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Post-MFA Performance of Bangladesh Apparel Sector

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This paper makes an attempt to analyze the post-MFA export performance of major apparel exporting countries with special concentration on that of Bangladesh's readymade garments (RMG) industries. It is observed that the end of MFA led to an adjustment in the country pattern of trade which generated both winners and losers among major exporters. Though it was anticipated that MFA termination may lead to a dramatic drop in the export from Bangladesh and other Asian nations, in reality the outcome remained counter-intuitive. In fact, our analysis reveals that Mexico, CBA nations and CAFTA regions in the U.S. market and Turkey in the EU market lost their market share despite of having preferential access and geographical proximity. In addition, all major apparel exporters except Bangladesh, Vietnam, and China lost their market share since 2008 due to the global recession in their export destinations. Bangladesh not only uphold their past gains, but also improved their performance considerably during both post-MFA and recession periods. This surprising and overwhelming growth of Bangladesh's RMG sector could be attributed to continuous support from her government, lowest wage rate, lower export price, accompanied by stable exchange rate, political stability since 2007 and above all, getting the GSP facilities for being remained in the least developed nations lists.

Field of research: International Trade

1. Introduction

Textile and apparel manufacturing industries have been considered to be an important element in economic activity and growth since the beginning of Industrial Revolution for basically two reasons: textiles and apparel are basic items of consumption in all countries, and apparel manufacture is labor-intensive, requiring relatively little fixed capital but can create substantial employment opportunity. Thus, textiles and apparel have been major issues in trade relations among and between many countries. Consequently, a large number of agreements (multilateral and bilateral), mainly between developing and developed countries, were signed over the years bearing on, and generally restricting, the quantities of textiles and apparel traded (Bernard A. Gelb, 2005).

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The Multi-Fiber Arrangements (MFA) grew out of a series of voluntary export restraints imposed by the United States and Europe on large Asian textile and clothing exporters (Francois and Spinanger, 2005). The MFA negotiated and controlled textile and clothing quotas in order to support the under developed countries by giving their products a favored position in the markets of the developed countries and enabled the developed countries to bilaterally negotiate quotas with various supplier countries to protect the domestic interests from apparel imports. Based on the decisions in the Uruguay Round negotiations in the 1990s, the World Trade Organization's (WTO) Agreement on Textiles and Clothing (ATC) phased out the MFA on January 1st 1995, which was carried out in four phases, in ten years. With the fourth phase-out period completed on December 31, 2004 global trade in textiles and clothing entered into a new ground.

The operation of Multi-fibre Arrangement (MFA) quotas in the process led to exporting opportunities in countries where textile and clothing were not traditional export items. The rise of the RMG industry in Bangladesh was the result of such an international "managed trade" regime in the apparel. The Ready Made Garments (RMG) industry in Bangladesh started its venture in the late 1970s launched originally by investors mostly from Korea and Hong Kong to take the advantage of Bangladesh's export quotas in restricted markets as well as an abundance of cheap labor. By the late 1980s, apparel evolved as the main export industry of Bangladesh.

During the last two decades, the textile and clothing sector has experienced a real great growth giving it a strategic place in the Bangladesh economy. In FY2008, the RMG sector contributed about USD 12.35 billion out of a total export of USD 15.56 billion which is equivalent of about 79 per cent of country's total export. However, this evolution remains fragile and tributary of not only internal but also external challenges such as the phase out of MFA because with the elimination of the MFA quotas, tariffs will become the primary mechanism for border protection of trade in textiles (WTO).

However, despite the fact that free trade improves welfare, its benefits are not distributed evenly among concerned parties. *Countries with established comparative advantages will benefit from the abolishing of the MFA, while countries that can export because of protection from any source will lose out after liberalization.* In the short run, geographic origins and 'buyer preferences' will remain important in sourcing decisions while In the long run, cost factors and product differentiation will acquire greater importance (Majmudar, M.,1996). However, market access barriers continue to inflict insoluble losses on the South Asian countries, and non-tariff barriers becoming more pronounced in recent years (Adhikari and Weeratunge, 2007). Considering the above issues, this paper examines the new dynamics of global apparel trade due to the abolition of MFA for Bangladesh vis-à-vis major clothing suppliers focusing on the two major markets - the United States and the European Union, both of which have followed distinct implementation routes.

