Cotton Outlook

Special Feature

March 2009

Bangladesh - Seeking to Sustain Growth

Contents

Page design and layout by Pam Jones, Cotlook Limited.
Published by : Cotlook Limited, Outlook House, 458 New Chester Road, Rock Ferry, Birkenhead, Merseyside, CH42 2AE, U.K.
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Bangladesh – Seeking to Sustain Growth

By **Matt Robinson,** Cotlook Limited

Dhaka has always been a unique place to visit, with its diverse cultural influences, history and architecture, including the iconic National Parliament House designed by US architect, Louis Kahn. The traffic alone is a sight to behold and a somewhat unstable political climate has always made life unpredictable. The structure of the textile and clothing industry is also very different from that of many other countries, controlled as it is by a fairly small and reasonably tight-knit community of local entrepreneurs.

Parliament House, Dhaka.

A recent trip confirmed that the traffic has not changed, but, significantly, the political situation has. The country started the year on a wave of optimism, following the peaceful conclusion of democratic elections in December and a landslide victory for the Awami League, which heralded the end of two years of military rule. A number of fresh faces were appointed to the cabinet, with some more experienced politicians overlooked, reinforcing hope that the allegations of corruption that tainted previous regimes may have been assigned to history. The feeling among local industrialists was that the large mandate handed to the new government provided a good opportunity to lay down foundations for a sustained period of political stability and economic growth. However, as many of the contributors to this Special Feature confirm, the politicians' ambitions for the local economy have been overtaken somewhat by global concerns.

When we last published a Special Feature on Bangladesh in March 2000, the main preoccupation remained the development of the local spinning industry to supply the thriving garment export sector and therefore increase value addition. The interim period has been marked by substantial investment in primary textile production, as the accompanying table suggests, but what is clear is that more needs to be done in order to meet the projected requirements of the garment industry (see the forecasts put forward by the Secretary to the Minister of Textiles elsewhere in this publication).

Growth in Spindle Capacity

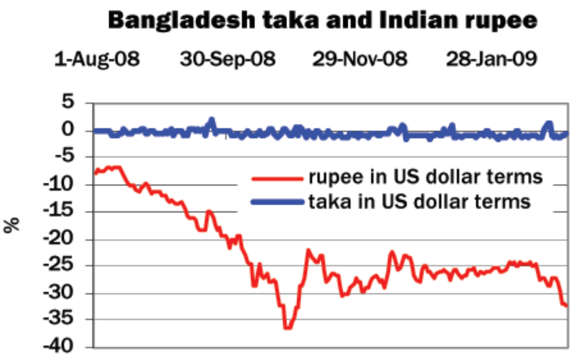
Year	No. of Mills	Spindles	Growth
1995	84	1,701,823	-
2000	116	2,289,280	34.51%
2001	145	2,352,310	2.75%
2002	163	3,390,026	61.44%
2003	174	4,319,504	0.87%
2004	197	3,931,624	4.90%
2005	230	4,937,353	25.58%
2006	260	5,500,000	11.39%
2007	301	6,200,000	12.73%
2008	341	7,200,000	16.13%

Moreover, recent developments have served to undermine some of the backward linkages that have been established in recent years, principal among which has been price competition from Indian yarn imports. As the accompanying Bangladesh figures suggest, the volume of shipments through the Benapole land port had begun to grow strongly towards the end of last year, admittedly from a low base.

Cotton Yarn Imports through the Benapole Land Port

Month	Qty (MT)	Value in Taka
August	14	2,670,482
September	131	2,69,88,035
October	669	12,89,84,455
November	1,322	24,96,61,062
December	2,415	41,87,63,548

However, official Indian figures point to the overall total being much higher, indicating that 30,000 tonnes of cotton yarn were exported to Bangladesh between April and June last year alone (more up-to-date figures are not yet available). Bangladesh was the largest destination for Indian cotton yarn exports during that period. Certainly, anecdotal evidence would seem to suggest that the volumes are higher, with many Bangladesh spinners complaining that they face the choice of allowing their yarn stocks accumulate, or selling at a loss in order to compete with Indian suppliers. The reopening of the Benapole land border for yarn imports towards the middle of last year is thought to have been a factor in the increased penetration by Indian sellers, as has the continuing reduction of payments by the Bangladesh government, compensating knitters for using domestic yarn. However, perhaps the most important development has been the relative movements of the Indian and Bangladesh currencies against the US dollar in recent months (see chart herewith). The rupee depreciated substantially during September/October last year and has since remained at those devalued levels. The taka's standing against the dollar has remained fairly constant throughout the current marketing year.



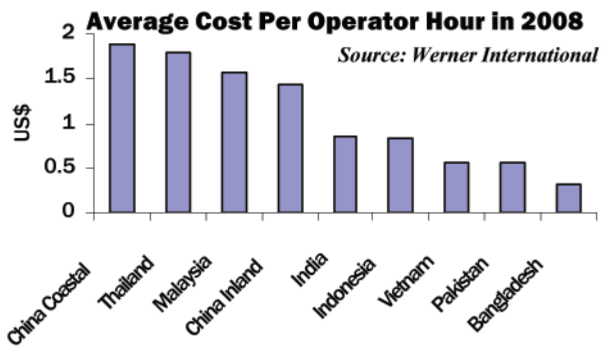
The situation has become increasingly unsustainable for many spinning mills since January and some additional closures, or curtailments in operating capacity, have been reported in recent weeks. Vertically-integrated manufacturers have generally fared better, with some able to dispose of their yarn output on the domestic market, offsetting any losses incurred there by spinning Indian yarn to produce their end products. However, a slowing down in garment orders during the early stages of this year may portend a further deterioration in the market climate for all participants.

Lobbying by the Bangladesh Textile Mills Association (BTMA), to which Cotlook is indebted for its support in producing this Special Feature, has persuaded the government to introduce more stringent rules on the documentation of cotton yarn imports through Benapole. Although the BTMA has applauded the move, some private sources have questioned whether it will have the desired effect, namely limiting the volume of imports, particularly as the rupee has again weakened against the dollar. Other proposals put forward by the BTMA such as a moratorium for manufacturers on existing loans, an increase in the incentive paid to fabric manufacturers to use local yarn and funding for research and development do not currently appear to be under consideration by the government.

