CPD Dialogue

In Search of New Markets, New Products

Bangladesh's Apparels Export to Japan

Keynote Presentation on

Export Competitiveness of Bangladesh Apparels in Japanese Market
Constraints, Opportunities and Challenges in view of Changing Market Dynamics

(Forthcoming CPD Monograph)

by

Dr Khondaker Golam Moazzem
Senior Research Fellow
Centre for Policy Dialogue (CPD)

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1. Introduction

1. Introduction

- Bangladesh has pursued export-led industrialisation as a major development strategy over more than two decades now
  - Considerable progress has been achieved in this effort; export structure has tended to remain narrow and undiversified
- Export of apparels is accounted for 79% of total export in FY2009 (75.1% in FY2001)
  - Apparels export is highly concentrated to top 5 exporting countries; Level of concentration has not changed so much at top 10 and top 20 countries
  - Top 5 products such as shirts, trousers, jackets, T-shirts and sweater accounted for 62.7% of total export in 2008 (52.2% in 2001)
- *Export Policy Order 2009-2012 (draft)* reaffirms the importance of export diversification
  - Search for new markets is one of the core strategies for achieving higher levels of export diversification
  - A number of developed and developing countries are major importers of items are major importers of items that are either exported at present by Bangladesh, or Bangladesh has the potential capacity to export
- Japan is one of the largest apparels importers in the world (US$24 billion in 2008)
  - Overwhelming share of its import is from a single source- China (more than 80%)
- Under the changing market dynamics, Japanese buyers have initiated new strategies to diversify their import base
  - From 'one country (China)' to a number of potential countries (e.g. China plus one)

2. Objectives and Methodology

II. Objectives and Methodology

- Major objective of this study is to assess Bangladesh's export competitiveness in terms of export of apparels in the Japanese market. More specifically the study
  - examines Bangladesh's existing export structure to Japan to identify competitiveness, constraints and weaknesses in apparels sector
  - analyzes Japanese apparels market to understand the dynamics and changes in market structure, product composition and marketing system of apparels
  - explores the opportunities for enhancing Bangladesh's export to the Japanese market in view of the changing market dynamics
  - puts forward a number of policy and implementation related suggestions

- A number of statistical techniques have been used to address specific issues
  - A revealed comparative advantage (RCA) analysis has been carried out with respect to Bangladesh's major apparels products in Japanese market under HS 61 and 62 categories
  - A unit price analysis of these products has been applied to understand cost-advantages
  - Analysis of Japanese apparels market has been carried out on the basis of primary and secondary information collected from various sources
  - Bangladesh's export opportunities have been assessed by estimating export potentials
  - Major constraints and challenges for Bangladesh have been identified by conducting interviews with (a) Bangladeshi manufacturers and (b) major Japanese importers

3. Bangladesh's Export of Apparels to the Global Market

3.1 Bangladesh's Global Export Performance in view of the Global Financial Crisis

- Performance of RMG sector has always been under close scrutiny by all relevant stakeholders
  - The global financial crisis has appeared as a major test case for proving the resilience of export sector.
- During 2009, overall export has registered a growth rate of 15.4% (16.2% in 2008)
  - Such a level of growth was maintained with the steady export growth of RMG products
  - Export growth in different months of FY2009 could not maintain steady trend
  - Export growth of RMG products during Jul.-Aug., FY2010 was negative (-1.2%).
  - If the crisis continues, export sector is likely to suffer in the coming months
- In all major markets, Bangladesh was able to maintain a two-digit level growth in 2008: 12.3% in the USA, 15.5% in the EU, 19.9% in Canada and 23.8% in Japan
- Relatively better performance during the period of crisis should be used to enhance export

Table : Bangladesh's Export of RMG and Non-RMG Products

	FY2008	FY2009	Jul-Aug, FY2010
Total Export (million US$)	14088.27	15565.2	2808.2
RMG	10700.26	12347.8	2216.2
Non-RMG	14088.27	3217.5	592.0
Changes (%)			
RMG	*16.2*	*15.4*	*-1.2*
Woven	11.0	14.5	-0.48
Knit	21.5	16.2	-2.06
Non-RMG	*15.9*	*-77.2*	*-10.4*
Raw Jute	11.3	-10.2	-2.52
Tea	114.6	-17.5	-82.88
Agricultural Products	37.5	1.3	-20.77
Frozen Foods	3.6	-14.9	-32.9
Leather	6.9	-37.7	-22.33
Jute Goods	-0.8	-15.4	0.46
Chemical	0.2	29.5	-37.2
Textile Fabrics	113.4	-0.8	-2.2
Home Textile	10.3	10.7	-11.2
Footwear	24.7	10.2	-4.79
Others	17.1	-90.1	

3.3 Structure of Bangladesh's Export to Japan

- Bangladesh's export to Japan is distinctive on many accounts.
  - Unlike other major developed country markets, Bangladesh's export to Japan is abysmally poor. (US$202 million in 2009; 1.3% of total export)
  - Recently Bangladesh's export to Japan registered a substantially high level of growth (over 20% in 2008)
  - Bangladesh's export to Japan is composed of a set of products where traditionally dominant items possess relatively less share
    - Knitwear and wovenwear products together accounted for 36.8%
  - Various non-traditional products had a relatively larger share
    - More than 40% includes frozen foods (esp. shrimp), agro-products and leather products.
  - The top 20 list of export items to the Japanese market include only 5 apparels products

Table : Bangladesh's Export to Japan in FY2009

(in '000' US$)

	Frozen foods	Agri-products	Tea	Chemical products	Leather	Raw	Jute	Knitwear	Wovenwear	Others	Total
Export to Japan	16428	129	15	108	14785	113	14113	21986	52395	82528	202600
Overall export to world	454528	122294	12290	421580	177319	148170	373181	6429256	5918514	1508058	15565190
Share of export to world	3.61	0.11	0.12	0.03	8.34	0.08	3.78	0.34	0.89	5.47	1.30
Share of overall export to Japan	8.1	0.1	0.0	0.1	7.3	0.1	7.0	10.9	25.9	40.7	100