2. Literature Review

Prior to January 2005 there had also been much speculation as to what the impacts of MFA termination would be on the dynamic and more rapidly growing Asian apparel exporters including Bangladesh, India, Pakistan, Sri Lanka, Vietnam ,and China. However, most of the studies were more or less consistent regarding anticipated changes in market shares of the major apparel exporters. Madhavi Majmudar (1996) has argued that while most gains are expected to move in favor of China and India due to economies-of-scale, the low labor cost countries such as Pakistan, Bangladesh, Indonesia and Philippines are likely to emerge as gainers. In addition, both the US and the EU may continue to favor certain groups of countries which may retain market shares in individual markets. Yang et.al. (1997) have mentioned that MFA import quota abolition will result in a large increase of textile and apparel export from South Asia despite the possibility of increased competition from their more efficient competitors and deterioration in their terms of trade.

Islam (2001) also suggests that MFA import quota abolition would strengthen the competitive positions of ASEAN, China, and South Asia in apparel at the expense of industrially developed regions such as the EU, North America and Japan and the rest of the world. Bernard A. Gelb (2005) supported the above view and argued that India, Pakistan, Bangladesh, and Vietnam would be able to compete well in some product markets as the major importers are expected to reduce the risk of sourcing from only one country. He argued that China would be a major beneficiary in the post-MFA periods at the expense of most other developing countries. Moreover, countries eligible for duty-free U.S. textile trade preferences have a potential advantage over some other potential suppliers, depending to a great extent upon beneficiary countries' geographical proximity to the United States as tariffs were not phased out along with MFA quotas. Using data from US, EU Chinese and other sources, John Whalley (2006) showed that the aggregate US and EU imports of clothing and textiles will have little effect, and equally only small impacts on aggregate Chinese exports of clothing and textiles with a large changes in the country pattern of trade, and also within more narrowly defined product categories. The shares of other Asian suppliers in US markets held up well, with the largest falls occurring in preferentially treated suppliers such as Mexico.

On the other hand, Adhikari and Weeratunge (2007) analyzed the 18-19 month period after the MFA phase-out and showed that the phase-out did not bring drastic changes in the export composition and production structure as envisaged earlier. But countries like Bangladesh, Cambodia, Indonesia and Vietnam, which benefited from this, whereas majority of countries which survived mainly on preferential trading arrangements have not been able to take advantage of the safeguards. Considering the U.S. domestic market for the first two years of post-MFA quotas, Michael F. Martin (2007) both confirmed and contradicted the experts' predictions by arguing that after the end of the MFA quotas, the global clothing and textile market did grow faster over the last two years than before, but there has not been the anticipated sharp shift in production to

China. Denis Audet (2007) argued that the elimination of import quotas has exposed the vulnerability of fragmented supply chains and favored countries able to display an integrated supply chain while it has reduced the attractiveness of outward processing programs and, conversely, increased the attractiveness of other preferential trade arrangements, such as regional trade arrangements and the Generalized System of Preferences.

In order to study whether the EU and the USA safeguards will have any impact on West African economies, Claire Delpeuch (2007) considered the 1989-2004 period and regressed aggregated Chinese cotton imports from the three West African countries on aggregated Chinese textile exports to the EU and the US, relative cotton price index, and a stock control variable. His study finds that a 1% increase in Chinese textile exports to the EU and the US provokes a 1.81% increase in Chinese cotton imports from West Africa. Thus, despite the imposition of temporary safeguard measures on Chinese exports by both the United States and the European Union in 2005, few countries other than China and India have increased their clothing exports in those markets (Denis Audet, 2007).

