

Workshop to Assess the Impact of COVID-19 Pandemic on Bangladesh RMG Sector

The ongoing COVID-19 crisis has had severe impact on Bangladesh RMG sector and the country's overall growth and development. A Webinar consultation was jointly organized by France Bangladesh Chamber of Commerce and Industry (CCIFB) and Policy Research Institute (PRI) to have an urgent stock taking on the magnitude of adverse impacts of the crisis on the RMG sector in Bangladesh, with special focus on the decrease in Bangladesh RMG exports to France. The consultations brought together economists, high Government officials and representatives of the private sector working to implement concrete steps to overcome the recent loss and economic disruptions in the sector. H.E. Mr. Masud Bin Momen, Secretary, Ministry of Foreign Affairs was the Chief Guest of the program and H.E. Mr. Kazi Imtiaz Hossain, Bangladesh Ambassador to France attended as the Special Guest. Dr. Ahsan Habib Mansur, the Executive Director of PRI, the leading think-tank in the country, made the keynote presentation and also moderated the event.

The Panelists during the discussions included Dr. Rubana Huq, President, Bangladesh Garment Manufacturers and Exporters Association (BGMEA); Mr. Kihak Sung, Chairman & CEO, YOUNGONE Corporation, the single largest foreign investor and exporter of apparel and sportswear in Bangladesh; Currently, he is also the President of International Textile Manufacturers Federation and Chairman, Korea Federation of Textile Industries; Mr. Mahbubul Anam, immediate Past President, Bangladesh Freight Forwarders Association (BAFFA) and Managing Director, Expo Group; Mr. Deepak Dsouza, CEO, Decathlon Sports Bangladesh, the single largest exporter of sportswear from Bangladesh; Mr. Andalib Elias, Director General, West Europe and EU Wing, Ministry of Foreign Affairs; and Ms. Dilara Begum, Commercial Counsellor, Bangladesh Embassy in Paris, France.

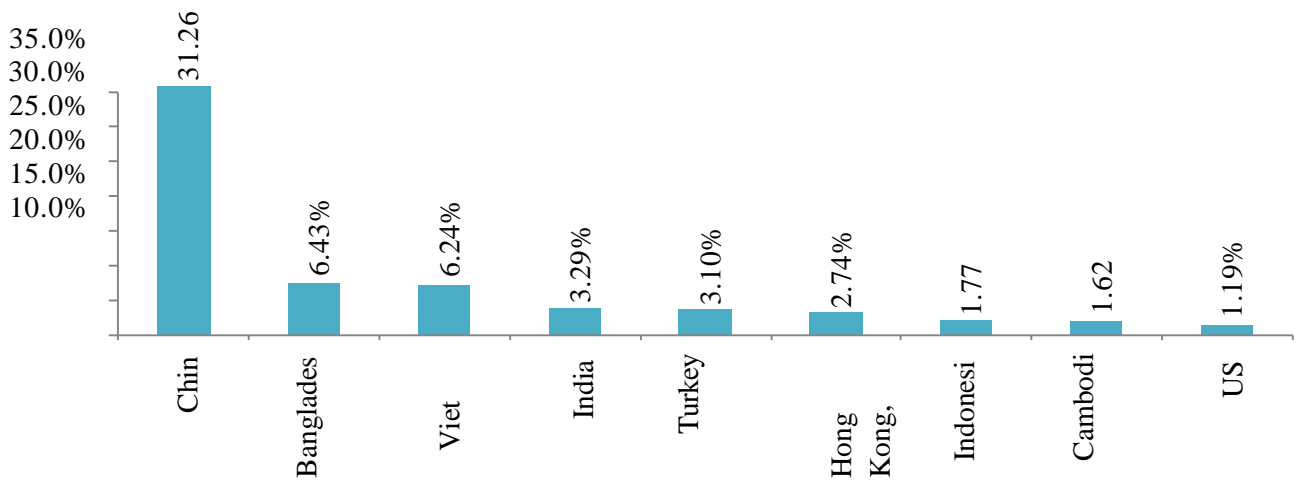
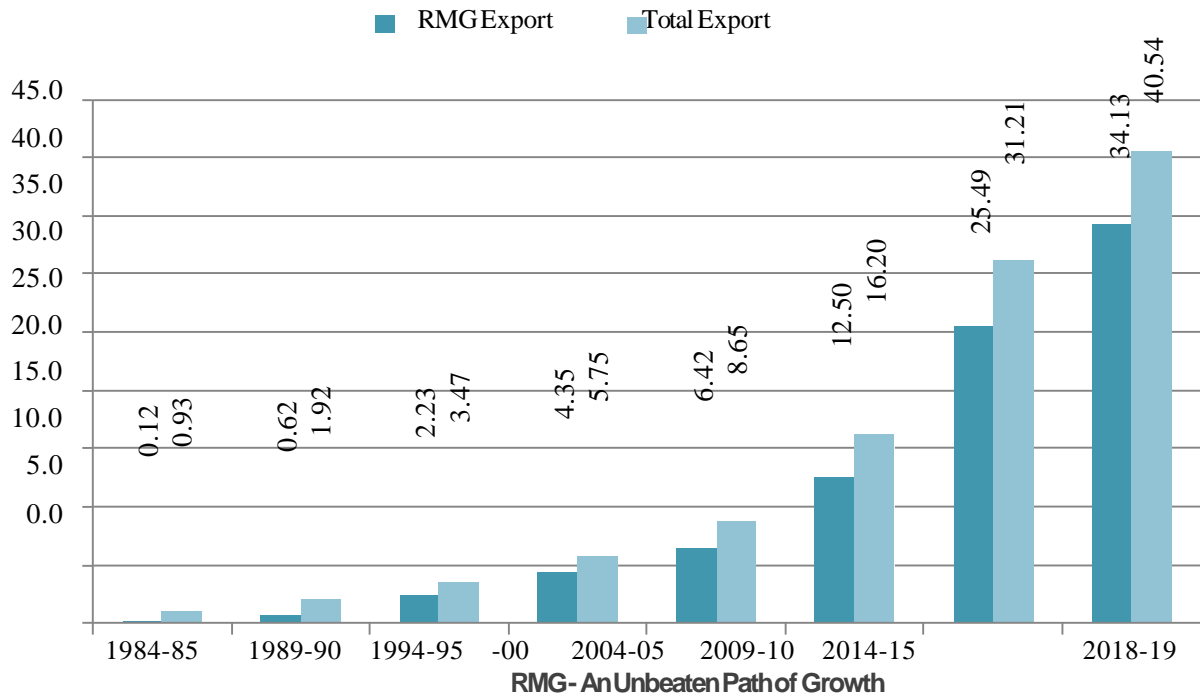
Syed Mahmudul Huq, President, CCIFB, welcomed the participants in the workshop noting that the crisis at our hand was complex and serious and no one could single handedly address this challenge. He called for joint efforts to overcome the resulting challenges.

