

The Garments Sector of Bangladesh: How its exports have contributed towards the GDP of the Country.

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Date of Submission: 01-11-2020

Date of Acceptance: 15-11-2020

ABSTRACT: Like many other third-world countries, Bangladesh relies quite heavily on exports to provide for the needs of its densely populated nation. The same products sold locally will generally fetch a much lower price than they would on the international market. This means that it is far more profitable for the country to engage in exportation than it is to engage in local trade. Currently Bangladesh's main export items are garments, jute and jute-related goods, leather, frozen fish and seafood. Just three years ago the country made over \$2,000 billion from export trade. This study attempts to explore the integration among economic growth rate, ready-made garments (RMG) exports earning and foreign direct investment (FDI) inflow in Bangladesh. It uses time-series annual data for the period 2009-10 to 2018-19. The study uses correlation and regression to explore and determine whether a relationship between the variables exists. The result of the correlation and regression reveals the presence of a positive relationship among the variables. The RMG exports earning significantly improves the economic growth rate. The more the RMG exports earning, the more will be the economic growth rate. However, one alarming problem is that the contribution of RMG exports to the GDP of the country has been constantly decreasing year after year. Lack of product/market diversification and inadequate investment seem to be the major problems. The government of the Country should take necessary steps as soon as possible because they cannot afford to lose the international market of the garments, as the contribution from the Export of the RMG has always been significant.

Keywords: RMG Sector, Garments Exports, GDP of Bangladesh

I INTRODUCTION

The Gross Domestic Product (GDP) is one of the primary indicators used to gauge the health of a country's economy. It represents the total value of all goods and services and can be treated as the

size of the economy. The economy of Bangladesh comprises of 3 main sectors: >Agriculture > Industry > Service. The GDP of the country has risen throughout the past 50 years and these 3 sectors have evidently played a vital role in that.

The economy of Bangladesh is a developing market economy. It's the 35th largest in the world in nominal terms, and 30th largest by purchasing power parity; it is classified among the Next Eleven emerging market middle income economies and a frontier market. Dhaka and Chittagong are the principal financial centers of the country, being home to the Dhaka Stock Exchange and the Chittagong Stock Exchange. The financial sector of Bangladesh is the second largest in the Indian subcontinent. Bangladesh is one of the world's fastest growing economies.

Bangladesh exports about 168 different products and services to almost 186 countries. The main exportable are Readymade Garments, Knitwear, Home Textile, Frozen Food, Leather & Leather goods, Jute and goods which contribute near about 89% of our total export. On the other hand the main export destination of Bangladesh are USA, Canada, EU Countries including U.K, Germany, France, Italy, Sweeten etc. contributing almost 93% of total export. The government formulates the Export Policy principally with a view to facilitate the exporters so as to develop and promote export of Bangladesh. Some special facilities and incentives include:

> **Cash incentives:** the government is providing 5-20% cash incentives against FOB price of exported items.

> **Bonded Facilities:** For bonded warehouse with a view to 100% export materials can be imported without any duties.

> **Assistance is searching for foreign markets:** or exploring foreign market Export Promotion bureau (EPB) organize/help the exporters participate about 30-35 international trade fair every year. EPB

generally bear the costs of stalls including other incidental costs.

> **Export loan at lower interest rate:** At only 7% rate of interest export loans are being provided.

> **National Export Trophy**

II REVIEW OF LITERATURE

(Shahajada and Masrufa 2019) 4 million workers are employed in RMG sector. At present, 83.9% of national export in Bangladesh is contributed by RMG export

(Md Atiqur 2015) Bangladesh exported readymade garments worth \$ 24.5 billion during the last financial year. A growth of 13 per cent in one year means an increase by 3.25 million

(Jahan 2018) Bangladesh began creating Export Processing Zones (EPZs) in 1978 to attract foreign capital and earn export dollars. The domestic made garments can fulfill the total demand of our country and so this sector is also doing very well in the sense of exporting.

(Khandoker and Tetsushi 2011) Garment industry in Bangladesh has grown rapidly for the last 3 decades and now ranks among the largest garment exporters in the world.

(Mithun n.d.) Bangladesh has overtaken India in readymade garment exports despite the recent setbacks it received like instances of building collapses and fire at manufacturing units, says a study by Exim Bank. Between January and October 2013, shipments by Indian exporters to America

grew 6.3% to \$3.2 billion, while the same by Bangladesh jumped 11.4 per cent at \$4.9 billion.

(Garments Merchandising n.d.) The main key factors which has great influence on RMG sector of Bangladesh are in the following:

Special economic/export processing zones, Vast labor force, Skilled human resources, Technological upgrades, Government supports for textile and clothing.

