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Bangladesh

Cotton and Products Update

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Report Highlights:

MY 2017/18 raw cotton production is projected at 135,000 bales based upon favorable weather and expansion of American Upland cotton planted area. Imports are projected to rise by 7 million bales due to strong demand in diversified garment products with non-traditional business partners such as China, Japan, Russia and India.

Post:
Dhaka

Commodities:
Cotton

Production:

MY 2017/18 cotton planted area forecast is 44,000 hectares (HA), while production is forecast to rise to 135,000 bales as cotton production marginally increased due to favorable weather for the long-staple American Upland variety. Upland cotton is planted in July-August and harvested in December-January. Hill cotton is planted in March-April and harvested in December-January.

Cotton Development Board (CDB) Bangladesh received approval from the National Committee on Biosafety to import a Bt cotton variety and start a contained trial of four Bt cotton hybrid varieties. The four hybrid Bt cotton varieties having X-GENE, Cry1Ac Truncated (Event- 1) will be supplied by JK Agri-genetics Ltd (JKAL) of India for contained field trials. The goal is development of an efficient GE cotton variety which is resistant to Bollworm and Spodoptera/Army worm. CDB is planning to start trials during the next cotton season (July 2018).

Value Added Cotton:

MY 2017/18 yarn production levels are forecast to rise significantly by around 2.67 percent to 770,000 tons due to population growth and strong export demand for value-added textile products. MY 2016/17 yarn production estimates are raised to 750,000 tons due to increased market demand and increased import of raw cotton. A market insider reported that competitive prices of cotton have attracted more foreign buyers.

Export earnings of Ready Made Garments (RMG) were approximately \$29 billion in FY 2016/17 (July-June), up about 0.34 percent from last year (Table 4). Year to year growth rate in FY 2016/17 is 95% lower than the 9.67% growth rate in FY 2015/16. As of October 2017, total exports of RMG in the FY 2017-18 were \$9.4 billion, up 7 percent year on year (Table 7).

A variety of factors have suppressed export growth: structural reforms have limited industry production; world market prices are down; the euro appreciated against the U.S. dollar; Britain's exit from the EU as well as national elections in the EU have depressed demand; and consumer preferences for spending disposable income have shifted somewhat from clothes to consumer electronics.

Consumption:

MY 2017/18 raw cotton consumption is projected to increase to 6.7 million bales on stronger sales of RMG and other value added products in domestic and foreign markets as well as on lower import costs of raw materials for RMG production. MY 2016/17 raw cotton consumption is raised to 6.3 million bales due to higher demand for export-oriented end products.

MY 2017/18 yarn and fabric consumption is expected to rise to 1.13 MMT and 7.4 billion meters on strong international demand for clothing due to population growth, urbanization, and disposable income growth. Demand for quality cloth also increases in domestic markets as wages and living standards rise.

Trade:

MY 2017/18 imports forecast is raised to 7 million bales on expectations of increased RMG exports with diversified products to non-traditional destination such as China, Japan, Russia and India. MY 2016/17 imports are revised to 6.3 million bales on customs data with anticipated stronger international demand (see Consumption section). Gradual development of the upstream supply chain, including spinning, dyeing, finishing, weaving and printing, creates more demand for cotton to meet required supply to the RMG industry.

Policy:

Trade Related Policies:

In budget FY 2017/18, the GOB reduced corporate tax rates for the garment industry from 20 percent to 12 percent. For “green” businesses, the corporate tax dropped from 20 percent to 10 percent. The apparel sector is also enjoying a source tax rate of 0.7 percent. To encourage safety in factory operations, the import tax rate on raw materials of prefabricated building and fire extinguishing equipment was reduced to 5%.

A draft of “The Textiles Act 2016” is under review: if approved, it will require new textile and garment factories to obtain licenses from the Textile Directorate. This act would give the Textile Directorate authority to uphold standards for raw material quality, including for colors and chemicals.

Bangladesh has major challenges in further developing its export-oriented garment and textile sector. Challenges include insufficient capacity of seaports, inadequate rail and road networks, supply shortages of gas and electricity, and insufficient cargo handling capacity at international airports. These challenges grow in scale as international business partners demand even greater levels of supply and service. Pressure is always toward shorter lead times and lower production costs to retain the client’s business.

Labor Policy:

Bangladesh’s garment sector has undergone several reforms since the April 2013 Rana Plaza building collapse and the November 2012 Tazreen Fashions factory fire that together killed over 1,230 workers. With unprecedented support from the international community and the private sector, Bangladesh has made significant progress on fire and workplace safety. Critical work remains on safeguarding workers’ rights to freely associate and bargain collectively, including in the Export Processing Zones.

