

RMG Industry of Bangladesh

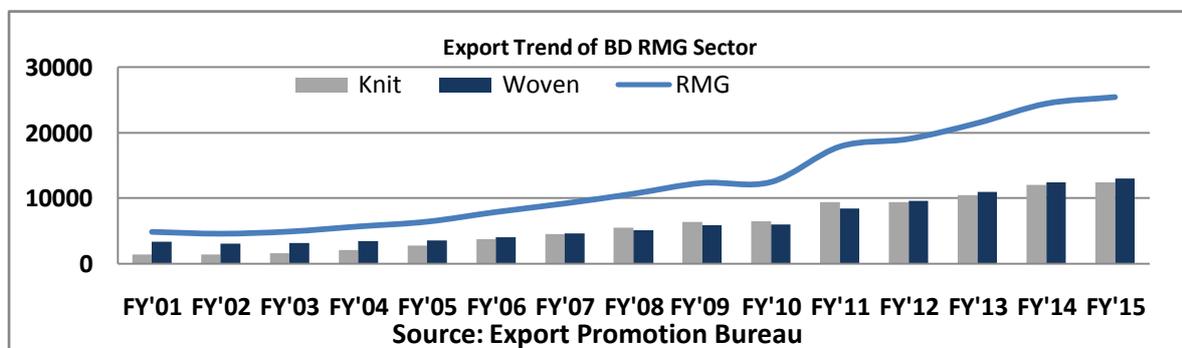


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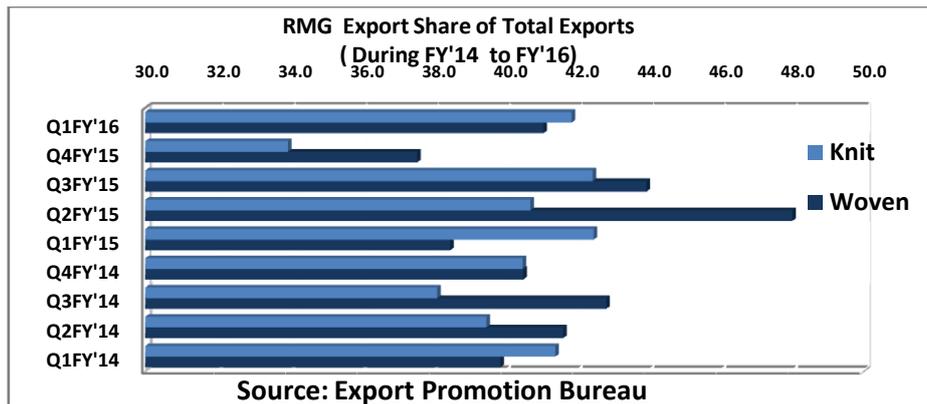
B.1. RMG Industry overview

RMG Industry of Bangladesh has developed on the foundation of wider demand spectrum driven by macroeconomic outlook of major export destination synchronized by evolved pricing strategy, quality and relative development of backward linkage support. Bangladesh received more than three fourth (about 81.7%) of total export earnings from Readymade garments (Woven and Knitwear). In the 2015-16 (July to November) Bangladesh earned total 10462.76 million US Dollar where at same time in 2014-15 earning from RMG sector was 9691.25 million dollar. It was a growth of almost 8 percent comparing to same time of the previous year. The RMG export growth in July-November, FY 2015 was mainly driven by



