2002

Executive Forum on National Export Strategies

Managing Competitive Advantage: The Values of National Strategy

ADDING VALUE: BUILDING VALUE-ADDITION ALLIANCES

Backward Linkages In The Textile And Clothing Sector of Bangladesh

Contributed by: Mr A.S.M. Quasem, Chairman, Newage, Bangladesh

1. INTRODUCTION

The Textile and Clothing Sector in Bangladesh, predominantly consisting of the Readymade Garments (RMG) industries is currently the largest contributor to the national export earnings. Starting in the late seventies as a minor non-traditional sector with a negligible export base, the sector has grown over the years in geometric progression and presently accounts for about 75% of the total exports of the country. In FY 2001 the sector earned US$ 5.2 billion in which the contribution of RMG alone was US$ 4.9 billion. The sector consisting of 3700 enterprises has a contribution of 5% to the GDP of the country. The sector represents 24% of all manufacturing production and employs 1.6 million people including 150,000 in backward linkage industries.

In the initial years the RMG sector was heavily dependent upon imports. Imports were as much as 80% of the export value. In addition to fabrics, all other accessories like interlining, labels, buttons and sewing thread, all the packaging materials like neck boards, backboards, plastic collar stays, tissue papers, hangtags, pins and clips, hangers and polybags, zippers and draw strings and export cartons used to be imported. Over the last decade, a large number of accessories industries have come up to fill in this gap to the extent of about 70% of the total requirement of the industry. While the country has more or less achieved self-reliance in supply of accessories, the progress is less noticeable in the fabric manufacturing, especially the woven fabric.

Table 1: Changing commodity composition of Bangladesh RMG export

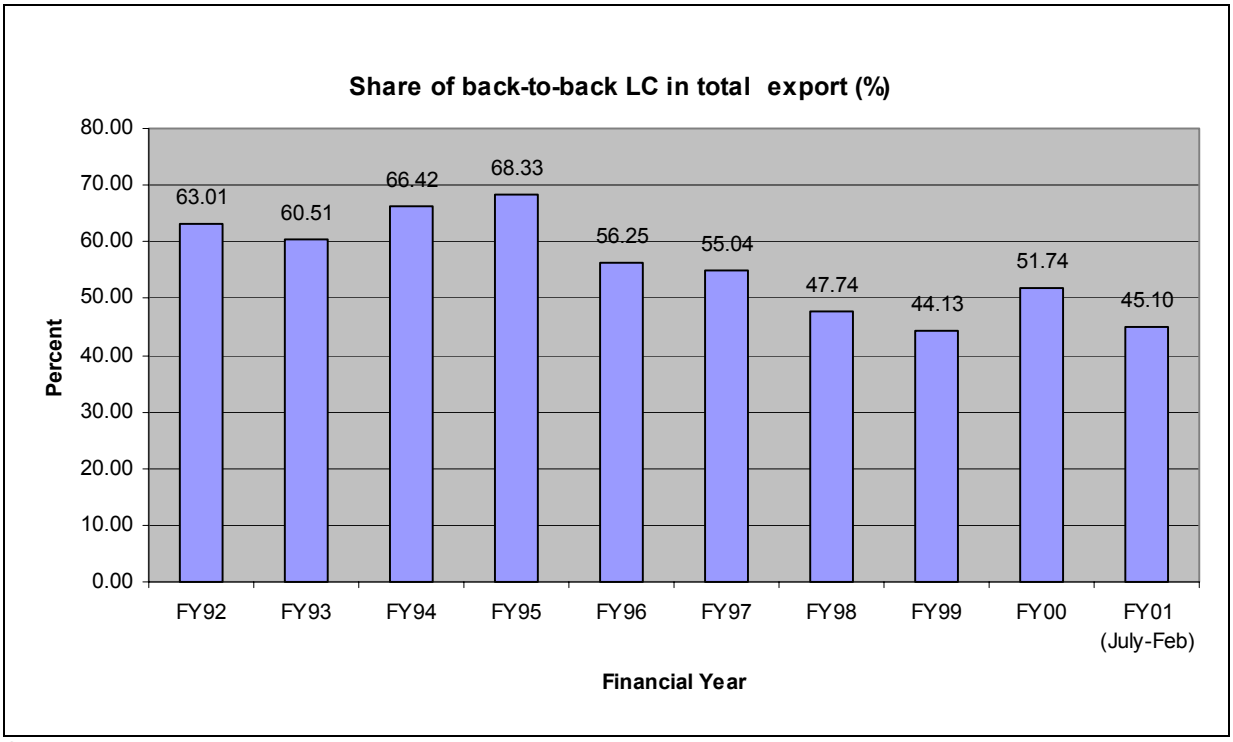
	Knitwear		Woven RMG		Total	
Year	Million US$	% Share	Million US$	% Share	RMG export	Total share
1990	131.20	15.14%	735.62	84.86%	866.82	100.00%
1991-92	118.57	10.03%	1064.00	89.97%	1182.57	100.00%
1992-93	204.54	14.15%	1240.48	85.85%	1445.02	100.00%
1993-94	264.14	16.98%	1291.65	83.02%	1555.79	100.00%
1994-95	393.26	17.65%	1835.09	82.35%	2228.35	100.00%
1995-96	598.32	23.49%	1948.81	76.51%	2547.13	100.00%
1996-97	763.30	25.43%	2237.95	74.57%	3001.25	100.00%
1997-98	937.51	24.79%	2844.43	75.21%	3781.94	100.00%
1998-99	1035.02	25.75%	2984.96	74.25%	4019.98	100.00%
1999-00	1268.22	29.16%	3081.19	70.84%	4349.41	100.00%

