

Report on Bangladesh Textile and Garment Industry



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Appendix-1

Acronyms

BEPZA	Bangladesh Export Processing Zones Authority
BTMA	Bangladesh Textile Mills Association
EBA	Everything but Arms
EPB	Export Promotion Bureau
EPZs	Export Processing Zones
FDI	Foreign Direct Investment
GDP	Gross Domestic Products
ICSID	International Centre for Settlement of Industrial Disputes
MIGA	Multi-Literal Investment Guarantee Agency
MFA	Multi-Fiber Arrangement
ODA	Official Development Assistance
OPIC	Overseas Private Investment Corporation
RMG	Readymade Garment
SAARC	South Asian Association of Regional Cooperation
TIFA	Trade and Investment Facilitation Agreement
WAIPA	World Association of Investment Promotion Agencies
WB	World Bank
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

1.0 Overview of Bangladesh Economy

1.1 Country Background

Bangladesh is located in South Asia and shares its borders with India and Myanmar and independence in 1971. It is the seventh most populous country in the world with a population density of 1,099.3 people per square km (2009 estimate). Over 50% of Bangladesh's GDP comes from the services sector. Two-third of the country's population is engaged in agricultural activities, with most of them growing paddy. The Bangladesh economy is helped by its big readymade garment (RMG) industry sector, which contributes more than two-thirds of the country's trade. The major challenge to prosperous growth is the vulnerability of the land to cyclones and floods. However, even with such challenges, Bangladesh has experienced an annual growth rate of 5% since 1990, largely contributed by remittances from the expatriates and exports, where RMG sector has the lion share i.e. 79.33% of total export earnings.

1.2 Socio-Economic Profile*

Area	147,570 km ²
Population	162,221,000 (2009 estimate) Labor Force: 70.86 million (2008 est.) <i>Male: 68% Female: 75.30%</i> <i>Population Growth Rate: 1.292% (2009 est.)</i>
GDP (nominal) 2009	Total \$94.507 billions
Per capita income (nominal)	US\$ 624
Agriculture as % of GDP	20%(2009 estimate)
Industry as % of GDP	28%(2009 estimate)
Services as % of GDP	52% (2009 estimate)
Literacy Rate	43.1%
Religion	Islam 89.7%, Hinduism 9.2%, Buddhism 0.7%, Christianity 0.3%, Animism 0.1%
Border	Lying north of the Bay of Bengal, on land it borders India and Myanmar, and it is a close neighbor to China, Nepal and Bhutan.
Main Sectors	Agriculture, Manufacturing, Textile, Investment and Remittance
Main Industry	Garments and textiles, food processing, frozen food, pharmaceuticals, leather and footwear, ceramics, gas, cement, chemical fertilizer, glass, tires, oil refinery, coal, steel, paper, etc.
Major Exports Commodities	Garments, textiles, jute and jute goods, ships, leather, frozen fish and seafood, pharmaceuticals, ceramics, cement, etc.
Major Investors	USA, EU, Japan, China, Australia, Singapore, Germany, UK, South Korea, Thailand and Malaysia.
Total Approved FDI inflow	\$7.23 billion 2009 estimated
Sea ports	Chittagong and Mongla Seaport
Exchange Rate	Taka per US dollar - 69.55 (August 2010)

*(Source: CIA World Fact Book, 2010)

1.3 Economic Outlook

Bangladesh is virtually located as a bridge between the emerging markets of South Asia and fastest growing markets of South East Asia and ASEAN countries. With the proposed concept of a "Bay of Bengal Growth Triangle" with its apex Chittagong port extending south-west to Calcutta, Madras and Colombo and the south-eastern arm extends through Yangon, to Thailand, to Penang with the third arm to Colombo, this region should have growing attention of the investment world. Bangladesh has the potential to be an entry port to the region covering Bangladesh, Nepal, Bhutan, eight north-east Indian states (of Assam, Meghalaya, Monipur, Imphal, Arunachal, Nagaland, Mizoram and Tripura) and resource-rich northern Myanmar, a land locked region.

Bangladesh is poised to become a regional hub where activities relating to assembling, manufacturing, trading and services, would be some of the areas that are picking up over the years. The current macroeconomic situation in the country is, by and large, stable, characterized by a manageable fiscal deficit and a quite low current account deficit. This reflects the continued high growth of exports, increased flows of remittances, moderate growth in money supply as well as that of imports. The stable macroeconomic situation is an outcome of a mixture of prudent monetary and fiscal policies that are being pursued. **Figure 1.1** shows five-year inter temporal GDP growth path of Bangladesh.

Figure 1.1: Average Growth Rate of GDP in Bangladesh (Based on 5-Year Average)

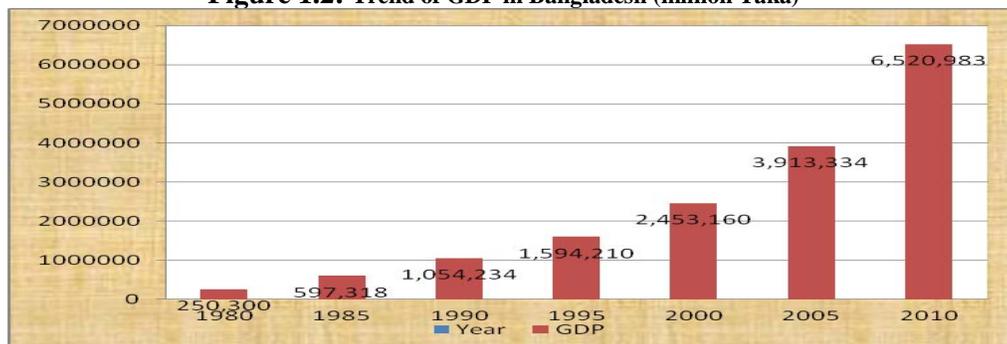


Source: "Bangladesh Economy: Recent Macroeconomic Trend, 2008"

1.4 Bangladesh's Gross Domestic Product (GDP) and its Growth Rate

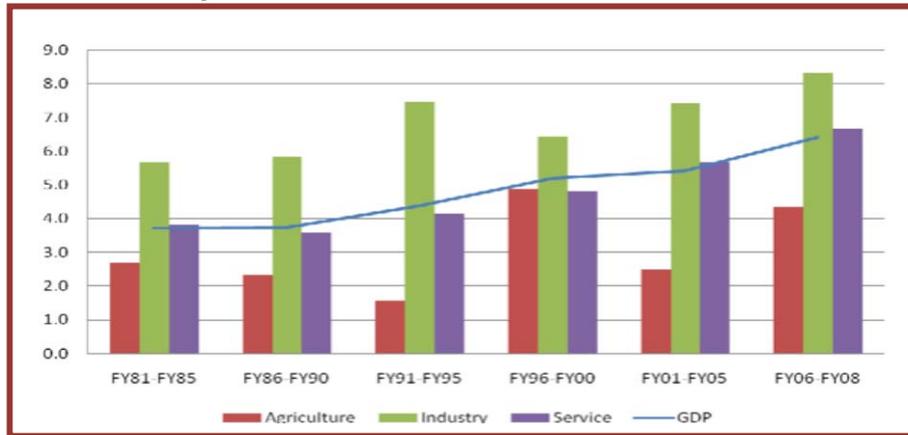
Since 1990 Bangladesh has seen major improvements on a number of development indicators, including rates of economic growth, poverty reduction, population regulation, infant mortality, and literacy. Its economic progress over the past 15 to 20 years has led the World Bank (WB) to state that Bangladesh could become a middle income country (per capita gross national income of US\$ 875) by 2016. The WB also states that a sustained growth rate of 7.5 percent is required to make this transition. According to the World Bank, Bangladesh has achieved a growth rate of 5.7% in FY2008-09. The trend of gross domestic product of Bangladesh at market prices estimated by the IMF is shown in the **Figure 1.2** below.

Figure 1.2: Trend of GDP in Bangladesh (million Taka)



The economy has grown 5-6% per year since 1996 despite political instability, poor infrastructure, corruption, insufficient power supplies, and slow implementation of economic reforms. Although more than half of GDP is generated through the service sector, about 45% of Bangladeshis are employed in the agriculture sector. Sectoral contribution to GDP can be seen in the figure 1.3 shown below:

Figure 1.3: Sectoral Contributions to GDP Growth



Source: "Bangladesh Economy: Recent Macroeconomic Trend, 2008"

Garment exports, totaling US\$ 12.50 billion in FY2009-10 and remittances from overseas Bangladeshis totaling US\$ 9.7 billion in FY2009-10 accounted for almost 25% of GDP. The textile industry in Bangladesh, now the sixth largest exporter of apparel in the world after a decade of spectacular economic growth, has positioned itself to benefit from the current global economic crisis. Production of ready-made garments (RMG) and knitwear is at an all-time high.

1.5 Recent Trend of Investment in Bangladesh

In Bangladesh, due to sharp decline in the availability of Official Development Assistance (ODA) and limitations of capital formation and export earnings, the need for Foreign Director Investment (FDI) has become a major issue. Government policies tried to induce foreign investments not only for capital formation but also to acquire technology and management skills besides having access to the export markets, and help integrate the domestic economy with the global economy. **Figure 1.4** below shows trend on investment:

Figure 1.4: Investment as Percent of GDP (Based on 5-Year Average)



Source: "Bangladesh Economy: Recent Macroeconomic Trend, 2008"

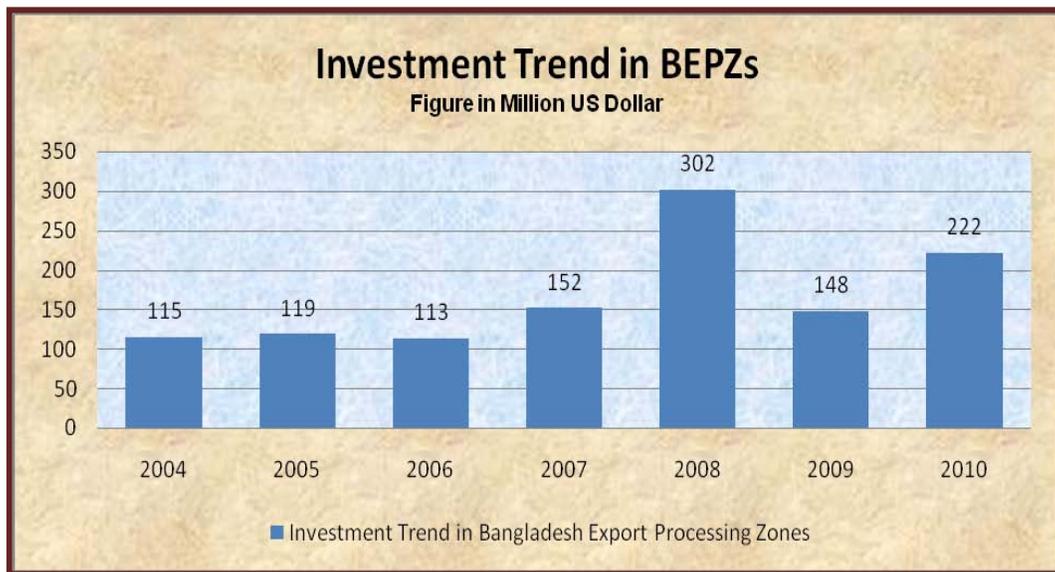
In Bangladesh, FDI originated from USA, EU, Japan, UK, Malaysia, Hong Kong, Saudi Arabia, Singapore, Norway, Germany, South Korea and Thailand.

