The Exports of Garments Industry for the Preparation of Bangladesh's LDC Graduation

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Abstract

It has been found that Bangladesh's Garments Industry has a direct impact on the criteria for LDC graduation, such as Gross National Income (GNI) per capita, Human Assets Index (HAI), and Economic Vulnerability Index (EVI). The garment sector is vital to many LDCs, especially in Bangladesh, the dominant sub-sector. This industry has prospered due to the one-sided trade options provided. However, removing LDC-specific options could jeopardize its survival in these countries, particularly if they face stricter Rules of Genesis in their new trade agreements. These challenges include limited development, a weak business environment, and high trade costs. Nevertheless, graduation also provides an opportunity to address some of the nation's most pressing problems. By enhancing the readymade garments industry, Bangladesh can create more opportunities and earn significant foreign currency, potentially leading to LDC graduation. The research suggests that Bangladesh can successfully achieve these objectives.

***Keywords:** Garments Industry, Least Developed Countries (LDCs), LDC Graduation*

Introduction

The garment industry has played a crucial role in the growth and development of Bangladesh, particularly in terms of its economy and social progress. Despite limited resources, the country has achieved an impressive annual average GDP growth rate of 6%, mainly due to the success of the readymade garment (RMG) industry, which is now the country's top export earner. The sector contributes 83% to the total export earnings (BGMEA). Despite facing several challenges in the past, the RMG industry has established its position in the global market and

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maintained a strong performance. In the 2019-20 financial year, Bangladesh's garment industry generated over $27.9 billion in exports. (BGMEA).

Emerging economies like Bangladesh are rapidly becoming more significant in the global market. Their exports have increased by 8-13% annually between 2010 and 2019, driven by low production costs and enhanced competitiveness (Baker, 30 April, 2021). The clothing industry in countries classified as least developed, such as Bangladesh, heavily relies on trade preferences designed explicitly for their category. Bangladesh's graduation from the LDC category in 2026 will significantly affect this sector. To ensure a smooth transition, the textile and clothing sector must prepare accordingly (United Nations, 01 February, 2022).

Research Gap & Significance of the Study

The export performance of Bangladesh's garment industry has a direct influence on meeting the criteria necessary for Least Developed Country (LDC) graduation. A good number of researchers have already studied in the area of Bangladesh garments industry as well as LDC graduation. We found insufficient research on the impact and relationship between Bangladesh's garment industry's export performance and Bangladesh's LDC graduation. However, we should conduct more research in this area to facilitate Bangladesh's successful LDC graduation process.

Objectives of the Study

The primary objective of this study is to obtain a better knowledge of the garments industry for the preparations for Bangladesh's LDC graduation. Other objectives are as follows:

1. To identify the process of Bangladesh's LDC graduation.
2. To determine and examine the export positions of Bangladesh's garments industry for Bangladesh's LDC graduation.
3. To recommend some measures of Bangladesh's garments industry for the implications of LDC graduation.

Literature Reviews

UNCTAD (June 13, 2023) shows that Bangladesh has made a crucial transition from a predominantly aid-dependent economy to one based mainly on trade, with the significant assistance of migrants' remittances. The external sector has played a critical role in this process, underpinning Bangladesh's industrialization and supporting the socioeconomic development on which LDC graduation will eventually be rooted. Bangladesh's success can be attributed to its utilization of market access preferences and SDT provisions in the WTO specific to LDCs.

Rahman, Habibullah, & Masum (2017) conducted this study utilizing secondary data to provide an overview of Bangladesh's RMG industry, focusing on its growth, contribution, and challenges. The industry has been a catalyst for sustainable development and change in the country, having performed for a long time. Over the last 25 years, Bangladesh's largest exporting industry has experienced tremendous growth.

Rahman (January 31, 2023) analyzes the various challenges that Bangladesh faces in graduating and proposes some strategies that the country needs to adopt to graduate with momentum and make graduation sustainable.

Chowdhury, Ahmed, & Yasmin (2014) analyze this paper and discuss the current state of the Readymade Garments Industry in Bangladesh, including its prospects, problems, and potential solutions. The findings show that the industry has significant potential for earning foreign currency but faces ongoing crises. The study provides recommendations for addressing these challenges and improving the garment sector.