The abolition of the quotas constituted a serious challenge as much as a true opportunity for the RMG industry of Bangladesh. Consequently, the possible consequences of MFA import quota abolition have received considerable attention in a number of studies. Mlachila and Yang (2004) argued that planned abolition of the quotas will alter the competitiveness of various exporting countries and the relatively weak competitiveness makes the Bangladeshi economy highly vulnerable to the final stage of the quota phase-out. Assessing the quota restrictiveness and export similarity, and analyzing its supply constraints, the paper concludes that Bangladesh could face significant pressure on its balance of payments, output, and employment. They estimated that MFA import quota abolition may result in a decrease in exports of apparel from Bangladesh by 6.2% to 17.7%. Nordas (2004) does not find an absolute decrease in total export from Bangladesh but finds a decrease in the market share of Bangladesh's apparel in the USA. However, Adhikari and Weeratunge (2007) argued that despite Bangladesh has achieved an impressive growth, particularly in low-cost labor-intensive categories of the RMG sector, but its sustainability is not guaranteed.

3. Methodology

Following a trend analysis approach to evaluate the impact on the Bangladeshi Ready-Made Garments (RMG) sector of the phase-out of textile and clothing quotas, the paper is largely based on information from secondary sources. A detailed analysis of import trends and market shares of dominant and emergent suppliers over the last ten to fifteen years is presented to evaluate the export performances for different exporting nations.

4. The Post-MFA Clothing Trade: Early Signals and Recent Trends

4.1 Changes in Global Trade Flows

Global trade figures for clothing provide confirmation of the experts' predictions of the increase of clothing trade and partial confirmation of the prediction for gains for China and India in post MFA trade (see Table 1 below). The export value from Bangladeshi suppliers increased from a meager USD 600 million in 1990 to USD 10.9 billion in 2008, helping it to acquire 3 percent market share by 2008. It is worth mentioning that Bangladesh was the 31st largest exporters in 1990, with a span of less than two decades it became 7 largest apparel suppliers in 2008. No other major clothing exporters other than China and Vietnam experienced more growth than Bangladesh during these periods.

Thus, for the initial 5 years of the post-MFA era, global trade in clothing appears to be less a story of shifting production as one of emerging centers of growth. Although both clothing and textile production did shift to China and Bangladesh, India, Vietnam in post-MFA periods, it was not as dramatic a shift as some experts had predicted. Most of the major clothing exporters did not see a sharp drop in their exports. Instead, they continued to produce and export in at about the same levels that they did before.

Table 1: Major Clothing Exporters in the World Market (Values in billion USD)

Countries	1990		2008		During MFA (1995-2004)		After MFA (2005-2008)	
	Value	Share	Value	Share	Growth	Change in Share	Growth	Change in Share
China	9.7	9%	120.0	33%	11%	9%	17%	9%
Hong Kong	15.4	14%	27.9	8%	2%	-4%	1%	-2%
Italy	11.8	11%	25.1	7%	3%	-2%	10%	0%
Germany	7.9	7%	18.1	5%	5%	0%	13%	0%
Turkey	3.3	3%	13.6	4%	7%	0%	5%	-1%
France	4.7	4%	11.5	3%	4%	-1%	11%	0%
Bangladesh	0.6	1%	10.9	3%	14%	1%	17%	1%
India	2.5	2%	10.9	3%	6%	0%	8%	0%
Belgium	2.0	2%	9.7	3%	9%	1%	13%	0%
Viet Nam	NA	NA	9.0	2%	NA	2%	24%	1%
World	108.1	100%	361.9	100%	6%	-	9%	-

Source: compiled and calculated by authors from World Trade Organization database

4.2 Changes in the USA Trade Flows

The termination of over 40 years of quotas on January 1, 2005, ushered in a new era for the global trade in clothing and textiles. Precisely how the end of quotas would affect U.S. clothing and textile trade was the subject of extensive research and some uncertainty. Despite their differences in opinion on the overall impact of the end of the ATC, most studies concurred that one of the biggest beneficiaries would be the People's Republic of China (China).