From 1991-1992 to 1999-2000 as many as 10,412 industrial projects both local & foreign have been registered with BOI having total investment outlay of US\$ 19074 million with employment opportunities of 1,442,568 persons. During that period a total of 998 industrial projects both under joint venture and 100% direct foreign investment were registered with Board of Investment having proposed investment of US\$ 11,667 million with employment opportunities of 257,159 persons.

In order to stimulate rapid economic growth of the country, particularly through industrialization, the government has adopted an 'Open Door Policy' to attract foreign investment to Bangladesh. Earlier the government has enacted a law in the parliament enabling the private investors to set up private Export Processing Zones (EPZ). The units in private EPZ will enjoy facilities similar to those in government EPZs. The Private Power Generation Policy has been formulated paving the way for private investment in power generation for which a new Electricity Act and a regulatory commission has been established. Private investments have already been allowed in gas exploration, gas development, power generation and other mining & exploration activities. Recently, the government also passed Economic Zones Act to attract FDI and a separate Economic Zones Authority will be established to set special economic zones for promoting FDI.

The Bangladesh Export Processing Zones Authority (BEPZA) is the official organ of the government to promote, attract and facilitate foreign investment in the Export Processing Zones. The primary objective of an EPZ is to provide special areas where potential investors would find a congenial investment climate, free from cumbersome procedures. The trend of investment in BEPZs may be observed in the following presentation:

Figure 1.5: Investment Trend in Bangladesh Export Processing Zones



Source: Bangladesh Export Processing Zone Authority (BEPZA)

2.0 Business Environment and Investment Climate in Bangladesh

2.1 Profile of the Private Sector

In Bangladesh, the private sector has been playing a significant role as a major source of investment to accelerate the economic development of the country in the era of global market oriented economy. To overcome infrastructure bottlenecks and improve overall productivity, the government has recently opened up infrastructure sector for private investment for the power sector and the private entrepreneurs have already undertaken a number of power plant projects under public private partnership (PPP). The government plans to promote more private investment and reduce public investment gradually. So far, whatever development took place in Bangladesh is mainly private sector driven.

2.2 Trade Policy Environment and Market Access

Upon receiving membership with World Trade Organization (WTO), the government has liberalized the trade regime and significantly reduced non tariff restrictions. Bangladesh is the founder member of South Asian Association for Regional Cooperation (SAARC) that creates South Asian preferential trade arrangement and in latest South Asian Free Trade Area, 2005. Bangladesh is also the member of many International economic and trade blocks like, OIC, ICC, ISO, G-77 and BIMSTEC. As a least developed country, Bangladesh has duty free access to EU market under its Everything but Arms (EBA). Bangladesh also signed Trade Agreement with India and China. Bangladeshi products receive duty market access to Canada. Currently, Bangladesh is negotiating with USA for duty free market access under Trade and Investment Facilitation Agreement (TIFA).

2.3 Investment Climate and Incentives

The primary attraction is Bangladesh's gas reserves. Other areas of attraction for investment are container ports, airport, hotel, composite textile mills, etc. Among the main home countries of FDI are the United States, Japan, Malaysia, the republic Korea, Singapore, India, China and the United Kingdom. Policy regime for foreign Direct Investment in Bangladesh is hopefully best in South Asia. Foreign investors in Bangladesh have access to the capital market and free to invest in the thrust export sectors. Cash incentives, ventures capital and other facilities are provided to these thrust sectors. The industrial policy, special economic zones policy and Public-Private Partnership model of the government provide extensive incentives and facilities to attract FDI in Bangladesh. These includes tax holiday, concession in import duty on machinery, repatriation of profits dividends, invested capital and capital gain and salaries of foreign personal and exemption of export oriented industries from paying local taxes, up-to 90% financing of labor cost value of export.

2.4 Legal and Regulatory Framework

Bangladesh boosts a business friendly investment regime. Recently, more flexible rules and policies have been implemented to attract foreign investment. Over recent years the government has opened up to private investment and more liberal foreign investment policies have been adopted, liberalized measures have included earlier issuance of work permits for foreign national reduced approval time for new investments, relaxation of the foreign exchange control act. Bangladesh has enacted the following legal security for investment:

- a) Foreign Private Investment (Promotion and Protection) Act, 1980 which ensures legal protection to foreign investment;
- b) Bangladesh is a member of Multi-Lateral Investment Guarantee Agency (MIGA), Overseas Private Investment Corporation (OPIC) of USA and International Centre for Settlement of Industrial Disputes (ICSID); and

- c) Member of World Intellectual Property Organization (WIPO) and World Association of Investment Promotion Agencies (WAIPA).

Avoidance of Double Taxation Agreements and Bilateral Investment Promotion Treaties has been signed with many countries including U.K. The top investing countries are USA, UK, Malaysia, Japan, Hong King, Singapore, Mauritius, South Korea, France, India, Germany and China.

2.5 Physical Infrastructure

Infrastructure is weak in Bangladesh. Weak infrastructure is a disadvantage for doing business; it also means that the area offers substantial prospects for investment. The number of cellular telephone companies has entered the sector, many in operational partnerships with major international corporations. Four satellite stations provide the international communication link. However, political unrest, law and order situation and labor unrest in Bangladesh sometimes slows down the rate of new investment.

2.6 Cost of Doing Business and Economic Freedom

According to a Survey of the Economist-risk factors for FDI in Bangladesh are minimum compared to many other countries of this region. Cost of living is also quite low and reasonable and there are no communal or ethnic problems. Working capital loan as well as term loan from local commercial banks allowed to the industries setup with foreign capital. Bangladesh has eliminated licensing system and simplified government approval procedure for investment. Cost of doing business in Bangladesh according to the “Cost of Business Index, 2010- The World Bank” can be seen in the table below:

Table-1.1: Cost of Doing Business in Bangladesh

Ease of...	Doing Business 2010	Doing Business 2009	Change in rank
Doing Business	119	115	-4
Starting a Business	98	93	-5
Dealing with Construction Permits	118	110	-8
Employing Workers	124	121	-3
Registering Property	176	177	1
Getting Credit	71	68	-3
Protecting Investors	20	19	-1
Paying Taxes	89	85	-4
Trading Across Borders	107	108	1
Enforcing Contracts	180	179	-1
Closing a Business	108	108	0

Note: Region: South Asia, Income Category: Low Income, GNI Per Capita: USD 516.06 (August, 2010)

2.7 Skills Level and Their Availability

Bangladesh work force is one of the country’s principal assets that attract enthusiasm of both foreign and domestic business people with some qualification. Workers in Bangladesh are seen as enthusiastic, flexible, hard working and trainable, but they are poorly trained. There are vocational institutes at district level across the country offering trade courses for skill development; however, they do not offer training courses on garment manufacturing to the young poor girls and boys who migrated from rural areas for jobs. A good number of training institutes offer training on apparel merchandising, but not for the workers. However, informal small scale training institutes offer training to these workers in cities.

3.0 Overview of Textile and Garment Industry Sector in Bangladesh

3.1 Background

The Bangladesh textile industry is the largest manufacturing sub-sector of the industrial sector and the second largest sector for absorbing working force after agriculture sector. This sector attracted the highest investment (around 3.5 billion Euros) during the last three decades (BTMA Annual Report, 2009). Bangladesh primary textile sector meets around 100 percent of domestic yarn and fabric requirements, 85-90 percent yarn requirements for export oriented knitwear and 34-40 percent yarn requirement for woven ready-made garments (RMG) sector. Additionally, a portion of domestic yarn production is supplied to home-textile, terry towel and denim producers. The average gross value addition for each production step in Bangladesh is as follows: spinning 17%, weaving 15%, knitting 18%, dyeing and finishing 15% and the production of finished garments 28%. (BTMA Annual Report, 2009)

Bangladesh's textile and apparel industries have successfully overcome challenges and are now flourishing despite the ongoing global recession and stiff competition with a number of countries with strong backward linkage industries. Big exporting countries like China and India have recorded slowdowns or declines in export in recent months, following double-digit expansion over a prolonged period. Other economies like those of Malaysia, Thailand, the Philippines and Cambodia are also experiencing decline in their exports of textiles and garments due to the economic meltdown in North America and Europe. In contrast, exports of textile products from Bangladesh remain surprisingly quite buoyant. Recently, Bangladeshi exports of apparel and textile products in the U.S. market surpassed those of India. The ever growing trend of all textile sub-sectors could be observed in a table placed below.

Table 3.1: Growth of Bangladesh Textile & Apparel Sector

Unit in Number

Sl. No.	Description	June-04	June-05	June-06	June-07	June-08	June-09
1.	Spinning Mills	197	230	260	283	341	350
2.	Weaving Factory	278	356	356	400	400	400
3.	Knitting Factory	1,846	2,700	2,700	2,800	2,800	2,800
4.	Dyeing & Finishing Unit	291	293	293	310	310	310
5.	RMG Factory	3,957	4,107	4,220	4,490	4,743	4,925

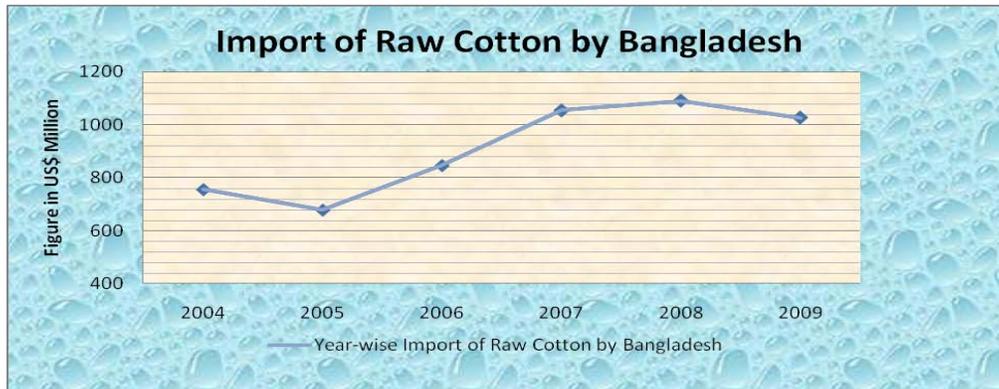
Source: Bangladesh Textile Mills Association (BTMA) Annual Report, 2009

3.2 Raw Materials for Textile and Garment Sector

3.2.1 Cotton Sub-Sector

Cotton is the main raw for yarn production while production of cotton in Bangladesh has very limited profit margin due to limited land. Bangladesh is almost entirely dependent on imports to meet rapidly growing demand for raw cotton. Domestic production of raw cotton can hardly meet 2% of its demand of the country. More than 40% of raw cotton imports are meant for the export oriented RMG sector. The growing trend of import of raw cotton by the country's textiles industry may be observed from a graph presented below.

