



Is Bangladesh textile industry in verge of losing its market share gradually to emerging competitors?

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ABSTRACT

The textile industry in Bangladesh, long hailed as a global leader, now faces a critical juncture in maintaining its market shares on the international stage. This paper explores the multifaceted challenges confronting Bangladesh's textile sector and the emerging manufacturing destinations that threaten its dominance.



Fig. 1 The tug-of-war

Low labor costs, a key driver of Bangladesh's success in the textile industry, are gradually diminishing as labor unions advocate for improved working conditions and wages. Meanwhile, countries in Southeast Asia, Africa, and elsewhere are rising as formidable competitors, offering lower labor costs, favorable trade agreements, and modern infrastructure. They have attracted substantial investments in their textile industries, posing a significant challenge to Bangladesh.

The modern textile industry demands advanced infrastructure and technology, a gap some newer destinations have closed, allowing them to operate more efficiently and sustainably. Sustainability and compliance with ethical production practices have also become paramount concerns, influencing brand and consumer choices. Bangladesh must address these concerns to remain competitive.

Furthermore, evolving international trade agreements can alter the landscape of competitiveness. Changes in tariffs and trade policies can impact the cost-effectiveness of manufacturing in different countries, further challenging Bangladesh's textile industry.

To secure its standing in the global textile market, Bangladesh's textile industry must adapt and evolve. This involves investments in sustainability, technological advancement, and diversification of product offerings. Establishing robust partnerships with brands and retailers prioritizing ethical and sustainable sourcing is vital to maintaining its position and relevance in an increasingly competitive global textile industry.

Key words: Exports, economic growth, global recession, industrial challenges, market competitions, marketing, production rate, vertically integrated manufacturing, Global textile market, profit margin etc.

INTRODUCTION

The textile industry has long been a cornerstone of Bangladesh's economy, driving employment, exports, and economic growth. Over the years, it has earned a reputation as a global textile manufacturing hub, renowned for its competitive advantage in low labor costs. However, as the world continues to evolve, so do global trade and industry dynamics. Bangladesh's textile sector now stands at a pivotal juncture, facing a multitude of challenges that threaten its preeminent position in the global market.



Figure 2 – Made in Bangladesh

This paper delves into the intricate web of challenges confronting Bangladesh's textile industry, a sector that has not only fueled the nation's economic progress but has also been instrumental in uplifting the livelihoods of millions. These challenges, spanning from rising labor costs to emerging manufacturing destinations and evolving international trade agreements, collectively pose a formidable test to the industry's sustainability and competitiveness.

In the following sections, we explore the nuanced landscape of these challenges, highlighting the shifting paradigms in the global textile market and the imperative for Bangladesh to adapt and innovate in order to maintain its foothold. The discussion encompasses the changing labor dynamics, the ascent of competing manufacturing destinations, the need for advanced infrastructure and sustainable practices, and the intricate interplay of international trade policies. In doing so, this paper aims to offer a comprehensive understanding of the multifaceted challenges facing Bangladesh's textile industry and the strategic pathways it must traverse to ensure continued success on the global stage.

Factors of losing market share to new manufacturing destination

The textile industry in Bangladesh has been a significant player in the global market for many years. It is one of the largest contributors to the country's economy, providing employment to millions of people and generating substantial export revenue.

