Textile Industries in Bangladesh and Challenges of Growth

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Abstract

The importance of the textile industry in the economy of Bangladesh is very high. The garments manufacturing sector earned $19 billion in the year to June 2012, one of the impoverished nation's biggest industries. Currently this industry is facing great challenges in its growth rate. The major reasons for these challenges can be the global recession, unfavorable trade policies, internal security concerns, the high cost of production due to increase in the energy costs, different safety issues specially fire, etc. Depreciation of Bangladeshi Taka that significantly raised the cost of imported inputs, rise in inflation rate, and high cost of financing has also effected seriously the growth in the textile industry. As a result neither the buyers are able to visit frequently Bangladesh nor are the exporters able to travel abroad for effectively marketing their products. With an in-depth investigation it was found that the Bangladesh textile industry can be brought on top winning track if government and others individuals takes serious actions in removing or normalizing the above mentioned hurdles. Additionally, the government should provide subsidy to the textile industry, minimize the internal dispute among the exporters, withdraw the withholding and sales taxes etc. Purchasing new machinery or enhancing the quality of the existing machinery and introducing new technology can also be very useful in increasing the research and development (R and D) related activities that in the modern era are very important for increasing the industrial growth of a country.

Keywords: Exports, economic growth, global recession, industrial challenges, market competitions, marketing, production rate.

Introduction

Textiles have been an extremely important part of Bangladesh's economy for a very long time for a number of reasons. Bangladesh is the world's second biggest exporter of clothing after China¹. Readymade garments make up 80 percent of the country’s $24 billion in annual exports and 15 percent share of GDP. Consultancy firm McKinsey and Company has said Bangladesh could double its garments exports in the next 10 years². In Asia, Bangladesh is the one of the biggest largest exporter of textile products providing employment to a great share percent of the work force in the country. Currently, the textile industry accounts for 45% of all industrial employment in the country and contributes 5% of the total national income. However, although the industry is one of the largest in Bangladesh and is still expanding, it faces massive challenges, principally because the country does not produce enough of the raw materials necessary, unfavorable trade policies, and inadequate incentives for expansion. As a result, Bangladesh's textile industry relies heavily on imports, and the country does not earn as much foreign exchange from its textile industry as it should. Due to increasing demand of sustainable apparel design, environmental changes, market competition, unpredictable consumer demand, market trends of variety, short product life cycles and low barriers of entry the textile and apparel industry is one of the most highly competitive manufacturing sectors in the world³. As obstacles to trade among nations have declined due to improved transportation systems, technology transfer and government cooperation, the industry has seen a rapid increase in globalization and competition. The all Bangladesh textile mills association and individuals needs to enhance the quality of its products. However, the potentials in the RMG can be realized only if the challenges in some areas like – infrastructures, compliances, workforces supply, suppliers’ performances, raw materials, political stability are tackled⁴.

