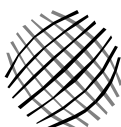


Leather and Leather Goods Exports from Bangladesh: Performance, Prospects and Policy Priorities

A Study Prepared as Part of the BEI Project on Trade and Investment

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Executive Summary

When it comes to export expansion while promoting export diversification, the sector that holds a great promise is leather and leather goods (LLGs), the second largest export sector for Bangladesh. The export policy 2015-18 targets \$60 billion exports by 2021, of which \$5 billion is expected to be due to LLGs. However, both the targets now look daunting prospects.

In 2017, the total leather and leather goods exports stood at \$1.2 billion, accounting for a share of 3.54 per cent of Bangladesh's total merchandise exports. The export-oriented leather sector's contribution to GDP is estimated to be 0.25 per cent. The total employment in the sector in 2016 was 129,000 – up from 91,000 in 2013. During the same period, the leather sector's share in total employment rose marginally from 0.16 per cent to 0.22 per cent.

An analysis of the global export product space shows leather footwear to be closely linked to the RMG clusters. Successful garment manufacturing countries tend to find it easier to develop a specialization in footwear as well (and vice versa). The leather sector should thus be a natural driver of export diversification in Bangladesh. A Revealed Comparative Advantage (RCA) analysis shows that along with garments, LLGs have relatively high RCA scores, indicating Bangladesh's relatively high competitiveness in these products.

The leather sector has a strong backward linkage in terms of locally sourced raw materials. It is estimated to have a domestic value addition as high as 80-95 per cent. But, there is evidence of almost all tanneries producing at less than their optimal capacity.

The global LLGs market expanded from \$75 billion in 2000 to \$167 billion in 2015. During the same period, Bangladesh's exports increased by \$1.07 billion in comparison with such expansion of \$46 billion for China, \$5.4 billion for India, \$2.7 billion for Indonesia. In 2015, Vietnam's exports stood at almost \$8 billion – up from some negligible amount in 2000.

There has been a shift in the export composition of the leading exporters. The average share of raw leather in total LLGs declined from 33 per cent in 2000 to 18 per cent in 2015. Most leading exporters (except for the USA) also saw their respective shares of leather goods and footwear increase. That is, leading exporting countries have shifted from raw leather to higher value-added and more sophisticated finished leather products. Bangladesh's leather export is still highly concentrated in raw leather, although it is declining. In 2015, the share of raw leather in total LLG exports of Bangladesh was about 28 per cent.

Bangladesh's LLG exports are highly concentrated in a few markets. It exports 44 leather products (at the HS 6-digit level) to 84 destinations. In comparison, Vietnam exports 59 items to 122 markets, while China sends 65 products to 209 foreign markets. The share of Bangladesh's exports to the USA, the largest importer of LLGs, is substantially lower than those of its comparators. While China, India and Vietnam export respectively 24 per cent, 19 per cent and 41 per cent of their export sales of finished leather articles to the USA, the corresponding figure for Bangladesh is only 7 per cent.

The analysis in this study shows that the quality of a range of Bangladesh's leather products is better relative to many of its comparators. Especially, in raw leather, Bangladesh outperforms its Asian comparators. The quality of leather articles in HS42 category is also very good. In leather footwear, Bangladesh's quality is mediocre as revealed by the unit value prices.

Given the availability of local raw materials, know-how of the supply management within the export industry, abundance of labour, and expressed policy support, the leather sector has a huge potential for transformation, generating billions of dollars in additional export earnings. However, the realization of this potential depends on several factors.

Infrastructural bottlenecks are major problems affecting the overall export industry including the leather sector. In the World Bank Doing Business surveys, Bangladesh typically is outperformed by its most other comparators. Inland transportation, port infrastructure, trade logistics – in all these areas there are major issues affecting export competitiveness. Despite making impressive progress to tackle shortage of electricity supplies in the recent past years,

per capita electricity consumption in Bangladesh remains among the lowest in the world, and is just one-third and one-fifth of the consumption levels in India and Vietnam, respectively. Amongst other factors contributing to the excessive cost of doing business include time required for registering properties, costs of enforcing contracts, and high land price.

Procedures and formalities involving trading across borders are much more involved and costlier in Bangladesh. One effective way of reducing the cost and lead time to exports could be establishing off-dock facilities like private container freight stations (CFS) or inland container depot (ICDs). As in Doing Business ranking, Bangladesh scores poorly in the World Economic Forum's Global Competitiveness Index (GCI) of cross-country comparisons relating to such factors as institutions, infrastructure, market size and efficiency, business sophistication and innovation. The impact of the excessive cost of doing business gets amplified in the presence of weak competitiveness fundamentals as the GCI aims to measure.

There are other major policy-induced problems as well. One such issue is the real exchange rate, which has appreciated by 60 per cent since 2012. An inbuilt anti-export bias within the trade policy regime as reflected relatively weak incentives for exports vis-à-vis import-competing production is another factor. Higher costs of doing business, an appreciated real exchange rate, and policy-induced disincentives tend to undermine external competitiveness, resulting in a weak export response.

Since export production cannot be protected by tariffs, it is important that the exporters (including those in leather) are supported directly through different export incentive schemes. The cash assistance for the leather sector is currently in the range of 10-15 per cent. However, the scope for deepening the policy support for leather needs serious consideration. Bangladesh will soon graduate out of the LDC group, after which, some of the existing policy flexibilities and trade preferences will either be lost or will be significantly reduced. Therefore, it is high time to consider reinvigorated and deepened policy support with the objective of expanding export base rapidly.

Bangladesh needs to expand export markets and export products. All export support measures to help firms sustain their export relationships should be strengthened. Accessing

markets on a preferential basis has also been a problem, affecting particularly the leather sector. For example, in the US market, which is the largest importer of LLGs, Bangladesh's exports are on average subject to a tariff rate of 15.6 per cent. The estimates presented in this study show that if Bangladesh had obtained duty-free market access, exports of LLGs would have increased by \$24.2 million, an increase of 15.3 per cent of current LLG exports from Bangladesh to the USA. The largest export gains would occur in the footwear subsector (\$14.25 million), followed by articles of leather (\$8.76 million) and raw leather (\$1.18 million). Engagements with the USA for securing improved markets access should therefore continue.

Improvements in product quality, sophistication and standards are important for export expansion. There is a need for developing domestic capacity in designing, market and product research and development, brand and fashion development, etc, and at the same time setting up training centres for workers' skill development. Effective operation of the Tannery Estate Dhaka (TED) is also critically important. As like the TED, Bangladesh should aim for establishing leather clusters in different regions.

Lack of access to finance and financial services needs to be addressed immediately. Successful leather and footwear exporting countries like Vietnam and India have rolled out financial support for technology upgradation of their export-oriented firms. If introduced, such a scheme can also benefit the leather sector in Bangladesh.

Renewed measures and efforts must be undertaken to attract FDI in the country. Increased FDI flows in LLGs goods can help technological upgradation, move up on the quality ladder, and strengthen the country position within the global leather value chains.

A severe scarcity of skilled manpower is proving a major problem in Bangladesh. The leather sector faces an acute skilled-manpower crisis, specifically at the technical and upper-end managerial positions. In the short term, relaxing the hiring rule of foreign experts could be considered seriously. In the medium to long term, the capacity of local institutions should be enhanced to support industry-specific needs. The future growth in the leather sector will certainly require more skilled engineers, technicians and managers.

As depicted in the current study, given the current performance of the leather sector along with its solid manufacturing base accompanied by a strong backward linkage, exploiting the full potential of the leather sector should be considered as a high-priority for expanding exports and promoting export diversification.

Chapter 1: Introduction

Rapid economic growth and significant structural transformations have characterised Bangladesh's economic development over the past two decades or so. The overall economy, measured by the gross domestic product (GDP) in US dollars, grew by more than seven times: from \$38 billion in 1995 to \$273 billion today. With a consistent rise in per capita income - from \$320 to \$1,610 - the country graduated from a low-income to lower-middle income status, as per the World Bank classification of global economies. Along with this, the share of agriculture in GDP fell from more than 40 per cent to less than 15 per cent, while the relative significance of the manufacturing sector rising from less than 10 per cent to more than 18 per cent. With an average economic growth of rate close to 6 per cent over a two-decade-long period, Bangladesh has been one of the fastest growing countries in the world. The country exhibited a resilient performance despite facing enormous challenges in the domestic front as well as confronting external shocks such as the prolonged global recession and trade slowdown following the global financial crisis of 2008.

A robust export performance is widely perceived to be a key driver of the above impressive record. Bangladesh's merchandise exports grew from less than \$5 billion in the mid-1990s to about \$35 billion in 2017. Even in the aftermath of the 2008 global financial crisis and most recently of an unprecedented slowdown in global trade during 2015 and 2016, when world exports of goods and services fell by \$3.1 trillion with most countries experiencing falling export revenues, Bangladesh managed to maintain a modest export growth rate.

Notwithstanding the above, Bangladesh needs to keep the momentum going for many years to come. This is because given the size of Bangladesh (160 million population), the current export volume is small in comparison with most countries of comparable size.¹ Furthermore,

¹ This particular point was highlighted in an earlier BEI study (Razzaque, 2017). The 91 million-strong Vietnam post an export volume of \$170 billion; Indonesia exports \$220 billion with a population of 258 million; The Philippines has a population of 101 million and exports \$90 billion. Then again, much smaller countries in East

the export growth has so far been singlehandedly dominated by the readymade garment (RMG) sector, leading to increased export concentration. Indeed, the tremendous success of the RMG industry also highlights the critical challenge of broadening export base or export diversification – a task that has so far proven to be a formidable one.

An ever-increasing export concentration has raised concerns amongst policymakers as the mono-product driven export increases the risks associated with sustainability of robust export growth. In recognition of this, successive five-year development plans (e.g. the 6th Five Year Plan: 2011-15 and 7th Five Year Plan: 2016-2020) of Bangladesh provided a special emphasis on the need for making progress on export diversification. With this view to end, national export policies over the past several years aimed to promote sectors with the potential for contributing to broadening the country's export base.

When it comes to the issue of export expansion while promoting export diversification, the export sector that holds a lot of promise is leather. Leather and leather goods comprise the second largest export earnings for Bangladesh. The sector has strong backward linkages which offer an inherent source of external competitiveness. In addition, there exist considerable scopes for generating far more value-added items that are currently being exported, attracting higher export prices. In addition, being a labour-intensive manufacturing industry with having a strong horizontal linkage with the RMG sector, the leather sector appears to be an ideal sector to focus on expanding Bangladesh's exports. The Export Policy of Bangladesh (2009-12) identified leather as one of the thrust sectors along with pharmaceuticals, agro-processing goods, IT and ITES. With enhanced contributions from the thrust sectors, there is the policy ambition of attaining, by 2021, \$60 billion exports, of which \$5 billion is expected to be due to leather and leather goods (LLGs). Amongst others, a severe downturn in global trade means achieving the targets would be daunting prospects. In 2016-17, Bangladesh exported \$1.23 billion worth of LLGs. In terms of global market share, it was less than 1 per cent.

Asia such as Malaysia and Singapore are extremely successful exporting nations. Malaysia with a population of 29 million, export more than 240 billion, while Singapore has a population of 5 million with export receipts of \$557 billion. Export figures mentioned for countries are for 2015.

This current study on leather and leather goods is part of a series of sector-specific studies, where the objective is to identify the export prospects, challenges and policy priorities for some selected sectors that can contribute to export diversification. One core objective of this study is to facilitate consultations with the private sector stakeholders so that their views and inputs can be utilised in providing inputs into the high-level policy discourse.

Against this backdrop, this report analyses the trends in LLGs exports and market prospects while highlighting some of the critical constraints faced by the sector that need to be tackled on a priority basis. It should be mentioned at the outset that, along with some leather-industry specific issues, a vast majority of the constraints are generic in nature affecting across-the-board export competitiveness.

This report is organized as follows: After this introduction in Section I, Section II provides a brief overview of the leather sector including some of its salient features; Section III provides analyses of the trends and export market prospects of the sector; Section IV contains discussions on the constraints faced by the sector and recommendations for addressing them; and finally, Section V concludes.

Chapter 2: An Overview of the Leather Sector

2.1 The tannery industry

The tannery industry in the part of East-Bengal, then present Bangladesh, evolved in the early 1940s. During the British colonial period, most of raw hides and skins were shipped to Kolkata for processing and transforming into leather goods. The first tannery was established in Narayanganj. It was later shifted to Hazaribagh - just nearby to the then Dhaka city – which was developed as an industrial area during the Pakistan period.² After the end of the British rule in 1947, there emerged a sudden demand for tanneries in this part of East-Bengal. In 1949, a leather college was established in Hazaribagh. Due to market demand and agglomeration effects, by 1965 more than 30 tanneries started operating in Hazaribagh. The tanneries manufactured wet blue and chrome tanned leather until the 1980s when the tanneries expanded crust leather production. The export of raw hides and wet blue leather from Bangladesh were banned in 1991, since when the processing of finished leather and leather goods started to rise.

The Hazaribagh tannery industry faced a lot of problems since its inception. After the independence of Bangladesh in 1971, the abandoned industrial plots were sold indiscriminately. With the expansion of the Dhaka city, the Hazaribagh area ultimately came within the reach of residential areas. Although Hazaribagh was designated as an industrial area, many new owners began to use the plots for residential purposes. Before their very recent relocation to Savar (around mid-2017), as many as 220 tanneries were in operation in Hazaribagh. That is, about 90 per cent of all tanneries in Bangladesh were located in an area

² Manzur, S. N. (2015). *Challenges facing the Bangladeshi Leather Industry*. Presentation at 118th SLTC Conference 2015. Northampton.

with an estimated land size of just 70 acres. As much as 76 per cent of Hazaribagh tanneries were export-oriented.³

While at Hazaribagh, the performance and expansion of the leather sector were heavily constrained by the lack of industrial planning and absence of physical expansion of the industrial estate (Harris, 2016). Although the establishment of an effluent treatment plant (ETP) had been in discussion since as early as the 1990s (Huq & Ahmed, 1990), the area did not have enough space to accommodate a central ETP. In 2001, the High Court of Bangladesh ordered the relocation of the factories. The plan for Savar Tannery Estate was passed in 2002. The first MoU between the government and the Bangladesh Tanneries Association (BTA) and Bangladesh Finished Leather and Leather Footwear Exporters Association (BFLLEA) was signed in 2003 to facilitate the relocation of production units.

However, it was as late as April 2017, when the Tannery Estate Dhaka (TED) went into operation. The delay was due to several factors including dealing with procedural issues, sorting out legal implications regarding compensations and relocation-related matters, lack of coordination between different associations, etc (Harris, 2016). The TED includes 205 plots for housing and 155 industrial units on an estate of 200 acres of land. It also incorporates a central effluent treatment plant (CETP), a central dumping yard, a water treatment plant with capacity of 22.8 million liters per day, a sludge power generation system (SPGS), a common chrome recovery unit (CCRU) and a sewage treatment plant with a capacity of 5 million liters per day.

2.2 Definition

Broadly, the leather sector includes articles for producing leather (raw hides and skins), leather, articles originated from leather and leather footwear. In terms of Harmonized System (HS) of classification, the leather sector comprises leather and leather goods under HS 41, 42,

³ Bangladesh Footwear Industry Report 2016

43 and leather footwear under HS 6403.⁴ HS 41 includes raw hides and skins (other than fur-skins), wet and crust leather, while HS 42 includes articles of leathers like saddlery and harness, travel goods, handbags and similar containers and articles of animal gut. On the other hand, HS 43 includes fur-skins and artificial fur and other manufacturing products of fur. All kinds of footwear are part of HS 64 category of products. However, leather footwear is mainly considered under HS 6403. As the objective of the current study is primarily leather and leather goods, the paper defines the leather sector comprising HS 41, 42, 43 and 6403 following conventional practices.⁵

2.3 The leather industry value chain

Animal Husbandry is the first stage of the value chain of the leather industry. Animals with proper grazing environment produce quality meat and hides. Animal transportation is also an important part of this segment as animals transported under challenging circumstances to produce excessive lactic acid, reducing the quality of meat and by-products.⁶ The second stage of the leather industry value chain consists of meat production from animal husbandry. It is a common practice in the developed world to execute meat production in professional abattoirs, which ensures food safety and better quality raw materials for the leather industry. However, there are no professional or semi-professional abattoirs available in Bangladesh. During Eid-ul-Adha, when most of the raw hides are collected, the slaughtering usually takes place in open places. Even the peeling of raw hides is not done by expert butchers which sometimes damages hides and skins. Collection and storage of raw hides is the third stage of the leather industry value chain. As a large supply of raw hides is collected at a particular point in the year during the eid, storing raw hides is an important aspect from the viewpoint of the Bangladesh leather industry. Most of the tanneries store their rawhides by salting them as cold-storage facilities are not available. In terms of transforming perishable collagen into durable leather, tanning is the most important stage of the value chain. Better compliance, environmental safeguards and the use of eco-friendly processing is the key to make leather

⁴ See appendix for a greater detail on the individual items under HS 2-digit level of classification.

⁵ The Export Promotion Bureau of Bangladesh (EPB) follows the same definition.

⁶ FAO (2017)

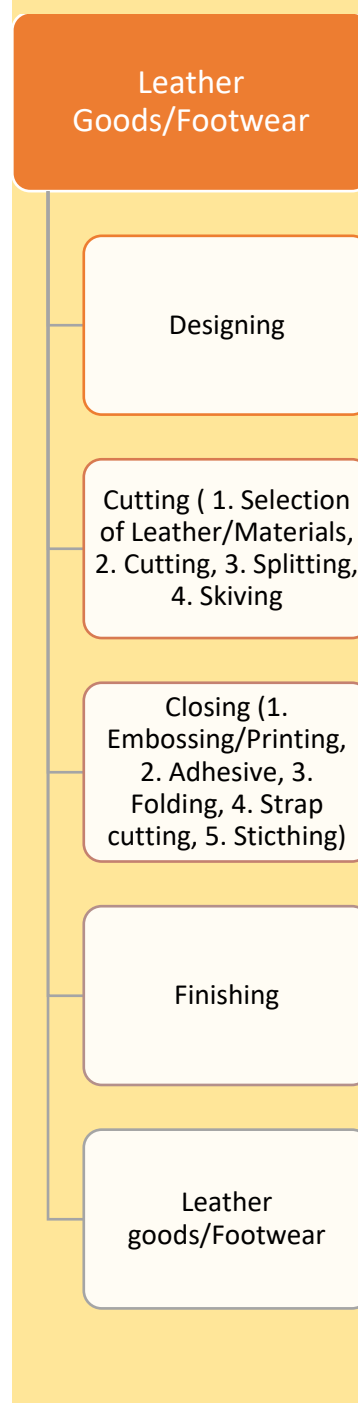
of high quality and standard.⁷ The fifth and final stage of the value chain is the production of leather goods and leather footwear. The success and value addition of the leather goods and footwear depends upon the supply of skilled manpower, appropriate technologies, the quality of manufactured goods, etc.

2.4 Raw materials, production processes and types of leather

The basic raw materials of the leather sector are hides and skins of bovine or equine animals, sheep or lambs, or other animals. Various stages of the leather processing industry are provided in Figures 2.1 and 2.2. From the raw materials acquired at the back-end, tanneries produce three types of leathers namely – wet blue, crust and finished leather. The raw hides and skins are collected from leather depots located in Dhaka, Chittagong, Comilla, Kushtia, Natore and Rangpur. Along with locally collected rawhides, a very insignificant volume of raw hides is imported from abroad. From raw hides and skins, tanneries produce wet-blue leathers. From wet blue leathers, crust leathers are created. In the final phase, crust leather is used as raw materials in producing finished leather. Having one of the largest stocks of livestock in the world, the local value-addition in the finished leather is estimated to be in the range 80-95 per cent (Weijers, P., & Faruque, S., 2006). In the case of leather footwear, the total value-addition is estimated to be on average more than 80 per cent.

⁷ International accreditations from Leather Working Group (LWR) or World Wide Responsible Accredited Production (WRAP) and so on is very important from today's perspective.

