

NAVIGATING NEW WATERS

Unleashing Bangladesh's Export Potential
for Smooth LDC Graduation

Edited by **Mohammad Abdur Razzaque**



BANGLADESH ENTERPRISE INSTITUTE

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Foreword

Bangladesh is expected to graduate from the group of least developed countries (LDCs) in 2024. This is an important achievement backed by international recognition of the country's enhanced capacities of advancing its socio-economic development aspirations and confronting global competitive challenges. The country's impressive economic growth and development has been hugely aided by the performance of its export sector, thanks to the apparel industry that has single-handedly driven the export success. However, with a heavy concentration in readymade garments, export diversification has proven to be a formidable task. As LDC graduation looms large on the horizon, Bangladesh's export sector is now at a critical juncture that will require tackling numerous challenges while building on the success of the previous decades.

Although graduation is a remarkable development milestone, it also brings about the need to prepare for the discontinuation of LDC-specific international support measures, specifically those related to trade preferences that have significantly benefited Bangladesh. Maintaining a robust export performance will be a critical factor in ensuring a smooth LDC graduation. As export diversification has been a long-standing challenge for Bangladesh, the imminent LDC graduation requires unleashing the export potential of various promising sectors while sustaining the export performance of the readymade garment industry. Furthermore, graduation also calls for renewed engagements with the country's trading partners. Against this backdrop, we believe that the publication of this volume is timely and will be of interest to policy makers, our development partners, and in particular, to the private sector in Bangladesh.

The Bangladesh Enterprise Institute (BEI), an independent and non-profit think tank, established in 2000, works closely with the private sector and policymakers on trade policy and development issues. It has been implementing a work programme titled 'Trade and Investment' with the objective of generating evidence-based policy inputs to influence the policy discourse on export competitiveness. Under this project, several studies and a series of consultations were undertaken to identify constraints to export expansion and pragmatic measures to address them. This work stream aims to support the private sector through analysis and advocacy activities while providing

inputs for suitable policies for contributing towards the national objective of promoting the export sector and its diversification.

I am delighted that this volume is published as an outgrowth of the aforementioned project. I would like to thank the study team and especially Dr Mohammad Abdur Razzaque for leading the research and formally documenting it as a publication, which should be of great interest to policymakers, the private sector, our development partners, and development practitioners. Various recommendations made in the volume, we hope, will be useful given the important development transition that Bangladesh is currently passing through. It is our expectation that this book will be of interest to a wide cross-section of stakeholders and in particular to the private sector and will help Bangladesh in its quest to substantially expand as well as diversify its exports.

I would also like to put on record my sincere appreciation to the Chairman and Members of the Board of Governors of BEI for their support and guidance, without which this work would not have been possible. I thank them for their valuable time and inputs that have greatly enriched the content of this volume. I would also like to thank the IFIC Bank for supporting this project.

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The technical work undertaken as part of the project was led by Dr Mohammad Abdur Razzaque, who has been the lead author of this volume. Other contributors to different chapters include Dr Ahsanuzzaman, Mr Parvez Abbasi, Mr Hamim Akib, Dr Abu Eusuf, Mr Emran Hasan, Mr Nafiz Iteakhar, Dr Mahfuz Kabir, Mr Jillur Rahman, Mr Rabiul Islam Rabi, and Mr Mahtab Uddin.

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As many as twelve rounds of roundtable discussions took place with the relevant stakeholder representatives to discuss the content of this volume. In addition, various consultations and key informant interviews were conducted to obtain important inputs and insights that have enriched this volume. The project team would like to thank those individuals who took part in BEI roundtables and provided helpful comments and suggestions. The team is grateful to key informants, industry experts, and others who responded to our queries and helped with research materials.

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Abbreviations and Acronyms

ADB	Asian Development Bank
ADD	anti-dumping duty
ADP	Annual Development Plan
AGOA	African Growth and Opportunity Act
AIT	advance income tax
AMS	aggregate measurement of support
AoA	Agreement on Agriculture
API	active pharmaceutical ingredients
APTA	Asia-Pacific Trade Agreement
ASEAN	Association of Southeast Asian Nations
ATV	advance trade VAT
BAPI	Bangladesh Association of Pharmaceutical Industries
BB	Bangladesh Bank
BBIN MVA	Bangladesh, Bhutan, India, and Nepal Motor Vehicle Agreement
BBS	Bangladesh Bureau of Statistics
BCIM EC	Bangladesh-China-India-Myanmar Economic Corridor
BCSIR	Bangladesh Council of Scientific and Industrial Research
BDT	Bangladeshi taka
BEPZA	Bangladesh Export Processing Zones Authority
BEZA	Bangladesh Economic Zone Authority
BFID	Bank and Financial Institutions Division
BHTPA	Bangladesh Hi-Tech Park Authority
BIDA	Bangladesh Investment Development Authority
BIDS	Bangladesh Institute of Development Studies
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIPET	Bangladesh Plastic Institute of Engineering and Technology
BITAC	Bangladesh Industrial and Technical Assistance Centre
BJMC	Bangladesh Jute Mills Corporation
BJRI	Bangladesh Jute Research Institute
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association

BMET	Bureau of Manpower, Employment and Training
BPCL	Bangladesh Petrochemical Company Limited
BPGMEA	Bangladesh Plastic Goods Manufacturers & Exporters Association
BPO	business process outsourcing
BTRC	Bangladesh Telecommunication Regulatory Commission
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSTI	Bangladesh Standards and Testing Institute
BTMA	Bangladesh Textile Mills Association
CAGR	compound annual growth rate
CDP	Committee for Development Policy
CN	Combined Nomenclature
COMESA	Common Market for Eastern and Southern Africa
DCO	Drugs Control Ordinance
DFQF	duty-free and quota-free
DGDA	Directorate General of Drug Administration
DPDT	Department of Patent, Designs, and Trademarks
DSB	Dispute Settlement Body
EBA	Everything But Arms
ECGS	Export Credit Guarantee Scheme
ECNEC	Executive Committee of the National Economic Council
ECOSOC	United Nations Economic and Social Council
EDF	Export Development Fund
EPB	Export Promotion Bureau
EPZ	export processing zone
EU	European Union
FDI	foreign direct investment
FOB	Free on Board
FTA	free trade agreement
FY	fiscal year
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNI	gross national income
GNP	gross national product
GSP	generalised system of preferences
GVC	global value chain
HDI	Human Development Index
HIPC	heavily indebted poor countries
HS	Harmonised System
IBSPS	Institute of Bioequivalence Studies and Pharmaceutical Sciences
ICT	information and communication technology
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund

IPR	intellectual property rights
ISM	international support measure
ISO	International Organization for Standardization
IT	information technology
ITC	International Trade Centre
ITES	information technology enabled services
ITU	International Telecommunication Union
JDPC	Jute Diversification Promotion Centre
JICA	Japan International Cooperation Agency
KII	key informant interview
L/C	letter of credit
LCS	Land Custom Station
LDC	least developed country
LFS	labour force survey
LIBOR	London Interbank Offered Rate
LLG	leather and leather good
LPI	Logistics Performance Index
LWG	Leather Working Group
MENA	Middle East and North Africa
MFA	Multifibre Arrangement
MFN	most favoured nation
MNC	multinational corporation
MOP	margin of preference
MoU	memorandum of understanding
MRA	Mutual Recognition Agreement
MSME	Micro, Small, and Medium Enterprises
NAFTA	North American Free Trade Agreement
NBR	National Board of Revenue
NDP	National Drug Policy
NFIDC	net food-importing developing country
NGO	non-governmental organisation
NPDA	National Patent and Design Acts
NTB	nontariff barrier
NTM	nontariff measure
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PIC/S	Pharmaceutical Inspection Co-operation Scheme
PPP	purchasing power parity
R&D	research and development
RCA	revealed comparative advantage
REER	real effective exchange rate
RMG	readymade garments
RoO	rules of origin
RTA	regional trade agreement
S&DT	special and differential treatment

SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SCM	Subsidies and Countervailing Measures
SDG	Sustainable Development Goal
SEZ	special economic zone
SITC	Standard International Trade Classification
SOE	state-owned enterprises
SPS	sanitary and phytosanitary
STRI	Services Trade Restrictiveness Index
T&C	textile and clothing
TBT	technical barriers to trade
TED	Tannery Estate Dhaka
TICFA	Trade and Investment Cooperation Forum Agreement
TiVA	Trade in Value Added
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNCDP	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
U.S.	United States of America
USAID	U.S. Agency for International Development
USFDA	U.S. Food and Drug Administration
VAT	value added tax
VoIP	Voice over Internet Protocol
WDI	World Development Indicators
WIPO	World Intellectual Property Organization
WITS	World Integrated Trade Solution
WTO	World Trade Organization

Note: All dollar amounts are U.S. dollars unless otherwise indicated.

Navigating New Waters: Unleashing Bangladesh's Export Potential for Smooth LDC Graduation - An Overview

Mohammad Abdur Razaque

1.1 Background

Bangladesh has made phenomenal progress in its economic development. From a fragile socio-economic set up at independence, it has emerged as a 'development surprise'.¹ Despite confronting numerous socio-economic challenges, its economy has grown on average at an annual rate of 5.6 per cent for the past three decades with the comparable growth rate for the most recent past 10 years (of 2009–19) being more buoyant at 6.7 per cent. This means a mere \$35 billion economy of the mid-1990s has grown to a sizeable one of more than \$300 billion. During the same period, the per capita gross national income has registered a more than six-fold rise from just \$300 to above \$1,900. The dependence on foreign aid, measured by the proportion to national income, declined from around 8 per cent of GDP in the 1980s to less than 2 per cent. It is one of the few low-income countries that did never face any unsustainable external debt situation and was not included in the group of Heavily Indebted Poor Countries (HIPC) that received support from international debt relief initiatives. In the mid-1990s, while more than half of Bangladeshi households lived on less than the nationally determined poverty line income, the corresponding poverty incidence has now fallen to just about 21 per cent. Compared to many other countries at a similar stage of development, Bangladesh has achieved faster progress in various social and human development indicators such as health, demographic and gender equality outcomes (Asadullah et al., 2014).

Based on growth trajectories of the global economies, Bangladesh by 2030 will likely to be the 28th largest economy, measured by the gross domestic product in purchasing power parity dollars. The rising per capita income had already enabled the country in 2015 to climb up to the ranks of 'lower-middle-income' countries from the 'low-income' category, as classified by the World Bank. In 2018, Bangladesh for the first time met the criteria for graduation from the group of

¹ A summary of Bangladesh's major achievements leading to LDC graduation can be found in Razaque (2018).

least developed countries (LDCs). In the second consecutive triennial review by the United Nations in 2021, it is expected to fulfil the criteria again paving its official graduation from LDC status in 2024. Meeting all the three pre-specified graduation thresholds in terms of per capita income, human assets, and economic vulnerability certainly constitutes a great achievement, attesting its journey through a critical development transition.²

The impressive success story of Bangladesh has been hugely aided by the performance of its export sector as merchandise exports expanded rapidly from less than \$2 billion in 1990 to above \$40 billion in 2018–19. During the same period, Bangladesh managed to achieve an average yearly export growth twice as fast as the world average export growth. It is basically the apparel industry that has singlehandedly driven the export success for Bangladesh. This led to a remarkable transformation in which manufacturing exports rose to prominence to dominate the export basket, reducing the dependence on primary products. This was a striking development as many low-income and lower-middle income countries failed to make this transformation happen. The expansion of readymade garment (RMG) exports has generated massive employment opportunities, particularly for women. Through exports (and thus contribution to the overall output), job creation, women's economic involvement, and many other indirect linkages, the RMG sector emerged as a symbol of trade-led development process for Bangladesh.

Notwithstanding the above success, Bangladesh must continue to maintain robust growth of exports as the country's current export volume remains modest in comparison with most countries of comparable size. Most successful East Asian countries including the smaller ones such as Malaysia and Singapore have developed much bigger export sectors to boost their economic development. Another major challenge for Bangladesh is to diversify its export structure. With a heavy concentration in readymade garments, export diversification has proven to be a formidable task. Export growth has also slowed down in recent years as the policy target of achieving \$60 billion export earnings by 2021 now appears to be a daunting prospect. This is partly attributable to an unprecedented slowdown in world trade and investment flows, heightened policy uncertainty arising from trade tensions between the United States and China, weak economic activities in Europe and slowing down of China's economic growth. However, domestic factors inhibiting the export supply response and weakened competitiveness relative to comparator countries have also contributed to it. Studies and analyses have regularly highlighted the constraints faced by the exporters and measures needed to deal with those. Both supply-side issues (such as infrastructural bottlenecks) as well as policy factors (such as export incentives) have been identified as areas for improvement for promoting export competitiveness and supply response (Sumi & Reaz, 2020; Ahmed & Sattar, 2020). These are the issues that have dominated the policy discourse and are also well-articulated in national development strategies e.g., the 7th Five-Year

² The LDC graduation requires a country to meet development thresholds under at least two of the three pre-defined criteria (of per capita income, human asset and economic vulnerability) in two consecutive triennial reviews. Bangladesh achieved graduation qualification by satisfying all the three thresholds. It is to be noted that there is also a provision of the "income-only" graduation rule under which if the three-year average per capita GNI of an LDC has risen to a level of at least double the graduation threshold, the country would be eligible for graduation regardless of its situation under the other two criteria. Countries' inclusion in and graduation from the LDC group are assessed at triennial reviews conducted by the Committee for Development Policy (CDP) of the United Nations Economic and Social Council (ECOSOC). To be included in the category of LDCs, a country must satisfy all three criteria and its population must not exceed 75 million. Therefore, once graduated, Bangladesh would never be able to return to the group. In any case, such a likelihood is not desirable.

Plan (GED, 2015). While some progress has been made in certain areas, there is a general recognition that much more must be done in advancing an export-led development ambition.³

The development transition that Bangladesh is currently going through, culminating in the impending LDC graduation, would now call for a fresh look at the issues and for making concerted efforts on an urgent basis to adapt to the rising competitiveness pressure and adjust to changed circumstances. Meeting the criteria for graduation constitutes an important milestone. While graduation is a remarkable achievement, it also brings about the need to prepare for the discontinuation of LDC-specific international support measures, particularly those related to trade preferences that have profoundly benefited Bangladesh. It is in this context that the longstanding supply-side and policy constraints, if unmitigated, will interact with new realities of much less favourable international trade regime to exert further pressure on external competitiveness.

1.2 Navigating New Waters after LDC Graduation

Having recognised their highly disadvantaged development process, the group of LDCs was created by the United Nations in 1971. These countries were characterised as being caught in a low-income trap facing the risk of failing to overcome poverty and deprivation; predominantly dependent on primary commodities for domestic production and export with extremely inadequate opportunities for diversification; and, critically reliant on foreign aid due to limited economic activities accompanied by unfavourable fiscal (internal) and current account (external) balances. To respond to the development challenges confronted by LDCs, the global community has devised special international support measures (ISMs). This has required the UN developing clear criteria to define which countries should be eligible for such measures and how countries should graduate out of this group. Graduation from the LDC status would imply a country's achieving greater self-reliance and exhibiting increased resilience to economic shocks without the need for special concessionary treatment from development partners.

Bangladesh has enjoyed various privileges granted under the ISMs designed for LDCs. These include development partners' special attention and commitments to support LDCs with development finance, technical assistance and trade preferences. The World Trade Organization (WTO) has also provided favourable conditions and flexibilities for this group of countries in implementing and enforcing international trade rules and regulations. It has legitimised other countries' offering unilateral preferential market access to LDCs, and accorded them, on many occasions, with privileges associated with not undertaking any new commitments of trade liberalisation.

For Bangladesh, the most important change that LDC graduation is likely to bring will be associated with preferential market access for exporters. Within the set of LDC-related privileges, Bangladesh has primarily benefited from unilateral trade preferences granted by many developed and developing countries under their respective Generalised System of Preferences (GSP) schemes. Amongst the least developed countries (LDCs), only Bangladesh has been able to utilise

³ The national development strategies in Bangladesh provide a lot of emphasis on the role of trade in fostering economic growth. The 7th Five-Year Plan (2016–2020), for instance, outlines a manufacturing sector development strategy with an emphasis on export-led growth.

the trade preferences in a commercially meaningful way although such utilisation has largely been limited to some important markets. Currently, Bangladesh enjoys preferential market access in at least 46 countries.⁴ Almost three-quarters of Bangladesh's export earnings are sourced from the countries that offer tariff preferences.

The EU (including the United Kingdom) is the largest export market, accounting for more than 60 per cent of Bangladesh's exports. As much as 90 per cent of Bangladesh's exports to the EU are readymade garment products that have a zero import duty under the EU's Everything But Arms (EBA) preferential scheme for LDCs as against the average most favoured nation (MFN) tariff rate of around 12 per cent.⁵ Canada, which is another important market, offers duty-free imports of textile and clothing items originating in LDCs while for others (non-LDC countries) its import tariffs are as high as 18 per cent. Japan's average MFN import duty on apparel products is close to 9 per cent while most LDC products are exempt from tariffs. In Australia, the LDC duty-free access is granted against an average 5 per cent import duty regime. In recent times, China and India have become important apparel markets for Bangladesh. After LDC graduation, the average tariff facing in the Chinese market could rise to above 16 per cent. In India, the duty-free LDC market access for most items will be replaced by the SAFTA non-LDC tariff regime which would see the average tariff rising to more than 8 per cent while many items falling under the sensitive list with no preferential market access given. Along with duty-free access, GSP donor countries have also provided less stringent rules of origin (RoO) requirements for LDC products.

Another important aspect of LDC graduation would be a constrained policy space to support various export and domestic sectors. WTO members are also generally reluctant about raising concerns or lodging official complaints about individual LDCs' policy support measures that would otherwise be deemed inconsistent or non-compliant with international trade rules and regulations. Graduation from the group of LDCs would almost certainly trigger a closer scrutiny to ensure conformity. Particularly, providing direct export subsidies is unlikely to be possible given the WTO provisions. Similarly, like other countries, graduated LDCs are also expected to enforce stronger intellectual property protection that can also affect some of the currently available policy flexibilities.⁶

Bangladesh must now prepare for navigating through the changed circumstances of the post-graduation trade regime. In some cases, there are opportunities for engaging with other countries to negotiate new terms for preferential market access. For example, the existing EU GSP regime is set to expire in 2023 and will be replaced by a new one. In the process, there will be

⁴ These include EU27 countries and the United Kingdom, Australia, Armenia, Canada, Chile, China, Iceland, India, Japan, Kazakhstan, Kyrgyz Republic, New Zealand, Norway, Rep. of Korea, Russian Federation, Switzerland, Taiwan (Chinese Taipei), Thailand, and Turkey. The United States is only the major global economy where Bangladesh does not receive any LDC-related trade preferences.

⁵ But the EU has other schemes (e.g., GSP+ or Standard GSP) for non-LDC developing countries with tariffs lower than MFN rates. Detailed discussions on these issues can be found in Chapter 3 and Chapter 4 of this volume.

⁶ In the context of Bangladesh, this can have some implications for the pharmaceutical sector. As an LDC, Bangladesh enjoys the privilege of manufacturing and exporting patented drugs and supporting the domestic pharmaceutical sector with an intellectual property rights regime that may not be in conformity with that of the WTO. After graduation, the policy regime will have to be compatible with the WTO system. Detailed discussions on these issues are covered in Chapter 3 and Chapter 11 of this volume.

consultations about the features of the upcoming system. Proactive engagements with the EU should be accorded an utmost priority so that the required changes in GSP conditionalities are introduced to enable Bangladesh obtaining a preferential scheme closely resembling the current EBA arrangements. This is quite an involved but extremely important issue. Briefly, graduating LDCs can apply for the 'second best' (after the EBA scheme) preferential regime, known as the GSP Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+), which grants duty-free access to 66 per cent of EU tariff lines including textile and clothing items. However, given the existing qualification criteria, Bangladesh is unlikely to be able to access GSP+. In that case, Standard GSP would be the only option. At present, 98 per cent of Bangladesh's apparel exports would attract EU MFN tariff rates of around 12 per cent. Under Standard GSP, these tariffs will be reduced to around 9.5 per cent, while duty-free access is given for the same products under GSP+.⁷ Therefore, securing the GSP+ scheme would ensure a smooth graduation process for Bangladesh since the EU is the most important export market.

Currently, only the EU allows an additional three-year transitional period after graduation. That is, although Bangladesh graduates from the group of LDCs in 2024, the same level of market access in the EU can be retained until 2027. There is now an opportunity for engaging with other important GSP donor countries such as Australia, Canada, China, Japan, and the Republic of Korea, urging them to follow the EU model of offering an extended transitional period. All these countries are supportive of developing countries' achieving sustainable development goals by 2030 and Bangladesh's firm commitment and solid socio-economic progress in this respect can receive supportive attention in facilitating a smooth graduation. Given the most recent development of Brexit eventually taking place, Bangladesh has to engage with the United Kingdom, which is the third-largest export market, to ensure continuity of the current market access and embark on a favourable trading arrangement after the Brexit transition period (December 2020).

Taking advantage of LDC-specific market access facilities and the provisions agreed under the South Asian Free Trade Area (SAFTA), Bangladesh has recently been able to achieve impressive export growth in India, which provides vast market opportunities in the future. It will be extremely important to maintain the current level of market access. Under a specific SAFTA provision, India allowed the previously graduated South Asian LDC, the Maldives, to continue with LDC-specific favourable conditions. Therefore, there exists an opportunity of urging India to extend the similar treatment to Bangladesh.

In other cases, it will be important to look for trading opportunities through bilateral and regional free trade agreements. As an LDC, Bangladesh has had access to unilateral trade preferences of many countries and, consequently, it was not rational for undertaking trade deals based on reciprocity. This, however, has also resulted in limited negotiation capacities and learning opportunities in dealing with trade negotiation objectives while managing effective trade policy mechanisms. It is time to pay serious attention to the need for developing negotiating and trade

⁷Detailed discussions can be found in Chapters 3 and 4 of this volume. There is a possibility that even under Standard GSP, Bangladesh's apparel exports might not qualify for preferential access if the so-called 'product graduation threshold' of EU GSP does not change. It needs to be pointed out that GSP+ RoO provisions are more stringent than those of the EBA scheme. However, as part of the new GSP regime from 2023, the EU should be urged to review GSP+ RoO provisions for the graduating LDCs.

policy making capacities. Bangladesh's impressive economic growth has been accompanied by a much higher level of tariff protection than many other successful developing countries, including China, India, Indonesia, the Philippines, and Vietnam. Most trading partners will thus find bilateral trade deals with Bangladesh attractive because of its large, fast-growing, and protected domestic market. For Bangladesh, keeping aside negotiation challenges, key policy questions include whether to open up only under bilateral trading arrangements or unilaterally to minimise trade diversion effects and promote export sectors; how to deal with the concerns about any potential loss of revenues due to tariff liberalisation; and how much protection to be given to domestic sectors while pursuing reciprocity-based trading arrangements. These are serious matters of longstanding trade policy issues that will inevitably come under the spotlight and must be settled in developing an appropriate LDC graduation strategy.

The likely post-graduation trade scenario cannot emphasise enough that augmenting competitiveness through productivity improvement and curtailing cost of doing business is far more important in ensuring sustained export growth than relying on tariff preferences. Generally, tariffs in most important importing markets are already quite low, and so are preferential margins. However, since such products as textile and apparel, and footwear have traditionally been considered as sensitive items, MFN duties on these items have remained much higher compared to other products. As Bangladesh's export is overwhelmingly concentrated in readymade garments, withdrawal of LDC-specific preferences translates into a disproportionate impact given the current composition of exports. The erstwhile higher preferential tariff margins in apparel have resulted in a beefed-up competitive advantage, attracting more resources for the relevant export sector and policy attention. In the face of declining trade preferences, if LDC graduation triggers concerted measures to improve the overall competitive strength of the economy, it would help attract renewed attention to other export sectors, contributing to export and economic diversification.

LDC graduation should also be a catalyst for robustly confronting and overcoming the much talked about high cost of doing business in the country. This should immediately boost external competitiveness. Weak and inadequate infrastructural facilities in conjunction with inefficient inland road transport and trade logistics, and intricate customs processes, amongst others, are regularly discussed as factors that contribute to longer lead times and higher cost of doing business, undermining competitiveness. Bangladesh has made remarkable progress in electricity generation and many large-scale infrastructural projects are currently underway. Further improvements in the investment climate-related indicators such as streamlined and efficient procedures for licensing and clearances, accessing serviced land and declared benefits for investors and exporters, property registration, foreign currency transactions and tax payments, contract enforcements, and strengthening institutions for trade and industry will also be helpful for attracting both local as well as foreign investments for the export-oriented sectors (GED, 2020). These are the areas that should be considered low-hanging fruits in the sense that their materialisation is just within the control of local authorities and institutions irrespective of trade regimes in importing countries and outcomes of trade negotiations that Bangladesh will have to embrace. Any improvement in the business climate and progress in reducing the cost of doing business can greatly help recoup a part of, or even more than outweigh, lost trade preferences. Economic progress is reflected in the enhanced capacity of addressing challenges of different

levels as a country aspires to move forward, climbing up the development ladder. And, Bangladesh has a formidable record of making progress navigating through difficult terrains and rough waters of development contours. There are not many examples of a least developed country achieving and sustaining manufacturing export growth. Many analysts and observers also thought that Bangladesh's readymade garment industry would not be able to survive after the abolition of Multi-fibre Arrangement (MFA) quotas that governed the trade regime in textile and clothing for several decades until the end of 2004. It is a country that registered the second-highest export growth amongst the global economies during the decade of 2008–18 (WTO, 2019) despite its persistently weak performance in such global ranking exercises as the Logistic Performance Index and Global Competitiveness Index. Indeed, when it comes to the cross-country comparison of these indicators and export performance, Bangladesh is an outlier demonstrating its resilience. This only shows the tremendous potential the country has in promoting its export competitiveness further.

1.3 Chapters in the Volume

This volume contributes to the policy discourse on LDC graduation by identifying various export sector-specific issues that now require urgent attention. It provides informed inputs based on in-depth analyses, and suggests practical policy options and recommendations in dealing with emerging and evolving circumstances arising from Bangladesh's impending transition from the group of least developed countries. The analyses presented here include factors affecting export competitiveness, major changes in export market access provisions after graduation, possible measures that can be undertaken to secure the best possible options for exporters, options for engaging with major trade partners, and export trends and market prospects of several individual sectors and support measures needed to boost the export response from these sectors for ensuring a smooth graduation process.

After this overview chapter (Chapter I), the remaining chapters are organised around three themes. Part I (Building on Success in Preparing for LDC Graduation) contains two chapters with the first one highlighting some of the longstanding challenges facing the export sector of Bangladesh, while the other one focusing on the likely implications of graduation from the perspectives of the private sector. In Part II (Embarking on Renewed Partnerships to Promote Exports), Bangladesh's trade relationships with four major trading partners viz. the European Union, the United States, India, and China are discussed in four different chapters. The chapters identify engagement scopes with these partners in the light of LDC graduation realities. Finally, Part III (Unleashing the Export Potential of Selected Sectors) presents export potentials of six selected sectors and the policy support needed to expand exports from those sectors. The selected sectors are leather, plastic, furniture, pharmaceutical, jute, and services.

Part I: Building on Success in Preparing for LDC Graduation

Revitalising Bangladesh's export trade: Chapter II, by Mohammad Abdur Razzaque, analyses the trends and dynamics of Bangladesh's exports while focusing on policy options for export growth acceleration and diversification. It makes cross-country comparisons of wide-ranging indicators to highlight various areas of improvement for Bangladesh. The chapter points out that while Bangladesh managed to significantly grow its exports over the past decades,

the export sector is increasingly coming under some strain because of heightened policy uncertainty at the global level due to unsettled economic and trading environments. Besides, the imminent LDC graduation is going to bring about a profound change in the policy regime with significant implications for export competitiveness. Considering these challenges, among others, this chapter provides some priority policy issues to promote external competitiveness and diversify the export basket.

LDC graduation issues for the private sector: Chapter III, by Mohammad Abdur Razzaque, Hamim Akib, and Jillur Rahman, examines the potential implications and issues pertinent to the private sector arising from LDC graduation. These have been analysed under three broad areas: (i) preference erosion potentially affecting the exporting firms, (ii) reduced policy space, constricting the scope of supporting exporters, and (iii) any likely impact on the prospect for development financing from external sources. Considering the likely changes in market access conditions, this chapter provides an impact assessment on exports in some major destinations such as Australia, Canada, China, the EU, India and Japan. The chapter discusses major policy options that can be pursued to ease the transition process into the post-graduation era. In this context, proactive engagements in securing an extended transition period from the preference-granting countries constitute an important way forward. In addition, developing WTO-consistent export-incentive mechanisms, strengthening domestic resource mobilisation, reducing dependence on import tariffs for government revenues, and promoting firm-level competitiveness require serious policy attention.

Part II: Embarking on Renewed Partnerships to Promote Exports

Apparel exports to the EU: Chapter IV, by Mohammad Abdur Razzaque and Jillur Rahman, focuses on the EU market to analyse the potential implications of LDC graduation for Bangladesh's apparel exports. The most important consequence of graduation will be forgone EU trade preferences. Graduating LDCs can apply for the second best (after the Everything But Arms scheme) preferential regime, the Special Incentive Arrangement for Sustainable Development and Good Governance GSP+, which grants duty-free access to 66 per cent of EU tariff lines including clothing items. Evaluating the existing qualification criteria, the analysis finds that Bangladesh is unlikely to be able to access GSP+. In that case, the least attractive Standard GSP would be the only option. Under the Standard GSP scheme, tariffs on apparel exports will be around 9.6 per cent. The rules of origin both under GSP+ and Standard GSP are much more stringent than those under the EBA. By using a partial equilibrium model, the chapter estimates that discontinuing tariff preferences in the EU could lead to a potential export loss of more than \$1.6 billion. While the methodological approach employed in this chapter has certain caveats, there is no denying that withdrawal of the duty-free access will put serious pressure on Bangladesh's export competitiveness. This chapter gathers several buyers and exporters' perceptions to provide insights into the issues and offers some broad recommendations to mitigate any adverse effects.

Bangladesh–U.S. trade and economic cooperation: Chapter V, by Mohammad Abdur Razzaque, Parvez Abbasi, and Jillur Rahman, makes a case for strengthening the Bangladesh–U.S. economic cooperation. While the United States has been an indispensable trade and development partner, there exist tremendous scopes to harness deeper and strengthened economic ties with it, which is the single most important export destination of Bangladesh. At present, Bangladesh is

excluded from duty-free market access in the United States and there is a critical need of expanding the country's exports to this market. The chapter argues that the case for duty-free market access in the United States remains strong as this will not only increase Bangladesh's yearly exports by an estimated \$1.3 billion but will also be helpful for its achieving the Sustainable Development Goals (SDGs) and securing smooth graduation from the group of least developed countries (LDCs). Amongst others, the option for a free trade agreement (FTA) between the two countries should also be explored. Although the market size in Bangladesh may appear to be relatively small, its rapidly growing economy shielded by high tariffs should provide a free trade partner with a large competitive advantage over others who do not have such preferential access. Under certain plausible assumptions, it is estimated that yearly U.S. exports to Bangladesh can expand to \$14 billion from the current level of close to \$2 billion. Investment opportunities in Bangladesh and strong diaspora linkages should also foster a win-win economic cooperation between the two countries.

Promoting exports to India: Chapter VI, by Mahfuz Kabir and Mohammad Abdur Razzaque, undertakes an analysis of Bangladesh's exports to India and considers areas of intervention to promote such exports. In FY19, for the first time, Bangladesh's exports to India crossed the billion-dollar mark. The chapter reveals that the country's current export to India is as much as \$6 billion smaller than the estimated potential. Findings suggest that policy-induced barriers and infrastructural bottlenecks continue to pose major challenges for exporters. Bangladesh enjoys duty-free market access in India in almost all goods and this market is becoming increasingly important for export expansion. However, LDC graduation would mean reduced market access and significant tariff hikes for Bangladesh's exports to India. To sustain the recently encouraging export supply response, one major policy priority should comprise seeking the same market access provision that India offered to the Maldives allowing the continuation of trade preferences beyond the latter's LDC graduation. An alternative option could be a comprehensive bilateral FTA with India. Other policy interventions should aim at attracting Indian FDI, diversifying the export portfolio, improving port facilities, augmenting trade connectivity by using transit infrastructure, and coastal shipping and rail links, and fostering cooperation in tourism and skill development.

Trade and economic cooperation with China: Chapter VII, by Mohammad Abdur Razzaque, Jillur Rahman, and Hamim Akib, focuses on bilateral trade cooperation with China. The chapter reveals that Bangladesh currently has an untapped export potential of about \$2 billion in the Chinese market. Bangladesh enjoys duty-free, quota-free market access in 61 per cent of tariff lines under the China's LDC preference scheme and the arrangements under the Asia Pacific Trade Agreement (APTA). After LDC graduation, Bangladeshi exporters in China are likely to experience significant tariff hikes, market which might lead to an export loss of about \$123 million. To enhance export prospects in China, the chapter recommends proactively pursuing the case of obtaining an extended coverage of LDC-specific duty-free access to at least 95 per cent of the tariff lines that China has offered to other LDCs. Following this, another policy option should be negotiating an extension of the LDC transition period until 2027 following the example of the EU as well as the precedence of China's granting the same to at least another graduated LDC (Samoa) previously. To facilitate smooth LDC graduation, a gradual phase-out of the duty-free market access should be pursued after the transition period. Furthermore, between now and the end of transition period, striking a bilateral free trade agreement with China should be given serious consideration. Other major policy recommendations include attracting FDI and seeking technology transfer from China.

Part III: Unleashing the Export Potential of Selected Sectors

Leather and leather goods: An analysis of export potential, constraints, and policy issues for leather and leather goods is presented in Chapter VIII, by Mohammad Abdur Razzaque, Abu Eusuf, Mahtab Uddin, and Jillur Rahman. Leather and leather goods (LLGs), the second largest export sector of Bangladesh, exhibited an encouraging export growth dynamism between 2010 and 2016 when LLG exports doubled from \$0.6 billion to \$1.2 billion. However, it then suffered a major setback to register negative growth in export earnings. In FY19, export receipts from LLGs stood just over \$1 billion. Notwithstanding, given the availability of raw materials from domestic sources, know-how of the supply management within the export industry, abundance of labour, and expressed policy support, this sector has a huge potential for transformation, generating billions of dollars in additional export earnings. Major policy recommendations to expand the exports of LLGs include, amongst others, ensuring effective operation of the Tannery Estate Dhaka (TED); making improvements in product quality, sophistication, and standards; developing domestic capacities in product design, market research, and brand development; and setting up training centres for workers' skill development. Besides, renewed measures and efforts must be undertaken to attract FDI in the sector. This can help with technological upgradation, moving up the quality ladder, and strengthening of the country position within the global value chains in LLGs. Findings suggest that, after LDC graduation, exports of LLGs will be subject to a significant tariff hike against the current duty-free market access conditions in major importing countries. Therefore, it is high time to consider reinvigorated and deepened policy support prior to graduation with the objective of expanding export base rapidly.

Plastic goods: Chapter IX, by Mohammad Abdur Razzaque, Emran Hasan, Jillur Rahman, and Ahsanuzzaman, analyses plastic exports from Bangladesh. Considering the perceived potential of the sector, an export target of \$4 billion from the plastic industry by 2020 was set for Bangladesh several years back. In comparison, the export receipts of just about \$120 million in 2019 show the magnitude of unrealised potential. In a vast world market of several hundred billion dollars, Bangladesh should be able to expand its exports by many folds as some other Asian countries such as India, Malaysia, and Vietnam—let alone China—have been able to accomplish. To boost the sector's competitiveness, the chapter proposes several major sector-specific policy recommendations. These include establishing a petrochemical plant to improve backward linkages; supporting industrial upgradation (including the adoption of green technologies); enhancing product standards and establishing a testing laboratory for plastic products; developing a skilled workforce; designing a plastic-sector policy regime; establishing plastic-firm clusters; and developing an environment-friendly recycling mechanism for plastic products..

Furniture: Chapter X, by Mohammad Abdur Razzaque, Emran Hasan, and Jillur Rahman, focuses on Bangladesh's furniture exports. In a world market of \$256 billion for a relatively labour-intensive sector like furniture, Bangladesh's exports of just above \$74 million shows a huge export market prospect that must be harnessed. In doing so, vital challenges faced by the industry must be addressed on a priority basis. Under current circumstances, providing bonded warehouse facilities and higher export incentives should be considered as the most urgent policy priorities. To ease the difficulties in accessing finance, amongst others, the Export Development Fund (EDF) and the Export Credit Guarantee Scheme (ECGS) should be proactively used. Findings suggest that, many potential exporting firms are not aware of the facilities like EDF and

ECGS. Raising awareness for available export support measures will thus constitute a useful initiative. In addition, to realise the export potential of this sector, attracting FDI, improving access to finance, addressing shortage of skilled workforce, complying with environmental standards, exploring new market opportunities, and ensuring an overall business-enabling environment, etc. are considered as important measures.

Pharmaceutical products: Chapter XI, by Mohammad Abdur Razzaque, Rabiul Islam Rabi, and Hamim Akib, deals with Bangladesh's pharmaceutical exports. After registering an average annual growth of more than 15 per cent since 2011, pharmaceutical exports reached \$130 million in 2019. At present, the industry enjoys certain privileges and flexibilities due to Bangladesh's LDC status granted under the World Trade Organization's Agreement on Trade-Related Aspects of International Property Rights (TRIPS). These privileges will cease to exist after Bangladesh's LDC graduation. This should, therefore, be an important consideration in designing any proactive policy support and undertaking other practical measures to help the industry flourish further and materialise its full export potential. It is now of utmost importance to ensure effective implementation of various support measures through a more focused approach. The major policy recommendations of this chapter include ensuring effective implementation and operation of the Active Pharmaceutical Ingredients (API) park; reducing the cost burden of bioequivalence testing; attracting FDI through joint ventures in contract research organisations (CROs); offering flexible foreign exchange regulations to support firms in exploring and expanding export markets; proactively engaging in WTO processes to withhold the early termination of the TRIPS-pharmaceutical waiver; preparing an action plan to ensure a smooth LDC graduation for the industry; and capacity building of all the relevant stakeholders associated with this industry.

Diversified jute goods: Chapter XII, by Mohammad Abdur Razzaque, Mahfuz Kabir, and Rabiul Islam Rabi, undertakes an analysis on reviving jute exports from Bangladesh. Export earnings from jute products have lacked dynamics for many years now. In absolute value terms, such exports have hovered around \$1 billion over the past decade. The international market of jute items has been declining amid the much talked about promising export prospects of environment-friendly products. Despite the low relative significance of jute exports, recent innovations (such as sequencing of jute genome, enabling the production of high quality and time-appropriate fibre, and the potential of producing commercially viable biodegradable substitutes from jute for polythene or plastic-based products) are expected to bring about dynamism in the sector in which Bangladesh has traditionally enjoyed a strong comparative advantage. To ensure future export success, it is recommended to revamp the Bangladesh Jute Mills Corporation (BJMC); introduce new products in export basket; foster innovations and market linkages; support commercial production of promising products like Sonali Bag and jute viscose; promoting production and marketing of geotextiles; and devising WTO-compatible medium to long-term policy support regime for diversified jute goods.

Services exports: Chapter XIII—by Mohammad Abdur Razzaque, Nafiz Iftakhar, and Jillur Rahman—identifies opportunities and policy options to enhance services export competitiveness. Although services exports of Bangladesh have significantly increased in recent years, its export base is still quite low—just above \$6 billion in 2018–19. While many successful exporting countries including India, the Philippines and Sri Lanka have a larger proportion of services in overall exports, the corresponding share for Bangladesh is just around 10 per cent.

Given the high concentration of Bangladesh's merchandise exports in readymade garments, increased services exports can help with export diversification. There is now a general recognition that industrial and exporting performance, to a large extent, can be determined by the competitiveness of the services sector. It is in this context that this chapter recommends mainstreaming the services sector in the policy discourse. There also exists huge potential for expanding services exports. To facilitate this, some major policy options include attracting FDI in the sector; supporting exports of IT services; developing a skilled workforce; and promoting exports of labour services, particularly of skilled workers.

1.4 Concluding Remarks

Bangladesh has made great strides forward in its economic development and the graduation from least developed country status represents a major development transition. This is an important achievement backed by international recognition of Bangladesh's enhanced capacities of advancing its socio-economic development aspirations and confronting global competitive challenges. However, the transition would also give rise to concerns about the likely implications due to the loss of access to various support measures associated with LDC status. Of this, the most important will be forgone trade preferences for the exporters. Bangladesh is likely to graduate in 2024 and in a number of instances there are provisions for a transition period of varying years. Therefore, there are several years in hand to prepare for a graduation process thereby containing any adverse consequences while building the overall economic resilience through improved competitiveness. A renewed focus on developing productive capacities in the export sector and promoting its external competitiveness thus now constitutes one major broad policy priority.

It is worth noting that international trading arrangements are quite complex and thus assessing implications arising from LDC graduation is quite an involved task. There is no uniformity amongst the preference granting countries in terms of their treatment of LDCs and non-LDC developing countries. In many instances, there exist preferences even for non-LDC developing countries and in some cases market access conditions differ across products. Preferences granted under multilateral trade rules administered by the World Trade Organization differ among agreements and LDC graduation transition periods vary across preference-providing countries and WTO provisions. It is therefore high time to build awareness about the specific details regarding various bilateral and multilateral arrangements through objective analyses in order to better appreciate the likely implications and consider informed and appropriate policy options.

Despite developing a large export base of apparel exports, Bangladesh needs to grow its overall exports many folds to accelerate its economic growth and development process. This will require sustaining the readymade garment export growth while at the same time stimulating the performance of other exports. The dependence on preferential trade preferences is more acute for apparel exports partly because of such products' attracting much higher tariffs (compared to other products) in major importing countries where Bangladesh gets duty-free access. For non-apparel exports, tariffs are relatively low, and analyses presented in this volume show tremendous potential for expanding exports of these items. In this respect, how the growth in domestic market interacting with the current trade policy regime affect the relative profitability of export production and thus resource allocation deserves careful attention. This is an issue that has long been overlooked in implementing an effective export incentive policy in Bangladesh. In addition, promoting export competitiveness will also require tackling the very high cost of doing business.

The gains from improvements in this area can be much bigger than the tariff-based advantages associated with LDC status.

A smooth graduation process will also involve negotiating some selected bilateral and regional free trade arrangements. Favourable trade negotiation outcomes are, however, preconditioned by trade negotiation capacities. It must be kept in mind that meaningful free trade agreements will also imply opening up a country's own domestic market to its trading partners with whom bilateral and/or regional trading arrangements will have to be undertaken. This is where again the role of trade policy will be critical in tackling excessively high trade diversion costs and ensuring the right level of support to the domestic sectors. It cannot be overemphasised that conducting trade negotiations and securing preferred trading arrangements are very demanding tasks. This is an area where Bangladesh needs serious capacity-building, which is one precondition for a forward-looking strategy of proactive engagements with the strategic partners. While the Ministry of Commerce is mandated to manage Bangladesh's trade regime, the Ministry of Foreign Affairs has a significant role to play in the negotiation process. Modern trade agreements encompass a wide range of sectors: from agriculture to manufacturing to services. Therefore, capacity-building of all relevant line ministries is also important. In fact, capacity-building for both trade negotiation and trade policymaking should go hand-in-hand. Trade agreements directly impact the private sector and as such they should be intensively consulted. Organising effective consultations involving private sector stakeholders often with diverse and conflicting interests and using the information they provide to develop a negotiating strategy is itself a critical undertaking. This is an area where policymakers will have to develop capacities as well. The time left before graduation should thus be effectively utilised. One encouraging factor in this respect is that there is now a wider recognition among the relevant ministries and stakeholders of the need for capacity-building in all relevant areas.

LDC graduation is not any winning post, rather it is "the first milestone in the marathon of development" (UNCTAD, 2016). As such, Bangladesh must continue to stride forward in achieving many more challenging milestones ahead. In fact, the Perspective Plan 2041 already articulates a long-term development vision that Bangladesh aims to attain. In that trajectory, LDC graduation is an important milestone. Concurrently, Bangladesh has also taken serious policy initiatives to realize Sustainable Development Goals (SDGs) by 2030. Therefore, there is an opportunity of integrating smooth graduation objectives as part of the SDG process for which Bangladesh must build momentum in its development efforts and harness complimentary international support measures that are available. It is in this context that a reinvigorated comprehensive approach to unleash Bangladesh's export potential through a transformed trade and investment policy regime for a broader socioeconomic development is to be considered as an extremely timely one.

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Revitalising Bangladesh's Export Trade: Policy Issues for Growth Acceleration and Diversification

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2.1 Introduction

Exports of goods and services from Bangladesh have grown at an annual average rate of 11 per cent over the past two decades. During 2008–18, Bangladesh achieved the second-highest export growth (after Vietnam) amongst the global economies.¹ Bangladesh's apparel exports more than trebled from \$10.7 billion in 2008 to \$34 billion in 2018. This is to be considered as a remarkable achievement given that much of the world economy witnessed a severe and prolonged downturn in their economic activities in the aftermath of the global financial crisis of 2008, and an unprecedented slowdown in world trade flows in the more recent years.²

Bangladesh's export success has defied many odds. There are not many examples of a least developed country (LDC) building its manufacturing capacity and sustaining such export growth. Bangladesh is regularly shown as a country performing worse than its comparators in various global comparative surveys of indicators considered to be the determinants of competitiveness and trade performance. Yet, it has—as mentioned above—managed to post robust export growth, thanks mainly to its readymade garment (RMG) sector, albeit with support from trade preferences that are accorded to the least developed countries (LDCs). A weak compliance record, particularly in respect of labour rights and working environment, has dogged the export success story. This was catapulted into prominence with the collapse of a factory building (Rana Plaza) in 2013. With invigorated measures in place to improve working conditions—aided by international buyers and the Government of Bangladesh—the RMG industry and its export growth have shown incredible resilience.

¹ During the period referred to, Bangladesh clocked a yearly average growth of exports of 9.8 per cent. Exports of China and India grew by 5.7 and 5.3 per cent, respectively. The global leader, Vietnam, posted a growth of 14.6 per cent.

² After registering a rapid expansion from \$8 trillion in 2001 to \$22.3 trillion in 2011, world exports of goods and services grew sluggishly to reach \$24 trillion in 2018. For two consecutive years of 2015 and 2016, world exports fell in absolute terms.

Notwithstanding, Bangladesh's export sector appears to be coming under some serious strain because of several reasons. The heightened policy uncertainty at the global level due to unsettled economic and trading environments and the fallout from the U.S.-China trade war mean the world trade is struggling to gain momentum while the relocation of foreign firms and investments (mainly from China) are contributing to shifting supply sources and competitive advantages. Despite improvements, infrastructure, investment climate, cost of doing business, and policies to improve external competitiveness remain challenging areas for Bangladesh. Along with these, the task of export diversification has proven to be a formidable one with a high dependence on readymade garments and a few export markets for the bulk of export earnings leave the country vulnerable to external shocks.

Furthermore, the imminent LDC graduation is going to mark a profound change in the global policy regime, which has so far boosted Bangladesh's competitiveness, with likely implications for future export performance. As an LDC, Bangladesh enjoys preferential market access (e.g., tariff-free entry) in many importing countries and certain policy flexibilities, e.g., being able to offer cash assistance to exporters, which are generally not available to non-LDCs as per the multilateral trade rules of the World Trade Organization (WTO). Bangladesh is therefore confronted with a demanding task of developing a trade strategy to deal with any potential adverse consequences of LDC graduation.

In the above backdrop, this chapter provides a broad overview of the export sector highlighting its various trends and dynamics. This, in turn, helps capture major challenges that need to be effectively addressed to promote external competitiveness. In this respect, some priority policy issues are discussed. One salient feature of this chapter is to provide comparative perspectives with respect to other countries to illustrate the need for improvements for Bangladesh. This chapter is organised as follows: after this introduction, Section 2.2 presents some stylised facts of Bangladesh's export trade; Section 2.3 highlights both export expansion and diversification being priorities for Bangladesh; Section 2.4 considers several policy measures for stimulating the export response; Section 2.5 provides some concluding remarks.

2.2 Bangladesh's Export Dynamics

Within the group of LDCs, Bangladesh is considered a success case of an export-led growth and development process. From a small base of less than \$800 million, merchandise exports grew by just \$0.5 billion in the 1980s. In the following decades, exports expanded rapidly: by \$3.4 billion in the 1990s and then by another \$10 billion in the 2000s; and then a staggering \$24 billion between 2009-10 and 2018-19, when the total exports reached \$40.5 billion (Figure 2.1). Between 1990 and 2016 while world merchandise exports grew at a compound average annual rate of 5.8 per cent, Bangladesh managed to grow twice as fast. Since 1990, Bangladesh has seen a four-fold rise in its share in world exports in comparison with 1.75 times achieved by LDCs (Figure 2.2).³

³ Several other developing countries also demonstrated robust export performance during the same time (since 1990). China increased its export share by 33 times and Vietnam 16 times. Other East Asian countries and India also witnessed rapid export growth. Apart from Vietnam, all these countries along with most other global economies were however adversely impacted by the 2008 global financial crisis-led prolonged economic recessions in the western developed countries and a global trade slowdown unprecedented in many decades.

Readymade garments (RMG) emerged as the flagship export product for Bangladesh. It singlehandedly shaped a remarkable structural transformation. While so many countries, particularly those in Sub-Saharan Africa and Latin America, failed to move export production away from agricultural commodities and other mineral resources to manufacturing, Bangladesh exhibited dramatic shifts in its export composition in which the share of erstwhile traditional exports (such as raw jute and jute goods, tea, leather, frozen fish) in total export receipts fell from more than three quarters to just about 10 per cent. At the same time, the relative significance of RMG in the country's overall exports has risen from virtually nothing to more than 80 per cent (Figures 2.3 and 2.4). The expansion of the sector has generated massive employment opportunities with most of them going to women. Through exports (and thus contribution to the overall output), employment, women's economic involvement, and many other indirect linkages, the sector's development implications cannot be overemphasised.

Figure 2.1: Bangladesh's export earnings and growth

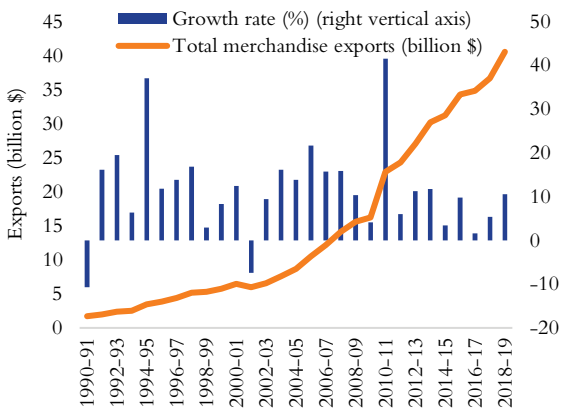


Figure 2.2: Bangladesh and LDCs—growth of share in world exports (%)

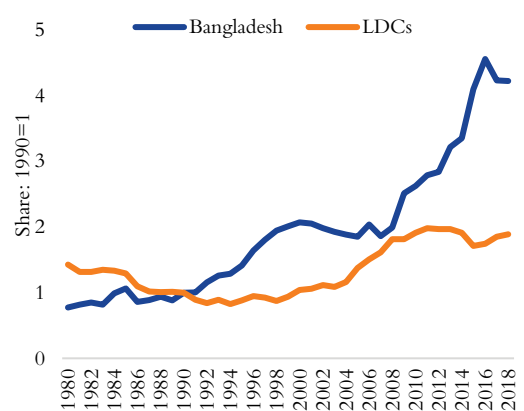


Figure 2.3: RMG and non-RMG exports

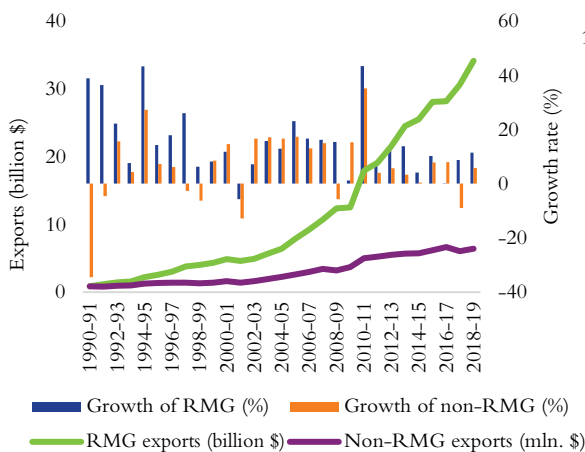
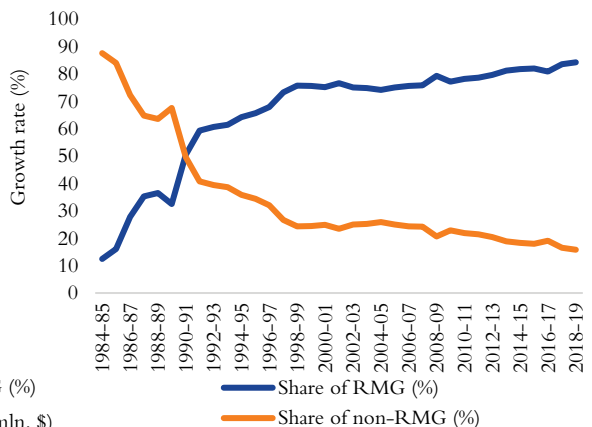


Figure 2.4: Shares of RMG and non-RMG exports in total exports (%)



Notes and sources: Data used in Figures 2.1, 2.3 and 2.4 are from the Export Promotion Bureau of Bangladesh. Growth in export shares in Figure 2.2 has been computed using UNCTAD data. The growth shares are normalised with 1990=1. The share of LDCs in world exports in 2018 was 0.97 while the comparable figure for Bangladesh was 0.23 (up from 0.05 per cent in 1990).

A shift in the global trade regime greatly helped Bangladesh break into global apparel markets. The Multi-Fibre Arrangements (MFA), administering quantitative restrictions to control imports of textile and clothing items from developing countries, facilitated the relocation of a part of the production of apparels in Bangladesh from quota-constrained East Asian countries. Relaxed rules of origin (RoO) along with duty-free and quota-free market access, particularly under the EU's Generalised System of Preferences (GSP) for LDCs, was then instrumental in Bangladesh's having an improved competitive advantage needed to sustain export growth. A supportive trade policy environment provided by the government also contributed to the growth of the RMG industry. After the abolition of MFA quotas, Bangladesh consolidated its export competitiveness further, eventually becoming the second-largest (after China) global apparel exporter.

When compared with countries outside LDCs, Bangladesh's export success is, however, no reason for complacency. Most East Asian countries exhibited much stronger export performance. Given the size of Bangladesh (160 million population), the current export volume of \$40.5 billion is small in comparison with most countries of comparable size (Figure 2.5). The 91 million-strong Vietnam post an export volume of more than \$230 billion; Indonesia exports \$180 billion with a population of 218 million; The Philippines, with a population of 101 million, have export earnings around \$100 billion. Then again, much smaller countries in East Asia such as Malaysia and Singapore are extremely successful exporting nations.⁴

Figure 2.5: Country size and exports of developing countries



Note: Bubble sizes correspond to export sizes. Country notations used as: BGD—Bangladesh, BRA—Brazil, COL—Colombia, CHL—Chile, CHN—China, HKG—Hong Kong, IDN—Indonesia, IND—India, IRN—Iran, MEX—Mexico, KWT—Kuwait, QAT—Qatar, MYS—Malaysia, PAK—Pakistan, PHL—Philippines, SGP—Singapore, VNM—Vietnam, THA—Thailand, VEN—Venezuela, ZAF—South Africa.

Source: Author's analysis using WDI data.

⁴ Malaysia, with a population of 29 million, exports more than \$246 billion, while Singapore has a population of 5 million with export receipts of \$642 billion. Export figures mentioned for countries are for 2018.

Bangladesh needs to revitalise its export growth momentum. However, challenges keep confronting the country. An unfavourable compliance record, particularly with regards to labour rights and working environment, has been associated with the export sector for a long time. This reached a peak with the incident of a collapse of a factory building (Rana Plaza) in 2013, leading to a watershed moment in apparel exports. Since then, some major interventions have been undertaken to improve workers' safety and working conditions.

Another critical challenge facing the country is an unprecedentedly prolonged slowdown in international trade. IMF estimates show that world trade in real terms (i.e., in volume) for the past decade expanded by, on average, just above 3 per cent per annum as against of a 6 per cent recorded for 1980–2008 (Figure 2.6). Measured in value terms, world merchandise exports declined by a staggering \$2.5 trillion in 2015 (from the previous year), and then again fell by more than \$500 billion in 2016 (Figure 2.7). World merchandise exports then recovered in the following two years. However, global trade growth, in real terms, fell to just 1.2 per cent in 2019.

Figure 2.6: Growth of world trade in volume (real) terms (%)

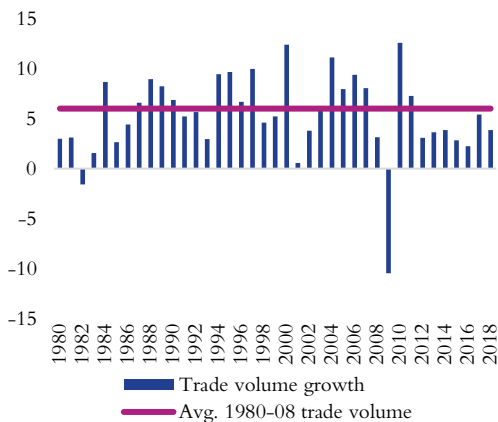
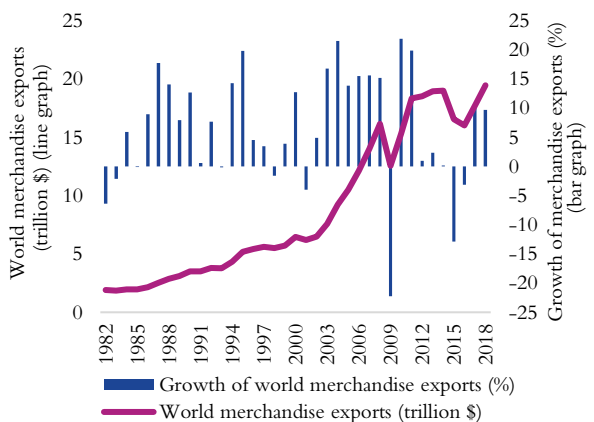


Figure 2.7: World merchandise exports (trillion \$) and growth



Source: Author's analysis using IMF and UNCTAD data.

As many as 183 countries had experienced reduced export earnings in 2015 (compared to the previous year) while for 112 countries export earnings declined in 2016. Given such a gloomy global landscape, Bangladesh actually did much better by securing a modest export growth in both the years. However, despite the resilience shown, Bangladesh's merchandise exports in 2016–17 grew by just 1.7 per cent. It then recovered to register a growth of 5.5 per cent in FY18 followed by a robust performance of 10.5 per cent growth in 2018–19. Overall, excluding the year 2010–11, when exports bounced back strongly after the initial collapse of trade flows in the aftermath of the 2008 financial crisis, Bangladesh's exports since 2010 registered an average annual growth of 7 per cent.⁵

Along with the great global trade slowdown, growing prevalence of protectionist measures and discontent about globalisation are also causing heightened policy uncertainty in the world

⁵ Bangladesh's exports grew by 41 per cent in FY11.

economy. Protectionist measures have proliferated and persisted since the onset of the 2008 global financial crisis.⁶ Additionally, the benefits of globalisation have been questioned, giving rise to political upheavals in Europe and the United States. The globalisation backlash and associated policy reversals seem to have brought a new spotlight on the role of trade in development. During the 1980s, 1990s, and much of the 2000s, while a one per cent global economic growth was associated with a 2 per cent world trade growth. This relationship in the global economy has changed to 1:1 in the 2010s, demonstrating a weakening of the relationship between trade and GDP. Along with this, the world economy has also witnessed escalated trade tensions between the world's two largest trading nations, the United States and China, manifested in tariff wars amid an already prolonged and severe crisis in the rules-based trade multilateralism, affecting trade and investment flows. This U.S.–China trade war has also caused investment diversions, mainly from China to elsewhere, with the countries benefiting from the resultant investment shifts are likely to experience export gains and new competitive advantages.

