

# Business report on rmg sector

[Business](#)



We have successfully fulfilled our assigned report on Ready Made Garments sector of Bangladesh. Doing this report we have acquired some exclusive knowledge about the RMG sector and gathered experience by gathering and analyzing the information. Now we are submitting our final report entitled “Ready Made Garments Sector of Bangladesh: An Overview” as a compulsory part of this course. We have tried to put in our best efforts for this report and enjoyed working on this report and will be pleased to be available at any further explanation is required. Sincerely Nazmus Saqib Rayhan Abdullah Jahidul Islam Munjarin Hamid

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 20 years. The journey of export oriented Ready Made Garments industry started in the 80s with some favorable policy support from the Government of Bangladesh.

The growth and development of the RMG industry in Bangladesh was the result of an international “managed trade” regime in the apparel. The RMG sector is responsible for about 74% of Bangladesh’s export and hence an important driver of economic growth, employing approximately 2-3 million workers (mostly women) in nearly 5,000 production plants. RMG can be subdivided into the two main categories woven and knit. Competition, concentration tendencies among manufacturers and traders as well as the abolition of import quotas and restrictions for the EU market characterize the current international RMG market.

From 1980s and onwards women constitute the incremental absorption of labor in Bangladeshi export-oriented industry, particularly in the garment

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manufacturing industry. In the RMG industry, women comprise more than 80 percent of the total labor force. The approximately ten billion dollar of export oriented RMG industry in Bangladesh was largely developed during the last two decades. The favorable quota restricted market share in the EU, USA and in Canada along with the low cost easily trainable work force and entrepreneurial agility of this sector were observed. However, the phasing-out of the MFA in 2005 was considered as a doomsday for the apparel industry in Bangladesh. After busting housing bubble and disarraying the banking sector, the financial crisis is now hurting the real economies across the world.

Surprisingly, the Bangladeshi economy, which is moderately integrated with the rest of the world, is left largely unhurt by the financial tsunami. The textile and readymade garments (RMG) sector which drives the country's exports has not, to-date, been affected by the recessions in the United States and Europe. It is expected that demand for Bangladesh's RMG is not likely to fall, if not increase, during this downturn period, owing to the 'Wal-Mart' effect.

**Introduction BACKGROUND** The Readymade Garment (RMG) industry of Bangladesh tells an impressive story of the country's successful transition towards a major export-oriented economy. Starting its journey in the late 1970s with a relatively small investment, the industry flourished in 1980s and 1990s and has become the largest industry in Bangladesh. The contributory factors of the RMG industry in Bangladesh are global trading agreements, cheap labor cost, government policy support and dynamic private entrepreneurship. All these things have helped Bangladesh to gain a handsome share in the global garment business.

From early 1990s onwards the RMG industry has become the largest foreign exchange earning sector in the economy. In 2005-06, Bangladesh earned nearly \$8 billion by exporting garment products and RMG covers over 75 percent of the total export of the country, having the lion's share of the country's foreign exchange. Contribution of RMG is very positive in Bangladesh economy, sharing 13 percent of the total national GDP. Moreover the industry has become a vehicle for further industrialization of the country. After the end of the Multi-Fibre Agreement at the beginning of 2005 and the changeover to the New World Trade regime, it was feared that the Bangladesh's successful RMG industry would suffer, as it would lose business to countries like China and India. But fortunately for Bangladesh, so far this prediction has been proved wrong.

In fact, the industry has continued to grow at a healthy rate of approximately 20 percent. Now in Bangladesh, more than 10 million people's livelihoods directly and indirectly depend on this single industry and it accounts 40 percent of industrial employment. More than 2 million garment workers are working in approximately 4250 RMG units; of them over 85 percent are women. Despite the impressive performance, Readymade Garment Industry has several problems like lack of backward linkage industry, labor rights, lack of international corporate and social standards (CSR), high lead time in delivering readymade garment product etc. OBJECTIVES The objective of the report is to analyze the whole Readymade Garment Industry and find out the importance of this sector in our economy, how strong our garment sector in the global economy. In the post MFA era how well our readymade industry is doing.

What are the major problems in the readymade garment industry and how can we overcome those to ensure the growth of the sector. Global RMG market is very competitive now a day; many countries like china, Indonesia are making readymade garment products much cheaper than Bangladesh. So it has very tuff for Bangladesh to cop up with the global market.

Bangladesh needs to make quality product in a cheaper price to exist in the global competition. METHODOLOGY The study is conducted through Case study method.

