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# Readymade Garments Industry in Bangladesh

## *An Analysis of the Value Chain*

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## Highlights

To strengthen Bangladesh's readymade garments industry and improve its participation in the global value chain, policymakers need to emphasise measures to facilitate functional upgrades within the industry by assisting domestic firms in transitioning towards higher-value-added activities.

Policymakers must improve local manufacturers' capabilities, foster research and development initiatives, and create a favourable business environment to attract foreign investment.

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### Introduction

Bangladesh's readymade garments (RMG) industry is primarily labour-intensive, utilising simple technology compared to other high-tech industries. Fundamentally, the value chain components for Bangladesh's RMG industry are straightforward. From the perspective of forward participation in the value chain, Bangladesh's RMG industry essentially adds value to commodities ordered by foreign buyers. Concurrently, to meet foreign buyers' demands, the RMG industry manufacturers acquire the raw materials locally or participate in backward linkages by importing the raw materials from abroad.

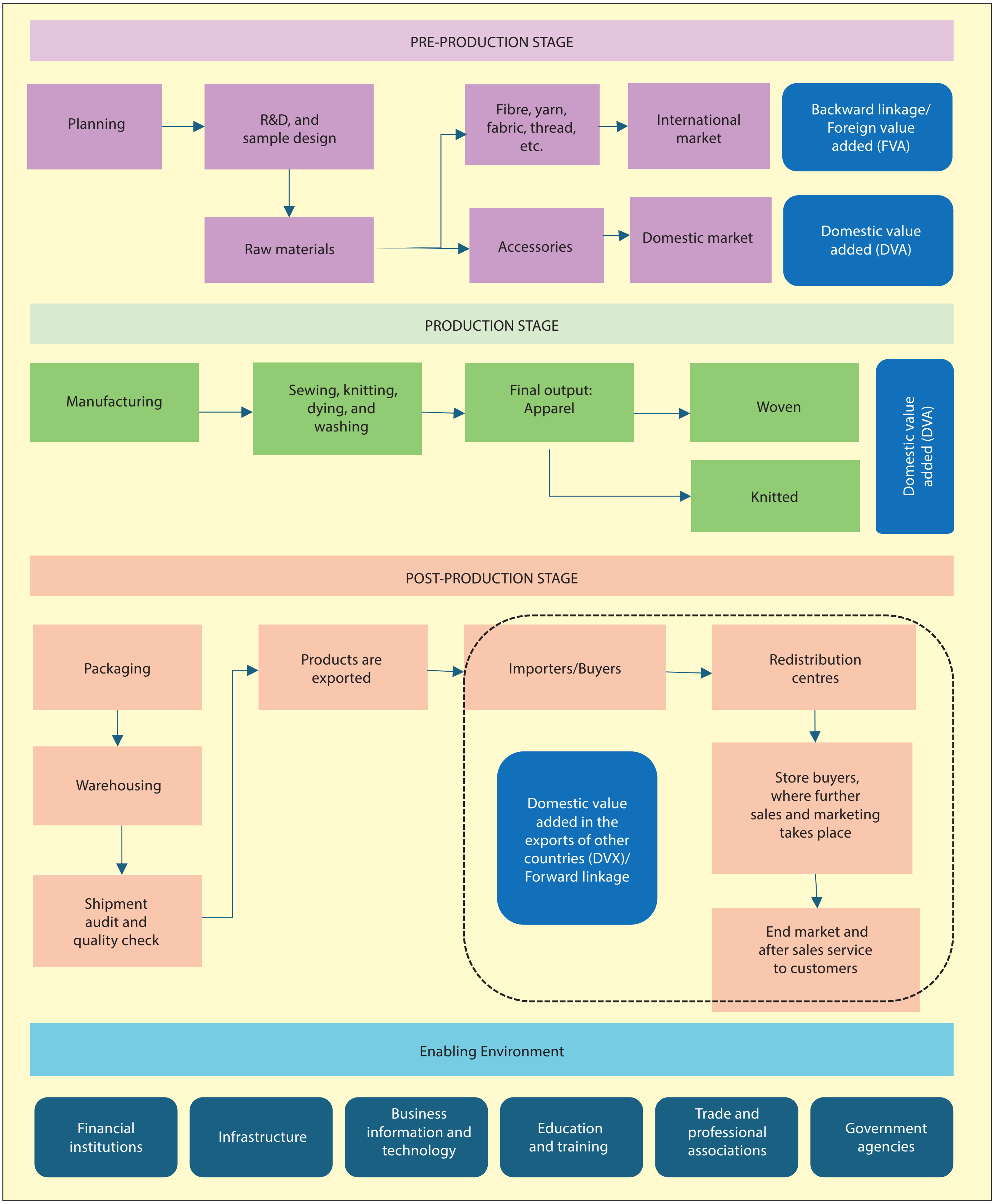
These raw materials include primarily fabrics and accessories such as buttons and collars. While accessories can be obtained mainly from domestic suppliers, fabrics or cloths are mostly imported from China, Indonesia, or India (Nuruzzaman & Haque, 2009). However, the RMG industry in Bangladesh is more involved in the backward linkage of the global value chain (GVC) than forward participation and, therefore, holds a downstream position in the GVC (Hossain & Baars, 2022).

