AmCham JOURNAL
Volume 16 • No. 3 • July-September 2022

BANGLADESH MOVING FORWARD

MACROECONOMIC MANAGEMENT IN BANGLADESH
FIFTY YEARS OF BANGLADESH ECONOMY

INVESTING IN INFRASTRUCTURE
BANKING SECTOR IN BANGLADESH
ENERGY AND THE BANGLADESH ECONOMY

TRANSFORMATION OF BANGLADESH THE APPAREL SECTOR OVER THE LAST FIFTY YEARS

Engr. Kutubuddin Ahmed

Bangladesh, a country nestled within South-East Asia, has been a significant contributor to the entire global apparel sector. Right after it foundindependence in 1971, the country saw foreign clients interested in starting a garment-manufacturing hub. The country became busy trying to make an impact on the world– and it has done so quite impressively. Currently, with a proud "Made in Bangladesh" branding, the country finds itself in the top three apparel exporting countries in the world with a continuous incline despite numerous hurdles it has been through. With a strong and regimented labor force, relentless effort of the entrepreneurs,maintainingtimely quality supplies, and great client relationships, Bangladesh plans to move even further in the realm of apparel sector.

The Story Behind Today

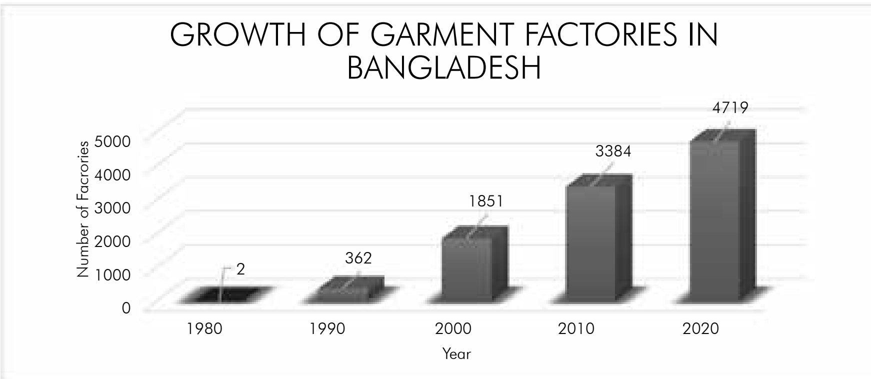
Immediately after earning independence in 1971, Bangladesh was a war-torn country with immense possibility of development. Needless to say, at that time, the RMG sector was not considered to be a potential export contributor, and 'Made in Bangladesh' was still a dream to be achieved. But surprisingly, our RMG export started right after the birth of our country. Let's talk about the challenges faced decade-wise[1], as well as the necessary steps taken to eradicate those.

In 1978, Reaz Garments Ltd[2], with its pre-independence experience of 15 years, started its export journey to France. This went down in the history of Bangladesh's export economy as the first direct apparel export. Soon afterwards, Desh Garments Ltd. became the first

[1] BGMEA Data
[2] https://www.tbsnews.net/feature/panorama/reazuddin-tailor-who-became-first-rmg-exporter-bangladesh-196057

100% export-oriented company in 1979, having partnership with a Korean company named "Daewoo Corporation". Around 140 people were sent to South Korea for further training. Before talking about the next decades, we should have a holistic idea of how large the industry has become now. Starting with only 2 functional factories at the end of the 70s, today we have more than 4700 factories (with 3200+ active) in Bangladesh (please refer to the following graph in this regard). That is an unprecedented leap and was unimaginable for anyone in this country back in the early eighties.

The 80s kicked off with the privatization policies taking place. A good number of thepreviously-mentioned 140 people who got trained in Korea opened up their own garment factories at one point. The early eighties were met with a revolution with back-to-back LC being allowed for much easier imports and exports. The Utilization Declaration (UD) was a change-maker in the form of policies as it allowed factories not to only import duty-free products but also do it much more easily and efficiently. This gave them access to bonded warehouses and ease of custom processes in borders and airports. They had strict measures to claim this only for export materials so no one could take advantage and sell products within the country.During this period, credit scheme was also introduced. But the infrastructure of the industry got hit by the infamous 1988 flood when the port itself and the leading roads to port were all inundated. Yet, with the help of government and air force, the orders were dispatched to keep the commitment to the buyers, which deeply impressed them. This, in turn, resulted in more orders from the buyers.



