

Textile Industry: Prospective Sector in Economic Development of Bangladesh

NIRMAL CHANDRA BHAKTA¹
M D . MOSTAFIZUR RAHMAN SARDER²
M D . SHAHID REZA³

Abstract

The Readymade garments (RMG) is a huge success sector in Bangladesh. The export of RMG increased from US \$ 7 million in 1981-82 to US \$ 10.7 billion in the fiscal year 2007-2008. It is cruel but true that this sector is totally dependent on imported raw materials. Currently 2400 readymade garments units spend approximately 70% of their export earnings on import of fabrics. To meet the huge demand gap it is estimated that additional investment around 150 spinning mills (each having 25,000 spindles), 375 weaving mills (each having 300 shuttles or 120 shuttles looms) and 370 dyeing, printing and finishing units of 10 million meters annually) will be required to set-up. Now it is true that our RMG industry in a difficult situation without adequate backward linkage industry. So the objective of this paper is to analyze the prospect of textile industry and its impact on economic development of Bangladesh.

Introduction

The textile industry is Bangladesh's number-one export earner, accounting for approximately 80 percent of the country's exports and foreign exchange earnings. Although jute, cotton and other textiles constitute some of the country's principal industries, the ready-made garments (RMG) sector is by far the largest export-

1 Authors are General Manager, Deputy General Manager & Assistant Director of Bangladesh Bank respectively. Opinions expressed in the paper are their own, and in no way reflect the official position of Bangladesh Bank.

oriented manufacturing industry in the country. The sector employs roughly 2.5 million workers, about which 80 percent are women.

Bangladesh's RMG sector, which is composed of the knitwear and woven garments sub-sectors, had its beginnings in the 1970s and has been growing at an increasing rate ever since, with a 27% cumulative average growth rate. According to recent figures from the government's Export Promotion Bureau, the sector had exports of US\$10.7 billion in fiscal year (FY) 2007-08 (July-June), constituting nearly 76 percent of Bangladesh's total exports. In July 2008 alone, RMG exports of woven apparel rose by 58.6 percent, and of knitwear, by 84.7 percent over July 2007.

Woven garments and knitwear mainly are exported to the European Union (EU), which takes in approximately 60 percent of Bangladesh's total RMG exports - followed by the United States, which accounts for more than 32 percent of the total.

For the first time in the RMG sector's history, knitwear exports exceeded woven apparel exports in 2007. Knitwear has become the dominant sub-sector in terms of quantity exported - with a national export share of 37.39 percent in FY 2006-07, and it is steadily gaining share. Over time, the knitwear sector has become almost self-sufficient in terms of fabric and yarn supply, as a result of spinning factories growing at the same rate as the country's stitching capacity, therefore increasing fabric and yarn needs. Furthermore, as knitwear exports have increased, upstream supplier capacity has gradually increased correspondingly. As a result, domestic suppliers can provide 90 percent of the sector's total fabric requirement. In addition, the number of spinning mills has grown as knitwear exports have increased.

According to the most recent Bangladesh Garment Manufacturers and Exporters Association (BGMEA) Statistical Report, Bangladesh's woven apparel exports increased by 1.8 percent in 2007 for a value of US\$4.61 billion, while knitwear exports increased by 8.05 percent in the same year, for a value of US\$4.74 billion.

Though exports of both woven garments and knitwear have increased substantially, helping the RMG sector maintain its role as a main contributor to Bangladesh's economy, a few other textile products show potential, as they recently have experienced considerable growth. According to the country's Export Promotion Bureau, in July 2008 over July 2007, home textiles exports increased by 55.19 percent, and terry towel exports increased by 34.4 percent. However, the biggest growth was in exports of textile fabric - though representing a very small

part of total exports, it showed a massive 697.9-percent increase in exports in July 2008 over July 2007.

Rationale of the study

Efficiency and productivity improvements are key for the textile sectors to survive in this time of global financial recession. The downward trend of cotton price is also a plus point for Bangladesh as the country's garment manufacturing is mainly dependent on imported cotton. The price of cotton declined to less than 50 cents per pound from its previous 70 cents per pound. The worldwide price decline of other commodities such as petroleum products will also be beneficial.

