

## Textile industry in Bangladesh

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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 China<sup>1</sup>. 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 years<sup>2</sup>. 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 world<sup>3</sup>. 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 tackled<sup>4</sup>.

### History of the Textile Industry

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 textiles<sup>5</sup>. 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 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. 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.

**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<sup>7</sup>. 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<sup>6</sup>. 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<sup>8</sup>. 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 instable 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 downsizing of a firm. Hence the unemployment level will also increase. Govt shouldstep 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 nas only 28% of the total demand is met locallysub-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 indof 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 unrecausing 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 production be hampered by power failures. Export Performance of the Textile Sector: 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<sup>11</sup>. 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 its smooth export. The Effect of Global Recession on Textile Industry: 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 International Science Congress Association 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 inflation and instable 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 downsizing 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 delivery, Single digit mark up and special power tariff for the textile industry. Duty free market access to European Union and United States, Remedy through 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. Delivery, Single digit mark up and special power tariff for the textile industry. Duty free market access to European Union and United States, Remedy through 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 skills of the workforce and engineers,

### 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

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