In other words, in the RMG industry, Bangladesh imports the raw materials required for manufacturing textiles and apparel, contributing to its value addition before exporting them to a foreign buyer. It is important to highlight a strong association between the supply chain and the value chain of the entire business owing to the distinct activities of the production process disaggregated across different countries (Hossain & Roy, 2016).

### Input-output structure

The input and output structure of the value chain delineates the interconnections between the inception of a product or service and its final consumption or end use. The main branches of the input-output structure include research and development (R&D), design, production, distribution, marketing, and sales. However, these fragments may differ owing to the type of industry. Nevertheless, to comprehend the complexity of the value chain, it is first imperative to observe and underscore the fundamental operations of the industry as part of the GVC and highlight the ever-changing structure of the firms representing each fragment of the value chain (Fernandez-Stark & Gereffi, 2019).

**Figure 1: Value chain mapping of the RMG industry in Bangladesh**




**Source:** Authors' illustration based on a review of the literature (Frederick, 2019; Hossain & Baars, 2022; Hossain & Roy, 2016; Nuruzzaman & Haque, 2009; and Shahriar, Pathik, & Habib, 2014).

The value chain of the RMG industry in Bangladesh includes suppliers, manufacturers, and ultimate buyers (Hossain & Roy, 2016). However, despite the simplicity of its linear value chain, the production stages in this industry can be quite complex (Figure 1). The value chain can be divided into three stages: i) the pre-production stage, ii) the production stage, and iii) the post-production stage. During the pre-production process, firms decide the hours of labour and capital required to process one single order, after which the merchandising department produces samples as per the designs provided by the foreign buyer.

Afterwards, the intermediary goods are acquired from the international market (Shahriar, Pathik, & Habib, 2014). Most of the intermediary goods supplied to manufacturers are imported. The RMG sector in Bangladesh is contingent on a value chain dominated by buyers' demand (Hossain & Roy, 2016). As such, domestic manufacturers have a minimal role in the value chain. Moreover, manufacturers must work with many suppliers to manufacture a single unit. This is because the type of suppliers varies depending on the orders received from the buyer. For instance, at least 20 items can be required for a single unit, and a firm operating with 15 different buyers has to engage with hundreds of suppliers. This makes managing the entire production process difficult (Hossain & Roy, 2016).

In the production stage, the raw materials are produced into finished goods through cutting, sewing or weaving, dying, washing, and the final stage, where all the accessories are attached to the garment before packaging. Packaging, and later storing in warehouses, is essentially completed as a part of the post-production process. Warehouses represent an inventory of finished garments and accessories accessed by manufacturers, importers, exporters, wholesalers, transport operatives, and customs. Finally, a shipment audit is done where buyers check for quality, after which the products are dispatched for export (Shahriar, Pathik, & Habib, 2014).

Furthermore, several other agents are involved in the apparel and textiles supply chain; thus, retail distribution centres are responsible for sales, branding, and ultimate customers (Hossain & Roy, 2016).

Additionally, the value chain of the RMG industry also requires an enabling environment to help facilitate business with streamlined procedures. These institutional stakeholders at the domestic and international levels establish and implement legal and regulatory restrictions to be a part of the GVC. These include financial institutions, infrastructure, business communications and information technology, education and training, trade bodies and professional associations, and government agencies (Frederick, 2019).

