

# **EFFECTS OF GLOBAL ECONOMIC CRISIS ON THE PERFORMANCE OF READYMADE GARMENT INDUSTRY IN BANGLADESH**

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## **Abstract**

*This study examined the performance of readymade garment (RMG) industry in Bangladesh during the pre (2001-2007) and post (2008-2013) global economic crisis periods. The study had applied the descriptive analytical technique to explain and compare the effects of crisis based on the actual available data and information and the closely relevant studies. The findings of the study showed that Bangladeshi garments sector experienced only a small reduction in its trade operations and that the crisis did not have significant impact on the RMG sector of Bangladesh. Based on this finding, it was concluded that the RMG industry was not affected due to global economic crisis. It was further recommended that there is an urgent need for sound export policy, monetary and fiscal stimulus package, diversification of product export market and backward and forward linkage in order to increase the profitability and decrease the negative impact of financial crisis on the performances of RMG sector.*

*Keywords: Global Economic Crisis; Performance; Readymade garment industry, Profitability, Bangladesh*

## INTRODUCTION

Readymade garments (RMG) industry is one of the premier industrial sectors to the economy of Bangladesh. RMG industry of Bangladesh which includes knitwear (T-shirt, Undergarments etc.) and woven garments (Shirt, trouser, sweater etc.) along with specialized textile products, is the nation's number one export earner, accounting for 80% of Bangladesh's exports of US \$ 19090 million in 2012 (BGMEA 2012). This industry has been leading the Bangladesh economy since the 1990 due to having cheap labor, less complicated technology and low-priced machinery (Chowdhury,R.Z. 2001). Global economic crisis which incepted in the United Stated of America (USA) in 2007 and afterward reached around the world had profound effect on the economy of Bangladesh having political and economic relationship with many countries all over the globe from USA, EU, Japan, China, Brazil, India and South Africa to the countries of South East Asia (World Bank 2009).The global economic crisis had some significant implications for the economy of Bangladesh. Because the sharp contraction in international trade activities brought most of the export activities down consequently, the impact on exports in both the value and volume of some major export categories experienced negative growth rates during 2008 and 2009 (Rahman et al 2009). Recently RMG industry has come in the forefront of all sectors of Bangladeshi economy due to having significant contribution to the national economy of Bangladesh. But world economic recession had deep consequence on the performance of RMG sector in Bangladesh as it affected the developed nations like USA and The EU (Murshid et al 2009). The effect of global financial crisis of 2008-09 on Bangladesh's economy was limited and remains in some major sectors like export, remittance and financial sectors but the impact was nominal in the major RMG sector of Bangladesh (Ali et al 2011). Export sector of Bangladesh is mainly dominated by RMG .Therefore any danger to this sector will hamper the economic foundation of Bangladesh (Taslim, M.A 2007). RMG sector of Bangladesh could be benefitted due to global recession as the exports of Bangladesh are almost entirely consumer goods whose demand did not fall as harshly as earnings (Harmachi, A. 2009). Bangladesh export market was highly concentrated in a few rich countries, exceeding 90% of total export earnings derived from the U.S. and the EU, 75%, most of which derived from the ready-made garments the country leading employer. So, the impact of recession would be severe (Islam and Quddus, 2008). Bangladesh might not be affected that much at all, at least in the short run, where the ultimate impact on growth depends largely on how long the recession lasts and the depth and severity of the effects globally (Imam, 2009). During the global recession of 2008-'09 the export performance of most of the countries of the world fall as the economies of the major export market, the USA and the EU, reduced their import demand from the rest of the world. The export of Bangladesh, especially the export of readymade garments, which constitute more than

three-quarters of the total export of the country, did not pull down much despite the fact that most of it is sold to the EU and the USA (Taslim & Haque 2011). There are many studies exploring the consequences of the global economic crisis on the economic functioning of Bangladesh (International Monetary Fund 2009, World Food Program 2009, Raihan and Khan 2009, and Kabir.M.2011). The results of these studies show the different effect on different sectors of the economy of Bangladesh. Thus, in view of these works, the current study is expected to fill the research gap. The study is undertaken to examine the impact of this crisis on the RMG sector of Bangladesh. So the main purpose of this study is to investigate the impact of the global financial crisis on the performance of RMG industry in Bangladesh. More precisely, the study seeks to: i) assess the impact of global economic recession on the growth of the RMG sector ; ii) evaluate the impact of global economic recession on employment opportunity of the RMG sector; iii) identify the impact of global economic recession on the export performance of the RMG sector. iv) suggest some recommendations as to how the RMG sector of Bangladesh can overcome the impediments of global economic crisis and take advantage of global emerging opportunities from global apparel market.

