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CHANGING STRUCTURE OF BANGLADESH JUTE INDUSTRY

Different changes in the industry factors of Bangladesh jute industry are furnished in this chapter. The changes are evaluated over the time period of mid-sixties till date. The constituents of Bangladesh jute industry structure and their changes are analysed in the following sections and sub-sections.

3.1 EVOLUTIONARY CHANGES

The Bangladesh jute industry (BJI) has actually passed through two significant phases of growth—the pre-liberation period (1947-1970) and the post-liberation period (1971 onwards). But only the changes in the later growth stage of the industry have been evaluated on the basis of their strategic significance. Accordingly, one phase is designated as the period from mid-1960s to 1981 and other phase from 1982 till date.

3.1.1 The Phases of Growth

Bangladesh did not have any jute manufacturing unit at the time of partition (1947) of British India. The first jute mill in Bangladesh (erstwhile East Pakistan) was set up in 1951. BJI entered into the jute goods export market in mid-1950s. During 1960s to 1970s, immediately before the independence of Bangladesh, BJI experienced a rapid growth and was able to process half of the country's raw jute production as compared to almost no processing capacity even in 1950. The acceleration of growth was further
characterised by the installation of more jute mills and looms, higher productivity, dominance in export market, earning more foreign exchange, more contribution to government exchequer, creation of employment opportunities and finally earning of huge operating profits. This stage of maturity was so sharp and distinguished that this era was termed as the golden period for the 'Golden Fibre'.

During the liberation struggle and two years immediately after liberation of Bangladesh (1971), the growth stage of the development cycle had shifted towards decline. At that stage, BJI had undergone a sea change in the overall situation both inside and outside the industry environment. The mills were looted, jute goods damaged, administration shattered, expertise was lacking, spares missing, workforce disorganised and, above all, financial position was miserable during the same period.

The rate of growth of the industry had deteriorated further over the subsequent years till 1981 owing to the problem of sales and shipment, huge loss of production due to uncontrollable factors like power failure, strikes, social instability accompanied by deterioration of law and order situation, low efficiency in general, and huge interest on borrowed long-term short-term capital. All these negative factors caused huge operational losses to the jute industry of Bangladesh.

3.2 CHANGES IN MANAGEMENT AND OWNERSHIP PATTERN

During pre- and post—indepenedence of Bangladesh several changes have been taken place in the management and ownership pattern of Bangladesh jute industry. These changes are discussed under the following two sub-sections.
3.2.1 Ownership Pattern

Under the nationalisation order in 1972, the ownership and control of all big industries including jute industry was taken over by the Government of Bangladesh. As a result, most of the private owner entrepreneurs were kept away from the jute good manufacturing business. The nationalisation policy was withdrawn by the next government in 1982. A denationalisation policy was introduced which facilitated and encouraged the private ownership and control. Due to the changes in ownership pattern, now half of the jute mills are owned by public sector and rest by the private owners. The privately owned mills are organised under Bangladesh Jute Mills Association (BJMA) while the public sector mills come under the Bangladesh Jute Mills Corporation (BJMC).

3.2.2 Management Pattern

Before nationalisation, jute mills were either managed by managing agents or by a Board of Directors (BOD) according to the Joint Stock Companies Act, 1913 (as applied in Pakistan). During post-nationalisation period, a separate ministry had come up and Bangladesh Jute Mills Corporation (BJMC) was created under the Ministry of Jute as an apex administrative body to control, supervise and coordinate the activities of nationalised jute mills. BJMC was empowered to make all major policies regarding individual jute mills' administration activities. This management pattern provides a nominal autonomy to the Enterprise Board in taking managerial decisions for smooth unit-level administration.

The partial denationalisation policy of 1982 had changed the management pattern of both public and private
sector of BJI. The private sector jute mills are now administered by BOD where experienced and professional executives are the members. The BOD is the highest body for formulating policies for a private sector unit. Owing to the recent changes in the management pattern of public sector the original framework is the same but BJMC has laid emphasis on professional management to replace the non-professional and inexperienced persons recruited immediately after the independence (1971). The shift in overall management structure of BJI recognises the service of professional managers as necessary to regain and retain the management efficiency in both private and public sectors of BJI.

3.3 CHANGES IN MARKET CHARACTERISTICS

The jute goods market is an important factor for analysing the industry structure of BJI. Six components of jute goods market, as described below, have undergone different kinds of changes over a long time owing to several reasons. The changes alongwith their nature and direction are described below.

