Better Work Bangladesh

Assessing the early impacts of tariff uncertainty on the garment sector in Bangladesh

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International Labour Organization

IFC International Finance Corporation WORLD BANK GROUP

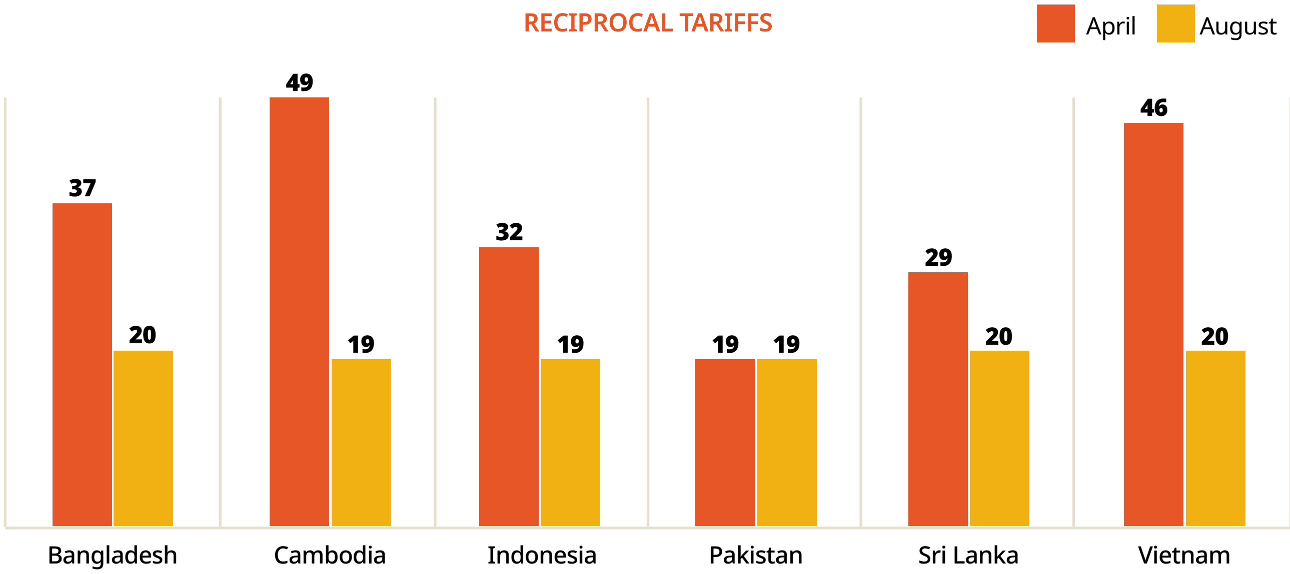
Creating Markets, Creating Opportunities

Background

The ready-made garment (RMG) sector is the backbone of Bangladesh's economy. It accounts for over 80% of the country's export earnings and contributes around 11-16% of GDP.[1] Since its emergence in the late 1970s, the industry has expanded exponentially, making Bangladesh the world's second-largest apparel exporter after China. In 2024, garment exports reached US$ 38.48 billion, underscoring the sector's vital role in driving growth and job creation. Today, the industry employs over 4 million workers, 60% of whom are women, and has been a major force in reducing poverty and promoting women's economic empowerment.[2]

As a highly export-oriented sector, Bangladesh's RMG industry depends heavily on access to international markets, particularly the European Union and the United States, which together accounted for over 60% of export revenues in fiscal year 2024-25.[3] This reliance makes the sector especially vulnerable to changes in trade policy, tariffs, and global demand. A recent example is the U.S.-Bangladesh trade relationship, which has reached a critical turning point. In April 2025, the United States introduced a reciprocal tariff of 37% on Bangladeshi exports, in addition to an existing 15% duty, raising the total tariff to 52%. Similar measures were also announced for other garment-exporting countries (Figure 1). Following several rounds of negotiation, Bangladesh's tariff rate was reduced to 20% in August 2025 as part of a broader trade agreement that included increased imports from the United States.

FIGURE 1: CHANGES IN RECIPROCAL TARIFFS BETWEEN APRIL AND AUGUST 2025 ACROSS KEY GARMENT-EXPORTING COUNTRIES



The recent U.S. tariff increase is expected to send shockwaves through Bangladesh's economy. The United States represents Bangladesh's single largest export destination, with total exports reaching US$ 8.4 billion last year, of which US$ 7.3 billion came from apparel, making the RMG sector particularly vulnerable.[4] Such a decline in export earnings would put pressure on factory production and employment. Job losses and lower incomes would reduce household consumption and increase demand for cash transfers, food aid, and health services. Yet Bangladesh's social protection system remains limited, covering only a quarter of eligible beneficiaries and receiving just around 1% of GDP in funding.[5]

The effects would go beyond immediate income losses. As household earnings fall, families may withdraw children from school, delay healthcare, or cut back on food, increasing the risks of dropout, malnutrition, and child labour, particularly in industrial hubs such as Dhaka and Chattogram. Women-headed households, already among the most economically vulnerable, are likely to be hardest hit.

Taking the pulse of Bangladesh's export-oriented RMG sector

The recent tariff shock underscores the importance of understanding how global developments translate into impacts at the factory level. In this context, Better Work Bangladesh (BWB) plays a vital role in generating real-time insights to guide effective responses across the industry.

Launched in 2014 as a joint initiative of the International Labour Organization (ILO) and the International Finance Corporation (IFC), BWB aims to build a competitive garment industry that delivers decent jobs for workers, strong business performance for factories, and inclusive economic growth for the country. The programme brings together government, employers, and workers to create lasting improvements through its core factory services – assessment, advisory, and training. Over the past decade, the programme has become deeply embedded in the local RMG sector, now engaging around 490 factories that supply 50 global brands, reaching more than 1.4 million workers, half of whom are women. This close engagement at the factory level provides not only a platform for change but also a unique data infrastructure that enables continuous learning and evidence-based decision-making.

