

Readymade Garments Export to the United States of America and the European Union- An Analysis based on the Pre-and-Post-Recession Scenario of Bangladesh

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***Abstract:** Ready-made garment (RMG) is the largest and most pivotal export item of Bangladesh that constitutes four-fifth of the total export earnings for the country. The global recession of 2007-08 has kept an adverse effect on the global economy. The export performance of most of the countries of the world has been significantly affected by the recession. The two giants of the global economy, the U.S and the EU market shrank very substantially which has reduced the import demand of the RMG items from the rest of the world. This reduction in import of U.S and EU market has substantially reduced the export of other countries of the world economy. But most surprisingly, the RMG export of Bangladesh continued to dominate the market around the globe which has caught the attention of many international experts and other stakeholders of the RMG market. Since the recession has reduced the income growth as well as consumption expenditure of the people the demand for expensive items has been replaced by the low cost products. Bangladesh specializes in the production of low cost RMG items because of its absolute advantage in producing RMG items with the lowest labor cost in the world. That is why, the dominance of Bangladeshi RMG export increased substantially to our most lucrative destinations namely the U.S and EU market while most of the other leading competing countries staggered to be in race with us.*

***Keywords:** RMG, Global Recession, Global Economy, Pre-recession, Post-recession, Export Performance, Consumption Expenditure, USA Market, and EU Market.*

Introduction:

The ready-made garment (RMG) industry of Bangladesh started in the late 1970s and became a prominent player in the economy within a short span of time. The industry has contributed to export earnings, foreign exchange earnings, employment creation, poverty alleviation and the especially empowerment of women. The Generalized System of Preference (G.S.P) and the availability of cheap labor are the two main reasons behind

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the success of the industry. Woven and knitwear apparels are the main product manufactured and exported by this industry. Bangladesh exports its RMG products mainly to the United States of America and the European Union. The Readymade Garments (RMG) sector plays a major role in the economy of Bangladesh. This sector accounts for approximately 76% of the total export earnings and nearly 10% of GDP contribution³. The recession that ravaged much of the world especially the western world, during 2008 and 2009 has profound implications for export effort, and hence economic growth of the rest of the world. Recession turned the western economy into the negative growth, while its imports plummeted. Consequently, the exports of the rest of the world plummeted. The RMG export of Bangladesh to the USA and the EU was not drastically affected by the global recession like other developing countries as Bangladesh specializes in the export of low cost RMG items. The financial crisis resulting from the global recession reduces the income of the people that in turn decreases their consumption power. Thus the lower consumption expenditure resulted in the increase in the demand of low cost items. For this reason, Bangladesh performed well in the export of RMG products to the USA and the EU during the recessionary period compared to other countries like China, India, Cambodia, Vietnam etc.

Objectives of the Study:

The study mainly focuses on the performance of the RMG exports of Bangladesh just after the global recession that originated from USA in 2007. The broad objectives of this paper are as follows:

- To identify the major RMG export markets of Bangladesh.
- To identify the performance of Bangladesh in exporting RMG products to the USA and the EU market during Pre and Post-recession period.
- To analyze the Wal-Mart Effect on the RMG export of Bangladesh.
- To explore the reasoning of the outstanding performance of Bangladesh in RMG export during Pre-recession and Post-recession.

Data and Methodology:

This study investigates how Bangladeshi RMG export performed in the Pre and Post-Recessionary periods and what factors were very crucial in keeping the RMG Export trend intact in spite of global downturn. This paper is exploratory in its very nature because no previous study focused on this issue. In its nature and definition, an exploratory research involves familiarity with a phenomenon, investigation of problems on which little formal knowledge is available, and achieve new insights into it (Malhotra, 2007). The researchers are intended to gain insights of the scenario of readymade

garment export of Bangladesh to the USA and the EU, the two major giants of the world economy after the recent global recession started in 2007 as well as to identify the factors surrounding it. Because of its exploratory nature, the researchers prepared this paper mostly on the basis of secondary data.

The researcher used leading and highly renowned sources of data available on the relevant issues to ensure the quality of the information presented in the paper. The secondary data sourced from various published materials including different books, journals, internet, newspapers, magazines and working papers. The most dominant sources are Eurostat, USITC trade data web, European Commission and Trading Economics for published information about the import and export of the U.S and the EU market. In addition to these, data have been collected from Bangladesh Bureau of Statistics (BBS), Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA) and Institute of Apparel Research & Technology (iART) for preparing the paper. The researchers also made an extensive review of literatures which helped to make coherent picture on the title of the study. This also helped the authors to find the factors behind the stable and encouraging performance of Bangladeshi RMG sector to the above mentioned destinations during the Pre and Post-recessionary periods.

Review of Literature:

A global recession is a period of global economic slowdown. The International Monetary Fund (IMF) takes many factors into account while defining a global recession, but it states that global economic growth of 3 percent or less is "equivalent to a global recession" (Lall). By this measure, four periods since 1985 qualify: 1990–1993, 1998, 2001–2002 and 2008–2009 (Internet Source-1). The 2008–2012 global recessions is a marked global economic decline that began in December 2007 and took a particularly sharp downward turn in September 2008. The global recession affected the entire world economy where some countries were severely affected than others. It is a major global recession characterized by various systemic imbalances and was sparked by the outbreak of the financial crisis of 2007–2008. The economic side effects of the European sovereign debt crisis (Vos) accompanied with slowed U.S and Chinese growth that continues as an obstacle to world economic growth.

Readymade garment is a success story for Bangladesh. The industry started in the late 1970s, expanded heavily in the 1980s and boomed in the 1990s. The quick expansion of the industry was possible because of the following unique nature of the industry.

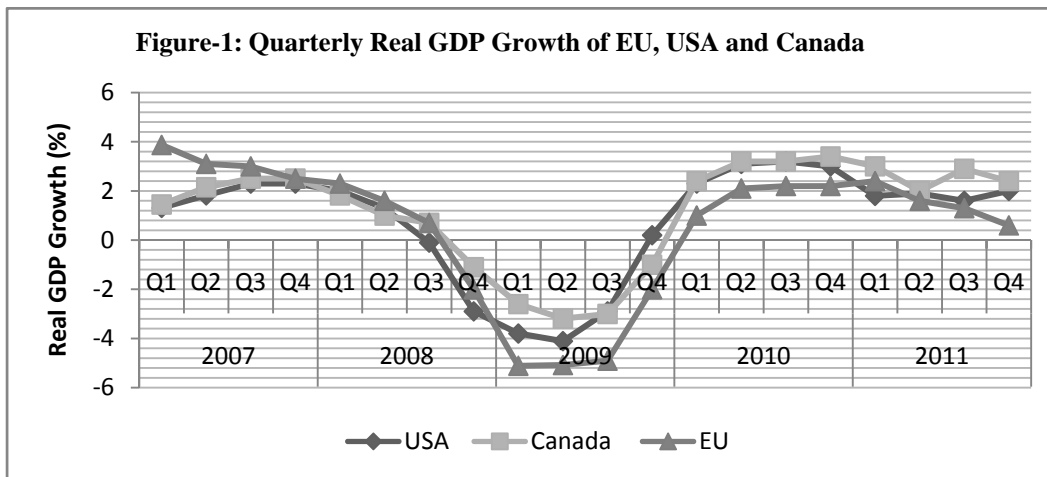
- Less complicated technology (easy to transfer),
- Cheap Machineries and easy to operate (sewing machines),
- Participation of a large female labor force that is easy to train and is available

In addition to the low cost labor, one of the major factors behind the success of RMG is the availability of offshore financing for world-priced inputs through back-to-back letter of credit (L/C) under the special bonded warehouse scheme. Presence of foreign buyers is also a major factor that introduces the system of international subcontracting. Foreign buying houses not only bring the international market to the doorstep of local entrepreneurs, they also ensure the availability of essential inputs such as imported fabrics and accessories for the industry (**Robbani, 2003**). They also did the great favor for the RMG industry of Bangladesh by bringing the latest designs and by monitoring output quality. These measures especially enabled inexperienced garments entrepreneurs to establish a strong foothold during the 1980s.

