

GoB Policy Support to the RMG Industry: Historical Chronology

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Prelude

Bangladesh's ready-made garments (RMG) sector is an epitome of success for the Bangladesh economy thanks to consistent innovative policy support over the last four decades along with the leadership of the sector. The sector is considered to be at its tipping point for various factors discussed separately, it is worthwhile to look back at how the proactive policy measures and their effective implementation made RMG *the lifeline of Bangladesh's economy*, second to agriculture. It is to be noted that the success of Bangladesh's RMG sector is a combination of internal factors and external factors.

Success Factors of RMG

Internal Factors		External Factors	
Government's consistent policy support	Strong industry leadership	Global market dynamics	International trading framework
		Conducive trade policies of importing countries toward LDCs	Competition factors of dominant countries
		Boom in global consumption of low-cost apparel and many others.	

This retrospect is a call for renewed innovation for this sector and other emerging sectors in the context of the necessity of diversification of Bangladesh's export basket.

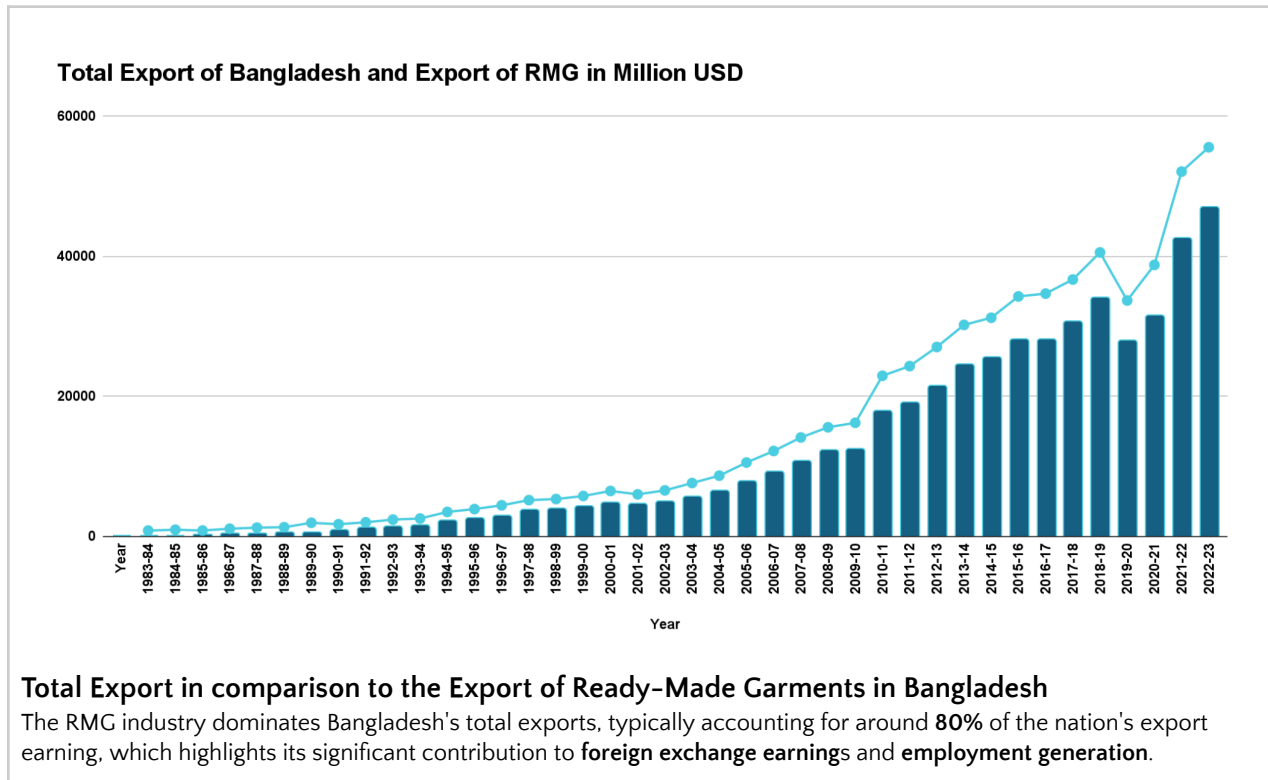
Bangladesh apparel industry is at a *cross-road*

Domestic Factors	Global Factors
Energy crisis	Preference erosion due to LDC graduation
Access to foreign currency for import	Global geo-political environment
Labor force dynamics	Faltering multilateralism
Adaptation of business at the advent of AI.	Rising pressure on labor standards and ESG
Deteriorating cost of doing business	Bilateral relationship with major trading partners