The case study accounts what has been happening in a business or industry over a number of years. Britha Mikkelsen (1995) argues research and development issues are best understood in a multidisciplinary perspective. Case study allows multiple sources of evidence. Moreover Case Study research method is an empirical enquiry that investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and context are not clearly evident. Case Study method also involves detailed, holistic investigation; data can be collected over a period of time; data is contextual - relative to a certain industry; and it can use a range of ifferent measurement techniques (Davies, 2005). The report is conducted through a sociologically-oriented and coherent analysis of the following literatures: historical materials; trade and labour policy reports of Bangladesh; journals, research reports, scholarly reports; internet; newspaper and magazine reports; documents published by NGOs; and Bangladesh Garment Manufacturers and Exporters Association (BGMEA) activity report, project reports.

Given the nature of the study secondary materials are the chief source of data. An extensive but selective review of the relevant literature is completed. Research based on secondary data often runs the risk of being journalistic and often fails to be analytical. This research strives to rise above such superficial review and arrive at a sociologically minded and coherent analysis of the problem in question. ABRIVIATIONS ADB Asian Development Bank BBS Bangladesh Bureau of Statistics BGMEA Bangladesh Garment Manufacturers and Exporters Association BIDS Bangladesh Institute of Development Studies BKMEA Bangladesh Knitwear Manufacturers and Exporters Association EPB Export Promotion Bureau EPZ Export Processing Zone EU European Union FDI Foreign Direct Investment GATT General Agreement on Tariffs and Trade GDP Gross Domestic Product ILO International Labor Organization IMF International Monetary Fund LDC Least Developed Country MFA Multi Fibre Arrangement NGO Non Government organization NTB Non-Tariff Barrier RMG Readymade garment LIMITATIONS Actually, the truth is that, the limitations of this report are well concrete.

They have stated below- Time: It was one of the major limitations of this report. The subject matter of this report was so vast that despite of the time given, we have not included the entire aspects RMG sector as we expected earlier. However, we tried our best to present this report before the submission deadline. Inadequate Discussion: As a newcomer to RMG sector, we have taken considerable time to understand this business. To make a solid report we felt the urgency of collecting information. We believe that inadequate discussion is one of the limitations of the report.

Restricted Disclosure: The report would be very information worthy if we would have got the opportunity to make a comparative analysis with other industries. Nevertheless, the fact is, most of the Garment factories do not disclose the data in a separate heading in the annual report. Moreover, trend analysis of RMG business also lacks the historical data necessary to make a valid forecast. Most of the loans have launched in recent times. Lack of knowledge and experience: Honestly, we agree that making a comprehensive study RMG sector requires a great deal of experience, current economic and related industrial knowledge.

As B. B. A students, we do not possess that kind of knowledge and experience. PREVIEW In the report at first we discussed about contents of RMG industry of Bangladesh. Then we write the brief history of this industry and how did it boom over the period of time. After that we discussed the sub divisions of the industry where we tried to the idea of the produt type of RMG industry.

Then we gave an idea about the importance of this sector in Bangladesh economy. We also made a comparison of the RMG industries of the other countries with the local industry to have a clear idea about the status of it. Female participation is the most important aspect of RMG industry if we talk about the labor force. More than 80% of labor force is women. We discussed about this aspect as well. Recent global economic situation also highlighted in this report.

At the end we made a SWOT analysis of the RMG industry. The RMG sector of Bangladesh OVERVIEW OF TOPICS 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 20 years. By taking advantage of an insulated market under the provision of Multi Fibre Agreement (MFA) of GATT, it attained a high profile in terms of foreign exchange earnings, exports, industrialization and contribution to GDP within a short span of time. The industry plays a key role in employment generation and in the provision of income to the poor.

Nearly two million workers are directly and more than ten million inhabitants are indirectly associated with the industry. Over the past twenty years, the number of manufacturing units has grown from 180 to over 3600. The sector has also played a significant role in the socio-economic development of the country. The Agreement on Textile and Clothing (ATC) introduced in 1994, aimed at bringing textiles and clothing within the domain of WTO rules by abolishing all quotas by the end of 2004. It provides an adjustment period of 10 years, so that countries affected by the MFA could take the necessary steps to adjust to the new trading environment. Liberalization of trade following the Uruguay Round agreement presents opportunities as well as challenges for a developing country like Bangladesh in RMG sector.