Source: BGMEA

While the RMG sector as a whole grew from US$ 867 million in 1989-90 to US$ 4.35 billion in 1999-2000, the knit sub-sector grew at a faster rate than the rest of the sub-sectors as can be seen in Table 1. During the period under review, the share of knit sub-sector grew from 15.14% of the total RMG export to 29.16%, whereas that of the woven sub-sector fell from 84.86% to 70.84%. The predominant reason for the faster growth of the Knit sub-sector is the extent of backward linkage that this sub-sector could achieve. A large number of composite knit garment manufacturers have emerged during this period who produce their own fabric, have their own dye houses and thus can compete very effectively in price and delivery lead time. It is estimated that currently about 70% of the knit fabric requirement is met from local production. Despite investment constraints, usage of local woven fabric also increased to about 20% in 2000 from about 5% in 1994.

The growth of accessories industries, coupled with a substantial growth in knit fabric manufacturing, has helped to reduce dependence on imports and cut down lead-time for delivery. According to statistics, the share of back-to-back LC in total export dropped from 68.33% in FY 95 to 45.1% in the first eight months of FY 01. This means that value addition in the country is steadily increasing. This is creating cushion in the sector to absorb pressure of competition. A better spread in the value addition chain is bringing more factors of production under national control and thus giving the industry better scope for increasing its competitive edge.

2. THE INTEGRATION LEVEL OF THE T&C SECTOR IN THE COUNTRY



Source: EPB and Bangladesh Bank.

The level of integration of the textile and clothing sectors has varied differently for the knit and the woven sub-sectors. While the knit-fabric sector saw a significant degree of integration in building production capability to meet almost 70% of the requirement of the knit-garment sector, the woven fabric sector lagged far behind. The primary reason for faster integration in the knit sub-sector was due to relatively low investment requirement and simpler manufacturing and process technology that could be adopted easily. For example, a knit fabric manufacturing, dyeing and finishing unit of a minimum economic size could be set up at a cost of about US$ 3.5 million while investment requirement for establishing a woven fabric manufacturing plant of minimum economic size with appropriate dying and finishing facilities would cost at least US$ 35 million.

As mentioned earlier, the Textile Sector in Bangladesh is dominated by the RMG industries. In June 2000 as indicated in Table 2, the sector consists of about 3000 RMG units producing 150 million dozen garments, 141 spinning mills (units) with a production capacity of 335 million kg of yarn, 117 weaving and composite mills with a capacity of 420 million meters of fabric, 282 dyeing, printing and finishing units capable of processing 677 million meters of woven fabric and 155 knitting, dyeing and finishing composite units capable of producing 225 million kg of knit fabric. Investment in the sector is gaining momentum. As many as ten spinning units and a number of composite knit fabric mills have been added to the sector in the year 2001 alone.

Table 2: Structure of the Textile industry in Bangladesh (June 2000)

Sub-sector	No. of units	Installed capacity		Product	Annual capacity	
Textile spinning:	141	2,967,538 60,184	Spindles Rotors	Yarn Yarn	334,622,000	kg
Weaving	105	2,025 4,837	Shuttleless Shuttle	Grey PG Grey PG	222,613,000	mtr
Dyeing and finishing	282				676,764,000	mtr
Composite mills	12	540 180,080 1,901 576	Rotors Spindles Shuttle Shuttleless	 Yarn Grey PG Finished PG	 13,465,000 80,050,000 117,450,000	 kg mtr mtr
Knitting, dyeing & Finishing	155	2,048	Cir. Knitting	Grey Finished	104,751,000 121,837,000	kg kg
Spl. Textiles	1029	21,985	Shuttle	Grey PG	429,046,000	mtr
Export oriented RMG	3000			RMG	150,000,000	Dz

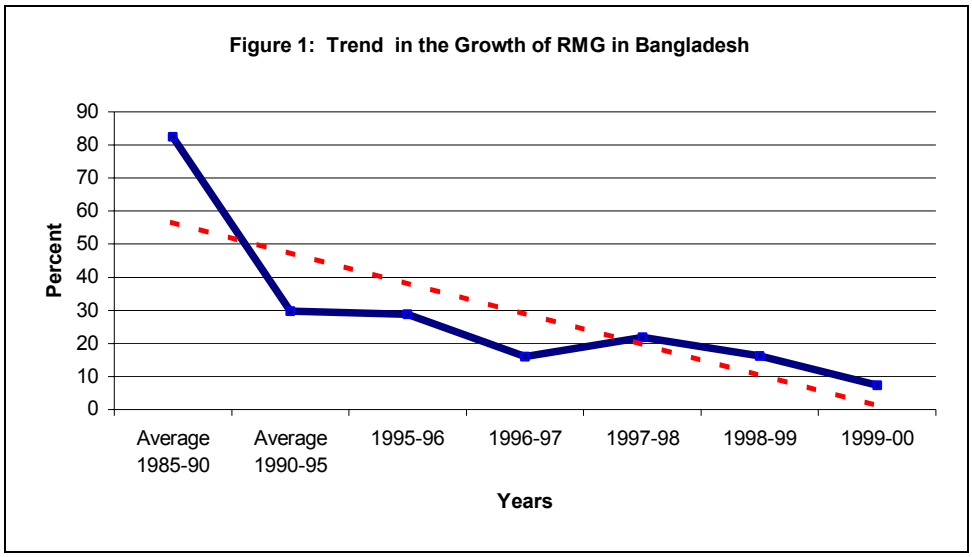
Source: Dept of Textiles, GOB, 2001.

