

The Impacts of COVID-19 on the Readymade Garments (RMG) in Bangladesh: An Analysis

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Abstract

The ready-made garments (RMG) sector is one of the booming manufacturing sectors than any other in terms of employment opportunity and foreign exchange earnings in Bangladesh. This sector also eliminates poverty and plays crucial role in the national economy of Bangladesh. Along with its expansion, this sector has been facing a serious challenge because of COVID-19 pandemic over the last one and half years which can harm the future sustainability. The present study has been an attempt to identify all the adverse impacts of COVID-19 on the readymade garment sector of Bangladesh. It also aims at finding a suitable solution to cope with all the adverse effects. To accomplish the study, data were mainly collected from secondary sources. Since the inception of RMG in 1978, Bangladesh achieved a tremendous growth by establishing scores of factories in consistent with the export linkage. In the year 1983-84 this sector contributed \$31.57 million from export of finished goods and services. In the Financial Year 2013-14, this sector earned \$24.49 billion that represents about 81 percent of countries' total export earnings. It further increases \$34.2 billion in FY2018-19 which is 84% of the country's total exports. But in FY 2019-20 the export has been decreased around \$7 billion to USD 27.95 billion from \$34.2 billion in comparison to previous FY2018-19 due to the effects of COVID-19 as all kind of communications and transportation was restricted worldwide. The study shows that USD 3.17 billion orders have been cancelled or suspended by the retailers and brands which threatening the employment and financial security of millions of RMG workers. There are 70,000 workers who have lost their jobs by June 2020 but almost 2.8 million workers were likely to remain at risk and above 70 factories were closed during the last fiscal year. To protect this sector, Bangladesh Government declared an amount of BDT 500 million stimulus package on March 25th, 2020 for supporting the workers' wages and securing their livelihood. The study recommended some suggestions to the government of Bangladesh, factory owners and management, BGMEA and BKMEA, buyers association, workers association, NGOs and ILO to take some initiatives in order to overcome the negative impacts of COVID-19 that will be helpful for improving the conditions of garments sector.

Keywords: RMG; Impacts; Worker's Risk; Unemployment; COVID-19; Policy Implications

1. Introduction:

The readymade garment industry (RMG) is the highest ambassador of Bangladesh as a country in the world market, one of the main engines of development in recent years (Khan, 2020), which faces an uncertain future in financial development from Bangladesh after the COVID19 pandemic (Bhattacharjee, 2020). The journey of RMG began in the late 1970s and since then it has played a crucial role in the Bangladesh economy (Haider, 2007). Within a very short period of time it has become the largest export earners of the country through a major positive effects on GDP, GNP, per capita income and employability of millions worker in the country (Shahriar et al., 2014). This industry has not just contributed through the earning of foreign exchange but also in socioeconomic prospects, creating a huge number employment opportunities (RMG) for the poor and less-skilled workers of the country. In 2019, the export value of readymade garments (RMG) stood about 34.13 billion USD, which is decreased by 27.95 billion USD for pandemic COVID-19 in 2020. Currently it accounts for 83 percent of the country's total export revenue. Its growth has created significant employment opportunities, employing over 4 million workers (BGMEA, 2020). Presently the national economy of Bangladesh is largely dependent on RMG which is the country's largest manufacturing wing having 11.2% GDP contribution (Aker, 2020) and 36% manufacturing employment. 6.5% global market share has made it world second largest exporting industry while China is the first.

However, the coronavirus pandemic has presented this sector with many more challenges that are likely to slow down the overall growth of the RMG industry. Global demand for clothing has fallen, and some

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brands have even cancelled their orders. For this reason, the garments industry was at stake for the moment. More than 2.20 million workers in the garment industry were affected by the pandemic, while many deliveries and orders were canceled or suspended due to the COVID-19 pandemic (BGMEA, 2020).

About \$2.4 billion orders were canceled by the retailers (Cermansky, 2020). Many clothing owners are currently facing financial difficulties as orders are abandoned, delayed and postponed due to COVID-19 (Pattanaik, 2020). At the moment, the entire RMG business cycle is numbed by the COVID-19 pandemic and the question of worker survival is also at stake. That is why Dr. Rubana Huq, general director of BGMEA: "For her it is about the survival of the company, for us it is about the survival of our 4.1 million workers" (Cermansky, 2020).