Figure 2. 1
Steps to Leather Processing

Figure 2. 2
Steps to Leather Goods/Footwear


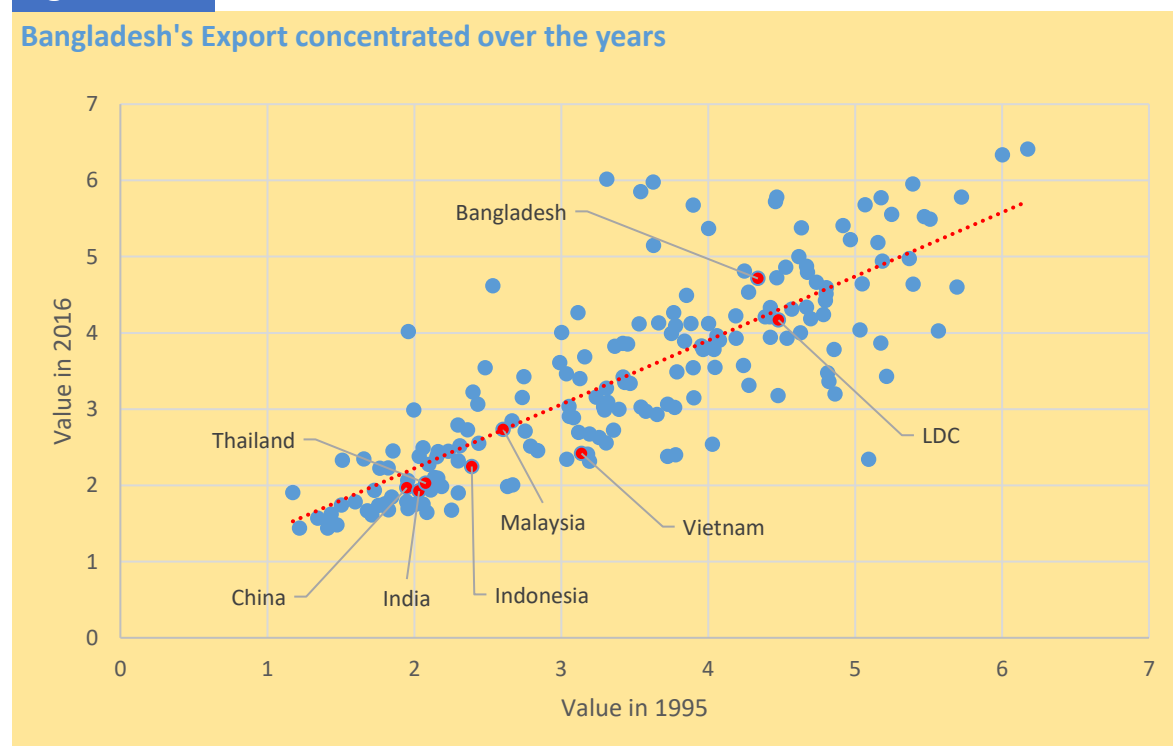
Source: Weijers, P., & Faruque, S. (2006)

2.5 The leather sector and the Bangladesh economy

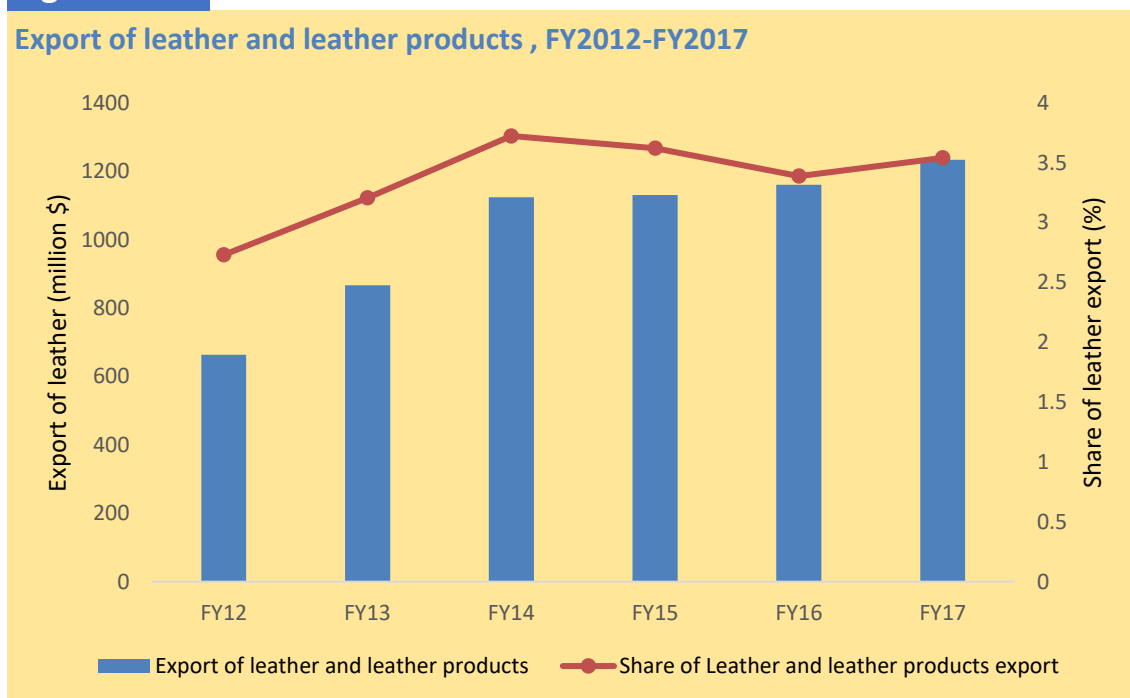
As mentioned earlier, Bangladesh's exports became more and more concentrated in readymade garments and home textile items (HS 61, 62, 63), increasing their combined share in total exports from 49 per cent in 1990 to 86.2 per cent in 2015. In a cross-country comparison, Bangladesh's export basket is found to be more concentrated than that of many other developing countries, and over time (e.g. between 1995 and 2015) this concentration has risen (Figure 2.3). The shares of other major export items like jute and jute goods, fish and other agricultural products in total merchandise exports declined. The share of leather and leather goods had a declining trend until 2010 since when it recovered before tapering off most recently. In 2017, the share of leather and leather goods was 3.54 per cent of total exports (Figure 2.4).

Figure 2. 3

Bangladesh's Export concentrated over the years



Source: BEI project team estimates from the IMF Export Diversification Index (2014).

Figure 2.4**Export of leather and leather products , FY2012-FY2017**

Source: Export Promotion Bureau.

There have been two important changes in the dynamics of the export sector of Bangladesh. First, while in the early 1990s, apart from apparels, all other major items were primary products, the top 10 products in the export basket of 2015 constituted manufacturing items (at HS 2-digit classification levels). Second, the leather sector emerged as the second highest export earning sector (after RMG). While the leather footwear alone contributed to 1.5 per cent of total exports, leather and leather goods also appeared in the top ten exported goods' list.

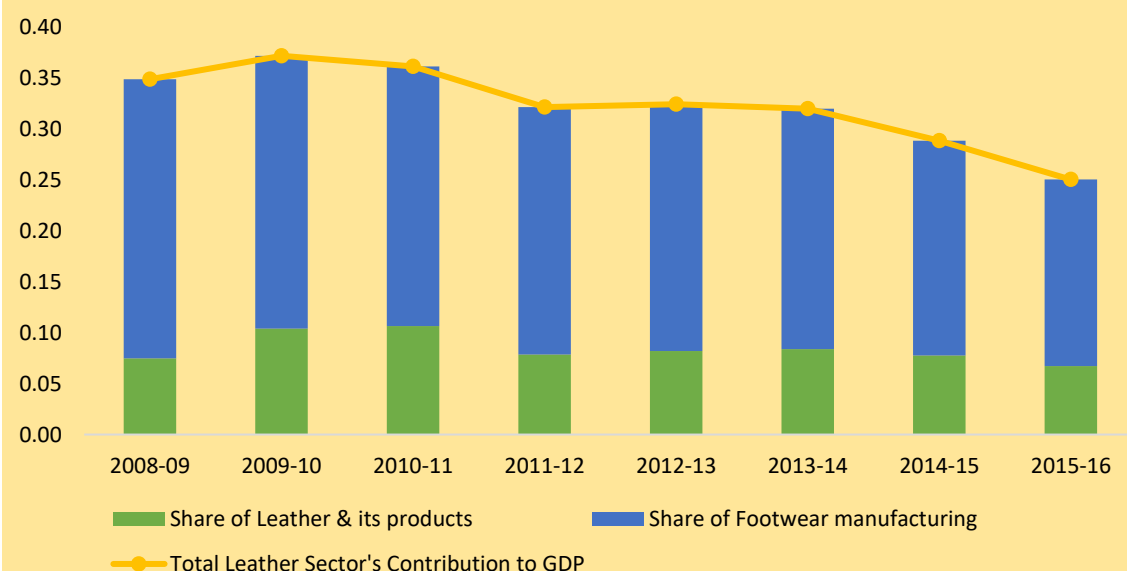
Table 2. 1 Top Exported Items (in 1990 and 2015)

Top Ten Export Items in 1990				Top Ten Export Items in 2015			
HS Code	Product Description	Export (in Million US\$)	As % of total Export	HS Code	Product Description	Export (in million US\$)	As % of total Export
62	Apparels	556.4352	35.8	62	Apparel	13765.2	43.38
53	Jute goods	309.387168	19.9	61	Apparel	12767.1	40.23
41	Raw hides and skins, leather	180.272752	11.6	63	Other made-up Textiles	818.6	2.58
3	Fish	168.641872	10.8	53	Jute goods	681.2	2.15
63	Textile	119.382344	7.7	6403	Leather Footwear	482.7	1.52
61	Apparel	86.517104	5.6	3	Fish	445.0	1.40
9	Coffee, tea, spices.	36.439052	2.3	41	Leather	299.0	0.94
27	Mineral fuels	19.90427	1.3	42	Leather goods	293.2	0.92
31	Fertilisers	15.243942	1.0	64	Other Footwear	214.1	0.67
84	Boilers and machinery	12.544143	0.8	27	Mineral fuels	178.1	0.56
Total	Total Export	1556.440448	100	Total	Total Export	31734.2	100.00

Source: UN COMTRADE.

Figure 2. 5

Share of Leather and Footwear in GDP

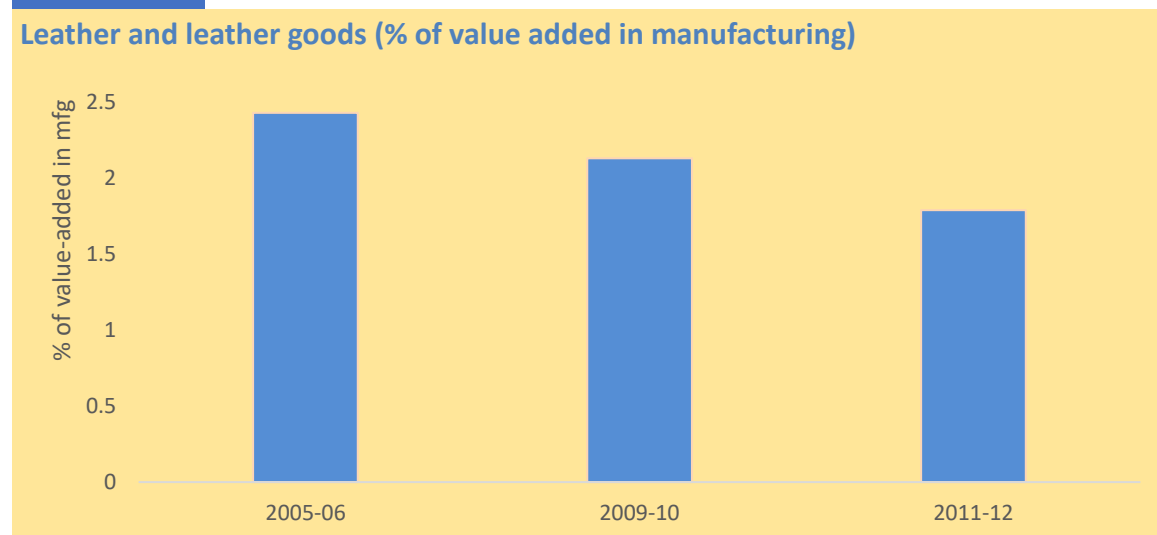


Source: Estimated from BBS data.

The leather sector's contribution to GDP is estimated to be 0.25 per cent (Figure 2.5). The declining contribution can partly be explained by the leather sector's falling share in manufacturing value-added against a rising share of the same from the RMG industry (Figure 2.6).

Figure 2. 6

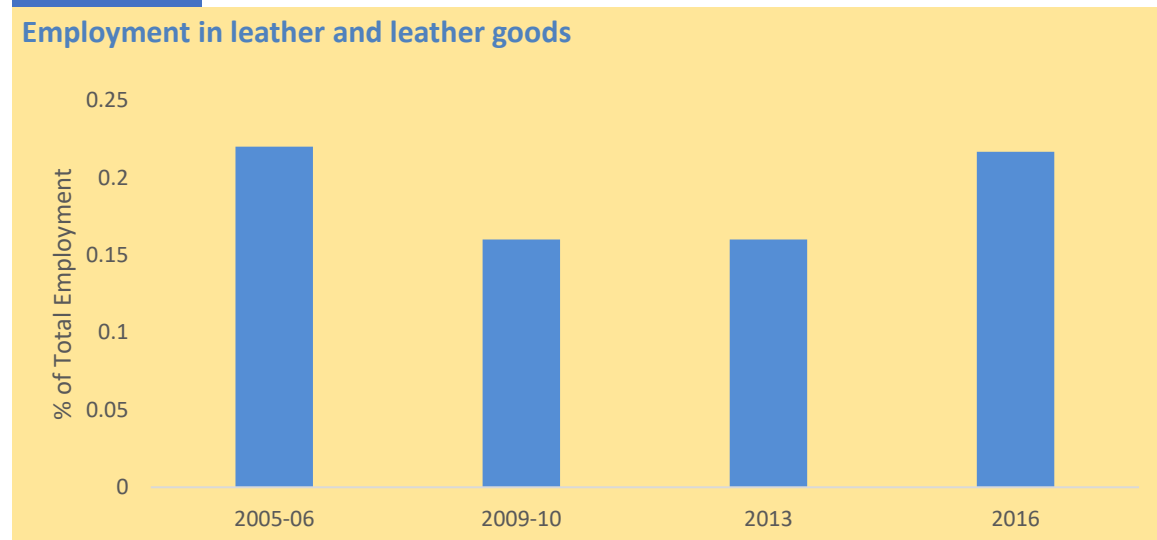
Leather and leather goods (% of value added in mfg)



Source: BBS Surveys on Manufacturing Industries.

Figure 2. 7

Employment in leather and leather goods



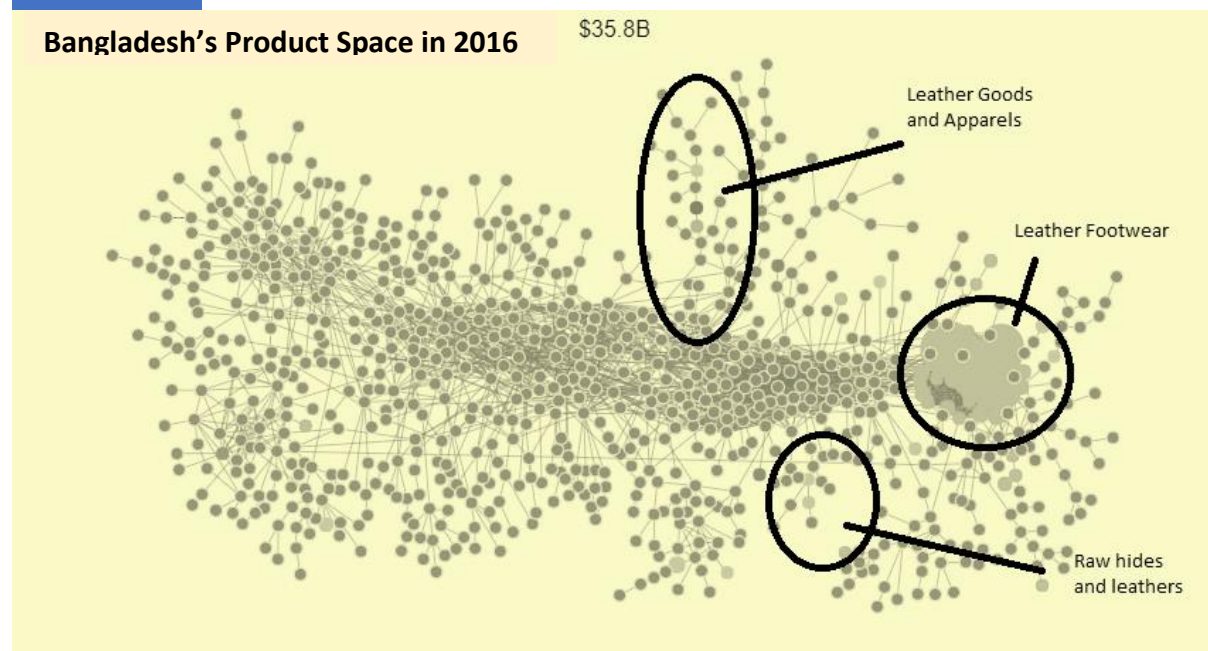
Source: The Labour Force Surveys of various years.

In terms of employment generation, although the share of LLGs declined over the years from 0.22 per cent in 2006 to 0.16 per cent in 2013, it again increased to 0.22 per cent in 2016. In

absolute terms, the total employment in the sector increased from 91,000 in 2013 to 129,000 in 2016.⁸ More than 90 per cent of the jobs in the sector constitutes unskilled labour while the share of informal employment in the sector is close to 90 per cent (ADB-ILO, 2016).

In the export product space, leather footwear products are closely linked to the RMG clusters (Figure 2.8). This implies that successful garment manufacturing countries will tend to find it easier to develop a specialization in footwear as well (and vice versa). From this perspective, leather truly holds a great promise for contributing to export diversification. Rawhides and skins are situated at the peripheries of the economic complexity atlas, indicating that counties exporting these items find it difficult to move into other sectors. But for Bangladesh, if these products can be utilized in other sectors, the value-added in exports can be increased. Leather footwear (HS 6403) and leather goods and apparels (HS 4205) are found to have linkages to the core of economic complexities. This means by concentrating on these items rather than exporting crust leather, Bangladesh will be able to diversify its economy with greater scopes and opportunities for expansion in the long run.

Figure 2. 8



Source: 'The Atlas of Economic Complexity', Center for International Development at Harvard University.
<http://www.atlas.cid.harvard.edu>

⁸ BBS Labour Force Survey, 2016

2.6 Salient features of the leather sector

2.6.1 High backward linkage:

The leather industry is labour intensive in nature. Bangladesh needs to generate 2 million jobs every year and as such the expansion of the export-oriented leather, the sector can have a large beneficial impact. In addition, the leather sector has a strong backward linkage in Bangladesh in terms of locally sourced raw materials. The country produces a sizable livestock. According to the FAO (2016), Bangladesh accounts for around 1.6 per cent of the world cattle stocks, and 5.5 per cent of the goat stocks. The information provided in the Export Promotion Bureau (2013), the annual killing of cattle and goats were 4 million and 15 million, respectively. The strong backward linkage ensures the leather sector to have a domestic value addition as high as 80-95 per cent (Khondker and Eusuf, 2015). The only raw material that is being imported is the chemicals that are used in tanning blue and wet leathers.

Despite being one of the top countries in the world in terms of bovine animal stock, Bangladesh contributes to less than 1 per cent of the world's leather exports.⁹ Bangladesh produces about 220-300 million square feet of hides every year, more than 60 per cent of which comes from cowhides.¹⁰ More than half of the total cowhide is collected during the Eid festivals. Apart from cowhides, of the collected hides 32 per cent is goatskins, 2 per cent buffalo hides and 1 per cent sheepskins. Along with bovine and buffalo hides, goat and sheepskins, Bangladesh also re-exports some kangaroo hides (pickled or wet-blue) after processing, which is imported from Australia.¹¹ The finished Kangaroo leather and leather goods are mostly exported to Japan. Bangladesh also imports some ostrich leather from Australia for producing high-quality bags and wallets and re-exports to Australia. From the local supply of hides, only 15-18 per cent is needed to meet the domestic demand. The tannery industry of Bangladesh has the capacity to produce more than 400 million square feet

⁹ As evident from the ITC -Trademap database.

¹⁰ Bangladesh Tanners Association; Bipul K Debnath, "Our Leather Industry", The Independent, September 8, 2017

¹¹ Firoj Khan Nun, A bird's eye view on Bangladesh Leather, Leather Bulletin, May 27, 2016

of wet-blue leather, about 300 million square feet crust leather and 130 million square feet of finished leather every year.¹²

Figure 2. 9

Production of Goats (Million Heads)

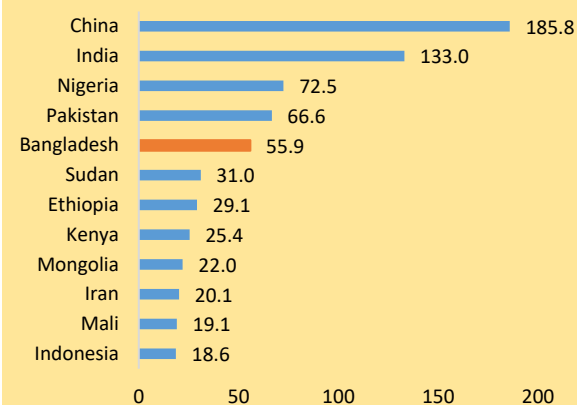
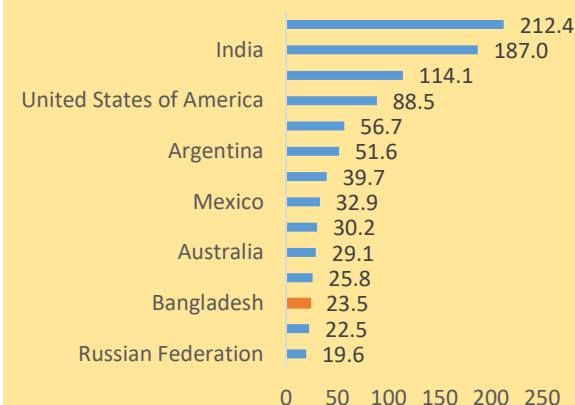


Figure 2. 10

Production of Cattle (Million Heads)



Source: FAO (2016)

2.6.2 Thriving yet underutilized capacity

At present, there are about 240 tanneries operating in Bangladesh. Of this, 50–60 are in the production of crust and finished leathers while the others are widely engaged in the production of wet-blue and wet-white leathers.¹³ Among the leather producing firms, 90 are large. Apart from the leather goods producing units, there are about 110 large footwear firms in the country. In addition, there are around 4,500 small and cottage leather producing units, of which 2,500 footwear factories are located in the Dhaka city.¹⁴

A BBS study points out that, almost all of the tanneries in the country are producing less than their optimal capacity. There are only 7 tanneries with a combined capacity to produce 5 million square feet of leather per annum (Table 2.2). About half of the tanneries have the capacity to produce up to a million square feet of leather. Given the capacity, most of the tanneries are not utilizing their scale economies. About 78 per cent of the installed capacity is being utilized while the rate of utilization is highest among medium-size firms.

¹² Leather Sector Business Promotion Council (LSBPC): An abridged overview of Bangladesh Leather Sector. Retrieved from: https://bpc.org.bd/lsbpc_bridge_overview.php

¹³ Report on Financial Express on March 28, 2017

¹⁴ LSBPC website; Bangladesh Footwear Industry Report 2016

Table 2. 2 Tannery distributions and production capacities

Number of Tanneries	Typical Annual Production Capacity per Tannery (million sq. ft.)	Total Installed Capacity/Annum for all Tanneries (million sq. ft.)	Total Actual Production/Annum for all Tanneries	Capacity Utilization (%)
7	>5	40	30	0.75
13	2-5	60	52	0.87
45	<2	70	60	0.86
48	<1	60	38	0.63
Total = 113		230	180	0.78

Source: Survey on Manufacturing Industries, 2012

2.6.3 Globally competitive

Bangladesh has a high comparative advantage in producing leather and leather products. One specific way to analyze the level of specialization and competitiveness of a country in certain export items is through the so-called Revealed Comparative Advantage (RCA).¹⁵ The RCA analysis of Bangladesh at the HS 2-digit level shows that along with readymade garments, leather, leather goods and footwear have relatively high RCA scores, indicating Bangladesh's competitiveness in these products.