In June 2013, President Obama suspended Bangladesh’s Generalized System of Preferences (GSP) trade benefits. Accompanying this decision was a 16-point Action Plan that set forth specific steps to address workers’ rights and safety in Bangladesh. In July 2013, the EU, the International Labor Organization (ILO), the Government of Bangladesh (GOB), and the United States jointly developed a Sustainability Compact.

Two private buyers' initiatives, the Alliance for Bangladesh Worker Safety (Alliance) and the Accord on Fire and Building Safety in Bangladesh (Accord) have conducted initial fire and safety inspections of 2,400 factories. By end-2017, 87 percent of all required factory remediation has been completed at Alliance factories while 81 percent of all factory remediation has been completed at Accord factories. However, government oversight and enforcement of garment factories outside of these initiatives remains limited. In October 2017, the Accord announced its intention to extend its programming beyond May 2018, its original end-date.

Significant work remains to address freedom of association restrictions. In December 2016, a widespread crackdown on union members drew international condemnation. In response, the international community pressed the Government of Bangladesh to implement several labor reforms. During June 2017, Bangladesh committed to reforming the Bangladesh Labor Act and the Export Processing Zone Labor Act and implementing standard operating procedures on union registration and unfair labor practices.

On January 14, the Government of Bangladesh announced its intention to form a wage board to review the minimum wage for the ready made garment industry. The existing minimum monthly wage of 5,300 Bangladesh taka (approximately \$65) went into effect on January 1, 2014. The committee is expected to provide its recommendation by June 2018.

Marketing:

Bangladesh is a hub for denim, a product that enjoys a \$2 billion export market, which is expected to reach \$7 billion by 2021. At present, 32 denim mills turn out 435 million yards (332 million meters) of fabric, about 40 percent of the demand needed for Bangladesh garment factories. The other 60% of demand for denim is supplied from China, India, and Pakistan. Bangladeshi denim holds 12 percent of U.S. market share, which is third after China (26 percent) and Mexico (25 percent). China's shift away from denim to higher value fabrics creates an opportunity for Bangladesh denim suppliers. Potential for the denim sector in Bangladesh may encourage investment: industry insiders expect that six new mills may be established in the next two years.

Bangladesh is almost entirely dependent on raw cotton imports. The percentage of value added in knitwear is highest, but exports of woven garments earn a higher amount of foreign currency because overall sales volume is higher. The gross value addition to raw material cost across the RMG sector is 73.82 percent, down just 1.26 percent from the previous quarter FY18 and all of FY17 (Table 5).

Bangladesh has no import duties for polyester, viscose, acrylic, synthetic, and modacrylic staple fibers. The duty for textile chemical dyes is 5 percent. Export-oriented RMG factories can import yarn and fabric under a duty-free incentive, which reimburses all customs duties paid on imported yarn and fabric (but not taxes such as the VAT and Advanced Income tax). Imports of all textile raw materials, including fabrics, have no quotas.

Table 1. Bangladesh: Commodity, Cotton, PSD
(Area in Thousand Hectares, Quantity in 1,000 480 lb. bales)

| <i>Cotton</i> | 2015/2016 | 2016/2017 | 2017/2018 |
|--------------------------|------------------|------------------|------------------|
| <i>Market Begin Year</i> | Aug 2015 | Aug 2016 | Aug 2017 |

| <i>Cotton Bangladesh</i> | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
|--------------------------|--------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| Area Planted | 0 | 43 | 0 | 43 | 0 | 44 |
| Area Harvested | 43 | 43 | 43 | 43 | 43 | 44 |
| Beginning Stocks | 1331 | 1331 | 1540 | 1016 | 1655 | 1181 |
| Production | 119 | 119 | 125 | 125 | 125 | 135 |
| Imports | 6400 | 5776 | 6700 | 6350 | 7250 | 7000 |
| MY Imports from U.S. | 0 | 199 | 0 | 545 | 0 | 800 |
| Total Supply | 7850 | 7226 | 8365 | 7491 | 9030 | 8316 |
| Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Use | 6300 | 6200 | 6700 | 6300 | 7200 | 6700 |
| Loss | 10 | 10 | 10 | 10 | 10 | 10 |
| Total Dom. Cons. | 6310 | 6210 | 6710 | 6310 | 7210 | 6710 |
| Ending Stocks | 1540 | 1016 | 1655 | 1181 | 1820 | 1606 |
| Total Distribution | 7850 | 7226 | 8365 | 7491 | 9030 | 8316 |
| Stock to Use % | 24.44 | 16.39 | 24.7 | 18.75 | 25.28 | 23.97 |
| Yield | 603 | 603 | 633 | 633 | 633 | 668 |

