

# State of Cotton & Textile Industry of Bangladesh

## 2010 and Beyond

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Whenever I engage in intellectual discussions with cotton and textile experts around the world, I invariably face a question *how did it happen?* Obviously the question is how the textile sector in Bangladesh has shown a phenomenal growth through last decade? I recall a similar discussion with Dr. Terry Townsend of ICAC a couple of years ago. After discussing a number of world issues on cotton and textiles, our discussion boiled down to Bangladesh textile industry. Terry raised a thought provoking question, *what did Bangladesh do differently that triggered the textile boom?* Well the question is very simple but the answer requires deep thoughts. This article is making an attempt to answer this well posed question.

**TEXTILE POLICY INTRODUCED SUPPORT SYSTEM**

**Fiscal Benefits**  
*Duty Drawback* – Draw back the duties paid for exported goods  
*Cash Incentives* – 25% (Until 2005 and now 5%) Cash payment by Bangladesh Bank who are not covered by the *Duty Drawback or Bonded Warehouse* program.

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**Financial Benefits**  
*Bonded Warehouse* – Allowed duty free import of Yarns and Fabrics  
*Back-to-Back L/C* – Exporters opened back-to-back LC to import raw materials

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**Institutional Support**  
 Skill Development and Labor Training

There are three synergic and intrinsic factors that triggered the textile boom in Bangladesh. They are *resources, opportunities and policy decision*. The resources include abundant labor forces, low cost energy and natural gas. Abundance in labor forces provides Bangladesh textile industry with a competitive advantage in producing labor intensive goods. Self-sustained domestic market of 140 million with a growth rate of 3% is also a great support for the industry. In recent years Bangladesh has shown a reasonable increase in per capita income and improved life styles for middle class. Above all the dedicated and sincere work force, who are eager to work extended work hour when needed to meet the production target is the key element to the success of Bangladesh

textile industry. Bangladesh had had a tremendous *opportunity* to gain access to European and the U.S. market through MFA and GSM agreements for its *Ready Made Garments* (RMG). Bangladeshi entrepreneurs successfully took this opportunity to the fullest extent to expand and secure their markets. The policy decision made by the Government basically buoyed the textile growth. The Government policy of liberalization of the economy encouraged private sector investments.

The Government declared the textile as a thrust sector that led to introduce a support system for the textile industry. The support system included Fiscal Benefits, Financial Benefits and Institutional Support.

Two of the most important resources, labor and power are abundant and cheap in Bangladesh. In compared to its competitors, India, Pakistan and China, Bangladesh has an advantage of cheaper labor and lower energy cost. Labor cost is only 23 cents/hr. Whereas, in India, Pakistan and China the labor costs are 43, 41 and 89 cents/hr, respectively. Gas burned energy cost in Bangladesh is less than two cents/KWH in compared to 9.33, 6.72 and 7.84 cents/KWH in India, Pakistan and China, respectively.

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**LABOR AND POWER COST IN BANGLADESH**

Parameters	Bangladesh	India	Pakistan	China
Labor Cost (US \$/hr)	0.23	0.43	0.41	0.89
Energy (US cents/KWH)	7.56*	9.33	6.72	7.84
Energy (US cents/KWH) (Gas Burned)	1.90	-	-	-

\*Rural Electrification Board (REB)

The textile policy introduced a new tariff structure designed to stimulate the growth in Backward Linkage Industry (BLI). Tariff in spinning sector is strikingly absent. Whereas imported yarns and fabrics are heavily taxed to discourage imports and encourage local yarn productions.

All these intrinsic factors had synergic effects on the textile growth in Bangladesh. As a result Bangladesh spinning industry has seen a phenomenal growth over last ten years. The ring spinning capacity in Bangladesh was hardly 1.5m spindles in 1996. This capacity increased to 5.7m spindles in 2006, a four fold increase in ten years. In open-end spinning sector the number of frames (about 300 rotors on average) increased from 3000 in 1994 to 7,876 frames in 2006.