For Bangladesh, export concentration has emerged as a major and longstanding challenge as the success of readymade garment exports could not be replicated in other sectors. The overwhelming dependence on one particular export product means Bangladesh's has one of the least diversified export baskets amongst the global economies. On an index of export diversification, which compares individual countries' export structure with the world average, ranging from a value of 0 (for highly diversified, reflecting the world average) to 1 (highly concentrated and thus far away from the world average), Bangladesh scores 0.87.⁷ This makes Bangladesh's export basket four times more concentrated than the developing country average (Figure 2.8).⁸ Even compared with the average for the group of LDCs (0.68), Bangladesh possesses a much higher value.⁹ Outside LDCs, Bangladesh performs much worse against such comparator countries as China, India, Indonesia, Malaysia, Sri Lanka, Thailand, and Vietnam.

At the HS 6-digit level, the top 20 products together account for as much as 70 per cent of Bangladesh's total exports while for such countries as China, India, Malaysia and Vietnam the comparable figures range from 20 to 50 per cent. The combined share of top 100 products is more than 90 per cent of Bangladesh's exports as against of just around 60 per cent for India and Vietnam, and less than 50 per cent for China. Since the top 100 products for Bangladesh are dominated by RMG, there is a very high degree of export-concentration even within the clothing export sector.

Export growth can take place by selling more of the existing products (intensive margins) and/or selling new products (extensive margins)—the latter can be used as a measure of diversification.¹⁰

⁶ According to an estimate by Evenett and Fritz (2015), the total amount of forgone LDC exports caused by protectionists' measures implemented by the world's largest economies between 2009 and 2013 was \$264 billion—equivalent to 31 per cent of the total value of combined LDC exports during the same period.

⁷ This is based on the Herfindahl index of diversification computed at the HS 6-digit level export data.

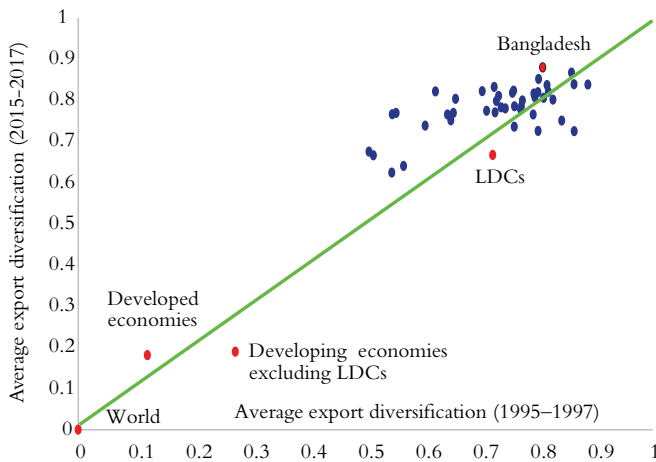
⁸ Since Bangladesh is located above the 45-degree line, it would imply that the export-concentration has risen further in the more recent period of 2015–17.

⁹ Many would argue Bangladesh's problem not to be compared with other low-income countries or LDCs that have remained overwhelmingly dependent on a very narrow base of primary commodities with extremely limited capacity in manufacturing. Bangladesh has achieved quite a significant industrial production base and its economy has seen the key transformation from a predominantly primary goods exporter to a manufacturing exporter.

¹⁰ There are various dimensions of intensive margins. One can think of selling existing products to new markets as extensive margins and thus a measure of export diversification.

It is also possible to consider the forgone contribution of extinct products (or death margin). A decomposition exercise into the sources of export growth for 2000–18 shows 99 per cent of Bangladesh's export growth is attributable to the intensive margin alone (i.e., from selling the existing products) (Table 2.1). New products (i.e., the export diversification component) accounted for less than 5 per cent with the contribution of extinct products (i.e., death margin) being -3.8 per cent. It is quite striking to find that for the all other comparators included in Table 2.1 and Figure 2.10, the new product margin (i.e., the diversification component) had been much higher: almost 78 per cent for Malaysia, about 42 and 32 per cent for Vietnam and China, respectively. Malaysia also has much larger product death margins implying that many of its existing products in 2005 could not manage to survive.¹¹

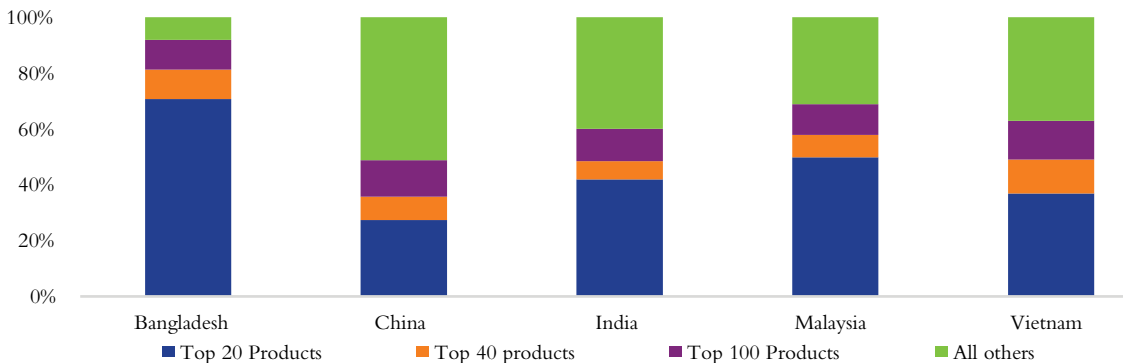
Figure 2.8: Bangladesh's export concentration is four times the developing country average, and is also higher than the average of LDCs



Note: A value of 0 indicates highly diversified export basket, reflecting the world average. A value of 1 represents highly concentrated export basket and thus far away from the world average.

Source: Author's analysis using UNCTAD data.

Figure 2.9: Export share of top products



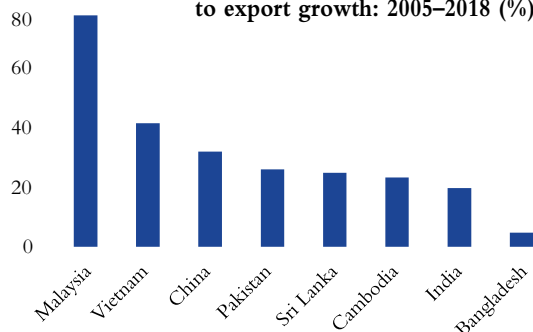
Source and note: Author's analysis using ITC data. Shares are computed for average exports during 2015–18.

¹¹ The product death margin may not be seen as the weakness of the export structure if overall exports are growing. In dynamic economies, there can be many new products as well as items that will become extinct.

Table 2.1: Contribution to export growth 2005–18

	Intensive margin	New product margin	Product death margin
Bangladesh	0.991	0.047	-0.038
China	0.760	0.319	-0.079
India	0.848	0.197	-0.045
Cambodia	0.797	0.233	-0.030
Sri Lanka	0.884	0.249	-0.132
Malaysia	0.824	0.777	-0.601
Pakistan	0.880	0.260	-0.140
Vietnam	0.614	0.415	-0.029

Source: Author's estimates using ITC data.

Figure 2.10: Contribution of new products to export growth: 2005–2018 (%)

Two important aspects of a country's export dynamics are to expand the range of goods (and services as well) for global markets, and to get into those products that are becoming more important in world trade. That is, how big a player a country is in what it exports, which can also be interpreted as the intensive margin, and how important what it exports is to the world (considered extensive margin) (Reis & Farole, 2012). This requires weighing the new export products by their share in world trade (Hummels & Klenow, 2005).¹²

As Figure 2.11 shows, starting with a very narrow base in 2001, Bangladesh has managed to expand its export bundle by 2018. The product lines in which Bangladesh has any export presence, however big or small it may be, currently generate about 60 per cent of global merchandise export. But, in these products, Bangladesh has not been able to increase market share significantly (as measured by the vertical distance between the two locations associated with Bangladesh). On the other hand, for example, Vietnam already had much wider export presence to start with in 2001, which further expanded to cover product lines that accounted for close to 90 per cent of world exports. Unlike Bangladesh, Vietnam and India also registered significant rise in market shares in the products that they were exporting in 2018. India already had a large export base in 2001, and by 2018 it mainly moved vertically by raising export receipts from the existing products albeit with a slight fall in product lines.

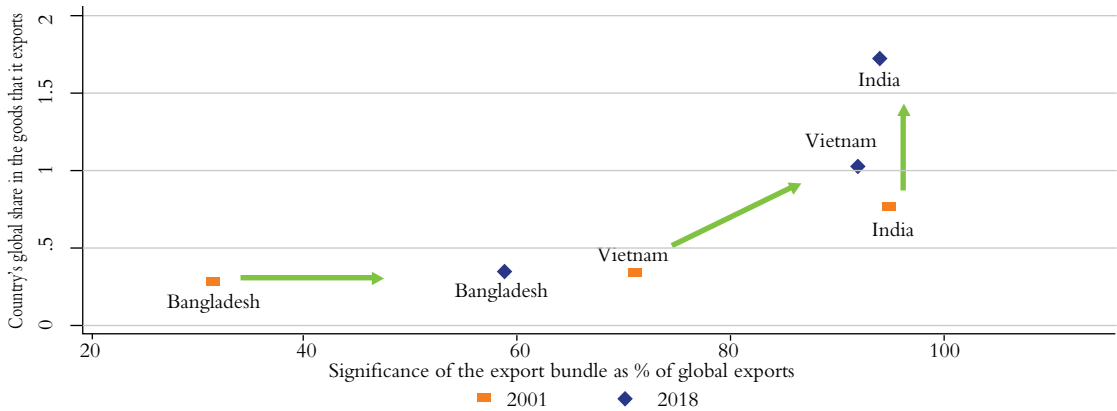
Another feature of Bangladesh's export trade is limited participation in global value chains (GVCs). Plugging into GVCs help countries expand their product lines significantly with almost all global economies that rapidly expanded their trade volumes since the 1990s, apart from those relying mainly on primary commodities and natural resource base products, taking advantage of the trade associated with cross-border supply chains. The geographic fragmentation of production processes is generally considered to be opportunities as it requires specialisation in only certain tasks, which are more manageable for many developing countries given their limited capacity.

While Bangladesh has been part of the GVCs associated with clothing exports, the experience has not been replicated in other sectors. There are issues of being excluded from GVCs and being

¹² According to this modification, starting to export a million-dollar worth of pharmaceutical products is more important than starting to export a million-dollar worth of pencils, since the global market for pharmaceutical products is much bigger.

stuck in supply chain segments with low value-added that have been widely discussed in the literature (Razzaque, 2014). However, perhaps the most dynamic component of GVCs is reflected in the trade between countries in parts and components. Unlike Malaysia, China, and Vietnam, Bangladesh's participation in this kind of trade remains very limited (Figure 2.12).

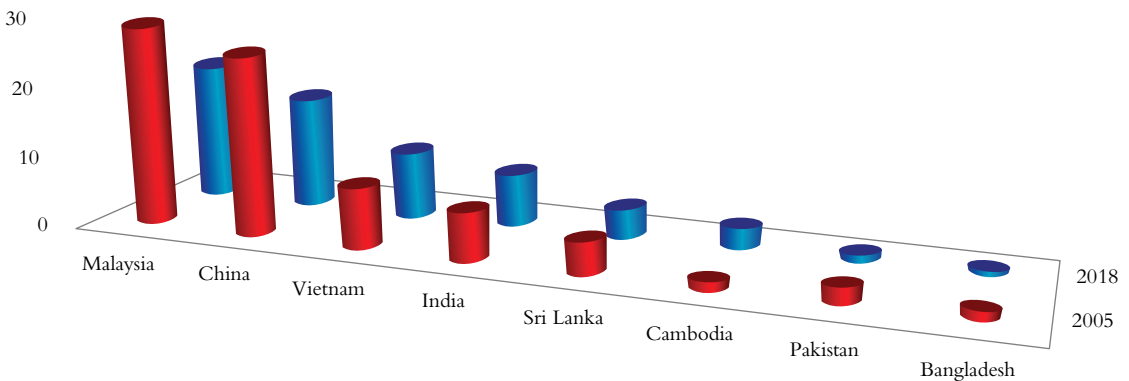
Figure 2.11: Relative significance of export baskets and countries' shares in their product lines



Note: This is based on Hummels and Klenow (2005) modification of extensive and intensive margins.

Source: Author's estimates using International Trade Centre (ITC) data.

Figure 2.12: Global value chain participation: share of parts and components in manufacturing exports

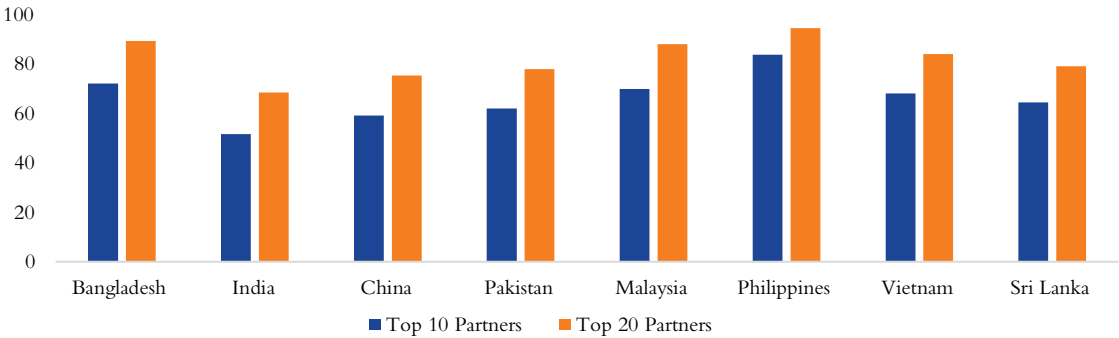


Source: Author's estimates based on parts and components as defined in Athukorala (2010) and using International Trade Centre data.

Along with product concentration Bangladesh also suffers from lack of export market diversification. More than four-fifths of exports are destined for North American and European Union markets (Sattar, 2015). Since 2000, however, the share of top 15 markets in the country's total exports has declined from close to 90 per cent to just above 82 per cent. A cross-country comparison with some of South Asian and East Asian countries reveals a mixed picture of dependence on top 10 and top 20 markets. Malaysia and the Philippines seem to have similar export concentration ratios, but India and Sri Lanka display much less concentration (Figure 2.13). Bangladesh's top 10 export destinations account for 72 per cent of its total exports, while

the corresponding figures for India and Sri Lanka are 52 and 64 per cent, respectively. As against the 90 per cent of Bangladesh’s exports being attributable to top 20 partners combined, the comparable figures for India is just 68 per cent; for China 75 per cent; and for Sri Lanka 79 per cent.

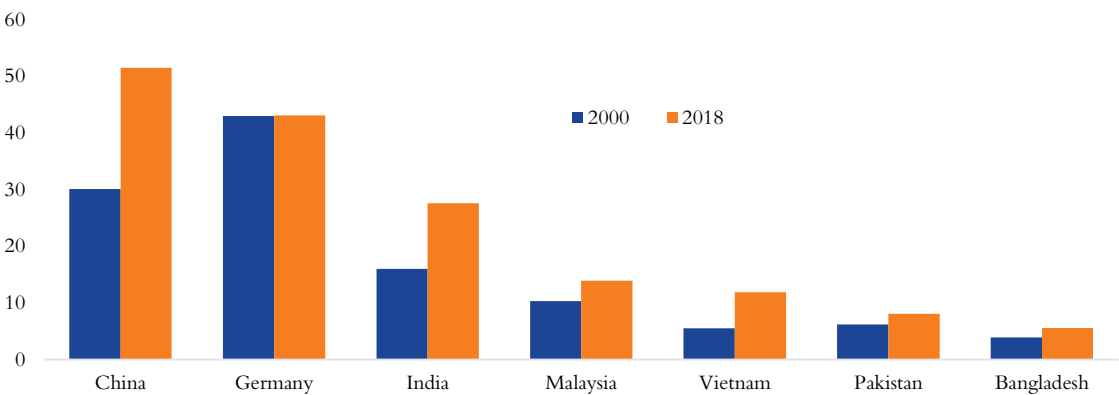
Figure 2.13: Importance of top 10 and 20 markets (%)



Source: Author’s computation using ITC data.

The nature of market concentration can also be assessed by the Index of Export Market Penetration (IEMP). It first considers the total number of all possible market reaches based on the country’s all individual export items. Then, it computes the actual number of market connections that a country has been able to establish as a share of all possible market reaches estimated in the first step. The constructed IEMP here (Figure 2.14) shows Bangladesh’s export market penetration rate remains very low and is estimated to be just 5 per cent in 2018. Most successful exporters in the global economy such as China and Germany have export market penetration rates higher than 40 per cent. While India has close to 30 per cent market reach, the rate for Vietnam is more than twice as much as that of Bangladesh.

Figure 2.14: Export market penetration rate (%)



Source: Author's estimates using WITS data.

Lack of export diversification means the full potential of export-led growth and development process is not being utilised. There is evidence of global economies with greater export diversification to be associated with higher per capita incomes. A diversified export basket would

imply a lower risk of export earnings instability. It also helps attract foreign investment as a variety of export sectors indicates a wide range of established opportunities, particularly for those multinationals that are inclined to expand horizontally across sectors. Successful export diversification can also result in achieving product sophistication as the new export items offer possibilities for technological upgradation and adaptation and further learning opportunities from the global markets.

2.3 Export Expansion and Diversification: Two General Principles of an Export Development Strategy

Bangladesh's 7th Five-Year Plan (2016–2020) outlines a manufacturing sector development strategy with an emphasis on export-led growth. Such a strategy will eventually mean the share of exports in GDP to rise thereby propelling the growth of the overall economy.¹³ Bangladesh's export-GDP ratio has, however, been on the decline: from almost 20 per cent in 2011 to 14.8 per cent in 2018. The Sixth Five-Year Plan (2011–2015) projected the share of exports in GDP to rise by 7.7 percentage points to reach 23.9 per cent. This was not materialised as the export share in GDP remained at the level of that in 2010 (Figure 2.15). The overall trade-orientation—measured as exports plus imports as a proportion to GDP—also fell by about 13 percentage points, from 48.1 per cent in 2012 to 35.3 per cent in 2017. Then, it slightly recovered to reach at 38.2 per cent in 2018.

The falling trade and export-orientation is a cause for concern. While some comparator countries (such as Indonesia and the Philippines) have also seen their export-orientation falling, they had earlier achieved much higher export-GDP ratios and export volumes. Indonesia maintained above 20 per cent export-GDP ratios until as late as 2008, while the comparable figures for India and the Philippines were about 20 and 32 per cent respectively (Figure 2.16). On the other hand, countries like Vietnam and Cambodia continue to maintain very high export-orientation. Given the current level of GDP per capita (in purchasing power parity dollars), Bangladesh's export propensity is lower than what can be suggested from the cross-country relationship in Figure 2.17. Structural characteristics of countries such as population and geography influence export-orientation. But even after controlling for such factors, Bangladesh exports less-than-predicted and the situation hardly changed since the late 1990s (Figure 2.18).¹⁴ The 7th Five-Year Plan (2016–2020) set a target to achieve a trade-GDP ratio of 50 per cent by 2020. This target will not be realised.

¹³Note that while assessing export-orientation in the economy exports are generally measured in gross terms but GDP is a measure of value added only (i.e. final goods and services less intermediate inputs). As a result, export-GDP ratios for many countries are over 100 per cent. If exports are also measured in value added, the export-GDP ratio is likely to be much smaller for most countries.

¹⁴Countries with bigger populations will generally have larger exports in absolute terms (as shown in Figure 2.5). However, larger countries tend to have lower export-orientation, as measured by the export-GDP ratio. The estimated adjusted-export-openness controls for populations and certain geographical characteristics (such as, whether countries are landlocked or island economies) that influence export-orientation. Controlling for these factors, it is possible to infer if a country is exporting more than what can be predicted for it given its population size and geographical features. It is found that Vietnam's actual export-GDP ratio is almost 60 percentage points higher than predicted. Similarly, Cambodia has an export-GDP ratio 25 percentage points higher than predicted. In contrast, Bangladesh's propensity to export (for 2015–17) is about 11 percentage points lower than predicted. China, with a much bigger population than Bangladesh, has adjusted export-openness higher than predicted. India as well depicts higher adjusted export-openness for 2015–17, an improvement from the situation in the late 1990s when its export-GDP ratio was about 5 percentage points less than predicted.

Figure 2.15: Bangladesh’s export-GDP ratio (%) has been on the decline since 2011

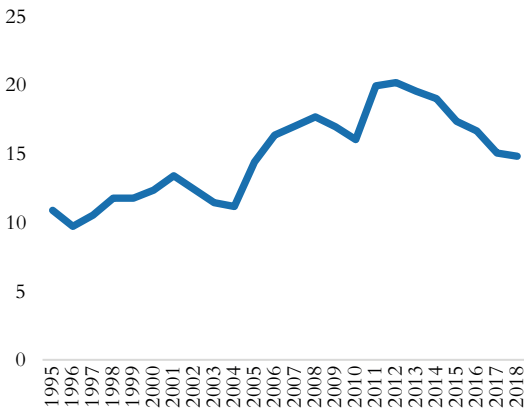


Figure 2.16: Comparator countries’ export-GDP ratios

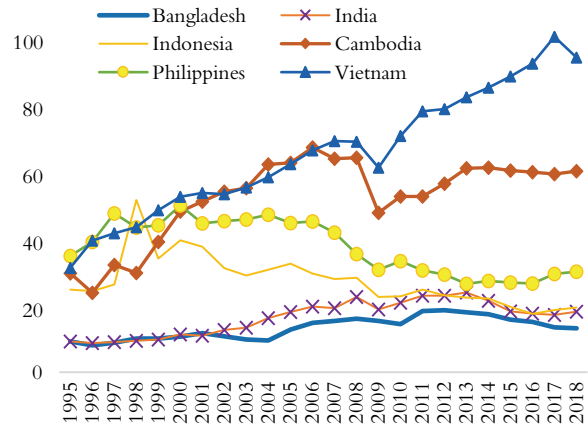


Figure 2.17: Bangladesh's export orientation is lower than predicted

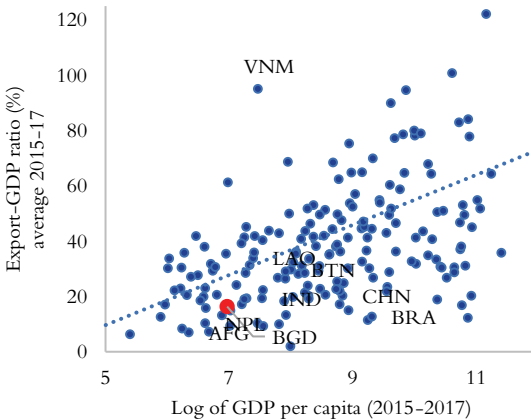
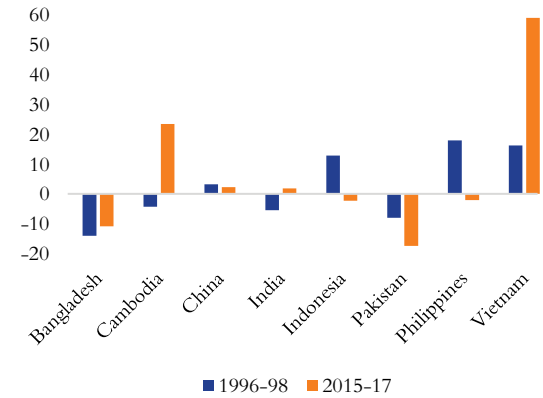


Figure 2.18: Adjusted export openness

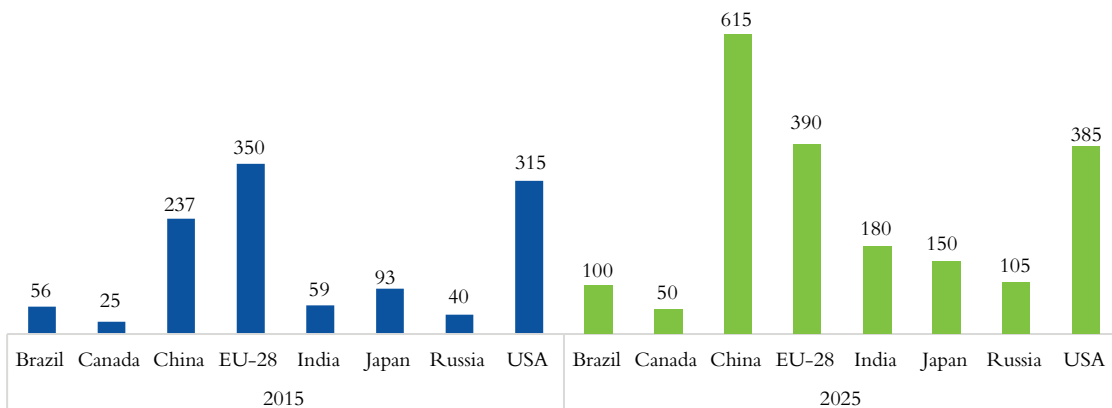


Notes and sources: Predicted export-orientations are based on a relationship between the export-GDP ratio and GDP per capita in purchasing power parity (PPP) terms; BGD indicates Bangladesh’s location in the cross-country relationship; adjusted export openness estimates are based on a cross-country regression of export-GDP ratios, controlling for population and various geographical characteristics; data used in the analysis are from the World Development Indicators; Adjusted openness measures are author’s estimates.

There is often a suggestion that non-RMG export growth is more important than exports from the RMG sector. This is, however, a flawed argument given the enormous scope for expanding exports from both the sectors. Promoting export diversification and maintaining the RMG sector dynamism must go hand in hand. There exist huge potentials for expanding RMG exports many folds further. Available projections suggest that the annual global apparel consumption could exceed \$2.5 trillion by 2025 (from currently \$1.8 trillion), giving boosts to exports of clothing from various suppliers.¹⁵

¹⁵ This includes the demand components that countries meet from their domestic production. See ADB (2016) and <https://www.statista.com/statistics/279757/apparel-market-size-projections-by-region/>.

Figure 2.19: Global apparel market size projection by regions, 2015–2025 (billion \$)

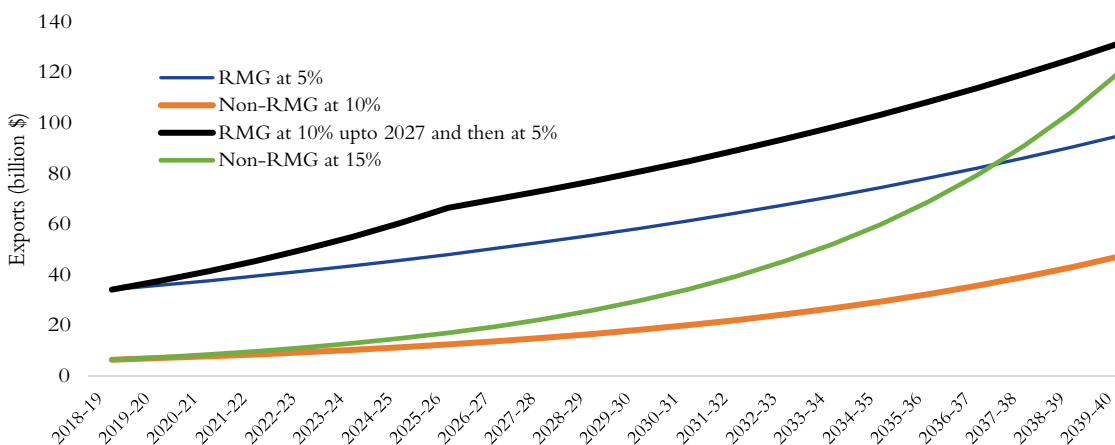


Source: Author’s presentation of data from www.statista.com.

Against the above, the RMG sector now stands at a critical juncture. In FY17, its exports grew by 1.7 per cent. A recovery was achieved in FY18 when the growth was above 7 per cent followed by a surge in exports (more than 10 per cent growth) in FY19. However, in the first half of FY20, exports fell in absolute terms (comparing with the same period of the previous year). Because of the weakness in export growth, the policy target of achieving \$50 billion export earnings from the RMG sector alone will now be missed.

The strategy of export diversification is to be complemented by maximising overall exports. The large RMG export base means achieving and sustaining very high growth rates will be difficult, while much smaller size of non-RMG sector should expand at a faster rate to put Bangladesh into an ideal situation of rapid export growth driven by a range of products. Given the current export composition, if non-RMG exports grow at a rate of 15 per cent per annum as against of say a modest 5 per cent annual expansion in RMG, in 10 years’ time non-RMG exports can be just over half of RMG exports. Even if non-RMG exports are growing at a rate of 10 per cent, it should also contribute significant broadening of export base (Figure 2.20).

Figure 2.20: Diversification scenarios with different growth rates of RMG and non-RMG sectors



Source: Author’s projections.

2.4 Boosting the Export Response: Challenges and Policy Issues

Addressing the challenges faced by the export sector is extremely important given that several national policy objectives are inextricably linked to its strong performance. The experiences of most successful export-led growth countries, particularly those of East Asian nations, seem to suggest providing long-term, consistent, and often sector-specific customised policy support crucial for promoting exports and export diversification.

Many general development issues related to the state of investment climate, infrastructure, human resource base, etc also have impacts on export performance. Additionally, macroeconomic factors such as movements in prices and in the exchange rate have direct and immediate consequences for export competitiveness. There has been a lot of discussion on the issues related to export promotion and diversification.¹⁶ This section briefly considers some selected areas that require urgent policy attention and interventions.

Making the most of export incentives

One key ingredient in Bangladesh's RMG-led export growth success has been an elaborate incentive system.¹⁷ The principal policy interventions in the 1990s included, inter alia: (i) duty drawbacks on imports of intermediate goods, (ii) bonded warehouse facilities to enable exporters importing intermediate inputs duty-free, (iii) 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, (iv) provision of duty-free imports of machineries for export-oriented firms, (v) allowing exporters to retain a portion of their export receipts in foreign currencies, (vi) income tax rebate, (vii) an export credit guarantee scheme for exporters to cover their marketing risks, (viii) credit disbursed through Export Development Fund at subsidised and/or lower rates of interest.¹⁸

The above export incentives continue to operate, although the nature and depth of coverage for some of them have changed. The case of cash assistance is perhaps the most prominent one. Since the early 2000s, such assistance for the RMG sector has been quite low. Currently (for 2019–20), this assistance is provided under different mechanisms: (1) export-oriented RMG firms, not using bonded warehouse and duty-drawback facilities, are eligible for cash assistance of 4 per cent of

¹⁶ The need for diversified export basket is featured prominently in various discussions and policy documents. Bangladesh's Export Policy 2015–18, prepared by the Ministry of Commerce, Government of Bangladesh, is focussed on increasing export, expanding markets and diversifying products. In the Diagnostic Trade Integration Study (DTIS) on Bangladesh, the World Bank has recommended breaking into new markets and new products (and thus export diversification) as two important pillars for a strategy to spur a faster export-led growth paradigm. The 7th Five-Year Plan (GED, 2015) envisages a manufacturing-based export-led growth strategy with emphasis on export diversification. Bangladesh Industrial Policy 2016 developed by the Ministry of Industries, Government of Bangladesh, states establishing export-oriented industrial units and export diversification is a key objective. ADB (2016) further provides assessments and policy suggestions on economic and export diversification.

¹⁷ 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.

¹⁸ 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).

the value of their export shipment; (2) small and medium sized RMG firms can avail additional 4 per cent assistance; (3) firms exporting to new markets (other than Canada, the EU and the U.S.) receive 4 per cent cash assistance on f.o.b. value of export; and (4) RMG exporters exporting to Eurozone countries receive an additional 2 per cent cash assistance; and (5) special cash incentive of 1 per cent for RMG firms in addition to above schemes .

Several other sectors are eligible for cash assistance of higher rates (see Table 2.2). However, apart from leather and to some extent frozen shrimp and fish, there is no other sector with any sizeable export base to take advantage of available incentives for contributing meaningfully to overall export growth and diversification.

The current policy is clearly geared towards stimulating the export response from the less-established emerging sectors, and higher rates of assistance for those are justified. However, given the overall objective of maximising export earnings, it is important to consider how to make most of the policy of export incentives. As such, all possible avenues for revitalising exports must be considered. This should include the option of keeping the existing cash assistance for the new sector while raising the level for others as well. After Bangladesh's graduation from the group of LDCs, 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 in the EU and in several other countries. After LDC graduation—as mentioned in Chapter 1 of this volume—most of those preferences will come to an end. Also, after graduation, export support measures like cash assistance schemes are most unlikely to be possible to continue with given the rules and provisions of the WTO. 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.

There are studies that have mentioned certain discriminations against non-RMG sectors in accessing various incentives. The evidence needs due consideration in granting similar support to these exports. In this regard, extending bonded warehouse facilities to all sectors will constitute a helpful initiative. Possible leakages to domestic market sales are sometimes cited as reasons for restricted bonded warehouse facilities. However, governance failures should be addressed by appropriate administrative and legal provisions rather than by imposing across-the-board restrictions that can hurt competitiveness of dynamic firms within a broad sector. In the 1990s, the issue of leakages from bonded warehouses also featured prominently in the policy discourse. Nevertheless, continuation of the scheme proved to be extremely successful in boosting export competitiveness.

Given the booming domestic market, it is rather unrealistic to consider that there can be many 100 per cent export-oriented firms. As such, the policy that bonded warehouse facilities to be used by fully export-oriented firms only will be somewhat devoid from reality. The requirement that firms that wish to make use of bonds will have separate plants for local and export sales is onerous and may not help exporters achieve scale economies in production. Ideally, bonded warehouse facilities should be provided to all the exporting firms even when these units also have domestic sales with the provision of import duties being collected at a later stage based on the proportion of goods that are being produced for exporting and domestic consumption purposes.

It should also be pointed out that bonded warehouse facilities and duty drawback schemes are no additional incentives for exporters. Exporting firms in all comparator countries are able to

procure intermediate inputs at world prices without being subject to any tariffs in their home countries. A policy of export incentives should actually provide benefits in addition to the duty-free import of raw materials. Thus, exporters of emerging or non-traditional sectors should be entitled to cash assistance along with accessing either bonded warehouse or duty drawback schemes. As after LDC graduation, cash assistance cannot be provided, it is important to devise future export incentive schemes that would be compatible with the rules and regulations of the World Trade Organization (WTO).

Table 2.2: Cash assistance to various sectors (% of value of export shipment)

Sector	2002-05	2009-10	2014-15	2016-17	2017-19	2019-20
Export-oriented RMG (instead of duty drawbacks)	5	5	5	4	4	4
Incentives for the small & medium apparel (RMG) firms (in addition to the existing policy)	-	-	5	4	4	4
New product/new market expansion assistance - except for markets in the EU, Canada, the USA (Apparel Industry)	-	-	3	3	3	4
Additional cash assistance for apparel exporters to the Eurozone	-	-	-	2	2	2
Special cash incentive on RMG sector (in addition of above 4 incentives)	-	-	-	-	-	1
Hand-made articles of hogla, straw, sugarcane, etc.	-	15-20	15-20	15	20	-
Hand-made articles of hogla, straw, sugarcane/coconut shell, tree leaf, waste of garments etc.	-	-	-	-	-	10
Agri and agro-processing	15-20	20	20	20	20	20
Guts, horns, etc. of cows/buffaloes	-	-	-	10	10	10
Light engineering	-	10	10	15	15	15
100% halal meat	-	20	20	20	20	20
Frozen shrimp (depending on ice coverage)	10	12.5	10	7-10	7-10	7-10
Frozen fish (depending on ice coverage)	10	12.5	-	2-5	2-5	2-5
Articles of leather	-	17.5	15	15	15	15
Export of crust and finished leather exported from the relocated firms in Savar	n.a.	7.5	-	-	10	10
Ships/trawlers and ocean-going vessels	-	-	5	10	10	10
Potatoes	15	10	20	10	20	20
Pet bottles-flex	-	10	10	10	10	10
Polyester staple fibre produced from pet bottles-flex	-	-	-	-	-	10
Furniture	-	-	-	15	15	15
Vegetable seeds	-	-	-	20	20	20
Carbon and jute particle board from jute stalks	-	-	-	20	20	20
Articles of plastic	-	-	-	10	10	10
Paper and paper products	-	-	-	-	10	10
Joss sticks and scented oil (agar and atar)	-	-	-	-	20	20
Jute goods	5	10	-	-	-	-
Diversified jute products	-	-	10	20	20	20
Hessian, sacking and CBC	-	-	-	7.5	10	12
Yearn and twine	-	-	7.5	5	5	7
Software, ITES and hardware	-	-	-	-	10	10
Synthetic and fabrics made footwear	-	-	-	-	15	15
Pharmaceuticals (including medical/surgical instruments and appliances)	-	-	-	-	-	10
Active pharmaceuticals ingredients (API)	-	-	-	-	20	20
Accumulator batteries (HS 8507.10 and 8570.2)	-	-	-	-	15	15
Photovoltaic module	-	-	-	-	-	10
Motorcycle	-	-	-	-	-	10
Chemical goods (chlorine, hydrochloric acid, caustic soda, hydrogen peroxide)	-	-	-	-	-	10
Razor and razor blade	-	-	-	-	-	10
Articles of ceramic	-	-	-	-	-	10
Hat	-	-	-	-	-	10
Crabs and crutches (live, frozen)	-	-	-	-	-	10
Galvanised shit/coils (coated with Zinc, coated with Aluminum and Zinc and color coated)	-	-	-	-	-	10
Consumer electronics, electrical home and kitchen appliance	-	-	-	-	-	10

Notes: “-” indicates the scheme was not available for the sector.

Sources: Compiled from various official circulars of the Bangladesh Bank.

Enhancing the relative profitability of exporting activities

Sustained economic growth over the past several decades means Bangladesh has now become a sizeable \$300 billion economy from a meagre \$35 billion in the mid-1990s. As a result, there has been a rapid expansion of the so-called middle-class consumers with their rising disposable incomes and high propensity to spend on a new and wide range of products and services. Bangladesh's middle and affluent class population is projected to rise to 34 million by 2025 when the country's GDP will have crossed \$500 billion (BCG, 2015).¹⁹ If the lower-middle-income consumer market is added to the middle and affluent class, the consumer market with spending propensity would reach \$100 billion (Sattar, 2018). This rapidly growing domestic market is thus becoming very lucrative for the producers and there will be a natural incentive to cater for the domestic consumers first.

Bangladesh's impressive economic growth has been accompanied by a much higher level of tariff protection than other developing countries that have achieved high economic growth and economic transformations including China, India, Indonesia, Malaysia, the Philippines, and Vietnam. During the past two decades, there has been no country with a sizeable economy that had an average applied tariff rate higher than Bangladesh and achieved an average growth rate higher than Bangladesh.²⁰ The average tariffs (customs duties) on a large variety of products, particularly of consumer's items, are quite high in Bangladesh: in the range 25—over 100 per cent (Sattar, 2018). These high customs duties along with other taxes such as supplementary and regulatory duties make the total tariff incidence even higher. The implication of this policy stance is that sales in the domestic market become much more profitable relative to export of products. This is because like the producers of import-competing goods, exporters cannot be provided with such high level of policy support. To overcome this policy-induced disincentive, the 7th Five-Year Plan of Bangladesh emphasised on reversing the anti-export bias in trade regime through tariff rationalisation. This should be one important area for policy consideration in boosting exports and promoting export diversification.²¹

Proactively exploring new markets and supporting export relationships

As shown above, along with the dependence on one product, export market concentration is also a major problem. Bangladesh's geographical location between the world's two largest economies, India and China, provides enormous opportunities for export growth and diversification. The most successful analytical workhorse in explaining trade flows between countries—the gravity

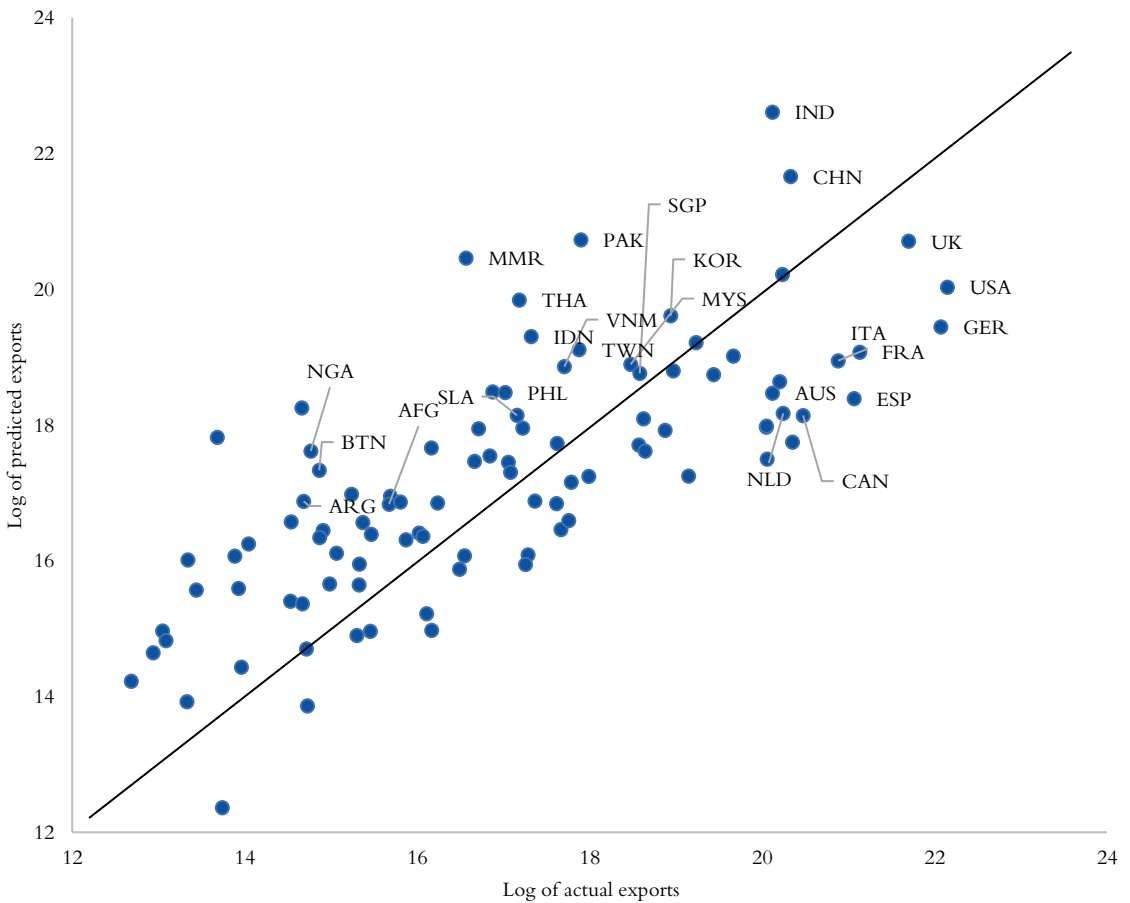
¹⁹ The middle and affluent class (MAC) in Bangladesh is defined as those consumers who are earning more than \$400 (approximately Tk 34,000) a month or just about \$5,000 annually. The size of this consumer group is estimated to be around 12 million and they tend to consume goods and services that would fall beyond basic necessities, and 'into the realm of convenience and luxury'. Examples include air conditioners, flat-screen TVs, and imported cosmetics, etc. (Sattar, 2018).

²⁰ In Bangladesh, the dependence on indirect taxes for total revenue is more than 60 per cent. Imports are a major source of government revenues with customs duties and other import-based taxes together accounting for about 30 per cent of all tax revenues. The apprehension about the potential loss of revenues has been a factor in maintaining high tariffs causing disincentives for export production.

²¹ 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 the average customs duties fell from 21 per cent in 2001 to 12 per cent, protection provided under other taxes and duties increased from 7 per cent to 15 per cent.

model—suggests large trading partners and geographical proximity, amongst others, to have positive impacts on the volume of trade. However, Bangladesh exports much less to both India and China than predicted from the model (this is reflected in Figure 2.21 as both the countries are located above the 45-degree line). Given the global experience of how countries trade with their partners, it is estimated that Bangladesh’s exports to India are at least \$6 billion less-than-predicted, while the corresponding figure is \$2 billion for exports to China. In fact, Bangladesh exports much lower-than-predicted to most South Asian neighbours and Southeast-Asian countries. Exports to South Asian countries together are about \$7.2 billion less-than-predicted, while the comparable figure for Southeast Asian nations is \$1.6 billion. Therefore, the untapped export potential to South and Southeast Asian countries together constitute about 25 per cent of Bangladesh’s total exports.

Figure 2.21: Actual versus predicted exports of Bangladesh to selected economies in 2015: gravity model results



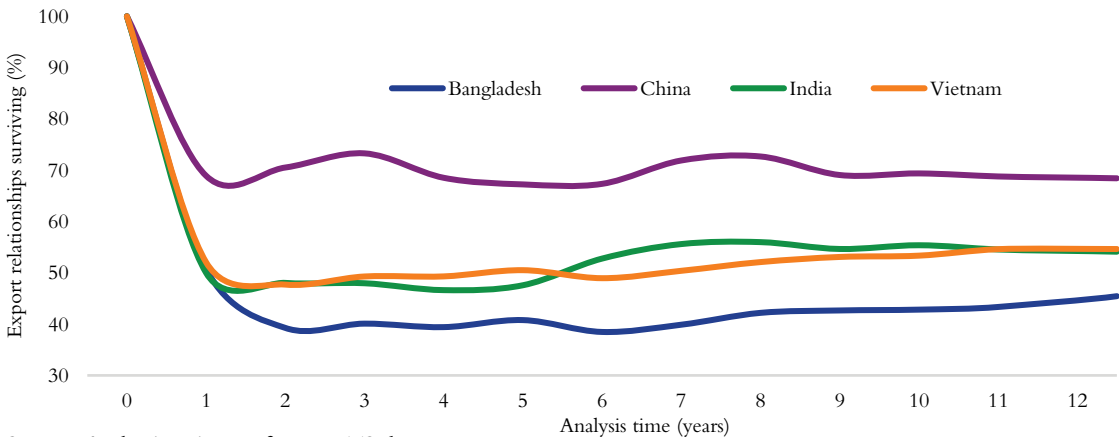
Note: The graph presented here is based on a global gravity model explaining bilateral trade flows for the period 1995–2015. The number of observations used in the exercise was 1,053,696. Predicted exports for Bangladesh are then calculated based on the estimated regression parameters. In the graph, actual exports are lower than the predicted exports for the countries lying above the 45-degree line.

Source: Author’s estimates.

The shares of China, India, Japan and ASEAN in the country's exports are growing but still are very small—only 0.8 per cent, 1.9 per cent, and 1.5 per cent, respectively (GED, 2015). As most of these countries grow faster than the rest of the world, export potentials in these markets will expand at a higher rate, providing a major opportunity for market diversification. In recent times, China, India, and Japan have particularly turned into important export destinations for Bangladesh. Exports to China grew from \$382 million in 2011 to \$985 million in 2018; exports to India surpassed the \$1 billion mark for the first time in FY19, reaching about \$1.3 billion; and exports to Japan increased from \$543 million in 2011 to \$1,443 million in 2018.²² Amongst European destinations, Poland is an emerging partner as Bangladesh's exports to Poland rose from \$293 million to \$1,841 million during 2011–2018. While prominent export items such as RMG and footwear account for the main sources of growth in these markets, relatively new sectors such as plastic, home textiles, leather and pharmaceutical have also developed new exporting relationships.

Establishing new export relationships in new markets can be quite challenging. Sustaining the export flows can be even more challenging. 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 (Figure 2.22). 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.

Figure 2.22: Comparison of survival rates of exporters (2005–2017)



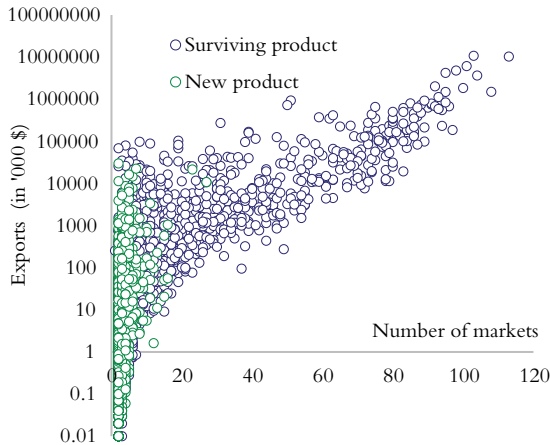
Source: Author's estimates from WITS data.

Analysis of individual products at a disaggregated level can provide further insights. For example, considering the period 2005–17, there are 204 products from Bangladesh that reached at least 10 markets in both the start year (2005) and end year (2017). In this category, 159 products reached a higher number of markets in 2017 and 39 products reached a smaller number. The number of individual products reaching at least 50 markets was 52 in 2017, up from 19 in 2005. Green dots (markers) in Figure 2.23 indicate the products that were not exported in 2005 but in 2017. A close look at the figure shows that most of these new items are targeted to a small number of

²²Data obtained from the International Trade Centre (ITC).

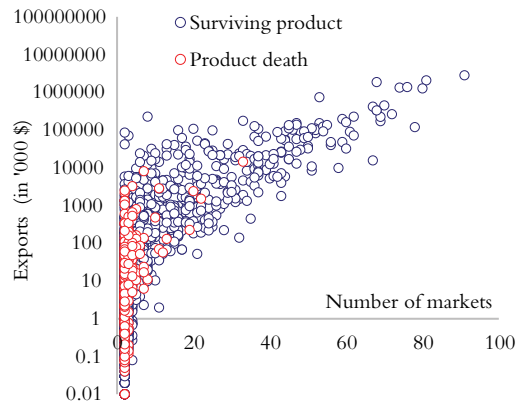
markets; only two of them were being exported to more than 20 countries. On the other hand, red dots in Figure 2.24 represent the export items that were present in 2005 but not in 2017, indicating either death or suspension. Three of these products had actually reached more than 20 markets.

Figure 2.23: Product survival and births, 2005–17 (end year)



Note: Green dots indicate new products that did not exist in 2005. Blue dots represent products that exist in both periods. Number of markets and trade values are for the end-year.

Figure 2.24: Product survival and death, 2005–17 (start year)



Note: Red dots indicate export items that are extinct. Blue dots represent products that exist in both periods. Number of markers and trade values are for the start year.

Source: Author's analysis using WITS data.

Bangladesh's new export relationships emerge within a narrow band of markets. Exploring new markets are therefore likely to require far stronger policy support. 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.

Bangladesh's export success has greatly been facilitated by the duty-free quota-free preferential market access in many developed and developing countries. In the EU (including the UK), LDCs have duty-free access for almost all items under the Everything But Arms (EBA) initiative. A relaxed rules of origin (RoO) regime is also applicable for LDCs. Apart from the EU, preferential access with varying product coverages exists in Australia, Canada, China, India, Republic of Korea, Japan, New Zealand, Norway, Russian Federation, Switzerland, and Turkey. The most important exception is the United States, which currently does not provide any preferential market access to Bangladesh. Overall, it is estimated that about three-quarters of Bangladesh's total export earnings come from the countries that provided preferential access.

As an LDC, Bangladesh benefits from unilateral preferential schemes of the countries mentioned above. The offered schemes did not require any reciprocity from LDCs. After LDC graduation, as the non-reciprocal arrangements either will cease to exist or will be less lucrative, Bangladesh will need to

look for preferential export market access by negotiating bilateral and/or regional trading agreements. Currently, Bangladesh does not have any bilateral free trade agreement with any country.

Among regional preferential trading arrangements, the South Asian Free Trade Area (SAFTA) is the most important FTA for Bangladesh. The Asia-Pacific Trade Agreement (APTA) is the only other functional preferential trading arrangement from which Bangladesh gets some benefits. The overall significance of SAFTA in fostering intra-regional trade is rather small as SAFTA members account for less than 3 per cent of Bangladesh's total export. With the presence of such large economies as China, India, and the Republic of Korea, APTA is potentially an important arrangement, but its tariff concessions have been quite limited.

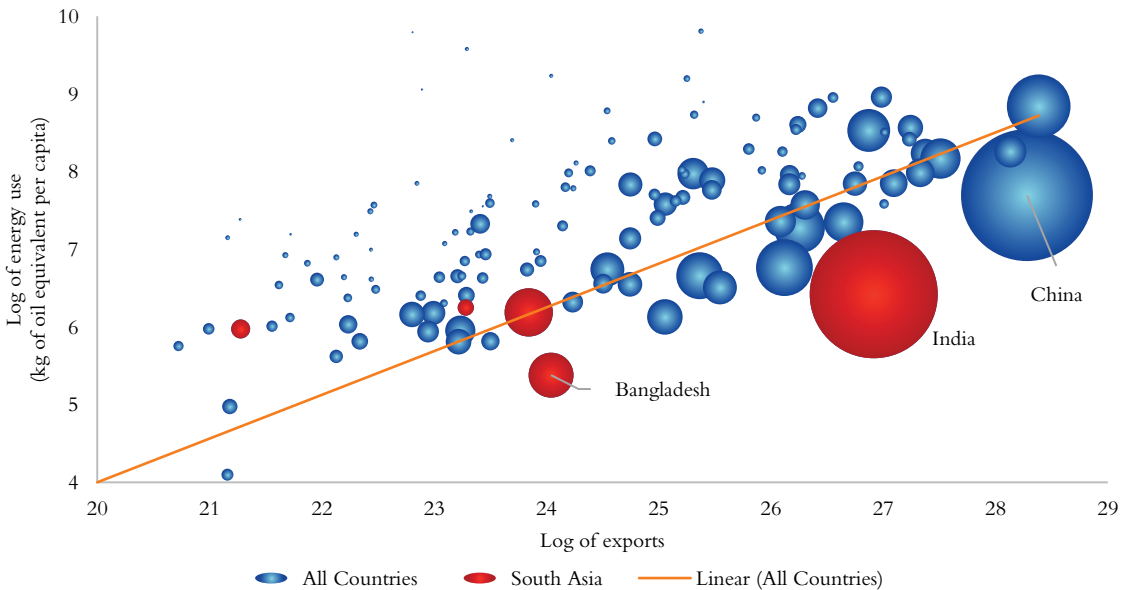
It is important to note that along with non-reciprocal preferences, graduation from the group of LDCs means other flexibilities associated with various WTO agreements will also be lost. Consequently, future export success to a large extent could depend on negotiating commercially meaningful regional and bilateral free trade agreements. Many trade partners will also find Bangladesh as an attractive country for striking bilateral trade deals as its economy is expected to maintain the growth momentum, thereby expanding imports at a brisk pace. More importantly, as mentioned above, the impressive economic growth performance has been accompanied by a much higher level of tariff protection and most trading partners will be keen about taking advantage of Bangladesh's large, fast-growing, and highly protected domestic market.

Trade negotiations are, however, extremely demanding tasks. Bangladesh will have to develop its capacities in assessing market access opportunities, implications of any reciprocal offers that it will have to make, implementation challenges, and trade policy options that will make any negotiated outcomes most effective. LDC graduation thus marks an important transition in which export market opportunities based on other countries' unilateral preferences will be replaced by a graduated countries ability to negotiate trading arrangements to give its exporters the required competitive advantages for export success.

Tackling infrastructural bottlenecks in boosting competitiveness

Infrastructural bottlenecks pose major constraints for Bangladesh's export competitiveness and are likely to be even bigger problems for less-established export products. Despite Bangladesh's impressive efforts in dealing with electricity shortages in the recent past years, an enormous task of adding a very large generation capacity lies ahead.²³ The 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. Without significant expansion in energy use, Bangladesh would not be able to compete globally. There is no other country in the world that exports as much as Bangladesh with as little energy use (Figure 2.25). Also, all countries with populations bigger than Bangladesh have much higher energy consumption per capita. Although Bangladesh has so far been able to demonstrate much greater export propensity with a very limited energy use, cross-country experiences tend to suggest that maintaining such a situation in the future would be extremely difficult.

²³ ADB (2016) estimates that after allowing for phasing out or decommissioning of old and gas-guzzling power plants and all recently installed quick rental power plants, achieving the intermediate target of 19,000 MW by 2021 will require adding new generation capacity of about 23,809 MW by that year, almost doubling the December 2015 capacity.

Figure 2.25: Energy use and exports: Bangladesh and global economies

Note: Bubble sizes correspond to population sizes by different countries. Red bubbles are for South Asian countries. Both energy use and exports are averages of 2012–14. Exports are measured in constant 2010 prices.

Source: Author's analysis using World Development Indicators (WDI) data.

Inland road transportation and trade logistics, which suffer from various shortcomings, is another dimension of weak and inadequate infrastructure. Congestions in the country's main economic corridor—the Dhaka-Chittagong highway; limited containerisation and inefficient handling and management of containers; customs processes; and inadequate port infrastructures—all add to trading costs.²⁴ Academic studies show that a 10-percentage point increase in transport costs reduces trade volumes by about 20 per cent (Limao & Venables, 2001). Moreover, ad valorem transport costs of 20 per cent on both final output and intermediate goods reduce domestic value-added (that includes wages and profits) by 60 per cent when intermediate goods account for 50 per cent of costs. Within this reduced value-added, there are two-way shipping costs involved: import of raw materials and then export of final products. The implication is that inefficiencies in trade logistics and infrastructures make it increasingly difficult for exporting firms to compete in world markets.

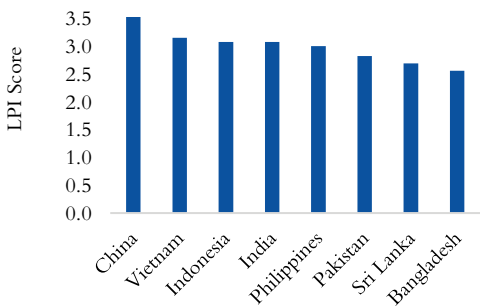
Bangladesh has a strong policy intent in tackling infrastructural bottlenecks. It has made large investments in developing ambitious physical infrastructures and large-scale electricity generation projects. Many of these projects are currently underway. Successful completion of these projects can help address the relevant challenges. The area of trade logistics requires a close policy attention as it is key to improving external competitiveness. In terms of the Logistics Performance Index (LPI) of the World Bank, Bangladesh is outperformed by most South Asian countries and almost all our trade competitors (Figure 2.26).²⁵ With the current level of logistics and

²⁴ World Bank (2016) provides a detailed analysis of these issues.

²⁵ The LPI reflects logistic friendliness of a country and assesses the performance along the logistics supply chains. The index is a combination of performance in six areas: customs, transport infrastructure, international shipments, logistic competence, tracking and tracing, and timeliness.

infrastructural development, Bangladesh indeed has managed to do better than expected (Figure 2.27). But, increasing exports in the future might prove exceedingly challenging if things do not improve. Similarly, Bangladesh’s weaker performance in various areas such as institutions, infrastructures, skills, domestic competition and trade openness, financial system, etc. affect the overall competitiveness of the economy. In the Global Competitiveness Index 2019, Bangladesh performs worse than many of its comparators in terms of most of these indicators (Figure 2.28).

Figure 2.26: Logistics Performance Index (LPI)



Source: Author’s analysis using World Bank data.

