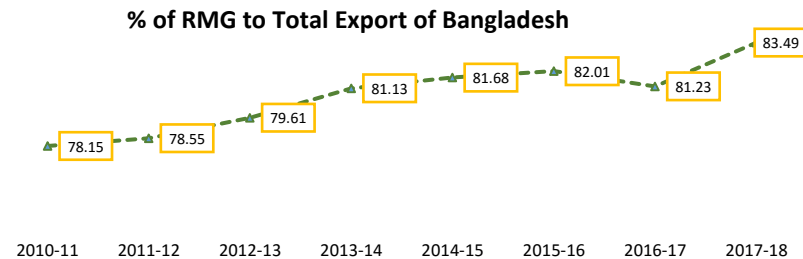


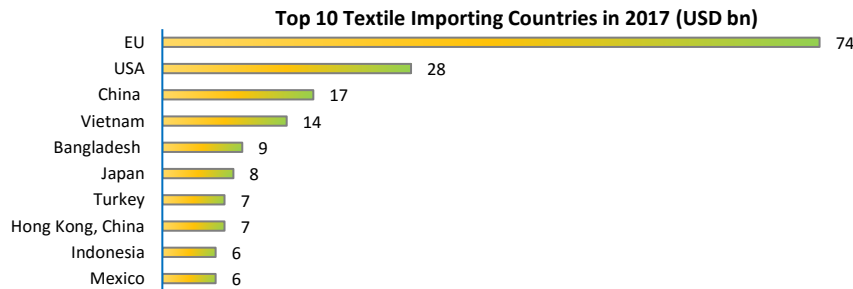
TEXTILE & RMG: THE LARGEST SEGMENT OF EXPORT BASKET IN BANGLADESH

Textile sector in Bangladesh is comprised of two divisions. They are- Primary Textile Sector (PTS) and export oriented Ready Made Garments (RMG). Over last 35 years (from 1983-84 to 2017-18), CAGR of RMG export was 21.71% where CAGR of export was 11.50%. In the recent concluded financial year, contribution of RMG sector to the total export was 83.49%, showing YoY 8.76% growth. Total employment in the RMG factories is about 4 million. The number of RMG factories is increasing slowly over the years making more employment opportunities. In 2017-18, total number of factories was 4,560 where the number was 4,482 in 2016-17.

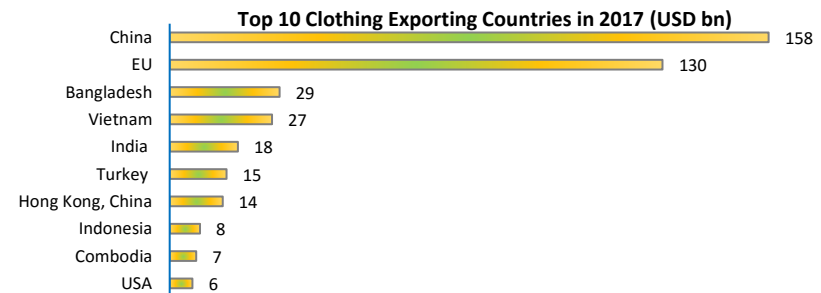
Major RMG products that are being exported include shirts, trousers, jackets, T-shirts and sweaters. Export CAGR of these products over last 23 years are 4.16%, 19.22%, 14.64%, 13.16% and 18.76% respectively. Among these major products, trousers, jackets, t-shirts and sweaters recorded YoY 6.02%, 12.17%, 7.34% and 9.32% growth where shirts recorded YoY 2.13% de-growth. Bangladesh Ranked 5th among the top 10 textile importers where the country ranked 3rd among the top 10 exporters of clothing in the world.



Source: BGMEA and EBLSL Research



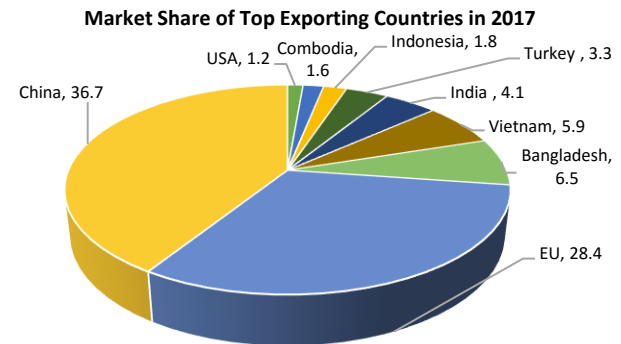
Source: The World Trade statistical Review 2018 and EBLSL Research



Global market share of Bangladesh has increased to 6.5% in 2017 while it was 6.4% in 2016. The largest global market share is still held by China though Chinese export has observed almost zero growth in 2017. China is losing its global market share which is creating opportunity for Bangladesh.

