Future growth of Garments industry in Bangladesh

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Export earnings of Bangladesh depend on mainly RMG sector. 82% of export earnings come from this sector. This sector contribute to the GDP is over 10%. The export earnings from RMG was 28.09 billion in FY2015-16. Bangladesh Government has set a target to achieve $ 50 billion RMG exports by 2021. Is it possible to achieve this target?

GROWTH HISTORY OF RMG IN BANGLADESH:

RMG sector has already occupied a unique position in the economy of Bangladesh which experienced phenomenal growth during last 25 years. Growth of last 20 years has given below:

Year	1995-2000	2000-2005	2005-2010	2010-2015
Export Growth	17%	8%	14%	10%

Source- EPB

This sector created huge number of employment over the years especially for women for whom the employment to population ratio increased from 22% to 34% between 2000 to 2010 which created enormous effect on our economy.

Employment Generation (Growth):

Year	1995-2000	2000-2005	2005-2010	2010-2015
Employment Growth	5.92%	4.56%	11.5%	1.2%

Source- EPB

CHALLENGE OF ACHIEVING TARGET:

To reach the government target of $50 billion by the year 2021, we have only four years left to play. If we can achieve growth at 15% rate in consecutive four years, Then It is possible. But last year export performance is not enthusiastic. The growth rate has already been slowed down in recent years. Export earnings from RMG in FY 2016-17 were $28.14 billion and growth is only 0.20 % which is short from the target of $31.00 billion. The reason of this decline is the fact that the price of garments is declining. Though the quantity of garments is increasing, quantity growth is not as good as expected due to ongoing remediation work. Many factories have already been shut down due to major non compliance of building safety.

Year	No of factory
2010-11	5150
2011-12	5400
2012-13	5876
2013-14	4222
2014-15	4296
2015-16	4328

Source- BGMEA

CAUSE OF DECREASE OF GROWTH:

Presently Bangladesh are exporting mostly basic and low value product. Though the history of garments in Bangladesh is over 25 years, no concentration has been observed in product diversification (medium and high valued product). So Bangladesh is competing against other fast growing competitor with same basket of basic product. Day by day competition is becoming fierce, Virtually Bangladesh is losing its competitive edge against its competitor. This sector has developed with access to very low labour cost. Average wage in Bangladesh in 2011 were 46% and 51% lower than that of India and Indonesia, the third and fourth largest garments exporter that time respectively. Wage rate in Bangladesh remained flat between 2001 and 2011. More recent 65% increase in minimum wage in December 2013 doubtlessly closed the gap with other competitor. On the other hand utility cost has also gone up. Government has increased gas price nearly 100% between 2009 and 2017 which is the main sources of power generation in Bangladesh. Government has planned to meet the increased demand of gas by importing LNG which will further deepen price situation.

Continuous increase of wage and utility price may cost Bangladesh out of garments production. Depending on cheap labour at home and duty free facility by some importing countries, Bangladesh may not go much far.

WEAKNESS OF BANGLADESH GARMENTS INDUSTRY:

Low productivity: The reason behind the development of garments in Bangladesh is labor intensive, ordinary technology, cheaper labor and small capital investment. Bangladesh has developed a lot in last twenty five years but still Bangladesh is far behind in productivity than it's main competitor china and Vietnam. In Bangladesh each garments workers accounts for around $5300. In Vietnam the figure is $7000. It is about 30% less against Vietnam let alone china. The reasons behind those competitors are using advanced technology, modern concept of production management, good quality management and better use of time.

Poor Management: Garment industry in Bangladesh is far behind from modern concept of production management and quality management. Result is huge wastage, rejection, excess production and less productivity which is contributing in higher product cost. Absence of talented and skilled manpower in the area of industrial engineering, production management, quality management and industrial accounting is the main reason.

Fast growing competitor: China is still the big player of apparels market. It is responsible for 37% of global apparels supply. In value it is $161 billion dollar. In recent years china is facing some difficulties. Labour cost in china is growing high and young generation is not showing much interest to work in garments factory due to hard labour and hazardous condition. But there are several reasons to believe that China will continue to play a key role in apparels sourcing. Moreover the one belt and one road initiative will give Chinese garments manufactures fresh relevance, for example: new rail line will significantly shorten transportation time to Europe.

Vietnam, Ethiopia and Myanmar are being considered for next garments manufacturing destination. In recent survey Chief purchasing officer of worlds big brands expected to be the top sourcing hotspots over the next five years are Bangladesh, Ethiopia, Myanmar and Vietnam. Export of Vietnam was 25 billion in the financial year 2015-16 which is very close to Bangladesh. Trans-pacific partnership agreement (TPPA) helped Vietnam to attract foreign investment in this sector. It would remove export barriers between USA and 11 countries bordering the pacific. Though it has been stopped by Trump government. But there is still hope to reactivate agreement with or without USA. This will help Vietnam to boost RMG export further.

Many of large brands have pledged to collaborate in building a sustainable apparels industries in Ethiopia thus avoid the mistake made in garments industries in other low cost country in past. Textile investment is pouring into Ethiopia helped by the shared vision of brands, manufacturers and fabrics mills, government support, preference trade deals, low cost. The price of electricity in Ethiopia just $ 0.03 per kwh which is the lowest in the world. To attract investor, favorable benefits are duty free imports of machinery, spare parts and raw materials along with zero tax on export and exemption from income tax in Ethiopia.

In Myanmar Growth of garments export in FY 2015-16 was more than 85% compared to last year. It has huge natural gas and wages are lowest in the world.

POST RECESSION USA AND EU MARKET:

Bangladesh exports garments mainly to US and European market. So condition of economy of these countries largely effects our exports. Post recession European economy's recovery is very slow. Unemployment in many countries in EU is still high, investment remains below the pre crisis level and credit growth is still sluggish. In the fiscal year 2016-17 Export to EU grew only 3.49% while growth was11.66% in last year. export to EU remain slow in this year mainly due to uncertainty around Brexit negotiation, national election in major EU countries, depreciation of Euro against dollar along with the other factors. USA is the biggest RMG market for Bangladesh. But Bangladesh is losing its market share in USA continuously against India and Vietnam. Bangladesh exported 1.77% less in 2016 in comparison to the export of 2015. In first 10 months of current year, Bangladesh exported 0.23% less than the same period of previous year whereas Vietnam increased its export by 0.87% and india increased by 0.11%.

CONCLUSION:

In an interview Top fashion executives defined the fashion industry in three words "uncertainty, challenging and changing." They also expect that dealing with volatility, uncertainty and global economic shift will be their great challenge in the immediate future. Many also expect challenge in sustaining sales and profitability growth and in facing fierce competition. Under these circumstances buyers are putting huge pressure on garments manufacturers for price cut and started to find out cheaper source for RMG import. Bangladesh fell into fierce competition with other garments supplying countries. Still there is a huge opportunity for Bangladesh to increase its export in US and EU market by supplying quantity which will be shifted from china. CPO (chief purchase officer) of big brands survey confirmed that Chinese share of apparels export is likely to continue falling. 62 percent sourcing executive of world brands said that they expect Chinese share of their companies sourcing to decrease between now and 2025. But Bangladesh needs tremendous improvement of productivity, capability and quality while ensuring social and environmental compliance, if we want to seize this opportunity.