Journey of the Apparel Industry in Graphs

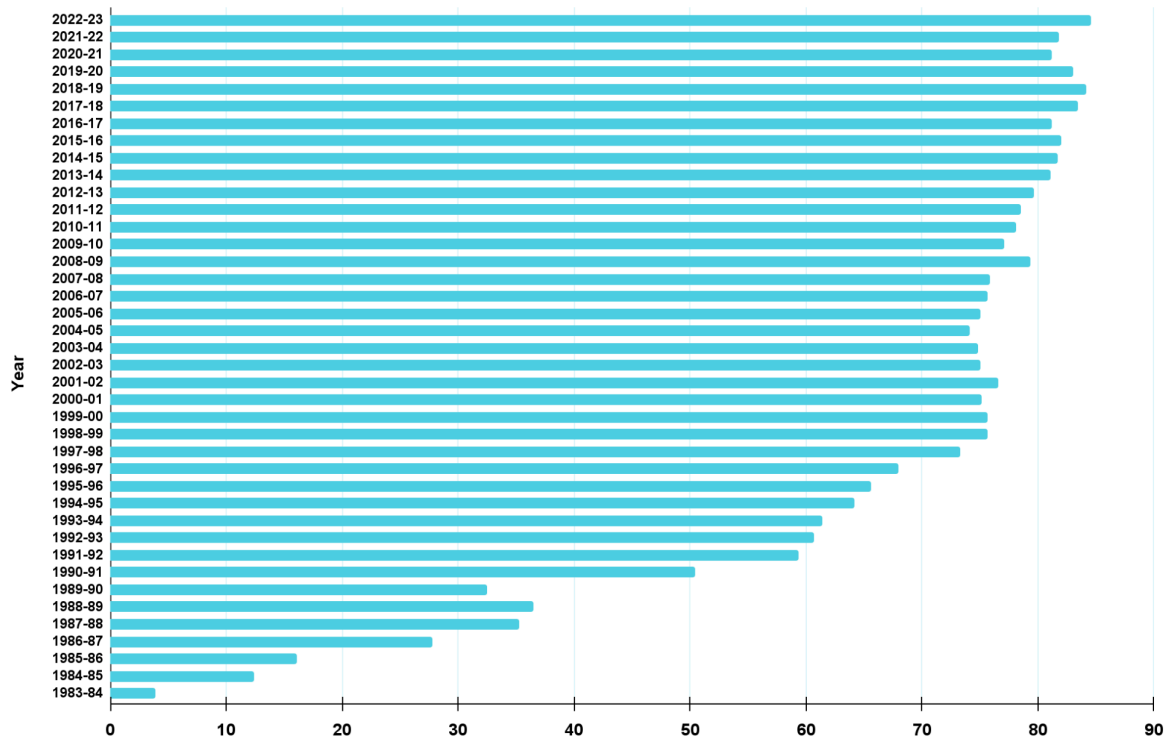
Staggering Export Growth

Source¹



¹ https://www.bgmea.com.bd/page/Export_Performance

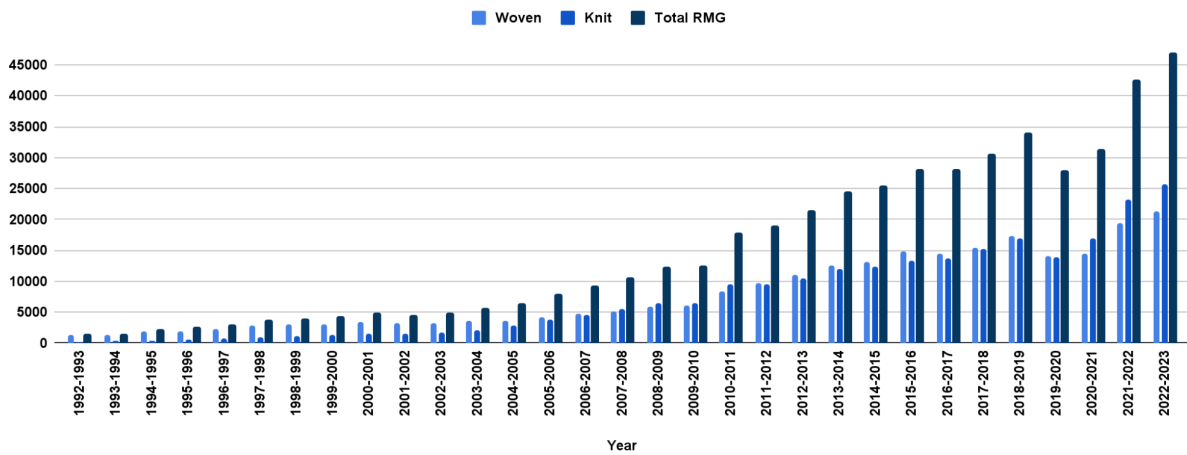
% of RMG's to Total Export



Share of RMG to Total Export

The RMG industry over the years has overtaken most of Bangladesh's export portfolio from 50.47% in the 90s to 84.58% in 2023.

