

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 11/26/2018

GAIN Report Number: BG 1811

Bangladesh

Cotton and Products Update

November 2018

Approved By:

Mark A. Myers, Agricultural Attaché

Prepared By:

Tanvir Hossain, Agricultural Specialist

Report Highlights:

MY 2018/19 raw cotton production is projected to reach 138,000 bales based upon favorable weather and expanded planted area of American Upland cotton. Imports are projected to rise to 8 million bales fueled by strong demand in diversified garment products with non-traditional business partners such as China, Japan, and India.

Post:
Dhaka

Commodities:
Cotton

Production:

Post's cotton cultivation area forecast in Market Year (MY) 2018/19 (Aug-Jul) is revised upward to 45,000 hectares (HA), while cotton production is projected to rise to 138,000 bales on expected favorable weather conditions in the current growing period. MY 2018/19 cotton is in the field now and waiting for harvest in December. Cotton cultivation area is gradually increasing in the hilly areas where Bangladeshi governmental organizations and NGO's are working to replace tobacco cultivation with cotton and other alternative crops. Although domestic production accounts for only 2 percent of total demand, the country is unable to significantly increase production due to limited available cultivation areas and lower yield varieties. Upland cotton is planted in July-August and harvested in December-January. Hill cotton is planted in March-April and harvested in December-January.

The Cotton Development Board (CDB) has persevered to introduce Bt cotton in Bangladesh through a Material Transfer Agreement (MTA) with foreign seed companies. With the permission of the National Committee on Biosafety (NCB) in October 2017, the CDB signed a MTA with JK Agri-Genetics Ltd, India to obtain Bt cotton hybrid varieties containing truncated *CryIAc* gene. With the permission of the Institutional Biosafety Committee of the CDB, a contained trial began on August 7, 2018 with two Bt hybrid varieties: JKCH 1974 Bt and JKCH 1050 Bt. In this contained trial, a bioassay test will be done to determine the efficacy of the introduced Bt varieties. Moreover, yield and fiber quality of these two varieties will be compared with a popular local variety. The goal is development of an efficient GE cotton variety which is resistant to Bollworm and Spodoptera/Army worm.

Consumption:

MY 2018/19 raw cotton consumption is projected to rise to 8 million bales on the expectation of increased yarn and fabric use in the apparel industry due to increased international demand as Bangladesh enjoys a competitive advantage. MY 2017/18 consumption is estimated to rise slightly to 7.8 million bales from increased demand by non-traditional importers.

Prices of Cotton

With increasing market prices, Bangladesh was buying cotton from India at a higher price in June 2018. From July 2018, cotton prices started falling in the international market as China slapped a 25 percent retaliatory duty on US cotton and other goods as part of the "trade war" with the United States. Being a major importer, Bangladesh benefits from the supply glut, although the country struggles with the appreciation of the U.S. dollar against the local currency. As a result of cheaper cotton and fabric, Bangladesh continues to receive increased orders for their finished garments from international partners.

Prices of Yarn

In September, the price of cotton yarn reduced in the prior months due to lower prices in the international market. The price of cotton yarn has also fallen due to the strained trade relationship between the U.S. and China. In the local yarn market, the price of 10 counts per pound yarn reduced to Bangladeshi Taka (BDT) 55 (\$0.66), which was BDT 60 (\$0.72) per pound the previous couple of weeks.

Value Added Cotton:

In MY 2018/19 (Aug-July), yarn and fabric production levels are forecasted to reach 795,000 tons and 4.8 billion meters, up by 6 percent and 9 percent respectively, due to competitive advantages resulting from the US-China trade war. As a result, MY 2017/18 yarn and fabric production estimates are revised to 780,000 MT and 4.7 billion meters respectively.

In MY 2018/19 yarn and fabric consumption are projected to increase by 9.4 and 5.5 percent to 1,190,000 tons and 7.7 billion meters as demand for apparel products is expected to rise by some traditional and non-traditional importers. MY 2017/18 yarn and fabric consumption is estimated to increase to 1,160,000 tons and 7.5 billion meters following trends from customs trade data. Several factors have accelerated consumption and export growth: structural reforms; competitive advantage due to the rising trade war between top producer (China) and consumer (U.S.), and the depreciation of the Bangladesh Taka against the U.S. Dollar.