Exports of Woven and Knit Items

Year	Woven	Knit
	in 000 dozen	
1999-00	66,636	45,270
2000-01	71,218	52,536
2001-02	77,055	63,390
2002-03	82,835	69,178
2003-04	90,488	91,600
2004-05	92,262	120,131
2005-06	108,815	165,023
2006-07	133,075	199,544
2007-08	147,425	241,594

Unquestionably, the local textile and clothing industry is confronting the most serious challenges of its recent history, a fact that is broadly recognised by all that have contributed to this publication. Our contributors also refer to areas which need to be addressed in order to strengthen the industry's competitive standing, among which the high cost of finance is prominent, along with the need for better infrastructure – an increased supply of cheap energy from the country's gas fields is mentioned, as is the need for an improved transport link between Dhaka (where most mills are based) and Chittagong (the major sea port). Nevertheless, it is noteworthy that most also remain confident that there are sufficient strengths within the industry to provide scope for further expansion beyond what will probably prove a difficult year. One the most important advantages is highlighted in the latest report by ***Werner International*** (a management consultancy based in the United States) on comparative labour costs. According to the data, among the world's major producers of primary textiles, wages in Bangladesh (converted into US dollars) were the lowest in 2008 by a considerable margin (a more detailed breakdown of average cost per operator hour in Asian countries is shown in the accompanying chart).



One only has to look at the recent trend in garment exports (see table above) to see that the industry has up to now proved competitive on the global stage, particularly in knitwear. Moreover, anecdotal reports have suggested that market share has been recently been won from China in low to medium quality goods, owing to increases in that country's production costs. Some have suggested that, if the cost of investment can be brought down, or the terms improved, there is scope to increase local production of woven cloth, to meet growing interest in sourcing home textiles from Bangladesh, with the associated need for backward linkages to the spinning sector.

There is ample evidence to suggest that opportunities for further growth exist in Bangladesh. However, firstly, the current storm must be weathered and, secondly, once the business climate begins to improve, all stakeholders will need to work together to find the best possible ways of exploiting those opportunities.

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Future Prospects of Bangladesh's Raw Cotton and Textile Industry

By **ABM Abdul Howk Chowdhury,** Secretary to the Minister of Textiles and Jute, Government of the People's Republic of Bangladesh

Introduction and Background of Textile Manufacturing in Bangladesh:

The area now comprising Bangladesh has a long heritage in the production of cotton and cotton-based textile products. The world famous finest fabric, namely "Muslin", was produced in the area surrounding the river Shitalakhya near Dhaka during the Mughal era and the early British colonial period. Later, the supply of raw cotton from former West Pakistan to East Pakistan (now Bangladesh) opened up a new era of development in the local cotton spinning industry, and handloom weaving went through a period of revival. Between 1947 and 1971, mostly non-Bengali entrepreneurs established a new, mechanized, primary textile industry, which was blessed by the liberal business promotion policies of the Pakistan Government. As a result, after the liberation of Bangladesh in 1971, the textile industry's capacity stood at 858,000 spindles, 7,400 powerlooms and 375,000 handlooms, registering a good growth as compared to the 1947 situation, when the country had only 110,000 spindles and 2,700 powerlooms and comprised only 11 textile mills.

The export-oriented Ready Made Garment (RMG) industry started its journey from 1977-78 with only six manufacturing units owned by private entrepreneurs, while the Primary Textile Sector (PTS) was under state control until 1982. The PTS and RMG industries started to expand from 1982-83 under private initiatives, due to the adoption of a privatisation policy by the Government from 1982. Under the dynamic leadership of the private sector, with policy support from the Government, the export-oriented RMG industry has shown a spectacular growth during the last two and a half decades, although the primary textile sector initially could not keep pace with the supply of yarn and fabrics required, particularly by the woven RMG sector.

Present Structure of the Textile Industry:

The PTS and RMG industries in recent years have made appreciable achievements in different sub-sectors, which is evident from their structure (as of 2008) as shown below:

Sub-sector	No. of Mills	Sub-sector	Installed machine capacity	Unit	Production Capacity / Year (in million)
Public Sector					
Spinning	24	Spindle	460,000	kg	40
Private sector					
Spinning (Cotton)	312	Spindle	8,230,104	kg	1,495
Spinning (Synthetic yarn)	27	Spindle	673,276	Kg	180
Total (Public & Private):	**363**	**Spindle**	**9,363,380**	**Kg**	**1,714**
Weaving mill (Large, Medium & small)	1,131	Shuttle/Shuttless Loom	48,659	Meter	2,011
Handloom	148,342	Handloom	498,000	Meter	837
Terry Towel	72	Terry/Power Loom	1,896	Meter	34
Sub-total :	**149,545**		**548,555**	**Meter**	**2,882**
Dyeing Finishing	359	Finished Fabric	6,755	Eqv. Meter	6,084
Sweater	607	Flat & Jachard	**306,848**	Pcs	**6,568**
Ready-made Garments					
Woven	1,382	Sewing Machine	391,723	Pcs	3,508
Knit	462	Over lock	148,448	Pcs	5,378
Sub-total :	**1,844**		**540,171**		**8,886**
Knitting & Knit-dyeing	822	Knitting & Dyeing	**12,891**	Eqv. Meter	**7,414**

The PTS is now capable of supplying about 85 percent of the fabrics required for the export-oriented knit RMG industry and 26 percent of the woven RMG industry. Because of the high dependence of the woven RMG sector on imported fabrics, the net value addition from exports of this sub-sector was only 20 in 1997/98 percent, rising to about 45 percent in 2007/08. This compares with 80-85 percent value addition in knitwear exports.

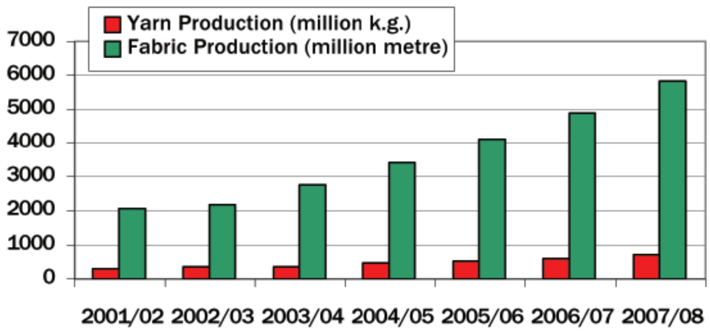
Contribution of PTS and RMG Industries to the National Economy:

PTS and RMG industries now play an important role in the economic development of Bangladesh by contributing about 40 percent of industrial value addition, providing five million jobs (of which 70 percent are women) and 78 percent of the total export earnings. They contribute 10.5 percent to GDP and generate huge cliental bases for banking, insurance, shipping, transport, hotel, cosmetics, toiletries and other related economic activities.

Domestic Production of Yarn and Fabric:

The domestic production trend of yarn and fabric of Bangladesh from 2001-02 to 2007-08 is shown below:

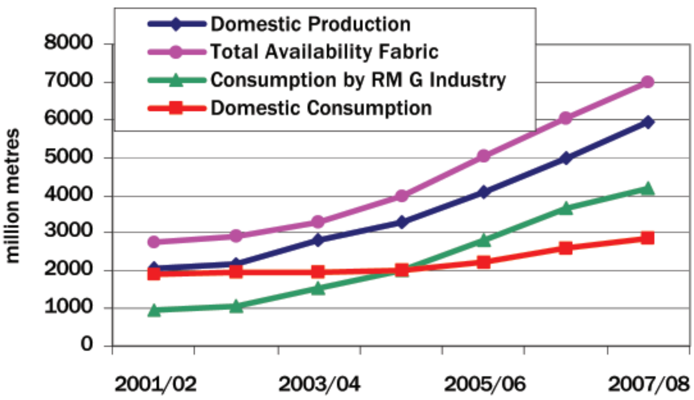
Domestic Production of Yarn and Fabrics



The production of yarn and fabric shows a highly positive trend having an average annual growth of 15 percent for yarn and 19 percent for fabric from 2002-03 through 2007-08. This high growth rate was possible due to the various promotional policy measures adopted by the Government and the dynamic management capability of local entrepreneurs.