**TARIFF STRUCTURE STIMULATED THE BLI GROWTH**

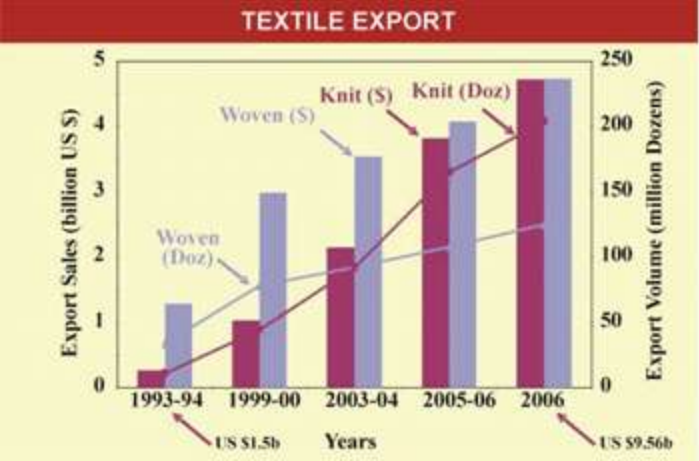
Item	Tariff
Raw Cotton*	0%
Textile Machinery*	0%
Import of Yarn	5% (Total Duty is 28%)
Fabrics	37.5% (Total 60.5%)

\*Tariff in Spinning Sector is Strikingly Absent

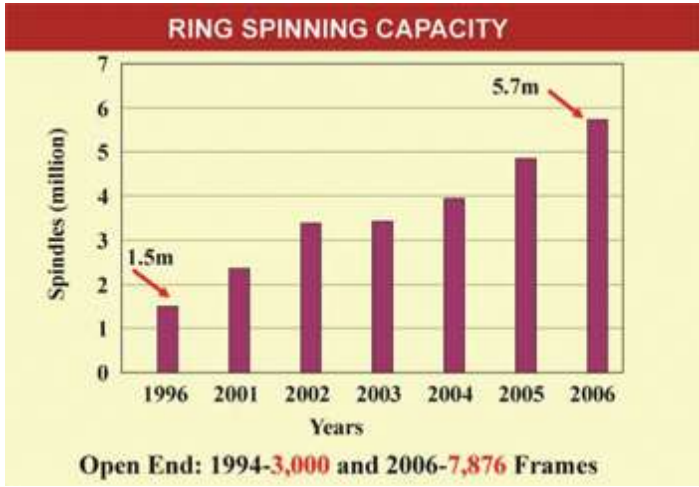
The ring spinning capacity in Bangladesh was hardly 1.5m spindles in 1996. This capacity increased to 5.7m spindles in 2006.

Similarly, export in textile sectors has also seen a phenomenal growth, from \$1.5b in 1994 to \$9.56b in 2006. Knit Garments export volume in 1993-94 was almost a fifth (\$264m) of the Woven Garments export (\$1,292m). Whereas in 2006, these exports are almost equal (\$4,725m in Knit and \$4,736m in Woven), indicating Bangladesh is catching up more with the Knit Garments than the Woven Garments export demands. The quality production of knit garments and the competitive advantage of Bangladeshi manufacturers allow them to catch up with the increasing demand in the U.S. and European market. Bangladesh spinning mills, there-fore, use more and more high quality and comparatively cheaper Uzbek cotton, mostly Strict Middling and Good Middling grade and 1-1/8" and longer staple.

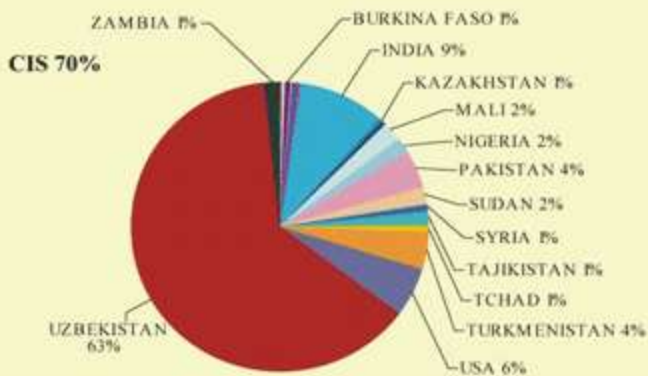
As a result, Uzbekistan origin cotton enjoyed a significant market share, 63% (in 2006), in Bangladesh. Indian cotton ranked a distant second, only 9%, in the same year. Out of 488,691 MT of total cotton imported in 2006, Uzbekistan supplied 309,138 MT, India supplied 45,438 MT, the USA supplied 26,946 MT, Turkmenistan supplied 20,004 MT and Pakistan supplied 19,985 MT. It is interesting to see that India and Turkmenistan have gained a significant market share in last few years due to their competitive advantage over Uzbekistan cotton. Nevertheless, Bangladesh spinners would always like to pay a premium for Uzbekistan cotton for at least 1.5 c/lb over Turkmenistan and 3-4 c/lb over Indian Sanker-6 cotton. U.S. origin cotton, especially Eastern/Memphis growth has also gained significant market shares in last few years due to mostly for contamination free cotton and better alternatives for lower grade and shorter staple cotton for the open end industry. Pakistan is struggling to catch up with the open-end industry because of contamination problems.



