



**Study on**  
**Expansion and Facilitation of the RMG Sector of**  
**Bangladesh**

May, 2018

## *Foreword*

The Readymade Garments sector, acts at present, act as the lifeline of the economy of the Bangladesh. It accounted for 81.23% of total national export earning in FY 2016-17. It has a great contribution in employment generation, poverty alleviation, women empowerment as well as in the overall socio-economic development of the country. The RMG sector of Bangladesh currently provides employment opportunities for about 4.4 million people, out of which 60.80% are women, mostly less-educated, unskilled or semi-skilled and migrated from the agriculture labour force from the rural areas of the country.

Since its beginning, the RMG industry has been contributing greatly to restructuring of the economy from an agro-based to an export-led growth-based one. Bangladesh is now on her way to graduating from the Least Developed Country (LDC) status to a developing country. The national development goal of Bangladesh, the Perspective Plan (2010-2021), sets the vision to make the country a middle-income one by 2021. In line with that, the RMG sector of Bangladesh has set the target to raise export earning to US\$50 billion by the said period, and has been acting as the catalyst to attain the goal. Despite the fact that the industry has been registering tremendous growth in terms of export earnings, several challenges both at domestic and at international-level, are impeding this sector from attaining its full potential.

After the lamentable collapse of Rana Plaza and an infernal Blaz in Tazreen Fashion, the country faced severe image-crisis. In addition, international Brands, Consumers, Labour organisations, Human rights ogranisations put pressure to ensure safe-working environment in the factory premises. Since then, with the support from the government, international brands, buyers, suppliers, entrepreneurs, and workers, the country has been working tirelessly to ensure a safe and sustainable RMG industry. The national and international reform platforms – National Action Plan (NAP), Accord (agreement between global brands and retailers based in Europe and the trade unions) and Alliance (agreement among retail and branded company, a majority of where are from the north American region) – have, all together, made visible progress to ensure workplace safety, and made substantial progress in taking measures in the area of Environmental, Structural and Electrical measures. The industry is still facing several challenges, domestically, in terms of inadequate utility facilities, domestic supply of raw materials, absence of vertically-integrated backward and forward linkage industries, port inefficiencies, shortage of supply of skilled labour force, etc.

From that perspective, this particular study has the aim at identifying the challenges and barriers the RMG sector currently faces in domestically, in conducting business, as well as in getting market access, internationally, and in particular the tariff and non-tariff regimes of export markets. Based on the problems faced by the sector, the study suggested some key policy Recommendations and proposed an Action Plan to reach the target. This, we believe, is a very timely initiative.

I would like to extend my heartiest congratulations and gratitude to the Export Wing, Ministry of Commerce, and the Task-Force for the RMG sector of Bangladesh, for bringing up this issue to conduct a Time-bound Study for Expansion and Facilitation of the RMG Sector of Bangladesh and entrust the Bangladesh Foreign Trade Institute (BFTI) with the responsibility of conducting the study. I would like to express my sincere thanks and appreciation to the Textile Cell, Ministry of Commerce, Directorate of Textiles, Export Promotion Bureau, BGMEA, BKMEA and BTMA for their valuable support provided to us, since the beginning of the study. It has been enriched by their expert opinions, comments and suggestions from time to time.

I would also like to express our deep sense of gratitude to the Honourable Commerce Minister, Mr. Tofail Ahmed, M.P., and the Secretary, Mr. Shubhashish Bose, for their encouragement, guidance and unstinted support throughout the entire period the study took to be completed.

The study is the outcome of extensive desk researches along with the detailed and extensive consultations with the relevant stakeholders of RMG sector of Bangladesh. I owe a debt of gratitude to the individuals who, on various occasions, have contributed to the study by giving us time for interviews and shared their valuable experiences with us, which definitely have enriched the findings of the study. On completion of the study, it was presented before the representatives of the stakeholders. They provided invaluable suggestions relating to different aspects of the study. We have incorporated all of them in this final version with a sincere note of thanks to all of them. They also greatly helped improve the quality of this final version. I would like, especially, to put on record my deep appreciation for the research team of the BFTI, for their untiring efforts to complete the study. Without their hard work, the report would not have been what it is now.

Finally, I, on behalf of the BFTI, would like to express my sincere gratitude to Mr. Abdur Rauf, former Additional Secretary, Mr. Tapan Kanti Ghosh, Additional Secretary, Export Wing and officials of the Textile Cell, Ministry of Commerce, and all other officials of the Ministry of Commerce, for entrusting BFTI with this very important assignment.