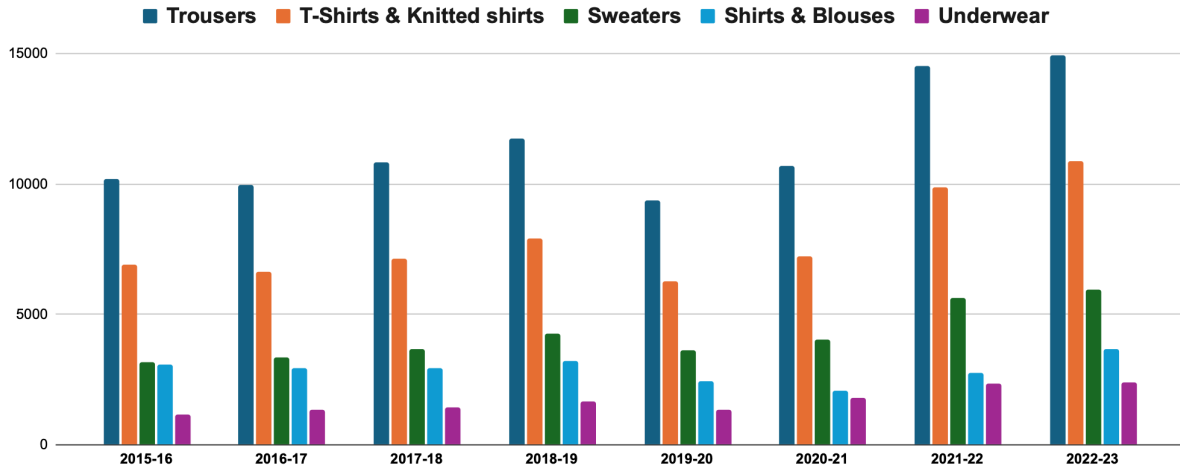
Woven, Knit and Total RMG Value in Million USD (Fiscal Year Basis)



Woven, Knit and Total Ready-Made Garments Value (in Million USD) Over the Years

In the intra-RMG industry, Knit-wear has dominated the Total RMG exports of Bangladesh in recent years.