History of the Textile Industry in Bangladesh

Traditionally, artisans working in small groups, in what are often referred to as cottage industries, produced most of the textile in the sub-continent. There were many such artisans in the area that was to become Bangladesh. In fact, from prehistoric times until the Industrial Revolution in the eighteenth century, East Bengal was self-sufficient in textiles⁵. Its people produced Muslin, Jamdani, and various cotton and silk fabrics. These were all well regarded even beyond the region as they were manufactured by very skilled craftsmen. The material produced by the artisans of Bengal started facing vigorous competition beginning in the eighteenth century after the growth of mechanized textile mills in the English Midlands. This eventually led to a great decline in the number of Bengali
workers skilled enough to produce such high quality fabrics. According to popularly held beliefs, as the region's spinners and weavers meant competition for their emerging textile industry, the British imperialists responded by trying to force the artisans to stop production. They were said to have sometimes used methods as harsh as cutting off the thumbs of the craftsmen so they would never be able to spin or weave again. However, as was the case with the traditional handloom fabrics, indigo dye production also gradually declined. The problems of the indigo industry were principally a result of two factors. First, because indigo was a cash crop, the British administrators in this part of the empire forced farmers to grow the indigo plant in order to increase the administrators' profits. Unfortunately, the indigo plant is nitrogen depleting and thus exhausted the soil very quickly. Another reason for indigo's gradual disappearance as a dye stuff was the unpredictable nature of the plant. Sometimes one farmer would have a good harvest, while his neighbor would not be able to produce anything. The combination of poor yields and the unpredictability of the crop gradually led farmers to cease growing the plant and moving on to other, more profitable crops. The fabric produced and dyed in British factories flooded the Indian markets. In time, its importation became one of the points of contention in the growing independence movement of the sub-continent. As separation from Great Britain was becoming a foreseeable reality and local production again profitable, the textile industry was reorganized as new methods of production were adopted. Water, a necessity for the chemical processes involved in processing the modern dyes now used, was abundant in East Bengal. This contributed to the establishment of mechanized textile factories in the area establishment of mechanized textile factories in the area. However, after 1947 and the partition of East and West Pakistan from India, most of the capital and resources of Pakistan came under the control of West Pakistanis. The textile industry thus stagnated in East Pakistan as momentum for development shifted from the eastern part of the country to the west. The west also grew more cotton than the east, which was used as a plea for developing the industry in the west instead of in the east. The majority of all industries in the east were also owned by West Pakistani industrialists. When Bangladesh gained its independence from Pakistan in 1971, the new government nationalized the textile industry, as it did with many other businesses in which West Pakistanis had been the principal owners. Although there were some Bangladeshi industrialists, they did not form a large or politically powerful group and thus had to surrender control of their factories to the government as well. All of the country's textile factories were then nationalized and organized under the Bangladesh Textile Mills Corporation, or BTMC.
The textile industry has obsolete equipment and machinery. The lack of modernization and the inability to timely modernize the equipment and machinery has led to the decline of Bangladesh textile competitiveness. Due to obsolete technology, the cost of production is higher in Bangladesh as compared to other countries like India, Pakistan, and China.

**Finance Bill to Burden Industry Further:** All Bangladesh Textile Mills Corporation has told that government’s actions are not matching according to its expectations for the textile industry and its smooth growth. According to him, reintroduction of minimum tax on domestic sales would invite unavoidable liquidity problem, which is already reached to the alarming level. Also the textile industry was facing negative generation of funds due to unaffordable mark up rate on the one hand and acute shortage of energy supply and unimaginable power tariff for industry.

**Increasing Cost of Production:** The cost of production of textile rises due to many reasons like increasing interest rate, double digit inflation and decreasing value of Bangladeshi Taka. The above all reason increased the cost of production of textile industry which create problem for a textile industry to compete in international market.

**Internal Issues Pose a Larger Threat for Bangladesh’s Textile Industry:** Bangladesh’s textile industry is going through one of the toughest periods in decades. The global recession which has hit the global textile really hard is not the only cause for concern. The high cost of production resulting from an instant rise in the energy costs has been the primary cause of concern for the industry. Depreciation of Bangladeshi Taka during last few years raised the cost of imported inputs. In addition, double-digit inflation and high cost of financing has seriously affected the growth in the textile industry. Bangladesh textile exports have gone through challenges during last three years as exporters cannot effectively market their products since buyers are not enough visiting Bangladesh due to adverse travel advisory and it is getting more and more difficult for the exporters to travel abroad. Additionally, he stressed that government should take immediate measures to remove slowdown in the textile sector. High cost of doing business is because of intensive increase in the rate of interest which has increased the problems of the industry. Also loans avoided crisis by the industry, hence, the volume of non-performing loans has reached to an alarming situation. Moreover, power shutdowns may result in massive unemployment resulting in law and order situation.

**Energy Crisis: Electricity Crisis:** As a consequence of load-shedding the textile production capacity of various sub-sectors has been reduced by up to 30 per cent. Many joint meeting of organization were held at different times to formulate a joint strategy to address the alarming electricity crisis being faced by the textile industry. The meeting unanimously decided to constitute a joint working group of electricity management for the textile industry in the larger interests of the value chain of the textile industry. The joint working group will meet shortly to design a detailed plan to pursue the following goals; immediate total exemption from Electricity load shedding for the textile industry value chain; Rationalization and reduction of
electricity tariff. The load-shedding of electricity cause a rapid decrease in production which also reduced the export order. The cost of production has risen due to instant increase in electricity tariff. Due to load shedding some mill owner uses alternative source of energy like generator which increase their cost of production further. Due to such dramatic situation the capability of competitiveness of this industry in international market effected badly.