Locally produced textiles are used in the export-oriented RMG sector, as well as to meet the major clothing requirements of the domestic market and are also exported directly to overseas countries. Moreover, the demand-production gap of fabrics is met out of imports from different sources. Trends in domestic production and consumption of fabric (also taking into account imports) is shown as under:

Domestic Production and Consumption of Fabrics



Basis of estimates: Total availability figures are based on actual production quantity, plus import quantity estimated from value of imports obtained from Bangladesh Bank. Fabric consumption for RMG estimated on the basis of quantity exported in dozen.

It appears from the last seven years of domestic fabric availability levels that there is a considerable demand-production gap, despite an average annual increase in output of 18.8 percent.

Export Earnings from PTS and RMG Products:

Export earnings (in millions of US$) from PTS and RMG products for 2001-02 through 2007-08 are shown herewith.

PTS and RMG export earnings accounted for 80 percent of the national total in 2007-08, an increase from 41 percent in 1989-90 and 66 percent in 1995-96. Thus, the textile sector has a high potential for foreign exchange earnings.

Export Earnings

in millions of US$

Export Items	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
(a) Textile Articles:	48.01	33.50	42.75	46.09	110.58	113.04	181.56
(b) Specialised textiles:							
1) Terry Towel	49.92	56.48	68.26	65.34	78.07	107.63	113.87
2) Home Textiles	74.81	71.25	135.40	157.44	160.96	260.98	293.96
Sub Total:	**124.73**	**127.73**	**203.67**	**222.78**	**239.03**	**368.61**	**407.83**
(c) Knitwear:	1,458.74	1,653.83	2,148.75	2,840.25	3,717.96	4,624.59	5,581.34
(d) Woven garments:	3,092.78	3,252.66	3,535.67	3,628.29	3,977.87	4,730.24	5,212.87
Sub Total (RMG)	**4,551.51**	**4,906.49**	**5,684.42**	**6,468.54**	**7,695.84**	**9,354.83**	**10,794.22**
(e) Other manufactured products:	0.11	0.17	0.65	0.44	66.09	40.32	63.81
Total:	**4,720.93**	**4,953.57**	**5,939.24**	**6,745.90**	**8,111.54**	**9,840.98**	**11,447.46**
Bangladeh's Total Export	**5,925.20**	**6,537.15**	**7,597.83**	**8,726.88**	**10,253.09**	**12,367.69**	**14,235.31**

Source: Export Promotion Bureau (EPB), Ministry of Commerce.

Market Scenario of PTS and RMG: (MFA and Post-MFA):

There was an apprehension that, after the phasing-out of quotas from January 2005, Bangladesh RMG exports would face severe competition from developing countries with strong primary textile industries. Fortunately, however, global RMG export figures from January 2005 to date reveal the following:

- Total export volumes have been increasing continuously;
- Global garment exports increased but fabric shipments declined;
- The number of supply sources has been reduced, due to the end of guaranteed markets/protected sources - survival of competitive suppliers and gains for those with full value-addition chains;
- Countries with a strong PTS have achieved higher growth (China, India, Pakistan, Turkey and Bangladesh);
- Countries with strong and mature RMG export sector, but with weaker PTS have not achieved significant growth (Sri- Lanka, Mauritius).

Local Production of Raw Cotton:

The land and weather are suitable for the production of American-style cotton but it has to compete with many other crops, such as rice, wheat, sugarcane etc., which are more profitable. Bangladesh also produces a very small quantity of ‘Comilla’ cotton, which is not spinnable but used for special purposes. Comilla cotton is mostly exported to Japan and other developed countries. Moreover, cotton is a very sensitive crop, which requires intensive care in the application of insecticides and pesticides and also requires proper nursing for gainful cultivation. The production levels of cotton for the last 30 years do not show encouraging prospects for increasing local production. A table showing the trend in production for selected years from 1977-78 to 2007-08 may be seen below:

Year	Cotton Production (in MT)		
	American Cotton	Comilla Cotton	Total
1977/78	254.80		254.80
1981/82	2,966.60	105.56	3,072.16
1991/92	9,919.00	891.80	10,810.80
2001/02	14,196.00	1,001.00	15,197.00
2007/08	6,672.00	1,041.00	7,713.00

The demand (2007-08) for cotton and man-made fibres for the textile spinning sector is around 900 million kilos, of which the lint cotton requirement is around 630 million kilos. The average annual local production level of upland cotton is only 6,672 metric tonnes, which is less than one percent of the total domestic requirement. So, Bangladesh remains a net importer of raw cotton.

Policy Issues for Development of Bangladesh’s PTS:

The overall textile sector has been facing problems / constraints with regard to the following:

- High equity participation by banks discourages new investment;
- Borrowing rates are higher compared with those of competing countries;
- No special investment fund with attractive lending terms and conditions;
- Subsidies and benefits allowed by competing countries in production of textile inputs and outputs make their end-products more competitive;
- High tariffs on power and gas, duties/taxes on dyes and chemicals, VAT on local textile products;
- Human resources and skill levels are below international standards;
- Education and training facilities are very limited compared to their growing demand;
- Competitive labour costs, but with low productivity and inconsistent quality of products;
- Shortage of technical know-how and use of outdated technology (in the majority of mills) in weaving and dyeing/finishing sub-sectors.

In order to overcome these problems, the Government is providing various supportive facilities, such as, (i) duty and tax-free imports of basic raw materials (raw cotton); (ii) gradual rationalisation of tariffs and taxes on primary, intermediate and finished products; (iii) duty and tax-free import of capital machinery and spares; (iv) cash incentives for suppliers of inputs to the export-oriented RMG industry; (v) duty exemption on some selected dyes, chemicals and sizing materials.

Moreover, various other measures such as, minimising equity participation in initial investment loans, lower interest rates for long and short-term financing, cash incentives in lieu of duty drawback, as well as the establishment of bonded warehouses, skill development training, rationalisation of income tax and tax holidays are now under active consideration of the present Government.

Supply Shortfall in Textile Products and Investment Opportunities in the PTS:

Growth in textiles and apparel exports is expected to continue in the future, owing to various positive factors, such as the European Union’s Generalised System of Preferences, duty-free access to countries like Canada, Australia and Japan, competitively priced labour, the efficient entrepreneurial capabilities of RMG manufacturers, a global marketing network and the Government’s continuing support.

