

**Australia Bangladesh Trade Conference, Sydney, 2019**

Date: 14 November 2019

Session: 11:00 hours ó 13:00 hours

Theme: Industry Session: Textiles (Garments, knitwear, cotton and wool)

**A. Background**

Bangladesh’s economy is progressing well and in the last decades could secure one of the highest growth. The readymade garments (RMG) has been playing a major role in the overall progress in exports, contributing about 80-85 per cent of the total exports. Bangladesh remained the second largest RMG exporter in the world after China in the recent past. Over 4.5 million people are employed (80% are women) in the RMG sector and about 20 million people are directly associated with the industry. In achieving the status of a middle-income country by 2021 and a developed country by 2041, the contribution of RMG will remain significant.

Export earnings from the RMG sector in FY18 grew by 8.76 per cent to US\$30.615 billion from US\$28.150 billion in FY17. Within the sector, woven RMG exports and knitwear exports increased by 7.18 per cent and 10.41 per cent, respectively. (Source: Export Promotion Bureau). Bangladesh has a target to achieve apparel exports worth \$50 billion by 2021.

Availability of sufficient trainable workforce is the major strength of RMG sector in Bangladesh. Bangladesh gets GSP facilities for the apparel sector from EU, Japan, Australia, New Zealand, Canada and some duty-free market access to China, S. Korea and India. In addition to that, supporting industries for RMG, e.g. backward and forward linkage factories are growing in Bangladesh thanks to the conducive government policy. Similarly, many RMG manufacturers have started adopting sophisticated and advanced manufacturing and management technologies to produce high quality products. As such, nowadays, Bangladesh is producing diversified and good quality of products.

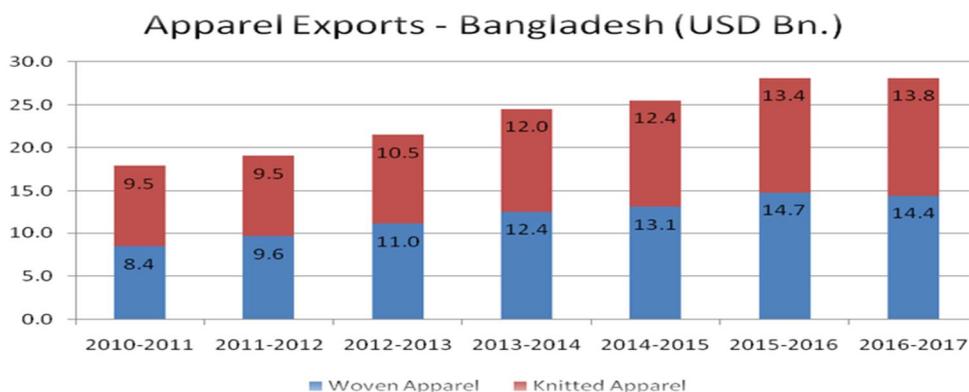


Figure 1: Apparel export growth trend (Source: Export Promotion Bureau, Compiled by BGMEA)

The global apparels market is predicted to be \$650 billion by 2020. With rising cost of production in China, countries like Bangladesh can expand their market share. Each year, export to non-traditional markets like Australia, Japan and Korea are also increasing.

#### B. Challenges and opportunities for the RMG sector

The Rana Plaza incident in 2013 was a critical moment for the ready-made garment industry of Bangladesh. After the incident, all stakeholders associated with the sector including brands and retailers realized the importance of workplace safety and acted positively to improve the situation. Bangladesh government together with a number of international labour organising bodies and corporations developed different governance mechanisms to monitor working conditions in garment factories. The *Accord on Building and Fire Safety* in Bangladesh and the *Alliance for Bangladesh Worker Safety* are the two most significant international private governance structures. At present, around 79 per cent of the identified safety issues has been remediated by the factories under the Alliance while the progress rate is 77 per cent in the Accord-affiliated factories. Recently, Bangladesh Government has approved a draft of the Bangladesh Labour (Amendment) Act, 2018 to make it workers-friendly in line with the suggestion of the international communities.