OECD (September 08, 2022) shows that graduating from the LDC status is a significant achievement that brings numerous opportunities. However, it also means losing specific international support measures. Bangladesh, which relies heavily on exports and manufacturing, is the most extensive among the LDCs and is greatly affected by graduation. Transitioning to new production methods can help Bangladesh recover from these losses and advance beyond graduation.

Alam, Selvanathan, & Selvanathan (2017) examine this study and analyze the factors influencing Bangladesh's garment exports after the Multi-Fibre Arrangement (MFA). The research concludes that affordable labor, company size, product and market diversification,

preferential market access, and proactive government policies have contributed to the success of Bangladesh's garment industry in the post-MFA era.

United Nations (February 01, 2022) explores that the textile and clothing industries of five Asian developed countries, including Bangladesh, Cambodia, Lao PDR, Myanmar, and Nepal, depend heavily on trade preferences meant for LDCs. However, they are also expected to be significantly affected when they graduate from the category. By 2026, Bangladesh, Lao PDR, and Nepal are set to leave the LDC category, while Cambodia and Myanmar are being evaluated for possible graduation in the coming years. Therefore, these countries' textile and clothing industries must prepare themselves for a seamless transition to cope with the changes that will occur.

Methodology

This study is a qualitative analysis that relied on secondary data collected from various sources. These sources include the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the United Nations (UN), the World Trade Organization (WTO), the United Nations Conference on Trade and Development (UNCTAD), as well as the annual statistics report of BGMEA, international journal papers, newspapers, websites, and other published literature. In order to achieve the study's objectives, we utilized qualitative content analysis and judgmental techniques.

Comparative Statement on Export of RMG & Total Export of Bangladesh and LDC Graduation

Table 1 and Figure 1 indicate that Bangladesh's export of RMG increased from $24491.88 Million to $46991.61 Million, and RMG's Total Export rose from 81.13% to 84.58% from Fiscal Year 2013-14 to 2022-23. This growth rate of Bangladesh's RMG industry is contributing to an increase in Gross National Income (GNI) per capita, Human Assets Index (HAI), and Economic Vulnerability Index (EVI) for LDC Graduation in 2026.

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Table 1: RMG's to Total Bangladesh's Export

Year	Export of RMG (Value in Million USD)	Total Export of Bangladesh (Value in Million USD)	RMG's to Total Export
2013-14	24491.88	30186.62	81.13%
2014-15	25491.4	31208.94	81.68%
2015-16	28094.16	34257.18	82.01%
2016-17	28149.84	34655.9	81.23%
2017-18	30614.76	36668.17	83.49%
2018-19	34133.27	40535.04	84.21%
2019-20	27949.19	33674.09	83%
2020-21	31456.73	38758.31	81.16%
2021-22	42613.15	52082.66	81.82%
2022-23	46991.61	55558.77	84.58%

Source: BGMEA, 2023.