1 Data: BGMEA

In the early 90s, the compliance aspects came to light, especially the minimum-wage issue. As around the first half of the 90s, the USA initiated child-labor ban, which resulted in prohibition on importing from those countries where child-labor was still prevailing. Bangladesh began eradicating child labor, rehabilitating via free education. Hence, Bangladesh continued to receive uninterrupted orders from buyers. Different kinds of benefits, overtime, occupational safety, etc. issues were addressed. The compliant factories were slowly being shifted outside the capital.

A tense situation continued throughout the nineties up to the year 2004 due to the impending termination of MFA (Multi-Fiber Arrangement) quota, which had previously allowed us certain definite quantity to be exported from Bangladesh in different categories to the USA.

In the 2000s, this MFA quota problem was solved using a unique solution. Factories started volume-based production with bigger, compliant factories resulting in less marginal costs and higher efficiency. Economies of scale, higher dollar rate, better compliant industries and strong customer & buyer relationship helped us insalvaging the situation. Buyers' confidence also got increased and now they started to initiate further interaction. Nearing the end of this decade, world recession (2008) hit, and the government had to counter that with stimulus packages to try new markets outside the USA and offered export incentives as well as reduced license fee for generators. The industry soon entered the golden period and the employment in Ready-Made Garments (RMG) sector saw a steep rise.

Amidst all upheaval, Bangladesh's apparel industry has continued to make great strides. During the Rana Plaza incident in 2013 the sector came to a standstill not knowing what the future might look like, but Bangladeshi entrepreneurs took to the challenge and made vital reforms with the help of international buyers. With the work of the Bangladesh Accord and US-based Alliance in place, the country now has one of the safest environments among RMG manufacturers around the world. As of July 2022, Bangladesh now has 165 green factories[3] with the US Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED) certification, which is the highest number in the world for any country. According to Bangladesh Garment Manufacturers and Exporters Association (BGMEA), there are 50 platinum, 101 gold, 10 silver and another 4 LEED-certified factory buildings that make up this number, with around 500 more factories in process for LEED accreditation.

The next big challenge Bangladesh faced was the Covid-19 pandemic. During the early stages of the pandemic Bangladesh's apparel industry went through turmoil. The export growth that the country

[3] https://www.textiletoday.com.bd/bangladeshs-leed-certified-green-factory-jumps-165/

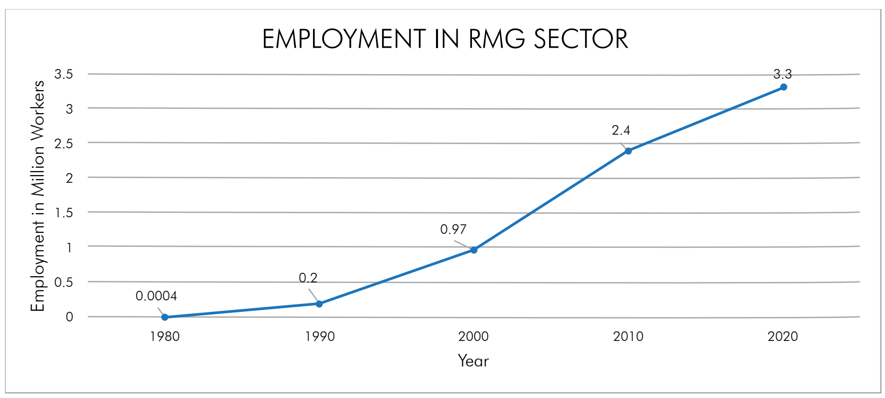
enjoyed for the previous ten years started to take a downward turn. Social distancing measures were put into place all over the world and people were restricted from free movement. The consequent events led to a drop in garment sales. According to a report by McKinsey & Company the global apparel sales went down 15-30% in 2020 compared to 2019. Bangladesh's apparel export in 2019-2020 shrank from 34.13 billion USD in 2018-2019 to 27.94 billion USD. Domestic producers also suffered a market loss of BDT 20-25 thousand crore as there were no substantial sales during national festivals at the heart of the pandemic period.