Through its regular factory assessments, BWB monitors compliance with national labour law and international labour standards across eight key clusters. Ongoing advisory work and training sessions further help factories identify challenges and build capacity to address them. These day-to-day interactions generate valuable, granular insights into what enables or hinders compliance. Recognizing that sustainable progress requires a deeper understanding of systemic barriers, the programme also conducts or supports targeted research – often in partnership with academic institutions – to examine root causes of non-compliance and long-term impact.

More recently, BWB has expanded its data toolbox with rapid data collection instruments designed to capture factory perspectives on emerging shocks in near real time. Amid the uncertainty created by the new U.S. tariffs, the programme launched a Factory Pulse Tracker Survey to quickly assess how the policy shift was affecting factories' expectations, production, and workforce dynamics. Implemented online via Qualtrics in May 2025, the survey gathered 323 responses in about 10 days, covering around 65% of participating factories. This timing allowed the programme to capture early reactions precisely when uncertainty was highest, providing timely evidence for policymakers, industry stakeholders, and partners to inform mitigation strategies.

The next section presents key findings from the Pulse Tracker, focusing on factory performance, buyer relations, production trends, business sustainability, workforce dynamics, and overall business sentiment.

Key findings

- **Market concentration remains high.** Exports to the EU and the US continue to dominate, with moderate progress toward diversification.
- **Business impacts are emerging but uneven.** Factories linked to the US market are already showing signs of strain, while exposure to EU buyers offers partial relief.
- **Most factories demonstrate resilience.** Medium-term orders are in place, new buyers are being secured, and sourcing links remain largely stable.
- **Risks persist.** Retrenchments and worker grievances, though not yet widespread, are early warning signs. Shorter order pipelines in some markets underline the sector's vulnerability to prolonged or renewed shocks.

Factory profile

As shown in Figure 2a, about 85% of surveyed factories are locally owned. The typical factory employs between 1,000 and 4,000 workers (median ≈ 2,350), with women representing around 55% of the workforce (Figure 2b).

FIGURE 2A: FACTORY OWNERSHIP

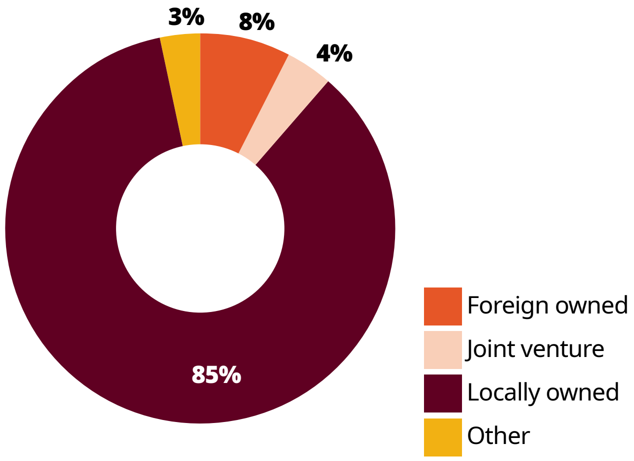
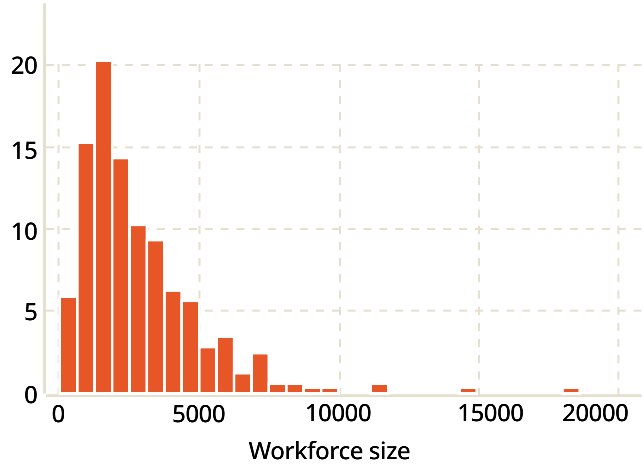
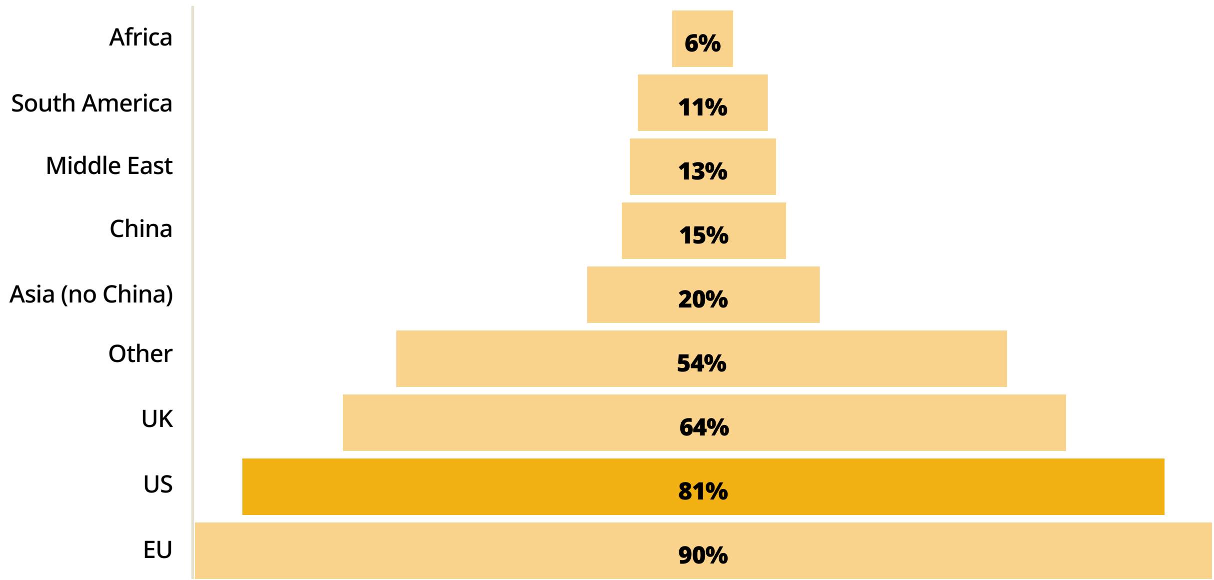


