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Impact of recession on ready-made garments of Bangladesh: A critical analysis

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Abstract

The Ready-Made Garments (RMG) industry occupies a unique position in the Bangladesh economy. It is the largest exporting industry in Bangladesh, which experienced phenomenal growth during the last 25 years. Generally due to recession all the countries around the globe fell into the difficult situation and taking various steps to recover from it. Recession is a general downturn in any economy. It is associated with high unemployment, slowing gross domestic product, and high inflation. But Bangladesh showed the prominent growth in the earning of foreign exchange through exporting of readymade garments, foods and textiles. It is argued that this favorable outcome is due to two factors. First, the exports of Bangladesh are almost entirely consumer goods whose demand does not fall as sharply as income; and second, Bangladesh has acquired a competitive edge in the world apparel market. In this paper, we exploited the ways, concept and techniques which helped us a lot to overcome the difficulties and able to stabilize our economic improvement.

Keywords: Ready made garments, economy, export, BGMEA, EPB

Introduction

Ready Made Garments are mass-produced finished textile products of the clothing industry. They are not custom tailored according to measurements, rather generalized according to anthropometric studies. They are made from many different fabrics and yarns. Bangladesh, the southern Asian country has a population of approximately 164 million people. The economy of Bangladesh is significantly dependent on agriculture. But its a great news for the country that, readymade garments (RMG) sector of Bangladesh has raised as the biggest earner of foreign currency. This sector creates about 4.2 million employment opportunities and contributes significantly to the GDP. The readymade garment (RMG) sector is the backbone of the Bangladesh economy. The RMG sector is now the single foreign exchange earner of the country, earning 76% of the foreign exchange earnings. Readymade garments (RMG) of Bangladesh are powered by young, urbanizing, workers, where most of them are women. It is expanded significantly over the last three decades. Generally the demand of exports largely depends on the import intention of other countries. The recession that ravaged much of the world, especially the western world, during 2008 and 2009 had profound implications for export efforts, and hence economic growth, of the world. As the western economy moved in the negative growth zone, their imports plummeted. Consequently the exports of the rest of the world also plummeted. In this paper, we exploited the ways, concept and techniques which helped us a lot to overcome the difficulties and able to stabilize our economic improvement especially for our paper we selected two of most prominent foreign currency earner sectors RMG & Remittance.

Literature Review

Murshid and others (2009) [5] mentioned in their paper that two maintain sources of economic growth of Bangladesh have been manufacturing and servicing, both crucially dependent on the RMG sector. Thus any impact on RMG sector will adversely affect economic performance of the country. Several researchers were given emphasized on forecast or estimated export demand function.

Nur and others (2007) ^[6] estimated an export demand function for Bangladesh using bilateral trade data and applying co-integration techniques. Real exchange rate and real GDP were used as explanatory variables. Estimates were generated for five major countries. The estimates produced positive income elasticity for export destinations. However, the magnitude of the elasticity's varied widely among countries. Choudhury (2001) ^[2] estimated export demand functions of total exports and exports to fifteen major trading partners of Bangladesh over the periods 1972-73 to 1997-98. A simple log-linear form of the export demand function was estimated and unit value of exports and the weighted index of GDP were used as explanatory variables. Some other with mentioning is Ahmed and others (1993) ^[1] and Razzaque (2004) ^[4]. Haider (2007) discussed in his paper that, big buyer are interested in continuing and expanding their business and their business in Bangladesh if the short lead time and standards can be ensured. Recently, Murshid *et al* (2009) ^[5] in their paper addresses to the task of assessing the likely impact that the global financial crisis may have on Bangladesh. And they found during GFC the performance of RMG and remittance sectors are quite satisfactory. They also found few reasons for that but our present paper extensively searched the reasons behind the better performance of the above mentioned sectors. Taslim & Haque (2011) mentioned in their paper that in spite of global recession of 2008-2009 with exports of most of the countries declined an explosive growth of readymade

garments export confirm that Bangladesh is consolidating its position in the world market. Ekramol and others (2013) ^[10] mentioned in the research paper Economic Recession and Its Impact on the Bangladesh's Economy mainly in RMG and Remittance Sectors.

Objectives of the study

The main objectives of this study is to know-

- 1) Impact of the recent recession on Ready-Made Garments sector of Bangladesh.
- 2) The challenges Ready-Made Garments (RMG) are facing and will face.
- 3) Strength and competitive advantage of RMG industry of Bangladesh.
- 4) Prospects of Ready-Made Garments (RMG) in Bangladesh.