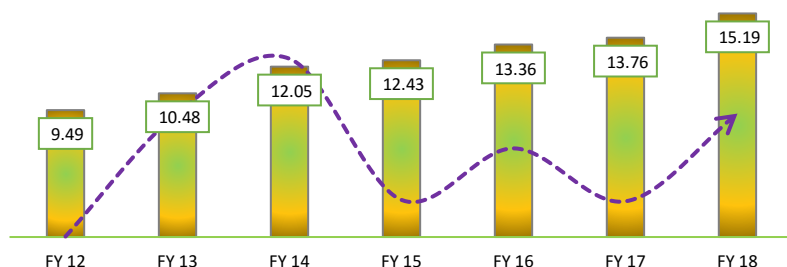
Major exporting destinations for RMG are European Union, USA, Canada and Non-traditional markets.

The forward linkage of the industry is mainly divided by two segments- Knit and Woven. Over last 26 years, CAGR of knit export is 18.02% where CAGR of woven export is 10.18%. Knitting segment of this industry has recorded YoY 10.40% growth in FY 2017-18. Earnings from woven has brought substantial growth (YoY 7.18%) in recent concluded fiscal year 2017-18 after observing a de-growth (YoY 2.35%) in the previous year (FY 2016-17).

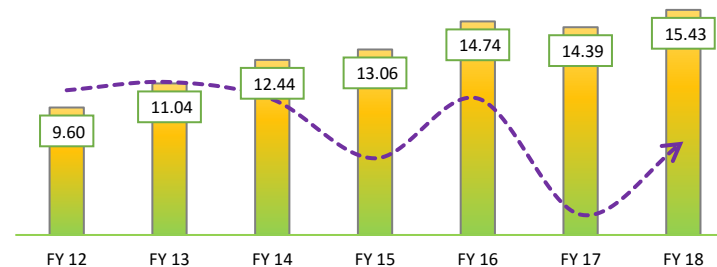


Source: The World Trade statistical Review 2018 and EBLSL Research

Knit Export (USD bn) of Bangladesh



Woven Export (USD bn) of Bangladesh



Source: BGMEA and EBLSL Research

The value of global denim market is USD 60 billion and is expected to reach to USD 64.10 billion by 2020. Bangladesh has 30 Denim Mills with investment of around USD 1 billion. The collective production capacity of those mills per year is 435 million yards a year. Bangladesh’s Denim export is forecasted to reach up to USD 7 billion by the end of 2021. It exports USD 2 billion worth of denim products and fabrics a year currently. Bangladeshi entrepreneurs supply denim products to major global retailers including Levi’s, Diesel, G-Star RAW, H&M, Uniqlo, Tesco, Wrangler, s.Oliver, Hugo Boss, Walmart, and Gap.

Key drivers of the cost structure are moving in a trend to pose challenges for the industry

- » The major basic raw materials of this industry is cotton. Bangladesh is mainly dependent on import for procuring cotton. In global market, cotton price is going up for several months which is affecting the performance of the companies in this industry. In July 2018, cotton price increased by 5.95% compared to previous month and by 31.11% compared to July 2017.
- » To meet the shortage of gas, Bangladesh Govt. is importing liquefied natural gas (LNG). After initiation of LNG, it was decided to impose new cost structure of gas for different sectors. However, govt. has decided recently not to impose the cost structure in current fiscal year i.e. 2018-19.
- » RMG wage board has recently set the minimum wage at BDT 8,000 despite several disputes.
- » Bangladesh is expected to graduate from LDC status by 2024 as it has met all required criteria for the first time at the CDP (Committee for Development Policy) review in March 2018. Now the country is under UN observation for next six years. Upon graduation, duty-free and quota-free benefits for Bangladesh will be withdrawn that will lead to additional tariff imposition on the exported goods. Thus it will affect the cost structure of the textile companies. However Bangladesh is trying to fulfill the criteria to achieve SDG status by 2030. If so, Bangladesh will achieve GSP Plus facilities by then.