3.3.1 Market Segmentation

The BJI is producing mainly traditional jute packaging materials for the overseas market segment. No spectacular changes in the dominance over the international segment is seen till 1980s. Overseas segment is still consuming 90 per cent of the BJI's total annual production. But due to the increasing competition in the export market as well as fall in the demand in the world jute products market, BJI has shifted marginally from the overseas to the domestic and non-traditional market segments.
Recently, a perceptible change in the product-wise market segmentation is becoming evident. The demand for CBC items of BJI is gradually increasing in the USA and European CBC markets. These countries are preferring jute carpet backing to the synthetic CBC.

3.3.2 Users and Their Characteristics

The bulk of the jute products of BJI were used or consumed by the USA and other western countries till the first quarter of 1980s. After that, a fall in jute usage in developed countries has been evident and, instead, developing countries of Africa and Middle East have been using Bangladesi jute products for the last few years. This change in users profile from the developed to developing countries is the effect of the rapid growth of synthetic packaging materials manufacturing industries in the developed world as well as the introduction of modern methods, namely bulk handling, consumer packaging and container system, in the process of shipment of various commodities. Exports analysis shows that presently the USA and Australia are jointly consuming one-fourth of BJI's exports whereas, Africa and Middle-East countries are using about 50 per cent of Bangladeshi jute products. The balance is being exported to other countries.

3.3.3 Products and Their Demand Pattern

BJI produces traditional jute products (hessian, sacking and CBC) used for packaging and wrapping of commodities. All these products were in demand in foreign markets especially in the USA, Australia and European countries till the late seventies. Since then the demand for traditional products started decreasing. Over the last
decade, traditional products demand has been decreasing in the world jute markets and is being replaced by the demand for synthetic packaging materials. However, demand for new diversified and non-traditional value-added items like household decoratives, jute handicrafts, wall coverings, jute-based apparels, blankets, carpets, fancy bags, school bags, etc. is increasing gradually in both overseas and domestic markets. Interestingly, these items are more in demand in the USA which accounts for about 50 per cent of BJI's CBC exports. Hessian and sacking have also a high demand in Africa and Middle-East countries and they jointly account for 60-65 per cent of exports of these products from Bangladesh.

3.3.4 Distribution Facilities

During mid-1960s to late-1970s, jute business was flourishing and profitable and BJI's products were in demand in the exports market. To meet such a huge demand, BJI's channels of distribution were manned by a number of traders namely wholesellers, agents, shippers/exporters and so on. But with the gradual decrease in the overseas demand and declining growth of the industry over the last few years, the distribution system has changed and now it is mostly controlled by the Bangladesh Government. The importance of the role of the trade middlemen has diminished as the present-day jute business is required to play its role in achieving the primary objective of earning scarce foreign exchange for the country.

3.3.5 Pricing of Jute Goods

Cost-plus pricing method had been the general practice of Bangladesh jute industry during the entire
period from its growth stage to maturity stage i.e. up to mid-seventies. This pricing method did not last long. The increase in the cost of labour and raw jute, rate of freight, price of electricity and fuel and frequent devaluation of the Bangladesh currency (Taka) have been affecting the cost structure and price of jute products for the last 10-12 years. In the declining demand situation in global jute markets, BJI has to deal with new competitors-exporters like China and Thailand, who have the benefit of low cost-structure and price and the low-priced synthetic substitutes as well. Considering these adverse factors on the one hand and the need to keep the largest and only foreign exchange earning jute industry on the other, BJI has to change its pricing policy. Presently, BJI has to perforce fix the price of its products sometimes below the cost level to maintain competitiveness in the global market.

3.3.6 Promotional Activities

In the late 1970s BJI had taken less initiative and made little efforts for the promotion of jute goods in the market as the market was absolutely seller-dominated and controlled by two prominent producer-sellers: BJI and Indian Jute Industry (IJI) especially, in the overseas markets. Moreover, BJI had a competitive advantage over its lone competitor IJI because of the better quality and lower price of its products. But, the drastic changes in demand and competitive situation over a long period of time have recently compelled BJI to take, and strengthen promotional measures like arranging advertising campaigns and exhibition, and offering credit facilities etc. The authorities of BJMC, Bangladesh Export Promotion Bureau, Bangladesh Jute Export Corporation (BJEC) and Bangladesh Diplomatic Missions in various countries are provided with
the special authority for the effective implementation of the promotional measures for jute products.

3.4 CHANGES IN THE STATE OF COMPETITION

The BJI is a part of competitive structure where different forces such as major buyers, suppliers, players (sellers) substitutes and new entrants exists. The evaluation of changes in these forces will provide a concrete idea about the overall changes in the state of competition in the industry. The changes, with their nature and direction, are described below.