Figure 2.27 : Cross-country relationship between exports and LPI score

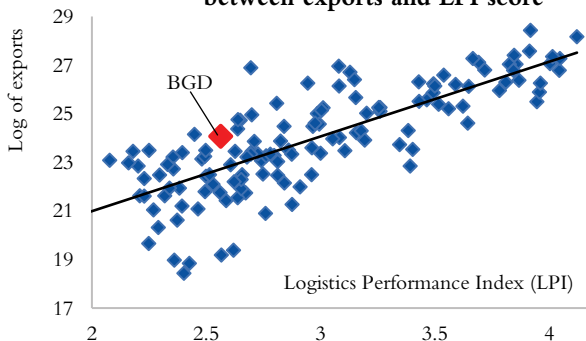
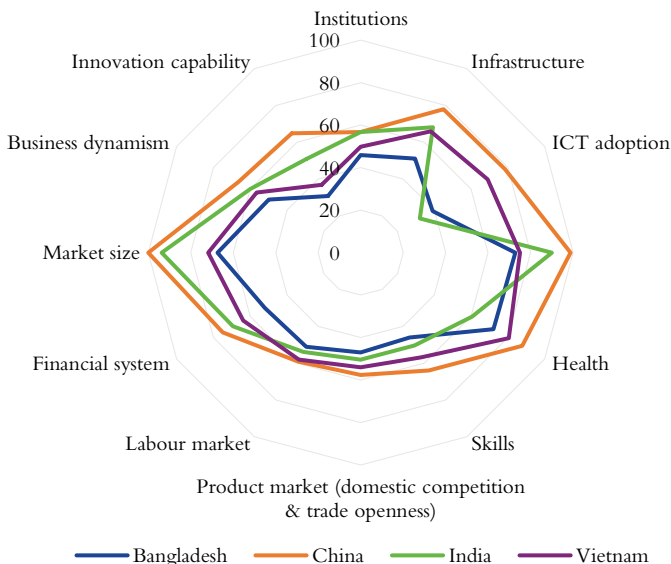


Figure 2.28: Bangladesh and comparators in various competitiveness indices, 2019



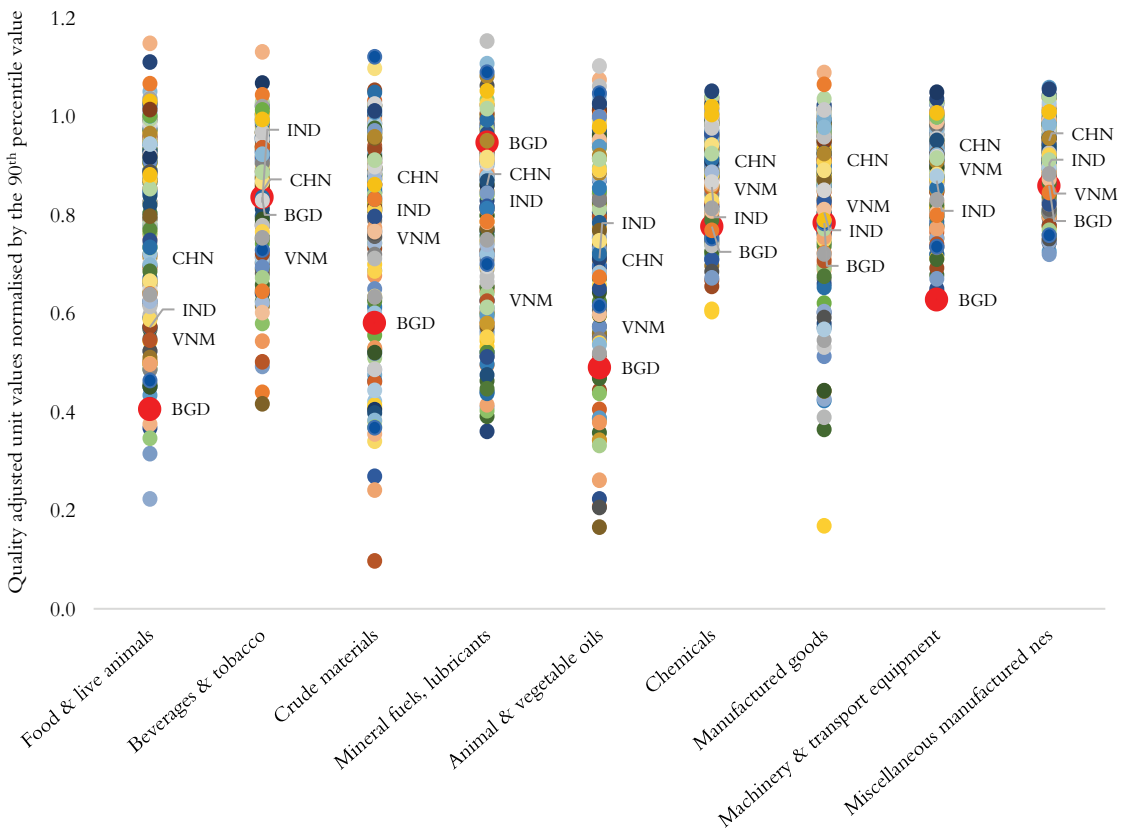
Source: Author’s analysis using data from the Global Competitiveness Report 2019.

Improving quality and product sophistication

For many emerging export items, improvements in product quality, sophistication and standards are important for export expansion. It is known that goods in the same product category can widely differ in quality. Quality upgradation, sophistication and product differentiation are often associated with higher prices. An analysis of the most comprehensive export quality database seems to confirm the widely perceived view that Bangladesh can potentially increase its export receipts by improving quality (Figure 2.29).

At the Standard International Trade Classification (SITC) 1-digit level, Bangladesh's quality adjusted unit values are lower than those of China and India in all but one category.²⁶ In most categories, Vietnam's unit prices are also higher than those of Bangladesh. Bangladesh's quality of products in the broad category of food and animal products (SITC 0) is quite low, suggesting that increasing exports of agro-processed sector could be a challenge. For manufactured goods, which include much of the country's exports, Bangladesh is at around 80th percentile, indicating that there is substantial room for improvement.

Figure 2.29: Export quality by SITC-1 digit sectors



Note: Author's analysis using IMF Export Quality Database. The year of analysis is 2014, the latest year for which data are available. The methodology used in deriving quality estimates (Henn et al., 2013) involves utilising unit values but with important modifications. First, a trade price relationship is devised, and then a quality-augmented gravity equation is specified to calculate a comprehensive set of quality estimates. All quality estimates are normalised by their 90th percentile in the relevant product-year combination.

There are suggestions that if exporters manage to survive and stay on exporting, product quality eventually converges. At the initial stage, new products can suffer from poor quality but overtime their unit prices improve. Within a category where the global frontier of productivity is high, learning and catch-up can be high (Reis & Farole, 2012). The quality data on the same products

²⁶ At the SITC-4 broad category level—defined as 'mineral fuels, lubricants, and related materials'—Bangladesh is shown to have unit values higher than those of China, India and Vietnam. Bangladesh is not a major exporter in the category and thus the higher unit prices reflect a small quantity of a high-quality product.

for different countries can be used to generate quality ladders, measuring the relative quality of a country's exports against all other countries that export a specific product. The quality ladders reflect the extent of heterogeneity in quality across different varieties of a given product.

A close look at Figure 2.30 (a)-(d) would reveal that in clothing, footwear and plastic products Bangladesh has moved up the quality ladder. In these products, China's improvements are particularly noticeable. In clothing, footwear and plastic export quality ladders, Bangladesh was lagging India, Vietnam and China in 2001 and the situation did not change in 2014. The length of a quality ladder indicates the potential for quality upgrading for each product. Clearly, Bangladesh needs to catch up by climbing up significantly.

Figure 2.30 (a): Quality ladder for clothing (SITC 84: Articles of apparel and clothing accessories)

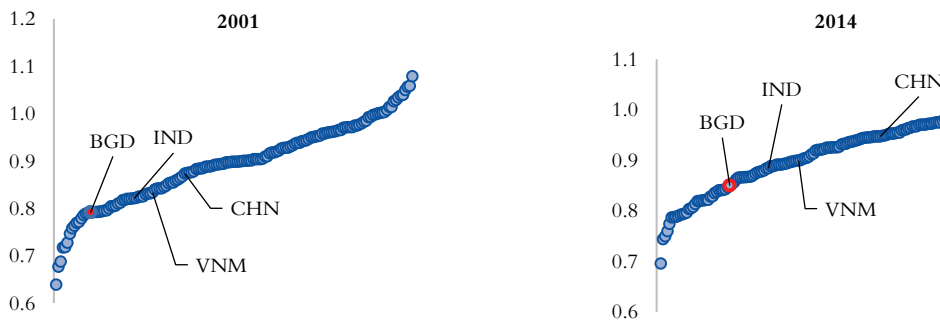


Figure 2.30 (b): Quality ladder for fish (SITC 034: Fish, fresh, chilled or frozen)

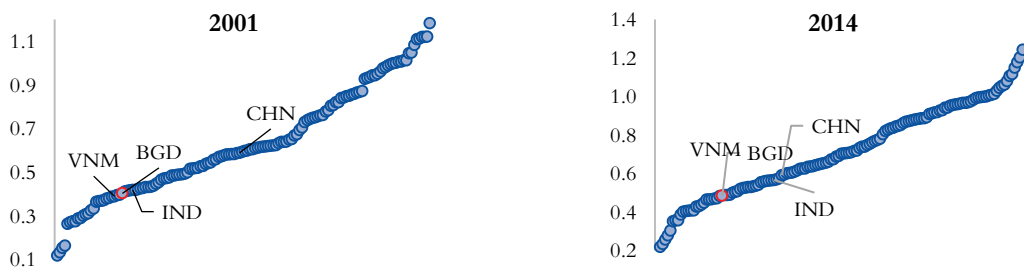


Figure 2.30 (c): Quality ladder for footwear (SITC 85: Footwear)

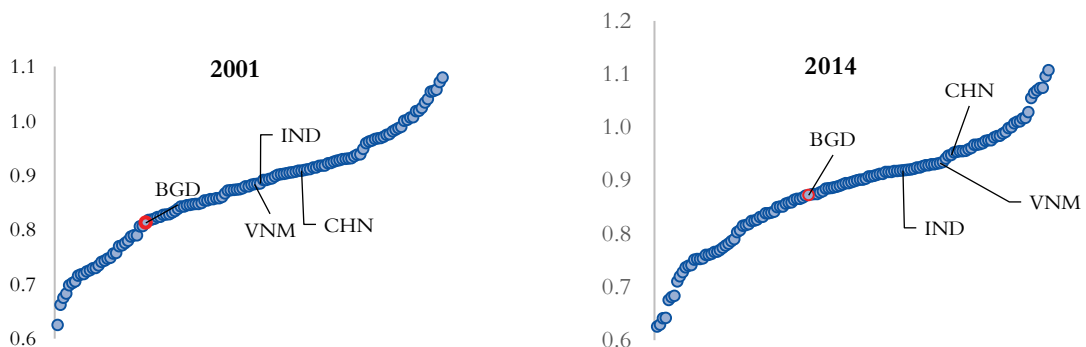
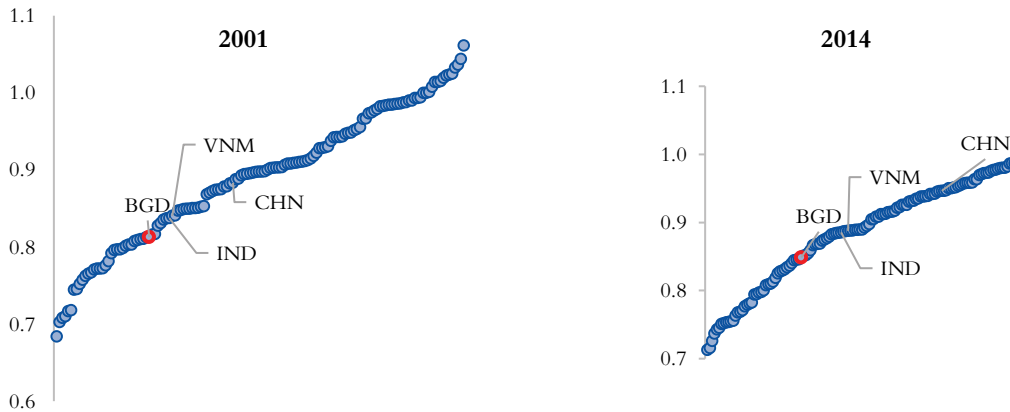


Figure 2.30 (d): Quality ladder for plastic goods (SITC 893)

Note: All quality adjusted unit value estimates on the vertical axis are normalised by their 90th percentile in the relevant product-year combination. Bangladesh, China, India and Vietnam are denoted by BGD, CHN, IND, and VNM, respectively. Source: Author's analysis.

A related issue is the increasing requirement of exporters' complying with standards determined by importers and lead buyers in global and regional value chains. Exporting firms are often under pressure to meet quality requirements through certifications. This may require developing and maintaining proper institutional infrastructures: from laboratories to coordinating institutions. The value of quality infrastructure is increasingly recognised while traditional border measures such as tariffs are of declining importance relative to standardisation, accreditation, testing, control and certification, technical regulation, and market surveillance systems. The role of human capital and institutional quality in ensuring product quality is critical.

Addressing the shortage of skilled workers

The shortage of specialised professionals and skilled workers constitutes a severe problem for export-oriented firms—both in RMG and non-RMG sectors. The last World Bank Enterprise Survey on Bangladesh reported 21 per cent of the exporting firms identifying an inadequately educated and trained workforce as a major constraint. The rate is significantly lower for comparators like China (4%), India (12.1%), Indonesia (10.9%), Malaysia (8.3%), the Philippines (12.6%) and Vietnam (19.2%). In the Human Capital Index of the Penn World Table, Bangladesh is ranked at 109th place amongst 145 countries, while most of the comparators rank below 80.

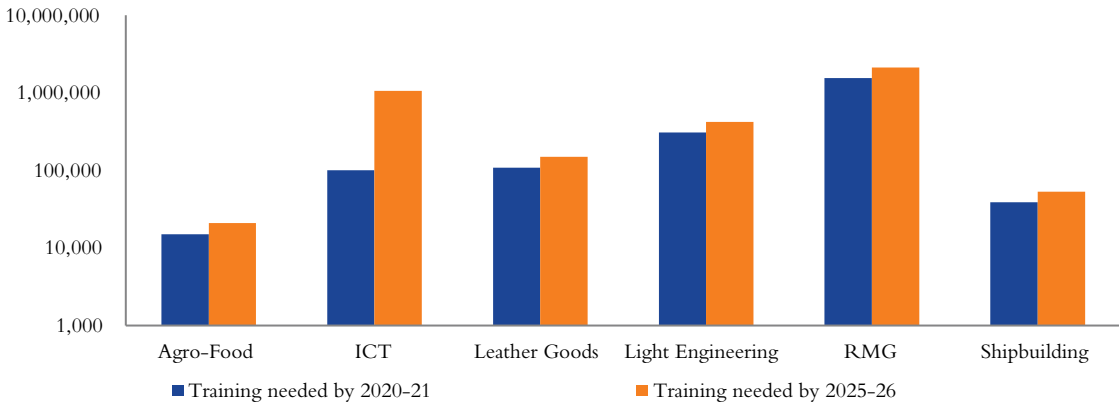
According to a recent employment projection exercise (BIDS, 2017), there is a shortage of about 120,000 skilled workers in the RMG sector, while the corresponding figures for ICT and leather sectors are 88,000 and 62,000, respectively (Figure 2.31).²⁷ The estimated skill-gap in the agro-food sector is a staggering 76 per cent, followed by 40 per cent in IT and ITES sectors, and 36 per cent in the light engineering industry.²⁸ According to the study, more than 5.6 million

²⁷ BIDS Study Report: *Labor Market and Skill Gap in Bangladesh (Macro and Micro Level Study)*, Ministry of Finance, Government of People's Republic of Bangladesh, Dhaka, Bangladesh: May, 2017

²⁸ According to ADB (2016), Bangladesh does not have a deep pool of specialised human capital needed to drive core pharmaceutical processes, such as technical manufacturing, reverse-engineering, quality assurance, active pharmaceutical ingredient production, and innovative research.

workers need to be trained for meeting the industry requirements over the short to medium term.

Figure 2.31: Future training needed by leading sectors (number of workers)



Source: Author's presentation from BIDS (2017).

Many export-oriented firms are now becoming increasingly dependent on foreign nationals for fulfilling managerial, mid-to-higher level and other technical positions.²⁹ Employing foreign professionals is expensive and has implications for firms' export competitiveness. In addition, remittance outflow from Bangladesh through the official channels reached a peak of \$4 billion in 2012, and was estimated to be \$2.5 billion in 2018. Outflows through informal channels are not known but is widely perceived to be high as well. This problem of skill shortages has also been acknowledged in the 7th Five-Year Plan (GED, 2015).

The proportion of workforce with tertiary education is quite low for Bangladesh (ADB, 2016). The current mainstream programmes to address the skill gap under the Technical and Vocational Education and Training (TVET) lacks capacity and relevance to the major export sectors such as garments. On-the-job training opportunities are also limited in Bangladesh because of market failures and lack of measures to tackle them.

Although the skill mismatch has been in discussion for long, proper public as well as private sector led initiatives are not forthcoming. It is in this backdrop that the effective implementation of the national skills development strategy as outlined in the 7th Five-Year Plan cannot be overstated. Meeting specific skill demands of the export sector should be accorded a special priority.

Dealing with real exchange rate appreciations

A rising trend in the real exchange rate appreciation severely undermines Bangladesh's external competitiveness. While many other comparators substantially devalued their currencies against dollar, Bangladesh maintained somewhat stable exchange rate. Furthermore, in recent years

²⁹ The number of work permits issued from BIDA in favour of expatriates employed in the private sector during 2016-17 was 4,248 (including new contracts and extensions). These foreign nationals represent 65 countries, of which more than one-third (1,534) comprised Indian nationals followed by Chinese (911). Information on people working informally is not available.

when many important trade partners have confronted subdued economic growth with weaker domestic prices, Bangladesh has continued to face a moderate inflationary pressure.³⁰ It is the combination of higher inflation rates with lower exchange rate adjustments with dollar (devaluations) that has made the real exchange rate of taka appreciated against the currencies of other countries, undermining Bangladesh's external competitiveness. Between 2012 and 2018, the bilateral real exchange rate of taka relative to renminbi declined by 24 per cent implying that the competitiveness of Bangladesh's exporters vis-à-vis their Chinese counterparts suffered a major setback. During the same time, Bangladesh also experienced real exchange rate appreciations with India and Vietnam by 22 per cent and 18.8 per cent, respectively.

Figure 2.32: Nominal and real exchange rates

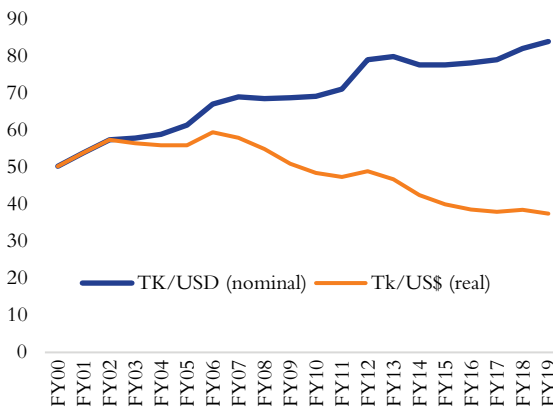
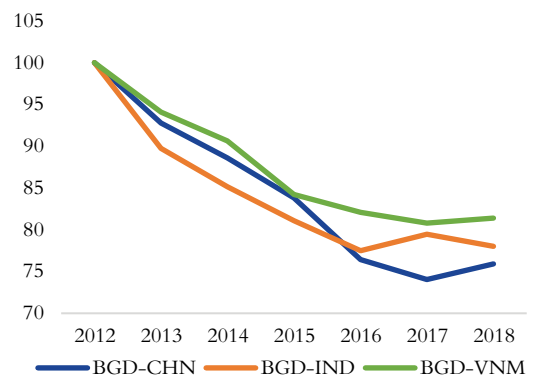


Figure 2.33: Bilateral real exchange rate (2012=100)



Source: Author's analysis using Bangladesh Bank and the International Financial Statistics (IFS), IMF data.

For a country like Bangladesh, management of the exchange rate is important for a diverse set of policy objectives including bolstering economic growth, containing inflation and maintaining external competitiveness. While Bangladesh has been successful in avoiding large and abrupt rises in nominal exchange rates (NERs), RER appreciations are often a major challenge. In the face of rising price levels, currency depreciations are 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).

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, share of investment in GDP, composition of public spending etc (Badia & Segura-Ubiero, 2014). In addition, fiscal and monetary policies

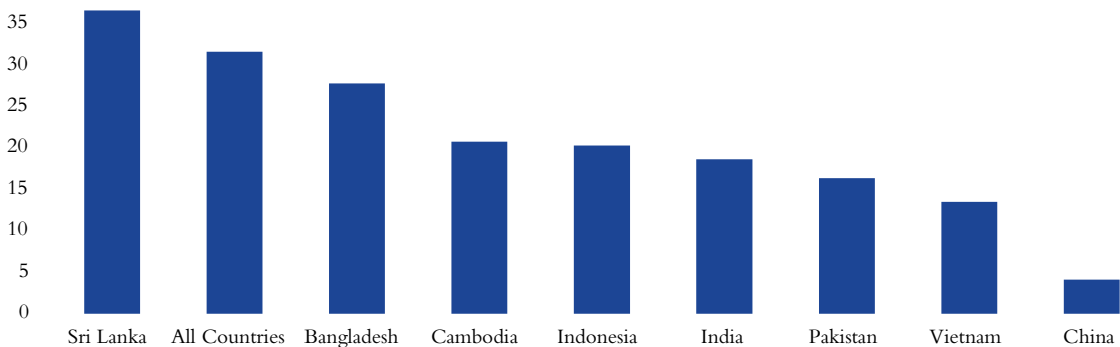
³⁰ It has been estimated that between Bangladesh's inflation differential with the U.S., Canada, Eurozone economies and the UK was more than 6 percentage points. The comparable figures with East Asia countries in most cases range from 4 to 6 percentage points. India and Indonesia, however, have shown inflationary pressures that are broadly comparable with Bangladesh.

need to be consistent with the exchange rate regime to promote a country's external competitiveness. Therefore, management of the exchange rate will remain a delicate task for policymakers.³¹

Improving access to trade finance

Lack of access to trade finance restricts the entry of new exporters, particularly those of small and medium enterprises. Cover for payment risks and mobilising working capital are the two important components of trade finance. In addition, purchase of new capital equipment and raw materials at the time of start-up is one of major finance-related hurdles that potential exporters would have to overcome. Only 34 per cent of all small and medium enterprises (SMEs) in Bangladesh could have access to any loan from a formal financing institution (World Bank, 2013). Almost a quarter of the firms interviewed in the World Bank Enterprise Survey viewed access to finance as a major constraint in Bangladesh (Figure 2.34).

Figure 2.34: Firms identifying access to finance as a major constraint (%)



Source: Author's presentation from World Bank.

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.

The amount of collateral required for a loan in Bangladesh is one of the highest in the world (272 per cent of total loan) (World Bank, 2013). The common practices like high security deposit requirements along with personal guarantees from the firms' owners and directors sometimes work as barriers to trade finances, especially for small, and new entrepreneurs.

³¹ Another dimension of the RER management is the implications for overall economic growth. Whether and how exchange rate movements influence overall economic growth is a longstanding controversial issue in the relevant literature. In an influential paper, Rodrik (2008) argues that tradable sectors are more severely affected by bad institutions and market failures, resulting in their below optimal size. Undervaluation of national currencies helps overcome these problems. This contrasts the 'Washington Consensus' view that undervaluations are harmful and lead to overheating and excessive inflation (Berg & Miao, 2010). For Bangladesh, there is evidence that in the long run a 10 per cent depreciation in the real exchange rate is associated with, on average, 3.2 per cent rise in aggregate output (Razzaque et al., 2017). In the short run, however, there is a contractionary effect so that the same magnitude of real depreciation would result in about a half per cent decline in GDP.

Bangladesh's Export Development Fund (EDF) offers trade finance at 7 per cent interest rate per year.³² While 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 payment risk policies.³³ 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, Sri Lanka, and Indonesia. 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. 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 RMG 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).³⁴

Attracting FDI inflows

The role of FDI in expanding exports and promoting export diversification is well-established in numerous academic studies and reports. The most direct impact of FDI is through employment generation, skill upgradation, and improvement in productivity. The spillover effects arising from knowledge and technology transfers and better management practices are also considered hugely significant. It helps recipient countries integrate with global value chains.

The private sector investment in Bangladesh is around 23 per cent of GDP with an additional 7–8 per cent is provided through the public sector. Because of weak investment climate and high cost of doing business, the FDI inflow into Bangladesh has been subdued: 1 per cent of GDP, on average, during 2000–18 (Figure 2.35). In contrast, the average FDI inflow into China, Cambodia, India, and Vietnam were 2.1 per cent, 9.1 per cent, 1.7 per cent, and 5.6 per cent, respectively. The FDI stock as percentage of GDP for Bangladesh, 6.3 per cent, is far lower than that of its comparators (Figure 2.36). For example, the FDI stock for Cambodia increased from about 10 per cent in 1995 to close to 100 per cent in 2018, while Vietnam's share increased from around 28 per cent to almost 60 per cent.

Attracting FDIs, particularly in non-RMG export sectors, can be a big boost for export growth and diversification. Such features of the Bangladesh economy as having a big domestic market, large pool of workforce with very competitive wages, and existence of a global export industry like the garment sector, should make the country an important investment destination provided that factors affecting investment climate and cost of doing business can be effectively dealt with. The ongoing initiative of establishing 100 special economic zones (SEZs) with the objective of providing the investors with serviced industrial plots and improved business environment could be an opportunity to revamp the country's investment regime while facilitating export expansion.

³² BRPD Circular No. - 01, dated 10 January 2004, Bangladesh Bank.

³³ For details, see http://mail.sbc.gov.bd/ins_export_credit.php.

³⁴ Established in 2010, the Global Trade Supplier Finance (GTSF) program is a \$500 million multicurrency investment and advisory programme 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.

Figure 2.35: FDI inflow as % of GDP (average of 2000–18)

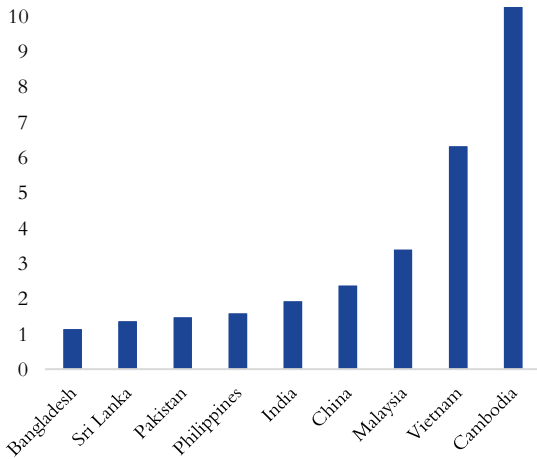
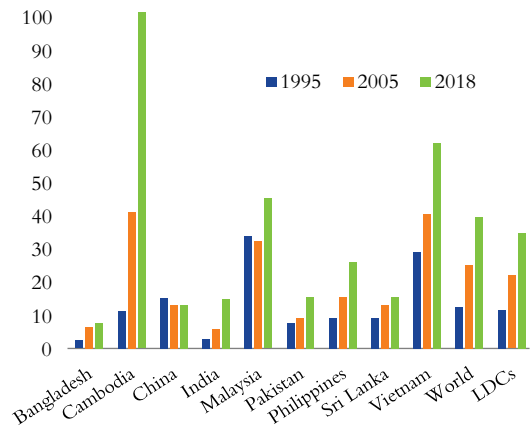


Figure 2.36: FDI stock of selected countries (% of GDP)

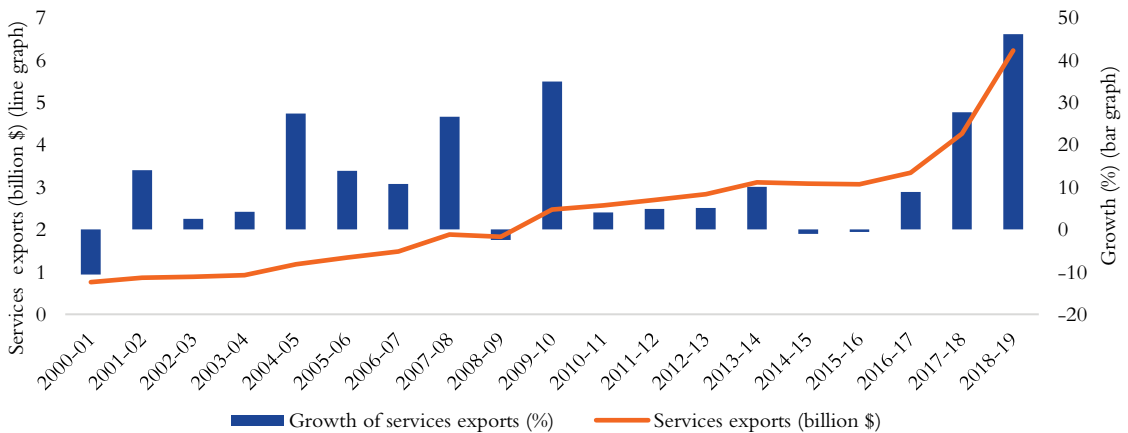


Source: Author's analysis using UNCTADstat data.

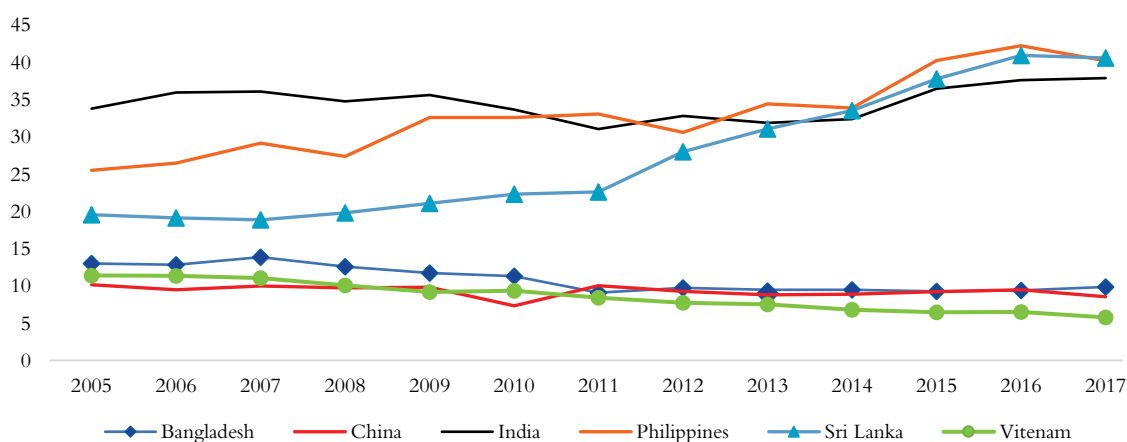
Promoting exports of services

Export growth and diversification can also be promoted through enhanced exports of services. Non-factor service exports of Bangladesh stood at just over \$6 billion in 2018-19. Services export growth rates have been quite erratic (Figure 2.37). When the relative significance of services exports in total exports is considered, Bangladesh, China and Vietnam show comparable shares (Figure 2.38). However, as both Vietnam and China have much overall larger export volumes, services exports in absolute terms in those countries are much bigger (\$14.8 billion and \$233.6 billion, respectively).

Figure 2.37: Services exports and growth



Source: Author's analysis using EPB and UNCTADstat data.

Figure 2.38: Services export as percentage of total exports in selected developing countries

Source: Author's presentation using World Development Indicator (WDI) data.

The 7th Five-Year Plan provides a detailed strategy of services sector development, a major objective of which is to increase the growth of non-labour services export, specifically ICT, international transport services and tourism. It set a target of achieving export earnings of \$6 billion (from \$1.5 billion in 2015) by the end of the plan period from such services as ICT, travel and tourism (Table 2.3). It also outlined incentive policies and initiatives to encourage foreign investment in export-oriented services.

Table 2.3: Value and share of services export by subsectors (million \$)

Services sectors	FY11		FY14		FY17		FY19	
	Value (million \$)	Share (%)	Value (million \$)	Share (%)	Value (million \$)	Share (%)	Value (million \$)	Share (%)
Transportation	191	7.4	460.9	14.8	436.3	13.8	662.76	10.65
Travel	85.6	3.3	142.4	4.6	290.9	9.2	367.86	5.91
Construction services	11.3	0.4	45.7	1.5	135.6	4.3	434.93	6.99
Financial services (other than insurance)	59.6	2.3	59.2	1.9	88.5	2.8	130.46	2.1
Telecommunication and information services	349.6	13.6	444.8	14.3	376.5	11.9	549.05	8.82
Other business services	670	26.1	403.3	12.9	502.8	15.9	980.02	15.75
Government goods and services	1192.7	46.4	1468.3	47.1	1313.3	41.5	2883.76	46.35
Miscellaneous services (not included elsewhere)	10.4	0.4	90.6	2.9	20.8	0.7	213.06	3.43
Total	2570.2	100	3115.2	100	3164.7	100	6221.9	100

Note: Miscellaneous services include manufacturing services on physical inputs, maintenance and repair services, insurance services, charges for the use of intellectual property and personal, cultural and recreational services.

Source: Author's presentation using EPB and Bangladesh Bank data.

The ICT sector is widely regarded as a sector with huge export potentials. Amongst others, the sector is thought to be constrained by a shortage of skilled workers, high prices of internet bandwidth and lack of finance. Various projects and programmes for setting up hi-tech, software and technology parks, and IT villages have already been implemented and some of them are currently underway. ICT firms are now availing the Equity Entrepreneurship Fund (EEF), a

venture capital fund provided by the Bangladesh Bank, albeit in a limited scale. Tourism and exports of labour services are two other major sectors that can significantly enhance Bangladesh's export earnings.

Bangladesh earned close to \$670 million from international transport services (10.6 per cent of total service exports) in 2018–19. However, it paid \$5,450 million for transport services in the same year. This shows the potential for expansion in this area. Significant efforts are needed to reduce this deficit by improving the capacities and performance of the shipping and airline industries.

Consolidating improvements and maintaining good workplace safety standards

Bangladesh's future export success is likely to continue in labour-intensive manufacturing sectors. While this is good for employment generation, unfavourable labour issues attract widespread global attention and can adversely affect export prospects. Failure to maintain national-international standards on various compliance-related issues, including labour rights, wages, workplace safety measures, etc. have been long-standing features of the country's labour-intensive sectors. Bangladesh's most developed export-oriented sector, the RMG industry, has struggled to ensure workplace safety and other workers' rights being subject to close scrutiny by global watchdogs. Similarly, the second-largest export earning industry, leather and leather goods, is yet to attain international accreditation for locally processed raw materials due to lack of compliance with environmental standards.

The collapse of garment factory, Rana Plaza, in 2013 led to severe global criticism for both local exporters as well as international buyers involved with the local industry. Since then there has been a renewed push for compliance-reforms. International brand consortiums demanded various measures to ensure compliance at source, while local factory owners made significant investments to improve workplace safety standards, and overall working environment. Although costs incurred through these investments for compliance may have resulted in pressures on price competitiveness, those measures will eventually help achieve international buyers' confidence and sustained demand for products made in Bangladesh over the medium to long terms. For any export-oriented industry, local entrepreneurs should not compromise with compliance issues. One way of improving the current situation is to ensure internationally acceptable compliance standards both in the export and non-export sectors. The progress made in the RMG sector should be consolidated and efforts must continue to make further improvements. It is also important to take greater ownership of these issues to maintain good practices in a sustainable manner.

2.5 Conclusion

Despite being resilient throughout the period of the 2008 global financial crisis-led economic recessions in Western developed countries, the export sector appears to have eventually come under some severe strain. Persistent slowdown in world trade flows, increased pressure on external competitiveness due to several factors, and heightened policy uncertainty in the aftermath of the U.S.-China trade war have brought the performance of Bangladesh's export sector under the spotlight. This is particularly concerning as the policy targets of achieving \$50

billion RMG exports and an overall \$60 billion exports by 2021 will not be possible. Along with this, there has hardly been any progress on export diversification. The upcoming graduation from the group of least developed countries means Bangladesh will have to strive further to address any loss of export competitiveness due to forgone market access benefits and other privileges associated with LDC status.

In the above backdrop, for promoting export competitiveness and diversification, this chapter has emphasised on some selected issues for priority consideration. First and foremost, contrary to the national objective, Bangladesh's export-orientation in recent times has fallen quite significantly. This would require urgently assessing the trade policy regime to deal with any issues that would help attract more investment into the export sector. This should be complemented by enhanced export support and promotional measures. It is also important to remember that export diversification efforts should be enhanced while considering the fact Bangladesh must try to rapidly expand its export base, for which strengthening the RMG sector dynamism is important. The global apparel market is set to grow further, and this constitutes a tremendous opportunity for RMG export expansion.

There is a need for reviewing the export incentive schemes (including cash assistance and bonded warehouse facilities). These were critical ingredients of initial export success. There is further room for expanding and deepening such incentives not only to help diversify the export basket but also to push for enlarged export earnings from the established sectors. The export incentive policies should be consistent with the national objectives of export-led growth and job creation and should not be unduly constrained by revenue concerns. In some cases, lack of supply response means the available export incentives are not being utilised. Bonded warehouse facilities should be extended to all export sectors.

The need for proactive support measures cannot be overemphasised given Bangladesh's impending LDC graduation. There will be challenges arising from the loss of trade preferences in many developed and developing countries including Australia, Canada, China, the EU, and India, Japan and the Republic of Korea. Along with trade preferences, the scope of certain policy flexibilities, e.g. supporting exporters with cash assistance—as mentioned in Chapter 1—will also shrink. There is thus the need for building momentum to expand the export base before graduation. Deepening export incentives and other policy support can play a significant role in this regard.

Bangladesh needs to proactively aim for expanding exports in new markets. India and East Asian nations can be sources of future export growth. Despite the global trade slowdown in recent years, market prospects in these countries look very promising. Establishing new export relationships is challenging, and given the evidence provided on a lower survival rate of Bangladesh's new exports, it is important to deepen support for new exporters to increase survival rates during the first several years after beginning to export. The support for market promotion to deal with uncertainties associated with new products and new markets is likely to be helpful. In addition to looking for opportunities in new markets, Bangladesh must also continue to expand its exports in traditional markets of Europe and North America.

The countries that have been able to register and sustain high export growth and diversify their export baskets, almost in every case, were benefited from foreign direct investment. FDI firms are integrated into the global value chain and manage the supply chain processes from R&D to brand development to manufacturing to retailing across the globe to providing after-sales services. Without being an integral part of this chain, sustaining even a modest growth of exports will be extremely difficult. Compared to its comparators, Bangladesh has not been successful in attracting FDI. However, growth dynamism in the economy, upcoming improved infrastructures, and serious policy attention for improved doing-business environment should be able to make Bangladesh a desired destination for foreign investment if efforts continue.

In the coming years, especially after LDC graduation, Bangladesh will have to look for trading opportunities through negotiated trade deals such as free trade agreements. Bangladesh does not yet have a bilateral FTA with any trading partner and is a member of just one formal regional FTA, the South Asia Free Trade Area (SAFTA). Therefore, negotiating post-graduation trading arrangements will be critical. This requires giving serious attention to revamping the existing trade policy regime and significantly enhancing trade negotiation capacities to effectively tackle the challenges associated with the underlying development transition.

Infrastructural bottlenecks, including troublesome inland road transportation and weak trade logistics, pose major constraints. There is no denying that the current state of infrastructural facilities will be grossly inadequate to help Bangladesh double its export earnings within a shortest possible time. Despite recent improvements, an important determinant of future export success will be to develop a modern, efficient and investment-friendly infrastructure in the country.

The need for skill training of workers is now very important for the export sector. Currently, there is a huge shortage of skilled workers in the RMG sector as well as in other sectors. As such, the effective implementation of the national skills development strategy as outlined in the 7th Five-Year Plan cannot be overstated. Meeting specific skill demands of the export sector should be accorded a special priority. The appreciation of the real exchange rate has serious implications for exports. Bangladesh needs to maintain international competitiveness for which adjustments in the nominal exchange rate is important. The exchange rate management is an involved task as its effectiveness in maintaining external competitiveness will depend on many other factors including accompanying monetary and fiscal policies. Bangladesh has been successful in maintaining exchange rate stability, but more policy attention is also needed in tackling real exchange rate appreciations.

Bangladesh's export sector is now at a critical juncture that will require confronting competitiveness challenges whiling building on the success of the previous decades. Considering appropriate trade policy options, conducting commercially meaningful trade negotiations to ensure export market access, dealing with infrastructural bottlenecks and cost of doing business, and improving firm-level competitiveness comprise four broad pillars of activities that are likely to define Bangladesh's future export success as Bangladesh graduates from the group of the least developed countries.

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Bangladesh's Graduation from the Group of LDCs: Potential Implications and Issues for the Private Sector

Mohammad Abdur Razzaque, Hamim Akib & Jillur Rahman

3.1 Introduction

As a testimony to its impressive economic performance, sustained over the past decades, Bangladesh is officially set to graduate from the group of least developed countries (LDCs) by 2024. Against overwhelming odds, it is a tremendous achievement, featuring international recognition of the country's ongoing development transition. As an LDC, Bangladesh has been a beneficiary of certain international support measures (ISMs) that are generally not available to other developing countries. These include unilateral trade preferences and more favourable conditions or flexibilities granted under various agreements of the World Trade Organization (WTO). Furthermore, the development partners have provided special attention and undertaken commitments to support LDCs with financial and technical assistance from which Bangladesh has also benefitted.

Bangladesh is widely perceived to be the largest beneficiary of LDC-specific trade preferences and other facilities. A relatively well-developed private sector makes the country quite distinct from other LDCs. In FY19, the private sector accounted for three-quarters of all investment activities, as the share of private investment stood at 23.3 per cent of GDP.¹ During the five year period of 2015–19, approximately \$250 billion worth of investments came from local investors in comparison with FDI inflows of just about \$12 billion.² Bangladesh's rapid economic growth and transformation have thus mainly been driven by domestic private entrepreneurs.

Amongst others, the role of private enterprises in the development of the country's flagship readymade garment (RMG) industry cannot be overemphasised. A dynamic entrepreneur class, taking advantage of the global market situations of the 1980s and 1990s, gradually built a success

¹ Investments from the public and private sectors together accounted for 31 per cent of GDP in FY19.

² Authors' estimation using data from the Bangladesh Bureau of Statistics.

story of the export-oriented RMG sector. Aided by low labour costs and LDC-specific trade preferences (such as duty-free market access in the EU and many other countries), clothing exports grew rapidly. Apart from readymade garments, various other domestic market-oriented manufacturing industries have also flourished. Indeed, unlike most developing countries, Bangladesh has been able to increase the relative significance of manufacturing in total output. Since the early 1990s, there has been a six-fold increase in the sector's output, raising its share in GDP from 13 per cent to 21 per cent. Between 2014 and 2018, it grew at an impressive annual average rate of 10.7 per cent in comparison with the GDP growth of 6.6 per cent. Apparel, textile, leather, pharmaceutical, cement, plastic, furniture, jute, light engineering, etc. are important manufacturing activities. The impending graduation is likely to have certain implications mainly for the export-oriented enterprises, as it gives rise to concerns about potentially sizeable economic costs due to the loss of access to various LDC-specific support measures.

Against the above backdrop, this chapter attempts to identify major issues arising from the changed circumstances associated with LDC graduation where the private sector has important stakes. It also discusses various policy options that can be pursued to ease the transition process into the post-graduation era. The graduation issues have been analysed under three broad likely implications: (i) preference erosion in international trade, potentially affecting exporting firms; (ii) reduced policy space, constricting the scope of supporting exporters and domestic market-oriented industries; and (iii) unfavourable impact on the prospects for development financing. While not exhaustive, these are likely to be the major avenues through which the private sector might get affected. This chapter assesses the relevant provisions in international trade agreements and development financing to consider possible implications.

The chapter is organised as follows: after this introduction, Section 3.2 discusses the issue of preference erosion in the post-graduation period, particularly considering the likely consequences for readymade garment exports. Section 3.3 considers the areas where policy space could be reduced to support the private sector. This includes the scope of providing assistance to exporters (e.g., cash assistance to exporters) as well as continuing with traditional measures to protect certain sectors (e.g., the pharmaceutical industry) in the domestic market. Section 3.4 analyses the prospect of securing development finance, which, amongst others, help improve the private sector competitiveness, for instance, by building infrastructural facilities. Section 3.5 provides some policy options and recommendations to deal with potentially unfavourable developments and Section 3.6 concludes.

3.2 Preference Erosion in International Trade

Trade preferences and Bangladesh's exports

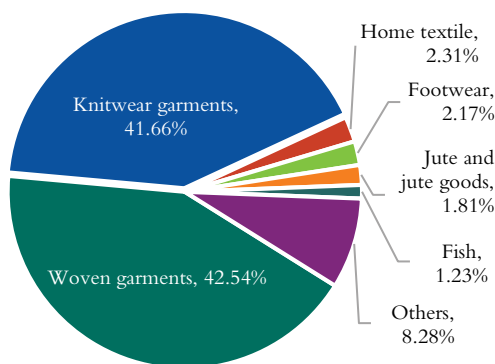
Since the inception of the LDC group, only five countries (Botswana, Cabo Verde, Equatorial Guinea, Maldives, and Samoa) have graduated. However, Bangladesh happens to be a unique case in this respect as no other former LDCs had a relatively well-developed private sector with a large share of manufacturing in total exports.³ Also, unlike other LDCs (including those that have already graduated), Bangladesh has been able to utilise the existing trade preferences in a

³ Botswana and Equatorial Guinea are mineral resource exporting country, while Cabo Verde, Maldives, and Samoa depend on tourism and fishing.

commercially meaningful manner. While the combined share of 48 LDCs in global merchandised exports is 0.98 per cent, Bangladesh alone accounts for 0.20 per cent. Therefore, the exposure to preference erosion is likely to be far greater for Bangladesh.

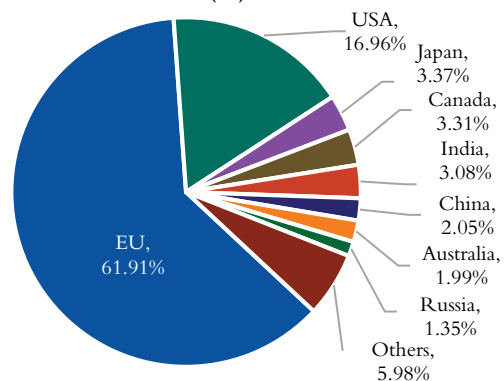
Although the World Trade Organization (WTO)-led multilateral trading system provides various favourable conditions and flexible terms to promote participation of LDCs in global trade, Bangladesh has primarily benefitted from unilateral trade preferences provided by some developed and developing countries. Most of these countries grant either full or partial duty-free and quota-free (DFQF) market access for the products originating in LDCs under their respective Generalised System of Preference (GSP) schemes. It is also a standard practice to make LDC exports subject to less stringent rules of origin (RoO) while qualifying for market access benefits.

Figure 3.1: Bangladesh's major export items, FY19 (%)



Source: Based on EPB data.

Figure 3.2: Bangladesh's key export destinations, FY19 (%)

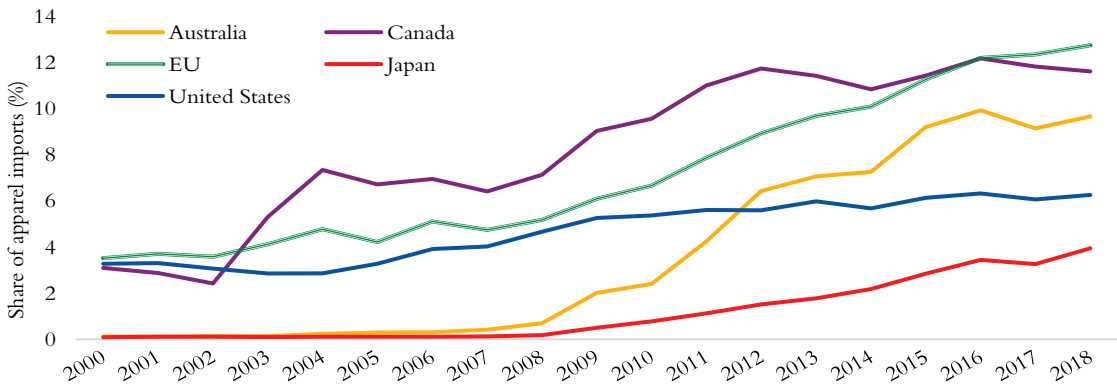


Source: Based on EPB data.

Bangladesh has been the largest beneficiary of tariff-free access in Australia, Canada, and the EU. These countries are among those that have provided the most generous market access offers for LDCs.⁴ More than 72 per cent of Bangladesh's merchandise exports enjoy some LDC-specific trade preferences. A key concern after graduation is the loss of these preferences as graduating countries can only apply for less favourable preferential schemes designed for other developing countries. In the post-graduation period, they can also face MFN tariff rates (i.e., getting no tariff concessions at all) given the various provisions of respective donor countries' trade regimes. Amongst all sectors in all LDCs, Bangladesh's readymade garment sector has benefited most from LDC-related trade preferences.

Indeed, of Bangladesh's \$40.53 billion exports in FY19, \$34.13 billion (more than 84 per cent) were due to apparel products (considering woven and knitwear garments together) (Figure 3.1). The EU, including the UK, alone accounted for almost 62 per cent of Bangladesh's merchandise exports (Figure 3.2) and 65 per cent of apparel exports. The United States accounts for approximately 17 per cent of exports. Other major destinations are Japan, Canada, India, China, and Australia. Of these major markets, only the United States does not provide any preferential market access to Bangladesh.

⁴ The 13 countries that have notified the UNCTAD secretariat about national GSP include Australia, Belarus, Canada, the European Union, Iceland, Japan, Kazakhstan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the United States. In addition, Armenia, Chile, Taiwan, India, Kyrgyz Republic, Liechtenstein, China, Thailand provide duty-free treatment for the LDCs, while the Republic of Korea has a preferential tariff support for the LDCs.

Figure 3.3: Bangladesh's apparel market shares in major importing countries (%)

Source: Authors' estimation.

For more than a decade, Bangladesh remained as the world's second-largest apparel exporter after China. Taking advantage of trade preferences, Bangladesh managed to expand its market share in major importing countries (Figure 3.3). In the early 2000s, Bangladesh had almost an identical market share of around 3.3 per cent in Canada, the EU, and the United States. Except for the U.S., where Bangladesh does not get any preferential access, LDC-specific market access conditions in the other two markets have helped raise its shares to almost 13 per cent in the EU and 12 per cent in Canada. In comparison, the market share in the United States rose to just above 6 per cent. Using these preferences, Bangladesh also expanded its supplies to Australia and Japan. Its market share during the past decade rose from less than 1 per cent to almost 10 per cent in Australia and to about 4 per cent in Japan.

Market access conditions in major export destinations

European Union

To assist developing countries and LDCs in their development process, the European Union provides preferential market access. The EU's preferential schemes are devised following the WTO's 'Enabling Clause'. This clause enables developed nations to grant unilateral and non-reciprocal tariff preferences to developing or least developed trade partners. The current GSP regime in the EU offers three different trade preference arrangements: (i) a general arrangement (Standard GSP); (ii) a Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+); and (iii) an Everything but Arms (EBA) arrangement for the group of least developed countries. Bangladesh, as an LDC, gets duty-free and quota-free (DFQF) market access under the EBA.

When a country graduates from the LDC group, it can either be entitled to the preferential access under GSP+ or Standard GSP. The best alternative to the EBA is GSP+, which allows duty-free access to 66 per cent of EU tariff lines including tariff-free access for apparel items (Table 3.1). According to current regulations, to attain GSP+ preferences, a potential beneficiary country must satisfy certain criteria. First, the import share criterion implies that a recipient country's share of GSP-covered import must remain below 6.5 per cent of GSP-covered imports of all

GSP countries; second, the diversification criterion, which stipulates that the seven largest sections of GSP-covered imports must constitute 75 per cent of imports from the beneficiary country over a period of three years. These two criteria are referred to as vulnerability criteria. Finally, the sustainable development criterion would require the applicant country to have ratified and effectively implemented 27 international conventions on labour rights, human rights, environmental protection, and good governance.

Table 3.1: EU GSP arrangements and provisions

Preference scheme	Eligibility criteria	Non-sensitive goods	Sensitive goods	Rules of origin (important provisions only)
Standard GSP	Low or lower-middle-income countries.	Duty reduction for around 66% of all EU tariff lines.	Duty reduction: 30 %—up to 3.5 percentage points.	Double transformation for textile and clothing items. For all other products, a minimum local value-added of 50%.
GSP +	Vulnerable (for export diversification, export, and import volumes) Standard GSP beneficiaries that have ratified the 27 GSP+ relevant international conventions.	Duty suspension for around 66% of all EU tariff lines, including textile and clothing items	Duty suspension	Double transformation for textile and clothing items. For all other products, a minimum local value-added of 50%.
EBA	LDCs	Duty suspension for all goods except for arms and ammunition.	Duty suspension	Single transformation for textile and clothing items. For all other products, a minimum local value-added of 30%.

Source: Based on available documents from the European Commission website.

Bangladesh fulfills the diversification criterion and may qualify for the sustainable development criterion.⁵ However, it is highly unlikely to satisfy the import share criterion as its current share (2018) in all GSP-covered imports is more than 17 per cent. Thus considering the current regulations, the least attractive Standard GSP appears to be the only scheme through which Bangladesh can enjoy some GSP benefits .

Table 3.2: EU tariff rates under Standard GSP and Bangladesh's exports

Tariff rates	EU imports from Bangladesh		Number of Bangladesh's product lines in the EU
	Million \$	Share (%)	
0	251.9	1.31	2,707
SD only	1.3	0.01	94
0.1%–2.9%	56.4	0.29	325
3%–4.9%	695.7	3.61	340
5%–7.9%	347.9	1.80	431
8%–9.9%	17,654.7	91.52	411
10%–11.9%	234.6	1.22	63
12%–15%	47.8	0.25	78
15.1%–20%	0.1	0.0004	24
Above 20	0.3	0.0017	17
Total	19,290.7	100	4,490

Note: Some products with MFN tariffs are also subject to specific duties. In this exercise, these products are placed under the relevant ad valorem tariff slabs only. SD stands for Specific Duty.

Source: Authors' analysis using EU Comext and WITS data.

⁵ Regarding the diversification criterion, more than 90 per cent of Bangladesh's exports to the EU are in woven and knit garments, comprising just one section of GSP-covered imports. Among 27 international conventions, Bangladesh needs to ratify one more convention to fulfil the sustainable development criterion.

Application of Standard GSP after graduation would result in Bangladesh's almost all exports to the EU becoming subject to some degree of tariffs. This is because exports are heavily concentrated in clothing items, on which there are EU-MFN tariffs. An analysis of EU tariff structure shows that about 92 per cent of Bangladesh's exports to the EU will fall under an average tariff of 8 to 9.9 per cent (Table 3.2). Considering the clothing items alone, 98 per cent of exports would attract on average a 9.6 per cent tariff rate. Graduation would also imply more stringent rules of origin to benefit from any preferential treatment. The minimum local value-addition, for all exports other than clothing, would increase from 30 per cent to 50 per cent. On the other hand, to qualify for GSP+ preferences, clothing items need to go through what is known as 'double transformation' (i.e., preference-seeking countries will have to prove that they can produce fabrics and the domestically produced fabrics are used in making garments). Under the EBA, LDCs qualify for duty-free market access even with a single transformation process (i.e., from imported fabrics to clothing).

Table 3.3: Post-graduation tariffs on Bangladesh's major exports to the EU

HS code	Products	Tariffs after graduation (Standard GSP rates)
61	Knitwear	6.4%–9.6% overall, 9.6% for most products and avg. tariff rate 9.3%
62	Woven garments	5%–9.6% overall, 9.6% for most products and avg. tariff rate 9.25%
64	Footwear	0%–11.9% overall, 4.5% for most products of HS 6403, 11.9% on all products of HS 6402 and HS 6404. The average tariff rate is 6%.
63	Home textile	0%–9.6% overall, 9.6% for most products and avg. tariff rate 8.25%
03	Fish	0%–19.5% overall, average tariff rate is 6.5%

Note: Average tariff rates are calculated as simple average.

Source: UNCDP (2019).

Although Standard GSP is a likely option for Bangladesh, it is not guaranteed for all products. Under EU regulations, if a preference-receiving country's market share in EU imports of various product categories exceeds a predetermined threshold share, those products will be excluded (UNCDP, 2019). Since Standard GSP is available for many developing countries with strong supply-side capacities (including Brazil, China, India, Mexico, etc.), the threshold market share is installed to avoid overexploitation of the benefits provided. This provision is also known as 'product graduation' for goods in which developing countries are considered to have attained the highest levels of competitiveness in the EU.

For Bangladesh, the products included under the specified group S-11b (Chapters of HS 61, 62 and 63) have a strong likelihood of product graduation. According to EU Commission Delegated Regulation 2015/1978 of August 2015, the product graduation threshold for products under Standard GSP for group S-11b is 47.2 per cent. Estimates based on 2017 data (latest available) show Bangladesh's share for group S-11b is 43 per cent (Dawar et al., 2019). That is, Bangladesh still under the threshold to qualify for Standard GSP.

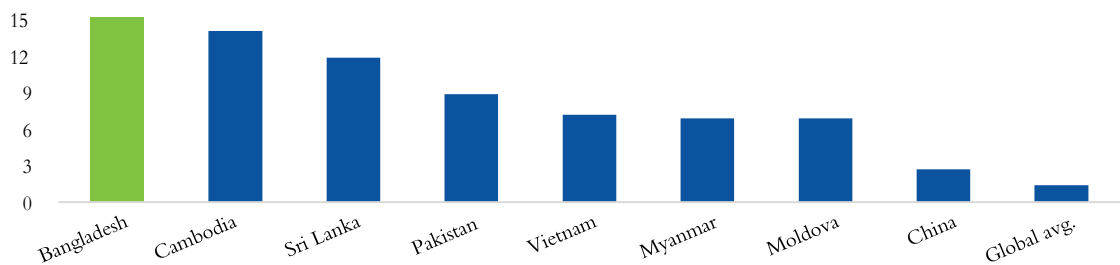
However, given the growth of Bangladesh's RMG exports to the EU over the past decade, it is quite likely that the threshold of 47.2 per cent will be exceeded by the end of EU transition period in 2027. Another concern for Bangladesh is the newly signed FTA between the EU and Vietnam. Vietnam is a major exporter of apparel items under S-11b as a Standard GSP beneficiary. As the FTA gets ratified and implemented, the shipments from Vietnam will not be considered as GSP-covered imports into the EU. When the FTA comes into full force after the gradual elimination of tariffs (within a period of 7–10 years), Vietnam will not be treated as a GSP

beneficiary country. Consequently, Bangladesh's share in GSP imports by the EU under S-11b will appear bigger than what it is now. The EU reviews the list of graduated products once in every three years. If the current criterion of 47 per cent remains unchanged in future triennial reviews, apparel exports from Bangladesh will face an increased likelihood of product-graduation.⁶

The United States

Bangladesh does not have any preferential market access in the United States. In 2013, the United States suspended its GSP scheme for Bangladesh on the ground of the latter's not complying with the standards for workers' rights and safety. The U.S. had, however, never provided any preferential market access for Bangladesh's most important export items, viz. readymade garments. Therefore, even prior to suspension, the U.S. scheme covered only a very narrow range of products, accounting for just about 0.54 per cent of Bangladesh's total exports to the country. Currently, Bangladesh pays very high effective tariff rates in the U.S. market (Figure 3.4). As Bangladesh is not entitled to any trade preference, graduation is unlikely to have any major implications in the United States.⁷

Figure 3.4: Tariff incidence in the U.S. market as per cent of the total value of imports



Source: Based on Pew Research Center, 2018

Australia and Canada

Like the EU, Australia provides duty-free and quota-free market access to LDCs for virtually all product lines under Part 2 of Schedule 1 of the Australian System of Tariff Preferences (ASTP).⁸ Australian rules of origin require 25 per cent local value-addition and the last process of manufacturing taking place in the LDCs. The Canadian GSP scheme for LDCs—called the Least Developed Country Tariff (LDCT)—is also comprehensive in its coverage, providing duty-free access to 98.9 per cent of its tariff lines. The LDCT rules of origin are quite simple and less stringent for apparel and textile products. It requires a domestic value-addition of just 25 per cent.

⁶The existing list of GSP-graduated products for India includes minerals, chemicals, textiles, pearls and precious metals, iron, steel and articles of iron and steel; motor vehicles, bicycles, aircrafts, ships and boat. For Indonesia, the list includes live animals excluding fish; animal or vegetable oils, fats and waxes. For Kenya, the list includes live plants and floricultural products. For Ukraine, the list includes animal or vegetable oils, fats and waxes; railway and tramway vehicles and products.

⁷Clothing, footwear, leather articles, home textiles and fish that together account for more than 90 per cent exports of Bangladesh to the United States were never given any tariff preferences.

⁸The system encompasses five preference categories: least developed countries, Forum Island countries, developing countries, developing country status and developing country category T (UNCTAD, 2018a).

For other LDC exports to Canada, the corresponding value-addition requirement is 40 per cent to qualify for the preferential access.⁹

Generally, graduated LDCs will no longer benefit from LDC-specific preferences in Australia, although they may qualify for existing the GSP scheme for developing countries (Part 4 of Schedule 1 of the regulation). This provision allows duty-free access for 50.6 per cent of Australian tariff lines. Apparel items, which comprise about 90 per cent (knitwear 50.6% and woven items 38.9%) exports to Australia, are not included in the GSP for developing country status. Against the current duty-free access, Bangladesh will thus face an MFN tariff rate of 5 per cent for most products (Table 3.4). The rules of origin will require a value-addition of 50 per cent. Australia extended the DFQF access for the Maldives, Samoa, and Equatorial Guinea, after their LDC-graduation, respectively in 2011, 2014, and 2017.¹⁰ However, it is not clear if the similar treatment will be provided to Bangladesh as well.

