A European Community Initiative

Guidebook for European Investors in Bangladesh

Sector Profiles

European Commission
Asia Investment Facility

SECTOR 4

THE TEXTILE SECTOR IN BANGLADESH

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GLOSSARY OF ABBREVIATIONS

AIT	Advanced Income Tax
ASEAN	Association of South East Asian Nations
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BTMA	Bangladesh Textile Mills Association
BTMC	Bangladesh Textile Mills Corporation
BTTB	Bangladesh Telegraph and Telephone Board
CAD/CAM	Computer Aided Design/Computer Aided Manufacter
CDC	Commonwealth Development Corporation Group
CIF	Cost-Insurance-Freight
CM	Cost of Manufacturing
CRF	Clean Report of Findings
EIU	Economic Intelligence Unit
EPB	Export Promotion Bureau
EPZs	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investments
FMO	Nederlandse Financierings Maatschappij voor Ontwikkelingslanden
FOB	Free on Board
GATT	General Agreement on Tariffs and Trade
GSP	Generalised System of Preferences
IDSC	Infrastructure Development Surcharge
IFC	International Finance Corporation
L/C	Letter of Credit
LIBOR	London Interbank Offered Rate
MFA	Multi-Fibre Agreement
NAFTA	North American Free Trade Agreement
PSI	Pre-Shipment Inspection
RMG	Readymade Garment
ROO	Rule of Origin
SAARC	South Asian Association for Regional Co-operation
TIN	Taxpayers Identification Number
VAT	Value Added Tax
WTO	World Trade Organisation

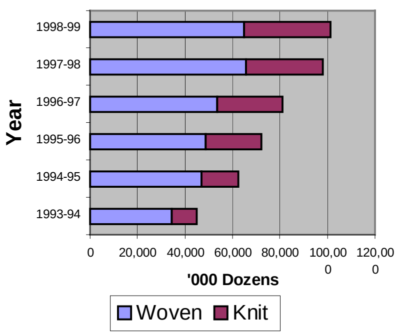
LIST OF FIGURES AND TABLES

1. DESCRIPTION OF THE SIZE AND NATURE OF THE TEXTILE AND READYMADE GARMENTS (RMG) SECTOR

1.1 Size of the Textile and Readymade Garments Sector

The textile sector plays a leading role in the economy of Bangladesh, and now accounts for some 40% of the total manufacturing, and about 50% of the industrial workforce. Readymade garments and knitwear sub-sector accounts for nearly 77% of Bangladesh's export of goods in 1998-99.

Production of Readymade Garments



Source: Monthly Statistic Bulletin, Bangladesh Bureau of Statistics, May 2000

Figure 1.1

The sector is sub-divided between readymade garment (RMG) and textile segments. Most of the 3,000 RMG factories are located in and around Dhaka and Chittagong, and 95% of them are entirely owned by Bangladeshi companies or families. Figure 1.1 on this page shows the yearly production of readymade garments between 1993/94 to 1998/99, while Figure 1.2 in the following page shows the production of cotton yarn.

The textile sector is itself sub-divided into a number of activities, which include: spinning, weaving, and fabric processing. Out of the 105 private sector spinning mills, only 12 were

An Overview

Bangladesh has emerged, in just under a decade, as the twelfth largest garment-manufacturing nation in the world, thanks largely to the Multi-Fibre Agreement (MFA), and the Generalised System of Preferences (GSP) of the European Union, that conferred significant quota benefits to the country. The garment sector now accounts for about 77% of the country's foreign exchange earnings, and 50% of its industrial work force.

Bangladesh has now become a significant supplier to both North America and Europe. More than 50% of Bangladesh's garment exports go to the countries of the European Union, and 44% to the United States.

With WTO provisions of freer trade looming large on the horizon, many are doubtful about Bangladesh's ability to maintain the fast growth of the recent years in the garment and textile sector. However, on a more positive note, Bangladesh is expected to maintain its tariff-free access to the European Union under the European Generalised System of Preferences (GSP), since the GSP facility is not covered by the Uruguay Round Agreement and so is expected to continue.

While European financial investment are limited in Bangladesh, a significant part of the sector uses European know-how and equipment. In many mills, the spinning lines are entirely of European origin; while European expatriate technicians are being used to improve the quality of dyeing and finishing operations.

The sector is sub-divided between readymade garment (RMG) and textile segments. One of the main problems currently faced by many Bangladeshi firms is that they are poorly integrated and that they rely too much on imported yarns and fabrics. So, potentially good investment opportunities still exist for setting up integrated textile, yarn and garment industries.

Infrastructure such as power supply, ports facilities, inland transportation, telecommunications, etc. are still quite inadequate. However, the Government appears to be getting serious in its efforts toward improving the infrastructure through greater private sector investments.

believed to be capable of producing export quality yarn and only 3 of which can be regarded as state of the art. There are also some 15 factories listed as composite mills, which produce both textiles and garments on the same site.

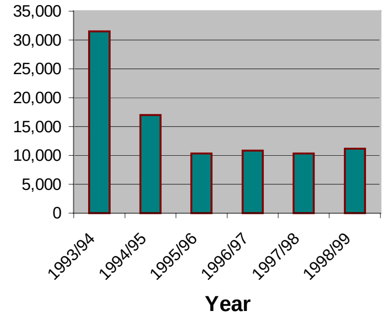


Figure 1.2

Source: Monthly Statistic Bulletin, Bangladesh Bureau of Statistics, May 2000

RMG and textile investments in the Export Processing Zones (EPZ) have been particularly profitable, and so investment in RMG has now reached US$82 million, representing 27% of the total, while investments in textiles have reached US$ 56 million. However, the majority of investment comes from other Asian countries, with 38% from South Korea, 19% from Japan, and 14% from Hong Kong, and only minor investments from Europe.

