



A GARMENT POWERHOUSE

PHOTO: PALASH KHAN

A closer look at how retailers, from H&M to Walmart, turned Bangladesh into the world's second-largest clothing supplier

The garment industry, home to 40 lakh workers, is one of the largest employers, fetching \$47 billion in annual exports, a milestone Bangladesh crossed in 2023

REFAYET ULLAH MIRDHA

Walk down the road in Savar, Gazipur or Narayanganj in the morning hours and you will see a long line of workers heading to work. They will soon join the production lines behind silent brick walls to make clothes for the world. The garment industry, home to 40 lakh workers, is one of the largest employers, fetching \$47 billion in annual exports, a milestone Bangladesh crossed in 2023. Behind this growth story exists another group – fashion retailers perpetually in pursuit of low-cost products.

After a journey of nearly five decades, Bangladesh has morphed into the second-largest garment exporter in the world after China, accounting for 7.9 percent of the global market share. It is now the mainstay of Bangladesh's economy with the sector's rapid growth and modernisation over the past decade. The transformation of the garment industry was catalysed, in part, by a series of workplace tragedies, including the Rana Plaza disaster that took the lives of more than 1,100 workers. In those dark days, retailers stayed with Bangladesh in a push for workplace compliance. The groundbreaking

to graduate from the group of the least-developed countries. That partly depends on the retailers' appetite for Bangladesh as the nation will lose most of the duty benefits after LDC graduation.

Initially, Bangladesh's garment industry grew under a quota system introduced by an international trade agreement, known as the Multifibre Arrangement (MFA), in 1974. The MFA, which persisted until January 2005, imposed quotas on the amount of clothing and textiles that developing countries could export to developed nations. Thanks to the agreement, the garment sector found a niche in the market for many years and continued to thrive.

However, the main role was played by the buyers, who flocked to Bangladesh to source clothing items at competitive prices.

With local garment makers working under the cutting and making (CM) method, the onus was on the buyers to play the vital role of supplying designs, patterns, fabrics and raw materials. The CM method, which involves costs of cutting, sewing, pressing, folding and packing, is still popular in Bangladesh, with suppliers mainly doing so to avert risks. In the late 1970s and mid-1980s, buyers

goods. About 50 of them now have liaison offices in Bangladesh, allowing them to buy garment items at competitive prices. By and large, Bangladesh has proven itself as a reliable supplier of value-added garment items while also growing by leaps and bounds in design and pattern-making.

Bangladesh cemented its position during the peak of the coronavirus pandemic when it kept its factories open except for the initial few months of the health crisis in 2020 while factories in all other supplying nations were shut for many months at a stretch.

Of the \$47 billion worth of exports of garment items last year, the lion's share was shipped through a direct purchasing method by retailers and brands. With direct sales, both buyers and suppliers benefit as no third party shares the profit. However, many small buyers, who can't afford an overseas office, still rely on third-party vendors.

Swedish retail giant H&M is the largest buyer of Bangladeshi clothes, purchasing items worth nearly \$4 billion annually. The country is also the single largest sourcing destination for H&M, which has its own office in Dhaka.

US retail giant, Walmart, is the second-biggest buyer of Bangladeshi apparel, procuring nearly \$2.5 billion worth of products a year. It was the largest buyer for the country for many years before ceding the top spot to H&M in recent years.

Spanish company Inditex, which owns brands like Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Zara Home, buys nearly \$2 billion worth of garment items from Bangladesh every year.

Shafur Rahman, regional operations manager of G-Star in Bangladesh, said Bangladesh will remain an important sourcing destination for his company in future. G-Star Raw, a Dutch designer clothing company, buys nearly \$1 billion worth of garments, including denim and T-shirts, from Bangladesh a year.

"We will keep sourcing the same amount of clothing in 2024, anticipating slight growth in the fourth quarter onward," said Rahman.

British retail giant M&S procures more than \$2 billion annually from Bangladesh. Japan's Uniqlo has turned into nearly a billion dollar buyer. Of the \$1.6 billion worth of garment items exported to Japan last year, the majority was secured by the Japanese retailer alone.

Japan has remained a major destination for Bangladesh since 2011, when Tokyo started allowing zero-duty benefits to the LDCs for garment items and knitted items, even if they are made from imported fabrics.

With such a major trade benefit in place, Japanese clothing retailers started clamouring to Bangladesh and thus Japan became the largest export destination for the country in Asia.

Irish retail giant Primark has ramped up purchases, with their annual purchases now valued at nearly \$2 billion.

Puma, Nike, PDS, Adidas, Gap, Levi Strauss & Co, VF Corporation, PVH Corporation, Old Navy, Banana Republic, Sainsbury's, Esprit, and C&A are some other major buyers, with each buying nearly \$1 billion worth of clothes from Bangladesh a year.