Dhaka, May, 2018.

Ali Ahmed  
Chief Executive Officer  
Bangladesh Foreign Trade Institute

## ***RESEARCH TEAM***

### **Supervision and Editorial Board:**

1. Mr. Ali Ahmed,  
Chief Executive Officer;
2. Mr. Amitava Chakraborty  
Director

### **Core Research Team:**

1. Mr. Tapas Chandra Banik  
Research Associate;
2. Mr. Md. Majbahul Islam  
Research Associate;
3. Ms. Benazir Rahman  
Asst. Research Associate;
4. Ms. Nahrin Rahman Swarna  
Asst. Research Associate;
5. Ms. Khaleda Begum Maiful  
Asst. Research Associate

### **Research Assistants:**

1. Mr. Recardo Saurav  
Jr. Research Associate;
2. Ms. Sadia Afroz  
Jr. Research Associate;
3. Ms. Farhana Rifat  
Jr. Research Associate

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## *Executive Summary*

The National Development Goal of Bangladesh (2010-2021), set the target to become a middle-income country by 2021. Bangladesh is also aiming to graduate from a Least-developed country to a Developing country by 2024. The Readymade Garments sector would be one of the major strategic partners for the development of the country and facilitate the graduation process with a Vision to export \$50 billion by 2021. According to the 7<sup>th</sup> Five Year Plan (2016-2021), total export of the country is expected to reach US\$58.5 billion by 2020, where contribution of RMG expected to be US\$ 46 billion. Historically, the RMG sector has huge contribution to transform the economy as an export-led one. In FY 2016-17, the RMG sector has accounted for 81.23% of the total export earnings of the country.

Although the sector has expanded and become the leader in the manufacturing sector in Bangladesh over the years, but the RMG sector, at present, is facing immense challenges both domestically and internationally. One major challenge although greatly overcome at a huge cost, to ensure compliance needs in factories, financing for remediation activities and long-term environmental sustainability of the sector. The sector is also facing difficulties in terms of market access facilities, specifically in USA, higher tariff and para-tariff barriers in different markets and stringent non-tariff barriers in major export destinations.

Besides these, the sector would soon face several challenges in market access due to preference erosion in major export destinations, hence increased competition and strict compliance and standard requirements once Bangladesh graduates out of the LDC status.

In this context, the sector requires special attention from the govt. in the form of policy support for the long-term sustainability of the sector. This study has identified some of the areas needing special attention from the govt. and has, therefore, sought to develop an action plan for it as well as for other development partners to formulate and implement some strategies to achieve higher competitiveness and long-term sustainability of the sector.

### *Global Scenario of RMG Trade:*

In 2016, the global market for RMG was approximately US\$ 444 billion with a negative growth rate of (-) 5.89%. North American countries like the USA, Canada, and EU are the major importers of RMG, globally. Some other developed and developing economies like South Africa, Brazil, Chile, Russian Federation, UAE, Qatar, Egypt, Japan, and Australia are emerging as importers of RMG, with some potential over time.

China is the leading RMG exporter, globally, with a share of, approximately, 36% of the global export. Bangladesh, Vietnam, Cambodia, India, and Turkey are the other leading players in the RMG export market, globally.

### *Bangladesh: 2<sup>nd</sup> Largest Supplier of RMG, Globally:*

Bangladesh, at present, is the 2<sup>nd</sup> largest exporter of RMG after China. In FY 2016-17, the volume of RMG export was US\$ 28.25 billion, comprising 81.23% share of the total export of the country. The export market of RMG products are concentrated, mainly on North America and the EU. The USA is the single largest export destination of Bangladeshi RMG products. EU stands, at top region-wise, as the export destination of RMGs with a share of about 62% of the total.

### ***Support Mechanism for RMG Sector:***

From the very beginning, the govt. of Bangladesh has patronised and provides enormous support for the expansion and facilitation of RMG sector. It is providing both policy, fiscal and monetary support through of special bonded warehouse and cash incentives for the export- oriented RMG sector. High-value added RMG and Garments Accessories sectors are consider as some of the highest prioritised sectors in the Export Policy 2015-18. The sector has also been enjoying reduced tariff rate facilities for import of construction materials, technology and capital machinery. Back to Back L/C facilities against the master L/C for sourcing raw-materials has been cushioning as the solution for inadequate working capital and benefiting the industries, especially the SMEs.