Table 3: The U.S.A. Apparel Imports (in billions USD)

Country	1990	2000	2003	2004	2005	2006	2007	2008	Sep,08	Sep,09
China	2.74	4.50	7.26	8.93	15.14	18.52	22.75	22.92	16.90	17.23
CBI	1.94	9.54	9.61	9.95	9.60	8.93	8.40	8.04	6.11	4.94
CAFTA	1.43	8.97	9.18	9.51	9.10	8.41	7.89	7.60	5.79	4.55
Vietnam	0.00	0.05	2.37	2.56	2.72	3.22	4.36	5.22	3.93	3.78
Indonesia	0.63	2.05	2.16	2.40	2.88	3.67	3.98	4.03	3.10	2.97
Bangladesh	0.43	2.12	1.85	1.98	2.37	2.91	3.10	3.44	2.60	2.66
Mexico	0.51	8.41	6.90	6.68	6.08	5.30	4.52	4.01	3.07	2.53
India	0.56	1.79	2.00	2.22	2.98	3.19	3.17	3.07	2.42	2.27
Honduras	0.11	2.32	2.50	2.67	2.62	2.44	2.51	2.60	1.93	1.50
Cambodia	0.00	0.81	1.24	1.43	1.71	2.14	2.42	2.38	1.83	1.41
Pakistan	0.21	0.92	1.02	1.14	1.26	1.41	1.50	1.49	1.10	0.98
El Salvador	0.05	1.58	1.72	1.72	1.62	1.41	1.49	1.53	1.16	0.96
Sri Lanka	0.43	1.47	1.44	1.55	1.65	1.68	1.57	1.47	1.29	0.95
Thailand	0.44	1.82	1.71	1.80	1.81	1.84	1.77	1.67	1.12	0.94
World	21.94	57.23	61.16	64.77	68.71	71.63	73.92	71.57	54.28	47.40

Source: OTEXA

China made considerable progress in the initial stage of the post-quota era, exporting USD 15.14 billion in 2005 from USD 8.93 billion in the previous year, registering a phenomenal growth of about 69 percent. However, the re-imposition of quotas on several categories of products in the US had a very little impact on China's exports in this market. While China has done fairly well in the USA market, exports from other major exporters like the CBI and CAFTA nations, Mexico has been declining. These countries are observed to lose their market share in the US market considerably despite its free trade agreement as well as proximity to the US market. Indication from the September 2009 data shows that this diminishing trend will follow making these nations as the major loser due to the MFA phase out and global recession.

Other major exporters like India, Cambodia, Pakistan, Honduras, and El- Salvador was successful to cope with the MFA phase out but witnessed a negative growth in apparel export in the recessionary periods. At the same time, countries like Vietnam, Indonesia and Bangladesh continued to grow their exports. It can be observed easily that the decline in the exports of major exporters was triggered by a rise in exports of countries such as Bangladesh, Cambodia, Indonesia and Vietnam.

Vietnam has been successful to increase its export in the USA market in the MFA periods taking the advantage of the 2001 Bilateral Trade Agreement (BTA) with the US, its clothing exports to the US. However, other than China and Vietnam, it is Bangladesh which has been successful to increase its export value in the USA market both in the post MFA and recession periods. Although Bangladesh's export to the USA apparel market reduced in 2004, growth of garment exports gradually started to rise in the post

MFA periods. By 2008, the export value of Bangladesh climbed to USD 3.44 billion, and the market share rises to USD 4.81 billion.

Table 4 : The U.S.A. Apparel Imports (in billions USD)

Country	2000		2004		2005		2008		Sep, 09	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
China	4.50	7.86	8.93	13.78	15.14	22.04	22.92	32.03	17.23	36.36
Vietnam	0.05	0.08	2.56	3.96	2.72	3.97	5.22	7.30	3.78	7.98
Indonesia	2.05	3.59	2.40	3.71	2.88	4.18	4.03	5.63	2.97	6.26
Bangladesh	2.12	3.70	1.98	3.05	2.37	3.45	3.44	4.81	2.66	5.61
Mexico	8.41	14.70	6.68	10.32	6.08	8.85	4.01	5.61	2.53	5.34
India	1.79	3.12	2.22	3.42	2.98	4.33	3.07	4.29	2.27	4.78
Pakistan	0.92	1.61	1.14	1.76	1.26	1.83	1.49	2.08	0.98	2.06
Sri Lanka	1.47	2.57	1.55	2.39	1.65	2.40	1.47	2.05	0.95	2.00

Source: Compiled and Calculated by the authors from USITC data

Thus it can be said in the post MFA period, countries like China, Vietnam, Indonesia, India, and Bangladesh were getting momentum growth in the USA apparel market at the expense of Mexico, Honduras, El Salvador, Pakistan, Guatemala etc. However, as the recession started only China, Vietnam and Bangladesh were successful to cope with the changing economic scenario.

