INDUSTRIES

Bangladesh garment boom spurs textile projects

Eager weavers

By S. Kamaluddin in Dhaka

For Bangladesh's garment makers, 1991 could be a milestone year in what has been a short but dizzying climb to prominence. Garment sources predict that clothing exports for the year will top US$1 billion for the first time. If they are right, it will be an extraordinary achievement for a country which, 12 years ago, had no clothing exports to speak of.

The explosive growth of Bangladeshi garment exports, however, is more than just a welcome exception in a country more often noted for poverty and natural disasters. Its benefits are beginning to have ripple effects on the rest of the economy.

First and foremost, the export success is encouraging the emergence of a textile industry that will produce yarn and fabrics for the clothing-makers, now mainly dependent on imports. And in areas where new employment has been created, particularly for women, family incomes are rising and the market for consumer goods is improving.

One worry among Bangladeshi businessmen, however, is that their soaring shipments to the US and Europe may be capped by quota action, imperilling their budding industrial revolution even as it gathers momentum.

In 1990, Bangladesh earned US$650 million from clothing exports. While Dhaka officially forecasts that exports this year will be around US$850 million, industry sources are more optimistic. Don Brasher, an American consultant to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), says exports are expected to reach US$1 billion this year and could even triple by 1995. "Given the opportunity and support, this country has the potential to emerge as the world's largest garment exporter by the end of this century," he adds.

The 54% growth rate that Bangladesh would have to achieve to reach its milestone this year would not be out of line with past performance. Annual growth of clothing exports in the past five years has ranged from a low of 24% to a high of 128%.

Because of its industrial under-development, however, Bangladesh has failed to reap the benefits that these figures might suggest. Domestic producers supply only about 10% of the 750 million m of cloth consumed annually by the garment factories, leaving the industry over-dependent on imported fabrics. These account for roughly 55% of the value of finished goods, leaving the value added as little more than a stitching charge.

This situation could soon begin to change with the announcement recently of a financing package for two textile mills and plans by a third to double its output of yarn and eventually produce cloth, too. The projects will increase Bangladesh's capacity to make high-quality fabrics.

Financing for the first two mills, each expected to cost about US$50 million, has been arranged through Japan's Export-Import Bank by Noorul Quader, head of the Desh group of companies. Quader, a former civil servant who has become a successful businessman, has pioneered much of the development of the garment industry.

In his latest deal, he has persuaded the Japanese to put up suppliers' credit of US$67.3 million at 7.5% interest. The credit will be channelled through Marubeni, one of Japan's biggest trading companies, and will be valid for 10 years. Repayments will become due six months after production begins, which is expected to be in early 1993. The credit will be used to buy Japanese spindles and looms — including, for the first time in Bangladesh, air-jet looms — and German finishing machinery.

Both mills will be composite textile plants, with manufacturing of yarn and fabric, dyeing, bleaching, printing and other processes under one roof. Each would be able to produce 25 million m of top quality fabric annually.

Only one of the two plants will be built by Quader's Desh Garments. The other will be set up by Khalil Multimode Group, which is not related to Desh. Their joint approach to the Japanese was a pragmatic arrangement that capitalised on Multimode's established relationship with Marubeni and Quader's negotiating skills and credibility. Neither Multimode nor Desh needs fear the other; at present levels of demand, Bangladeshi garment makers could use the output of 30 mills.

Quader, in any case, appears to be fur-

Persuasive pioneer

Noorul Quader has been acclaimed as the "father" of the Bangladeshi garment industry. It was largely due to his efforts that the industry gained a foothold despite Bangladesh's daunting lack of investment funds or hard currency with which to buy foreign inputs.

Quader overcame these obstacles by pioneering the use in Bangladesh of "back-to-back" letters of credit, by which his customers, in effect, financed his imports of raw materials. The arrangement gave Quader 100% credit for 90 days, during which he had to complete his orders. Other garment-makers have since followed his example.

A former civil servant, Quader was able to gain acceptance for these then-novel techniques by turning to his official contacts. He had been a major functionary of the Bangladeshi government-in-exile in India during the 1971 war for independence from Pakistan, and he later served as establishment secretary in Dhaka. In the 1980s, he proved to be an able negotiator in garment-quota talks with the US.


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Quader.

Quader started out in garment-making with help from South Korea's Daewoo. Under a collaboration agreement, Daewoo sold him sewing machines and trained his workers in return for a share of royalties from sales. Daewoo also helped Quader set up a bonded warehouse system, which enabled garment exports to escape the restrictions placed on domestic goods.

Quader's operations did so well that he dissolved the partnership with Daewoo after only 18 months. Many of the Daewoo-trained staff left to set up their own companies, further fuelling the industry's growth.

Now aged 55, Quader has forsaken the usual tycoon's trappings for a fairly modest lifestyle. His Desh Group has an annual turnover of about US$25 million. Two of his companies are listed on the Dhaka Stock Exchange, and his planned composite textile mill will also be floated once it goes into production. ■ S. Kamaluddin

Testing the limits

Bangladesh's garment trade has expanded so rapidly that it may soon have to pay the price of success. Garment-industry sources fear there is a growing likelihood that so-far sympathetic attitudes in their major markets may give way to more-restrictive quota action.