Bangladesh is the largest cotton importer and the 6th largest importer of textiles, worth \$9 billion. The country remains the third largest apparel exporter in the world, accounting for a 6.5 percent market share in 2017. Export earnings of textiles and apparel was \$30.6 billion (USD) in the Bangladesh Fiscal Year (FY) 2017/18 (July-June), up about 8.76 percent from last year (Table 4). As of September 2018, total exports of RMG in FY 2018-19 (July-June) were \$8.1 billion, up 14.67 percent year-on-year (Table 7). Bangladesh exported garments and clothing items worth \$29 billion, while China exported \$158 billion. Although Bangladesh still falls far behind China, it compares very favorably against Vietnam, which exported \$27 billion of apparel for a 5.9% share of the market. Exports to major Asian markets – China, India and Japan – are set to remain buoyant for the year 2018-19, thanks to Bangladesh's competitive prices and the spiraling production costs in China. Bangladesh also enjoys a duty benefit to export nearly 5,000 goods to the Chinese market. Global retail giants like H&M and Walmart have started sourcing apparel items from Bangladesh for Indian consumers. Although the majority of Bangladeshi goods enjoy duty-free benefit in the Indian market, the imposition of a 12.5 percent countervailing duty on items from Bangladesh is a constraint. Some factors that could affect the increasing trade include non-compliance to regulations and quality imposed by buyers, trade protection and duty imposition by export destination countries, natural disaster, political tension, and lack of infrastructure like ports, roads, and electricity to keep up with rising trade demands

RMG is the mainstay of the Bangladesh economy which contributes 83.5% of the export earnings from production by 3,856 factories employing 3.6 million workers, of which 85% are women. The garment industry accounts for 16 percent of all manufactured products, and employs 55 percent of all manufacturing workers. A local think tank, Center for Policy Dialog (CPD), conducted a study that found 50 percent of the industries are small, 42.5 percent are medium, and 7.4 percent are large. The RMG sector enjoys favorable policies, which include duty-free import of inputs, bonded warehousing facilities, back-to-back LC, and rapid customs clearance. The RMG industry exports 139 types of

garment items to the world. Bangladesh's RMG price is the most competitive, but the sourcing from Bangladesh involves the highest compliance risks and longest lead-time.

Changing condition of market source

The RMG sector is undergoing a transition period towards modernizing labor management and welfare, and improving infrastructure and quality product development. Popular brand names, sustainable capacity, and compliance are becoming issues for attracting future orders. Small manufacturers are gradually losing market share mostly due to non-compliance issues. Contacts have indicated that 10% of the RMG sector's exporting capacity is very high along with their level of compliance. They are receiving orders accounting for 90% of the total exports from Bangladesh. However, small manufacturers with less than 2 thousand laborer, making up 84% of the RMG sector, are facing challenges. Owners of these enterprises are getting out of the business, while large corporations are buying them out.

The country's apparel makers are now also focusing on the domestic market through introduction of local brands in the market. With consumers' increasing purchasing power, demand for local and western fashion wear is growing while apparel manufacturers are opening retail outlets to introduce local brands in the market. There are a few local brands that also have outlets in Pakistan and Singapore. Expansion in the local market helps to decrease reliance on garment imports from India and China.

Trade:

In MY 2018/19, Post's import forecast is raised to 8 million bales on expectation of increased international market demand for value-added apparel products. As well, MY 2017/18 import estimate is revised to 7.6 million bales on customs data with anticipated stronger international demand (see Consumption section).

Bangladesh expects to gain a competitive advantage due to the trade war between the U.S. and China, which has a cascading effect on other garment manufacturers such as India and Bangladesh. In July 2018, the Indian government doubled the import duty to 20 percent on 328 textile clothing items imported from China, which helps Bangladesh as a lower cost alternative. This competitive advantage will be a boon for Bangladesh as the country enjoys duty and quota-free market access to Indian markets. In FY 2017-18, Bangladesh's RMG exports to India stood at \$279.19 million, up by 115 percent compared to \$129.81 million in FY17.

Policy:

Government Policy

In Fiscal Year 2017/18, the GOB disbursed BDT 44.81 billion (\$ 0.53 billion) as cash subsidies to export oriented sectors to boost volume. The 27 export oriented sectors includes RMG which enjoys up to 20 per cent cash incentive from the government to help increase export volume.

The GOB set a target of \$45 billion in exports for FY 2018/19, which is 8.48 percent higher than the achievement of last FY 2017/18. The garment sector export amount is set at US\$ 33.70 billion with an annual growth rate of 10.07 percent. As per the opinion of industry contacts, the target is achievable if

the government ensures reduced production costs and lead times at the seaport, and uninterrupted gas and electricity supply critical for manufacturing efficiency.