Gas Shortage: Gas load-shedding continues in textile industries despite a significant increase in temperature. A Spokesman for the Bangladesh Textile Mills Corporation (BTMC) claimed that 60 to 70 per cent of the industry had been affected and was unable to accept export orders coming in from around the globe. Continuous gas disconnection over months, causing huge production losses are badly affecting the capability of the industry. In the larger interest of the economy and exports, the government should “ensure utility companies provide smooth electricity and gas supply to the textile industry”.

Tight Monetary Policy: The continuity of tight monetary policy causes an intensive increase in cost of production. Due to high interest rate financing cost increases which cause a severe effect on production. The withholding tax of 1% also effects the production badly. The high cost of doing business is because of intensive increase in the rate of interest which has increased the problems of the industry. The government should take immediate measures to remove slowdown in the textile sector.

Removal of subsidy on Textile sector: The provisions of Finance Bill 2012-2013 are not textile industry friendly at all. Provisions like reintroduction of 0.5% minimum tax on domestic sales, withholding tax on import of textile and articles etc., are nothing but last strick on industry’s back. Reintroduction of minimum tax on domestic sales would invite unavoidable liquidity problem, which is already reached to the alarming level. The textile industry was facing negative generation of funds due to unaffordable mark up rate.

Lack of new investment: Bangladesh textile industry is facing problem of Low productivity due to its obsolete textile machineries. To overcome this problem and to stand in competition, Bangladesh Textile Industry will require high investments. There is a continuous trend of investing in spinning since many years. Bangladesh is facing externally as well as internally problems which restrict the new investment’. The unpredictable internal condition of Bangladesh cause a rapid decrease in foreign investment that affected all industries but especially textile industry.

The 2005 Challenge: In the year 2005, some of the international policies regarding the export of textiles and garments will change, which may present the Bangladeshi textile industry the greatest challenges it has had to face so far. There is much speculation at present about the situation of the RMG exporters in the post-MFA period, when the World Trade Organization, or WTO, instead of GATT will control the sector. Under the WTO all quotas will be removed, resulting in a free market worldwide. Bangladesh’s garment and textile manufacturers will have to face steep competition from countries such as India, Pakistan, China, and Thailand, from whom the country now imports fabric to meet the demands of its RMG sector. When the WTO free market is established, all these countries will be able to expand their RMG exports, now limited by Quotas. As a result, these countries will be able to utilize more of their locally produced yarn and fabrics internally, resulting in the rise of prices for these in the export market, putting pressure on the industries of countries such as Bangladesh.

United States and EU cuts imports of textile from Bangladesh: United States cancels huge of textile orders of Bangladesh. US also impose a high duties on the import of textile of Bangladesh which affects the export in a bad manner. US and EU are the major importer of Bangladesh textile which creates a huge difference in export of Bangladesh textile after imposing a restriction on import of Bangladeshi textile goods.
**Raw material Prices:** Prices of cotton and other raw material used in textile industry fluctuate rapidly in Bangladesh. The rapid increase in the price raw material affects the cost of production badly. The increase in raw material prices fluctuates rapidly due to double digit inflation and unstable internal condition of Bangladesh. Due to increase in the cost of production the demand for export and home as well decreased which result in terms of down sizing of a firm. Hence the unemployment level will also increase. Govt should take serious step to survive the textile industry. In order to decrease the price raw material for textile we need to increase our production capability. Simultaneously, the government should make arrangement for introducing international system of Cotton Standardization in Bangladesh to enhance quality and value of Bangladesh lint cotton by utilizing the technical services of Bangladesh Cotton Standard Institute.

**Demand Supply Gap:** The phenomenal expansion of the RMG industry in Bangladesh and the dramatic increase in the population in addition to an increased standard of living in the country has led to a large demand-supply gap as shown by the following table. Only 21% of the total demand for yarn is met locally in Bangladesh. The figures for grey are not much better as only 28% of the total demand is met locally. The finishing sub-sector currently is able to process all of the locally produced grey, but will need to expand at as with the weaving and knitting sub-sectors. All sectors of the textile industry face many of the same challenges. These problems include lack of power, obsolete technology, low capacity utilization, lack of machinery maintenance, a workforce that is not adequately trained, problems with labor unrest and militancy, political unrest causing disruption such as hartals, and a lack of working capital. The problems with electricity were evident to me on my visit to the Sinha Textile Mills; I was told that it is more efficient to power the factory continuously by a generator, instead of letting production be hampered by power failures.