## **RESEARCH METHODOLOGY**

It is very complex to study the effect of the global economic crisis on all sectors of Bangladeshi economy within one research paper, so we selected a few variables (growth, employment and export earnings) of RMG sector in Bangladesh. The present study is conducted both quantitative and qualitative approaches. Descriptive and inferential statistical devices are used to analyze data. These statistical devices are percentile, mean, median and linier regression. Data used in the study were collected basically from the secondary sources. The empirical data were collected from the publications of various articles, research reports, journals, annual report of BGMEA, Bangladesh economic review, Bangladesh Bureau of statistics (BBS), Bangladesh Bank (BB), and Export promotion Bureau (EPB) website data and daily newspapers covering mainly during the period of 2001-2013. Performance records of readymade garment factories were taken from FY2001-02 to FY2012-13. The economic records were divided to two parts. The first part included the FY2001-02 to FY2006-07 which existed before the emergence of the global economic crisis, while the second part included the financial records of the readymade garment factories from FY 2007-08-FY 2012-13. Microsoft excel and statistical package for social science are used as tools of analyzing data. Performance record analysis of the readymade garment factories in Bangladesh carried out to measure the effect of global economic crisis on this sector.

## EMPIRICAL RESULTS AND DISCUSSION

### Analysis of the Growth of Readymade Garment Factories

Table 1: Growth of garment factories in Bangladesh

Pre-global economic crisis periods		Post-global economic crisis periods	
Fiscal Year	Number of Factories	Fiscal Year	Number of Factories
2001-02	3618	2007-08	4743
2002-03	3760	2008-09	4925
2003-04	3957	2009-10	5063
2004-05	4107	2010-11	5150
2005-06	4220	2011-12	5400
2006-07	4490	2012-13	5876

Source: BGMEA Website 2013

The RMG industry in Bangladesh enjoyed a meteoric rise from 30 enterprises in 1980 increased to 5876 in 2012-13 fiscal years (BGMEA 2013). Table 1 focuses the growth trend of RMG factories in Bangladesh from 2001 to 2013 where the number of garments factories increased gradually due to the presence of favorable environment of rising garment factory in Bangladesh. Though the recent global economic crisis has momentous effect on world apparel market for changing the operations of global readymade garment market but the readymade garment (RMG) sector in Bangladesh maintained some positive rates of growth during the pre (2001-2007) and post (2008-20013) global economic crisis periods. Therefore it can be stated that the expansion of RMG factories did not fall due to global economic crisis rather recession had been blessings for the sector.

### Analysis of the Employment Performance of Readymade Garment Factories

Table 2: Employment performance of RMG sector in Bangladesh

Pre-global economic crisis periods		Post-global economic crisis periods	
Fiscal Year	Employment in million workers	Fiscal Year	Employment in million workers
2001-02	1.80	2007-08	2.80
2002-03	2.00	2008-09	3.50
2003-04	2.00	2009-10	3.60
2004-05	2.00	2010-11	3.60
2005-06	2.20	2011-12	4.00
2006-07	2.40	2012-13	4.00

Source: BGMEA Website 2013

Table 2 shows that RMG sector plays significant role in employment opportunities in Bangladesh. The employment performance of readymade garment factories in Bangladesh

enhanced during economic crisis though it was made prediction that employment opportunities of Bangladesh in RMG sector would also be affected negatively for the contraction of the world economy but the opposite result was found. As per BGMEA in the fiscal year 2012-2013, 4 million workers employed in RMG sector of Bangladesh because more entrepreneurs came forward to set up garment factories resulting more employment in this sector. Table 2 clarified that employment opportunity of RMG sector in Bangladesh did not negatively affected due to global economic crisis.