According to one estimate made by the Centre for Policy Dialogue, a civil society think tank, the gap between demand and supply of yarn in the year 2000 was about 500 million kg and that of fabric was about 2400 million meters. According to their estimate, this gap is going to increase further to about 800 million kg for yarn and 4100 million meters for fabric by the year 2010. They estimate that to meet the capacity shortfall, Bangladesh needs to double its spinning, weaving and dyeing and finishing capacity by year 2010. All these infrastructure buildings would require an investment of around US$ 7.5 billion. The investment requirement is quite large and investment from domestic resource is unlikely to be sufficient for the purpose. Fulfilment of this target is possible only if FDI flows into the country in this sector in the next couple of years. Judging by the past trend of FDI flow, it is unlikely that Bangladesh would be able to attain this self-sufficiency in the near future.

3. THE BANGLADESH TEXTILE SECTOR FACING EMERGING UNCERTAINTIES

a) Trend of growth of the RMG sector

RMG is the driving force behind the growth of the textile sector. This sector saw astronomical growth in the late eighties. Even in the first five years of the nineties, the industry grew steadily at an average rate of 30% per year. The growth started to decline from FY 96 and came down to as low as 7.28% in FY 00, as shown in Figure 1.



Source: BGMEA.

Factors like increased external competition, inflexibility to reduce lead time, the lack of backward linkage industries, loss of market on the eve of Sept 11th incident, apprehension about the post MFA uncertainties, the US Trade Development Act 2000, favouring other developing countries, and the accession of China to WTO affected the business and retarded the growth rate.

b) Phase-out of MFA quotas on January 1, 2005

Preferential market access that was given to Bangladesh by both the US and EU was the main stimulant behind the rapid expansion of the RMG sector in the last two decades. The large level of the US quota and the preferential quota free access to the EU ensured good market penetration for the Bangladeshi RMG products in these markets. In addition, a significant part of Bangladesh's export to the EU is covered under the GSP scheme that provides preferential tariff treatment to Bangladesh exports to the EU markets. However, Bangladeshi exporters were unable to take full advantage of this facility due to stringent EU rules of origin for GSP. In 1999, EU liberalized the rules of origin allowing imported yarn for knit-fabrics to qualify for GSP. This relaxation improved the utilization rate of the GSP facilities for the knit-RMG considerably. The rapid development of backward linkage industries in knit garments sector in the recent past was also influenced by the concession in the rules of origin given by the EU.

All these advantages are going to erode in 2005 when all preferential market access conditions, except perhaps the GSP facilities, will disappear as stipulated in the ATC. The big question is whether Bangladesh would be able to compete in their open market with all exporting countries put on equal footing for competing against one another.

c) Enactment of US Trade Development Act 2000

The Trade and Development Act 2000 more popularly known as US Trade Development Act 2000 was enacted in the USA on May 19, 2000. This act consisting of the **African Growth and Opportunity Act (AGOA)** and the **United States-Caribbean Basin Trade Partnership Act** was aimed to introduce a new trade and investment policy for *Sub-Saharan Africa* (SSA), expand trade benefits to countries in the *Caribbean Basin Initiative* (CBI), enhance the GSP and strengthen the US *Trade adjustment assistance* programmes. The US TDA 2000 provides preferential trade access, especially in textile and apparel sectors, to the countries of Africa and Caribbean Basin.

The US Trade Development Act 2000 provides duty-free and quota-free access to 48 countries of Africa and 24 countries of the Caribbean Basin for exporting textile and apparel products to the US market on certain eligibility criteria. It may be noted here that some of the beneficiary countries, especially in the Caribbean Basin, are Bangladesh's direct competitors in the US apparel market.

The majority of countries benefiting from the US Trade Development Act belong to the group of Least Developed Countries (LDC). This enactment has thus created a division within the LDCs as the LDCs outside this scheme have lost their strength for bargaining duty free and quota free access, being now a small minority. It may be mentioned here that for quite some time now, Bangladesh has been actively campaigning in various multilateral forums, including the WTO, for providing favourable treatments to all the LDCs.

Between the two groups of countries covered under the US Trade Development Act 2000, it is the Caribbean countries that are more important as a source of apparel import into USA. In 1999, the total value of apparel export to the USA by the CBI countries amounted to US$ 8.92 billion, accounting for 14% of the US market.