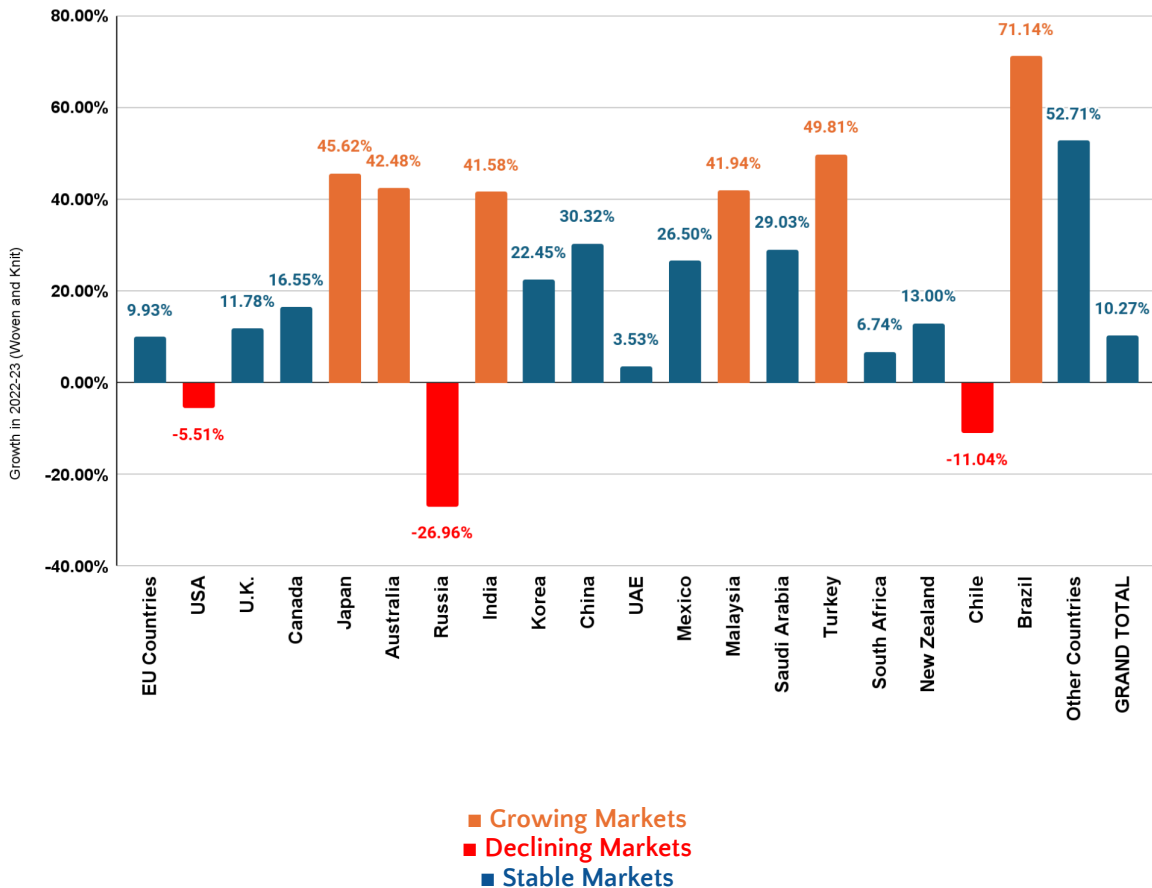
Main Apparel Items Exported From Bangladesh Value in Million USD (Fiscal Year Basis)



Main Apparel Items Exported from Bangladesh

Trousers and T-Shirts & Knitted Shirts have contributed massively to the RMG export items over the years.

Growth Status of Woven and Knit (Total) in both Non-Traditional and Traditional Markets



Growth in 2022-23 (Woven and Knit Total) by Region

EU Countries	9.93%
USA	-5.51%
U.K.	11.78%
Canada	16.55%
Japan	45.62%
Australia	42.48%
Russia	-26.96%
India	41.58%
Korea Rep.	22.45%
China	30.32%
United Arab Emirates	3.53%
Mexico	26.50%
Malaysia	41.94%
Saudi Arabia	29.03%
Turkey	49.81%
South Africa	6.74%
New Zealand	13.00%
Chile	-11.04%
Brazil	71.14%
Other Countries	52.71%
GRAND TOTAL	10.27%

In the FY 2022-23, Bangladesh has seen **negative growth** in RMG exports to USA, Russia and Chile. However, exports to new markets have grown significantly, such as Japan, Australia and Brazil.

Non-traditional markets can be relied upon to sustain export growth. Bangladeshi embassies must play an important role in increasing the export of goods to non-traditional markets².

² <https://www.textiletoday.com.bd/apparel-exports-increases-in-non-traditional-markets>

Historical Chronology of Policy Support to the RMG Industry

The Journey Began by Two Pioneers: In the early days (1970s), Riaz Garments, a pioneer alongside Desh Garments, kickstarted Bangladesh's RMG industry. Riaz garments began the journey with export of shirts in 1978, while Desh launched a joint venture in 1979. These early successes paved the way for other Bangladeshi entrepreneurs to enter the RMG sector.