In the Post-Uruguay Round period, traditional instruments of trade policy such as tariffs, quotas, and subsidies will become less feasible and less relevant. In a liberalized trade regime, competition among textiles and clothing exporting countries is likely to become intense. The objective of this paper is to identify the prospects of RMG industry after the MFA phase out by analyzing the current scenario along with different policy measures and the available options in order to be more competitive in the new regime. BRIEF <https://assignbuster.com/business-report-on-rmg-sector/>



**HISTORY**The journey of export oriented Ready Made Garments industry started in the 80s with some favorable policy support from the Government of Bangladesh. The growth and development of the RMG industry in Bangladesh was the result of an international “ managed trade” regime in the apparel.

Thanks to the quota restrictions, many companies were obliged to relocate their sourcing and production facilities in the low cost under-developed developing countries. The operation of MFA quotas in the process led to exporting opportunities in countries where textile and clothing were not traditional export items. Many international business firms, facing binding quota restrictions in their own countries, had relocated part of their production and trade to other relatively poor developing countries including Bangladesh. The quota system ensured the time to develop and learn the skills required in the production and marketing. Thus the RMG business started in Bangladesh as a result of a joint-venture between a South Korean and Bangladeshi firm in the late 70s as a negligible non-traditional sector with a narrow export base. Within five years of the start, it emerged as a promising export earning sector in the ‘ 90s.

Over the past two decades, RMG export earnings have increased by more than 8 times with an exceptional growth rate of 16. 5 percent per annum. In 2006, earnings reached 8. 93352 billion USD, which was only less than a billion USD in 1991. Excepting 2002, the industry registered significant positive growth throughout this period.

**RMG SECTOR OF BANGLADESH** The RMG sector is responsible for about 74% of Bangladesh's export and hence an important driver of economic growth.

RMG is by far the most important industrial sector of the country, employing approximately 2-3 million workers (mostly women) in nearly 5,000 production plants. RMG activity is mostly located in and around Dhaka (the capital) and Chittagong (the seaport). RMG can be subdivided into the two main categories woven and knit. The main product groups are: Woven • Casual shirts • Pants (also jeans, chinos etc.

), shorts and bermudas • Woven underwear • Outdoor jackets • Sports dresses Knitwear • T-shirts, polo shirts and sweaters • Pyjamas, knitted underwear • Pullovers (flat bed knits) The RMG industry in Bangladesh started booming in the mid-eighties. Soon it became Bangladesh's dominant export product. In fiscal year 2005/06, woven contributed circa 38% to total export and had a growth rate of 23%. In the same year, knit contributed circa 36% to total export and grew as much as 35%. Over the past years, the share of exported knitwear increased significantly compared to the share of woven garments.

This is mainly due to lacking availability of domestic fabrics for woven garments and insufficient export quality. In addition, the re-establishment of import quota for garment from China (till end 2007) benefited the export of knitwear in particular. The yarn produced in Bangladesh generally meets international quality standards and customer requirements because of the upper quality level of raw cotton that is used. The same goes for local fabric production. However, the local capacity for good quality plain and jacquard fabric is not sufficient.

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Woven has to import circa 75% of its raw material, while knit only has to import 10% of its total fabric requirement and circa 15% of its yarn. The quality of the RMG strongly depends on the technical equipment and qualification of the machine operators. Even with many garment factories (especially the larger ones) having excellent machine parks, the lacking qualification and efficiency of operators and line inspectors / production management lead to quality problems and a high share of rejects. In addition, many garment companies show a lack of marketing know-how in the fields of communication, distribution systems and/or customer service. Likewise, there is generally no independent pro-active customer acquisition by the manufacturer in Bangladesh. Contact and orders are usually established by the customer or his purchasing agency / buying office in Bangladesh.

The Bangladeshi garment sector is structured with two strong professional associations: the BGMEA (predominantly woven industry) and BKMEA (exclusive knitwear industry). The vast majority of the production plants are member of one of the two. Both associations offer basic services to their members (i. e. information and assistance concerning branch and company issues, support regarding customer or supplier contacts or lobbying with the government of Bangladesh) next to a few specialized services such as the BKMEA's annual knitwear exhibition.