The sourcing pattern from Bangladesh has also changed a lot over the years because of the changing habits of buyers and consumers, and the sales of retailers and brands.

Many top retailers and brands source garment items in small quantities but at higher prices. For instance, Hugo Boss, a German luxury fashion brand, procures garment items worth a few hundred million.

The other side of global retailers

STAR BUSINESS REPORT

While Bangladesh's garment sector struggles to transition from basic products to high-end items, too many companies are going in for the same international contracts, intensifying competition among themselves.

Because of the saturation in the sector, Bangladesh has become very much a buyer's market, a situation that favours buyers over sellers. As a result, international brands and retailers hold sway and use it to secure deals on their terms.

Buyers always put pressure on local suppliers to lower prices. Consequently, Bangladeshi exporters earn almost half of what their Vietnamese counterparts take home for the same product, according to studies. But despite offering the products at reduced prices, local suppliers are left to wrangle with complications as, in many cases, buyers don't pay money on time and demand long term deferred payments.

Some retailers even import goods and sell them before making payments. This causes delays in receiving payments, which ultimately increase the cost of finance, bringing in further impediments to suppliers. This scenario can worsen at times. For instance, during the Covid-19 pandemic, suppliers faced order cancellations worth \$3.18 billion.

Additionally, many retailers and brands could not clear the bills on time and demanded abnormal deferred payments for up to 220 days instead of the normal 60 days or a maximum of 90 days. Eventually, after many days, retailers and brands paid local suppliers. Even today, a few suppliers are yet to receive payments as two or three retailers and brands have gone bankrupt and are facing court cases in their countries.

In other cases, buyers have not fulfilled their



promises. For instance, many buyers promised to increase the price of garment items after workers were given a wage hike in December last year. Most buyers have not revised up the rate yet.

Bangladesh exports garment items to 167 countries through more than 300 small, medium and large enterprises. China, India, Vietnam, Cambodia, and Pakistan are as strong as Bangladesh in terms of producing items that perform well in European markets. This means that only advantages in trade, such as zero duty or lower tariff rates, determine profit.

In response to such challenges, Faruque Hassan, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), urged big local enterprises to begin marketing their own brands in both domestic and international markets.

"The big local groups should launch their own brands at home and abroad as they have grown significantly over the years."

He thinks three to five local large garment groups can start and invest in brand development at any time as they are already mature enough.

Industry people say marketing and selling products directly to consumers could solve many of the garment sector's problems. Chiefly, it would offer them higher profit margins by cutting out the middlemen. It would also offer companies a chance to become established by creating a strong identity and associating it with their brands.

Furthermore, it will provide freedom in setting prices and, by bypassing the traditional retail model, products can be brought to market more quickly. It will also lessen the overreliance on buyers, which will offer a way to diversify revenue streams.

Overall, marketing and selling products directly to consumers can provide greater control, flexibility, and profitability, while also laying the foundation to build customer loyalty over time.

However, there are challenges for local companies. First, without enough experience about the preferences of international consumers, such brands may never take off. Building brand awareness from scratch can be a challenge.

Moreover, there are numerous legal complexities, not to mention logistical barriers.

Another major problem, Hassan points out, is the lack of a policy for virtual marketplaces. "In fact, we have all realised the significance of the virtual marketplace during the lockdown periods brought on by the coronavirus pandemic."

The BGMEA has commissioned a feasibility study to develop a virtual platform tailored for Bangladesh's textile and apparel sector.

Limitations arising from the regulatory framework, particularly in the realm of cross-border transactions and foreign currency policies, serve as an impediment for the apparel industry to tap the burgeoning global e-commerce market.

Revenue in the global e-commerce market is projected to reach \$5.31 trillion by 2028, according to Statista, a German online platform that specialises in data gathering.

The absence of global payments gateways, challenges in securing working capital financing, cumbersome export processing for small orders, and an impractical return policy, where returns are categorised as imports, constitute substantial barriers to establishing a robust digital marketplace, said Hassan.

"All of these factors are also causing large enterprises to shy away from branding. But if they want to become truly independent, it seems there is no other path."

TOP FIVE BUYERS OF BANGLADESHI CLOTHES

(Value of annual purchases)

\$4b	\$2.5b	\$2b	\$2b	\$1.5b
------	--------	------	------	--------



PHOTO: SAURAV HOSSAIN SIAM

International Accord that made jobs safer for millions of garment workers in Bangladesh was later extended to Pakistan.

It is now expected that Bangladesh's share in the global market will continue to grow. The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) aims to capture 12 percent of the international market share by 2026 when Bangladesh is scheduled

used to place orders in small quantities and the sales of garment items were mainly facilitated by third-party vendors because the size and scale of businesses were so small that international retailers and brands were uninterested in placing direct orders.

However, with time, major retailers and brands, especially from Europe and the US, started arriving here and directly purchasing