



Image distortion has been made to a large extent due to the anti-publicity we received regarding the fire crisis.

Fazlul Hoque
Immediate Past President, BKMEA

Q How do you analyze the year 2012 in terms of growth of the RMG industry?

A 2012 has been a very crucial year for the RMG sector. With the economic crisis in the major markets namely U.S. and Europe, this sector saw a setback. Fortunately, increasing export orders diverted from China helped our RMG industry to retain its position. Nevertheless, the growth of this industry was stagnant. On the negative ends, recent fire crisis at Dhaka along with the talks regarding the cancellation of US GSP facility possessed great threats to this sector. On a positive note, export shift from China and new GSP rule of origin for the European countries have saved this sector.

Q What hurdles has the industry faced due to the recent economic crisis in U.K. and USA this year? Which sector was more affected- woven or knitwear? When do you predict the recovery phase of this crisis?

A From the general perspective, all I can say is that the European orders are shrinking namely from Germany, Netherlands, France and Particularly UK. Under theory this should not have been the case. Both knitwear and woven has been seeing flat growth over the couple of months; woven although being a little better than knitwear. The reason behind the boost in growth of the woven product is because of the new GSP rule of origin for the European countries. Prior to this new rule, the raw materials for woven products had to be imported. Presently, the new rule allows us to get the GSP even for the import of the woven fabric. Thus, there has been a big jump in the woven sector. For knitwear, this rule has no added advantage. This accounts for the greater shift in woven than knitwear.

Q There has been a 48 percent increase in the import of cotton in the July-September quarter of FY 2012-13. Why do you think the growth occurred? What is the implication on the entire industry?

A In the previous fiscal year 2011-12 the import of cotton was low due to some reasons. Hence, to fill up the gaps and to avoid the high cotton prices in the off-season periods, the import of cotton has seen substantial growth in the second quarter of the fiscal year of 2012-13. Lately, the domestic demand is low and the export growth is also insignificant. However, the high cotton import is a good indicator for the entire industry namely the spinning sector. Most likely the high cotton import may not sustain in the future. I think the demand will soon readjust and reach a stable position. Nevertheless, the growth of cotton import will remain stable.

Q The US GSP rule of origin has been under threat. What will be the implication for the industry in case the US GSP gets cancelled?

A Bangladesh enjoys a very small portion of the US GSP mainly in ceramics, tobacco and toy sectors. The cancellation of the US GSP may not have a major financial impact as the loss in export revenue will be of a mere USD 26 million. Nonetheless, it will have a major two-fold impact on the country's future RMG export. Firstly, the abolishment of the US GSP poses a great threat to the chances of the Bangladesh RMG sector to achieve such facilities. Secondly, it will put an official international certification on Bangladesh acclaiming poor labor standard of the country, which is not true. This will definitely act as a barrier in the future growth of the sector. Thus, in my opinion, government should solve this issue immediately via some diplomatic channels.

Q Why do you think our export growth remained positive despite the shrinking demand from overseas? Market diversification strategy could have been an escape pathway from the UK and US crisis. Why do you think the garment industry did not opt for this option rather than sticking with its traditional markets?

A It looks like a critical equation; the economy is going down and yet the market is growing in the European market particularly. This growth can be attributed to the diversification of market of China. The only reason we got saved is due to the positive China factor. China is in a bigger crisis to deal with than Bangladesh. China has undergone a vital internal policy shift. Previously, the country had a more export oriented focus but now this has been shifted to local consumption; China is now emphasizing more on providing the remote areas of the country with necessity products. Secondly, with the expansion of the Chinese economy, they are focusing more on high-value products rather the low-end products. Thus, as China withdrew their focus from the RMG market, a mass volume of orders have been shifted to Bangladesh, Vietnam, Laos and Cambodia. Originally, the orders of Bangladesh had been shrinking but due to China's exports shift, the growth has not gone negative.

Q Many professionals had expected the power crisis to be dwindled in the year 2012. Did you see any such improvement in this sector?

A The infrastructural problems that we are facing particularly in gas and electricity are also major issues of concern. The overall power supply has seen improvements in 2012 but there were no dramatic change to mitigate the growing demands. Sadly,

the improvement in the electricity has not contributed to the industrial growth in anyway. Gas connection is more important for us. The problem lies not with the gas connection but with the gas pressure that we get. Gas distribution should be made more precise. I am expecting an improvement in the infrastructure within a year but when we will be able to enjoy its benefits still remains doubtful.