3.4 Competitiveness of Major Apparels Products in the Japanese Market

- Major apparels products exported to Japan enjoyed comparative advantages over its competing countries
  - Out of 6 major knitwear products, Bangladesh enjoyed substantially high level of comparative advantage over competing countries in 3 items
  - Out of 7 leading wovenwear products exported to Japan in 2008 Bangladesh enjoyed revealed comparative advantage in 3 products
- Bangladesh has enjoyed comparative advantage included T shirts, women's briefs (knitwear), men's shirts (knitwear), girl's blouse (knitwear), girl's suits (wovenwear), babies garments (wovenwear) and men's/boy's suits (wovenwear)
- A unit price analysis of major apparels products of Bangladesh elucidates their relative advantage over those of other countries
  - Out of 20 products, Bangladesh has offered relatively less price in 14 products
  - Price difference with China varies from 18% to 86% except for few products, while it is 8% to 86% with Vietnam and 5% to 84% with India except few products
- Japan's import basket largely comprises of products (under product label at 6-digit) which are differentiated to those of low end products
  - A part of the price difference is related to differentiated products manufactured in different countries even under the same 6-digit label
- Bangladesh's specialisation in volume-based, low-end and cotton products would not comply with the requirement of Japanese market

3.4 Competitiveness of Major Apparels Products in the Japanese Market

- Bangladesh's export of apparels to Japan was not well favoured under Japanese preferential market access scheme
  - This largely owed to Japan's strategy for non-participation in the multi-fibre arrangement (MFA) since 1970 to the end of 1990;LDCs export of apparels had taken place under MFN rate till the end of 1990
  - World's major apparels exporting countries (e.g. China) took that advantage for exporting apparels to Japanese market particularly in 1990s under MFN/other tariffs
- Since 2001, Japan has provided duty free market access to a substantial number of products originating from LDCs including a number of apparels. In 2003, the scheme was revised and included almost all major apparels products of LDCs
  - It offers DF-QF for 98.6% of products from LDC in the WTO
- Bhattacharya, Rahman and Raihan (2004) showed that out of 881 products (at 6 digit level) exported in 2003, 176 products had the potentials to enhance their export under the then revised duty-free schemes
- Bangladesh has failed to reach a significant level of export to any of the potential product except one
  - In 2007, out of 176 items identified for export potentials only 61 products were traded (US$7.87 million which was only 1.12% of total potentials estimated in 2003)
  - Japanese RoO followed for enjoying GSP facility would be partly responsible for this

3.4 Competitiveness of Major Apparels Products in the Japanese Market

Table : Realisation of Potential Trade Gain under Japan's GSP Scheme

Knitwear products				Wovenwear products			
	Total potential in 2003 (in thousand US$)	Actual trade in 2007 (in thousand US$)	% of potentiality used in 2007		Total potential in 2003 (in thousand US$)	Actual trade in 2007 (in thousand US$)	% of potentiality used in 2007
6101	2558	0	0.00	6201	6088	42	0.70
6102	2399	0	0.00	6202	6620	1	0.01
6103	11234	179	1.59	6203	23098	472	2.05
6104	32523	54	0.16	6204	94889	283	0.30
6105	29293	0	0.00	6205	16944	6229	36.76
6106	13790	0	0.00	6206	83562	18	0.02
6107	30353	2	0.01	6207	31639	121	0.38
6108	119663	126	0.10	6208	52291	7	0.01
6110	35059	36	0.10	6209	30156	277	0.92
6111	47821	0	0.00	6210	79	0	0.00
6112	16828	0	0.00	6211	4272	0	0.00
6114	4699	0	0.00	6214	60	0	0.00
6115	1599	18	1.14				
6116	3470	0	0.00				
6117	36	0	0.00				
Total	351325	414	0.12	Total	349698	7451	2.13

4. Japanese Apparels Market: Structure & Composition

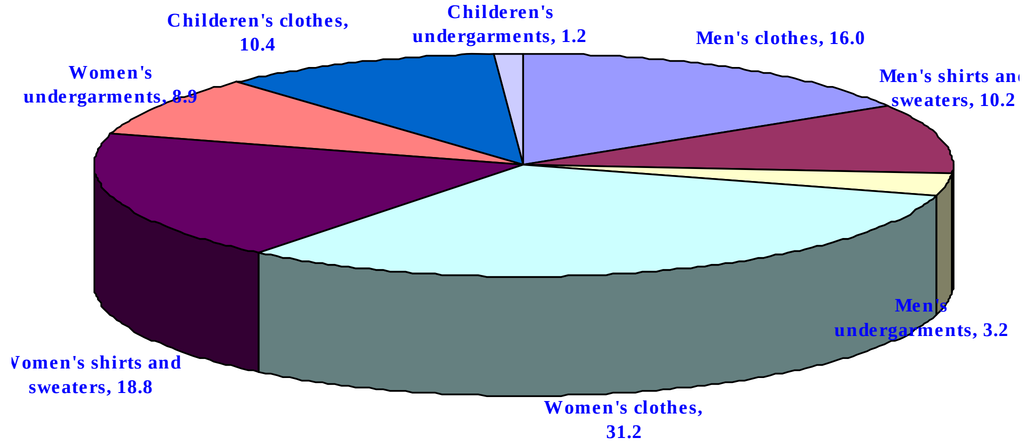
4.1 Structure and Composition of Japanese Apparels Market