Table 3.4: Post-graduation tariff rates on Bangladesh's major exports to Australia and Canada

HS code	Products	Australia (GSP under Part 4 of Schedule 1)	Canada (GPT rates)
61	Knitwear	Not covered under GSP MFN rate 0%–5% The average tariff rate is 4.5%	0%–18% overall, 18% for most of the products (Concessions of 1–8 percentage points are provided only for few product lines under GPT).
62	Woven garments	Not covered under GSP MFN rate 0%–5% The average tariff rate is 4.4%	0%–18% overall, 18% for most of the products (Concessions of 1–8 percentage points are provided only for few product lines under GPT).
64	Footwear	Not covered under GSP MFN rate 0%–5% The average tariff rate is 3.5%	0%–20% overall, 18% for most of the products.
63	Home textile	Not covered under GSP MFN rate 0%–5% The average tariff rate is 4.1%	0%–18% overall, 17% for most of the products.
03	Fish	MFN	0%–6% overall, 0.5–3 percentage points concession for selected products. (0%–6.5% MFN rates; 0% MFN rate for most of the products)

Note: Average rates are calculated as simple average.

Source: Authors' analysis using World Integrated Trade Solution (WITS) data.

Canada, on the other hand, provides preferential access for selected agricultural and industrial products from the developing countries. Post-graduation, Bangladesh is likely to get some preference under the Canadian General Preferential Tariff (GPT) scheme designed for developing countries.¹¹ Most of the products under textiles and clothing, footwear, and chemical products are not included in the GPT. Therefore, Bangladeshi apparel products are likely to face as high as 18 per cent tariff rates (Table 3.4). At the same time, Bangladesh will face stringent rules of origin to be eligible for any preferential access.

⁹ Canada maintains a general Country Cumulative Rule for GPT. According to this, at least 25 per cent of the ex-factory price of the RMG and textile products (A1 or A2 of Schedule 1) as packed for shipment to Canada must originate in one or more LDCs or in Canada. For all other products (except A1 or B of Schedule 1), value-addition has to be 40 per cent to remain eligible for the Canadian LDCT (Canada Border Services Agency, 2019).

¹⁰ Information obtained from <https://www.un.org/ldcportal/preferential-market-access-australia-gsp/>.

¹¹ The Canadian GSP for developing countries is known as the General Preferential Tariff (GPT).

Other countries

Along with Australia, Canada, and the EU, amongst others, China, India, Japan, and the Republic of Korea have also offered attractive preferential market access to LDCs. In combination with the LDC preferential scheme and the Asia-Pacific Trade Agreement (APTA), Bangladesh is enjoying duty-free market access in approximately 61 per cent of tariff lines in China. China's LDC-specific preferential schemes, however, provide duty-free market access in 95–97 per cent tariff lines for a majority of LDCs. Bangladesh is now in talks with China to become eligible for this benefit.¹² Another major destination, the Republic of Korea grants duty-free and quota-free access for about 95 per cent of its tariff lines. Bangladesh also benefits from India's DFQF offers for LDCs along with other preferential treatment under the South Asian Free Trade Area (SAFTA).

Other countries where Bangladesh gets preferential access include New Zealand, Norway, Russia, Switzerland, Thailand, Turkey, etc. LDC graduation could have implications on export competitiveness in these countries because of higher tariff rates and stringent rules of origin being applied to non-LDC developing countries. Some of these countries also do not have any preferential tariffs for graduating LDCs or developing countries. In Norway, non-LDC preferences are provided to countries with a population size of less than 75 million, which makes Bangladesh ineligible. However, in markets where export presence is currently low, any adverse implications are likely to be less pronounced. Preferential market access and rules of origin provisions for LDCs and non-LDCs (graduating LDCs) are summarised in Table 3.5.

Tariff implications for export competitiveness

The loss of preferential access is likely to affect export competitiveness, causing some adverse pressure on export performance. Economists employ various methods to analyse the likely implications of tariff changes. One popular approach is to make use of a partial equilibrium model that utilises information on the value of individual export products and the associated tariff rates at a disaggregated level (e.g., at the HS 8-digit level). It may be of interest to apply such a model to study the potential implications of graduation in major destinations such as Australia, Canada, China, India, and the EU. These countries together account for almost 75 per cent of Bangladesh's apparel exports and more than 90 per cent of preferential exports of these items. Table 3.6 summarises the results. For the EU, the partial equilibrium estimation uses 339 individual apparel export items of Bangladesh to the EU at the Combined Nomenclature (CN) 8-digit level. For Australia and Canada, respectively 190 and 226 items at the HS 8-digit level were used in the analysis.

¹² The Ministry of Commerce, Government of Bangladesh, sent a request to the Chinese government to avail the LDC-specific preferences in at least 95 per cent of tariff lines. China is yet to consider the request.

Table 3.5: Summary of preferential market access and rules of origin in key export destinations

Country	Criteria	Preference schemes	Rules of origin	Description
Australia	LDC	DFQF Australian System of Tariff Preferences	VA 25%	DFQF access for LDCs for the entire tariff schedule Bangladesh can get GSP after graduation, which comes with up to 5% MFN tariff on key export items.
	Non-LDC	GSP under Part 4 of Schedule 1	VA 50%	
Canada ¹³	LDC	LDCT-DFQF for LDCs	General VA is 40%. For apparel and textile products, VA is 25%.	LDC-DFQF access for 98.9% of its tariff lines. Although Bangladesh to get GPT in Canada, it will come with substantially higher tariff rates (up to 18–20%) on major export items.
	Non-LDC	General Preferential Tariff for developing countries	VA is 60% for all products	
China	LDC	DFQF for LDCs	VA: CTH+40%; For Bangladesh VA is 35% (APTA) and RC-VA is 50% (APTA)	China's GSP for LDCs is available for 95%–97% of tariff lines. Bangladesh gets duty-free access in 61% of the lines. Non-LDC APTA preferences on 1,697 products with a 26.7% preference margin.
	Non-LDC	MFN applied if not mentioned otherwise	VA 45% (APTA) RC-VA 60% (APTA)	
European Union ¹⁴	LDC	Everything But Arms DFQF for all LDCs	Single transformation of textiles and RMG. VA is 30% for other goods	DFQF access for all products except arms and ammunitions from the LDCs including Bangladesh. As it stands, Bangladesh would not qualify for GSP+
	Non-LDC	GSP+, Standard GSP	Double transformation for textile and clothing VA is 50% for other goods.	
Japan	LDC	Duty-free access (on 98.2% of tariff line) for LDCs	De minimis applied for goods in HS 50–HS 63. ¹⁵ The general rule is sufficient transformation resulting in a different product under HS tariff heading (4 digits). ¹⁶	8,874 of the 9,038 tariff lines are duty-free for the LDCs. If a country's export to Japan exceeds ¥1 billion, or 25% of import to Japan for a product originated from the beneficiary, it is considered for graduation from Japanese GSP.
	Non-LDC	GSP exists. But most of the applied tariff rates are MFN rates if not mentioned otherwise	Partial graduation (developing) and entire graduation (high-income countries). Japan considers trade statistics and World Bank's income classification for graduation.	
India	LDC	Duty-free tariff preference for LDCs; SAFTA-LDC market access applicable for Bangladesh	VA 30% (DFTP) VA: CTH+30% (SAFTA) RC-VA: CTH+40% (SAFTA)	Regular LDC-DFTP on 98% products in tariff line. Under SAFTA, LDC-DFQF provided for all but 25 products Non-LDC SAFTA preferences do not provide zero tariff and 614 products do not have tariff concessions at all
	Non-LDC	Bangladesh to get non-LDC SAFTA preferences	VA: CTH+40% (SAFTA) RC-VA: CTH+50% (SAFTA)	
Norway	LDC	DFQF	Substantial transformation ¹⁷	For developing countries, GSP and GSP+ schemes exist with 10–100% tariff reductions. But Bangladesh would be ineligible given its population size bigger than 75 million.
	Non-LDC	Recipient country must have a population of less than 75 million	Substantial transformation	
Republic of Korea	LDC	LDC-DFQF on 95% of tariff line; APTA specific LDC-DFQF applicable for Bangladesh	VA 40% (DFQF) VA 35% (APTA) RC-VA 50% (APTA)	Bangladesh currently enjoys DFQF in all key products including apparel, footwear, etc. Non-LDC APTA preference on 1,367 products with 35.4% preference margin
	Non-LDC	Non-LDC APTA preferences will be applicable for Bangladesh	VA 45% (APTA) RC-VA 60% (APTA)	

Note: CTH—change in tariff heading, DFTP—Duty Free Tariff Preference, RC—regional cumulation, VA—value addition.

Source: Based on UNCTAD, the EPB, and official sources of GSP/DFQF providing countries.

¹³ For Canadian LDCT, the 60 per cent value addition can include the value of products from Canadian raw materials or raw materials imported from another LDCT recipient country. For GPT, it can include value of products from Canadian raw materials or raw materials imported from another GPT recipient country.

¹⁴ Regional cumulation laws in the EU applicable for Bangladesh. If the final exported items use components from regional group III (Bhutan, India, Nepal, Pakistan and Sri Lanka), they can be considered as originating from Bangladesh under the designated level of value addition. The same rule applies if the product incorporates raw materials from EU countries.

¹⁵ In Japanese preferential system, non-originating materials used in the production of a good classified under Chapter 50 through 63 of the Harmonised System that do not satisfy an applicable rule for the good shall be disregarded, provided that the totality of such non-originating materials does not exceed 10 per cent in weight of the good.

¹⁶ Products applicable for GSP under HS 01–HS 96 with exemptions listed in <https://www.mofa.go.jp/files/000077857.pdf>

¹⁷ For Norway, a product is sufficiently transformed if the HS tariff heading (first four digits) of the non-originating material is different from the tariff heading of the finished product.

Table 3.6: Potential loss of export earnings due to tariff hikes after graduation

Countries	Scenarios	Apparel		Non-apparel		Total loss of export receipts (million \$)
		Avg. tariff (%)	Loss of export receipts (million \$)	Avg. tariff (%)	Loss of export receipts (million \$)	
EU	Bangladesh only gets Standard GSP	9.5	1,602.0	2.1	36.7	1,638.7
Canada	Bangladesh receives GPT for developing countries	17	175.0	4.54	9.4	184.4
Australia	Bangladesh faces MFN tariffs	5	29.0	2.29	2.2	31.2
China	Bangladesh to pay MFN duties	16.2	88.6	10.4	34.1	122.7
India	Bangladesh gets SAFTA non-LDC tariffs	8.65	33.1	7.23	37.3	70.4
Japan	GSP for developing countries	8.71	98.7	0.95	3.2	101.9
Total	Tariff regimes in individual markets after graduation	9.8*	2,026.4	3.8*	122.8	2,149.2

Note: (*) indicates the weighted average of tariffs in the six markets.

Source: Authors' estimation based on Razzaque and Rahman (2019). EU trade data are from the Comext database. Bangladesh's exports to Australia and Canada are from the Trade Map database of the International Trade Centre.

The estimated results for the EU are based on the premise that if Bangladesh receives Standard GSP in the EU after LDC graduation, it would face an average tariff rate of 9.5 per cent on clothing items. This would, in turn, lead to a potential loss of \$1,602 million exports (i.e., 9.53% of average export receipts from the EU during 2015–17). Bangladesh would get GSP facilities applicable for the developing countries (GTP) in Canada. Most of the apparel items are not included in the GPT. This would result in Bangladesh's products being subject to an average tariff rate of 17 per cent, resulting in an estimated export loss of \$175 million. In China, the average MFN rate for apparel items is 16.2 per cent, and thus the estimated loss turns out to be more than \$88.5 million. In the Australian market, as the apparel items are not included in the GSP for developing countries, Bangladesh would pay an average MFN tariff rate of 5 per cent, leading to an export loss of \$38 million. In India, Bangladesh will only be eligible for the SAFTA non-LDC tariff regime after graduation. With a 8.65 per cent average tariff incidence, forgone exports are estimated to be around \$33 million. In Japan, Bangladesh is likely to be subject to the GSP for developing countries with an average 8.71 per cent tariff on apparel products. Consequently, the loss of exports might be to the tune of \$100 million. On the whole, Bangladesh could face a decline in export revenues of more than \$2 billion, i.e., about 9.8 per cent of exports from these countries in 2018. These results do not consider the implications arising from the changes in rules of origin provisions faced by the graduates.

The above results are comparable with other impact assessment studies undertaken on this issue. Utilising a gravity modelling framework for comparing the current tariff structure with a counter-factual post-graduation scenario for each LDC, the United Nations Conference on Trade and Development (UNCTAD) estimated a loss of 5.5–7.5 per cent of Bangladesh's total exports after graduation. Similarly, Rahman and Bari (2018), having derived the elasticity of LDC-specific tariff rates to export receipts, estimated the impact as a potential decline in Bangladesh's exports by 8.7 per cent, which is equivalent to \$2.7 billion, calculated based on the total exports in FY15.

It needs to be pointed out that all the above estimates have certain limitations. The shortcomings

are associated with the underlying assumptions made in developing the models and making them operational. The models also cannot capture many real-life complexities. For example, it may be difficult for buyers to relocate their sourcing to other countries, which either may not have the capacity to produce in bulk or may not have the tariff preferences to outcompete the suppliers from Bangladesh. Therefore, the results from these models should be interpreted with caution. Regardless of their limitations, the results, however, reveal the pressure on competitiveness arising from the loss of tariff preferences.

Apart from the traditional developed country markets with DFQF or GSP facilities, the impact of the withdrawal of LDC-specific preferences in regional trading arrangements is something that needs to be taken into consideration as well. The two most significant regional initiatives, the South Asian Free Trade Area (SAFTA) and the Asia-Pacific Trade Agreement (APTA), include favourable measures that have benefited Bangladesh as an LDC. Both SAFTA and APTA provide less stringent rules of origin for LDCs.¹⁸ SAFTA includes lenient sensitive lists (goods that are not considered for tariff concessions) for LDCs. While APTA provides a relatively progressive list of positive items (goods considered for tariff concession) for LDC members.¹⁹ In the post-LDC period, Bangladesh will have to forgo these preferences.

Very recently, India has become one of the top 10 export destinations for Bangladesh. In FY19, Bangladesh's exports to India exceeded the \$1 billion mark for the first time to reach \$1.25 billion. As it stands, India's negative list for SAFTA LDCs contains only 25 products at the HS 6-digit level. For all other products, including textiles and clothing, Bangladesh enjoys tariff-free market access. However, LDC graduation means Bangladesh will be subject to a sensitive list of 614 products that India maintains with other non-LDC SAFTA members. For the remaining products, SAFTA tariffs for Non-LDCs will be applicable to Bangladesh's exports. The rules of origin will also become more stringent. Bangladeshi manufacturers have just started benefitting from LDC-specific tariff preferences in India and the graduation will bring to an end to this preferential market access.

Services trade and the LDC services waiver

Although the services sector is the largest contributor to the domestic economy (i.e. 56 per cent of GDP), it accounts for only about 10 per cent of Bangladesh's total exports.²⁰ Transportation, tourism, telecommunication, information and communication technology (ICT), information technology (IT)-enabled services, business services, government goods and services are the most prominent sub-sectors for services exports of Bangladesh.

¹⁸ In SAFTA, the value-addition requirement is CTH (change in tariff heading)+30 per cent for LDCs and CTH+40 per cent for non-LDCs. For raw materials sourced from other SAFTA countries, this criterion is 40 per cent for LDCs, 50 per cent for non-LDCs. APTA rules of origin are stricter than those of SAFTA. The general criterion of APTA rules of origin is a minimum value-addition of 35 per cent for LDCs and 45 per cent value-addition for non-LDCs. Regional cumulation (for raw materials sourced from APTA countries) is allowed under APTA where the regional value addition requirement is 50 per cent for LDCs and 60 per cent for non-LDCs.

¹⁹ Under SAFTA, each member is allowed to have a sensitive list of goods for which tariff concessions will not be applicable. On the contrary, APTA uses a product-by-product positive list approach, specifying the individual goods in which members agree on providing tariff concessions.

²⁰ In FY19, services exports stood at \$6.2 million.

For Bangladesh, the export of migrant workers' services, which falls under the so-called Mode 4 (presence of natural persons) of the supply of services as per the General Agreement on Trade in Services (GATS) (Table 3.7) is extremely important. Bangladesh received about \$16.5 billion as remittances in FY19 and sent 0.67 million workers abroad. The migrant workers seek employment abroad under bilateral initiatives as the relevant services trade is not open to multilateral liberalisation. Despite many studies' showing substantial gains from the movement of natural persons, labour market liberalisation remains a highly sensitive matter in international trade negotiations.

Table 3.7: Definition of services trade and modes of supply

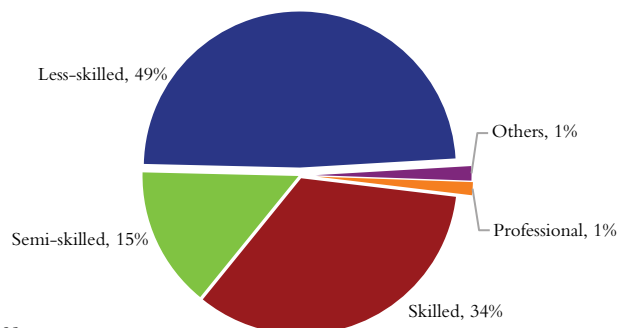
Mode 1: Cross border trade	From the territory of one member into the territory of any other member
Mode 2: Consumption abroad	In the territory of one member to the service consumer of any other member
Mode 3: Commercial presence	Service supplier of one member, through commercial presence, in the territory of any other member
Mode 4: Presence of natural persons	By a service supplier of one member, through the presence of natural persons of a member in the territory of any other member

Source: The General Agreement on Trade in Services (GATS), WTO.

According to an estimate, Bangladesh could potentially earn an additional \$7 billion remittances annually if it were able to export 200,000 workers in highly demanded services of semi-skilled and skilled labor categories (UNCTAD, 2015). Figure 3.5 shows that, among all overseas employment from Bangladesh during 2000–2018, professional workers accounted for a meagre 1 per cent, indicating the massively underutilised potential of this sector.

Although the GATS provides a framework for liberalisation, it did not spell out the scope for preferential treatment for LDCs and other developing countries like in the case of trade in goods. In 2011, WTO members reached an agreement to allow LDC-specific preferential treatment for services and service suppliers. Despite the confusion over how the so-called LDC services waiver can be implemented, more than 25 developed and developing countries in 2015 indicated sectors and modes of supply where they intended to provide preferential treatment to LDC services and service suppliers until 2030.²¹ Some of the prominent Mode 4 services waivers are listed in Table 3.8.

Figure 3.5: Overseas employment by skill type (2000-2017)



Source: BMET database.

²¹ The LDC services waiver was granted for until 2030.

Table 3.8: LDC-specific services waiver by countries under Mode 4

Provider	LDC-specific services waiver (Mode 4)
Australia	Contractual service suppliers (including independent professionals/specialists), subject to employers' sponsorship, may enter for periods of stay up to 12 months, with the possibility of further stay.
Canada	Canada provides state and city-specific waivers in all modes. They can be found at Canada's revision of (S/C/N/792) WTO notification.
China	Business visitors including services investors and salespersons up to six months stay applicable to 100 services sectors and sub-sectors in China's existing schedule of commitments.
Taiwan	Contractual service suppliers and independent professionals will be covered under entertainment (TV/theatre); publishing; rental; packaging; building; translation; warehouse and storage; food serving; photographic services and telephone answering services.
EU	In a wide range of sectors, the following support will be provided: <ul style="list-style-type: none"> - Contractual service suppliers (double stay period from three to six months) - Graduate trainees up to 1-year stay. - Independent professionals for up to six months at a time. - Intra-corporate transferee improvements in 30 sectors for skilled professionals for up to 6 months at a time.
India	- Contractual service suppliers and independent professionals in computer and IT-enabled services; engineering; hotel management; management consulting services; project management (except construction), tourist guide (multilingual); travel agency and tour operation services. - Personal services: Foreign language teachers (except English); installers or servicers; specialised chefs and sportspersons.
Japan	- No economic needs tests or labor market tests for LDCs - Resident permit fees for LDC contractual service suppliers, independent professionals, and intra-corporate transferees waived. - Mode 4 services waiver in container station depot; engineering; hotel and restaurant; urban planning and landscape architectural services.
Republic of Korea	- Easing market access and simpler procedural requirements in rental services; maritime auxiliary services; entertainment services. - Contractual services suppliers in industrial equipment maintenance; IT consulting; e-business; biotechnology; accounting and auditing consultancy; management consulting; architectural services; professional engineering etc.
In addition to the above countries, Iceland, Lichtenstein, Mexico, New Zealand, Norway, Thailand, and Turkey provide LDC specific preferences under Mode 4 services agreement (TISA) negotiations and for Switzerland, it is country specific RTAs/FTAs.	

Source: Based on Drake-Brockman, Greenidge, Lan and Zhao (2015) and official submissions on LDC-specific services waiver.

The operationalisation of the services waiver remains a challenge and thus the preferences have not been materialised yet. As such, LDC graduation should not result in any loss of export opportunities. However, Bangladesh might face a disadvantaged situation if the waiver comes into operation in the future and developed countries offer labour market openings to LDC workers and service providers. As Bangladesh is likely to graduate out before the effective implementation of the provisions, the LDC waiver may be a missed opportunity for local services exporters. Nevertheless, given the current level of opportunities available to LDCs, the preference erosion implications for Bangladesh's private sector will mainly emanate from changes in market access conditions for the export of goods.

3.3 Loss of Policy Space

Graduation from the group of LDCs also means a substantial loss of policy space in supporting the private sector. Having recognised their supply-side constraints and weak economic capacities, LDCs are often exempted from making commitments and implementing stringent provisions of various agreements. WTO members are also generally reluctant about raising concerns or lodging official complaints about individual LDCs' policy support measures that would otherwise be deemed inconsistent or non-compliant with international trade rules and regulations. As an LDC, Bangladesh has made significant use of such policy space in supporting the private sector. LDC graduation will require making the necessary adjustments for the conformity with WTO agreements.

Policy of export incentives

Bangladesh provides incentives to certain sectors with a view to stimulating the response and promoting export diversification. Some of the support measures (such as cash assistance) can be interpreted as subsidies. The multilateral Agreement on Subsidies and Countervailing Measures (SCM) disciplines the use of subsidies and regulates possible actions a member state can take to counter the trade-distorting effects of subsidies. According to this agreement, a measure falls under the definition of subsidy if it contains any of the three elements: (a) a financial contribution; (b) provided by a government or any public body within the territory of a member state; and (c) the contribution confers a benefit. In principle, the WTO-led system prohibits the use of 'specific' subsidies.

According to the agreement, subsidies based on export performance and local content bias are completely prohibited. Another group of subsidies, known as actionable subsidies, are not prohibited but members can be held accountable in the WTO and face retaliatory measures for using them. Actions against these subsidies are applicable when they are injurious to industries in export destinations, and can hamper the export potential of other members (Table 3.9). Subsidies that target specific enterprises, specific industries/sectors, and specific regions can be considered as violations of the SCM Agreement and may fall under the category of actionable subsidies.

Table 3.9: Support measures covered by prohibited and actionable subsidies

Prohibited subsidies	Actionable subsidies
<ul style="list-style-type: none"> ◆ Contingent upon export performances (export subsidies). ◆ Based on the use of domestic over imported goods (local content subsidies). ◆ Prohibited subsidies can only be utilised by LDCs, given the subsidised industry has a less than 3.25 per cent share in world trade of that product for two consecutive years. 	<ul style="list-style-type: none"> ◆ Subsidies that can cause injury to the domestic industry of another member. ◆ Subsidies that are responsible for nullification or impairment of benefits accruing directly or indirectly.²² ◆ Subsidies that may result in serious prejudice to the interests of another Member.²³

Source: WTO Agreement on SCM.

²² Failure of another contracting party to carry out its obligations, or the application by another contracting party of any measure that nullifies or impairs possible benefits of the agreement are under actionable measures.

²³ According to Article 6 of Agreement on SCM, subsidies that fall under serious prejudice are: more than 5% ad valorem subsidy, covering operating losses of an industry or enterprise.

If the provisions are violated, a WTO member can either choose to take unilateral measures (such as issuing countervailing duties on imports) or seek remedial measures through the WTO's dispute settlement mechanism. Articles 3 to 6 of the SCM Agreement delineate prohibited and actionable subsidies, and possible remedies to challenge such elements. But, Article 27 acknowledged the importance of prohibited subsidies to foster export and growth of domestic industries in the most underdeveloped economies (including LDCs).

Therefore, the Agreement on the SCM exempts all LDCs and a set of 21 developing countries listed in Annex VII(b) with GNP per capita lower than \$1,000 at 1990 prices from abiding by obligations under prohibitive subsidies unless a beneficiary is globally competitive in any specific product (i.e., it has a share of 3.25 per cent of global exports for two consecutive years).²⁴ These developing countries are known as Annex VII (b) countries. Their economic performance is annually evaluated by the WTO. If a member exceeds the GNP per capita threshold of \$1,000 at 1990 prices based on the latest World Bank data for three consecutive years, it will have to follow the provisions of the SCM agreement.

However, LDCs and Annex VII (b) countries can still be subject to countervailing measures for using actionable subsidies under injury, nullification, or impairment of benefits as stipulated in the agreement. Nonetheless, it is quite rare to take actions against LDCs for using subsidies as other members have always maintained a general restraint about considering such an option.

As an LDC, Bangladesh has benefited from S&DT provisions under this agreement. Otherwise, several policy incentives could be interpreted as prohibited and actionable subsidies. For example, the cash incentive scheme for various sectors, and fiscal and financial benefits for attracting investments to specific sectors could be considered by other WTO members as non-compliant. The use of cash incentives, in particular, has been a salient feature of Bangladesh's Export Policy. In FY19, Bangladesh spent about \$560 million on export incentives provided to 36 items.²⁵ Cash assistance in proportion to exports was around 2 per cent in FY03, fell below 1 per cent during FY06-FY07 and it hovered around 1.5 per cent in recent years (Figure 3.6). The RMG sector has been the recipient of more than half of the export incentives disbursed over the past decade (WTO, 2019). While their effectiveness in promoting exports is debatable, export subsidies are amongst the most executable policy instruments from an administrative point of view.

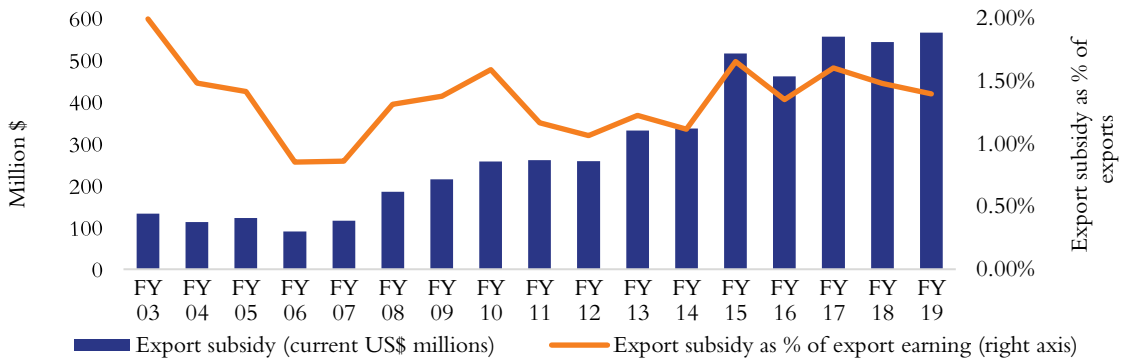
Exporters other than those from the RMG sector are not eligible for cash assistance if they are using bonded warehouse and/or duty-drawback facilities. Therefore, a part of subsidies provided in effect can be regarded as compensations for paying customs duties on imported inputs. Nevertheless, it is possible to call into question the subsidy component of the support measure. In addition, the use of industry-specific or sector-specific assistance, duty-free imports of capital

²⁴ As shown in Chapter 2 of this volume, Bangladesh provides cash assistance for apparel exporters under various schemes, including the support for SMEs, for exporting to new markets, for exporting to the euro area, a general support for firms not using bonded warehouses and duty drawback facilities, and the most recently introduced an additional 1 per cent cash assistance. However, no WTO member has raised a concern over this.

²⁵ Items include apparels, agricultural products, electronic items, fish and frozen food, halal meat, jute, plastics items, leather goods, furniture, accumulator batteries, IT-enabled services, pharmaceutical items, active pharmaceutical ingredients, photovoltaic module, etc.

machinery for export-oriented industries, income tax rebates, tax holidays, and subsidised loans through the Export Development Fund (EDF), etc. might be regarded as either actionable or prohibited subsidies.²⁶

Figure 3.6: Export subsidy in US\$ millions and as a proportion to export earnings



Source: Based on Bangladesh Bank, Ministry of Finance, and WTO (2019)

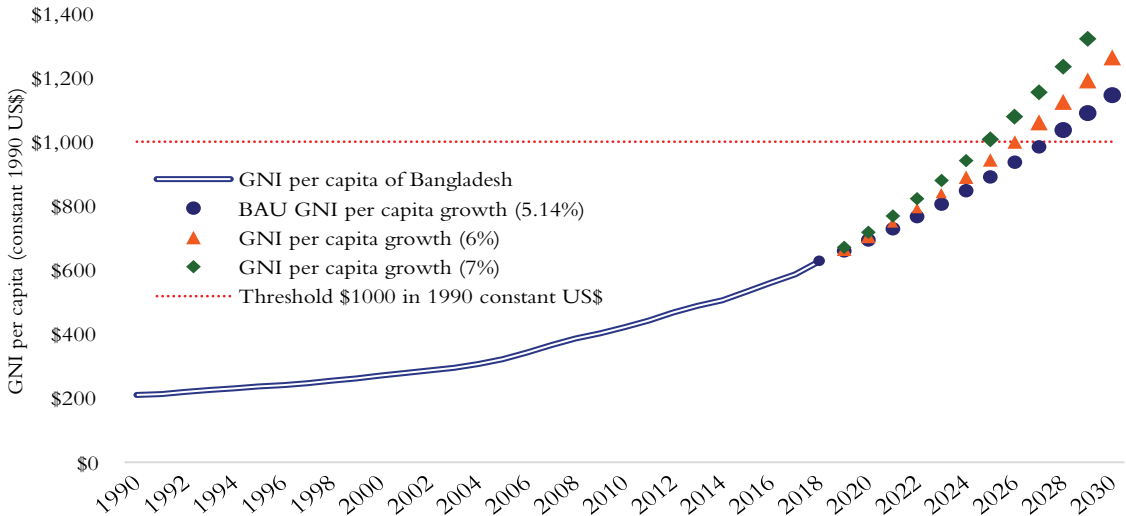
Immediately after LDC graduation, Bangladesh's export-supporting policy space such as the use of cash incentives is likely to be interrupted by the existing WTO provisions. Although Bangladesh's GNI per capita in current dollars is \$1,909 (in 2019), it is likely to take several more years to cross the threshold of \$1,000 GNP per capita in 1990 prices. Annex VII (b) of the SCM agreement pre-specified the names of developing countries, in addition to LDCs, that can provide export subsidies. There is a lack of clarity about the status of graduating LDCs with per capita GNP less than the threshold mentioned. That is, under the existing SCM provisions, the likelihood of a graduating LDC with a per capita income less than the threshold level has not been foreseen.

The WTO publishes the calculated GNI per capita data for the developing member countries included in Annex VII (b) to ascertain their continued eligibility for the S&DT granted under the SCM i.e., to monitor if they have crossed the threshold-level of per capita income (\$1,000 in 1990 prices). However, no such exercise for Bangladesh has been undertaken as it is not included in Annex VII (b). Figure 3.7 presents an estimation to assess when Bangladesh is likely to cross the threshold. At the outset, it is important to note that the World Bank no longer publishes the GNP per capita income series using the constant 1990 dollars. Also, the formerly used indicator of gross national product (GNP) is now termed and published as 'gross national income' (GNI) following the implementation of the System of National Accounts 1993. Although the underlying concepts are different (GNP being a measure of product and GNI being a measure of income), the values calculated are the same. Therefore, the estimation in Figure 3.7 is undertaken using the latest available data for GNI per capita. Given the availability of GNI and GNP per capita for the 1990s based on both 1990 and 2010 prices, the estimation of GNI per capita in 1990 prices is straightforward. Figure 3.7 shows that if the GNI per capita continues to rise at a rate of the average growth of the past five years (5.14%), it will be 2030 when the country will have crossed

²⁶ Currently, the EDF interest rate is fixed at LIBOR (the London Interbank Offered Rate) + 2.5 per cent. Firms from various sectors, including garments, can take loans up to \$25 million for a maximum of 180 days. More about industry/sector specific tax exemptions can be found in Article 46(B) of 1984 National Income-tax Ordinance.

the threshold for three consecutive years. If the per capita income growth rates are going to be higher—e.g., 6 and 7 per cent—Bangladesh will cross the threshold by 2028 and 2027, respectively.

Figure 3.7: GNI per capita of Bangladesh in 1990 constant US dollars and the threshold level of GNI per capita for Annex VII (b) countries



Note: BAU stands for business as usual; the average growth rate of GNI per capita at 1990 constant dollar prices for the last five years.

Source: Authors' analysis based on World Bank data.

Bangladesh has raised this issue of lack of clarification about a graduating LDC's inclusion in Annex VII (b). However, this matter remains unsettled. Under this circumstance, graduation may trigger a unique situation in which Bangladesh becomes ineligible for the SCM S&DT despite its GNI per capita remaining below the threshold level while many other developing countries such as Côte d'Ivoire, Ghana, Honduras, Kenya, Nicaragua, Nigeria, Pakistan, Senegal, and Zimbabwe continue to benefit from SCM provisions due to the same principle of lower per capita income levels. It is worth noting that despite being an LDC, Senegal is listed as a member of the Annex VII (b) country group. Bangladesh can use this as an example to leverage future negotiations to enable any graduating LDCs to be automatically considered for the inclusion in Annex VII (b) countries subject to their GNP per capita in 1990 prices remaining below \$1,000.

There is however another factor that may complicate Bangladesh's eligibility for S&DT preferences after LDC graduation. The Agreement on SCM does not allow any developing country member to provide subsidies for the products that are considered to have achieved 'export competitiveness'. Any product (at the HS 4-digit level) from a supplying country is considered to be export competitive if it has reached a share of at least 3.25 per cent in world trade of that product for two consecutive calendar years. The Agreement on SCM also stipulates that a developing country member included in Annex VII (b) reaching export competitiveness in one or more products shall gradually phase out export subsidies on these products over a period of eight years.

Table 3.10 shows a list of Bangladesh's 28 export items that will possibly fall under the purview of this export competitiveness regulation. In 2018, the combined share of these items was a staggering 87.5 per cent of the country's total merchandise export earnings. Within the apparel export category (at the 4-digit level under HS 61 and HS 62), 22 items have already crossed the threshold of export competitiveness. These items together constitute almost 98 per cent of Bangladesh's RMG export receipts. It is worth pointing out that for five such apparel items, Bangladesh's share has been higher than 3.25 per cent since the termination of the Multi Fibre Arrangement in 2005.²⁷ Apart from apparel products, three jute items (under HS 53, 99.5% of Bangladesh's jute exports), two home textile products (under HS 63, about 26.5% of home textile exports), and one item under articles of headgear and parts thereof (HS 65) have also crossed the threshold. Therefore, even if Bangladesh is included in Annex VII (b) of the SCM, its major export items could still not benefit from export subsidies. However, in many export categories, Bangladesh's global market share is very small and thus being listed within Annex VII (b) countries would make it possible to use export subsidies to support these products.

Table 3.10: Bangladesh's products that have exceeded the export competitiveness threshold

HS code	Product description	% share of global trade		HS code	Product description	% share of global trade	
		2017	2018			2017	2018
5303	Jute, raw/processed but not spun	94.1	92.7	6114	Special/professional garments, knit	3.8	3.9
5307	Yarn of jute of heading 5303	74.6	72.2	6201	Men's overcoats, woven	4.5	5.3
5310	Woven jute fabrics, under 5303	34.2	39.3	6202	Women's overcoats, woven	3.3	3.9
6101	Men's overcoats, knit	5.9	5.9	6203	Men's suits, woven	12.8	13.0
6102	Women's overcoats, knit	7.4	7.8	6204	Women's suits, woven.	6.5	7.2
6103	Men's suits, knit	4.1	4.6	6205	Men's shirts, woven	15.5	16.3
6104	Women's suits, knit	5.5	6.1	6206	Women's blouses, shirts, woven	6.4	6.5
6105	Men's shirts, knit	12.9	13.0	6207	Men's undergarments, woven	5.8	5.4
6106	Women's blouses, shirts, knit	8.1	7.4	6209	Babies' garments, woven	16.2	17.7
6107	Men's undergarments, knit	7.7	9.1	6210	Felt or nonwovens garments	5.1	5.0
6108	Women's undergarments, knit	7.2	8.0	6212	Brassieres, corsets, braces, etc.	4.1	4.5
6109	T-shirts, vests, knit	13.5	14.2	6306	Tents or camping goods of textile	4.6	4.6
6110	Jerseys, pullovers, cardigans, knit	9.1	9.5	6310	Rags and ropes of textile materials	12.5	11.8
6111	Babies' garments, knit	11.1	12.0	6505	Hats and other headgears, knit	5.7	5.5

Note: Mirror data have been used for Bangladesh's export.

Source: Authors' computations using ITC data.

Recent developments in the WTO show India, which is an annex VII (b) country, facing multiple objections from the United States on the grounds of export-related subsidies. These include subsidised capital goods in the export industry, incentives for using the local content in export products, and incentives targeting export-oriented production units, as well as those in special economic zones (Mukherjee, et al., 2018).²⁸ The dispute settlement panel at the WTO

²⁷ At the 4-digit level, these products are HS 6103, HS 6105, HS 6109, HS 6110, and HS 6204. In addition, HS 6201, HS 6203, and HS 6107 crossed the thresholds back in 2006, 2009, and 2010, respectively.

²⁸ According to the United States, India is subject to the obligations of Article 3.1(a) of the SCM Agreement because India's GNP per capita has already reached \$1,000 per annum for three consecutive years. Therefore, export subsidies on (i) various export-oriented units, electronics hardware technology park and bio-technology park (EOU/EHTP/BTP) schemes; (ii) the Export Promotion Capital Goods (EPCG) Scheme; (iii) the special economic zones (SEZ) Scheme; (iv) a collection of duty stipulations described in these proceedings as the Duty-Free Imports for Exporters Scheme (DFIS); and (v) the Merchandise Exports from India Scheme (MEIS) should no longer be continued. This is WTO's dispute number DS541 and details of this dispute can be found at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds541_e.htm.

ruled against India, asking it to withdraw more than \$7 billion worth of prohibited subsidies under different schemes within 90–180 days.²⁹ While India is appealing against the panel's ruling, it provides some indication about the strict interpretation of SCM provisions, particularly for prohibited subsidies.

Given the above, any potential impact arising from the discontinuation of cash assistance on exports would be of interest to policymakers and exporters. One could argue that not the entire cash assistance provided to exporters should be considered as subsidies. In most cases, only those exporting firms are eligible for such assistance that neither use bonded warehouse nor duty drawback facilities. Since exporters are supposed to use raw materials and intermediate inputs at world prices, a portion of subsidies can be considered as reimbursements for the duties paid on imported inputs. Nevertheless, it is difficult to ascertain the actual subsidy element within the total support provided as cash assistance.

Export subsidy rates can be interpreted as equivalent of tariff rates, as both can alter export competitiveness of firms. If the total cash assistance to exporters in FY19 (i.e., \$560 million) is regarded as subsidies, then using the same partial equilibrium model used above, it can be estimated that the potential export loss could be in the range \$540–\$815 million (i.e., about 1.3%–2.0% of exports in FY19).³⁰ On the other hand, if only half the amount of cash assistance happens to be actual subsidies, the estimated export loss arising from phasing out of export subsidies could be between \$270 million and \$410 million (about 0.7%–1.0% of exports in FY19).

Support for agriculture

While Bangladesh has achieved almost self-sufficiency in food production, the agricultural sector has been historically marked by significant government interventions, including various domestic support measures provided to farmers. In the budget of FY19, \$1.1 billion was allotted for domestic agricultural support. These subsidies are given to keep the prices of production-inputs, viz. fertilizers, seeds, and diesel (fuel used for irrigation), within the purchasing capacity of producers and to boost crop productivity in a country where farmland is decreasing. In addition, there are support measures such as financial assistance for storage and processing, preferential interest rates for farming, subsidies on exports, etc.

The key multilateral treaty dictating the scope of policy support for the agriculture sector is the WTO's Agreement on Agriculture (AoA). Under this agreement, developed and developing countries undertook commitments affecting their tariff lines and non-tariff barriers (NTBs) for agricultural products. According to article 15.2 of the agreement, LDCs and net food-importing developing countries have been exempted from doing so. As an LDC signatory, Bangladesh did not require undertaking any tariff reduction commitments.

²⁹ The Panel recommended that India should withdraw the prohibited subsidies under DFIS within 90 days; withdraw the prohibited subsidies under the EOU/EHTP/BTP Schemes, EPCG Scheme, and MEIS, within 120 days; and withdraw the prohibited subsidies under the SEZ Scheme within 180 days.

³⁰ This range depends on the responsiveness of the exporters to the subsidies provided. Two alternative price elasticity values have been used to compute the impact.

While Bangladesh's average MFN tariff rate is 13.9 per cent, the corresponding rate for agricultural products is higher than that of industrial goods. The applied rate for agricultural tariff is around 25 per cent. But, MFN tariffs for several agricultural products are bound at around as high as 200 per cent. After LDC-graduation, Bangladesh may have to undertake new commitments on tariff reduction in conformity with any future developments in WTO negotiations. These tariff adjustments, however, should not be a major burden in terms of losing government revenue or protection of domestic farmers as the bound rates are much higher than the applied MFN rates. Nonetheless, the direct support measures from the government might face some degree of scrutiny as these interventions can be considered as part of "Amber Box" subsidies (Table 3.11).³¹

Table 3.11: Agricultural subsidies and support measures in the multilateral trading system

Green Box	Development Box	Blue Box	Amber Box
Subsidies that have minimum distortions are in Green Box. It does not involve price support to producers and transfers from consumers. According to annex 2 of the AoA, these subsidies mostly include: - Government service programmes. - Direct payments to producers (not linked with production limits).	Article 6.2 of AoA allows developing countries additional flexibilities in providing domestic support. These include investment, crop diversification and input subsidies for the development of poor farmers. ³²	Domestic support measures on which members are yet to reach an agreement. Not subject to reduction commitments.	Support measures that are very distortionary and not covered by other boxes. Includes all price supports or subsidies based on output levels. Subject to "de-minimis" level of protection or reduction commitments. ³³

Source: Agreement on Agriculture (WTO).

The Aggregate Measurement of Support (AMS) is the indicator on which the AoA discipline has been established. This support can be product-specific as well as general in nature (e.g., support provided to the agricultural sector on the whole). AMS support measures are regarded as trade distortive (under the amber box in Table 3.11) by the WTO. The AoA stipulates that the AMS support provided by any developing country cannot be more than 10 per cent of its national agricultural GDP (also known as "de-minimis" exemptions for developing countries). Estimates from the early 2000s suggest that the domestic support provided by Bangladesh is much lower than the de-minimis level (FAO, 2002). AMS calculations have not been undertaken in recent years. In FY19, the value of agricultural production was \$38.3 billion, while agricultural subsidies allocated in the budget was reported to be \$1.1 billion. This would imply an AMS support measure to the tune of just about 3 per cent. Therefore, there is likely to be ample policy space for Bangladesh in this respect.

The WTO's Nairobi Ministerial Conference in 2015 adopted the Ministerial Decision on Export Competition (WT/MIN 15/45-WT/L/980) asking developing members to fulfill their obligations by eliminating all agricultural export subsidies by 2018. However, they can continue support measures under the AoA's Article 9.4 (export facilitation, marketing, promotion, transporting, or freight charges) until 2023 (WTO, 2015). This deadline can be extended if members agree. This could be a potential area of interest to Bangladesh in supporting agricultural exports.

³¹ The Government of Bangladesh's purchase of food grains from domestic producers are in the grey area of the price support mechanism and may become subject to de-minimis levels in the post-graduation era.

³² Absence of strict guidelines regarding the definition of "poor farmers" does provide some degree of flexibility to policymakers.

³³ The de-minimis level of protection is 5 per cent of total value of the production (VoP) for developed countries, and 10 per cent for developing countries.

One salient feature of the WTO AoA is the recognition of the possible negative effects of liberalisation programmes on LDCs and special circumstances of the so-called “net food-importing developing countries” (NFIDCs). Considering this, WTO members called for ensuring a level of food aid commitments to meet the needs of these countries; food aid being available in fully grant form; technical and financial assistance; and S&DT provisions in dealing with export credits. The Nairobi Ministerial of the WTO offered further elaborated S&DT provisions for LDCs and NFIDCs. As a result, NFIDCs will have the opportunity to subsidise export-related activities including marketing, product handling, upgrading or other processing costs, and the costs associated with internal as well as international transport and freight charges for exports until 2030.³⁴

There is, however, an ambiguity about the status of a graduating LDC in the sense that if it can automatically be considered as an NFIDC member. This is because the WTO explicitly defines LDCs plus 16 other specific developing countries as the beneficiaries of NFIDCs-related measures. Former LDCs (such as Botswana, Cabo Verde, Equatorial Guinea, Samoa, and the Maldives) have not been included in this list after graduation.

Finally, it needs to be pointed out that the AoA does not allow any export subsidies for agricultural goods or processed agricultural products. As it stands, Bangladesh’s Export Policy (2018–2021) stipulates cash assistance support for agricultural items and processed agricultural products. After graduation from the group of LDCs, these subsidies are likely to be regarded as non-compliant.

Unavailability of cash incentives on exports is likely to be an important loss of policy space in providing direct support to the private sector. Particularly, it can be a discouraging factor for the exporters of processed food products. Agro-processing is a growing export industry in Bangladesh. In FY19, it fetched more than \$696 million as export receipts. Therefore, it will be important to consider developing some other WTO-consistent measures to support this industry. Overall, the impact of this discontinuation is likely to be limited on Bangladesh’s export revenues as agricultural exports are small.³⁵ Regardless of the LDC status, Bangladesh should be able to continue with providing domestic support to private and small farmers as long as such support remains below the de-minimis level.

Supporting the pharmaceutical industry³⁶

Bangladesh’s pharmaceutical industry is a classic example of a government making use of policy space while being consistent with the multilateral trade regime to promote the sector and control prices to benefit its vast low-income consumers. In the 1980s, import-substituting policies and regulations, limiting competition from multinational drug producers, helped grow the domestic

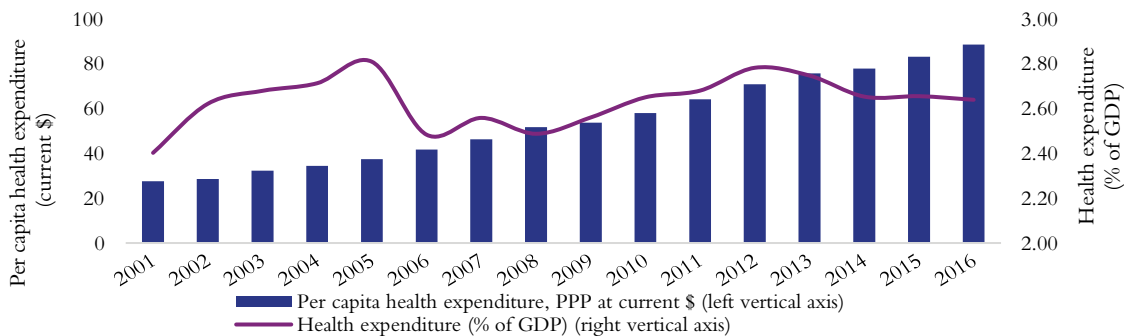
³⁴ Among other support, NFIDCs can enjoy 36–54 months of maximum repayment term (compared to 18 months for WTO members) for supporting domestic firms with export credit support. In addition, NFIDCs are also eligible for ‘monetising’ (selling) food aid and the use of the revenues to support programme-related costs and developmental activities, such as training, technology transfer and incentives for behavior change (FAO, 2017).

³⁵ In 2017, the value of Bangladesh’s aggregate agricultural was 21st largest in the world (Economist Intelligence Unit, 2018). However, agricultural exports were just about 2 per cent of total merchandise exports.

³⁶ This section draws on UNDESA (2018).

production. At present, local companies supply 97 per cent of the national pharmaceutical demand. The gradual rise of local healthcare expenditures (Figure 3.8) has been a fundamental impetus to domestic market expansion. In terms of exports, the pharmaceutical industry has shown dynamism in recent years. Since 2008, the industry has maintained, on average, an annual double-digit export growth rate. Pharmaceutical exports from Bangladesh exceeded the \$100 million mark for the first time in FY18 and it reached about \$130 million in FY19 (Figure 3.9). Such exports more than doubled between FY08 and FY17 without any direct export incentives. This suggests industry competitiveness and thus the sector's potential for expanding exports further.³⁷

Figure 3.8: Health expenditure trends in Bangladesh



Source: Based on the latest available dataset from the World Health Organization.

Given the strong performance of the past few years, pharmaceutical exports in FY18 were declared eligible for a 5 per cent cash subsidy, which was subsequently increased to 10 per cent in 2019.³⁸ LDC graduation will require conformity of the national policy regime with WTO regulations, including a probable termination of the export cash assistance scheme. This is one area of the squeezed policy space facing the sector.

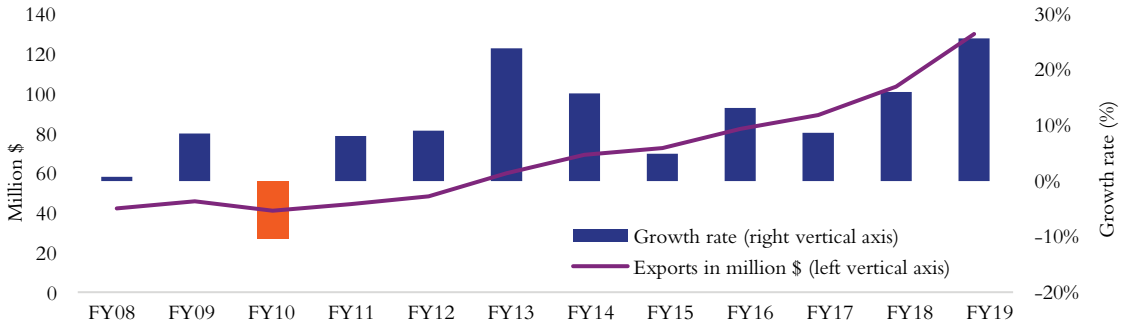
Taking advantage of LDC-specific S&DT under the WTO Agreement on Trade-Related Intellectual Property Rights (TRIPS), local legal and regulatory frameworks have contributed to the growth of the industry. Under the TRIPS pharmaceutical waiver, as LDC producers, Bangladeshi firms have the right to manufacture any medicines regardless of their patent protection status. They can also export those drugs to other LDCs or non-WTO members given that the destination country does not provide patent protection. About 10-20 percent of local pharmaceutical products are under the category of those drugs that are patent-protected. The TRIPS-waiver is making it possible for domestic firms to price those drugs at a fraction of their internationally-patented counterparts. While generics are the lifeline of the local industry, bioequivalences of the patent-protected drugs provide higher profit margins.³⁹

³⁷ The industry is likely to achieve further expansion in the future due to cost advantages associated with generic drugs, which may bring more “contractual manufacturing” opportunities. Contractual manufacturing is the outsourcing of pharmaceutical production to the developing world with a cost advantage. It involves production of goods by local manufacturing firms under the label or brand of original firms. According to one estimate, this feature of pharmaceutical industry will generate contracts worth more than \$210 billion by 2024 and is expected to grow at an annual rate of 7.5 per cent (Mordor Intelligence, 2019).

³⁸ Details can be found in the FEO circular 35 (Bangladesh Bank, 2019).

³⁹ Bioequivalences are generics of patented drugs that use the same API and provide the same results.

Figure 3.9: Pharmaceutical export trends



Source: Based on Export Promotion Bureau data.

As per the TRIPS pharmaceutical waiver, LDCs are granted an option to disregard all patents for medicines until their graduation or 1 January 2033, whichever comes earlier. The WTO’s Doha Declaration on TRIPS waiver also allows Bangladesh activating “compulsory licensing” which could have been used to export patented drugs to LDC destinations.⁴⁰ Further opportunities to exploit the TRIPS waiver come from the fact that if half of the members in a regional trade agreement (RTA) are LDCs, then exporting bioequivalent versions of patented drugs are permitted in that RTA-covered area based on what is known as “bundle demands”. Currently, a Bangladeshi company, Square Pharmaceuticals, is set to manufacture drugs in a Kenyan facility, which then can be used to supply the Common Market for Eastern and Southern Africa (COMESA).

Figure 3.10: Export destinations of Bangladesh's pharmaceutical products for FY19 (million \$)



Source: Authors’ analysis using EPB data.

⁴⁰ Regarding compulsory licensing, the WTO states that: “some proportion of production under ‘regular’ compulsory licenses could always be exported, provided it was not the predominant part of production. Equally, compulsory licenses issued to remedy anti-competitive practices were never limited to largely servicing the domestic market” (WTO, 2006).

Despite these flexibilities in the TRIPS Agreement, LDCs could not fully utilise the window of opportunity as pharmaceutical exports have remained rather modest. For Bangladesh, most prominent export destinations include two South Asian countries of Myanmar and Sri Lanka, while the third-largest destination is the U.S. The three countries together accounted for approximately 40 per cent of Bangladesh's pharmaceutical export receipts in FY19. Other countries in the top 10 export destinations are respectively the Philippines, Kenya, Afghanistan, Vietnam, Cambodia, Slovenia, and Nepal.⁴¹

Currently, Bangladesh exports to 31 LDCs. Non-LDC developing countries in Asia and Africa are also important sources of export earnings (Figure 3.10). Despite the demand for generic drugs, market penetration in the developed world remains limited. Political pressures from multinational right holders, foreign governments' strict enforcement of intellectual property rights (IPR) protection globally, non-tariff barriers or strict regulations, and supply-side constraints are some reasons behind the limited utilisation of the TRIPS Waiver.

As graduation looms large, one primary concern is about bringing changes in the existing IPR-related legal frameworks and regulatory policies to make them consistent with WTO provisions. Indeed, a broad range of laws and administrative issues may need re-evaluating and updating to ensure conformity with TRIPS regulations. For example, the National Patents and Design Acts, the Patents and Design Rules, the Drugs Act, and the National Drug Control Ordinance, amongst others, may require reviewing.

The primary IPR protection laws in Bangladesh are the National Patents and Designs Acts (NPDA) of 1911, and the Patents and Designs Rule 1933. These allow for a patent protection of 16 years instead of the TRIPS requirement of a minimum 20-year patent life. The existing Drugs Act of 1940 permits the authorities to regulate how imported drugs are labelled, requiring complete formulaic information to be printed.⁴² Under the same regulation, for new medicines, foreign firms must provide test data (on biological subjects during trial periods) to regulatory authorities. However, Article 29.1 of the TRIPS Agreement stipulates that non-LDC members cannot force foreign parties to reveal complete information (Gay, 2017).

Table 3.12: Changes required in the policy space and regulatory framework after LDC graduation

1	Protection of patented pharmaceutical products and processes for 20 years instead of 16 years
2	Activating pharmaceutical patents for local and international applications after graduation
3	Allowing single ownership of firms and investment by multinationals
4	Granting marketing approval for imported items
5	Allowing for imports even if locally manufactured substitute drugs are available
6	Distribution and sales of imported drugs even if a company does not have any production facility in Bangladesh
7	Protection of test data and formulaic information in imported drugs
8	Updating the list of essential drugs
9	Developing proper guidelines for the molecule registration in the post-graduation scenario
10	Capacity enhancement of DGDA and other government agencies to enforce property rights

Source: Based on the TRIPS agreement and the National Drug Control Ordinance 1982.

⁴¹ Top 10 destinations together generated 69 per cent of export earnings, while the top 20 accounted for 85 per cent.

⁴² The 1940 Drugs Act first prohibited the import of a drug unless its complete formula is displayed on the packaging (Reich, 1994).

Perhaps more importantly, several provisions of the National Drug Control Ordinance (NDCO) of 1982 could appear incompatible with the WTO regime. Under this Ordinance, multinational manufacturers (MNCs) are barred from producing in Bangladesh without joint collaboration with local manufacturers. MNCs are prohibited from importing drugs if three close substitutes are produced by the local manufacturers. In addition, MNCs are not granted any marketing approval if the product is not locally produced. The same Ordinance also specifies that, if a patented drug has not been produced in Bangladesh for four years, the patent can be revoked forever in the local market.

Patenting of foreign pharmaceutical products was disallowed by the NDCO 1982, while process patents were also prohibited in 2002 (Azam, 2016). The 1982 Ordinance allowed the Directorate General of Drug Administration (DGDA) to effectively fix or settle prices and provided authority to assign compulsory licensing to ensure affordable sources of medicines. The impact of these regulations was reflected in a reduced share of imported drugs from more than 70 per cent to about 20 per cent within a decade of their implementation (Reich, 1994).

After graduation, patented drugs that are exported to other countries will be subject to infringements. On the other hand, when patent cover of any currently exported item gets expired by the time Bangladesh completes graduation, export prices are likely to fall. This should not be a major concern as the share of such drugs in total pharmaceutical exports is small. Another implication arising from graduation is that the direct support targeting the export sector (e.g., cash assistance provided to exporters) could be considered as a violation of the WTO Agreement on Subsidies and Countervailing Measures.

Implications for the private sector

Bangladesh has a strong private sector presence in the pharmaceutical industry and many of the local firms are known to be dynamic and competitive. It is difficult to be precise about the likely impact of LDC graduation. However, some broad directions can be provided. Given the changes in the regulatory regime, medium and small local producers may experience stiff competition from the generic exporters of China and India. Those suppliers enjoy huge economies of scale due to bulk production. Local brands with strong reputations are unlikely to be affected as Bangladeshi producers offer highly competitive prices.

Increased competition could disproportionately impact smaller local firms. In an industry where the top 20 firms together hold more than four-fifths of the market share, further market concentration is highly likely. However, the market prospects for MNCs can improve once regulations on their operations become less strict.

Any locally manufactured medicine molecules that are patented elsewhere could be subject to price hikes after graduation. There are certain essential or life-saving items among the patented drugs registered for imports, including vaccines, insulins, steroids, chemotherapy or other cancer medications, and hormone therapy drugs (DGDA, 2019). However, as most of the drugs that are used to treat common diseases, including top-selling drugs by local manufacturers and MNCs are already off-patent (Azam, 2016), the likely impact of the new patent regime on consumers could be limited unless the newly patented medicines would soon become more desirable and essential.

The LDC graduation will tend to limit the scope of direct policy support to exporters as mentioned earlier. After graduation, the incentives linked to export performance are likely to be treated as prohibitive subsidies, prompting countervailing measures by other WTO members. Similarly, to improve the backward linkage of the pharmaceutical industry, domestic API production is currently being incentivised. According to the national API Policy 2018, every API manufacturer is to receive a 100 per cent tax rebate until FY22. After that, only the manufacturers that produce at least five separate APIs annually will receive the benefit until 2032, while producers of at least three separate APIs will remain eligible for a 75 per cent tax rebate. Furthermore, VAT exemptions have also been granted on imported reagents for API manufacturing until FY25. Manufacturers can access offshore credits and bank loans with longer repayment windows. API producers can avail these benefits given that they maintain a 20 per cent domestic value addition and spend 1 per cent of their annual turnover on research and development. Since these measures are industry-specific, the policy support mechanism could be interpreted as being non-compliant with WTO provisions.

3.4 Development Financing

Another area with potential implications for the private sector is the prospect of development financing in the post-LDC graduation period. Foreign aid or overseas development assistance, i.e., grants or loans with concessionary terms, received both bilaterally and multilaterally, has been an important source of development financing for Bangladesh.⁴³ This has supported the rapid growth of the private sector directly through the development of physical infrastructure and indirectly through the development of social infrastructure.