To fight the troubling period, the Bangladesh government announced a stimulus package of BDT 5,000 crore for export-oriented industries where the money was disbursed in form of salaries for the workforce. Additionally, BDT 30,000 crore was available at a reduced interest rate of 4.5% for all industries/enterprises including apparel sector as stimulus package. Even so, more than 300,000 garment workers lost their jobs. It became a great challenge for the government and the garment owners to guarantee the health and safety of the active workforce. Our government has successfully and efficiently carried out Covid-19 vaccination to inoculate the whole workforce including the apparel sector so that the industry would remain steadfast in its operation.

In the first half of 2021, Bangladesh's economy started showing signs of recovery with an increase in exports. Despite the lingering effect of the global lockdown, Bangladesh achieved a new record in apparel export in the 2021 calendar year. In 2021, the country's apparel export was 35.81 billion USD, more than the previous record of 33.07 billion USD in 2019. As we see from the following figure of fiscal years, the upward trend continued even in 2022.

Challenges: Today & Tomorrow

As we continue our stride in changing the perception of branding Bangladesh in western economies, the struggle continues. Whilst everyone was set to revert back from the pandemic crisis, the Ukraine-Russia war started. The ongoing war has had a widespread effect on the world economy and the problems arising from it are manyfold. The rising fuel prices have already added to the freight charges resulting in a rise of 300-400%, which is a key component of the apparel production overhead. Global supply chain has not returned to pre-pandemic status, adding more to the soaring price of raw material. At a time when manufacturing cost is ever high, the two biggest destinations of Bangladesh's RMG- the EU and the USA- are facing record inflation. With high commodity



2 Data: BGMEA

prices and lower purchasing power, it is expected that consumers will spend additional money on clothing items. Retailing giant brands have announced to cut down clothing prices reflecting the backlog of inventories. Our neighboring competitor India has seen a drop of 15-20% in export orders of garments and home textiles from the US and Europe as businesses have slowed down.

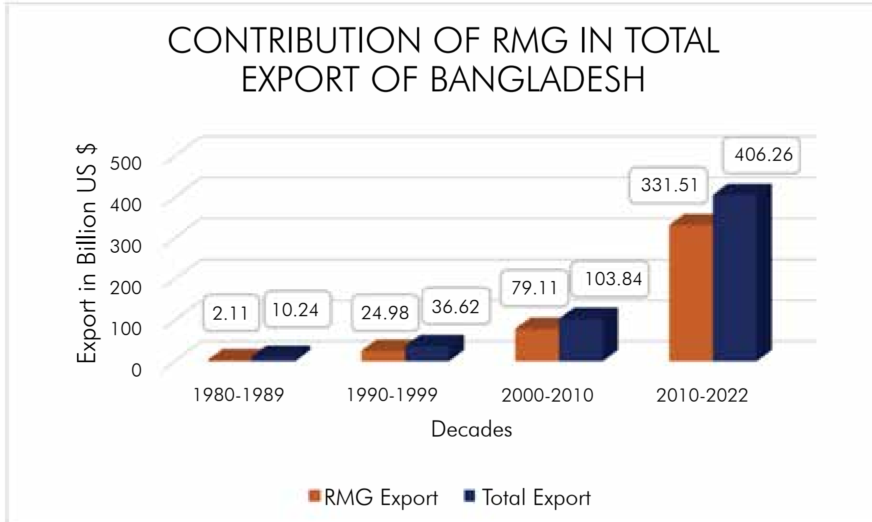
In a situation like this, some of the western buyers have started cancelling orders, with most of them asking for deferred shipments. Although the unit cost of products is now higher compared to previous years, buyers are also incentivizing lower prices.Again, the prince of cotton- which is the basic raw material for the apparel sector- has shown significant rise, nearly around 200%. Factories in Bangladesh, known for the most affordable prices in RMG manufacturing around the world, cannot continue to bear the brunt of such pressure for long.The country is also targeted to graduate to a lower middle-income country by 2026; with apparel exports accounting for 84% of the total export earnings, it is mandatory that the sector does not lose momentum in between.