1970s Emergence of Industry vis a vis Agriculture	1980s Shift Towards Market-Driven Economy	1990s Becoming a Trading Nation	2000s Thriving by Market Diversification
<p>Focus on Industrialization Bangladesh's aspiration to become an industrial national just after liberation.</p> <p>Welcome to Private and Foreign investment Restoration of policy for private and foreign investment³ by the new Investment Policy of 1974.</p> <p>Introduction of back-to-back LC Innovation in 1978 that allowed RMG industry to import raw materials without working capital against a master LC from a buyer.</p> <p>Launching of Export Promotion Bureau (EPB) Mechanism launched in 1975 for the facilitation of exports, including RMG to the global market through market research and global market participation through exhibitions.</p> <p>Multi-Fiber Arrangement (MFA) Access to major destinations as an LDC providing comparative advantage (cheap labor) to</p>	<p>Introduction of Export Processing Zone (EPZ) Invitation of foreign investment with a bunch of stimulus like duty-free import machinery and raw materials, subsidized credit facilities, bonded warehouse facilities and cash incentives.</p> <p>Denationalization of textile industry Privatization endeavor though 1982 New Industrial Policy (NPI) signaled a shift towards a market-driven economy.⁴</p> <p>Duty-free import Facility of duty free import of capital machineries and raw materials for export oriented industries under the Import Policy Order (IPO) of 1981.</p> <p>Impact in terms of competitiveness Imposition of quota restrictions⁵ by the US and Canada In 1985 could not stop Bangladesh in consistently meeting these quotas and negotiated higher limits in later years⁶.</p>	<p>Tariff Reform Reduction of average tariff rates on all products from 114% in 1989 to 22% in 1999 played a positive impact on the RMG industry.⁷</p> <p>Tax holidays Provision of tax holidays to RMG manufacturers under the Income Tax Ordinance with varying durations depending on factors such as location and export performance.</p> <p>Compliance Engagement with international institutions like ILO, UNICEF, USA for elimination of child labour⁸.</p> <p>Emergence of Knitwear Expansion of market segments in knitwear focusing on shirts, T-shirts, trousers, sweaters, and jackets⁹ was a major boost to market consolidation thanks to government facilities.</p> <p>Import substitution in textile and clothing Export orientation as an economy was accompanied by import substitution in textile and RMG is a major feature of the transition of Bangladesh economy.</p>	<p>Incentive for market diversification Introduction of cash incentive package in 2010 to encourage exports to markets other than EU and North America allowing the industry to explore the non-traditional markets, facilitating the rise of export to US\$5.69 billion from US\$848 million in FY 2008-09.¹²</p> <p>Compliance with labor standards Enactment of the Bangladesh Labor Act of 2006 aiming to ensure workers' rights and improve working conditions in all industries, including RMG.</p> <p>Duty-free quota free market access Active role in WTO Agreement on Textiles and Clothing and access to major markets duty-free and quota free allowed more investment and growth of the sector. MFA (quota restriction)¹³ (1974-2005) phase out appeared to be a boon for Bangladesh, that unleashed potential due to quota restriction was possible to realize through product and market diversification.</p> <p>Poverty Reduction Steady decline in poverty, to</p>

³ ["Implementation of Privatization Policy: Lessons from Bangladesh"](#)

⁴ ["Implementation of Privatization Policy: Lessons from Bangladesh"](#)

⁵ https://www.researchgate.net/publication/236839094_Textile_Industries_in_Bangladesh_and_Challenges_of_Growth

⁶ Yunus, Mohammad; Yamagata, Tatsufumi (2014). "Bangladesh: Market Force Supersedes Control"

⁷ <https://tahmidurrahman.com/bonded-warehouse-in-bangladesh/#:~:text=The%20major%20government%20initiative%20taken%20by%20the%20Bangaldeshi,the%20garment%20industry%20is%20a%20100%25%20export-oriented%20industry> .

⁸ <https://www.ilo.org/resource/chronology-recent-events-bangladesh-ready-made-garment-rmg-sector>

⁹ [Competitiveness of the Bangladesh Ready-made Garment Industry in Major International Markets](#)

¹² <https://www.bomea.com.bd/uploads/newsletters/apparel-story-special-edition-december-2021.pdf>

¹³ Alam, Md. Samsul; Natsuda, Kaoru (2016). "The competitive factors of the Bangladeshi garment industry in the post-MFA era". *Canadian Journal of Development Studies*. 37 (3): 316–336. doi:10.1080/02255189.2016.1157457. S2CID 168616938.

<p>Bangladeshi manufacturers, as there was a quota on other developing countries.</p>		<p>Shifting gear Overhauling the economic engine thanks to 1900s reforms led to rapid growth of the economy.</p> <p>Poverty Reduction RMG industry played a role in rising manufacturing share in the economy, job creation, especially job creation for women and poverty reduction to 56.6% in 1990¹⁰ from 74% in 1981¹¹.</p>	<p>48.9% in 2000, and then further decline to 31.5% in 2010 through job creation¹⁴.</p>
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¹⁰ <https://www.pri-bd.org/economy/trade-and-industry-in-21st-century-bangladesh/>

¹¹ <https://documents1.worldbank.org/curated/pt/255521468743382897/pdf/multi0page.pdf> pg 3

¹⁴ https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/ce0882c6_4bd1_4454_b7a8_9b720425479b/poverty14-15EN.pdf Foreword pg 3