Types	Current price (BDT)	Proposed price (BDT)
Average natural Gas	7.39	12.95
Power plants	3.16	10.00
Captive Power	9.62	16.00
Industrial	7.76	15.00
Fertilizer	2.17	12.80
Tea Garden	7.42	12.80
Compressed Natural Gas-CNG	40.00	48.00

Source: macrotrends.net and EBLSL Research

Regulations & incentives that pave the way of success for textile industry

- » 100% direct export and deemed export companies are entitled to have 4% cash incentives from Bangladesh Government.
- » Bangladesh Govt. has recently declared 2% extra cash incentives for the export oriented textile companies that export to EU countries. Along with this, if there is any expansion through new product or new market for textile companies in the countries other than USA, Canada and EU, those companies will be entitled to get cash incentive by 4% which was 3% previously. (FE Circular No. 26 dated September 10, 2018)

- » The Govt. of Bangladesh has decided to reduce the source tax from 0.70% to 0.60%. NBR will soon publish a SRO regarding this change. Along with this, it has been decided that corporate tax for listed RMG companies will be reduced to 12.5% from existing 15% while corporate tax for non-listed companies will be reduced to 15% from existing 20%. RMG companies having Green certificate will be taxed at 10%.
- » VAT has been increased to 5% from 4% on buyer while purchasing branded garment products. 5% VAT will also be applicable on the sale of non-branded garment products in local market.

Status of Global Agreement available for Bangladesh Textile in global market

GSP (Generalized System of Preferences) Facility

The largest market for Bangladesh apparel products are EU and Bangladesh is enjoying GSP facility in EU market. Though it is said that Bangladesh will lose GSP facility after LDC graduation in 2024, EU has agreed to grant Bangladesh the GSP facility till 2027. After withdrawing GSP facility, Bangladesh will lose 12.5% duty Privilege in the EU market. Export to EU will face additional 6.7% tariff. However it is expected, after 2027, Bangladesh will acquire the eligibility to get GSP Plus facility. GSP facility for Bangladesh by USA has been withdrawn in June 2013 after The Rana Plaza Building collapse in April 2013, the reasons cited being poor labor rights and unsafe working conditions in factories. US govt. posed 16 conditions for Bangladesh to be fulfilled for regaining the GSP Facility. Bangladesh fulfilled the conditions but US authority didn't reinstate the facility. Although some competing countries like China, Vietnam, Pakistan and India face much less. However, Bangladesh Govt. has taken initiative to sign a FTA with USA.

FTA (Free Trade Agreement)

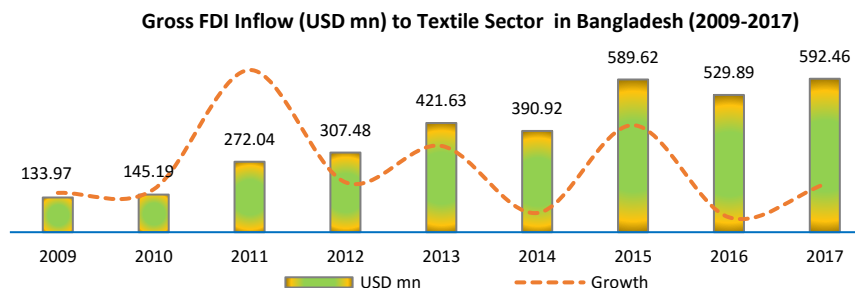
Currently, 6 FTAs are in action for Bangladesh. Among these FTAs, Asia-Pacific Trade Agreement, Preferential Tariff Arrangement-Group of Eight Developing Countries and South Asian Free Trade Area have already been signed and in effect. Trade Preferential System of the Organization of the Islamic Conference has been signed but not in effect where for Multi-Sectoral Technical & Economic Cooperation (BIMSTEC) Free Trade Area and Pakistan-Bangladesh Free Trade Agreement, negotiations are ongoing. Bangladesh has recently taken initiatives to sign FTAs with several countries including China, Bhutan, Thailand, Turkey, Malaysia and Sri Lanka, Nepal and India with the hope to reduce trade gap with those countries.

Trans Pacific Partnership (TPP) Deal

The Trans-Pacific Partnership (TPP) is a twelve nation's trade agreement that covers 40 percent of world economy. The twelve parties of TPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam. Major disadvantage caused by this deal was the presence of Vietnam among the members of the deal. Vietnam is the close competitor of Bangladesh in US Market. However, USA has recently pulled itself out from the TPP. Though it was expected that this decision of USA might be beneficial for Bangladesh, it is now seemed to make little impact for Bangladesh. US Govt. is taking protectionist measure that may led them to impose additional duty on products. If so, then Bangladesh will lose its competitiveness in USA market.

Bangladesh is still in the top list of favorite sourcing destination of Apparel

China is recently losing its global apparel market share which has opened a golden opportunity for Bangladesh. According to the report "The apparel sourcing caravan's next stop: Digitization" by McKinsey, Bangladesh holds the top position among the choice of global customers as the country can deliver good quality clothing at cheaper price. FDI in Bangladesh textile industry has seen a sharp rise in 2017 by 11.82% (Source: Bangladesh bank). During 2017, South Korea has made the largest investment of USD 103mn, followed by Hong Kong USD 66.13mn and United Kingdom USD 42mn.



Source: Bangladesh Bank and EBLSL Research

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