4.3 Changes in the EU-27 Trade Flows

The impact of MFA phase out and global recession on the EU apparel market is relatively less than the USA as it is a comparatively a stable market for all exporters. The EU is the largest market for the apparel products with total import of 111.1 billion Euros in 2008. The EU generally trades a huge amount of apparel products among themselves (about 46 percent), 22 percent of total imports are supplied by China followed by Turkey and Bangladesh with 7 and 4 percent market share respectively. Other major players in this market are India, Morocco, Vietnam, Sri Lanka, Pakistan, Thailand, and Hong Kong etc.

As far as China is concerned, the country has made enormous gains. By 2004, it achieved an average annual growth of 10 percent to reach 12.8 percent market share. However, the performance was even better in the post MFA period. During the first four years of MFA phase out, the EU imports of apparel products from China have increased by 14 percent and consequently, the market share climbed to 22.7 percent. Another, large exporter, Turkey is facing stiff competition from other Asian rivals such as China, India, Bangladesh, Cambodia etc. On the contrary, India, Sri Lanka, Morocco was successful to achieve significant growth during the post-MFA periods but eventually faced few problems during the recession periods.

Table 5: The EU-27 Apparel Imports (values in billions Euros)

Country	2000		2004		2005		2008		Sep.09
	Value	Share	Value	Share	Value	Share	Value	Share	Value
EU27_Intra	41.2	50.8	44.7	49.8	27.6	48.2	51.6	46.2	27.6
China	7.8	9.6	11.5	12.8	14.7	17.8	25.3	22.7	14.7
Turkey	5.4	6.7	7.7	8.6	4.2	8.5	7.9	7.0	4.2
Bangladesh	2.6	3.2	3.7	4.1	3.2	3.7	4.7	4.2	3.2
India	2.0	2.5	2.5	2.8	2.7	3.4	3.9	3.5	2.7
Morocco	2.4	2.9	2.4	2.7	1.2	2.4	2.4	2.1	1.2
Vietnam	0.8	1.0	0.6	0.7	0.7	0.7	1.2	1.1	0.7
Sri lanka	0.8	1.0	0.8	0.9	0.7	0.8	1.1	1.0	0.7
Pakistan	0.6	0.7	0.9	1.0	0.5	0.8	0.9	0.8	0.5
Hong Kong	3.1	3.9	2.0	2.2	0.3	1.8	0.9	0.8	0.3
Thailand	0.9	1.2	0.9	1.0	0.4	0.8	0.8	0.7	0.4
Total	81.1	100.0	89.8	100.0	61.8	100.0	111.1	100	61.8

Source: Compiled and Calculated by the authors from EUROSTAT data

Bangladesh's apparel export to the EU has continued to rise sharply in recent years. Though the total export dropped down in 2005 i.e., just after the beginning of MFA phase out, Bangladesh managed to increase the growth rate to 10 percent in the subsequent years till 2008. Consequently, the market share of Bangladesh rose to 4.2 percent in 2008 making it the fourth largest exporters in this market. Despite predictions that Pakistan would be the number two gainer from South Asia in the post-ATC era, it has not been able to fully utilize its potential (Adhikari and Weeratunge, 2007). Altogether, the emerging picture for some South Asian countries such as: Bangladesh, Pakistan, Sri Lanka, and India appear less problematic than originally anticipated. However, Bangladesh, China, and Vietnam are the countries that increased their clothing exports in all markets.

5. Factors behind the Success of Bangladesh

There are several plausible explanations for Bangladesh’s unexpected and overwhelming success.