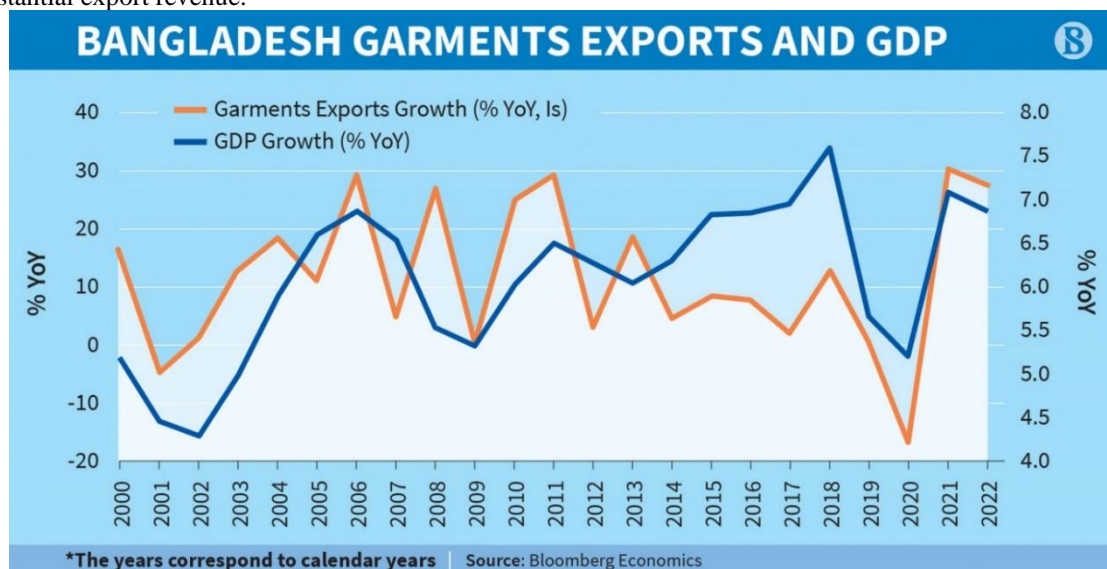


Fig. 3 GDP & Export states of Bangladesh

However, it is true that the textile industry in Bangladesh faces various challenges, and competition from emerging manufacturing destinations is one of them.

Excessive dependency on imported raw materials

Bangladesh's textile industry is intricately woven into the global supply chain. While this has brought immense benefits, it also means that the sector is susceptible to disruptions in the supply chain. These disruptions can arise from a range of factors, including trade disputes, natural disasters, or geopolitical tensions in the countries of origin. Any of these events can result in delays or shortages of essential raw materials. A sudden, unforeseen increase in the prices of these imported raw materials can lead to unpredictably elevated production costs, consequently diminishing profit margins for textile businesses. Another facet of this challenge is the fluctuation of exchange rates. Exchange rate movements can significantly affect the cost of imported materials constricting profit margins for textile companies. Relying on foreign suppliers for raw materials often translates to less control over the quality, reliability, and timely delivery of these materials. This reduced level of control can disrupt production schedules and potentially result in product quality issues, impacting both reputation and competitiveness.

As a result of these factors, textile businesses in Bangladesh may find themselves at a competitive disadvantage compared to counterparts in other countries. Competing nations with access to local sources of raw materials may have a cost advantage, making them more competitive in the global market.

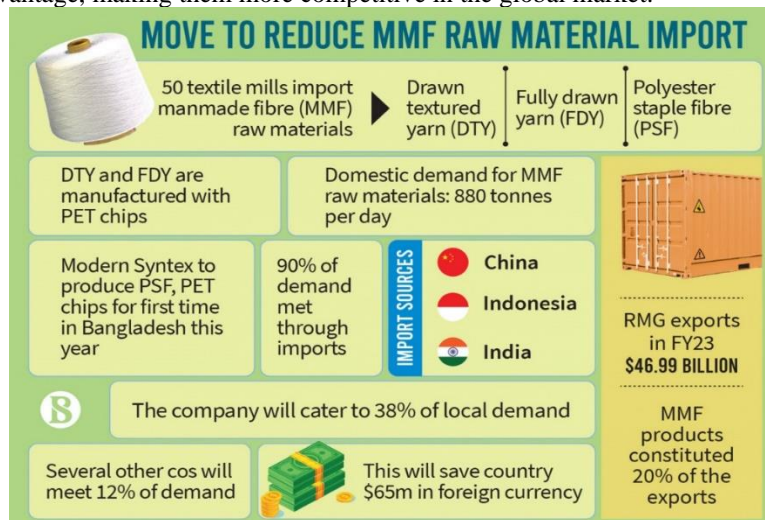


Fig. 4 An overview of recent initiatives for reducing the import of raw materials.
Source – The Business Standard

Rising labor costs in Bangladesh's textile industry

For many years, one of the key drivers of Bangladesh's success in the global textile industry has been its low labor costs. This competitive advantage attracted numerous international brands and manufacturers looking to produce clothing and textiles at a cost-effective rate.