### Analysis of Export Performance of RMG Industry in Bangladesh

Table 3: Export performance of RMG industry in Bangladesh

Pre-global economic crisis periods		Post-global economic crisis periods	
Fiscal Year	Export of RMG( In million US\$)	Fiscal Year	Export of RMG( In million US\$)
2001-02	4583.75	2007-08	10699.80
2002-03	4912.09	2008-09	12347.77
2003-04	5686.09	2009-10	12496.72
2004-05	6417.67	2010-11	17914.46
2005-06	7900.80	2011-12	19089.69
2006-07	9211.23	2012-13	21515.73

Source: BGMEA Website 2013

Global economic crisis of 2008-09 contracted the international trade operations and subsequently it affected the export activities of the world. According to BGMEA data (see Table 3) export earnings of Bangladesh stood at US\$ 27027.36 million in FY 2012-13, which was 12.71 percent higher than the export earnings in FY 2011-12. Recession basically hit in 2007 in that time that means in FY 2007-08 export earnings from RMG sector of Bangladesh stood at US\$ 10699.8 million and in FY 2008-09 export earnings became US\$ 12347.77 million and export earnings of RMG in FY 2009-10 and in FY 2010-11 were US\$ 12496.72 and US\$ 17914.14 million respectively. Therefore from the table it is clear that export performance of RMG sector in Bangladesh did not fall though at the beginning growth of export performance of RMG sector in Bangladesh plummet. Besides during recession export performance of Bangladesh enhanced as the buyers of developed countries were buying cheap garment products in place costly garment products and lower priced commodities got popularity in European countries. Therefore, foreign garment buyers were then gathering in Bangladesh disregarding China, Turkey and Vietnam. That is why; recession in western countries became the blessing for Bangladeshi garment exporters. (Reza. S, kham. M. 2011). According to Bangladesh Garment Manufacturers and Exporters Association (BGMEA) annual report 2012,

world's biggest RMG importer Inditex has opened a liaison office in Dhaka. Hugo Boss and Addidas of Germany and Unocol of Japan also started functioning in Dhaka, along with surge of many small and medium scale importers and retail sellers. Many importers now prefer Bangladesh to China, Vietnam, Sri Lanka, Turkey, Pakistan, Nepal and other countries as their destination for RMG import through direct sourcing. About 75 percent buyers have set up their offices in Bangladesh and others are rushing to open offices by one or two years. Therefore, the export performance of RMG sector in Bangladesh grew positively during global economic crisis though it was anticipated that export performance of RMG would be affected negatively. Export growth became negative for India, Philippines and Sri Lanka although China and Vietnam have managed to post positive growth rates. Nevertheless, Bangladesh's performance would appear to be the best in this particular grouping. (Murshid et al. 2009).

### Analyzing the Effect of Global Economic Crisis on Main Apparel Item Exported from Bangladesh

Table 4: Effect of global economic crisis on main apparel item exported from Bangladesh (In million US\$)

Pre-global economic crisis periods					
Fiscal year	Shirts	Trousers	Jackets	T-Shirt	Sweater
1999-2000	1021.17	484.06	439.77	563.58	325.07
2000-2001	1073.59	656.33	573.74	597.42	476.87
2001-2002	871.21	636.61	412.34	546.28	517.83
2002-2003	1019.87	643.66	464.51	642.62	578.37
2003-2004	1116.57	1334.85	364.77	1062.1	616.31
2004-2005	1053.34	1667.72	430.28	1349.71	893.12
2005-2006	1056.69	2165.25	389.52	1781.51	1044.01
2006-2007	943.44	2201.32	1005.06	2208.9	1248.09
Post-global economic crisis periods					
Fiscal year	Shirts	Trousers	Jackets	T-Shirt	Sweater
2007-2008	915.6	2512.74	1181.52	2765.56	1474.09
2008-2009	1000.16	3007.29	1299.74	3065.86	1858.62
2009-2010	993.41	3035.35	1350.43	3145.52	1795.39
2010-2011	1566.42	4164.16	1887.50	4696.57	2488.19
2011-2012	1733.54	4686.39	2231.16	4713.11	2340.34
2012-2013	1972.89	5185.48	2634.28	5143.22	2620.73