FIGURE 2B: WORKFORCE SIZE DISTRIBUTION



The industry's export orientation is near total, with 92% of factories reporting that all their production is destined for international markets. Export destinations remain highly concentrated: 90% of respondents export to the EU, 81% to the United States, and 64% to the United Kingdom (Figure 3). More than half of the factories serve three to four regional markets, yet few are truly diversified. Fewer than one in ten sells to a single region, while only a small share export to six or more. This pattern reflects both the global reach of Bangladesh's garment exporters and their strong concentration in a few key export markets.

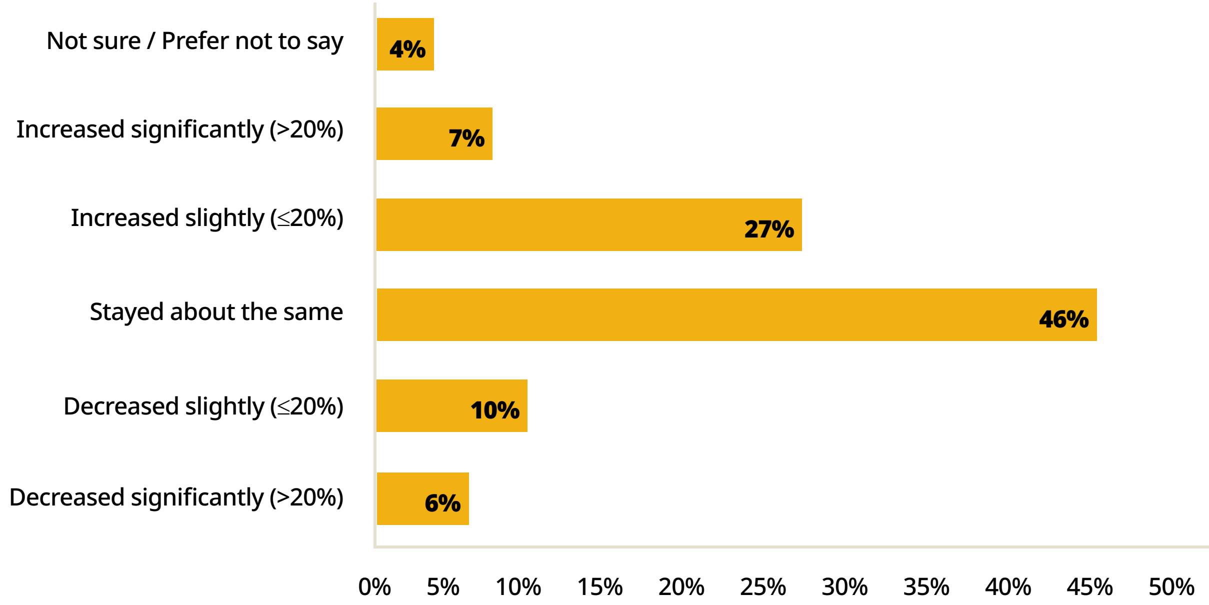
FIGURE 3: TOP EXPORT DESTINATIONS



Business performance

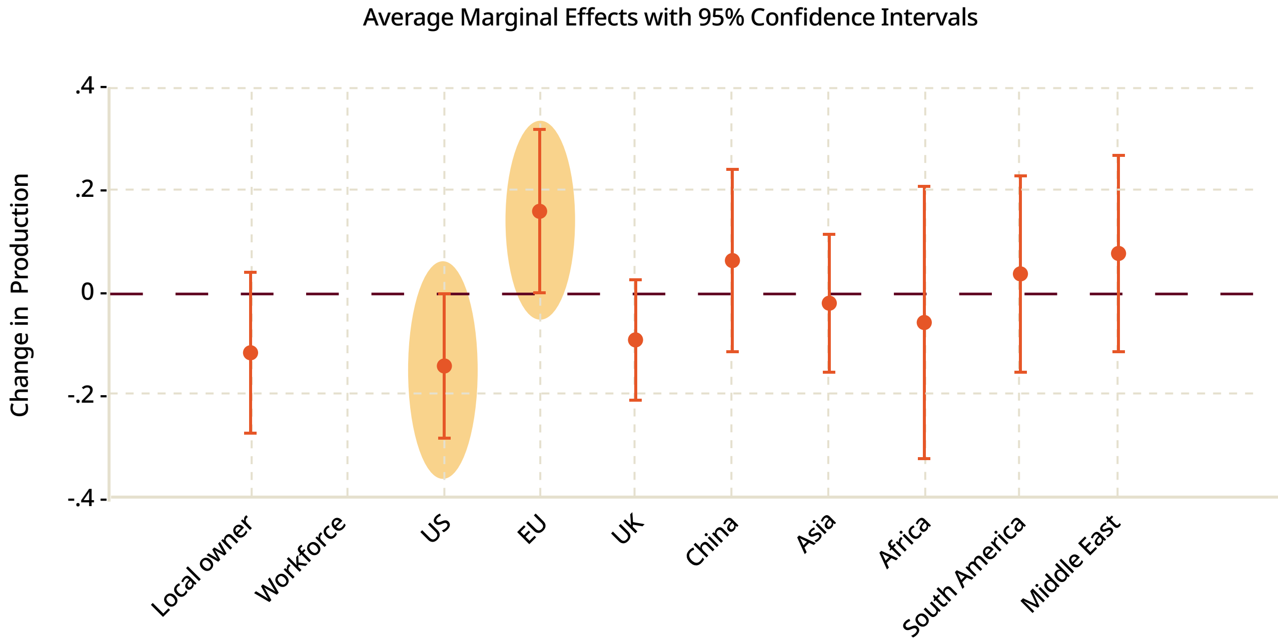
Production volumes in the first quarter of 2025 remained relatively stable compared with the same period in 2024, though not evenly across markets. As shown in Figure 4a, nearly half of factories (46%) reported no major change in output, while around one-third (34%) experienced increases and 16% reported declines.