- Japanese textile and apparels sector has experienced substantial changes since the end of World War II
  - From one of world's major textile and apparels manufacturers in 1960s and 1970s it has turned into one of world's major apparels importers in 1990s
  - Transformation of Japanese apparels value chain from a producer driven one to buyer-driven import-based value chain
    - Consequences of different factors such as rising labour cost in Japan and substantial appreciation of yen (about 40%) after the *Plaza Accord* in 1985 which made import relatively cheaper
- Japan's apparels market is overwhelmingly depended upon imported apparels
  - According to Japan's Input-Output 2000, Japan had a yearly demand for US$62 billion worth of apparels in 2000
    - About $24.6 billion worth of apparels and textiles were imported from abroad (39.6%)
  - Japan is the third largest importers of apparels after USA and EU

4.1 Structure and Composition of Japanese Apparels Market (contd..)

- Japanese apparels market is comprised of different categories of products based on consumers' sex, age, jobs and seasonality
  - Demand for apparels for women takes the larger share of the market (60% of total sales)
  - Men's apparels comprise 29.4%, while children's apparels comprise 11.6% of the market share

Figure : Structure of Japanese Apparels Market (US$60.3 billion in 2005)



- Major clothing for women include various types of wovenwear products (31% of total apparels demand)
  - Major products: one piece, suits, coat, blazer, jacket, blue zone, vest, cap, skirt, pants, formal wear, home wear, one-mile wear and maternity wear
  - About 19% of women's wear is comprised of design blouse, shirts blouse, dress shirts, various kinds of knitwear including sweater (pullover, cardigan), vest, T-shirts, Polo shirts, knit shirts, trainer suits, dress, coat, blazer, jacket, bluezone, skirt, pants and swimwear
- Mens' wear comprises about 16% of different kinds of wovenwear
  - Major products: suits, coats, blazer, vest, formal wear
  - 10% of shirts and sweaters (dress shirts, men's casual suits, casual coats, casual jacket, casual jumper, casual shirts and casual pants)
- Children's wear covers more than 10% of total share of the market
  - Clothing for 0-2 years and 3-15 years old

4.1 Structure and Composition of Japanese Apparels Market (contd..)

- Japanese consumers, like consumers in other developed countries, hold a high level of fashion consciousness
  - This has originated from various unique attributes such as high level of urbanisation, homogeneity of people's race ('mongoloid'), and cultures and seasonality
- A highly urbanised society in Japan has created an environment where consumers demand diverse set of products in terms of fashion, colour, brand and quality
- Japanese consumers, because of their homogeneity in race, usually have similar physical shape with less variation in size
  - Homogeneity in Japanese physiques led to common shape and standard of clothes as a minimum requirement of clothes
- Seasons in Japan make consumers' to be interested in diverse range of products. As a result, fashion-cycle in Japan is fast-moving with a vast choice for different types of styles and of quality items for different seasons
- Buyers' sometimes give orders to suppliers for a small amount in order to meet short-lived seasonal market
  - In this context, capacity to supply small amount of products are considered important criteria for Japanese market
- It is usually said that Japanese consumers are more fashion conscious compared to those of US and EU
  - However, a number of researches did not find substantive difference between consumers of Japan and other developed countries such as USA
  - Japanese consumers, as like consumers of other developed countries, take their decision for spending based on quality, fashion, colour and style

4.2 The Value Chain in Japanese Apparels Market

- Japanese buyers control the marketing network and act as 'lead firm'
  - 'Lead firms' provide critical decisions as regards product development, outsourcing pattern, and maintaining network with retailers
  - Unlike buyers of other developed markets, micro-level information as regards sales, fashion, design, quality and consumer's taste are accessible only to Japanese retailers and buyers
- Japanese buyers and retailers, unlike those of other developed markets develop a network with suppliers which go beyond a relationship based only on 'efficiency' parameter
  - A 'trust-based relationship' developed between buyers and suppliers is an important feature for Japanese market
- Japanese buyers initiate outsourcing orders to new suppliers by maintaining maximum control over the production process, and providing minimum engagement of suppliers
  - Usually CMT based supply orders are provided where buyers take the responsibility of supplying all necessary raw materials and intermediate products
- Outsourced orders in case of China are mostly FOB type, while in case of Vietnam it is usually CMT type (Goto, 2008)

4.2 The Value Chain in Japanese Apparels Market (contd..)

- Japanese buyers' less interest to provide free-sourcing access to suppliers is related to many issues including maintaining quality of raw materials used and targeted procurement especially fabrics from firms where Japanese investment is involved
  - Japanese market-focused apparels industries of East and South East Asian countries are benefited substantively through Japanese investment in the textiles sector of these countries
- Japan's strong control over the procurement process giving preferences towards non-local sources is likely to become a constraint towards development of domestic backward linkage textile industries for the exporting countries
- Japan has substantial investment in the textiles sector of East and Southeast Asian countries
  - A conducive business environment with flexible investment regime would attract Japanese FDI (such as Japanese FDI flow in Thailand's textiles sector) while a restrictive FDI regime may discourage large flow of FDI (e.g. in case of Philippines)

4.3 Marketing of Apparels

- Japanese retail marketing system is dominated by large number of small retailers. There are lots of small shops in every locality which used to be the base of Japan's retail marketing system
- According to the Census of Commerce, Japan there were a total of 1,024,018 different kinds of retail sales stores in operation during 2007 with total sales of ¥118,583 billon
  - Market share of top 10 retail stores was 25% to 31% depending upon the types of stores
  - The share of top 5 stores was about 20% and leading retail stores in different categories has maintained a share of not more than 6%
  - It indicates that individual Japanese retailers have retained relatively less share of total market sales compared to those of other large markets such as USA
- Sales of apparels by different kinds of marketing outlets in 2007 were: 36 per cent for GSM, 21% for departmental store, 17% for super market, 19% for specialty stores and 7 per cent for others

Table : Apparels Market of Japan: Structure and Composition (million US$)