Table 2. 3 Top 15 Products with highest RCAs at the 2-digit HS code in 2015

HS Code	Product label	RCA score	Export in Thousand US\$	% share in total export
53	Vegetable textile fibres nes, paper yarn, woven fabric (jute)	58.21	567460	1.61
62	Articles of apparel, accessories, not knit or crochet	30.78	15128923	43.02
61	Articles of apparel, accessories, knit or crochet	30.22	14991125	42.63
65	Headgear and parts thereof	12.20	239689	0.68
63	Other made textile articles, sets, worn clothing etc	7.45	976257	2.78
41	Raw hides and skins (other than furskins) and leather	4.63	300776	0.86
67	Bird skin, feathers, artificial flowers, human hair	2.72	52300	0.15
03	Fish, crustaceans, molluscs, aquatic invertebrates nes	2.68	584387	1.66
64	Footwear, gaiters and the like, parts thereof	2.58	772732	2.20
46	Manufactures of plaiting material, basketwork, etc.	1.64	8406	0.02
24	Tobacco and manufactured tobacco substitutes	1.35	114762	0.33
42	Articles of leather, animal gut, harness, travel goods	1.14	185468	0.53
57	Carpets and other textile floor coverings	0.98	31201	0.09
78	Lead and articles thereof	0.92	13415	0.04
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	0.62	31492	0.09

Source: Raihan and Rahman (2016).

¹⁵ RCA is an ex-post analysis of comparative advantage. It is measured as the ratio of the product's share in the country's export relative to its share in the world's export. $RCA = (X_{ij}/X_{it}) / (X_{wj}/X_{wt})$ where, X_{ij} and X_{wj} are country i's export and world export of product j respectively while X_{it} and X_{wt} are country i's total export and world total export.

2.6.4 Global market access

China, the largest footwear maker in the world, has been facing anti-dumping duties in Europe since 2006. In September 2016, the antidumping duties on some of the footwear from China and Vietnam were extended for another 15 months.¹⁶ Moreover, China's share in the global leather and footwear market is on the decline. The focus of China is shifting from low value-added leather items to the production of other high value-added products. Moreover, wages in China are rising, which is not particularly helpful for a labour-intensive industry like leather and footwear. These trends tend to point towards Bangladesh's growing competitive advantage. As an LDC, Bangladesh also enjoys tariff and quota-free access to many major markets such as Australia, Canada, the European Union (EU), and Japan. Furthermore, a strong backward linkage of the industry provides further competitive strength to Bangladesh's LLG sector. Recently, Bangladesh has been able to attract some key brands and shoemakers in the world like Timberland, PICARD, Youngone, Pou Chen Group, amongst others.

2.6.5 Attractive offers for FDI and joint ventures in the country

Bangladesh does provide attractive incentives for FDI (Box 2.1). An ambitious programme of setting up 100 special economic zones is currently under implementation. These can potentially be effective in attracting foreign investments in LLGs. Attractive FDI and joint ventures at some dedicated SEZs for leather and leather goods can play a decisive role in creating a strong leather industry base in the country.

¹⁶ <http://www.aplf.com/en-US/leather-fashion-news-and-blog/news/33540/europe-eu-imposes-anti-dumping-duties-on-footwear-from-vietnam-and-china>

Box 2. 1 Government offers for FDI and Joint Venture in Bangladesh

According to the Bangladesh Investment Development Authority (BIDA), Bangladesh offers a number of attractive benefits to the direct and joint venture (JV) investors. To name a few a foreign/JV investor can avail:

- Repatriation facilities of dividend and capital upon exit;
- Permanent resident permits upon investing us\$ 75,000 and citizenship upon investing us\$ 500,000;
- Tax holidays in the Dhaka and other major divisions;¹⁷
- Depreciation allowances: accelerated depreciation for new industries on the cost of plant and machinery is offered at the rate of 50%, 30% and 20% for the first, second and third years respectively;
- Cash and added incentives provided to exporting industries like bonded warehouse facility, 90% loans against letters of credit, credits from export promotion fund and export credit guarantee schemes. It also allows export-oriented businesses to sale up to 20% in the local market on payment of relevant duties.

Source: BIDA

2.6.6 Expanding local market

The local market for leather and leather goods is expanding rapidly. For a population of 161.2 million, according to the industry insiders, roughly 6 million pairs of leather footwear are sold in the domestic market each year.¹⁸ It is also estimated that approximately 10 per cent of Bangladesh's total population, which is around 15 million, has an income level comparable to that of the developed countries (Paul *et al*, 2013). According to the Bangladesh Tannery Association, about 20 per cent of the population buys shoes worth \$50 every year, and the demand is increasing day by day.¹⁹ There is an estimated demand for 30 million pairs of leather footwear in the domestic market each year (Paul *et al*, 2013). A large number of tanneries have their own shoe factories where about 5,000 pairs of shoes are being produced every day for the purpose of exports.²⁰

¹⁷ In Dhaka: 100% in the first two years, 50% in years three and four and 25% in year five; in the Rajshahi, Khulna, Sylhet and Barisal divisions, and in the three Chittagong Hill Tracts Divisions, 100% for the first three years, 50% for the next three years and 25% for year seven

¹⁸ Bangladesh Footwear Industry Report 2016; The Daily Financial Express, June 20, 2016

¹⁹ Bipul K Debnath, "Our Leather Industry", The Independent, September 8, 2017;

²⁰ Netherlands Enterprise Agency (May 2017).

2.6.7 A high-priority export sector

In recognition of the potential of the sector, the leather industry is being considered as one of the high-priority sectors. The sector has also been named as the product of the year in 2017 for its resilient contribution to exports. As a thrust sector, leather enjoys policy priorities, benefits and schemes (Box 2.2). The government established the Leather Sector Business Promotion Council (LSBPC) under the Ministry of Commerce for expediting the expansion of the sector. The Bangladesh Bank has also considered the leather industry as a ‘blue-chip’ for earning foreign receipts.²¹

Box 2. 2 Export Promotion Incentives to Leather as a Thrust Sector

According to the Bangladesh export policy 2015-18, as a highest priority sector, the leather and leather footwear industry enjoys:

- Cash Assistance
- Project loan at reduced interest rates on a priority basis
- Rebate of the income tax
- Export credit at lower interest rates and on soft terms
- Air transportation facilities on a priority basis
- Duty drawback and bond facilities
- Duty-free import of equipment for setting up the compliant industry
- Possible financial benefits or subsidies consistent with WTO Agreement on Agriculture, and Agreement on Subsidies and Countervailing Measures, including concessionary rates for utility services such as electricity, water and gas.

Source: Bangladesh Export Policy 2015-18

²¹ Bangladesh Footwear Industry Report 2016

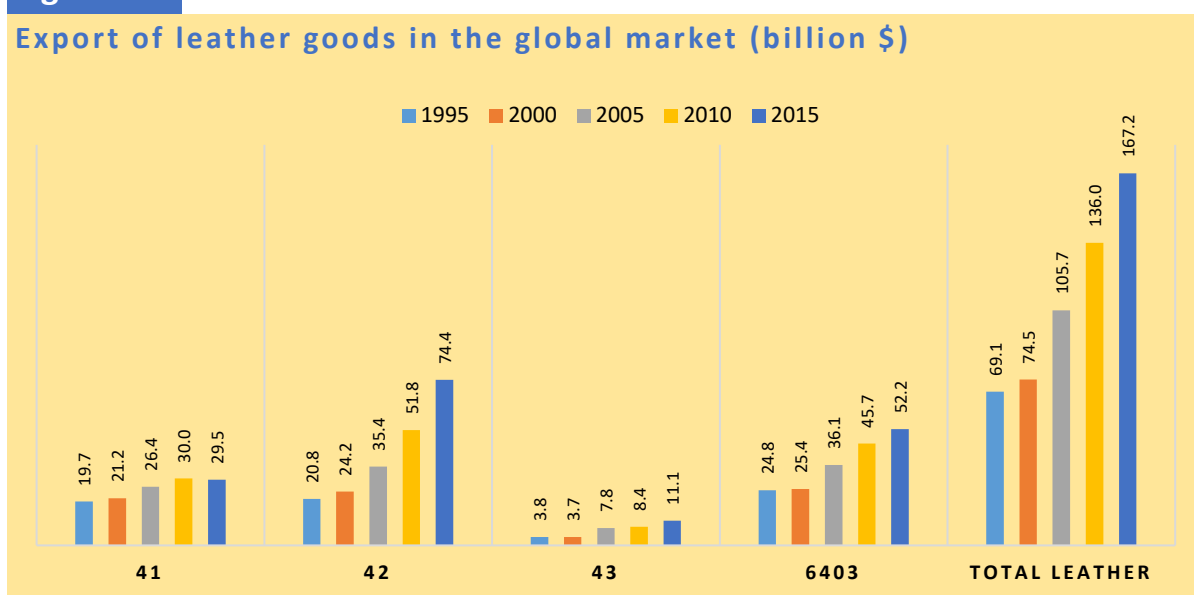
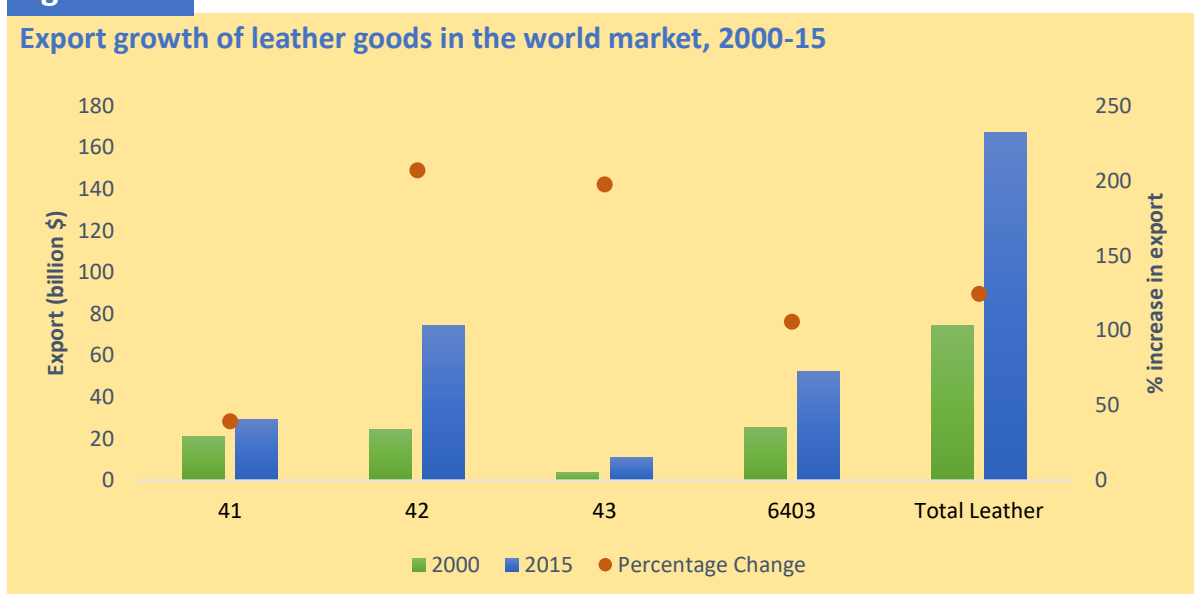
Chapter 3: Exports of leather and leather goods from Bangladesh: trends and prospects

3.1 The world export market for leather and leather goods

The global leather export market has expanded significantly: from \$74.5 billion in 2000 to \$167.2 billion in 2015 (Figures 3.1 and 3.2).²² The major increment in the global demand for leather goods has been experienced in the products under HS42 category, which broadly captures articles made of leather such bags, travel goods, handbags, articles of guts, and so on. Between 2000 and 2015, the world market size of leather goods more than trebled: from \$24.2 billion to \$74.4 billion.²³ Apart from leather goods (HS42), leather footwear also experienced a remarkable expansion, doubling the export volume from \$25.4 billion in 2000 to \$52.2 billion in 2015. The least growth has been attained for raw leather, which is classified under HS41. Exports of raw leather grew by about 40 per cent between 2000 and 2015. It is worth mentioning that the global exports of raw leather actually declined between 2010 and 2015.

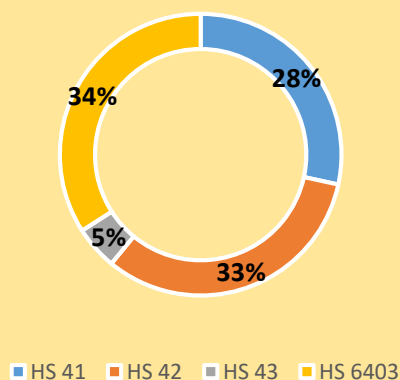
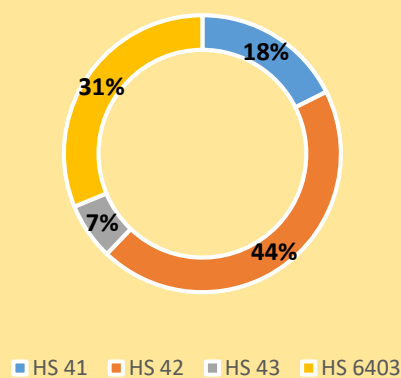
²² The total leather and footwear (HS 41, 42, 43, 64) stood at US\$ 248 billion.

²³ The primary source of data was UNCOMTRADE obtained from www.wits.worldbank.org. The year 2015 has been selected as the data for 2015 is available for almost all countries compared to the later years.

Figure 3. 1
Export of leather goods in the global market (billion \$)

Figure 3. 2
Export growth of leather goods in the world market, 2000-15


Source: BEI project team analysis using data from UN COMTRADE

The composition of world leather exports has changed (Figures 3.3 and 3.4). The share of raw leather in total leather exports has fallen by 10 percentage points from 28 per cent in 2000 to 18 per cent in 2015. On the other hand, the share of finished leather goods (HS42 and 43) has increased by more than 11 percentage points from 33 per cent to 44 per cent. The share of leather footwear remained more-or-less unchanged.

Figure 3. 3**Leather export composition in the world by commodities, 2000****Figure 3. 4****Leather export composition in the world by commodities, 2015**

Source: BEI project team analysis using data from UN COMTRADE

3.2 Bangladesh amongst major global exporters

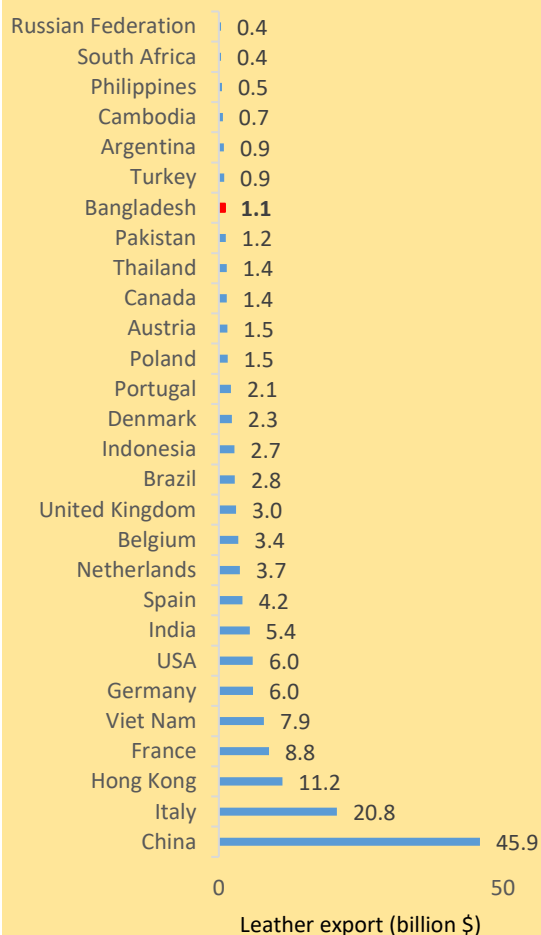
In terms of total leather and leather goods exports, Bangladesh lags far behind the major exporting countries (Figures 3.5 and 3.6). In 2000, Bangladesh exported \$194 million, while China, the global leader in LLGs, exported \$12 billion. In 2000, exports from comparators like India, Indonesia and Vietnam stood at \$1.68 billion, \$1.35 billion and \$560 million, respectively. Within the next 15 years, Bangladesh could manage to expand exports by \$1.07 billion in comparison with such expansion of \$46 billion for China, \$5.4 billion for India, \$2.7 billion for Indonesia. The most prolific export expansion has been recorded for Vietnam: in 2015, it exported almost \$8 billion worth of LLGs. Although, Bangladesh has been exporting LLGs for decades, its share of the global market has always been less than 1 per cent.

There has been a shift in the export pattern of the leading countries in terms of components of LLGs (Figures 3.7 and 3.8). In 2000, the total export volume of China was US\$ 11.8 billion, of which 55.7 per cent was leather products and leather footwear accounted for 36.4 per cent. Only 4.6 per cent of China's LLG exports comprised raw hides, wet and crust leather. Unlike China, all other leading leather exporting countries had a larger share of raw leather, accounting for on average one-third of their total LLG exports. However, with the rise of global

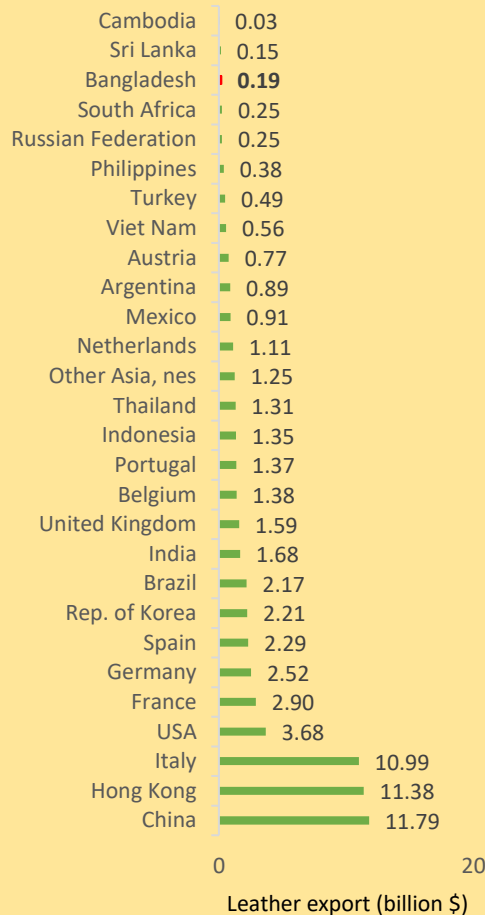
consumer purchasing power and increased demand for leather goods, the share of raw leather fell sharply. In 2015, about 68 per cent of total leather exports of China came from finished goods (HS 41) only, while the corresponding shares for Hong Kong, India and Vietnam were respectively 48 per cent, 45 per cent, and 34 per cent. Between 2000 and 2015, for the top exporting countries, the average share of raw leather in total LLGs declined from 33 per cent to 18 per cent. Apart from the USA, all others' shares of leather goods and footwear have increased over the years. That is, leading exporting countries have shifted from raw leather to higher value-added and more sophisticated finished leather products.

Figure 3. 5

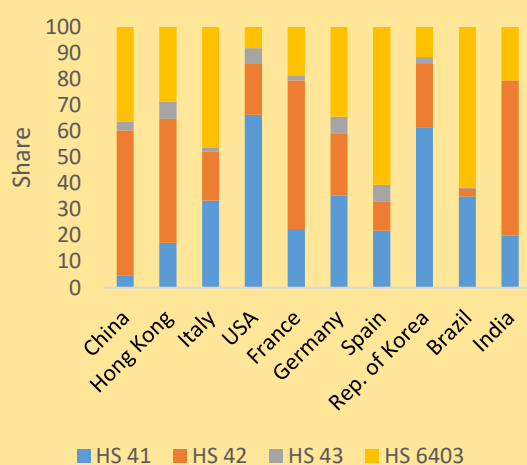
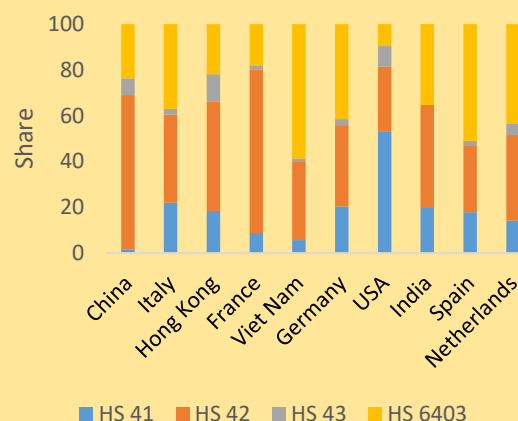
Total Leather and leather goods Exports, 2015 (US\$ Billion)

**Figure 3. 6**

Total Leather and Leather Goods Exports, 2000 (US\$ Billion)

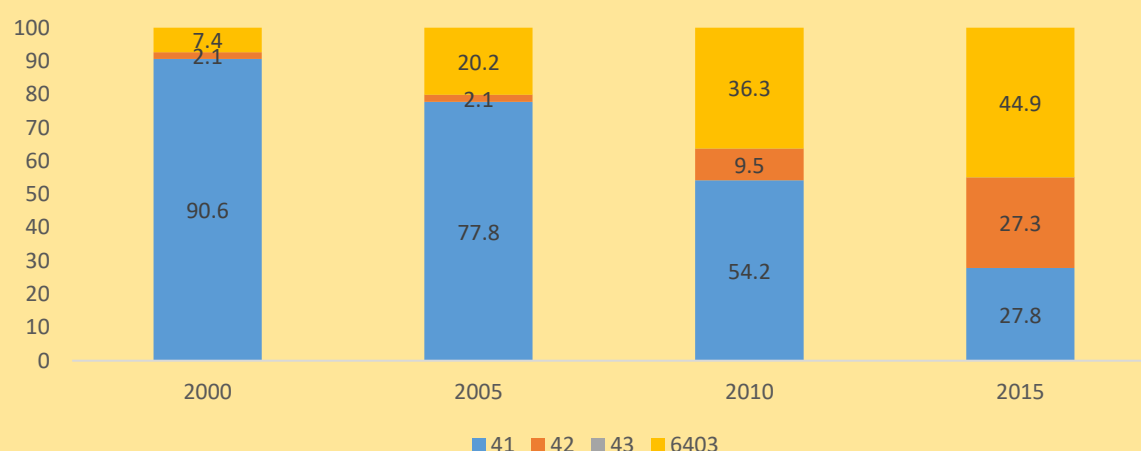


Source: BEI project team analysis using data from UN COMTRADE

Figure 3. 7**Export composition of the leading countries in 2000 (%)****Figure 3. 8****Export composition of the leading countries by Commodity type, 2015 (%)**

Source: BEI project team analysis using data from UNCOMTRADE.