Over time, vertical integration has lost traction as countries integrate into the GVC horizontally by fragmenting the production process across several specialised facilities in different countries. Consequentially, developed countries preside over the operative activities characterised as high value.

These activities usually involve R&D, designing, and branding. Concurrently, least developed countries (LDCs) focus on operative activities that add lower value or have a greater labour-intensive character, including the final product assembly (Hossain & Baars, 2022). This is also true for the apparel and textile industry in Bangladesh.

Enhancing the GVC participation in the RMG industry will facilitate the development of the local firms in Bangladesh. Boosting the capacity of local firms is an essential factor in developing a regional hub. Therefore, it is important to strengthen local firms by enhancing manufacturers' backward participation and R&D and creating a conducive business environment for foreign investors (Hossain & Baars, 2022).

## Governance structure

The governance structure of the value chain facilitates the analysis of the power dynamics involved within a chain. In other words, governance defines the authority responsible for co-ordinating and controlling the entire value chain. Fundamentally, the governance structure can be disaggregated as either being 'producer-driven' or 'buyer-driven.' Producer-driven chains concern industrial enterprises with a cardinal role in overseeing the production system, including forward and backward linkages. Such characteristics are common in capital- and technology-intensive industries such as automobiles, computers, aircraft, and electronic machinery (Gereffi, 1994).

Concurrently, buyer-driven chains are associated with industries where the central role is dominated by colossal retailers, globally recognised merchandisers and trading corporations who regionalise the production linkage in various export-oriented developing countries. Such industries are generally labour-intensive, producing consumer goods, including garments, footwear, toys, consumer electronics, home products, and various hand-crafted items. Additionally, industries that manufacture finished products under the original equipment manufacturers (OEM) arrangement are also dominated by buyers as the design and specifications are provided by the dominant buyers and internationally recognised firms (Gereffi, 1994).

However, the governance structure can be disaggregated further into five categories. These include market, modular, relational, captive, and hierarchy (Fernandez-Stark & Gereffi, 2019; Gereff, Humphrey, & Sturgeon, 2005). These five categories are based on three fundamental principles concerning the complexity of transactions, the ability to codify transactions, and the capabilities of the supply base (Gereff, Humphrey, & Sturgeon, 2005).

As aforementioned, the RMG industry in Bangladesh is orchestrated under a buyer-driven model. This denotes that the intangible activities during the pre-production phase, such as R&D, design, and procurement, and the intangible post-production processes, such as distribution, marketing, and services, are managed by developed nations. Concurrently, Bangladesh's apparel and textile factories primarily emphasise garment manufacturing and processing. According to the Quarterly Review on RMG published by Bangladesh Bank, the total export value of RMG reached USD 46.99 billion in the fiscal year 2023, of which USD 21.25 billion was woven, and USD 25.73 billion was knitwear (Bangladesh Bank, 2024). This accounted for a 10.3 per cent increase in RMG industry compared to the preceding fiscal year of 2022 (Bangladesh Bank, 2024). Major export destinations for the RMG industry in Bangladesh encompass the USA, the UK, Canada, and the EU market, including countries like Germany, France, Spain, Italy, the Netherlands, and Belgium (Bangladesh Bank, 2024).

Furthermore, Bangladesh's RMG sector demonstrated notable growth by increasing its global market share from 4.2 per cent in 2010 to 7.9 per cent in 2022 (WTO, 2023). This growth has positioned Bangladesh as a successful confidant and a preferred supplier of several internationally recognised brands, including H&M, Walmart, Benetton, C&A, Zara, GAP, JC Penny, GU, and UNIQLO, among others (BKMEA, 2022).

Bangladesh exports to prominent retail brands such as H&M (BKMEA, 2022). It is important to highlight that globally recognised fashion labels like H&M do not own manufacturing facilities. Instead, their operations are rather decentralised and depend mostly on outsourcing production to largely developing nations.