The experts at November 2008 BGMEA seminar concluded that Bangladesh is more or less decoupled from the rest of the world with regards to the effects of the economic recession. Expertise opinion in this respect is that improvement of backward linkage industry will be only solution to remain the ready-made garment sector uplift in its position. So we feel ourselves that the subject matter of the research will be helpful for the potential investor and also will encourage the foreign investor to invest in this sector.

Objectives of the study

The objectives of this research are:

- (a) To provide detailed information regarding the **Prospects of textile industry in economic development of Bangladesh** so that the interested entrepreneur can justify the worthiness of their investment, and
- (b) To give knowledge about textile industry, potentiality of textile business, present scenario of our textile industry, future demand and market so that investor can justify the viability of their investment.

Methodology of the study

The method of obtaining information was mainly secondary. Published articles, reports, website and journals have been used to find the different techniques of this research. Necessary data have been collected on the following broad groups of variables:

- Region wise distribution of exports and imports of Bangladesh
- Sector wise improvement of Bangladesh Business
- Economic Environment of Bangladesh
- Business environment of Bangladesh

History of Textile in Bangladesh

Immediately after the founding of Bangladesh, tea and jute were the most export-oriented sectors. But with the constant threat of flooding, declining jute fiber prices and a significant decrease in world demand, the contribution of the jute sector to the country's economy has deteriorated. The garment industry in Bangladesh became the main export sector and a major source of foreign exchange starting in 1980, and exported about \$5 billion USD in 2002.

Before 1947, modern textiles were only the composite textile mills having spinning and weaving facilities. Specialized textile weaving, knitting and hosiery, and dyeing-printing-finishing were added later. At the time of partition in 1947, there were about 11 composite textile mills in the then East Pakistan with 1.1 million spindles and 2.7 thousand looms. Spindles grew to 3.2 millions in 1956 but declined to 0.8 million in 1972 as worn-out obsolete spindles went out of operation. In 1972, large-scale manufacturing units including textile mills were nationalized. After 1982, state owned spinning mills were gradually denationalized. By 1999, spindles installed were 2.4 million in the private sector as compared to 0.4 million in the public sector.

The industry employs about 2.5 million workers of which 90% are women. Two non-market factors have played a crucial role in ensuring the garment sector's continual success namely (a) quotas under Multi-Fibre Arrangement (MFA) in the North American market and (b) preferential market access to European markets.

Table 1: Important issues related to the Bangladesh ready-made garment

<i>Years</i>	<i>Issue</i>
1977-1980	Early period of growth
1982-1985	Boom days
1985	Imposition of quota restrictions
1990s	Knitwear sector developed significantly
1993-1995	Child labour issue and its solution
2003	Withdrawal of Canadian quota restriction
2005	Phase-out of export-quota system

Source: Compiled by the author from Quddus and Rashid (2000),

An overview of the Bangladesh Textile Industry

The textile industry is the only multi-billion-dollar manufacturing and export industry in Bangladesh. Whereas the industry contributed only 0.001 per cent to the country's total export earnings in 1976, its share increased to about 85 per cent

of those earnings in 2008. Bangladesh exported garments worth the equivalent of \$10.7 billion in 2007-08. The country's textile industry grew by more than 15 percent per annum on average during the last 15 years. The foreign exchange earnings and employment generation of the textile sector have been increasing at double-digit rates from year to year.

Textile industry is build up mainly as a backward linkage industry of RMG sector. Currently, there are more than 500 industry in Bangladesh. More than 95 percent of those firms are locally owned with the exception of a few foreign firms located in export processing zones. The textile industry are located mainly in three main cities: the capital city Dhaka, the port city Chittagong and the industrial city Narayangonj. Bangladesh textile industry vary in size. Textile industry in Bangladesh are divided mainly into two broad categories: woven and knit products. Shirts, T-shirts and trousers are the main woven products and undergarments, socks, stockings, T-shirts, sweaters and other casual and soft garments are the main knit products. Woven garment products still dominate the garment export earnings of the country. The share of knit garment products has been increasing since the early 1990s; such products currently account for more than 40 per cent of the country's total textile export earnings.