The implementation of large-scale infrastructure projects, including those by foreign-aid funded, has boosted economic activities as, amongst others, the demand for construction-related materials (such as cement, steel, bricks, etc.) increased along with the use of skilled and semi-skilled workers. The domestic steel consumption (mild steel rod, prefabricated steel, etc. and corrugated iron sheet) grew by a staggering 370 per cent over the past decade (2009–18).⁴⁴ Once completed, these development projects are likely to improve connectivity and reduce the costs of doing business. In addition, a significant proportion of development assistance is invested in education, health, and women empowerment. This should result in an improved human capital base in the country.

Trends in aid inflow

Sustained economic growth, averaging more than 5 per cent per annum over the past three decades, means that Bangladesh has witnessed a remarkable transformation in which the relative

⁴³ Transfers from private entities/agencies abroad, military assistance, suppliers' credit, and FDI are not considered as ODA or foreign aid. In addition to monetary transfers, there is also assistance in kind (e.g., commodity or food aid, technical assistance). This support mostly comes from individual governments, multilateral financial agencies and other global donor organizations. Loans from external sources with an interest rate above 5 per cent and loans with repayment period of less than 12 years are also excluded.

⁴⁴ From 1.6 million tonnes in 2009, the demand rose to about 7.5 million tonnes in 2018. Government projects account for 35–40 per cent of the total steel consumed in Bangladesh.

significance of aid has fallen from around 8 per cent of GDP to just above 1 per cent in FY19 (Figure 3.11). During the same period, the country also experienced thriving exports, propelled by its apparel industry, and growing remittances, thanks to its several millions migrant workers, being more important sources of foreign exchange earnings.

Figure 3.11: Exports, remittances, and ODA (as % of GDP)

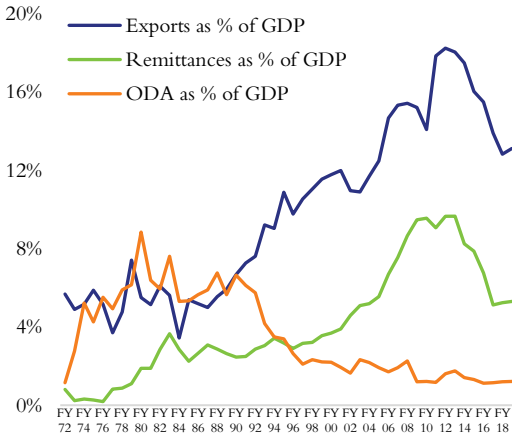
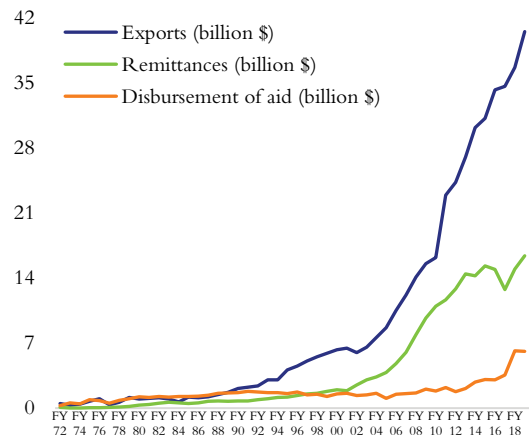


Figure 3.12: Exports, remittances, and aid disbursements (billion \$)



Source: Authors' analysis based on Bangladesh Bank and ERD data.

Although both remittances and exports as proportion to GDP have declined from their respective peaks a decade or so ago, largely due to robust expansion in overall economic activities, exports worth \$40.53 billion along with remittances of about \$16.4 billion as against of \$6.12 billion aid disbursement in FY19 amply suggest an economy hardly reliant on foreign aid. Despite the dwindling relative significance, the overall inflow of foreign aid (combination of ODA and concessional loans), however, has gone up in absolute terms recently (Figure 3.12). During FY12–FY19, new aid commitments received by Bangladesh was about \$72 billion (i.e., a yearly average of \$9 billion) while the actual disbursement was recorded at \$30.7 billion (\$3.8 billion per annum).

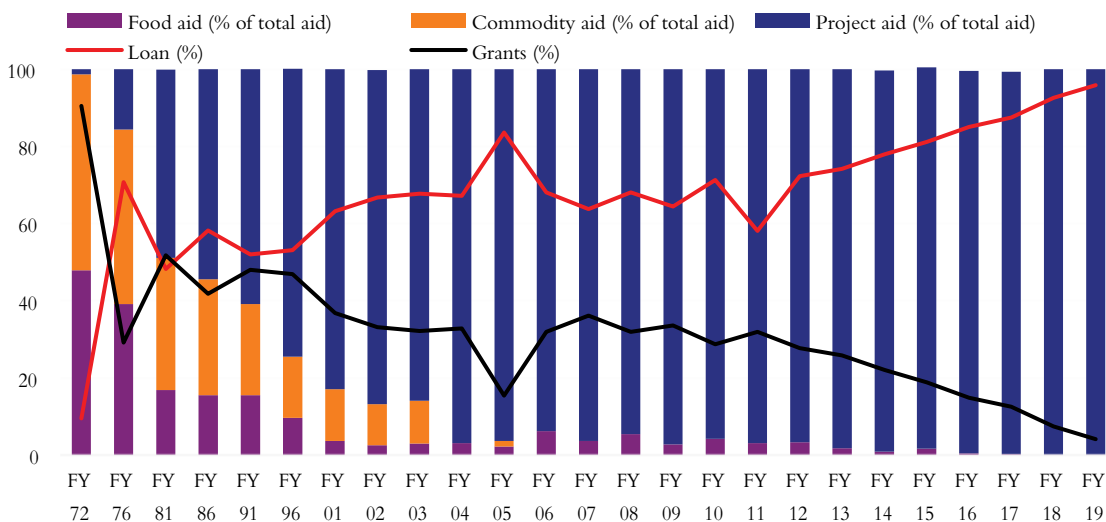
The structure of aid composition has also changed over time (Figure 3.13), shifting away from food and commodity supports that dominated the immediate post-independence period and earlier economic development phase to project aid and concessional loans, exemplifying the transition to a more matured development process. The share of grants has fallen from as much as half of all ODA received in the early 1980s to only 4.12 per cent in FY19 suggesting that Bangladesh has become a credible borrower over the years. Currently, less than one-third of aid commitments comes from bilateral donors, while the rest is sourced from multilateral agencies

LDC graduation and the significance of aid

The Annual Development Plan (ADP) makes use of project aid and technical assistance in implementing social and physical infrastructure projects along with other complementary interventions. Although the share of foreign aid has fallen over time, it still funds more than one-third of the development budget (Figure 3.14). The size of the ADP has almost doubled over the past three years largely due to the implementation of several big infrastructure projects.

For continuation with such development activities, availability of concessional funds will be important.

Figure 3.13: Aid composition (as % of annual aid inflow)



Source: Authors' analysis based on Bangladesh Bank and ERD data.

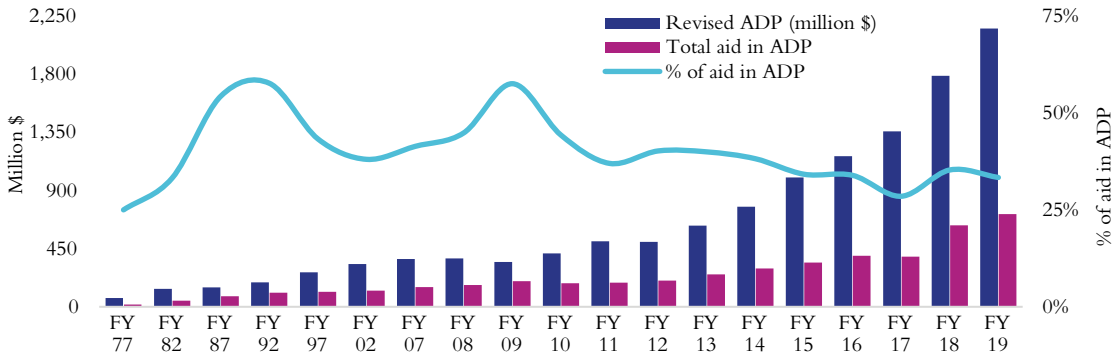
There is a sense of apprehension that ODA inflows could shrink after LDC graduation. However, top ODA recipients are rarely LDCs. According to UNCTAD (2018b), only two of the top 10 ODA recipients are LDCs. Overall LDCs account for less than a quarter of the total ODA. The patterns and trends in aid allocation suggest that recipient countries' historical and bilateral relationships with donors and country-specific situations such as civil wars and unrests, natural disasters, health epidemics, and refugee crises are important determinants of aid inflows. Only a few UN bodies and development partners have special annual budgetary allocations for the members of the LDC group.

Along with aid availability, it is also important to consider the absorptive capacity as underutilisation of aid has been a regular phenomenon. Data from the Economic Relations Division suggest that the accumulated value of foreign assistance in the pipeline rose to \$48.5 billion by the end of FY19. Complex procedural requirements, donor conditionalities, and delays in project preparation and implementation are factors behind underutilisation of the currently available assistance. Given this scenario, many would argue that the availability of additional aid resources should not be a major concern for Bangladesh.

Another area of concern is the higher cost of available funds in the post-graduation era. Most donors have jacked up the lending rates of concessional loans in recent years. This has already begun well before the graduation and would have taken place regardless of the LDC status. This is because Bangladesh, having moved from the low-income country (LIC) to lower-middle-income country (LMIC) group, is no longer eligible for the World Bank's most concessional International Development Assistance (IDA) loans with a typical interest rate of 0.75 per cent, a longer grace period and other more relaxed terms. Instead, Bangladesh can apply for

less concessional IDA gap loans.⁴⁵ The Asian Development Bank (ADB) is now offering market-based Ordinary Capital Resources (OCR) loans with LIBOR rates. The Japan International Cooperation Agency (JICA) has been the first major donor agency to increase the concessional interest rate from 0.01 per cent to 1 per cent.

Figure 3.14: Aid in the revised Annual Development Plan



Source: Authors' analysis based on Bangladesh Bank and ERD data.

Apart from the traditional donors, two major non-DAC governments that have financed infrastructural development in recent years, China and India, are charging interest rates of 2.4 per cent and 1 per cent, respectively. The Russian Federation is another non-DAC country which now captures a good portion of Bangladesh's external debt stock by financing the Rooppur Nuclear Plant, at an interest rate of LIBOR plus 1.75 per cent per annum (with a ceiling of 4 per cent). Borrowing from domestic sources is a much costlier option as the government has to pay a staggering 9 per cent or higher interest rates on national savings certificates for public borrowing and loans from private banks. While the reduced prospect for low-cost financing is an issue, it would have taken place sooner or later regardless of LDC graduation.

As foreign sources are going to cost higher, it would be essential to mobilise more domestic resources for development financing. The tax revenue in Bangladesh has been historically low. Since FY09, the average tax-GDP ratio has been just around 10 per cent. The 7th Five Year Plan (2016–2020) envisaged a tax-GDP ratio of 15.3 per cent, which remains elusive.

3.5 Policy Recommendations

LDC graduation is a monumental accomplishment for Bangladesh. Even a decade ago, no observers thought that Bangladesh would be able to achieve this feat so soon. There is, however, no denying that the development transition will also bring some challenges. Economic development is about building resilience and generating capacities to deal with unfolding circumstances that may not always remain favourable. Bangladesh's private sector has shown a

⁴⁵ The typical interest rate charged on IDA Gap loans is 2 per cent. The World Bank's concessional interest rates are generally of four types: [a] IDA only (national per capita income cut-off level currently of less than \$1,165); [b] IDA Gap (applicable for countries with income above the cut-off level for more than two years); [c] IDA Blend (improved creditworthiness as considered by the World Bank); and [d] IBRD (complete graduation from IDA and eligible for the International Bank for Reconstruction and Development loans).

great dynamism in contributing to national economic development and prosperity. Despite the much talked about unfavourable investment climate and the high cost of doing business, the private sector investment growth has been commendable.

Therefore, the task is now to prepare well for tackling any challenges to ensure smooth graduation, while helping business enterprises protect and promote their competitiveness. In this respect, adaptation strategies should consider various policy options at the national level as well as changes or improvements in firm-level business and operational practices. While one can list a host of specific tasks for graduation preparation, only a few major areas of interventions are considered here.

Proactively exploring trade preferences beyond graduation

Amongst LDCs, only Bangladeshi private enterprises have been able to utilise trade preferences in a commercially meaningful way. This has been reflected in the country's export performance, albeit limited largely to the garment sector. The erstwhile dependence on trade preferences has, however, also exposed the private sector enterprises to some vulnerability due to the likely shifts in the policy regimes, both at home and foreign countries, triggered by LDC graduation. One priority, therefore, must now be to embark on proactive engagements with trade partners to secure extended transition periods or look for other options that will smooth out any abrupt changes in market access. As discussed earlier, LDC-specific preferences in the EU are likely to continue for an additional three years after graduation (i.e., preferences will continue until 2027) if Bangladesh meets the graduation criteria in the second consecutive review in 2021. This offers some additional time to prepare for any eventualities that might unfold in the upcoming years.

Clearly, Bangladesh will have to look for obtaining an alternative EU trade policy regime, which is more generous and attractive than Standard GSP. One option is to strongly pursue EU GSP+ scheme, which will require relaxed terms of eligibility criteria. The current EU GSP regime will expire in 2023 and is expected to be replaced by a new one. Proactive engagements with the European Commission are to be given an utmost priority so that the required changes in GSP conditionalities are introduced to secure admissibility in GSP+. In this respect, the upcoming consultations, expected to be initiated in 2020, in the run-up to the transition towards the new GSP regime, should be considered as a major opportunity for influencing the relevant discourse and EU policy changes. Bangladesh should try to establish a coalition with other graduating LDCs to demand for relaxed GSP terms post-graduation. Graduating LDCs should strive for negotiating a further extended transition period from the EBA or seek more liberal GSP+ provisions including the continuation of EBA rules of origin for graduating LDCs (Razzaque & Rahman, 2019).

As discussed above, even under the least attractive option of Standard GSP, Bangladesh's apparel exports may not become eligible for any preferential market access, owing to the existing product graduation criterion. This concern should also be discussed with the EU as part of the consultation process for the new GSP regime.

If GSP+ or an equally favourable scheme cannot be secured, striking a free trade agreement could be an option worth considering. It should, however, be noted that an FTA with the EU will be

a challenging task given the EU's usual preference for negotiating comprehensive trading arrangements covering such areas as goods, services, investment, and other WTO-plus issues (e.g., government procurement). In this respect, Bangladesh should closely review the recently agreed EU–Vietnam FTA terms to assess the preparations needed to launch such negotiations with the EU.

Requesting extended transition periods from other preference-donor countries also constitutes another priority. Such countries as Australia, Canada, China, Japan, the Republic of Korea, etc. should be urged to follow the EU example of offering an additional three-year transition period for LDCs. Another possible engagement for Bangladesh is to attempt for obtaining trade preferences from the United States. While many observers would consider it an extremely unlikely proposition given the recent U.S. policy reversals on many trade issues, entering into an FTA is likely to generate a win-win situation for both the countries. It might be a reasonable stance to ask for unilateral trade preferences in a time-bound manner within which an FTA with the United States could be negotiated.

Bangladesh's existing regional trading arrangements (mainly APTA and SAFTA) also have many LDC-specific preferences that will get eroded after graduation. Preferences currently enjoyed in the world's two largest economies, China and India, are dependent on the LDC status. With more than one-billion-dollar export earnings in FY19, India is increasingly becoming a crucial market. It is thus important to look for options in maintaining the same level of market access in India after graduation. In China, Bangladesh should try to obtain an immediately expanded coverage of duty-free access from the currently available rate of around 61 per cent of tariff lines to at least 95 per cent, which many other LDCs are enjoying. Along with asking for an extended graduation transition period, a gradual withdrawal of tariff preferences and negotiating a bilateral FTA should be among other considerations as part of building a deepened trade and economic cooperation arrangements with China.

Devising WTO-consistent export-incentive mechanisms

One of the biggest post-graduation issues is how to support exporters in a manner that will be consistent with the multilateral trade regime overseen by the WTO. Since direct subsidies and/or cash assistance linked to certain sectors and export-performance will be extremely difficult to continue with, innovative options and appropriate restructuring of the export policy must be considered.

Learning from other countries' WTO-consistent support measures will be important in designing suitable export support mechanisms in the future. Non-LDC developing countries with strong export performance in many instances have put in place elaborate support systems for their exporters. China's export-oriented policy support includes funds for exhibitions/fairs, skill training, and management services to enhance competitiveness and develop effective supply and value chains (Zeng, 2010). The economic value of these measures is thought to be so huge that abandoning them will result in a fall in a real income for consumers of Western economies by several percentage points (Defever & Riaño, 2013). Vietnam is also reported to have been offering lower interest rates and softer terms for industrial projects along with financial support for consultation purposes on export development. Turkey provides a range of export-marketing

promotional support for its private sector. India also has rolled out extensive export support schemes under its Market Access Initiative and Market Development Assistance programmes for export-oriented firms.⁴⁶

It is worth pointing out that not all non-LDC developing country support measures are WTO-consistent. Therefore, it is important to evaluate the existing practices against the WTO's legal provisions. Delinking the subsidies and direct support from any sectors or export performance is the most critical challenge in developing a WTO-consistent export support mechanism. Even when it is possible to develop such policies, their implementation will be much more involved than the currently administered cash assistance scheme. Therefore, any post-graduation export support initiatives will likely to be operationally more challenging.

It is often argued that subsidising services should not violate WTO regulations as the General Agreement on Trade in Services (GATS) is yet to develop regulations on the provision of subsidies in services (Mukherjee et al., 2018). But, implementing policy support for services can be quite a difficult task to administer and it is not clear how exporters will directly benefit from them. Lack of effective implementation of these provisions can also end up with incentivising rent-seeking tendencies.

Given the above difficulties, a policy option for Bangladesh will be to consider those export promotional support measures that are most widely used. Along with these, R&D support for industries and assistance for retailing activities in foreign markets could be important for many exporters. For example, if any local brand can develop a commercial presence in key export destinations, supporting some of its operational costs under Mode 3 (commercial presence) is likely to be consistent with multilateral rules. These incentives may also help exporters move up the value chain thereby enhancing export revenues.⁴⁷

Experiences from a number of countries including Thailand, Turkey, and Vietnam seem to suggest that industry associations and exporting firms themselves can play a significant role in suggesting possible incentives to improve their global competitiveness while at the same time being WTO-consistent. In this respect, private sector associations should work closely with the Ministry of Commerce in proposing any innovative incentive mechanisms.

Improving domestic resource mobilisation and reducing dependence on import tariffs

Domestic revenue mobilisation has important implications for development financing in the post-LDC era. While foreign aid and ODA inflows are unlikely to slow down just because of LDC graduation, concessional loans are going to cost higher due to Bangladesh's accession to

⁴⁶ In India, Market Access Initiative is provided as financial assistance to carry out marketing projects abroad, capacity development of exporters, charges/fees paid for exporters to fulfil the statutory requirements in the buyer country, and any investment which can substantially improve market access in foreign countries. On the contrary, Market Development Assistance is provided to micro, small and medium enterprises for export promotion in Latin America, Africa and ASEAN+2 market.

⁴⁷ It has been shown that R&D and retailing activities account for higher shares of value added in a product's overall value chain (Razzaque & Rahman, 2019).

lower-middle-income country status. Therefore, domestically mobilised resources should play a bigger role in development financing.

A reinvigorated approach to domestic resource mobilisation should also aim to reduce the dependence on import revenues. Currently, more than 32 per cent of all government revenues are sourced from import duties and other taxes.⁴⁸ It is generally recognised that less-than-optimal revenue collection from domestic sources is keeping Bangladesh reliant upon revenues gathered from imports. This excessive dependence on trade revenues will make it difficult to undertake reciprocity-based bilateral and regional trade deals.

The dependence on import tariffs—often very high when other para tariffs such as supplementary and regulatory duties are added—has other implications as well. A high import tax incidence increases profitability in the domestic market. This can also reduce export incentives in relative terms. Sustained economic growth with a large population means the domestic market for investors has become very attractive, which is further exacerbated by high import tariffs. In contrast, trade preferences are increasingly coming under pressure.⁴⁹ Therefore, a future export support policy will have to carefully evaluate the implications of high import tariffs on many export-oriented industries and prominent export items.

Promoting firm-level competitiveness

The impending trade preference erosion for the private sector and loss of policy space for supporting exporters are likely to put some pressure on competitiveness. A part of it can be overcome through improved competitiveness at the firm-level. It is generally recognised that, in comparison with many other developing countries, labour productivity and managerial efficiencies are lower in Bangladesh.

Firm-level competitiveness depends on a variety of factors. Improved labour productivity requires good management, evidence-based decision-making, labour training, and the use of improved technologies. There are ample opportunities for investing in state-of-the-art knowhows and skill development for which public-private partnerships will be important. Particularly, enterprises will need support to procure appropriate technologies and to have access to a skilled workforce. FDI in this regard can greatly help as foreign firms are known for their use of improved technologies, modern management practices, and effective integration within global value chains. International evidence seems to suggest that domestic enterprises also benefit from the spillover effects of firms managed by foreign investors. FDI can also help improve product quality and compliance standards.

Through improved labour productivity, technologies, product quality, and compliance, local manufacturers can attain a strong footing in the international market. These areas should be focus

⁴⁸ Import tariffs alone account for 11 per cent of government revenues. When supplementary duties, regulatory duties, and VAT on imports are considered, the contribution of import taxes and duties to government revenues becomes approximately 32 per cent.

⁴⁹ This is due to LDC graduation-led loss of trade preferences as well as likely discontinuation of export subsidies. Furthermore, Bangladesh's exchange rate is thought to have become significantly overvalued compared to many other partner countries, thereby triggering competitiveness pressure.

of building firm-level competitiveness. A final stage in improving firm-level competitiveness is to develop capacities to move upwards in GVCs. This requires firms' involvement in branding, marketing, retailing, and R&D activities. Since LDC-graduation is still a few years away, enhancing firm-level capacity building should comprise an immediate policy attention.

Reviewing the pharmaceutical sector policy regime

The pharmaceutical sector is inextricably linked to public health issues for which market mechanisms may not always ensure optimal outcomes. Thus, the government has obligations to ensure the rights to affordable healthcare. Maintaining a balance between the interest of domestic producers, consumers, and rights-holding multinational firms will be essential from the perspective of regulatory bodies after LDC graduation. To ensure consistency with WTO regulations, Bangladesh will have to review the legal provisions and frameworks related to the pharmaceutical industry, including patent timelines, import conditions, regulations on multinationals, etc. Direct export incentives such as cash assistance will unlikely to be available as a policy instrument for supporting the exporters.

As mentioned above, developing WTO-consistent support measures for the industry will be an important policy consideration. In addition, to ensure smooth graduation and to avoid abrupt policy discontinuity, Bangladesh should pursue its case to avail the full duration of the TRIPS-Pharmaceutical waiver period until 1 January 2033.

Tackling infrastructural bottlenecks and cost of doing business in promoting export competitiveness

Given that Bangladesh has faced infrastructural bottlenecks and excessive cost of doing business for a long time, any improvements in these areas can boost export competitiveness. In the World Bank's Ease of Doing Business Index (2020), Bangladesh has made some progress and is ranked 168th among 190 countries.⁵⁰ However, considering the main competitors such as China (31st), India (63rd) and Vietnam (70th), Bangladesh will need to continue with its relentless efforts in making further progress.

Weak and inadequate port facilities in conjunction with inefficient inland road transportation and trade logistics contribute to longer lead time and higher costs, undermining competitiveness. Establishing new inland port depots and extending the capacity of existing facilities can help reduce costs and lead time to export. At the same time, building more off-dock facilities like private container freight stations could be helpful. The effective operation of one-stop service facilities for foreign as well as domestic investors can cut down business costs significantly.

Addressing infrastructural bottlenecks and excessive business costs can substantially help recoup a part of forgone trade preferences. In this respect, the Ministry of Commerce, Export Promotion Bureau, National Board of Revenue, Bangladesh Bank, Bangladesh Investment Development Authority (BIDA) and other relevant agencies in collaboration with the private sector should

⁵⁰ Bangladesh's ranks in major areas are: starting a business, 131; construction permits, 135; getting electricity, 176; property registration, 184; getting credit, 119; protection of minority investors, 72; paying taxes, 151; contract enforcement, 189; resolving insolvency, 154 (World Bank, 2020).

develop and implement a joint work plan. Ameliorating the current business and investment climate situations could provide the biggest boost to external competitiveness.

3.6 Conclusion

LDC graduation is an important recognition of overall socio-economic progress. Defying overwhelming odds, Bangladesh has come a long way to make the development transition from LDC to developing country status possible. A vibrant private sector has played a key role in the country's rapid economic transformation. Along with export success in readymade garments, buoyant manufacturing activities have characterised the development process.

It is, however, inevitable that the development transition will imply certain privileges and special and differential treatments, that are available exclusively to LDCs, will have to be forgone. The impending graduation is thus likely to have certain implications for the private sector and gives rise to concerns about potentially sizeable economic costs due to the loss of access to various support measures associated with LDC status. The analysis presented in this chapter shows that preference erosion in international trade and reduced policy space to support the exporters are two major issues facing the private sector.

Amongst the LDCs, Bangladesh has been the largest beneficiary of LDC-specific trade preferences. Currently, almost three-quarters of the country's exports have duty-free market access. Bangladesh's largest export market is the EU where virtually all LDC exports are duty-free under the EU's Everything But Arms (EBA) scheme for LDCs. Amongst others, Australia, Canada, China, India, Japan, and the Republic of Korea are important markets with LDC preferential access.

Given its huge importance, the loss of preferential access in the EU could be a major issue for Bangladesh. The EU, however, does provide an additional three-year transition period, which means the current market access conditions are likely to remain unchanged until 2027. After graduation, an LDC can either be entitled to EU preferential access under its GSP+ or Standard GSP schemes. Under the existing provisions, while GSP+ would allow duty-free readymade garment exports, the option of Standard GSP would imply such exports being subject to an average import duty of 9.6 per cent. However, in both cases, the rules of origins will be more stringent than those under the EBA. As it appears, Bangladesh currently does not qualify for GSP+ and RMG products might not even qualify for the Standard GSP owing to product graduation rules. However, a new EU GSP regime will come into operation in 2023 for which there will be in-depth consultations. Bangladesh should proactively engage in the process to seek for relaxed admission criteria for GSP+ including any favourable changes in the rules of origin provisions as well.

Post-graduation preferential access in other markets (such as Australia, Canada, China, Japan, and the Republic of Korea) is likely to be limited as well. However, Bangladesh will have to approach these countries to seek for any arrangements that can offer improved market access over MFN terms. An important initiative will be to request these countries to grant an extended transition period following the example of the EU. China currently grants Bangladesh duty-free access in 61 percent of tariff lines while many LDCs are enjoying the same coverage for at least 95 per cent of products. Therefore, it is important to secure expanded duty-free market access in

China as soon as possible. India's duty-free market access to Bangladesh under SAFTA will also be significantly curtailed after LDC graduation. However, given the precedence of the Maldives' receiving the same level of access in India after the former's LDC graduation in 2011, Bangladesh can request similar preferences. Deepened bilateral trade and economic cooperation with China and India should also comprise an important policy consideration.

In terms of reduced policy space, providing the export sector with direct support in the form of cash assistance and other subsidies might not be compatible with multilateral trade rules. Consequently, alternative policy options must be put in place to provide incentives to the exporters. Post-graduation, Bangladesh will require ensuring firmer protection of intellectual property. Certain provisions in the import regime for pharmaceutical products may also have to undergo changes for ensuring conformity with WTO rules and regulations.

Overseas development assistance (ODA) has been an important source of development financing; it has supported private sector growth through the development of physical and social infrastructures. LDC graduation is unlikely to have any significant impacts on the availability of such assistance in the future. In recent years, Bangladesh is being required to pay higher interest rates on concessional loans. This however, is not due to LDC graduation, but because of Bangladesh's transition from the group of low-income to lower-middle-income countries.

There are various options for mitigating any likely adverse consequences and supporting the private sector in withstanding the intensifying competitiveness pressure. Due to LDC graduation, in the EU, there are several options for post-LDC trade-preferences. Bangladesh has to take advantage of the consultations that will take place in the run-up to the upcoming EU GSP regime in securing the best possible mechanism. With other important preference-providing countries (such as Australia, Canada, China, India, Japan, the Republic of Korea, etc.) as well, there should be proactive engagements in securing an extended transition period and considering future arrangements, including bilateral trade deals.

In providing support to exporters, WTO-consistent provisions should be developed under a medium to long-term export policy. Other countries' export support policies can provide useful insights in this respect. A post-graduation trade strategy must consider effective ways of promoting firm-level competitiveness. This involves, amongst others, raising labour productivity, technological upgradation, moving up the value chains and attracting foreign direct investment. Finally, there exists substantial scope for reducing costs of doing business in the country along with making improvements in infrastructural facilities and trade logistics. Any progress in these areas will contribute to enhancing the external competitiveness of private sector enterprises.

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LDC Graduation and Bangladesh's Apparel Exports to the EU: Policy Options for Adapting to Competitiveness Challenges*

Mohammad Abdur Razzaque & Jillur Rahman

4.1 Introduction

Bangladesh's export success has largely been shaped by its performance in the European Union. Taking advantage of the Everything But Arms (EBA) initiative—designed for providing preferential duty-free and quota-free market access of goods originated from the least developed countries (LDCs)—Bangladesh's exports to the EU expanded rapidly from US\$ 2.5 billion in 2000–01 to more than \$22 billion in 2018–19. In the process, the EU emerged as the single largest exporting destination, comprising about 60 per cent of Bangladesh's total merchandise exports. In the same market, Bangladesh is the second-largest apparel exporter (after China), enjoying a large share of 12 per cent of all clothing imports. Bangladesh is the largest beneficiary of the EBA arrangement and accounts for more than two-thirds of all LDC exports supplied under this preferential scheme.

Although the average most favoured nation (MFN) tariff rate in the EU is small, around 3 per cent, the corresponding rate for textile and clothing products is three to four times higher. As a result, the duty-free market access ensures a significant competitive advantage for the beneficiary countries. To help boost supply-side capacities of LDCs, the EU has also offered very generous rules of origin (RoO) provisions, which, in turn, facilitated a remarkable apparel export growth of Bangladesh. The impending LDC graduation would, however, imply that these favourable market access conditions could change significantly, potentially affecting the current state of competitiveness enjoyed by Bangladesh's exporters. Given the huge significance of the EU as an export destination, it is extremely important to carefully assess the likely changes in market prospects due to LDC graduation and consider the relevant policy options and practical measures in adapting to any future competitiveness challenges.

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Against the above backdrop, the main objectives of this chapter are to provide the apparel export trends and potential in the EU; assess the market access options and the relevant eligibility criteria for a graduating LDC; analyse the likely implications for Bangladesh arising from post-graduation preference erosion, and discuss various measures to tackle any adverse consequences. The analysis presented here considers the market shares and export prospects of the main rival suppliers in the EU. It also summarises exporters' and buyers' perceptions of the related issues that were gathered through a short and quick survey. This paper utilises a partial equilibrium model to analyse the potential implication of LDC graduation on Bangladesh's readymade garment (RMG) exports to the EU. It also sheds some light on the stylised facts of global value chain (GVC) participation in providing some further perspectives on the issue of competitiveness in apparel export trade.

This chapter is organised as follows: following this introduction in section 4.1, section 4.2 provides a brief review of Bangladesh's apparel exports highlighting the importance of the EU market. Section 4.3 identifies the major competitors in the EU market and analyses the possible impact of graduation on apparel exports. Section 4.4 sheds light on the competitiveness issues from global supply chain perspectives, while considering the perceptions of exporters and buyers. Section 4.5 provides a brief discussion of some broad elements of adaptation strategies for dealing with any adverse consequences. Section 4.6 concludes.

4.2 Bangladesh's Apparel Exports and the Importance of the EU Market

Apparel exports from Bangladesh

Among LDCs, Bangladesh is regarded as an export success story. From less than US\$2 billion in the early 1990s, its exports rose to \$36.7 billion in FY18. This would imply an average annual export growth rate of close to 12 per cent in comparison with that of 6 per cent for world merchandise exports. In the process of export expansion, RMGs emerged as a flagship export product for Bangladesh, generating export receipts from about \$1 billion in 1990 to above \$30 billion in FY18 (Figure 4.1). While so many countries, particularly those in sub-Saharan Africa, failed to move export production away from primary commodities and other mineral resources to manufacturing, Bangladesh exhibited dramatic shifts in its export composition in which the share of erstwhile traditional exports (such as raw jute and jute goods, tea, leather and frozen fish) fell from more than three-quarters to just about 10 per cent to accommodate the growing relative significance of RMGs from virtually nothing to more than 80 per cent (Figure 4.2). In the early 1990s, yearly growth rates were relatively high given the narrow base of apparel exports. But the 2000s also saw impressive growth rates despite the sector's by then having a considerable size (Figure 4.3). The rate of expansion would appear to have lost some momentum and become less stable in recent years particularly since FY15. This is largely due to an unprecedented slowdown in global trade that affected the export performance of the overwhelming majority of global economies (Razzaque, 2018a).¹

¹ World merchandise exports declined by a staggering US\$2.5 trillion in 2015 (from the previous year), and then again fell by more than \$500 billion in 2016. As many as 183 countries had experienced reduced export earnings in 2015 (compared with the previous year), while for 112 countries export earnings similarly declined in 2016. Given such a gloomy global landscape, Bangladesh did much better by securing modest growth in exports in both years.

Significance of the EU as Bangladesh's export market

The EU has been the largest export market for Bangladesh. In FY18, more than \$21 billion worth of products were destined for the EU (including the UK), of which \$19.6 billion (i.e., 92 per cent) were due to apparel alone. In the same year, the EU accounted for close to 58 per cent of Bangladesh's total exports and 62 per cent of apparel exports (Figure 4.4). In terms of individual markets, the USA is the single most important export destination with a share of 16.3 per cent of Bangladesh's merchandise export earnings, followed closely by Germany (16.1%). Other important markets are the UK (10.9%), Spain (6.7%), France (5.5%), Italy (4.3%), the Netherlands (3.3%), Canada (3.1%), Japan (3.1%), and Poland (2.6%).

Figure 4.1: Bangladesh's exports

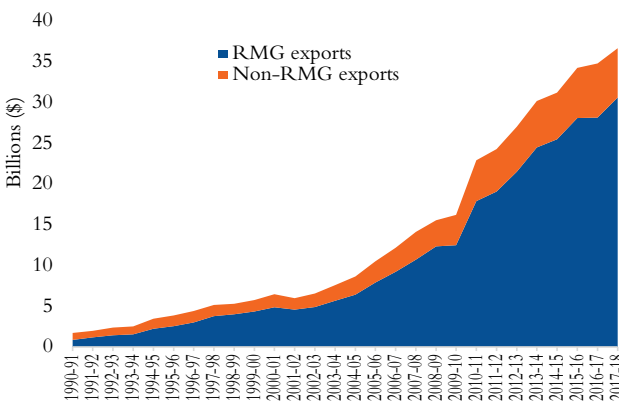
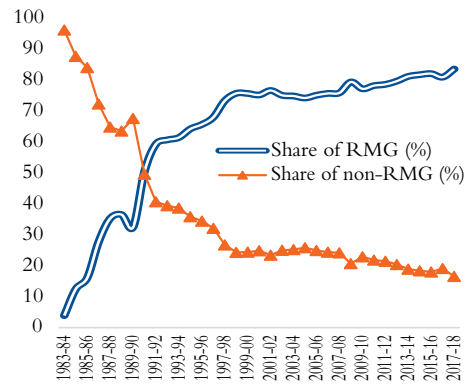
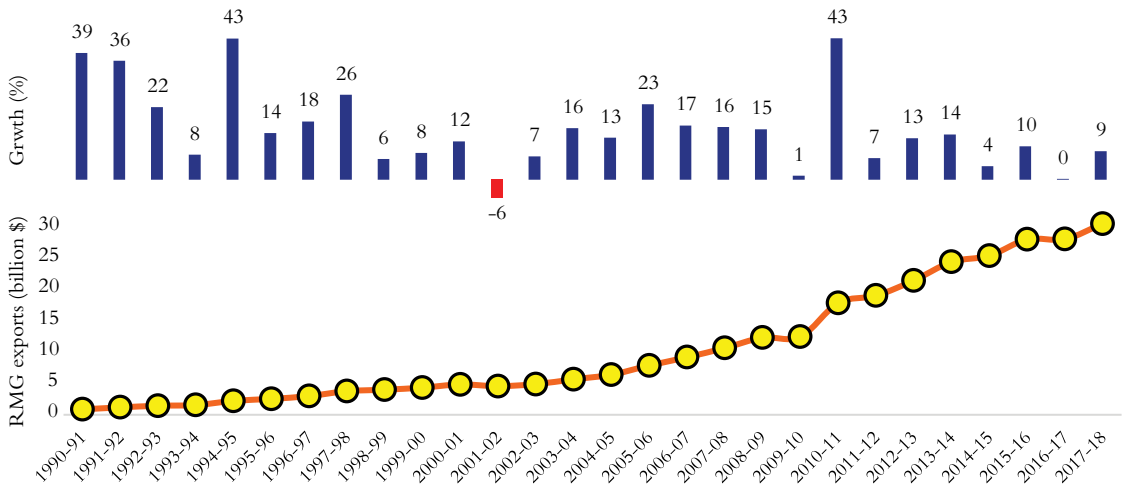


Figure 4.2: Change in shares of apparel and non-apparel exports in total exports (%)



Source: Authors' analysis using Export Promotion Bureau (EPB) data.

Figure 4.3: Readymade garment exports and growth rates

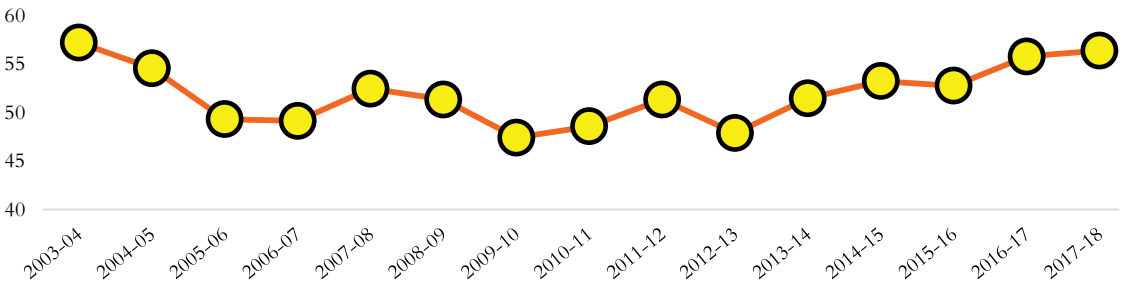


Source: Authors' analysis using EPB data.

Figure 4.5 shows that, although the overall import growth of most EU Member States (measured on the vertical axis) were either close to zero or negative in the 5-year period from 2013 to 2017, their imports from Bangladesh (measured on the horizontal axis) in the majority of cases grew at a considerable pace. Imports of Spain and Poland, for example, from world markets were

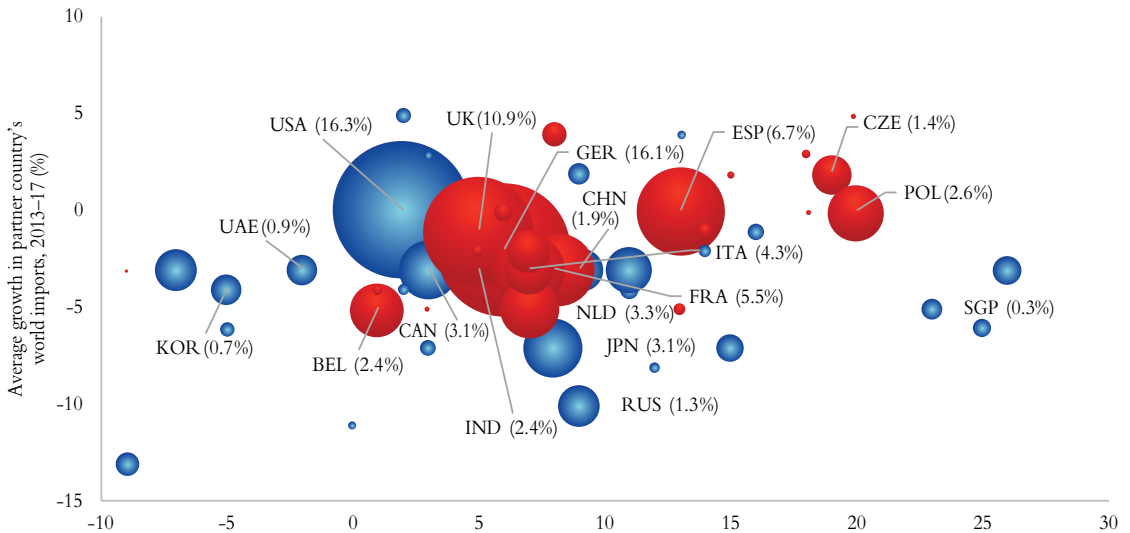
virtually stagnant (the average 2013–17 growth rate being zero), but their comparable figures for growth in imports from Bangladesh were 13 and 20 per cent, respectively. Bangladesh’s top five EU partners together account for about 45 per cent of total exports and almost half of the apparel exports. The notable growth in Bangladesh’s exports to the EU and the latter’s large shares in Bangladesh’s exports make the EU its most critical trading partner.

Figure 4.4: The EU's share in Bangladesh's total exports (%)



Source: Authors’ analysis using EPB data.

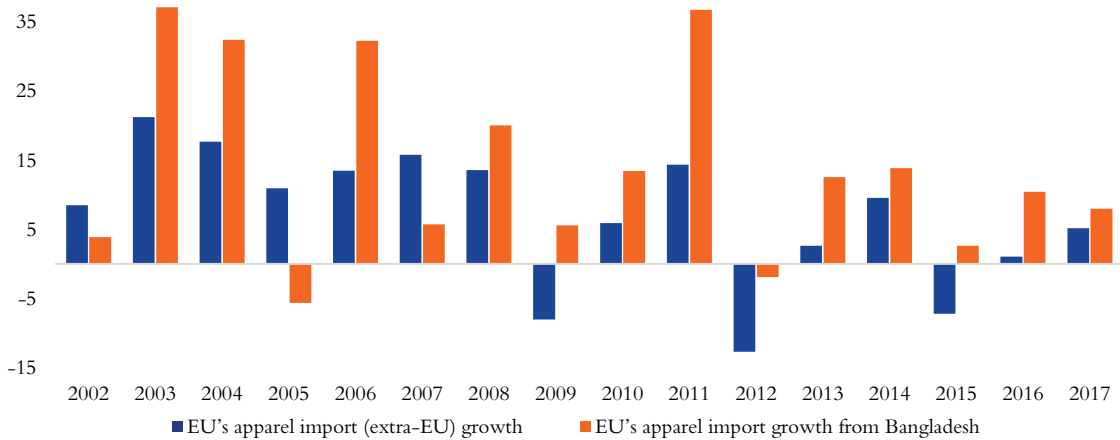
Figure 4.5: Share in Bangladesh’s exports by partner countries (%)



Source: Authors’ presentation using ITC and EPB data.

Note: Bubble sizes correspond to partners’ shares in Bangladesh’s exports in FY18. Export shares have been computed from EPB data. The red bubbles present Bangladesh’s exports to the individual EU Member States.

As obvious from the above, Bangladesh’s exports are mainly driven by RMG. Over the past decade, its average yearly growth in exports to the EU was 12 per cent. During the same period, EU apparel imports from the world grew at a rate of 2.4 per cent per annum. It is worth pointing out that, immediately after the global financial crisis of 2008, while EU imports of apparel from extra-EU countries declined by more than 8 per cent in 2009, imports from Bangladesh posted a 5 per cent growth (Figure 4.6). A similar pattern was also observed during the relatively recent trade slowdown period of 2015–16.

Figure 4.6: EU apparel import growth from the world and Bangladesh (%)

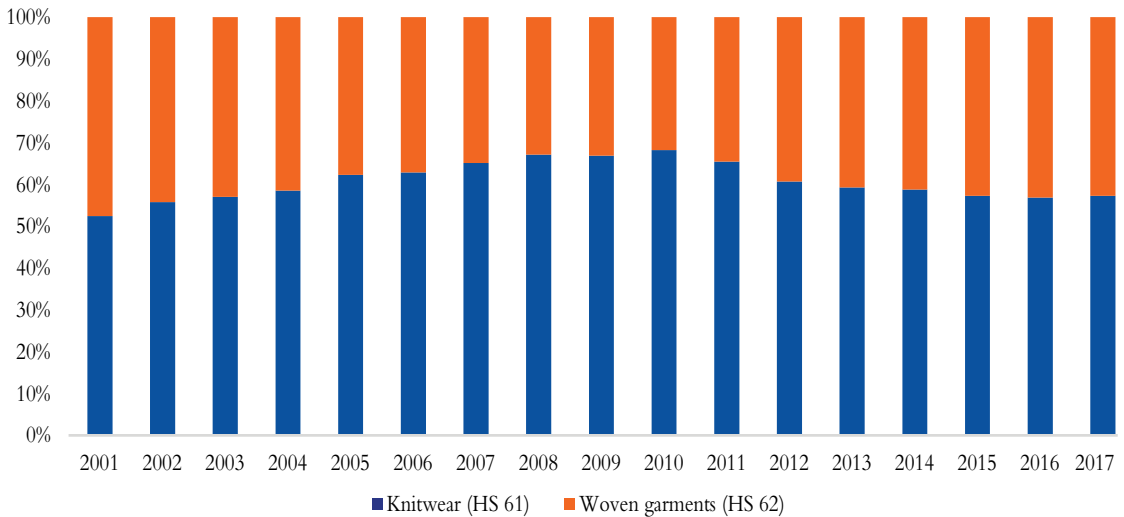
Source: Authors' analysis using ITC data.

Bangladesh's apparel exports to the EU are dominated by knitwear items under the Harmonized System (HS) of product classification category 61, accounting for a share of about 57 per cent in 2017 (Figure 4.7). The same share actually reached a peak as high as 68 per cent in 2010. Until 2011, EU rules of origin (RoO) required 'double transformation' of clothing items as a precondition for tariff-free market access. For woven apparel, this would imply domestically produced fabrics to be used in garment making (i.e., from yarn to fabric and from fabric to garment would fulfil the double transformation criterion). Bangladesh lacks domestic capacity in fabrics, thus finding it difficult to make use of EU preferences. However, in the knitwear segment, there were strong domestic backward linkages to spinning factories and thus knitwear products fared better than woven garments. The derogation of EU rules of origin in 2011 allowed a single transformation for LDC clothing exports, which generated a reinvigorated supply from the woven garment sector, raising its share in exports.

About 21 per cent of total knitwear shipped from Bangladesh was destined for Germany in FY18, followed by 12.5 per cent to the UK (Figure 4.8). Slightly less than 10 per cent is exported to the USA. However, more than one-quarter of woven garment exports under HS 62 are bound for the USA. Among the EU countries, 15.3 per cent of Bangladesh's woven garments are exported to Germany, 11.8 per cent to the UK, 6.8 per cent to Spain, and 5 per cent to France (Figure 4.9).

An analysis of the data at a more disaggregated level shows that Bangladesh's single most important (in terms of export revenues generated) export item at HS 8-digit level is HS 61091000 (T-shirts, singlets and other vests of cotton). Almost three-quarters of all export earnings (\$3.8 billion) from this item are due to the EU (Figure 4.10). For this particular product, Bangladesh has an EU market share of about 25 per cent. For the largest woven garment—men's or boys' bib & amp; brace trousers, breeches and shorts of cotton (HS 62034200)—the single most important individual market is the USA, accounting for about 30 per cent of all exports. However, the combined EU Member States' share is far greater at about 50 per cent of Bangladesh's export earnings from this product (Figure 4.11). The other major RMG exports to the EU markets are men's or women's shirts, jerseys, pullovers, shorts made of cotton and fibre, etc.

Figure 4.7: Structure of Bangladesh’s apparel exports to the EU: woven and knitwear (%)



Source: Authors’ presentation using ITC data.

Figure 4.8: Countries’ share in Bangladesh’s knitwear (HS 61) exports (%)

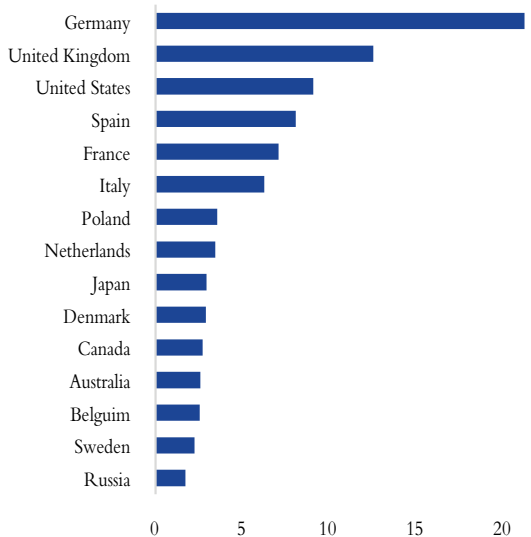
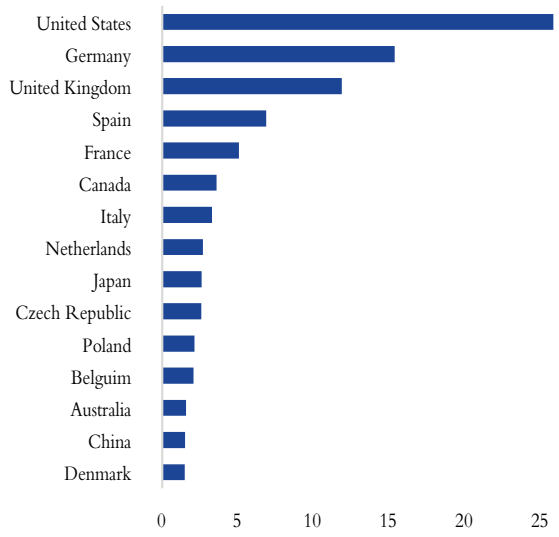


Figure 4.9: Countries’ share in Bangladesh’s woven garments (HS 62) exports (%)



Source: Authors’ presentation using EPB data.

Figure 4.12 depicts the growth dynamics of Bangladesh’s individual HS 6-digit apparel export products to the EU. Clearly, there are several items for which Bangladesh enjoys large market shares. It is, however, striking to find that there are many items that are relatively small in terms of export revenues but achieved high average growth rates over the 5-year period from 2013 to 2017. Although their small base could be one reason for achieving such high growth, nevertheless it implies that these products have promising export market prospects.

Figure 4.10: Partners' share in Bangladesh's exports of HS 61091000

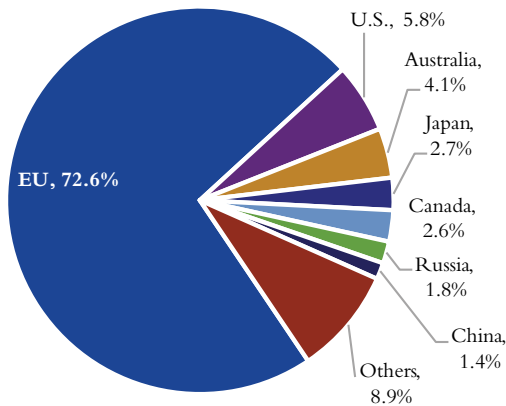
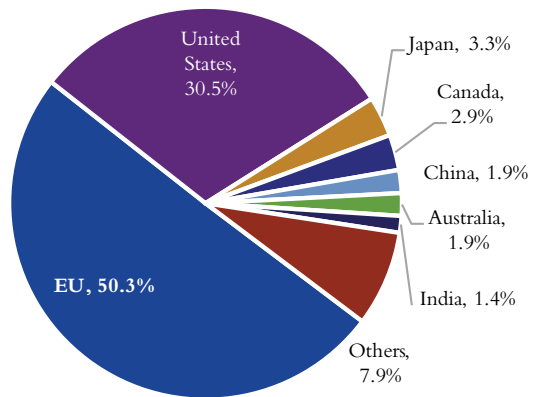
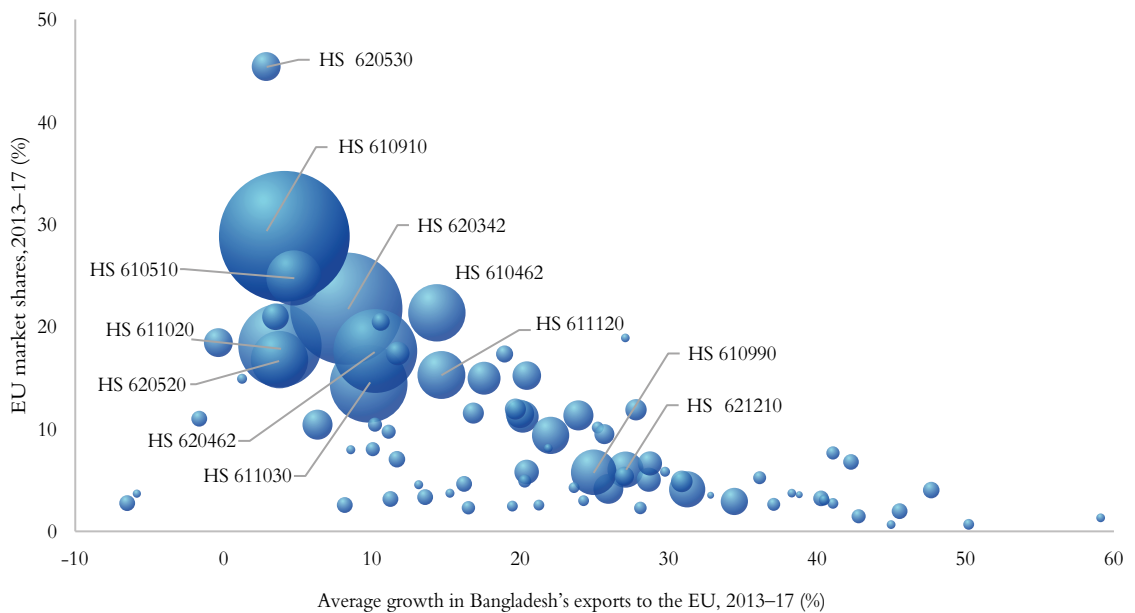


Figure 4.11: Partners' share in Bangladesh's exports of HS 62034200



Source: Authors' presentation using EPB data.

Figure 4.12: EU market shares and Bangladesh's export growth by products at the HS 6-digit level



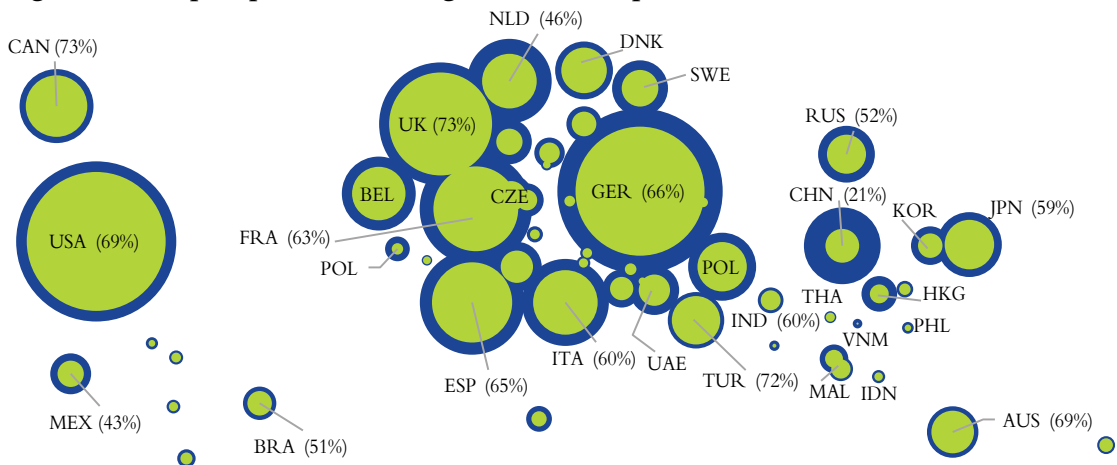
Source and note: Authors' presentation using ITC data. Bubble sizes correspond to Bangladesh's exports to the EU in 2017. The biggest bubble represents an export value of \$3.8 billion whereas the smallest one indicates \$13 million.

Further export potential in the EU

Although the EU has been its largest export destination, there is evidence of further export potential for Bangladesh by taking advantage of tariff-free market access. Unused export potential by destination markets can be determined using a methodology recently developed by the International Trade Centre (Decreux & Spies, 2016). The ITC export potential indicator (EPI) identifies products in which an exporting country has already proven that it is internationally

competitive and which have good prospects of export success. The potential export value in a target market is estimated based on exporters' supply capacity, the demand in the market of interest and market access conditions.² Potential export values are compared with actual export earnings to reveal untapped opportunities. Applying the ITC methodology it is found that Bangladesh has a global untapped apparel export potential worth \$17.4 billion, which is more than half of its current export earnings from the sector. For the EU, it is estimated that the existing level of exports is short of an additional \$11.3 billion potential, of which more than 90 per cent is apparel. The potential and actual exports of apparel products are summarised in Figure 4.13 where the numbers in parenthesis show the proportion of the actual exports as a percentage of actual plus unexploited export opportunities. The highest absolute difference between potential and actual exports is for Germany, leaving room for additional export earnings of \$2.2 billion. That is, currently, about 34 per cent of the potential is unexploited in Bangladesh's largest EU partner country market. Among other EU partners, only 46 per cent of potential is utilised in the Netherlands. Bangladesh's other major EU markets—France, Italy, Spain, and the UK—also have sizeable unexploited market potential.³

Figure 4.13: Export potential of Bangladesh's RMG products



Source and note: Authors' analysis using data from the ITC Export Potential Map. The size of the blue bubbles indicates Bangladesh's total export potential to the target market, while the size of the green bubbles indicates actual exports. The difference between the size of the blue and green bubbles represents the total unrealised potential. The figures within parentheses indicate the proportion of the export potential currently utilised.

² The EPI has three components: exporters' supply capacity for a product, demand conditions and bilateral 'easiness to trade'. An exporter's supply capacity is estimated as a dynamic version of market share, in which expected economic growth is considered to augment the exporter's capacity, and product-specific trade balance measured by the export–import ratio and global margin of preference, which encompasses information on tariff preference. Demand conditions are captured through partners' projected imports, which are determined by projected GDP and population growth, margin of preference in the target market, and distance advantage, which compares suppliers' geographical distances with the target market. The easiness to trade between two countries is computed based on the actual trade relative to hypothetical trade estimated by supply and demand conditions. If easiness to trade between countries is greater than 1, countries find it easier to trade between themselves relative to world markets. The export potential is then calculated by multiplication of estimated supply capacity, demand conditions and bilateral easiness to trade. Potential exports are estimated for disaggregated products at the HS 6–digit level. The aggregate export potential of a country in a target market is the sum of product-level export potentials.

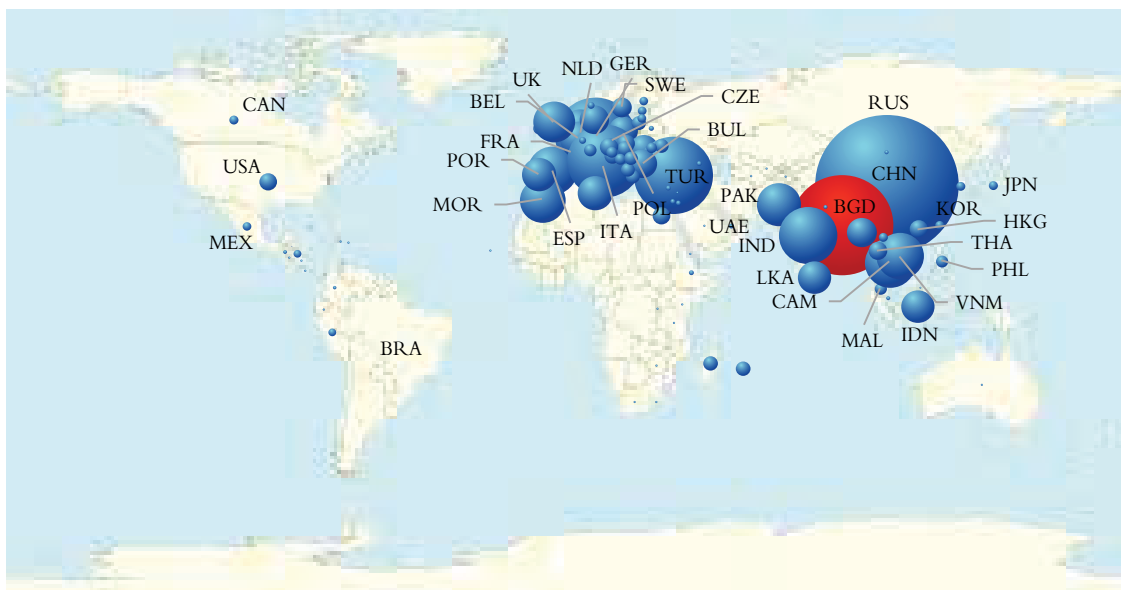
³ Although Bangladesh enjoys duty-free access, there could be various reasons for its not being able to exploit the EU market fully. These include underdeveloped trade infrastructures, difficulties in complying with standards, quality and preferences of consumers and any other barriers in developing relationships with buyers/importers.