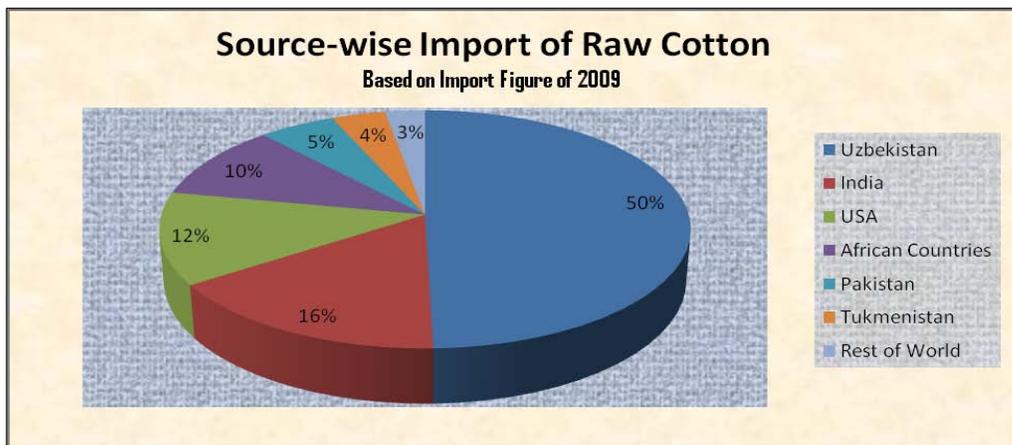
Figure 3.1: Import of Raw Cotton by Bangladesh



Sources: ITC calculations based on COMTRADE statistics and Cotton Bangladesh, 2009

Uzbekistan continues to be the principal supplier of raw cotton in Bangladesh, enjoying 50% market share due to competitive prices and a short delivery period. India has also emerged as a major supplier of raw cotton (16%) due to its price competitiveness and geographical proximity. The share of US raw cotton in the Bangladesh import market has increased to about 12% in FY 2008-09 due to the new generation spinning mills coming into operation which prefer the high quality of US cotton. Bangladesh also imports raw cotton from African countries which is around 10%. Major African countries exporting raw cotton to Bangladesh are Zimbabwe, Zambia, Nigeria, Chad, Burkina Faso, Cameroon, Uganda, and Egypt. The source-wise import of raw cotton may be observed from a chart presented below:

Figure 3.2: Source-wise Import of Raw Cotton



Sources: ITC calculations based on COMTRADE statistics and Cotton Bangladesh, 2009

In FY 2009-10 local cotton production, harvested from a total of 32,000 hectares, is estimated at 50,000 bales (10,960 tons) comprising 45,000 bales of medium staple American variety and 5,000 bales of short staple hill cotton (locally called “Comilla” cotton. Raw cotton consumption in FY 2009-10 is estimated to reach 3.9 million bales (850,000 tons), nearly 14 percent higher than last year, on increasing demand from the rapidly growing spinning sub-sector and steady growth in domestic demand and strong growth in export demand for cotton textiles and readymade garments. Consumption in FY 2010-11 is forecast at 4.1 million bales (900,000 tons) benefiting from the new spinning mills coming into operation and forecast higher imports.

3.2.2 Yarn

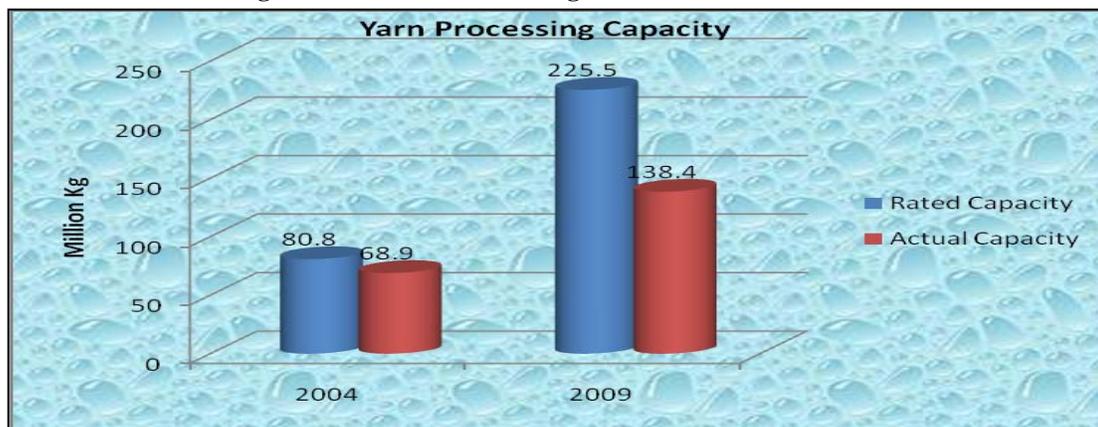
The cotton knitwear sector (raw cotton has to be imported) in Bangladesh shows an almost complete value chain. Spinning, yarn dyeing, knitting and confection of knits and garment finishing are all done in the country. In FY 2009-10, consumption of yarn is estimated at 880,000 tons up by 7 percent from FY 2008-09 due to strong demand from weaving and knitting sub-sectors in the country. The yarn consumption in FY 2010-11 is forecast higher at 940,000 tons and fabric consumption is forecast at 6.2 billion meters. Due to larger domestic production, yarn imports in FY 2009-10 are estimated to decrease to 230,000 tons from 240,000 tons in FY 2008-09. Yarn imports in FY 2010-11 are forecast still lower at 200,000 tons due to large carryover stock of domestic yarns. The growing trend of Bangladesh yarn production, vis-à-vis yarn production capacity may be observed from the Table 3.2 presented in the following.

Table 3.2: The Trend of Bangladesh Yarn Production

DEMAND SUPPLY GAP OF PROCESSED YARN				
Period	Total Processed Yarn Year Needed	Supply of Total Processed Yarn (both in Hank & Cone Form)	Supply of Yarn Processed in Cone Form	Demand-Supply Gap of Cone Processed Yarn (Million kg)
2004-05	321	207	69	252
2005-06	347	238	79	268
2006-07	372	274	91	281
2007-08	402	315	105	297
2008-09	426	362	121	305

Source: Cotton Bangladesh, 2009

Figure 3.3: The Trend of Bangladesh Yarn Production



Source: Cotton Bangladesh, 2009

India continues to be the principal supplier of yarn occupying about 75 percent of the market share. Besides this sector, the yarns of local spinning mills are also used in many weaving factories, which produce about 700 million meter fabrics per year. These fabrics are mainly used in the domestic market, but some of their special quality fabrics which are made per specific order are used by the garments factories, especially when some garments buyers place an order without supplying fabrics from abroad.

3.2.3 Fabrics

Major readymade garments exported from Bangladesh are made of polyester filament fabrics, man-made filament mixed fabrics, PV fabrics, viscose filament fabrics and man-made spun yarns. There are only a few weaving mills in Bangladesh offering a sufficient quality standard for exports and consequently the majority of fabrics that are used for woven garments exports has to be imported. This means higher purchasing costs, stronger dependence on an external supplier and also pricing disadvantages due to higher import duties on the EU markets (non-compliance with the so-called ‘rules of origin’). The existing weaving capacity in Bangladesh can meet only about 40 percent of fabric demand; the rest is imported. However, the increasing trend of expansion in the weaving sector is clear from the fact that 223 modern weaving plants, each with an annual capacity of 10 million meters, will be set up in the near future.

Despite a remarkable growth in backward linkage industries, the country’s current demand-supply gap of fabric is about 50 percent in terms of cotton-based uses and around 25 percent in terms of non-cotton based uses in RMG sector. As the exports have increased in the knitwear sector, the capacity of backward linkage has also gradually increased accordingly. The result is that local suppliers can provide 90% of the total fabric requirement of the knitwear sub-sector sector.

Table- 3.3: Demand of Fabrics in Bangladesh

Year	Fabrics (Million Meter)			Yarn (Million Kg)
	Domestic	Import	Total	
2004- 05	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- 2010	2,475	6,640	9,165	1,519

Source: Cotton Bangladesh, 2009

Apparently quoting the growing number of spinning and fabric manufacturing units in Bangladesh, the World Bank pointed out that there has been satisfactory growth in backward linkage textile industries here. Also, there are foreign investor’s set-up fabric and fiber manufacturing units in Bangladesh.

3.2.4 Silk

The ageing textile industry of Bangladesh was popular for its silk products, especially “Muslin”. Some people believe that the evocative expression ‘**Sonar-Bangla**’ (Golden Bangladesh) emerged from the golden color of the Bangladeshi silk yarn. In the past, Bangladesh used to produce considerable quantities of silk that exceeded the local requirements and boosted vigorous export potentials for both textiles and raw silk. Sericulture and the silk industry are, by far and large, concentrated in the western and northwestern part of Bangladesh. Three varieties of silk, namely Mulberry silk, Endi (or Eri) silk and Tassar silk have long been produced in Bangladesh.

The Government of Bangladesh put forth greater efforts after the independence in 1971 to restore the silk industry to its prior glory. Bangladesh’s share in the global production is barely visible, as it does not produce a significant amount to compete with its two giant neighbors, especially India and China. In 1995-96, raw silk production was as high as 58.5 tons in contrast to 14.5 tons produced in 1978-1979.