> ***Specific business opportunities for European investors are also expected to be found in backward linkages as the Bangladesh Government seeks to develop increased domestic export-quality yarn and fabric production. Other opportunities are expected to arise through the multimillion dollar World Bank-funded programme to upgrade the Bangladesh silk industry, which needs technologies for silk dyeing and colour fixing available mostly in Europe, particularly in Italy and Switzerland.***

2. REVIEW OF THE PRINCIPAL SUB-SECTORS

2.1 Readymade Garments (RMG) Sub-Sector

The RMG sector in Bangladesh has emerged from economic opportunities identified by the private sector in the late 1970s. Frustrated by quotas imposed by many importing nations, firms from other Asian countries set up factories in Bangladesh. Lower labour costs in Bangladesh did offset the additional costs of importing all materials to Bangladesh.

Bangladesh has now become a significant supplier to both North America and Europe. The textile products have improved enough to meet the quality standards of America and the European Union, while still being competitive in price. Many firm owners have recovered their entire capital investments within a year or two and thereafter continued to make significant profits.

As foreign businesses began building a ready-made garment industry in Bangladesh, local entrepreneurs also became involved and soon started to establish companies in Dhaka, Chittagong, and some smaller towns, where basic garments -- men's and boys' cotton shirts, women's and girls' blouses, shorts, and baby clothes--were cut and assembled, packed, and shipped back to customers overseas (mostly in the United States). With no government regulation, the number of firms soon proliferated.

The industry, which employs a workforce of 1.5 million, has grown dramatically during the last decade, with ready-made garments and knitwear jointly accounting for more than 70% of total investments in the manufacturing sector during the first half of the 1990's. The industry has created millions of jobs in various support industries such as garment accessories, spinning, weaving, dying, printing, finishing etc.

Over the past decade, output in the export-oriented garment industry has risen significantly, with annual exports now reaching $4.1 billion (1998-99), which represents about 76% of the country's export income.

Between 90-96% of exports went to North America and the European Union (Germany- $582 million, UK- $396 million, France- $322 million, the Netherlands- $217 million and Italy-$214 million).

Bangladesh exports to Europe, which benefited a lot from the Generalised System of Preferences (GSP), faced considerable difficulties when the European Union cancelled thousands of GSP certificates, due to the violation of the rules of origin. Today, these problems have been overcome.

A major part of the operations in the garment industry are totally production oriented, since companies are not generally selling finished products but merely offering low-cost manufacturing capacity, such as cutting and sewing to the buyers specifications. Hence the major part of all garment exports are defined as CM (Cost of Manufacture) work, where buyers and suppliers negotiate a cost of manufacture on top of the cost of fabrics and accessories, which may well be bought by the buyer.

2.2 Textile Sub-Sector

The Bangladesh textile industry is split between the public sector, which is controlled and regulated by the Bangladesh Textile Mills Corporation and the private sector who are mostly members of the Bangladesh Textile Mills Association. Bangladesh is currently producing 120 million kilograms of yarn, out of a total demand of 467 million kg (domestic demand is equal to 130 million kg plus the need for yarn in the export-based garment and knitwear field, of 250 million kg). However, at least half of the cotton yarn production, mostly coming from the public sector mills, is not of export quality and is listed as surplus, which can be seen in Figure 2.2, and is stockpiled by the government. While some 10% of export requirements for yarn are met by domestic production, the shortfall in domestic

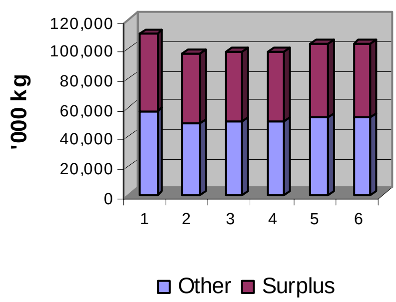


Figure 2.2

Source: Monthly Statistic Bulletin, Bangladesh Bureau of Statistics, May 2000

requirement plus the bulk of the export needs are met through bonded imports.

However, the domestic industry complains of the leakage of bonded yarn to the local market which is, in their estimate, counter-productive. Most of the bonded yarn comes at a lower price from India (which protects domestic producers by keeping raw cotton prices for domestic mills around 20% cheaper than the

Good potential investment opportunities exist in setting up integrated textile, yarn and garment industries. Indeed, one of the main problems currently faced by firms is that they are poorly integrated and that they rely too much on imported yarns and fabrics.

With almost 70% to 75% of export earnings from RMG currently being spent on importing fabrics, yarns and various accessories from abroad, it is clearly necessary to invest in this direction. This development will be particularly important, since once the Multi-Fibre Agreement (MFA) is eventually dismantled at the end of 2004, Bangladesh will have to compete with other Asian countries such as China, India and Indonesia.

export price of raw cotton), this yarn wins out over local yarn. As India does not produce short and long staple cotton, the Bangladesh mills can compete with India in spinning lower and higher counts of yarn.

3. LIST OF MAJOR LOCAL COMPANIES AND REVIEW OF THEIR EXISTING COLLABORATIONS WITH FOREIGN FIRMS

While all the 3000 or so garment producers are listed on the Website (www.bgmea.com) of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Appendix 3 below lists large textile and readymade garment firms that are listed on the Bangladesh Stock Markets as well as some major industrial groups that operate composite mills.