There are a number of CBI countries that compete with Bangladesh in a number of apparel items of high export interest to Bangladesh. In 1999, countries like the Dominican Republic (3.74%) and Honduras (3.40%) had market shares bigger than Bangladesh (2.75%), while El Salvador (2.24%) was following very closely. Incidentally, the quota fill-in rates of these countries for a number of items were also high. Therefore, the new quota-free and duty-free regime is likely to allow them to expand their apparel exports to USA substantially. This is expected to lead to trade diversion from Bangladesh in favour of CBI countries. The effect is already visible in the last two years. The average export prices to the US market have fallen substantially during this period, indicating that the Caribbean countries are creating price pressure to take away business from Bangladesh, as indicated in Table 3.

The SSA countries in the medium term may become a potential threat if they can put together the necessary production facilities. How effective these potential competitors will be will depend on the price competitiveness of their exports.

Table 3: Exports of Apparels to USA by Bangladesh, Sub-Saharan and Caribbean Countries (1999)

Country	Value		Volume	
	Million Dollars	Share in %	Million M2	Share in %
Total US market	63,743.90	100	28,615.43	100
Bangladesh	1,753.85	2.75	910.52	3.18
CBI Countries:	8,917.82	14	3,570.87	16.52
Dominican Republic	2,385.19	3.74	900.25	3.15
Honduras	2,164.23	3.4	958.26	3.35
El Salvador	1,363.49	2.14	641.24	2.24
Guatemala	1,243.50	1.95	332.99	1.16
Costa Rica	831.36	1.3	370.03	1.29
Jamaica	244.96	0.54	148.80	0.52
Nicaragua	277.36	0.44	69.38	0.24
Haiti	249.82	0.39	127.35	0.45
Sub-Saharan Countries:	606.74	0.95	151.77	0.53
Mauritius	232.18	0.36	38.95	0.14
South Africa	112.95	0.18	45.38	0.16
Lesotho	110.76	0.17	25.80	0.09

Note: The figures include both apparel and non-apparel exports under MFA

Source: CPD paper on USTDA2000: A response from Bangladesh perspective

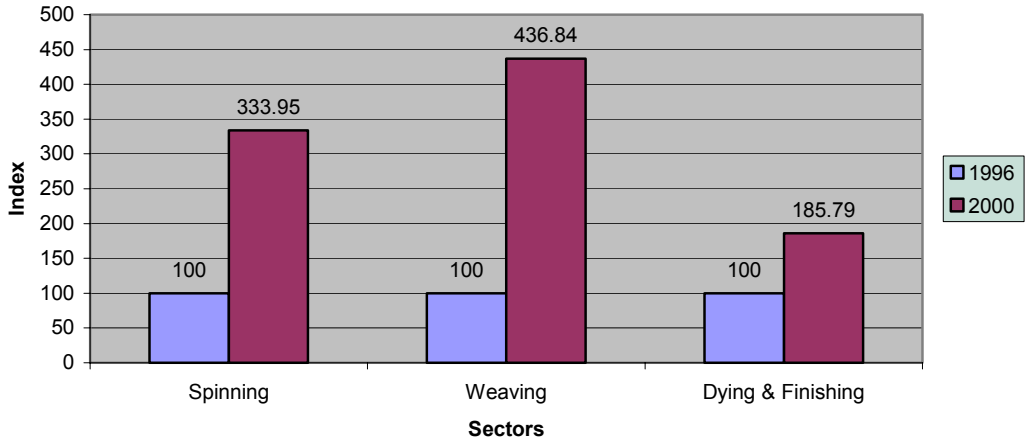
d) Accession of China to WTO

China is perhaps the largest supplier of textiles and clothing in the world. The accession of the country to WTO has opened up a new vista of market access for them. China has a very large production base of fabric, by using competitive and appropriate technology. China also has a very large pool of labour force for the highly labour intensive apparel industry. Both these factors ensure a very high degree of competitiveness. China's accession to WTO has removed their major market access constraint. The high degree of integration that China already has between their textile and clothing sector would enable them to respond quickly to the demand of garment buyers. This may result in the diversion of business to China in large quantum from countries like Bangladesh.

4. AN OVERVIEW OF THE BANGLADESH TEXTILE SECTOR

Growth of the RMG sector since 1980s is well documented. Following the rapid expansion of RMG activities and stimulated by the incentive package offered by the government, other related areas of textile sectors also achieved notable progress particularly since the mid-1990s. However, direct data on aggregate investment in this sector is not readily available. Nevertheless, a look into the growth of the index of production capacity of the textile sector, capacity expansion of the enterprises belonging to the Bangladesh Textile Mills Association (BTMA), a study of the available data on capacity expansion in weaving, dyeing and finishing facilities, an examination of import data of textile machinery, a study of data on opening and settlement of letters of credit of textile related imports, the import figures of cotton and yarn and pattern of the cash subsidy given to stimulate fabric production for export, can reveal the degree of overall progress made in the textile sector. We shall now examine these factors one by one in the following paragraphs:

Figure 2: Index of production capacity



a) Index of production capacity

An index comparing the production capacity in the year 2000 with that of the year 1996 (Figure 2) that the growth in production capacity was largest in the weaving sector during this period. The spinning and dyeing and finishing sectors also registered considerable growth. Compared to the base level of 1996, the weaving sector witnessed a 4.4 fold increase in its

production capacity by the year 2000. The production capacity in the spinning sector increased 3.3 fold during the same period. Even the lagging, dyeing and finishing sectors almost doubled its capacity during the same period.