On the other hand, after 1996-1997, there had been a downward trend in 1997-1998, 1999-2000 and 2001-2002 with a production of 22.5 tons, 12.9 tons and 12.4 tons respectively. In fact, in 2004 the local production of silk yarn was 30 MT and 5,340,000 yards of silk fabrics, with a total value of USD.11.0 million. (Value- chain cum BDS Market Assessment of the Silk Sector in Bangladesh, GTZ- PROGRESS, March 2005)

The export volume of Bangladeshi silk products is experiencing a sharp decline over the years. The data from Export Promotion Bureau shows that there was a drastic fall (from 11.48 million dollars to only 8000 dollars in just 2 years; 2005- 2006) in the value of exports of Bangladeshi silk products. This was mainly because of heavy floods, destruction of mulberry plantations, and shortage of cocoons and outbreak of silkworm diseases in the country.

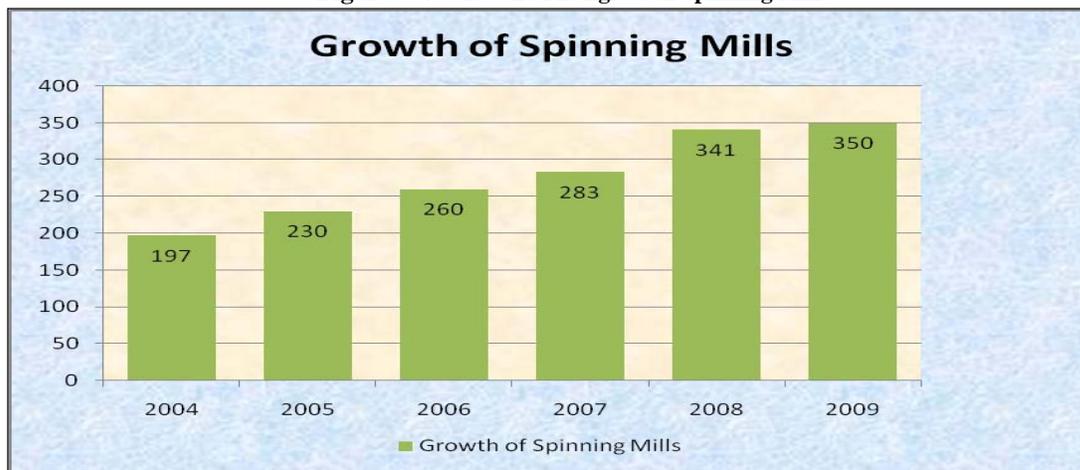
3.3 The Primary Textile Sector of Bangladesh

Bangladesh textile sector comprises of the following sub-sectors: spinning mills, weaving and knitting factories and dyeing and finishing units. All the sub-sectors in the textile have an ever growing trend despite major constraints, like global recession, stiff international competition, poor infrastructure and insufficient power supplies.

3.3.1 Spinning Sub-Sector

The spinning sub-sector has been witnessing robust growth over the past decade due to growing demand for yarn from both the domestic textile market and production of fabrics for the export-oriented ready-made garment (RMG) industry. The recent expansion of spinning mills in Bangladesh may be observed in the following Figure 3.4:

Figure 3.4: Growth of Bangladesh Spinning Mills



Source: Bangladesh Textile Mills Association (BTMA) Annual Report, 2009

As mentioned above, the self-sufficiency of garment production in Bangladesh is quite high in knitwear (approximately 80%), whereas the woven garments sector only has a self sufficiency of 40%. Spinning and weaving mills commissioned in recent years are capable to supply quality yarns and fabrics required for the export oriented RMG sector but typically at 10-12 percent higher price compared to those sourced from China and India.

3.3.2 Weaving Sub-Sector

At present, there are 400 modern textile weaving factories in Bangladesh with an annual capacity to produce 1,600 million meters of woven fabrics for the export-oriented readymade garment industries. However, this volume of production of woven fabrics meets only 40% demand of the country's ever growing readymade garment industries. These modern textile factories employ around 80,000 workers.

Apart from these weaving factories, there are also 1,065 specialized textile and power-loom factories in Bangladesh producing around 400 million meters of woven fabrics for the export as well as local market. Around 45,000 workers are employed in this sub-sector of the country textile sector. Most of Bangladesh's woven apparel exports use 50-70% of imported contents even though the textile sector also continuously increasing their production capacity over the last decade however not with the same pace like the apparel sector.

3.3.3 Knitting Sub-Sector

In the 1980s, the RMG industry of Bangladesh was concentrated mainly in manufacturing and exporting woven products. From early 1990s, the knit sub-sector has started expanding. Shirts, T-shirts, trousers, sweaters and jackets are the main products manufactured and exported by the industry. Bangladeshi knitwear is exported to over 100 countries of the world and has passed the target of US\$ 5.5 billion mark in its exports this fiscal year (BTMA Annual Report, 2009). Bangladesh is now the number three exporter of knitwear to the EU countries after China and Turkey and is gaining momentum due to its self-sufficiency and competitive workforce and strength in backward linkage industry.

The growth of spinning mills has also been in step with the growth of knitwear exports. To date, the total investment in the backward linkage industry is more than US\$ 2.00 billion. Bangladesh's knitwear industry is growing at over 15% per annum. The volume of knitting industries increased about 10 times faster than the pre-liberation period, and it is continuing to grow simultaneously with the demand of RMG sector.

Currently, there are about 2,800 knitting units, producing about 1,500 million meters of fabrics per year. Accordingly, consumption of yarn by the knitting sector is also increasing rapidly which ultimately encourages entrepreneurs to set-up new spinning mills quickly to meet the huge demand. There are 800 knitting factories producing 3,600 million meters of knit fabrics annually to meet the demand of export-oriented readymade garment industries. There are also around 2,000 hosiery factories in Bangladesh producing 500 million meters knit fabrics for the local market.

3.3.4 Handlooms Sub-Sector

The product range of handloom is simply amazing and includes Muslin Jamdani Sharees, Bedcovers, Bed sheets, Tapestry, Upholstery, Place mats, Rugs or Blankets, Satranji, Crochet, Muslin, Tribal textiles, Silk fabrics, Sofa covers, Block Prints, Table cloth and Napkins, Towels, Dusters, Kitchen towels, Gents, Ladies and Baby Wear and Shirts, Punjabis, and other household linen in printed, plain or embroidered Khadi. There are around 500,000 handlooms in Bangladesh with the capacity to produce 850 million meters fabrics. However, only around 150,000 handlooms (30%) of the country are in operation. The handloom sub-sector are facing manifold constraints, the major ones are lack of yarn and working capital.

3.3.5 Dyeing, Printing and Finishing Sub-Sector

Dyeing, printing, and finishing, the final steps in the textile industry, are also the most complicated processes. This is the final stage where the fabric either can be used for domestic or RMG sub-sector for export purposes. Dyeing, printing and finishing units in Bangladesh are currently able to process all the locally produced grey fabrics. According to Bangladesh Textile Mills Association (BTMA), the dyeing, printing and finishing sub-sector has 130 mechanized and 180 semi-mechanized units with production capacity of 1,600 million meters and 120 million meters of fabrics per annum respectively.

However, the majority of dyeing, printing, and finishing units that are producing fabric suitable for export are heavily dependent on imported woven grey fabric. Due to sector restrictions on import of woven gray fabrics, the woven sub-sector industry has not flourished like knit sub-sector, where they use locally produced knit fabrics for dyeing and finishing.

3.4 Overview of Readymade Garment Sector in Bangladesh

The ready-made garment (RMG) industry of Bangladesh started in the late 1970s and became a prominent player in the economy within a short period of time. The itinerary of phenomenon growth Bangladesh readymade garment sub-sector has been narrated in the following table:

Table 3.4: Period of Important Issue Related to Growth of Bangladesh RMG Sector

Period	Important Issues
1977-1980	Early growth
1982-1985	Booming days
1985	Imposition of quota restrictions
1990s	Rapid development of knitwear sub-sector
1993-1995	Child labor issue and its solution
2003	Withdrawal of Canadian quota restriction
2005	Phasing out of export quota system under MFA
2005-2010	Complying with social compliances and labor standards

Source: databases of the Bangladesh Garment Manufacturers and Exporters Association, and the Export Promotion Bureau, Bangladesh, 2009

3.4.1 Growth in Garment Industry of Bangladesh

At present, exports of textiles, clothing, and ready-made garments accounts for around 80% of Bangladesh's total merchandise exports. In Bangladesh, only 5% of textile factories are owned by foreign investors, with most of the production being controlled by families or Bangladeshi companies. The garment industry in Bangladesh became the main export sector and a major source of foreign exchange starting in 1980, and exported about US\$ 5.0 billion in 2002. The industry employs about 3.5 million workers of whom 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-Fiber Arrangement (MFA) in the North American market and (b) preferential market access to European markets. The growth of readymade garment sub-sector could be observed from the following chart:

Figure 3.5: Growth of Readymade Garment Factories in Bangladesh



Sources: Bangladesh Textile Mills Association (BTMA), 2009

Ready-made garments manufactured in Bangladesh are divided mainly into two broad categories: woven and knit products. Shirts, Jacket and Trousers are the main woven products and undergarments, socks, stockings, T-shirts, Polo Shirts, Sweaters and other casual and soft garments are the main knit products. Once woven garment products dominated the garment export earnings of the country, however, the share of knit garment products has been increasing since the early 1990s. Knit products currently account for more than 52 per cent of the country's total RMG export earnings.

Table- 3.5: Main Garment Items Exported From Bangladesh (Value in Mn.US\$)

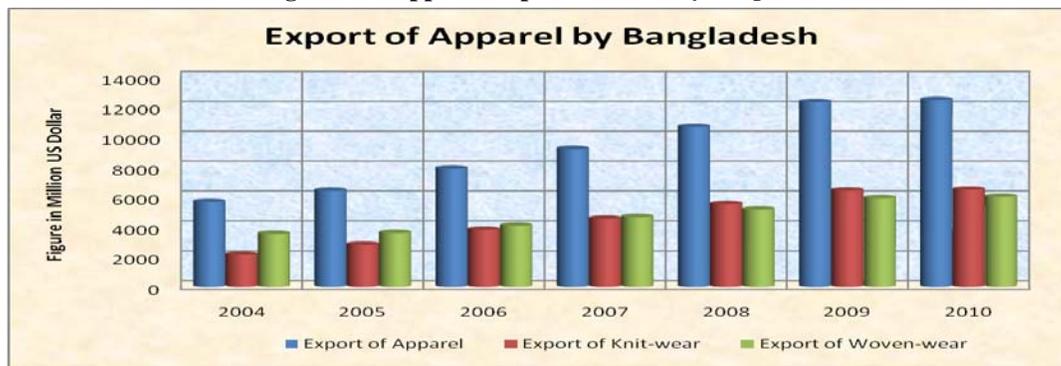
Year	Shirts	Trousers	Jackets	T-Shirt	Sweater
2002-2003	1,019.87	643.66	464.51	642.62	578.37
2003-2004	1,116.57	1,334.85	364.77	1,062.10	616.31
2004-2005	1,053.34	1,667.72	430.28	1,349.71	893.12
2005-2006	1,056.69	2,165.25	389.52	1,781.51	1,044.01
2006-2007	943.44	2,201.32	1,005.06	2,208.9	1,248.09
2007-2008	915.6	2,512.74	1,181.52	2,765.56	1,474.09
2008-2009	1,000.16	3,007.29	1,299.74	3,065.86	1,858.62

Source: BGMEA Annual Report, 2009

3.4.2 Export of Apparels by Bangladesh

The growing trend of Bangladesh readymade garment export, vis-à-vis export of woven-wear and knit-wear may be observed from the charts prepared and presented in the following.

