

Report On
A case study on mostly effected industry in Bangladesh during
COVID-19 & tackling the situation

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fulfillment of the requirements for the degree of MBA

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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

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Subject: Submission of Internship Report

Dear Sir,

With due respect, I would like to inform you that, I am a student of BRAC Business School, BRAC University. It is an absolute pleasure for me to submit the internship report titled '**A case study on mostly effected industry in Bangladesh during COVID-19 & tackling the situation**' which has done as a part of the requirement of the course BUS-699. Your guideline has been followed in every aspect of preparing this report. I have really enjoyed working on this report and I have tried my level best to make an effective report. This report is focuses on both theoretical and practical knowledge.

Within the title limit I have made this report as comprehensive as possible. But there may be some mistakes due to various limitations. So I beg your kind consideration in this regard. I hope that my work would meet the level of your expectation. Any query on this report is appreciated.

Sincerely yours,
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Table of Contents

| | |
|--|---|
| Introduction | 1 |
| Background of the study..... | 2 |
| Questions central to the case study | 3 |
| Evaluation of the case study | 3 |
| The economic downturn and Covid19..... | 3 |
| Impact of COVID-19 on ready-made garments (RMG)..... | 4 |
| Way forward into the post COVID world | 5 |
| Degradation of trade relation has created new opportunities | 5 |
| The demand likely to be lower relative to peers..... | 5 |
| Outputs are likely to be limited for an undefined period | 5 |
| Supply chain disruption would be for an undefined period | 5 |
| Production relocated in developed countries..... | 5 |
| Global market share may loss | 6 |
| Possible solutions to tackle the situation in the RMG industry | 6 |
| Conclusion..... | 7 |
| Reference..... | 8 |

Introduction

COVID 19 which is also known as Coronavirus disease, is a transmissible disease caused by Severe Acute Respiratory Syndrome (SARS COV-2). It was first introduced in Wuhan, a state of Hubei in China, in December 2019. Over 30 million people are affected; 20 million people have recovered, and 0.95 million people have died due to this virus. It reaches more than 200 countries globally, and the number of affecting these diseases is increasing day by day. The world health organization (who) announced that coronavirus is a pandemic on March 11, 2020. No proven vaccine invent so far. Bangladesh is a densely populated country globally, and our health care facility is too limited to serve over 170 million populations. Bangladesh discovered COVID-19 in March 2020. Over 345000 people were affected in our country, of which 4800 people have died, and 252000 people recovered. Amongst south Asian countries, Bangladesh ranked second after India in terms of affecting coronavirus. The pandemic situation disrupts global trade, business, and education. The world's economy might fall into the worst recession, similar to the great depression of the 1930s and even the financial crisis 2007-2008, said the world health organization (WHO). It is expected that a massive number of people would be unemployed, and it will impact remittance flow. The pandemic will also cause to increase in poverty. Bangladesh's government announced a lockdown from March 23 to May 30 throughout the country to protect the people from spreading the virus. If the country remains locked down for a more extended period, Bangladesh will fall into a challenging situation. Here, many people live from hand to mouth, and consistent high growth has been unable to create sufficient jobs in the economy. After the post-COVID situation, all the countries may face many problems regarding their country's economy. To dealing with economic disruptions, many highly developed countries are making emergency plans. In the beginning, people have to work from home, but now the government focused on maintaining the workplace's social distance and public health system.

Several industries in Bangladesh are currently affected by the COVID-19, such as hotel & tourism, airlines, banking & insurance, agriculture, transportation, ready-made garments (RMG), etc. Among all of the industries, ready-made garments (RMG) affect the most because it is our economy's lifeline. It contributes a significant portion of the country's gross domestic product (GDP).

Background of the study

Bangladesh was one of the world's poorest countries after independence in 1971, and no significant industries were developed at that time. Bangladesh started its journey in the garments industry during the 1980s. Over the last three decades, Bangladesh became the second largest exporting country in ready-made garments (RMG) products next to China. It exports mainly to the USA and Europe. Like the EU, Canada, Japan, and Switzerland, most developed countries granted free market access to Bangladesh's RMG sector. Currently, over 4000 RMG firms operating in Bangladesh, among them 95%, are locally owned. Prominent of the firms are located in Dhaka, Chittagong, and Narayanganj. Bangladesh is currently exporting more than 132 countries worldwide, doubled from 2010 to 2015, and nearly triple by 2022. RMG manufactured are categories mainly into two parts, woven and knit products, of which woven products dominate the exporting market. Woven products include shirts, t-shirts, and trousers, whereas knit products include undergarments, socks, sweaters, soft garments, etc.