3.1 Readymade Garment Sub-Sector

BGMEA breaks down the sector into four main groups. The first group includes the 15 largest companies in Bangladesh who collectively operate some 200 manufacturing units with an output capability in excess of 10,000 dozen pieces per month. These well-established groups are the principle holders of quotas to the United States and Canada, controlling 60% of all quota transactions. Most of the garment factories in this group have installed CAD/CAM computer based systems that minimise wastage in their cutting departments, and allows them to make large savings by their tighter control of the cutting process as part of their total garment engineering approach. This group includes a number of large integrated industrial groups such as, the Beximco Group, A.H.Khan Group and the Anwar Group of Industries.

The second group includes some 500-550 medium sized production units that produce between 5,000 and 10,000 dozen pieces per month for importers or agents, where 60% of the work is undertaken on a cost of manufacture (CM) basis and 40% on a free on board (FOB) basis.

The third group includes some 1,500 small factory units, which are owned by 700-800 companies and are capable of producing up to 5,000 dozen pieces per month. These units usually work on a sub-contract basis.

The fourth group includes 200 or more firms that are classified as sick companies, usually suffering from financial problems.

A listing of garment manufacturers can also be found on Business Bangladesh-Garment Manufacturers at
www.users.globalnet.co.uk/~imran/garmnfg.html

3.2. Textile Sub-Sector

The textile industry is divided between the public sector and private sector, with all public sector mills coming under the control and regulation of the Bangladesh Textile Mills Corporation (BTMC) and the private sector, where most, if not all firms are members of the Bangladesh Textile Mills Association (BTMA).

Currently some 15 textile mills are still fully operational in the public sector, under the direct control of BTMC, with a further 20 mills nominally operating within the public sphere, waiting either to be privatised or to be closed down. Of the 15 operational mills, 14 mills are spinning units, with some 463,000 spindles and an annual production capacity of around 43 million kg of yarn. This sector, which lost at least Taka 800 million in the 1998-99 looks set to be further downsized in the near future. As in the garments sector, there are several industrial groups that are active in the textile sector. A number of these industrial groups are listed in appendix 3. A listing of textile mills can also be found on Business Bangladesh-Textile Mills at www.users.globalnet.co.uk/~imran/texmfg.html. Table 3.1 throws some light on the current capacity of the textile sector.

Table 3.1

Capacity of the Textile Sector in Bangladesh[1]

Segment	Description
Large Textile Mills (Spinning and Weaving)	There are currently 105 private sector ring spinning mills in operation in Bangladesh, along with 29 rotor spinning mills and 16 composite units. These mills operated some 2,204,000 ring spindles, 48,900 rotor and 4,513 looms and represent an annual production capacity of 256 million kg of yarn and 54.15 million meters of fabric.
Specialised Textile and Powerloom Industry	Although there are over 35,000 power looms in Bangladesh with a nominal production capacity of some 668 million meters of fabric a year, at least three quarters of them could be obsolete, according to the Specialised Textile Mills and Powerloom Association.
Handlooms	The handlooms sub-sector comprises some 514,456 looms in 212,421 units, producing up to 925 million meters of fabric a year. Although the industry now produces some check fabrics for RMG exporters, it remains a predominantly rural and cottage industry, turning out cloth for the domestic market. 70% of the fabric output from Bangladesh comes from the handloom sub sector.
Silk Weaving	There are nearly 10,000 private sector looms in operation in Bangladesh with an annual production capacity of some 2.75 million meters.
Hosiery and Knitting	The 340 locally oriented hosiery units in Bangladesh comprise some 3,000 body machines with an annual production capacity of around 17 million kg. There are also 280 export-oriented hosiery/knitting units with 1,360 circular knitting and 4,870 body machines, producing up to 47 million kg of fabric a year.
Dyeing, Printing and Finishing	There are around 190 semi-mechanised and 90 mechanised dyeing and finishing units operating in Bangladesh, constituting an annual processing capacity of 304 million and 479 million meters of fabric respectively.

4. FORMS OF CO-OPERATION

There are a number of options available to foreign investors in the textile and RMG sector in Bangladesh, which include:

- Establishment of new textile/RMG mill in the private sector

There has been a limited amount of direct investment into the establishment of new textile and RMG units in the private sector.

- Joint ventures with established textile or RMG mill

Joint ventures with established business groups in the textile and RMG sectors represent the greatest potential for foreign investors. The sector is now approximately 95% Bangladeshi owned.

- Investment in public sector textile mills that are being privatised

Investment, either through direct investment or through joint venture with the Bangladesh Government, in one or more of the 20 units of the Bangladesh Textile Mills Corporation which are in the process of being privatised.

- Investment in textile company public issues and shares quoted on Bangladeshi stock exchanges.

However, investment in garment sub-sector has fallen somewhat since the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) has actively lobbied to have all export quota facilities exclusively reserved for Bangladeshi manufacturers.

[1] Interim report on the Bangladesh textile industry by Dr Martelli Associates for the International Finance Corporation, May 1999.

Direct purchase of one or more of the 41 textile stocks that are quoted on the stock exchanges in Bangladesh is another investment option. They can be found on the Securities and Exchange Web site at www.secbd.org/text.html

- Indirect investment through financial services or leasing

European institutional investors such as the Commonwealth Development Corporation Group from the United Kingdom and FMO from the Netherlands have made investments in this sector through financial institutions and leasing companies.

- Sub-contracting and outsourcing

Readymade garment sub-contracting is one of the major non-equity forms of investment in Bangladesh as many large American and European firms maintain offices in Bangladesh in order to have readymade garments and knitwear produced to order.

5. EUROPEAN AND OTHER FOREIGN FIRMS PRESENT IN THE TEXTILE AND GARMENTS SECTOR

The majority of investment made to date, in the textile and RMG sectors, appears to have come from other Asian countries that have taken advantage of Bangladesh's much easier market access to Europe. Most foreign investment in the textile sector is found in the two export processing zones, where some 38% of investment comes from South Korea, 19% from Japan, 14% from Hong Kong and only minor investments from Europe, with one export processing zone near Chittagong being exclusively developed by Korean interests.