	Wholesaler/GSM (a)	Departmental store (b)	Supermarket (c)	Specialty store (d)	Others (e)	Sub total f= (b+c+d+e)	Total (a+f)	Share (% of total)
Mens' cloths	**14,305**	**7,083**	**7,510**	**8,431**	**2,306**	**25,330**	**39,635**	**29.4**
Womens' cloth	**28,748**	**18,405**	**12,139**	**14,836**	**5,373**	**50,752**	**79,501**	**59.0**
Children's cloth	**5,637**	**3,088**	**3,475**	**1,962**	**1,441**	**9,967**	**15,604**	**11.6**
Total	**48,690**	**28,576**	**23,124**	**25,229**	**9,120**	**86,049**	**134,739**	**100.0**
Share of sales by different retailers	**36**	**21**	**17**	**19**	**7**	**64**	**100**	

Source: Author's calculation based on Takeyuki and Amane (2009)

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4.3 Marketing of Apparels

- The market share of top 30 category killers in 2005 was about 36%
  - Out of this, Fast Retailing Company, the largest category killers maintained a market share of 6.4%
  - Market share of Japanese category killers compared to those of US's big giants WALMART and K-Mart are relatively low
  - Presence of large number of retailers with less market share has lessened the scope for large volume sales at retail level
  - In other words, there is relatively less demand for large scale supply of individual categories of products from individual buyers and retailers
- Retailers and buyers, because of their lead role and for undertaking market risks, enjoyed the major share of margin generated in the value chain

- Top ranked retailing companies earned a gross profit of about 7-8% on their total sales
  - Companies ranked between 20 and 30 earned a gross profit of 3 to 5%
  - Using the economies of scale, large companies are able to enjoy a higher level of profit
- Structural differences between Japanese and US companies led the difference in terms of their yearly procurement plan, outsource orders to different companies and sales

Table : Comparison of Profit of Major Retail Companies

Ranking	Women's retail companies		Men's retail companies	
	Gross profit (average)	Gross profit as % of total sales (average)	Gross profit (average)	Gross profit as % of total sales (average)
1-5	138.5	8.4	105.5	7.6
6-10	41.5	4.9	50.4	7.7
11-15	33.6	8.08	5.43	3.83
16-20	17.2	5.4	15.3	6.1
21-25	17.2	7.8	14.9	3.5
26-30	5.4	4.4	2.4	2.7
Total	39.0	6.0	36.7	4.2

4.4 Import Structure and Trend

- Although the number of importing countries was as many as 125 in 2008 and it has shown an increasing trend, only a few countries possessed a share which was more than 1%.
  - Other than China major sources are Italy, Vietnam and Thailand
- During 1990s, Bangladesh's export to Japan experienced a downward trend while exports to USA and EU maintained a strong positive growth during the same period
  - Although a stable and relatively consistent growth for import from Bangladesh was observed since 2003, there is not much reflection of DF-QF market access of apparels

Table : Japan's Import of Apparels

Country	1995	2000	2005	2006	2007	2008	Rank in Japanese market (2008)
Total import	17482.1	18617.8	21188.1	22390.5	22595.2	24287.5	
China	10166.5	14194.3	17448.5	18677.5	18975.4	20459.1	1
Italy	1476.3	881.9	965.1	946.6	952.4	932.4	2
Vietnam	361.4	579.7	588.1	615.7	690.1	837.9	3
Thailand	466.6	259.8	236.7	241.3	213.3	239.9	4
Korea, South	1658.2	805.5	373.6	302.4	225.2	200.4	5
India	155.7	136.3	141.1	170.7	150.9	181.5	6
United States	991.6	421.9	258.9	226.6	167.5	152.6	7
France	362.5	228.5	191.1	170.9	165.4	148.2	8
Indonesia	381.9	208.6	115.1	135.5	123	134.6	9
Myanmar	1	4.6	52.7	71.4	95.5	132.5	10
Bangladesh	8.2	16.9	22.4	23.8	29.6	45.5	16
Cambodia	0.1	1.7	8.4	13.6	14.6	18.8	26
Sri Lanka	16.5	14.6	15.8	18.1	16.7	17.9	27

4.4 Import Structure and Trend

- Top 5 knitwear products accounted for about 50% of total imported knitwear products in 2007
  - Top 20 products had a share of more than 80% of total knitwear import. Comparable shares for wovenwear products were 30% and 66% respectively
- Major imported apparels products included products which are relatively medium-end in nature
  - For example, in case of knitwear products major items included jerseys, pullovers, cardigans, waistcoats, women's or girls' blouses, shirts and shirt-blouses, and T-shirts
  - In case of wovenwear products, major products included men's or boys' overcoat, men's or boys' suits, ensembles, jackets, blazers, trousers, women's or girls' suits, ensembles, jackets, blazers dresses, skirts and men's or boys' shirts
- Manufacturers of Bangladesh have not a large number of products to supply to Japanese market under the leading product-categories of Japanese market (top 5, 10 and 20 categories
  - More importantly, these products are not the major import items of Bangladesh
- Since a large number of these products are manufactured using non-cotton yarn such as synthetic and polyester yarns, Bangladeshi manufacturers would not be competent because of their specialisation in cotton-based yarn

4.4 Import Structure and Trend

- Japan's initiatives for providing support to LDCs in terms of duty free market access is likely to be less effective
  - Firstly, less tariff differentials between MFN rates and zero rate due to Japan's low level of industrial tariff (from 7-10% (at least for top 10 products of 61 and 62 categories)
  - Secondly, erosion of preference due to providing zero-tariff market access facilities to member countries of various economic partnership agreements (EPAs)
  - EPA members: ASEAN countries (Vietnam, Myanmar, Malaysia, Thailand and Indonesia), South American country Chile and North American country Mexico

Table : Japan's Import Tariff schedule for Selected Categories of 61 and 62 Products (as of June, 2009)