RMG sector represents 85% of the country's total exports and 15% of its gross domestic product (GDP). Each year the RMG sector generates \$5 billion worth of products by exporting and estimates that the RMG industry will achieve 50 billion dollar export by 2021, among which 34 billion dollar export is currently holding. It also contributes to developing countries in other sectors like banking & insurance, shipping & logistics, hotel, transportation, etc. RMG industry plays an essential role in generating employment, social development, and poverty alleviation. About 4.4 million (two-thirds of the country's labor force) workers are directly related to the production, among which 80% are women who come from rural areas. RMG industry gains a high profile by taking advantage of the provision of the Multi Fibre Agreement (MFA) of GATT in terms of industrialization, exports, and earnings. The main key advantage for the RMG sector is cheap labor forces that provide a competitive advantage over competitors. Besides offering a low, competitive cost, the RMG industry also ensures the best quality products to famous brands like Adidas, Calvin Klein, Diesel, G-star, Nike, Puma, Tommy Hilfiger, etc. To achieve that competitive advantage in the world market RMG sector focused on relocating their factories in countries where quota restrictions are free. Some factors like government support, generalized system of preferences (GSP) facility, foreign direct investment (FDI), price competitiveness, and product & market diversification will boost more exporting in the RMG sector. Although the RMG sector and buyers face criticism due to building fires & collapses, the Bangladesh garment manufacturer and exporters association (BGMEA) works on workers' skill developments, working environment, policymaking also creates a safe and sustainable garment industry.

Questions central to the case study

This case study comprises mostly the effects of industry in Bangladesh during COVID 19. On that occasion, I prepared some questions to help identify the industry's impact, significant challenges, probable solution, etc. mainly, I collect data from secondary sources like journals, articles, websites, newspapers, press releases.

- The impact of covid19 on the ready-made garments industry (RMG) in Bangladesh?
- What are the challenges that may face ready-made garments (RMG) after post COVID?
- What are the government directives and also other probable solutions to tackle this situation?

Evaluation of the case study

RMG sector in Bangladesh contributes most in GDP, foreign exchange, employee creation. To evaluate the case, I found a negative impact on the RMG industry in the economy.

The economic downturn and Covid19

Bangladesh has seen impressive economic growth for the past decade. The Country's GDP has been growing between 6% to 8% on an average over the last three years. Bangladesh is moving ahead from all south Asian countries in establishing gender parity and perform well in sustainable development goals (SDG). But during this crisis, Bangladesh's economy affected the export sector, remittance, livestock & fisheries, domestic industries, and small-medium enterprises. Due to long general holidays, the purchasing capacity fall, and there might be a disruption in the supply chain due to a transportation shutdown. It will also affect poverty and estimate that the poverty rate might increase from 20.5% to 41%. Investment fall in the private sector and small & medium enterprise. In this fiscal year, the import cost and export earning saw a 5% fall compared to the last fiscal year, and it is expected that this fall would continue at the end of the current fiscal year. As coronavirus hits the global labor market, remittance earnings have decreased by 11.77% in March. Because of the negative trend of macroeconomic factors, the GDP growth could decline, and it is expected that about 0.2% to 0.4% of Bangladesh's GDP may lose. Asian Development Bank (ADB) estimates that the economic loss of Bangladesh may extend up to US\$3.2 billion.

Impact of COVID-19 on ready-made garments (RMG)

Two primary sources of contribution to foreign exchange revenue of Bangladesh are export earning & remittance. These sectors affect heavily, and in the RMG industry, many factories are closed because of lockdown that results in people jobless. Due to COVID19, The owners of garments industries are currently facing financial trouble as so many orders are getting canceled and rescheduled. So it was challenging for them to pay the wage of the workers. According to BGMEA, about 2.27 million workers were affected, and out of 4200 factories, 1143 factories lost reported about US\$3.17 billion.

Major buyers of Bangladeshi RMG products are European and American companies such as H&M, GAP, Zara, Primark, and Marks & Spencer. About US\$ 1.5billion order canceled during covid19, which is about 50% of the average export revenue per month. This crisis also affects the global supply chain, buyer demand, and health & safety workers, and if the situation continues, then the export revenue loss would reach US\$ 4billion by the end of 2020. The county's export from July 2019 to February 2020 has dropped about 5.71% compared from July 2018 to January 2019, while 61 factories have closed their operations that result in 36000 people jobless. According to the Export Promotion Bureau (EPB), for FY2019-2020 (July- January), export earnings from RMG is US\$19.06 billion. In the last fiscal year, earnings from woven garments were UD\$10.07 billion, but during this fiscal year from July to January, earnings from the woven garment are UD\$ 9.44 billion, which is about a fell by 6.29%. Earnings from knitwear garments also fell from US\$ 10.14 billion to US\$ 9.62 billion, which is about 5.13%. There was a downward growth in the RMG sector compared to the last fiscal year, including knitwear (-\$5.13 million), woven garment (-\$6.29 million), Home textile (-\$9.70 million), special textile (-\$9.97 million). The import of raw material for the garments industry is getting affected. In the last fiscal year, the import of cotton, cotton yarn/thread & cotton fabrics was about \$7 billion, and total import from china constitutes 41.3%. It contains cotton, manmade fibre, knitted fabric, etc. fall dramatically in this fiscal year because of covid19. So the industry faces a significant problem as there are no import substitutes at this current time. Bangladesh is taking advantage of quota-free access, which helps the RMG industry become the second-largest exporter globally. But this opportunity would not be available because in 2021, Bangladesh graduates from least developed countries (LDC) to middle-income countries. In the EU, Bangladesh would face 9.6% tariffs under the Generalized System of Preferences (GSP).

