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Systemic importance of RMG sector

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Bangladesh's readymade garment (RMG) sector faces some daunting challenges. The collapse of Rana Plaza in Savar that claimed over one thousand lives has unleashed the governance problem in the sector in particular and in the country in general. Moreover, Bangladesh's ongoing political crisis is increasingly making the global buyers cautious in posting new orders badly affecting its reputation as an important location of RMG products. However, the sector needs more constructive advice than criticism given its systemic importance as far as Bangladesh economy is concerned.

For several reasons the RMG sector is very critical for Bangladesh. While we often cite some numbers in terms of its contribution to employment generation, foreign exchange earnings and women empowerment, the sector's true contribution is probably far higher than those numbers. It is the only sector that helped developing a manufacturing base in the country, even if its value addition is still lower than its potential. The country's long-term manufacturing promises also largely hinge on this sector. Today's high-end manufacturing and service powerhouses like Singapore and Hong Kong were once garment producers.

In some influential works McKinsey & Company, one of the top research and consulting outfits, and Dany Rodrik, an academic of Harvard University, argued that manufacturing matters for various reasons. First, manufacturing can absorb large numbers of workers with moderate skills. Second, the manufacturing sector is also where the world's middle classes take shape and grow. Third, without a vibrant manufacturing base, societies tend to divide between rich and poor.

Then there is a nexus between service and manufacturing sectors. For every dollar of output, manufacturers use 20 cents of service inputs. The share of service jobs in manufacturing ranges 30 to 55 per cent.

The rise of RMG sector: However, abundance of cheap labour is not enough for taking off manufacturing activities. The RMG sector that took off in late 1970s and early 1980s was largely due to two reasons, as argued by Professor Musthaq Khan of University of London. First, the Multi Fiber Agreement (MFA) created 'quota rents' for countries like Bangladesh. This has caused a serious problem for established producers of garments like South Korea who suddenly found themselves quantity-constrained. This has prompted Korea to relocate production to countries like Bangladesh.

Second, the clientelistic authoritarianism characterising the ruling coalition of the time enabled a good enough growth-stability trade-off for the introduction of a few critical domestic institutional innovations required for the takeoff of the garments industry.

Professor Khan also argued that if market failures impeding capability development and technology acquisition can be addressed, low wages and excessive labour market flexibility are not even necessary conditions for manufacturing success.

Thus, there is no alternative industry that could fill up the gap of the RMG sector in case of its failure. This is the country's systemic important sector.

The challenges of the country's RMG sector have come at a time when it was supposed to experience a quantum jump in its growth given the rapid changes happening in China, Bangladesh's major competitor in RMG. To reduce its excessive reliance on export-led growth one of China's key strategic imperative is to shift its economic structure towards high value-added manufacturing and services. Moreover, high labour cost and gradual appreciation of China's currency mean many low value-added jobs are no more viable in the Middle Kingdom, particularly in its coastal regions. This has led to relocation of a lot of low-end manufacturing units in its neighbourhood as well as its inlands.

Given Bangladesh's abundance of cheap labour, managerial expertise and entrepreneurial spirit in the RMG sector, it could have been an ideal choice for China's relocation of some of its RMG units. In fact, a recent study by McKinsey depicts bright prospects of the country's RMG sector given the rapid changes taking place in China as well as Bangladesh's comparative advantage in this sector. Thus, this decade could have been a game changer for the country's manufacturing sector led by RMG.

The issue of governance: However, the elephant in the room is governance. Bangladesh is ill-prepared to take the advantages from China shift or similar global changes, largely due to governance and institutional weaknesses in the country.

The fall of Rana Plaza and fire at numerous garment factories despite persistent warnings clearly show that the concerned have failed (or did not care) to comply the existing rules and regulations. Neither the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) nor the Rajdhani Unnayan Kartiphakkha (RAJUK) could prevent or detect the fault lines of Rana Plaza before its collapse leading to the country's worst industrial disaster.

These incidents also signify the state's failure to manage the country's urban transition. Dhaka's urban primacy is considerably higher than other countries in the region making it increasingly unlivable.

The governance failure in the sector is nevertheless not an isolated case. In fact, RMG's governance quality and institutional infrastructure fare better compared to the country's overall stride in this regard. The root cause of Bangladesh's governance problem probably lies in two important phenomenon which occurred in the 1980s and 1990s: liberal economic reforms and democratic political reforms.

First, economic liberalisation process that was launched in line with the Washington Consensus ignored the importance of regulation until recently. Thus, the country has not developed a strong regulatory apparatus.

Second, Bangladesh's transition towards democracy in the post-1990s has resulted in 'illiberal democracy', a governing system that believe it has a mandate to act in any way they see fit as long as they hold regular elections.

There is hardly any improvement in the country's key institutions. Thus, liberal reforms and illiberal democracy have not made much dent in improving the country's governance quality - incapable to capture the excessive greed and corruption.

While improvement in governance and institutional quality takes time and also much to do with a country's political system, some sectors could forge ahead if a narrow or small intervention is made by the concerned government. If fact, the rise of RMG in 1980s is a classic example in this regard. Nevertheless, this also shows there is limit as to how far the sector could go without having good governance.

Action plan: Now the key question is what needs to be done to continue the growth of RMG sector? Both short- and medium-term actions are required.

The garment owners need not invent the wheel. The BGMEA should adopt a zero-tolerance policy to comply the existing rules in all the factories. A regulatory agency independent of RMG business could help making the system work.

The RMG units that are still located in Dhaka city should be given a strict deadline to shift their factories elsewhere. The existing relocation process also has some weaknesses. Economic theories say that if an industry is designed to cater overseas clients (100 per cent export-oriented ones), it should be located near coastal zones or near to sea ports. However, the growth of RMG in Dhaka city and its surrounding areas are largely due to the urban primacy of Dhaka, reflected by an excessive concentration of political and economic power brokers. Thus, the government and the BGMEA should work together to develop RMG export processing zones, particularly in Chittagong division, by releasing land, supplying utilities, building infrastructure, among others. This could curb the excessive growth of the primate city.

Moreover, Bangladesh's key infrastructure facilities are proven inadequate to maintain industrial growth. The country must think big in this regard. The major sea port in Chittagong could exploit its maximum capacity in the next few years. Thus, a deep sea port should be constructed as early as possible. China's engagement in building key infrastructure could help in two ways. Building a deep sea port in Sonadia along with development of surrounding industrial infrastructure (like EPZ) could give a big boost to the country's manufacturing growth. China has developed similar infrastructures in the neighbourhood, including in Sri Lanka.

This could also facilitate relocation of a plethora of low-end manufacturing, including RMG, from China. This is particularly critical for the country's future course of growth as China is likely to become an important export destination of Bangladesh's RMG products in years to come.

There is also need for global support. The ILO has come forward to help the labour-related and other problems in RMG. Similarly, the responsible global actors, notably the European Union and the United States, should continue their support to the industry, in terms of market access, given its systemic importance of Bangladesh economy.

Bangladesh is now at an important juncture of its manufacturing journey. The fault lines in its governance structure are not sparing the RMG sector threatening its further growth. However, given the rising share of Bangladesh's working age population the country cannot afford to let the RMG sector down. The government and the BGMEA must act together forcing the concerned complying with the existing rules. At the same time, they should also do the necessary reforms by developing required infrastructure to take the advantages of the changes in China and elsewhere in the region.

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