b) Investment and capacity expansion in the textile sector

A study of the import data shows that imported machinery for production of yarn, fabric and knitted fabric machinery accounts for a good share of total imported machinery. Import of textile machinery marked a significant increase in the last decade. An investment of about US$ 0.5 billion came in the last five years in the textile sector (CPD 2000). Many new mills came into operation and some are in the construction stage. A number of mills, installed capacity, and production capacity marked phenomenal growth after the declaration of the Textile Policy in 1995. For example, installed capacity of yarn mills under BTMA increased from 1.5 million spindles in 1995-96 to more than 2.5 million spindles in 1999-2000. Production capacity in weaving increased from 200 million metres in 1996-97 to 800 million metres in 1999-2000. In the dying-finishing sub-sector, production capacity increased from 366 million metres to 680 million metres during the same period. The figures are shown in Table 4 and Table 5, respectively.

Bangladesh imported textile machineries mostly from Japan and China in the 1990s. Details are given in Table 6. These machines are able to produce high quality products at a reasonable cost. As a result, the textile units established in recent years are found to be more efficient, and are able to produce export quality products.

Table 4: Capacity expansion in BTMA Spinning Mills

Year	No. of Unit	Installed Spindle	Operational Spindle	Capacity Utilisation (percent)	Production (million Kg)
1983-84	22	412680	303499	74	16.24
1985-86	22	443500	353404	80	20.69
1990-91	44	929630	442004	84	29.4
1991-92	44	927798	300253	83	21.7
1995-96		1464762			
1999-00	114	2374317	2151977	91	143.1
2000-01	135	2530900			

Source: BTMA, TSMU/Ministry of textile and islam R. The Textile Industry (Working Paper no.17), World Bank,1993

Table 5: Capacity expansion in Weaving, Processing and Finishing sectors

	Weaving Sector			Dying-Processing-Finishing	
	No. of Units	Installed Capacity (machine)	Production Capacity (000 meter)	No. of Units	Production Capacity (000 meter)
1996-97	1126		190,238	250	365,965
1999-00		31500	830,000	282	680,000

Source: BTMA and Ministry of Textiles.

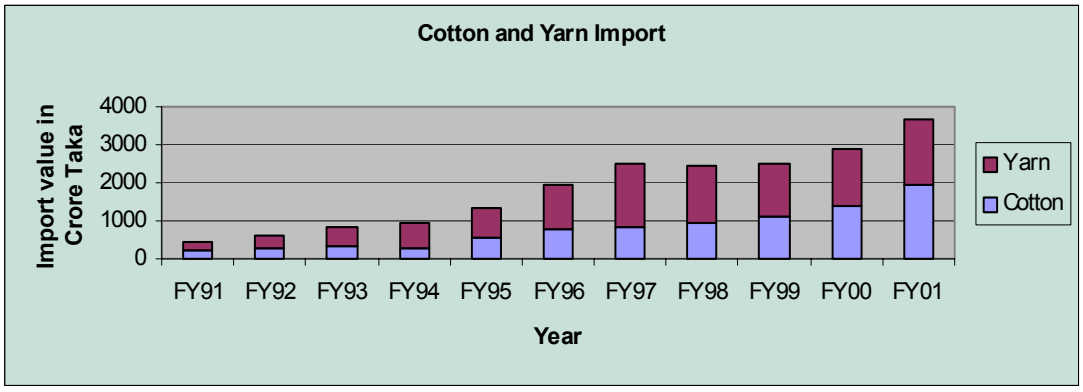
Table 6: Import of Textile Machinery

	Mchn for preparing textile fibre	Weaving machines (looms)	Knitting mach stich-bond mach etc.	Aux Machinery for extrude draw mach etc.	Total import of text machinery	Total import of capital goods	Growth rate
1988-89	256000	27000	81000	573000	1056920	11230000	9.41%
1989-90	442000	17000	73000	410800	1097443	12988800	8.45%
1990-91	858000	91000	118000	377000	1998319	16110800	12.40%
1991-92	1079000	80000	320000	257000	2952055	16687400	17.69%
1992-93	815442	86470	310873	273389	2952158	17252000	17.11%
1993-94	623719	71127	264630	394990	1832773	16501000	11.11%
1994-95	758670	173215	374338	195208	2132009	21695000	9.83%
1995-96	2536912	1082521	795750	271173	5457527	35867000	15.22%
1996-97	2,986,318	1080456	752177	435464	6283155	45025000	13.95%
1997-98	2473394	301360	748573	350216	5594881	43809000	12.77%
1998-99	1593000	430000	637000	303000	31357241		
Average Growth Rate (89-94)	28.92%	75.30%	41.05%	-3.50%	19.15%	8.46%	
Average Growth Rate (95-99)	44.19%	111.42%	51.31%	-7.96%	21.65%	11.62%	

Source: NBR data.

c) Growth in the import of raw materials

Bangladesh is not a cotton producing country. Almost the entire requirement of cotton is imported. However, yarn is produced in the country. Local production can hardly cope with the requirement of domestic fabric production. There is a large local requirement for yarn in the handloom industry as well as in local fabric production. Therefore both cotton and yarn are in the permanent list of importable items.