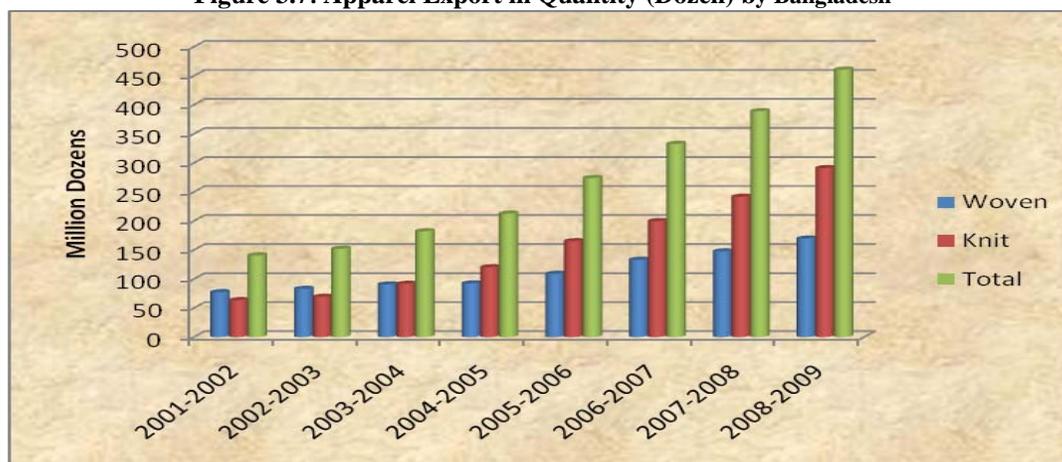
Figure 3.6: Apparel Export in Value by Bangladesh



Source: BGMEA Annual Report, 2009

The growing trend of Bangladesh readymade garment export can also be seen in quantity exported as presented below:

Figure 3.7: Apparel Export in Quantity (Dozen) by Bangladesh



Source: Bangladesh Export Promotion Bureau (EPB), 2009

3.4.3 Recent Investment Trend in Textile and Apparel Sector

A significant array of reforms, deregulation and liberalization have been carried out over the recent years in policies relating to virtually every sector of the economy including financial reforms with the aim of globalization challenges for the economy through introduction of international competitiveness and productive efficiency. Recent trend of investment in textile and garment industry in Bangladesh can be seen from the following table:

Table 3.6: Registered Local Investment in Textile and Garment Sector 2004-2010 (in mil.US\$)

Year	Local Investment	No. of projects	Investment in T & G	No. of projects
2004	1,328	840	525.25	427
2005	1,578	1277	703.19	647
2006	663	520	316.79	313
2007	283	286	147.93	177
2008	2,650	1334	1,244.89	713
2009	2,263	1381	581.97	550
2010	2,405	854	548.53	276
Total	11,169		4,068.56	

Source: Informal Source of BOI

3.4.3.1 100% Foreign Investment

100% Foreign direct investment proposal represents projects having full ownership of the foreign personnel. They enjoy equal privilege as local investors. Textile sector represents one of the largest export sectors of Bangladesh which is bringing foreign currency as well as creating highest number of employment opportunities. As of now 115 projects have been registered with BOI. The Year wise registration of 100% Foreign Investment proposals registered with the Board of Investment is shown below:

Table 3.7: Registered 100% FDI in Textile and Garment Industry in million USD (2004-2010)

Year	Investment	Investment in Textile sector (USD millions)
2000	406.70	3.55
2001	11.26	10.17
2002	35.96	5.21
2003	83.52	10.94
2004	224.81	56.24
2005	3,197.62	16.14
2006	1,120.82	11.61
2007	55.16	33.66
2008	65.58	6.19
2009	44.69	20.49
2010	36.44	4.20
Total	7,012.77	221.26

Source: Board of Investment, Bangladesh (August 2010)

3.4.3.2 Joint Venture Investment

As of now 320 projects have been registered with BOI. Year wise registrations of the list of Joint Venture Investment proposals registered with Board of Investment are as follows:

Table 3.8: Registered Joint Venture Investment in Textile and Garment Industry in million USD (2004-2010)

Year	Investment in (USD millions)	Investment in Textile sector (USD millions)
2000	127.779	3.517
2001	228.445	18.340
2002	218.827	33.893
2003	365.974	35.288
2004	247.894	62.197
2005	602.498	60.026
2006	349.148	117.378
2007	271.687	151.709
2008	2403.328	205.421
2009	579.75	21.031
2010	175.518	22.617
Total	10,172.47	1,093.17

Source: Board of Investment, Bangladesh (August 2010)

3.4.3.3 FDI in Different Textile Sub-Sectors in Bangladesh

In Bangladesh, the **textile sector** comprises sub-sectors such as Readymade Garments, Embroidery, Composite Knit Garments, Dyeing & Finishing, Specialized Textile, Knit garments, Sweater, Textile Weaving , Acrylic yarn, Garments Accessories, Polyester Yarn, Carpet, Knit Fabrics, Sewing Thread, curtain Cloth, Textile Spinning, Textile Printing, etc. The details of the 100% FDI and joint venture investment in the textile sub-sectors during the year 1991-2010 are as under:

Table 3.9: FDI in Different Textile Sub-Sectors (From 1991-2010)

Sub sectors	Amount in million USD (100% FDI)	Amount in million USD (Joint Venture)
Readymade Garments	56.531	153.153
Stuffed Toys	0.921	3.436
Embroidery	17.702	4.41
Composite Knit Garments	30.206	32.551
Dyeing	0.25	0.986
Hats & Caps	11.114	5.501
Specialized Textile	1.481	99.525
Knit garments	15.505	21.398
Sweater	17.962	23.58
Textile Weaving	16.474	33.732
Acrylic yarn	20.172	1.806
Dyeing & Finishing	19.325	92.341
Garments Accessories	1.715	3.668
Carpet	1.355	Not available (na)
Knit Fabrics	0.687	64.101
Sewing Thread	7.435	na
Bed Covers	0.087	na
Screen Printing	0.315	0.871
Curtain Cloth	0.165	na
Textile Spinning	0.828	412.799
Garments Printing	0.261	0.673
Fabrics Printing	0.33	6.71
Rain coats	0.148	na
Textile Printing	0.204	0.537
Metallic yarn	0.086	na
Hand Gloves	na	1.111
Woolen Goods	na	0.31
Polyester Yarn	na	42.776
Umbrella Cloth	na	0.134
Sewing Thread	na	23.406
Quilting & Padding	na	2.971
Integrated Textile	na	44.9
Socks	na	0.426
Thread Coning	na	3.961
Wastage Yarn Bailing	na	0.781
Towel	na	1.395
Textile Goods	na	0.068
Interlining	na	1.639
Knitting, Dyeing & Finishing, Knit garments	na	2.914
Textile Recycling Plant	na	1.416
Fishing Net	na	0.74
Geo-Textile, Fiber	na	2.442
Total	221.26	1,093.17

Source: Informal Source of BOI, Bangladesh

3.4.4 Capacity Utilization and Production Orientation of Garment in Bangladesh

3.4.4.1 Capacity Utilization

Currently, the production capacity of the garment industry in Bangladesh is 50-60% utilized due to crisis in gas and electricity supply at national level as reported by the officials of the enterprises and trade associations. Frequent labor unrest also reduces capacity utilization level. Factories are having adequate export orders, but production is interrupted every 2-3 hours due to power failure and factories remain closed for 1-2 days in 2-3 months due to labor crisis. Spinning and dyeing finishing factories operate in three shifts. However, no official data is available on the capacity utilization.

3.4.4.2 Production Function in Bangladeshi Garment Factories

Unlike Cambodia value-addition is much higher in Bangladesh. There are factories having full range of supply chain starting from yarn and fabrics up-to cutting and sewing. However, for raw cotton Bangladeshi spinning mills are dependent on import. All required raw materials including imported ones can be sourced locally.

3.4.4.3 Productivity in Bangladeshi Garment Industries

Labor productivity in the garment industry of Bangladesh is higher than Cambodian but still lower than Vietnam and China. Bangladeshi workers, though young are mostly unskilled and illiterate and as such, their productivity is not more than 50-55% in the global standard. There are on-going initiatives at the factory level as well as sector as whole through technical assistance program of different donor agencies.

3.4.4.4 Lead Time or Delivery Period

For woven garments, the production lead time based on locally sourced raw materials ranges from 90-120 days. However, it is much lesser in case of knitwear exports since Bangladesh has full range of backward linkage supports except raw cotton. Again, if the garment is produced using imported raw materials the production lead time is at its higher level i.e. 120 days. Factories sometimes fail to meet the shipment deadline due to uncertain situation like labor unrest, lower productivity and weak sourcing and management practices and eventually, they avail air shipment at a higher cost.

3.4.4.5 Workers' Wages in Bangladeshi Garment Industries

Cheap labor is the key comparative advantage that has been tapped so far by domestic firms and foreign investors. For example, per hour labor costs are \$1.00 in Thailand, \$1.66 in China, \$0.56 in Pakistan, \$0.51 in India, \$0.44 in Indonesia and \$0.36 in Vietnam, whereas the same is only \$0.31 in Bangladesh. Minimum wages has recently being fixed at US\$ 43.20, although workers want more. **Figure 3.8** shows the results of a survey on hourly wages in different exporting countries:

Figure 3.8: Per Hour Labor Cost in Selected Asian Countries



Source: Werner International, 2009 Salary Survey

4.0 Incentives for Textile Sector Provided by the Government

4.1 Cash Incentives and Subsidy for the Textile and Garment Industry in Bangladesh

The following cash incentives are being provided on export of readymade garments and textile products by the Government of Bangladesh:

Table 4.1: Government Cash Incentives for Export of Textile & Apparel

Sl. No.	Exportable Product	Cash Incentives
1.	Readymade Garments	5%
2.	Fabrics	5%
3.	Yarn	5% for 2009-10
		4% for 2010-11
		2% for 2011-12

Source: Bangladesh Export Promotion Bureau (EPB), 2009

Small and medium size textile industries those are not having captive electricity generating facilities are entitled to enjoy 10% cash subsidy on their electricity bills. Also, cash incentives and export subsidies are granted on the FOB value of selected exports ranging from 5% to 20% on selected products.