As a result of the new orientation and improvements, Bangladesh now boasts the presence of seven out of the top ten green factories in the world. So far, 70 garment factories of Bangladesh have achieved LEED certification from the United States Green Building Council as green factories while 13 factories have achieved platinum certificates.

The RMG sector adjusted to these considerations in the following years. However, its growth has been marginal in the last few years, with exports growing by 0.2% and 8.7% for 2016-17 and 2017-18 respectively. The sector however got back on its growth trajectory in 2018. Analysts attribute this to a depreciating currency and growing export trend to the US market, which is the single largest importer of Bangladeshi apparel.

The near completion of remediation work by Accord and Alliance post the Rana Plaza industrial incident have improved perception of Bangladesh's RMG sector among foreign buyers. However, apparel price has not seen commensurate increase with higher investments on work-places and having an effect such as squeezing of profit margins. Many RMG owners are thus forced to shelve plans on making further investments to make workplaces safer. The RMG factories would have to find ways to either increase worker productivity by securing higher pricing from apparel buyers.

Future growth would be contingent on the outcome of multitude of internal and external factors, which could potentially determine the sector's competitiveness vis-à-vis its closest competitors. Competition from Vietnam, India, Cambodia, Pakistan, Ethiopia, Myanmar etc. are real and will decide future growth in many destinations.

A strong US economy and rising domestic consumer spending, which have resulted in higher apparel orders. Besides, the US government's cancellation of Trans-Pacific Partnership (TPP) agreement with 11 partner countries- Australia, Japan, New Zealand, Canada, Mexico, Singapore, Malaysia, Vietnam, Brunei, Chile and Peru- may have resulted in reduction in cost competitiveness for Vietnamese apparel, which have directly benefited Bangladesh.

Although RMG players are tapping into emerging East Asian and Latin American markets, US, UK and EU countries remain the largest buyers. While Bangladesh receive GSP facilities in the EU market, US market is more competitive, as Bangladesh receives not special trade

privileges. While cancellation of TPP is a big respite, the country has to contend with emerging competitors in Africa, with Ethiopia leading the way. African apparel exporters enjoy trade benefits in the form of African Growth Opportunity Act (AGOA) and shorter freight time to the US and EU markets.

As US government has started imposing protectionist measures on import from major trading partners like China and Canada, the US has recently decided to slap 25% tariff on imports worth up to USD 200 billion from China and some more are expected. China has reciprocated by imposing tariff on some US exports that include cotton.

Bangladesh can directly benefit in the event of escalating trade war between US and China, especially if the US hikes tariff on Chinese apparel. Alongside, Bangladesh can benefit from capital flight, as some Chinese apparel manufacturers would be seeking to relocate to a country having normal trade ties with the US. Current trade war would likely contribute to volatility in prices for cotton, which already is undergoing upheaval after China imposed tariff on US cotton.

Bangladesh has achieved the middle-income status, and will have to maintain the growth indicators till 2024 for successfully consolidating its position to the next tier. In the post- LDC era, many countries and regions may revoke or reduce preferential treatment enjoyed by Bangladesh. Withdrawal of GSP facility, if that happens, would immediately impact Bangladesh's cost competitiveness, if the competitors continue to benefit from the facility.

Minimum wage for the RMG sector were revised upward in the last few years, last being in Dec 2018. This 50% jump in salary costs would significant impact on the sector competitiveness. To tackle rising costs, some RMG owners have been automating operations by adopting technology. This may emerge as a new trend with multifarious implications.

Recent compliance purge by Accord and Alliance has resulted in closure of at least 1,500 factories, while 2,500 factories remain operational. The surviving top and mid-tier players need to be offered organizational development support by facilitating human resource development, in terms of designing, merchandising and operations management.

The sector must break free from the low value-low margin market segment to remain competitive and to expand. The main objective would be to facilitate the sector's shift towards offering higher margin apparel products, which can absorb growing overhead costs. Enhancing productivity and product diversification, with or without value added fibres and fabrics, could be important aspect for future focus.

### **C. Potential of Australia-Bangladesh trade in RMG, Cotton and Wool:**

Bangladesh's export to Australia mainly consists of readymade garments, woven fabrics, knitwear, textile manufactures, home textile. On the other hand, cotton occupies a significant portion of Australia's export basket to Bangladesh. She receives duty and quota-free access to the Australian market since 01 July 2003.