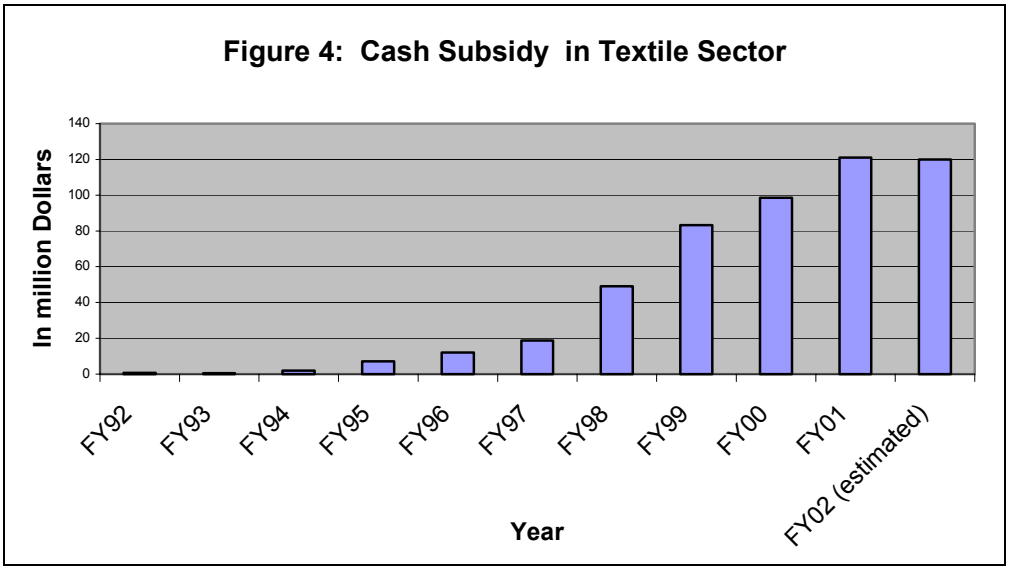
Source: CPD presentation.

A study of the import statistics of cotton and yarn from FY 91 to FY 01 as indicated in Figure 3 reveal that import of cotton increased almost five-fold and that of yarn about four-fold over this period. This is indicative of a significant growth in this sector.

d) Cash incentive for the textile sector

A cash compensatory scheme is administered by the Bangladesh Bank where RMG, hosiery, and textile units that are either not covered or refrained from using the facilities provided under the bonded warehouse or duty draw back scheme are provided cash assistance of 25% of value of export of apparel. The cash incentive is a major fiscal support given by the Government to stimulate investment in the textile sector, as indicated in Figure 4.

Figure 4: Cash Subsidy in Textile Sector



Source: CPD presentation.

The steady increase in the aggregate amount of this assistance, as depicted in Figure 4, indicate that production of fabric and knit fabric that attracted the cash subsidy increased substantially over the past years.

Cash subsidy, though a very significant incentive, is rendering heavy budgetary pressure on the Government. Also payment against the scheme was not very regular due to paucity of Government funds and this created cash starvation for the industrial units, benefiting from the scheme. In the recent budget, the quantum of the incentive has been reduced to 15%.

e) Opening and Settlement of L/C in textile imports

Figures of L/C opening and their settlement in Jul-Jan 02 compared with those of Jul-Jan 01 indicate that the there was a 24.33% increase in import of machinery and 36.95% increase in L/C settlement as indicated in Table 7. Import of man-made fibre and yarn made of MMF also registered substantial increase.

Back to back L/C, an indicator of imported materials used for the RMG, marked a decrease of 11.03% showing reduction in the dependence on imported raw materials.

Table 7: Opening and Settlement of L/C in textile imports

Particulars	Jul-Jan FY 02		Jul-Jan FY 01		Annual Growth %	
	Settlement	Opening	Settlement	Opening	Settlement	Opening
Raw Cotton	1087.80	1108.76	1162,68	1194.62	(6.44)	(7.19)
MMF	41.71	59.95	30.78	33.21	35.51	80.52
FFM Yarn	190.37	228.01	168.22	174.42	13.17	30.72
Cotton Yarn	409.02	482.34	353.37	426.34	15.75	13.14
Machinery	637.81	572.77	465.74	460.70	36.95	24.33
BBLC	6600.68	5998.04	6858.03	6741.32	(3.75)	(11.03)
Others						

Source: CPD presentation.

f) Bank investment in textile project

In Bangladesh, the main industrial investment financing comes from the commercial banks. An analysis of the financing done by the five largest commercial banks of the country in textile projects from FY 96 to FY 00 show that their cumulative investment in this sector went up from slightly above Taka 1 billion in FY 96 to Taka 9 billion in FY 00. The cumulative number of projects financed by them increased from 61 to 231 during the same period. Thus the total financing of these five banks in the textile sector increased nine-fold in five years.

g) Trends in production and demand supply gap in the spinning and weaving sector

Because of the expansion in production capacity, actual production of fabric and yarn has significantly increased over the last two years. Not only overall production in the textile sector marked an increase, its capacity to support export-oriented knit and woven RMG has also increased. As a result, the percentage share of domestic yarn and fabric supporting RMG has increased. Nevertheless, the absolute gap between demand and supply kept increasing because of high growth of knit and woven RMG export until the late 1990s.