Key Note Presentation by Dr. Ahsan Mansur:

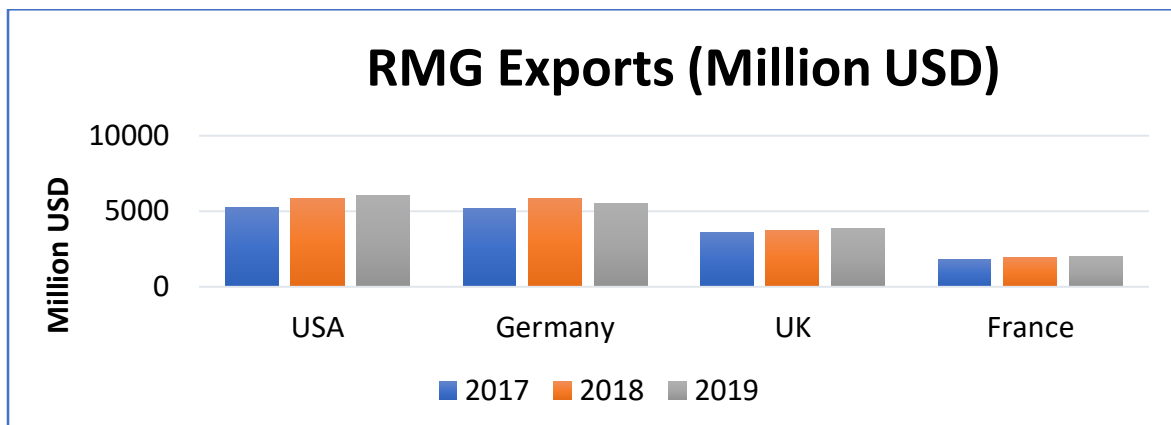
In his key note presentation, Dr. Ahsan Mansur briefed the participants about his overall assessment of the impact of the crisis for the RMG sector in Bangladesh in terms of job and production loss, loss in export earnings and the severe hardships to the huge workforce employed in the sector.

The current Global Position of Bangladesh RMG Sector:

Starting from \$120 million base in FY85, Bangladesh RMG sector reached \$34 billion in FY19, accounting for 83% of total exports. The rise was spectacular by any measure, which accelerated by the duty and quota free access to the EU in early 2000s. Currently, Bangladesh occupies the number 2 position in the world, just above Vietnam. However, Bangladesh's RMG export performance has slowed down or faltering, and Vietnam is likely to overtake Bangladesh—despite its RMG share in its export basket being about 24%



France is the fourth largest export destination for Bangladesh, just after the USA, Germany, and the UK. Readymade garments alone account for around 90% of Bangladeshi export earnings from France.



