

Industrial Policy of Bangladesh: Textile and Apparel SME

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Outline of the Presentation

- Introduction of Bangladesh
- Bangladesh Textile and Apparel Industry in Overall Economy
- Policy Support for the Textile and Apparel SME
- Challenges
- Q & A

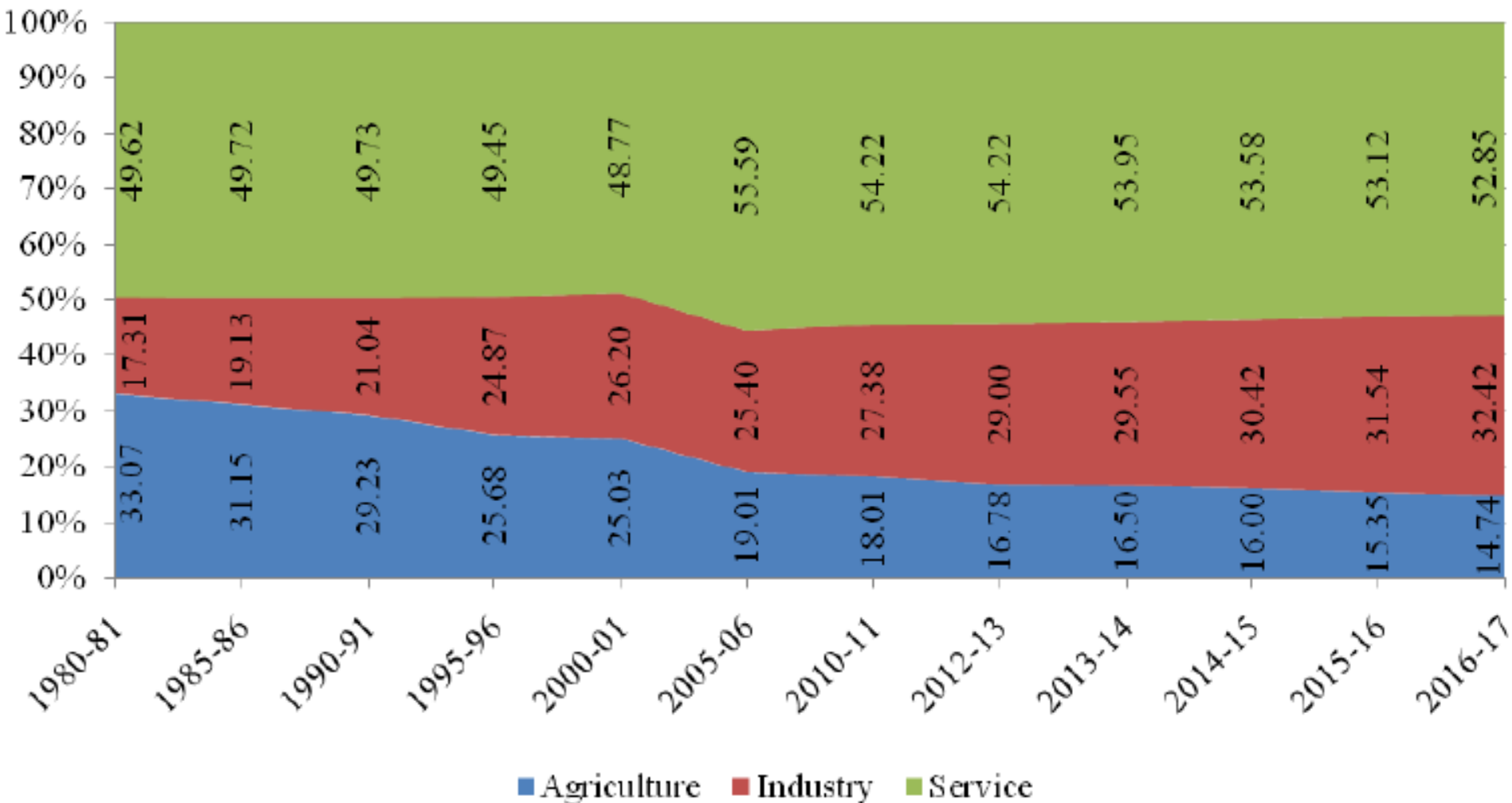
Some Data

	1990	2000	2010	2016
Population, total (millions)	106.19	131.58	152.15	162.95
Population density (people per sq. km of land area)	815.8	1,010.80	1,168.80	1,251.80
Poverty headcount ratio at national poverty lines (% of population)	..	48.9	31.5	24.3
Income share held by lowest 20%	9.6	8.6	8.9	8.6
Life expectancy at birth, total (years)	58	65	70	72
Energy use (kg of oil equivalent per capita)	120	139	201	222
CO2 emissions (metric tons per capita)	0.15	0.21	0.39	0.46
Electric power consumption (kWh per capita)	48	101	240	310