Source: BGMEA Website 2013

From data presented in the table 4 it is apparent that the main apparel items of Bangladeshi RMG sectors are shirt, trouser, t-shirt and jackets. According to EPB the table 4 showed that export earnings from RMG sector does not shrink due to global economic crisis. So it can be

concluded on the basis of data that there was no adverse effect of global recession on readymade garments products of Bangladesh. It appears that RMG sector played a stabilizing role in terms of macroeconomic balance of the country. Though, at starting point it was apprehended that the export income of RMG would go down and that was not illogical. As 94% RMG of Bangladesh is exported to USA and EU countries and the impact of recession was severe on these countries (BGMEA 2012). During recession demands of costly garment products fell in world apparel export market. But because of increasing living cost and labor cost, china, Mexico and Thailand concentrated on producing high value added products (Jacket, blazer, and sweater) consequently, export earnings from readymade garments of these countries reduced in this period. (Harmachi, A. 2009). Therefore, From the table it is very much apparent that during the recent world economic recession the export performance of woven and knitwear (sub sectors of RMG sector) was quite satisfactory.

### Analyzing the Effect of Global Economic Crisis on Country -Wise Export of RMG Product

Table 5: Effect of global economic crisis on Country -wise Export of RMG products (In million US\$)

Pre-global economic crisis periods								
Fiscal Year	USA	Canada	Germany	UK	France	Italy	Netherlands	Total
2001-2002	2218.79	109.85	681.44	647.96	413.69	262.31	283.36	4623.34
2002-2003	2155.00	170.26	820.72	778.25	418.51	258.99	277.95	4879.68
2003-2004	1966.58	284.33	1298.54	898.21	552.96	315.93	290.44	5606.99
2004-2005	2412.05	335.25	1353.80	943.17	626.17	369.18	291.94	6331.56
2005-2006	3039.77	406.97	1763.38	1053.74	678.94	427.89	327.20	7697.89
2006-2007	3441.02	457.21	1955.38	1173.95	731.76	515.66	459.01	8733.99
Post-global economic crisis periods								
Fiscal Year	USA	Canada	Germany	UK	France	Italy	Netherlands	Total
2007-2008	3590.56	532.90	2174.74	1374.03	953.13	579.23	653.88	9848.57
2008-2009	3693.4	587.05	2135.8	1222.92	969.8	522.28	907.8	10039.05
2009-2010	3628.05	595.55	2000.08	260.03	952.92	540.38	917.36	9894.37
2010-2011	4625.16	894.68	3130.97	1759.87	1405.69	761.93	965.2	13543.8
2011-2012	4529.40	874.85	3398.89	2130.07	1271.90	862.62	552.04	13619.77
2012-2013	4996.58	980.26	3678.28	2448.93	1390.44	913.20	584.47	14992.16

Source: Export Promotion Bureau (EPB) Website 2013

The data in table 5 indicates that Bangladesh increased its market share in the USA and EU apparel market despite the recession. During recession period Bangladesh RMG sector did not face a problem which could create significant trouble in Bangladeshi economy. The data in the table explains that there is a positive growth on the market of global apparel market of

Bangladesh before and after recession. From these data and reports on garment sector of Bangladesh, our research finds that there was no adverse effect on RMG sector rather export of RMG increases to new countries due to economic recession.

### Analyzing Growth Trend of RMG Sector

Figure 1: Effect of global economic crisis on the growth rate of RMG sector in Bangladesh