In contrast, Bangladesh's leather export is highly concentrated in raw leather, although it is declining (Figure 3.9). In 2000, more than 90 per cent of LLGs exports were in raw leather. However, the composition then changed remarkably, raising the share of leather footwear and leather products. Between 2000 and 2015, the share of raw leather declined to 27.8 per cent whereas the same for leather products and footwear increased respectively from 2.1 per cent to 27.3 per cent and from 7.4 per cent to 44.9 per cent. The share of products categorized under HS43 is still insignificant.

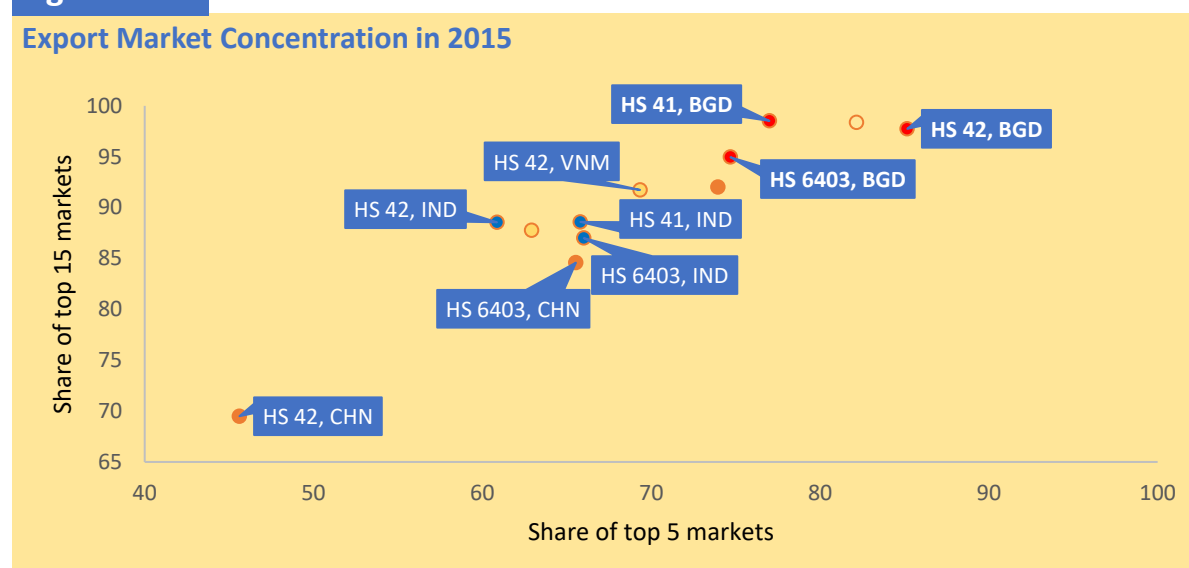
Figure 3. 9**Bangladesh's export composition of leather by commodities (%)**

Source: BEI project team analysis using data from UN COMTRADE.

Bangladesh's export of LLGs is highly concentrated in a few markets. Apart from raw leather, for all other product categories, the share of top five partners (as well as top 15 partners) in total LLG exports is the highest for Bangladesh (Figure 3.10) amongst a set of comparators. In the case of Bangladesh's finished leather goods, the share of the top five partners is more than 85 per cent. In contrast, the share of top 5 partners was 46 per cent, 61 per cent and 70 per cent for China, India and Vietnam, respectively. In leather footwear, the top 5 destination markets account for three-quarters of Bangladesh's exports, while for China, India and Vietnam the corresponding shares are between 62 and 66 per cent. This resembles the fact that Bangladesh's reach to the international market for leather is substantially narrow.

Figure 3. 10

Export Market Concentration in 2015



Source: BEI project team analysis using data from UN COMTRADE.

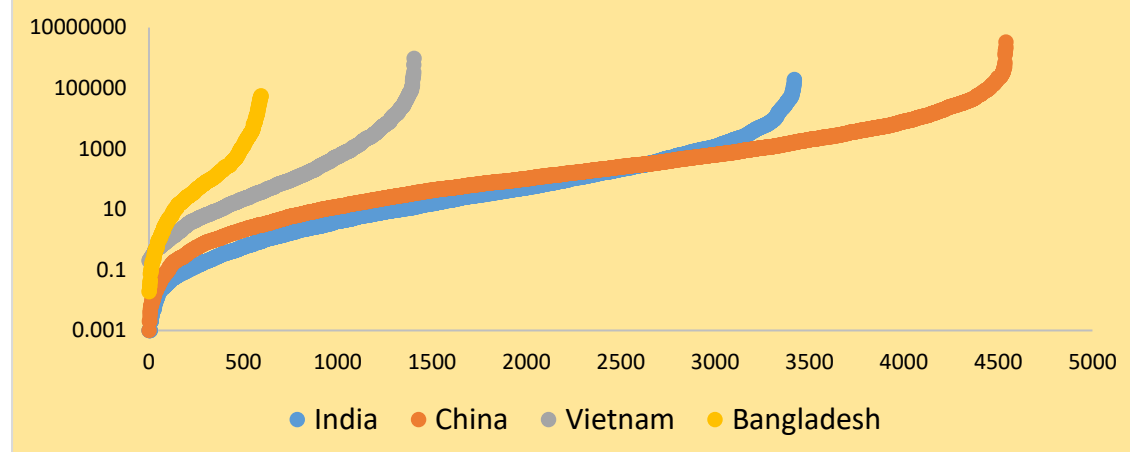
Bangladesh's high market concentration becomes also evident in the expanded market reach analysis in Figure 3.11.²⁴ In 2015, Bangladesh exported 44 leather products at 84 destinations. Altogether, Bangladesh managed to reach out to 594 expanded export market destinations. Japan, being the top export destination of Bangladesh's leather and leather goods, imported 33 leather and leather items from Bangladesh. In comparison with Bangladesh, Vietnam

²⁴ Expanded market reach is defined by total export relationship. Suppose, if a country sells N number of products in country i , where $i = 1, 2, \dots, m$, then the total or expanded export market reach would be $\sum_{i=1}^m N_i$. The higher the value of this expansion, the more diversified the economy. Here, N has been considered at HS 6 digit level while m is the number of countries. For example, if a country sells 23 leather products in country 1 and 43 leather products in country 2, then the expanded market reach/destination for leather products would be $23 + 43 = 66$. The higher the value, the higher number of market is being reached by an exporting country.

exported 59 leather products to 122 destinations (i.e. to more than 1400 expanded leather market destinations). India exported 63 items to 196 export destinations (3421 expanded market destination). China, the global leader in leather exports, exported 65 leather items to 209 export destinations (4542 market reaches).

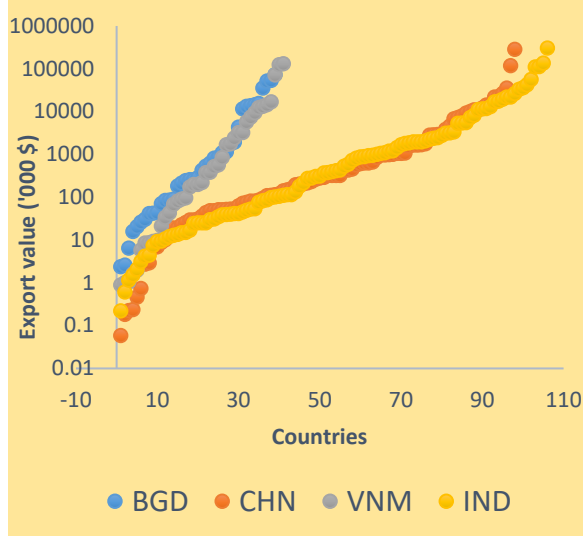
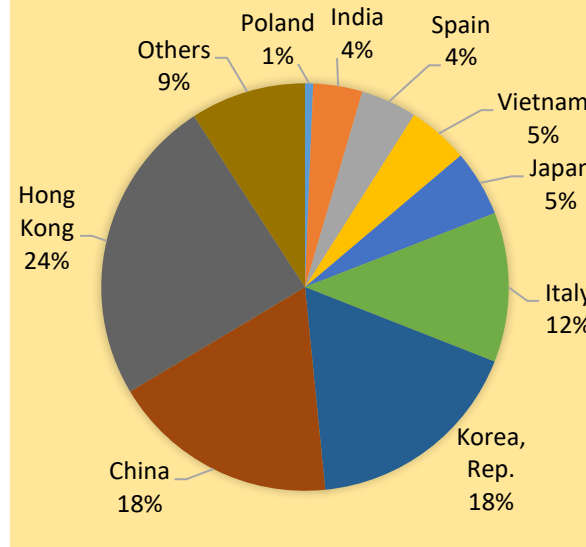
Figure 3. 11

Extended market reach analysis for leather and leather goods, 2015



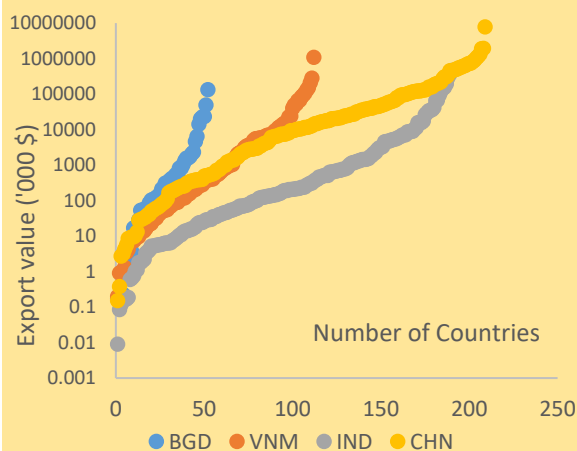
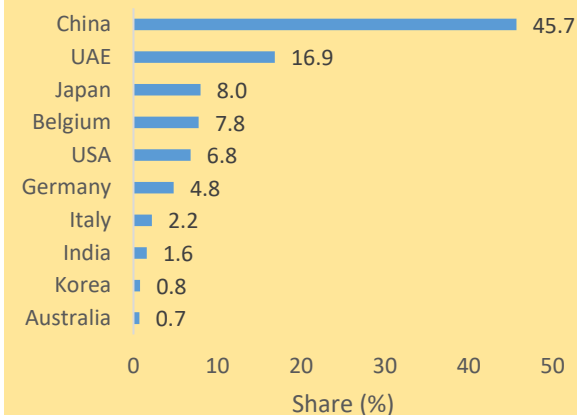
Source and note: BEI project team analysis using data from UN COMTRADE. The vertical axis shows the amount earned from each market.

Product category-wise market reach analysis shows that Bangladesh exported 17 items of raw leather (HS41) to 39 countries, amounting \$299 million in 2015 (Figure 3.12). The top export destinations for raw leather are Hong Kong, China and South Korea, accounting for more than 60 per cent of exports in this category (Figure 3.13). Compared to Bangladesh, Vietnam exported 26 products of raw leather to 43 countries; India 27 products to 108 countries; and China 29 products to 99 countries. Along with the fact that all the comparators export more leather items to a higher number of export destinations, their export baskets are also significantly different from Bangladesh.

Figure 3. 12
Market concentration for raw leather, 2015

Figure 3. 13
Bangladesh's major export destinations of raw leather


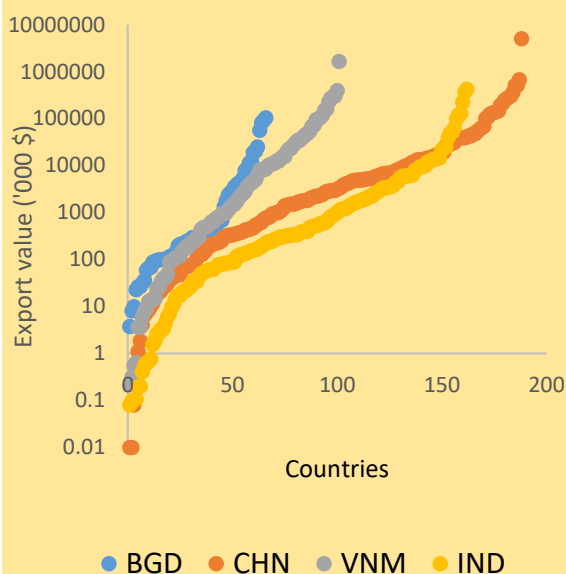
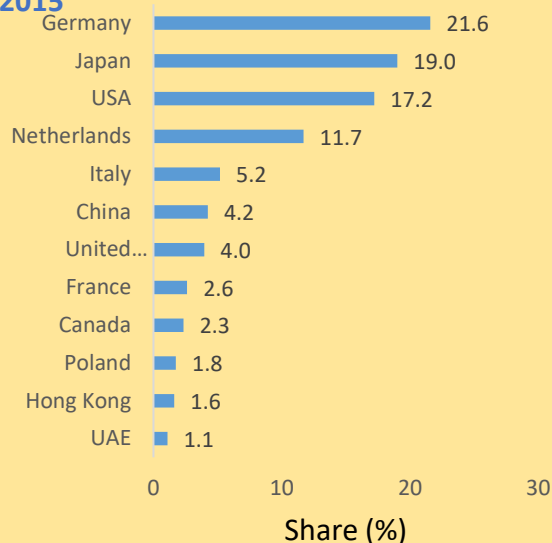
Source: BEI project team analysis using data from UN COMTRADE.

In the category of leather products (HS42), Bangladesh exported 19 products to 53 destination countries. While Bangladesh's market reach is very limited, other competitors particularly China, India and Vietnam have diversified markets. In 2015, China exported to 209 markets, while India and Vietnam exported to 190 and 112 export destinations, respectively (Figure 3.14). The top exported products for Bangladesh under this category include wallets, handbags, belts, suitcases, whereas the major exported items, for China, India and Vietnam comprise leather trunks, suitcases, vanity bags, executive bags, briefcases, school satchels and similar containers. As reported in Figure 3.15, the major export destinations of Bangladesh include China (45%), UAE (17%) and Japan (8%). The share of Bangladesh's total export to the USA is substantially lower than those of its comparators. While China, India and Vietnam export about respectively 24 per cent, 19 per cent and 41 per cent of their export sales of finished leather articles to the USA, Bangladesh exports only 7 per cent of these products to the USA.

Figure 3. 14**Market concentration for leather products, 2015****Figure 3. 15****Bangladesh's major export destinations of leather products**

Source: BEI project team analysis using data from UN COMTRADE.

In the case of leather footwear, Bangladesh exported 23.5 million pairs of footwear worth \$483 million to 66 destinations (Figure 3.16). The export market for this product is highly dominated by China. In 2015, it exported 311 million pairs - worth of \$10.9 billion - to 188 countries. India exported 115 million pairs to 162 countries, fetching \$1.9 billion. Vietnam exported 128 million pairs to 101 countries for \$4.6 billion. Apart from India, for the other three countries, the major export item is HS 640399. Bangladesh's top export markets of leather footwear are Germany (\$103 million with 21.6% market share), Japan (\$91 million with 19% market share), United States (\$82 million with 17.21% market share), Netherlands (11.7%), and Italy (5.2%) (Figure 3.17).

Figure 3. 16**Market concentration for leather footwear, 2015****Figure 3. 17****Bangladesh's major export destination of leather footwear, 2015**

Source: BEI project team analysis using data from UN COMTRADE.

3.3 Meagre presence in major import destinations

The major importers of raw leather (HS41 items) in the global market are basically leading exporters of leather and leather goods. China, India and Vietnam are one of the largest importers of raw leather (Table 3.1). These countries import raw hides and skins mainly to transform them into final leather to re-export in the world market. Bangladesh is one of the major sources of HS 41 import for Hong Kong, Korea and India. Although China imports almost one-fourth of total import of this category, Bangladesh has a little share in China, capturing only 0.66 per cent of the market. On the contrary, Bangladesh's comparator countries particularly India and Vietnam cover respectively about 4.6 per cent and 2.9 per cent of this market in China.

Table 3. 1 Top importers of raw leather, 2015

Country	Share in the global HS 41 import	Share of Bangladesh and comparators in that market			
		BGD	CHN	IND	VNM
China	24.2	0.662		4.605	2.884
Italy	12.2	1.290	1.117	3.914	0.209
Hong Kong SAR	8.0	2.686	14.289	11.394	5.096
Viet Nam	5.6	0.509	14.674	5.721	0.000
Mexico	3.8	0.001	0.561	2.020	0.014
Germany	3.1	0.144	0.467	3.145	0.586
Rep. of Korea	3.0	6.387	3.804	6.565	0.762
USA	2.7	0.051	3.531	1.946	0.012
Spain	2.7	2.046	2.217	4.776	0.180
Thailand	2.2	0.070	2.850	1.794	4.171
India	2.2	2.208	5.131	0.000	2.139
France	2.1	0.074	0.125	1.359	0.102
Romania	2.0	0.000	0.065	0.176	0.406
Portugal	1.8	0.082	0.035	2.019	0.001

Source: BEI project team analysis using data from UN COMTRADE

The sharp contrast between Bangladesh and comparators lies in terms of market reach and the volume of export. In the case of finished leather goods, the USA can be considered as the top destination for exports. The country alone imports 20.7 per cent of total global finished leather (Table 3.2). The USA's 63.3 per cent of total imports is sourced from China whereas the shares of Vietnam and India in the US market are about 8 per cent and 3.41 per cent, respectively. Bangladesh's US market share in this category is very low (only 0.32 per cent). Apart from the USA, the other major importers of finished leather goods are Japan, Hong Kong, Germany, France, UK, Italy, and China. In none of these major markets, Bangladesh's export share exceeds more than 1 per cent. In fact, Bangladesh's largest market share in any market is 0.64 per cent (in Japan).

Table 3. 2 Top importers of leather products, 2015

Country	Share in the global HS 42 import	Share of Bangladesh and comparators in that market			
		BGD	CHN	IND	VNM
USA	20.7	0.32	63.29	3.41	8.00
Japan	7.6	0.64	50.31	1.37	8.59
Hong Kong	7.6	0.01	49.34	0.27	1.15
Germany	6.3	0.60	38.30	9.72	5.86
France	6.0	0.42	34.84	4.93	3.46
United Kingdom	5.2	0.05	39.50	8.64	2.12
Italy	4.6	0.14	34.62	5.04	1.93
China	3.0	0.08	0.00	2.24	8.26
Rep. of Korea	3.0	0.28	39.10	0.92	6.17
Spain	2.5	0.31	46.77	11.89	2.53
Canada	2.3	0.25	62.13	3.27	5.91
Netherlands	2.2	0.13	31.30	5.91	7.99
Singapore	2.0	0.21	21.78	0.77	1.72
Australia	1.7	0.20	57.70	6.18	4.16

Source: BEI project team analysis using data from UN COMTRADE.

Leather footwear has emerged as one of the major export items for Bangladesh. However, Bangladesh's share in global leather footwear export is again less than 1 per cent. The leading import markets include the USA, Germany, the UK, France, Italy, Hong Kong, etc (Table 3.3). In 2015, the USA alone imported 24.7 per cent of leather footwear from the global market. China alone supplies more than half of the US imports. In 2015, China's share in the US market was 53.7 per cent, Vietnam's 15.2 per cent, India's 3.4 per cent as against Bangladesh's share of just 0.8 per cent. Bangladesh has a strong presence in Japan, capturing 7.3 per cent of Japan's total leather footwear imports. Apart from Japan, Bangladesh has a 2.4 per cent share of Germany's leather footwear imports and 2.5% of the Netherlands' same imports.

Table 3. 3 Top importers of leather footwear, 2015

Country	Share in the global HS 6403 import	Share of Bangladesh and comparators in that market			
		BGD	CHN	IND	VNM
USA	24.7	0.8	53.7	3.4	15.2
Germany	8.2	2.4	14.0	7.2	13.1
United Kingdom	6.9	0.5	16.6	11.7	10.5
France	6.5	0.6	13.0	6.2	8.9
Italy	5.2	0.9	11.6	4.6	5.9
Hong Kong	5.0	0.3	64.0	3.5	5.5
Netherlands	3.9	2.5	9.6	2.3	7.0
Belgium	3.3	0.2	21.2	3.5	19.4
China	2.7	0.5	0.0	2.2	26.4
Japan	2.4	7.3	18.0	2.5	15.1
Canada	2.2	1.1	48.8	2.8	13.0
Russian Federation	2.1	0.7	35.5	2.6	8.7
Spain	2.1	0.3	17.3	8.4	11.0
Switzerland	1.8	0.9	10.4	3.4	7.7
Rep. of Korea	1.7	0.6	29.9	2.0	20.0

Source: BEI project team analysis using data from UNCOMTRADE.

The aforementioned market analysis provides two primary findings. (1) The room for economies of scope - to increase the number of products to destination countries and to increase the number of destinations as well. Bangladesh lacks both in terms of market reach and product variations. As leather goods are closely linked to each other, an expansion in one product category will enhance the opportunity to export more of the other categories. And, (2) opportunity for economies of scale - Bangladesh needs to expand the production and capture an increased share of the global market.

3.4 Quality of Bangladesh's leather and leather goods

Product quality is a principal determinant of export success. Improvements in quality, product sophistication and following standards are important for export expansion. It is known that goods in the same product category (e.g. under the same HS code) can differ widely in quality. Quality upgradation, sophistication and product differentiation are often associated with higher prices.

Quality of selected leather products exported by Bangladesh at the 6-digit HS code has been analyzed in Figures 3.18.a-3.18.h. The relative quality of products has been defined as the unit value of the product relative to the 90th percentile of the unit value distribution across countries for that product.²⁵ The 90th percentile of the unit values has been considered as the world standard. Higher values of the index correspond to a higher quality level.