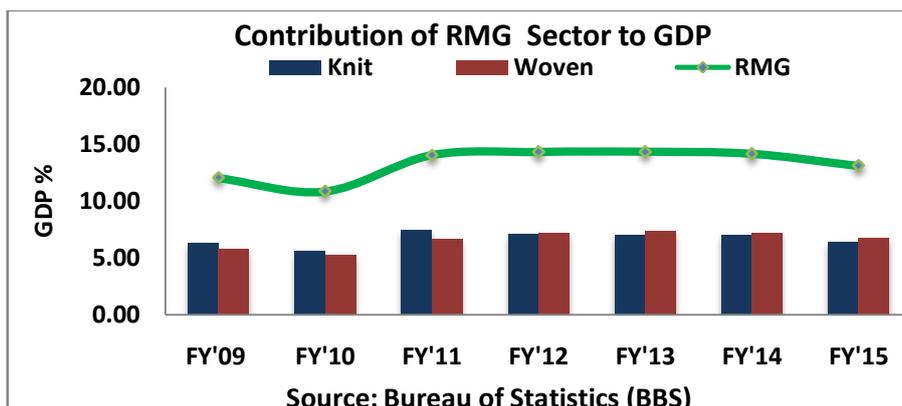
increase of the export of woven garments. However, against the target of July-November, 2015, total RMG export growth increased by 0.5 percent. The export of knitwear garments was 2.60 percent lower than the target level while woven garments registered 3.77 percent growth against the target. According to EPB during July-November FY 2016, 40.7 percent and 40.6 percent of total export earnings received respectively from woven and knitwear. In FY 2015, share of these two subsectors in total export earnings were 41.4 percent and 38.9 percent respectively.

In July-September FY16 first quarter earnings from woven garments stood at USD 3189.12 million, which is 2.19 percent and 4.78 percent higher compared to previous quarter and July to September FY15 respectively. It is 6.53 percent lower than targeted export earnings from this subsector. In July-September FY16 first quarter earnings from Knit garments stood at USD 3250.11 million, which is 15.18 percent and 2.15 percent higher compared to previous quarter and July to September FY15 respectively. It is 1.28 percent Higher than targeted export earnings from this subsector.



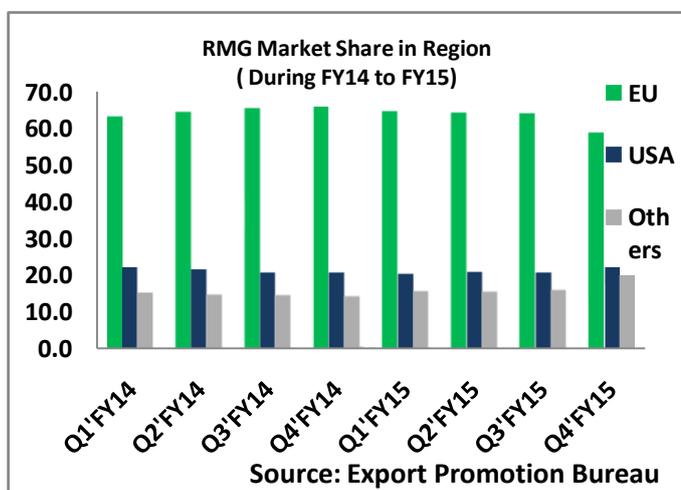
Macro contribution to the Economy:

Bangladesh's RMG sector contribution in terms of GDP is highly remarkable; In FY15 it has reached 13.10 percent of GDP, which was only about 3 percent in 1991. Although in FY14 it was 14.2 percent of GDP. The contribution of Bangladesh Knitwear sector on GDP is 6.39% and woven sector is 6.72%. So, RMG plays a pivotal role in promoting the development of other key sectors of the economy like banking, insurance, shipping & Logistic industries, etc.



RMG Market:

In terms of market share of RMG, Bangladesh has achieved second position in EU market, but market share of RMG in EU market declines at the beginning of FY16. With the negative growth of RMG exports during August 2016, Bangladesh RGM industry has received a loss of market share by amount of 6.9 percentage points in EU market, while market



share of Bangladesh RMG exports gradually follows upward trend in others emerging market – China, India, Brazil, Turkey, UAE. During FY09, four emerging economies- Brazil, India, China and Japan accounts t 1.09 percent RMG export share, while it reaches to 4.9 percent in FY15 due to product diversification, attractive price and intra-industry trade. Major reasons behind the declining market share of Bangladesh’s RMG industry are sharp Euro devaluation against US dollar and cost of production. Bangladesh RMG industry incurs higher cost for per unit RMG.