Immediate Effects and new Challenges of COVID-19:

Dr. Mansur emphasized that the immediate effects of COVID-19 pandemic was a sharp decline in RMG exports which was more than 80% in the month of April and May, compared to corresponding months last year. According to BGMEA about \$3.7 billion worth of RMG orders were cancelled or postponed by the international brands. More than 1900 brands have either postponed, delayed or cancelled their orders. The industry is expecting a major slowdown from September onward—based on current pattern of orders—to no more than 70%-75% level of utilization compared with 2019. The resolution of the problem with the \$3 billion in already placed orders is still taking time and some have been either cancelled or put on hold asking for delayed shipments and possible significant discounts on the already negotiated prices. The resulting impasse is causing much hardships for workers due to layoffs and furloughs. Although we have seen a strong rebound in purchases in the EU and USA following the easing of lockdowns and some diversion of orders from China, it is still not clear to what extent the rebound is attributable to pent up demand and to what extent the real demand will increase compared to the pre-covid-19 level.

Shifts in Demand and Required Response of Bangladesh RMG Sector

The future International and EU RMG markets are shifting towards the durable and better quality products, in both fabric and sewing quality, with fewer styles and collection. The use of technology will be prominent in reducing and eliminating some stages of the value chain (3D prototyping for sampling). Bangladesh needs to respond through the use of technology in reducing and eliminating some stages of the value chain and (3D prototyping for sampling) and shortening the lead time by developing its backward linkage industries. Current dependence on imports for MMF, industrial machineries and spare parts, chemicals, and the inefficient port facilities and customs processing, has contributed to the much longer lead time compared with competitors. Bangladesh should strive for heavy investments in digitizing the processes and transforming value chains. Digital B2B platforms, virtual prototyping, 3D design collaboration and many other innovations would be key elements of changes coming in the post-covid-19 period and the transformation would accelerate rapidly in the coming years.

Discussions

The Chief Guest (Foreign Secretary) briefed the workshop about the various initiatives taken by the Government of the Prime Minister Sheikh Hasina to address the challenges and various initiatives in the pipeline to effectively overcome the challenges. The Foreign Secretary explained the stimulus packages announced by the Government of Bangladesh to assist the RMG industry in this difficult time of COVID-19 pandemic. He assured the exporters of all necessary support of the Government in their efforts to regain the market in the EU, particularly in France. In his deliberations, the Foreign Secretary also underscored on the need for responsible behavior by the exporters in the RMG industry.

H.E. Mr. Kazi Imtiaz Hossain, the Ambassador of Bangladesh to France spoke about the adverse effects of the COVID-19 pandemic on businesses and the economy of France, and hence, its impact

on our exports to France. He further mentioned that Covid-19 had also exposed the already existing inherent shortcomings of the Bangladesh RMG industry and called for a united standpoint so as to make this sector more competitive, resilient and sustainable.

Both the Foreign Secretary and Ambassador Imtiaz Hossain stressed on the need for France and Bangladesh to work closely together to help stakeholders in both Bangladesh and France who are bearing the main burden of the crisis. They noted that Governments of the both the countries and the private sector would need to coordinate the strategic interventions for an economic revival without which the present crisis cannot be effectively addressed.

Dr. Rubana Huq, President of BGMEA, mentioned that the situation may not return to normal until halfway through next year. However, amid the ongoing pandemic, the use of online retail platforms has soared worldwide. The RMG sector needs to quickly adopt policies in this regard in order to hold a greater market presence in the global online retail sector. France is a market with huge potential for Bangladesh but local garment manufacturers are already far behind on shipments of several major export items that have high demand in the European nation. It is not possible for the RMG exporters to get back their position unless buyers understand the need of a proper synchronization between the sustainability (encompassing environmental and workers' rights and welfare) and sourcing.

Director-General (WE & EU) of Foreign Office Mr. Andalib Elias highlighted the necessity of unity in the RMG sector. He also highlighted the active role played by the Government of Bangladesh at different levels, both formally and semi-formally, to assist the RMG industry of Bangladesh to hold on to and to expand their market in the European Union. DG Andalib pointed out the importance of close collaboration between Government and the Industry in this regard.

Mr. Mahbubul Anam, the preceding president of Bangladesh Freight Forwarders Association (BAFFA), said more than 70 per cent of Bangladesh's transport and logistics depends on the RMG sector. More than 3.5m people are employed in this sector and around 0.5m have already lost their jobs while another 0.5m are precariously positioned due to the ongoing coronavirus crisis. The logistics business is now 30 per cent lower than business in usual times. Bangladesh ranks one of the lowest in global logistics index among other South Asian countries while the cost of logistics in the country is 20 per cent more than its South Asian peers. Moreover, the price of logistics has increased by between 25 per cent and 40 per cent in comparison to the pre-pandemic years.