Quality ladders measure the relative quality of a country's exports against all other countries that export a specific product. The ladders have been constructed using the data on relative quality. A country's position (in quality ladder charts) close to the origin indicates the lower average quality of the products exported. The length of a quality ladder indicates the potential for quality upgrading for each product.

The analysis for the major exporting leather products shows that the quality of many of Bangladesh's leather products is better relative to many of its comparators. Especially in raw leather (HS 410799 and HS 410229), Bangladesh outperforms many of its Asian comparators. For HS 410449, Bangladesh enjoys a higher unit value price than that of China and in HS 410229 Bangladesh is way ahead of almost all major suppliers. It is, however, worth pointing out that other countries might be utilizing much of their high-quality raw leather in adding more value and by producing finished products. As shown above, Bangladesh still exports a good portion of its raw leather. The high quality of HS41 categories is reassuring; this reflects that there are further prospects of moving up the value chains in leather goods. Export quality

²⁵ Relative quality is measured as $R_{itc} = uv_{itc} / uv_{it}^{90}$, where uv_{itc} denotes the unit value of the good and uv_{it}^{90} denotes the value at the 90th per centile of the unit value distribution across countries for that product.

of articles of leather in HS42 items, as indicated in Figure 3.18.d, is relatively better than India and China. However, being far below the world standard, there is the potential for moving further up the ladder.

In leather footwear (HS64 items), Bangladesh's situation is mixed but in all the 4 products for which the analysis has been undertaken, Bangladesh lags behind China and Vietnam. This not to imply that Bangladesh does not produce very high-quality leather footwear. But, the proportion of such products in total export is still quite low. On the whole, the quality of Bangladeshi leather and leather products is generally comparable amongst its Asian comparators. Bangladesh tends to export very high-quality raw leather, while in leather footwear countries such as China and Vietnam appear to command much higher unit value prices. There is a need for rethinking about utilizing better quality raw leather in the country's export industry of finished products.

Figure 3.18 (a)

Quality ladder for product code HS 410449

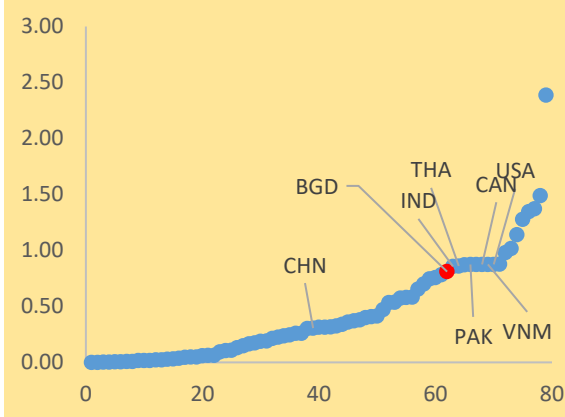


Figure 3.18 (b)

Quality ladder for product code HS 410799

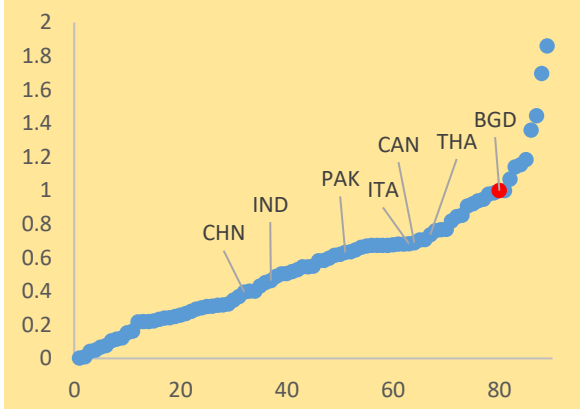


Figure 3.18 (c)

Quality ladder for product code
HS 410229

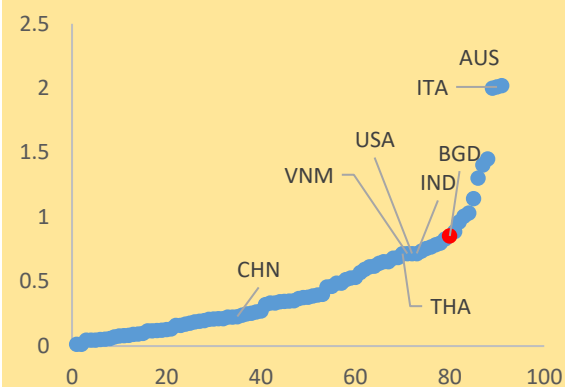


Figure 3.18 (d)

Quality ladder for product code
HS 420329

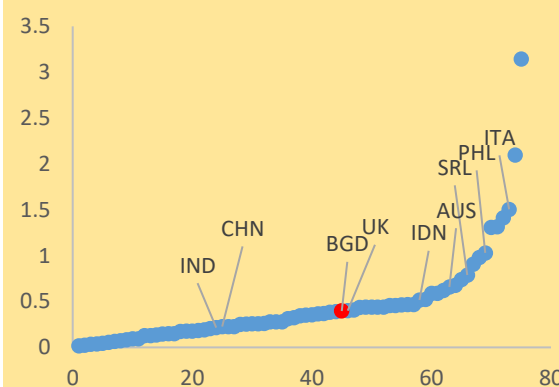


Figure 3.18 (e)

Quality ladder for product code
HS 640319

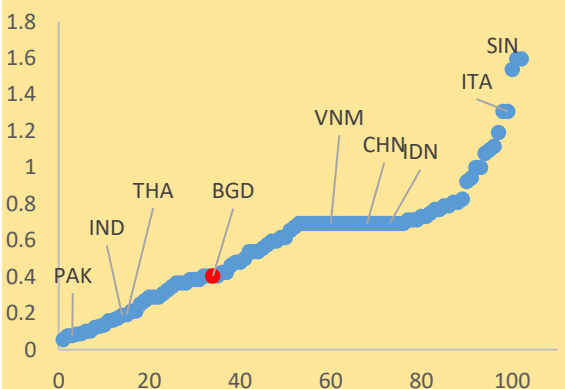


Figure 3.18 (f)

Quality ladder for product code
HS 640320

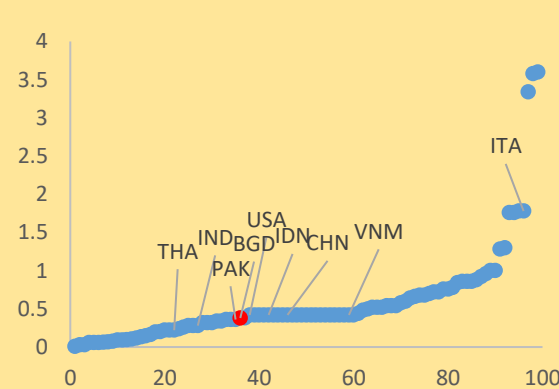


Figure 3.18 (g)

Quality ladder for product code
HS 640391

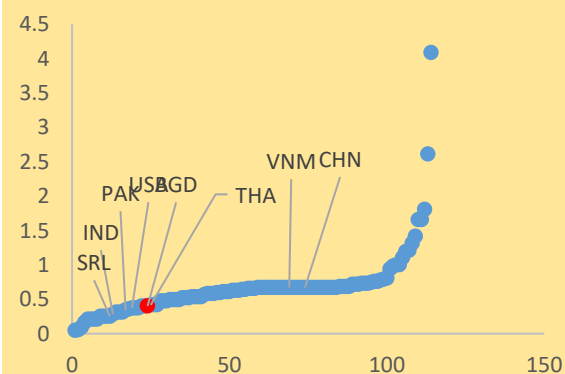
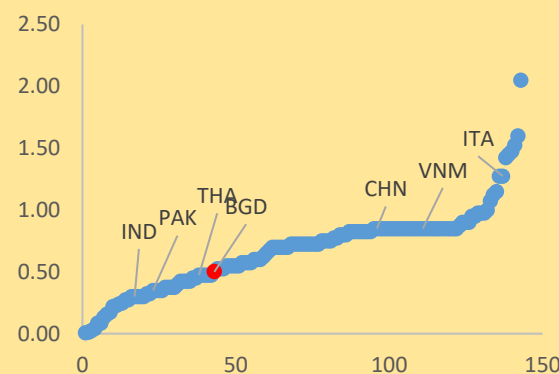


Figure 3.18 (h)

Quality ladder for product code
HS 640399



Source: BEI project team analysis using data from the ITC Trade Map. The vertical axis indicates the index value of quality.

3.5 Export market prospects

Bangladesh captured a share of just 0.7 per cent of the world leather market in 2016, positioning itself as the 21st largest exporter in the world. But, there exists the huge potential for Bangladesh to expand its exports. China, Italy and Vietnam are the biggest players in the market. Market prospects for leather in selected destination countries have been analyzed in Figures 3.19.a-3.19.e and 3.20.a-3.20.e.

As shown in Figure 3.19.a, Italy, the USA, Vietnam and Australia dominate the Chinese market. The average growth rates of Bangladesh's leather exports to China market and to the world both were positive during 2012-16, indicating that its market shares in China and the world have been growing with good prospects for expanding exports. In 2016, Bangladesh exported about \$50 million worth of leather products to the Chinese market, capturing 0.47 per cent market share.

Figure 3.19.b shows that Bangladesh's leather export to Germany has been growing at a rate much higher than in other countries. The annual growth rate was 26.3 per cent during 2012-16. In 2016, Bangladesh exported LLGs of \$143 million to Germany: this was about 1.5 per cent of total LLG imports of Germany. China, Italy and Vietnam are the major exporters to Germany.

In the Japanese market, China, Italy and Vietnam are also major suppliers, occupying about 70 per cent of the market share. In 2016, Bangladesh's LLG exports to Japan stood at \$136.5 million, making it the 6th largest exporter of leather goods to Japan (Figure 3.19.c). Bangladesh's export of leather goods to Japan has grown at an annual rate of 7 per cent per annum during 2012-16.

Figure 3.19 (a)

Market prospects for leather in China's market

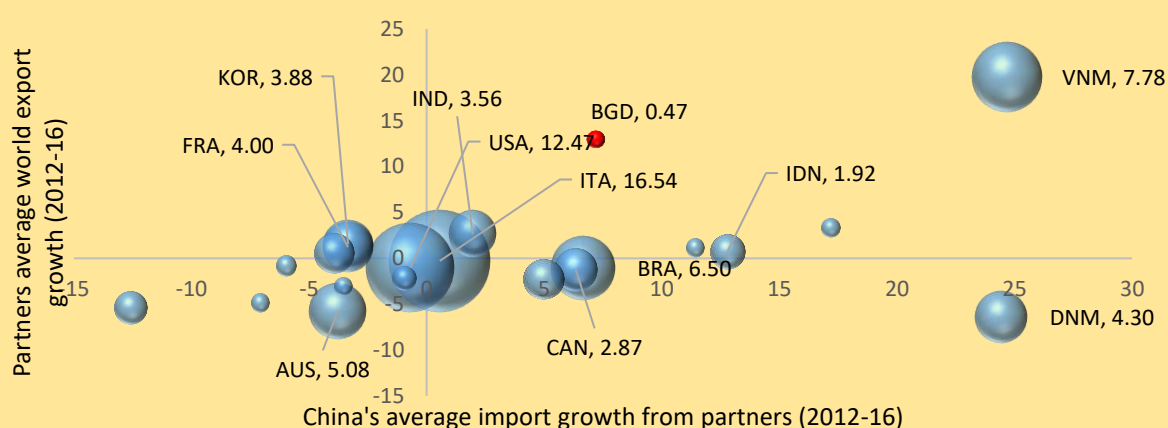
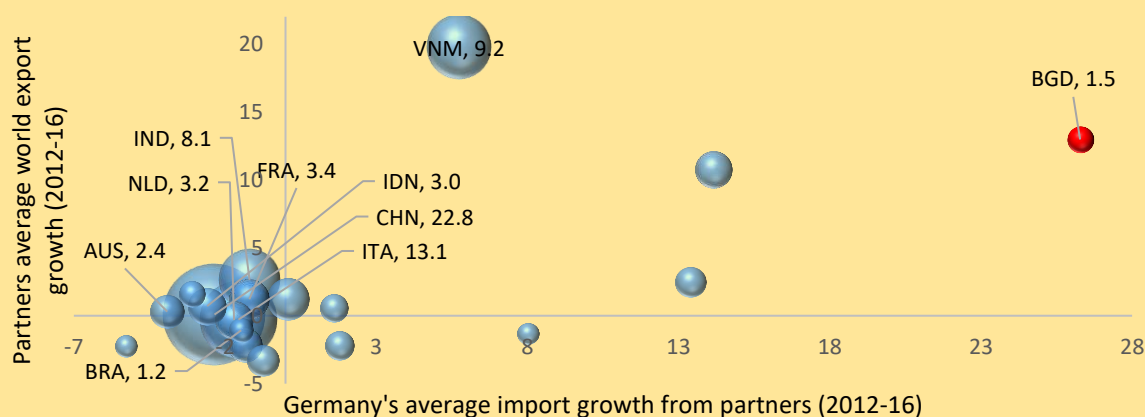


Figure 3.19 (b)

Market prospects for leather in Germany's market



Source: BEI project team analysis using data from ITC Trade Map. The bubble size represents the share of partner countries of a particular product in the importing country

Figure 3.19 (c)

Market prospects for leather in Japan's market

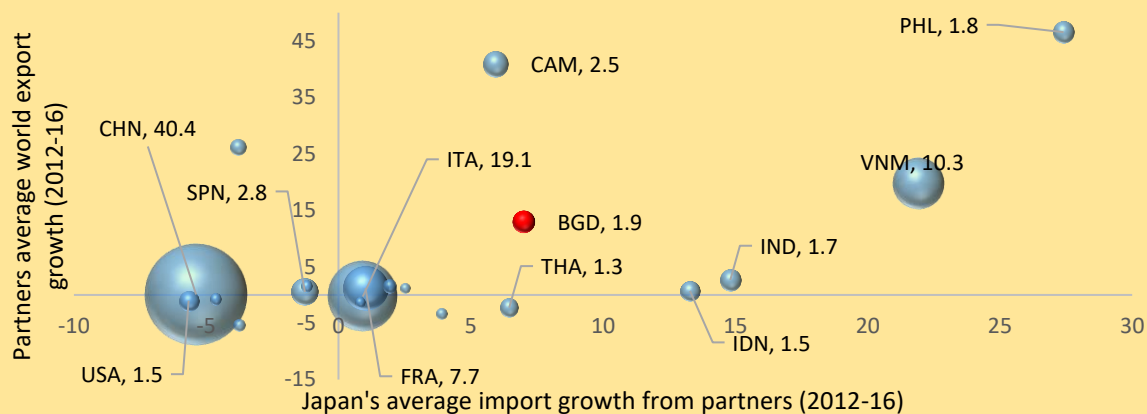


Figure 3.19 (d)

Market prospects for leather in USA's market

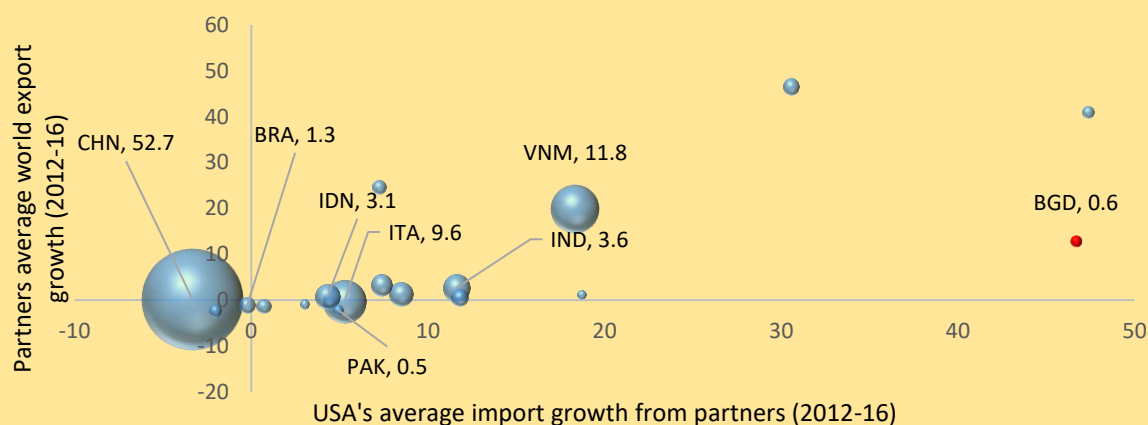


Figure 3.19 (e)

Market prospects for leather in EU market

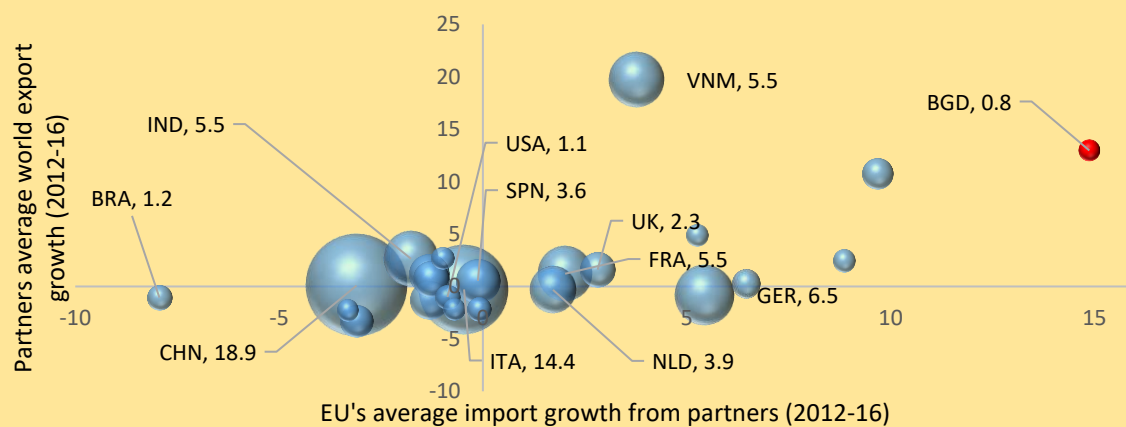


Figure 3.20 (a)

Export prospects for product HS-410449 in Chinese market

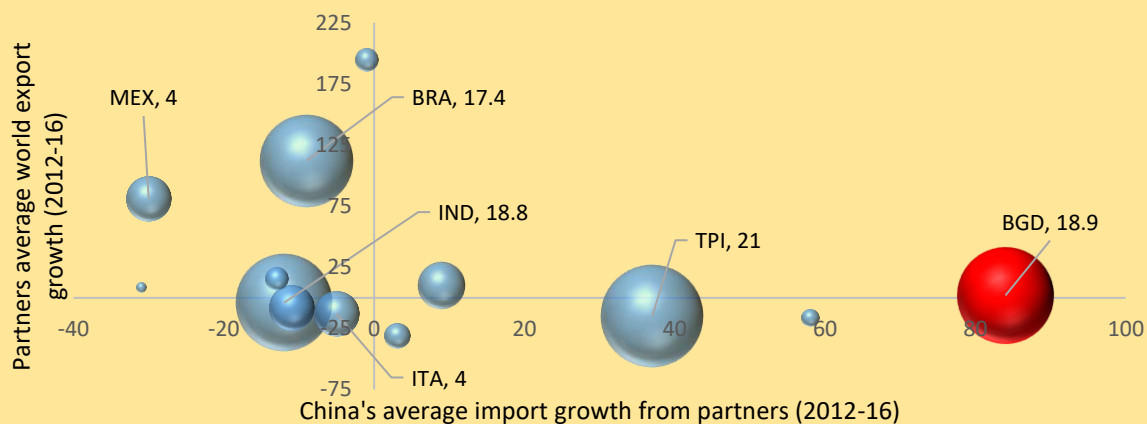


Figure 3.20 (b)

Export prospects for product HS-640399 in Chinese market

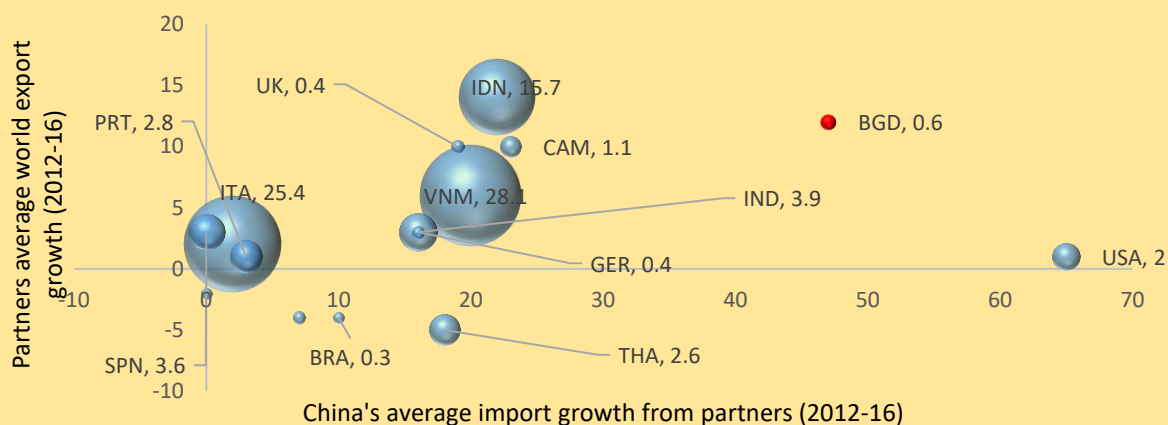


Figure 3.20 (c)