In addition, both organizations have expressed their willingness to share information with new and interested Dutch traders and investors. Next to BGMEA and BKMEA, other important stakeholders are the BTMA (textile manufacturers), various chambers of commerce (such as the Foreign

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Investors Chamber of Commerce and Industry/FICCI), the Board of Investment, Export Promotion Bureau and the Export Processing Zones (EPZs). Foreign companies are registered either with the Board of Investment or in the EPZs. IMPORTANCE OF RMG SECTOR IN BANGLADESH ECONOMY

The RMG is the largest single economic sector in Bangladesh which contributes to 76% of national exports and 90% of manufacturing goods exports. [pic]

Table 2: Trend of RMG Export Volume, Export Growth and Contribution to GDP In terms of GDP, RMG's contribution is highly remarkable; it reaches 13 percent of GDP which was only about 3 percent in 1991.

It also plays a pivotal role to promote the development of other key sectors of the economy like banking, insurance, shipping, hotel, tourism, road transportation, railway container services, etc. The industry employs more than two million people, or about 40 percent of manufacturing sector employment, 90 percent of who are women which eventually helps the country's social development, woman empowerment and poverty alleviation.

The industry supports indirectly about 10-15 million people. Over the past 20 years, the number of manufacturing units has grown from 180 to over 4400, 95 percent of which are locally owned. FEMALE WORKERS IN RMG

INDUSTRIES Bangladesh is predominantly a patriarchal society, which defines male's superiority over female and the ultimate fact is women are dependent on and subordinated to man in all spheres of life.

Consequently, men practiced all sorts of power and authority on women in every aspect whether it is family, society or the state. The society is characterized by patriarchal principles of descent, patriarchal structures of family organization, the practice of female seclusion, and a marked

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preference for sons over daughters (Kabeer, 2004). One of the main features of patriarchal society is that purdah which refers to seclusion of women; literally means “curtain”. As an integral part of patriarchal belief system, purdah controls female space, role, behavior and as well as choice. As a result women have been forcibly or voluntarily excluded from public spheres including labor market (Murayama, 2005). Women are discriminated from their birth.

In general, girls get less attention in their families which reflect lower participation in every aspect of the society. It is more prevalent among poor families because of their ignorance, limited resources, religious misinterpretations, and many other forms. Often poor girls are malnourished, illiterate which make them less competitive throughout their lives. Till today, in the twenty first century, many women in Bangladesh especially poor women are not only been discriminated in access to education and employment but also in access to basic life preserving resources such as health and food. In fact, Bangladesh holds the top position in terms of maternal mortality rate in South Asia. Historically women’s contribution remained invisible in the public domain of Bangladesh.

Though women gained many more things which were restricted before but poorer sections of the women were neglected and ousted from the benefits of growing attention. Till today, women movements largely dominated by urban educated middle and upper class women. The rise of export-oriented garment manufacturing in the early 1980s brought first real opportunity for poor young women to work in the public sphere on a large scale. The RMG industry is generally considered to be a female-intensive industry, in the <https://assignbuster.com/business-report-on-rmg-sector/>

historical and cultural context of Bangladesh and introduced feminized labor force in the country. Most of female factory workers come from poor families and have migrated from the rural areas of Bangladesh in search of work. From 1980s and onwards women constitute the incremental absorption of labor in Bangladeshi export-oriented industry, particularly in the garment manufacturing industry.

In the RMG industry, women comprise more than 80 percent of the total labor force. Question may arise why large number of female workers are employing in RMG industry instead of male workers whose supply is also abundant? The most common answer is cheap labor cost in Bangladesh. Compare to other countries Bangladesh has an advantage of low labor cost and within the labor force cost of women's labor is cheaper. Paul Majumdar and Begum (2006: 3) argues that beside women's cheap labor, some gender specific concerns such as (a) women are patient and nimble; (b) women are more controllable than men; (c) women are less mobile and less likely to join trade union; (d) women can do better in sewing since the job coincides with their traditional jobs; (e) women are secondary workers etc. , would tend to encourage employers to recruit women in the garment industry. The reasons this workforce is predominantly female corroborate findings from elsewhere that women's disadvantaged position in the labor market is a " comparative advantage".

SWOT ANALYSIS OF RMG SECTOR Below a SWOT analysis of the RMG sector in Bangladesh is presented. The opportunities and threats mainly depend on the further development and commitment of textile and garment companies, strategies and activities of associations and the government and likewise on <https://assignbuster.com/business-report-on-rmg-sector/>

the developments on international markets. For that reason, the described opportunities and threats should be regarded as an indication for potential change and risks for the garment sector in Bangladesh. The strength and weaknesses on the other hand are rather factual and easy to observe.