Firstly, the historical evolution of world apparel business reveals that comparatively lower wage rate countries were always the major apparel supplier in the world as the industry is highly labor-intensive. A large number of human labors are embodied in the manufacturing process making wage rate as an important determinant of production cost. Although the labor productivity is an issue, low wages have helped Bangladesh focus on high volume mass production of RMG items, competing directly with countries like China, India and Vietnam.

Table 6 : Apparel Labor Costs in 2008

Country	US USD/ Hour
Bangladesh	0.22
Cambodia	0.33
Vietnam	0.38
India	0.51
China	0.55-1.08
Turkey	2.44

Source: Jasin-o' Rourke Group, LLC

One of the main reasons for Bangladesh success in the apparel market is price competitiveness. Bangladesh is one of the lowest prices offering countries in both the USA, and European Union-27 countries (Source: BKMEA). Moreover, being a member of LDCs, Bangladesh enjoys duty free quota free market access to many countries like the Japan, Australia, and the EU etc. which helped to boost up RMG sector of Bangladesh. The quota system ensured a 'reserved' market status for the new suppliers (and also for the quota restrained countries) and gave them some time to develop and learn the skills required in the production and marketing.

Thirdly, due to the enormous contribution of the RMG sector in the economy, the Bangladesh government has initiated several support measures specifically targeting this sector. Government plays an important role for the expansion of RMG sector by providing various policy supports time to time including bonded warehouse facilities, duty drawback incentive, cash compensation scheme, and the facility of procuring raw materials. Moreover, relatively stable political situation further stimulate the export growth.

Although the USA has been the main market for Bangladeshi apparel products, recently it started to search for new markets, for example: in 1992 about 42 percent of total RMG exports from Bangladesh were destined to the USA while it reduces to 28 percent in 2008. The RMG export from Bangladesh showed a huge jump since 2003 whereas the dependency on the USA market started to decline during these periods. One possible explanation for this may be the fact that the EU provided the GSP scheme to Bangladesh in 2003, and Bangladeshi knitwear items were most successful in grabbing that opportunity while woven could not as this sector do not have sufficient backward linkage to meet the rules of origin. Consequently, the USA has become the main market for Bangladeshi woven products while the EU for knitwear products.

Last but not the least, depreciation of the Bangladeshi currency (Taka) by more than 12%, from 2004 to 2007, has either enhanced or at least protected the competitiveness of Bangladeshi T&C exporters. Though this has had a very limited positive impact on the export of woven RMG because of the need to import major portions of raw materials, but in the case of knit RMG exports, in which almost 80% value addition takes place within the country itself, this has had a major positive impact.However, Bangladesh's successes still face difficulties in making the progress sustainable due to inefficient infrastructure, particularly its port and transportation system, lack of adequate efforts to ensure improved trade facilitation, and the poor state of human capital etc (Adhikari and Weeratunge, 2007).

6. Concluding Remarks

The removal of all quotas in 2005 has created gainers and losers among the developing country suppliers. However, when examined more closely, there are patterns in the trade data that either were not anticipated or are not consistent with some of the analysts' predictions. Our analysis supports the mainstream prediction that the higher-cost exporting countries (i.e. Hong Kong, South Korea and Taiwan), which controlled the largest share of exports to developed country markets under the MFA, would cede ground to lower-cost suppliers such as China, India, Bangladesh, and Vietnam etc (Adhikari and Weeratunge, 2007).

Although the low labor cost countries have emerged as gainers, the foreseen major shifts in production have not occurred. The analysis also disagree with with the prediction that in the short run, geographic origins and 'buyer preferences' will remain important in sourcing decisions.

Among the South Asian countries, the post MFA performance of India and Pakistan has been reasonably good, but there is room for improvement. Bangladesh has achieved an impressive growth, particularly in low-cost labor-intensive categories of the RMG sector. A combination of global opportunities, managed trade under MFA and GSP facilities, Low labor cost, and government support had combined to stimulate the emergence and thriving of the export oriented apparels sector in Bangladesh.

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