**Export Performance of the Textile Sector:** Although the export performance of textiles sector in Bangladesh lies in a satisfactory level but still a great concern to Bangladesh due to high cost of production, power shortage and stiff competition with regional players and others issues. Minister's on Textile. Abdul Latif Siddique said that high cost of doing business, power shortage; poor industrial infrastructure and slow external demand are some major factors contributing to the more challenges in textile and it smooth export.

**The Effect of Global Recession on Textile Industry:** In economics, the term ‘recession’ means “The reduction of a country’s Gross Domestic Product (GDP) for at least two quarters; or in normal terms, it is a period of reduced economic activity.” Bangladesh is developing economy in the world, and one of the lowest in terms of the dollar. It is sad to see our economy like this now. Bangladesh is actually a very economically diverse country with boasting industries of textiles, agriculture, etc. The main reason for this slump has largely been the political instability over the past few years; no proper economic policies were implemented; at least none that succeeded. This caused a very high rate of inflation, the prices of commodities soared through the roof, the number of people living below poverty line increased from 60 million to 77 million, and consequently, the working class layman became virtually deprived from basic necessities like water, wheat, electricity, natural gas, and cooking oil; add to all this, the preposterous amounts of load-shedding, and what we get is a nation in shambles. The above all situation of the economy badly effected the textile industry also. The demand for textile product cut down locally and internationally as well. The export order reduced due to unpredictable conditions of Bangladesh and political instability. The cut down in the production of textile cause further unemployment level which decrease the living standard of peoples.

### Effect of Inflation

Inflation rate is measured as the change in consumer price index (CPI). Inflation is basically a general rise in the price level. It is decline in the real value of money. Inflation can have adverse effect on economy. Bangladesh is one of prey of inflation. It still faces high double digit inflation. The increase in inflation causes the increase in the cost of production of textile good which return in downsizing. The double digit inflation causes reduction in exports of textile.

### Recommendations to overcome the challenges to growth of Textile Industries

Despite all the challenges that exist in Bangladesh, the companies can still highly benefit from its sourcing offering. Together effort from three main stock holders like government, suppliers and buyers can work to overcome these various hurdles to success.

Some Recommendations are given as under: Zero rating on import of all textile machinery, Zero rating exports, tariff reduction, Incessant energy supply to textile units, Issues relating to the market access. Quality products with timely
delivery, Single digit mark up and special power tariff for the textile industry.

Duty free market access to European Union and United States, Remedy though Foreign Direct Investment (FDI), Image Building of Bangladesh to Attract Foreign Direct Investment (FDI), Focus on Value Addition, Technology Up-gradation and Capacity Building, Human Resources Development, Reducing the cost of doing Business in Bangladesh, Need for Improving Textile Production, Awareness of International Quality Standards, Introducing concept of on-the- job-training, Introducing efficient management techniques, Subsidy removal should be taken a back, Interest rate should be low down in order to survive this industry, Electricity and gas tariff, Removal of Energy Crisis, Exploration of new Export Markets, Bonded warehouse facilities, Duty free importation of raw materials of export in the RMG, Avoidance of double taxation for joint venture projects, Income tax exemption for up to three years for foreign technicians, Duty on dyes and chemicals will be withdrawn, Duty free import of capital machinery, Closer monitoring of leakage in the market, Appoint an advisory committee to represent the industry to the government, Improvement of research and computer technology, All sectors of the industry will be modernized, Rehabilitated as much as possible, Tariffs will be rationalized, The policy calls for the establishment of many new factories and projects, but does not provide a scheme for financing them, The lack of training and technology is mentioned, but no steps are suggested for enhancing the kills of the workforce and engineers, No suggestions are made for setting up institutions to conduct the technical and marketing research needed to upgrade the quality of Bangladeshi products to make them more appealing in the international market, The need for the expansion of the Bangladesh's infrastructure such as road, port, and railway capacities to accommodate increased imports and exports is not mentioned, The great problems arising from the shortage of land on which to build the necessary factories is also not considered. The policy states that environmental pollution is negligible, but does not go further into the matter. However, it was very obvious to me on one of my factory visits that affluent treatment and disposal in the industry is a very serious problem. The need for more power is mentioned, but no plans have been devised on how the expansion is to be undertaken.