▶ FIGURE 4A: COMPARED TO Q1 2024, HOW HAS YOUR FACTORY'S PRODUCTION VOLUME CHANGED IN Q1 2025?



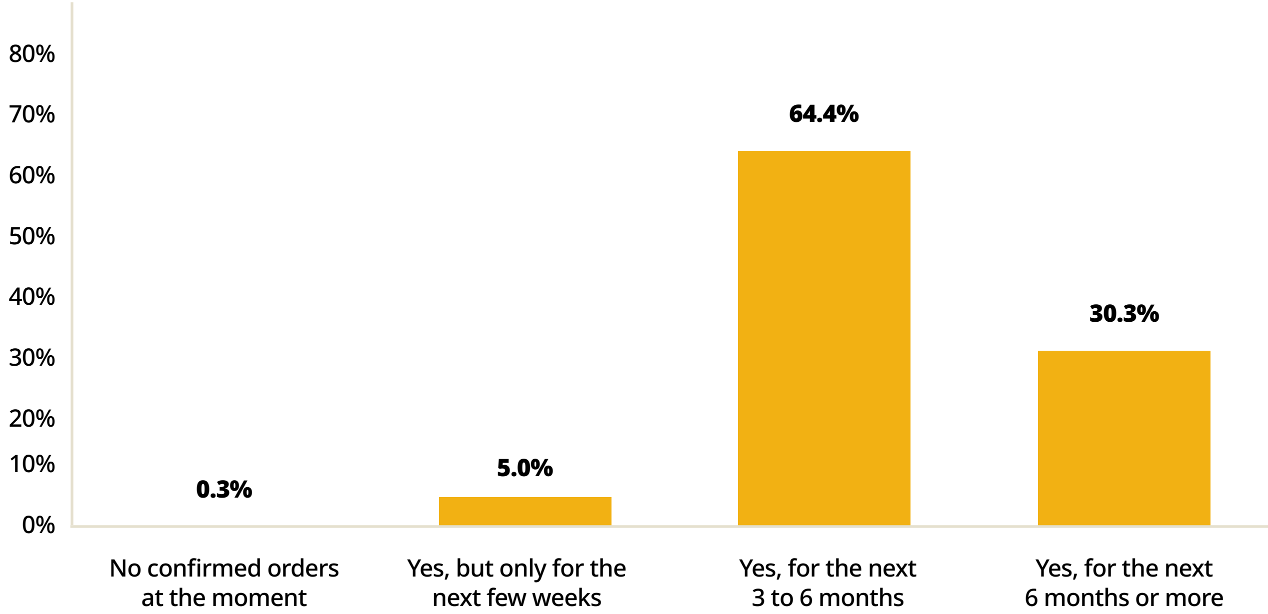
To explore what might explain these differences, an exploratory regression analysis examined how factory characteristics – such as ownership, workforce size, and export destinations – were associated with reported changes in production (Figure 4b).[6] The analysis found statistically significant patterns related to export markets. Holding other factors constant, factories exporting to the United States were about 14 percentage points less likely to report an increase in production than those exporting elsewhere, while exporters to the European Union were around 16 percentage points more likely to report higher production.

▶ FIGURE 4B: MARGINAL EFFECTS OF FACTORY CHARACTERISTICS ON LIKELIHOOD OF REPORTING INCREASED PRODUCTION IN Q1 2025

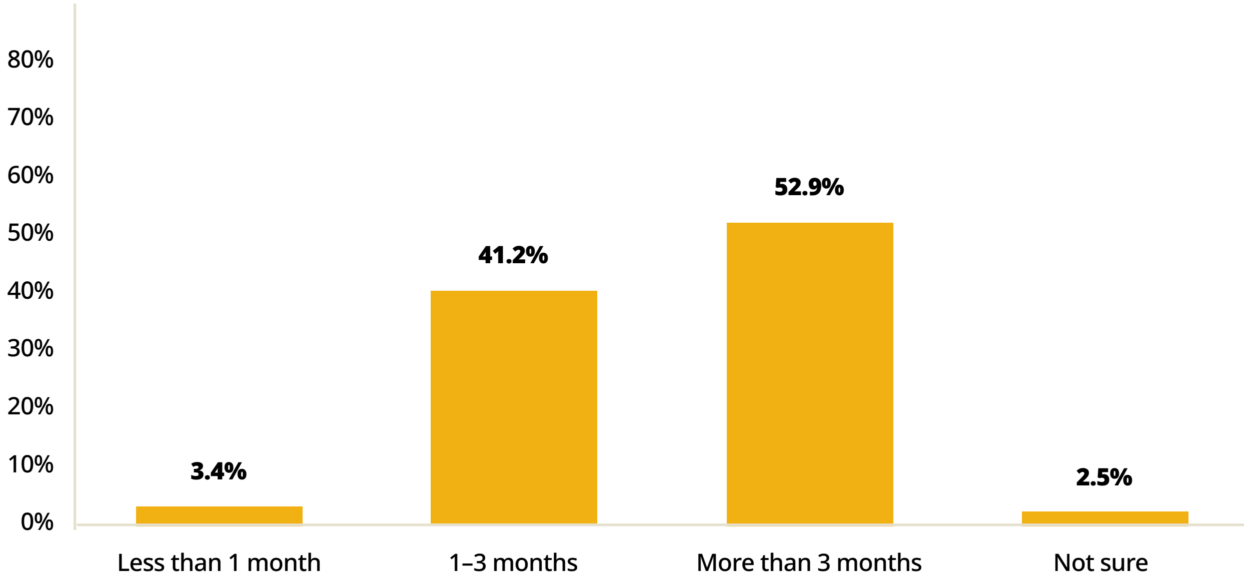


Existing order commitments also provided some reassurance. A majority of factories had secured medium- to long-term orders: 64% had commitments for the next three to six months, and 30% had orders stretching beyond six months (Figure 5a). Exploratory analysis suggests factories linked to the EU were more likely to report holding medium-term contracts but less likely to secure longer-term orders, potentially reflecting more cautious purchasing strategies. Importantly, more than half of respondents (53%) indicated that their current pipeline of orders and raw materials would allow them to sustain operations for at least three months, reducing the risk of immediate disruption (Figure 5b).