H&M procures from several suppliers, with major exporting countries being Bangladesh, China, India, Turkey, and Vietnam. Bangladesh has emerged as a significant tier-one supplier for H&M as the brand sources from numerous factories in the country (H&M, 2023). Bangladesh accounts for approximately 28 per cent of manufacturing factories, 47 per cent of processing factories, and around 26 per cent of fabric and tanneries, representing the largest concentration of suppliers for H&M (H&M, 2023).

The governance structure of the GVC in the apparel industry has evolved from a captive to a relational value chain (Gereff, Humphrey, & Sturgeon, 2005). Captive value chain refers to the fundamental process of assembling inputs in export processing zones. Value chains with a captive governance structure usually have highly complex transactions, challenging specifications which are not easily transformed into simple instructions, and low supplier capabilities. The inadequacy of the suppliers, especially when dealing with complicated product designs, necessitates significant involvement from the lead firms. Conversely, relational value chains emerge when suppliers' capabilities improve despite the high complexities involved in the transactions and product specifications (Gereff, Humphrey, & Sturgeon, 2005).

Competent suppliers can provide adequate support to the lead firms, and such mutual dependence between buyers and sellers can be monitored through strong reputation and social and spatial proximity. The relational value chain has allowed local firms in developing nations to be trained in manufacturing competitive consumer goods on par with international standards and create significant backward linkages (Gereff, Humphrey, & Sturgeon, 2005). This phenomenon has been observed in the RMG industry in Bangladesh.

It is important to highlight that trade rules have played an important role in shaping the governance structure of the value chain of the apparel industry. The Multi-Fibre Agreement (MFA) in international textile and clothing (T&C) trade has enabled Bangladesh to leverage its comparative advantage in the labour-intensive garment industry, resulting in beneficial outcomes for the country.

The MFA was established in 1974 and was administered by the World Trade Organisation (WTO) as per the General Agreement on Tariffs and Trade (GATT) and was phased out in 2005 (WTO, 2024). The MFA was created as a temporary agreement to impose quotas as a form of import restriction to protect the domestic T&C firms in industrialised nations from developing countries with a comparative advantage of offering labour at affordable wages. Under the MFA, countries with strong textile industries received smaller quotas.

Meanwhile, countries with little or no textile industry gained larger quotas to reduce the risk to domestic industries in developed countries (Heerden, Berhouet, & Caspari, 2003). This catalysed a greater flow of investments into countries like Bangladesh, which had just gained its independence at the time, creating greater employment opportunities, especially for women, establishing global participation in the apparel value chain, and being pivotal for lifting its populace out of poverty. Despite the concerns of the nation losing its competitiveness over apparel exports in the post-MFA era, Bangladesh surmounted its challenges through incremental improvement in its human resources, technological integration, productive capacity, and managerial efficiency. Consequently, Bangladesh ascended to become the second largest supplier in apparel production after China (Moazzem & Sehrin, 2016; Rahman, Bhattacharya, & Moazzem, 2008 ).

## Upgrading

Economic upgrading within global value chains has become increasingly crucial for Bangladesh, particularly as it approaches graduation from the status of an LDC. After LDC graduation, Bangladesh will no longer benefit from international support measures, potentially diminishing the competitiveness of its exports in the global market. Considering the nation's heavy reliance on apparel exports, Bangladesh must undertake significant transformations to enhance its position within the global value chain. In alignment with the GVC framework, four types of economic upgradation have been identified: process upgrading, product upgrading, functional upgrading, and chain or intersectoral upgrading (Islam & Polonsky, 2020).

Process upgrading is characterised as converting inputs into outputs more efficiently by restructuring the production process or injecting advanced forms of technology (Schmitz, 2006). Reorganising the production processes enables firms to adapt to market changes and buyers' specifications and make alterations immediately. This may include automation that improves the productive capacity of a firm or quality management and efficient business organisation, thereby reducing the lead time (Humphrey & Schmitz, 2002). On the other hand, product upgrading refers to switching to more complicated and advanced product lines (Morris & Staritz, 2014). It is essentially specified as a firm's competency to improve product quality and integrate complicated production designs.

In addition, functional upgrading involves learning new skills and abilities to participate in higher value-added activities, entailing the delivery of manufactured products and providing services to the end consumers. Lastly, chain upgrading is defined as firms transitioning to a new but comparable industry (Humphrey & Schmitz, 2002).