Production of Textile commodities in Bangladesh

Most spinning mills of Bangladesh produce low-grade yarn. The existing capacity is not enough to produce good quality combed yarn and polyester/cotton blended yarn for meeting the requirement of Garment Industry. The products of the spinning sub-sector are cotton yarn of different counts, polyester, synthetic yarn, woolen yarn and blended yarn mixed of cotton and polyester.

The weaving sub-sectors like specialized textiles, handlooms, and knitting and hosiery are using yarns. In 2003, yarn production of 300 million kg satisfied only 35% of total yarn requirement of the country. The products of modern weaving are cotton fabrics used as sari, dhoti, lungi, blouse, shirting, drill, long cloth, poplin, saloo, grey markin, etc. These fabrics are woven in narrow strips and in addition, they cannot be used in the garments industry because of their low quality. In 2007, fabric production of 70 million metres cannot even meet 4% of the domestic fabric requirement. The specialized textiles sub-sector, loomage capacity of which varies from 10 to 50, started in mid-seventies. In 1976, it had 800 looms with annual production capacity of 15.6 million metres of fabrics. Its loomage capacity rose to 5,500 in 1993 indicating a 40% annual growth rate. Fabrics produced in this sub-sector are mostly cotton, polyester and cotton-

polyester blended types. Main products are nylon saris, household linens, curtains, shirting, suiting, nets, pocketing fabrics, velvet cloth and fabrics for draperies.

After the 1980's Knitting and hosiery products of this sub-sector gained access to export market. The annual growth of machine capacity satisfying domestic market was about 5.3% for the period 1976-83 and only 2.1% for the period 1983-99. In this period, 1,390 circular knitting machines were added to the capacity to satisfy the export demand. However, the situation on the knitting side looks better than in weaving. The main products of this sub-sector are vests, underwear, T-shirts, polo shirts, ladies undergarments, socks, mufflers and sweaters.

Export competitiveness in the United States market

Bangladesh has experienced some product diversification in its export of garments to the United States market in recent years compared with the early 1990s. However, the country's performance in upgrading its products is not significant with regard to the United States market. The country experienced a sharp increase in the export of garment products to the United States market in the 1990s, but faced declines in export earnings from that country in 2005 and 2006, followed by slow increases since 2007. However, the RMG exports of China to the United States have increased at a startling rate over the years. For example, the textile and garment export earnings of China, India and Bangladesh from the United States were \$3.6 billion, \$0.8 billion and \$0.4 billion respectively in 1990, and increased to \$28.4 billion, \$9.8 billion and \$ 5.8 billion respectively in 2008. Such rapid expansion in the exports of China represents a major challenge to other exporters. Bangladesh exported a total of 99 types of products in the textile and garment category to the United States in 2007, but most of the category's contribution was minimal. For India and China, the number of textile and garment product categories exported in the same year to the United States was 161 and 167 respectively.

Export competitiveness in the European Union market

Bangladesh has experienced both quantitative and qualitative changes in exporting garment products to the European Union market during the period 1996-2007. The textile and garment export earnings of Bangladesh from the European Union increased from 1.2 billion euros in 1996 to 4.9 billion euros in 2007. For India and China, the corresponding earnings increased from 3 billion and 5.3 billion euros in 1996 to 5.3 billion and 21.1 billion euros in 2007

respectively. Garment products generate the major share of Bangladesh's export earnings from the European Union. However, both textile and garment products in China and India contribute to the export earnings from the European Union. For example, garment products on average generated more than a 95 per cent share of the total textile and garment exports to the European Union from Bangladesh during the period 1996-2005. The corresponding shares for India and China stand at below 75 per cent and 80-90 per cent respectively.

Knit garments from Bangladesh have gained remarkable access to the European Union market during the period 1996-2007. Duty and quota-free access of garment products manufactured under "two-stage local transformation" (yarn to fabrics, and fabrics to garment) have accelerated the exports of knit garment products from Bangladesh to the European Union. As the knit textile subsector is relatively less capital intensive and requires relatively simple technologies, it managed to undergo rapid expansion, benefiting from the European Union Generalized System of Preferences. The woven part of the category has failed to utilize that facility owing to a lack of sufficient backward linkages. In contrast to the European Union, both knit and non-knit products have entered the United States market simultaneously, as no special tariff or tax reduction incentive was available there for the import of garment products from Bangladesh.