2000s Global Positioning	2010s Labour Rights & Sustainability	2020s Green transition
<p>Promotion of Backward Linkage Further reduction of import duties on raw materials and equipment in 2005 for all backward linkage industries. During FY 2006, imports of spare parts, dyes and chemicals for RMG had been zero-tariffed.</p> <p>Post-MFA Action Program The program, developed with support of development partners, allowed for a smooth transition from MFA to WTO-ATC with a USD 40 million support for retraining and re-employing laid-off garment workers.</p> <p>Promotion of textile Sector Withdrawal of import duty on textile machinery along with other items in 2008.</p> <p>Support to RMG Industries to mitigate the challenge of the global financial crisis Special package in FY 2008-09 and FY 2009-10 targeting industries which were affected by the global financial crisis.¹⁵</p>	<p>Extension of tax holidays In FY2010, the government extended the tax holiday facility, in a staggered manner.</p> <p>Focus on Sustainability and Compliance Introduction of Bangladesh Accord and the Alliance for Bangladesh Worker Safety following the Rana Plaza tragedy in 2013, which resulted in the deaths of over 1,100 RMG workers,</p> <p>Introduction of the National Tripartite Plan of Action on Fire Safety and Structural Integrity in the RMG in 2013 to improve factory safety standards.</p> <p>Launching of the Bangladesh National Sustainable Development Strategy (2010-2021) Action plans for promoting sustainable development in the RMG industry.¹⁶</p> <p>Shifting to High-value segment Incentives for high-value added RMG and garments accessories sectors in the Export Policy 2015-18.¹⁷ The sector continued to enjoy reduced tariff rates for importing materials and machinery, while back-to-back L/C facilities address working capital issues, particularly benefiting SMEs.¹⁸</p> <p>Skills and capacity Enhancement</p>	<p>Pre-shipment credit Revisiting interest rates from 6% to 2-5% to help RMG companies maintain export activities during the pandemic.</p> <p>Focus on ESG Minimum Wages Revision in 2019 and 2023.</p> <p>Preferential tax regime Introduction of a discounted tax rate for export-oriented RMG factories at 12% and 10% for green ones.²⁰</p> <p>Green Transformation Fund Discounted loans in local currency to support eco-friendly upgrades in RMG production.</p> <p>Export Facilitation Fund Easy-term pre-financing for RMG companies to import raw materials or purchase them locally.</p> <p>Export Development Fund Short-term dollar loans for RMG manufacturers to buy materials for export orders.²¹</p>

¹⁵ <https://cpd.org.bd/resources/2018/08/CPD-Working-Paper-118-Growth-of-Employment-in-the-Manufacturing-Sector.pdf>

¹⁶ <https://policy.asiapacificenergy.org/node/2654>

¹⁷ <https://bfti.org.bd/pdf/Final%20RMG%20Study%207th%20June.pdf>

¹⁸ <https://bfti.org.bd/pdf/Final%20RMG%20Study%207th%20June.pdf>

²⁰ <https://www.tbsnews.net/economy/budget/govt-lower-corporate-tax-12-non-rmg-sectors-434486#>

²¹ <https://www.bb.org.bd/pub/quarterly/rmg/rmg%20quarterly%20oct-dec%20fy24.pdf>

	<p>Policy to support the training and development of RMG industry workers through Textile Policy 2017.¹⁹</p> <p>Renewed Preferential Market Access Arrangements Launching of international trade agreements like WTO ATC, EU-EBA), and US tariff relief programs by active participation of Bangladesh government and civil society.</p>	
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What are the lessons learned from the consistent policy support of the government towards the RMG sector?

<p>Identification of global market potential, which is easy to capture given both competitive and competitive strength</p>	<p>Patient support by the government despite ups and downs and believing in ‘mission impossible’.</p>
<p>Present attractiveness for the foreign buyers and investors as destination of investment for manufacturing and subsequent export</p>	<p>Getting favorable market access thanks to constructive economic diplomacy</p>
<p>Develop industry leadership and its ability to impress government policy makers</p>	<p>Openness to engage experts from the private sector and think tanks in defining sectoral policies and strategies.</p>
<p>Availability of appropriate human resources</p>	

¹⁹

https://cabinet.portal.gov.bd/sites/default/files/files/cabinet.portal.gov.bd/research_corner/5b546d65_67d2_444e_ac9e_18fdb68f6d61/Skill%20Development%20of%20the%20Youth%20in%20RMG%20An%20Analysis%20of%20the%20Existing%20training%20System.pdf