

International Business

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Case study showing various perspectives about Bangladesh as a Clothing outsourcing manufacturing location.

International
Business-
Bangladesh
Case Study

1. Why was the shift to a free trade regime in the textile industry good for Bangladesh?

Bangladesh is an important import factory for the textile industry. There is many reasons why people export their garments to Bangladesh for production. Most clothing is made by patterns in the United States (from a centrist point of view) by a fashion designer, then the businessman will travel over to Bangladesh and create a production order. This gives profit in the clothing and gives people money to spend on consumable goods. Without earning profit in the business, there is no way to keep the amount of people employed or move onto new businesses or to expand. I am friends with a man named Scott Jordon on social networking, who is a clothing manufacturing business owner (I have 5 years experience in the clothing industry as sales, and tailoring), who has decided not to use Bangladesh as his supplier as the factory conditions in China are much better and the production workers are doing a better job for the pay. "From 1947 to 1971 the textile industry, like most industries in East Pakistan, were largely owned by West Pakistanis. During that period, in the 1960s, local Bengali entrepreneurs had set up their own large textile and jute factories. Following its separation from East Pakistan the newly formed Bangladesh lost access to both capital and technical expertise. Until the liberation of Bangladesh in 1971, the textile sector was primarily part of the process of import substitution industrialization to replace imports. After the liberation, Bangladesh adopted export-oriented industrialization by focusing on the textile and clothing industry, particularly the readymade garment sector. Immediately after the founding of Bangladesh (1971)), tea and jute were the

most export-oriented sectors. But with the constant threat of flooding, declining jute fiber prices and a significant decrease in world demand, the contribution of the jute sector to the country's economy deteriorated. (Spinanger, D. (1986). "Will the MFA keep Bangladesh Humble?". *In the World Economy* (Basil Blackwell Publisher) **10** (1): 75–84.)

1. Who benefits when retailers in the United States source textiles from low-wage countries such as Bangladesh? Do the Gains outweigh the losses?

Bangladesh is a developing society out of the split from the Islamic government following the breakup of the British controlled mercantilist India. The textile and clothing (T&C) industries provide the single source of economic growth in Bangladesh's rapidly developing economy. Exports of textiles and garments are the principal source of foreign exchange earnings.

Agriculture for domestic consumption is Bangladesh' s largest employment sector. By 2002 exports of textiles, clothing, and ready-made garments accounted for 77% of Bangladesh' s total merchandise exports. By 2013, about 4 million people, mostly women, worked in Bangladesh' s \$19 billion-a-year industry, export-oriented ready-made garment industry. Starting in 1974 the Multi-Fibre Arrangement in the North American market ensured that trade in textiles and garments remained the most regulated in the world. Among other things the MFA set quotas on garments exports from the newly industrializing countries of Asia. Entrepreneurs from quota-restricted countries like South Korea began "quota hopping" seeking quota-free countries that could become quota-free manufacturing sites. The export-oriented readymade garment (RMG) industry emerged at this time. Daewoo of South Korea was an early entrant in Bangladesh, when it established a joint venture in December 27, 1977 with Desh Garments Ltd. making it

the first export oriented ready-made garment industry in Bangladesh. After only one year in which 130 Dosh supervisors and managers received free training from Daiwoo in production and marketing at Daiwoo's state-of-the-art ready-made garment (RMG) plant in Korea, 115 of the 130 left Dosh Garments Ltd. and set up separate private garment export firms or began working for other newly formed export-oriented RMG companies with new garment factories in Bangladesh for much higher salaries than Dosh Garments Ltd offered. (Hossain, Naomi (2001) (PDF). Gender Equality and Development: Background Paper: Exports, Equity and Empowerment: the Effects of readymade Garments Manufacturing on Gender Equality in Bangladesh (Report). World Development Report 2012. World Bank.)

The business opportunity right now is that profit can be made from clothing, even at the expense of the American garment industry employees. One of the major issues is workplace safety overseas. The Government of Bangladesh is very poorly run; there is a lot of accidents with it's employees. The challenge is to actually have a decent election; the government of Bangladesh needs the equivalent of OSHA and a lawsuit court, to sue the business person for liability. Five deadly incidents from November 2012 through May 2013 brought worker safety and labor violations in Bangladesh to world attention putting pressure on big global clothing brands such as Primark, Loblaw, Joe Fresh, Gap, Walmart, Nike, Tchibo, Calvin Klein and Tommy Hilfiger, and retailers to respond by using their economic weight to enact change. No factory owner has ever been prosecuted over the deaths of workers. Other major fires 1990 and 2012, resulting in hundreds of accidental deaths, include those at That's It Sportswear Limited and the fire at Tazreen Fashions Ltd. Spectrum Sweater Industries, Phoenix

Garments, Smart Export Garments, Garib and Garib, Matrix Sweater, KTS Composite Textile Mills and Sun Knitting. Major foreign buyers looking for outsourcing demand compliance-related norms and standards regarding a safe and healthy work environment which includes fire-fighting equipment, evacuation protocols and mechanisms and appropriate installation of machines in the whole supply-chain. RMG insiders in Bangladesh complain about the pressure to comply and argue that RMG factory owners are hampered by a shortage of space in their rental units. In spite of this the industry exports totaled \$19 billion in 2011–2012. They expected export earnings to increase to \$23 billion in 2012–2013. (Nur, Shah Alam (1 May 2013). "Space shortages at rented houses make RMG units non-compliant". Bangladesh: Financial Express.)