Keeping in view the above points, the local industry's prospective annual requirement for fabrics (upto 2014-15) for both the domestic market and for RMG exports has been worked out and shown in the table to the right:

Year	Projected Demand of Fabrics (Quantity in mln. mtr.)				
		Export through RMG			
	Domestic Market (Growth Rate 6%)	Knit (Growth Rate 8.5%)	Woven (Growth Rate 6%)	Total Exports	Total Offtake
2007-08 (Base year)	2,742	4,221	2,738	6,959	9,701
Projected :					
2008-09	2,907	4,580	2,902	7,482	10,389
2009-10	3,081	4,969	3,076	8,045	11,126
2010-11	3,266	5,391	3,261	8,652	11,918
2011-12	3,462	5,850	3,457	9,306	12,768
2012-13	3,669	6,347	3,664	10,011	13,680
2013-14	3,890	6,886	3,884	10,770	14,660
2014-15	4,123	7,472	4,117	11,589	15,712

The projection shows that the total demand for fabrics will stand at 15,712 million metres in 2014-15, of which 4,123 million metres will be for domestic consumption and 11,589 million metres for export-oriented RMG (for knit 7,472 million metres and for woven 4,117 million metres). The supply shortfall in fabric by 2014-15 would therefore be 6,455 million metres, of which knit fabric would account for 3,138 million metres (523 million kilos). That huge gap will have to be filled with imports, unless the required capacity is built in the country. The details of the projected shortfall in fabric production are shown in the above table.

Projected Shortfall in Fabric Production (Quantity in mln. Mtr.)

Description	Base Year (2007-08)				Projected for 2014-15			
	Domestic	Export		Total	Domestic	Export		Total
		Knit	Woven			Knit	Woven	
(i) Demand	2,742	4,221	2,738	9,701	4,123	7,472	4,117	15,712
(ii) Domestic Actual production/ Production Plan (as % of total demand)	-	-	-	-	3,472(84%)	6,725(90%)	2,059(50%)	12,255(78%)
(iii) (-) Production with existing facilities	1,502(55%)	3,587(85%)	711(26%)	5,800(62%)	1,502(55%)	3,587(85%)	711(26%)	5,800(62%)
(iv) Remaining Fabrics to be produced through creation of new capacity [ii-iii]	-		-	-	34%	48%	17%	37%

Prospects for the Creation of New Capacity in Different Sub-sectors of the PTS:

In order to meet the demand-production gaps of different sub-sectors of the PTS, the country will need to set up a considerable number of new units by the FY 2014-15 as indicated below:

Type of Textile Processing Industry	Volume of Yarn and Fabrics to be Produced	Capacity per year per unit	Estimated No. of Unit
Spinning Unit (25,000 spindles/unit)	1,075 million kg.	4.6 million kg	233
Weaving (120 shuttle less looms/unit)	2,924 million metres	13 million metres	224
Knitting and Knit-Processing	523 million kg (3,138 million metres)	1.725 million kg	303
Woven Fabric Processing	2,924 million metres	20 million metres	146

Conclusion:

The domestic PTS now operates in a demand-driven, expanding market, owing to spectacular growth in RMG to the USA, EU, Canada, Australia and many other countries. In addition, scope exists for exporting increased quantities of various textile products, such as fabrics, terry towelling, home textiles, as well as continuing to meet domestic offtake of such goods.

In order to meet the growing demand for textile products, Bangladesh has to create new capacities as well as updating existing ones, for which considerable investment will be required.

A sustainable supply of resource personnel and support services (research, design, testing, standardisation, accreditation, compliance etc.) are also required.

With the gradual increase in textile production, demand for cotton is also rising, but due to various limitations to local output, manufacturers will remain dependent on imports. So, a judicial procurement policy needs to be developed for the efficient purchase of cotton at a reasonable price. Bangladesh either has to produce cotton and manufacture fibres, or should make a long-term contractual arrangement with some preferred fibre supplying country(s). For ensuring sustainable development of textiles and RMG industry, a comprehensive policy is being formulated by the newly-elected Government of the People's Republic of Bangladesh.

What a Difference a Year Makes.....

By **Hissam Khandker,** Delcot Enterprises Limited

Last year, even after the dramatic reversal of fortunes of the international financial sector and its effects on the wider global economy, Bangladesh mistakenly felt itself fairly insulated.

Bangladesh has historically been extremely strong in textiles. Fabrics from Bengal have been found in ancient Egyptian tombs, and were actively traded with both the Roman and Chinese empires over 2,000 years ago. The legendry fashion icon, the French Queen Marie Antoinette, was famously painted in the 18th century wearing Dhaka Muslin (a hand spun and woven fabric made from 500+ count cotton yarn weighing an incredible 500 grams for 60 meters), making the fabric extremely sought after across Europe, until production was banned in the 1800's by the British Raj to protect the Manchester textile trade.

Marie Antoinette in Dhaka Muslin.

There exists in the collective knowledge base of Bengal a great expertise with regards to textiles, as well as a great reverence towards the trade with such venerable men as Mahatma Gandhi saying in 1926, "I see god in every thread I draw on the spinning wheel". Traditionally, girls are taught to sew intricate patterns from early childhood, and in rural communities both men and women are apprenticed in weaving (its estimated that there are over one million traditional weavers producing over 650 million meters of fabric annually). These skills and disciplines in sewing and weaving are passed down through generations and are quickly transferred to production lines in today's modern factories.

After the partition of India at the end of colonial rule, what is today Bangladesh (previously East Pakistan) saw renewed private investment in the textile sector, with several mills being established. However, during the war for Bangladesh's independence from West Pakistan (today's Pakistan), many mills were either left abandoned by owners who chose to leave Bangladesh, or were left destroyed by the war. The new government, in an attempt at a state dominated socialist economy, chose to nationalise major industry soon after the war, creating the mammoth state corporation BTMC (Bangladesh Textile Mills Corporation) to oversee all textiles spinning and fabric production. The state-run BTMC was at one time reputed to be the single largest global buyer of cotton from the international trade. However, close to three decades of mismanagement and corruption soon left the BTMC crippled and unable to meet even a fraction of local demand for yarn and cloth. In the early 1980's, small-scale independent investment started in the ready-made garments sector. At the time, it was not considered viable and received very little government attention. However, within a decade, the Bangladesh garment industry had flourished and by the early 1990s had emerged as a major employer. In parallel to this growth, government came to realize that for the garment sector to truly grow it would need to reverse decades of state control of textile production and encourage the private sector to invest in new mills. The government initiated this by the return of nationalised mills to previous ownership, and by encouraging private investment. In approximately 20 years Bangladesh has grown to:

341 Spinning mills with 7,200,000 spindles
4,500 Garment factories
400 Woven fabric units
1,065 Textile and powerloom mills
148,342 Handloom factories
2,800 Knit fabric units (export/ local)
4,500,000 Total related work force

The country currently exports over US$11 billion in textiles and garments, with a projected target of US$24 billion dollars by 2020.