Statistical code		WTO	GSP	LDC	Economic Partnership Agreement (EPA)
H.S. code					Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, Philippines
6103.32	010	10.9%		Free	Free
	020	10.9%		Free	Free
6103.39	010	8.4%		Free	Free
	020	8.4%		Free	Free
6104.62	010	10.9%		Free	Free
	020	10.9%		Free	Free
6105.10	011	10.9%		Free	Free
	012	10.9%		Free	Free
	020	7.4%		Free	Free
6106.10	011	10.9%		Free	Free
	012	9.1%		Free	Free
	020	7.4%		Free	Free
6108.29	000	7.4%		Free	Free
6109.10	011	10.9%		Free	Free
	012	10.9%		Free	Free
	020	7.4%		Free	Free
6110.20	011	10.9%		Free	Free
	019			Free	Free
6110.90	010	10.9%		Free	Free
	020	10.9%		Free	Free
6115.94	000	5.3%		Free	Free
6203.32	100	12.8%		Free	Free
	200	9.1%		Free	Free
6203.41	100	10%		Free	Free
	200	9.1%		Free	Free
6203.43	100	10%		Free	Free
	200	9.1%		Free	Free
6203.49	100	10%		Free	Free
	100	9.1%		Free	Free
6204.33	100	12.8%		Free	Free
	200	9.1%		Free	Free
6204.52	100	10%		Free	Free
	200	9.1%		Free	Free
6204.62	100	10%		Free	Free
	200	9.1%		Free	Free
6207.99	100	10%		Free	Free
	210	!7.4% ~ (9%)		Free	Free
	220	!9.1% ~ 10%		Free	Free
6209.20	100	6.5%	Free		Free
	210	10%		Free	Free
	221	7.4%	5.92%	Free	Free
	222	9.1%		Free	Free
6212.20	000	8.3%	Free		Free

5. Changing Dynamics in the Japanese Apparels Market

5.1 Changes in Employment Structure in Japan and Impact on Consumers' Purchasing Behaviour

- The employment structure in Japan has experienced major changes since early 1990s with increasing participation of female members in formal jobs
- Participation of Japanese women in formal employment at an increasing rate has changed their behaviour for shopping
  - Such changes in consumer behaviour is also influenced by easy information access and development of different kinds of non-traditional methods for shopping
- Working people in Japan prefer to do their shopping after working hours
  - Unlike the traditional locality based shopping, working ladies prefer rail-station based shopping because of having less time for such activities

Table : Japan's Employment Structure

Year	Total	Male (% of total)	Female (% of total)
1990	74994	59.4	40.6
1995	77479	59.5	40.5
2000	77356	59.2	40.8
2005	76270	58.6	41.4
2006	76583	58.4	41.6
2007	76944	58.5	41.5
2008	76621	58.4	41.6
2009 (Jan.-Aug)	50332	58.1	41.9

- Purchasing behaviour of Japanese people is increasingly influenced by nature of engagement in formal jobs
- Traditionally Japanese corporate sector offered life-time contractual jobs. After the *bubble era* of 1980s, corporate sectors have turned back offering jobs for short-term instead of life-term contracts
  - New generation Japanese (called 'X' generation) are also interested to engage in short-term contracts in a particular job (Herbig, 1997)
  - Between 1997 and 2002, employment under permanent contract has declined by 10.1%, while employment under short-term contract has increased by 11.8%

5.2 Changes in Retail Marketing System

- Japan's retail marketing system is passing a transition phase where traditional small retailing stores are being replaced by large scale specialty stores
- Japanese consumers are mostly do their shopping in the stores located in train stations and in cosmopolitan areas
  - There is a growing demand for large scale shops in important shopping areas
- Prior to 1995, establishment of a large scale shopping complex for foreign companies faced difficulties as intended investor needed to take the no objection clearance from all shops in that locality
  - This law was amended in 1995 in such way that it created opportunities for foreign investors to establish large scale departmental stores in Japan at the quickest possible time
  - International chain stores such as Carrefour and Zara were set up after the amendment took place

5.2 Changes in Retail Marketing System

- Although SPAs and category killers are taking larger shares in Japanese apparels market, most of them are specialised in selected categories of items
- With such limited scope for selling different categories of products, retailers' were faced with limited capacity to import different types of items
- Unlike Japanese category killers, US and EU giant retailers have maintained large share of the market
  - This has provided scope for selling different categories of products at a large amount
  - Consequently it would create demand for substantial supply from suppliers

5.3 Changes in Demographic Structure

- Japan had a total population of 127.7 million in 2005
  - Total population of Japan is likely to decline in the coming years: by 2015 population would be 126.23 mil., by 2035 it would be 113.6 mil. and by 2045 it would be 104.9 mil
- With a very low birth rate of population which was even negative in 2008 (-0.4%), demographic structure of Japan has experienced rapid changes
  - 66.2% was within the age group 15-64 years in 2005.
  - About 20% of this age group was in the age 65+ years age category and 14% belonged to category of below 14 years
  - Number of aged population in Japan is likely to rise at 34.7% in 2045
  - Number of working population (aged 15-64 years) is likely to decline from 66.2% in 2005 to 54.4% in 2045

Table : Projection of Japan's Population (Medium Variant)

	Total Population (thousand)	Proportion (%)		
		0-14	15-64	65+
2000	126,926	14.6	68.1	17.4
2005	127,708	13.9	66.2	19.9
2010	127,473	13.4	64.1	22.5
2015	126,266	12.8	61.2	26.0
2025	121,136	11.6	59.7	28.7
2035	113,602	11.1	58.0	30.9
2045	104,960	10.9	54.4	34.7
2050	100,593	10.8	53.6	35.7

Source: National Institute of Population and Social Security Research Japan, 2002. Note: Population of 2000 is an actual figure.