In Bangladesh, firms in the RMG sector have taken notable steps to ensure process and product upgrading. Factories have integrated a new line of technologies requiring fewer workers per line and substituted low-speed and semi-automated machinery with high-speed and automated machinery. Factories have also introcuced new departments for industrial engineering to mitigate the inadequate distribution of resources in the production process (Moazzem & Sehrin, 2016). Concurrently, significant steps have been taken to improve human capital and ensure greater adaptability to new technologies. The gradual utilisation of sophisticated technologies has facilitated process upgrading while reducing the wastage of resources. Moreover, a greater number of firms are now engaging more with foreign buyers owing to a streamlined method of communication facilitated by high-speed internet connection. Additionally, process upgrading in the RMG industry was accelerated by improved public sector investment and infrastructure, reducing the time and cost of transportation. However, there have not been any significant improvements in functional upgrading in Bangladesh's apparel industry (Moazzem & Sehrin, 2016).

High value-added activities in the apparel GVC are mostly concentrated in the post-production stage involving, marketing, branding, and after-sales service to customers in addition to sample design. These activities are essentially monitored by dominant firms in the value chain, involving major retailers and brand labels. Emerging economies, especially in Southeast Asia, are constantly competing against each other for more contracts from foreign investors, limiting the suppliers in the grand scheme of the GVC (Gereffi & Frederick, 2010). Firms in Bangladesh have depended mainly on foreign buyers for R&D, designs, product branding, and marketing. However, owing to the firms' integrated backward linkages in the RMG industry, suppliers from Bangladesh have better potential to provide differentiation in fabrics and design specifications in the apparel produced (Moazzem & Sehrin, 2016).

As the value chain evolves, tangible activities entailing product design, branding, and marketing have become more profitable, strengthening the position of lead firms. At the same time, processing and manufacturing have been denominated as only commodities (Gereffi & Frederick, 2010).

Currently, suppliers in Bangladesh have transitioned progressively from practising the assembly or cut, make, and trim (CMT) business model to the original equipment manufacturing (OEM) business model. Under the CMT model, firms are provided with fabrics for assembly, which they cut and stitch into garments according to customer specifications. Conversely, the OEM model emphasises the manufacturing process, enabling suppliers to source raw materials independently and produce finished products for export to retailers (Gereffi & Frederick, 2010). However, both CMT and OEM models rely on design specifications from foreign buyers.

The RMG industry in Bangladesh needs to diversify and engage in higher value-added business models, including original design manufacturing (ODM) and original brand manufacturing (OBM). ODM focuses on design over manufacturing and branding, while OBM concentrates on branding over manufacturing and design (Gereffi & Frederick, 2010). Doing so will allow suppliers from Bangladesh to penetrate emerging markets as lead firms, expand their geographic scope, establish their brand products, and become prominent entities in the global value chain, distributing products domestically and to neighbouring countries.

## Conclusions and recommendations

The RMG industry in Bangladesh predominantly engages in backward linkages within the GVC, importing raw materials for production and adding value before exporting to foreign buyers. The value chain comprises pre-production, production, and post-production stages, with minimal domestic involvement due to buyer dominance. The post-production stage encompasses largely higher value-added activities such as design, marketing, branding and after-sales service to customers. In light of the findings presented in this policy brief, the following recommendations are put forward for policymakers:

**Trade policy:** To reinforce the RMG industry in Bangladesh and improve its participation in the GVC, policymakers need to emphasise measures to facilitate functional upgrades within the industry. This includes supporting domestic firms in transitioning towards higher value-added activities such as ODM, which focuses on design aspects, and OBM, which emphasises branding strategies. By promoting diversification in business models, Bangladesh can position itself as a leader in emerging markets, expand market reach, establish brand recognition, and elevate its role in the global value chain.

**Capacity building:** Enhancing GVC participation in the RMG sector will contribute to developing Bangladesh's local industry, making it a more attractive regional hub for manufacturing. However, to ensure this, policymakers need to take initiatives to improve the capabilities of local manufacturers, foster R&D initiatives, and create a favourable business environment to attract foreign investment. These proactive steps will strengthen the RMG industry and bolster Bangladesh's economic growth and competitiveness.

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