(Dhaka Turbine 2020) The objective for the garment sector is to grow 10%-12% per annum for the next decade. That increases container-outgoing shipments by a factor of two in seven years and at the high end by a factor of three by 2030.

Research Gap

There have been research papers on the GDP of Bangladesh and on the exports of Bangladesh in the past individually but a research paper, which shows the relationship of these variables, has not yet been published. So in order to fill that gap, this research paper has been written to find a relationship of these variables i.e. the impact of the increasing exports on the GDP of Bangladesh as a whole.

Research Objective

The objective of this research paper is to study how the exports of garments have affected the GDP of Bangladesh and how it will affect the economy of Bangladesh in the near future.

Research Hypothesis

Independent Variable	Dependent Variable	P-Value
Exports of Garments Sector of Bangladesh.	GDP of Bangladesh	1.43245

The P-Value is 1.43245, which is a value close to 1.

Therefore, with respect to the P-Value, since it is close to "1" it can be concluded that alternate hypothesis prevails and we reject null hypothesis.

III METHODOLOGY

The purpose of this study is to figure out how the Export of the RMG sector of Bangladesh has contributed towards the positive growth of the

country's GDP. Since this is a descriptive type of research we have gathered secondary data of the exports of the RMG Sector and the GDP of Bangladesh from the year 2009-10 to 2018-19. To analyze the data, statistical tools, such as correlation and regression have been used to determine whether a relationship exists between the two variables and if yes, how significant it is. Moreover, clustered column chart has been used to display the positive relationship of Exports and GDP. Lastly, line graphs have been showed to

depict the trends of the increase in Export and its contribution to the GDP in the selected time period.

Results of Data Analysis and Interpretation

Year	Exports(\$Billions)	GDP(\$Billions)	% Of Exports to GDP
2009-10	12.496	115.279	10.84
2010-11	17.914	128.638	13.93
2011-12	19.089	133.356	14.31
2012-13	21.515	149.99	14.34
2013-14	24.491	172.885	14.17
2014-15	25.491	195.079	13.07
2015-16	28.094	221.415	12.69
2016-17	29.149	249.711	11.67
2017-18	30.614	274.039	11.17
2018-19	34.133	302.571	11.29

1) Results of Calculated Correlation between Export & GDP

Correlation coefficient= 0.95690418

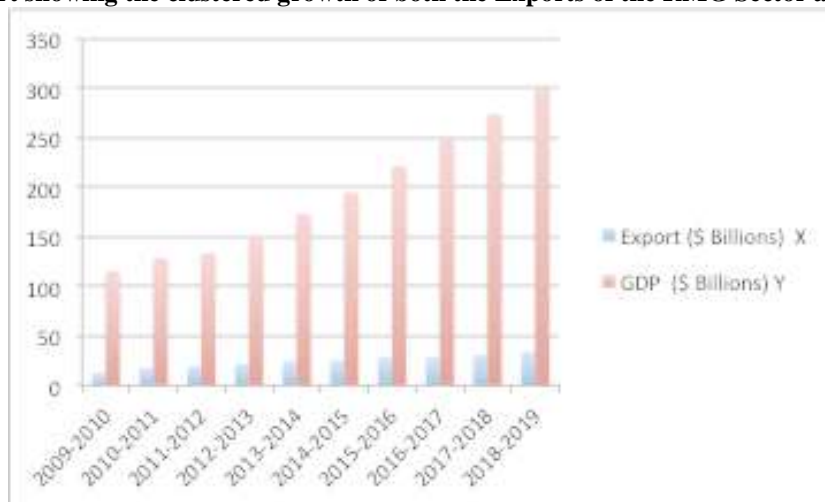
Since it is a positive value we can say that the relationship between Exports of the garments sector and the GDP of Bangladesh has positive relationship. When exports go up, the GDP also rises. Moreover, the value is very close to 1.0, which represents a very strong relationship.

2)Results of the Regression Analysis

R-Squared Value = 0.915665609

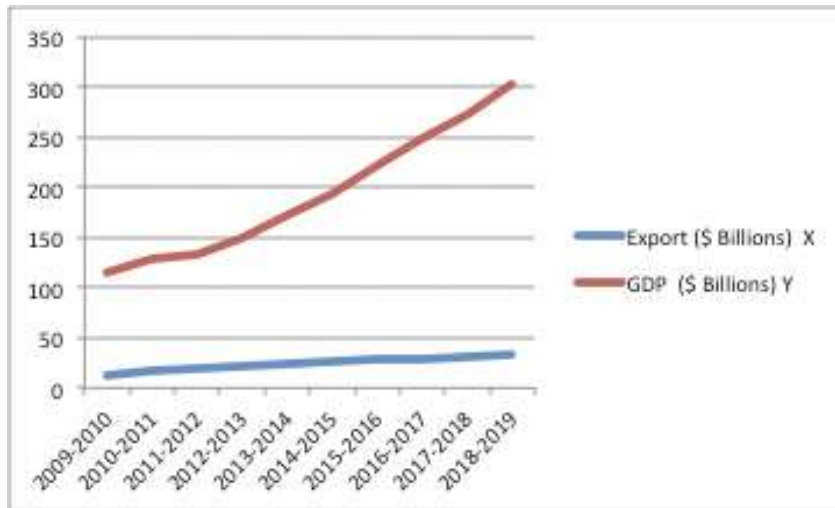
Usually, the larger the r square, the better the regression model fits the observations and since the value of r square is close to one it indicates a very strong relationship between the independent and dependent variables