- Gradual decline in population will squeeze apparels market in Japan
  - As a result, the ¥6030000 million worth of apparels market (in 2005) would turned down to ¥5840000 million by 2015 (-3.2% change) and ¥4650000 million by 2045
- Overall structure of apparels demand will change

5.4 Challenges Facing China's Export Competitiveness in Japanese Apparels Market

- Rise of wage of Chinese manufacturing workers is a major concern for Japanese buyers
  - Between 1999 and 2008, average wage of manufacturing workers has registered a rise of more than three times
  - During the period of 2005-2007 Textiles and apparels workers' wages in all kinds of factories increased by more than 15%
- Appreciation of Chinese currency is an added concern for Japanese buyers
  - Between April, 2005 and January, 2008 yuan has been appreciated on average by 4.8% every year. Consequently import from China is getting expensive
- Apart from economic factor, a significant number of non-economic concerns have been being taken into consideration by the Japanese importers
  - China is increasingly considered less secured due to rising health risks; especially after the outbreak of SARS in 2004 and *avian flu* in the following year

Centre for Policy Dialogue (CPD)

6. Recent Changes in Buyers' Decision as Regards Outsourcing of Apparels: Implications for New Sources

6.1 Recent Changes in Buyers' Decision as Regards Outsourcing of Apparels

- Japanese buyers have taken initiatives to diversify outsourcing locations. This initiative is largely known as 'China plus one'
  - An alternate location or several alternate locations are being selected by Japanese buyers within Asia
- Japanese buyers intended to relocate about 30% of their orders from China to these new sources
  - Estimate shows that the 30% import from China according to Japan's total import of apparels from China in 2008 (US$20459.07 mil.) is likely to be about US$6137.72 mil
- According to Yamagata (2009), the proportionate distribution of these 30% procurements would be as follows: 15% from Vietnam, 10% from Bangladesh and 5% from Cambodia
- The disaggregate estimate of this 30% export orders (equivalent to US$6137.72 million) would be (Table):
  - US$3068.86 million from Vietnam, US$2045.9 million from Bangladesh and US$1022.95 million from Cambodia
- If this could be realised, overall import structure of Japan will be substantially changed which will help these countries to diversify their export structure

Table : Changes in Japan's Import Structure after New Import Strategy

	Import in 2008 (in million US$)	% of total import in 2008	Proportionate change in import (%)	Amount of changes in import (in million US$)	Estimated total import (in million US$)	% of total import after change (base 2008 =US$24287.45 million))
China	20459.07	84.24	-30%	-6137.721	14321.35	58.97
Vietnam	837.87	3.45	15%	+3068.86	3906.73	16.09
Bangladesh	45.50	0.19	10%	+2045.9	2091.4	8.61
Cambodia	18.80	0.08	5%	+1022.95	1041.75	4.29
India	181.52	0.75	0%	0	181.52	

6.1 Recent Changes in Buyers' Decision as Regards Outsourcing of Apparels

- Technical and operational efficiency demonstrated by the suppliers in the US and EU markets is likely to be taken as a benchmark criteria for selection
  - Various other criteria include comparative advantage of those products, firms' capacity to comply with the requirement of Japanese buyers in terms of quality and standard of products, and capacity to provide additional orders
- It appears that not all the Japanese importers importing from China are in a position to relocate either a part or whole of their orders to alternate sources
  - Relocation from China would primarily face the challenges of relative longer lead time
    - Any relocation would face the benchmark lead time between China and Japan where it only takes three days to ship containers from Shanghai to Yokohama
    - In case of targeted seasonal short lived markets where short lead time is essential, buyers would find it difficult to relocate orders from China
  - More importantly, products which would be required in large volume and those with less sensitive to seasonality would be considered as possible outsourcing products to new locations
  - Retailers who deal with relatively small volume of sales orders would not be interested to relocate sources from existing one. Relatively large stores with voluminous orders are likely to prefer outsourcing a part of their orders to new locations

6.2 Implications for Bangladesh

- Buyers would consider a number of factors which include relative advantages of new sources in terms of unit price, revealed comparative advantages and capacity to get 'full packaged supply' and technical capacity to comply with Japanese standard
- Bangladesh enjoyed price advantages over China, Vietnam and India in 8 out of 10 knitwear products and 7 out of 10 wovenwear products
- Bangladesh is at a relatively advantageous position in knitwear products though not having a substantial difference with competing countries (especially in case of 610821, 610910, 610510 and 610610).
  - Bangladesh's advantage in case of woven wear products was much lower except those of 620920 and 620462
- Following the decision taken to diversify the import-base, there was a surge of Japanese buyers to Bangladesh
  - The lead role is played by Fast Retailing Company (FRC) Limited while other buyers have 'followed the leader'. Buyers who have started to placed orders in Bangladesh are Fast Retailing Company, MUJI, Mitsubishi, Itochu and Marubeni
- FRC has decided to outsource additional amount of supply outside China. By 2012, about 70% of its total import will be outsourced from China and the rest 30% will be outsourced from other countries such as Vietnam and Bangladesh
  - Its supplies from outside China would reach about 161 million pieces in 2012 from the existing level of 35 million pieces
- Large scale retailers, particularly GMS such as Ieon, Itoyokado and Shimamura, with their larger volume of import would be able to outsource more outside China

7. Constraints and Challenges Confronting Bangladesh in Accessing Japanese Apparels Market

7.1 Building Relationship with Japanese Buyers

- Japanese buyers usually prefer to work in a production network which is largely led by Japanese people
  - In view of establishing a long-term relationship with suppliers, Japanese buyers usually invest substantial amount at pre-manufacturing stage
- Japanese buyers prefer to deal with suppliers in their own way of businesses, which may not be the same that is followed by the buyers of US and EU
  - Japanese way of marketing based on trust though may not be considered ‘efficient’, it is preferred by the Japanese buyers as part of building long term relationship with suppliers