▶ **FIGURE 5A: DO YOU CURRENTLY HAVE CONFIRMED ORDERS FOR PRODUCTION?**



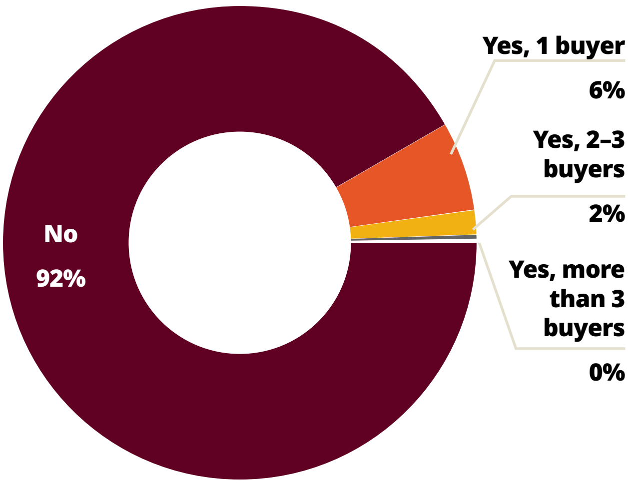
▶ **FIGURE 5B: BASED ON YOUR CURRENT ORDER PIPELINE AND AVAILABLE RAW MATERIALS, HOW LONG CAN YOUR FACTORY SUSTAIN OPERATIONS AT CURRENT LEVELS?**



Buyer relations

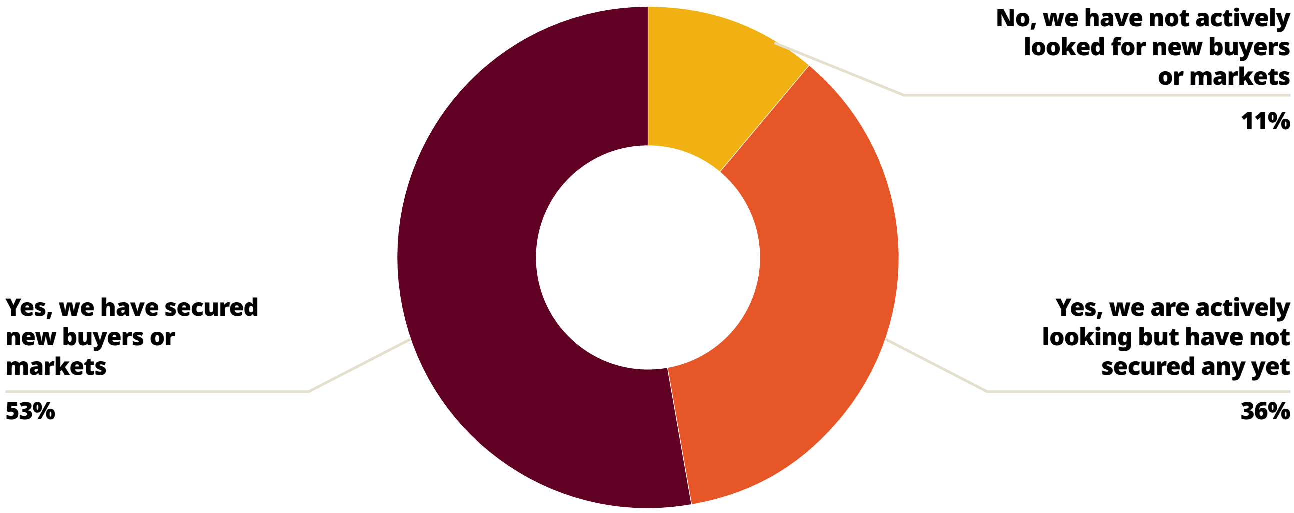
Concerns that tariffs might trigger widespread sourcing shifts have at the time of data collection not materialized. The vast majority of factories (92%) reported no buyer discontinuation in 2025 (Figure 6). Only a small minority experienced disruption: 6% lost one buyer and fewer than 3% lost multiple buyers.

▶ FIGURE 6. SINCE THE BEGINNING OF 2025, HAVE ANY BUYERS DISCONTINUED SOURCING FROM YOUR FACTORY?