The GOB reduced RMG manufacturers' tax-at-source from 1 percent to 0.6 percent. The government also reduced the corporate income tax rate for RMG manufacturers and exporters to 12 percent from 15 percent. The corporate tax rate for green building certificate holding apparel companies has been reduced to 10 percent from the previously proposed 12 per cent in the budget speech of FY2018/19.

To reach the target growth for RMG industries, the GOB raised cash incentives from 3% to 4% for the exporters shipping to new markets other than the U.S., Canada, and the European Union in FY 2018-19. According to Export Promotion Bureau (EPB) data, new export markets, also called non-traditional markets, contributed \$4.76 billion, or 15 percent, to total apparel exports of \$31.6 billion in the last fiscal year. Bangladesh exporters are looking towards Japan, China, and India as new emerging potential markets, while other markets include Russia, South Africa, Australia, Turkey, Brazil, Chile, Mexico, South Korea, Malaysia, and New Zealand.

Government rules and act

The government passed *Textile Act 2018* by parliament on September 12, 2018. The act aims to inspect quality and standards of various elements used in textile products, including dyes and other chemicals. The law includes establishment of a laboratory of international standards to carry out quality standardization. To monitor the quality, the law enforced compulsory registration of any company, while suspending or even cancelling registrations for giving wrong or false information.

The *Textile Act 2018* appoints the Department of Textiles as the “Sponsoring Authority” for the textile and clothing industries. The Act states that the Director General of the Department of Textiles would act as the registrar and the textile owners will receive registration within 60 days of application. By this registration, the Department of Textiles will control and provide various facilities to the primary textile, readymade garment, allied textile, packaging and accessories manufacturers, and buying houses. Under the Act, the government will establish a one-stop service center to receive approval, clearance, and license within the shortest possible time. The law further states that an authorized officer of the department will inspect textile industries to oversee compliance with the Act per the conditions of the registration.

Labor welfare and safety policy reform

The Department of Inspection for Factories and Establishments of Bangladesh has initiated the establishment of an industrial safety unit with an aim of ensuring safe working conditions through the monitoring of all industries. The Department will conduct safety inspections and factory remediation in all industries. In addition, the Bangladesh Workers Welfare Foundation, Ministry of Labor, offered RMG industries assistance for medical treatment of workers and education of their children. This is in addition to financial assistance given in the case of accidental deaths.

The Alliance for Bangladesh Worker Safety and the Accord on Fire and Building Safety in Bangladesh are two Western buyers' platforms working to improve workplace safety in Bangladesh's readymade garment sector. The two platforms were set up in the aftermath of the 2013 Rana Plaza factory collapse that killed 1,134 workers. After successfully completing the assignment, Accord departed Bangladesh on November 30, 2018. Alliance will leave the country by January 2019. The GOB has set up a

Remediation Coordination Cell (RCC) with oversight by the Department of Inspection for Factories and Establishments under the Ministry of Labor and Employment to ensure long-term sustainability and fire safety so incidents like Rana Plaza are not repeated. Accord and Alliance has started handing over remediated factories to the RCC.

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

<i>Cotton</i>	2016/2017		2017/2018			2018/2019
<i>Market Begin Year</i>	Aug-2016		Aug-2017			Aug-2018
<i>Cotton Bangladesh</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	43	0	43	0	45
Area Harvested	43	43	44	43	44	0
Beginning Stocks	1515	1515	1630	1630	1855	1540
Production	125	125	135	132	135	138
Imports	6800	6800	7600	7588	8100	8000
MY Imports from U.S.	0			0	0	0
Total Supply	8440	8440	9365	9350	10090	9678
Exports	0	0	0	0	0	0
Use	6800	6800	7500	7800	8000	8000
Loss	10	10	10	10	10	10
Total Dom. Cons.	6810	6810	7510	7810	8010	8010
Ending Stocks	1630	1630	1855	1540	2080	1668
Total Distribution	8440	8440	9365	9350	10090	9678
Stock to Use %	23.97	23.97	24.73	19.74	26	20.85
Yield	633	633	668	668	668	668

Table 2. Bangladesh: RMG Sector Growth and Consolidation

Year	Number of garment factories*	Employment in million workers**
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
2017-18	4560	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 2018-19

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	5%
Yarn	10%	0	15%	5%	0	5%
Fabric	25%	20%	15%	5%	3%	5%
Textile dyes-chemicals	5%	0	15%	5%	0	5%