Incentives and other related facilities during COVID-19 are inaccessible to vulnerable RMG workers in Bangladesh due to owners' earnings restrictions, and many workers are unemployed and disadvantaged by delaying many previously placed orders for shipment. With limited income and no savings, workers faced a major financial crisis during this pandemic situation. Unpaid leave is granted to employees. The fight against COVID-19 cannot be supported by the government alone. It will require an unprecedented level of coordination between the public and the private at the local and international levels. The World Economic Forum launched the COVID Platform for Action on behalf of the World Health Organization in response to the pandemic. Bangladesh should try to use this platform to mobilize support for its private sector and share some of its own experiences in fighting COVID-19 and building its economic resilience.

On March 25, 2020, the Prime Minister of Bangladesh announced a BDT 5 billion stimulus package for export-oriented industries to overcome the short-term wage payment crisis for white-collar and blue-collar workers and also a capital loan of \$ 3.5 billion at lower rates. The interest offer is unlikely to adequately support the industrial sector (Foyez, 2020). HSBC Bank, a global financial institution, also extended its support to lobby the RMG sector. Many other banks and financial institutions are insured for a short-term loan up to one year, with a main moratorium on existing fixed-term loans from the textile and clothing industry for four months to support payroll and pension payments (Perera, 2020). By the way, workers have

problems to survive in this COVID-19 pandemic over the last one and half years which can harm the future sustainability. It is needed from the Bangladesh government, BGMEA, BKMEA, buyers association, workers association, NGOs, ILO and other organizations to sustain the apparel sector of Bangladesh.

2. Objective of the Study

The main objective of the study is to address the impacts of COVID-19 on the readymade garments in Bangladesh. To achieve this purpose, the study also seeks to achieve the following objectives:

- to assess the nature of export performance in RMG sector before and after Covid-19;
- to identify the negative impacts of COVID-19 on the workers of RMG sector of Bangladesh;
- to suggest plausible measures to overcome the adverse impacts if any.

3. Literature Review

Shimanta, Gope & Sumaiya (2020) found that the garment manufacturing sector is a major contributor to the Bangladesh economy. Apparel revenue was heavily reliant on exports, but these days buyers cancel their orders and factories don't make payments to workers-some are also closed. If the length of the confinement increases, there is a great possibility of becoming unemployed. Many families face great problems to survive in this COVID-19 pandemic over the last one and half years which can harm the future sustainability. It is needed from the Bangladesh government, BGMEA, BKMEA, buyers association, workers association, NGOs, ILO and other organizations to sustain the apparel sector of Bangladesh.

Islam et al. (2020) stated that women and knit export items have been in decline since the COVID-19 pandemic began, but before the global pandemic began, RMG export trends were well positioned. The research has also shown that the Bangladesh economy is almost dependent on RMG exports. The situation of

COVID-19 pandemic leads to many difficulties in RMG due to the cancellation of orders, the closure of the factory and the loss of employment of many workers, the salary deduction of workers. Many workers have already been sent home without pay. The study recommended ensuring security measures at RMG's factory and maintaining a good relationship with buyers to deal with the pandemic situation. A price reduction policy, a declaration of the risk premium for workers and government stimulus packages for the industry were also proposed. Kabir, Maple & Usher (2020) stated that garments workers had negatively affected both their physical and mental health and the well-being of their lives due to the COVID-19 pandemic. Many RMG employees are losing their job opportunities. The study also argues that the COVID-19 pandemic will have long-term effects on the lives of workers, particularly in terms of their health problems, economic shortages and the inability to meet their basic needs, as well as future job opportunities. Responsible organizations and individuals should consider the health of RMG employees and general well-being during the ongoing COVID-19 pandemic.

Hassan (2020) found that coronavirus disease is wreaking havoc on the ready-made garment (RMG) industry in Bangladesh. Currently RMG plays an important role in the country's economy and contributes 80% of export earnings. It is projected that by 2021, Bangladesh will reach a middle income position that depends only on RMG. However, with the arrival of the COVID-19 pandemic, there is no doubt that the RMG industry has "fallen off a cliff" as many industries have closed and are unable to pay workers' wages. At the same time, orders worth \$ 3.17 billion were canceled and the job opportunities and financial security of millions of workers remain under threat. According to media reports, 70,000 workers had lost their jobs as of June 2020 and up to one million jobs are likely to remain at risk.

