangladesh?
f) Do you intend to increase, decrease or stabilize your current sourcing from BG in the next 2-3 years? (*We can cross-check with earlier questions for reliability.*)
g) What single factor would prevent you from continuing sourcing from BG?

IX. Factories

- a) How important are these qualities of factories (in any country) when deciding which factory you will work with? (1 = not important at all. 5 = extremely important.)
- a. Longstanding prior relationship
 - b. Cost
 - c. Productivity of workers
 - d. Quality of work
 - e. Speed to market
 - f. Pre-production assistance
 - g. Ability to deal with sophisticated designs/materials
 - h. Labor standards
 - i. Reliability/consistency

Are there any others not listed here that are important? Please specify.

X. Concluding general questions

- a) How do you see your company's involvement in Bangladesh in the next three years:
- i) Decreasing
 - ii) Stable
 - iii) Increasing