### ***Facilities for RMG Sector in Special Economic Zones and EPZs***

The Govt. of Bangladesh has taken initiatives to set up 100 special economic zones for inspiring export-oriented sector and if attract more foreign investment. The government is providing incentives to the investors and economic zone users under the Bangladesh Economic Zones Authority (BEZA), such as tax holiday, duty-free import of raw materials, Special bonded warehouse facilities, exemption from dividend tax after the completion of tax holiday, full repatriation of capital and dividend etc. The sector also enjoys several types of benefit for investment in the Export Processing Zones.

### ***Vision 2021 for RMG Sector of Bangladesh:***

Achieving \$50 billion dollars from exports of RMG by 2021, will lead to significant growth of backward, forward and other allied industries - bank, insurance, freight, port/ICDs, tourism, hotel, etc. Achieving the target would definitely have as great an impact on employment generation, especially for female workers as it well have on poverty reduction. The Vision also aims to increase the global market share of RMG from 5% now to at least 8% by 2021.

### ***Findings of the Study:***

#### ***CIS Countries: Tariff Liberalisation has Created New Opportunities***

Higher tariff rate was the major impediment to enter with our exports, especially RMG, into the CIS countries even a few months earlier. Russian Federation is the largest economy in the CIS region. The market of RMG import from Bangladesh to CIS region was dominated mainly by Russia. Although Russia is naturally the largest export destination among the CIS region Bangladesh couldn't explore the full potential in earlier, due to higher tariff rates. The recent initiative of Russia to liberalise her tariff rates has created new opportunities for Bangladesh to increase its RMG export in this market. In 2016, the country imposed 127.78% tariff on import of HS 610821 (Women's/girl's briefs and panties, of cotton, knitted), and 83.33% tariff on HS 610822 (Women's/girl's briefs and panties, of man-made fibres, knitted). But in 2017, the country has drastically reduced the tariff rates to only 4.58% for HS 610821 and 2.80% for HS 610822. **On the other hand, existence of several Non-tariff barriers, such as B211: Labelling requirements, B270: Other product characteristics requirements, B310: Certification requirement, F290: Additional charges, A830: Certification requirement may act as impediments to enter into this market. This, we think, should be taken of at political level, with probable help from the experts, with the Russian government so these barrier may be scaled down to facilitate the export of our RMG.**

#### *Oceania Region: DFQF Schemes Facilitating the RMG Export:*

Bangladeshi RMG export is increasing day by day in this region. Bangladesh has exported US\$ 660 million in 2014-15. DFQF schemes of Australia and New Zealand for LDC countries is acting as the catalyst for increasing RMG export from Bangladesh. However, high tariff rate in other countries like 32% by Fiji, 25% by Papua New Guinea and 20 % by Samoa on import of RMG are acting as the market entry barrier for RMG export of Bangladesh.

#### *Middle East: A New Horizon of RMG Export*

Bangladesh has potentials in Middle East for RMG export. But huge tariff rate on RMG import imposed by some competing countries of Bangladesh, namely Egypt (30%), Turkey (9.61 %) and existence of strict non-tariff barriers, such as B110: prohibition for TBT reasons , B210: Tolerance limit for contamination by certain substances , B220:restricted use of certain substances , B310: Labelling requirements, B320: Marking requirement, B330: packaging requirements, B600: product identity requirements, B700: Product quality requirements, B820: Testing requirements, B830:certification requirements, B840: Inspection requirements etc. are impeding the export RMG export from Bangladesh. BFTI strongly feels that in view of the challenges emerging at different fronts against RMG export from Bangladesh, the BGMEA and BKMEA, in cooperation with the govt., where necessary, should start exploring the markets, meeting the restrictions as the country's competitors do.

#### *Latin America: Most Emerging Export Destination*

Latin American countries, namely Brazil, Chile, Peru, Panama and Colombia are the most emerging export destinations for RMG export of Bangladesh. Countries like Ecuador, Argentina, Uruguay, and Paraguay etc. also have huge potential to enhance the RMG export share of Bangladesh. However, due to higher tariff rates imposed by Brazil (35 %), Ecuador (36.38%), Argentina (35.00%), and Colombia (15.00%) etc. the RMG export from Bangladesh to those countries are greatly hindered.

### **Strategies for Expansion and Facilitation of RMG Sector:**

#### ***Market Expansion Approach: Product-wise Potential Export Destinations-***

Targeting market based diversification strategies for export of RMG products, especially into the non-traditional markets (other than USA and EU), such as Australia, Japan, China, Russia, Turkey, Brazil, Mexico, South Korea, Malaysia, India, Argentina, South Africa, UAE, Belarus, Chile, Paraguay, Kyrgyzstan, Kenya, Nigeria, Qatar, Saudi Arabia etc, will bring fruitful results to enhance the RMG export of Bangladesh. Along with those, this study has identified some other potential markets that can be explored to enhance the RMG export of Bangladesh. Despite having huge potentials to enhance the export volume, high tariff and non-tariff barriers act as the major impediments for increasing RMG export from Bangladesh.