The main importer countries of Bangladeshi RMG are USA, UK, Germany, France, Spain, Italy, Belgium, Netherlands and Canada. In January-March 2015 quarter, total export to these nine countries stood at USD 4956.73 million, of which 91.14 percent (woven 51.55% and knitwear 39.59%) is RMG export. Bangladesh's export to the USA is currently experiencing a decline as evidenced by recent statistics. The political turmoil, labor situation coupled with the compliance factors as regards workplace safety etc., are believed to have left a dent in the momentum of exports. Compared to Bangladesh's exports to the USA in January 2014, exports in January 2015 experienced a downslide of 7.16 per cent. This reflected not only in value but also in volume. In January 2015, Bangladesh exported 15,200,000 square meters of garments which are 8.38 percent less than the corresponding month of previous year. Export earnings from RMG sector was quite sluggish in this period by any comparison with recent past years. As is known, RMG sector faced several compliance related challenges and associated consequences in FY2014-15.

RMG marketing is basically divided into three segments: woven and denim, fine knit and heavy knit (sweater) and non-oven. The type and style of products vary from place to place depending of consumers' tastes and preferences. The marketing professionals need to know the taste, choice and culture of the consumers by applying marketing tools and techniques, surveys, research, analyses, feasibility studies on the demand and supply of RMG products. A major strategic factor which contributes to a company's success and exposure is marketing. Individual companies often adopt certain marketing techniques and methods which will complement their brand and image. Marketing determines how the consumer views a particular company or product. The dynamics of the apparel industry is changing day by day. To succeed amid the shifting tides, apparel companies need to build up competence and proficiency in conformity with market trends. The destination of RMG products need to be scattered to other destinations like Japan, Middle East, Australia, New Zealand, and South Africa since the current markets in EU, USA and Canada are almost at

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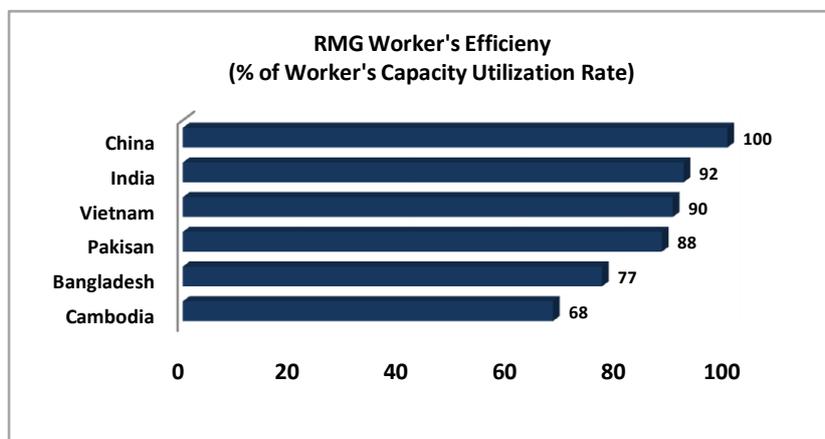
the stage of saturation. The market and product diversity would be the key of sustaining export proceeds of the industry.

Employment, Wages & Productivity:

With Wage increases, bound higher investments for RMG industry owners of Bangladesh in improving compliance issues, and persistent devaluation of euro currency against US dollar, Bangladesh has lost market share in EU market, but Bangladesh has still highest relative comparative advantage (RCA). This relative comparative advantage for Bangladesh in RMG sector attributes to mainly for two reasons – lower wages and lower price for RMG products in international market.

Productivity of RMG increases over time in RMG sector in Bangladesh. Moreover, challenges in productivity of RMG sector still remains due to lack of investments, lower backward linkages and lack of infrastructures and skilled labor. Productivity in Bangladesh increases overtime because improvement in reduction in lead time, higher value addition leading improvement in backward linkages through higher investment in capacity development and quality improvement.

Worker's efficiency is a fundamental to meet up buyer's demand in time, management skill among product lines in production process. Based on the Emerging Survey in 2015, 88 percent of the owners think that productivity and efficiency largely depend on the outcome of the sewing and cutting line, skill of operators of sewing to operate machines and in some extent less noisy environment. In Bangladesh, worker's efficiency lower attribute to lack of proper training of sewing operators, lower wages and compliance issues that disturb worker's attention.