4.2 Non-Cash and Other Incentives for Textile and Garment Sector

The government has also declared the following non-cash or indirect incentives:

- Bonded warehouse facility
- Duty drawback facility
- Duty free and tax free import of raw cotton by the spinning industries
- 1% import duty on machinery & spares for export-oriented industries
- 3% import duty on machinery & spares for non-export-oriented industries
- 3% import duty on dices and chemicals for all textile industries.
- 15% income tax for companies engaged in yarn spinning, yarn dyeing-finishing, yarn-coning, fabric manufacturing, dyeing-printing-finishing of fabrics.

(Source: Federation of Bangladesh Chamber of Commerce and Industries (FBCCI), July 2010)

4.3 Fiscal and Non-Fiscal Incentives for Investment

Bangladesh offers some of the world's most competitive fiscal and non-fiscal incentives. In summary and in most cases, these amount to the followings:

- a. Remittance of Royalty and Residence Permits
 - Remittance of royalty, technical know-how and technical assistance fees
 - Repatriation facilities of profit, dividend and capital at exit
 - Permanent resident permits on investing US\$75,000
 - Citizenship on investing US\$ 500,000

b. Tax holidays

- In the Dhaka & Chittagong Divisions:
 1. 100% in first two years
 2. 50% in the year three & four
 3. 25% in the year five
- In the Rajshahi, Khulna, Sylhet, Barisal Divisions and three Chittagong Hilly Districts:
 1. 100% for first three years
 2. 50% for next three years
 3. 25% for seventh year

c. Depreciation Allowances:

- Accelerated depreciation for new industries is available at the rate of 50%, 30% and 20% for the first, second and third years respectively, on the cost of plant and machinery.

d. Other non-cash incentives

- Businesses exporting 80% or more of goods or services qualify for duty free import of machinery and spares, bonded warehousing.
- 90% loans against letters of credit and funds for export promotion.
- Export credit guarantee scheme.
- Domestic market sales of up to 20% is allowed to export oriented business located outside an EPZ on payment of relevant duties.

e. Other Incentives

- Tax exemption on royalties, technical know-how fees received by any foreign collaborator, firm, company and expert.
- Tax exemption on the interest on foreign loans under certain conditions.
- Avoidance of double taxation in case of foreign investors
- Exemption of income tax up to 3 years for the foreign technicians employed in industries specified in the relevant schedule of income tax ordinance.
- Tax exemption on income of the private sector power generation company for 15 years from the date of commercial production.
- Facilities for full repatriation of invested capital, profit & dividend
- 6 months' multiple entry visa for the prospective new investors.
- Re-investment of reparable dividend treated as new investment.
- Citizenship by investing a minimum of US\$500,000 or by transferring US\$1,000,000 to any recognized financial institution (non-reparable).
- Permanent resident ship by investing a minimum of US\$ 75,000 (non-reparable)
- Tax exemption on capital gains from the transfer of shares of listed public limited companies
- Special facilities and venture capital support will be provided to export-oriented industries under "Thrust sectors".
- There will be no discrimination in case of duties and taxes for the same type of industries set up by foreign and local investors and in the public and private sectors. Special incentives and facilities will be provided for making investment in 100 per cent export-oriented industries.

(Source: Federation of Bangladesh Chamber of Commerce and Industries (FBCCI), July 2010)

5.0 Value Chain of Textile and Garments in Bangladesh

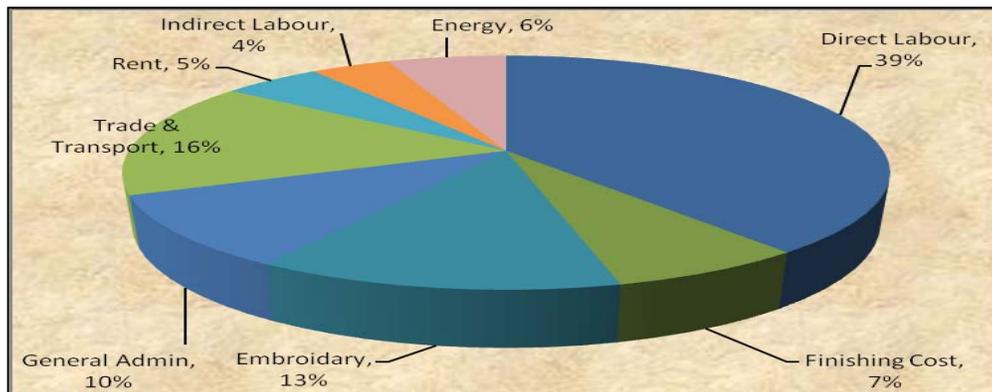
The garment industry of Bangladesh initially concentrated mainly in manufacturing and exporting of woven products. Thereafter since 1990s, the knitwear section of the industry has started flourishing. Bangladesh exports its woven garments mainly to the USA, EU and Canada, however knitwear items are being exported to more than 70 countries in the world including these three major importing countries.

5.1 Costing of Garments in Bangladesh

In Bangladesh, the common items are Shirts, Knitted Shirt, Jeans Trousers, Pants and Shorts, Polo-shirt, Jackets and Coats, Cap, Sweater, Woven Shirts, Skirts, Children Wear, Underwear, Sport wear, Sleep wear, Swim wear, etc. While calculating the costing of any garment item, there are basic elements of cost in the entire process starting from sourcing up-to the final delivery. These include raw material costs (fabrics and accessories), direct labor costs, indirect labor costs that include salary of managers, supervisors and other staff, general and administrative costs, utility expenses, finishing costs, rentals, trade and transport costs and screen printing or embroidery costs which is not common for all items. Item-wise costing of five different garments in Bangladesh can be seen in the **Appendix-1**.

For example, when CMT of a quilted flannel shirt is US\$ 1.63, the direct labor cost is 39% (sewing 27% + cutting 2%, +quality control 3% + finishing and packaging 7%); trade and transport cost is 16%, embroidery cost is 13%, General and administrative costs is 10%, Finishing cost is 7%, energy cost 7% and the rest is rent and indirect cost. A typical cutting, making, trimming and finishing and transportation of Quilted Flannel Shirt can be seen in the figure shown below:

Figure 5.1: Cost Elements of Garments



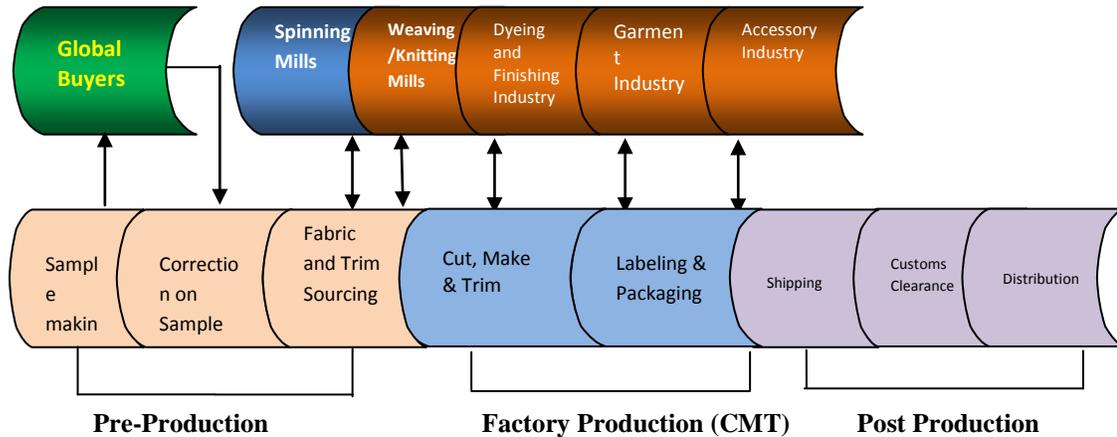
Source: Aman Knittings Limited, UNIFILL Group, Bangladesh, July 2010

5.2 Value Chain of Garments in Bangladesh

In Bangladesh, garments and textile industries are having heterogonous nature; many factories only do ‘**cutting and sewing**’, others are “**composite woven and/or knit textile**” using own fabrics supply produced by their own. Again, some are large factories having the full range of textile and garments value chain except raw cotton, i.e. “**yarn, fabrics- weaving, dyeing and finishing, cutting and sewing**”. However, after production forward linkages are same for almost all of the garment industries. Although

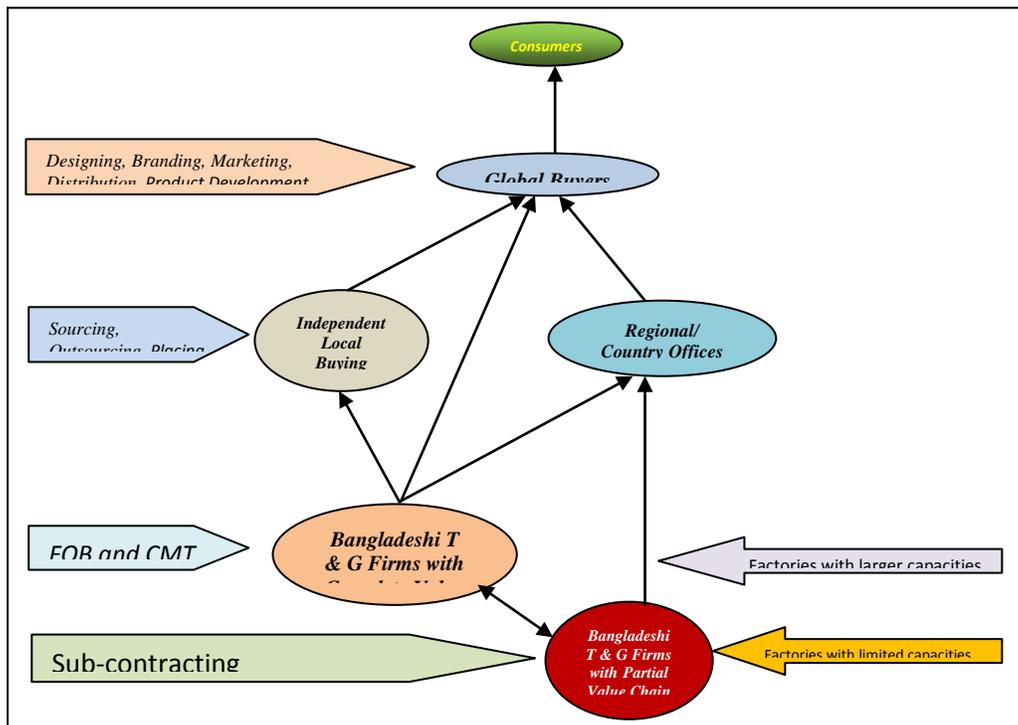
large factories are having full range of supply chain, this number is small. There are growing numbers of backward linkage and support industries in Bangladesh and they supply around 50%- 60% of the required accessories to the export oriented garment industries. In Bangladesh, factories are working on three options like FOB, CMT and sub-contracting basis. Value chain in garment industry in Bangladesh can be shown in **Figure 5.2** as below:

Figure 5.2: Value Chain of Garments in Bangladesh



The knitwear sector (raw cotton has to be imported) in Bangladesh shows an almost complete value chain. Spinning, yarn dyeing, knitting and confection of knits and garment finishing are all done in Bangladesh. Some of the factories are even fully vertically integrated: from spinning to finished garments. Various parties involved in the value chain of garment industries in Bangladesh can be seen from **Figure 5.3** shown below.