In the US, the leading market, 26 categories of imported Bangladeshi garments attract quotas, though these are fairly generous. The EC currently imposes no quotas. Both Washington and Brussels recognise Bangladesh's least-developed-country (LDC) status, as well as its efforts to overcome the economic setbacks suffered from major floods in 1988 and 1989, and this year's cyclone.

Bangladesh's US quota for women's cotton blouses is the equivalent of one-seventh of US domestic production. In men's cotton shirts, Bangladesh is the No. 2 exporter to the US, after Hongkong. And in shop towels, the most recent category to be capped by quotas, it is the largest supplier.

US trade officials called in their Bangladeshi counterparts for consultation after a period of rapid growth in shop-towel shipments. In April, a quota of 1 million kg, backdated to February, was agreed for the first year of a three-year agreement. However, the quota represented a generous increase from the 688,000-kg level that Bangladesh had achieved when the "call" was made.

Ghulam Rahman, commercial counsellor at the Bangladeshi Embassy in Washington, says that "in general, the US is allowing reasonable growth in trade. Maybe, had there been no quotas, we could have done better — but quotas are for everybody." Osman Yousuf, executive director of the Bangladesh US Business Council, adds: "If it weren't for the quotas, other Asian countries might have won this business."

In the EC, Bangladeshi sources fear quota action is getting closer in woven and knitted shirts. Shipments of trousers and blouses are also rising rapidly.

Although the EC still attaches considerable importance to Bangladesh's LDC status, EC textile experts say this sympathetic view may not withstand a continued onslaught of cheap Bangladeshi garments. Bangladesh's strategy, they suggest, should be to diversify its garment exports to lessen this possibility.

"If the pressure keeps up," one EC official says, "nothing will protect them [Bangladeshi garment exporters]" if EC clothing-makers start to agitate for restrictions. ■ REVIEW Correspondents

ther towards realising his plans than Multimode. He intends to raise the balance of the US$50 million cost locally, and he already has a 13-ha site near Dhaka. The project will employ about 2,000 people.

Multimode, headed by Abdul Awwal Mintoo, has a yarn-producing plant, Dulamia Cotton Textile Mills, equipped with 25,000 spindles. The group also owns a shipping company with a small fleet of about half a dozen vessels that transport foodgrains and general cargoes.

The third textile project currently under way is at Padma Textile Mills, 20 km south of Dhaka, which opened in 1989. It plans to double its output of cotton and cotton/polyester blended yarn by adding a further 25,000 spindles at a cost of Taka 300 million (US$8.4 million).

Padma is 50% owned by the Beximco Group, Bangladesh's biggest and most diversified conglomerate, with interests in jute, pharmaceuticals, frozen foods, computers, banking, insurance and light engineering. The Asian Development Bank and Commonwealth Development Corp. (CDC) of Britain each owns 20% of the yarn mill, with the remaining 10% held by the Industrial Promotion and Development Co. This last agency is itself a joint venture of the Bangladeshi Government; local partners; International Finance Corp., a World Bank affiliate; the CDC; and the DEG, the German Government's financing agency. The company's capital is to be increased to Taka 260 million from Taka 160 million, with the partners subscribing on a pro-rata basis.

According to Beximco chairman Sohel Rahman, machinery for the expanded plant is already on order and construction has begun. He also says the plant will gradually be turned into a composite facility

by the addition of weaving and finishing facilities. Most of Padma's output currently goes to Bangladesh's handloom-weaving sector, which makes about 80% of the 75 million m of fabric produced domestically each year.

Another development in recent years has been the setting up in Chittagong of a thread factory by Britain's Tootal Group and locally based A. K. Khan Group. Tootal holds 80% of the venture, and Khan the rest. But the local share is due to expand gradually to 40%. The factory is now exporting some of its output.

Under plans for a second phase, it will make specialised yarn. This will bring total investment in the project to US$25 million, according to group chairman Zahiruddin Khan.

Soaring garment exports are meanwhile creating demand for other products and services. These include locally manufactured buttons and interlinings as well as packaging materials such as cardboard cartons and polythene wrappers that once also had to be imported. Desh, for example, now makes its own packing materials and plans to produce buttons and interlinings as well.

Significantly, the success of the garment industry has been achieved almost entirely by private capital and initiative. The Bangladeshi Government, which controls much of the rest of the economy, has been too strapped for cash to take any significant direct stake.

The hope now is that a home-grown textile industry can mimic the achievements of the garment sector. "Horizontal integration is a must for getting the fullest benefit from the industry," Quader says. Seeing the potential, the government is trying to encourage the growth of composite textile mills with fiscal incentives.

Garment making, meanwhile, is bringing substantial economic benefits. Clothing factories employ about 500,000 Bangladeshis, roughly 80% of them women.

The anecdotal evidence is that these relatively better-off, fixed-income employees are having a multiplier effect on local economies by boosting demand for consumer items. In one example, small businesses are marketing cheap cosmetics to women workers who have disposable income and a sense of new-found status. Some are delaying getting married, while those already married are avoiding frequent pregnancies — both significant trends in a country struggling to contain a population explosion. ■