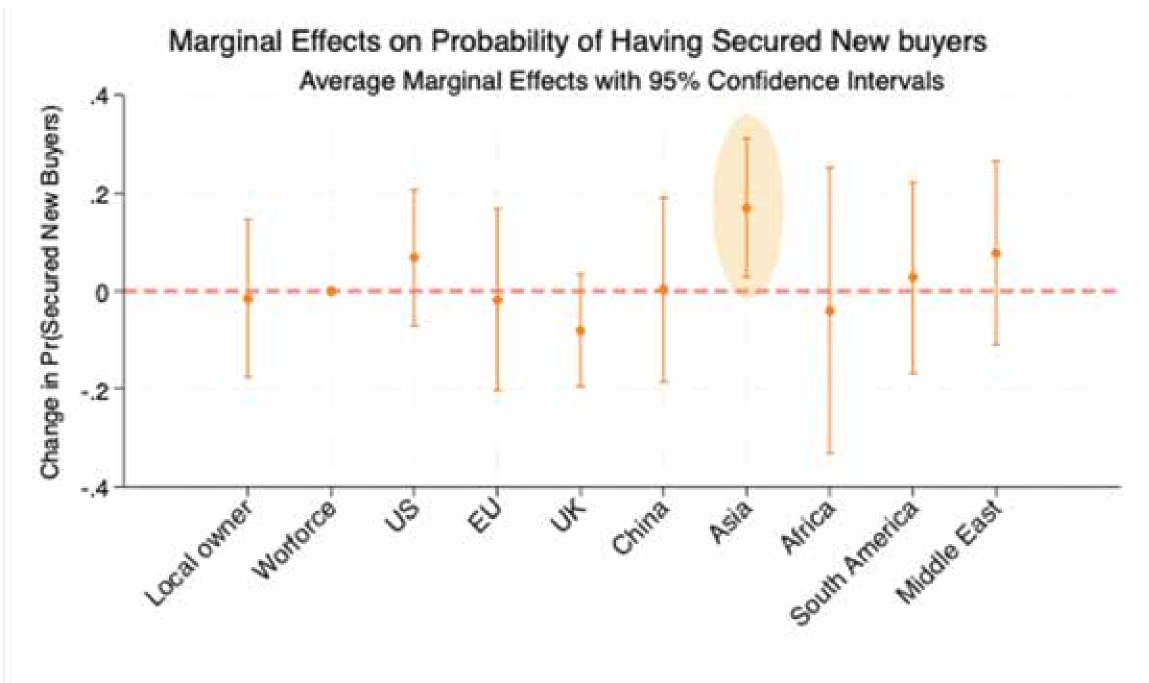


At the same time, factories are not waiting passively for demand to recover. More than half (53%) reported having already secured new buyers or entered new markets since the beginning of the year (Figure 7a). Exploratory analysis shows that exporters to Asia (excluding China) were particularly proactive, being significantly more likely to report diversifying their customer base than factories focused on other regions, holding other factors constant (Figure 7b). This suggests that Bangladeshi firms are taking early steps to hedge against uncertainty by reducing their reliance on traditional markets.

▶ FIGURE 7A: HAVE YOU ACTIVELY SOUGHT OR SECURED NEW BUYERS OR EXPORT MARKETS SINCE THE BEGINNING OF 2025?



▶ FIGURE 7B: MARGINAL EFFECTS OF FACTORY CHARACTERISTICS ON LIKELIHOOD OF REPORTING DIVERSIFICATION



Worker dynamics

The early effects of tariff uncertainty are beginning to reach workers. Seven per cent of factories reported retrenchments in May 2025, with ownership and export orientation influencing outcomes (Figure 8a). Exploratory analysis suggests that locally owned factories were significantly less likely to report worker layoffs than foreign-owned ones. Factories exporting to Africa and the EU reported lower risks of retrenchment, whereas those exporting to the UK or China faced somewhat higher risks (Figure 8b).

FIGURE 8A: SINCE THE BEGINNING OF 2025, DID THE FACTORY TERMINATE OR RETRENCH ANY WORKERS?

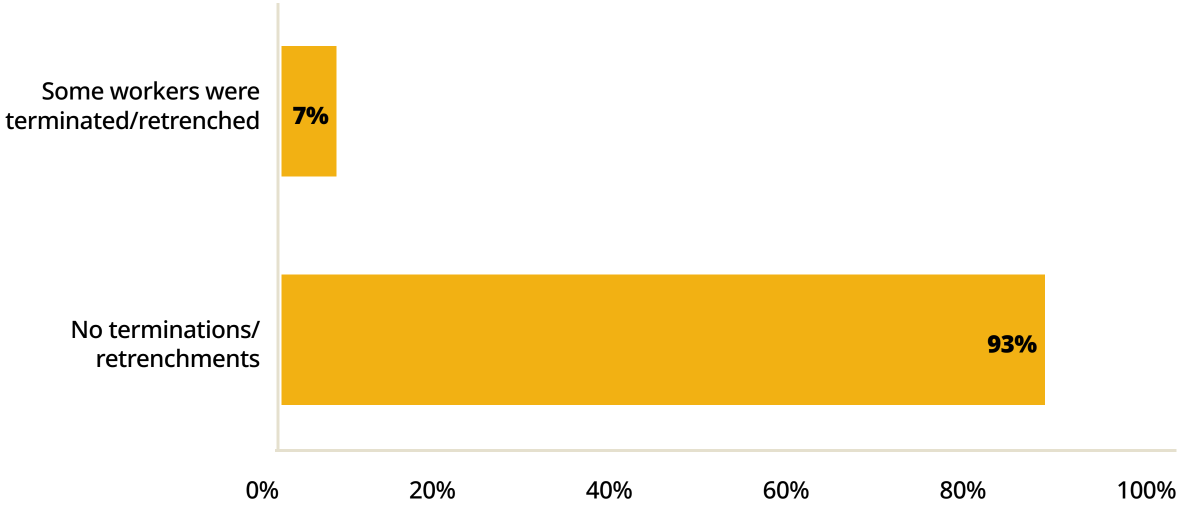
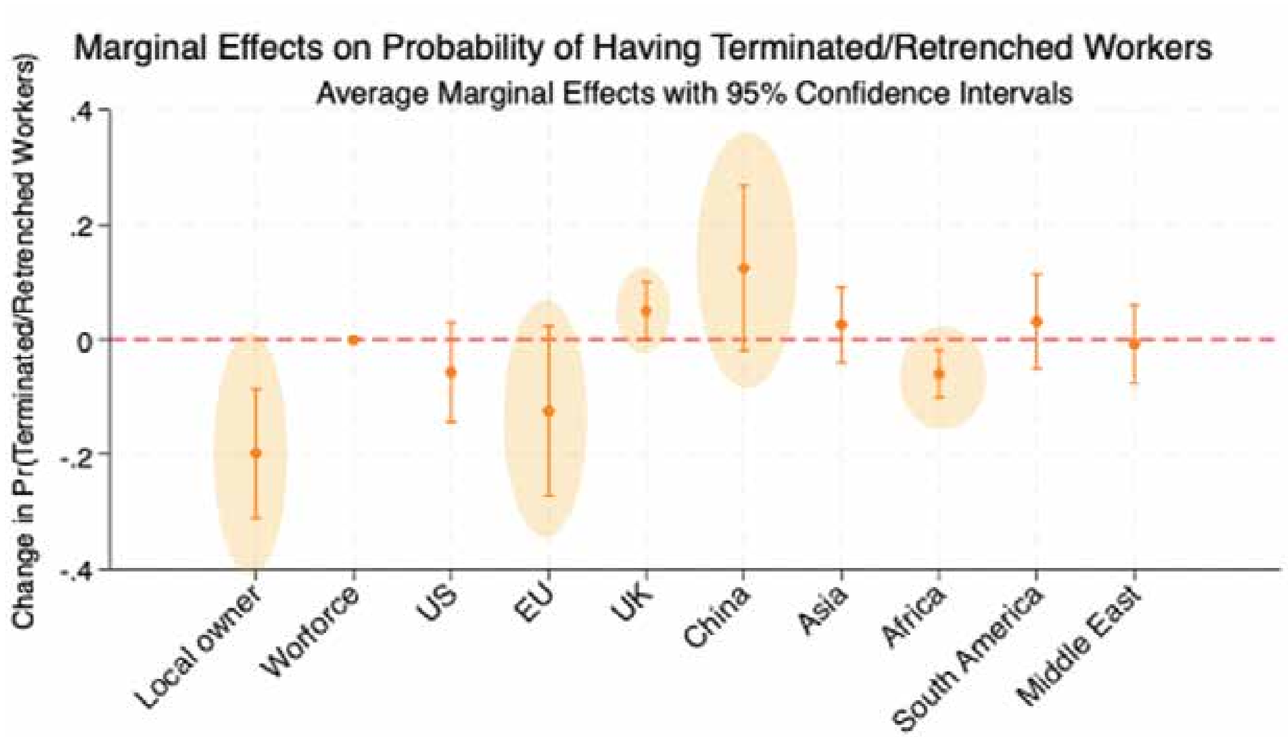
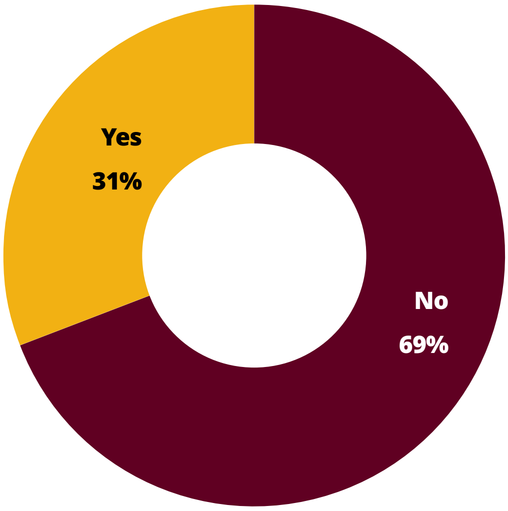