The Future of the Textile Industry in Bangladesh

The textile industry in Bangladesh has grown in an unplanned manner and a critical demand-supply gap has arisen for both yarn and fabric. The crisis will naturally deepen unless appropriate backward linkages, the incorporation of the fundamental steps in the textile industry all through to the RMG industry, can be built to the rapidly approaching challenges in the global textile market. As the population is growing and the standard of living is increasing in Bangladesh, the demand for textiles is increasing rapidly. This presents an urgent need to dramatically increase capacities in spinning, weaving, knitting, and dyeing, printing, and finishing sub-sectors. This will require the adoption of the most modern and appropriate technology to ensure quality products at competitive prices.

The possibility of increased yarn production in Bangladesh is an issue that has been looked into extensively by many researchers. These investigations have revealed the country actually has a comparative advantage over all competitors in terms of the expense of yarn production. However, in regards to the total yarn cost, Bangladesh's advantage over India and Pakistan disappears, even though it remains competitive with other producers. This is essentially a result of the higher cost of raw materials in Bangladesh, as most need to be imported. Bangladesh has a lower waste percentage than all its competitors. Power along with Korea is the cheapest in Bangladesh amongst all the yarn producers. The country also has a very low depreciation rate and a fairly low interest rate as well, aided by a low conversion cost as well. However, the price of auxiliary materials in Bangladesh is the highest among all the yarn producers, as is the price of raw materials. Due to these two factors Bangladesh loses its comparative advantage over India and Pakistan. Most of the raw cotton imported by Bangladesh comes from overseas. The country is not only handicapped by the import tariffs and shipping expenses, but India and Pakistan subsidize the raw cotton, which is sold locally, resulting in countries like Bangladesh paying more for the same cotton. The outcome for the Bangladeshi spinning mills of such price differentials is that they obtain raw cotton of the same quality at prices which are approximately 30% higher than the Indian mills, and Pakistani mills. In addition, Bangladesh's spinning mills have to pay another 6 to 7% for handling, freight, and commission charges which put them in a disadvantageous situation. The new infrastructure development surcharge, or IDS, on all imports, which was stipulated in the 1997/98 fiscal year, added another 2.5% to the price of imported raw cotton. The weaving and knitting sub-sectors will also need to expand at a rapid rate, as there is a large demand-supply gap in the country. With increased investment in the sub-sectors and modernized machinery, Bangladesh could profit greatly from larger and more competitive weaving and knitting sectors. As current dyeing facilities are mostly dependent on imported fabrics, they are expanding at a rate which is not dependent on any of the other sectors. However, as local grey becomes more competitive, and its production is increased, the dyeing, printing, and finishing sub-sector will also need to expand to accommodate for the increased supply. The leakage from bonded warehouse facilities and smuggling of materials across borders also need to be monitored closely in order to assure the competitiveness of the local industry. The reduction of such problems will automatically improve the market position resulting in improved opportunities for the expansion of the Bangladeshi textile industry.
### Table-1

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<th>Projection of Bangladesh’s Exports (million US$)</th>
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<td><strong>Year</strong></td>
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Note: Numbers in parentheses indicate growth rates.

### Conclusion

The suggestive tools developed in this article cover a comprehensive series of aspects in the expected sustainable and potential textile industries growth. Bangladesh textile industry is going through one of the toughest periods in day after day. The global recession which has hit the global textile really hard is not the only cause for concern. Serious internal issues also affected Bangladesh textile industry very badly. The high cost of production resulting from an instant rise in the energy costs has been the primary cause of concern for the industry. Depreciation, double digit inflation and high cost of financing has seriously affected the growth in the textile industry. It is getting more and more difficult for the exporters to travel abroad to grasp potential buyers. Bangladesh’s textile industry is lacking in research and development (R and D). The production capability is very low due to obsolete machinery and technology. Bangladesh is facing high cost of production due to several factors like the hike in electricity tariff, the increase in interest rate, energy crisis, devaluation of Bangladeshi taka, increasing cost of inputs, political instability, removal of subsidy and internal dispute. The above all factor increase the cost of production which decreases the exports. Govt. should provide subsidy to the textile industry for the survival of this industry. Finally, this paper reflects that wholehearted joint efforts from manufacturers, buyers, suppliers, government, and other stockholders are highly expected to accomplish the development of potential and sustainable textile industries growth in Bangladesh.

### References