Turning to non-EU countries, the USA offers the biggest unrealised apparel export potential for Bangladesh, estimated at \$1.9 billion, i.e., only 69 per cent of all potential is being utilised in its largest exporting destination. It is estimated that Bangladesh is using just 21.4 per cent of its potential in China and 60 per cent in India.

4.3 LDC Graduation and EU Market Prospects for Readymade Garments

The EU accounts for almost 45 per cent of global apparel markets. In 2017, the combined EU-28 imports stood at \$178.3 billion, of which \$116 billion (i.e., 65 per cent) worth of clothing items was sourced from extra-EU suppliers. China, the global export leader, captures about one-quarter of the market share (Figure 4.14); it exported \$39.3 billion in 2017. Bangladesh is the second-largest exporter, having a 12 per cent market share. Turkey and Germany ranked respectively third and fourth largest suppliers in the EU, each capturing about 7 per cent market shares. Among others, Italy supplied 5.5 per cent, India 4 per cent, Cambodia, France and Spain 3 per cent each, Vietnam and the Netherlands 2.6 per cent each, and Pakistan shipped 2.1 per cent.

Figure 4.14: Major apparel exporters to the EU



Source: Authors' presentation using ITC data.

Note: The bubble size represents the market share in the EU.

A comparison over time of extra-EU competing suppliers' market shares shows a striking diminishing relative significance of China. Between 1990 and 2010, China's market share rose steadily from less than 7 per cent to just below 31 per cent. However, over the next 7 years, it fell by almost 9 percentage points. A close look at Table 4.1 and Figure 4.15 reveal Bangladesh's capturing of much of China's declining market presence. During 2000–10 Bangladesh's market share rose from about 3.5 per cent to 6.5 per cent, but then it accelerated further to increase to more than 12 per cent, i.e., a 5.5-percentage point rise in 7 years. Apart from Bangladesh, as can be inferred from Table 4.1, Cambodia, Myanmar, Pakistan and Vietnam have also seen their shares rising since 2010. But none of them shows dynamism comparable to that of Bangladesh.

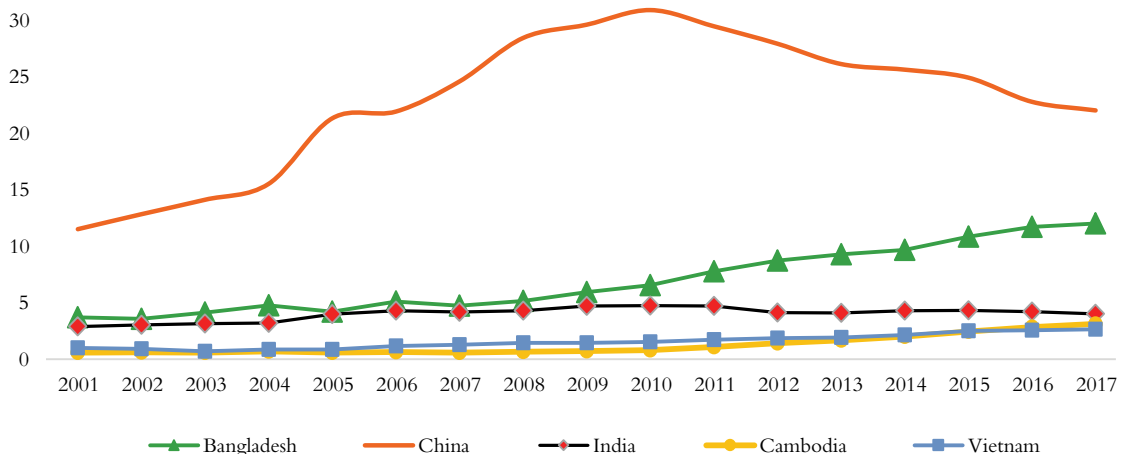
It needs to be pointed out that such a robust export performance by Bangladesh has been greatly aided by the EU's derogation of RoO requirements for clothing under the EBA, as mentioned earlier. The earlier stringent RoO criterion of double transformation for duty-free access proved to be a binding constraint. As Figure 4.16 shows, between 2001 and 2010, Bangladesh's market share in woven garments (HS 62) virtually stagnated. After allowing single transformation, the market share of woven products expanded rapidly: from just above 4 per cent in 2010 to more than 10 per cent in 2017. Because of strong domestic backward linkages, RoO did not appear to be a major problem for knitwear and thus Bangladesh has been able to maintain steady growth in market share in this category as well (from 9 per cent in 2010 to 13.7 per cent in 2017).

Table 4.1: Share of extra-EU partners in total apparel imports in the EU (%)

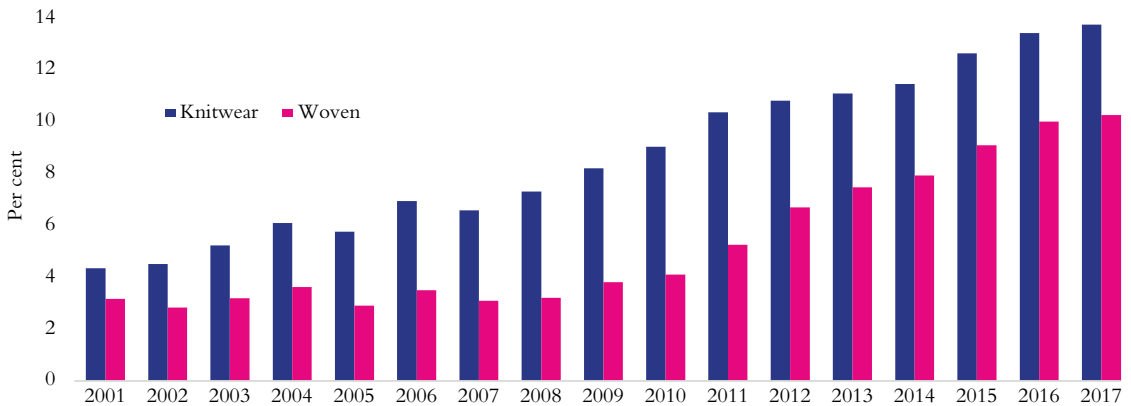
Country	1990	1995	2000	2005	2010	2015	2017
China	6.84	7.12	11.09	21.32	30.90	24.92	22.02
Bangladesh	0.49	2.08	3.53	4.20	6.54	10.84	12.01
Turkey	7.49	6.82	7.25	9.20	8.24	7.49	7.26
India	2.48	3.43	2.88	3.99	4.74	4.31	4.02
Cambodia	0.00	0.08	0.41	0.59	0.82	2.45	3.13
Vietnam	0.11	0.58	1.08	0.86	1.54	2.50	2.65
Pakistan	0.70	0.91	0.84	0.95	1.12	1.84	2.13
Morocco	1.33	3.39	3.17	2.68	2.15	1.99	2.08
Tunisia	1.95	3.28	3.49	2.76	2.21	1.53	1.45
Sri Lanka	0.47	0.97	1.41	1.21	1.47	1.33	1.24
Indonesia	1.04	2.01	2.67	1.58	1.34	1.08	1.08
Myanmar	0.00	0.03	0.42	0.22	0.12	0.31	0.91
Hong Kong	7.59	6.65	4.96	2.53	0.43	0.54	0.40
Thailand	1.45	1.21	1.48	1.07	0.89	0.44	0.40
Egypt	0.11	0.29	0.37	0.45	0.43	0.35	0.32
United States	0.65	0.93	0.53	0.39	0.38	0.37	0.32

Sources: Authors' presentation using UN Comtrade and ITC data.

Figure 4.15: EU apparel market shares by selected suppliers (%)

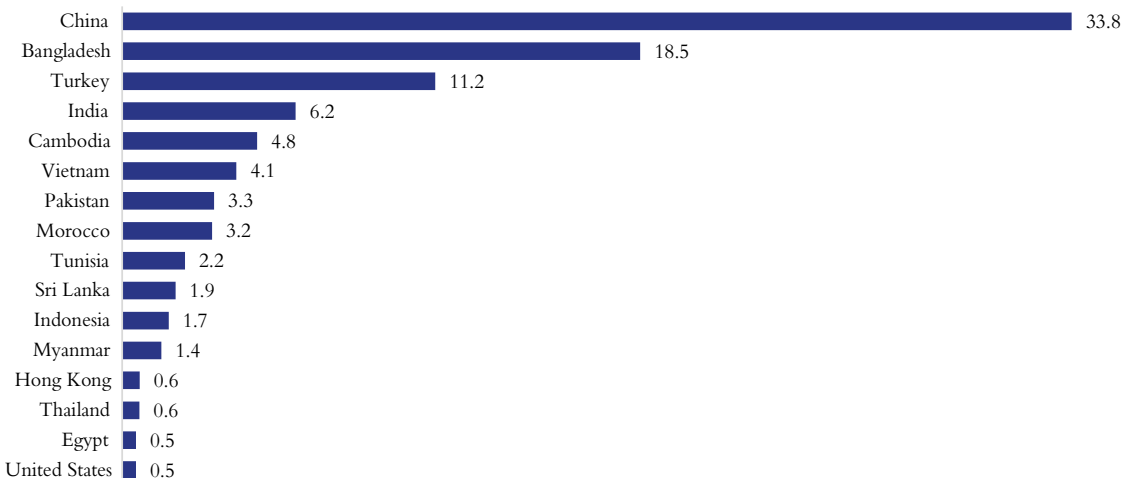


Source: Authors' presentation using UN Comtrade and ITC data.

Figure 4.16: Bangladesh's EU market shares in knitwear (HS61) and woven garments (HS 62) (%)

Source: Authors' analysis using ITC data.

In the EU, extra-EU suppliers compete among themselves as well as with the individual EU Member States exporting to other fellow members. While considering only extra-EU imports into the EU, more than one-third of total extra-regional imports of RMGs are shipped from China (Figure 4.17). Bangladesh is the source of about 18 per cent, whereas Turkey and India respectively export 11.2 per cent and 6.2 per cent of total extra-EU imports of RMGs to the EU.

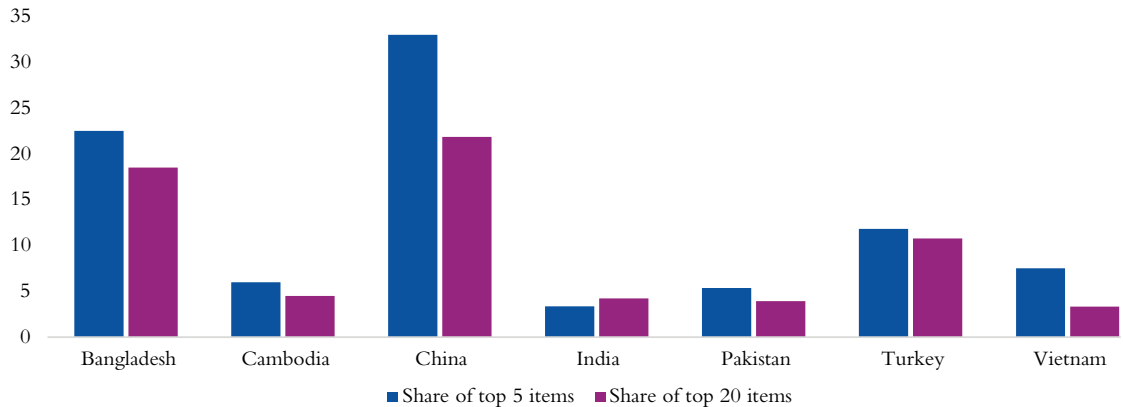
Figure 4.17: Share in extra-EU RMG imports, 2017 (%)

Source: Authors' analysis using ITC data.

The market shares of major extra-EU partners for their respective top exporting items at the HS 6-digit level are provided in Figure 4.18. Bangladesh's most important 5 and 20 products account for 22.2 per cent and 18.5 per cent of EU imports in the same products respectively. The relatively high concentration implies that Bangladesh is highly competitive in these items. But it would also suggest that there is scope for diversification into new items within the apparel sector. China's top 5 items hold about one-third of EU imports of those products, whereas its top 20 products together represent about 22 per cent market share. India's shares in its top-five and 20

products are 3.3 per cent and 4.2 per cent respectively, which are lower than its overall apparel market share. This implies that India's reliance on its major items is much less than those of Bangladesh and China. It could also suggest a lack of competitiveness in items that are associated with the highest export revenues.

Figure 4.18: EU market shares of competitors by their respective top 5 and 20 items (%)



Source: Authors' presentation using ITC data.

Note: Shares in the EU market have been calculated for each country for their respective major exporting items at the HS 6-digit level.

EU import regimes in apparel

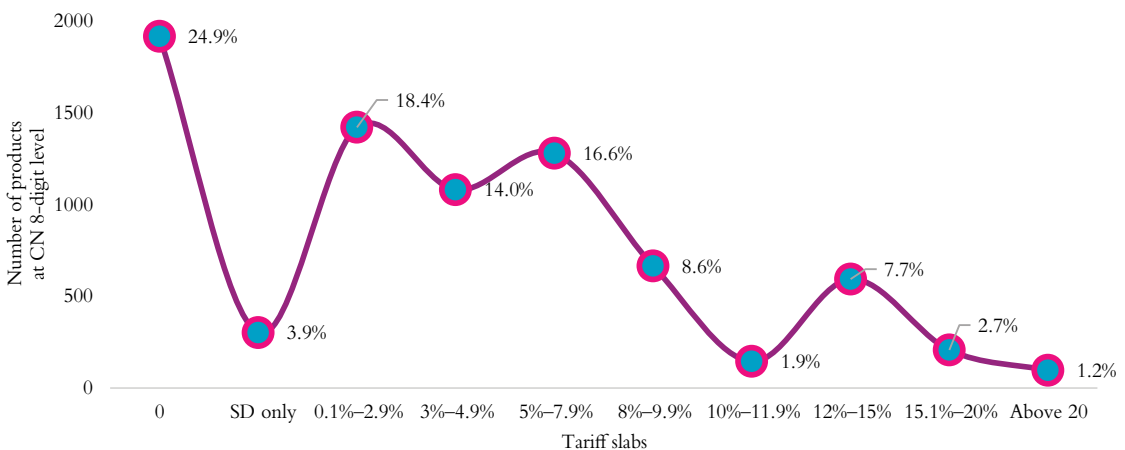
The EU provides trade preferences to support developing countries under its Generalised Scheme of Preferences (GSP). The EU's GSP is based on the WTO's Enabling Clause that allows developed nations to grant unilateral and non-reciprocal tariff preferences to support developing countries in their development process. The current GSP regime in the EU offers three different preference arrangements: (i) a general arrangement (Standard GSP); (ii) a Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+); and (iii) an EBA arrangement for the group of LDCs. A summary of these preference regimes is provided in Table 4.2.

Bangladesh, as an LDC, gets duty-free quota-free market access under EBA. When Bangladesh graduates from LDC status, it will lose LDC-specific preferential market access and RoO. Tariff preferences provide a significant competitive advantage, particularly when most favoured nation (MFN) tariff rates are high. Although tariffs are generally low in developed countries including those in the EU, certain sensitive sectors continue to be protected by high tariffs. Therefore, depending on beneficiary countries' export composition, preferential treatment may or may not be a source of competitive advantage. The textile and clothing sector attract relatively high MFN tariffs, and therefore Bangladesh has substantially benefited from the EBA arrangement for LDCs. An analysis of EU tariff structures (Figure 4.19) shows that about one-quarter of EU tariff lines at CN 8-digit level have an MFN duty rate of zero per cent (i.e., 25 per cent of all products imported by the EU provide duty-free access to suppliers from all countries). Another 4 per cent are subject to specific duties only. In about 25 per cent of tariff lines, MFN duty rates of 5–9.9 per cent are applied, while just 4 per cent of products attract more than 15 per cent tariff rates. The MFN tariffs on textile and clothing items are mostly in the range of 10–12 per cent with 88.9 per cent apparel products attracting such tariffs of 12 per cent.

Table 4.2: EU GSP provisions

Indicators	Standard GSP	GSP+	EBA
	Low- or lower-middle -income countries	Vulnerable (in terms of export diversification, export and import volumes) Standard GSP beneficiaries that have ratified the 27 GSP+ relevant international conventions	LDCs
Number of beneficiaries ⁴	15	8	48
Non-sensitive goods	Duty reduction for around 66% of all EU tariff lines	Duty suspension for around 66% of all EU tariff lines	Duty suspension for all goods with the exception of arms and ammunition
Sensitive goods: - specific duty - ad valorem duty	Duty reduction: - 30% - up to 3.5 percentage points	Duty suspension	Duty suspension
Rules of origin (important provisions only)	Double transformation for textile and clothing items. For all other products, a minimum local value-added of 50%	Double transformation for textile and clothing items. For all other products, a minimum local value-added of 50% ⁵	Single transformation for textile and clothing items. For all other products, a minimum local value-added of 30%

Sources: Various documents available on the European Commission website.

Figure 4.19: MFN tariff structure in the EU

Note: The percentages correspond to proportions of tariff lines. Some products with MFN tariffs are also subject to specific duties. In this exercise, these products are placed under the relevant ad valorem tariff slabs only. SD = specific duty. Source: Authors' presentation using the EU tariff schedule.

Graduating LDCs can apply for perhaps the second-best (after the EBA scheme) preferential regime, GSP Plus (GSP+), which grants duty-free access to 66 per cent of EU tariff lines. To be eligible for GSP+, the country must fulfil the Standard GSP conditions and two additional criteria.⁶ According to the standard conditions, any developing country will benefit from Standard GSP unless: a) it has another type of special trade access to the EU granting the same

⁴ As of January 2019. Information obtained from: https://trade.ec.europa.eu/doclib/docs/2019/may/tradoc_157889.pdf.

⁵ There is some lack of clarity on these provisions for GSP+.

⁶ Information obtained from European Commission website. URL: <https://trade.ec.europa.eu/tradehelp/gsp>.

tariff preferences as the scheme, or better, for substantially all trade; b) it has achieved a high- or upper-middle income economy status during three consecutive years according to the World Bank classification.

For GSP+, the two additional eligibility conditionalities are called vulnerability and sustainable development criteria. First, the vulnerability criteria comprise: (a) the import share criterion—requiring that the beneficiary country's share of GSP-covered import must remain below 6.5 per cent of GSP-covered imports from all GSP countries; and b) the diversification criterion—stipulating that the seven largest sections of GSP-covered imports must constitute 75 per cent of imports from the beneficiary country over a period of three years. Second, the sustainable development criterion which requires the applicant country to have ratified and effectively implemented 27 international conventions on labour rights, human rights, environmental protection and good governance. Bangladesh fulfils the diversification criterion and may qualify the sustainable development criterion. However, Bangladesh currently does not satisfy the import share criterion as its current share (in 2018) in all GSP-covered imports is more than 17 per cent.⁷ Therefore, if the existing GSP provisions remain unchanged, the GSP+ is no option. In that case, the least attractive Standard GSP would be the default scheme to apply for.

Figure 4.20 shows the distribution of Bangladesh's exports over EU tariff rates under the Standard GSP scheme with a view to ascertaining market access implications after graduation from LDC status. It becomes obvious that applying the Standard GSP regime on Bangladesh's current export structure would result in a dramatically changed situation from the present duty-free access for all products to almost all exports being subject to some tariffs.⁸ In fact, about 92 per cent of all of Bangladesh's exports will fall under an average tariff of 8–9.9 per cent. An examination of the tariff schedule reveals that, for 98 per cent of Bangladesh's apparel exports, EU MFN tariff rates are around 12 per cent. Under the Standard GSP scheme, these tariffs will be slightly reduced to 9.6 per cent, while with the GSP+ scheme tariff-free access is given for the same products. That is, under GSP+ Bangladesh's apparel exports will enjoy the same tariff preferences as they would under the EBA scheme. However, EBA RoO are more relaxed and less stringent than those of GSP+.⁹

Standard GSP, however, comes with another conditionality—known as product graduation—which can also be problematic for Bangladesh. It specifies that certain products of a beneficiary country will fail to qualify for GSP if they are deemed to have become internationally competitive (Article 8 of EU GSP rules), which is determined as the share of pre-specified product sections' share from a country to total EU GSP import of the relevant products. That is, GSP is withdrawn from a product section if the average share from a GSP beneficiary country (divided by the total value of all GSP imports for that Section) over three years exceeds a certain threshold.

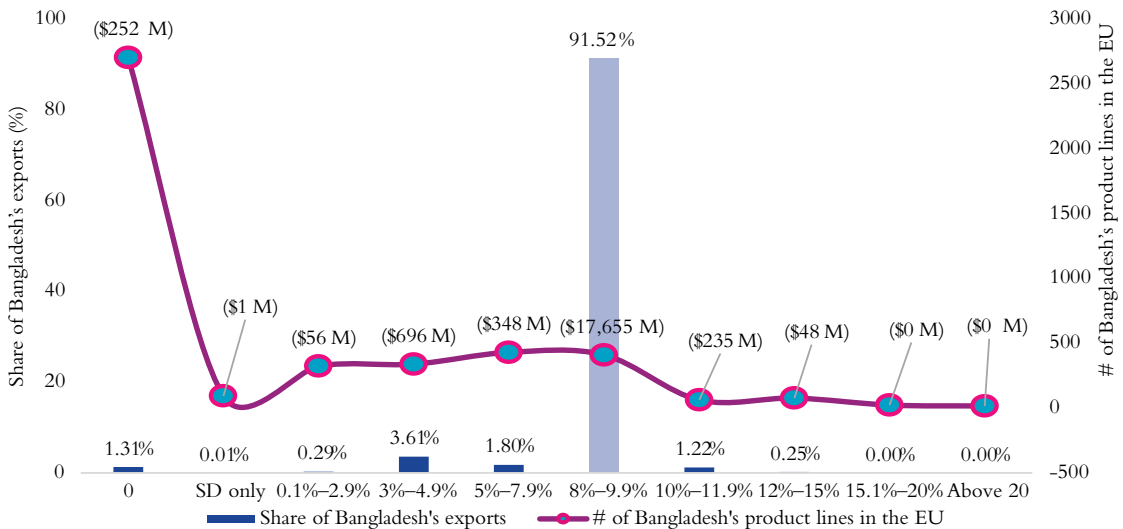
⁷ Just one of the 27 international conventions, concerning the minimum age for admission to employment, has not yet been ratified by Bangladesh.

⁸ According to one estimate, 96 per cent of Bangladesh's exports to the EU enjoyed tariff-free access under the EBA scheme in 2016 (European Commission, 2018a and 2018b). The most likely cause of the remaining 4 per cent of exports not availing themselves of the preference was not fulfilling the RoO provisions.

⁹ The local value added to qualify for preferential treatment would increase from 30 per cent to 50 per cent for all products. In the apparel sector, currently LDCs can qualify for EBA facilities under single transformation of products (e.g., from fabric to clothing), but under GSP+ treatment products must go through double transformation (i.e., from cotton to fabric to clothing).

According to Commission Regulation (EU) 2015/1978 of August 2015, the general threshold for product graduation is 57 per cent with the exception of textile and clothing, animal or vegetable oils, and mineral products. For and clothing (products under section S-11b (HS 61, 62 and 63), graduation applies when the percentage share exceeds 47.2 per cent while for vegetable products, animal or vegetable oils, fats and waxes and mineral products, the corresponding threshold is 17.5 per cent. The current share of Bangladesh in textile and clothing (S-11b) is estimated to be 43 per cent (Dawar, et al., 2019) of all GSP-covered imports under the section. There is thus the concern that this share can exceed the graduation threshold by the time Bangladesh graduates.¹⁰ The EU reviews the list of graduated products every three years. If the current share criteria for product qualification are going to be unchanged, apparel exports from Bangladesh will graduate from the Standard GSP scheme and will subject to MFN tariffs.

Figure 4.20: EU tariff rates under Standard GSP and Bangladesh's exports



Note: The figures in parenthesis show the absolute values of Bangladesh's exports associated with specific tariff slabs. Some products with MFN tariffs are also subject to specific duties. In this exercise, these products are placed under the relevant ad valorem tariff slabs only. SD stands for specific duty.

Source: Authors' analysis using EU Comext database.

Tariff implications for export earnings

In international trade, it is one of the most fundamental tenets that the imposition of tariffs leads to reduced imports and thus lower revenues for the concerned exporters. The principle behind it is that preferential market access will make the preference-receiving country's exports more competitive and thus they will be able to export more. Conversely, from a situation of duty-free market access to being subject to tariffs would undermine export competitiveness and thus potentially reduce export earnings. To analyse the potential implications of tariff rate changes on exports, one simple yet insightful approach is to make use of a partial equilibrium model. The advantage of this model is its simplicity—the data requirements are minimum, and the simulation

¹⁰ Vietnam, one of the major exporters of apparel products, will no longer be regarded as GSP beneficiary country when the EU-Vietnam Free Trade Agreement comes into force. As Vietnam will go out of the list, Bangladesh's share in GSP-covered imports of apparels will increase.

exercise is quite straightforward. Being a partial equilibrium model means it uses only one sector while disregarding interactions with others—a feature that general equilibrium models (GEMs) deal with. However, in contrast to general equilibrium models, the partial approach can make use of highly disaggregated trade and tariff data.¹¹ Given the simplicity and data availability, the potential implications of tariffs are analysed here using a partial equilibrium model suggested in Commonwealth Secretariat (2018). This model comprises two steps: first, it estimates the impact on exports due to price changes emanating from forgone tariff preferences in the destination market; and, second, it estimates the possible increase in demand for goods exported by non-graduate countries as they become more competitive relative to the graduating country in question.¹² The potential impact of graduation in this model is transmitted as follows: (i) an imposition of tariff will increase in the price of goods; (ii) this will result in potential substitution between exports from graduate and non-graduates countries; (iii) the results are dependent on market share elasticities and therefore the extent of price sensitivities.¹³

Box 4.1: Bangladesh's LDC graduation and provisions for various EU GSP schemes

- Currently, Bangladesh enjoys duty-free and quota-free access under the EBA. Under EBA rules of origin (RoO), a single transformation for textile and clothing items is sufficient, while for all other products a minimum local value-added of 30 per cent is needed to qualify for preferential market access.
- After LDC graduation, EU GSP schemes that are available are GSP+ and Standard GSP.
- GSP+ grants duty-free access to 66 per cent EU tariff lines including apparel items. But, RoO provisions change to double transformation for clothing (i.e., domestically produced fabrics will be needed in garment making) and the minimum local value-added of 50 per cent for all other products.
- Graduating LDCs can apply for GSP+ preferences subject to the fulfilment of two broad eligibility conditions, specified as the vulnerability and sustainable development criteria.
- The vulnerability criterion comprises, i) the import share criterion which specifies that the country's share of GSP-covered import must remain below 6.5 per cent of GSP-covered EU imports of all GSP beneficiary countries; and ii) the diversification criterion, which stipulates that the seven largest sections of GSP-covered imports must constitute 75 per cent of imports from the beneficiary country over a period of three years.
- The sustainable development criterion requires the exporting country to have ratified and effectively implemented 27 international conventions on labour rights, human rights, environmental protection and good governance.
- Given the current GSP provisions, Bangladesh does not qualify for GSP+ as it does not satisfy the import share criterion (Bangladesh's current share in all GSP-covered imports is more than 17 per cent).
- If GSP+ is not available, Bangladesh can apply for the much less attractive Standard GSP scheme.
- Standard GSP provides duty concessions of about 30 per cent and up to 3.5 percentage points of MFN tariff rates for 66 per cent of EU tariff lines. The RoO provisions are the same as GSP+.
- Even if Bangladesh has to opt for Standard GSP, textile and clothing items (EU product section S-11b which includes HS 61, 62 and 63) items might exceed EU product graduation threshold level share and thus could be subject to exclusion. Bangladesh's current share in EU GSP covered import S-11b is 43 per cent, which is close to the product graduation threshold of 47.2 per cent.
- Vietnam, which is a beneficiary of Standard GSP, signed a free trade agreement with the European Union. It will not be regarded as a GSP beneficiary country when the agreement comes into force. As Vietnam goes out of the GSP beneficiary list, Bangladesh's share in EU imports from GSP beneficiary countries will increase. This will have implications for product graduation threshold (for S-11b).
- The current GSP regime will apply until 2023 and will be replaced by a new regime, stipulating eligibility provisions that will be relevant to Bangladesh in the post-graduation era.

Source: Authors' summary from different sources.

¹¹ Developing an appropriate GEM can be very time-consuming as well. One popular approach is to use the Global Trade Analysis Project (GTAP) computable general equilibrium model. But, in the GTAP model, just one aggregate sector of textile and apparel is used, unlike the trade data at the highly disaggregated level used here.

¹² The second step thus involves the graduate country's lost market share being distributed among the non-graduates.

¹³ The potential caveats of this approach are that it assumes constant import price elasticities, i.e., if the price of a given item declines, each producer adapts in the same way regardless of different adaptation measures within the structure of production. In any case, the potential shifts in exports may depend on producers' supply capacities and competitiveness, which are not captured in this market share-based approach.

The model

The trade effect of graduation from LDC status can be estimated by comparing the unit price received by the preference-receiving country with that of the MFN exporters:

$$P_k^i = P_k^W (1 + m_k^i) \text{ or } m_k^i = \frac{P_k^i}{P_k^W} - 1$$

where P_k^i is the unit price of product k received by country i (i.e., preference recipient), and P_k^W is the world unit price of the same product. It is assumed that markets are perfectly competitive and there is no product differentiation. The above equation can be expressed as:

$$P_k^i = P_k^W (1 + T_k^{MFN} - T_k^i)$$

where T_k^{MFN} is ad valorem equivalent MFN tariff for product k , and T_k^i is the export-weighted preferential tariff faced by country i . The percentage changes in exports as a result of changes in the price of exports is given by:

$$\frac{\Delta X}{X} = \frac{\Delta P}{P} + \varepsilon \frac{\Delta P}{P} \left[-\frac{\Delta P}{P} + 1 \right]$$

where X is exports and ε is price elasticity of demand for exports. The formula can be utilised to estimate the effect of abolishing tariff preferences resulting from graduation from LDC status. As a country graduates from the group of LDCs, its tariff preference regime changes, as it has to pay a higher tariff. The changes in export revenue as a result of graduation can be estimated from the following equation:

$$\frac{\Delta X}{X} = \mu_k^i \frac{\Delta m_k^i}{1 + m_k^i} + \varepsilon \left(\mu_k^i \frac{\Delta m_k^i}{1 + m_k^i} \right) \left(\mu_k^i \frac{\Delta m_k^i}{1 + m_k^i} + 1 \right)$$

where, $\mu_k^i = \Delta m_k^i / m_k^i$ indicates the changes in preference margin. The first component in the above equation computes the changes in unit price resulting from changes in tariff preference. The second component calculates the impact on export revenue for the given changes in price.

At the second step, to compute the trade-shift effects it is assumed that the declining exports from the graduate country will be proportionally distributed to the other competitors (i.e., non-graduates) based on their market shares. The implicit assumption here is that there is no product differentiation among the suppliers and that non-graduates' exports will increase proportionally (i.e., cross-price elasticity of demand is 1). Therefore, the market share approach is used to estimate how other countries' exports will be impacted.

Estimation results

The model is estimated using a total of 339 CN 8-digit products that were exported to the EU during 2015–17. The EU tariff rates at this level of disaggregation are used in the analysis for individual products. The impact is estimated based on the average exports during the last three years and their shares in total EU imports. Export implications have been estimated using two post-graduation scenarios: Bangladesh's receiving Standard GSP benefits and being subject to MFN tariffs.

Table 4.3 summarises the results. The estimations are based on alternative values for the price elasticity of demand: between 0.5 and 2.¹⁴ Under the unitary price elasticity of demand, the

¹⁴ Goods that have close substitute, cannot have a price elasticity value less than one (i.e., it cannot be price inelastic). A price elasticity less than one means, the country in question will have very strong market power. In an influential paper, Panagariya et al. (2001) found the price elasticities for apparel products to be very high.

estimation suggests that replacing duty-free access with the Standard GSP regime would result in a loss of export earnings for Bangladesh of US\$1.6 billion—9.5 per cent of average export revenues from the EU during 2015–17. The resultant loss would be higher than \$2 billion in the unlikely case of Bangladesh facing the MFN tariff rates. It is estimated that the forgone export receipts from knitwear would be greater than those from their woven counterparts (Figure 4.21). Under Standard GSP, while the export loss due to woven garments would be lower than \$700 million, the comparable figure for knitwear would be close to \$1 billion. The most important reason behind higher potential losses of knitwear compared with woven garments is the higher average tariff rate applied to the former.¹⁵ In any case, as reflected in the EU Comext database, Bangladesh exports more knitwear than woven products. With values of the price elasticity of demand higher than 1, the estimated forgone exports are bigger. If we were to choose, our preferred estimate would have been in line with the unitary price elasticity of demand.¹⁶ The detailed results show that, amongst others, Bangladesh's single most important export items, CN 61091000 (knitted or crocheted T-shirts), alone could suffer a decline of close to \$300 million. The currently large export base and the hike in the tariff both interact to generate this big impact.

Table 4.3: Potential loss of apparel export earnings due to an increase in tariff

Price elasticity of demand	Potential decline in RMG exports (million \$)	
	If Bangladesh gets Standard GSP preference	If Bangladesh faces MFN tariff
0.5	800.8	1,001.0
1	1,601.6	2,002.0
1.5	2,402.4	3,003.0
2	3,203.2	4,004.0

Source: Authors' estimation.

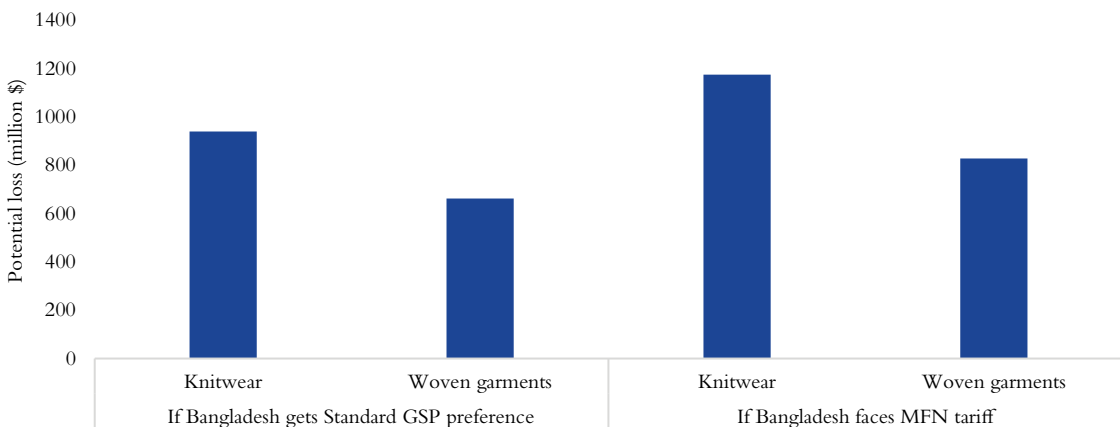
Economic models simplify complex matters of the real world, and the derived results depend on certain assumptions to make the models operational. However, models cannot capture everything. There are many other unpredictable events that can take place. The models are only to help understand the implications of the issue of interest (changes in tariffs in this case), all other things held constant. And, in all trade negotiations and impact assessments, this is exactly what is studied, i.e., consequences due to certain policy changes assuming that other unpredictable factors remain unchanged. While the limitations of the partial equilibrium model have already been highlighted, it is also worth pointing out a few other issues. First and foremost, modelling exercises (including GEMs) cannot capture the implications arising from the changes in RoO provisions. Graduation out of LDC status will be associated with more stringent requirements (e.g., double transformation in clothing and 50 per cent domestic value-added in other products) for getting Standard GSP preferences. Second, it is not clearly understood how the rents from tariff preferences are distributed between exporters and importers, which can have implications for price changes. Finally, it is assumed that undifferentiated products can be readily supplied from other countries. In reality, as products are differentiated, individual countries might be able to exert some market power on the model-based estimates.

¹⁵ This analysis does not consider the fact that graduation from LDC status could lead to more stringent RoO impacting woven garments, as discussed earlier in the paper.

¹⁶ In most partial equilibrium models, it is a usual practice to consider price elasticity value for most products at least one. General equilibrium models often employ much higher values.

Notwithstanding the caveats, the estimates presented here are comparable with other assessments undertaken elsewhere using different methodological approaches. The United Nations Conference on Trade and Development (UNCTAD) estimated a 5.5–7.5 per cent fall in Bangladesh's total exports due to the loss of preferential access after graduation (UNCTAD, 2016).¹⁷ Rahman and Bari (2019) derived a 8.7 per cent decline in Bangladesh's total exports (equivalent to \$2.7 billion). However, there is no study that—like this one—has used product-specific disaggregated data to consider the implications arising from the EU market.

Figure 4.21: Potential loss of knitwear and woven garment export earnings due to an increase in tariff



Source: Authors' estimation.

Potential trade shifts

The decline in the EU's imports of apparel from Bangladesh will be compensated by the increases in imports from other countries. This is done using the market share approach, i.e., distributing graduate countries' forgone exports among all exporters in the EU based on their current market shares. Potential shifts in exports are analysed under the assumption that import demand elasticities and cross-price elasticities are one.

Being the largest supplier, China gains most: about 16 per cent of Bangladesh's export loss. When the latter obtains the Standard GSP, China's export gains will be about \$0.25 billion, which is quite small in terms of its total exports (Figure 4.22). Germany would be the second-largest gainer followed by Turkey, India, Italy, and Spain. After graduation, if Bangladesh is subject to MFN tariffs, all competitors' gains slightly increase.

If the resultant export gains are limited to extra-EU suppliers only, China's exports rise by more than \$0.5 billion (Figure 4.23). Turkey and India together capture another \$0.5 billion, with the former increasing its exports by \$302 million and the latter by \$183 million. Cambodia and Pakistan each get an additional \$100 million exports, while the comparable rise in Vietnam's exports is estimated at \$56 million followed by Sri Lanka's \$36 million. If export gains are disaggregated by knitwear and woven apparel, China, Turkey, India, and Cambodia will benefit

¹⁷ The same study estimated that the adverse consequences could be around 15 per cent for Vanuatu, 9 per cent for Tanzania, 11 per cent for Cambodia and so on.

considerably from increased exports of knitwear: China’s additional earnings from knitwear would be above \$300 million under the scenario in which Bangladesh would pay Standard GSP rates, and the comparable gains by exporting woven products would be just above \$200 million (Figure 4.24). In the case of woven products, Bangladesh’s comparators—Pakistan, Morocco, Tunisia, and Vietnam—would gain. If Bangladesh is subject to MFN tariffs, each competitor’s exports will rise further.

Figure 4.22: Potential increase in competitors’ apparel exports when all competitors are considered (million \$)

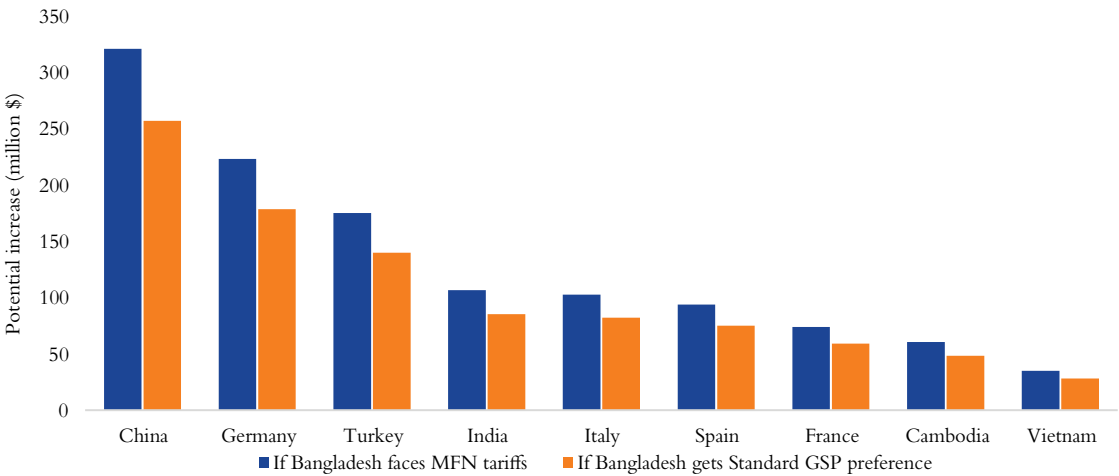


Figure 4.23: Potential increase in competitors’ apparel exports if only extra-EU competitors are considered (million \$)

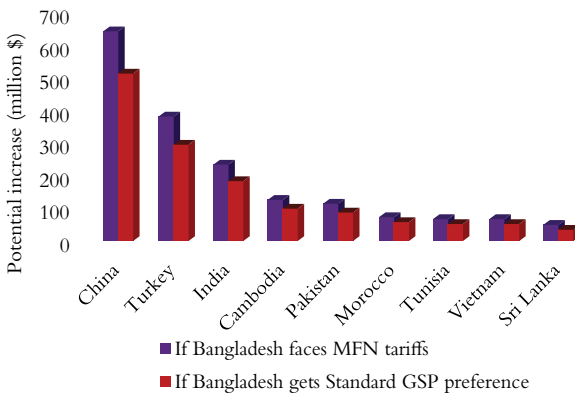
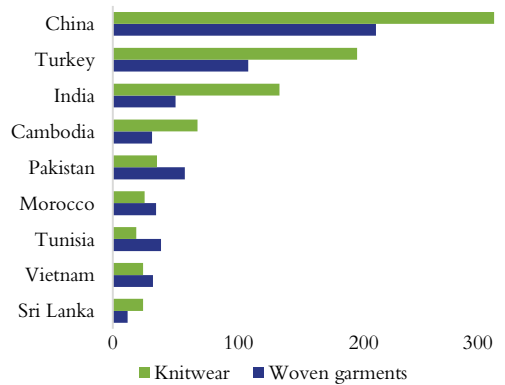


Figure 4.24: Potential rise in extra-EU competitors’ knitwear and woven garment exports if Bangladesh pays Standard GSP tariff rates (million \$)



Note: The price elasticity of demand and cross-elasticity of demand are assumed to be 1.
Source: Authors’ estimation.

4.4 Assessing Competitiveness: Global Value Chain Perspectives

Global value chain-led trade

Bangladesh’s RMG exports have been facilitated by what is known as global value chain (GVC)-led production and distribution mechanisms. In an overwhelming majority of traded

goods, if not all, export market prospects in today's world are critically dependent on a country's positioning in the GVC network in respective consumers' products. The value chain captures the entire range of activities (including production and services) that are needed to bring a product from its conception to end-use and beyond. This includes activities such as design, production, marketing, distribution and support to the final consumer.¹⁸ Fundamental changes have taken place in global trade in which the traditional concept of an entire production process being undertaken by one firm in one country has been replaced by the GVC-led process characterised by various service providers' presence in different countries catering to the needs of final consumers. This GVC mechanism thus involves cross-border fragmentation of production processes, which entails specialisation in a narrower range of tasks by firms organised within global production networks (Razzaque and Keane, 2016). Given the limited productive capacities of many developing countries, integrating with GVCs may provide new trade opportunities for local firms to gain access to new markets through specialising in a single task. However, the specific location of a country/firm on the GVC map can greatly influence the amount of value-added a country is capable of exporting that is embodied in (gross) exports and its capacity to reap a bigger slice of the total added value created within the entire production process associated with the product (Der Marel, 2015). The value addition out of export earnings is important, as it comprises workers' wages, entrepreneurs' profits and other costs associated with supplying orders.

It has become a typical feature of the GVC-led trade that firms located in a developing country focus mainly on manufacturing activities, while research and design (R&D) for product development is provided by global big brands or importers in developed countries, raw materials are sourced from a third-party country, and marketing and after-sales services are provided by others in the countries where consumers are located.¹⁹ This phenomenon is often represented by what has come to be known as the 'smile curve' (Figure 4.25). One issue is that the manufacturing stage within the smile curve process is known to be generating very little value in proportion to the final retail prices of the products.²⁰ In general, activities related to R&D, design, brand development and marketing occupy relatively greater shares in overall industry value-added. It is, however, true that at the early stage it is very difficult to become specialised in these activities. With increased integration into GVCs, the likelihood of moving up in certain segments of the value chain increases as exporters grow contacts, acquire relevant technologies and develop human resources to perform high-value-added service tasks such as designing, branding, and marketing. The participation of foreign direct investment (FDI) firms in export production can greatly facilitate a country's moving up the value chains, as these firms enjoy close contacts with brands, buyers, and retailers in the importing countries. They often have in-depth R&D capacities and are sometimes either directly or closely associated with global retail businesses.

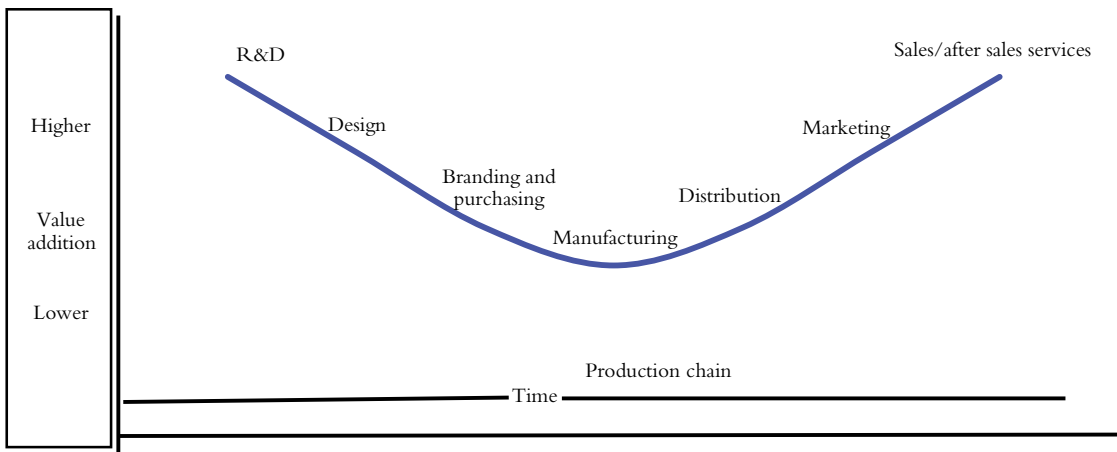
¹⁸ This definition of GVC is taken from <https://globalvaluechains.org/concept-tools>.

¹⁹ Bangladesh's apparel exports are a prime example of GVC-led trade.

²⁰ The issue of low-value additions as a proportion of overall GVC-led final product retail prices has also attracted a lot of attention in the context of primary commodities' supply chains. It is generally recognised that a majority of developing countries including LDCs and sub-Saharan African countries have failed to add more value by processing their primary exports and moving up the GVCs within which they specialise. Some commodity exporters are thought to have become trapped in captive value chains (Nissanke & Mavrotas, 2010; Keane, 2012). It has been argued that participating in the lower end of GVCs may lead to a 'hollowing-out' of the manufacturing sector. This disadvantageous process is also known as 'immiserising growth' (Kaplinsky, 2005), a phenomenon recognised within the case study GVC literature of the 1990s but ignored by the current GVC discourse.

Although not directly related to firm-level capabilities, the issues of labour and environmental standards, among others, have become critical success factors in GVC participation (Kaplinsky et al., 2003). International brands and retailers subject to close scrutiny by consumers' groups and NGOs in terms of their procurement practices aim to avoid sources that cannot comply with various production, labour, and environmental standards.

Figure 4.25: The 'smile curve' stages in the global value chain



Source: Adapted from Mudambi (2008).

Bangladesh in apparel value chains and the issue of competitiveness

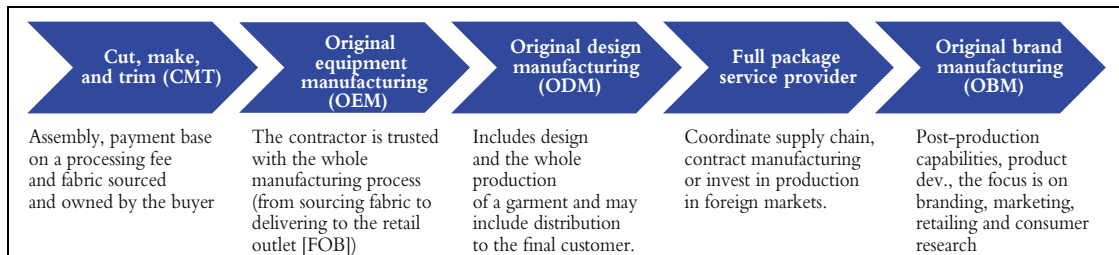
Bangladesh's apparel production process is mainly related to manufacturing, i.e., to process intermediate inputs to turn them into final consumer products. This stage of the global supply chain is the most labour intensive in nature and, being a labour-abundant country, Bangladesh has a huge natural comparative advantage. Among the principal apparel business models (Figure 4.26), Bangladesh is mostly involved in two low-value stages of cut, make, and trim (CMT) and original equipment manufacturing (OEM)/free on board (FOB) (Hassan, 2014). Under CMT arrangements, buyers procure the materials from their known sources in any third country and send them to the manufacturer on a free-of-cost basis and pay only for cutting and sewing woven or knitted fabric or apparel knitted directly from yarn. On the other hand, under the OEM/FOB system, the manufacturer is responsible for all production activities, including CMT activities, as well as finishing. Therefore, the manufacturing firm must have the capabilities for procuring the necessary raw materials and for undertaking the trimming needed for production (Fernandez-Stark et al., 2011). In this case, the prices quoted by factories include raw material costs plus CMT charges, i.e., the price of fabrics and accessories including cutting and making charges. Bangladesh's apparel export business generally does not fall under other high-value-added models such as original design manufacturing (ODM) and original brand manufacturing (OBM).

Given the value chain segments in which Bangladesh operates, CMT and OEM, it is generally recognised that profit margins cannot be very high.²¹ The question is then how much more

²¹ Data on firm-level costs by various activities and profit margins are not available. Industry sources and key informants suggest that it is the high volume of orders that make it possible for most firms to operate even with a small margin per unit.

competitive Bangladesh can be if it has to lose its tariff preferences in the EU market post-graduation. A comparison of prices obtained by different suppliers to the EU could shed some light on this but drawing any meaningful conclusions would be far from straightforward for at least two reasons. First, prices are generally absent in international trade analysis. While economists can use fairly disaggregated trade data (e.g., at the HS 8- or 10-digit levels), the computed unit value prices still suffer from aggregation and measurement unit problems.²² The second difficulty relates to product differentiation. Products supplied by different countries may differ substantially in quality, and cross-country comparisons, even using highly disaggregated data, cannot fully account for this. Prices of various broad items (such as T-shirts) from various brands and retailers are not available in a systematic manner. Even if available, the retail prices would be very different from those obtained by firms in developing countries.

Figure 4.26: Trend towards greater value addition



Sources: Adapted from ITC (2016) and based on Gereffi and Frederick (2010) and Cornelia (2012).

While Bangladesh is developing capacity in making relatively high-priced garment products sold by many global brands, until now it has mainly been known as a source of low-cost garment items in bulk.²³ There is also a general perception that not only in garments but also in all major export items, Bangladesh lags behind its main competitors in terms of product quality. An analysis using one of the most comprehensive export quality database prepared by the International Monetary Fund (IMF) and UK Aid seems to confirm this view.²⁴ As Figure 4.27 shows, at the Standard International Trade Classification (SITC) 1-digit level, Bangladesh's export quality is lower than those of China and India in all but one 1-digit level of product classifications.²⁵ In most categories, Vietnam's unit prices are also higher than those of Bangladesh. In the case of the manufactured goods category, which includes much of the country's apparel exports, Bangladesh is around the 80th percentile—behind China, Vietnam, and India.

²² For instance, the measurement units are often in kilogram and square metre equivalents. For garment items, prices in these units generally will not make much sense. Empirical work using these data mainly focuses on determining the changes in variations in these data rather than comparing the prices across countries. Another problem with these data is that they can be very noisy over time given, among other things, the possible substantial changes in quality mixes even within a specific category.

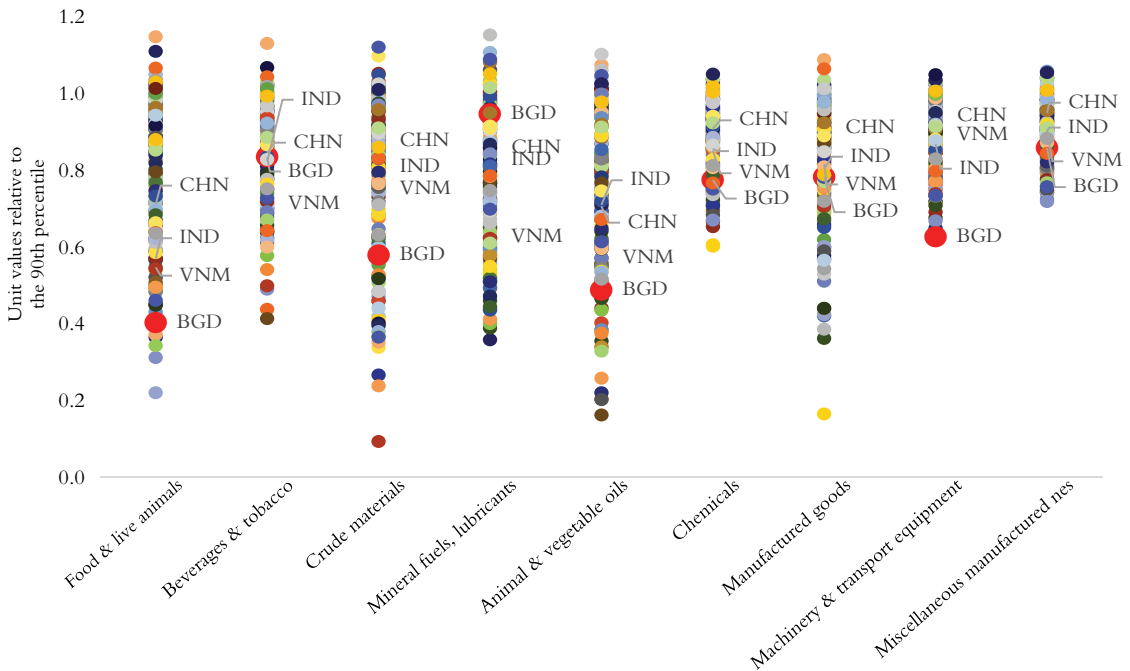
²³ <http://fashion2apparel.blogspot.com/2017/02/top-10-retailers-fashion-brands.html>

²⁴ This IMF and UK Aid database on export quality can be found here: <https://www.imf.org/external/np/res/dfidimf/diversification.htm>. The estimation methodology (Henn et al., 2013) employed derives quality from unit values of disaggregated products. First, trade prices are modelled as the function of unobservable quality, exporters' level of development, and distance between exporters and importers. In the second step, a quality augmented gravity equation is specified. Then from step one the quality relationship is substituted into the specification in the step two equation, which is then estimated separately for individual products. Finally, the regression coefficients are used to calculate quality estimates.

²⁵ At SITC-4, the broad category defined as 'mineral fuels, lubricants, and related materials', Bangladesh is shown to have unit values higher than those of China, India and Vietnam. Bangladesh is not a major exporter in the category and thus the higher unit prices reflect a very small quantity of a high-quality product.

From the aforementioned database, it is also possible to compare export quality for clothing items. The information thus obtained for different countries can be used to generate a ‘quality ladder’, measuring the relative quality of a country’s exports against all other countries that export clothing (Reis & Farole, 2012). A close look at Figure 4.28(a) and (b) reveals Bangladesh’s moving up the quality ladder between 2001 and 2014.²⁶ However, other comparators, such as China, India, and Vietnam, have also moved up and appear to have made faster progress. When export quality is analysed separately for woven and knitwear items, it again becomes evident that Bangladesh is outperformed by its principal competitors (Figure 4.29 (a) and (b)).

Figure 4.27: Quality of export goods by SITC 1-digit sectors



Source: Authors’ presentation using the IMF Export Diversification and Quality database.

The above quality-adjusted unit values used do not make any distinction between Bangladesh’s exports to various destination markets, although it is most likely that the above patterns would also be reflected in the EU market. Following Reis and Farole (2012), export quality in the EU can be approximated by unit value prices. Comparisons of trends in unit values over the period from 2000 to 2017 for overall apparel exports, knitwear products, and woven garments using export data exclusively for the EU show Bangladesh’s having generally lower prices compared with other major competitors. For Bangladesh’s two single most important export items (CN 62034235 and CN 62034231), its unit value prices in most recent periods are almost at par with those of China.²⁷

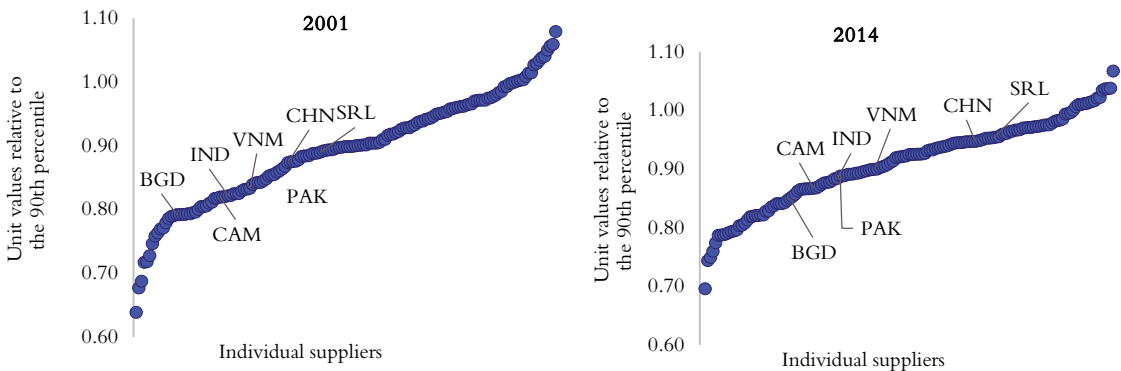
²⁶ The export quality database of IMF and UK Aid provides information only until 2014.

²⁷ It needs to be pointed out that the data used for the EU-specific unit value analysis do not explicitly consider varying qualities. However, following Reis and Farole (2012) the measurement of the relative quality has been defined as the unit value of any product relative to the 90th percentile unit value of the same product across countries. The 90th percentile of the unit values is considered the world standard. Higher values of the index correspond to higher quality levels. The closer a country’s position to the origin of the quality ladder, the lower the quality and vice versa. The total length of the quality ladder shows the potential for further quality improvement of a specific product.