FIGURE 8B: MARGINAL EFFECTS OF FACTORY CHARACTERISTICS ON LIKELIHOOD OF REPORTING TERMINATIONS/RETRENCHMENTS

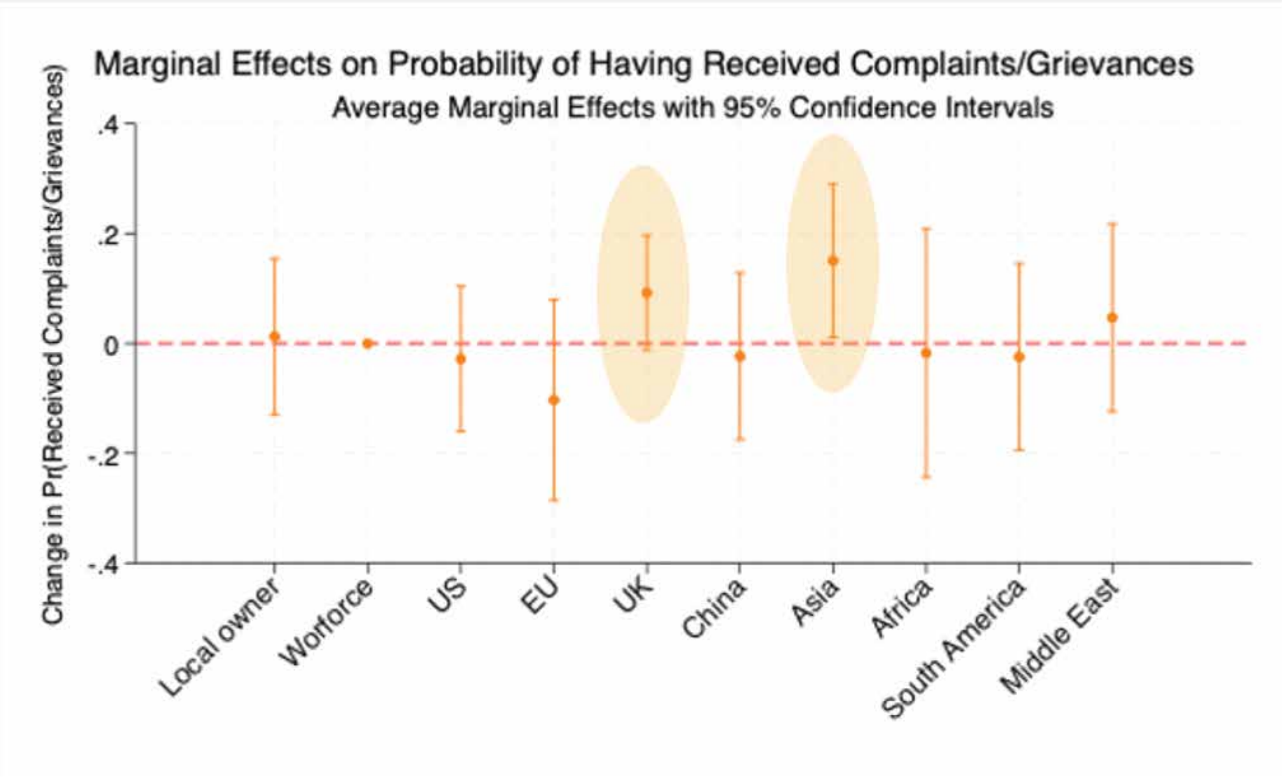


Worker grievances also surfaced. Around 31% of factories reported complaints raised by workers during May, with factories exporting to Asia and the UK more likely to report experiencing grievances (Figure 9a-b).