Bangladesh is the second largest import source among the South Asian peers for Australia. Despite a ban on direct cargo from Dhaka, exports to Australia has been increasing significantly in recent days.

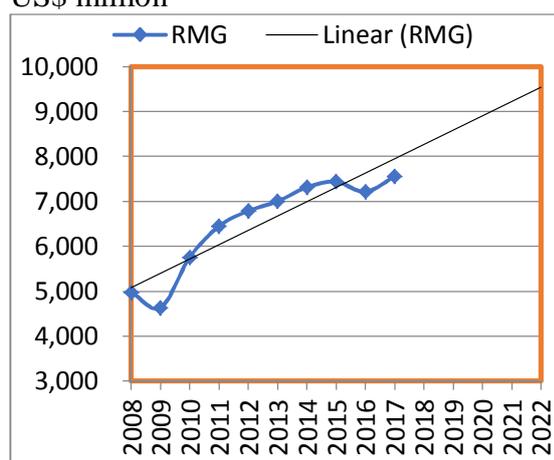
**Australia's main imports from Bangladesh, figures in US\$ million**

Particulars	Products Imported by Australia				Product wise Main Exporting countries to Australia, 2018
	From World		From Bangladesh		
	Actual in 2018	Forecasted in 2022	Actual in 2018	Forecasted in 2022	
All Products	227,284	280,000	722	1,000 to 1,200	
Knitted Apparel	3,219	3,500 to 4,000	372	500 to 600	China (66%), Bangladesh (11.3%) Viet Nam (2.75%), Cambodia (2.6%)
Non-Knitted Apparel	3,335	3,500 to 4,000	260	400 to 500	China (66.2%), Bangladesh (7.2%), Viet Nam (4.1%), Indonesia (4.1%)
Other made-up textile	1,461	1,500 to 1,800	47	100 to 200	China (64.6%), India (9.8%), Pakistan (4.7%), Bangladesh (3.3%),

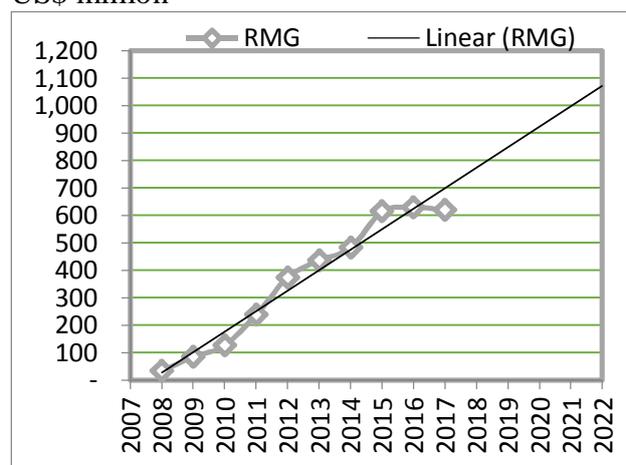
Source: ITC calculations based on Australia Bureau of Statistics

The table above indicate that there is potential for Bangladesh readymade garments and textiles in the Australian market, which will be about \$10 billion within the next few years. Kmart, Australian Woolworth and Target Australia are the major Australian garment buyers from Bangladesh. Enhanced marketing and product diversification could help Bangladesh increase her market share in Australia.

