



Event report

Inception workshop on the study Upscaling the RMG Sector

10 May 2023 | Wednesday | 10:30–12:30 (BST) at NEC-2 Conference room, Sher-E-Bangla Nagar, Dhaka



Overview of the workshop

Bangladesh is set to graduate from the least developed country (LDC) category in 2026. This is a significant achievement, but it also comes with challenges. One of the biggest challenges is that Bangladesh will lose access to various international support measures (ISMs), including trade preferences and flexibility in policy space to support exporters. This means that Bangladesh's exports will face increased competition in global markets. Another challenge is that Bangladesh's exports are heavily concentrated in the ready-made garment (RMG) sector. This means that the country's export performance is heavily dependent on the performance of the RMG sector.

Export diversification has proven to be a difficult task for Bangladesh, as the current non-garment export base is very small. As a result, maintaining the dynamism of the RMG sector is essential for ensuring a smooth LDC graduation. There is also huge potential for expanding RMG exports. Available projections suggest that the annual global apparel consumption could exceed \$2.5 trillion by the end of this decade (from the current \$1.5 trillion), boosting exports of clothing from various suppliers. Bangladesh is the second-largest clothing exporter in the world, and—given the falling share of China in the global apparel market—the scope for expanding apparel exports remains broad.

The clothing sector has long been considered a sensitive sector in many importing countries, attracting much higher tariff rates than the most favored nation (MFN) rate in developed countries. This means that Bangladesh, as a least developed country (LDC), currently enjoys duty-free market access to these countries. However, when Bangladesh graduates from the LDC category in 2026, it will lose this preferential access. This will significantly increase the cost of Bangladesh's exports, making them less competitive in global markets.

There are a number of options that Bangladesh can consider to mitigate the impact of losing preferential market access. One option is to improve productivity. This can be done by investing in new technology, training workers, and improving the efficiency of production processes. Another option is to diversify exports. Bangladesh could move into new product lines, such as high-value-added items, or into new markets. One promising area for diversification is man-made fiber (MMF)-based apparel products. Currently, more than 70% of Bangladesh's apparel exports are based on cotton fiber/fabrics. However, around half of the global apparel market comprises MMF-based items. MMF-based apparel products are becoming increasingly popular due to their cost-effectiveness, durability, and ease of care.

The Economic Relations Division has commissioned a study on Upscaling the RMG Sector to analyze all the relevant issues holistically and develop a set of recommendations with a practical action plan to help the RMG sector prepare better for a post-LDC graduation

period. The study will consider a range of options for promoting export competitiveness, including improving productivity, diversifying exports, and moving into MMF-based apparel products. The findings of the study will be valuable for policymakers and stakeholders in the RMG sector. They will provide guidance on how to best prepare for the challenges of LDC graduation and ensure that the sector continues to grow and contribute to the national economy. The study will suggest strategies, policies, and support to transform the production of MMF products and attract local and foreign investment in the RMG industry, shift to high-value-added products, enhance productivity, develop managerial capacity, and promote sustainable green production. Finally, the study will develop a time-bound action plan to execute the recommendations.

Against the above backdrop, ERD, Support to Sustainable Graduation Project (SSGP), and Research and Policy Integration for Development (RAPID) jointly organized an inception report workshop that included representatives from related ministries, divisions, organizations, and associations. An inception workshop serves as a platform for project stakeholders to align their expectations and develop a shared vision for project success. The workshop facilitated informed exchanges between the researchers and stakeholder representatives. The objectives of the workshop included, amongst others: 1) To make the stakeholders familiar with the key concepts, information, and data associated with Bangladesh's RMG exports, 2) To shed light on the current state of RMG exports from Bangladesh to foreign markets, 3) To present an overview of the study, including the approaches being used to address the scope and objectives of the task, 4) To receive feedback and respond to any comments and questions from the stakeholders.



Inauguration of the workshop

Mr Farid Aziz, Additional Secretary of DE Wing, Economics Relations Division, chaired and moderated the workshop. After the inaugural speech by the chair, Dr Mohammad Abdur Razzaque, Chairman of RAPID, presented an interactive keynote presentation. Mr Mohammad Ziaur Rahman, Joint Secretary General of Bangladesh Textiles Mills Association (BTMA), Mr Abdullah Hil Rakib, Director of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Mr Md. Hafizur Rahman, former Director General of the WTO cell at the Ministry of Commerce, and Mr Md. Abdur Rahim Khan, Additional Secretary at the Ministry of Commerce, graced the workshop as distinguished panelists. Dr Mohammad Abbas Uddin, Assistant Professor and chairman of the Dyes and Chemical Engineering department of Bangladesh University of Textiles, and Dr Md. Deen Islam, Associate Professor of Economics at the University of Dhaka and the research director of RAPID, were also present at the event. A summary of the respective remarks is provided below:

Farid Aziz, Additional Secretary of DE Wing, Economics Relations Division

During his inaugural speech, Mr Farid Aziz, Additional Secretary of DE Wing, Economics Relations Division, pointed out the potential adverse impact of Bangladesh's LDC graduation on the RMG sector. He acknowledged that many experts and forums are predicting a negative impact on the RMG sector, while others suggest that appropriate measures could offset the impact. He mentioned that a comprehensive strategy is under development to ensure Bangladesh's smooth LDC graduation.

We are preparing a smooth transition strategy to mitigate the issues arising from LDC graduation.

Mr Aziz requested assistance and emphasized the importance of action-oriented research. He also stated that concrete policy interventions would be undertaken based on the findings of the study to facilitate a smooth LDC graduation for the RMG sector of Bangladesh. He assured the research team in providing all necessary support to conduct this study.