Only one European firm, Paddock Jeans from Germany, was identified as an investor in the readymade garments sub-sector. However, several European firms were identified as having invested in joint ventures in the textile sub-sector, including Kader Synthetic Fibres Ltd, a joint venture partnership between firms from Saudi Arabia and Netherlands, to manufacture synthetic yarn; Tamijuddin Textile Mills Ltd. a Dutch joint venture to manufacture textiles; Coats Bangladesh (formerly Tootal Thread Bangladesh Ltd) is a joint venture arrangement between the A.H. Khan Group and the Tootal Group PLC from the United Kingdom.

Most of the readymade garments produced in Bangladesh are made under sub-contracts with importers or major retailers from North America and Europe and many of them maintain regional offices in either Bangkok, Dhaka or Singapore, with a number of European buyers resident in Dhaka. One of the largest European garment sub-contractors based in Dhaka is Hennes & Mauritz (H&M) from Sweden, who according to their Web site are marketing 400 million garments a year that are sourced through 20 production offices worldwide, including one in Bangladesh. The Swedish embassy listed that they out-sourced approximately US$ 60 million in 1999.

While European financial investment may be limited, a significant part of the sector uses European know-how and equipment, notably, blow rooms and carding sections appear to be either of European or Japanese origin; drawing and combing sections are either of Japanese or Swiss design, with the emphasis on Japanese machinery; many drafting zones, spindles and bottom rollers are being replaced by European fittings. In many mills, the spinning lines are entirely of European origin; while European expatriate technicians are being used to improve the quality of dyeing and finishing operations.

The 1999 World Bank study on *FDI in Bangladesh: Issues of Long-run Sustainability* reported that much of the investment in the textile sector is in the form of private sector debt that is being used to finance equipment and machinery purchases in the garment and textile sub-sectors. They identified two institutional investors, (a) Commonwealth Development Corporation, now called CDC Capital Partners, who have provided finance or taken equity in the two companies in the Beximco Group, namely Beximco Textiles Limited and Padma Textile Mills Limited; and (b) FMO from the Netherlands who through the Dutch Bangla Bank have also provided financing for this sector. They also identified two major equipment and machinery suppliers: Barudan from the United States and Tazima, currently selling machinery to the garments industry in Bangladesh worth US$ 2-3 million per year on relatively easy suppliers credits.

Major non-European investment in this sector comes from Youngstone Co. Ltd, a major manufacturer of sportswear and garment accessories and Dada Bangladesh Ltd, a manufacturer of headgear both from the Republic of Korea.

6. ANALYSIS OF IMPORT AND EXPORT FLOWS

Currently, the readymade garment manufacturers are heavily reliant on imported inputs necessary for production, as they are only able to source locally some 10-15% of the export quality woven fabric that is needed by the RMG sector, with the majority of woven fabrics the sector requires, having to be imported from China, India and Indonesia.

They also have to import a substantial quantity of export quality knitted fabrics, even though there is greater availability of export quality knitted fabrics with some 60% of the total RMG requirements of knitted fabrics coming from domestic production. There is also a major shortfall in yarn production, despite considerable investment and expansion, with the spinning industry meeting less than half of the RMG sectors annual demand of 395 million kg.

6.1 Exports of Readymade Garments (RMG)

Exports of woven garments dominate the garments sector as can be seen from Table 6.1 below.[2]

Table 6.1

Value of RMG Exports from Bangladesh
(US $ Million)

Year	Woven	Knitwear	Total
1992-93	1240.48	204.54	1445.02
1993-94	1291.65	264.14	1555.79
1994-95	1835.09	393.26	228.35
1996-96	1948.81	598.32	2547.13
1996-97	2237.95	763.30	3001.25
1997-98	2844.43	937.51	3783.64
1998-99	2984.96	1035.02	4020.10
1999-2000 (Jul-Oct)	950.64	369.29	1319.93

Source: **Export Promotion Bureau 2000.**

6.2 Imports of Inputs for the Textile Sector

A general idea of the import of inputs for the textile sector can be obtained from Table 6.2.

Table 6.2

Import of Textile Sector Inputs

(in Taka Billion)

	1994 -95	1995-96	1996-97	1997-98	1998-99
Yarn	8.04	12.09	16.87	14.86	13.60
Cotton	5.43	7.56	8.33	9.41	11.20
Textile & articles thereof	41.2 1	42.60	46.89	57.46	53.30

Source: Bangladesh Bank Economic Trends August 2000

As part of their trade liberalisation policy, the Government of Bangladesh has repeatedly reduced tariffs on textile inputs, with an especially large reduction in the duty imposed

[2] Exports of knitwear, however, are growing more rapidly over the years. The share of knitwear in total RMG exports increased from 14% in 1992-93 to 26% in 1998-99

on imported textile machinery. However, the sector is still unhappy that the Government still charges advanced income tax and duties on all spare parts for textile machinery.

Table 6.3

Duty Structure for Textile Sector Inputs

(Effective 1st July 1999)

	Import Duty	VAT	Advance Income Tax (AIT)	Infra-structure Develop-ment Surcharge (IDSC)	Excise Duty
Raw Cotton	Nil	Nil	Nil	Nil	Nil
Man-made Fibres	Nil	Nil	3%	Nil	Nil
Textile Machi-nery	Nil	Nil	3%	2.5%	Nil
Spare Parts	5%-15%*	15%	3%	Nil	Nil
Yarn	5%	15%	3%	2.5%	Taka 1.50 per kg
Fabric	37.5 %	15%	3%	2.5%	Taka .50 per meter

* Spare parts up to 10% of the value of imported machinery are subject to duty at a lower rate.