It is also surprising to note that, although Bangladesh is a major exporter of RMG, it has shown little success in developing its textile sub-sector. Despite the expansion in RMG, domestic fabrics have not been able to meet the garment industry's rapidly growing demand, as a result of which Bangladesh imports 2-3 billion yards of fabrics annually to meet its exporting requirements (**World Bank 1999**). During 1991-99 period import of fabric under back-to-back LC averaged 57.81 percent of total exports (**Bhattacharya and Rahman, 2000**).

Until the early 1980s, India and Sri Lanka were the major South Asian suppliers of RMG to USA and Western Europe. After the onset of political problems in Sri Lanka and a consistent anti-export environment in India, Western buyers and Eastern producers became interested in trying their luck in Bangladesh, which was able to respond quickly (**Spinanger 2000**). The industry demonstrated spectacular growth since the 1980s. In 1983, only 21 units were registered with the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), which generated sales of only about US\$10 million. The volume of export was exciting throughout the 1990s and was \$1,201 million in 1992-93, \$2,608 million in 1995-96 and \$4,149 million in 1998-99 (Source of data: compiled from Export Promotion Bureau). In FY 1997-98, the share of RMG in total exports earnings was 73 percent (World Bank 1999). Bangladeshis own more than 95 percent of the garment factories. Multi-Fibre Agreement (MFA) and Generalized System of Preference (GSP) mostly facilitated the rapid growth and expansion of the industry. Bangladeshi entrepreneurs took advantage of MFA and GSP facilities to successfully enter into the U.S, Canada and EU market. The World Bank Country Study shows that during 1980s, U.S importers actively pursued imports from Bangladesh (**World Bank 1995**). While quota restrictions on giant competitors provided a guaranteed market for Bangladeshi garments in USA and Canada, preferential treatment under GSP allowed Bangladeshi apparels a zero-tariff access to markets of the European Community. Quota and GSP, therefore, played a significant role in rapid growth and development of RMG industry in Bangladesh.

The subprime crisis in the U.S housing market brought about a full scale financial crisis in the USA in 2007. As the global financial markets are strongly integrated the US financial crisis soon transmitted to the developed countries of the world whose economies are closely integrated, especially in their financial sectors. Eventually the crisis also spread to the emerging markets such as China and India. The financial crisis soon causes a full scale economic recession in the western world from the second half of 2008. This recession is the worst one in the history since the great depression of the 1930s both in terms of depth and duration. As the economies of all countries of the world are now linked via trade thus economic problem in the west also affects the non-western countries. The two economic giants of the world the USA and the EU were greatly affected from the recession. The quarterly real GDP growth rates of EU, USA and Canada from the first quarter of 2007 to the fourth quarter of 2011 is shown in the figure-1.



Source: EUROSTAT and Trading Economics

The GDP of the USA declined for five quarters commencing from the third quarter of 2008, while the GDP of the EU declined for five quarters beginning fourth quarter of 2008. (On a quarter-to-quarter basis the negative growth started a quarter earlier for both.) The growth rate in both economies reached the lowest level during the first half of 2009. The USA climbed out of the recession in the fourth quarter of 2009, but the EU was still in the negative zone. (On a quarter-to-quarter basis both showed positive growth by the third quarter of 2009.) The EU suffered much deeper recession than that suffered by the US economy. The EU quarterly GDP growth rates during the first and second quarters of 2009 were -5.11 and -5.08 percent respectively whereas in the USA the growth rates were -3.80 and -4.11 percent respectively. Canada was also battered by the

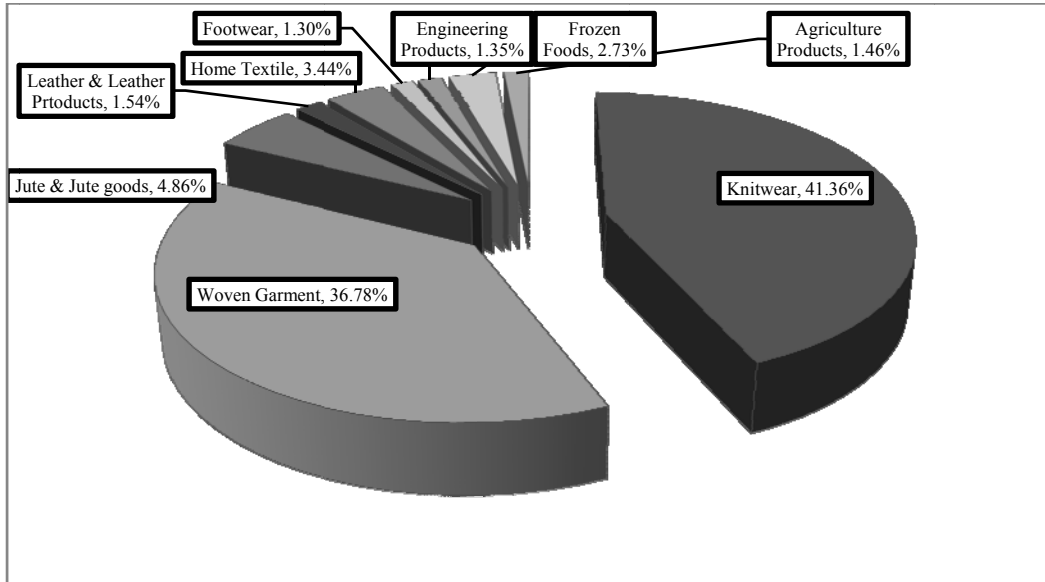
recession, which lasted five quarters with the trough (-3.19 percent) reached in the second quarter of 2009. The financial crisis and the recession that had originated in the USA had a greater impact on the EU than in the USA itself. In a global economy, inappropriate policies or activities in one country can have an adverse impact on partner countries, which could be sometimes greater than that in the source country. Hence, there is a legitimate concern in partner countries about domestic policies and happenings in a country. Both the EU and the USA had very low positive growth for a quarter at the end of the recession, but thereafter both bounced back to their normal growth patterns with the US economy performing better than the EU economy. Canada had fairly strong growth exceeding both the EU and the USA from the beginning of 2010. The close correlation between the growth patterns of these economies is noteworthy; when a large economy does poorly, the economies of its trade partners are not immune from its adverse impact.

This paper mainly covers the performance trend in the RMG export of Bangladesh in the USA and the EU market just in the subsequent years (2007, 2008, 2009, 2010 & 2011) of the recent global recession. The paper identifies the effect that the global recession had on the RMG export of our country. Prior to this discussion, the export items and the major markets of RMG of Bangladesh were discussed briefly. The trend of RMG export of Bangladesh in the USA and the EU market was discussed in the later part of the paper. The next part discussed the Wal-Mart effect and analysis of the findings. The paper ends with the conclusive remarks.