The product-mix of garment products exported from Bangladesh to the European Union has changed significantly during the period 1996-2007. The share of shirts in total garment exports from Bangladesh to the European Union has decreased, whereas the shares for overcoats, jackets, sweaters, suits and some other garment products have increased in recent years. These changes demonstrate that Bangladesh is achieving some level of product diversification in exporting garment products to the European Union. In addition, a gender analysis indicates that Bangladesh has achieved some upgrading of its products recently in terms of exporting garment products to the European Union. Garments for females are treated as upgraded products compared with garments for males, since they add more value on average.

Foreign Investment in Textile Sector

Private investment from overseas sources is welcome in almost all areas of Bangladesh economy. Such investments can be made either independently or through joint venture on mutually beneficial terms and conditions. In other words, 100% foreign direct investment as well as joint venture both with local private sponsor and with public sector is allowed. Among the entire sector one can invest in the following sector of textile industry.

- Composite textile mills;
- Specialized textile mills;
- Sericulture, reeling and filature
- Leather and Rubber Products;
- Leather finishing;
- Footwear including shoe upper, sole etc;
- Tyres and tubes;
- Leather goods, such as gloves, bags, jackets etc.

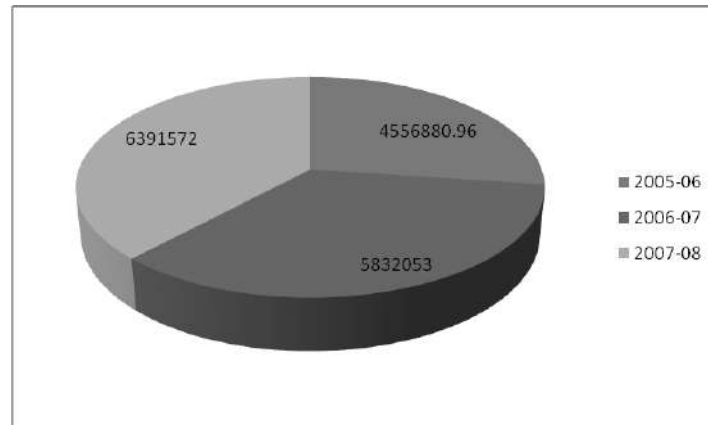
The graph shows the export earning of Bangladesh from textile sector during the year 2005-06 to 2007-08. It shows that the earning is increasing gradually;

Table 2: Major Textile commodities and export earning from it

Sl No.	Commodities	Year		
		2005-2006	2006-07	2007-08
1	Silk	139.48	208.77	67.73
2	Wool, Fine or coarse ani mal hair, horse hair yarn & woven fabrics	3777.88	602.69	1184.85
3	Cotton	26349.84	25954.27	23088.99
4	Paper yarn, & Woven fabrics of paper yarn	227053.47	272740.84	302076.49
5	Man-made filaments	1312.06	3531.66	2062.87
6	Man-made staple fibers	2101.77	3777.58	3222.80
7	Wadding, felt & non -woven, special yarns, twine, cordage, ropes, & cables	34840.85	43023.59	38200.29
8	Carpets & other textile floor coverings	5002.43	5133.67	4930.06
9	Special woven fabrics, tufted textile fabrics, lace, tapestries	17467.01	21509.98	10781.46
10	Knitted crocheted fabrics	10539.86	21192.24	17389.79
11	Articles of apparel & clothing accessories, Knitted or crocheted	2300842.37	3020809.35	3498570.17
12	Articles of apparel & clothing accessories, not Knitted or crochete d	1760127.55	2180770.17	2234627.32
13	Other made up textile articles, sets, worn clothing & worn textile articles, rags	167326.39	232798.30	255369.25
Total		4556880.96	5832053.00	6391572.00

especially during the 2006-2007 fiscal year the growth was 21.87% over the fiscal year 2005-2006.