Figure 1.a) Overall growth trend of RMG factories in Bangladesh

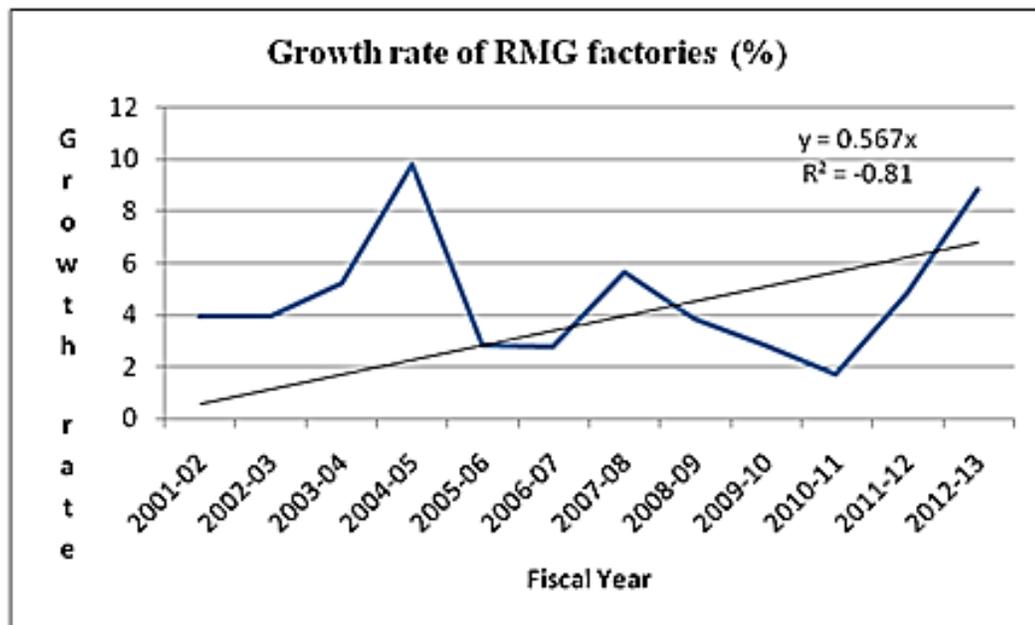
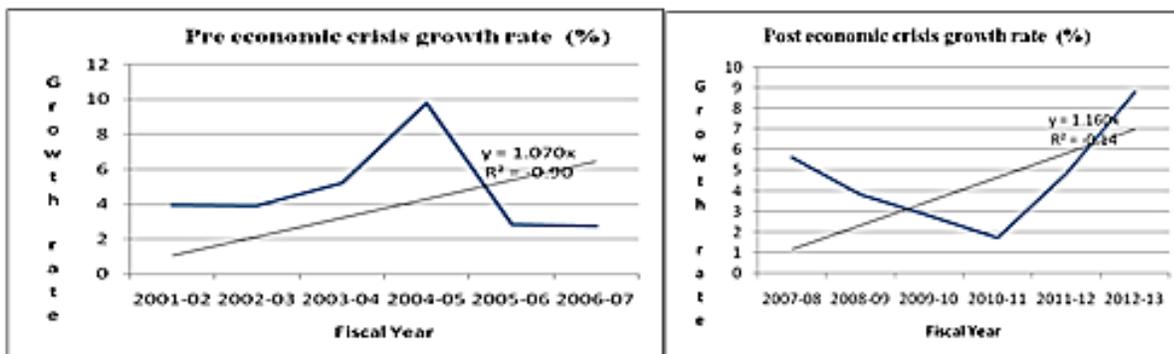


Figure 1.b Pre and post economic crisis growth rate of RMG factories



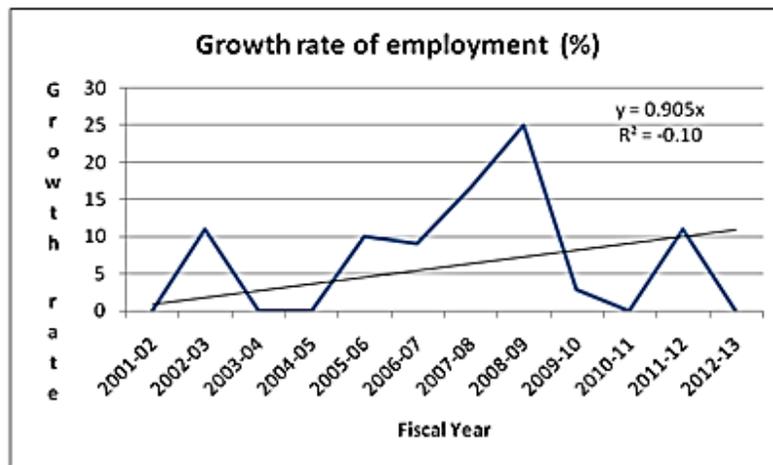
Source: Authors' calculation based on website data of BGMEA (2001-2013)

Figure-1 depicts that growth rate of garment sector in Bangladesh grow positively .As per the data of BGMEA growth rate of RMG sector was 3.96 in FY 2001-02 and 8.8% in FY 2012-13. Growth trend of garment factories during this period is positive. Overall growth trend of RMG factories in Bangladesh has been enumerated in figure 1.a) and pre economic crisis and post economic crisis growth trend is compared in figure in figure1.b). From this analysis we find that actually there is no adverse effect on RMG sector expansion due to economic recession.