RMG export increased at a very high rate during the 1990s. As a result, demand for fabric and yarn for export oriented RMG marked a significant increase. Demand for fabric for RMG increased from 563 million meters in FY 1991 to 2049 million meters in FY 2000. Similarly, demand for yarn for RMG increased from some 94 million kg in FY 1991 to 341 million kg in FY 2000 as indicate in Table 8.

Table 8: Total fabric and yarn requirement in Woven and Knit Garments 1990-2000

Year	Woven Garments			Knit Garments			Total		
	Quantity million dozen	Input requirement		Quantity million dozen	Input requirement		Quantity million dozen	Input requirement	
		Fabric million meter	Yarn million kg		Fabric million meter	Yarn million kg		Fabric million meter	Yarn million kg
1990-91	25.49	472.07	78.68	5.08	91.44	15.24	30.57	563.51	93.92
1991-92	34.00	629.68	104.95	6.00	108	18	40	737.68	122.95
1992-93	36.05	667.65	111.27	10.66	191.88	31.98	46.71	859.53	143.25
1993-94	34.35	636.16	106.03	10.28	194.76	32.46	45.17	830.92	138.49
1994-95	47.21	874.33	145.72	15.3	275.4	45.9	62.51	1149.73	191.62
1995-96	48.82	904.15	150.69	23.19	417.42	69.57	72.01	1321.57	220.26
1996-97	53.45	989.89	164.98	27.54	495.72	82.62	80.99	1485.61	247.6
1997-98	65.59	1214.73	202.45	32.6	586.8	97.8	98.19	1801.53	300.25
1998-99	64.79	1199.91	199.99	36.66	659.88	109.98	101.45	1859.79	309.97
1999-00	66.64	1234.2	205.7	45.27	814.9	135.8	111.91	2049	341.5

Source: EPB (2000), and Ministry of Textile

Domestic demand for yarn and fabric grew steadily with an increase in population and per capita income. Total demand for fabric increased from 1969 million meters to 3895 million meters during FY 1994 to FY 2000. Demand grew at 9.5% whereas production of fabric grew at 12.6% rate. Despite an higher growth rate of production than that of demand, the absolute gap between demand and supply increased over time because of the low production base. Domestic production as a percentage of total demand remained steady at around 40% over this period.

The situation is slightly better for yarn. The average annual growth rate of yarn production is more than 14%. As a result, import requirement grew only at 10%. Import dependence as a percentage of the total requirement also declined, but at a declining rate. The trend is demanded supply if fabrics and yarns are illustrated in Tables 9 and 10, respectively.

Table 9: Trends in demand-supply gap of fabrics

Year	Demand for fabrics (million metre) for RMG	Local demand for fabrics (million metre)	Total demand for fabrics (million metre)	Total production of fabric	Domestic production as a % demand	Fabrics used by exp-oriented RMG	Domestic fabrics as a % of total fab. Used in exp-oriented RMG
1993-94	830	1139	1969	800	40.6	45	5.06
1994-95	1150	1315	2465	1040	42.2	104	9.91
1995-96	1322	1460	2782	1129	40.6	169	13.04
1996-97	1486	1534	3020	1223	40.5	231	15.85
1997-98	1802	1633	3435	1356	39.5	317	17.93
1998-99	1860	1775	3635	1424	39.2	356	18.97
1999-00	2049	1846	3895				
Growth rate			9.45%	12.55%			

Source: CPD presentation

Table 10: Trend in demand-supply gap of yarn

Year	Total demand for yarn (mil. kg)	Total production of yarn (mil. kg)	Total import of yarn (mil. kg)	Import as a % of total demand
1993-94	328.17	63.2	264.97	80.74
1994-95	410.83	96.5	314.33	76.51
1995-96	463.67	113	350.63	75.62
1996-97	503.33	116.8	386.53	76.79
1997-98	572.5	139.7	423.8	75.6
1998-99	605.83	146.7	456.13	75.6
1999-00	649.3	167.57	506.84	75.1
Growth rate	9.45%	14.23%	10.60%	

Source: CPD estimates based on information from BTMA, TSMU/Ministry of Textiles, EPB(2000)

The absolute demand supply gap of yarn and fabric though increasing over time has remained almost constant in recent years. At present (2000), local spinning mills supply 70% of yarn for knit fabrics and 20% yarn for the woven fabrics. Use of local fabrics by the woven RMG has also increased from about 5% in FY 1994 to about 20% in the current year (BTMA). Despite these facts, there is a huge demand-supply gap in yarn and fabric in the country.

5. PUBLIC POLICY FRAMEWORK TO STIMULATE INVESTMENT

The Textile sector of Bangladesh achieved notable progress driven by demand created by the rapid growth of the RMG sector. The Government also provided appropriate incentive packages to stimulate this growth. The public policy framework to stimulate investment also had a great role in fuelling the growth in the sector. There were adequate fiscal incentives like duty drawback facilities, tax holiday, cash assistance, income tax rebate facilities, zero tariffs on machinery input, and concessional tariff rate on other imported inputs. Financial incentives like availability of bonded warehouse facilities, provision of import under back-to-back LCs, credit at concessional rates, an export credit guarantee scheme, and a scheme for retention of foreign exchange earned by the exporters also helped.