Scope of the study

The economy of Bangladesh is largely dependent on agriculture. However, in recent years, the Ready-Made Garments (RMG) sector has emerged as the biggest earner of foreign currency. This sector has developed rapidly because it is a labor intensive industry, ordinary technology; cheaper labor and small capital are required. The readymade garment (RMG) sector has experienced an exponential growth since the 1980s. In the 1980s, there were only 50 factories employing only a few thousand people but now there are 4328 garment factories in Bangladesh (See table-1)

Table 1: Year wise growth of Garment Factories & increase in employment Bangladesh-

Year	No. of Factories	Employment in millions of workers
2000-01	3480	1.8
2001-02	3618	1.8
2002-03	3760	2
2003-04	3957	2
2004-05	4107	2
2005-06	4220	2.2
2006-07	4490	2.4
2007-08	4743	2.8
2008-09	4925	3.5
2009-10	5063	3.6
2010-11	5150	3.6
2011-12	5400	4
2012-13	5876	4
2013-14	4222	4
2014-15	4296	4
2015-16	4328	4

Source: BGMEA Website

The sector contributes significantly to the GDP. The Readymade Garment industry of Bangladesh has become the largest foreign exchange earning sector, exporting apparel of all sorts to the USA, Europe and developed countries. USA is the largest importer of Bangladeshi RMG products, followed by Germany, UK, France and other E.U countries. The RMG industry of Bangladesh tells an impressive story about leadership of private enterprise and the country's successful transition to a major export oriented economy. The country registered its first apparel export in 1978, but the progress since the early 1980s has been simply phenomenal. The RMG sector contributes around 76 percent to the total export earnings. In 2007 it earned \$9.35 billion. This sector also contributes around 13 percent to the GDP, which was only around 3 percent in 1991. It also provides employment to around 4.2 million Bangladeshis, mainly women from low income families which affect their social

status. It has by now become a huge industry, earn the lion's share of the country foreign exchange and created the largest job opportunities for Our countrymen specially provided the largest formal employment for the women. Of the estimated 4.2 million people employed in this sector, about 50 percent of them are women from rural areas. In 2000, the industry consisting of some 3000 factories employed directly more than 1.5 million workers of whom almost 80% were female. The number of workers in garments sectors is increased day by day. In 1985-86 the total workers were. 20 million in 2007- 08 the number of garments workers in Bangladesh is 2.50 million. Not only in case of employment opportunities if we look at the total export and the export value of the RMG sector this it can be easily shown that how much RMG sector is earning foreign currency for Bangladesh (See table-2).

Table 2: Export of RMG sector against total Export of Bangladesh (in million US\$)

Year	Export of Rmg (In Million Us(\$))	Total Export of Bangladesh (In Million Us(\$))	% of Rmg's To Total Export
2000-01	4859.83	6467.3	75.14
2001-02	4583.75	5986.09	76.57
2002-03	4912.09	6548.44	75.01
2003-04	5686.09	7602.99	74.79
2004-05	6417.67	8654.52	74.15
2005-06	7900.8	10526.16	75.06
2006-07	9211.23	12177.86	75.64
2007-08	10699.8	14110.8	75.83
2008-09	12347.77	15565.19	79.33
2009-10	12496.72	16204.65	77.12
2010-11	17914.46	22924.38	78.15
2011-12	19089.69	24287.66	78.6
2012-13	21515.73	27027.36	79.61
2013-14	24491.88	30186.62	81.13
2014-15	25491.4	31208.94	81.68
2015-16	28094.17	34241.82	82.05

Data Source Export Promotion Bureau Compiled by BGMEA

From the table, it is shown that more than 80% of total export of Bangladesh is garments oriented. It is also visible from the table during recession total RMG export is remarkably increased. But it is also true that the recent global economic recession created a panic for the people who are engaged with the RMG sector as well as to the expertise in this sector. The RMG sector, which is accounts for more than 82 percent of Bangladesh's export earnings of Bangladesh.