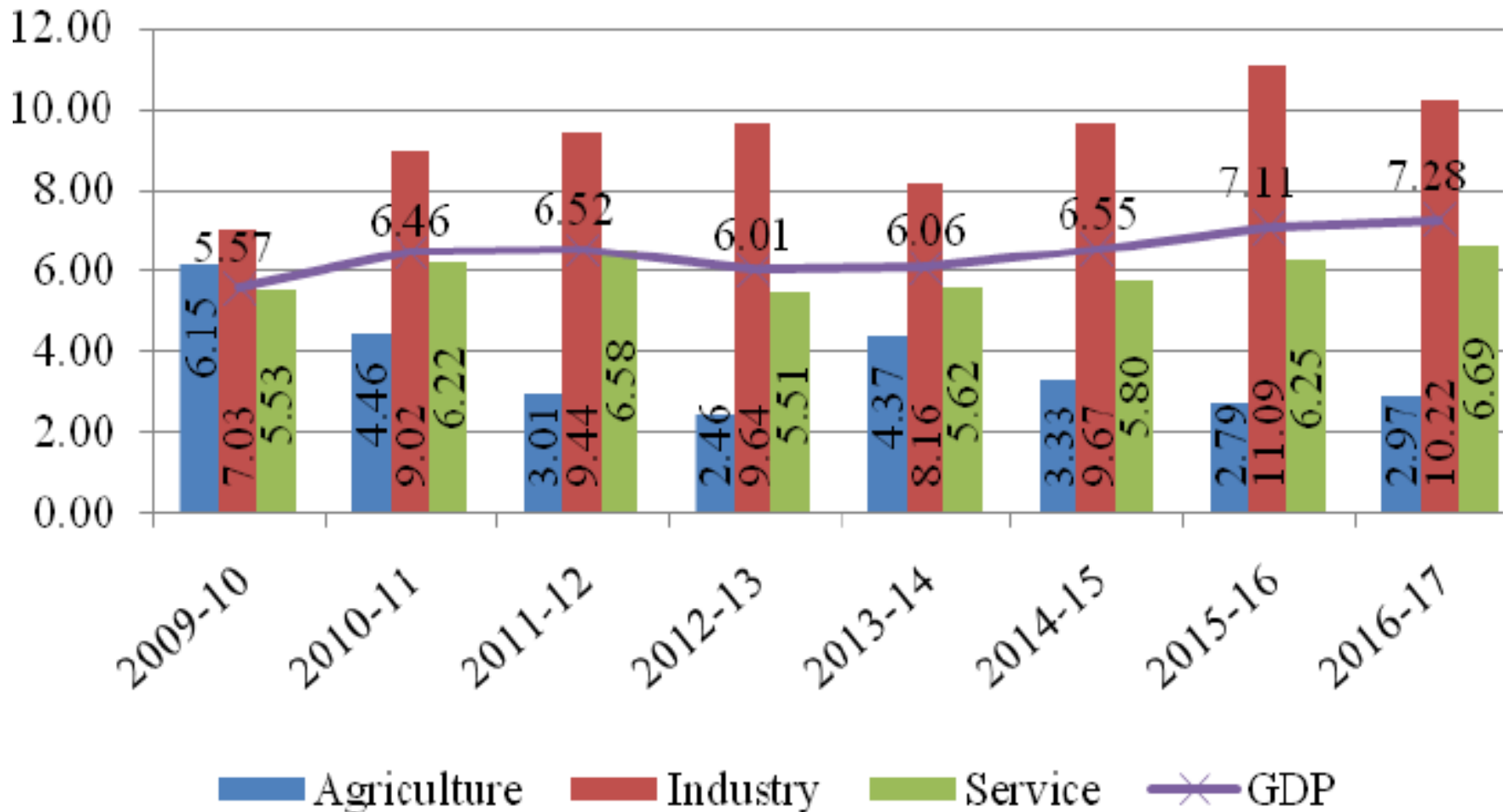
Some Data (Contd...)