Bangladesh's competitive strengths: buyers' and exporters' perceptions

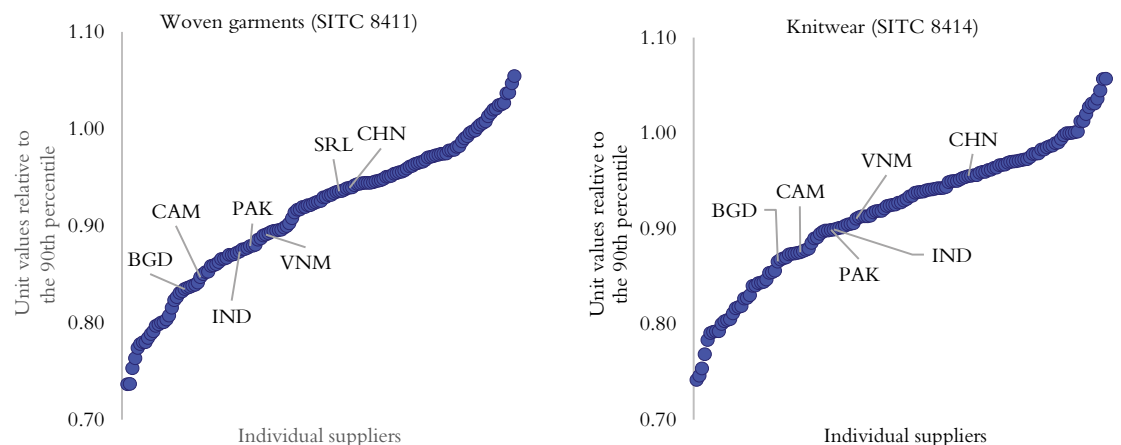
A large number of international buyers comprising globally established brands as well as intermediaries source apparel from Bangladesh.²⁸ In various global surveys, Bangladesh appears to be an important destination for sourcing low-cost garments.²⁹ Despite Bangladesh's ability to supply in bulk and having a record as a consistent export performer, working conditions and workers' safety has been a concern for many buyers.³⁰ It is generally recognised that working conditions have improved in recent times (Moazzem & Sehrin, 2016), providing a renewed relationship between factories and buyers.

Figure: 4.28 (a) and (b): Quality ladder for clothing



Source: Authors' presentation using the IMF Export Diversification and Quality database.

Figure 4.29 (a) and (b): Quality-adjusted unit value prices of woven and knitwear garments



Source: Authors' presentation using the IMF Export Diversification and Quality database.

²⁸ Some of the biggest brands that produce in Bangladesh include Benetton, C&A, Carrefour, H&M, J.C. Penney, Levi's, Gap, Walmart, Target, Tesco, and Zara.

²⁹ For example, see the Global Sourcing Survey 2018 by Asia Inspection: https://s3.asiainspection.com/images/news/2018Q1/AI_Q1_2018_Barometer_survey_results_Jan2018.pdf (accessed 6 November 2018).

³⁰ Since the collapse of a factory building (Rana Plaza) in 2013, killing more than a thousand workers, two western buyers' platforms—Accord and Alliance—have been involved in working with the government, industry associations, workers and local and international NGOs, and development partners to improve workplace safety in Bangladesh's RMG sector.

Box 4.2: Gathering perceptions of buyers and exporters

In an attempt to better appreciate the competitiveness challenges facing Bangladesh, the perceptions of buyers and exporters were gathered, as part of this particular study, through a purpose-built short survey. Given the scope of this current work, administering a detailed questionnaire-based survey was not possible. Rather, the approach was to conduct some short and focused key informant interviews based on a pre-specified and semi-structured checklist. The checklist was developed following the Commonwealth Secretariat's methodological guidelines for assessing firms' capabilities suitably adjusted to consider the specific case of Bangladesh. The interviews were conducted face to face, over the phone and through email correspondence. Representatives of five buyers/buying houses based in Dhaka and ten garment factory owners were interviewed. The questions that were kept in the interview checklists included participants' perceptions on the price and quality of Bangladeshi apparel; future market prospects; buyers' relationships with existing suppliers and their medium-term sourcing strategies; and general competitiveness issues facing Bangladesh including any potential loss of duty-free access.

In the interviews, the buyers' representatives regarded Bangladesh as competitive and an important source of suppliers. All the respondents indicated that supplying in large volumes is one of the key strengths of Bangladesh. On a scale of 1 (being highly dissatisfied) to 5 (highly satisfied), the average score assigned was 4 for the volume supplied. The same score 4 was also recorded for prices offered by Bangladeshi suppliers. Clearly, competitive pricing and large volume delivery were critical strengths of the industry. In all other indicators, such as product variety and range, reliability and delivery, the average score was a 3. However, one of the biggest buyers of Bangladeshi products participating in the survey provided a maximum score of 5 in each area of supplying in large quantities, reliability, and delivery promptness.

When explicitly asked if the demand for Bangladesh's products was price-driven or quality-driven, most buyers' representatives suggested the former. However, there were differing views indicating improving quality as well as the importance of retaining the niche market where quality is often dictated by consumers' purchasing power. The buyers' representatives did not agree with the popular notion that the prices of Bangladesh's products are unusually low compared with those of rival suppliers. They were of the view that global export markets were competitive and prices for Bangladeshi goods reflected that reality. Almost all buyers thought that low labour costs will continue to remain an important source of comparative advantage for Bangladesh.

In the discussion on the potential impact of the loss of tariff preferences in the EU, the buyers' representatives generally agreed that there would be some impact on relative competitiveness, but they could not offer any insights about its impact on export performance. Some respondents were of the view that predicting market outcomes about 10 years in advance would not be practical, as export markets were quite dynamic and business models including countries' moving along the value chain or managing the supply chains could experience profound changes determining competitiveness in the medium to long term. In the short to medium term (over 2–5 years), most buyers do not see any significant changes in sourcing practices involving Bangladesh. One representative, who procures for the US market, expected a 25 per cent growth in his business with Bangladesh over the next five years or so. Another respondent representing a major brand (and a big buyer) suggested that the buyer concerned is satisfied with the products it is purchasing from Bangladesh and could not be sure what could be alternative sources of supplies.

Exporters' responses were mixed, although more than half of them expressed concerns about the prospect of weakened competitiveness arising from erosion of EU preferences. Although the

sample size was small, it appeared that large firms were relatively less worried about their business prospects. However, according to two-fifths of the respondents, profitability was already at such a low level that accommodating a margin of lost tariff preference as big as 10–12 per cent would pose an extremely difficult challenge.³¹

Two relatively small firm owners were of the view that many European buyers were procuring from Bangladesh as they did not have to pay tariffs in the EU. They thought that in the absence of such benefits those buyers would look for alternative sourcing options. According to them, rather than Bangladeshi suppliers, it is the importers who benefit from tariff preferences. Therefore, graduation from LDC status could erode Bangladesh's attractiveness as a supplier among the buyers.

Along with tariff preferences, the relaxed and more generous EU RoO could also go away following graduation from LDC status. Under the existing EU RoO regime, non-LDCs are required to fulfil 'double transformation' to access GSP preferences. Most respondents reported that such a condition for knitwear garments should not be a major problem in accessing any future GSP preferences that might be available, as Bangladesh currently has the domestic capacity to produce yarn. However, for the woven garment sector using domestically produced fabrics for garment making to access any preferences could be a challenge.

Almost all garment manufacturers interviewed thought that the prices obtained by Bangladesh were unusually low as against those of competitors'. Some respondents thought that many firms would undercut prices to secure orders, and this tendency has generally reduced prices across the industry. As mentioned above, this view is, however, not supported by buyers' perceptions.

Several respondents thought that despite any preference erosion-induced weakened competitiveness, it might not be easy to replace supply sources from Bangladesh. According to them, the country has now developed a very large capacity and the associated economies of scale that benefit buyers. When Bangladesh and Cambodia graduate from LDC status, only African countries will enjoy large tariff advantages. Although several African suppliers, such as Ethiopia, Lesotho and Madagascar, have apparel exports, they have small supply-side capacities.

Some respondents pointed out that wages are steadily rising in China, and its industrial upgradation strategy will transform the country into a major exporter of technology-intensive goods and services, generating more exporting opportunities for Bangladesh and others in labour-intensive manufacturing sectors including apparel. Wages in Bangladesh are increasing too, but lower labour costs compared with many other developing countries will be an advantage.

4.5 Adaptation Strategies

Even without referring to any specific magnitude of the potential loss of export earnings or

³¹ They explained that their current profitability per season is very low. It is only because they receive orders for three seasons that they can stay afloat.

market share, it can be concluded that graduation from LDC status is likely to dent Bangladesh's competitiveness in the EU. Bangladesh thus has a significant task ahead to prepare for its graduation. The adaptation strategies should include various policy options at the national level and changes/improvements in firm-level business and operational practices. It is not possible to discuss all the associated issues in detail here given the scope of this paper. However, a few possible broad areas of intervention are flagged below.

Exploring the most attractive future trade policy regime in the EU

For Bangladesh, the most challenging impact of graduation from LDC status will be transmitted through the loss of duty-free market access in the EU. However, the graduation process and the available EU trade policy regimes mean that there is scope for being strategic and for Bangladesh's undertaking proactive initiatives in mitigating any adverse consequences, including weakened competitiveness of apparel exporters.

The political processes within UN systems and its development partners generally emphasise smooth graduation and transition processes, although there is not much clarity regarding how other international support measures, such as bilateral and multilateral aid and technical assistance, can be of help and will actually be made available. However, in the case of preferential market access, it is expected that, once Bangladesh graduates, most likely to be in 2024, it will remain eligible for duty-free market access in the EU for another 3 years.³² Post-graduation it may be possible to look for an alternative EU trade policy regime that is more generous and attractive to exporters than just the Standard GSP or MFN options.³³

Although under the existing rules Bangladesh might not qualify for GSP+, the European Commission's current GSP regime will apply until 2023 and is likely to be replaced by a new regime. Therefore, proactive engagement with the European Commission and other stakeholders could be undertaken to influence any future changes in the EU GSP regime that would benefit Bangladesh. In the light of the fact that several other LDCs are in the process of graduation, coordinated efforts could enhance the chance of graduating LDCs having an extended transition period from EBA and/or more liberal GSP+ provisions including the continuation of the EBA RoO for graduating LDCs.

If GSP+ or an equally favourable scheme cannot be secured, striking a free trade agreement could be an option if the EU were interested. Although the market size in Bangladesh may appear to be too small for the EU to consider it for a negotiated deal, it is growing rapidly. Given the medium-term growth outlook, Bangladesh's economy is set to grow to more than \$500 billion by 2025. According to recent PricewaterhouseCoopers projections, Bangladesh will be the 28th largest economy by 2030, in terms of GDP measured in purchasing power parity (PPP) dollars.³⁴

³² This is as per the provision stipulated in Article 17, paragraph 2 of Regulation (EU) No. 978/2012 of the European Parliament and of the Council dated 25 October 2012.

³³ As mentioned earlier, if Bangladesh does not qualify for GSP+, it will be eligible for the Standard GSP scheme, which is much less attractive. The Standard GSP tariff rate on apparel in most cases will be 9.6 per cent (as against zero in all apparel-related tariff lines under EBA and GSP+) in comparison with an MFN rate around 12 per cent. Moreover, the eligibility of most developing countries for Standard GSP means there cannot be any gains in competitiveness.

Another important feature that makes Bangladesh an attractive partner for a free trade agreement is its robust economic growth accompanied by a highly protected trade policy regime. Indeed, it has been shown that, except for just one, there is no country that has applied average tariff rates higher than Bangladesh and yet achieved a higher average growth rate (Razzaque, 2017). A growing market shielded by high tariffs provides preferential partners with a large competitive advantage (over others who do not have such preferential access) and thus should be of interest to many countries.

Undertaking a bilateral trade arrangement with such a major partner as the EU will be a mammoth task for a country such as Bangladesh, which has very limited trade negotiation capacity and does not have any bilateral free trade agreement with any other country. In the run-up to graduation from LDC status, serious attention should be given to consider all options for securing favourable market access in the EU and mobilising capacities for immediate proactive engagements with all relevant stakeholders.

Securing a favourable trading arrangement with the post-Brexit UK

As the United Kingdom has now left the European Union, it will be important for Bangladesh to develop a favourable trading arrangement with the post-Brexit UK. The UK is the world's sixth-largest economy and has traditionally been an important trade, investment and development cooperation partner. It accounts for more than 10 per cent of Bangladesh's exports and is the third largest export market (after the United States and Germany). The UK is expected to formulate its preferential trade regime for the LDCs quite soon. This will have implications for the next few years prior to Bangladesh's graduation. It will also be clear if the UK, like the EU, will offer an additional three-year transition period. It will be important to find out the rules of origin that the UK will apply once the Brexit transition period (until the end of 2020) is over. Bangladesh should engage with the UK on these issues including the options for future trade preferences after LDC graduation. Whether the UK will adopt arrangements comparable to GSP+ and Standard GSP is not clear. These are very important issues of interest to Bangladesh.

There are suggestions that the UK could adopt a much liberal trade policy regime after the Brexit transition period by undertaking unilateral MFN tariff liberalisation. Indeed, the UK government in March 2019 published a new tariff schedule, which would be followed if it had failed to reach a deal with the EU prior to the then Brexit deadline of 31 October 2019. As per the schedule, tariffs would be brought down to zero on most imported goods in the event of a no-deal Brexit. If this were to happen, countries that were enjoying zero-tariff market access in the UK (e.g., under the EBA) would see their preferences eroding abruptly as every other country in the world would start enjoying the same market access conditions. Bangladesh and LDCs can jointly engage with the UK to articulate the need for trade preferences in advancing the trade-led development objectives.

³⁴ In 2030, Bangladesh's GDP is projected to reach PPP \$1.34 trillion, while by 2050 it is expected to grow further to PPP \$3.06 trillion to become the 23rd largest economy in the world. Along with its overall economic growth, Bangladesh is experiencing a rapid expansion of the middle class and, with it, rising disposable incomes and a high propensity to spend on a new and wide range of products and services. According to one estimate in 2017, the consumer goods sector grew 9 per cent to \$3.4 billion.

Also, any future EU-UK deal can have important implications for free movements of goods and services within the EU. Until now, the EU operates as a single market. This means importers based in any EU country can import goods from anywhere to be distributed among retailers based in different EU member countries (including the UK) without being subject to any trade barriers. How much of this important feature will continue to exist is going to be an issue in export marketing in the near future (after the Brexit transition period). This can affect supply chains in readymade garments, requiring Bangladesh to establish new export relationships in the UK as well as in other EU member states.

Industrial upgradation for moving up the global value chain

One element that an adaptation strategy should include is industrial or economic upgrading to move up the value chain. This may not be feasible on a large scale, but many leading firms will have the necessary capabilities for product and process upgradation. Product upgrading involves producing complex items, while process upgrading requires advancing production methods in combination with using a skilled workforce. Bangladesh has some capacity in the textile industry and improving that capacity may help the garment sector upgrade into higher segments of the value chain. Currently, a small number of firms are offering product design to their buyers. This capacity can be promoted further.

A review of country experiences by Fernandez-Stark et al. (2011) reveals that, in the case of upgrading into design and branding, a strong commitment to growing the industry by both the public and private sectors is needed to develop the necessary talent and establish a national brand. They also found that successful workforce development in the later stages of the value chain leveraged know-how in the developed world by engaging foreign universities in countries successful in the apparel sector to help design curriculum for local training programmes and by hiring foreign consultants to help develop in-house talent. According to Fernandez-Stark et al. (2011), instead of relying solely on learning through experience, fostering collaboration with successful training institutions in the developed world can speed up firm-level learning for upgrading. A shortage of specialised professionals and skilled workers in Bangladesh is known to be a serious problem for export-oriented firms including the apparel sector. Industrial upgradation, therefore, must consider the need for developing the necessary human resource base.

Industrial upgradation will also imply promoting competitiveness through technological capacity building. Deepening of capital-intensive production processes and automation have already marked garment-making activities in Bangladesh. Nevertheless, there is evidence to suggest that, in comparison with countries such as Cambodia, China, India, and Vietnam, the level of capital intensity in Bangladesh's garment industry is much lower.³⁵ As export production technologies seem to converge, there is considerable scope for improved labour productivity driven by more technology-intensive production processes.³⁶

³⁵ Razzaque and Dristy (2018) estimate that as against Bangladesh's employing 142 workers in producing garment items worth \$1 million, China and Vietnam each require just 48 workers for the same size of export production. The comparable numbers of workers for India and Cambodia are 59 and 75 respectively.

³⁶ This could, however, imply that employment opportunities in the sector would diminish. In fact, the impact of automation and more capital-intensive production processes have already been experienced. For instance, as Razzaque and Dristy (2018) point out, between 2010 and 2016 Bangladesh's clothing exports more than doubled from \$12.5 billion to \$28 billion, but jobs in the sector grew only marginally from 3.6 million to 4 million. In future, the garment industry will have to grow at a much faster rate to generate a modest expansion in employment.

Ensuring compliance as expected from credible suppliers for global consumers

Compliance will remain a major factor in growing export business in the apparel sector. Unfavourable working conditions and labour issues attract widespread global attention, and global brands will always avoid the factories that cannot adhere to acceptable standards. As mentioned above, various initiatives in recent years have been implemented to improve workplace safety standards and the working environment (Moazzem & Sehrin, 2016). The progress made in these areas should be consolidated, and efforts must continue to make further improvements. It is also important to take greater ownership of these issues to maintain good practices in a sustainable manner. During the perception survey, some factory owners mentioned not receiving higher prices or bigger orders despite making progress on compliance issues. However, better workplace standards and practices should be seen as part of a long-term investment and business growth strategy.

Attracting foreign direct investment in the readymade garment sector

FDI can be a big boost for export growth and effective integration into GVCs. In establishing direct contact and business relationships with global brands and retailers producing high-value items, FDI can be instrumental. FDI firms are known to secure higher unit value prices for export products. Skill upgrading, improving productivity, positive spillover effects arising from knowledge and technology transfers and better management practices are some of the direct impacts of participating in FDI. The spillover effects can also benefit local firms, facilitating their industrial upgrading and enhanced participation in GVCs. Among other things, a weak investment climate and a high cost of doing business discourage FDI in Bangladesh. Since 2000, average yearly FDI as a proportion of GDP in China, Cambodia, India, and Vietnam has been 2.3 per cent, 7.8 per cent, 1.7 per cent, and 5.4 per cent respectively, while the comparable figure for Bangladesh has been less than 1 per cent.³⁷ Attracting foreign investment in Bangladesh's RMG sector should thus constitute a policy priority in its preparation for graduation from LDC status.

Tackling excessive cost of doing business to boost competitiveness

There are certain areas in which Bangladesh can transform its current challenges into opportunities to boost external competitiveness. The issue of the excessive cost of doing business in Bangladesh is widely acknowledged. A weak and inadequate infrastructure in conjunction with inefficient inland road transport and trade logistics contributes to longer lead times and a high cost of doing business, undermining competitiveness.³⁸ Congestion in the country's main economic corridor, the Dhaka–Chattogram highway, limited containerisation and inefficient handling and management of containers, intricate customs processes, and an inadequate port infrastructure all add to trading costs.³⁹ This reduces trade volumes and domestic value-added (which includes wages and profits). Within this reduced value-added, for an export-oriented

³⁷ The FDI stock as a percentage of GDP for Bangladesh, 6 per cent, is far lower than that of its comparators: for instance, the FDI stock for Cambodia increased from about 10 per cent in 1995 to more than 80 per cent in 2016, while Vietnam's share increased from around 28 per cent to more than 55 per cent.

³⁸ The lead time—the number of days from the confirmation of any orders to goods delivered to port and turned over to the freight forwarding company—is also an important determinant of competitiveness in the apparel export sector.

³⁹ World Bank (2016) provides a detailed analysis of these issues.

apparel sector, there are two-way shipping costs involved: import of raw materials and then export of final products. The implication is that excessive trading costs make it increasingly difficult for apparel-exporting firms to compete in world markets.⁴⁰ Improvements in these areas thus may substantially help to recoup a part of the lost trade preferences.

4.6 Conclusion

The impending graduation from LDC status represents a major transition in terms of development for Bangladesh. For a country of more than 160 million people and a land area half the size of the UK, confronting daunting challenges of frequent natural disasters, political unrest, and weak governance, to make this transition possible is nothing less than an amazing achievement (Razzaque, 2018b). This is a global recognition of the socio-economic development that Bangladesh has been able to achieve.

Graduation also gives rise to concerns about potentially sizeable economic costs due to the loss of access to various support measures associated with LDC status. The available support measures encompass a range of concessions, commitments, and provisions made by development partners across the fields of development finance, trade, and technical assistance. Of this, the most important consequence will be the loss of trade preferences in the EU.

Taking advantage of duty-free market access and relaxed RoO provisions, Bangladesh's apparel exports to the EU have risen to more than \$20 billion. In the global clothing value chain landscape, Bangladeshi firms operate mainly in the low value-added segment of cutting and making of apparel, and the principal source of its competitive advantage is the low costs of labour. The loss of duty-free access could thus adversely impact the country's competitiveness and export prospects. In international trade, higher tariffs imposed against a country's suppliers are generally associated with their lower exports, and tariff preferences tend to enhance the export response of the preference-receiving countries. In this context, applying a partial equilibrium model, which was developed as part of the Commonwealth Secretariat's analytical framework to understanding the potential implications of graduation from LDC status, shows that the loss of tariff preferences in the EU could result in a potential export loss of more than \$2 billion for Bangladesh.

It is worth pointing out that there are certain caveats to the methodological approach and results reported. Analytical frameworks are simplified representations of the realities, failing to capture many complex interactions involving the demand and supply sides. When the MFA quotas were abolished from global trade in 2005, many analysts predicted huge business losses for Bangladesh – in sharp contrast to an eventual acceleration of its export growth. Considering post-graduation prospects, the argument can be put forward that even without any preferential treatment Bangladesh has managed to succeed in the US apparel market. Furthermore, trading is also about building networks and relationships. Therefore, long-established supply sources in Bangladesh may not be replaced overnight. If EU importers have benefited from Bangladesh's duty-free access, they might not have alternative and equally lucrative sourcing opportunities elsewhere. Other LDCs and developing countries enjoying EBA or GSP+ preferences currently do not have such large supply-side capacities as Bangladesh.

⁴⁰ It should be pointed out that in the World Bank's ease of doing business index, Bangladesh ranks among the worst performing countries (176th out of 190 countries in the index for 2019).

That notwithstanding, there is no denying that loss of preferences will put serious pressure on Bangladesh's competitiveness. There are certain measures Bangladesh can consider mitigating any potential adverse consequences. These include looking for an extended transition period (from EBA arrangements) for graduating LDCs, possible options and strategies for securing the GSP+ scheme, widely regarded as the most favourable EU preferential scheme after EBA, a negotiated bilateral trade deal with the EU, etc. On the supply side, industrial upgradation within apparel value chains including technological upgradation in Bangladesh's garment industry, attracting FDI, and ensuring compliance with workplace standards would help. Finally, the cost of doing business is considered excessively high in Bangladesh because of such factors as infrastructural bottlenecks, inefficient customs processes, incompetent port management and trade facilitation measures, dysfunctional inland transport and weak governance. Any improvements in these areas will contribute to the improved competitiveness of exporting firms.

In future, informed policymaking and Bangladesh's preparation for smooth graduation may be aided by several timely and gap-filling analytical studies. These include, among others, analyses of the distribution of rents from tariff preferences between suppliers and importers with a view to better appreciating the likely impact on export competitiveness following graduation and the role of preferential treatment in GVC positioning; exporters' pricing strategies with and without preferences (e.g., a comparative analysis of EU and US markets) to gauge competitiveness pressures; the scope of industrial upgradation that is realistically feasible within GVCs for promoting export competitiveness; industrial restructuring that is taking place in China and its likely implications for the global apparel market shares of different suppliers; automation and deepening of capital-intensive techniques and the implications for development outcomes and industry competitiveness; and the implications of different types of possible post-graduation trading arrangements with the EU.

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Partnering Up: Towards a Strengthened Bangladesh-U.S. Trade Relationship

Mohammad Abdur Razzaque, Parvez Abbasi & Jillur Rahman

5.1 Introduction

Being the single most important export market, one of the largest sources of foreign direct investment, and a major provider of overseas development assistance, the United States has been an indispensable trade and development partner for Bangladesh. The bilateral relations have transformed remarkably in which Bangladesh's aid dependence has declined dramatically vis-à-vis the rising significance of trade and investment linkages. Sustained economic growth over the past three decades means Bangladesh is already a sizeable economy, and a robust growth prospect in the medium term makes it an attractive trade and investment partner. It is in this backdrop that the relationship between the two countries should acquire a greater traction and emphasis amongst policymakers from both sides. As Bangladesh is going to graduate from the ranks of the least developed countries (LDCs) in the near future, when it will need to establish bilateral trading arrangements with other countries to expand its trade, the importance of revitalizing engagements with the U.S. cannot be overstated.

This chapter argues that there is a significant opportunity for Bangladesh to harness deeper and strengthened economic ties with the United States. Rather than treating the recent trends in the global economic and trade landscape as discouraging factors, the two countries should renew their engagements, exploring avenues to revitalize and expand trade and investment linkages. Bangladesh also presents tremendous opportunities for U.S. traders and investors. There is a categorical need to determine and assess the extent to which both countries can derive mutual benefits through proactive initiatives. An enhanced economic engagement and cooperation with Bangladesh, which is graduating from the group of LDCs with an impressive socio-economic progress but continues to confront development challenges, can reaffirm the United States' commitment to and greater influence on the global development architecture through the promotion of Sustainable Development Goals. This would go a long way in ensuring that Bangladesh becomes a prosperous, secular democracy, and contributing to as well as complementing American strategic security goals and objectives while generating mutual trade and economic gains.

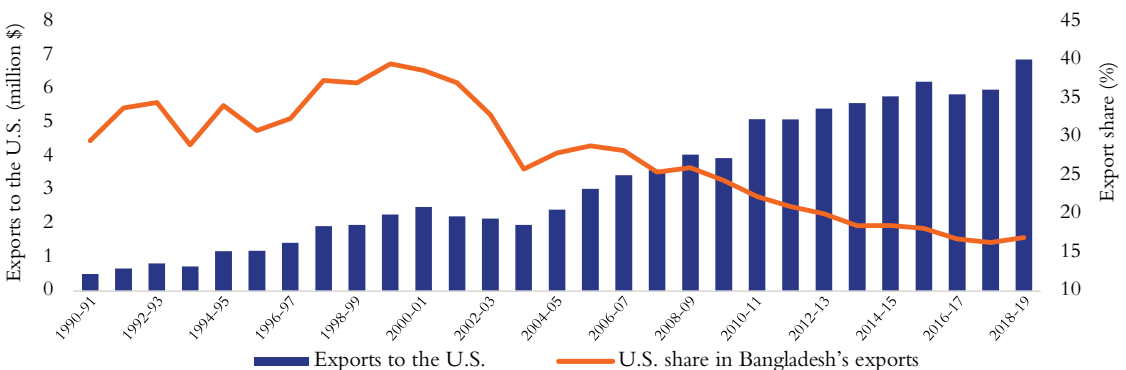
This chapter is organized as follows: after this introduction, Section 5.2 highlights the existing trade and economic engagements between Bangladesh and the U.S.; Section 5.3 briefly discusses the current framework of bilateral cooperation under the Trade and Investment Forum Cooperation Agreement (TICFA); Section 5.4 considers several possible avenues for promoting trade and cooperation further; finally, Section 5.5 concludes.

5.2 Bangladesh-U.S. Bilateral Trade and Economic Engagements

Bilateral trade in goods

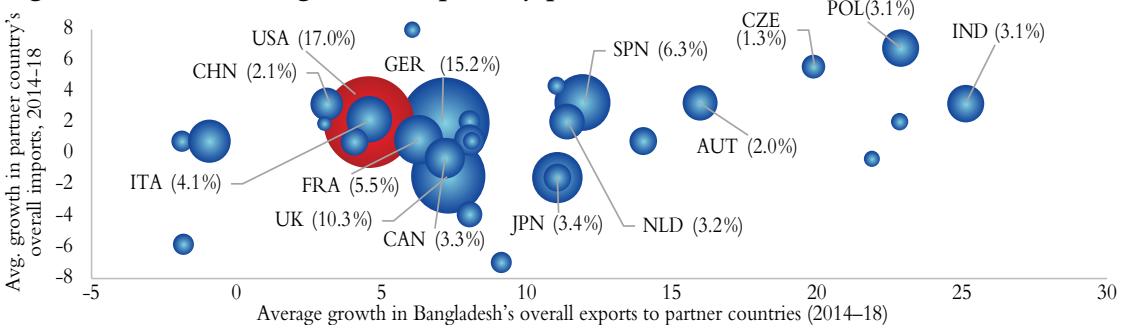
The United States has been the single most important export destination of Bangladesh although its relative significance is on the decline. Of Bangladesh’s \$40.5 billion merchandise exports in 2018–19, \$6.88 billion (i.e., 17%) came from the U.S. (Figure 5.1). As lately as in 2000, the U.S. share in Bangladesh’s exports reached a peak of about 40 per cent before declining sharply in the early 2000s. It then managed to recover modestly before taking a course of gradual decline. The most important reason for this trend is Bangladesh’s not getting duty-free market access in the U.S., particularly of exports of textiles and apparels, as against of availability of such preferences in the EU mainly but also in many other countries, such as Australia, Canada, China, India, Japan, New Zealand, etc.

Figure 5.1: Bangladesh’s exports to the U.S.



Source: Authors’ analysis using Export Promotion Bureau (EPB) data.

Figure 5.2: Share in Bangladesh’s exports by partner countries



Note: Bubble sizes represent partner countries’ shares in Bangladesh’s exports in 2018–19. Countries are indicated as AUT—Austria, BGD—Bangladesh, CAN—Canada, CHN—China, CZE—the Czech Republic, FRA—France, GER—Germany, IND—India, ITA—Italy, JPN—Japan, NLD—the Netherlands, POL—Poland, SPN—Spain, UK—the United Kingdom, USA—the United States of America. Source: Authors’ analysis using International Trade Centre (ITC) and EPB data.

Bangladesh's export performance in the U.S. can be regarded as quite resilient when the recent slowdown in global trade flows is taken into consideration.¹ During 2014–18, the United States had an average annual import growth of 2 per cent, while several developed countries such as Japan, Russia, and the UK, had experienced a fall in imports (Figure 5.2). Yet, Bangladesh managed to post an average export growth of 4.7 per cent to the U.S. with the comparable growth rate in many other markets was even higher (e.g., 7% in Germany, 7.2% in the UK, 11% in Japan). Therefore, it seems that the absence of trade preferences has affected Bangladesh's export growth to the United States.

Despite the falling relative significance, there is strong evidence of the United States' remaining an unusually high export-pull destination of Bangladesh's products. Economists often use the so-called 'gravity model' to explain international trade flows. This analytical workhorse suggests larger and richer countries would trade more (between themselves) than the smaller and poorer countries, other factors remaining the same; and geographical proximity promotes bilateral trade flows as it reduces transport and information costs.² Additional factors, such as having land borders, common language, past colonial linkages and regional trade agreements, also tend to augment trade flows between two countries. The results from the model show that controlling for all factors, Bangladesh's actual exports to the U.S. are much higher than what can be predicted. Indeed, compared with the average experience of global economies in terms of bilateral export trade flows, Bangladesh's actual U.S.-bound exports are about \$4.5 billion higher than what the gravity model predicts. To put things into perspective, the same exercise shows, Bangladesh's exports to India are less than predicted by almost the same amount (of \$4.5 billion). Even to China, Bangladesh is exporting less-than-predicted. This reaffirms the enormous significance of the U.S. market for Bangladesh. Irrespective of the trends in the global market (e.g. falling relative significance of countries and trade policy reversals), Bangladesh needs to deepen its trade engagement with the United States. As discussed later in this chapter, there exists huge opportunities for strengthening the bilateral cooperation.

Despite being the biggest export destination, the United States, currently, is not the largest trade partner of Bangladesh (Figure 5.4).³ China occupies that place mainly because of its being the most dominating source of imports for Bangladesh. Combining exports and imports, China's share in Bangladesh's total trade in 2017–18 stood at 14.2 per cent in comparison with 8.9 per cent of the U.S. The share of India is also close to that of the U.S.—again, because of India being a major import source.⁴

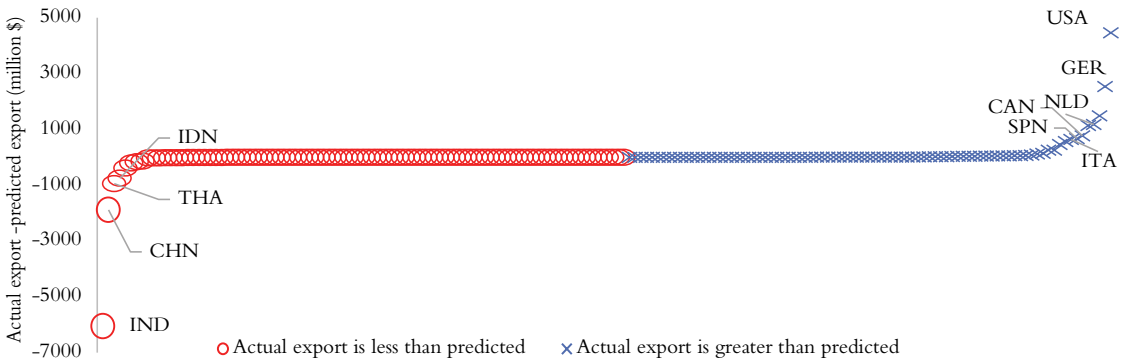
¹ The impact of the global trade slowdown on Bangladesh's exports was discussed in chapter 2. World merchandise exports declined by a staggering \$2.5 trillion in 2015 (from the previous year), and then again fell by more than \$500 billion in 2016. As many as 183 countries had experienced reduced export earnings in 2015 (compared to the previous year) while for 112 countries export earnings similarly declined in 2016. Given such a gloomy global landscape, Bangladesh did better by securing a modest overall export growth in both the years. However, Bangladesh's exports to the U.S. fell in 2016–17. Although the export to the United States slightly recovered in 2017–18, it was still below the level of 2015–16.

² The gravity model depicts that bilateral trade flows between countries are directly proportional to the economic sizes (measured by GDP) and inversely proportional to the distance between the trading countries.

³ The United States had a trade volume of almost \$4.2 trillion in 2018, comprising \$1,665 billion worth of exports and \$2,612 billion of imports. Canada is the largest export destination of the U.S. In 2018, 18 per cent of U.S. export earnings originated from Canada. On the other hand, China is the most important source of imports, accounting for about 22 per cent of U.S. imports in 2018.

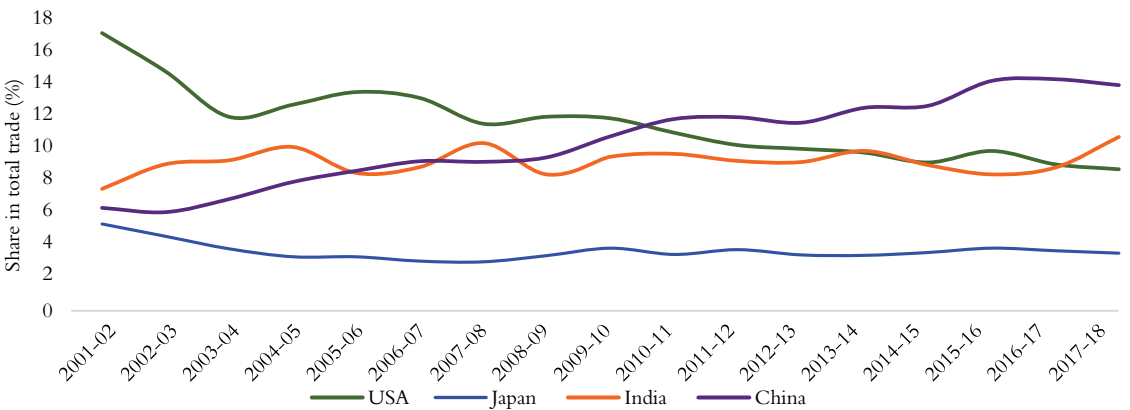
⁴ Other major trading partners of Bangladesh include Germany, Singapore, the United Kingdom, Hong Kong, Indonesia, Spain, France, Italy, Canada, the Republic of Korea, Malaysia, Brazil, the United Arab Emirates, and Australia.

Figure 5.3: Actual versus predicted exports of Bangladesh to all partners



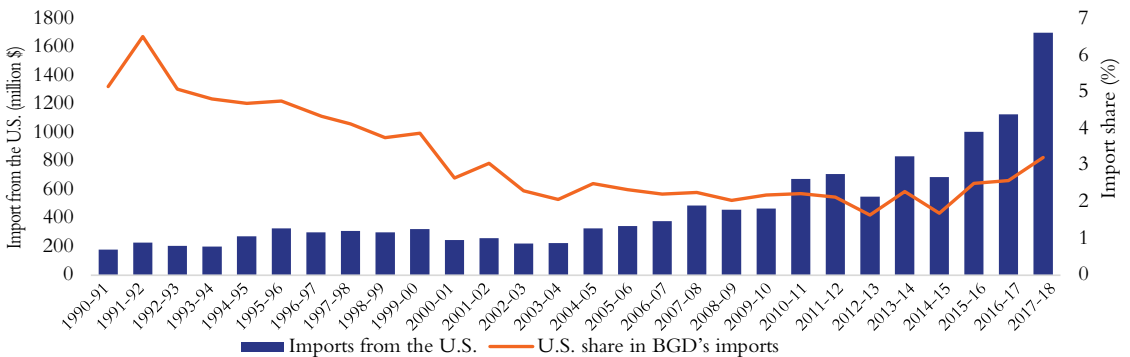
Note: The graph presented here is based on a global gravity model explaining bilateral trade flows for the period 1995–2015. Predicted exports of Bangladesh to different markets are calculated using the estimated regression parameters. The red dots indicate the countries with Bangladesh’s exports less than what can be predicted from the model. The blue crosses represent countries with Bangladesh’s actual exports greater than predicted. The distance from the horizontal axis represent the difference between actual and predicted export. Countries are indicated as CAN—Canada, CHN—China, GER—Germany, IND—India, IDN—Indonesia, ITA—Italy, NLD—the Netherlands, SPN—Spain, THA—Thailand, USA—the United States of America. Source: Authors’ estimation.

Figure 5.4: Selected partners’ shares in Bangladesh’s total goods trade (%)



Source: Authors’ presentation using EPB and Bangladesh Bank data.

Figure 5.5: Bangladesh’s import from the U.S.

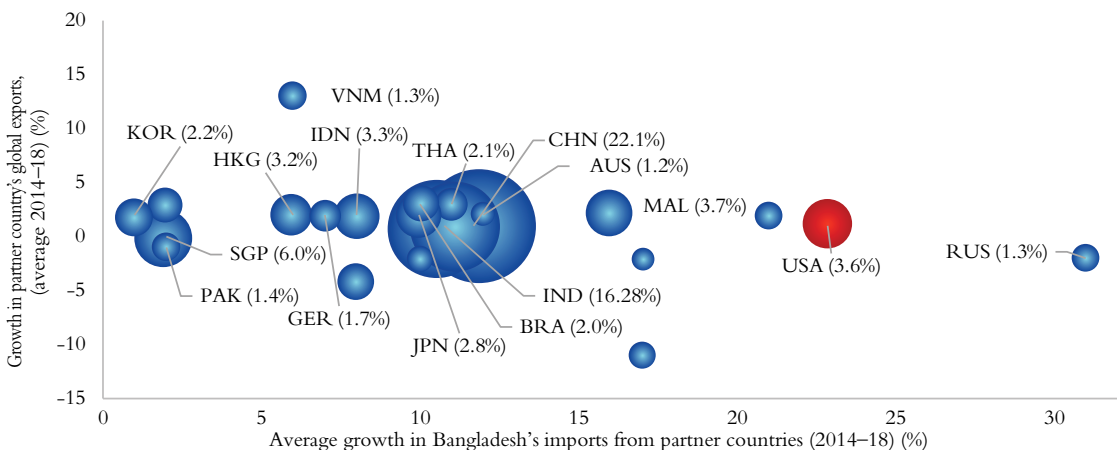


Source: Authors’ presentation using Bangladesh Bank data.

With sustained economic growth and rising demand for intermediate inputs for exports, Bangladesh's import demand has risen rapidly in the past 10 years, doubling to \$53 billion in 2017–18. China, the largest import partner, alone supplies almost one-fourth of Bangladesh's total imports. Other major import sources are India, Indonesia, Japan, and Singapore. It is worth noting that Bangladesh's imports from the U.S. have risen significantly in recent years (Figure 5.5) with such imports growing by 50 per cent in FY18 over the previous year. However, it is the share in imports in which the United States had been subject to a decline from around 5 per cent in the early 1990s to just about 1.7 per cent in FY15 since when a noticeable recovery to 3.2 per cent was observed (Figure 5.5). Major imports from the United States include heavy machineries and other engineering products, cotton and agricultural products. On the other side, Bangladesh's exports constituted only 0.27 per cent of American imports and Bangladesh was the 43rd largest import partner of the U.S. in 2018.

Although the market size in Bangladesh may appear small in absolute terms, the recent trends seem to suggest that big economies such as China and the U.S. have experienced impressive export growth in Bangladesh. The global trade slowdown in recent times caused U.S. overall exports to grow by, on average, just 1 per cent per annum during 2014–18 as shown in Figure 5.6. Amongst others, exports of China, Germany, and Japan also had similar export performance. In sharp contrast, each of these countries experienced a rapid growth of their export sales in the Bangladesh market. The United States posted an average annual export growth to Bangladesh of 22.8 per cent. China, Germany, Japan, and India had seen their Bangladesh-bound exports to have grown between 7 and 12 per cent during same period (Figure 5.6).

Figure 5.6: Partner countries' share in Bangladesh's imports (%)

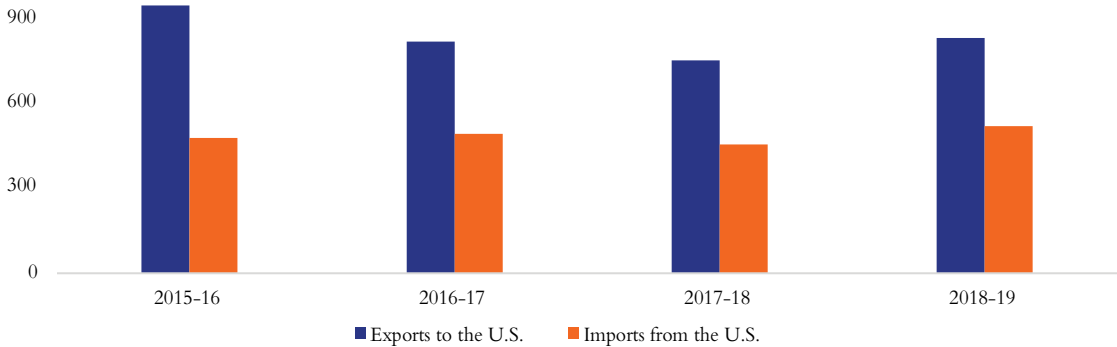


Note: Bubble sizes represent partners' shares in Bangladesh's imports. The shares reported are for 2018. Countries are indicated as AUS—Australia, BRA—Brazil, CHN—China, GER—Germany, HKG—Hong Kong, IDN—Indonesia, IND—India, JPN—Japan, KOR—the Republic of Korea, MAL—Malaysia, RUS—Russia, SGP—Singapore, THA—Thailand, USA—the United States of America, VNM—Vietnam. Source: Authors' analysis using International Trade Centre (ITC) data.

Bilateral services trade data are difficult to obtain. But, according to balance of payments (BOP) statistics, Bangladesh's services exports to the United States in 2017–19 was \$756 million, which was about 12 per cent of all services exports from the country (Figure 5.7). Most of these exports

comprised government services⁵ followed by telecommunications, computer and information services; travel; transportation, and others. In 2018–19, Bangladesh imported about half a billion dollars’ worth of services from the United States. These included transportation, travel, business services, financial services, etc.

Figure 5.7: Services exports to and imports from the U.S. (million \$)

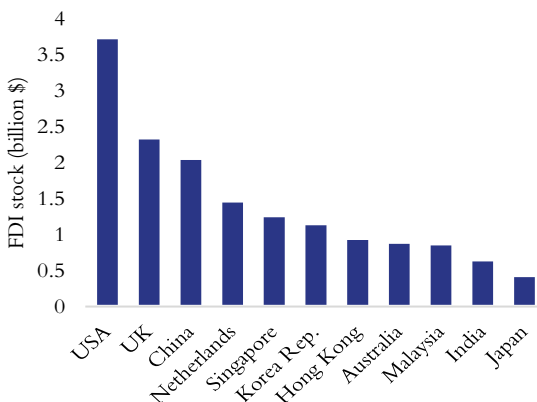


Source: Authors’ presentation using Bangladesh Bank data.

FDI inflows into Bangladesh from the U.S.

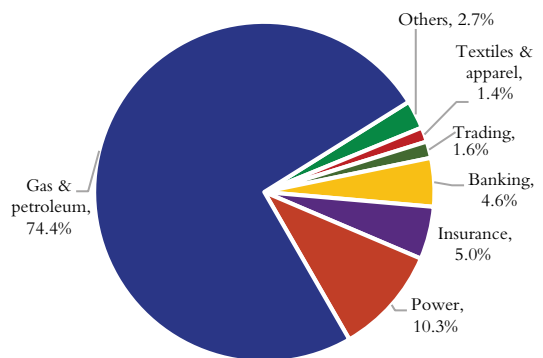
The U.S. has the largest FDI stock in Bangladesh. The total accumulated FDI stock in the country stood at \$18.7 billion, of which \$3.7 billion (almost 20%) was due to U.S. investors (Figure 5.8). The largest part of U.S. FDI (about 75%) is invested in the power and energy sector (Figure 5.9).

Figure 5.8: FDI stock in Bangladesh by major source countries, 2017



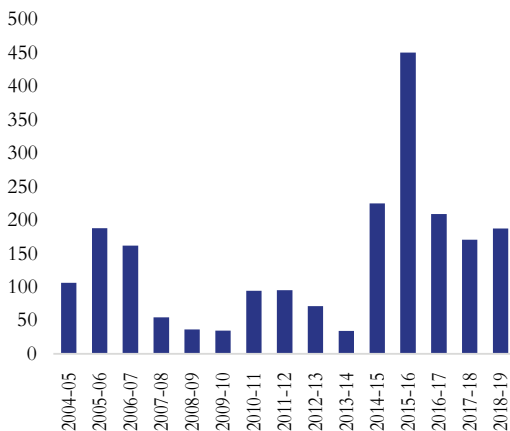
Source: Authors’ presentation using Bangladesh Bank data.

Figure 5.9: U.S. FDI stock (%) in Bangladesh by major sectors, June 2019



⁵ Government goods and services cover: (a) goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations; (b) goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents; and (c) services supplied by and to governments and not included in other categories of services. For detail, see <https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>.

Figure 5.10: Net FDI inflow from the U.S. (million \$)



Source: Authors' presentation using Bangladesh Bank data.

A look at the yearly FDI net inflow from the U.S. shows that the largest investment (\$574 million) was made in 2015–16, followed by a sharp decline in the following year (Figure 5.10). In 2018–19, FDI from the U.S. was \$187.4 million. Considering the latest five years only, less than 10 per cent of total inflow was due to the U.S., while the UK and Singapore contributed 12.7 per cent and 10.8 per cent, respectively (Figure 5.11).⁶

U.S. Overseas Development Assistance for Bangladesh

The United States is a key source of foreign assistance for Bangladesh. The significance of foreign aid, on the whole, has declined drastically from around 7 per cent of Bangladesh’s GDP in the 1980s to just above 1 per cent in recent times (Figure 5.12). Since 2010, the share of the U.S. in total foreign assistance disbursed in Bangladesh has been around 8 per cent (Figure 5.13). U.S. foreign aid exhibited a rising trend in absolute value terms from \$120 million in 2001 to \$343 million in 2014, since when the flow somewhat declined (Figure 5.14).

Figure 5.12: Total foreign assistance in Bangladesh by all donors (% of GDP)



Figure 5.11: Sources of FDI inflows into Bangladesh, July 2014-June 2019 (%)

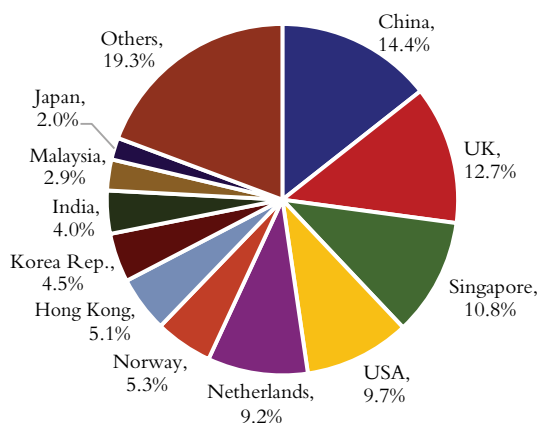
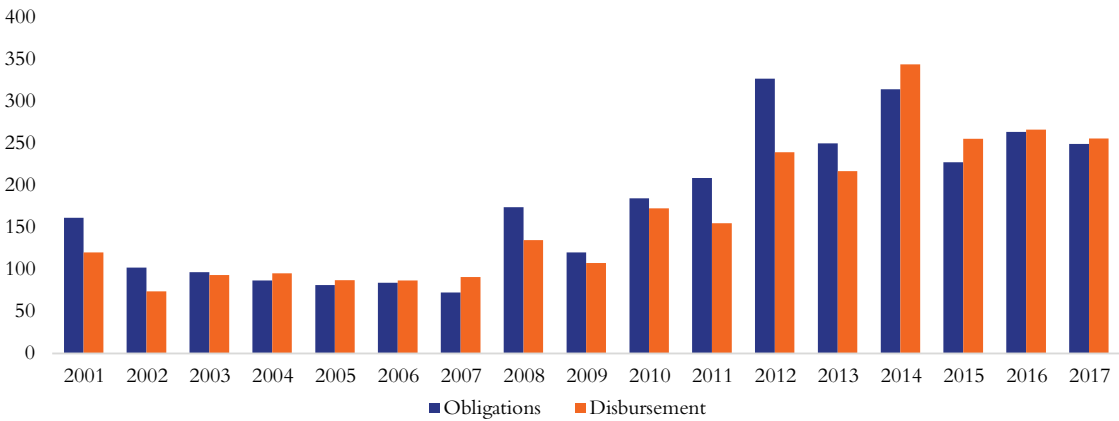


Figure 5.13: U.S. aid disbursed as % of total assistance by all donors



⁶ Bangladesh has restrictions on outward flow of investment. As per available information, a very insignificant amount of Bangladesh’s investment is made in the U.S. As of 2012, FDI stock from Bangladesh to the U.S. amounted to \$5 million. This information is obtained from the Office of the United States Trade Representative, retrieved from <https://ustr.gov/map/countriesaz/bd>, on April 4, 2018.

Figure 5.14: U.S. assistance in Bangladesh (million \$)



Source: Authors’ presentation using WDI, OECD, and USAID data.

Bangladeshi diaspora and students

Like many other countries, the United States is one of the leading destinations for Bangladeshi migrants. According to the United Nations database on trends in international migrants’ stock, it hosted 186 thousand Bangladeshi migrants. It is also a major source of remittance earnings for Bangladesh: almost \$1.85 billion in 2018–19 (Figure 5.15), accounting for more than 11 per cent of all such inflows in the country.⁷ The accumulated remittance flows from the United States during the past five years were \$10.3 billion. On the other hand, yearly remittance outflow from Bangladesh to the U.S. over the past few years has been around \$100 million (Figure 5.16).

Figure 5.15: Remittance inflows to Bangladesh from the U.S.

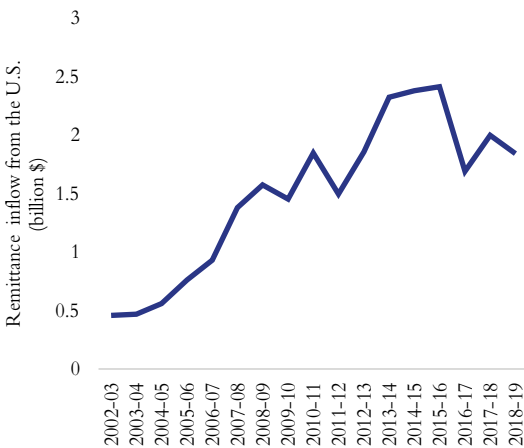
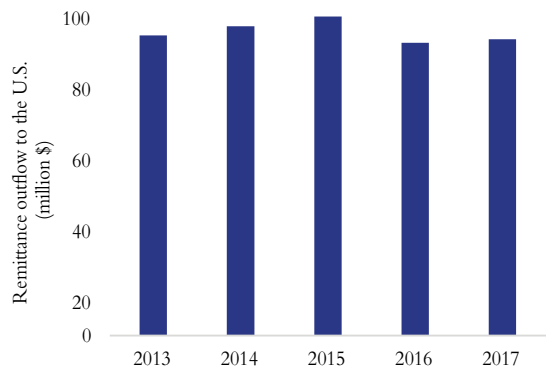


Figure 5.16: Remittance outflows from Bangladesh to the U.S. (2013–16)



Source: Authors’ presentation using Bangladesh Bank and World Bank data.

⁷Note that the global economy witnessed subdued remittance flows in 2016–17. This also affected Bangladesh, which saw remittances from the U.S. declining in 2016–17. Despite the global recovery in 2017–18, remittances from the U.S. further declined in 2018–19.

Figure 5.17: Number of Bangladeshi students in the U.S.

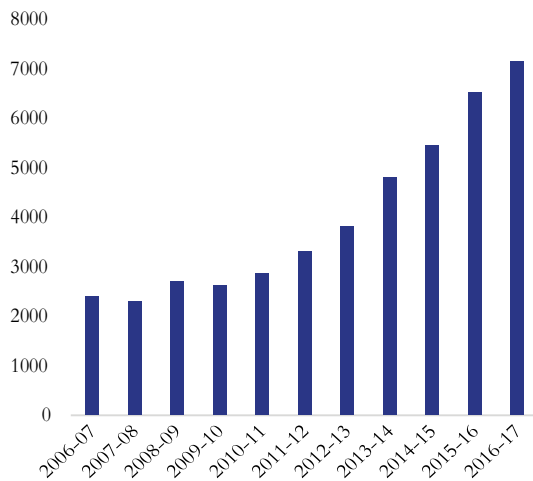
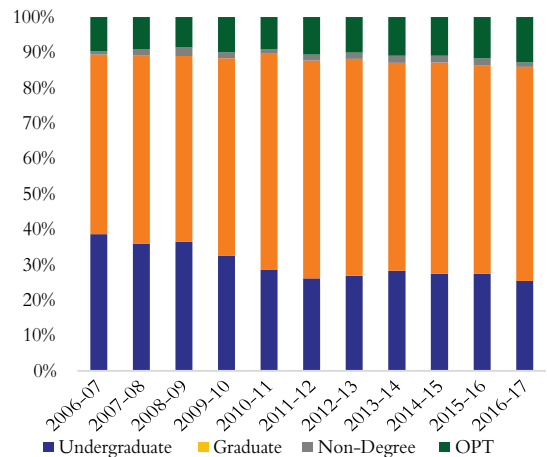


Figure 5.18: Distribution of Bangladeshi students in the U.S. by academic levels (%)



Source: Authors’ presentation using Institute of International Education (IIE) data.

Every year a significant number of Bangladeshi students go to the United States to pursue higher studies. The total global U.S.-bound international students increased greatly over the past decade or so and now stands at above one million per year. The continued growth in international students has had a significant positive impact to the U.S. economy. According to the U.S. Department of Commerce, international students contributed \$39.4 billion to the U.S. economy in 2016. These students also contribute to America’s scientific, economic and technical research and bring international perspectives into U.S. classrooms, making American degrees attractive for global careers, and longer-term business relationships and economic benefits.

The number of Bangladeshi students travelling to the United States for higher education reached 7,143—an all-time high—in the academic year 2016–17 (Figure 5.17), placing Bangladesh amongst the top 25 sending countries for international students studying in American universities. A total of 1.08 million students were hosted by U.S. colleges and universities and Bangladeshi students comprised about 0.7 per cent of the total students. Although the number of Bangladeshi students tripled over the past decade, countries such as Vietnam (27.1 thousand) and Nepal (18.8 thousand) have much higher number of students studying in the U.S. than that of Bangladesh. In the U.S., most Bangladeshi students were graduate students (Figure 5.18).

5.3 TICFA: The Current Framework for Bilateral Cooperation

The Trade and Investment Cooperation Forum Agreement (TICFA) was the outcome of a decade long concerted negotiation process to promote bilateral economic ties between Bangladesh and the United States. Signed in November 2013 as a legally non-binding agreement, it provides a platform to identify and overcome impediments to increasing bilateral trade and investment. It also focuses on intellectual property rights and other trade-plus issues such as labour standards, environment, and governance. One of the key reasons for Bangladesh to engage in TICFA was the restoration of the U.S. Generalised System of Preferences (GSP) programme,

which was suspended in 2013. The GSP programme covered only 0.54 per cent of Bangladesh's total exports to the United States (Mozumder et al., 2018). Products such as dried fish, ceramics and plastic goods enjoyed the benefits accruing from the programme, but it excluded the main exports, apparels, which constitute over 90 per cent of exports to the U.S.

In its preamble, TICFA states its objective of strengthening economic ties through cooperation and creating an open and predictable environment for trade and investment. It acknowledges the desire of both countries in engaging in rules-based multilateral trading system and upholding World Trade Organization (WTO) commitments.

The TICFA Agreement contains seven articles. Article I expresses the intent of the contracting parties in improving and promoting investment climate in their respecting countries, and expand and diversify existing bilateral trade in goods and services. Articles II to IV form the core of the Agreement. Article II establishes the United States–Bangladesh Forum on Investment and Trade comprised of relevant government officials and delegates from the respective countries, and stipulates the parties to meet at least once a year. Article III outlines the duties and responsibilities of the Forum such as overseeing trade and investment relations between the two countries, and exploring opportunities and avenues to expand them. It also reserves the right of the two countries to raise specific trade and investment-related issues of interest and to identify inherent obstacles and constraints. It also has the provision for consulting with members of the private sector and civil society on forum related matters. Article IV outlines the process through which parties can raise issues in the forum for consultation. Articles V to VII deal with the legal and technical aspects of the Agreement. For instance, Article VII deals with the termination process of the Agreement.

Three TICFA Council meetings took place until 2018. The inaugural TICFA Council meeting was held in Dhaka in April 2014. In the meeting, Bangladesh pressed for restoration of GSP facilities and extension of the duty-free and quota-free market access provisions for its exports. The key areas of U.S. concern were the condition of workers in the garment industries. During the second meeting in Washington D.C. in November 2015, discussions focused on a wide range of bilateral trade and investment issues, including labour rights and workplace safety under the GSP Action Plan, the Bangladesh Sustainability Compact,⁸ and opportunities for investment in and cooperation with Bangladesh in several areas, including the development of infrastructure and energy resources. The third TICFA Council meeting was held in Dhaka in May 2017. The third meeting was of interest as it represented an opportunity for a fresh beginning with the arrival of the Trump administration in the United States. Specific issues included ease of doing business, market access and tariff reforms, intellectual property, digital economy, regional connectivity, energy and infrastructure development, transparency in government procurement, and labour.

Dissatisfaction has been expressed regarding the slow nature of negotiations and/or discussions and the lack of tangible gains from the engagements. The issues of labour standards, decent work conditions, and workers' safety are amongst the challenging issues in the TICFA discussions. The Government of Bangladesh has initiated a labour law that includes major compliance-related

⁸ The Rana Plaza factory collapse in 2013 focused international attention on labour rights violations and factory safety in Bangladesh's readymade garment industry. In response, the EU and the ILO launched the Bangladesh Sustainability Compact, with the core objective of promoting continuous improvement in labour rights and factory safety in the industry.

aspects. Some considerable progress has been made in improving workplace safety and working conditions in the export-oriented apparel sector. Nevertheless, it is not easy to tackle all challenges confronting labour and environment standards and intellectual property rights. Developing domestic institutional capacities to deal with these issues remains an arduous task. Bangladesh can acknowledge the scale of the problem it faces and seek financial and technical assistance from the U.S. in this connection.

Most analysts do recognise TICFA as a step forward in the right direction, but they also promptly highlight its falling hugely short of expectation in delivering even minimal tangible outcomes. Nevertheless, the forum provides a platform for substantive engagement. Within TICFA or beyond, more ambitious initiatives will be needed with a specific focus on commercially meaningful mutual gains.

5.4 Towards a More Proactive Bangladesh-U.S. Trade and Economic Cooperation

There exists substantial potential for increased trade and economic cooperation between Bangladesh and the United States. The U.S. is already a big export market for Bangladesh. This export success has been possible even without any extensive preferential treatment from the United States. Under favourable market access conditions and with some improved supply-side capacities, Bangladesh can expand its exports to the U.S. by several folds. On the other hand, although in absolute trade value terms the size of Bangladesh's market may appear small, it is expanding rapidly. Despite historically being the most important trade partner, the United States has failed to take advantage of this position while other countries emerged as major sources of imports. Rapidly growing imports from China and India indicate the potential scope for the United States to grow its exports and investments into Bangladesh as well. It is in this context that strengthened cooperation between Bangladesh and the United States would lead to a mutually win-win situation for both the countries.