Q The recent fire crisis at a garment factory has caused an upheaven in the industry. How did it impact the business of the industry and the global image of the industry as well? What sorts of security measures should the garment industry take? What level of government supervision do you expect regarding the safety compliances of the garment industry?

A The recent fire crisis and such incidents have a two-fold impact on the industry. Firstly, the brand buyers will cancel some of the orders as to save their own image; like Wal-Mart did recently. Thus, for their own security some of the buyers may shift orders from Bangladesh as a part of their policy shift. Secondly, our competing countries will try to use this against us and for their advantage. The fire incident is another eye opener for us. We were complacent that we had sufficient fire-fighting measures. We should take more responsibility for the development of the protection system. It is the duty of the individual owner to take these measures; no association can impose regulations if the owner himself is not ready to comply with it. The government should be strict in supervision too. Till now the workers are being trained up for the fire fighting. From my experience of the past incidents, my suggestion is that besides the workers there should be an in-house fire fighting team present in every factory. Each factory should have a designated person to lead in times of natural calamities. Image distortion has been made to a large extent due to the anti-publicity we received regarding the fire crisis. Now, we have to focus on the recovery of the image damage being done. We are growing and thus we have to look after the conspiracy theory. We have to be more alert so that we do not get affected by the conspiracy of others.

Q The relaxation of the EU rule of origin can have positive impact on our export growth and can also be a threat to our backward linkage (spinning industry). How do you perceive these two possibilities?

A The new EU rule of origin will not affect the growth of spinning; however, the enthusiasm regarding creating the backward linkage may be hampered to some extent. Previously, we imported the low cost threads from India; however, now we use the threads from Bangladesh despite its high costs. This is because it saves time and the hassle of the import procedure. The backward linkage has been created despite the various GSP rules. Backward linkage requires huge investment. If the investors fear the GSP rule affecting the chances of backward linkage, they will certainly not risk their stake in this business. If you perceive Bangladesh to become the top RMG exporter in the coming years, backward linkage will take place. We do not have the basic raw

material-cotton; due to the basic natural condition of the country we can not grow cotton. However, we can produce the man-made fiber chips. Thus, if we continue to proceed in this area we will surely grow one day. The new GSP rule may act as a hurdle in the backward linkage. Backward linkage has two segments: knitwear and woven. The knitwear factories purchase threads and they have their own set-ups to convert it to fabric. They have reached this position after rough competition with India and thus they have nothing to lose. But the woven fabric making will be affected due to the relaxation of the rules of origin. Spinners have a huge market in the knitwear and thus their growth is less likely to be hampered overall.

Q How do you perceive the upcoming year? Are you expecting any political hurdles that might hamper the industry growth?

A Being an election year, 2013 will be a politically stable year; industrial sector is less likely to get importance rather domestic and popular issues will be addressed more. I believe presently we are being benefitted due to the policy change of others; that cannot be our strength. We have to develop our infrastructure and create our own strengths. Another issue after the share market disaster is the Hall-Mark issue that has immensely affected the banking sector of the economy. It has shaken the entire banking system. If the money market is not good, smooth operation of the business is not possible. The letter of credit (LC) system has been misused by Hall-Mark in its entire scandal. Hence, this is another issue that needs to be addressed in 2013.

Q What sorts of infrastructure improvements are you expecting? To what extent will the construction of Mongla Port aid the export facilitation of the industry?

A We have no comprehensive planning for our infrastructural activities. There has been no fact and figure regarding the generation of electricity or gas production. The plans that we have are not target oriented. Special Economy Zone is another most heard project of the government. The government's project includes developing the least developed regions with the infrastructural services for the factories to set up. Theoretically, it is a very good project but the implementation part is too slow. Recently, land crisis for a factory has become a major concern and this project will indeed be an advantage for all the industries. I hope government will soon act on these reforms. The full functioning of the Mongla Port will reduce dependency on the Chittagong Port to a great extent. With the growing volume of imports and exports, the construction of a new port will definitely facilitate the business. However, the port will also need good connectivity and also lower fees and tolls to attract the users.

Q Are there any global challenges or opportunities awaiting for the industry in 2013?

A The China factor and the new market explorations remain the main opportunities of the upcoming year while the volatile economic situations prevailing in the major economies of the world still remain a major challenge for 2013.

Interview is taken by Md. Ashaduzzaman Riadh and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.