

## In Search of New Market, New Product *Bangladesh's Apparel Export to Japan*

Centre for Policy Dialogue (CPD) organised a dialogue entitled *In Search of New Market, New Product: Bangladesh's Apparel Export to Japan* on 1<sup>st</sup> November 2009, at the CIRDAP Auditorium. M Syeduzzaman, Member, CPD Board of Trustees chaired the dialogue. Lt Col (Retd.) Mohammed Faruk Khan, Hon'ble Minister for Commerce attended the dialogue as the chief guest, and HE Tamotsu Shinotsuka Japanese Ambassador to Bangladesh was present as the special guest. Professor Mustafizur Rahman, Executive Director, CPD presented the welcome address at the dialogue. Dr. Khondaker Golam Moazzem, Senior Research Fellow, CPD presented the keynote paper on "Export Competitiveness of Bangladesh Apparels in Japanese Market: Constraints, Challenges and Opportunities in view of Changing Market Dynamics".

### Key Issues Discussed

- *Narrow and undiversified export base of Bangladesh:* Predominance of Bangladesh's apparels export (about 79% of total export in FY2009) destined to traditional large markets is a growing concern especially at a time of slow export growth due to the global financial crisis.
- *Searching new markets for the diversification of exports:* The search for new markets as part of an export diversification strategy needs to focus on the Japanese market which is the third largest apparels importer (US\$23 billion) after USA and EU.
- *Japan's overwhelming dependence on China for apparels:* China has a unique position as a source of apparels for the Japanese market, particularly in terms of providing 'full packaged supply', an ability to manufacture a wide spectrum and range of apparels items, short lead time, ethnic similarity, high labour productivity, better quality of products, etc. These attributes have helped China to emerge as the single largest supplier in the Japanese market (80 per cent of total import).
- *Limited contribution of Japan's duty-free market access facility on LDC products:* Bangladesh and other apparels-manufacturing LDCs did not benefit much from Japan's duty-free market access initiatives for the LDCs. Despite enjoying comparative advantages and unit price differential advantages, exports of apparels from LDCs continued to remain limited in the Japanese market due to poor product quality and standard, limited capacity to provide 'full packaged supply' in all categories of apparels, ethnic differences, and language barriers.
- *Changing dynamics of Japan's apparels market:* A number of changes at the domestic level (i.e. changes in employment structure and its effect on consumers' purchasing behaviour, changes in retail marketing and demographic changes) and the sourcing country level (i.e. rising labour cost in China and depreciation of Chinese currency) led to shift in sourcing strategies of Japanese buyers.
- *Japanese buyer's strategy to diversify export destinations under 'China plus one':* A number of large Japanese buyers are currently exploring alternative sources in Asia as part of their strategy to diversify export destinations. This strategy, which has come to be known as 'China plus one', takes into account prospective alternative sources in Asia, such as Bangladesh, Vietnam and Cambodia with a view to shifting at least 30% of imports of apparels from China to these countries.
- *Bangladesh's potential has been constrained by various structural factors:* A number of constraints and challenges have restrained Bangladesh's ability to substantially enhance apparels export to the Japanese market. This includes lack of working relationship between local suppliers and Japanese buyers, problems that Japanese buyers face in accessing appropriate market information, challenges of maintaining 'zero tolerance' in product quality, challenges of ensuring compliances, suppliers' poor communication skill in interacting with Japanese buyers, long lead time, poor quality of yarn and fabrics, low level of workers' skill and low level of Japanese FDI in the textiles sector.

### Suggested Recommendations

- Japan's LDC-supporting policies such as preferential market access under the GSP scheme and development assistance under ODA, need to be widened and deepened in order that these programmes effectively contribute to industrialization of the LDCs.
- The Japanese government should consider flexible rules of origin in order to ensure effective and meaningful market access of LDC products. RoO currently being applied for knitwear products (yarn up) need to be simplified to enhance export of knitwear products to the Japanese market.
- Japan's increasing economic integration with different countries under the Economic Partnership Arrangement

- (EPAs) should not result in erosion of preferences provided to LDCs in the Japanese market. In the case of signing new EPAs with other countries, the Japanese government should maintain sensitive lists which include products of LDCs' interest.
- Japanese ODA should be geared toward targeting industrial development in LDCs. The Japanese Debt Cancellation Programme, which is being implemented under the ADP, should include various targeted activities related to industrial development. This debt cancellation programme may include activities such as human resource development in the industrial sector, technological upgradation in textiles and apparels sectors, conservation of the environment in industrial areas, and improvements in the productivity and efficiency of industrial workers.
  - The Japan External Trade Organisation (JETRO), Dhaka office, should be more closely involved with various trade bodies regarding product development in the textiles sector as per Japanese standards, access to technical know how, and productivity improvement.
  - The Bangladesh mission in Japan should set target-specific strategies in consultation with various trade bodies with a view to introduce Bangladesh's major industrial products, particularly apparels, to the Japanese market.
  - Association leaders should meet high officials of Japanese textiles and apparels related associations on a regular basis in order to reduce the information gap regarding the potentials of the apparels industry of Bangladesh.
  - Associations should initiate target specific programmes pertaining to the Japanese market, which may include a Japanese language programme for mid-level to top level production management personnel, regular visits of apparel manufacturers to Japan, and visits of Japanese associations related to textiles and apparels to Bangladesh.
  - The Export Promotion Bureau (EPB) should open a special desk, the 'Japan Desk', in order to provide various kinds of administrative support to Japanese investors in Bangladesh.
  - Special policy support needs to be ensured for encouraging foreign investment in specialised textiles. The Draft Industrial Policy 2009 should specifically address fiscal support to this end.
  - Leading Japanese textile companies such as Torei and Teijin need to be targeted by the Ministry of Commerce, investment facilitating agencies (e.g. BOI, EPB) and trade bodies so that these companies become interested to invest in Bangladesh's textiles/apparels sector.
  - Government should take necessary steps to ensure uninterrupted supply of gas and electricity to textiles and RMG units. Ensuring the supply of gas and electricity for newly established textiles and RMG units should receive priority attention by the government since any supply disruption is likely to have highly adverse consequences for the very sensitive Japanese market.