RMG imported by Australia from the world: US\$ million



RMG imported by Australia from Bangladesh: US\$ million

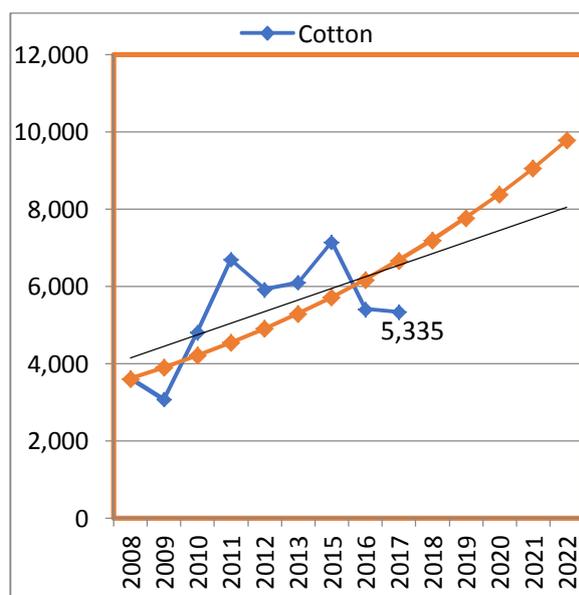


Bangladesh is the second largest cotton importer in the world and Bangladesh has become one of the top importers of Australian cotton. As only 0.1 million bales are produced locally,

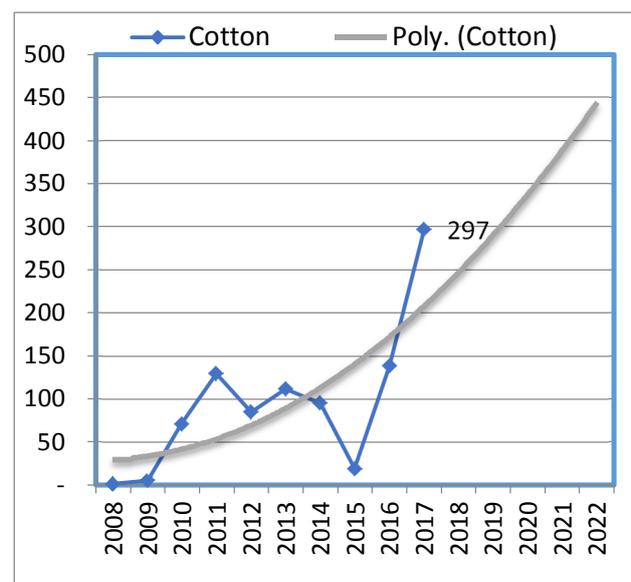
Bangladesh imports more than 6 million bales of cotton (USD 6.57 billion in 2018) from the world which is projected to double within four-five years. It is also projected that Bangladesh will overtake China as the world's largest importer of cotton. Australia is also the world's fourth largest cotton exporter and has earned a reputation as a reliable supplier of high-quality cotton as Australia's cotton is almost contamination free and other quality parameters are also good. As such, there are immense road for greater engagement in cotton, as Bangladesh seeks to secure quality cotton. However, Chinese tariff on US cotton could be a major factor. Indonesia, Vietnam, Cambodia, Myanmar may continue to offer good challenge to Bangladesh in this market, taking advantage of trade frameworks and preferential treatment.

Australia is one of the world's largest wool producers, producing around 25 per cent of greasy wool sold on the world market. The value of Australian wool exports in 2017 was to be around \$3 billion; this reflects the continuing strong global demand for Australia's wool, which is regarded as among the world's best. If Bangladesh enters the wool-based textile industry, a new horizon could open.

Cotton imported by Bangladesh from world  
US\$ million



Cotton imported by Bangladesh from Australia  
US\$ million



**D. The organisation of the session on Textiles (Garments, knitwear, cotton and wool): 11:00 hours – 13:00 hours**

1. Moderator/ speaker to introduce the topic and discussants' names 5 Minutes
2. Lead Discussants (names or entities represented)
  - a. Representatives from Bangladesh 1+1+1 (BGMEA/BKMEA/BTMA) 30 Minutes
  - b. Cotton Association Australia / Australian Cotton Shippers Association and one major importer of RMG (1+1) 20 minutes

## **Open discussion**

50 Minutes

Discussants may deliberate on the above or other relevant points and difficulties, but not exclusive to:

- Potential of Australia-Bangladesh trade in RMG, Cotton and Wool;
- The strength of the Bangladesh RMG industry and comparative benefits of importing RMG from Bangladesh as opposed to other regional suppliers;
- Issues affecting the RMG industry in Bangladesh;
- Issues/barriers affecting trade in RMG, cotton and wool, NTM/ NTBs;
- Investment possibilities and trade facilitation issues

3. Summation by the Moderator/ Chair.

5-10 Minute

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