Methodology

Particular research study questions

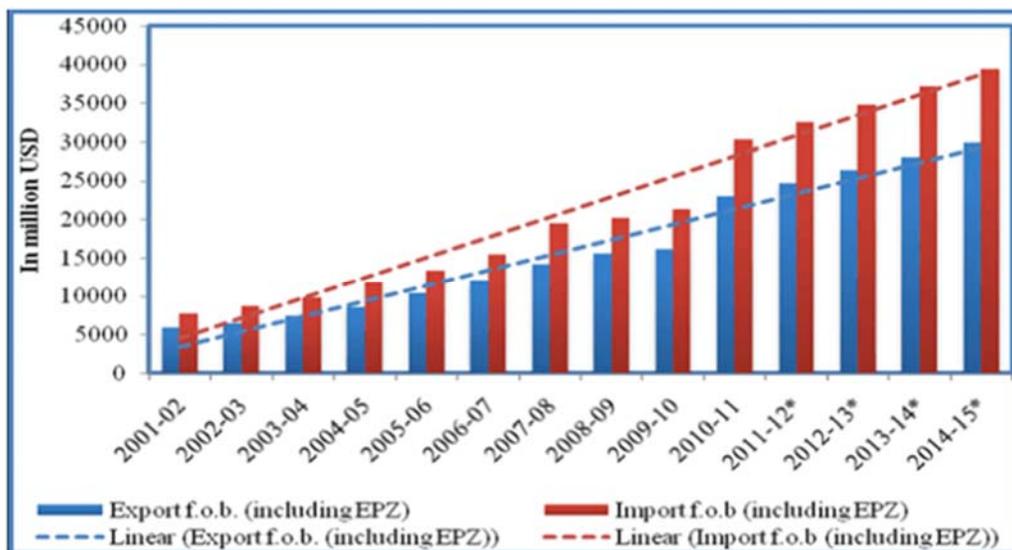
The research question is the guideline that helps to find out the objectives or purposes of the Study. Every research is conducted in the light of the specific question. The research question for the study is-

- 1) What is the impact of the recent recession on RMG sector of Bangladesh?
- 2) What types of challenges the RMG sector is facing and will face?
- 3) What are the problems for rapid growth of RMG?
- 4) What may be the recommendations to overcome these challenges?
- 5) What the prospects the RMG of Bangladesh has?

The research paper is exploratory in nature. Secondary and pertinent literature was reviewed for the study. Secondary data is carried out through detailed study of relevant websites, journal research papers, books, write-ups and reports concerning the RMG industry of Bangladesh by experts of various fields and theoretical knowledge.

Findings and Discussion

The position of RMG sector in Bangladesh economy is remarkable. It's seen that, from the last decade, RMG sector contributes to the national economy in considerable rate. About 76% of total export earnings come from RMG sector. From a statistics it's known that, in FY 2003-04 RMG sector of Bangladesh earned US\$ 5,686.06 million, in FY 2004-05 the value was US\$ 6,417.67.67 million, in FY 2005-06 the value was US\$ 7900.80 million, in FY 2006-07 the value was US\$ 9,211.23 million, in FY 2007-08 the value was US\$ 10,699.80 million, in FY 2008-09 the value was US\$ 12.35 billion and finally in FY 2013-14 the value stands at \$24.49billion.



Impact on RMG

The export of RMG sector plays an vital role in the socio-economic development of Bangladesh. We already have seen export earnings from this sector accounts for approximately 80% of Bangladesh compared to total export

earnings. The foreign exchange reserve of the country depends on the RMG sector, which plays a stabilizing role in terms of micro economic balance of the country (See table-4).

Table 4: Year wise export scenario of RMG sector (In million US \$)

Fiscal Year	Woven	Knit	Total
2004-2005	3598.20	2819.47	6417.67
2005-2006	4083.82	3816.98	7900.80
2006-2007	4657.63	4553.60	9211.23
2007-2008	5167.28	5532.52	10699.80
2008-2009	5918.51	6429.26	12347.77
2009-2010	6013.43	6483.29	12496.72
2010-2011	8432.40	9482.06	17914.46
2011-2012	9603.34	9486.39	19089.73
2012-2013	11039.85	10475.88	21515.73
2013-2014	12442.07	12049.81	24491.88
2014-2015	13064.61	12426.79	25491.40
2015-2016	14738.74	13355.42	28094.17

Source: Export Promotion Bureau (EPB) Website

From the table, it is very much clear that during the recent economic recession *i.e.* the year 2015-16 both in woven and knitwear sub sectors of RMG sector; the export performance

in monetary value is quite satisfactory *i.e.* the data is showing there was no adverse affect due to global recession. Even if we analyze country -wise export (See table-5)

Table 5: Country -wise Export (In million US\$)