3) Column Chart showing the clustered growth of both the Exports of the RMG Sector and GDP



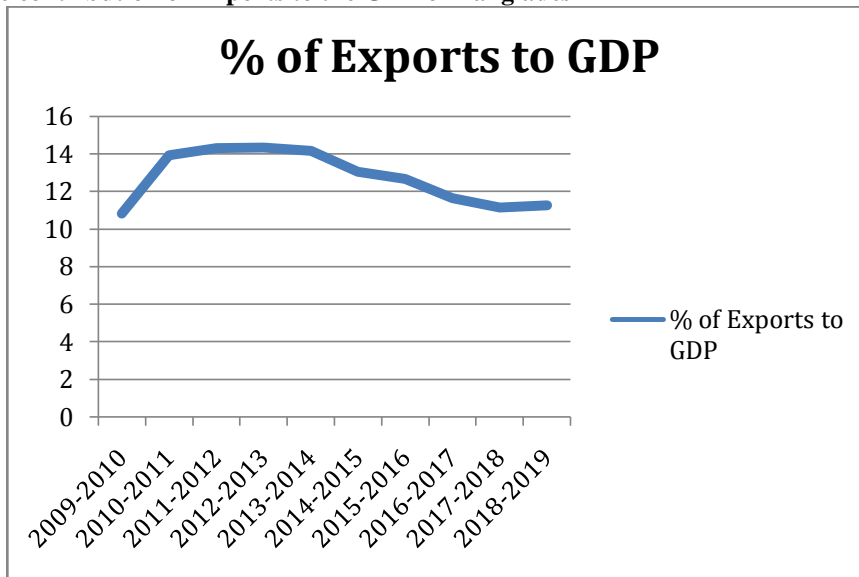
In the figure, it can be seen that the both the variables have seen continuous growth throughout the past 10 years. The chart also shows a positive relationship between the variables as both, export and GDP are moving in the same direction.

4)Line graph showing the trend of growth of Exports of RMG Sector and GDP of Bangladesh



The growth of exports was slow but consistent. On the other hand, the GDP of Bangladesh has risen extremely in this time period. Even though the growth rate of both the variables differs, it still depicts a positive relationship as Exports and GDP have a positive upward sloping line graph.

5) Trend of the contribution of Exports to the GDP of Bangladesh



In the above figure, it can be seen that the contribution of Exports had seen a sharp rise in the year 2010-11 and went up to almost 14%. It stayed constant for more than a couple of years and then started declining. This downward trend of the exports can be seen as an alarming threat to the country.

IV. FINDINGS

The growth rate of export over the last 10 years from the fiscal year 2009-2019 was 12.663%, which plays an important role to expand the GDP of Bangladesh and contributes to reduce the

poverty level. The total export has increased to almost 3 times in fiscal year 2019 in terms of the fiscal year 2009. In 2009, the export was 10.8% of the GDP whereas in 2019 it stood to 11.2%. On an average, the ratio has increased to 0.4% over the last 10 years. The rich and constant growth of the readymade garments, RMG sector helped to the boost of expand of export. From the analysis done, a fair conclusion can be forward that during the fiscal years 2011-12, 2012-13 & 2013-14, have shown the maximum contribution of exports to the GDP.

According to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) data, RMG sector's export contribution to GDP came down to 11.17% in the fiscal year 2017-18, which was 14.17% in FY2013-14, down by 3 percentage points. The downward trend in GDP contribution of apparel export is not a good sign for the economy as it contributes nearly 84% to the overall exports.

V. CONCLUSION

Bangladesh apparel sector's contribution to gross domestic product (GDP) declined for lack of product diversification and sluggish private investment in the sector.

According to the Bangladesh Garment Manufacturers and Exporters. The government should take necessary steps to overcome this problem. To diversify goods, the government as well as the manufacturers have to invest more in research and development. Moreover, the RMG sector is mostly focused on manufacturing basic and low-value products. The apparel makers have to concentrate on new markets and product diversification.

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