Export prospects for product HS-640399 in USA's market

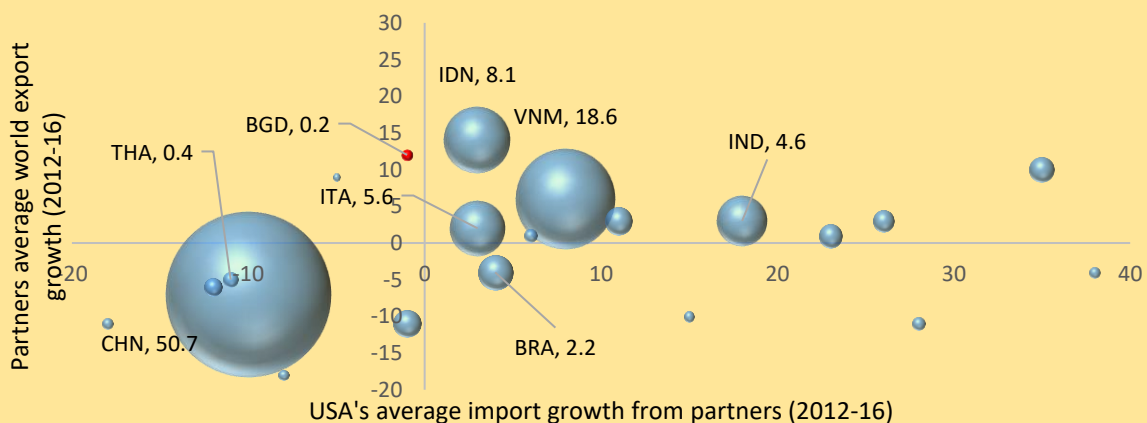
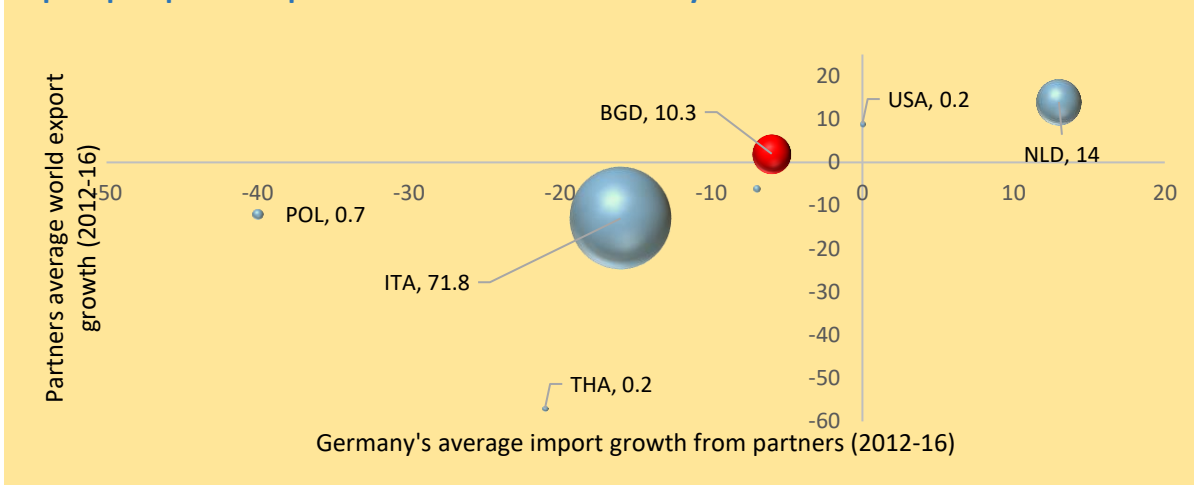
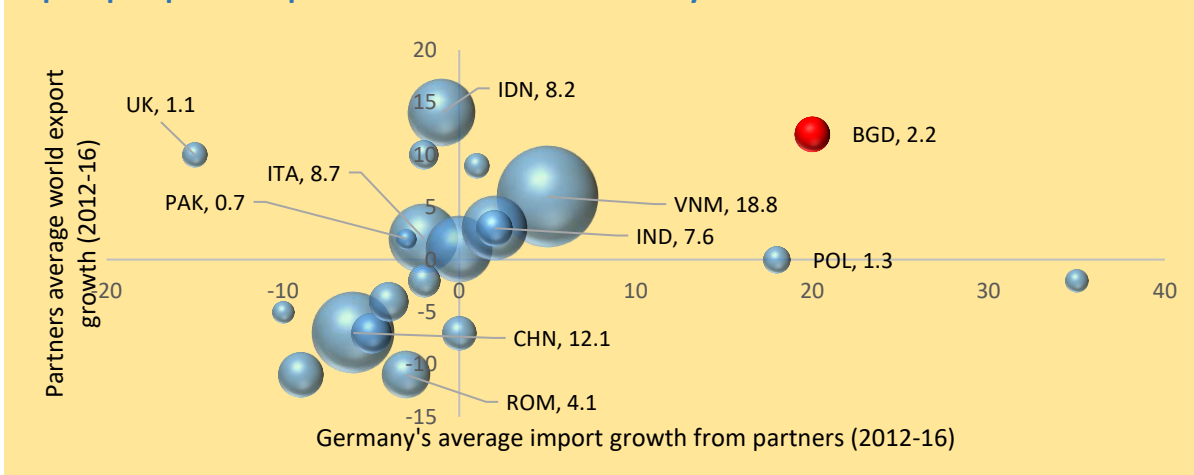


Figure 3.20 (d)
Export prospects for product HS-410449 in Germany's market

Figure 3.20 (e)
Export prospects for product HS-640399 in Germany's market


Source: BEI project team analysis using data from the ITC Trade Map. The bubble size represents the share of partner countries of a particular product in the importing country.

Bangladesh exported LLGs worth of \$162.8 million to the USA in 2016 which is only 0.6 per cent of the USA's imports of the same product. China alone accounts for more than half (52.7 per cent) of the market (Figure 3.19.d). However, Bangladesh is apparently showing a very large export growth to the US market, albeit from a low base; the annual rate of growth for the past five years has been 46.7 per cent during 2012-16. This trend needs to be monitored closely. Expanding exports to the USA in a sustained manner will be a major breakthrough for Bangladesh.

Finally, China, Italy, Germany and Vietnam are the major players in the EU market (Figure 3.19.e). Bangladesh's exports of LLGs to the EU have grown at an annual rate of 15 per cent during 2012-16. This analysis seems to suggest that during the time of global trade slowdown (during 2012-16) while world trade of LLGs has somewhat slowed, Bangladesh managed to maintain momentum in a few markets. This implies that Bangladesh has genuine potential to expand its exports to a number of markets including the USA, Japan, Germany and the EU.

Chapter 4: Expansion of leather and leather goods exports: Constraints and recommendations

Leather and leather goods are one of the most widely traded goods in the world with an annual estimated global trade value of around \$170 billion. Available projections suggest this trade grow considerably over the next decade. Bangladesh has long been an exporter of leather and leather goods. Given the dynamism in the global leather market along with the availability of local raw materials, the know-how of the supply management within the export industry, abundance of labour, and expressed policy support, the leather sector has a huge potential for transformation, generating billions of dollars of additional export earnings. However, the realization of this potential depends on several factors. With a view to strengthening the sector, this section highlights some of the major constraints faced and proposes recommendations to deal with them. Many of these issues are generic in nature affecting other export sectors as well, while others are more sector-specific.

4.1 Tackling infrastructural bottlenecks and excessive cost of doing business

Leather sector insiders strongly point out that a majority of their constraints start with infrastructural bottlenecks, generating the high cost of doing business in the country. In the World Bank Doing Business Surveys Bangladesh typically ranks lowly and is outperformed by its most other comparators. Countries such as India, Vietnam and China are way ahead of Bangladesh in almost all major business indicators. Excessive cost of doing business not only makes a country less competitive as an exporter, but it also imposes a detrimental effect on

the prospect of attracting foreign investments. Both these factors are critical for expanding exports of leather goods.

Inland transportation, port infrastructure, trade logistics – in all these areas there are major issues affecting export competitiveness. Despite making impressive efforts to tackle the shortage of electricity supplies in the recent past years, per capita electricity consumption in Bangladesh remains among the lowest in the world and is approximately just one-third and one-fifth of the consumption levels in India and Vietnam, respectively. A BEI research shows that currently there is no other country in the world that exports as much as Bangladesh with as little energy use (Razzaque, 2017). The World Bank Doing Business Survey 2018 shows that on average it takes about 9 procedures and 429 days to get an electricity connection in Bangladesh which is amongst the worst performances in the world (Table 4.1). In India and Vietnam, for comparison, it requires 5 procedures and 46 days to get a connection while in Indonesia it is obtainable in 34 days with only 4 procedures.

Table 4. 1 Getting electricity

Economy	Rank	Procedures (number)	Time (days)	Reliability of supply and transparency of tariff index (0-8)
Bangladesh	185	9	428.9	0
China	98	5.5	143.2	6
India	29	5	45.9	7
Indonesia	38	4	34	5
Thailand	13	4	32	7
Vietnam	64	5	46	6

Source: World Bank Doing Business Indicators, 2018

Even after the connection, the reliability of supply and availability of electricity remains a question. In fact, some of the leather sector representatives pointed out the voltage of electricity supplied as a major concern for the industry since many of the large machinery depends on the constant supply of electricity at a certain voltage. This is reflected in the Doing Business Survey as well: Bangladesh scores a 0 on a scale of 0 to 8 in the case of the reliability of supply and transparency of tariff index while all other comparators and leading leather exporters obtained a score of 6 or more.

Amongst other factors contributing to the excessive cost of doing business include time required for registering properties, costs of enforcing contracts, and high land price. On average, the registration process in Bangladesh takes about 244 days compared to 19.5 days in China, 53 days in India, 7 days in Thailand and 57.5 days in Vietnam. Similarly, it takes about 1442 days to enforce a contract in Bangladesh whereas for China and Vietnam the corresponding figures are 385 and 400 days respectively.

Procedures and formalities involving trading across borders are much more involved and costlier in Bangladesh. On the export side, it takes on average about 147 hours for the documentary compliance and 99.7 hours for border compliance (Table 4.2). For a global leading exporter like Hong Kong, it takes only 1 hour for documentary compliance and 2 hours for border compliance. The total (procedure-related) cost of exporting for Hong Kong is only \$57, for India \$474, for Vietnam \$429 in comparison with \$633 for Bangladesh. Similarly, on the import side as well, Bangladeshi traders face much higher costs: on average 144 hours to complete the documentary compliance in contrast to 65.7, 61.3 and 76 hours are in China, India and Vietnam (Table 4.3). The resultant costs (including documentary compliance and border compliance) turn out to be on average \$1,663.8 which is more than twice as in China, and a threefold higher than that in Vietnam. These excessive costs seriously undermine competitiveness as most exporters have to import raw materials first before going into export production and shipment.

Table 4. 2 Trading across borders (Export)

Economy	Rank	Time to Export		Cost to Export	
		Documentary compliance (hours)	Border compliance (hours)	Documentary compliance (USD)	Border compliance (USD)
Bangladesh	173	147	99.7	225	408.2
China	97	21.2	25.9	84.6	484.1
India	146	38.4	106.1	91.9	382.4
Indonesia	112	61.3	53.3	138.8	253.7
Thailand	57	11	51	97	223
Vietnam	94	50	55	139	290

Source: World Bank Doing Business Indicators

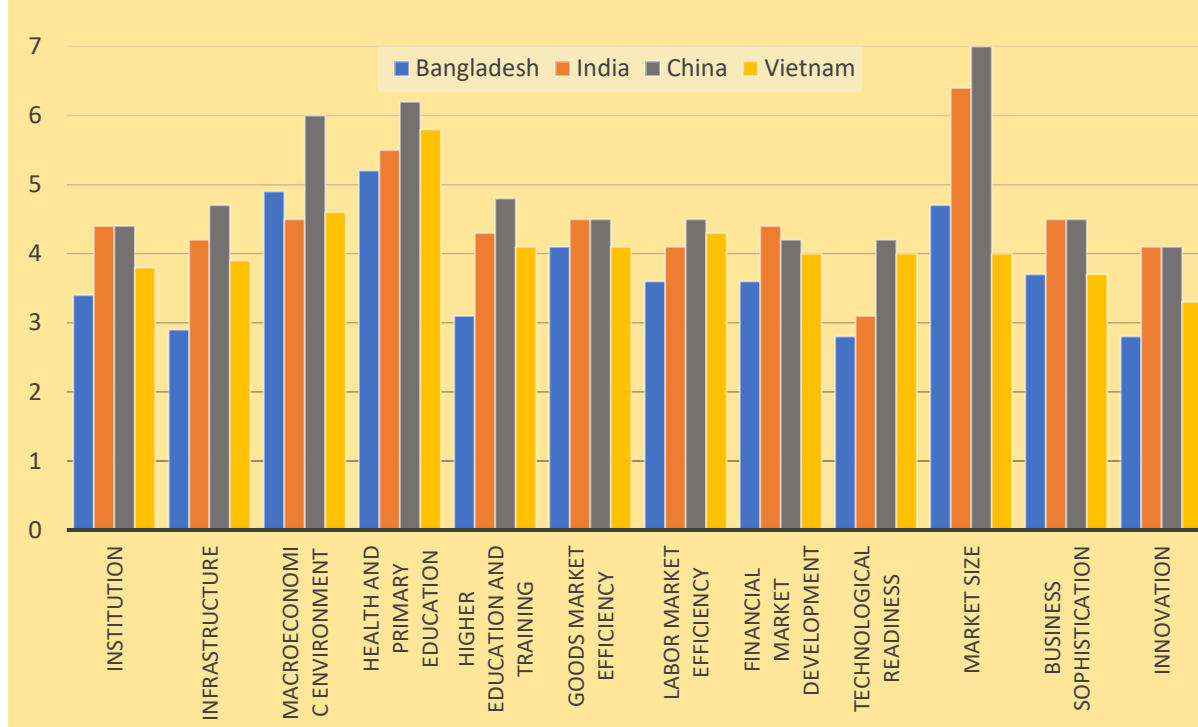
Table 4. 3 Trading across borders (Import)

Economy	Rank	Time to Import		Cost of Import	
		Documentary compliance (hours)	Border compliance (hours)	Documentary compliance (USD)	Border compliance (USD)
Bangladesh	173	144	183	370	1293.8
China	97	65.7	92.3	170.9	745
India	146	61.3	264.5	134.8	543.2
Indonesia	112	119.2	99.4	164.4	382.6
Thailand	57	4	50	43	233
Vietnam	94	76	56	183	373

Source: World Bank Doing Business Indicators

One effective way of reducing the cost and lead time to exports could be extending the capacity as well as the use of the in-land port depot. In this respect, establishing off-dock facilities like private container freight stations (CFS) or inland container depot (ICDs) could be helpful. Very recently the Pangaon Inland Container Terminal (PICT) has been established in Keraniganj, Dhaka, with a capacity to handle up to 116,000 20-foot equivalent units (TEU) annually. More of such facilities will be needed. To reduce delays at the port, like the garment industry, the raw materials for export-oriented leather firms should be released within 72 hours.

As in Doing Business ranking, Bangladesh scores poorly in the World Economic Forum's Global Competitiveness Index (GCI) of cross-country comparisons relating to such factors as institutions, infrastructure, market size and efficiency, business sophistication and innovation (Figure 4.1). In fact, the impact of the excessive cost of doing business gets amplified in the presence of weak competitiveness fundamentals as the GCI aims to measure. All this leads to a conclusion that an infrastructural transformation is direly needed for achieving export growth including that of the thrust sectors like leather.

Figure 4. 1**Bangladesh and comparators in various competitiveness indices, 2016-17**

Source: Global Competitiveness Index, 2017

4.2 Challenge of a rising trend in real exchange rate appreciation

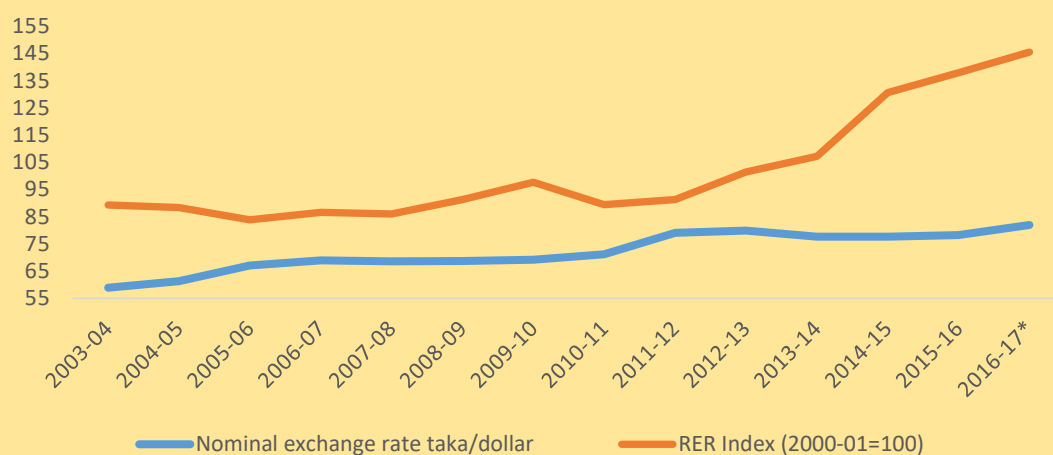
While the deficiency in the physical infrastructure is a big challenge for Bangladesh, there are other major policy-induced problems. One such issue is the real exchange rate. An appreciation in the real exchange rate severely compromises the competitiveness of exporters in international markets. While Bangladesh strives for maintaining a stable nominal exchange rate of the taka, accumulated inflation differentials with comparator countries get bigger causing the real exchange rate to appreciate. Since 2012 such appreciation has risen to about 60 per cent (Figure 4.2).

For a country like Bangladesh, the exchange rate management is important due to a diverse set of policy objectives including sustaining high economic growth, containing inflation and managing external competitiveness. In the face of rising price levels, currency depreciation is

regarded as a wrong policy choice, contributing to inflationary pressures. On the other hand, mounting inflationary differentials with trade partners will be reflected in appreciated RER thereby weakening the country's export competitiveness. There is robust empirical evidence that exchange rate movements are important for export performance (Leigh *et al.* 2016).

Figure 4. 2

Nominal and Real Exchange Rates



Note and source: the data are from bangladesh bank. * - The real exchange rate for 2016-17 is estimated.

Source: Bangladesh Bank

Nominal exchange rate adjustments are an important policy instrument for influencing external competitiveness. One challenge, however, is that nominal devaluations may not always translate into RER depreciations or the effect can be short-lived. The movement in the RER in the long run is determined by various economic fundamentals such as openness of the economy, international terms of trade, technological progress, the share of investment in GDP, the composition of public spending etc. In addition, fiscal and monetary policies need to be consistent with the exchange rate regime to promote a country's external competitiveness. Therefore, the management of the exchange rate is a delicate task for policymakers.

4.3 Policy bias facing the export-oriented sectors

Another policy-induced constraint facing the overall export sector is an inbuilt anti-export bias, as highlighted in the 7th Five Year Plan of Bangladesh (2016-2020). A highly protected domestic market tends to encourage producers to look for sales in the domestic market only. This will become even more pronounced when trading costs are high, as discussed above. The 7th Five Year Plan points out that import tariffs in conjunction with other trade taxes and levies (known as para-tariffs) have generated an anti-export bias in the trade policy regime. Currently, there exists no equivalent export policy support to neutralize this policy bias.

In the case of raw hides, wet and crust leathers, which are mainly raw materials for leather goods, 5 per cent Customs Duty (CD) along with 5 per cent Advanced Income Tax (AIT) and up to 4 per cent Advanced Trade Value (ATV) are imposed (Table 4.4). For the finished leather and leather goods, the CD ranges from 10 to 25 per cent. In addition to the CD, additional tariffs like AIT, Regulatory Duty (RD), and ATV are also imposed on imported leather and leather goods. In fact, the commodities which are highly traded in the global market like handbags, wallets, belts, trunks and suitcases – face the highest level of duties with a total tax incidence (TTI) of 89.4 per cent. On the other hand, the TTI is as high as 127.84 per cent for leather footwear. The imported leather footwear items face a 25 per cent CD, 45 per cent Supplementary Duty (SD), 5 per cent ATI, 3 per cent RD and 4 per cent ATV.

Table 4. 4 Rate of different tax duties (%)

HS	CD	SD	VAT	AIT	RD	ATV	Total Tax Incidence
41	5	0	0-15	2 to 5	0	0 to 4	7% to 31.07%
42	10 to 25	0 to 20	15	5	0 to 3	0 to 4	26% to 89.42%
43	10 to 25	0	0 to 15	5	0 to 3	0 to 4	33% to 58.69%
6403	25	45	15	5	3	4	127.84%

Source: www.bangladeshcustoms.gov.bd . CD = Customs Duty, SD = Supplementary duty, VAT = Value Added Tax, AIT = Advanced Income Tax, RD = Regulatory Duty, ATV = Advance Trade Value.

Table 4. 5 Range of ERPs and Average ERPs

Subsectors	Range	Average ERP
Footwear	214-342	273
Jute textiles	33-125	76.5
Agro-based industry	4.5-381	187
Light engineering	117-386	219.5
Ceramics	190-239	214.9
Pharmaceuticals	9.4 - 20.6	3
Electrical products	1.6 – 272	-
Domestic garments and embroidery	5.75 – 51	25
Plastic products	86.8 – 483	258.8

Source: PRI estimates (based on SMI 2012).

As the nominal rate of protection (NRP) or even TTI does not reflect the nature of protection given to some industries, the effective rate of protection (ERP) is often referred to understand the level of protection. Among the manufacturing commodities, with 273 per cent average effective rate of protection, the footwear industry is one of the most protected sectors in the country (Table 4.5).

For boosting exports and promoting export diversification the 7th Five Year plan has emphasized on reversing anti-export bias in trade regime. Rationalization of high tariffs and para-tariffs are essential to enhance the efficiency of the producers and create a pro-export motivation among the entrepreneurs (Sattar, 2015).²⁶ Despite its importance policy reversals to accord net policy incentives to exporters have proven to be a difficult task because of various reasons including concerns about loss of government revenues.

²⁶ Bangladesh did undertake significant trade liberalisation in the 1980s and early 1990s. But since the late 1990s, the pace of liberalisation slowed down. In some instances, the impact of initial tariff cuts has been offset by introducing tariffs and trade taxes in addition to customs duties. Thus, while average customs duties fell from 21 per cent in 2001 to 13 per cent in 2015, protection under the shield of other taxes and duties increased from 7 per cent to 15 per cent. It has been argued that this rise in protection for the domestic sectors creates an anti-export bias (Sattar, 2015).