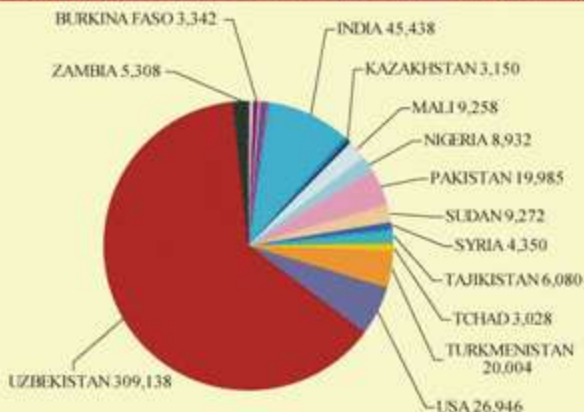
While Australia is still recovering from droughts, contamination free U.S. and Brazilian cotton have long been viewed as a viable alternatives to Uzbek cotton. Unfortunately higher price keeps Bangladeshi spinners from using U.S. and Brazilian cotton. A few years ago Bangladeshi spinners tried to use Brazilian cotton, but it could not meet their expectation. However, Brazilian cotton quality has improved significantly in recent years and it is worth it to give another try to Brazilian growths. The U.S. has a clear advantage over Brazil. Brazil has significant logistics and shipping problems for years. Eastern/Memphis growths have long been enjoyed a good reputation among spinners in Bangladesh. But the use of U.S. Cotton has largely been limited to open-end spinning with shorter staple and lower grade cotton (mostly SLM and 1-1/32" and 1-1/16").



### ORIGIN OF IMPORTED COTTON, 2006 (MARKET SHARE)



### ORIGIN OF IMPORTED COTTON, 2006 (TOTAL 488,691 MT)



It has been observed that big shippers have larger market share in Bangladesh, suggesting a tendency of

*The textile sector, which employs 2.2 million workers, accounts for 76% of Bangladesh's total export*

Bangladeshi buyers to buy cotton from reliable and resourceful big suppliers. In recent years it is seen that a number of small and medium size suppliers are having financial and management problems. They are not being able to hold their market share in Bangladesh. These companies have either gone out of business or on the verge of collapse. Suppliers based in Switzerland have enjoyed 32% of the total market share in Bangladesh. British companies ranked a distant second at 19% market share. Although Uzbekistan origin has a total market share of 63% in Bangladesh, but Uzbek companies enjoys only a 4% market share.

Bangladeshi garments industry is one of the larger and comprehensive industries in the world.

*There is a tendency of Bangladeshi buyers to buy cotton from reliable and resourceful big suppliers*

Bangladesh's textile industry, which includes knitwear and woven garments along with specialized textile products, is the nation's number one export earner. The textile sector, which employs 2.2 million workers, accounts for 76% of Bangladesh's total export. It

has shown a growth rate of 25.3% in 2005-06. The Bangladesh Garments Manufacturers and Exporters Association (BGMEA) has predicted that textile exports will rise from US\$ 9.56 billion earned in 2006 to US\$ 18.6 billion by 2010. The quota-free textile regime (since 2005) has proved to be a big boost for the textile industry.

With the given growths in textile sectors (over 25%) it is expected that the industry as a whole would need about 1.52b kg of yarns and 9.17b meter of fabrics by 2010 for both the domestic and export markets. In order to meet this demand, Bangladesh textile industry would require additional 200 spinning mills of about 25,000 spindle capacities, 217 Weaving Units, 216 Knitting Units and 175 Fabric Processing units.