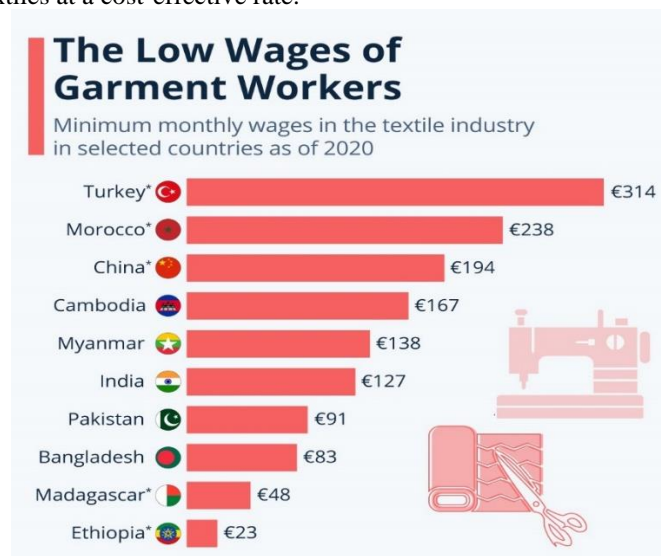


Fig. 5 Minimum wages around the world
Sources – clean clothes campaign (FASH455 – Global Apparel & Textile Trade and Sourcing)

However, several factors have contributed to the trend of rising labor costs in Bangladesh in recent years. Recently demand has been raised to make the minimum wage 23,000 BDT (USD 212) after the last increase to a minimum of 8000 BDT (around USD 73). The government, under both domestic and international pressure, has implemented labor law reforms aimed at improving conditions for textile workers. These reforms include provisions for better wages, safer working environments, and more comprehensive labor protections. General economic inflation in Bangladesh causes higher living costs, which in turn puts pressure on employers to increase wages to maintain a reasonable standard of living for their workers.

Emerging competitors in the textile industry

While Bangladesh has been a significant player in the global textile market for years, it now faces competition from emerging manufacturing destinations. These emerging competitors, often located in Southeast Asia, Africa, and other regions, are gaining traction in the industry. Many emerging competitors, such as Vietnam, Cambodia, Ethiopia, and Myanmar, offer lower labor costs than Bangladesh. They often start from a lower baseline in terms of wage levels, making them attractive options for businesses looking to reduce production costs. Some of these emerging competitors have established favorable trade agreements with key markets like the United States and the European Union. These agreements can provide significant tariff advantages and preferential access to these lucrative markets, making them attractive locations for textile manufacturing. Governments in these emerging manufacturing destinations often offer incentives such as tax breaks, subsidies, and regulatory support to encourage foreign investment and the development of their textile industries. Finally, Geopolitical factors, such as trade tensions and global supply chain disruptions, have prompted some companies to explore alternative manufacturing bases to reduce risk. Emerging competitors present alternative options for diversifying supply chains.

COMPETITIVENESS ASSESSMENT						
Criteria/Country	Bangladesh	Cambodia	Laos	Nepal	China	Vietnam
Production quality	3.5	3.5	3.5	2	4.5	4.5
Ability to create value-added products	3	3	2.5	2	4.5	4
Ability to source raw materials	2	2	2.5	3	5	3
Innovation	3	2	2.5	2.5	4.5	4
Efficiency	3	3	2	3	4.5	4
Lead time	3.5	3	2	2	4	4.5
Price	4.5	4.5	3	3	3	4
Tariff advantages	3.5	2	3	3	2	3
Flexibility of order quantity	3	2.5	2.5	2.5	4	4
Financial stability	2	1.5	2	2	3	3
Political stability	2.5	3.5	3	3	2.5	4.5
Sustainability	2	2.5	2	2	2	3.5

The results were based on respondents' average rating for each country on a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average).

Fig. 6 – Competitiveness Assessment

Source – WTO-UN joint study on “The Textile and Clothing Sector in Asian Graduation Least Developed Countries: Challenges and Ways Forward”

Currency exchange rates and their impact on Bangladesh's textile industry:

Currency exchange rates are a critical factor in Bangladesh's textile industry due to its heavy reliance on exports and imported inputs. Exchange rate fluctuations can have positive and negative effects on the industry's competitiveness, profitability, and cost structure. Exchange rate movements can directly affect the profit margins of textile businesses in Bangladesh. A strengthening BDT can erode the price competitiveness of exports, while a weakening BDT can increase the cost of imports. Companies may need to adjust pricing strategies, renegotiate contracts, or seek alternative sourcing options to maintain profitability.