4.4 Deepening the policy support for leather exports

It follows from the above, high cost of doing business, exchange rate appreciation, and policy-induced disincentives tend to undermine external competitiveness, resulting in a weak export response. Since export production cannot be protected by tariffs, it is important that the exporters (including those in leather) are supported directly through different export incentive schemes.

It is widely regarded that, one of the key ingredients in Bangladesh's RMG export success was a comprehensive yet pragmatic incentive package, which became a characteristic feature of the trade policy regime in the 1990s.²⁷ The principal policy interventions undertaken in this respect included: (i) a general reduction in tariffs that helped reduce anti-export bias in trade policy regime, (ii) duty drawbacks on imports of intermediate goods, (iii) bonded warehouse facilities to enable exporters importing intermediate inputs duty-free, (iv) operation of cash compensation schemes for the so-called non-traditional exports with the cash assistance rate for the exporters not availing duty-drawback or bonded warehouse facilities rising from 15 per cent to a peak of 25 per cent before being phased down, (v) provision of duty-free imports of machineries for export-oriented firms, (vi) allowing exporters to retain a portion of their export receipts in foreign currencies, (vii) income tax rebate, (viii) an export credit guarantee scheme for exporters to cover their marketing risks, (ix) credit disbursed through Export Development Fund at subsidized and/or lower rates of interest.²⁸

The above export incentives continue to operate, although the nature and depth of coverage for some of them have changed. For example, since the early 2000s, the rate of cash assistance for the RMG sector has been reduced while for some other sectors has been raised. Given the objective of export diversification, certain non-RMG sectors are eligible for cash assistance of up to 20 per cent of the fob value of these exports (Table 12). Such assistance for the leather sector is currently in the range of 10-15 per cent: the finished leather goods

²⁷ The major objectives of those incentives were to tackle policy and administrative constraints on export activities; enhance backward linkage; help diversify export basket; support export-oriented investment; and promote price competitiveness in global markets.

²⁸ A detailed analysis of the trade policy regime and export incentives of the 1990s can be found in Bayes et al. (1995) and Rahman, M. (1997).

receive a 15 per cent cash assistance while the tanners who have moved to the Savar Tannery Estate are eligible for a 10 per cent cash support for the export of crust and finished leather (HS 41).²⁹

The current policy of export support is geared towards stimulating export response from the relatively less-established emerging sectors and leather is being viewed as an important sector that can contribute to export diversification. However, the scope for deepening the policy support for leather needs serious consideration. Given that leather has clearly a relatively large export base and production capacity, the rate of cash assistance can be enhanced. This would contribute to export expansion and export diversification. There are many other non-RMG sectors that are currently not in a position to make use of the available incentives because of their weak supply-side capacity. The leather sector, on the other hand, is more likely to generate bigger export supplies in response to higher incentives.

Under the current export policy, small and medium-sized firms in RMG can avail an additional 4 per cent assistance; exporters exporting to new markets (other than Canada, the EU and the USA) receive 3 per cent cash assistance; RMG exporters exporting to Eurozone countries receive additional 2 per cent cash assistance (to compensate for the taka appreciation against the Euro). These incentives can be extended to the leather sector exporters and some of these support measures can be deepened further. It is worth pointing out that the policy target of achieving \$5 billion leather exports is now a daunting prospect and it is in this context the policy support mechanisms need to be reviewed and revamped.

²⁹ For certain leather goods (e.g., handbags and handicrafts) there are ceilings up to which an exporter can claim the cash assistance.

Table 4. 6 Cash assistance to leather sectors (% of value of export shipment)

Sector	2002-05	2009-10	2014-15	2016-17	2017-18
Export-oriented RMG (instead of duty drawbacks)	5	5	5	4	4
Incentives for the small & medium apparel (RMG) firms (in addition to the existing policy)	n.a.	n.a.	5	4	4
New product/new market expansion assistance - except for markets in the EU, Canada, the USA (Apparel Industry)	n.a.	n.a.	3	3	3
Additional cash assistance for apparel exporters to the Eurozone	n.a.	n.a.	n.a.	2	2
Articles of hogla, straw, sugarcane, etc	-	15-20	15-20	15	20
Agri and agro-processing	15-20	20	20	20	20
Guts, horns, etc of cows/buffaloes				10	10
Light Engineering	-	10	10	15	15
100% Halal Meat	-	20	20	20	20
Frozen Shrimp (Depending on ice coverage)	10	12.5	10	7-10	7-10
Frozen Fish (Depending on ice coverage)	10	12.5	-	2-5	2-5
Articles of leather	-	17.5	15	15	15
Export of crust and finished leather exported from the relocated firms in Savar)	n.a.	7.5	-	-	10
Ships/tractors and ocean-going vessels	-	-	5	10	10
Potatoes	15	10	20	10	20
Pet bottles-flex	-	10	10	10	10
Furniture	-	-	-	15	15
Vegetable seeds	-	-	-	20	20
Carbon from Jute Stalks	-	-	-	20	20
Articles of plastic	-	-	-	10	10
Paper and paper products	-	-	-	-	10
Joss sticks and scented oil (agar and atar)	-	-	-	-	20
Diversified jute products	-	-	10	20	20
Hessian, sacking and CBC	-	-	-	7.5	10
Yarn and twine	-	-	7.5	5	5
Software, ITES and hardware	-	-	-	-	10
Synthetic and fabrics made footwear	-	-	-	-	15
Active Pharmaceuticals Ingredients (API) exports	n.a.	n.a.	n.a.	n.a.	20
Accumulator batteries (H.S 8507.10 and 8507.2)	-	-	-	-	15
Articles of coconut shell	n.a.	n.a.	n.a.	n.a.	20

Notes and sources: “-” indicates information is not available. “n.a.” implies the scheme was not made available to the sector. Compiled from various official circulars.

Direct exports of articles made of crust and finished leather can obtain duty drawbacks on flat rates. Under the duty drawback assistance, the exporters are refunded the duties and taxes paid on inputs or raw materials in the manufacturing of exported goods. The duty drawback is provided to all exporters except manufacturers who already enjoy bonded warehouse

facility or cash assistance. Although the supplementary duties paid for gas and electricity is not refunded as drawback, an exemption of 80 per cent of the VAT paid on electricity and gas used is allowed for 100 per cent direct exporters, 100 per cent deemed exporters and exporters of EPZs.³⁰ However, the procedural delays and time to refund the duties paid by an exporter make the duty drawback system a relatively unattractive incentive mechanism.

As an alternative to cash assistance and duty drawbacks, the 100% exporters of leather and leather goods can enjoy the bonded warehouse facility. Under the bonded warehouse facility export-oriented industries can import raw materials and packaging materials without paying any duty or taxes. At present, the bonded warehouse facility is only available at 20 major districts which are mostly around Dhaka and there are less than 100 supervised bonded warehouses for footwear firms.³¹ Some large export-oriented tanneries also enjoy bonded warehouse facility for importing their chemicals and other raw materials.³² However, some limitations of the bonded warehouse facility have been reported, e.g. procedural delays and lack of a clear understanding of their operation and management even within the business community (Bayis, 2016).

4.5 Need for maximum utilization of policy assistance prior to LDC graduation

Bangladesh will soon graduate out of the LDC group: under the most likely scenario, this will take effect from 2024. After graduation, some of the existing policy flexibilities and trade preferences will either be lost or will be significantly reduced. Bangladesh as an LDC enjoys tariff-free market access not only in the EU but also in several other countries. Also, after graduating from LDCs, export support measures like cash assistance schemes are most unlikely to be possible to continue with given the rules and provisions of the WTO.³³

³⁰ <http://www.bangladeshcustoms.gov.bd>

³¹ Customs Bond Commissionerate (CBC) data

³² MCCI-IDE-JETRO. Report on Survey Findings on Leather and Leather Goods in Bangladesh

³³ Under the WTO Agreement of Subsidies and Countervailing Measures, providing export subsidies to industrial goods by LDCs is not prohibited, subject to their not achieving export competitiveness, which is defined as the global market share of the concerned/individual product being more than 3.25 per cent.

Therefore, it is high time to consider reinvigorated and deepened policy support with the objective of expanding export base rapidly before Bangladesh loses its LDC preferences and privileges.³⁴ Concerns about loss of revenues can prompt export support not being extended. This will not help attain the national policy objectives of promoting exports and diversification. Export earnings-induced by policy support can generate many additional economic activities with potentials for further revenue generation.³⁵ A much bigger push is now needed to make the most out of LDC preferences and privilege.

4.6 Enhancing export market penetration

Bangladesh needs to expand exports of leather and leather goods in terms of number of countries, number of leather goods items and volume of exports to each market. Compared to China, India and Vietnam, Bangladesh exports at less than half of the destinations for all leather products. The number of products and volume of exports both are substantially low as well. Establishing new export relationships in new markets can be quite challenging. Sustaining the export flows can be even more challenging. In an earlier BEI study, it is estimated that the survival rates of Bangladesh's exports are lower than those of India, China and Vietnam. China can sustain 70 per cent of its new export relationships in comparison with Bangladesh's 40 per cent. From the second year of a new export relationship, Bangladesh's survival rate is 10 percentage points lower than that in both India and Vietnam.

Also, it has been found that Bangladesh's new export relationships emerge within a narrow band of markets. Exploring new markets are therefore likely to require far stronger policy

³⁴ Export subsidies by Countries with per capita gross national income (GNI) less than \$1,000 are also not prohibited. For other countries, maintaining export support regimes compatible with WTO provisions can be quite challenging. Newspaper reports have recently highlighted such difficulties faced by, for example, India with its export support under schemes such as the Merchandise Exports from India Scheme, Export Promotion Capital Goods scheme and interest equalisation scheme for the textiles sector under the country's Foreign Trade Policy. See, <http://www.financialexpress.com/economy/as-india-breaches-wto-threshold-centre-to-seek-export-subsidy-phase-out/878573/> (accessed on 2 October 2017).

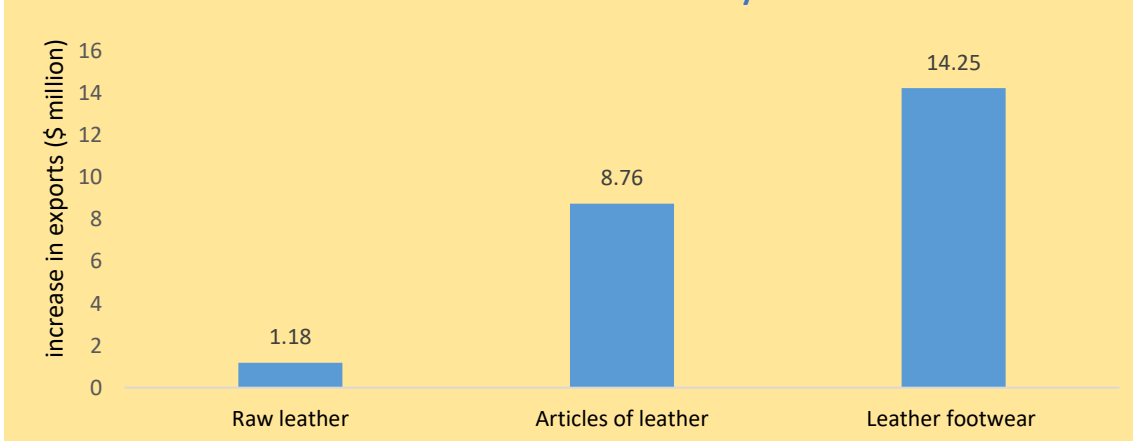
³⁵ According to estimates provided in MTMPS, Ministry of Finance, total incentives for the export sector for 2015-16 and 2016-17 were Tk 35 billion and Tk 40 billion, respectively. In proportion to total revenue, these are estimated at 2 per cent for 2015-16 and 1.8 per cent for 2016-17. As per centage of GDP, the total valuation of export incentives is just about 0.2 per cent (for both the years).

support. It is in this context that there is a need for export promotional measures to shift from their traditional focus on finding new export market opportunities to supporting new and existing exporters to increase survival rates during the first few years after beginning to export. All export support measures to help firms sustain their export relationships should be strengthened. Against these export market dynamics, export incentive schemes should be strengthened to make them effective.

Accessing markets on a preferential basis has also been a problem, affecting particularly the leather sector. As an LDC Bangladesh gets preferential market access at major destination countries like the European Union. However, the USA, which is the largest importer of leather and leather goods, Bangladesh faces very high tariffs. On average, Bangladesh's exports are subject to a tariff rate of 15.6 per cent. The footwear items are subject to US tariffs averaging 12.7 per cent. Our estimates show that if Bangladesh had obtained duty-free market access in the USA, exports of leather goods would have increase by \$24.2 million, an increase of 15.3 per cent of total leather exports from Bangladesh to the USA in 2015 (Figure 4.3). The largest export gains would occur in the footwear subsector (\$14.25 million), followed by articles of leather (\$8.76 million) and raw leather (\$1.18 million).

Figure 4. 3

Potential increase in leather in USA's market under duty free access



Note: Partial equilibrium simulation analysis of zero-tariff market access in the USA.

Source: Authors' estimation utilising World Integrated Trade Solution database and SMART model

The estimates presented are likely to be conservative. In the presence of high tariffs, Bangladesh's export base in the USA has been low, affecting these results. Furthermore, duty-free market access would trigger far more export response that these models can capture.

Given that the USA is going to remain an extremely important leather market, it is important to look for improved market access. It is true that in recent times, the US policy stance has hardened, and many observers consider obtaining preferential market access is not a very realistic prospect. Nevertheless, options such as attracting US FDI to expand exports in the USA and elsewhere, bilateral negotiations to obtain GSP covering the leather sector, and a reciprocal trading arrangement should not be overlooked. In addition, after graduation from LDCs, most exporters including those from the leather sector may also come under increased pressure of competitiveness as the existing tariff preferences, particularly in the EU will have to be renegotiated.

4.7 Quality upgrading, product sophistication and positive branding

Improvements in product quality, sophistication and standards are also important for export expansion. It is known that goods in the same product category (e.g. under the same HS and SITC code) can differ widely in quality. Quality upgradation, sophistication and product differentiation are often associated with higher prices.

Our analysis has shown that Bangladesh exports relatively high-quality leather (in the HS category 41), but apart from a very few items, unit prices of leather goods are on average higher for comparators. Therefore, there are opportunities for developing more value-added export items. Bangladesh has made a breakthrough in terms of supplying for the biggest global brands. However, compared to other countries, the size of such exports has been quite small. Moving up the global value chain will require a reliable supply response of quality products attracting buyers and investors. There is also need for developing domestic capacity in designing, market and product research and development, brand and fashion development, etc, and at the same time setting up training centers for workers' skill development.

It must also be noted that in today's world product quality is intimately linked to various standards and compliance. Big brands are increasingly moving towards developing supply

chains that comply with labour and environmental standards. International certifications such as ISO 14001 for environmental sustainability, ISO 45001 for Occupational Health and Safety standards have become an integral part of goods quality and higher export prices. Upgradation of the country capacity in this direction will be critically important for future export prospects.

An important element in product upgradation would be positive branding of the supply sources. The Annual Report of LFMEAB 2015 notes narrow product range, lack of grasping fast fashion items and limited trade facilitation as the key hurdles for Bangladeshi leather and leather goods exporters to be faced in the competitive international market.³⁶ The LFMEAB also recognizes ‘image of the industry’ as an important element for the leather sector expansion. With that aim in mind, the LFMEAB introduced “Compliance for Success Program (CFS)” in 2013. Under the CFS program, the members have been improving compliance issues and introducing initiatives like health check-up at the factory, group health insurance and other non-pecuniary benefits.

The Bangladesh leather sector faced a severe backlash in 2016 when some unfavourable reports in the international media were published on the tanneries. Following it, many buyers tended to look for alternative sourcing of their products while many international producers reportedly clarified their sourcing practices.³⁷ It signifies the need for reviewing the standards related to the production process and the image of the industry. In fact, positive branding backed by effective monitoring of the standards can help establish the credibility of the country as a responsible source of supplies, attracting reputed international buyers.

³⁶ LFMEAB Annual Report 2015

³⁷ Skin Deep: Feeding the Global Lust for Leather accessed at: <https://pulitzercenter.org/reporting/skin-deep-feeding-global-lust-leather>

4.8 Effective implementation of the Tannery Estate Dhaka (TED)

A number of problems have been identified as hindering the faster relocation of the tanneries from Hazaribagh to Savar Tannery Estate which is named as Tannery Estate Dhaka (TED). The TED housed only 155 tanneries whereas, according to the BTA, more than 240 tanneries were in operation at Hazaribagh. The tannery association also reports that larger tanneries are facing problems as a maximum of 10,000 square feet has been allocated per tannery.³⁸ In addition, Hazaribagh tannery owners usually provided accommodation to their workers, while this issue of workers' housing facilities are not included in the TED plan. According to the tannery owners, although the government had provided with some compensation for shifting the tanneries from Hazaribagh to Savar, the support was not adequate. Lack of funding has also been reported as a major concern for many of the tannery owners as the rate of collateral needed for a loan was sufficiently high. Apart from these, many of the firms experienced problems with electricity, gas connection and adequate water supplies for production units. Although the TED includes Central Effluent Treatment Plant (CETP), Central Dumping Yard, Water Treatment Plant with a capacity of 22.8 million litres per day and Sewage Treatment Plant (STP) - with a capacity of 5 million litres per day, inefficiency in operation of these facilities has already raised concerns. Sludge Power Generation System (SPGS) and Common Chrome Recovery Unit (CCRU) have also been incorporated in the TED, the operations of which requires technical expertise not readily available.

It is now an important prerequisite to effectively operationalize the TED. In addition, the firms that were not accommodated in the TED needs to be relocated to a well-planned industrial location.

4.9 Creating a strong leather SME cluster

As like the TED, Bangladesh can aim for establishing other leather clusters including leather SME clusters. These can be created within certain upcoming Special Economic Zones (SEZs) in

³⁸ Bipul K Debnath, "Our Leather Industry", The Independent, September 8, 2017

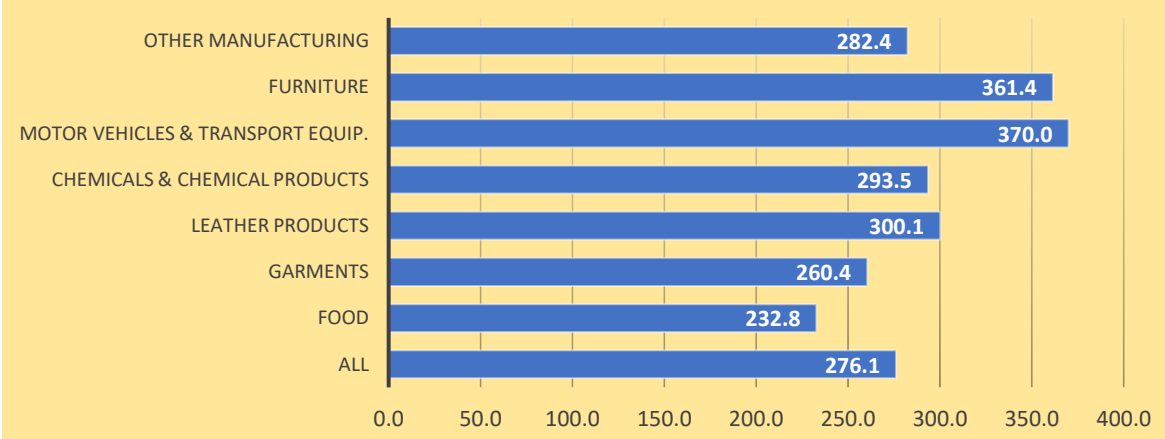
different regions of Bangladesh. A clustered leather industry can benefit from agglomeration economies. The firms will be able to draw on technical know-how, obtain support from dedicated banking and financial institutions, engage in easy cross contracts and subcontracts, benefit from any training facilities and labour mobility, etc. The dedicated SEZs can also host Inland Container Terminal (ICT) and Inland Container Depot (ICD) devoted to the leather industry. This will reduce the time as well as the cost of exporting for all the leather producers at the leather complex. A well-developed leather cluster should also help attract foreign investments.

4.10 Alleviating financial constraints for export-oriented entrepreneurs

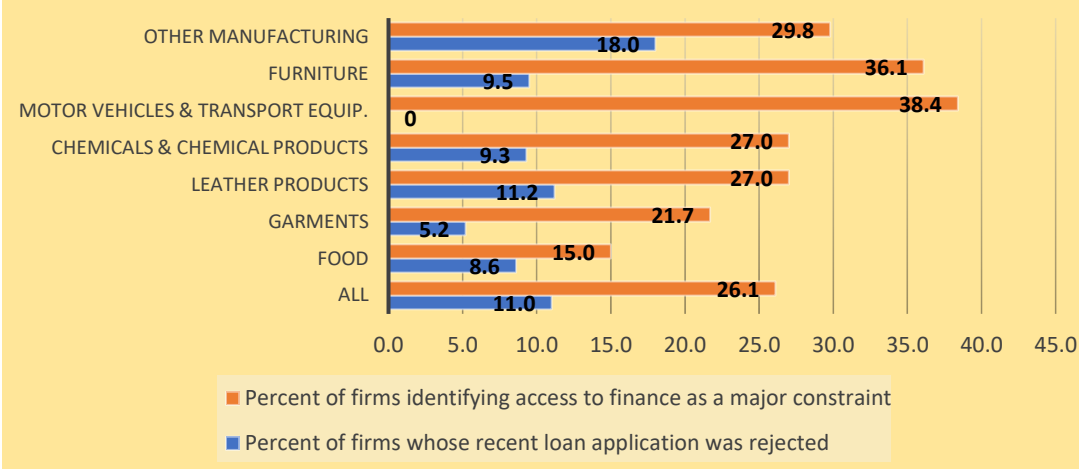
Access to finance works as a lifeline for any industry and the role of timely and adequate financial services is of critical importance for the export-oriented sectors. In the last World Bank enterprise surveys on Bangladesh, more than a quarter of the entrepreneurs in the leather industry reported access to finance as a major constraint. The value of collateral needed for a loan for the leather sector is estimated to be as high as 300 per cent of the loan amount, one of the highest in the world (Figure 4.4). With collaterals at such high levels, one in every 10 potential borrowers in the leather sector reported rejection of their most recent loan applications (Figure 4.5).