7.2 Accessing Appropriate Market Information

- Japanese buyers prefer to get adequate information about new sources before initiating new investments especially on benchmark condition of textiles and apparels industry
  - Available information on textiles and apparels industry of Bangladesh provided by major associations and government organisations seems inadequate
  - According to Japanese buyers, Bangladesh is almost unknown to them
- In order to introduce Bangladesh's textile and apparels industry to Japanese buyers and retailers, Bangladeshi companies specialised in textiles and apparels should take part in international exhibitions particularly held in Japan
  - Participation of Bangladeshi manufacturers in international exhibitions organised within (BATEXPO, Knitexpo, GARMEX) and outside the country (Germany, Spain, Osaka and London) has gradually increased over time
  - Bangladesh's textiles and garments associations need to participate more in Japanese trade exhibitions specialising on textiles and apparels, e.g. Japan International Apparel Machinery (JIAM) Trade Show and International Fashion Fair

7.3 The Demand for Maintaining 'Zero Tolerance' in Product Quality

- Japanese buyers usually like to maintain quality and standard of products at 'zero tolerance' level
- Such requirement may not be observed in case of products manufactured for other markets
- In a multi-cultural society standardisation of products is usually loosely defined. Buyers' specification about product standard therefore allows margin of error at a higher level (even 10%)
  - However, there is little room for a high margin of error in a homogeneous society like Japan
- A new supplier would find a large part of his/her products 'rejected' by Japanese buyer at the initial phase simply because of lack of understanding of the importance of maintaining the level of standard and quality
  - According to the experience of one Bangladeshi exporter, Japanese buyer's 'zero tolerance' level of standard would usually cost about 50% rejection at initial year
  - This level of rejection is, however, likely to decline over time with better understanding of suppliers and may come down to about 5%

7.4 Ensuring Compliance

- Japanese buyers put substantial focus on compliance related issues.
- One of the major compliance issues is related to preparedness of factories to safeguard against health problems
  - Japanese buyers take extra effort to ensure all kinds of health related safety of the workers.
  - Raw materials used for dying and finishing needs to be tested by accredited laboratories. Because of unavailability of such laboratories in Bangladesh, manufacturers need to test those materials either from China or Japan
  - Workers' health and safety related issues are also of concern to Japanese manufacturers
- Overall factories need to develop their physical and social compliances so that these factories would be able to comply with international standard of corporate social responsibility

7.5 Overcoming the Language Barrier

- Although proficiency in English language is considered standard norm and practice for dealing with buyers, such norm is not considered adequate for dealing with Japanese buyers
- Japanese buyers prefer to deal with suppliers in their own language in order to share all required information
  - In other way, lack of English proficiency is another reason for Japanese buyers to negotiate in Japanese language
- According to an official of UNIQLO, almost all Chinese mid-level production officials including merchandising officials working with Japanese buyers are proficient in Japanese language
- Proficiency in Japanese language is highly important not only to set dealings with buyers but to understand Japanese standard of production techniques, production process and product quality
- Unfortunately, not many merchandisers in Bangladesh are expert on Japanese market and fluent in Japanese language
  - A gap between buyers and suppliers as regards understanding of buyers' demand would create obstacle in building long term relationship

7.6 Curtailing the Prevalent Lead Time

- Bangladesh is at a relatively disadvantageous position compared to China and Vietnam in terms of lead time
  - According to a Japanese buyer, it takes only three days for Japanese buyers to receive orders shipped from Shanghai
  - On the other hand, it takes significant time for a consignment to reach Yokohama after shipped from Chittagong
  - Because of lack of direct shipment facility between Chittagong and ports of Japan, Bangladesh's products are transshipped at Singapore
  - In cases where production materials are to be imported from Japan, the whole process would take three to five months
- Moreover, according to a JETRO survey of 2008, shipment costs from Chittagong port to Yokohama port is one of the highest among 30 Asian cities (US$1600 for a 40 feet container)

7.7 Raising the Quality of Yarn and Fabrics

- According to Japanese textile manufacturers, the quality of yarn and fabrics manufactured in Bangladesh in most cases does not comply with the required standard for Japanese market
  - Firstly, major apparels items imported to Japanese market required better quality apparels which are not manufactured at a large scale in the country
  - Secondly, these apparels items are mostly made in synthetic and polyester and other man-made items, where Bangladesh is less competitive
- According to Japanese buyers, Bangladesh's yarn and fabrics in terms of quality and standard and prices are either sub-standard or expensive compared to those of China
- In order to comply with Japanese standard, Japanese buyers provide directions for procurements of fabrics and accessories, often such procurement takes place through import from China and other nearby sources
- As a result, a large part of products exported to the Japanese market enter without getting any preferential access because of failing to comply with the necessary requirements under RoO

7.8 Attracting FDI in the Textiles Sector

- Bangladesh needs large amount of FDI in the backward linkage textiles sector in order to meet the requirements of textiles in the export-oriented apparels sector
  - It was expected that a substantial investment from countries where textiles is regarded as sunset industry would target Bangladesh's textiles sector
  - However, not enough investment was finally realised. This is perhaps related to lack of adequate energy supply in the country
- Since Japanese textiles manufacturing companies such as Torei and Teijin have overseas affiliates in a number of East and South East Asian countries, these specialised companies could take initiative to set up synthetic yarn and fabric companies in Bangladesh
  - In this context following example is worth mentionable: in January 2009, Fast Retailing Co. Ltd and three other partner companies such as Pacific Textiles Holding Limited and Crystal International Limited both originated from China, and Ananta Group of Bangladesh has set up a company named CPAT (Singapore) Private limited with a capital base of US$80 million
- Attracting major Japanese textiles producers such as Torei and Teijin to Bangladesh will largely depend upon having sufficiently high demand for good quality fabric and yarn from local and international market