Observations of U. S and EU Market for RMG Exports:

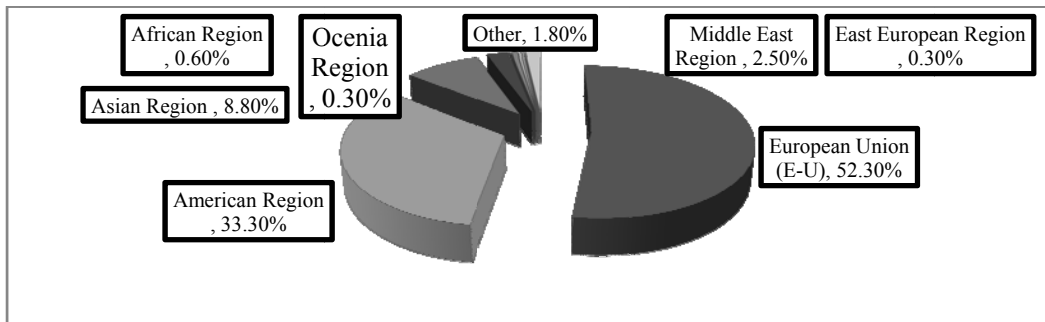
Although different categories of goods are exported from Bangladesh RMG items comprise approximately 78.14 percent (including Knitwear 41.36%, Woven Garment 36.78%) of total export of the country. None of other items earn substantial amount in the total export and also none of them has been identified as dynamic to reduce the importance of the RMG sector (*see figure-2*). In addition to this, the export of RMG increased in the recessionary periods which badly affect the other sectors of our export. The exports of Bangladesh are highly concentrated in two major markets: the USA and the EU. The EU is the largest importer from Bangladesh that constitutes almost 52.30 percent of the total export of Bangladesh (*see figure 03*). The USA is the second largest importer of the Bangladeshi product (*Internet Source-2*). The high concentration on few markets is risky. So RMG export should diversify in different countries.

Figure-2: Composition of Export of Bangladesh FY 2010-11



Source: Export Promotion Bureau of Bangladesh (EPB)

Figure-3: Share of Bangladesh export to different countries FY 2010-11

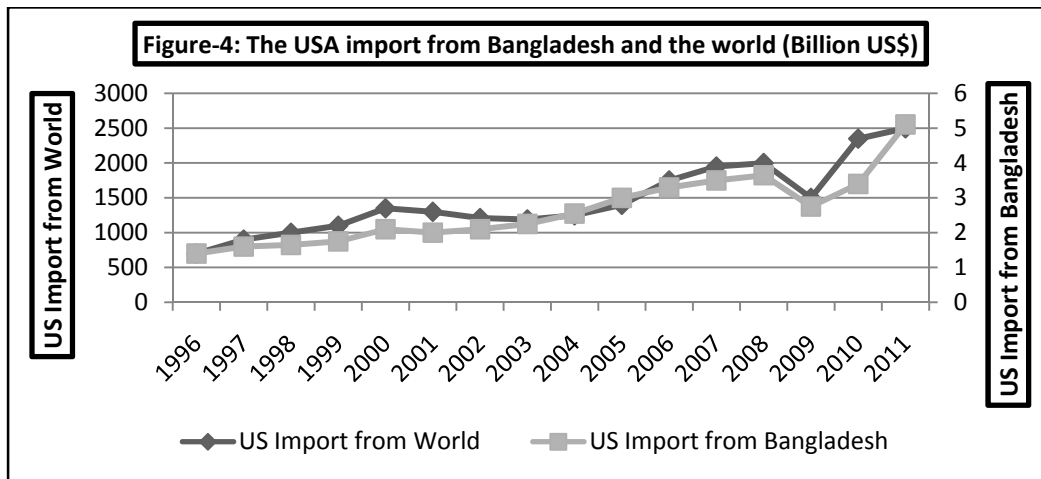


Source: Bangladesh Bureau of Statistics (BBS)

During the global recession, the RMG sector of Bangladesh fairly but conclusively showed its maturity. Very few countries that export substantial amount of RMG products competed as effectively as the exporters of Bangladesh. Their competitiveness in the world market helped them to maintain and indeed increase the market share. This issue is analyzed in more detail in the following sections in the context of the principal markets of Bangladesh, viz. the EU and the USA.

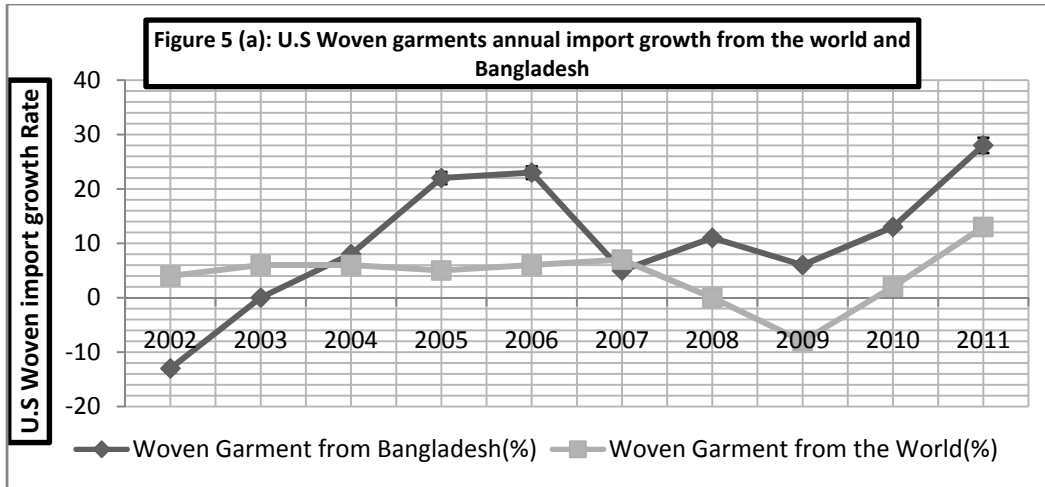
The U.S market Scenario:

The USA is the second largest importer of RMG of Bangladesh, especially the woven garments. The USA is the largest importer of the world with a total import bill of about \$1.9 trillion in 2010 (\$1.5 trillion in 2009) or about 12 percent of the world imports. This is the amount that the rest of the world exported to the USA, and hence, the export performance of these countries depends crucially on the size of the US import bill. The following figure shows the import of USA from Bangladesh and the world.