Source: Investment Potential in Bangladesh Textile Industries, published 1999 by the BTMA)

A new duty structure for the textiles sector came into force on July 1st, 1999, the provisions of which are set out in Table 6.3 below.

7. ANALYSIS OF MAIN TEXTILE AND READYMADE GARMENTS MARKETS

7.1 Local, regional and international markets

The global market in clothing is now worth about US$200 billion, with approximately 45% of world trade being between EU member states, which has grown according to the WTO, at an average rate of 2% since 1990. European countries outsource some US$30 billion, the majority of which goes to countries in the Asia and Pacific region, with the remainder going to Eastern Europe. Exports from Asia to North America are in the region of US$28 billion and from Latin America to North America US$12 billion. Intra-Asia trade flows are valued at about US$22 billion of which but 30% consists of Asian exports to Japan. Table 7.1 below shows Bangladesh's stance compared to the World market.

Table 7.1

Bangladesh's Share of World Trade in Clothing

Item	1990	1994	1997
World trade in clothing (Growth %)	$105 billion	$140.4 billion (7.5)	$176.6 billion (7.9)
Bangladesh's apparel export (Growth %)	$0.6 billion	$1.6 billion (27.8)	$3.0 billion (23.3)

Source: Bangladesh Textile Manufacturers Association 1998

The European Union and United States, which are the main destinations for readymade garment and textile exports, account for some 95% of the total as can be seen in Figure 7.1 below.

7.2 Market trends

The foreign trade of readymade garments from Bangladesh has shown rapid rates of growth over the past ten years as can be seen in Table 7.2 below, now making Bangladesh the world's twelfth largest exporter of garments and it is responsible for about 77% of Bangladesh's foreign exchange earnings.

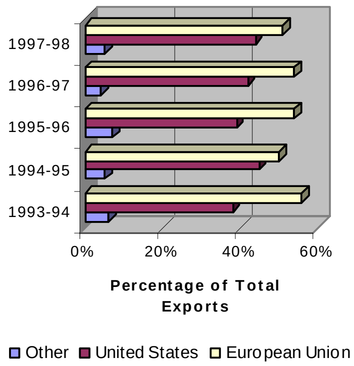
Table 7.2

Growth in Readymade Garment Exports

Year	RMG Exports (US$ million)	Yearly Growth Rate
1990-91	887	
1991-92	1,183	36.43%
1992-93	1,445	22.19%
1993-94	1,556	7.67%
1994-95	2,228	43.23%
1995-96	2,547	14.31%
1996-97	3,001	17.83%
1997-98	3,782	26.01%
1998-99	4,020	6.29%
Average annual growth rate		**22%**

Source: Export Promotion Bureau (EPB) 2000 reported on the BGMEA Web site

Figure 7.1
Destinations of Garment Exports from Bangladesh



Source: **Export Promotion Bureau Statistics**

7.3 Role and Power of Local Importers or Buyers

The role of local importers who usually represent overseas buyers is vital to the success of the industry, because of the nature of the readymade garments industry in Bangladesh, which is almost totally based on the cost of manufacture (CM), where the majority of medium to small sized garment producers are actually working for the local agents. Hence without them the industry would be far smaller, since it is totally production oriented.

The role of the local importer is to assist in the planning, organisation and supervision of garment producers' work performance, often managing customer relations and supervising quality control. The local importer is also required to ensure manufacturers’ compliance with specific rules and regulations in force in the countries of final destination of the garments, such as those relating to environmental and child labour issues. The local importer can choose only manufacturers who are able to comply with the quality controls of their merchandise and meet delivery deadlines.

7.4 Competition

Once the quota restrictions are lifted in the beginning of 2005, Bangladesh will have to compete with an even greater number of developing country RMG and knitwear exporters, as well as their current competitors who will have greater access opportunities and who are all expected to increase their own production capacity. Bangladesh’s biggest threats would appear to come from China, India, Indonesia, Mexico and Pakistan, who are all in the low price end of the apparel market.

However, competition may vary depending on the market. In the EU Member States, there will be increasing competition from within EU’s Custom Union, where countries like Turkey enjoys quota-free and tariff-free access to EU markets. The EU has also granted preferential market access to a number of suppliers from Eastern Europe, where quotas on textile and clothing imports were eliminated in January 1998, as well as to suppliers from North Africa.

Under the provisions of the North American Free Trade Agreement (NAFTA), readymade garment imports from Mexico and Canada to the USA are free of quotas, provided they meet certain rules of origin (ROO). This has now been extended to the Caribbean, as an extension of the Caribbean Basin Initiative by the Trade and Development Act of 2000 (Caribbean-Africa 2000).

8. MAIN TEXTILE AND READYMADE GARMENTS SECTOR-RELATED ISSUES

There are a number of sectoral issues that are of particular concern to the textile and readymade garments industry that need to be urgently addressed. These include:

8.1 End of benefits conferred by the Multi-Fibre Agreement (MFA) of 1974

The key issue for Bangladesh in the textile sector will be the end of benefits that were conferred on the least developing countries, such as Bangladesh under the Multi-Fibre Agreement (MFA) of 1997. On 1st January 2005, in accordance with the 1994 GATT Uruguay Round, the process of eliminating all quotas currently imposed by WTO signatories on a number of imported goods will be completed and the readymade garment industry from Bangladesh, a major beneficiary of preferential market access through the quota system, will then be forced to compete on equal terms with all other low cost readymade garment manufacturers from developing countries. Bangladesh has enjoyed a consistently high and rising quota in the United States and since 1986, quota free access to the European Union, which is often cited as being one of the main reasons for the explosive growth of the industry in Bangladesh.