Sen et al. (2020) found that the COVID-19 pandemic had a major impact on the global economy. According to the ILO, this pandemic virus is causing an economic and labor market crisis. The study also found that the RMG industry is one of the hardest hit by the COVID-19 pandemic among the other industries. The garment sector in Bangladesh is also radically affected by COVID-19. At the beginning of the coronavirus in Bangladesh, most factory owners were unable to pay workers' wages in the critical situation. As a result, millions of RMG employees have been sent home without pay. At this point, the Bangladesh government has taken many initiatives to save RMG's business, that is, is lesson of VAT tax rates, loan instalment rescheduling, financial support to the owners to pay the workers' wages, etc.

Sharmin and Khanam (2017) stated that the ready-made garment sector makes a great contribution to the development of the socio-economic conditions of garment workers, especially for female workers. This sector plays an important role in creating employment opportunities for women and also in increasing economic progress. As a result, sufficient job opportunities for garment workers could ensure a sustainable existence. Leithäuser et al. (2020) identified that Bangladesh is the fastest growing economy in the Asia-Pacific region with annual GDP growth of just under 8%. RMG's industry dominates the country's economy, contributing more than 80% of all exports and 11% of GDP with total export earnings of more than \$ 30 billion. The garment sector began its journey in the late 1970s and became a billion dollar industry in 2000 in an otherwise impoverished country. About 165 million people live there. Almost 22% of the population lives on the poverty line.

Sen et al. (2020) found that COVID-19 has become the most dangerous and largest global health disaster of the century, one that also affects the national economy. The clothing industry is considered one of the most vulnerable sectors. RMG's buyers struggled with financial problems and were unable to pay the workers' legal wages. Many RMG workers in Bangladesh have faced layoffs and are also victims of order cancellations and late deliveries. However, the situation worsened when workers did not follow health instructions. Therefore, RMG factories must ensure that workers maintain the minimum distance between them.

Sultan (2020) noted that the garment sector (RMG) is in a state of crisis due to COVID-19, with a virtual restriction of new business and a massive cancellation of existing orders. In Bangladesh, nearly a million textile workers have already been laid off due to order cancellations. Many RMG employees will be financially affected by the COVID-19 crisis. On March 25, 2020, the government of Bangladesh announced a BDT 500 million economic stimulus package for workers' wages and benefits. Most of

RMG's employees are women, come from underdeveloped socio-economic backgrounds and receive low salaries.

Sakamoto, Begum & Ahmed (2020) described that Bangladesh is one of the high risk countries of the COVID-19 pandemic, which is affecting the social and economic status dramatically and the poverty rate is increasing day by day. The study also focused on urban slums, social exclusion, and pre-existing conditions. Recovery of the economy would take a long time due to the weaknesses mentioned above and many people in Bangladesh would not be able to recover from the current pandemic situation because they do not have enough reserves.

4. Methodology

The study heavily relied on secondary sources of data. To identify the adverse impacts of COVID-19 on readymade garment industries and its workers in Bangladesh, researchers were not able to visit the factories due to COVID-19 norms and rules of restrictions and maintaining social distances. For this reason, researchers were unable to collect primary data by conducting surveys and other techniques of information collection. Therefore the research technique was mostly relied on the available information from secondary sources. Those data were compiled based on intensive consultation of journals, research articles, thesis papers, newspapers case studies, online news paper and survey reports, garments manufacturing industries annual reports, BGMEA yearly report and document files. The sources of information and data were basically through data sifting, and scanning the findings of different secondary documents. After the completion of the data collection, descriptive analyses was used to illustrate the data.

At the first phases, analysis has been done to identify the negative impacts of Covid-19 on RMG of Bangladesh and the second phase illustrates the measures to cope up with the negative impacts to move towards the top position in the world apparel market. This study did not follow any unethical means to collect information rather maintained strong ethical norms and practices.

5. Results and Findings: 5.1 COVID-19 & its adverse effects on RMG Export performance

The contribution of the RMG sector has seen phenomenal growth over the years. It is the main export sector of Bangladesh. Over the past two decades, the RMG industry has emerged as a thrust sector, ensuring the fuel for economic growth and development. While the export earnings of the garment industry were slightly less than 1 million dollars in 1978, in 1983-84, 2007-08 and 24,490 million dollars in fiscal years 13.57 million dollars and 2013-14, which represented 81, 13 percent of the country's in the world lose total export earnings. It increases \$34.2 billion in FY 2018-19, which is 84.2% of the country's total exports. But in FY 2019-20 the export has been decreased around \$7 billion to USD 27.95 billion from \$34.2 billion in previous FY2018-19 due to the effects of COVID-19 around the world.