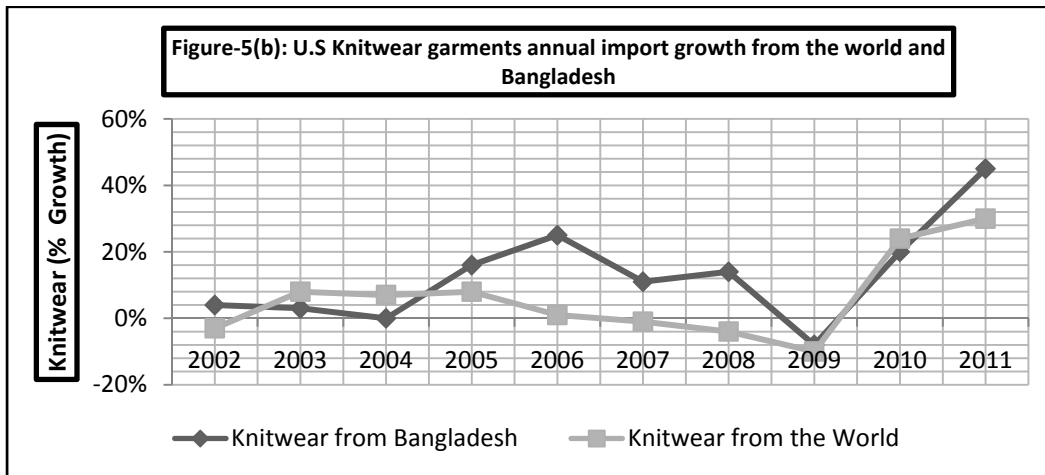


Source: USITC Trade Data Web

The figure indicates that total import of USA increased by 58 percent during the new millennium, but its import from Bangladesh increased by 77 percent. Until before the recession, import of the USA from Bangladesh moved in line with its total import. However during the recession, U.S total import nosedived, but its imports from Bangladesh remained almost unchanged. After the recession both seem to have again moved in line. Hence, it would appear that the growth of the US import of Bangladeshi products roughly follows the growth of the total import of the USA. Whatever be the other determinants of export growth, it would seem that the total import bill of the USA has an overriding influence on the total export of Bangladesh to the USA. The main export item of Bangladesh to the USA is RMG, especially the woven garments. Figure 5(a) and 5(b) show that the export of RMG from Bangladesh to the USA is also sensitive to the total RMG import of the USA. Bangladesh gains from a robust growth of the total RMG import of the USA. This obviously also implies that a contraction of the US global import adversely impacts on its import from Bangladesh, which is evident from the figures.



Source: USITC Trade Data Web



Source: USITC Trade Data Web

During 2006-08 knitwear achieved a higher growth than that of woven garments but the reduction in 2009 was also sharper. It is difficult to explain from these data alone why knitwear has performed much poorer in the U.S market compared to woven garments. One reason could be that most knitwear exports receive duty-free treatment in the EU market since the end of last century. Most other developed countries have also granted duty free access to RMG exports from Bangladesh. The USA has stubbornly declined to provide duty free access to most Bangladeshi apparels. Indeed, U.S importers of Bangladeshi apparels pay very high custom duties. Hence knitwear is more profitable in

the EU and other markets relative to the US market. This might have encouraged the exporters to concentrate their efforts in other markets rather than the US market (*Taslim and Haque, 2010*). The yearly growth rates of major competitors of Bangladesh in the US market are shown in table-1. Only China, Indonesia and Vietnam obtained positive growth in knitwear export to the USA in 2009 while the rest had negative growth rates. All countries except Honduras and Hong Kong bounced back in 2010.

Table-1: Growth (percentage) of RMG exports of major suppliers to the USA

| Items | Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------|------------|-------|--------|--------|--------|--------|--------|--------|-------|
| Knitwear | China | 28.3 | 59.98 | 22.44 | 31.71 | 1.12 | 7.21 | 22.47 | 24.23 |
| | Indonesia | 4.99 | 36.26 | 65.11 | 23.81 | 14.78 | 6.32 | 17.05 | 22.31 |
| | Vietnam | -1.44 | 3.98 | 23.22 | 55.64 | 30.3 | 2.74 | 16.08 | 22.68 |
| | India | 15.39 | 39.37 | 23.61 | 13.42 | 0.8 | -7.02 | 14.55 | 22.21 |
| | Bangladesh | -0.12 | 17.58 | 24.88 | 11.48 | 15.12 | -9.89 | 19.12 | 35.6 |
| | Pakistan | 9.6 | 8.24 | 11.26 | 3.59 | -1.8 | -11.01 | 14.83 | 30.81 |
| | Cambodia | 26.38 | 36.74 | 48.15 | 22.13 | 0 | -19.12 | 18.41 | 30.2 |
| | Mexico | -7.55 | -11.76 | -7.44 | -17.85 | -12.14 | -20.14 | 5.45 | 8.72 |
| | Honduras | 6.68 | 0.14 | -4.83 | 3.44 | 7.5 | -20.62 | -32.56 | 23.75 |
| | Hongkong | 3.91 | 4.53 | -23.68 | -26.1 | -19.87 | -84.07 | -32.56 | 7.91 |
| | Thailand | 4.23 | 1.31 | 9.61 | 0.91 | -6.2 | -23.39 | 10.51 | 18.39 |

| Items | Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------|------------|-------|--------|--------|--------|--------|--------|--------|-------|
| Woven Garments | China | 20.36 | 55.14 | 15.86 | 13.07 | -0.68 | -3.12 | 13.89 | 15.9 |
| | Indonesia | 13.35 | 14.18 | 11.94 | -0.84 | -9.61 | -14.25 | 10.81 | 23.7 |
| | Vietnam | 14.56 | 8.32 | 14.82 | 20.86 | 9.46 | -9.66 | 5.02 | 24.16 |
| | India | 7.28 | 34.26 | -2.39 | -8.36 | -6.17 | -7.81 | 5.02 | 15.62 |
| | Bangladesh | 9.03 | 22.47 | 23.44 | 5.01 | 10.73 | 3.53 | 12.88 | 31.96 |
| | Pakistan | 19.53 | 20.63 | 13.65 | 12.73 | 3.55 | -16.35 | 10.95 | 23.26 |
| | Cambodia | 7.34 | 6.58 | 0.8 | 0.35 | -6.15 | -25.55 | 13.89 | 25.34 |
| | Mexico | -0.81 | -7.13 | -15.74 | -13.08 | -9.98 | -12.82 | 5.24 | 6.43 |
| | Honduras | 7.19 | -8.37 | -10.48 | 0.56 | -11.17 | -21.53 | 385.92 | 25.63 |
| | Thailand | 5.01 | -0.27 | -7.45 | -9.35 | -4.62 | -30.46 | 0.5 | 5.36 |
| | Hongkong | 4.47 | -21.97 | -15.88 | -28.88 | -27.45 | -79.74 | -33.33 | 5.69 |

| Items | Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------|------------|-------|-------|--------|--------|--------|--------|--------|-------|
| RMG | China | 23.38 | 56.99 | 18.43 | 20.59 | 0.12 | 1.48 | 17.92 | 22.51 |
| | Indonesia | 11.03 | 19.98 | 27.82 | 8.67 | 1.11 | -3.99 | 14.26 | 20.23 |
| | Vietnam | 7.06 | 6.44 | 18.36 | 36.13 | 19.93 | -2.9 | 15.25 | 23.61 |
| | India | 9.57 | 35.79 | 5.57 | -0.55 | -3.32 | -7.47 | 9.1 | 23.12 |
| | Bangladesh | 6.43 | 21.17 | 23.81 | 6.7 | 11.93 | -0.24 | 14.46 | 33.26 |
| | Pakistan | 11.94 | 11.35 | 11.91 | 6.12 | -0.23 | -12.64 | 13.7 | 39.32 |
| | Cambodia | 15.26 | 20.21 | 25.41 | 13.6 | -2.13 | -21.25 | 18.21 | 33.65 |
| | Mexico | -3.59 | -8.96 | -12.56 | -15.01 | -10.83 | -15.65 | 5.32 | 9.26 |
| | Honduras | 6.81 | -2.12 | -6.24 | 2.75 | 3.15 | -20.8 | 17.18 | 29.36 |
| | Thailand | 4.61 | 0.54 | 1.4 | -3.59 | -5.55 | -26.34 | 6.63 | 10.26 |
| | Hongkong | 4.2 | -9.19 | -20.21 | -27.56 | -23.37 | 82.18 | -32.95 | 8.39 |