It is also high time for Bangladeshi stakeholders to take preparations for beyond 2026. When the country graduates from Least Developed Country (LDC) status, it will lose duty-free and quota-free (DFQF) market access to RMG's main export destination which is Europe. Currently the EU market along with the UK holds for 60% of Bangladesh's apparel exports. This is now the core concern of the LDC graduation aftermath as Bangladeshi products remain in serious danger of losing competitiveness in terms of pricing. To overcome this situation, our official strategy should be to get Generalized Scheme of Preferences Plus (GSP+) facility from the European market. GSP+ will give the developing countries like ours a special incentive to pursue sustainable development and good governance.

The apparel industry commonly uses four types of utilities: electricity, water, steam, and compressed air. Currently, our main problem includes the instability and unsatisfactory quality of electricity. Recent energy crises have led this problem to deepen. Generators also require diesel or natural gas, both of which come very costly. We are already in shortage of natural gas which has worsened the situation.

The United States of America and Europe have always been the biggest customers of apparel exports for Bangladesh. However, their markets have recently shown instability due to the Covid-19 pandemic& Russia-Ukraine conflict where many buyers have failed to make payments on time, take shipments, and even demanded deferral payments. Buyers have also been unwilling to take orders as citizens of those regions have shifted their focus more on necessary goods like food and shelter. Bangladesh only exports about 12% to Asian markets, whereas there is a huge potential to grow.

It is important that Bangladesh looks for new markets[4] where it can expand its relations, especially in the cases mentioned above. The easiest marketsare the neighboring ones: Asian countries of Japan, China, South Korea, India, Malaysia, Thailand, and Indonesia. These countries have a growing demand for apparel and invest a lot in new fashion. With populous locations, growing and developed economies, these countries have willing buyers who are always in need of apparel with new design. Along with them, the countries of the Middle East could be potential customers to explore.The countries of Oceania (especially Australia and New Zealand), Russia, and Latin America are also great options to expand the horizon.



3 Data: BGMEA

BGMEA is continuously trying to improve Bangladesh's apparel sector: new ideas and projects are great ways to do that. The organization is currently working on making a 'Center of Innovation', which will aim to bring creative and advanced design tools for everyone's access. This will help improve the garment sector by making them more efficient and greener with advanced technologies and procedures. Along with that, more and more attention is now being given to research and development: having cleaner and better clothing is becoming easier. The apparel being produced now has a much higher product diversity with jackets, suits, lingerie, athleisure, wrinkle-free clothing, etc. The diversification happened naturally due to rising demand. This means more research and further technological developments will truly benefit the nation. With a central R&D hub[5] which will continuously focus on developing products, bringing new ideas and approaches, the country can benefit and stand out in the ever-growing competition.

Bangladesh's biggest competitor currentlyis Vietnam which is becoming better and better with its capacity to produce high-value items with innovative technologies and methods. As far as workforce is concerned, Vietnam is much more ahead than Bangladesh. Our country should address this issue by imparting training to our own workforce on a regular basis. However, Bangladesh is improving dramatically and is now moving towards higher tier products with high-value goods. The transcontinental country ofTurkey (presently, rebranded as Türkiye[6]) is an example of providing a total solution which includes manufacturing high-value apparels as well as offering the buyers incredibly quick feedback and top-notch designs. Bangladesh is looking forward to offering similar services in near future.

Going Forward

In the following decade, the industry needs to be ready for diversification in more than one aspect. The buyers must be approached with a portfolio of products offering varying levels of value. Also, our apparel sector should take strong initiative to cater big brands with quality and brand-new products so that their sales can be in comfort zone.

While producing high-end products the apparel sector will require reforms in the way business is currently performed.

