

A NEW ERA AHEAD? REBOOTING BANGLADESH'S SUPPLY CHAINS FOR DIGITAL TRADE

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In July 2024, the world's apparel and textiles community breathed a sigh of relief as Bangladesh emerged from weeks-long uncertainty which triggered and followed the Prime Minister's resignation. There were rightly many calls for the international community, and especially foreign buyers, to stand together with the country's RMG (ready-made garment) industry to support factories to re-open and continue to provide the lifeline of jobs, incomes, and growth.

The situation has stabilized, and the new government is now in place. Political will appears high for rebooting the economy to break with the ills of the past, and put it on a firmer footing towards sustainable inclusive growth. Calls for a new era for Bangladesh could not have come soon enough for a textiles industry at something of a crossroads.

For sure, the local RMG sector has much to be proud of: it sustains millions of jobs, has created a thriving textile export industry ranked 2nd in the world, and has propelled the country towards middle income status. But it would also be wrong to assume that simply continuing on the same path is a sure way to continue to grow into the future. Even before the political upheaval, the demands of international buyers to lower prices, raise sustainability and protect worker rights were challenging even the most well run factories.

Can digitalizing the supply chain offer a way to answer these calls, without huge investments beyond the current industrial base? The answer depends on where the industry wants to stake its future.

Digitalizing trade and supply chains focuses on using technology to simplify and standardize procedures at the border, turning paper trails into flows of transaction data, and enabling end-to-end visibility of the goods and services under question. It builds on the customs single window by ensuring that the electronic documentation submitted to the government is globally interoperable, with structured data that can meet stringent traceability needs as well as enable trade finance.

And while using digital invoices or electronic bills of lading may not produce significant cost advantages to a single order, the embedded data in these forms do help build a "single source of truth" that is critical to clearance and financing. In the case of an eBL, its use can speed the clearance of the shipment in the destination port and can be essential in the process of financing even upstream shipments, when paired with tokenization.

Digital trade connects digitization efforts inside a factory, to the flow of data in the rest of the supply chain, thus producing data that could meet compliance, ESG and other new requirements. This is a step up from the manual, paper based or even digital platforms that are used, at extra cost, on factories which are already cost squeezed. In

other words, factories which have succeeded in digitizing and automating parts of their production process are well placed to excel in the new world of digital trade.

Digitalizing Bangladesh's trade would enable the country's manufacturers to accede to the new generation of trade ecosystems being formed around countries that have recently aligned to the Model Law on Electronic Transferrable Records (MLETR). This, together with the Model Law on Electronic Commerce (MLEC) basically permissions the use of electronic records in the place of key trade documents, including documents of title which contain legally binding performance obligations on the bearer.

Bangladesh's key trading partners have either aligned to the MLETR (and the MLEC before it), or are on the road to do so. This includes the United States, UK, China France, Germany, and Singapore. Most of the rest of the European Union have also implicitly agreed to digitalize trade, mainly through their participation in the WTO's E Commerce Joint Statement Initiative.

Economies accounting for over 37% of global GDP have already aligned to the MLETR, and another 26% have made significant commitments to do so. And even though many of Bangladesh's "competitors" in garment production and India have yet to make significant commitments in this direction, others such as Cambodia, have started their preparations.

Changing the law to legalize the use of electronic records in trade may seem simple enough: however the process of implementation is complex, drawing on changing the nature of work in Customs, finance and revenues, and trade and investment. The shift to digital in these areas requires education in order to drive a review of administrative rules and procedures with a view to simplifying and digitizing what is possible. The result is a change in mindset that may challenge old ways of working.

Indeed, there are concerns over the loss of jobs as a result of automation and digitalization, as port workers, factory workers, and even government officials worried that technology threatens their livelihoods. For sure, these concerns need to be addressed so that trade improvements are able to be shared with the affected workers. Training can help allay concerns that digitalization is less secure and subject to cyber security risks and scams.

On the upside, digitalizing trade is associated with increasing exports, improving trade access for small and medium sized enterprises, and ultimately helping to create structured data that can help bridge the trade finance gap. It could potentially propel Bangladesh's RMG industry into the leagues of supply chains which are fit for the future, and able to meet the array of demands for better data, traceability and sustainability.

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