Table 2. Bangladesh: RMG Sector Growth and Consolidation

| Year | Number of garment factories* | Employment in million workers** |
|-------------|-------------------------------------|--|
| 2000-01 | 3480 | 1.8 |
| 2001-02 | 3618 | 1.8 |
| 2002-03 | 3760 | 2 |
| 2003-04 | 3957 | 2 |
| 2004-05 | 4107 | 2 |
| 2005-06 | 4220 | 2.2 |
| 2006-07 | 4490 | 2.4 |
| 2007-08 | 4743 | 2.8 |
| 2008-09 | 4925 | 3.5 |
| 2009-10 | 5063 | 3.6 |
| 2010-11 | 5150 | 3.6 |
| 2011-12 | 5400 | 4 |
| 2012-13 | 5876 | 4 |
| 2013-14 | 4222 | 4 |
| 2014-15 | 4296 | 4 |
| 2015-16 | 4328 | 4 |
| 2016-17 | 4482 | 4 |

Note: Sign * Including membership; **Estimated, not based on survey or census. Source: BGMEA

Table 3. Bangladesh: Raw Cotton and Other Textile Duty Structure, FY 2017-18

| Products | Custom Duty | SD | VAT | Adv. Income Tax | Regulatory Duty | Advance Trade VAT |
|--------------------|------------------------|-----------|------------|----------------------------|----------------------------|------------------------------|
| Raw Cotton | 0 | 0 | 0 | | 0 | 0 |
| Man-made Fibres | 5% | 0% | 15% | 5% | 0 | 4% |

| | | | | | | |
|------------------------|-----|-----|-----|----|----|----|
| Yarn | 10% | 0 | 15% | 5% | 0 | 4% |
| Fabric | 25% | 25% | 15% | 5% | 3% | 4% |
| Textile dyes-chemicals | 5% | 0 | 15% | 5% | 0 | 4% |

Source: National Board of Revenue (NBR), Government of Bangladesh

Table 4. Bangladesh: RMG Export Sales

| Sub-Sectors (USD millions) | FY 2010/11 | FY 2011/12 | FY 2012/13 | FY 2013/14 | FY 2014/15 | FY 2015/16 | FY 2016/17 |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Knitwear | \$9,482 | \$9,486 | \$10,476 | \$12,050 | \$12,427 | \$13,355 | \$13,757 |
| Woven | \$8,432 | \$9,603 | \$11,040 | \$12,442 | \$13,065 | \$14,739 | \$14,393 |
| Home Textiles | \$789 | \$906 | \$729 | \$793 | \$804 | \$753 | \$799 |
| Specialized Textiles | \$165 | \$139 | \$140 | \$109 | \$106 | \$109 | \$106 |
| Total | \$18,868 | \$20,134 | \$22,385 | \$25,394 | \$26,402 | \$28,956 | \$29,055 |
| Earning Growth | 44.2% | 6.71% | 11.18% | 13.44% | 3.97% | 9.67% | 0.34% |

Source: Bangladesh Textile Mills Association (BTMA) and Bangladesh Knitwear Manufacturer and Exporter Association (BKMEA)

*Fiscal Year (July-June)

Table 5. Bangladesh: Value Addition from RMG Export in context of Raw Materials Import
(Million USD)

| Fiscal Year (FY) | Total Export | RMG Export | Back to Back Raw Materials Import B/ | Back to Back Raw Materials Import as percentage of total RMG Export | Value Addition (Percentage Share) |
|---------------------|--------------|--------------|--------------------------------------|---|-----------------------------------|
| FY 10 | 1620 4.65 | 12496 .72 | 3095.91 | 24.77 | 75.23 |
| FY 11 | 2292 8.22 | 17914 .46 | 4545.26 | 25.37 | 74.63 |
| FY 12 | 2428 7.66 | 19089 .73 | 5221.22 | 27.35 | 72.65 |
| FY 13 | 2702 7.36 | 21515 .73 | 5296.41 | 24.62 | 75.38 |
| FY 14 | 3017 6.8 | 24471 .88 | 6152.08 | 25.14 | 74.86 |
| FY 15 | 3120 8.94 | 25491 .4 | 6201.8 | 24.33 | 75.67 |
| FY 16 | 3424 1.82 | 28094 .16 | 6925.69 | 24.65 | 75.35 |
| FY 17 | 3465 5.92 | 28149 .89 | 7014.22 | 24.92 | 75.08 |
| FY 18 (July-Sep) | 8662. 73 | 7144. 12 | 1870.03 | 26.18 | 73.82 |