	1990	2000	2010	2016
GDP (current US\$) (billions)	31.6	53.37	115.28	221.42
GDP growth (annual %)	5.6	5.3	5.6	7.1
Industry (including construction), value added (% of GDP)	20	22	25	27
Time required to start a business (days)	22	20
Personal remittances, received (current US\$) (millions)	779	1,968	10,850	13,544
Foreign direct investment, net inflows (BoP, current US\$) (millions)	3	280	1,232	2,327
Industry (including construction), value added (% of GDP)	20	22	25	27
Exports of goods and services (% of GDP)	6	12	16	17
Imports of goods and services (% of GDP)	13	17	22	21

Share of Major Three Sector



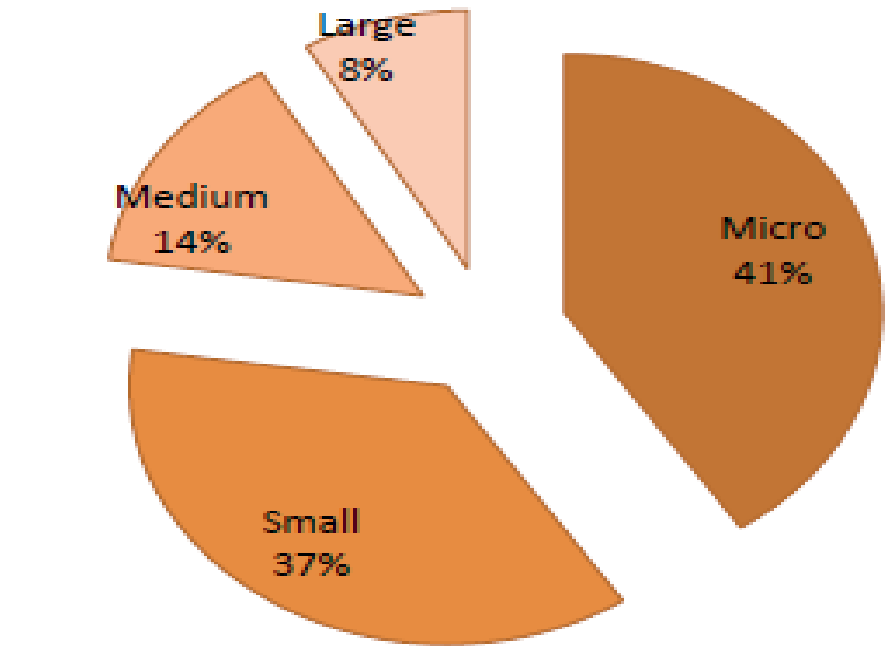
Growth at Constant Price by Sector



Definition of Industry

	Capital (Million BDT)	No. of Workers
Large	>500	>300 (>1000 for RMG)
Medium	150-500	121-300
Small	7.5-150	31-120
Micro	1-7.5	16-30

- Survey of Manufacturing Industries 2012 data reveal that out of total number of establishments, 41% was micro type manufacturing industries, 37% small type, 14% medium type and only 8% large type.



Bangladesh Textile and Apparel Industry

- Bangladesh has shown a phenomenal growth in the Textile and Apparel Sector during the last twenty years.
- For Apparel Export Bangladesh is No.2 in the world
- With about \$28.669 billion exports in 2017, Textile and Apparel sector is the most vital industrial sector in the country
- They represent 12 percent of GDP and around 83 percent of total exports.

