

## GLOBAL RECESSION AND THE APPAREL INDUSTRY OF BANGLADESH

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### ABSTRACT

*This paper presents a detailed study of the current situation of the apparel industry of Bangladesh and the impact of global recession on the Bangladeshi apparel industry. Bangladesh is one of the leading apparel manufacturers in the world. The global economic downturn has had some adverse affect on this industry of this country, which contribute massively towards the country's economic growth. The major customers of Bangladesh's RMGs are the countries in Europe and North America. Current economic downturn has a big time negative effect on the European and North American economy. Therefore an economic downturn in these countries would have an effect on the RMG industry of Bangladesh. Now it is not necessary that the effects on Bangladesh's RMG sector would be negative. Bangladesh has to complete with various countries to sustain in the retail market of the West. We will try to identify the factors that are responsible for Bangladesh being able to retain those markets or not being able to retain them. We will try to come to a conclusion about the effect of current economic downturn and its effect on Bangladesh's RMG industry based on various statistical information.*

**Keywords:** *Recession, Readymade Garment Industry of Bangladesh, Impact of Global Recession.*

### 1. INTRODUCTION

Readymade garment plays a vital role in the economy of a country and very closely associated with the lifestyle of people. The economy of Bangladesh to a large extent is dependent on export of readymade garments. This sector not only earns foreign currencies for the country, but also contributes greatly in reducing unemployment by employing millions of workers. Global economy have recently suffered one of the worst calamities ever. Many of the developed countries have had hard times coming out of this adverse situation. Since the major markets of Bangladesh were badly affected by the recession, Bangladesh was also in the verge of being affected. However some factors such as low wage of labor, nature of products, and competitive advantage over other exporters, Bangladesh did not suffer extensively. This paper has highlighted the current situation of readymade garments in Bangladesh and the effect of global recession on this industry. Besides, this paper also covers some of the contemporary issues that are very important to draw attention of all concerned in this industry.

### 2. OBJECTIVES OF THE STUDY

The main objective of the research is to study the impact of global economic recession on the readymade garment industry of Bangladesh. In order to achieve the main objective of this paper, the following specific objectives need to be focused on:

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- Study the current situation of world's retail clothing industry;
- Role of readymade garment sector in the economy of Bangladesh;
- Identify the impact of global economic recession on the readymade garment industry of Bangladesh.

### 3. METHODOLOGY OF THE STUDY

Considering the nature of the study this paper is descriptive in its structure and therefore qualitative methodology has been used in conducting this research. Information has been collected from secondary sources such as research documents, articles, journals, online, annual reports and other such materials. The existing literatures have been studied thoroughly. Interview method has been used to generate ideas about the role of readymade garment industry on the economy of Bangladesh and the impact of recession on this industry.

The information has been presented in tabular and graphical format. The relevant information then has been analyzed for qualitative explanation of the matter.

### 4. LITERATURE REVIEW

Considering the fact that readymade garment is one of the most important sectors for the economy of Bangladesh, and the global recession has undoubtedly had an impact on this industry, many studies have been done on this subject by domestic and international scholars. However, this study outlines a combination of the importance of garment industry on the economy of Bangladesh and the impact of global economic recession on this industry.

Md. Salim Uddin and Mohammed Abu Jahed (2007), have studied how the RMG sector is contributing as the prime contributor towards the economic development of Bangladesh. They argued that the garments industry has been leading the country's economy since the early 1990s. As the largest export product, which makes up about three quarters of total exports of the country, this industry is an icon of the country's dynamism in the world economy. The industry is also the main non-farm sector creating employment opportunities for a large portion of the population of the country. This sector has played a vital role in creating working scopes for female, less educated population and has also caused a large population to migrate from the rural areas to the urban zones of the country. Thus, the garment industry is seen as contributing to poverty reduction in Bangladesh by providing employment opportunities with higher wages for the poor who would otherwise be engaged in low-wage economic activities in rural areas. There was much discussion about the survival of Bangladesh's garment industry prior to the final phase out of the Multi-Fiber Agreement (MFA) from 1 January 2005 which was expected to greatly intensify competition in the international garment market. One of the most influential forecasts was that only China and India would gain from the MFA phase out and that Bangladesh and other smaller suppliers of garments would lose out. Fortunately, there was no immediate major adverse effect in Bangladesh. Garment exports to the United States grew over the whole of 2005, while those to EU declined only slightly. However, the prospects for the industry in Bangladesh are not certain and the future trend in garment exports needs to be watched.

Dr. Greg Gajewski and Alex Riley (2005), discussed about Bangladesh's export trade practices and their effect on the competitiveness of the garment industry. They said, a wide body of evidence suggests that increased openness to trade and greater export competitiveness contribute to higher rates of economic growth. Export competitiveness depends, in part, on Customs and other administrative export trade practices, as well as on the efficiency of port operations and the transportation linkages between the ports and the main centers of export production.