According to Mr. Kihak Sung, Chairman Youngone Corporation, Bangladesh should take Vietnam's lead on how to cope with challenges in export brought about by the coronavirus fallout while attracting more foreign direct investment (FDI). The losses incurred by Youngone's Vietnam unit were not that high as cancellations of work orders and late payments from international buyers was not as frequent for the country as it was for Bangladesh, where these issues are currently a major challenge. The productivity levels at Youngone's Vietnam factory is currently 20 per cent higher than that of its Bangladesh counterpart as the former's logistics and policy support are comparatively superior to that of the latter. He suggested that local producers develop more man-made fibre(MMF) garment items as the demand for such goods is increasing worldwide. His company exports more than \$100 million in garment and footwear items, most of which comprise man-made fibres, to France each year.

Decathlon Bangladesh is purchasing garment and footwear items from Bangladesh for the past 15 years. Depaak Dsouza, the CEO of the company in Bangladesh, said that Decathlon did not cancel any work order amid the pandemic. He emphasized on producing synthetic items and to reduce dependence on imported raw materials for garment products. About 40 per cent of all materials used in manufacturing garment items are imported and as a result, value retention from Bangladesh's export receipts is low.

The panelists in the consultation dwelt with specific aspects of the problems faced by the RMG sector in Bangladesh and the exporters to France noting that they needed considerable concrete support of both short-term and long-term nature. In particular, they highlighted the need for constant monitoring of the evolving scenario in order to make necessary interventions at different stages of the value chain and the support policy packages which could be most effective.

Suggested Recommendations:

Following a comprehensive review of all the relevant aspects of compelling needs, the participants in the consultations emphasized on a number of steps which should be taken in a time bound manner. The suggested recommendations include the following–

1. During the consultations, all the participants agreed that the recent COVID-19 crisis has shown the importance of undertaking coordinated actions of all stakeholders to sustain the interest of the RMG sector and RMG exports to France along with to other important destinations for Bangladesh RMG exports. The participants noted with deep appreciation the special help being extended by the Government to the sector to address this crisis. They expressed the hope that the Government would continue to keep the need of the sector under constant review so that, together with the stakeholders in the sector, appropriate actions are taken to help the producers, exporters and workers engaged in the sector. In this regard they specially noted the observations of the Foreign Secretary and the Ambassador of Bangladesh to France. They also noted that the concept of sustainability should encompass job security to the extent possible, social safety/protection, fair pay and better living standards for workers and the environmental issues.
2. The participants in the consultations agreed that a Task Force should be immediately constituted and start working to determine what Bangladesh should do to attract Foreign Direct Investments in the RMG sector of Bangladesh including the migrating investors from various locations which are looking for suitable investment destinations. The Task Force, it was noted, should also consider the future product composition of Bangladesh RMG sector.
3. Over-concentration on cotton rather than manmade fibre (MMF) for making clothes is stymieing the growth potential of the readymade garment (RMG). The number of industries who produce MMF should be increased along with sufficient investment.
4. Heavy investment required in manufacturing synthetic yarns, fabrics and dyeing facilities with proper wastewater and chemical management should be core elements of the post COVID recovery efforts.
5. Bangladesh RMG backward linkage areas have great potentials: MMM-based spinning (several billion dollars); RMG machineries (\$1.6 billion imports); chemicals used in RMG and other industries (more than \$1 billion imports); recycling of RMG products (potential \$4 billion industry). Bangladesh should promote these dimensions to the potential foreign investors.

6. The consultations discussed in depth the need for digitization of the sector in a planned manner to take advantage of modernization. It was, however, also noted that maximum attention should also be given to avoid drastic job loss in the sector. An effort should be made to work out a win-win combination of introduction of modern technology and retention of jobs for workers to the maximum extent possible.
7. Digital B2B including B2C platforms (Virtual Market), virtual prototyping, 3D design collaboration and many other innovations would be key elements and would grow rapidly in the coming years.
8. Bangladesh should encourage foreign direct investment (FDI) in the apparel sector. In this regard, it was noted that FDI from France in recent years have been quite low. We should encourage French companies for investing in Bangladesh Special Economic Zones (SEZs).
9. The participants in the consultations were of the view that the private stakeholders in the sector, the Government, our Diplomatic outposts and the French Diplomatic and Trade Representation in Bangladesh should work closely together to ensure increase in and win-win two way trade between France and Bangladesh. They also noted that the support of the European Union of which France is a key member to help Bangladesh overcome the severe adverse impact of the current COVID-19 crisis would be most timely and urgent as a major component in the global economic recovery plan.

The consultation meeting was concluded with the pledge from all the participants to continue to work in close consultation and cooperation in future to have maximum impacts from their coordinated efforts.