Cotton consumption has accelerated from about 175,000 MT in 1998 to about 488,691 MT in 2006. It is expected that the total consumption will reach to a little over a million metric tons by 2010. Bangladesh is now heavily depended on Uzbek cotton, which undoubtedly offers excellent spinability and better values. Sourcing a significant volume of cotton from a single source such as Uzbekistan would place Bangladesh in a precarious position. It is estimated that Uzbekistan will export only 800,000 MT of cotton in the year 2007. The Uzbek local cotton consumption would be nearly 300,000 MT. The rate of domestic cotton consumption is growing in an increasing rate in Uzbekistan. The Government of Uzbekistan has taken various steps to increase domestic use of cotton to enhance value addition to their textile productions. Therefore the volume

### SUPPLIERS ORIGIN, 2006 (MARKET SHARE)



### EXPORT OF TEXTILES AND RAW COTTON IMPORT

Year	Import Raw Cotton (million US \$)	Export of Textiles (million US \$)
2000-01	355	4,503
2001-02	308	4,582
2002-03	377	4,912
2003-04	436*	5,688
2004-05	495*	6,465
2005-06	660**	8,100+

Total Export is US \$ 9.5b against a target of US \$ 20b by 2010

\* Estimated

\*\* Jan-Dec, 2006

+ US \$ 9.56b in Jan-Dec 2006

GROWTH  
13.6%  
25.3%

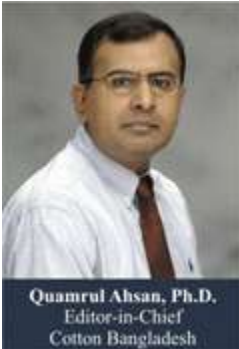
of exportable cotton from Uzbekistan will shrink as the domestic consumption increases.

PROJECTED CAPACITY BUILDING BY 2010				
Type of Industry	Present Production Capacity	Demand by 2010	Demand-Supply Gap by 2010	Number of Units Need to be Built
Spinning Unit*	600	1,519	919	200
Weaving Units**	1,740	4,558	2,818	217
Knitting Units+	2,300	4,558	2,258	216
W/Fabric Processing++	1,050	4,558	3,508	175

\*25,000 Spindle with 4.0 m Kg capacity  
 \*\*120 Shuttleless, 13 m meter capacity  
 +1,725 Tons per year capacity  
 ++ 20 m meter annual capacity

PROJECTED DEMAND BY 2010				
Year	Fabrics (m meter)			Yarns (m Kg)
	Domestic	Export	Total	
2004-05 (Base)	1,960	3,880	5,840	973
2005-06	2,050	4,465	6,515	1,086
2006-07	2,150	5,055	7,205	1,201
2007-08	2,252	5,620	7,872	1,312
2008-09	2,360	6,160	8,520	1,420
2009-10	2,475	6,640	9,165	1,519

Bangladesh should look for additional sources for a consistent and reliable supply. Indian, Pakistani and West/East African growths fulfill a portion of the total demand of Bangladesh, but the quality of these growths has always been a concern. For example, Indian and Pakistani cotton are plagued with contamination problems and lower micronaire. West African growths have also quality concerns. Most importantly Bangladeshi spinners usually do not comfortably buy West African unless they get at least three cents price advantage over Uzbek cotton. While Australia is still recovering from droughts, contamination free U.S. and Brazilian cotton have long been viewed as a viable alternatives to Uzbek cotton. Unfortunately higher price keeps Bangladeshi spinners from



using U.S. and Brazilian cotton. Bangladesh export oriented spinning industry is highly addicted to Uzbek cotton. Some spinners took courageous steps to try with Indian Sanker6 cotton in last few years with moderate success. The most advantage of Indian cotton is its competitive price. The quality of Shanker6 remains good until February and then the micronaire starts to get lower, which is a significant problem for export oriented knit yarn industry as they need highly matured cotton with a micronaire range between 4.0 and 4.8. Therefore Bangladesh's spinning industry must look for American and Brazilian growths which have consistency in quality and characteristics. Bangladesh is the only country which doesn't produce but consumes a significant volume of cotton. As the U.S. and Brazil are the net exporter of good quality cotton, they could be a good source for Bangladesh spinning industries.