Growth of Export earnings from textile Sector (figure in lac)



Prospects for the Textile and Apparel Industry in Bangladesh

The total demand-supply gaps of fabric and yarn for 1996-97 were 2,433 million metres and 429 million kg respectively. These gaps would increase to 5,717 million metres and 939 million kg respectively by 2007. This speaks of this textile sector as an important area for potential investments. The investment in this sector is also attractive because of low wage (\$40-70 dollar) per month, and relatively low cost of infrastructure required for setting up textile mills. In an international environment cost of capital and labour in Hong Kong, Korea, Singapore and Taiwan etc are rapidly increasing. The government policy also encourages private investment, especially foreign investment in the textile sector by allowing special facilities such as :

- Tax holiday for five, seven, nine and twelve years for industries set up in the developed, less developed, least developed, and special economic zones respectively,
- Tax exemption on royalties, technical know-how and technical fees,
- Tax exemption on interest on foreign loans,
- Tax exemption on capital gains,
- Avoidance of double taxation,
- Exemption of income tax for foreign technicians for a period of up to 3 years;
- Remittance up to 50% of the salary of the foreigners employed in Bangladesh,
- Facilities for repatriation of invested capital, profits, and dividends abroad, and

- Provision for treating reinvestment of repatriate dividend as new foreign investment.

The textile industry in Bangladesh occupies a prominent position within the country's industrial structure. It may become the largest manufacturing sector, providing jobs for a huge number skilled and unskilled labor and contribution a lot to the country's GDP. But in order to produce garments for export, the textile sector has to manufacture a large share of yarn and fabric, which we presently imports from abroad, especially woven fabrics. At present few local textile firms are able to produce materials of the required quality or in adequate quantities. The Bangladeshi government is attempting to remedy this situation.

Findings

The overall growth performance of modern textiles excepting the export-oriented garments industry has been very poor with only very limited investment taking place in weaving sub-sectors and relatively more new investment in the spinning sub-sector. Modern textiles have developed in a haphazard and footloose manner with little balancing among spinning, weaving, and dyeing-printing-finishing sub-sectors. Most mills are unbalanced with their own structures, and suffer from technological and production shortcomings. Over the years the links between the downstream textiles and garments sub-sector remained weak. Bangladesh entered into export market of RMG in 1977. Exports of RMG grew at a very fast rate during the last two decades. But this growth has not been supported by a growth of the backward linkage facilities. The RMG industry has to depend upon imports for 85% of fabrics and 40% of yarn required for this expanding export market.

As of 2006, the textile sector of Bangladesh may be characterized by the following facts: there were 3.8 million spindles with an annual production capacity of 300 million kg of thread; the total number of looms was 5200; 2500 in private sector and 2,700 in public sector and the annual production capacity was 96.9 million metres of cloth. All the specialized textile mills were in the private sector and they had 60,500 looms producing annually 105 million metres of cloth.

Conclusion & Recommendation

After elimination of quota and GSP it is believe that China and India will come to dominate world trade in textiles. China alone estimated at 50 per cent or more share in the textile market. However, this estimation only possible as they are totally driven by changes in relative prices and cost competitiveness. The main

contribution of this study is thus to take into account recent developments in the organization of the textile sector.

Market is very important factor. Therefore, countries close to the major markets are likely to be less affected by competition from India and China. Bangladesh, Mexico, the Caribbean, Eastern Europe and North Africa are therefore likely to remain important exporters to the US and EU respectively, and possibly maintains their market shares.

To conclude, there is no doubt that both China and India will gain market shares in the European Union, the United States and Canada to a significant extent, but the expected surge in market share may be less than anticipated, as proximity to major markets assumes increasing economic significance and tariffs are increasingly restraining trade due to the fact that products cross borders several times. Furthermore, other developing countries like Bangladesh are catching up with China in terms of unit labour costs in the textile sector and China has of yet not shown competitive strength in the design and fashion segments of the markets.

In view of the above, to increase the export share Bangladesh has to:

- Create more investment opportunities for the potential investor
- Attract more Foreign direct investment in the sector
- Create more Export processing zone to safe and secured return of foreign investment
- Develop infrastructure i.e. road, transport facilities etc.
- Offer more benefit for the investor

Bibliography

1. Exports receipts 2007-2008 published by Bangladesh Bank.
2. Economic Trends June, 2009 published by Bangladesh Bank.
3. Balance of payments published by Bangladesh Bank.
4. Banglapedia.
5. Internet.