Three independent associations are responsible for the textile sector: the BTMA (Bangladesh Textile Manufacturers Association), which represents spinners, woven fabric manufacturers and dyeing units; the BGMEA (Bangladesh Garment Manufacturers and Exporters Association), which represents the ready made garments sector, primarily the cut and sew units; and the BKMEA (Bangladesh Knitwear Manufacturer and Exporters Association), which represents the knitwear fabric manufacturers, the fabric dyeing units and the knit garment cut and sew units. These three associations work either in collaboration, or independently from each other, subject to the agenda they may be forwarding. However, it should be borne in mind that the bulk of yarn manufactured by BTMA members is consumed by members of the BKMEA, which at times leave the two associations at opposing sides of an industry issue. The three main government departments that in turn work with these associations are the Ministry of Textile and Jute, the Ministry of Finance and the Ministry of Commerce.

The great strength of the Bangladesh textile industry is the limitless pool of motivated workers and entrepreneurs willing to invest. Due to a liberal cultural attitude towards women in the workforce, the garment sector has transformed a traditionally male dominated society to one where women have an equal status as earners in the household. Bangladesh's entry into the "modern" textile trade is relatively new, but textile entrepreneurs have proved able to quickly adapt to customer demands. An example being growing concern in buyer markets regarding environmental pollution standards, working environments, and worker safety, all issues that were quickly addressed in Bangladesh. Most manufacturers have also adapted to new standards imposed by buyers regarding child labour issues. Such versatility and willingness to change has insured this market has remained vibrant and growing, even though many international observers expected the industry to collapse in the post-MFA era, being swamped under Indian and Chinese competition.

Several weaknesses for Bangladesh, however, continue and still need to be addressed. Buyer markets still look upon Bangladesh as a high-risk supplier. Even after proving itself as a reliable, socially compliant producer, long-held prejudices persist, and Bangladesh still needs to address its international image. The country will remain vulnerable to worsening economic conditions in its main export markets, and will need to navigate a course in textiles without being capsized by India and China; both economic powerhouses whose governments have very deep pockets when it comes to supporting their domestic industry.

Currently, the local textile industry is trying to cope as best it can with the global financial crisis. The past two years (2007 and 2008) were years of large capital investment and it is expected that the next few years will see some consolidation. The ready-made garment sector - for both woven (shirting / pants) and the knits (T-shirts/pique polo's) - have recorded large order volumes. However, margins remain under pressure and most factories are finding it difficult to cover overhead costs at the current prices. The spinning sector, however, is faring far worse, with record yarn stocks and tightening bank credit lines; most spinners have been forced to reduce production by between 30 to 50 percent. With the Indian rupee having devalued by 17 percent during the last quarter, local yarn prices are unable to compete with imported yarn, leaving the industry fighting for its survival.

Investment in the spinning sector to date is estimated at over 4 billion euros. As I pointed out in my introduction, the industry generally believed itself to be isolated from the greater world. However, in today's world that is so inter-locked, isolation is not realistic. One possible reason for this perception is that, to date, the "outside" world has spent much of it energies either portraying Bangladesh as a nation plagued with floods and political problems, as well as an anomaly that should not have been able to succeed in face of textile competition from China and India.

The industry regretfully also feels that international institutions, such as the ICA, AFCOT and ACSA are old-boys clubs, isolated, far away, and not in touch with the needs of the industry in Bangladesh. We are possibly today seeing a seismic shift in world economies and will be going through several years of difficult and dangerous times in the business world. Never has there been a better time than now for these institutions to play a major role in helping both mills and shippers navigate through these unchartered waters. This is a rare opportunity to build bridges within the industry that will last possibly for decades to come, once the current turmoil has settled.

Bangladesh will survive these troubles times, and continue to grow as a major global player in textiles, garments and spinning.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Bangladesh Market at a Glance

By **Christophe Schneider,** Dunavant S.A.

Area:	**about 145,000 sq. km (about 5 times smaller than France).**
Population:	**over 150 million (ranked 7th highest in the World).**
Density:	**over 1,000 people per sq. km., which makes it the most populated country in the world (taking out the small city-states such as Singapore, Bahrain, Monaco etc.).**
Religion:	**90 percent Muslim (over 95% Sunni), making it the 4th biggest Muslim country.**

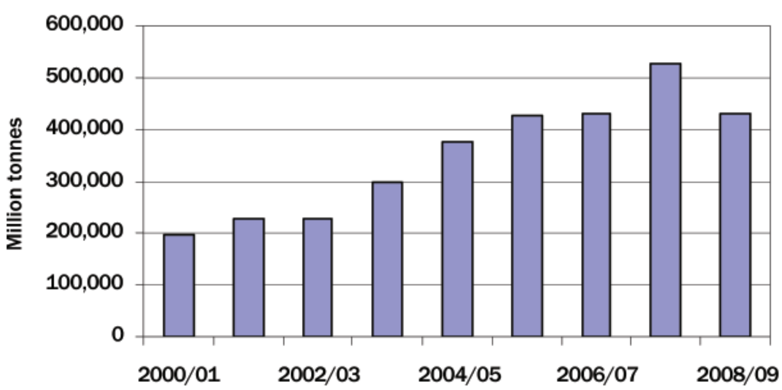
The general elections in December 2008 ended two years of emergency rule following a fierce political fight between the two largest parties, which has been waged on and off since the country acquired it's independence in 1971. The best way to picture the extent of the political unrest is that there were 266 days of strike (called "Hartal" locally) between 1991 and 1996 (during one of the political party's regimes) and 215 days between 1996 and 2001 (under the other party's administration)! With a landslide victory by the "Awami League" led by Sheikh Hasina, Bangladesh has now hopefully found some form of stability.

Before the end of the Multi Fibre Agreement (MFA), which ended on 1st of January 2005, many analysts predicted a disaster for the Bangladesh's textiles and clothing industry, including hundreds of thousands of job losses. On the contrary, the sector has flourished, with large retailers progressively shifting part of their basic knitwear orders (T-shirts, sweaters etc.) to Bangladesh from countries like China, Thailand and Indonesia, thanks to its ample, and still low-cost labour force, despite galloping inflation during the past few years in emerging countries.

Since the beginning of the 21st century, Bangladesh's cotton consumption has increased by over 265 percent from below 200,000 tonnes during the 2000/01 season, to 525,000 tonnes during the 2007/08 season from a total of over 300 spinning units, out of which more than 50 started production during the last 5 years alone. Apart from Bangladeshi entrepreneurs who were active players in the garment sector and subsequently started spinning, many of these new units belong to entrepreneurs active in totally different fields such as pharmaceuticals, tea processing, media/press, iron and steel, leather goods, jute, etc… These entrepreneurs did not have any experience in the textile sector, but saw a financial interest in spinning. With the explosion of new spinning units, many of the leading spinners have been forced to open their own "schools" to educate new workers, to replace the ones joining new units for better revenues.