#### ***Product Diversification through High-value-added RMG products:***

Besides the bulk production of basic garments, Bangladesh should concentrate on producing high value-added RMG products (suits/blazers, lingerie, jackets, swimwear, sportswear, uniform, raincoat, fishing wear), as the demand for such fashion items have been increasing, globally.

#### ***Branding and Effective Marketing Policy could Bring Higher Export Earnings:***

Inefficient marketing policies, absence of own brand and poor negotiating capacity of the entrepreneurs caused lower price for the RMG products of Bangladesh compared to those other competing countries like China and India. The RMG sector of Bangladesh should go for retail product branding with progressive marketing strategy through ensuring quality-standard and analysing consumer preferences in selected markets across the globe. Retail branding will definitely widen the opportunity of price increases of the RMG products of Bangladesh.

### **Recommendations:**

#### ***Compliant Factories will Increase the Confidence of Buyers-***

To gain confidence of the international buyers and ensuring a good working environment through developing a specific and unified code of conduct to protect the basic human rights of the workforce is very much essential. Measures should be taken to ensure compliance facilities in the factory premises, such as ban of child and forced labour, ensuring fire, electrical and structural safety, compensation for injury, fixed working hours, right to formation of association and collective bargaining and management systems is a must. A lot has, no doubt, already been done in this regard, and RMG sector in Bangladesh can now rightly boast of one of the most compliant in the world. But the laggards should also be encourage to come forward.

### ***Green Initiatives to Ensure the Environmental Sustainability***

For a greener future, a more systematic approach must be taken by the knitwear industry towards environmental management that provides a plan to deal with indicators regarding environmental sustainability. The government, in collaboration with the private sector should develop a time-bound action plan for building Green RMG industry and provide some incentives both in fiscal and monetary terms to encourage more factories to maintain environmental balance. But it must not be forgotten that seven out of top10 LEED certified green factories are now located in Bangladesh.

### ***Reserving Separate plots for RMG Factories in Special Economic Zones***

To attract more domestic and foreign investment in the RMG sector, Govt. should consider to reserve some plots, separately, at an affordable price, for RMG sectors, especially for the new entrepreneurs. Uninterrupted utility service facilities, easier access for long-term financing and ensuring other fiscal and monetary incentives will definitely facilitate the new investment in the RMG sector.

### ***Attracting Foreign Direct investment in High-Value-Added Textiles:***

To attain long-term sustainability, RMG sector of Bangladesh should shift its current cotton-based production pattern to man-made artificial fibers-based production process, as these fashion items have huge demand in the world market, which continues to expand in by days. However, Bangladesh has to fulfill this demand through importing from foreign markets. In this context, attracting FDI in man-made fiber production, especially production of viscose, rayon, spandex, polyester, etc., domestically, will work as the long-run and uninterrupted supply chain for RMG sector of the country.

### ***Faster Completion of Remediation Activities of the Sector:***

Faster completion of the ongoing remediation activities to ensure the workplace safety in matters of fire, electrical and structural safety, will enhance the trust and reliability of the Brands and individual buyers toward the RMG sector of Bangladesh. The govt. with the support of different donor and development partners should take initiative to provide financing facilities, especially to

the SMEs to complete the remediation process as early as possible. Govt. also has to ensure and strengthen its monitoring mechanism for long-term sustainability of the sector. It should, however, we noted that a joint effort by the BGMEA, BKMEA and the govt., this remediation period has been given a deadline to complete their works. Only a few more months of that period now remains, as we write this summary.

***Technological Up-Gradation Fund should have positive impact on Expansion and facilitation of the sector:***

Initiation of Technological up-gradation fund to provide long-term credit facility at a lower interest rate, will encourage the entrepreneurs for technological renovation in the production process, which will, ultimately, increase the productivity as well as the competitiveness of the sector, globally. The govt. should consider to take such policy initiatives to ensure the long-run sustainability of the sector. While talking of technological innovation and up gradation to the globally more competitive, one must not lose sight of the probability of what is called “jobless growth” in such cases. In a country like Bangladesh, with a crying need for more job creation, technological up gradation, which necessary, should be brought about with proper caution and care.