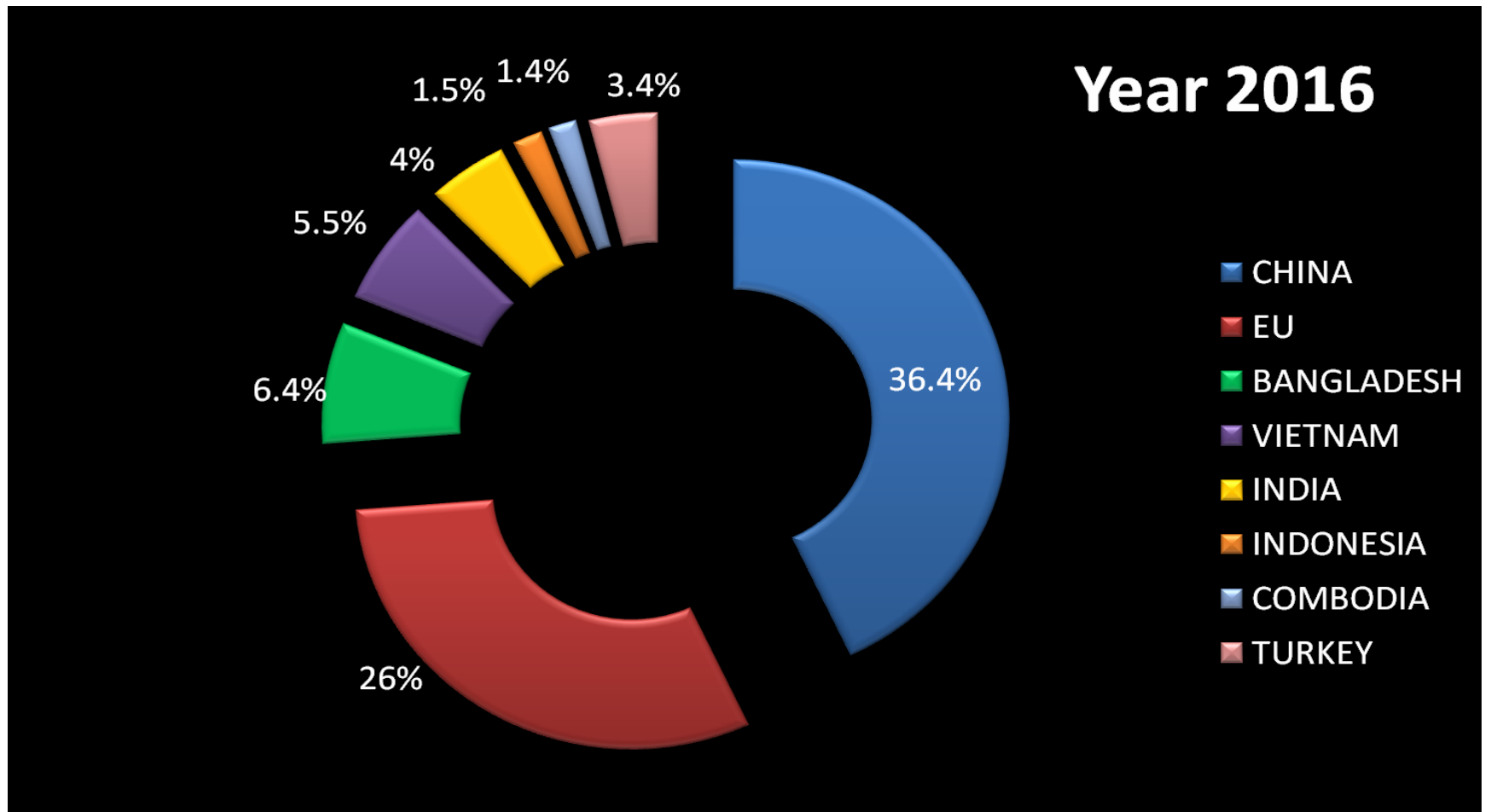
Ministries, Agency and Other Organizations Involve in the RMG Sector

Ministry	Agency	Activities
Ministry of Textile and Jute	Directorate of Textile	<ol style="list-style-type: none"> 1. Formulation and Implementation of Textile Policy 2. Policy support to the backward linkage units
Ministry of Commerce	<ol style="list-style-type: none"> 1. Export Processing Bureau 2. Bangladesh Tariff Commission 	<ol style="list-style-type: none"> 1. Export and Trade Policy Formulation and Implementation 2. Trade and Tariff Negotiation
Ministry of Industry		<ol style="list-style-type: none"> 1. Formulation and Implementation of National Industry Policy 2. Formulation of SME Policy
Ministry of Finance		<ol style="list-style-type: none"> 1. Tax and Customs 2. Financial Assistance and Incentives
PMO	1. Bangladesh Export Processing Zone Authority (BEPZA)	<ol style="list-style-type: none"> 1. Facilitate Export oriented industries

Objectives of the Textile Policy 2017

- Strengthening the primary textile sector to full-fill the local demand of textiles and to promote a medium and high value added export oriented garments industry.
- To increase government assistance and incentives for the diversified products manufacturing and exporting textile factories.
- To emphasize on market diversification by acquiring duty free market access, most favored nation status and by national treatment in different countries.
- Strengthening the Primary Textile Sector (PTS) to full-fill the local demand of textiles and to promote a medium and high value added export oriented garments industry.
- To make strong man-power base for the fashion design, specially designed cloths and allied sectors of RMG.
- Take necessary steps to attract foreign direct investment in the textile and apparel sector.