Keynote presentation: Dr Mohammad Abdur Razzaque, Chairman of RAPID

Dr Razzaque delivered the keynote speech where he made the following points,

- Bangladesh's 70 per cent of exports rely on tariff preferences which will face an expected average tariff increase of 18 per cent in the Canadian market due to LDC graduation, and an average tariff of 12 per cent in the EU market as the EU's proposed GSP does not offer any tariff preferences to Bangladesh's RMG.
- Avoiding the negative impact of LDC graduation on the RMG sector is crucial since it could have significant repercussions for Bangladesh's economy paired with the present macroeconomic scenario and expected export prospects weakening.
- Dr Razzaque emphasized that the trade preference does matter for market penetration and Bangladesh's RMG sector performed exceptionally well in the EU market because of liberal trade benefits.
- Bangladesh is performing well in high-value cotton-made products to the EU, but the equation can change if Vietnam gets more advantage than Bangladesh in the EU market as Vietnam has already secured zero tariff rates from 2027.
- Bangladesh has benefited from China's loss of market share in cotton-made RMG exports. The reasons for China's declining cotton-made RMG market share include import restrictions by the major markets and China's export preference changes.

- Bangladesh is soon to cross China as the largest cotton-made RMG exporter but could exploit greater potential by upscaling into the high value-added cotton products or diversify into MMF production where Bangladesh performs poorly.

If Bangladesh can capture 12 per cent of the global MMF market, it is possible to earn 100 billion USD from RMG exports by 2030.

- Bangladesh can take advantage of LDC graduation since it will result in higher prices and better negotiation abilities, and Bangladesh should incentivize Multi-National Companies (MNCs) to the RMG sector to bring in FDI.



Dr Mohammad Abbas Uddin: Assistant professor and chairman of Dyes and Chemical Engineering at Bangladesh University of Textiles

During the event, Dr Uddin provided clarification on manmade fibres and their production process. Dr Uddin addressed some misconceptions and myths about MMF production, such as the idea that cotton production requires less water than MMF. He also discussed the use of ethylene glycol in manufacturing, which requires liquid transport technology, including large sea vessels, seabed storage, and transfer mechanisms.

There are little to no technical textiles produced by Bangladeshi apparel producers and there are significant export and local market prospects for these products.

Dr Uddin portrayed that manmade fibres are not only needed in apparel but also in technical textiles such as masks, filtration fabrics, medical textiles, bulletproof vests, and synthetic polymers used in wastewater treatment. He pointed out that little to no technical textiles are produced by Bangladeshi apparel producers and there are significant export and local market prospects for these products.



Mr Mohammad Ziaur Rahman, Joint Secretary General of Bangladesh Textiles Mills Association (BTMA)

Mr Mohammad Ziaur Rahman, Joint Secretary General of Bangladesh Textiles Mills Association (BTMA), suggested expanding the firm-level study beyond Dhaka. He noted that out of the 500 BTMA mills, only 19 are currently working with synthetic fibres and four to five are working with plastic chips - the raw materials for MMF and other plastic products. Mr Rahman mentioned limitations with the one-stop service provided to mills, including high payments required for setting up gas connections. To encourage MMF production, he asked the government to provide incentives until 2026, bank loan support, and continue the ongoing support in some form beyond LDC graduation.

Mr Md. Hafizur Rahman, former Director General of the WTO cell at the Ministry of Commerce

During the event, Mr Md. Hafizur Rahman, former Director General of the WTO cell at the Ministry of Commerce, discussed several important topics. He highlighted the importance of considering global trends such as geopolitics, currency, and de-dollarization when

assessing the possibilities of markets shifting to Asian and African countries. He also noted that market regulations, due diligence, carbon border adjustments, circularity in the EU, and intellectual property rights can significantly impact the export performance in future.



A potential policy intervention can be to facilitate certain plastic waste imports to grow the domestic manmade fibre apparel industry.

Regarding investment, Mr Rahman discussed the reservations that exist in domestic industries regarding foreign investment, particularly in the RMG sector. Mr Rahman also shared some positive news regarding the import of Australian wool for wool-based apparel production, which could help Bangladesh to catch up with Turkey in wool-based suits. He also mentioned the potential for a policy intervention to facilitate certain plastic waste imports to grow the domestic MMF apparel industry, as some Indian businesses recycle imported plastic waste for this purpose.

Mr Md. Abdur Rahim Khan, Additional Secretary at the Ministry of Commerce

During the event, Mr Md. Abdur Rahim Khan, Additional Secretary at the Ministry of Commerce, highlighted that not all raw material-producing countries are good at producing final goods. Mr Khan emphasised that Bangladesh has comparative advantage in RMG sector because of its cheap and relatively skilled labor force.

The global RMG market trend is MMF-driven, and Bangladesh needs to capture it to sustain and increase its share.

He also stressed the importance of assessing the potential for market penetration in specific markets to increase Bangladesh's share in the global value chain. According to Mr Khan, it is also important to study Asian markets as their demand is increasing, whereas demand in the US and EU markets is declining. Mr Khan also noted that diversification after graduation from LDC status will be more challenging and it is crucial to investigate the demand of buyers in different markets.



Open discussion and conclusion

A short open discussion session was followed by the panel discussion where Dr Mohammad Abbas Uddin answered various technical questions regarding the production process of MMF, while Dr Md Deen Islam answered the remaining questions regarding the methodologies outlined in the inception report. Furthermore, representatives of various public and private organisations such as Bangladesh Bank, Bangladesh Knitwear Manufacturers and Exporters Association, Export Promotion Bureau, and Bangladesh Foreign Trade Institute provided their valuable insights about the inception report and reiterated their support for RAPID to conduct the study. Finally, Mr Farid Aziz ended the inception report with brief closing remark assuring the support from the government to conduct the study.