Figure 4. 4

Value of collateral needed for a loan (% of the loan amount)



Source: Enterprise Survey, World Bank

Figure 4. 5**Access to Finance as Major Constraint**

Source: Enterprise Survey, World Bank

In addition, lack of access to trade finance is particularly a major problem for small and medium enterprises. Cover for payment risks and mobilising working capital are the two important components of trade finance. Purchase of new capital equipment and raw materials at the time of start-up is one of the major finance-related hurdles that potential exporters would have to overcome. The most common type of trade finance mechanism followed by the Bangladeshi exporters is L/Cs. All exporters deal trade financing with the local banking sector as it is not possible to acquire financing from abroad. In contrast, globally only 20 per cent of trade finance comes from the bank-intermediated sources (Baylis, 2016). Amongst others, India and Sri Lanka, have set some good examples of alternative financing to boost exports. Besides, the interest rate in Bangladesh is comparatively high and the domestic credit to the private sector (as percentage of GDP) is substantively lower than many other developing countries.

For easing the access to finance, Bangladesh's Export Development Fund (EDF) offers trade finance at 7 per cent interest rate per year.³⁹ In addition, the Export Credit Guarantee Scheme (ECGS) - administered by the Sadharon Bima Corporation - provides pre- and post-shipment export finances, whole turnover export finance (pre-shipment) guarantees, and export

³⁹ BRPD Circular No. - 01, dated 10 January 2004, Bangladesh Bank

payment risk policies.⁴⁰ The use of these schemes and their access by different types of export firms need to be reviewed. Experiences of successful export credit agencies could be sought from countries like India, Indonesia and Sri Lanka. The option of opening up to trade finance market can be carefully reviewed as access to global credits can expand coverage and reduce borrowing costs. The utilisation of trade finance schemes operated by the Asian Development Bank and World Bank/IFC can provide useful options. There is an estimate that just 20 per cent of exports financed through IFC's Global Trade Supplier Finance (GTSF) scheme could reduce export receivables credit delays by 45 days, releasing up to \$350 million annually in cash flow for exporters (Baylis, 2016).⁴¹ Successful leather and footwear exporting countries like Vietnam and India have rolled out financial support for technology upgradation of export-oriented firms. If introduced, such a scheme can also benefit the leather sector in Bangladesh.

4.11 Attracting FDI in the export-oriented leather sector

FDI in the leather sector can be influential in transforming the leather industry. Increased FDI flows in leather and leather goods can help the country embrace new technologies, move up on the quality ladder, and strengthen its position within the global leather value chains. For Vietnam, about 60% of total leather and leather goods exports is due to FDI and Joint Venture (JV) initiatives.

Having a strong backward linkage to source materials along with stronger horizontal linkage to the RMG and textile industries, Bangladesh certainly offers attractive investment propositions in leather and leather goods. However, despite policy initiatives, the flow of FDI has always so far not been encouraging. As discussed, excessive cost of doing business and infrastructural bottlenecks, are widely considered as the principal constraints disincentives for private investment inflows. Until 2009, the annual FDI inflow in the leather and leather goods remained less than a million US dollars. Since 2010 the sector received an FDI of \$8

⁴⁰ http://mail.sbc.gov.bd/ins_export_credit.php

⁴¹ Established in 2010, the Global Trade Supplier Finance (GTSF) program is a \$500 million multicurrency investment and advisory program that provides short-term finance to emerging market suppliers and small- and medium-sized exporters, helping to address a huge shortfall in supply chain finance.

million or more in each of the subsequent years with a record highest \$36.8 million in 2015. In 2016 and 2017 the FDI in leather and leather products were \$16.4 and \$23.4 million, respectively.

Figure 4. 6

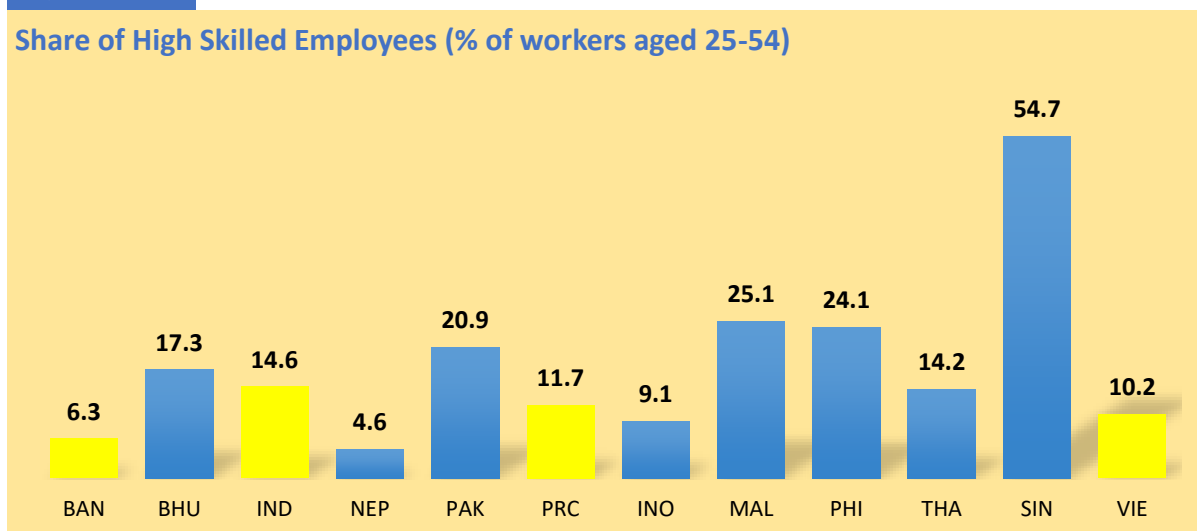
FDI (net) inflow in Leather & Leather Products



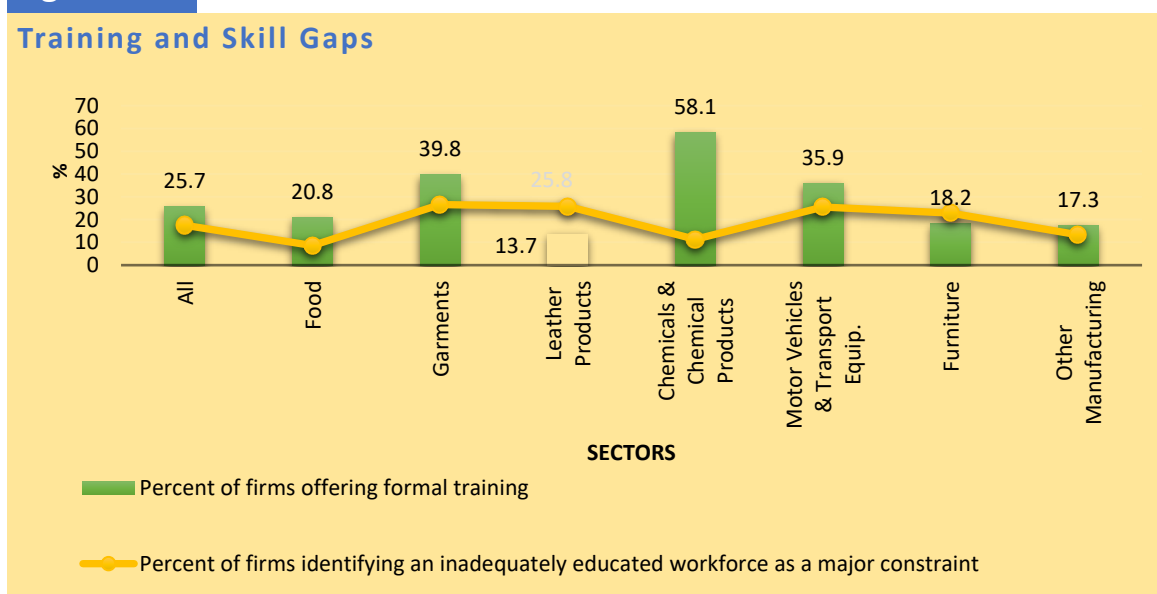
Source: Bangladesh Bank

4.12 Lack of skilled manpower

One of the key challenges and barriers to meet is the severe scarcity of skilled manpower in Bangladesh. Although the country produces a large number of graduates each year, ‘skill mismatch’ is widened as industry-specific needs cannot be met by a very general education system. With only 6.3% high skilled employees (as a percentage of total employees aged 25-54) Bangladesh’s share of highly skilled employees is lowest among the comparators (WEF, 2015).

Figure 4. 7
Share of High Skilled Employees (% of workers aged 25-54)


Source: World Economic Forum (2015)

Figure 4. 8
Training and Skill Gaps


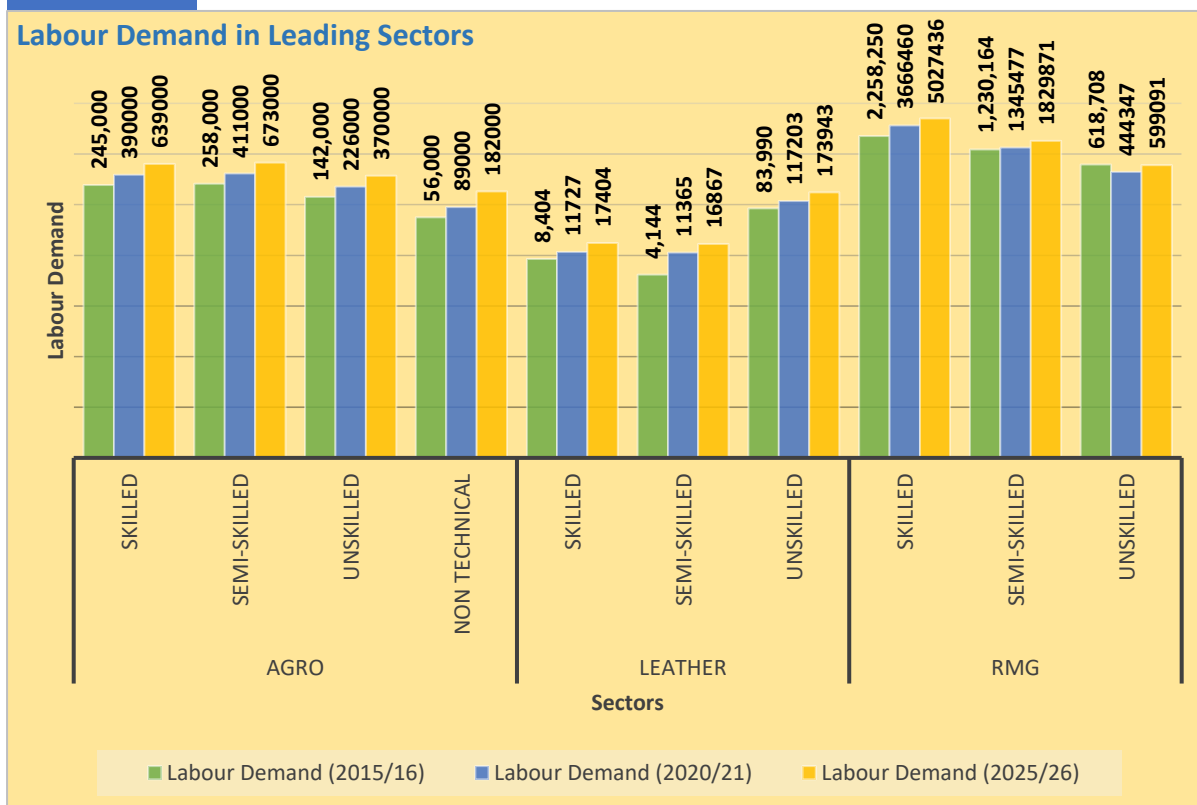
Source: Enterprise Survey, World Bank.

The leather sector faces an acute skilled manpower crisis, specifically at the upper-end managerial positions. In the World Bank World Enterprise Survey, one in every four respondents in the leather sector identified inadequately educated workforce as a major constraint (Figure 4.8). Despite such high skill deficits, only 13.7 per cent of the firms offered formal training to their workers. In 2015/16, in the leather sector, the share of skilled labour in total employment was only 9.7 per cent (BIDS, 2017). By 2025, the demand for skilled labour in this will double (Figure 4.9). The lack of high skilled workers necessitates the need

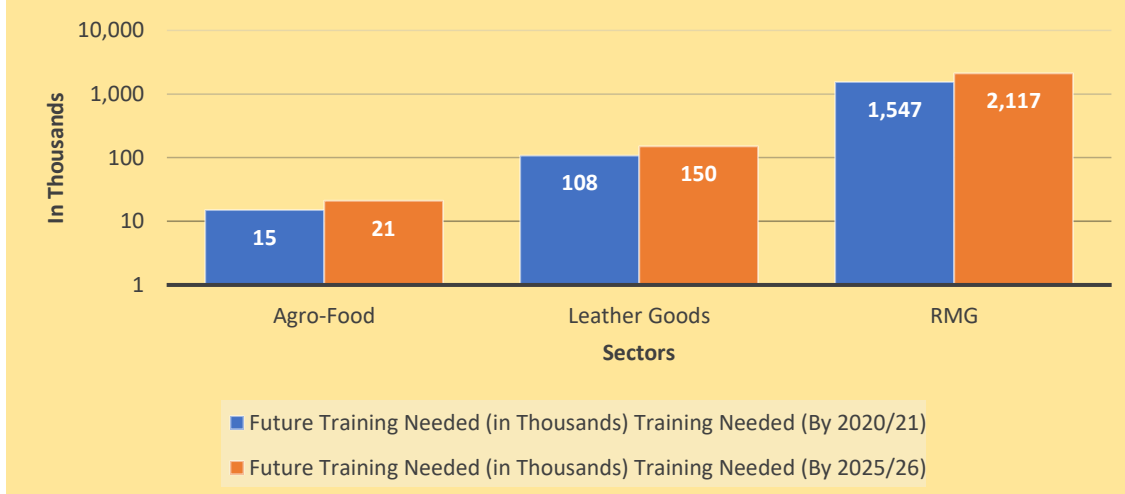
for training of a large number of workers in the coming years. By 2020/21, 108 thousand workers in the leather sector will be required for training which will eventually rise to 150 thousand workers in 2025/26 (Figure 4.10). The existing capacity is completely inadequate to provide training at such large numbers.

Figure 4. 9

Labour Demand in Leading Sectors



Source: BIDS, 2017.

Figure 4. 10**Future Training Needed by Leading sectors**

Source: BIDS, 2017.

To face the challenges of human capital in the coming years, it is imperative to pursue pragmatic sector-specific policies. In the short term, relaxing the hiring rule of the foreign experts could be considered as a serious option specifically for managerial and technical people. In the medium to long term, the capacity of local institutions should be enhanced to support specific industry needs. At present, the only training institute that is available on leather hands-on training is the COEL which was established in 2009 with a view to meeting the skill needs and creating technical support for the leather sector.

In collaboration with the industry, COEL imparts technical and soft skills training to create skilled manpower. In the past several years, it has trained 15,000 machine operators in sewing, cutting and lasting operations along with 4500 mid-level managers at its training centre in Gazipur. Along with training on cutting and sewing, the centre also provides training on CAD-CAM (Computer-Aided Design and Computer-Aided Manufacturing).⁴² Apart from the COEL, the Institute of Leather Engineering and Technology of the University of Dhaka and the Department of Leather Technology of the University of Khulna are the higher educational institutes from where professional leather engineers are graduated. But these institutions are confronted with capacity constraints. The future of growth in the leather sector will certainly require more skilled engineers, technicians and managers.

⁴² Bipul K Debnath, "Our Leather Industry", The Independent, September 8, 2017

4.13 The backward linkages need to be strengthened further

One of the key advantages of the leather sector of Bangladesh is that about 85 per cent of the total raw materials is sourced from the domestic market. However, for increasing the leather production it will inevitably require stronger support from the backward supply chains. Hence, production of cattle should be taken from large commercial perspectives which will not only strengthen the supply chain of raw hides to the leather sector but will also help meet the protein demand of the mass population. Another major concerning issue is often reported is the lack of skills of the butchers for flaying and curing. Improper curing methods can damage the quality of the rawhides. Animal welfare is an integrated part of ensuring a better quality of rawhides. For ensuring the highest quality of leather and leather goods, modernized abattoirs are required to be built at major cities. Capacity development programme including awareness-raising initiatives are needed to ameliorate the situation.

Chemicals, the other major raw material of the leather industry is mostly imported from Germany and the UK. As chemicals are raw materials to many other industries like garments and textiles, pharmaceuticals, etc., a strong local chemical industry will help to boost the sector as well. Special support should be given to such backward linked industries for promoting a more competitive edge for the leather sector.

Chapter 5: Conclusions

Given its long presence, strong backward integration, and product quality, Bangladesh has so far not been able to realise much of the potential of the leather sector. Despite confronting the excessive cost of doing business, lack of skilled labour force, and poor physical infrastructures, the sector has shown great resilience. Particularly, in recent times when world total leather exports fell by \$7 billion - from \$164 billion in 2015 to \$157 billion in 2016 (i.e. by 6%) - Bangladesh's leather exports enjoyed a moderate growth of 8 per cent, while leather goods and leather footwear registered a robust expansion of 13.8 per cent. Bangladesh's overall external sector has recently been under severe strain with only 1.7 per cent export growth achieved in the last fiscal year (2016-17). Against this, the leather and leather goods performed reasonably well with a growth rate of 6.3 per cent. In the Export Policy 2009-12, the leather sector was pronounced as a thrust sector. Since then, the exports from the sector grew by 127 per cent: from \$475 million in 2010 to \$1.1 billion in 2015.

However, in spite of this apparently impressive performance, it is now becoming increasingly clear that the policy ambition of achieving \$5 billion exports from the sector would prove to be an extremely challenging prospect. Notwithstanding, the sector's high potential must be exploited for export expansions as well as diversification.

- To improve the competitiveness of the sector, it is important to address both the broad constraints facing the overall export industry as well as issues pertaining to leather and leather goods. Infrastructure-related issues include getting an electricity connection to reliable supplies, poor inland transportation facilities and trade logistics, weak and inadequate port infrastructure, proper functioning of the TED at Savar, etc. The lead time to export and import as well as the cost of export and import are excessive. The use of Inland Container Depot (ICD) is limited.

- Apart from deficient physical infrastructure, there are other challenges associated with the policy regime. One such issue is the appreciation of the real exchange rate of the taka thereby weakening Bangladesh's external competitiveness. A highly protective nature of the domestic market also translates into weak policy incentives for exporters.
- Excessive cost of doing business, exchange rate appreciation and policy-induced disincentives tend to undermine external competitiveness, resulting in a weak export response. Since export production cannot be protected by tariffs, it is important that the exporters (including those in leather) are supported directly through different export incentive schemes. The scope of deepening the cash incentives and expanding the coverage of bonded warehouse facilities to the leather sector essentially need a revisit. Additional cash assistance can be provided to the leather exporters exploring new markets and existing ones with high growth potential (e.g. the US market). An incentive policy that will support exporters' producing and exporting high value-added items. High-quality raw leather is currently being exported. There is, therefore, the scope for transforming it into finished goods. Along with these, the procedures for accessing the policy incentives need to be simplified and less time-consuming.
- Bangladesh must proactively seek new leather markets and at the same time aim to increase the number of items sold in each market. This is what most successful exporting countries are currently doing. Establishing new export relationships in new markets can be quite challenging. Sustaining the export flows can be even more challenging. Therefore, all export support measures should be in place to help firms sustain their export relationships at the existing markets and engaged in new markets. In addition, any scope for securing preferential market access in the US should not be overlooked.
- The analysis presented in this study has shown that although Bangladesh exports good-quality raw leather, in many cases other major suppliers enjoy higher unit value prices. Therefore, there are opportunities for developing more value-added export

items. Moving up the global value chain will require a reliable supply response of quality products attracting buyers and investors. There is also a need for developing domestic capacity in designing, market and product research and development, brand and fashion development, etc. As in today's world product quality is intimately linked to various standards and compliance, upgradation of the country capacity in this direction will be critically important for future export prospects.

- The issue of the smooth and efficient operation of the Tannery Estate Dhaka (TED) should be of utmost priority in expanding exports from this sector. The problems being faced by the relocated firms at TED should be addressed with immediate attention. In addition, initiatives for creating SME clusters for leather could be an essential element in gearing up the prospect of this sector.
- Among others, financial constraints like the cost of borrowing, the value of collaterals needed for bank loans, access to trade finance, etc need to be taken into consideration while offering support and assistance for exporters. Whether the export development fund (EDF) can be proactively used to help expand leather and leather goods exports should be reviewed. Schemes such as technology up-gradation support, special export investment fund, etc. which are being used in other countries such as Vietnam and India, can be replicated in Bangladesh.
- Despite putting in place attractive policy initiatives, the flow of FDI into Bangladesh has so far not been encouraging. As discussed, excessive cost of doing business and infrastructural bottlenecks, are widely considered as the main disincentives for private investment inflows. Tackling these constraints can induce more FDI in the sector which can help the industry embrace new technologies, move up on the quality ladder, and strengthen its position within the global leather value chains.
- One of the key challenges faced by the industry is the severe scarcity of skilled manpower in Bangladesh. Despite the supplies of many graduates each year, the 'skill mismatch' has widened, in which the industry demand for exact skill-sets remain

unfulfilled. The future expansion of the sector will certainly require more appropriately skilled engineers, technicians and managers.

- Although about 85 per cent of the raw materials required for the industry is sourced from the domestic market, it will inevitably require stronger support from the backward supply chains for further expansion of export production. Commercial farming of animal husbandry, modern abattoirs and development of professional services for flaying and curing of raw hides are essential for lining up an effective backward industry to enhance the competitiveness of the sector. In accordance with the current export policy, modern abattoirs should be developed in major cities.

It is now important to act fast in resolving various policy issues and implementing effective export assistance programmes. Bangladesh will likely to graduate out of the group of LDCs by 2024, after which some of the existing policy flexibilities and trade preferences will either be lost or significantly reduced. Therefore, it is high time to consider reinvigorated and deepened policy support with the objective of expanding export base rapidly. A proactive initiative of making use of any available policy space and preferences thus cannot be overemphasised. In this backdrop, the next round of export policy (2018-21) is going to be crucial. As highlighted in the current study, exploiting the full potential of the leather sector should be considered as a high-priority for expanding exports and promoting export diversification.

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