Source: USITC Trade Data Web & iART

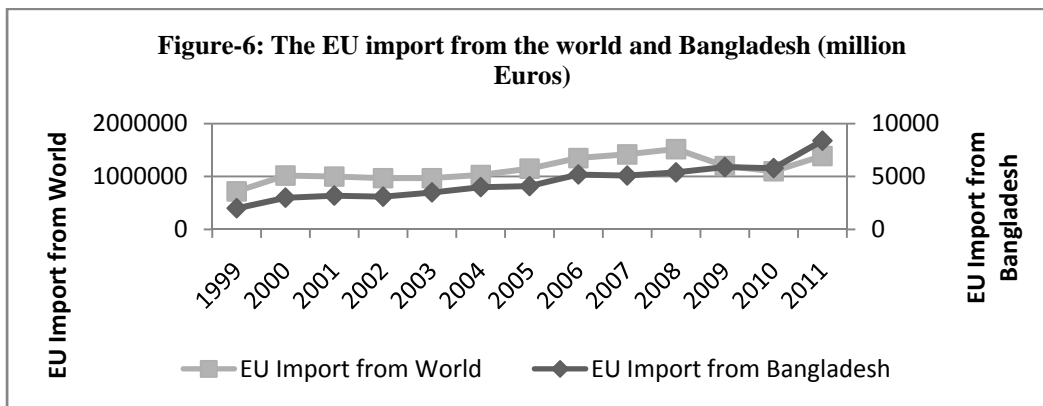
In woven garment export, only Bangladesh achieved positive growth in 2009. All other countries including China had negative growth. Some countries such as Hong Kong, Thailand Cambodia and Honduras suffered heavily. However, the recession may not be the only factor behind the decline of such countries as Hong Kong and Thailand. Both countries suffered from negative growth since 2004, long before the recession. Hong Kong appears to have been almost eliminated from the woven garment market of the USA. It has experienced a massive 95.5 percent reduction in its woven export to the USA since 2004. Thailand has suffered a decline of 44.2 percent during the same time. It seems unlikely it will make a comeback. As its economy develops and wages increase, it is likely to become less competitive in the global apparel market and hence lose market share significantly just as Hong Kong did.

It is apparent that Bangladeshi apparel exporters to the US market withstood the ravages of the recession much better than most of the exporting countries, including all SAARC countries. Very few apparel exporters achieved positive growth in 2009. On the contrary most suffered very large negative growth of apparel exports. Only China among the top-12 exporters managed to avoid negative growth of RMG exports to USA. Bangladesh escaped with an insignificant reduction in apparel exports. Vietnam and Indonesia also had small reductions. The sustained good performance of Bangladesh in RMG export has secured for it an increasing share of the total import of RMG products by the USA since the termination of the MFA at the end of 2004. Curiously the shares of Bangladeshi exports of both knit and woven products were on a decline during the last few years of MFA. The quota regime, contrary to the common belief, would appear to have

constricted the growth of RMG exports of Bangladesh to the USA in the later years of MFA as the industry matured under the very quota cover provided by the MFA. The elimination of the quota regime allowed the RMG exporter to compete aggressively in the US market to raise their market share. The rapid increase in market share of the RMG export of Bangladesh since 2004 especially in woven export is a testimony to the maturity and competitiveness of the Bangladeshi exports in the US market.

The EU Market Scenario:

As indicated earlier, the European Union went into a recession during the fourth quarter of 2008 and showed positive growth from the first quarter of 2009 (see Figure 1). It moved out of the recession in the first quarter of 2010. The recession dragged the total import volume of the EU to the negative zone in the fourth quarter of 2008. However, on an annual basis, the import bill of the EU maintained the growing trend till 2008 as shown in *figure-6 (Internet Source- 4)*.

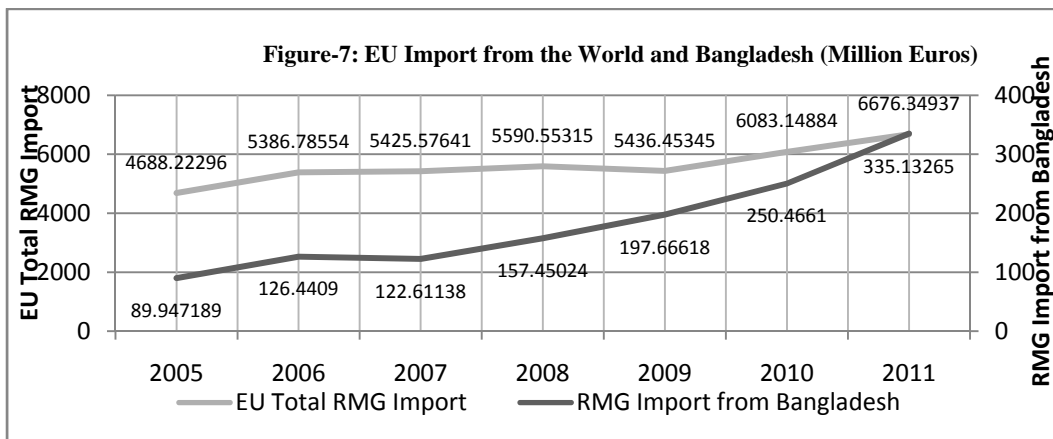


Source: EUROSTAT and Trading Economics

Figure-6 shows the value of EU import from the world and the value of EU import from Bangladesh during 1999-2011. Despite occasional divergences (as in the recession year) the two series moved together. Exports of other countries to EU fell in 2009 quite sharply, due to the large fall in global import of EU, but the export of Bangladesh showed a healthy upward trend. The good performance of the total export of Bangladesh to the EU market is due almost entirely to the competitive strength of the RMG sector achieved over the years benefitting from the duty-free and quota-free access given by the EU (*Taslim and Haque, 2011*).

Figure-7 below shows that the Bangladesh's export of RMG products to the EU fairly closely followed the trend of the total RMG import of the EU from the world. The RMG

exporters of Bangladesh managed to extract a greater share of the global apparel import to EU. This suggests that an increasing competitive strength of RMG exporters in the EU market. The rapid growth of the RMG export from Bangladesh to the EU market was greatly facilitated by several factors including duty-free and quota-free access from 1986 onward under a bilateral textile agreement, the easing of the EU rules of origin for apparels from three to two-stage domestic production with quota restrictions in 1997 and without quota restrictions from 1999, and Everything But Arms (EBA) scheme of GSP that granted duty free and quota-free access to virtually all export products of the least developed countries of the world commencing from 2001. There seems little doubt that the preferential treatment of the LDC exports to EU that gave LDC exports an edge over non-LDC exports was instrumental in building the export capacity of Bangladesh fairly rapidly (Taslim, 2007) and in this sense the GSP of EU served its purpose. The duty free access was especially helpful to the readymade garments exports since the average duty on garment imports to the EU is quite high.



Source: EUROSTAT, Trading Economics & Institute of Apparels Research and Technology (iART)

The following table shows the summary of the performance of the major competitors in the RMG market of EU.