Source: Bangladesh Bank

Table 6. Bangladesh: RMG Exports to the World

| Months (USD millions) | Woven | Woven | Growth Rate | Knit | Knit | Growth Rate | Total Export | Total Export | Growth Rate |
|---------------------------------|--------------|--------------|----------------|--------------|--------------|----------------|-----------------|-----------------|----------------|
| | 2015- 16 | 2016- 17 | | 2015- 16 | 2016- 17 | | 2015- 16 | 2016- 17 | |
| July | 1087.7 9 | 1040.3 5 | -4.36 | 1127.3 7 | 1077.2 3 | -4.45 | 2215.1 6 | 2117.5 8 | -4.41 |
| August | 1138.6 8 | 1330.6 8 | 16.86 | 1131.1 9 | 1395.6 1 | 23.38 | 2269.8 7 | 2726.2 9 | 20.11 |
| September | 962.65 | 894.08 | -7.12 | 991.55 | 927.95 | -6.41 | 1954.2 | 1822.0 3 | -6.76 |
| October | 878.82 | 1021.1 9 | 16.2 | 920.31 | 1134.3 5 | 23.26 | 1799.1 3 | 2155.5 4 | 19.81 |
| November | 1158.0 9 | 1212.3 1 | 4.68 | 1066.3 1 | 1097.6 | 2.93 | 2224.4 | 2309.9 1 | 3.84 |
| December | 1477.5 | 1397.5 1 | -5.41 | 1195.3 2 | 1180.8 4 | -1.21 | 2672.8 2 | 2578.3 5 | -3.53 |
| January | 1456 | 1456.8 1 | 0.06 | 1169.7 | 1246.7 2 | 6.58 | 2625.7 1 | 2703.5 3 | 2.96 |
| February | 1324.6 9 | 1209.7 | -8.68 | 1041.6 6 | 1015.9 5 | -2.47 | 2366.3 5 | 2225.6 5 | -5.95 |
| March | 1281.5 4 | 1222.6 5 | -4.6 | 1030.9 1 | 1067.3 | 3.53 | 2312.4 5 | 2289.9 5 | -0.97 |
| April | 1133.6 2 | 1097.8 6 | -3.15 | 1063.1 4 | 1110.6 2 | 4.47 | 2196.7 6 | 2208.4 8 | 0.53 |
| May | 1264.0 4 | 1236.6 9 | -2.16 | 1182.7 4 | 1250.7 7 | 5.75 | 2446.7 8 | 2487.4 6 | 1.66 |
| June | 1575.3 2 | 1272.7 6 | -19.21 | 1435.2 2 | 1252.3 1 | -12.74 | 3010.5 4 | 2525.0 7 | -16.13 |
| Total | 14738. 74 | 14392. 59 | -2.35 | 13355. 42 | 13757. 25 | 3.01 | 28094. 17 | 28149. 84 | 0.2 |

Source: Bangladesh Garments Manufacturers and Exporters Association (BGMEA)

Table 7. Bangladesh: RMG Exports to the World

| Months (USD millions) | Woven | Woven | Growth Rate | Knit | Knit | Growth Rate | Total Export | Total Export | Growth Rate |
|-----------------------------|-------------|-------------|----------------|-------------|-------------|----------------|-----------------|-----------------|----------------|
| | 2016- 17 | 2017- 18 | | 2016- 17 | 2017- 18 | | 2016- 17 | 2017- 18 | |
| July | 1040.3 5 | 1215.9 5 | 16.88 | 1077.2 3 | 1263.3 4 | 17.28 | 2117.5 8 | 2479.2 9 | 17.08 |

| | | | | | | | | | |
|-----------|-------------|-------------|--------|-------------|-------------|-------|-------------|-------------|-------|
| August | 1330.6 8 | 1439.4 5 | 8.17 | 1395.6 1 | 1605.5 3 | 15.04 | 2726.2 9 | 3044.9 8 | 11.69 |
| September | 894.08 | 741.77 | -17.04 | 927.95 | 878.08 | -5.37 | 1822.0 3 | 1619.8 5 | -11.1 |
| October | 1021.1 9 | 1054.3 6 | 3.25 | 1134.3 5 | 1239.2 5 | 9.25 | 2155.5 4 | 2293.6 1 | 6.41 |
| Total | 4286.3 | 4451.5 3 | 3.85 | 4535.1 4 | 4986.2 | 9.95 | 8821.4 4 | 9437.7 3 | 6.99 |

Source: Bangladesh Garments Manufacturers and Exporters Association (BGMEA)