The setting-up of the export processing zones (EPZ) in Dhaka and Chittagong and allowing setting-up of EPZs in the private sector also played a positive role in augmenting investment in this sector. It is reported that the number of units in these EPZs went up from 64 in FY 97 to 344 in FY 00. The relative investment went up from US$ 150 million to a cumulative amount of US$ 840 million in these zones during the same period. Almost half of these investments went to the RMG sector and the other half to backward linkage industries.

6. PUBLIC AND PRIVATE SECTOR PARTNERSHIPS

Strategic alliances and partnerships are necessary for successful execution of overseas orders. Most of the successful Bangladeshi companies have built up these partnerships and alliances with mills in the textile sector, both at home and abroad. Below please find some of the arrangements that some companies have made with major fabric suppliers that exist in Bangladesh.

Arrangements with mills allow garment manufacturers to jointly develop fabric designs, participate in overseas trade fairs to simultaneously display fabric and garment manufacturing and to co-ordinate production plans so as to cut delivery time and to handle repeat orders efficiently. As a part of this plan of action, companies are jointly participating in two major textile fairs that are taking place in Europe next month, the “Intertex Milano” in Italy being held on Sept 15th to 17th and “Texworld” in Paris being held on Sept 18th to 21st. In these fair participation companies share the same stall, displaying the range of fabric manufactured by mills and the garments made out of it. Garment manufacturers assist textile mills in their marketing approach, e.g. in providing late information on fashion trends. This is a classic example of a partnership at the enterprise level in Bangladesh.

The relationship between textile and clothing manufacturers has a history of suspicion and distrust. This had been the case from the very beginning when the RMG sector was emerging, using imported fabric. For example in some instances imported fabric for use in garment manufacturing "leaked" to the local market, negatively affecting the domestic market for textiles. On the other hand, the textile sector is highly protected. Due to this protection it lost its market contact and subsequently some of its competitiveness. Thus, two fundamentally different interests confront each other, resulting in a not necessarily co-operative atmosphere between the respective manufacturers associations. However, at the enterprise level, co-operation and the desire to build sustainable partnerships and alliances is excellent.

Garment manufacturers have also developed alliances with overseas fabric suppliers. The local RMG makers, and especially those who source fabrics themselves have established close relationships with textile mills in China, India, Indonesia, Thailand, Malaysia, Korea and Taiwan. These partnerships range from simple sourcing to fabric development for special consumer demand. Thus, a framework of partnership and alliances both at home and abroad exist.

The only country in the region that has high potential of supplying fabric and that is in close proximity to Bangladesh is India. Thus, Bangladeshi garment manufacturers source substantially in India at internationally competitive prices. Furthermore, in order to benefit from duty free access or, at least lower duties under the general GSP scheme, to the EU market, Bangladesh could utilize the option of "SAARC Cumulation" under the Rules of Origin requirements. This, however, is a political decision, heavily disputed between the textile and clothing sub-sectors.

7. CONCLUDING REMARKS

Though there is no concrete data available on investment made in the textile sector in the last couple of decades, the above dissertation of circumstantial parameters amply suggests that investment has taken place in the sector and the growth was noteworthy. A number of factors like the existence of a large RMG export base creating a large demand for the textile, the incentive package especially the cash subsidy given by the government, and the cry of the RMG sector for local raw materials in order to be able to respond quickly to the need of the ultimate garment buyers, appeared to have boosted this growth. There is awareness amongst the entrepreneurs to create and for those who are already in the textile sector, to enhance their capacity to service this growing demand. In addition to the capacities discussed above, many new mills and capacity expansion of the existing mills are in the pipeline in spinning, weaving, knitting and dyeing and finishing sectors.

The emergence of new labour and environmental standards and the RMG sector's spontaneous response to implement them suggest that the RMG sector is gearing themselves up to cope with the emerging requirements as demanded by their customers. Under pressure of competition, they are also upgrading their technology of production, learning to cut costs and improve productivity and invest in backward and forward linkages to sharpen their competitive ability. Though the growth is declining, new investments are taking place in RMG as a means to harnessing economics of productivity and production. In the process, some smaller units that are unable to cope with the changing requirement of the market, may perish. However, the increased capacity of the other more agile manufacturers is likely to compensate for this loss of capacity created by the shut down of the less capable units. Thus, the market for fabric is not likely to be affected.

There is reason to believe that Bangladesh will have some preferential market access even in the post MFA era starting in January 2005. The EU recently has given duty free concessions under "Everything but Arms" (EBA) scheme to Bangladesh. Canada has also announced that from January 2003, all imports into Canada from Bangladesh including RMG shall be duty free. Citing USTADA 2000, Bangladesh is lobbying for similar benefits from USA also. All these concessions would result in a better scope for our products in the future in these major markets.

Thus, the assured market for backward linkage industries is likely to remain robust in the years to come. However, proliferation of these industries will depend upon continuation of the government policy framework to support such development, an appropriate and enabling investment environment and availability of adequate financing for these projects at internationally competitive rates of interest and other service charges.