5. What international trade theory, or theories, best explain the rise of Bangladesh as textile exporting powerhouse ?

Bangladesh is only a good place to do business as long as the shipping lanes are clear and there are no accidents. The problem is that the instability in the governments and in Chinese commerce and Taiwan, is causing people to shift their factories to Costa Rica for cost effective savings and being able to have easy transport.

"Currently Bangladesh is now second largest ready-made garments (RMG) manufacturer after China, by the next five years Bangladesh will become the largest ready-made garments (RMG) manufacturer. Bangladesh was the sixth largest exporter of apparel in the world after China, the EU, Hong Kong, Turkey and India in 2006 In 2006 Bangladesh's share in the world apparel exports was 2.8%. The US was the largest single market with US\$3.23 billion in exports, a 30% share in 2007. Today, the US remains the largest market for Bangladesh's woven garments taking US\$2.42 billion, a 47% share of

Bangladesh's total woven exports. The European Union remains the largest regional destination - Bangladesh exported US\$5.36 billion in apparel; 50% of their total apparel exports. The EU took a 61% share of Bangladeshi knitwear with US\$3.36 billion exports. ((PDF Bangladesh ready-made garments landscape: the challenge of growth (Report). McKinsey & Company. 2011.)

According to a 2011 report by international consulting firm McKinsey & Company, 80 percent of American and European clothing companies planned to move their outsourcing from China, where wages had risen, and were considering Bangladesh as the "next hot spot" making it the "next China" offering 'the lowest price possible' known as the China Price, the hallmark of China's incredibly cheap, ubiquitous manufacturers, much "dreaded by competitors." (Review of Alexandra Harvey's *The China Price: The True Cost of Chinese Competitive Advantage* **254** (49). Publishers Weekly. December 2007. p. 45.) Bangladesh is only good for partial manufacturing, and base textiles and assembly for hanes, undergarments and t-shirts. More advanced textiles will still be manufactured in China or Costa Rica for quality control reasons.

1. How secure is Bangladesh's textile industry from foreign competition? What factors could ultimately lead to decline?

It is very difficult right now to do anything about the textile industry in Bangladesh as North Carolina used to have a vibrant textile industry, which has been completely outsourced to Bangladesh, as even China's textile industry is flagging (as North Carolina was a labor outsourcing for London at one point of time being a very old British Colony before America's independence.) "The United States introduced the Tariff Relief Assistance for Developing Economies Act of 2009 designated Bangladesh as one

of the 14 least developed countries (LDC), as defined by the United Nations and the US State Department, eligible for "duty-free access for apparel assembled in those countries and exported to the U.S." from 2009 through 2019. The Bangladesh Garment Manufacturers and Exporters Association (BGMEA), an industry lobby group, claimed that in 2008 alone Bangladesh paid "\$USD 576 million as duty against its export of nearly \$3 billion' mainly consisting of woven and knitwear." (111th Congress (2009) (May 21, 2009). "S. 1141 (111th)". *Legislation*. GovTrack.us. Retrieved May 3, 2013. "Tariff Relief Assistance for Developing Economies Act of 2009")

I still feel that Bangladesh regardless of products has a lot of bad press and needs a lot of foreign investment. I think that because the big businesses involved in the Bangladesh trade industry need to repair the buildings, or create buildings with decent building codes, or if the government continues to want the business regardless of the 37 dollar a month labor charges and the business owners media, the Social media is very powerful right now and the amount of political activism against the Bangladesh textile industry makes it very hard to not accept the Chinese wages (Right now it's very difficult for North Carolina to manufacture clothing, even on an 1600-2000 dollar a month salary, it is still not worth the cost for me to work in North Carolina in the textile industry for any kind of clothing production even though I have some decent skills in this industry). Hong Kong has some of the best tailors in the world as far as men's clothing and Taiwan has very good textiles. If you look at the competition I would still choose to produce garments that cost 150% higher costs and charge more for money for the clothing (\$90.00 for a pair of jeans). Hanes has not chosen to manufacture in Bangladesh as Costa Rica because of it's literate population has still proven to be a

more better place for foreign investment. My recommendation still is to stay out of Bangladesh and go to China or Costa Rica for manufacturing or even Jakarta, Indonesia.

Bangladesh cannot keep it's low wages for another 3-5 years there may be changes in Bangladesh to improve it's textile university perhaps (even the website is barely functional)

Improvements could be made to Bangladesh. The first problem is that they need to make Bangladesh a good place to make garments. There is two garment districts in the United States that are failing (Los Angeles garment district and NYC garment district), which are both nearly empty as outsourcing on the garment industry is necessary to make profits. As long as investment could be made into a decent commercial real estate zone, it would be worthwhile to put in work orders to Bangladesh as they can product fabric, and sew together garments for sales very easily to be sold in other countries (the most popular garments right now are wearable electronics).