Table-2: Major competitors' annual growth (percent) of RMG export in the EU

| Items | Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------|------------|--------|--------|--------|--------|--------|-------|-------|-------|
| Knitwear | China | 16.73 | 55.45 | 7.27 | 19.78 | 28.2 | 4.09 | 8.26 | 15.08 |
| | Bangladesh | 23.55 | 0.66 | 32.75 | -0.99 | 11.13 | 6.74 | 23.25 | 35.59 |
| | Indonesia | 7.15 | -12.6 | 24.04 | -18.51 | -16.65 | -6.45 | 1.56 | 8.77 |
| | Vietnam | 43.77 | 18.61 | 76.65 | 6.38 | 12.54 | -8.86 | 12.86 | 24.15 |
| | India | 15 | 22.59 | 19.12 | 5.56 | -0.1 | 0.88 | 4.61 | 9 |
| | Pakistan | 28.09 | -26.54 | 22.04 | -0.49 | -6.84 | -5.02 | n.a | n.a |
| | Cambodia | 25.45 | -1.87 | 20.77 | -2.69 | 7.09 | -1.01 | 15.23 | 27.43 |
| | Mexico | 15.36 | -2.67 | 18.19 | -6.33 | -8.5 | -7.74 | n.a | n.a |
| | Honduras | 22.59 | -23.09 | 21.07 | 9.2 | 39.3 | -9.49 | n.a | n.a |
| | Hongkong | 9.19 | 13.56 | 49.23 | -20.99 | 56.2 | 56.57 | n.a | n.a |
| Thailand | 9.07 | -13.97 | 16 | -12.83 | 0.53 | -4.2 | -5.32 | -1.78 | |

| Items | Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------|------------|--------|--------|--------|--------|--------|--------|-------|-------|
| Woven Garments | China | 10.02 | 42.04 | 14.25 | 13.17 | 7.78 | -1.4 | 6.72 | 14.33 |
| | Bangladesh | 14.17 | -12.88 | 27.15 | -11.03 | 0.87 | 10.44 | 23.20 | 35.84 |
| | Indonesia | -9.81 | -7.87 | 13.4 | -13.41 | 4.82 | -0.58 | 13.56 | 21.98 |
| | Vietnam | 15.75 | 5.77 | 40.12 | 11.04 | 9.97 | -2.2 | 17.36 | 25.82 |
| | India | -4.79 | 38.58 | 16.64 | -4.07 | 3.43 | 9.36 | 10.34 | 17.46 |
| | Pakistan | 0.89 | -4.24 | 12.86 | 0.28 | 0.48 | 4.87 | n.a | n.a |
| | Cambodia | 15.13 | -26.81 | -0.17 | -15.59 | -0.25 | -15.17 | 13.62 | 26.54 |
| | Mexico | -5.64 | -27.55 | 126.21 | 6.8 | 10.31 | 7.54 | n.a | n.a |
| | Honduras | -22.61 | -9.74 | 99.17 | -52.5 | 60.96 | -33.29 | n.a | n.a |
| | Thailand | -1.68 | -9.33 | 7.59 | -4.56 | -4 | -10.8 | -5.36 | -9.25 |
| Hongkong | -4.99 | 32.2 | 44.97 | -47.42 | -36.1 | -41.09 | n.a | 7.91 | |

| Items | Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------|------------|--------|--------|--------|--------|--------|--------|-------|-------|
| RMG | China | 12.43 | 47.04 | 11.49 | 15.68 | 15.8 | 0.99 | 10.32 | 18.64 |
| | Bangladesh | 19.5 | -4.92 | 30.63 | -4.69 | 7.61 | 7.92 | 21.36 | 32.15 |
| | Indonesia | -1.73 | -10.33 | 18.79 | -16.11 | -6.22 | -3.26 | 2.13 | 6.37 |
| | Vietnam | 21.09 | 8.67 | 49.14 | 9.68 | 10.7 | -4.17 | 16.58 | 23.63 |
| | India | 4.13 | 30.6 | 17.8 | 0.48 | 0.67 | 5.22 | 9.65 | 16.82 |
| | Pakistan | 12.49 | -15.07 | 16.71 | -0.06 | -2.72 | 0.73 | n.a | n.a |
| | Cambodia | 22.58 | -8.39 | 16.4 | -5 | 5.92 | -3.13 | 14.36 | 25.45 |
| | Mexico | 6.05 | -12.48 | 53.47 | -0.03 | 1.17 | 0.82 | n.a | n.a |
| | Honduras | 15.44 | -21.71 | 30.68 | -2.33 | 41.32 | -11.95 | n.a | n.a |
| | Thailand | 4.85 | -12.26 | 12.8 | -9.83 | -1.21 | -6.67 | -3.26 | 8.21 |
| Hongkong | -6.78 | -13.21 | 47.28 | -32.88 | -49.11 | -49.72 | n.a | n.a | |

Source: EUROSTAT & iART

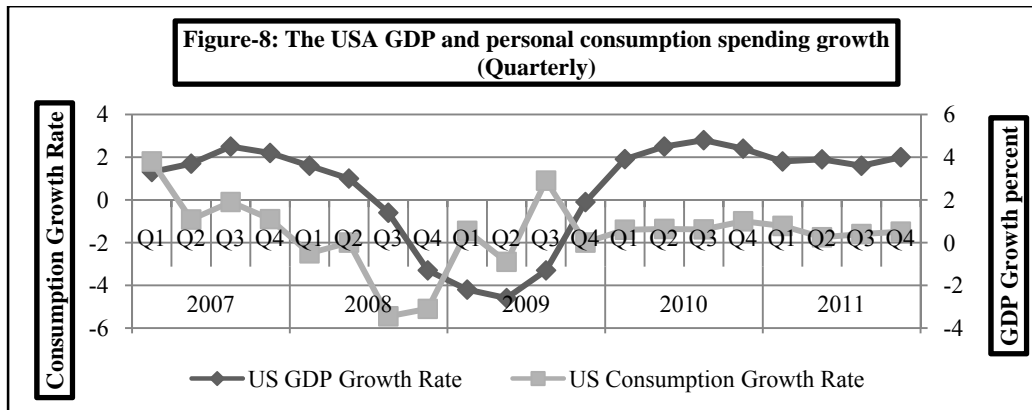
The above data shows that Bangladesh is the highest performer in the EU RMG market during 2009 with a growth rate of nearly 8, 21.36 & 32.15 percent during the years 2009, 2010 & 2011 respectively. India posed a growth rate of 5.2 percent in 2009 while China, Mexico and Pakistan barely managed a positive growth rate of less than 1 percent. The very few exporters who had positive growth of RMG export to EU increased their market shares – a reflection of the fact that other exporters had negative growth. Bangladesh, China and India are the major gainers.

The Wal-Mart Effect on RMG Export of Bangladesh:

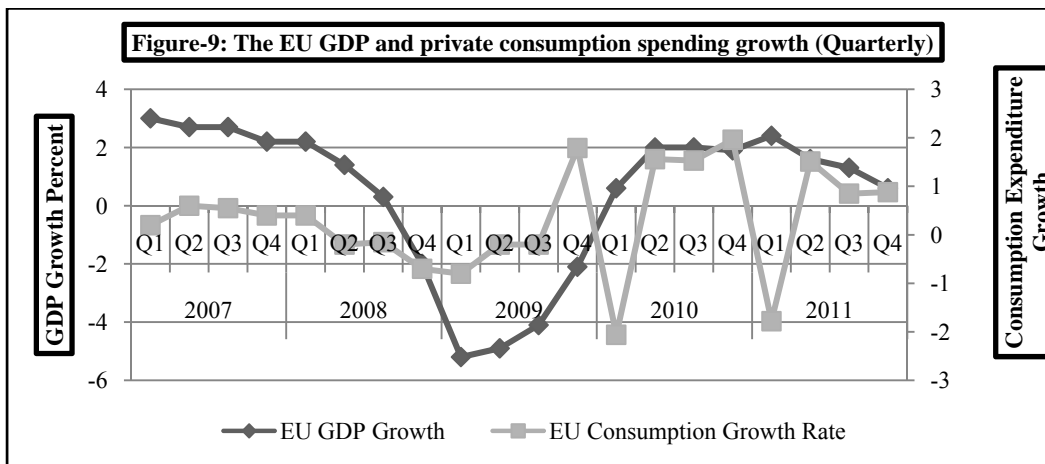
It was widely assumed that the economic downturn of 2007 will lead to global financial crisis that will hurt the major economies of the world especially the RMG export of Bangladesh. But in reality Bangladesh performed much better during the recessionary period in exporting the RMG items. This trend is viewed differently by different group of people. The most acceptable argument is that the recession in the two principal RMG markets of Bangladesh, the USA and the EU, reduced their income and compelled to cut-off the consumption expenditure. To cope with the negative income and spending the consumers in these countries were induced to switch from more expensive RMG items to cheaper varieties. As a result, the demand for low cost items increased. As most of the RMG export items of Bangladesh are less costly, the exporter of Bangladesh received increased demands for it. Consequently, the RMG export from Bangladesh increased when most other countries suffered large reduction in their export. This phenomenon was given the fancy eponymous title of “Wal-Mart Effect”, presumably because the giant retailer Wal-Mart of the USA which sells mostly cheap basic consumer products did relatively well in the recession. Many people thought this was due to switching of consumer spending to cheaper products in order to meet ends at a difficult time (*Taslim and Haque, 2010*). Usually the inferior goods are susceptible to Wal-Mart effect. The demand of these goods increases at the low income period when people cannot afford expensive items. Thus ‘Wal-Mart Effect’ was beneficial to our economy during these periods.