Figure1: RMG's to Total Export
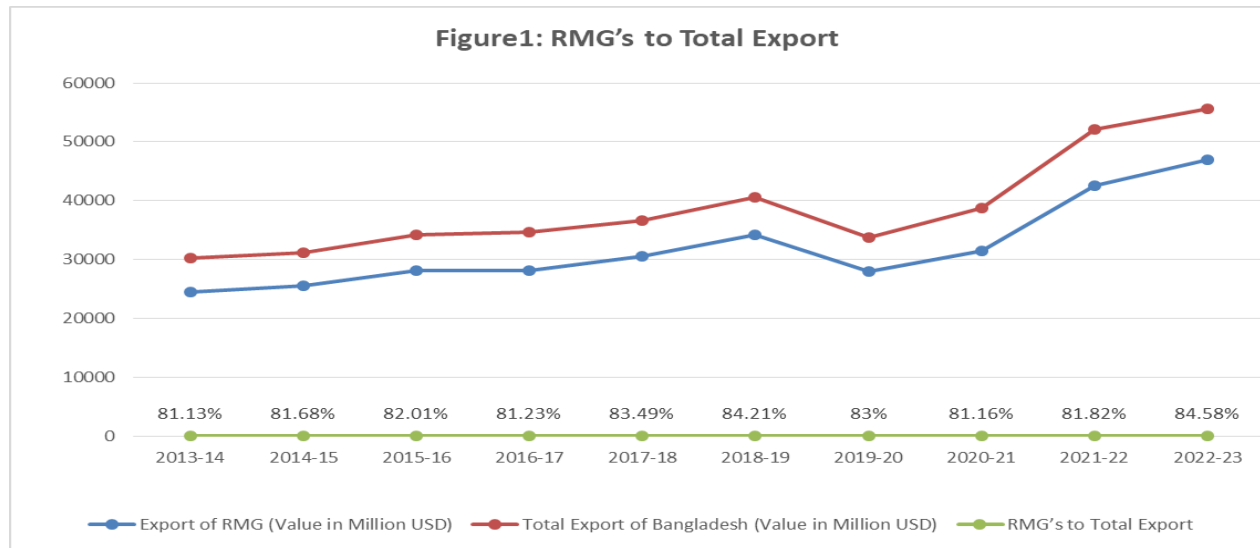
Source: BGMEA, 2023.

The Position of Bangladesh RMGs in the World Market and LDC Graduation

Table 2 shows that Bangladesh produced 4,554 million USD in 2001, 1% of the world's total market share, and made 42,932 million USD in 2019, 5% of the world's total market share. The growth rate was 13.3% from 2001-2019, the highest among the Top 20 Producer Countries of Garment Products. This tremendous growth rate will help Bangladesh prepare for the LDC graduation.

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2019 Rank	Country	2019		2001			CAGR 2001– 2019
		USD million	Market Share	USD million	Market Share	Position in 2001	
1	China	260,574	32%	49,829	14%	1	9.6%
2	Bangladesh	42,932	5%	4,554	1%	19	13.3%
3	Germany	38,179	5%	19,247	5%	5	3.9%
4	Italy	35,974	4%	25,535	7%	3	1.9%
5	India	35,485	4%	10,602	3%	9	6.9%
6	Turkey	27,903	3%	10,397	3%	10	5.6%
7	USA	26,118	3%	19,994	6%	4	1.5%
8	Spain	19,103	2%	5,373	1%	16	7.3%
9	Hong Kong, China	17,993	2%	34,371	10%	2	-3.5%
10	France	17,314	2%	11,627	3%	8	2.2%
11	Netherlands	17,200	2%	4,787	1%	18	7.4%
12	Belgium	15,251	2%	10,304	3%	11	2.2%
13	Indonesia	12,830	2%	7,675	2%	14	2.9%
14	United Kingdom	12,703	2%	8,184	2%	13	2.5%
15	Korea, Rep. of	12,480	2%	15,588	4%	6	-1.2%
16	Taipei, Chinese	9,189	1%	12,633	3%	7	-1.8%
17	Japan	7,746	1%	7,311	2%	15	0.3%
18	Thailand	7,063	1%	5,290	1%	17	1.6%
19	Mexico	6,938	1%	10,169	3%	12	-2.1%
20	Sri Lanka	6,083	1%	2,568	1%	20	4.9%

Source: Author's Calculations Based on ITC Trade Map, WTO.

The Process & Position of Bangladesh's LDC Graduation

LDC graduation refers to the process by which a least developed country is identified as having made significant advancement in its development. As a result, it no longer falls into the class of least-developed countries. This graduation is recognized based on distinct standards the United Nations Committee for Development Policy (CDP) sets.

To be qualified for graduation, a country must confirm sustained improvements in three key areas:

1. **Gross National Income (GNI) Per Capita:** The country should acquire a 1222 USD income threshold, indicating an advancement in its economic performance.

2. **Human Assets Index (HAI):** The country's human development arrows, including health, education, and nutrition, should show an HAI requirement of 66 or above.

3. **Economic Vulnerability Index (EVI):** The requirement EVI of 32 or below for the country's stability to economic shocks and external elements should improve.