A study by Munir Quddus and Salim Rashid looks at the aspects of garments exports from Bangladesh. They summarized that, the success of readymade garment exports from Bangladesh over the past two decades has surpassed the most optimistic expectations. The paper reviews the literature on this industry, presents recent data on the sector’s performance, and evaluates future trends in the international and domestic clothing industry. More specifically, the paper evaluates the negative impact of the 1998 floods on the industry. It concludes that although the impact of the flood was unexpectedly benign, the entrepreneurs face important challenges from the health of the domestic banking sector, the East Asian economic crisis, and the deregulation of the global clothing business as a result of the phasing out of the Multi-Fiber Agreement in the year 2005.

Mamun (2010) studied the impact of global recession on the RMG export to USA. In his study, impact of global recession has being studied under different criteria such as changing dollar value, profitability and modes of payments, order book situation, order value, value addition, changes in cash cycle, changes in expenditure on clothes by consumers, product diversification, and changes in sale of RMG.

He has also argued that the changes in buying behavior has resulted in a falling market indices, which eventually leads to a lower profit margin. Dr. Mamun has also identified some opportunities that maybe derived from this adverse global economic situation. Exporters can achieve newer markets through improved competitiveness by ensuring higher quality, product diversification, innovative marketing strategies, infrastructural development and exploring new markets.

Taslim and Haque (2010) concluded that even though Bangladesh had seen some reduction in the export of RMG products during some periods of 2009, the industry has emerged out of the global recession as a stronger and more efficient competitor in the world apparel market. Low labor cost is one of the main reasons for this quick recovery as they have identified. According to Jasin o’Rourke group LLC, Bangladesh was able to provide the lowest labor cost in the apparel industry which was a crucial factor at the time of global recession.

**Table: Apparel manufacturing labor cost in 2008.**

Country	Labor cost (USD/per hour)
Bangladesh	.22
Cambodia	.33
Vietnam	.38
India	.51
China	.55 – 1.08
Turkey	2.44

Source: Jasin o’Rourke Group LLC

In this particular study we will be focusing on the contribution of garments sector in the economy of Bangladesh and the involvement of women workforce in this sector. We will also highlight the ways to improve the efficiency of the labor force and the foreign earnings through the export of garments products. In the last part, we will have some recommendation as well as concluding remarks.

## 5. ANALYSIS AND FINDINGS

### 5.1. Global Recession

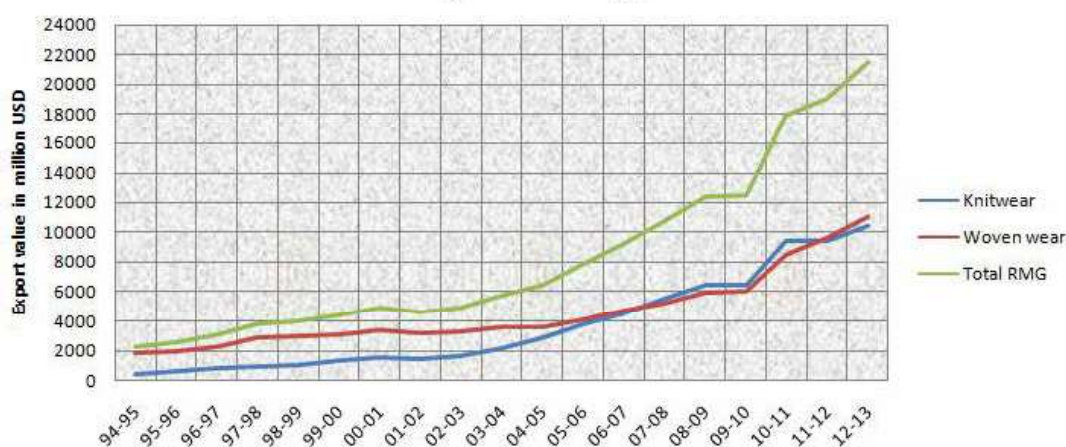
The whole world is talking about an economic downturn or a recession. It will be difficult to find a single country of the world which has not been affected by the economic meltdown that was initiated in the United States through a credit crunch. In May 2008, retail bosses in the United Kingdom warned that the UK was in the middle of a consumer recession. A consumer recession means less consumption among the population and the first party to be affecting in the cycle is the retailer.

On November 28, 2008, the Business Cycle Dating Committee of the National Bureau of Economic Research declared that a recession began in the United States in December 2007. Most would agree that the starting point of this recession that has spread all over the world. The United Kingdom and Ireland, being close trading partners of the United States, started facing the blow of the recession since the beginning of 2008. The US economy has experienced six recessions over the past 40 years. On average these recessions have lasted 10.7 months. The longest recessions beginning in November 1973 and July 1981; each lasted 16 months. The shortest recession lasted only six months beginning in January 1980.