Comprehensive Analysis:

The comparative better performance of RMG sector of Bangladesh in the world market is argued that Bangladesh usually specializes in the production and export of low cost RMG products. Since the global recession reduced the income as well as the consumption expenditure for the people who shifted from more expensive products to the cheaper one. As Bangladesh export low cost RMG items, the RMG export of our country increases in the recessionary period which is termed as Wal-Mart effect. The most important link in favor of Wal-Mart effect is that recession reduced the growth of income (GDP) in the countries specially the first-world countries which in turn has induced the reduction of consumption expenditure of the people. The following figures support this argument.



Source: US Bureau of Economic Affairs & Trading Economics



Source: US Bureau of Economic Affairs & Trading Economics

The figures above indicate that the personal consumption expenditure of the people of USA and EU changes in the same direction as the GDP. A fall in the quarterly GDP i.e. income growth rate has been matched by a fall in the personal consumption expenditure (*Internet Source-6*).

When global recession reduced the personal consumption of the people they shifted to cheaper items from more expensive items. So the demand for low price RMG products increases in the world market. The competitive strength of the RMG exporters of Bangladesh is that they produce the RMG items at the lowest cost among the competitors. The RMG manufacturers of the country can employ the workers at a very low wage. The average hourly wage rate of Bangladeshi workers is the lowest in the world (Jassin-O'Rourke Group 2009).

Table-03: Minimum Labor Cost of Major RMG Exporting Countries in Manufacturing 2011

| Country | Labor Cost (US\$/Hour) |
|------------|------------------------|
| Bangladesh | 0.11 |
| Cambodia | 0.42 |
| Vietnam | 0.23 |
| India | 0.28 |
| China | 0.80 |
| Turkey | 3.14 |

Source: Wikipedia

The above table shows that the average wage rates in India and China are about 7 times higher while that in Cambodia about 4 times higher than that of Bangladesh. Although the productivity of the workers in Bangladesh is relatively low thus the extremely low wages are sufficient to offset the low productivity. The tables below show that Bangladesh is the most price-competitive exporter of almost all of its major RMG export items in the EU and the USA market.

Table-4: Unit Prices of Major Export items of Bangladesh to USA Market

| Year -2011: | | | | | | |
|-------------|------------|-------|----------|-----------|---------|-------|
| HS Code | Bangladesh | China | Cambodia | Indonesia | Vietnam | India |
| 610821 | 0.55 | 0.67 | 0.65 | 0.85 | 0.58 | 0.68 |
| 610910 | 1.37 | 2.1 | 1.89 | 2.19 | 2.06 | 2.05 |
| 610990 | 1.35 | 2.69 | 3.53 | 3.32 | 3.62 | 3.25 |
| 620462 | 4.73 | 5.53 | 5.12 | 5.78 | 5.6 | 6.27 |
| 620342 | 4.84 | 6.2 | 5.2 | 4.87 | 5.39 | 7.14 |
| 620520 | 4.38 | 6.71 | 5.65 | 5.77 | 5.52 | 7.63 |

| Year-2010: | | | | | | | |
|------------|------------|----------|-------|-------|-----------|----------|---------|
| HS Code | Bangladesh | Cambodia | China | India | Indonesia | Pakistan | Vietnam |
| 61051000 | 35.28 | 42.43 | 56.34 | 46.61 | 43.15 | 38.57 | 51.88 |
| 61082100 | 6.37 | 7.47 | 7.75 | 11.26 | 9.79 | 10.76 | 6.24 |
| 61091000 | 15.43 | 21.80 | 24.00 | 21.45 | 25.12 | 19.03 | 23.39 |
| 61102020 | 29.15 | 34.70 | 62.93 | 42.38 | 38.16 | 36.56 | 40.06 |
| 61102030 | 39.45 | 36.90 | 52.04 | 68.52 | 54.16 | 29.93 | 51.33 |
| 62034240 | 57.31 | 76.75 | 70.35 | 80.36 | 58.87 | 64.40 | 67.39 |
| 62034340 | 62.99 | 58.87 | 66.34 | 82.52 | 75.41 | 31.37 | 71.07 |
| 62046240 | 53.62 | 68.45 | 63.54 | 71.54 | 66.79 | 66.09 | 64.38 |
| 62052020 | 49.78 | 66.63 | 77.04 | 86.51 | 66.13 | 35.42 | 62.80 |
| 62063030 | 42.88 | 44.13 | 61.75 | 66.06 | 72.36 | 27.46 | 48.89 |
| 62092030 | 33.79 | 28.85 | 31.56 | 46.31 | 35.79 | 56.76 | 33.25 |

| Year-2009: | | | | | | | |
|-------------------|------------|----------|-------|-------|-----------|----------|---------|
| HS Code | Bangladesh | Cambodia | China | India | Indonesia | Pakistan | Vietnam |
| 61051000 | 31.54 | 40.81 | 57.11 | 49.39 | 45.46 | 37.44 | 51.09 |
| 61082100 | 6.73 | 5.62 | 9.12 | 10.85 | 6.91 | 10.03 | 6.38 |
| 61091000 | 13.31 | 23.48 | 23.31 | 21.76 | 25.52 | 17.82 | 25.01 |
| 61102020 | 28.92 | 34.38 | 64.15 | 41.25 | 38.37 | 36.55 | 39.22 |
| 61102030 | 41.04 | 38.17 | 53.17 | 60.70 | 51.22 | 24.99 | 50.26 |
| 62034240 | 55.83 | 75.22 | 73.59 | 79.51 | 59.92 | 60.56 | 65.61 |
| 62034340 | 62.14 | 59.17 | 68.65 | 84.78 | 76.81 | 37.45 | 71.37 |
| 62046240 | 54.04 | 66.32 | 67.63 | 67.04 | 68.49 | 61.90 | 62.19 |
| 62052020 | 48.80 | 55.78 | 78.31 | 85.57 | 70.63 | 35.62 | 59.89 |
| 62063030 | 41.24 | 42.31 | 60.94 | 63.16 | 74.10 | 25.77 | 43.63 |
| 62092030 | 32.94 | 30.66 | 31.51 | 48.16 | 38.24 | 54.78 | 32.39 |