When a country meets the criteria for graduation, the CDP recommends it to the United Nations Economic and Social Council (ECOSOC) for approval. Once approved, the country is officially recognized as having graduated from the list of least developed countries. Graduating from the LDC level is a significant achievement as it reflects the country's progress in overcoming developmental challenges and improving the well-being of its citizens. However, it's

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important to note that graduation only indicates that some developmental problems have been resolved. It's an acknowledgment of the country's progress and a step towards further growth and development.

The Committee for Development Policy (CDP) has officially announced that Bangladesh has fulfilled the necessary criteria to graduate from the Least Developed Country (LDC) category. This decision is based on three crucial factors: per capita Gross National Income (GNI), the Economic and Environmental Vulnerability Index (EVI), and the Human Assets Index (HAI). In the latest assessment conducted in 2021, Bangladesh has surpassed the requirements in all three categories, with a per capita GNI of $1827 (minimum requirement is unknown), an EVI of 27 (required to be 32 or below), and an HAI of 75.4 (needed to be 66 or higher) (Bhattacharya, Mar 12, 2021).

On November 24, 2021, The United Nations General Assembly recommended that Bangladesh will be removed from the Least Developed Countries (LDCs) group by 2026. This recommendation aligns with earlier suggestions from the Committee for Development Policy (CDP) and the Economic and Social Council (ECOSOC). To achieve sustainable growth and transition from LDC to developing country status, Bangladesh needs to shift its focus from ISM-driven competitive advantage to skills and productivity-driven competitiveness. This will require implementing appropriate strategies and adequate preparation for LDC graduation and beyond (UNCTAD, Jun 13, 2023).

Recommendations for the Implications of LDC Graduation

Several measures can be suggested to support the Bangladesh garment industry further in its journey toward LDC graduation and sustained economic growth:

1. Encourage the garment industry to diversify its product coverage and target new demands beyond traditional ones. This will reduce dependence on a few products and countries, enhancing the industry's resilience to economic shocks.

2. Promote investments in technology and innovation to improve productivity and quality in the garment sector. Adopting advanced manufacturing techniques can help Bangladesh maintain its competitive edge in the global market.

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3. Focus on developing a skilled workforce by investing in vocational training and education. Equipping workers with the necessary skills will enhance their employability and contribute to the industry's growth.

4. Emphasize sustainable practices in the garment industry, including eco-friendly materials, energy-efficient production, and waste management. Sustainable production meets global demand and ensures the industry's long-term viability.

5. Develop supporting industries like textiles, accessories, and packaging to keep the value chain and decrease import dependency.

6. Ensure strict compliance with international labor and environmental standards. Compliance with ethical practices will improve the industry's reputation and build stronger buyer belief.

7. Continue investing in infrastructure development to enhance logistics and transportation, decreasing lead times and production costs.

8. Encourage financial inclusion by delivering easy entry to credit and financial assistance for small and medium-sized garment sector industries. This will facilitate business expansion and investment.

9. Support export promotion endeavors through trade fairs, business delegations, and marketing campaigns. Raised exports will boost foreign exchange earnings and further aid economic growth.

10. Deliver a supportive policy framework and incentives for the garments industry to promote investment, innovation, and sustainable development

Conclusion

Bangladesh's graduation from the Least Developed Country (LDC) status is significant. It results from consistent efforts and progress in various economic and human development indicators. Preparing for Bangladesh's LDC graduation involved multiple strategies and actions. The United Nations resolution rightly states that graduation is not an endpoint but a landmark in the growth journey of the LDCs. Graduating LDCs will require domestic efforts and global assistance to drive towards graduation swiftly and sustainably. Bangladesh's LDC graduation is

widely seen as a recognition of its remarkable achievements in the garments industry over the years despite facing numerous socioeconomic challenges. To sustain its success, the country will need to establish concrete benchmarks to address the continuous development of the garments industry and overcome the obstacles of LDC graduation. By implementing the suggested measures, Bangladesh's garment industry can continue flourishing, contributing to sustained economic development, job creation, and poverty reduction. These efforts will eventually help the country maintain its LDC graduation and move towards becoming a middle-income nation.

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Conflicts of Interest

The authors declare no conflicts of interest regarding this publication.

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