Figure 5.3: Parties Involved in the Value Chain in Bangladesh



The supply chain of textile and garment industry of Bangladesh is different from that of Vietnam due to a few specific characteristics as mentioned below:

- In Bangladesh, there is no state-owned enterprise any more, however, in Vietnam state owned enterprises are also involved in the textile and garment sector. However, 30 years back Bangladesh did have state owned textile mills
- The textile and garment industries in Bangladesh are mostly operated by the local owners and a small number of joint ventures are there.
- 100% locally owned enterprises are large in number
- Only a few 100% foreign owned enterprises
- Joint venture investment does not even exist more than 12-15 units
- Dyeing, printing and finishing sub-sector is stronger in Bangladesh than Vietnam
- The accessories industries in Bangladesh for textile and garment sector has grown enormously
- On-going initiatives are there building capacity for designing and product diversification

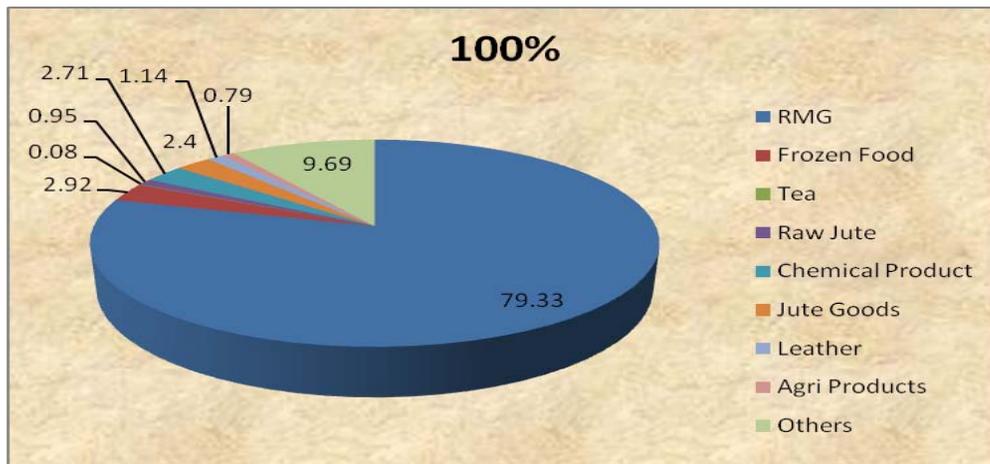
6.0 Impact on Other Related Industries across the Value Chain

In Bangladesh, there has been no official attempt to evaluate the impact of textile and garments industries on the other related industries across the value chain, there were some studies and research in 90's, not well designed. However, it is crystal clear at national and global level that over the years, the industry created additional demand of many products and services. As a result, huge investment has been made in the related industries across the value chain. In brief, Bangladesh experienced a significant number of spinning mills, weaving and knitting mills, dyeing and finishing mills and accessories industries as well as expansion of existing capacity of these related industries. The knitting and hosiery sectors look brighter than weaving, and about 80 percent of garment accessories like cartons, threads, buttons, labels, poly bags, gum tapes, shirt boards and neck boards now are being produced within Bangladesh and contribute to the national gross domestic product through value addition and employment creations.

6.1 Economic Development

The country's RMG industry grew by more than 15 per cent per annum on average during the last 15 years. The foreign exchange earnings and employment generation of the RMG sector have been increasing at double-digit rates from year to year. The sector-wise export earning distribution in Bangladesh may be observed from the chart presented below where RMG sector occupies lion share:

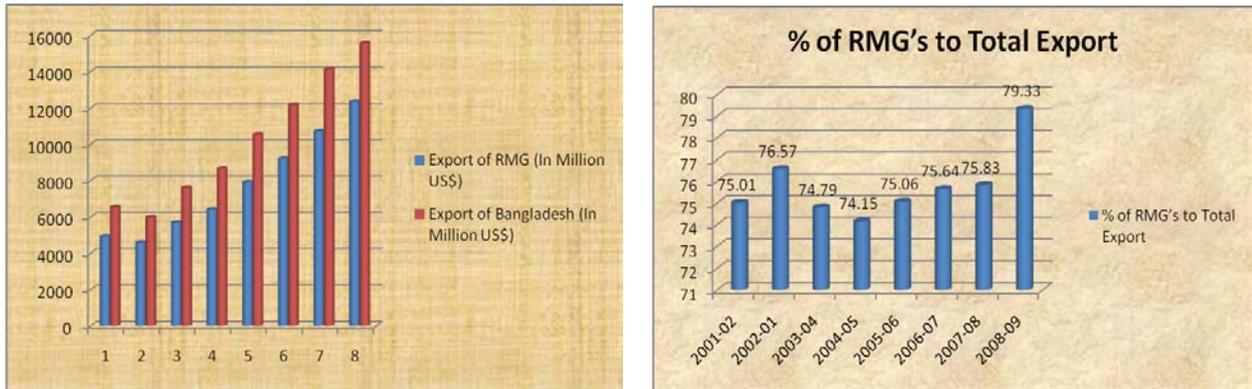
Figure 6.1: Sector-wise Export Earning Distribution



Source: BGMEA Annual Report, 2009

The RMG 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 79 per cent of those earnings in 2010. Bangladesh exported garments worth the equivalent to US\$12.50 billion in 2009, which was about 2 per cent of the global total value of garment exports. The comparative statement on export of RMG and total export of Bangladesh may be observed from the following charts:

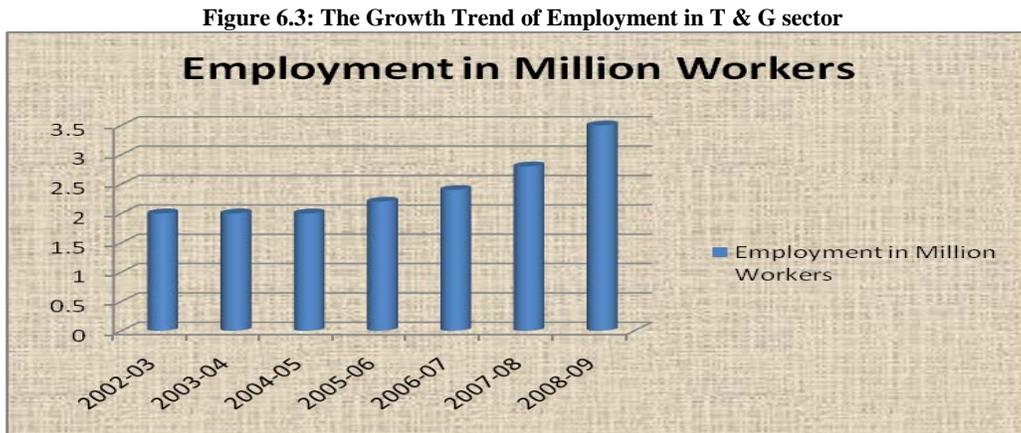
Figure 6.2: Comparative Statement on Export of RMG and Total Export of Bangladesh



Source: BGMEA Annual Report, 2009

6.2 Employment Creation

The textile and garment industry sector provides employment to about 3.5 million people (including over 2.5 million of the country's GDP, 40 percent of manufacturing value addition and 79 percent of export earnings). The growth trend of employment in textile and garment sector may be observed as the following chart:



Source: BGMEA Annual Report, 2009

The cost of labor is one of the key factors for Bangladesh's success. Researchers found that the average Wage per hour of garment factory workers in Bangladesh is only 31 US cents. The per hour Wage is \$1.66 in China, 56 cents in Pakistan, 51 cents in India, 44 cents in Indonesia and 36 cents in Vietnam.

6.3 Spillover Impacts

It is obvious that certain increase in demand of garment products resulted in an increase in total domestic yarn and fabrics production as well as production of products and that has led to an increase in domestic production of trading business, transportation and communications, consumption of electricity, water and gas, consumer's products, etc. by certain percentage.

Also, there has been an increase in the services like banking and finance, insurance, clearing and forwarding, shipping lines, hotels and restaurants, etc. It can also be assumed that the increased volume of export business has created additional demand of workers and thus created additional demand for housing and cooking facilities in urban area.

Additional market for toiletries and cosmetics industries has been created due to increased demand arises due to more buying capacity of the workers, and increased load on the recreational facilities, increased initiatives for skill development training, etc. Labor standards have been improving day by day that creates new demand of better life style.

Increased demand of export oriented industries have also created huge scope of professional services, soft and hard skills development institutes and growing competition among the services providers like banks and financial institutions, clearing and forwarding agencies, shipping lines, transport and communications, etc. for better and quality services. Eventually, the local services providers gain more competence.