3.4.1 The Major Players

In the world jute economy, Bangladesh and India were the only two major jute goods manufacturing and exporting countries till late seventies. But, since mid-eighties Thailand, China, and Nepal have emerged as new competitors in export market that increased the number of major players to five. Internal markets' competition is mild and there is no perceptible change in it. On the basis of size and export performance of 1989-90, the jute goods manufacturing units namely Adamjee Jute Mills Limited (13 per cent), Platinium Jute Mills Limited (5 per cent), Crescent Jute Mills Limited (6 per cent), U.M.C. Jute Mills Limited (4 per cent), Peoples Jute Mills Limited (4 per cent) and The Chittagong Jute Manufacturing Company Limited (4 per cent) have been considered as the major players within the industry.

3.4.2 Market Shares

The market share analysis of the major companies in the BJI is not wholly relevant as there is neither an
appreciable level of domestic consumption nor internal competition. It is, therefore, important to consider the market shares from the point of view of global competition.

The world market shares of BJI had risen from an average of 40 per cent during 1976-80 to 44 per cent in the year 1981-82. This upswing trend continued and reached nearly 51 per cent in 1983-84. But, the export quantity stood reduced from 5.48 lakh tonnes in 1981-82 to 5.21 lakh tonnes in 1983-84. For the last few years, BJI's export market shares have been fluctuating in the range of 48 to 50 per cent while quantity-exports of Bangladesh are decreasing with the decrease of total world exports demand for jute products. The quantity of exports in 1989-90 is 4.87 lakh tonnes.15

3.4.3 The Major Suppliers

Bangladesh agricultural sector is the sole supplier of raw jute to the BJI. This sector produces about 10 lakh tonnes of raw jute and BJI consumes only 5 lakh tonnes annually. The rest of the stock is exported to other jute goods manufacturing countries. There is no shortage in the supply to the BJI. There are some nodal agencies namely BJMC, BJMA and Bangladesh Jute Corporation which have jute purchasing centres scattered all over jute growing belts, which ensures a smooth supply of raw material to the industry.

3.4.4 The Major Buyers

The USA, Australia, EEC countries and Japan were the major buyers of BJI's jute products in export market till late-seventies. They consumed a bulk of 90 per cent of
BJI's production. Since 1981-82 African and Middle Eastern countries have become important as major buyers as they consumed nearly 46 per cent of BJI's exports and are considered as more prospective buyers.

3.4.5 The Competitive Situation

The competitive position of BJI in the export market was better and more dominant over a long period of time before the advent of synthetics as substitute products and the emergence of new entrants as jute goods producer and exporter. The change in competitive situation has adversely affected the competitive position of BJI.

With regard to competition among producers and exporters, BJI has a comparatively better position. This is due to the low cost-structure, better quality of products, and low freight rate advantages that BJI has over other exporters. Recently, synthetic substitutes are competing seriously in every end-use of jute products and have been eroding the market shares of both domestic and international markets. The overall competitive position of BJI is going from bad to worse resulting in a decline in its economic performance and profitability.

3.4.6 Export Market

World jute goods export figures shows that BJI had historically garnered an average of 25, 35 and 45 per cent of export market shares in the decades of sixties, seventies and eighties (till 1988) respectively. The market shares further rose to 48 per cent in 1989-90, which in quantity terms, is about 5 lakh tonnes. The export earnings of BJI have increased from Taka 384 crore in 1977-78 to Taka 783
crore in 1987-88, and Taka 954 crore in 1989-90. The export figures of BJI show a rising trend but the severity of competition is intensifying gradually. This results in a lower profit margin though the amount of export earnings seem to be large which is an effect of local currency's devaluation in terms of hard currency.

The BJI is in a position to avail an opportunity in the form of exporting jute goods to the African and Middle Eastern countries where hessian and sacking items are more in demand as the synthetic packaging materials manufacturing industries in these countries are not yet developed. The items like CBC and jute carpets have a demand in the USA, Japan and other European countries. Japan and USA are now interested in importing light weight and small sized jute bags from Bangladesh. Moreover, these exporters are interested in new diversified, and non-traditional jute products. The changes in the demand of export markets are a redeeming feature contributing to the performance.

3.5 CHANGES IN TECHNOLOGICAL DEVELOPMENT

The BJI is using modern technology as most of the jute mills were established between mid-fifties to the late sixties. Bangladesh Jute Research Institute (BJRI) is working for technological development and research on agricultural aspects is done by it. The depressing market conditions of mid-sixties onward has in a way contributed to the creation of the need for product diversification. Modernisation and rehabilitation of plant and machinery have been emphasised to cope with the changing demand in the market for diversified jute products other than traditional items. Some automatic and sophisticated machinery are being imported, although not in sufficient numbers, to help
improve the spinning and weaving processes. Inadequate funds very often discourages the technology development measures. Presently, BJI deems it necessary to use new technology or improve the existing technology to manufacture jute products of all types according to the needs of present-day market segments of both domestic and international markets.

REFERENCES


5. BJMC, op.cit. p