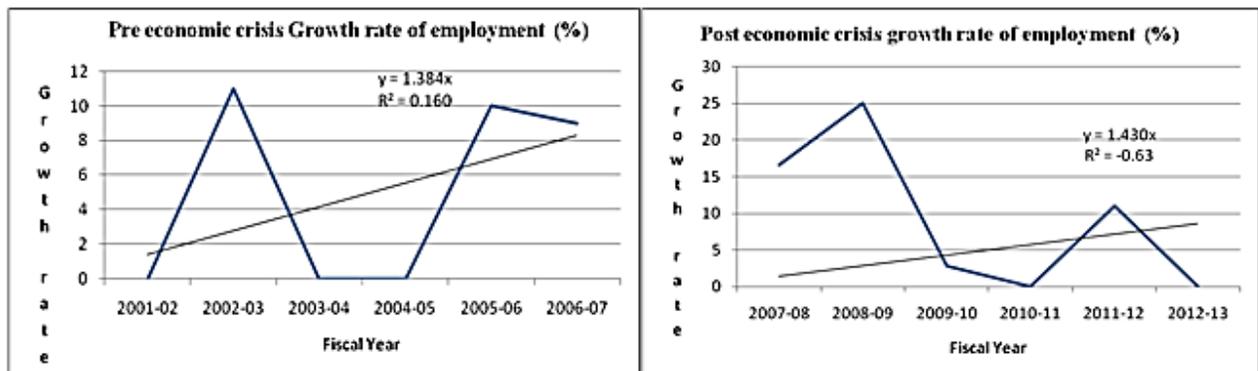
**Analyzing Growth Rate of Employment in RMG Sector**

Figure 2: Effect of global economic crisis on employment rate of RMG sector in Bangladesh

**2.a.Overall growth trend of employment of RMG sector in Bangladesh**



**2.b. Pre and post economic crisis growth trend of employment of RMG sector in Bangladesh**



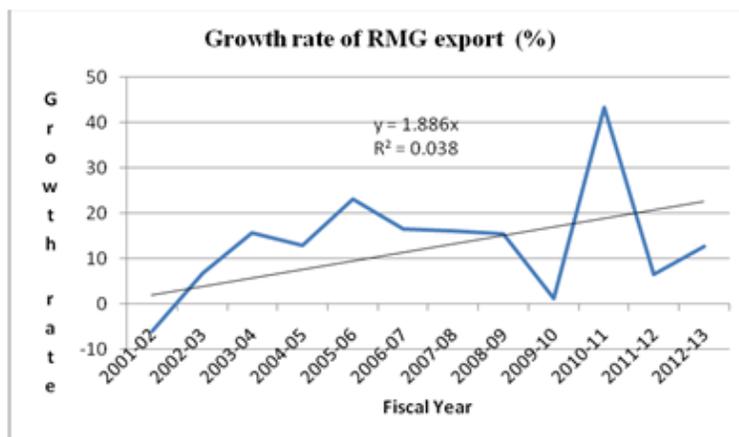
Source: Authors' calculation based on website data of BGMEA (2001-2013)

Figure 2 shows the fluctuation of growth rate of employment in RMG sector of Bangladesh and it reports obviously how growth rate of employment in RMG sector of Bangladesh rose up in FY2008-09 to reach 25 percent and dropped to zero percent in FY 2001-02, 2003-04, 2004-05, 2012-13, and then started to increase again to reach the normal level. Figure 2.a) explains the overall growth trend of employment of RMG sector in Bangladesh at the light of global economic crisis. From the figure 2.b) it is found that there is no significant difference between pre global economic crisis and post global economic crisis for employment generation of RMG sector in Bangladesh.