However in 1995, the MFA, under the terms of the Uruguay Round, was superseded by the Agreement on Textiles and Clothing, which committed all WTO members to progressively dismantle quotas on the imports of textiles, clothing and agricultural goods over a period of ten years. By 1 January 1995, WTO members were obliged to have integrated into the GATT system products that accounted for not less than 16% of their total volume of relevant imports in 1990. A further 17% were required to have been integrated by 1st January 1998, and 18% more by 2002. By the 1st January 2005, the remaining 49% of the total volume of relevant 1990 imports, including many of Bangladesh's key export items such as T-shirts and shirts, will be brought under the GATT restrictions and all quota restrictions eliminated.

Once the quotas are removed, Bangladesh will have to compete with other low cost producers such as India, Indonesia, Mexico and Pakistan as well as a number of Eastern European countries. It would be even more worrisome if China, the world's largest textile and RMG exporter, were to be admitted to the WTO by 2005, and the possibility of that happening is high, then the phase-out of quotas would also apply to their exports

This could create two major problems for both textile and readymade garment exporters.

Will Bangladesh then be able to compete, as considerable pressure will increasingly be placed on their market share?

A second important problem that is foreseen is that many textile producing countries such as India are known to be planning to expand their readymade garment capacity once the quotas have been removed and may no longer be prepared to supply Bangladesh with low-priced yarn and fabric of export quality, without which Bangladesh will not be able to produce garments that meet quality standard by overseas buyers.

However, on a more positive note, Bangladesh is expected to maintain its tariff-free access to the European Union under the European Generalised System of Preferences (GSP), since the GSP facility is not covered by the Uruguay Round Agreement and so is expected to continue.

Originally the GSP facility was dependent on yarn or fabric manufactured in Bangladesh for the production of readymade garments. Now the GSP facilities have been extended to cover a range of textiles and clothing products which are manufactured in Bangladesh using yarn or fabric that has been imported from ASEAN, SAARC or countries in the Lomé Convention and are already benefiting a number of Bangladeshi woven readymade garment and knitwear exporters. Hence, the end of quotas may not only be a challenge but also an opportunity.

8.2 Selective Allocation of Export Quotas

One reason that has been cited for the fall in foreign investment into the two main export processing zones (EPZs) in Dhaka and Chittagong from US$ 71.6 million in 1998/99 to US$ 35 million in 1999-2000 is the opposition by the Bangladeshi Garments and Exporters Association (BGMEA) to sharing Bangladesh's apparel export quota facilities with foreign companies in the EPZs. Since access to these quotas was the main reason for many Asian firms to invest in the EPZs and the Bangladesh Export Processing Zones Authority made this access a selling point in their promotion in Asia, it is an issue that must be resolved if Bangladesh still wishes to attract investment in the readymade garment sector for the few years remaining before the quota system ends.

8.3 Issues of Inadequate Infrastructure

The manufacturing industry in Bangladesh is hampered by inadequate infrastructure facilities that are essential to support the production of textiles and readymade garments, which include; power supply, port congestion, inadequate air transport facilities, communications, roads and telecommunica-tions facilities.

8.3.1 Inadequacy of Power Supply

Power disruptions are frequent due to shortages in electricity generating capacity that often fails to provide adequate power for the manufacturing sector. Power outages are particularly frequent during the irrigation period. It is hoped however, that many new private sector power development initiatives currently underway will alleviate the problem.

8.3.2 Port Congestion

Port congestion is of particular concern to the textile industry. Heavy congestion in the Chittagong port, the main port of the country , for the last four years or so, has affected the normal activities in the port. The congestion often causes long delays in the loading and unloading of raw materials and supplies necessary for the manufacture and supply of textiles and readymade garments, with ships being compelled to stay in the outer port for long periods of time, causing importers to pay up to US$ 200 in demurrage per container per day, according to the Bangladesh Textile Mills Association. One result has been that port utilisation has gone down, thus damaging the reputation and image of the port abroad. Political unrest, labour union problems etc., in the port area are also affecting the port operations.

8.3.3 Lack of Adequate Air Shipment Facilities

Many garment manufacturers are prepared to air freight essential raw materials and finished material, and even if they have to pay excessive freight charges, for fast delivery of finished items to the buyers. However, they often find that damage, misplacement of raw material, clearance delays, etc. are creating many problems. The replacement of damaged or missing raw materials is not only expensive, but also time consuming as it involves drawn out customs/bank formalities. Then after experiencing these problems, the importer may often have to pay duties/taxes on finished goods, which may later be returned due to damaged fabric.

While in the seaport at Chittagong, the Port Authority will act on behalf of all sea carriers and will note the condition in which goods are landed, stored and shipped, no such system prevails at Zia International Airport, where neither the Civil Aviation Authority nor Bangladesh Biman will take any responsibility or be accountable for misplaced and/or damaged goods.

Unlike Chittagong and Mongla ports, importers or their freight handling agents, using the Zia International Airport, are not permitted to examine the goods when they arrive or their condition in storage but are forced to depend on word of the Bangladesh Biman loaders, a highly irregular practice that is followed by Bangladesh Biman Airways. Hence when a sample of goods is required to be produced for examination purposes, freight agents are forced to sign that duty has been paid on all of the goods and that their condition is acceptable, without being able to inspect the goods. Only then will Bangladesh Biman produce the goods.

8.3.4 Inland Transportation: Roads and Highways

Continuous traffic congestions and poor road linkages with port facilities are of particular concern to the textile sector, as the Dhaka-Chittagong highway is constantly blocked with heavy traffic at all time, causing long delays for manufacturers receiving necessary inputs for production and also causing long delays in shipment of finished goods, and payment of penalties that may be written into the supply and delivery contracts.