Problem of RMG Sector:

The garment industry of Bangladesh has been the key export division and a main source of foreign exchange for the last 25 years. National labor laws do not apply in the EPZs, leaving BEPZA in full control over work conditions, wages and benefits. Garment factories in Bangladesh provide employment to 40 percent of industrial workers. But without the proper laws the workers are demanding their various wants and as a result conflict has begun with the industry. Taking the advantages of workers' poverty and ignorance the owners forced them to work in unsafe and unhealthy work place overcrowded with workers beyond capacity of the factory floor and improper ventilation. Most of the garment factories in our country lack the basic amenities where our garment workers sweat their brows from morning to evening to earn our country the major portion of our foreign exchange. Anybody visiting the factory the first impression he or she will have that these workers are in a roost. Because of the carelessness of the factory management and for their arrogance factory doors used to be kept locked for security reasons defying acts. Safety need for the worker is mandatory to maintain in all the organization. But without the facility of this necessary product a lot of accidents occur every year in most of the companies.

B.2. Current Scenario of the Knit Garment:

Bangladesh RMG Knit products are highly concentrated on product 6109 and Product 6110, which captures almost 77 percent in FY09 while it accounts to 73 percent in FY16. Thus, this is a good indication of production diversification in Knit garments industry in Bangladesh, but it seems to be slower pace in case of Woven garments. Knit product concentration ranks of top three products remain constant during FY09 to FY16. These include top three knit products- 6109, 6110 and 6105. But, interestingly share of these top three Knit products start to decline, which reduce the dependency of top three major products, so, earning opportunities of every firm of Bangladesh RMG industry will expand in future with minimal uncertainty for higher investments in RMG sectors for local firms. According to EPB in FY16 up to November earning from knitted wear was 5236.73 million US Dollar at the same period of time of previous fiscal year it was 4997.78 million US dollar. So it seems a positive growth of 4.78 percent.

B.3. Current Scenario of the Woven Garment:

Garments are made from various types of fabrics. Woven garments are made from the type of fabric that is crafted through weaving. In order to understand the place of woven

garments in the realm of garments manufacturing, a holistic look at the entire garments production chain should be taken.

According to EPB in FY16 Up to November earning from Woven items were 5226.03 million US Dollar at the same period of time in previous fiscal year it was 4693.47 million US dollar. So it seems a positive growth of 11.35 percent.

The main markets of Bangladesh woven products of Bangladesh are the European Union countries and the United States. Historically, these two markets have counted for over 90% of the entire woven export of the country. In the EU, the bigger markets are the U.K., Germany, Sweden, Italy, and the Netherlands. In the North American region, besides the US, Canada is a substantial market where woven garments export of BD is gradually increasing. Among the new markets, Japan and Turkey seem to be big potentials, where a greater share of woven export is going every year.

The main woven products of Bangladesh are shirts, trousers, and jackets, mostly made from cotton. Though the products are not categorized by the Export Promotion Bureau according to whether they are woven shirts or non-woven shirts, the following table compiled from data of EPB still testifies that these are the three main woven products of Bangladesh. These three products, the majority of which are woven, constitute over 40% of the total apparel export of Bangladesh.

B.4. Current Scenario of the Accessories (button, carton, packaging, label, elastic):

Garment Accessories and Packaging Industry plays vital role not only in improving the quality of products to international level by adding modern design but also by ensuring appropriate wrapping to maintain quality free from being stale or soiled or spoiled. In the transportation of exportable goods, the inevitability of the role of packaging and accessories is beyond question. In Bangladesh, Ready Made Garments (RMG) industry has emerged as the leading export-sector (contributing 79% of the country's total annual export-earnings) over a period of around over 25 years. Garments accessories & packaging manufacturers & exporters of the country and represents more than 1335 Garments Accessories & Packaging industries of the country. Garment Accessories & Packaging Industry act as a backward linkage industry of RMG sector which employs more than 300,000 people. This sector not only generates employment but also earned valuable foreign exchange to the tune of US\$

5.60 billion annually during the financial year 2014-15. If the sector gets policy support and cooperation from government, the earning of this sector is likely to increase up to US\$ 12 billion by the end of 2018, and to US\$ 18 billion by the end of the year 2025. Total investment of this sector is about US\$ 30 billion & value addition is near about 40 percent. The country now makes 30-35 packaging and accessory items including labels, zippers, tags, thread, ribbon, buttons and rivets to meet the garments sector's requirement.