### 5.2. The Apparel Industry of Bangladesh

**Textiles and Garments Sector:** Textiles and garments sector is the most important exporting sector for the country's economy.

**RMG Export of Bangladesh**



Source: BGMEA

Textile and garment sector in Bangladesh fulfils a crucial role in the country's economy. In the 2006-'07 financial year, this sector accounted for as much as 76% of the country's total exports. A total of 4.5 million people are being employed by this industry, accounting for 10.5% of the country's GDP.

**COMPARATIVE STATEMENT ON EXPORT OF RMG AND TOTAL EXPORT OF BANGLADESH**

YEAR	EXPORT OF RMG (IN MILLION US\$)	TOTAL EXPORT OF BANGLADESH (IN MILLION US\$)	% OF RMG'S TO TOTAL EXPORT
2005-06	7900.80	10526.16	75.06
2006-07	9211.23	12177.86	75.64
2007-08	10699.80	14110.80	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	78.60
2012-13	21515.73	27027.36	79.61
2013-14	24491.88	30186.62	81.13

Data Source: Export Promotion Bureau Compiled by BGMEA

Exports have been growing at an impressive rate in recent years. The government has also initiated some positive efforts in enhancing the competitiveness of textiles and garments in order to put the sector on a par with competing countries. A large investment has been made during the past few years, mainly in spinning. With the increase in investment, the level of productivity has also risen, providing support for local export oriented RMG units in competing on international market. Following are a few tables that will give us numeric information on Bangladesh's export of RMG.

**5.3. Impact of the Global Recession on Bangladesh's RMG Industry**

The focus of this paper is to shed light on the effect of this financial meltdown on the economy of Bangladesh and more specifically on the Ready Made Garment industry of Bangladesh. Bangladesh has a relatively controlled financial sector. The capital market is insulated from the global financial markets. There are only a small number of global intuitional shareholders in the market and the capital market mostly consists of numerous small local investors.

But there is no way of denial that the driving engines of Bangladesh economy are export proceeds and remittance receipts. The possible downside effects on Bangladesh may come in the form of decrease of export order and falling remittances receipts. The export earnings of the country depend on the purchasing power of the consumer of the importing countries. 85% of our total export goes directly to US and European countries. The financial crisis in these economies may decrease the demand of imports from our country. 75% of Bangladesh export proceeds come from export of basic readymade garments, mostly low end apparels and related accessories. The basic apparel requires limited purchasing power and is mostly income inelastic. Hence, Bangladesh is not likely to be affected as much as other developed exporters.

In fact the turmoil has extended further growth opportunities to Bangladesh RMG industry. The currency appreciation in China and accelerating cost of production of the other Asian countries like India, China and Vietnam gave Bangladesh a competitive advantage over its neighboring trade competitors. However risks remain there and we should not be complacent. In the 3<sup>rd</sup> quarter, the US GDP decreased at the annual rate of 0.3% because of sharp downturn in personal consumption



expenditure. This may call for adverse effects as consumer spending accounts for 70% of US GDP. With effect to that, the retail sales have been suffering and largest retail chains are shutting down sores across US and EU regions. Hence, even though we may think that Bangladesh's exports is not too sensitive to consumer demand and purchasing power, the exporter can face challenges in terms of decline in export prices, margin compression, increasing bargaining power of the buyers, sudden order cancellation etc. all these may have significant adverse effects on the our export earnings.

It is good news that our central bank has taken a number of pragmatic measures regarding foreign exchange management like shifting of denomination reserve from Euro to Dollar and moving of a large portion of reserve from troubled foreign banks to the central banks of different countries.

Even though the discussion so far and the information displayed do not show much to be worried about, the readymade garments manufacturers however, are claiming government support for the survival of the industry. According to the trade body for RMG sector, the buyers of RMG are getting offers at 17% of lower prices quoted. Bangladesh Garment Manufacturer and Exporter's Association (BGMEA) report that the total import of knitwear in US is down by 1.56% June-December 2008. The country had an overall export growth of 24.87% in that period. Now the question is how appropriate it is to ask for a government bail-out when the export of a particular sector decreased by 1.56%. The governments of competing countries like India, China and Pakistan have declared some support under different plans. But in order to justify the requirement for government bail-out on the basis of competitors, we have to analyze the circumstances in those countries. Besides the above discussion and analysis of the apparel industry of Bangladesh and the impact of global recession on it, the following findings can be derived:

- The apparel industry of Bangladesh is one of the driving forces for the economy of Bangladesh. But to a large extent the economy of Bangladesh is dependent on the export of apparel products. Due to this the economy lacks diversification which is very important for a stable economic development.
- Even though Bangladesh was not one of the worst affected countries during the recession of 2008-2009, some export oriented industries and supporting industries were affected without a doubt. Especially small companies that manufacture garment products based on small orders, experienced significant reduction in orders. Besides them, small supporting industries such as packaging, transportations etc. also suffered due to the reduced orders in the textile industries.
- The recent political turmoil in the country is causing more harm to the apparel industry than the global recession did. Due to political unrest on time shipment is being hampered, risk of product transportation has risen significantly, import of raw materials are being delayed. This may lead to serious consequences in terms of loss in profit and export income for the country.
- Lack of infrastructural support is one of the major concerns for the apparel industry of the country. In order to ensure best productivity, infrastructural supports such as transportation and communication, electricity and gas supply, technological support etc. are greatly required in addition to efficient labor forces.
- Some recent incidences in the apparel industry have put the greatest contribution towards the economy of Bangladesh in jeopardy. Number of incidents such as building collapses, fire in the factory and other safety issues has caused many lives. This is a major concern for the industry at the moment. These incidents may affect the industry even worse than the recession. Many of the major importers of Europe and the United States has urged Bangladeshi manufacturers to ensure safety measures to reduce such occurrences and have threatened to take serious measures if proper actions are not taken if safety is not ensured.

- Labor dispute is another burning issue in the readymade garment industry of Bangladesh. In the study on affect of recession on Bangladesh's readymade export, we have seen that Bangladesh had been an attractive location for manufacturing garment products due to its very low labor costs. But this low labor cost sometimes leads to labor unrest. Considering the level of inflation in the country, low wages cause financial stress among the garment workers, which often leads to labor unrest. The labor unrest is sometimes politically motivated though. These two factors combined may lead the country into further instability.

## 6. RECOMMENDATIONS

As we have found in our study the apparel industry and its export is playing a massive role in the economic development of the country. Recent global recession has affected the export of apparel products as the major customers are located in the developed world of Europe and North American, which suffered the world during this financial crisis. Even though Bangladesh's apparel industry suffered in this recession, it provided some opportunities to Bangladesh's manufacturers to increase quality and efficiency. However, attentions need to be focused on some more important issues that are causing harm to this important industry of the country. Considering these facts, the following recommendations can be made for the continuous development of the apparel industry of Bangladesh.

- With the development of the apparel industry, other export oriented sectors should also be given attention to ensure diversity in the industrial development of the country. Considering the fact that the low cost benefits that a country provides to foreign buyers may not last forever. As efficiency increases labor costs and other relevant costs are bound to go up. Thus low cost advantage in one industry cannot be enjoyed forever. Thus the government and relevant industrial bodies should put importance towards development of other industries which can provide a portfolio benefits to the overall development of the country.
- Even though the large corporation did not suffer a lot during the recession, many small and medium size companies involved in the apparel business suffered heavily. Some government initiatives are required so that the small and medium garment manufacturers and support providers do not suffer much during such economic crises.
- For a stable growth the garment manufacturing and export industry, a stable political situation in the country is of absolute importance. To ensure proper working environment, on time receipt of raw material, uninterrupted production, and on time delivery of the product, political stability is necessary. Both government and other political bodies should consider this and make sure that political unrest does not harm the country economically in short and long run.
- Massive initiatives are required for development of infrastructural support for garment manufacturing. Uninterrupted supply of electricity, gas, and other utilities are equally needed to support smooth production as well established roads, highways, waterways, transportation, and communication are required for smooth order processing and distribution of products. Development of infrastructure would not only increase the efficiency of the garment sector, but also would create a big boost for many other industries that may play a vital role in the overall development of the country's economy.
- Safety at work is of prime concern in the recent days. Ensuring a healthy work environment, irradiation of child labor, reasonable working hours, a wage structure adjustable to the country's other economic variables and a safe work place are some of the prime interests for both the importing countries and the manufacturers of garments. Initiatives are required at

both government and private levels so that these issues do not cause Bangladesh lose valuable markets in the West and thus the survival of this important industry is not put in jeopardy.

## 7. CONCLUSION

The global economic downturn has had some adverse effects on the readymade garment industry of Bangladesh, which contribute extremely in the country's development. Since the major buyers of Bangladesh's garments are the European and North American countries, global recession has definitely affected this industry of Bangladesh. But being one of providers of labor at the cheapest rate, the garment industry of Bangladesh was not affected greatly. In fact to some extent global economic downturn provided some extended export opportunities for garment manufacturers of Bangladesh. However there are other issues that are harming this industry, where attention from both government and private sectors is required. If this situation can be improved, the readymade garment industry can contribute even greatly towards the economic development of the country.

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