8.3.5 Telecommunication Facilities

Telecommunications problems, such as lack of connectivity and network failures, have been major issues for the textile sector. BTTB, the government monopoly in international communications, is responsible for most of the problems for exporters and importers. Private sector telecommunications facilities cannot work properly because of lack of adequate interconnections with the BTTB network. The Government recognizes, and is currently engaged in developing a new telecom policy that may completely open up the telecom sector to the private sector.

8.4 Conflict between the Textile and Readymade Garments Industries

In recent years, a growing conflict has emerged between the spinning, weaving and dyeing-finishing segments of the textile industry and the readymade garments industry as each sub-sector has competed against each other for government support and tariff protection. The conflict between members of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and members of the Bangladesh Textile Mills Association (BTMA) the Government's tariff policy on imported yarn and fabric raises a number of points of particular interest to potential investors in the textile and readymade garments sector in Bangladesh. The root of the problem is the need of the readymade garments industry to import most of the export quality yarn and fabric that is required to be able to manufacture readymade garments of an acceptable quality for American and European markets. However, such imported yarn and fabric precluded manufacturers from receiving GSP clearance certificates necessary for duty free access to European markets and the European Union. In 1998, the European Union cancelled thousands of GSP certificates on the grounds that the rules of origin provisions were being violated. As discussed above the Bangladesh Government actively lobbied the European Union for GSP facilities to be extended to cover a range of textiles and clothing products which are manufactured in Bangladesh using yarn or fabric that has been imported from abroad. However, this easy access of Bangladeshi readymade garments to EU markets will reduce the competitiveness of the upstream textile sector in Bangladesh.

8.5 Backward Linkages

In order to allow the readymade garments industry to remain viable after 2004 the Bangladesh Government would like to encourage investment in a number of backward linkage industries to allow production of export quality fabrics for garment manufacture. Backward linkages in the textile industry is the term used by the Bangladesh Government to stimulate the development of a competitively priced export-quality yarn and fabric production in Bangladesh before the Multi-Fibre Agreement ends on 1 January 2005. Originally in 1995 the Ministry of Textiles in their Textile Policy 1995, announced a target of 242 new spinning mills, 476 weaving mills and 475 dyeing-finishing mills to be established by the year 2005.

However, the World Bank considers these original targets totally unrealistic, since they believe that setting up the backward linkages as envisioned under the plan would be highly expensive and that the Bangladesh Government does not have the resources to finance the huge venture. The International Finance Corporation IFC in 1999, in a comprehensive study on the garment sector, suggested that instead of producing more fabrics, Bangladesh should consider importing grey fabrics from cheaper sources and concentrate on dyeing, printing and finishing instead of manufacturing the fabrics in Bangladesh.

8.6 Pre-shipment Inspection Services (PSI)

The reintroduction of pre-shipment inspection services from mid-February 2000 as a means of improving revenue collection and simplifying importation could create problems for textile and garment manufacturers on account of their potential for production disruption on account of long delays that could occur in clearing essential imported inputs necessary for production.
All exports to Bangladesh with a CIF value of more than US$ 5,000 are now subject to pre-shipment inspection, though there is an exemption for certain categories of goods.

Problems that have been found to occur include (a) Banks issuing letters of credit, insist on sending them by courier to the local companies responsible for PSI, often taking 3-12 days, which results in delays in the issuance of the PSI certificates, as PSI companies are not allowed to issue the certificates without copies of the letters of credit. (b) The official requirement that the PSI company needs to verify that value-added tax (VAT) and tax payer's identification (TIN) registrations are genuine before they are permitted to issue the certificates. It is claimed that PSI agents have already found that some 70% of registrations numbers are not genuine. (c) importers also experience long delays in receiving a clean report of findings (CRF) certificates from the PSI companies in the country of product origin, without which importers are not permitted to release their goods. While most countries are exchanging CRF by coded email, the Bangladesh system requires the CRF to be delivered by courier, which increases the time required, since copies are needed by customs officials, importers, and the bank issuing the letter of credit, as well as the PSI agent.

APPENDICES

APPENDIX 1: INFORMATION SOURCES ABOUT TEXTILES AND READYMADE GARMENTS SECTOR IN BANGLADESH

An Introduction to the Textile/RMG Sector in Bangladesh. Published by the British High Commission, Dhaka August 1999

Annual Report of the Bangladesh Textile Mills Association (BTMA). Published yearly

Bangladesh: Textile Study. Phase II. The Interim report of a study of the textile sector that was made by Dr Martelli Associates for the International Finance Corporation (IFC), Washington DC. May 1999

Bangladesh Garment Manufacturers and Exporters Association (BGMEA) Web site at www.bgmea.com

BGMEA Newsletter of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA). Published monthly

Economic Intelligence Unit (EIU) publications: Bangladesh annual country profile and quarterly reports as well as the Asia Business all cover the textile and readymade garments industry in Bangladesh and can be downloaded on a fee basis at www.eiu.com

Incentives for Investment in Bangladesh: Textiles. Published by the British High Commission, Dhaka. August 1999

Industrial Policy, Published by the Ministry of Industries 1999

Infrastructure Handicaps Retarding the Growth of Readymade Garments Sector. Draft report prepared by the BGMEA. February 2000
Textile Policy, Published by the Ministry of Textiles 1995

Machinery and Equipment for the Textile/RMG Sector in Bangladesh. Published by the British High Commission, Dhaka. August 1999.