Global RMG Exporters



Source :Figures taken from World Trade Statistical Review 2017

Factors that triggered to RMG

- There are three synergic and intrinsic factors that triggered the textile and Apparel boom in Bangladesh.
- They are
 - *resources,*
 - *opportunities and*
 - *policy decision.*

Factors that triggered to RMG

Resources

- abundant labor forces,
- a competitive advantage in producing labor intensive goods.
- low cost energy and natural gas

Opportunity

- Reduced tariff access to European and the U.S. market

Policy Decision

- Government's continuous effort to keep Duty Free Market Access to Developed countries
- EPZ and SEZ's tonic though Foreign Direct Investment (FDI)
- Image building of Bangladesh to attract Foreign Direct Investment(FDI)
- Focus on Value Addition
- Technology Up-gradation and capacity building Support
- Human Resources Development Program
- Reducing the Cost of Doing Business in Bangladesh
- Policy support to improve textile production
- Awareness of International Quality Standards
- Introducing concept of on-the- job-training

Direct Major Support Provided by the Government

- Cash incentives
- Lower Interest rate to survive this industry
- Electricity and gas tariff
- Removal of Energy Crisis
- Bonded Ware house facilities
- Duty free facility to import of raw materials

An Example of Cash Incentives

- Cash incentives For Export oriented textile and textile products (instead of Custom Bond and Duty draw back) is 4%
- Additional cash incentive facilities for SME Textiles
- New product or Market expansion facilities(Except EU USA or Canada) 3%
- Extra 2% facilities for exporting in EU areas in addition to existing 4%

Support Provided by the Government

- Avoidance of double taxation for joint venture projects
- Income tax exemption for up to three years for foreign technicians
- Duty free facilities on dyes and chemicals
- Duty free import of capital machinery
- Closer monitoring of linkage in the market
- Appointment of advisory committee to represent the industry to the government
- Improvement of research and computer technology etc

Two Core Advantages

Price

- Price attractiveness is the first and foremost reason of purchasing from Bangladesh
- Competitive price label is possible due to significant efficiency increases to offset rising cost

Capacity

- Bangladesh developed as a high volume supply market with about 4822 RMG factories about 4.0 million workers with the total workforce of 74 million
- Indonesia has 2450 factories, Vietnam 2000, Cambodia 260

SME in Bangladesh

- There are about 9.0 million SMEs
- Contributing 25 percent of the total GDP
- Employing about 31 million people
- Providing 80 to 85 per cent of industrial employment
- Accounted for 28 percent of total employment
- SMEs have become a part of the global supply chain as more than 90% of textile
- 99% backward linkage establishments are SME
- created job opportunities ranging from 70 % to 80 % of non-agricultural labor force

The Present Position of SME

- Value of total apparel export of 2016-17 FY is \$28.669bn where woven comprises of \$14.932bn and knit covers of \$13737bn: 90% of it came from SME Industries
- Value addition in knit & woven SME RMG are over 70% & 35% respectively.
- SME Textile sector contributes more than 12 to the GDP.
- Over 75% of the export earning comes from SME Textiles & Textile related products.

The Present Position of SME (Cont.)

- Due to favorable textile policy and SME-friendly monetary policy, attractive price is the most important reason for purchasing apparels from Bangladesh.
- There are around 4500 SME textile factories employing about 3.6 million workers out of 74.0 million, ensures productivity to participate actively in global value chain

The Present Position of SME (Cont.)

- 425 Yarn Manufacturing Mills, 240 Dyeing-Printing-Finishing Mills, 796 Fabric Manufacturing Mills are acting as SME Backyard Linkage Industries(BLI)
- Each year around \$500 million worth of capital machinery are imported by the SME Textile sector
- Investment in the Primary SME Textile Sector: over 4.5 billion US\$.(last 5 years)
- Around 90% yarn demand for knit RMG & 35-40% yarn demand for woven RMG are met by Primary Textile Sector (PTS)
- All local fabric demand & the yarn demand for SME handlooms are also met by Primary Textile Sector (PTS)

The Present Position of SME (Cont.)

- Backward & Forward linkage industries provide employment for more than 5 million people where 80% are female;99% of them are SME
- PTS industries producing around 1200 MW power through Captive Generator
- Textile SME's generating huge cliental base for Banking, Insurance, Shipping, Transport, Hotel, Cosmetics, and Toiletries & related economic activities.

Challenges

1. US Lost GSP taxes and additional threat on import
2. UK Brexit: Renegotiation on Duty Free Access
3. China: Reducing Pricing on RMG and Currency Depreciation

Towards Sustainability

The Government is focusing on further boosting and promoting the country's readymade garment sector

- Ensuring a healthier business environment,
- Training of more skilled workers,
- Improving social compliance status,
- Continuous improvement of coordination among the manufacturers, exporters and importers

Questions and Discussion