▶ FIGURE 9A: WERE ANY WORKER COMPLAINTS OR GRIEVANCES RAISED DURING THE PAST FOUR WEEKS?



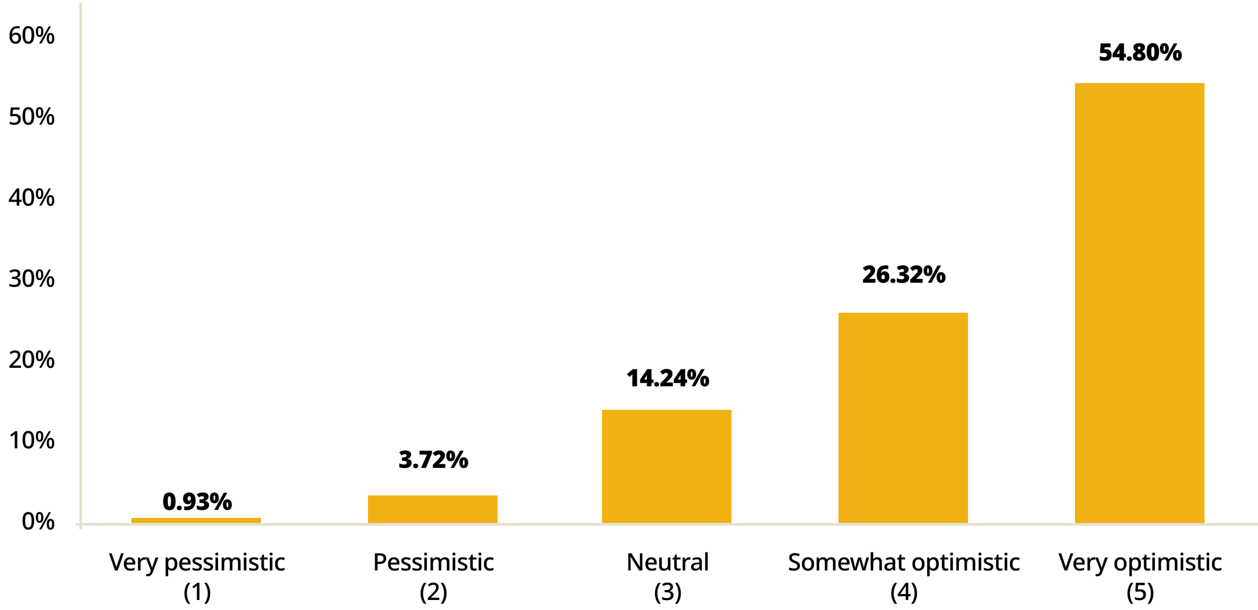
▶ FIGURE 9B: MARGINAL EFFECTS OF FACTORY CHARACTERISTICS ON LIKELIHOOD OF REPORTING RECEIVING COMPLAINTS



▶ Business sentiment and coping strategies

Despite the challenging environment, the overall sentiment among factories was cautiously optimistic. Many factories have already diversified their buyer base. The combination of relatively stable buyer relationships, medium-term orders, and proactive diversification may help explain why a majority of respondents expressed confidence in their short-term prospects, even as risks remain unevenly distributed.

▶ **FIGURE 10: HOW DO YOU FEEL ABOUT YOUR FACTORY'S PROSPECTS OVER THE NEXT 3 MONTHS?**



Next steps

BWB plans to conduct a second round of business environment surveys among its participating factories in Q4 2025, alongside complementary data collection from workers to capture their perspectives and experiences. Successive survey rounds will provide timely evidence on how challenges and opportunities in Bangladesh's RMG sector continue to evolve in response to shifting global trade dynamics. Combined with ongoing factory assessments and rapid data tools such as the Pulse Tracker, these efforts will offer a more complete picture of how factories, and the workers within them, are adapting to uncertainty.

At the same time, BWB will continue to ensure that evidence serves not only as a monitoring tool but as a platform for dialogue and joint problem-solving. By sharing insights with industry associations, worker representatives, and policymakers, the programme aims to strengthen collective understanding and promote coordinated responses. Through this approach, BWB remains committed to advancing decent work, business competitiveness, and a resilient and sustainable RMG sector in Bangladesh.

END NOTES

1 Bangladesh Foreign Trade Institute (2024). Replacing RMG model and diversifying export basket, Foreign Service Academy Journal.

2 Bangladesh Investment Development Authority: https://www.investbangladesh.gov.bd/investment-sector/textiles-apparels

3 Bangladesh Garment Manufacturers and Exporters Association (BGMEA): https://bgmea.com.bd/page/Export_Performance

4 Centre for Policy Dialogue: https://cpd.org.bd/exporting-under-high-tariffs-will-be-a-major-challenge-for-bangladesh/

5 ILO Bangladesh: https://www.social-protection.org/gini/gess/ShowCountryProfile.action?iso=BD

6 Results are correlational and preliminary and should not be interpreted as evidence of causal effects. The figure presents results from an exploratory logistic regression estimating the likelihood that factories reported increased production in Q1 2025. The model includes three main factors: whether the factory is locally owned, its export exposure to various regions, and its total workforce size. Reported values are average marginal effects, which indicate how each factor is associated with the probability of reporting higher production, holding other variables constant. Confidence intervals (95%) are shown by the vertical lines.