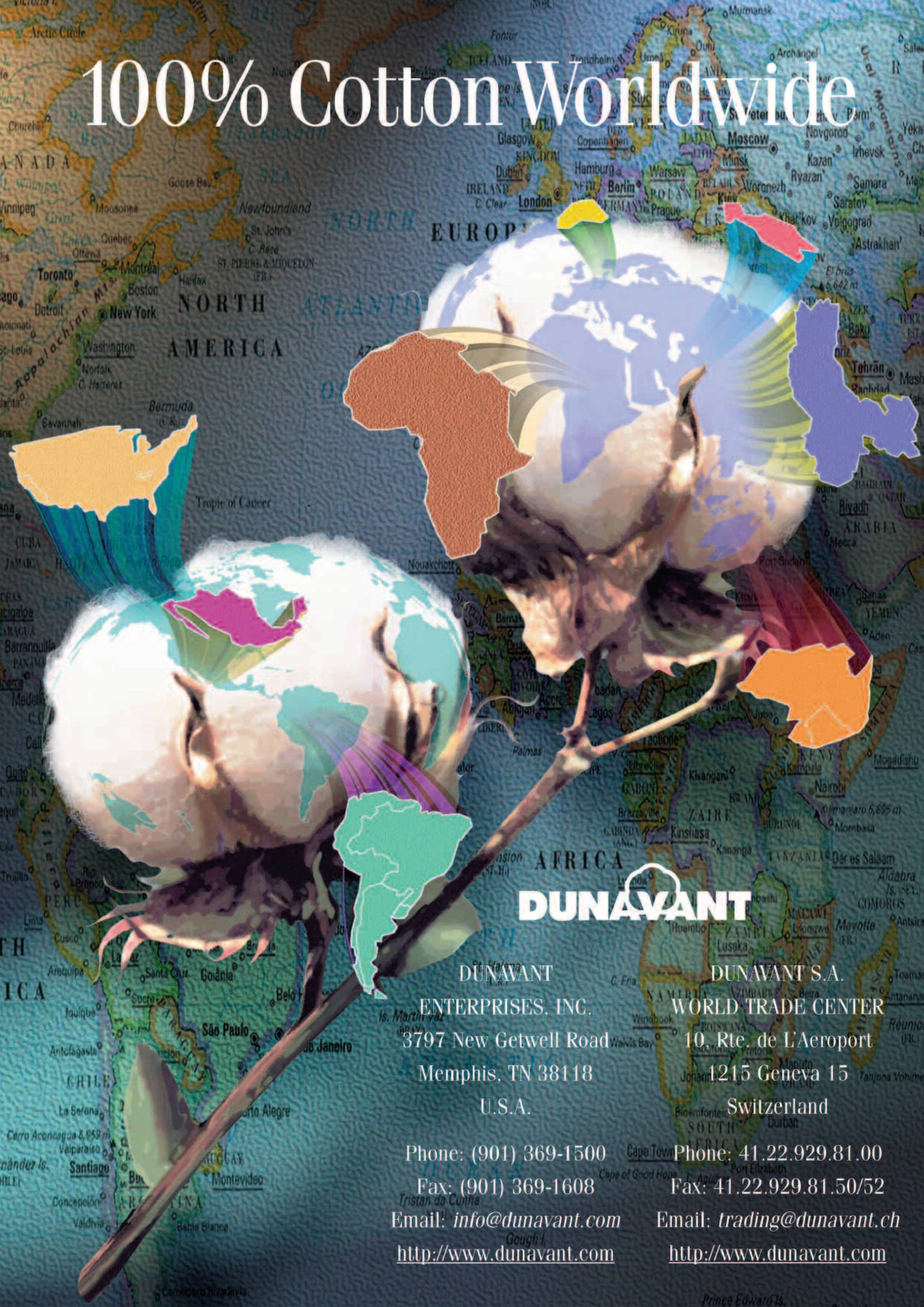
As far as the origins being imported by Bangladesh, the vast majority is from the C.I.S. countries, with Uzbekistan taking the lion's share with an estimated 55 to 60 percent of the total.

Bangladesh Cotton Consumption



Source: Cotlook Limited

Uzbek cotton is still by far the most popular for knitting-yarn producers, owing to the good staple (1-1/8 and longer), high strength (29 Gr./Tex and higher), Micronaire range between 4.0 and 4.8, and also thanks to it's low NEP count, being largely a hand-picked crop.



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The main alternative origins to Uzbek are Turkmen and Indian. Turkmen is generally sold “at par” or at a small discount to Uzbek, whereas, according to most spinners, Indian cotton needs to be at a discount of 5.00 cents per lb or more to attract their interest and to compensate for a typically higher humidity level, higher trash content and contamination level.

West African cotton is also hand-picked, but knitting-yarn spinners claim not to be able to produce similar qualities of yarn from it, mainly because of the creamier colour, colour variation between shipments, weaker fibre strength and Micronaire being generally lower, creating problems during the dyeing process.

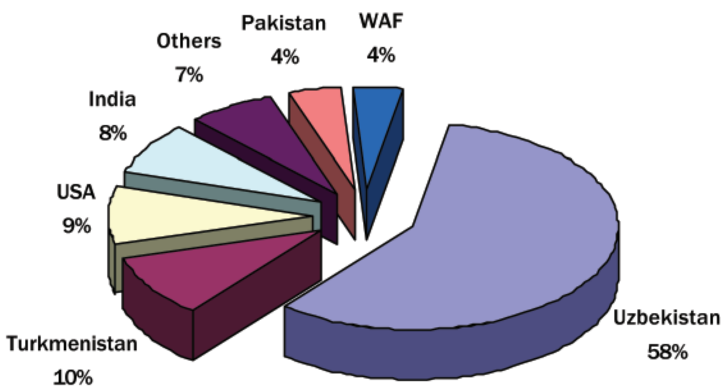
Let’s not forget that both the C.I.S. origins and the Indian cotton enjoy the great advantage of a short transit time of 2 to 3 weeks (maximum) versus a minimum of 35 days, but usually 40 to 45 days for West Africa cotton.

Other alternative origins, being hand-picked, are from East Africa, such as Zambian and Zimbabwe, which have been very well received by spinners and sold “at par”, or even at a premium over Uzbek when available.