Fig. 7 RMG exporters lost Tk 40 billion from exchange rate volatility

Source – Textile Today

The Bangladesh Bank, the country's central bank, plays a role in influencing exchange rates. It may intervene in currency markets to stabilize the Taka or to address excessive depreciation or appreciation. These interventions can have a temporary impact on exchange rates.

Competition from Vertical integration in the textile industry:

Vertical integration in the context of the textile industry refers to companies or entities that control multiple stages of the textile supply chain, from raw material production to finished product manufacturing and even retail. In simpler terms, vertically integrated companies are involved in various aspects of textile production, starting from the raw materials to the final sale of products to consumers. By owning multiple stages of the supply chain, vertically integrated companies can streamline operations, reduce redundant costs, and achieve economies of scale. This can result in cost savings that may translate into competitive pricing. Vertically integrated companies can respond more quickly to changes in market demand, as they have greater control over production and can adjust processes as needed also by diversifying their operations across different stages of the supply chain, these companies can mitigate risks associated with supply disruptions, price fluctuations, and market volatility. These companies may have more resources to invest in innovation and advanced technology. This can result in the development of cutting-edge products and manufacturing processes, giving them a competitive edge. Already competitors understood and seized the opportunity from foreign investors.

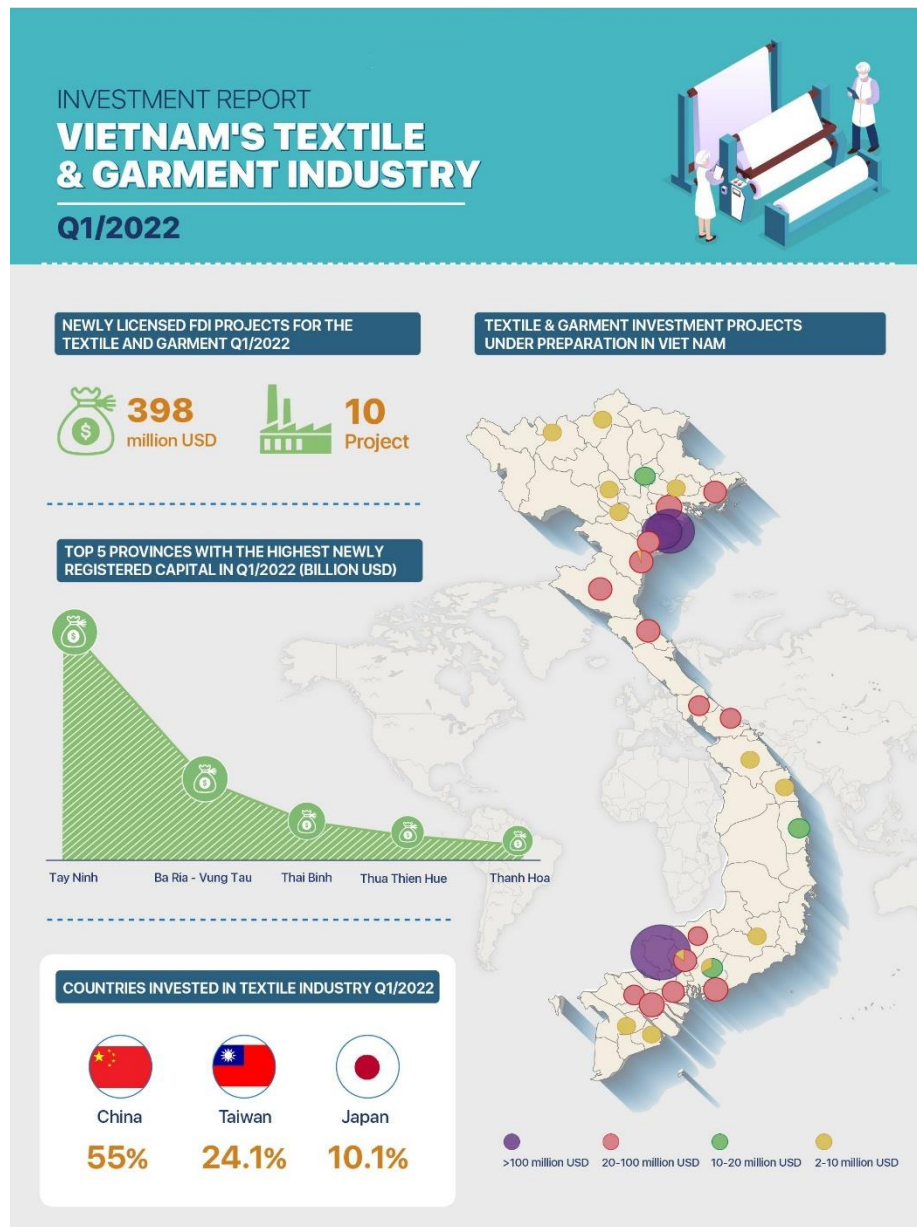


Figure 8 - Vietnam's Garment and Textile Industry Seizing Investment Opportunities
Source - Vietnam construction integration & Development (investment report 2022)

Recommendations to overcome the challenges to the growth of Textile Industries

The textile industry faces several challenges that can impede its growth and competitiveness. To overcome these challenges, textile companies should consider implementing a combination of strategies and innovations.

Invest in Research and Development (R&D)

Investing in Research and Development (R&D) is a critical strategy for the growth and long-term sustainability of textile industries. This point involves dedicating resources to systematic research and innovation efforts aimed at improving various aspects of the textile business. This can lead to the creation of unique, high-quality textiles that set the company apart from competitors. Sustainable alternatives to traditional materials and production such as developing organic textiles, exploring new dyeing techniques that use less water and fewer chemicals, or creating recyclable or biodegradable fabrics. It can be used to enhance the quality and durability of textile products. This is particularly important for products like clothing, where consumers expect longevity and comfort.

Automation and Technology Adoption Point

The adoption of automation and technology in the textile industry is a crucial strategy for overcoming challenges and achieving sustainable growth. Automation and technology adoption encompasses a wide range