Fiscal Year	USA	Germany	UK	France	Italy	Netherlands	Canada	Total
2005-06	3039.77	1763.38	1053.74	678.94	427.89	327.20	406.97	7697.89
2006-07	3441.02	1955.38	1173.95	731.76	515.66	459.01	457.21	8733.99
2007-08	3590.56	2174.74	1374.03	953.13	579.23	653.88	532.90	9848.57
2008-09	3693.40	2135.80	1222.92	969.80	522.28	907.80	587.05	10039.05
2009-10	3628.05	2000.08	1260.03	952.92	540.38	917.36	595.55	9894.37
2010-11	4625.16	3130.97	1759.87	1405.69	761.93	965.20	894.68	13543.80
2013-14	5141.38	4377.55	2598.04	1543.79	1179.14	680.00	1001.97	16521.87
2014-15	5288.12	4338.76	2903.57	1617.51	1243.33	626.58	928.76	16946.63
2015-16	5624.92	4653.13	3523.78	1714.31	1278.07	659.55	998.44	18452.20

Source: Export Promotion Bureau (EPB) Website

It appears that in 2015-16 USA secured the top position in respect of importing commodities from Bangladesh followed by Germany, UK, and France. During this period, goods worth US\$5624.92 million were exported to USA, which was 30.48% of the total export of the country. Though there are no facilities of GSP year by year growth is remarkable.

The above graph is showing that during recession period Bangladesh RMG sector did not face that type of problem which can create significant trouble in Bangladeshi economy. So, from this analysis we find that actually there is no adverse affect on RMG sector due to economic recession. Not only in recession period, was our economy not affected after the recession also. This research establishes the fact; what are the basic facts of a situation behind the RMG sector's positive export scenario. The main findings of RMG Sector are summarized below:

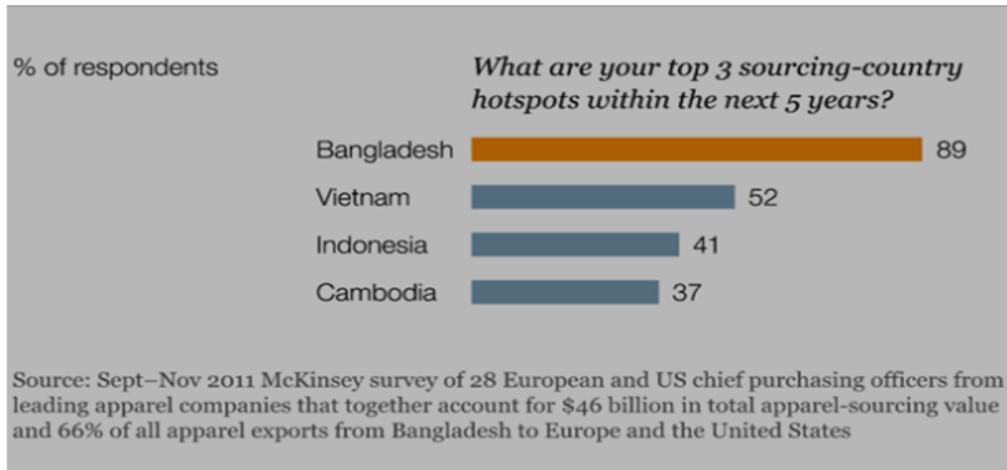
First: The Export Processing Zones (EPZ) are playing significant role in expanding rapid industrialization. Government has extended all its support and eased invested procedures such as offering tax holiday up to 10years, tax exemption and duty import of capital machinery and spare parts for export-oriented industries. The export oriented industries are entitled to receive additional foreign exchange on a case by case basis for publicity; campaign in opening overseas offices and participating in international trade fairs.

Second: Bangladesh expands its supply capacity and diversifying its export product to new markets to sustain its gains during recession. It is revealed that some new destinations with really promising growth rates would bolster our economy and lessen our extreme dependency on EU market. Like in Latin America, South Africa, Russia, South Korea, Malaysia too hold a great potential in our market expansion planning. In 2010, the growth rate to Brazilian market was 10.71% whereas in 2008 it was 10.32%. The same was the case as had been evident in export to Mexican market. In 2010, the growth rate was 6.94% whereas it was only 3.41% back in 2007. In Africa, we are landing in with strong footings. If the existing tax system in the African continent can be tweaked and brought to our favor, the Bangladeshi knitwear items would catch on there in the shortest span of time. Russia is heralding to be the most "accessible and lucrative" market for us as our export growth is increasing day by day. We hope to make something really tangible in Russian market following its recent entry into WTO. Besides, our export to Australia, Malaysia and Singapore are really so inspiring. Like in 2007, our export growth in Australian market was only 0.54% and in 2010 it stood at 3.50% worth of \$ 74.96 million.