Source: USITC Trade Data Web & iART

Table-5: Unit Prices of Major Export items of Bangladesh in the EU Market

| Year-2011: | | | | | | |
|-------------------|------------|-------|----------|-----------|---------|-------|
| HS Code | Bangladesh | China | Cambodia | Indonesia | Vietnam | India |
| 610510 | 3.2 | 5.89 | 3.84 | 6.93 | 5.2 | 5.11 |
| 610610 | 2.66 | 4.15 | 3.29 | 5.03 | 4.3 | 4.13 |
| 610910 | 1.9 | 2.56 | 2.86 | 3.27 | 1.96 | 2.9 |
| 620462 | 4.99 | 5.15 | 5.96 | 6.75 | 7.14 | 6.1 |
| 620520 | 4.75 | 6.2 | 4.12 | 7.67 | 5.22 | 7.12 |
| 620590 | 4.93 | 7.66 | 5.36 | 8.07 | 8.64 | 8 |

| Year-2010: | | | | | | | |
|-------------------|------------|----------|-------|-------|----------|----------|---------|
| HS Code | Bangladesh | Cambodia | China | India | Thailand | Pakistan | Vietnam |
| 61051000 | 7.88 | 11.13 | 11.06 | 14.21 | 17.6 | n.a | 9.07 |
| 61102091 | 10.84 | 11.14 | 13.29 | 14.06 | 19.3 | n.a | 12.48 |
| 61102099 | 11.22 | 14.67 | 15.88 | 15.03 | 22.04 | n.a | 13.51 |
| 61103099 | 10.43 | 14.62 | 14.25 | 15.92 | 17.67 | n.a | 11.35 |
| 62034231 | 8.19 | 11.28 | 10.14 | 18.15 | 13 | n.a | 12.63 |
| 62034235 | 10.16 | 11.33 | 10.51 | 14.83 | 14.91 | n.a | 14.15 |
| 62046231 | 9.68 | 8.87 | 9.67 | 20.00 | 16.16 | n.a | 17.60 |
| 62046239 | 10.91 | 12.20 | 9.70 | 17.47 | 15.61 | n.a | 12.96 |
| 62052000 | 11.62 | 15.02 | 15.19 | 20.16 | 27.69 | n.a | 19.68 |
| 62063000 | 15.27 | 13.28 | 21.58 | 27.57 | 36.24 | n.a | 22.67 |
| 62121090 | 22.02 | 16.07 | 23.62 | 35.97 | 48.21 | n.a | 46.58 |

| Year-2009: | | | | | | | |
|-------------------|------------|----------|-------|-------|----------|----------|---------|
| HS Code | Bangladesh | Cambodia | China | India | Thailand | Pakistan | Vietnam |
| 61051000 | 8.51 | 13.26 | 11.03 | 14.98 | 17.6 | 13.26 | 10.2 |
| 61102091 | 8.97 | 10.74 | 11.98 | 15.3 | 19.3 | 10.74 | 14.95 |
| 61102099 | 11.02 | 12.88 | 14.29 | 12.79 | 22.04 | 12.88 | 15.29 |
| 61103099 | 9.02 | 12.47 | 16.09 | 18.44 | 17.67 | 12.47 | 12.19 |
| 62034231 | 9.4 | 0 | 11.93 | 20.27 | 13 | n.a | 10.62 |
| 62034235 | 11.12 | 11.91 | 11.22 | 18.11 | 14.91 | 11.91 | 13.56 |
| 62046231 | 10.22 | 0 | 11.56 | 15.34 | 16.16 | n.a | 9.09 |
| 62046239 | 11.25 | 15.09 | 9.95 | 20.75 | 15.61 | 15.09 | 11.61 |
| 62052000 | 11.44 | 0 | 12.64 | 19.85 | 27.69 | n.a | 19.43 |
| 62063000 | 16.85 | 0 | 25.31 | 31.87 | 36.24 | n.a | 29.27 |
| 62121090 | 29.53 | 0 | 27.95 | 92.04 | 48.21 | n.a | 57.82 |

| Year-2008: | | | | | | | |
|-------------------|------------|----------|-------|--------|----------|----------|---------|
| HS Code | Bangladesh | Cambodia | China | India | Thailand | Pakistan | Vietnam |
| 61051000 | 7.47 | 11.7 | 13.62 | 13.083 | 17.05 | 8.42 | 5.76 |
| 61102091 | 8.3 | 9.52 | 14.39 | 14.66 | 17.83 | 6.8 | 6.79 |
| 61102099 | 9.52 | 12.82 | 17.76 | 13.53 | 18.51 | 7.54 | 10.67 |
| 61103099 | 7.98 | 14.3 | 17.05 | 20.03 | 15.1 | 6.83 | 9.32 |
| 62034231 | 7.31 | 9.45 | 10.95 | 10.48 | 10.44 | 10.15 | 11.95 |
| 62034235 | 9.37 | 10.46 | 13.28 | 16.99 | 8.17 | 8.96 | 8.28 |
| 62046231 | 7.92 | n.a | 11.12 | 13.45 | 15.01 | 10.56 | 7.46 |
| 62046239 | 9.18 | 13.51 | 12.87 | 18.27 | 11.93 | 9.22 | 5.41 |
| 62052000 | 9.75 | n.a | 12.86 | 18.89 | 17.74 | 6.92 | 17.53 |
| 62063000 | 15.14 | n.a | 26.58 | 28.63 | 26.03 | n.a | 16.68 |
| 62121090 | 29.95 | n.a | 29.75 | n.a | 39.73 | n.a | 38.62 |

Source: EUROSTAT & iART

The data above shows that Bangladesh was the most price-competitive in the EU market relative to its competitors. The unit price of the major RMG items exported by Bangladesh to EU market is lowest in world. However, in the USA market Bangladesh lost its price competitiveness to the other competing countries specially Pakistan. A noteworthy feature of the above tables is that all countries except China increased the unit price of most of the items despite the recession. However the rate of increase was lower in case of Bangladesh that is why its competitive strength increased during the recession against those other competitors.

Conclusion:

The world economy has experienced a full-scale economic crisis from the second half of 2008. The recession has reduced the income growth as well as the consumption expenditure of the people in western countries specially the USA and the EU which in turn reduced their import demand. As the USA and the EU are the largest importers of the world economy the recession causes a fall in the export of different export oriented countries. Notwithstanding some reduction in the export of RMG items during 2009 the RMG industry of our country has emerged as a stronger and more efficient competitor in the world apparel market during the recessionary period. The most acceptable argument for this better performance is that the recession has reduced the income and expenditure of the people which increased the demand for low priced products. As Bangladesh specializes in the production of low cost RMG items it captured the opportunity to export low cost RMG products in the world market. This becomes possible due to low wage rates and availability of female worker in our country. Despite the better performance a chronic problem that has adversely affected the efficiency and productivity of RMG sector in the recent times is labor unrest. Due to labor unrest, RMG sector is experiencing tough times. Moreover, Bangladesh very recently lost its much-anticipated GSP facility in the U.S Market. Another devastating problem is the poor infrastructure services specially gas and electricity. Frequent outages and uncertainty in the supply of gas and electricity have increased costs. These problems have become acute in recent months. Unless the government takes immediate initiative for a quick and sustainable solution of these problems the competitive strength of the apparel exporters of our country will suffer significantly. Fortunately, Bangladesh is still efficient in the export of low cost basic apparel items. It becomes possible due to the availability of unskilled and semiskilled workers who are paid low. But if Bangladesh wants to remain competitive in the post-recession world market it must need to improve the quality of workforce and management which is only possible through substantial improvement of skills and increase of remuneration package of the workforce. Otherwise the competitive strength of RMG sector of our country might be lost in the near future.

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