The World Markets Online web-site provides a fee based online risk assessment service that covers both the textile and readymade garment sectors as well as the export processing zones in Bangladesh at www.worldmarketsonline.com

APPENDIX 2: LIST OF KEY CONTACTS

Bangladesh Textile Mills Corporation (BTMC) Bastra Bhaban 7-9 Kawranbazar C/A Dhaka Tel: 880 2 881088 or 9112523 Fax: 880 2 814600 Email: btmc@citecho.net	Bangladesh Textile Mills Association (BTMA) Moon Mansion (6th Floor) 12 Dilkusha C/A Dhaka Tel: 880 2 9563790 or 9952799 Fax: 880 2 9563320 Email: btma@dhaka.agni.com
Bangladesh Garment Manufacturers and Exporters Association (BGMEA) BTMC Bhaban (Ground Floor) 7-9 Kawranbazar, Dhaka Tel: 880 2 815597 Fax: 880 2 813951 Email: info@bgmea.com Web site: www.bgmea.com	Export Promotion Bureau (EPB) Textile Cell Chamber Building 122-124 C/A Dhaka Tel: 880 2 9552245-9 Fax: 880 2 9568000 Email: epb.tic@pradeshta.net
The Department of Textiles Bastra Bhaban Kari Nazrul Islam Avenue Dhaka 1000 Tel: 880 2 9116385	Bangladesh Export Processing Zones Authority (BEPZA) 222 New Eskaton Road Dhaka Tel: 880 2 832553 Fax: 880 2 832961 or 834967 www.bangladesh-epz.com/index.htm
CDC Capital Partners 6th Floor (North), Safura Tower 10, Dilkusha CA Dhaka 20 Kamal Ataturk Avenue Banani, Dhaka 1213, Bangladesh Tel : 880 2 881 3080 Fax : 880 2 882 1016 Web site : www.cdcgroup.com	Dutch Bangla Bank Limited Senakalan Bhaban (3rd-4th Floors) 195 Motijheel C/A Dhaka 1000, Bangladesh Tel: 880 2 956 8539-44 Fax: 880 2 956 8538

APPENDIX 3: LIST OF SELECTED TEXTILE AND READYMADE GARMENT FIRMS IN BANGLADESH THAT ARE LISTED ON THE BANGLADESH STOCK MARKETS

AH Khan Group Batali Hill Chittagong 4000 Tel: 880 31 220191-3 Fax: 880 31 610596	Anwar Group of Industries Baitul Hossain Building (14th Floor) 27 Dilkusha C/A Dhaka 1000 Tel: 880 2 865766-70 Fax: 880 2 863829
Apex Spinning and Knitting Mills Limited Biman Bhaban (5th Floor) Dhaka 1000 Tel: 880 2 956 2383 Fax: 880 2 955 62383 Email: apexfood@citechco.net	Arbee Textile Mills Limited Taher Chamber (Top Floor) 10 Agrabad C/A Chittagong 4100 Tel: 880 31 723936 Fax: 880 31 714720 Email: arbee@globalctg.net
The Beximco Group House N° 17, Road N° 2 Dhanmondi R/A Dhaka 1205	Asref Textile Mills Limited Ashrafab, Tongi Gazipur Tel: 998 7051-53 Fax: 988 7033
Birds Limited (Bangladesh) 9/9 Iqbal Road Mohammadpur Dhaka 1207 Tel: 880 2 811 4756, 880 2 811 6697 Fax: 880 2 811 6790, 880 2 801 2584 Email: aandz@citechco.net	Chic Tex Limited Sena Kalyan Bhaban, Suite 2004 194 Monitjheel C/A Dhaka 1000 Tel: 880 2 956 1551, 880 2 955 9443 Fax: 880 2 956 5149 Email: chic@Dhaka.agni.com
Dandy Dyeing Limited 102 Kazi Nazrul Islam Avenue BSCE Bhaban 9th Floor Dhaka 1215 Tel: 880 2 812978	Dynamic Textile Industries Limited Rahmam Chamber (1st Floor) 12-13 Motijheel C/A Dhaka 1000 Tel: 880 2 600 2257 Fax: 880 2 886182
H.R Textile Mills Limited National Scouts Bhaban (6th Floor) 71/I Inner Circular Road Kakril, Dhaka 1000 Tel: 880 2 837257 Fax: 880 2 835214 Email: pride@bdline.com	Modern Dyeing and Sereem Printing Alhaj Mansion (1st Floor) 82 Motijheel C/A Dhaka 1000 Tel: 880 2 955 9055
Monno Fabrics Limited 9 Wyre Street Wari, Dhaka 1000 Tel: 880 2 246041-44 Fax: 880 2 956 2185 Email: monno@bangla.net	Rahim Textile Mills Limited 134 New Eskaton Road Dhaka 1000 Tel: 880 2 833940 Fax: 880 2 833526 Email: gis@bangla.net
Saiham Textile Mills Limited 45 Bijoy Najoy (5th Floor)	Sonaraon Textiles Limited Sena Kalyan Bhaban (10th Floor)

Dhaka 1000 Tel: 880 2 933 6992 Fax: 880 2 933 8539	195 Motijheel C/A Dhaka 1000 Tel: 880 2 955 1100 Fax: 880 2 956 4883 Email: khansons@bdmail.net
Sreepur Textiles Limited Jatiya Scout Bhaban (10th Floor) 70/1 Purana Paltan Line Kakrail, Dhaka 1000 Tel: 880 2 410055-58 Fax: 880 2 835334 Email: erba@bdmail.net	Stylecraft Limited C.W.N. (A)-12 Gulshan Model Town Dhaka 1212 Tel: 880 2 606829 Fax: 880 2 888577 Email: scl-com@treximp.com
Tamijuddim Textile Mills Limited 15 S.M. Maleh Road Tanbazar, Narayanganj Dhaka 1000 Tel: 880 2 955 1545 Fax: 880 2 956 4897	

Source: Downloaded from the Securities and Exchange Commission Web site for companies listed in the textile sector at www.secbd.org