The current challenges Bangladeshi spinners are facing with the world economic slow-down

Yarn business has been very slow, due in part to retailers piece-mealing their RMG orders to minimize their inventories, but also, more importantly, owing to the fact that Indian yarn is being offered locally below spinners’ break-even cost. Indian spinners benefited from low local new crop prices and, more significantly, from a devaluation of the Indian Rupee of around 15 percent since early August 2008! Spinners who refused to sell their yarn at a loss, hoping for better prices at end of last year/early this year, have accumulated stocks, forcing some of them to reduce their consumption for cash-flow reasons. Due to the above, some spinners are currently facing much tighter credit facilities from their financing bank(s), leading to delayed Letters of Credit to merchants with even potential closures and/or bankruptcies.

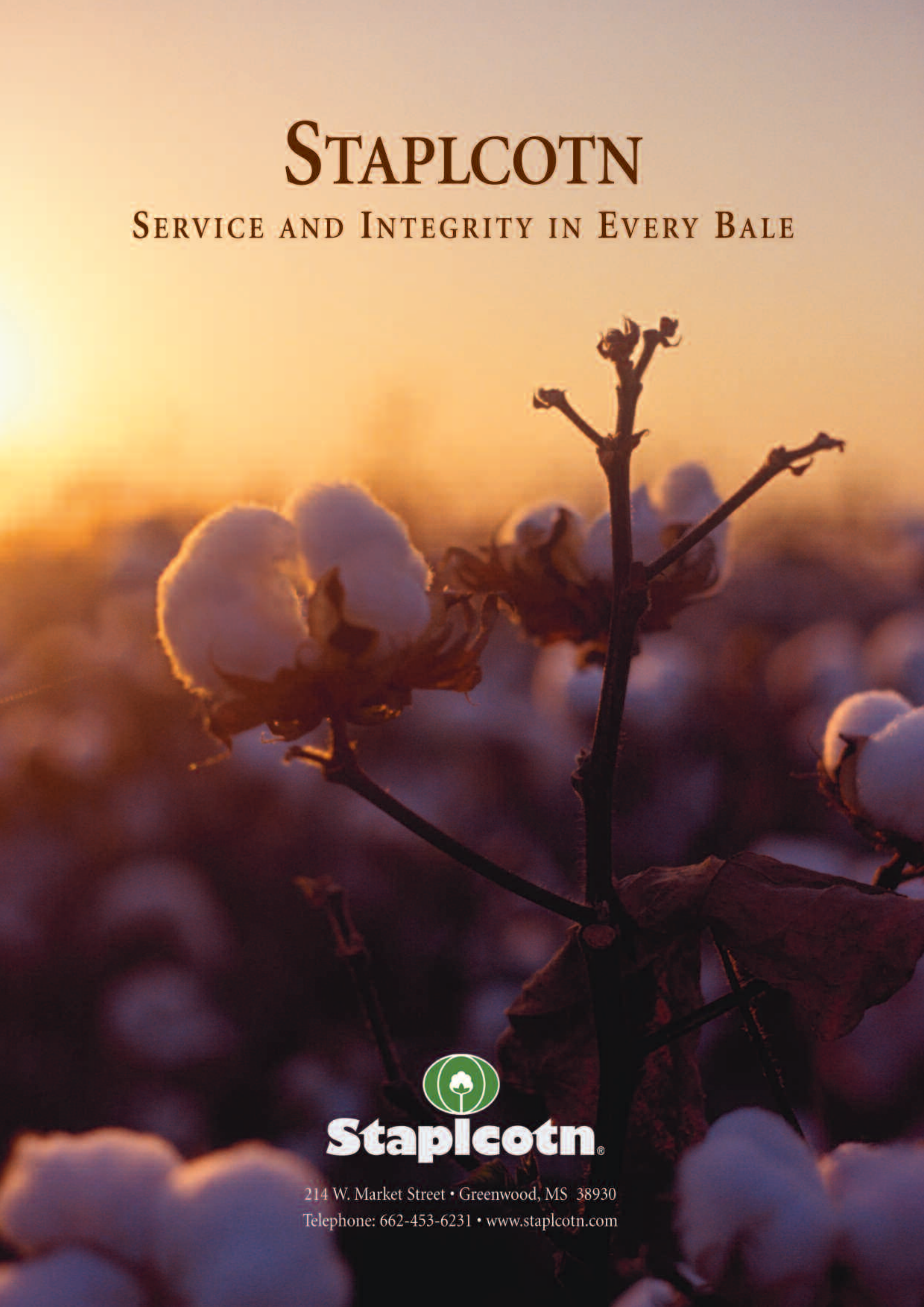
Estimated origins imported during 2008



A positive outlook for the future

Consumption is forecast to fall by roughly 15 percent this season, reflecting the current tough market.

Conditions, which can very well improve between now and end of July 2009. Looking further forward, once we see the light at the end of the tunnel (hoping it’s not the lights of an oncoming car…) Bangladesh is surely well positioned to supply the world with the textiles and clothing they produce at competitive prices, thanks to their ample, low-cost labour force and ever-increasing productivity. A stable political environment could help further, but, if not, this country will still quite surely manage its way like it has for the past 15 years.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Surviving the Recession: What the Global Financial Crisis Means for Bangladesh's Textile Industry

By **Sadat Omar.**
Sadat worked for IKEA Trading Bangladesh as Supply Manager for Textiles for six years. He is now working on a home textiles project of his own, seeking to respond to an increased demand for those products from global buyers.

Bangladesh has a strong and vibrant textiles industry. It has emerged as a leading producer of knitwear products for the global ready-made garment market, with significant investments made in backward linkage in this sector. This has allowed us to capitalize on preferential trade policies of the EU, USA, Canada, Australia and other countries, and occupy a place in the mid to low-quality, mass market for garments and textiles.

But with markets crashing left, right and centre, and first world economies going into recession or even bankruptcy, it is not surprising that a sense of gloom and doom is hovering over the movers and shakers of global industry. Bangladesh's garment and textile industry is not too different, but reactions vary from bleak to optimistic depending on whom you ask.

Garment exports during July through December 2008 registered growth compared to the previous financial year. Export statistics say that woven garments grew by 20.99 percent and knitwear by 27.07 percent. Home textiles and terry towel exports also registered positive growth during the same period, compared to the last financial year. It is likely that this growth was driven by seasonality, as retailers hoped there would be some relief during the Christmas shopping season, and so geared up for the expected sales. Bangladesh was buoyed by its low-cost production base as retailers shopped for cheap clothes to fill their shelves. Of course, the poor Christmas showing can now be relegated to history and we can safely say that the statistics are not an indication for assuming continued robust growth for Bangladesh's primary export earning sector in the coming year.

Without doubt, the world economy will contract further in 2009, with the GDP's of all major industrial nations registering negative growth. As the world economy contracts, it will continue to adversely impact manufacturing output in all developing countries dependent on exports. The impact, however, will vary from industry to industry. Automakers, the electronics industry, heavy industry and similar high value items are already suffering, exacerbating global woes as thousands of people are laid off every week on shrinking demand, further adding to the vicious recessionary cycle.