Table-1: RMG and Its Contribution in Total Export

Year	RMG export (in million us\$)	Total export (in million us\$)	Contribution in total export (%)
1983-84	31.57	811.00	3.89
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1995-96	2547.13	3882.42	65.61
2001-02	4583.75	5986.09	76.57
2007-08	10699.80	14110.80	75.83
2013-14	24491.88	30186.62	81.13
2018-19	34133.27	40535.04	84.21
2019-20	27949.19	33674.09	83.00

Source: BGMEA, 2021

Ready-made clothing has played a significant role in Bangladesh's GDP for the past decades. About 83% of the country's total export earnings comes from this sector with the participation of almost 4.5 million workers (BGMEA, 2020). Due to COVID-19, the RMG sector export earnings are losing large amounts every day. According to BGMEA, retailers canceled around \$ 3.17 billion and 2.20 million garment workers were affected during the pandemic, while many shipments and orders were canceled or suspended due to the COVID-19 pandemic (BGMEA, 2020). However, the sustainability of RMG's factories looks extremely miserable. Bangladesh always has to depend on China for the necessary equipment of the garment industry, such as raw materials and industrial ingredients. Due to the COVID-19 pandemic, China stopped exporting. Because of this, the impact on the garment sector in Bangladesh has been reflected (Akil & Tonny, 2020).

5.2 Effects on Gross Domestic Product (GDP)

Bangladesh is the fastest growing economy in the South Asia region. This country is seen as a role model for other developing countries in achieving sustainable development and the economy grew at double digit annual growth. That success has been compromised due to the impact of the COVID-19 pandemic on the global economy. In 2019, only 20% of people lived below the poverty line, but now it is almost 40% (Rahman & Ishry, 2020). Today, the RMG sector is considered the backbone of the economy and the country accounts for 13% of Bangladesh's gross domestic product (GDP) and is under severe stress. This industry accounts for 2 percent of the world's gross domestic product (GDP) (Global Fashion Industry Statistics International, 2020) identified that Bangladesh is the fastest growing economy in the Asia-Pacific region with annual GDP growth of just under 8%. RMG's industry dominates the country's economy, contributing more than 80% of all exports and 11% of GDP with total export earnings of more than \$ 30 billion. The garment sector began its journey in the late 1970s and became a billion dollar industry in 2000 in an otherwise impoverished country. About 165 million people live there. Almost 22% of the population lives on the poverty line.

Sen et al. (2020) found that COVID-19 has become the most dangerous and largest global health disaster of the century, one that also affects the national economy. The clothing industry is considered one of the most vulnerable sectors. RMG's buyers struggled with financial problems and were unable to pay the workers' legal wages. Many RMG workers in Bangladesh have faced layoffs and are also victims of order cancellations and late deliveries. However, the situation worsened when workers did not follow health instructions. Therefore, RMG factories must ensure that workers maintain the minimum distance between them.

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Sakamoto, Begum & Ahmed (2020) described that Bangladesh is one of the high risk countries of the COVID-19 pandemic, which is affecting the social and economic status dramatically and the poverty rate is increasing day by day. The study also focused on urban slums, social exclusion, and pre-existing conditions. Recovery of the economy would take a long time due to the weaknesses mentioned above and many people in Bangladesh would not be able to recover from the current pandemic situation because they do not have enough reserves.

4. Methodology

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5.2 Effects on Gross Domestic Product (GDP)

Bangladesh is the fastest growing economy in the South Asia region. This country is seen as a role model for other developing countries in achieving sustainable development and the economy grew at double digit annual growth. That success has been compromised due to the impact of the COVID-19 pandemic on the global economy. In 2019, only 20% of people lived below the poverty line, but now it is almost 40% (Rahman & Ishry, 2020). Today, the RMG sector is considered the backbone of the economy and the country accounts for 13% of Bangladesh's gross domestic product (GDP) and is under severe stress. This industry accounts for 2 percent of the world's gross domestic product (GDP) (Global Fashion Industry Statistics International, 2020) identified that Bangladesh is the fastest growing economy in the Asia-Pacific region with annual GDP growth of just under 8%. RMG's industry dominates the country's economy, contributing more than 80% of all exports and 11% of GDP with total export earnings of more than \$ 30 billion. The garment sector began its journey in the late 1970s and became a billion dollar industry in 2000 in an otherwise impoverished country. About 165 million people live there. Almost 22% of the population lives on the poverty line.

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