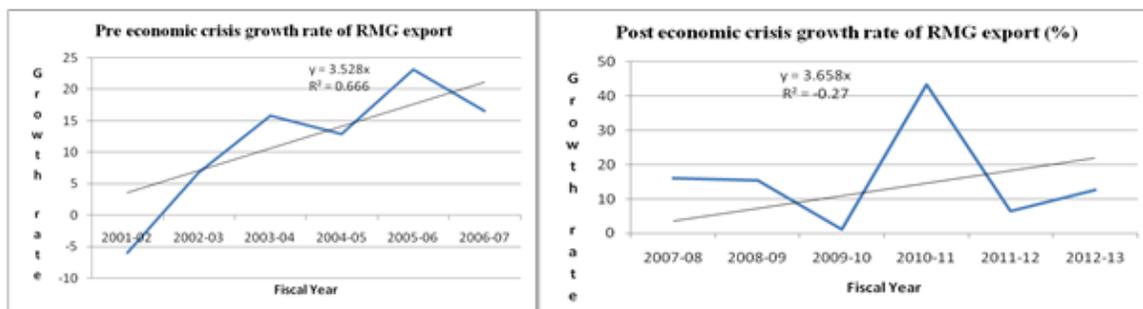
### Analyzing Export Growth Trend of RMG

Figure 3: Effect of global economic crisis on growth rate of RMG export of Bangladesh

#### 3.a. Overall growth trend of RMG export of Bangladesh



#### 3.b. Pre and post economic crisis growth trend of RMG export of Bangladesh



Source: Authors' calculation based on website data of EPB (2001-2013)

From the figure 3 of EPB it is clear that from FY2001-02 to FY2006-07 growth rate of RMG export increased gradually in spite of negative growth rate in the fiscal year 2001-2002. On the other hand, from FY2007-08 to 2012-13, RMG export also increased, though at the beginning of the recession export growth rate fell but after later years it rose. In figure 3.a) overall export growth trend of RMG sector of Bangladesh has been shown but pre and post economic crisis export growth has been depicted in figure 3.b). This figure notifies us that export growth rate of Bangladesh is slowed down somewhat but remained in the positive growth and vigorous growth rates during the crisis period. This outstanding achievement was possible to some extent because RMG exports of Bangladesh usually produce low price product and income elasticity of demand abroad and these products are mainly destined towards relatively lower income class in those major rich country markets. The figure demonstrates that Bangladesh's RMG sector has an undeniable contribution to the macroeconomic development of the country as the sector is keeping the economy invigorated by earning highest foreign earnings through exporting garments products to USA, EU and other developed countries. Therefore, any negative shock to the RMG sector will have a profound impact on the economy.

## CONCLUSION AND RECOMMENDATION

The study aims to investigate the effect of global economic crisis on readymade garment industry in Bangladesh. The global economic crisis has threatened the economic and financial development of the world economy and trade. The economy of Bangladesh also was affected by this crisis. The major sectors i.e. exports, import, employment, trade and commerce, remittances were also influenced greatly. But, during this crisis export earnings, employment and growth of RMG sector of Bangladesh were increased for a number of congenial factors (i.e. cost advantage, sound policy, etc) prevailing in RMG sector of Bangladesh. Though the performance of RMG sector was positive but the pace of growth was not before the recession. RMG industry in Bangladesh did not suffer much problem due to of global economic crisis. But disaster in this sector can arise any time. So, we have to be very careful so that in future we can avoid any unexpected situation as the economy of Bangladesh mostly depends upon this RMG sector. We have some recommendation that can help to avoid the unexpected situation and to expand growth, employment opportunities and export earnings of RMG sectors.

1. Introducing RMG industry friendly export policy.
2. Adopting monetary and fiscal stimulus package for meeting global economic crisis
3. Strengthening the operations of export processing zone and offering tax holiday program for RMG industry

4. Diversifying product and export market for RMG sectors
5. Developing a backward and forward linkage industry for RMG sector of Bangladesh backed by Govt.
6. Enhancing banking facilities to make RMG industry more competitive.
7. Exploring new markets for Bangladeshi RMG exports.

## IMPLICATIONS OF FUTURE RESEARCH

This research makes a significant contribution to literature relating to the relationship between global economic crisis and the performance of the economy of Bangladesh as it expands the angle of earlier research about recession. This study examined the effect of global economic crisis on the performance of RMG sector by analyzing the quantitative changes in export earnings, employment and growth of the sector. But only quantitative change does not reveal actual and complete effect of recession on RMG industry of Bangladesh. It ignores the comparison of qualitative changes in the RMG industry. In future research, the effect of recession can be stated by using both quantitative and qualitative changes in the field of RMG industry. Besides in future the effect of recession can be measured on the performance of economic growth, and FDI in Bangladesh, performance of bank, pharmaceutical sector and leather industry of Bangladesh.

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