[4] https://archive.dhakatribune.com/business/2017/08/24/export-bangladesh-yet-fully-tap-asian-markets

[5] https://www.textiletoday.com.bd/establishing-research-and-development-department-in-rmg-manufacturing-units/

[6] https://www.bbc.com/news/world-europe-61671913

It will be necessary to adopt the manufacturing processes to support quick product lines that are able to yield smaller quantities of goods without sacrificing quality. To do so, RMG producers need to invest in product development and newer technology.

Of the total garments produced in the world, more than 70% are made fromman-made fiber(MMF); whereas 74% of Bangladesh's garment export is made from cotton fiber. As cotton price has rocketed high, we should shift our focus to MMF to produce affordable apparel for the consumers in Europe and the USA.

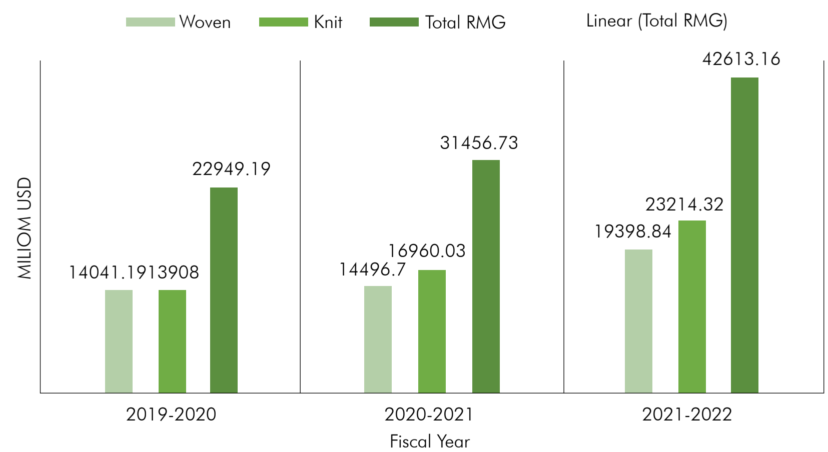
Bangladesh must keep a keen eye on the accelerated speed of technological adaptation in the apparel industry. The fourth industrial revolution will have a multidimensional effect on the sector. It will provide opportunities to develop significantly in terms of efficiency, productivity, and compliance. It will also put the role of unskilled labor at risk, as manufacturing in the RMG sector involves technological complexities that require only basic skills. Focus on advanced training, especially for female workers who will remain at a disadvantage due to lack of technical expertise, will help the industry as a whole to move towards a more sustainable, compliant, and value-added production.

We have a lot of scope to increase the efficiency of port for handling cargo and transportation issue. Government should take necessary measures to make the port cost-effective in comparison to the rest of the world. Port demurrage, shipping line demurrage and port charges can be reduced to become competitive. Besides, Railway transport needs to be more popularized. The overall system needs to faster & more affordable; frequency of trains and number of compartments should be increased.

Last but not the least, the success stories of Bangladesh must be told over and over again to the world with proper branding. Having the highest number of LEED-certified factories7 as well as 40 out of 100 top-tier plants8 in the world in one single country is something to be proud of. After four decades of continuous development, this sector has transformed to be one of the safest and most efficient business environments. Now, the brands and the retailers from every corner of the world have put their trust inour apparel sector. Whatever the challenge may be, each time Bangladesh has come on top through the collective effort of its people who have persevered and worked endlessly to uphold the name of their country on the world stage. This journey of constant development is what the brand of Bangladesh ("Made in Bangladesh") should be known for and actively promoted by Bangladeshi stakeholders.

Acknowledgement: Abdullah Ibn Mahmud, Ashfaque Ahmed Khan, TahsinTurja Islam

BANGLADESH'S EXPORT TO THE WORLD



4 Data: BGMEA

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The writer is a former President, Bangladesh Garment Manufacturers and Exporters Association (BGMEA), former President, Metropolitan Chamber of Commerce & Industry (MCCI), Dhaka; Executive Committee Member, International Chamber of Commerce (ICC), Bangladesh and affiliated member of the American Chamber of Commerce in Bangladesh (AmCham). Engineer Kutubuddin Ahmed also the Chairman of the Envoy Legacy and Sheltech Group

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8 Data: BGMEA