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

Table 4. Bangladesh: RMG Export Sales

Sub-Sectors	Knitwear	Woven	Home Tex	Specialized Tex	Total	Earning Growth (%)
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	
FY 2009/10	\$6,483	\$6,013	\$403	\$186	\$13,085	1.34
FY 2010/11	\$9,482	\$8,432	\$789	\$165	\$18,868	44.20
FY 2011/12	\$9,486	\$9,603	\$906	\$139	\$20,134	6.71
FY 2012/13	\$10,476	\$11,040	\$729	\$140	\$22,385	11.18
FY 2013/14	\$12,050	\$12,442	\$793	\$109	\$25,394	13.44
FY 2014/15	\$12,427	\$13,065	\$804	\$107	\$26,403	3.97
FY 2015/16	\$13,355	\$14,739	\$753	\$109	\$28,956	9.67
FY 2016/17	\$13,757	\$14,393	\$799	\$106	\$29,055	0.34

FY 2017/18	\$15,189	\$15,426	\$879	\$110	\$31,604	8.77
-------------------	----------	----------	-------	-------	----------	------

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	1249 6.72	3095.91	24.77	75.23
FY 11	2292 8.22	1791 4.46	4545.26	25.37	74.63
FY 12	2428 7.66	1908 9.73	5221.22	27.35	72.65
FY 13	2702 7.36	2151 5.73	5296.41	24.62	75.38
FY 14	3017 6.8	2447 1.88	6152.08	25.14	74.86
FY 15	3120 8.94	2549 1.4	6201.8	24.33	75.67
FY 16	3424 1.82	2809 4.16	6925.69	24.65	75.35
FY 17	3465 5.92	2814 9.89	7014.22	24.92	75.08
FY 18	3666 8.17	3061 4.76	7767.46	25.37	74.63

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
	2016-17	2017-18		2016-17	2017-18		2016-17	2017-18	
July	1040.35	1215.95	16.88	1077.23	1263.34	17.28	2117.58	2479.29	17.08
August	1330.68	1439.45	8.17	1395.61	1605.53	15.04	2726.29	3044.98	11.69
September	894.08	741.77	-17.04	927.95	878.08	-5.37	1822.03	1619.85	-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
November	1212.3 1	1266.4 1	4.46	1097.6	1258.1	14.62	2309.9 1	2524.5 1	9.29
December	1397.5 1	1459.5 8	4.44	1180.8 4	1350.9 7	14.41	2578.3 5	2810.5 5	9.01
January	1456.8 1	1571.2 2	7.85	1246.7 2	1311.1 1	5.16	2703.5 3	2882.3 3	6.61
February	1209.7	1381.6 3	14.21	1015.9 5	1219.2 8	20.01	2225.6 5	2600.9 1	16.86
March	1222.6 5	1382.9 3	13.11	1067.3	1195.4 8	12.01	2289.9 5	2578.4 1	12.6
April	1097.8 6	1251.9 7	14.04	1110.6 2	1219.1 5	9.77	2208.4 8	2471.1 2	11.89
May	1236.6 9	1423.2 3	15.08	1250.7 7	1399.7 7	11.91	2487.4 6	2823	13.49
June	1272.7 6	1237.7 5	-2.75	1252.3 1	1248.4 5	-0.31	2525.0 7	2486.2	-1.54
Total	14392. 59	15426. 25	7.18	13757. 25	15188. 51	10.40	28149. 84	30614. 76	8.76

Source: Bangladesh Garments Manufacturers and Exporters Association (BGMEA)

Table 7. Bangladesh: RMG Exports to the World

Months <i>(USD millions)</i>	Woven	Woven	Growth Rate	Knit	Knit	Growth Rate	Total Export	Total Export	Growth Rate
	2017-18	2018-19		2017-18	2018-19		2017-18	2018-19	
July	1215.9 3	1490.6 2	22.59	1263.3 4	1527.1 2	20.88	2479.2 7	3017.7 4	21.72
August	1439.4 5	1331.6 7	-7.49	1605.5 3	1385.7 5	-13.69	3044.9 8	2717.4 2	-10.76
September	741.77	1162.5 3	56.72	878.08	1293.9 8	47.36	1619.8 5	2457	51.65
Total:	3397.1 5	3984.8 2	17.30	3746.9 5	4206.8 5	12.27	7144.1	8192.1 6	14.67

Source: Bangladesh Garments Manufacturers and Exporters Association (BGMEA)