7.9 Raising Productivity of Workers

- Bangladeshi workers are experienced in manufacturing products which are suitable for US and EU markets
  - As a result, their skills are concentrated to manufacturing limited number of products
  - In this context, it is not always easy to get a workforce who could be employed for manufacturing new sets of products
- Workers may need to be trained in various operational techniques particularly stitching in order to be efficient in manufacturing such products
  - The cutting of fabrics, stitching and finishing of products are highly critical parts of operations that production management needs to understand
- In view of requirement of manufacturing non-cotton apparels at a large scale, workers need adequate training on stitching non-cotton apparels
  - Development of human resources particularly capable of working with non-cotton fabrics is highly required

7.10 Diversification of Manufacturing Capacities

- Bangladesh is strong in manufacturing large scale orders
  - However, it is poor in manufacturing small scale orders since small scale factories maintain poor standard
  - In view of expediting Japanese market, Bangladeshi manufacturers need to deal with small and large orders
- It is true that large scale Japanese GMS produces for their chain stores all over the world which require bulk scale production capacity of the suppliers
  - Since buyers are also interested to target small short-season market, there need to have state-of art small scale factories who could supply such small orders
- Available small units are either sub-standard or work under subcontracting arrangement with poor standard
  - Without necessary upgradation of their technological base and working environment, such factories would hardly possess any potentiality for Japanese market

7.11 Ensuring Technological Upgradation

- Manufacturers' investment for improvement in production process, techniques and backward linkage textiles should target not the high CM value; rather a new market with ample opportunities to diversify their export base
  - Japanese suppliers work under a long-term relationship providing technological know-how to its suppliers
- A major advantage for suppliers with Japanese market is to have opportunity to work with retailer's hand-in-hand in case of product development, production management improvement and workers' skill improvement
  - The manufacturers selected by UNIQLO are under a constant process of auditing of suppliers' manufacturing, financial and compliance standard
  - Japanese retailers, maintain a regular monitoring mechanism through its local offices. 'Takumi' who usually are expert on Japanese textiles and apparels regularly visit factories (even 5 days a week) in supplying companies
  - This would become an opportunity for Bangladeshi manufacturers to get the know-how from Japanese experts on textiles and apparels and thereby upgrade production base

8. Concluding Remarks and Policy Implications

8.1 Japanese Policy Perspective

- There is no denying the fact that Japan pursues a highly LDC-friendly policy
  - This is reflected in its market access policy (offer of DF-QF for 98.6% of products from LDC in the WTO, an LDC friendly GSP that includes apparels), generous aid policy (reflected in debt cancellation policy for Bangladesh and favourable terms of aid)
  - However, it is felt that Japan should provide additional assistance in terms of stimulating investment in Bangladesh and FDI flow that is targeted to the Japanese market
  - In this context, relaxing the two-stage criterion of RoO would enhance Bangladesh's export to Japan
  - There will be severe erosion of preference for LDCs in case of signing new EPAs; in this case Japanese government may consider maintaining sensitive lists which include products of LDCs interest

8.1 Japanese Policy Perspective

- Japanese ODA should be geared to targeting industrial development of LDCs
  - Japan's debt cancellation programme (DCP) in Bangladesh has mainly targeted agricultural, social and infrastructure related projects.
  - During 2009-10 Bangladesh government has allocated Tk.1128.56 crore in the ADP for FY2009-10 under the DCP: (31% lower compared to the previous year)
  - In this context, Bangladesh government in discussion with the Japanese government should strongly use the Debt Cancellation Programme towards industrial development
    - For example, human resources in the industrial sector, technological upgradation particularly for textiles and apparels, conservation of environment in industrial areas and improvement of productivity and efficiency of industrial workers
- As part of exchange programme, Japanese government may arrange short-term knowledge–sharing programme targeting Japanese specialists in textiles sector in view of establishing specialized textiles mills in the country

8.1 Japanese Policy Perspective

- Japanese government should encourage Japanese textile manufacturers to establish specialized textiles mills in the country
  - Bangladesh government may consider special incentives for setting up specialised textiles industries
- JETRO is working closely with manufacturers and it is increasingly contributing participation of local apparels manufacturers and others in various international fairs organised in Japan
  - JETRO should take more facilitating role in case of product development in textiles sector as per Japanese standard
  - It is highly important to introduce Japanese textiles manufacturers such as Torei and Teijin to Bangladesh's textile sector
  - In order to develop good quality textiles, JETRO may take joint progarmme with BTMA to invite Japanese textile engineers who would provide technical facilities to local textile manufacturers

8.2 Bangladesh's Policy Perspective

- All major stakeholders of the country need to set their strategies in view of new export policy and industrial policy
  - Export policy 2009-2012 reiterated importance of strengthening economic diplomacy. Bangladeshi mission in Japan should set target-specific strategies in view of introducing Bangladesh's major industrial products particularly apparels to major stakeholders in Japan
  - The mission should jointly work with BGMEA, BKMEA and BTMA as regards introducing them with Japanese major associations working in fashion, textiles and apparels
  - The mission should facilitate participation of Bangladesh's major apparels manufacturers in major international trade fairs organised in Japan
- BGMEA and BKMEA needs to take proactive role to enter Japanese market on a large scale keeping in view the changing market dynamics in Japan
  - A regular visit of these associations with Japanese major buyers and associations would reduce the information gap between the two as regards the potentiality of Bangladesh
  - Associations should encourage manufacturers to develop network with Japanese buyers for manufacturing relatively medium and high end products
  - Associations should take specific strategies targeting Japanese market for example introducing Japanese language programme for top to mid-level production management, organise regular visits of manufacturers to Japan, and invite Japanese associations on textiles and apparels to visit Bangladesh

Thank You!