of innovations and practices aimed at improving efficiency, reducing costs, enhancing quality, and staying competitive in the global market. Automation involves the use of machines, robots, and computer-controlled systems to perform tasks traditionally carried out by human labor. In textile manufacturing, automation can be applied to processes like spinning, weaving, knitting, cutting, and sewing. Technology can help textile companies reduce energy consumption and improve sustainability. Energy-efficient machines and systems, as well as renewable energy sources, can lower the environmental footprint of textile production. Textile companies should invest in training programs to educate their workforce on new technologies and automation systems. A skilled workforce is essential for operating and maintaining automated machinery effectively.

Skill Development and Training

Skill development and training are essential aspects of overcoming challenges and fostering growth in the textile industry. A skilled and knowledgeable workforce is crucial for adapting to new technologies, improving productivity, ensuring product quality, and remaining competitive. The textile industry is rapidly evolving, with the introduction of advanced machinery and automation. To effectively utilize these technologies, employees need training to operate, maintain, and troubleshoot them. Training is essential for maintaining and improving product quality. Textile workers should be well-versed in quality control methods, including visual inspection, measurements, and defect detection. Training should not be limited to production-level employees. Identifying and nurturing leadership talent within the organization is essential for long-term growth and sustainability.

Trade Partnerships and Export & Financial Management

Entering into trade partnerships and exporting products diversifies a company's revenue streams. This diversification helps reduce the impact of fluctuations in demand or economic conditions in one market. Access to materials and resources from different parts of the world can lead to cost savings and improved product quality. Exporting involves compliance with various international trade regulations, customs documentation, and quality standards. Establishing trade partnerships requires a thorough understanding of import/export regulations in both the home and target countries. Leveraging trade agreements between countries can lead to reduced tariffs and lower trade barriers, making exports more cost-effective.

Government Support

The government should provide financial incentives to textile businesses, including grants, subsidies, tax breaks, and low-interest loans. These funds can be used for various purposes, such as investing in modern machinery, research and development, sustainability initiatives, and employee training. The government should support textile exporters by offering export promotion programs and trade missions. These initiatives help textile companies expand their international reach, identify new markets, and navigate international trade regulations. Government needs to negotiate trade agreements that can reduce tariffs, eliminate trade barriers, and simplify customs procedures. These agreements can significantly benefit textile exporters by making their products more competitive in global markets. Governments also need to focus on supporting SMEs within the textile industry through tailored programs, capacity-building initiatives, and access to financing to help them grow and compete effectively.