Strengths | Weaknesses | | Competitive price-performance ratio (low production costs, basic | Lacking qualification structures in particular regarding: production| | experience regarding international quality standards, up-to-date | efficiency, quality standards, product development, proper use of | | technical equipment) | existing technical equipment, marketing skills, customer service and| | Local availability of yarns for knitwear and trims ; accessories.

management, acquisition, financing, controlling, planning and | | Good potential for development of competitive advantages for garment| management skills. | | manufacturers/suppliers e. g. concerning productivity, quality | Mainly concentration on RTU; relatively low profit per item, | | control, product development, customer service and management.

competitive disadvantage to other countries. | | | Insufficient domestic fabric supply; necessity of fabric imports and| | | high import duties for EU market.

| | Comparably high lead times due to: delivery times for imported and | | | domestic fabrics/yarns, slow customs clearance, insufficient | | |(although improving) capacity at Chittagong port and corruption. | | | Low financial power/access of SME's. | Opportunities | Threats | | Good chances for keeping or even increasing the Bangladeshi market | Risk of losing competitiveness on international markets if | | share (securing and creating jobs, attracting foreign currency and | manufacturing companies do not take development

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steps (move to RTS, | | investment, economic and social development). | pro-active customer acquisition). | Potential for higher value addition provided appropriate steps | Risk of losing the opportunity for know-how transfer, staff | | concerning the development of the spinning and weaving sector are | qualification and education in cooperation with international | | being taken and productivity increases among the manufacturers | customers. | |(higher flexibility, higher self sufficiency, extension of capacity | Political stability and investment climate: both should improve.

| and quality improvement without additional investments into | | | machinery). | | | Increase of potential, attractiveness and positive image of | | | Bangladesh and its RMG sector as a production and investment | | | location for international customers/investors. | FINDINGS From the above analysis we can find out that our RMG sector which is the most contributing sector in our economy has some problems such as Insufficient domestic fabric supply; necessity of fabric imports and high import duties for EU market. Low wages for the garment workers which demotivate the worker to work efficiently. Comparably high lead times due to: delivery times for imported and domestic fabrics/yarns, slow customs clearance, insufficient (although improving) capacity at Chittagong port and corruption.

Increasing international competition (quota phase out of China and market saturation in EU). Lacking qualification structures in particular regarding: production efficiency, quality standards, product development, proper use of existing technical equipment, marketing skills, customer service and management, acquisition, financing, controlling, planning and management skills. Conclusion ENDING SUMMARY The garment industry in Bangladesh has <https://assignbuster.com/business-report-on-rmg-sector/>



become the main export sector and a major source of foreign exchange since 1980. It currently exports about \$5 billion worth of products each year. The industry employs about 3 million workers of whom 90% are women.

Two non-market factors have played a crucial role in ensuring the garment sector's continual success namely (a) quotas under Multi-Fiber Arrangement<sup>1</sup> (MFA) in the North American market and (b) preferential market access to European markets. The whole procedure is strongly related with the trend of relocation of production. CONCLUSION Readymade garment industry is very important in the Bangladeshi economy. To sustain its growth we have to take many measures. We have to make background linkage industry for the garment sector, which consists of cotton and fabrics supply. Quality of the product should be increased to cop up with the global competition.

We have to make best possible readymade garment product in the lowest cost. We should have to decrease the lead time both for import and export of fabrics and yarn. Banking sector should have to act positively in the favor of RMG sector by landing loan in simple agreement. Readymade Garment Industry should have to look forward to make their own global brand except working for the global brand giants. Political stability and investment climate should improve to attract more direct foreign investment in the RMG sector.

Minimum wage of the worker should increase to 3000 to improve the efficiency of the worker and meet the international standard. Government should have to give duty free access to import RMG raw materials. Delivery time which is very crucial in this sector should have to decrease by

modernize the Chittagong port and making an offshore port.

RECOMMENDATIONS Readymade garment industry is very important in the Bangladeshi economy. To sustain its growth we have to take the following steps: We have to make background linkage industry for the garment sector, which consists of cotton and fabrics supply.

- Quality of the product should be increased to cop up with the global competition.
- We have to make best possible readymade garment product in the lowest cost.
- Should have to decrease the lead time both for import and export of fabrics and yarn.
- Banking sector should have to act positively in the favor of RMG sector by landing loan in simple agreement.

Readymade Garment Industry should have to look forward to make their own global brand except working for the global brand giants. Political stability and investment climate should improve to attract more direct foreign investment in the RMG sector.

- Minimum wage of the worker should increase to 3000 to improve the efficiency of the worker and meet the international standard.
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