Way forward into the post COVID world

RMG sector is going through a challenging situation that may gain new opportunities or loss of competitive advantage worldwide.

Degradation of trade relation has created new opportunities

The trade war between China & the US may create new opportunities for Bangladeshi RMG sectors. Due to setting tariffs and other trade barriers, the market share of Chinese RMG exports to the US declined. As china lost US market share, most Asian suppliers picked up that opportunity such as Vietnam (16.2% in 2019 to 18.9% in 2020), Bangladesh (7.1% in 2019 to 9.4% in 2020).

The demand likely to be lower relative to peers

To meet the domestic and global demand, Bangladesh moves to produce Personal Protective Equipment (PPE) and exported around 6.5 million Products in the US. RMG could make primary products like shirts, trousers, t-shirts, jackets, and sweaters, which was about 73% in 2019. Peers can take the opportunity to deliver high-value RMG products during this time. But Bangladesh has a broad chance of growing demand around the world for PPE products.

Outputs are likely to be limited for an undefined period

In the RMG factory, a large group of people works together in the production line. Due to COVID 19, it is necessary to maintain safety, distancing, and other requirements. Still, it would be tough to maintain those requirements in a factory because of many people's engagement. This situation would force the factories to produce at partial capacity, leading to lower output until the pandemic situation was resolved.

Supply chain disruption would be for an undefined period

Due to covid19, all the countries around the world maintain strict rules and lockdown. It disrupts the supply chain, and China is still struggling to get started its operation. Fabric from china cannot enter in our country due to lockdown. Even some US buyers are also uncertain about using Chinese material.

Production relocated in developed countries

South Asian countries around the world dominate the RMG industry due to the low cost of production. Developed countries may overcome the advantage of the low-cost output with higher technology innovation after covid19. Thus, Bangladesh may relocate their production of RMG form south Asian countries to developed countries to improve the economic activities after covid19.

Global market share may loss

The origin of the COVID 19 was in China, and it is likely to be the first country that will come out from the pandemic & start their economic activities smoothly. Vietnam is also successful in fighting against COVID 19 and already started its operation. On the other hand, our government fails to create proper awareness, even a lack of medical facilities and technological infrastructure, far behind those countries. We are currently losing market share in the EU and the US due to this pandemic. Although the governments announced a stimulus package for the RMG sector, this will not meet the demand & supply disruption.

Possible solutions to tackle the situation in the RMG industry

It is very tough to handle the RMG sector during this COVID 19 outbreak, contributing major export earning to the country's GDP. As there is no proven vaccine, the government, banks, trade unions, and other stakeholders are stepping forward to tackle this situation.

- A simulation package of US\$588.70 (TK 5000 Crore) announced by the prime minister for export oriented industries. It will help the factory owners who cannot pay the wages to pay the salaries and wages of current employees for the impact of COVID 19. Due to lockdown throughout the country, all the factories were shut down, and workers were bound to stay home. So they didn't get their wages.
- To cover the suffered loss government announced TK 30000 crore for the big industries and service sectors. It will help the company owners to continue their business. The commercial bank will distribute this amount at a 9% interest rate, whereas the government will pay 4.5% in subsidy.
- The Pre-shipment Credit Refinance Scheme of TK 5000 introduced by Bangladesh Bank will help exporters to get the fund at a lower interest rate, which is 7% for three years period on a rolling basis.
- Around TK 12750 crore from Bangladesh Bank's Export Development Fund (EDF) will help the companies to import raw materials under back to back letter of credit (LC), and they will also get the advantage of interest from 2.73% to 2%.
- Besides producing RMG Products, the industry should also produce Personal Protective Equipment (PPE) to meet domestic and global demand.
- By maintaining health and safety measures, company owners have to continue their production at a limited capacity because workers are the main engine to run the RMG

sector. Companies should provide transport to their workers, setting up proper quarantine & self-isolation facilities, establishing a COVID-19 taskforce, etc.

Conclusion

The outbreak of COVID 19 already disrupts the world's economy over different sectors and has become a significant concern worldwide. The world needs some years to come back to its previous position. The effect can be reduced by maintaining health measures and increasing awareness. In the upcoming national budget, the government should focus on the research & development sector to create the vaccine and be prepared for upcoming threats. In the upcoming national budget, the government should also focus on the RMG industry as it contributes to the economy's major portion. BGMEA authorities should adequately address the stimulus packages announced by the government. By maintaining proper health and safety measures, the factory owners have to reopen their factories and continue their production at a limited capacity. The governments and BGMEA should take care of workers by providing subsidies for different issues and fulfilling their basic needs. Factory owners must have to give workers' wages as early as possible during this situation as many families mainly depend on this sector and facing trouble to survive. They have to provide job security to the workers rather than layoffs. Factory owners have to negotiate with the workers and create a guideline for workers that will ensure safety. If the authorities properly contact the buyers & suppliers, we may regain the lost market. Although we are going to the worst situation, there has been a great opportunity to grow in the RMG industry after COVID19 which results in a positive economy. To face the new challenges after COVID 19, we have to prepare the export industry in this meantime.

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