Conclusion

The textile industry in Bangladesh, a cornerstone of its economy and a symbol of its global economic integration, now finds itself at a pivotal juncture. The challenges it faces, including rising labor costs and competition from emerging manufacturing destinations, are undeniable threats to its historical dominance in the global textile market.

It is essential to recognize that within these challenges lie opportunities for renewal and growth, provided the industry adapts with foresight, innovation, and strategic agility. In this pursuit, several strategic avenues present themselves.

Diversification, a cornerstone of resilience, can extend beyond product categories to include markets and sourcing options.

However, Research and Policy Integration for Development presented a report "Bangladesh's Export Prospects in Europe." This reveals The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) had set a target of \$100 Billion by 2030.

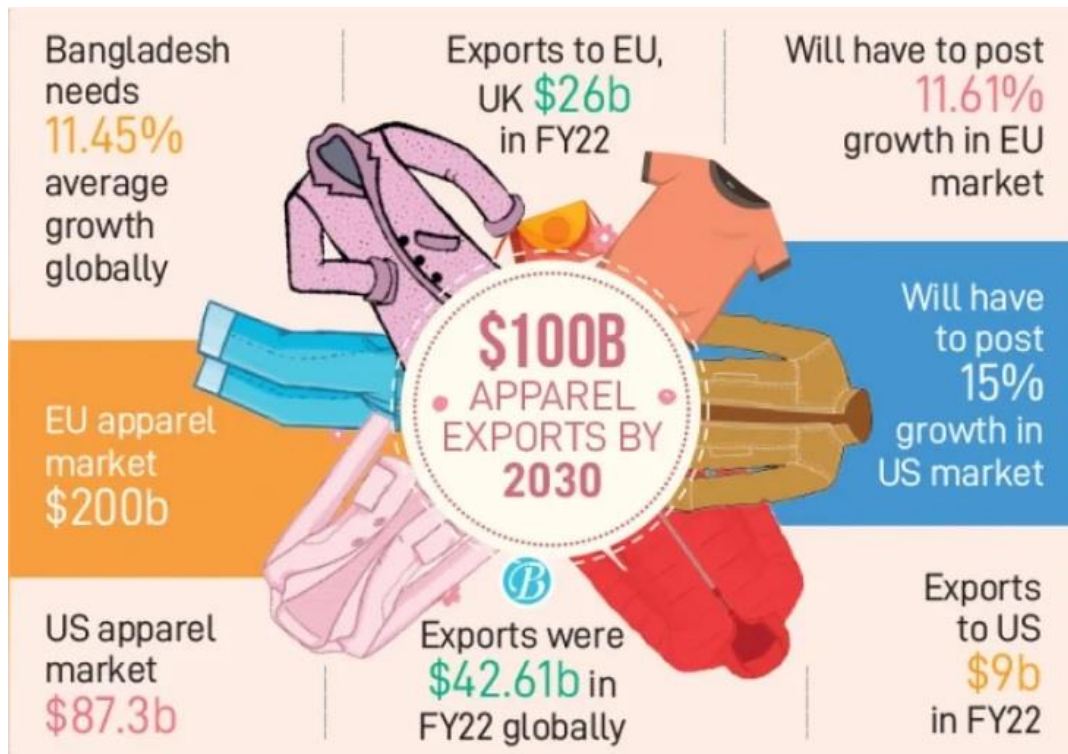


Fig. 9 Bangladesh Textile Industry Road to 2030

Source – The Business Post

The challenges facing Bangladesh's textile industry are not insurmountable. They represent an inflection point, an opportunity for transformation, and an invitation to reinvent itself. It is a call for the industry to embrace change, adapt proactively, and reassert its position as a global textile leader. In doing so, Bangladesh's textile industry secures its future and contributes to the nation's continued economic growth and prosperity. The path forward may be challenging, but it is also rich with potential and promise, ready for those with the vision and determination to seize it.

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