7.0 Challenges Faced by Bangladesh Garments and Textile Industries

7.1 Challenges Faced by Bangladesh Garments and Textile Industries

- Insufficient and interrupted supply of power and lack of new gas connection for industries
- Weak physical infrastructure
- Congested roads and lack of enough number of highways, flyover and expressway. Huge traffic congestion within the capital city slows down movement of human and goods
- Minimum wages crisis and increased frequency of labor unrest severely hampers production
- Frequent interruption of power causes huge wastage of materials and workers' working hours
- Limited seaport facilities
- Currently, knitwear and textile sub-sector are scattered located and takes time to interconnect
- Threats of environment pollution discourage new investment in dyeing and finishing units
- Bangladesh still lacks qualification structures in particular regarding: production efficiency, quality standards, product development, proper use of existing technical equipment, marketing skills, customer service and management, acquisition, financing, controlling, planning and management skills.
- Local garment industries mainly concentrate on relatively low profit per item, competitive disadvantage to other countries.
- Insufficient domestic woven fabric supply thus necessitates fabric imports
- Comparably high lead times due to: delivery times for imported and domestic fabrics/yarns, slow customs clearance, insufficient (although improving) capacity at Chittagong port and corruption.
- Generally poor independent marketing/sales by garment companies.
- Low financial power/access of SME's for financing of fabrics, yarns or machinery.
- Increasing international competition (quota phase out of China and market saturation in EU).
- Difficulties of adaptation for different international corporate and social standards.
- Unbalanced image of RMG sector (only simple products, no high quality value-added items)
- Risk of losing competitiveness on international markets if manufacturing companies do not take development steps (move to pro-active customer acquisition)
- Risk of losing the opportunity for know-how transfer, staff qualification and education in cooperation with international customers.
- Political stability and investment climate: both should improve

7.2 Opportunities and Growth Potential

- Good chances for keeping or even increasing the Bangladeshi **market share** (securing and creating jobs, attracting foreign currency and investment, economic and social development).
- Potential for **higher value addition** provided appropriate steps concerning the development of the spinning and weaving sector are being taken and productivity increases among the manufacturers (higher flexibility, higher self sufficiency, extension of capacity and quality improvement without additional investments into machinery).
- Increase of potential, attractiveness and positive image of Bangladesh and its RMG sector as a production and investment location for international customers/investors.
- Competitive price-performance ratio (low production costs, basic experience regarding international quality standards, up-to-date technical equipment)
- Local availability of yarns for knitwear and trims & accessories.
- Good potential for development of competitive advantages for garment manufacturers e.g. concerning productivity, quality control, product development, customer service and management
- Increased market access upon inclusion of new countries who signed Bilateral Trade Agreements

7.3 Recent Initiatives to Face Challenges

- **Garment Palli**

Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the apex body of the export oriented garment sector has decided to establish a combined garment park which will welcome the local and foreign investors to establish industries to production unit of a complete value chain- from raw material sourcing to the shipment level named as “**the Garment Palli**”

- **Knit Village**

Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), the apex body of the export oriented knitwear industries undertook a project to set up “Special Economic Zones for Knit Sector titled “**Knit Village**”, which will locate all related industries within one boundary with its own power plants, waste water treatment plants, Inland container terminal, bonded warehouse, etc. Currently, International Finance Corporation Dhaka Office in collaboration with BKMEA is undertaking pre-feasibility study to set up Knit Cluster, where the author is a leading expert.

- **Liberalizing Power sector for the Private Investment**

The Government of Bangladesh has taken legislative and regulatory decisions to allow establishing private power plants under public private partnership (PPP) concept in order to attract local and foreign investment to face the crying need of electricity in the industrial sector especially the textile and garment industries. Any industrial park can have its own power plants.

- **Increase of Minimum Wages**

The Government of Bangladesh has taken legislative and regulatory decision in collaboration with the factory owners, related government institutes, trade unions and other stakeholders of textile and garment sector to increase the minimum wage of the labors from US\$ 23 to US\$ 43.20 per month.

- **Training and Capacity Building of NITRAD**

Bangladesh Textile Mills Association (BTMA), the apex body of spinning and textile industries has taken over the training institute i.e. NITRAD from the Government of Bangladesh in collaboration for training and capacity building of textile and garment workers.

- **National Social Welfare Committee**

The Government has recently formed “**National Social Welfare Committee**” under the Ministry of Commerce in order to promote the living standard of the employees especially in the textile and garments industry sector.

- **Social Management Program of BEPZA**

Bangladesh Export Processing Zones Authority (BEPZA) under its Social Management Program, funded by the European Commission and Department of (DFID) has appointed 60 Counselors who mediate between the workers and the factory owners to settle disputes and also targets to protect and promote the interest of the workers

Apart from these, there are a number of initiatives of further development and capacity building at the individual factory level.

Appendix -1

Standard CMT and FOB of different items in Bangladesh:

Item 1: Boy's School Pants

Requirements	Description	consm/Dz	Unit price	Ttl price
Fabric "A"	Poly Rayon 32/2x108x54, solid dyed Taflon coated	8.24	1.90	15.66
Pocketing	Pocketing	2.00	0.30	0.60
Thread light	Spun Polyester Thread 40/2, 4000 Yds/Cone	0.75	0.65	0.49
Thread heavy	Spun Polyester Thread 20/2, 3000 Yds/Cone	0.50	0.85	0.43
Button (1)	Mtl Hook & Eye Btn	0.09	7.50	0.68
Size label	Size label	1.00	0.05	0.05
Sew in label	Sew in label	1.00	0.15	0.15
Care label	Care label	1.00	0.15	0.15
Woven label 1	Woven label 1	1.00	0.25	0.25
Belt	Belt	1.00	2.00	2.00
Elastic1	Elastic	0.04	6.00	0.24
Hang tag (1)	Hang Tag	1.00	0.25	0.25
Tag pin	Tag pin	1.00	0.00	0.00
Poly bag (1)	Poly	1.00	0.20	0.20
Gum tape	Gum tape(50M=1roll)	0.06	0.50	0.03
Scotch tape	Scotch tape	0.01	0.25	0.00
Mtl Seal	Mtl Seal	0.01	0.36	0.00
Carton	Master carton	0.50	0.50	0.25
	MATERIAL COST		USD	21.42
	CM		USD	10.00
	FOB PER DOZEN		USD	31.42
	FOB PER PC		USD	2.62

Item 2: Men's CVC Fleece Sweat Shirt

Requirements	Description	consm/Dz	Unit price	Ttl price
Fabric "A"	60% Ctn 40% Poly CVC 280 Fleece W : 58/60"	6.750	5.75000	38.81250
Fabric "B"	Rib (Collar, Cuff & Bottom)	0.200	5.75000	1.15000
Thread heavy	100% spun polyester, 40/2	1.000	0.65000	0.65000
Sew in label	Size label	1.0000	0.0500	0.0500
Care label	Care label	1.0000	0.1300	0.1300
Printed lbl	Printed Label	1.0000	0.1500	0.1500
Poly bag (1)	Poly bag	1.0000	0.4000	0.4000
Gum tape	Gum tape	0.0600	0.4500	0.0270
Scotch tape	Scotch tape	0.0100	0.2000	0.0020
Carton	Master carton	0.5000	0.7000	0.3500
P.P Band	P.P Band	0.0040	6.0000	0.0240
Metal Seal	Metal Seal	0.0050	0.3600	0.0018
	MATERIAL COST		USD	41.7473
	CM		USD	10.0000
	FOB PER DOZEN		USD	51.7473
	FOB PER PC		USD	4.3123

Item 3: Men's 5 Pockets Denim Pants

Requirements	Description	consm/Dz	Unit price	Ttl price
Fabric "A"	Denim, W : 13.75 OZ, W : 62/63"	17.500	1.65000	28.87500
Pocketing	Pocketing	3.000	0.30000	0.90000
Thread light	Spun Polyester Thread 20/2, 4000 Yds/Cone	1.250	0.75000	0.93750
Button (1)	Mtl Button	0.090	5.00000	0.45000
Zipper (1)	Metal Zipper nr. 5	1.040	1.50000	1.56000
Size label	Size label	1.000	0.05000	0.05000
Sew in label	Sew in label	1.000	0.25000	0.25000
Care label	Care label	1.000	0.15000	0.15000
Woven label 1	Woven label 1	1.000	0.25000	0.25000
Rivet	Rivet	0.450	1.25000	0.56250
Washing	Stone Wash	1.000	2.00000	2.00000
Hang tag (1)	Hang Tag	1.000	0.25000	0.25000
Tag pin	Tag pin	1.000	0.00100	0.00100
Poly bag (1)	Poly	1.000	0.20000	0.20000
Gum tape	Gum tape(50M=1roll)	0.060	0.50000	0.03000
Scotch tape	Scotch tape	0.010	0.25000	0.00250
Mtl Seal	Mtl Seal	0.005	0.36000	0.00180
Carton	Master carton	0.500	0.60000	0.30000
	MATERIAL COST		USD	36.77030
	CM		USD	12.00000
	FOB PER DOZEN		USD	48.77030
	FOB PER PC		USD	4.06419

Item 4: Men's PK Polo Shirt

Requirements	Description	consm/Dz	Unit price	Ttl price
Fabric "A"	T/C 65/35 PK knit Fabrics 180 gsm	3.200	4.50000	14.40000
Fabric "B"	Rib Collar & Cuff	1.000	5.00000	5.00000
Thread light	Spun Polyester Thread 20/2, 4000 Yds/Cone	0.750	0.65000	0.48750
Button (1)	Plastic Btn	0.270	1.00000	0.27000
Size label	Size label	1.000	0.05000	0.05000
Sew in label	Sew in label	1.000	0.15000	0.15000
Care label	Care label	1.000	0.15000	0.15000
Hang tag (1)	Hang Tag	1.000	0.15000	0.15000
Tag pin	Tag pin	1.000	0.00100	0.00100
Poly bag (1)	Poly	1.000	0.15000	0.15000
Gum tape	Gum tape(50M=1roll)	0.060	0.50000	0.03000
Scotch tape	Scotch tape	0.010	0.25000	0.00250
Mtl Seal	Mtl Seal	0.005	0.36000	0.00180
Carton	Master carton	0.330	0.50000	0.16500
	MATERIAL COST		USD	21.00780
	CM		USD	4.50000
	FOB PER DOZEN		USD	25.50780
	FOB PER PC		USD	2.12565

Item 5: Quilted Flannel Shirt

Requirements	Description	consm/Dz	Unit price (USD)	Ttl price
Fabric "A"	100% Cotton Flannel Cons : 24x13s/42x44 W : 43/44"	32.50	0.33	10.64
Fabric "B"	100% Polyester Cons : 75Dx45s/90x70 W : 42/43"	33.50	0.27	9.14
Fabric "C"	100% Polyester 6 OZ Padding: 59/60"	10.50	0.40	4.20
Fabric "C"	100% Polyester 4 OZ Padding: 59/60"	6.25	0.28	1.75
Thread heavy	100% spun polyester, 20/2	2.67	0.18	0.48
Button (1)	Horn Btn 18 L	0.09	4.65	0.42
Size label	Printed Size label	1.00	0.08	0.08
Poly bag (1)	Printed poly bag	1.00	0.28	0.28
Gum tape	Gum tape(50M=1roll)	0.10	0.70	0.07
Carton	5 ply	1.00	0.67	0.67
P.P Band	P.P Band	7.00	0.06	0.42
Mtl Seal	Mtl Seal	0.02	0.50	0.01
	Freight	1.00	4.20	4.20
	CM	1.00	6.00	6.00
	FOB / DOZ		38.36	
	FOB / PIC		3.20	