In a similar fashion, the global textile market will also shrink, but perhaps less so than other sectors. It is almost impossible to predict accurately by how much the textile market will contract, but if inventory is an indicator then major retailers are planning reductions of 20-30 percent in 2009. Bangladesh can, however, take comfort in the fact that opportunities will still exist to cater to mass-market clothing retailers, albeit from a smaller pie. As the purchasing power of western consumers shrinks, a new retail landscape will emerge, with consumers becoming more thrifty, focused on product quality and longevity, and very conscious about the value of money paid for clothing and other items considered “non-essential”.

Bangladesh is today probably poised in a unique position to capitalize on its low cost production base. Opportunity, they say, exists in every crisis. But this will not be handed to us on a silver platter. The industry will be affected by actions of other textile producing countries as they make concerted and coordinated efforts to compete for global business. We see evidence of this already, as currencies in India and Pakistan are devalued by up to 30 percent thereby making their exports cheaper, and China unrolls a stimulus package of about US$580 billion, a part of which is expected ease monetary policy and encourage banks to extend loans and credit facilities.

What should the textile industry and the nation do in this situation? A few suggestions which may be helpful follow.

First and foremost, the industry needs to focus on its core fundamentals, that it is based on a low-cost production model catering to the mass market. We should capitalise on falling raw material prices and focus on productivity and efficiency so that we retain our ability to produce quality products at the lowest price. Counter intuitively, this may be the best time for Bangladeshi entrepreneurs to invest in setting up new, modern capacities, particularly in the woven sector, or upgrade existing ones to take advantage of depressed machinery prices. Exploring new markets, particularly ones where Bangladesh is not traditionally exporting or holds insignificant market share, could possibly mitigate the effects of the fallout in Europe and the US. Improving on logistics and supply chain issues, thereby being more responsive to customer needs and enabling us to deliver faster to the market, will also give us a competitive advantage. The government can play an important role by setting a preferential export rate and reducing bank interest rates.

The challenges faced by the textile industry are many and severe. A well thought out approach by all the stakeholders is the need of the hour as we try and weather the storm. A strategy supporting survival and keeping market share, rather than growth, maybe a more pragmatic approach in the short-term health of Bangladesh’s textile industry.

Trends in Textile Machinery Investment in Bangladesh

An Interview with **Mr. Harun-ur-Rashid,** Managing Director of Textiles Associates Limited.

Mr. Rashid, could you begin by giving Cotlook readers some background to your company and your work?

Textile Associates Ltd. has been involved in the textile machinery (spinning, weaving, yarn dyeing & other sectors) indenting business since 1972 and is mostly dealing with well-established European textile machinery manufacturers. Our principals include Rieter, SSM, Sulzer Textil & Xorella from Switzerland, Savio, Somet, Vamatex, OBEM, Stalam & LTG from Italy and Kuster Calico from India.

Our main job is to sell machinery to reputed Bangladeshi customers, but also to provide all necessary after-sales services to those customers, so that they can get the best possible output from our supplied machinery and be a successful company in the local market, as well as be very, very competitive in the international market.

We do have a very good and well-organised sales team (headed by myself, Managing Director of the company), backed by a well-trained (by respective machinery suppliers), experienced service team (headed by my brother, chairman of the company), composed entirely of local engineers, in order to give all necessary technical and support services to our existing and future customers.

By the grace of ALMIGHTY ALLAH, we are doing well with our business and hope to continue the same in future.

What are the main investment trends you are seeing in the Bangladesh market at present?

As you know, the world economy is not doing well at all, especially in the USA and Europe, and Bangladesh has also been affected. In addition, we (Bangladesh) had some political problems during the past two years and people were not much interested in investing during that time. Now we have just come out of that very recently, by holding a general election on 29th December, 2008, and we do have now a so-called democratic government in place. It is too early to make any comments on the business policy of the new government, but definitely we hope to have positive things come out of the new administration.

At present our spinning sector is suffering greatly - almost every spinning mill has a huge stock of yarn in their factory which they can not sell, because our local yarns are not competitive enough with Indian imported yarns (India has own raw cotton, lower bank interest rates for the textile sector and their currency is comparatively weaker). Owing to that fact, basically there has been no investment in the spinning sector during the last 10-12 months (neither in new nor second-hand machines), and very little investment in other textile sectors (weaving, knitting and yarn dyeing).

As you know, our whole textile business is dependent on garment exports to the USA and Europe, and since those economies are doing very badly, people are not buying as much clothing as before. Consequently, our garment and textile industries are also suffering.

What, in your opinion, are the current production capacities in the various sectors you supply?

Spinning Sector: There are approximately 7,200,000 million spindles (new and second-hand) running in Bangladesh at present, which could feed only 80 to 85 percent of the required yarn for the knitting sector.

Knitting Sector: In 2007, the knit garment export sector had a total requirement of approximately 598 millions kilos of fabric, but the local knitting factories could supply them only roughly 490 millions kilos, 82 percent of their needs. Please note, by 2012, the projected requirements of the knit garment sector is about 965 millions kilos of fabric. To meet that need, we (Bangladesh) need to set-up a lot of new spinning and knitting factories in very near future.

Weaving Sector: As per the report in 2007, the total requirement of local producers of woven goods was 8.48 billion metres of fabric (2.46 billion for the domestic needs and the balance for export-orientated production). Local weavers could produce only 3.58 billions of meters for the export products (approximately 59 percent of requirements). The projection for 2012 is that export orientated producers will need roughly 12.03 billion metres of fabric, suggesting that a lot of weaving factories should be established in the next few years, otherwise the local export industry will suffer.

Please note, it has been calculated very carefully and found out that if we produce garments out of local yarn and fabrics (either knitted or woven), the retention is approximately 75 percent of the export garment value. Whereas, if imported fabrics are used then only 25 percent of the export value is retained. So it shows, once again, that if we want to get the best out of our garment exports, we should invest much more in the backward linkage industries (spinning, knitting, weaving etc.).

What are your projections for 2009 and 2010?

Around 500,000 people are directly employed in the spinning sector and about 3,000,000 in the garment sector, plus lots of others which are indirectly involved. The textiles and garment sectors contribute about 75 percent of our total foreign currency earnings, so it is a very, very important sector for Bangladesh and any government has to do its best to serve the sector.

The new government has been in power less then a month and it is therefore very early to make any comment on them, but we are very hopeful that they will do their utmost to serve the industry and that this will prove a positive sign for investment and that spending will pick up very soon (hopefully, the 2nd half of 2009).

As you know, the current climate is very tough - price, quality and productivity would be the main measure of a country’s strength, so we need to import the similar type of machines in the future to be compete with manufacturers elsewhere (basically Europe and China / India).

Low cost labourers in Bangladesh and lower energy costs (produced by natural gas) are our main advantages, but our financial costs (15 to 16 percent interest rates) are much higher then in other countries (such as India and China, our main competitors). We still believe that Bangladesh will remain, nevertheless, competitive for quite some time to come.