Country	2010-11	Annual Growth 2006-2010	Projected Value in 2020 in Million Dollar
EU-27	6736.65	13.40%	23690.52
North America	1441.82	8.30%	3200.34
Non-Traditional Total	280.32	37.90%	6529.2
Latin America(LAIA)	137.98	21.22%	854.34
Others Market	645.69	5%	877.71

Source: ITC

The statistical figures produced above adduce the evidence that Bangladeshi knitwear items have great level of acceptability across the globe and more importantly, to the non-traditional and untapped markets that we have been in constant effort to occupy to diminish our reliance on EU markets. So we are of the opinion that if the positives ascertained from this statistical review can be effectively employed for the betterment of the knitwear industry, it will never be considered a chimera to supersede \$ 20 billion mark by 2020—turning this mission into reality.



McKinsey survey also reported that, with about \$15 billion in exports in 2010, ready-made garments are the country's most important industrial sector; which represents 13% and more than 75% of GDP and total exports, respectively. McKinsey forecasts, export-value growth of 7 to 9% annually within the next ten years, so the market will double by 2015 and nearly triple by 2020.

Fourth: Withdrawal of quota restriction on China at the end of 2008 are not creating obstacles for Bangladeshi exports to USA and EU market because the main advantages of Bangladesh over its competitors is its price. Low labor cost is one of the prominent factors for better performance of RMG sector. A labor cost is remarkably low in Bangladesh compared to other competing countries.

Fifth: By the end of 2008, the buyers started to search for new market, lower cost suppliers. Bangladesh is considered better than India, Vietnam, Cambodia and other countries. And Bangladesh has also backward linkage for knitwear. Thus Bangladesh has emerged as strong contender based on its good quality yeans, in addition to its low cost advantages and good quality workmanship.

Sixth: the most important features of Bangladesh RMG industry are its shortening lead time. Due to maintaining of lead time other international buyers are not diverting their attention towards other suppliers for the importation of RMG products in the Quota Free business environment.

Seven: Banking support such as, low interest rates as support for working capital so that salaries to workers can be paid and CAMEL rating of classified and industrial loans that was also another reason for that RMG sector was not affected.

Third: McKinsey survey, it's seen that 86 percent of the chief purchasing officers in leading apparel companies in Europe and the United States planned to decrease levels of sourcing in China over the next five years because of declining profit margins and capacity constraints. Also they said in that survey, "Western buyers are evaluating a considerable number of sourcing options in the Far East and Southeast Asia, many chief purchasing officers said in the survey that they view Bangladesh as the next hot spot". Many chief purchasing officers mentioned Bangladesh as the hot spot in the readymade garments market.

Eight: During recession Bangladesh diversified its export both in woven and Knitwear. The share of knitwear increased, within recession the RMG sector there has been diversification into different products; Bangladesh started on an exporter of shirts, and has subsequently diversified into trousers, Jackets, T-shirt and Sweaters.

Ninth: Currency devaluation of competing countries like Indian Rupee and Chinese Yuan also give some advantage to Bangladesh for the RMG export was not affected by economic recession.

Recommendation

- Duty free market access to European Union and United States & other markets.
- Remedy though Foreign Direct Investment (FDI) & Image building of Bangladesh to Attract Foreign Direct Investment (FDI)
- Exploration of new Export Markets, Bonded warehouse facilities, Duty free importation of raw materials of export in the RMG
- Avoidance of double taxation for joint venture projects, Income tax exemption for up to three years for foreign technicians
- Improvement of research and computer technology, All sectors of the industry will be modernized, Rehabilitated as much as possible,
- The policy calls for the establishment of many new factories and projects, but does not provide a scheme for financing them. It should be overcome.
- The lack of training and technology is mentioned, but no steps are suggested for enhancing the skills of the workforce and engineers, No suggestions are made for setting up institutions to conduct the technical and

marketing research needed to upgrade the quality of Bangladeshi products to make them more appealing in the international market.

- The need for the expansion of the Bangladesh's infrastructure such as road, port, and railway capacities to accommodate increased imports and exports is not mentioned, the great problems arising from the shortage of land on which to build the necessary factories is also not considered. The policy states that environmental pollution is negligible, but does not go further into the matter. However, it was very obvious to me on one of our factory visits that affluent treatment and disposal in the industry is a very serious problem. The need for more power is mentioned, but no plans have been devised on how the expansion will be undertaken.

Conclusion

The Ready-Made Garments (RMG) industry occupies a unique position in the Bangladesh economy. It is the largest exporting industry in Bangladesh, which experienced phenomenal growth during the 25 years. Given the remarkable entrepreneurial initiatives and the dedication of its workforce, Bangladesh can look forward to advancing its share of the global market.

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