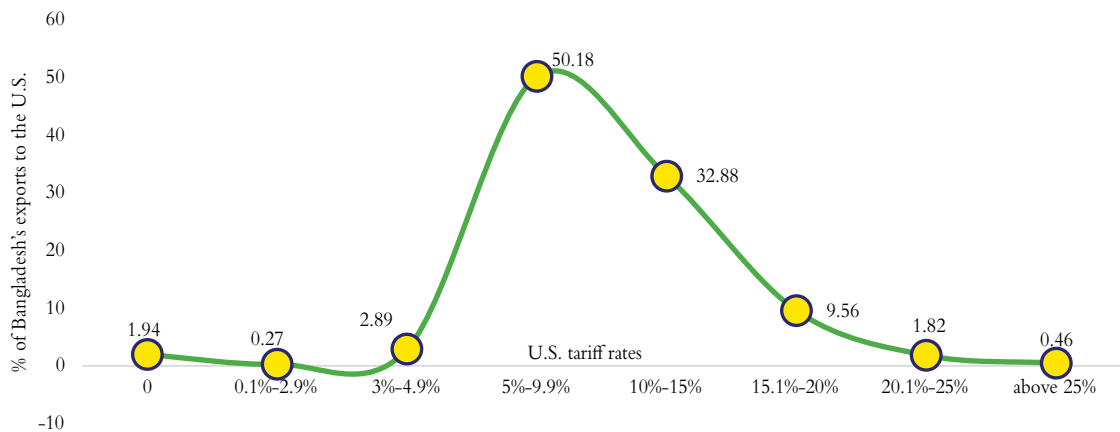
At the outset, there is no need for unnecessary alarm for Bangladesh about the putative adverse effects arising from U.S. trade policy reversals. Rather, if anything, Bangladesh has indirectly benefited from some policy changes such as the United States' withdrawal from the Trans-Pacific Partnership (TPP) Agreement. Considering U.S. policy reversals, the countries that would be most adversely impacted are big global exporters such as China and those that were already receiving (e.g. Mexico) and/or were likely to obtain preferential treatment (e.g. Vietnam under TPP). Although a major apparel exporter to the United States, Bangladesh is otherwise a small supplier in comparison with overall exports from such countries as China, India, Malaysia, Thailand, Vietnam, etc. Furthermore, global value chain linkages through FDI and technology transfers resulting in goods being manufactured in Bangladesh for exporting to the United States are negligible. Therefore, while it is true that U.S. policies have become unpredictable, Bangladesh should carefully assess the resultant implications and creatively explore options to advance the level of engagement and collaboration with the United States.

Unilateral non-reciprocal preferences by the United States

It is indeed unfortunate that the United States has excluded Bangladesh from the duty-free access to its markets. Despite being an LDC and having a strong track record of making socio-economic

progress, Bangladesh's exclusion from the preferential access is regarded by many as an important omission in support of an effective international development architecture on the part of a leading economy in the world. Just above half of all Bangladeshi exports to the U.S. face tariff rates ranging 5.0–9.9 per cent. Tariffs higher than 15 per cent are slapped against 12 per cent of Bangladesh's exports, while another one-third is subject to tariff rates between 10 and 15 per cent (Figure 5.19). Prior to 2013 when Bangladesh was eligible for the U.S. GSP, the coverage of preference for Bangladesh's exports was extremely limited.⁹ As such, Bangladesh was never a major beneficiary of the U.S. GSP scheme. For the same reason, reinstating such a scheme with the unchanged coverage would not provide Bangladesh significant benefits. It has been shown that duty benefits missed as a result of the suspension of GSP facilities were to the tune of just \$2.72 million a year (Mozumder et al., 2018).

Figure 5.19: Distribution of Bangladesh's exports under U.S. tariff slabs



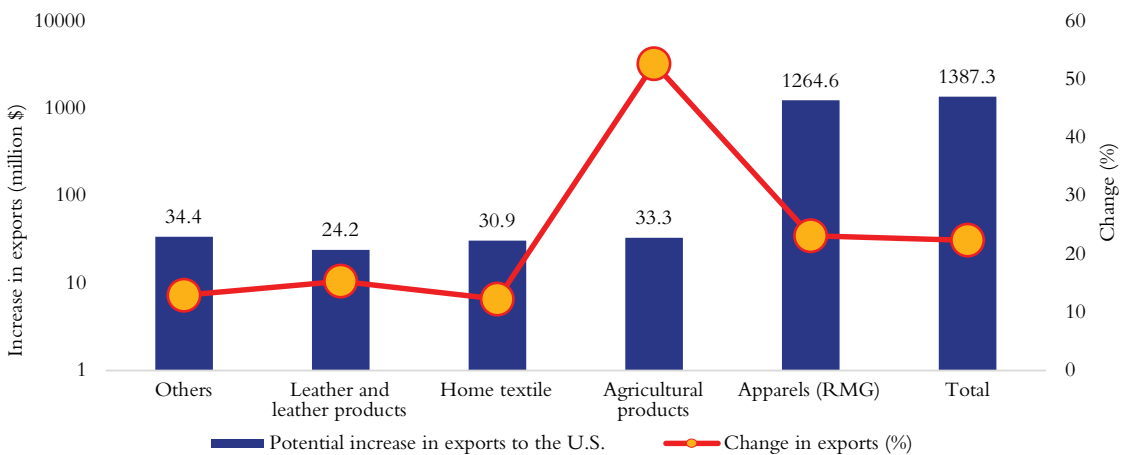
Source: Authors' calculations using ITC data.

Bangladesh is expected to graduate out of the LDC group by 2024.¹⁰ It now badly needs some critical support to raise its international competitiveness and to increase its export base in the run-up to the graduation process. Improved access to the U.S. market will greatly aid a smooth transition for Bangladesh. It is estimated that duty-free access would lead to an additional \$1.3 billion worth of exports to the United States (Figure 5.20). Of this incremental value, \$1.26 billion would be due to readymade garments followed by agricultural products (\$33.3 million), textile products (\$30.9 million), and leather and leather products (\$24.2 million). Agricultural products would register the largest percentage increase (about 53%). Granting duty-free access would generate additional benefits of employment creation, poverty reduction, and women empowerment that would also help Bangladesh achieve positive social transformations as well as to attain Sustainable Development Goals (SDGs).¹¹

⁹ Amongst others, textiles and clothing items were not covered under the U.S. GSP scheme.

¹⁰ After the graduation from the LDC group in 2024, Bangladesh would be able to retain some of the existing trade preferences, notably those granted by the EU, i.e., the Everything But Arms scheme of duty-free market access for LDCs, for another 3 years. Discussions on these issues are presented in Chapter 3 of this volume.

¹¹ The export-oriented apparel industry employs four million workers, most of whom are women. Export success thus would lead to more jobs for women and their socio-economic empowerment.

Figure 5.20: Potential impact of duty free access to U.S. market on Bangladesh's exports, by broad product categories

Source: Results from authors' simulations.

Conditional non-reciprocal market access

If unconditional and unilateral duty-free access is not possible, alternative options could be similar to the provisions in place under various other U.S. non-reciprocal preference programmes such as the African Growth and Opportunity Act (AGOA), the Andean Trade Preference Act (ATPA), and the Caribbean Basin Initiative (CBI). AGOA, for instance, provides duty-free and quota-free treatment for eligible apparel articles made in qualifying sub-Saharan African countries. The provisions of AGOA could be used as a template to seek duty-free access for made-in-Bangladesh apparels. AGOA-I was designed to last for eight years, from 1 October 2000 to 30 September 2008. Apparels were covered, but subject to certain safeguard provisions and to a “yarn forward” rule of origin, requiring that garments must be made from cloth manufactured in the United States or in a beneficiary country and from yarn also made in the United States or a beneficiary country. Certain less developed beneficiary countries were exempted from the yarn forward rule of origin and were permitted to source cloth from third countries. This Least Developed Beneficiary Country provision was scheduled initially to expire after only four years, after which the yarn forward rule would apply. Recent amendments in AGOA have placed emphasis on strong rules of origin.¹² In order for countries to be eligible for apparel benefits, they must have in place an effective visa system to prevent illegal transshipment and use of counterfeit documentation, as well as effective enforcement and verification procedures.¹³ AGOA's impact in terms of textile imports is less than expected because of the supply-side constraints of recipient countries. Bangladesh, with its comparatively better supply-side capacity, can make effective utilisation of this programme.

Another arrangement that should also be reviewed for any relevance to a possible scheme for Bangladesh is the Caribbean Basin Trade Partnership Act (CBTPA). This has been in

¹² Rules of Origin, “Commercial Availability” and Trade Preferences: Denim and AGOA, U.S. Agency for International Development/Southern Africa, November 2007

¹³ This information is obtained from the Office of Textiles and Apparel (OTEXA).

operation since October 2000 to accord enhanced trade preferences for the 24 beneficiary countries of the Caribbean Basin region. Under it, duty-free treatment is provided for apparels made from U.S. fabrics manufactured from U.S. yarns in the beneficiary countries. Similar preferences are also available for certain knit apparels provided that U.S. yarns are used. In addition to these apparel preferences, the CBTPA provides NAFTA-equivalent tariff treatment for certain items previously excluded from duty-free treatment under the CBI programme (e.g., footwear, canned tuna, petroleum products, and watches and watch parts).

Given that preferences have been provided based on the use of U.S. intermediate inputs, such options could also be considered for Bangladesh. Owing to apparel exports, there is a high demand for cotton in Bangladesh. Domestic production can meet only 1 per cent of the total cotton demand. As a result, Bangladesh is overwhelmingly dependent on imports to satisfy its input requirement. Bangladesh is the second-largest importer of cotton worldwide (Figure 5.21). The import of cotton has grown apace with the growing volume of garment exports and associated domestic capacity in yarn production.

Figure 5.21: Largest cotton importing countries (% of total imports)



Note: Countries are indicated as BGD—Bangladesh, CHN—China, HKG—Hong Kong, IDN—Indonesia, IND—India, ITA—Italy, KOR—the Republic of Korea, PAK—Pakistan, TUR—Turkey, and VNM—Vietnam.

Source: Authors' analysis based on data as available in <http://www.worldstopexports.com/cotton-imports-by-country/>.

Bangladesh has emerged as a major and high priority destination for raw cotton exporters as 86 per cent of the country's apparels are made from cotton. This is in contrast to an increasingly greater amount of Chinese apparel being made from polyester. This indicates a potential decline in the Chinese import of raw cotton in the future. In terms of import sources, Bangladesh is overwhelmingly dependent on India (which accounted for nearly 49 per cent of Bangladesh's total imports). This is largely due to competitive prices, lower freight costs, and relaxed settlement of disputes relative to other countries. However, dependency on a single country for raw material import could pose a supply chain risk for the industry. Uneven quality and sudden disruptions in cotton supply owing to changes in regulations mean that Bangladesh would do well by diversifying its import sources.

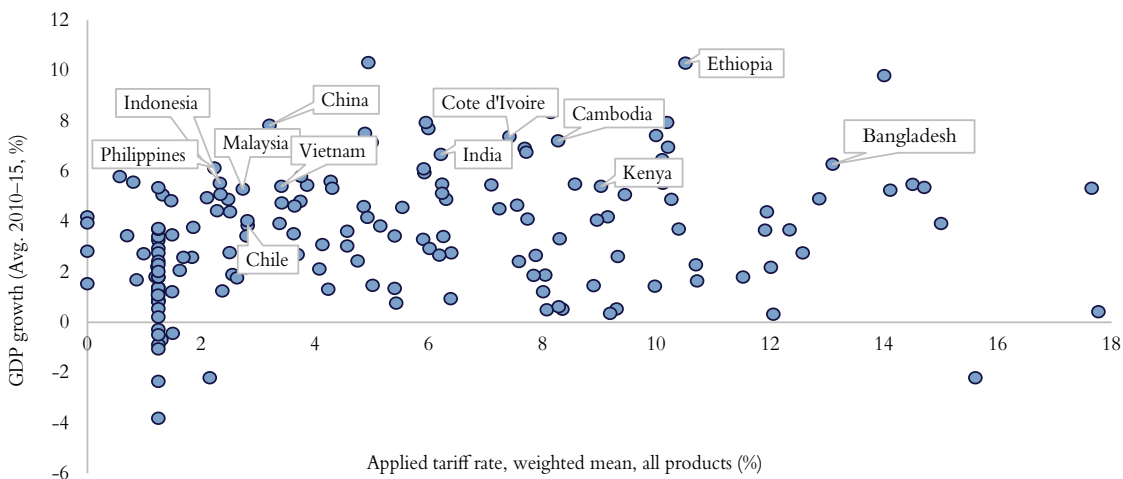
Despite being the largest exporter of cotton, the United States supplies only around 160,000 bales of cotton each year to Bangladesh. Higher prices with longer lead time and fumigation

requirements have hindered the growth of import of U.S. cotton in Bangladesh.¹⁴ However, American cotton is almost contamination-free, well-classified, reliable, and consistent in maintaining a high level of quality. As Bangladesh aims to move up the global value chain in the apparel sector, using quality inputs would become more important. Thus, the demand for U.S. cotton may very well grow over time. Under favourable conditions, if Bangladesh's apparel industry can grow at an average of 12 per cent in the coming years, the demand for cotton will annually increase at a rate of 10 per cent.¹⁵ That would imply imports of cotton to reach as high as 9 million bales over the next few years (as against the current demand of 5.5 million bales). The United States should tap into this vastly unexplored market. It is very likely that U.S. exports of cotton will grow significantly if apparel products made of U.S. cotton receive favourable treatment in accessing the U.S. market. In this regard, an extension of duty-free access to Bangladeshi apparel sourced from U.S. cotton would create a win-win situation for both the countries.

A free trade agreement

Another avenue that can be explored is entering into a fully-fledged free trade agreement (FTA). This can generate the much-needed market access for Bangladesh while at the same time providing preferential access for U.S. exporters. Although, as already mentioned, the market size is relatively small in Bangladesh, preferential access could be quite attractive for the United States. This is because Bangladesh has managed to maintain robust economic growth under a highly protected environment. A growing market shielded by high tariffs provides preferential partners with a large competitive advantage (over others who do not have such preferential access). Bangladesh's importing partners including the United States faced an average applied tariff rate (customs duty) of more than 13 per cent. This is much higher than other high growth achievers, for instance, China, India, Indonesia, Malaysia, the Philippines, and Vietnam (Figure 5.22). Indeed, during the period 2010–15, with the exception of just one (Chad), there was no country that had applied an average tariff rate higher than Bangladesh and yet achieved a higher average growth rate.

Figure 5.22: Banglaesh achieved high growth with high tariff protection



Source: Authors' analysis using WTO and World Development Indicators (WDI) data.

¹⁴ Only United States cotton needs to go through a fumigation process, because of the high use of genetically modified cotton and chemicals (<http://www.intracen.org/Cotton-import-procedures-in-Bangladesh/>).

¹⁵ For details, see Textile Excellence (2016).

The average customs duty rate, however, conceals very high rates of duties on a large range of products, particularly of consumer's items, from 40 per cent on certain food items to 156 per cent on air coolers (Sattar, 2018).¹⁶ Given the growing demand within the domestic economy, such a protective market is of interest to many countries. Indeed, there are numerous newspaper reports of various trading partners expressing interest in forming bilateral FTAs with Bangladesh. In this respect, the United States could reap a first mover's advantage by engaging with Bangladesh early. It needs to be pointed out here that U.S. traders and investors often ask for Bangladesh's slashing tariffs on MFN basis (U.S. Chambers of Commerce, 2013). While there is merit in the argument, particularly from domestic consumers' perspectives, who pay for excessive costs of protection, and in achieving better allocation of resources within the local economy, such rationalisation is unlikely to provide any additional market access opportunities for U.S. exporters.

Proactive U.S. engagement with a rapidly growing Bangladesh economy

While the issue of a more proactive engagement is naturally associated with increased market access and bilateral trade agreements, it should not necessarily be limited so. Not all trade is linked to tariff preferences, and increased trade flows can take place even in the absence of trade deals. According to one estimate, 84 per cent of all trade, including those under FTAs and preferential trading arrangements, is non-preferential in nature. Hence, there is a need for proactive American engagement to realise the potential trading opportunities, particularly when the Bangladesh economy is posting robust growth. According to a recent report from PricewaterhouseCoopers, Bangladesh would be the 28th largest economy by 2030, in terms of GDP measured in purchasing power parity (PPP) dollars. In 2030 Bangladesh GDP is projected to reach PPP \$1.34 trillion while by 2050 it would grow further to PPP \$3.06 trillion to become the 23rd largest in the world.

Along with the overall economic growth, Bangladesh is experiencing a rapid expansion of the middle-class and with its rising disposable incomes and high propensity to spend on a new and wide range of products and services. According to one estimate in 2017, the consumer goods sector grew 9 per cent to \$3.4 billion.¹⁷ The Boston Consultancy Group (BCG, 2015) projects the size of Bangladesh's middle and affluent class population to rise to 34 million by 2025 when the country's GDP will have crossed \$500 billion.¹⁸ If the lower-middle-income consumer market is added to the middle and affluent class, the consumer market with spending propensity would reach \$100 billion (Sattar, 2018). This growth will generate tremendous trading opportunities including Bangladesh's imports from the United States.

The United States played a pivotal role in promoting trade-led development of Bangladesh's comparators. For example, two decades back, Malaysia was at a similar stage of development as Bangladesh is at present. At that time, U.S. share in Malaysia's exports was in the range 18–22 per

¹⁶ It is important to point out that customs duties are just one element of the tariff regime in Bangladesh, which levies many other trade taxes, known as para-tariffs, e.g., supplementary duty, advance trade VAT and advance income tax on import in addition to VAT. Some of these para tariffs are supposed to be trade-neutral. But, in reality, these instruments have protective contents as well. Thus, the total tariff incidence is much higher than the simple customs duties. The un-weighted nominal protection rate in recent times has been in between 25–29 per cent. When all duties, taxes and charges are added, the un-weighted total tariff incidence is estimated to be around 50 per cent. The import-weighted total tariff incidence for 2016–17 was 20.5 per cent.

¹⁷ This is based on findings by market research firm Nielson as reported in Sattar (2018).

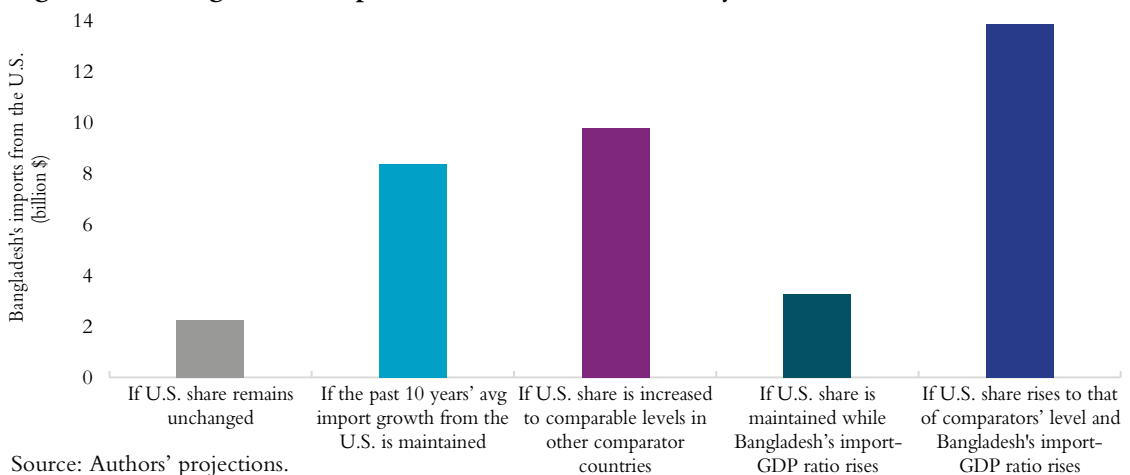
¹⁸ The middle and affluent class (MAC) in Bangladesh is defined as consumers earning from more than \$401 (approximately Tk 34,000) a month or just about \$5,000 annually. This size of this consumer group is estimated to be around 12 million and they tend to consume goods and services that went beyond basic necessities, and "into the realm of convenience and luxury. Examples include air conditioners; flat-screen TVs; and imported cosmetics" (Sattar, 2018).

cent while the corresponding share in imports was 16–20 per cent. Malaysia maintained an average U.S. share of 15.5 per cent in exports and 13 per cent in imports during 1995–2016. Over the years, although the relative significance of the U.S. has fallen (except for Vietnam), its shares in these countries' imports have remained much higher than that of Bangladesh. That is, the cross-country experience seems to suggest unexploited U.S.-Bangladesh trading opportunities. Comparators of Bangladesh import from the United States such items as capital machinery, aluminium, aircraft, electric machinery, chemical products, and cotton. Bangladesh can also be an important market for these products.¹⁹

It is also important to point out that currently, the import, or for that matter trade, orientation in Bangladesh's economy is quite small. After registering a rise throughout the 1990s and much of the 2000s, Bangladesh's trade-GDP ratio (i.e. exports plus imports as a proportion to GDP) in recent years has been on the decline: from more than 47 per cent in 2011 to 37 per cent in 2017.²⁰ This is largely attributable to the worldwide trade slowdown affecting most countries' trade flows as mentioned earlier. As GDP growth in Bangladesh remained strong, the subdued international trading activities resulted in a reduced trade-orientation. However, it is very likely that as global trade recovers, Bangladesh's trade-GDP ratio would rise again with imports expanding faster, as has been the usual case for the country.

Even with the assumption of Bangladesh's trade-orientation remaining at its current low level, if the past 10 years' average growth of imports from the United States can be maintained, by 2030 Bangladesh's imports from the U.S. will grow over \$8 billion (from currently \$1.3 billion). However, under a more plausible scenario of an improved trade-orientation and the United States' import share rising to comparator countries, Bangladesh's imports from the U.S. would rise to about \$14 billion (Figure 5.23).²¹ These scenario does not explicitly consider forming any trading arrangements between the two countries, rather it just illustrates the trade potential given Bangladesh's growth prospects over the next decade or so.

Figure 5.23: Bangladesh's imports from the United States by 2030 under different scenarios



Source: Authors' projections.

¹⁹ For example, most of Vietnam's \$8.2 billion imports from the United States comprised capital machinery, aluminum, aircraft, and cotton. India's \$24 billion imports also comprised mostly machinery and chemical products, minerals and cotton.

²⁰ In 2011, Bangladesh's import-GDP ratio reached more than 27 per cent while the export-GDP ratio stood at 20 per cent.

²¹ This scenario assumes Bangladesh's import-GDP ratio to increase to 30 per cent by 2030. This is quite plausible given that in 2011 the corresponding ratio was 27 per cent.

Investment opportunities in Bangladesh

Investment opportunities in Bangladesh for U.S. investors are quite large. The sectors where investments are likely to see high returns include, export-oriented textile and apparel, leather and footwear, pharmaceuticals, ceramic and plastic goods, ICT, power and energy including renewable and green energy, shipbuilding and recycling, automobiles and light engineering, chemical fertilizers, agro-processing, marine resources extraction, tourism, medical equipment, telecommunications, and knowledge-intensive high-tech industries.

Food processing and automobile sectors are widely regarded to hold a lot of untapped potentials in which American companies can consider investing in. The food processing industry has been driven by strong domestic demand and export growth. In terms of the domestic market for food processing (including crustaceans), it is worth \$240 million and is growing at an estimated rate of 10 per cent annually. FDI in the food processing sector, although still quite small, has increased 6 times between 2010–11 and 2014–15, and stood at \$96.6 million. The automobile sector saw a 33 per cent rise in imports since 2014 and the value of imported vehicles in 2017 stood at \$1.6 billion. The rise of the middle and affluent class means that there will be a rise in demand for automobiles in the future. This shows the prospect of vehicle assembling plants by sourcing auto components from different countries. The cost of domestically-manufacturing cars would be considerably lower than importing refurbished cars.

Bangladesh has a very liberal investment policy. It includes protection of foreign investment by law; generous tax holiday; concessionary duty on import of machinery; remittances of royalty; 100 per cent foreign equity; unrestricted exit policy; full repatriation of dividend and capital on exit; to name a few. Industrial and office rents in Dhaka are lower than that of other international cities in the region. Although the shortage of skilled labour force is an area of concern, Bangladesh's skilled labour cost base is still lower than that of the other major countries in the region.

Export processing zones (EPZ) and special economic zones (SEZ) are specifically designed to attract foreign investment in Bangladesh. Both the zones offer serviced industrial plots along with a range of fiscal and financial incentives including duty-free import of raw materials, machinery, office equipment, spare parts, and exemptions from dividend tax, relief from double taxation, etc. The Bangladesh Economic Zones Authority (BEZA) has been instituted by the Government of Bangladesh with the aim of establishing 100 SEZs across the country by 2030. A number of them are ready to receive foreign private investments in various sectors. Amongst others, Indian and Chinese firms have already committed to investing in specifically designated economic zones.

Investment potential in Bangladesh is also linked to the country's strategic location at the cusp of South Asia and South-East Asia with significant trading opportunities with the world's two rapidly growing largest countries of India and China. Bangladesh can act as the gateway to North-eastern regions of India comprising the states of Arunachal, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura with a combined population of more than 45 million. Although India is already an important source of import for Bangladesh, trade expansion, even under the South Asian Free Trade Agreement, has so far been subdued. Foreign investment-led supply-side capacity building can greatly help trigger trade response in the region.

U.S. foreign direct investments into Bangladesh can generate mutual gains while exploiting export market opportunities in both China and India. Being already the most dominant source of imports, in 2016, China signed deals with Bangladesh worth above \$25 billion, including trade

capacity building under the Belt and Road Initiative (BRI). According to some estimates, China is expected to grow its imports to a staggering \$2 trillion from the BRI countries over the next five years (Habito, 2016). China has allowed duty-free access to over 4,700 Bangladeshi products. Supply-side capacity building in these products is most essential to take advantage of the vast Chinese market. This is an area where U.S. investments will be most helpful.

Educational and technical cooperation

Bangladesh needs to invest in developing human capital. Gains in skills and productivity can only be ensured if there is a sizable proportion of the skilled workforce, which in turn will lay the foundation for a knowledge-based economy. The East Asian growth miracle is a testament to the value of human capital to a country. Hence, the role of tertiary and technical education becomes a key priority in enhancing the competitiveness of the workforce and accelerating the rate of economic growth and development.

One of the tangible outcomes of development in Bangladesh is the ever-increasing number of students pursuing tertiary education. Based on the current trend, it is estimated that by 2020, around 362,000 students would be enrolled in first-year courses at tertiary level institutions.²² Along with public universities, there are 95 private universities in the country with a combined total number of students studying in them is 463,767, of which 40 per cent are women.²³ Based on the average growth rate in the past few years, the number of students in private universities is expected to be around 1 million by 2020.²⁴ This would also require a concomitant increase in the number of teachers, administrative staff, programmes, departments, infrastructural and institutional capacity. American universities can explore setting up campuses and engaging in collaboration with local private and public universities in Bangladesh. Thus, they could tap into a vast market for higher education, where the demand for quality education is rising rapidly over time.

As discussed earlier, an increasing number of students go to the United States to seek higher education. It remains the preferred destination amongst students amidst a host of countries to choose from such as Australia, Canada, Germany, Malaysia, Sweden, the United Kingdom, etc. It was mentioned earlier that although the number of Bangladesh students in the U.S. is growing but the total number is still quite low. Granting greater access to Bangladeshi students will, therefore, be helpful.

Bangladesh has attached policy priority to the digital economy with a special focus on the information and communication technology (ICT) sector. U.S. companies could explore effective cooperation and technical collaboration in this respect. Bangladesh earned nearly \$800 million in 2017 exporting locally made software and providing ICT-related services like outsourced and freelance work. There is scope for substantial expansion in the sector, driven by demand from developed and developing countries alike. There is also scope for U.S. companies to invest in e-commerce to tap into a potentially large market in Bangladesh.

²² Elizabeth Boye and MA Mannan, *Bangladesh: Public-Private Partnership in Higher Education* (Asian Development Bank, 2014).

²³ "Private Universities: Successes and Challenges", *The Daily Star*, 3 September 2016.

²⁴ Boye and Mannan (2014)

Taking advantage of the diaspora community to catalyse innovation and investment

Approximately 277,000 Bangladeshi immigrants and their children (187,000 first generation and 90,000 second-generation) live in the United States, accounting for 0.5 per cent of the foreign-born population in the country. According to research undertaken by the Migration Policy Institute (MPI, 2014), the Bangladeshi diaspora is better educated; more likely to hold a bachelors' degree than the U.S. population and are twice as likely to hold advanced degrees. Bangladeshi diaspora households have a median income of \$54,000 which is \$4000 above the median for all U.S. households.²⁵ According to one source, 31 per cent of the Bangladeshi diaspora were in a professional or managerial position in a specialised field (such as engineering or education) or administrative and managerial jobs (such as finance or human resources). The U.S. has the 7th largest emigrant population from Bangladesh and was the third-largest source of remittance earnings for Bangladesh in 2016–17.

However, the Bangladeshi diaspora is actively seeking avenues of investment beyond the traditional remittance model. They seek ways to leverage the human, social, and financial capital they have acquired to make investments and establish new businesses in Bangladesh.²⁶ There is a high level of interest within the diaspora community to invest in healthcare, education, clean energy and ICT sectors. However, there exist significant barriers to diaspora capital flows. If utilised effectively, diaspora philanthropy could generate a steady flow of capital which can generate social welfare and developmental impact. In terms of investment, over 70 per cent FDI in China originates from the Chinese Diaspora (Chowdhury, 2017). The Indian Diaspora has provided the motive force behind the phenomenal success of the IT sector with investment, branding, outsourcing, etc. Measures need to be undertaken in Bangladesh to leverage the diaspora community in the United States. Institutional collaboration with government agencies and business associations could help facilitate the process. Donor-advised fund (DAF) can be structured to appeal to the diaspora.²⁷ These funds are charitable giving vehicles administered by public charities into which donors can make tax-deductible donations. A portion of the assets leave the DAF in the form of grants to qualified non-profits when donors make grant recommendations; the remainder of the assets are reinvested in securities until they are recommended for grants. DAFs in the U.S. hold nearly \$54 billion in assets. Given their tax-effectiveness, flexibility, and convenience, DAFs may represent an untapped international giving vehicle for the diaspora. The U.S.-Filipino diaspora has a history of sending tax-deductible donations to Filipino NGOs through partner intermediaries and sister organisations that serve as conduits for donations.

Taking advantage of an affluent diaspora community can greatly help promote Bangladesh-U.S. economic cooperation and investment linkages. This is particularly important in promoting innovations, developing modern enterprises, and bridging the market gaps.

Supporting Bangladesh in achieving Sustainable Development Goals

Along with economic growth, Bangladesh's achievements in social development have been quite impressive. The proportion of the population living below the national poverty line fell from close to 60 per cent in the early 1990s to less than 22 per cent in 2018. Similarly, the progress

²⁵ MPI (2014).

²⁶ Bangladesh Diaspora Assessment, (USAID, 2015).

²⁷ A donor-advised fund, or DAF, is a philanthropic vehicle established as a public charity. It allows donors to make a charitable contribution, receive an immediate tax benefit and then recommend grants from the fund over time.

made in achieving universal primary education, reducing child mortality, gender equality and women empowerment has received global acclaim. One notable feature has been relatively high labour force participation of women compared to that of the most Muslim majority countries. Bangladesh fares better than most South Asian and MENA (Middle East North Africa) countries in terms of female labour force participation rate.

Bangladesh now faces the ambitious target of materialising the Sustainable Development Goals (SDGs) by 2030. The multi-faceted and multi-dimensional approach of SDGs to tackle poverty and malnutrition, ensure quality education and decent employment, promote gender equality, adapt to and mitigate the effects of climate change, promote sustainable use of land and water resources, etc., requires a vast amount of resource mobilisation. Multilateral and bilateral assistance from international organisations is crucial in attaining these goals. U.S. assistance, primarily been channelled through the USAID, has made a critical impact in the fields of healthcare and nutrition, education, gender equality, amongst others. Despite some scaling back in the most recent times, a \$95 million Economic Support and Development Fund (ESDF) underscores the strategic importance of Bangladesh's continued economic growth and stability in the eyes of American policymakers. Bangladesh remains stable in an increasingly conflict-ridden neighbourhood. Bangladesh is secular despite being a Muslim majority country and has been able to effectively counter the global contagion of radicalisation and religious extremism. This can arguably be explained by the marked development gains achieved by the country and the promotion of gender and religious equality. Helping Bangladesh achieve its SDGs would promote the United States' championship of democracy; rule of law; inclusive growth and development; gender equality; and minority rights.

U.S. assistance would be of critical importance in addressing the Rohingya crisis. Over a million Rohingya refugees have been forcibly evicted from their ancestral home in the Rakhine state of Myanmar. Bangladesh, despite its many constraints, has hosted the streams of hapless Rohingya refugees pouring over from the border. This has created tremendous political, social and financial strains on the Bangladeshi society at large. The Government of Bangladesh and the humanitarian bodies have developed a joint response plan, according to which close to \$1 billion is needed every year to support the refugees. However, actual assistance received fell far short of the need. Continued funding shortfalls would seriously affect the already precarious situations of the displaced Rohingyas as well as the host communities in refugee-affected areas and impose a greater burden on Bangladesh's development challenges.

Given the scale of the crisis that the country faces, Bangladesh deserves the support of the global community. It is becoming increasingly clear that repatriation of the refugees to their home state could take quite a long time. Donor interests and funding availability over such a long period are not certain. In this respect, Bangladesh will certainly need vital support from the United States not only in terms of financial assistance but political support as well to ensure sooner and safer return of the refugees. It will be a truly befitting response, recognising the massive scale of this crisis, if the United States considers granting trade preferences to Bangladesh. This can genuinely help Bangladesh maintain its economic growth and macroeconomic stability, generating employment opportunities and thus cushion the duress inflicted by this crisis.

5.5 Conclusion

There is a need for a bold approach and a paradigm change to invigorate the bilateral relations between the United States and Bangladesh. The Bangladeshi economy is expected to continue with its growth momentum and U.S. involvement and engagement in terms of trade, investment

and technology transfer, strategic cooperation and collaboration should amplify the development prospects. Deeper U.S.-Bangladesh engagements would be mutually beneficial for both countries.

The case for the United States' providing unilateral and non-reciprocal duty-free market access to Bangladesh remains strong. This will not only increase Bangladesh's exports (by an estimated \$1.3 billion) but will also help Bangladesh achieve the Sustainable Development Goals (SDGs) and provide the much-needed impetus to the economy as it stands to graduate out of the LDC group by 2024. Providing shelter and support to more than 1 million traumatised Rohingya refugees has added an enormous pressure and from this perspective as well duty-free market access in the United States would be an important and meaningful way of helping Bangladesh. If unilateral market access is not possible, the United States could consider conditional non-reciprocal market access as used in providing trade preferences under such schemes as AGOA, APTA, and CBI.

The option for a free trade agreement (FTA) between Bangladesh and the United States should also be explored. This would ensure mutual market access benefits. The market size in Bangladesh may appear to be relatively small, but it is growing fast. Furthermore, this economic expansion is taking place along with relatively high MFN tariffs. These features should make preferential access quite attractive for the United States. It can benefit from first-mover advantage by entering into a bilateral free trade agreement as Bangladesh is yet to have any such trading arrangements with any other country.

One important way forward would comprise the United States' granting unilateral trade preferences in a time-bound manner with the provision of both countries' signing an FTA by the time Bangladesh graduates out of the LDC group. As trade negotiations take time, this approach could provide a clear roadmap in moving towards a strengthened bilateral trade relationship.

The existing forum of TICFA could serve as a platform for policymakers of both countries to explore these trading arrangement options. U.S. engagements with Bangladesh need not be confined to tariff preferences alone. Bangladesh's favourable geostrategic location, at the crux of South and South East Asia means that it could be a hub of emerging economies with interconnected markets and trade interdependence. A fast-growing middle and affluent class of consumers, with rising disposable incomes, makes Bangladesh an attractive market. Under certain plausible assumptions, U.S. imports into Bangladesh could expand to \$14 billion (from the level of just \$1.7 billion in 2018–19).

Bangladesh also offers significant opportunities for American investors especially in such areas as export-oriented textile and apparel, automobiles and light engineering, ICT, power and energy, including renewable and green energy. Dedicated special economic zones (SEZs) can be accommodated exclusively for investments by U.S. firms. There are significant opportunities for closer U.S. involvement and technical collaboration in tertiary education and ICT sectors of Bangladesh. The Bangladeshi diaspora living in the United States could serve as an important conduit for fostering closer U.S.-Bangladesh ties.

In fine, Bangladesh has made a remarkable socio-economic progress and has made great strides in remaining a secular democracy, committing to the global fight against religious extremism and radicalisation. However, it needs further support in achieving SDGs, which include eradicating extreme poverty, ensuring greater participation of women, generating decent jobs for its large and growing labour force, and tackling challenges posed by climate change. It also needs to

expand its trade for generating efficiency gains and creating employment opportunities. Forging closer Bangladesh-U.S. relations would not only bring mutual trade and economic benefits for the two countries, but it would also reaffirm the United States' leading role in and commitment to promoting international development in most challenging areas. The time has come for policymakers of both countries to rethink, recalibrate and recast their existing approaches to engagements and invest in a bold new future with enormous opportunities and untapped potential that Bangladesh offers.

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Promoting Bangladesh's Exports to India

Mahfuz Kabir & Mohammad Abdur Razzaque

6.1 Introduction

India is one of the fastest-growing countries amongst the world's largest economies. Rapid expansion in economic activities over the past two decades or so has made it the fifth-largest economy of the world with its gross domestic product (GDP) valued at \$2.6 trillion. According to most recent projections, it is set to become the third-largest economy soon after 2030—only behind China and the United States. Bangladesh has also seen an impressive economic growth sustained over a relatively long period since the mid-1990s. India is currently the third-biggest trading partner of Bangladesh and the second most important source of imports. The two countries enjoy a strong bilateral economic and trade relationship, which in recent times has grown from strength to strength. Buoyant economic growth over the past several years has already helped Bangladesh and India to expand their economic and trade ties. For instance, trade between the two countries stood at \$9.9 billion in 2018–19—rising from around \$3 billion a decade ago. Despite such bilateral issues as border management and river water sharing requiring more political attention, trade and economic engagements are poised to break new grounds given both of the countries' strong medium-term growth outlooks. Besides, such factors as geographical proximity along with a vast shared border, existing trade and investment linkages, similar value systems, common linguistic competencies, economic development expanding the scope of trade complementarities, etc. can certainly unlock huge trade potentials.

In the backdrop of a growing bilateral trade deficit with India, an important objective for Bangladesh is to grow its exports in the vast Indian market. It is a general phenomenon of global economies that countries manage to break into their affluent neighbours' markets. As the Indian economy grows bigger, Bangladesh's export potential in that market should only grow. Along with trade, foreign direct investment (FDI) from India has started occupying an important place in Bangladesh, especially in textiles and clothing, telecommunications, banking, pharmaceutical and chemical sector among others. Bangladesh has allocated three special economic zones (SEZs) exclusively to Indian companies. This is expected to promote bilateral trade and Indian investment flows between the two countries. Moreover, Bangladesh is working closely with India to strengthen hard and soft infrastructures for enhanced bilateral connectivity through road, rail, inland waterway, and coastal shipping under bilateral as well as several regional and sub-regional initiatives.

The recent momentum in bilateral relationship is marked by several constructive and deeper engagements that include, amongst others, implementation of the Land Boundary Agreement (LBA); India's engagement in the development of rail link in Mongla–Khulna and Akhaura–Agartala as well transport and trade infrastructure through credit; India's participation in Bangladesh's SEZs; the joint declaration during India's Prime Minister Narendra Modi's visit to Bangladesh in June 2015; and the joint statement of the two prime ministers during Bangladesh's Prime Minister Sheikh Hasina's visit to India in April 2017.^{1,2} One of the important pledges made in the high-level political engagements is to have expanded trade and investment linkages to be facilitated through improved land ports for trade facilitation between the two countries. Increasing exports to India would be an important means of strengthening economic ties by utilising duty-free market access, achieving better connectivity, and attracting Indian investment into the export-oriented sectors.

This chapter intends to provide an analysis of the recent trends and salient features of Bangladesh's exports to India while highlighting possible areas of intervention for promoting such exports further. In doing so, it analyses the pattern of product-wise exports, identifies products that have significant untapped potential, considers some challenges faced by the exporters in the Indian market including policy-induced barriers and infrastructural deficiency, and examines the scope of Indian investment in boosting exports. Based on the analysis and discussion, a set of policy recommendations are provided to boost Bangladesh's exports to India.

6.2 Bilateral Trade between Bangladesh and India

Trends in exports to India and export potential

The need for expanding Bangladesh's exports to India has been recognised in high-level engagements between the two countries. The Indo–Bangla Bilateral Trade Agreement was renewed during the visit of India's Prime Minister to Bangladesh. In a joint declaration, dated 7 June 2015, the two Prime Ministers expected that the implementation of the agreement would help increase bilateral trade and investment, and strengthen economic cooperation in a 'balanced and sustainable manner'. The Framework Agreement on Cooperation for Development between the two countries suggests removing 'all barriers' to ensure unhindered bilateral trade and lessen the trade imbalance which has been heavily tilted against Bangladesh.

Bangladesh's total exports to India have grown gradually over the past two decades with some fluctuations—from \$80 million in FY01 to \$1.25 billion in FY19 (Figure 6.1). Total exports to India crossed the one billion threshold for the first time registering a 42.9 per cent growth in FY19 over the immediate past year. During FY01–FY19, the average annual growth of exports to India has been 19.5 per cent against the overall export growth rate of 11.2 per cent (Figure 6.2). This is mainly because of a very small base of exports to India in the early 2000s. Besides, being a least developed country (LDC), Bangladesh, in almost all items, enjoys duty-free access to India, which helped expand the export volume. The Indian market is becoming increasingly more important. Although still low, the relative significance of India in Bangladesh's exports is on the rise: from 1.52 per cent in FY14 to 3.1 per cent in FY19 (Figure 6.1).

¹ Joint Declaration between Bangladesh and India during the visit of Prime Minister of India to Bangladesh—"Notun Projonmo–Nayi Disha", 07 June 2015.

² Joint Statement during the visit of the Prime Minister of Bangladesh to India, 08 April 2017.

Figure 6.1: Bangladesh's exports to India and India's share in Bangladesh's exports

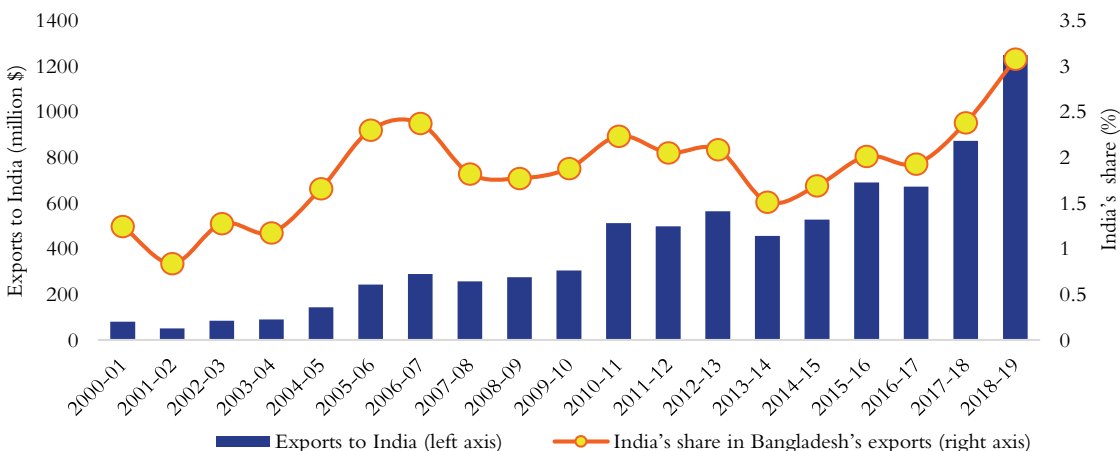


Figure 6.2: Growth of Bangladesh's exports to India vis-à-vis world (%)

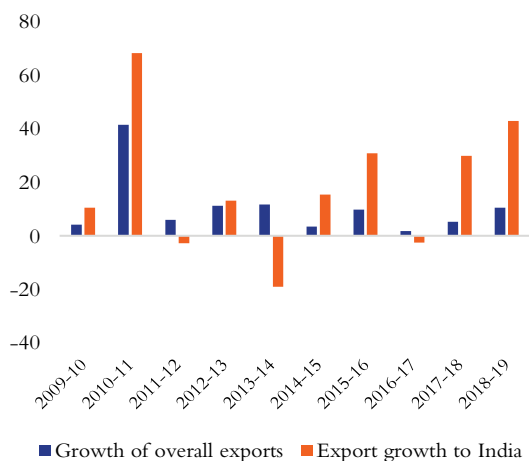
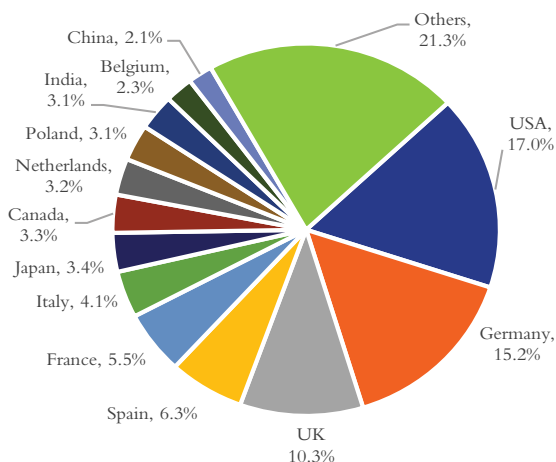


Figure 6.3: Share of India in Bangladesh's merchandise exports



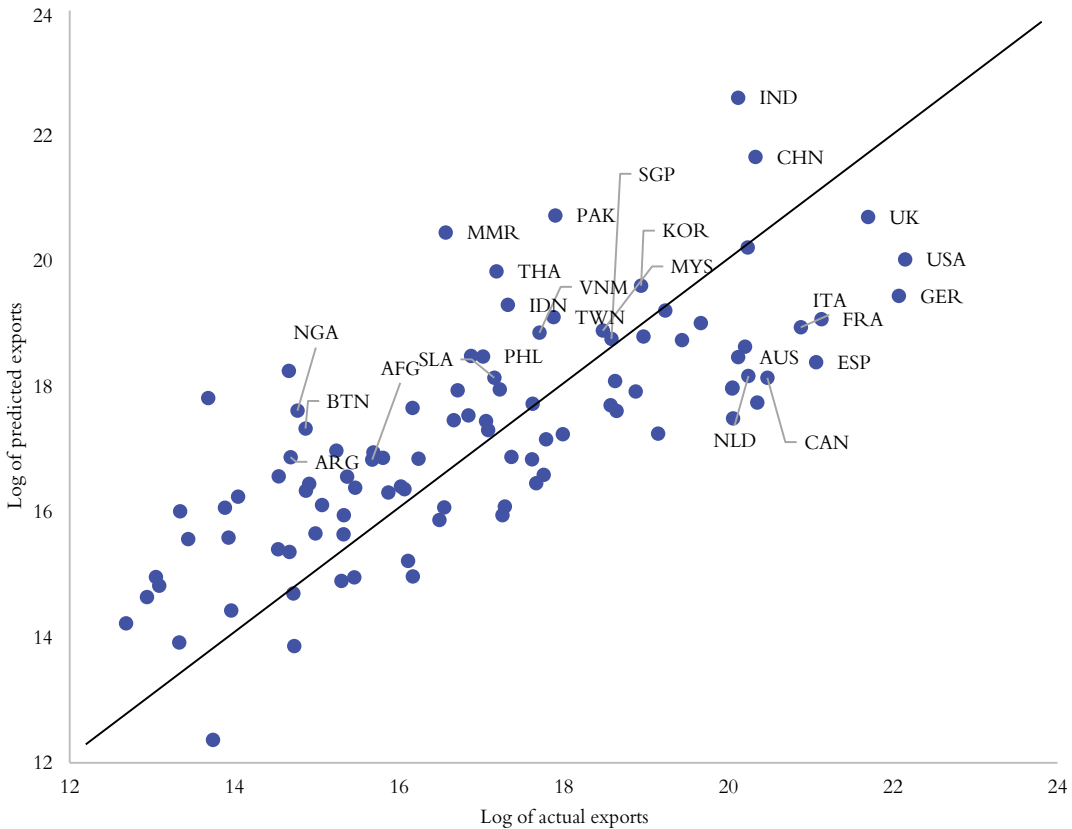
Source and note: Authors' presentation using Export Promotion Bureau (EPB) data. Partners' shares in Bangladesh's exports are for FY19.

Despite the relative significance being low, there is strong evidence of Bangladesh's untapped export potential in India. The 'gravity model'—which is regarded as the most successful analytical tool in explaining trade flows between countries—is frequently used to examine potential trade flows between a pair of countries. Empirical estimation of such a model undertaken as part of this study shows that, controlling for all other relevant factors, Bangladesh's actual exports to India are much lower than what can be predicted using the experiences of global economies (Figure 6.4 and 6.5).³ That is, Bangladesh's actual exports to India are found to be

³The gravity model depicts that bilateral trade flows between countries are directly proportional to the economic sizes (measured by GDP) and inversely proportional to the distance between the trading countries.

more than \$6 billion lower than what the gravity model predicts (Figure 6.5). This implies that more than 90 per cent of current potential in the Indian market is unutilised. These results are comparable with the World Bank’s assessments. According to the World Bank, bilateral trade (exports and imports) between Bangladesh and India falls short by about \$10 billion (Kathuria and Mathur, 2018). The estimated unexplored potential clearly shows that Bangladesh is not exploiting the full benefits of the duty-free access in India for almost all products.⁴

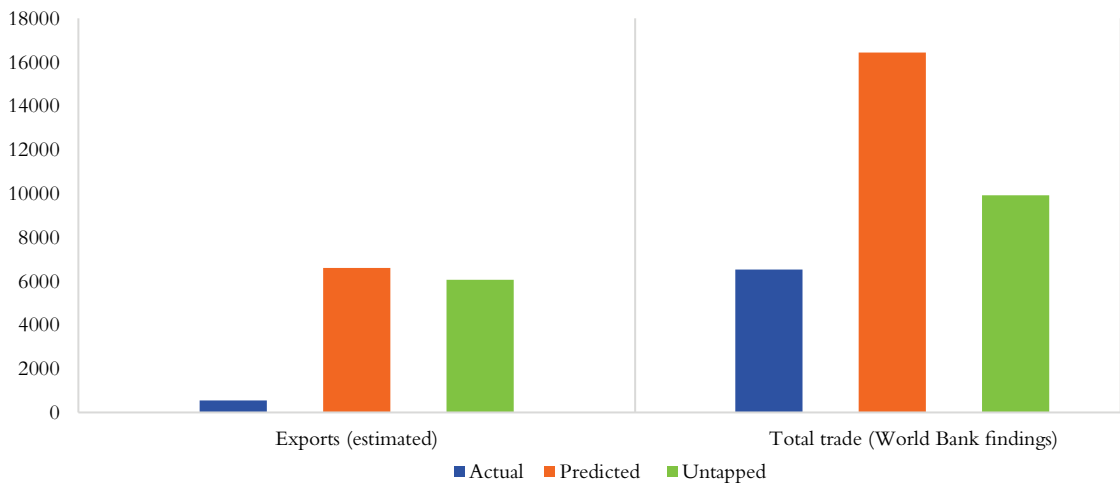
Figure 6.4: Actual and predicted exports of Bangladesh to various partners



Note: The graph presented here is based on a global gravity model explaining bilateral trade flows for the period 1995–2015. The number of observations used in the exercise was 1,053,696. Predicted exports for Bangladesh are then calculated based on the estimated regression parameters. In the graph, actual exports are lower than the predicted exports for the countries lying above the 45-degree line.

Source: Authors’ estimation.

⁴India allows duty-free access to all Bangladeshi products except for some alcoholic beverages.

Figure 6.5: Untapped export and trade potential (million \$)

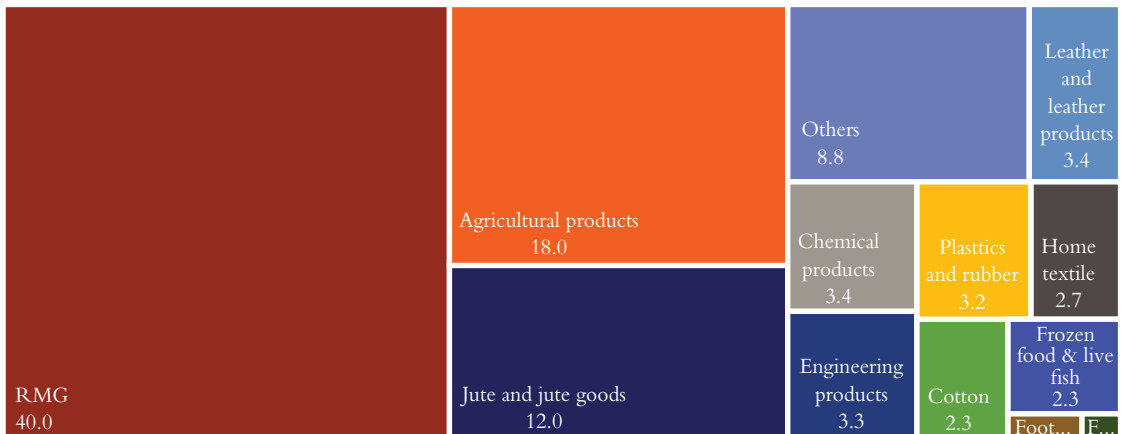
Source: Authors' estimation and Kathuria (2018).

Of the \$1.25 billion exports to India in FY19, readymade garments (RMG) comprised an overwhelming 40 per cent (Figure 6.6). Such exports to India have seen a sharp rise to reach about \$500 million, registering over 45 per cent increment per annum over the past five years. Woven clothing garments (HS 62) were the most important export in the Indian market, fetching \$369.4 million (Table 6.1). Knitwear items also grew to almost double within a year (to above \$129.7 million). Amongst others, according to industry sources, the high growth of RMG exports in FY19 was facilitated by India's introduction of Goods and Services Tax (GST) as it simplified the tax regime affecting traded goods as well.⁵

Jute and allied products (HS 53 and HS 6305) contributed 12 per cent of Bangladesh's total export to India whereas the share of engineering products was 3.3 per cent (Figure 6.6). Other notable products include food and beverage, home textiles, chemical products, and plastic items (Figure 6.6 and Table 6.1). These products together accounted for a significant portion of export receipts albeit of notable fluctuations in most of the products in the last five fiscal years. For example, the export receipts of jute products (HS 53) was \$203 million in FY16 which decreased sharply to \$90 million in the following year. A similar pattern can be observed in home textiles (HS 63).

At a highly disaggregated level (e.g. using 8-digit HS code), the top ten items together accounted for about 43.5 per cent export earnings in FY19. The top products included woven garments and knitwear, jute products, home textiles, lead, and non-alcoholic beverages. Indeed, the volatility of export performance at the product level, especially for many smaller items, has been a characteristic feature implying that targeting specific products to devise policy support for boosting export earnings can be difficult.

⁵ Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services at every stage of value addition. The operation of GST was initiated from 1 July 2017.

Figure 6.6: Composition of Bangladesh's exports to India

Note: The number below each product category represents the respective product's percentage share in Bangladesh's total exports to India; products exported under HS 71 to HS 93 are defined as engineering products.
Source: Authors' presentation using EPB data.

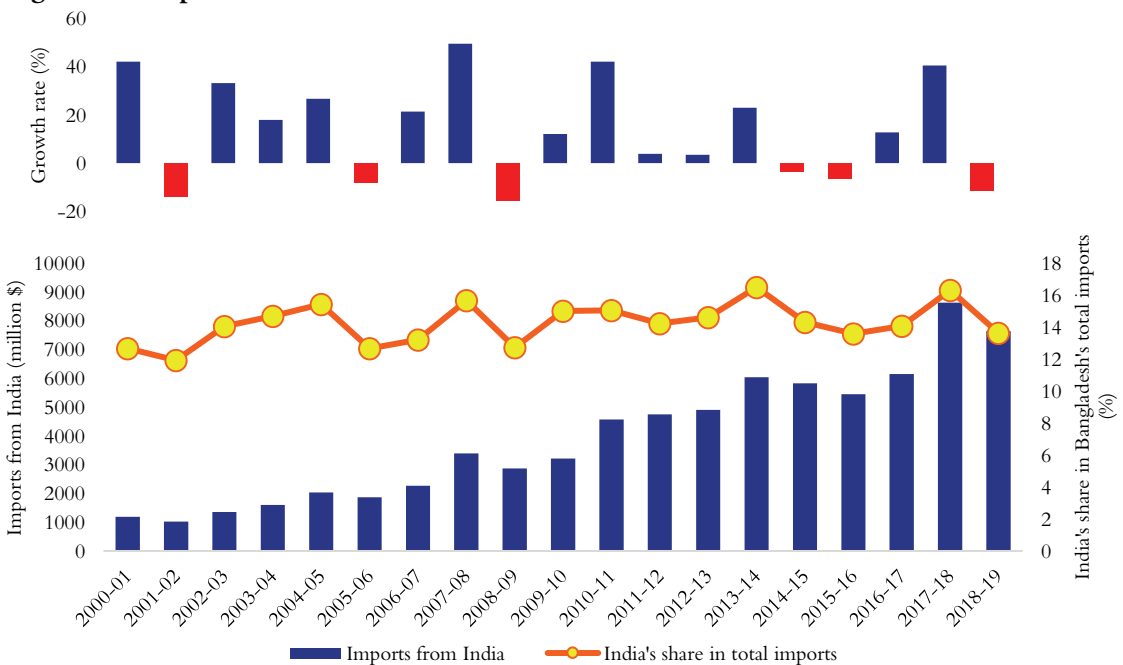
Table 6.1: Top ten export items at the HS 2-digit level (million \$)

HS Code	Product description	FY12	FY13	FY14	FY16	FY15	FY17	FY18	FY19
62	Articles of apparel, not knitted or crocheted	42.2	60.9	76.4	102.2	81.9	92.4	207.6	369.4
15	Animal or vegetable fats and oils	10.7	6.5	8.5	21.3	7.5	39.8	39.2	158.6
53	Other vegetable textile fibres; paper yarn	113.9	133.9	80.7	203.0	90.1	151.9	158.1	141.8
61	Articles of apparel, knitted or crocheted	12.8	14.3	19.8	34.3	22.3	37.4	71.1	129.7
63	Other made up textile articles	73.3	78.2	41.3	72.4	52.6	34.5	33.6	40.6
39	Plastics and articles thereof	7.3	3.8	5.7	7.6	13.2	6.7	23.5	32.7
28	Inorganic chemicals; organic or inorganic compounds of precious metals	12.0	12.6	8.4	14.1	14.1	8.0	17.7	32.4
52	Cotton	14.2	25.8	18.9	14.9	19.3	13.6	21.4	28.5
72	Iron and steel	3.9	4.9	5.4	6.2	4.1	8.4	17.2	27.8
22	Beverages, spirits and vinegar	1.8	2.7	9.8	10.4	13.5	15.0	25.7	27.8
	Total (top 10 products)	292.1	343.6	274.9	486.4	318.5	407.8	615.0	989.3
	% of total exports to India	58.6	60.9	60.2	70.5	60.4	60.6	70.4	79.3

Source: Authors' presentation using EPB data.

On the import side, India is the second-largest source country for Bangladesh, accounting for about 14 per cent of the total import payments in FY19 (Figure 6.7).⁶ Bangladesh's total imports from India stood at \$7.6 billion, registering an 11.5 per cent decline over the immediate past year. In FY18, total imports from India reached \$8.6 billion—all time highest. Given the low level of exports, the high import dependence contributes to a large trade deficit.

⁶ China is the largest source of import for Bangladesh.

Figure 6.7: Imports from India

Source: Authors' presentation using Bangladesh Bank data.

Bangladesh's major importing items from India are raw materials, machinery, and agricultural products. Engineering items (HS 71 to HS 93) comprising heavy machinery and vehicles, constituted 30 per cent of the total imports from India, followed by agricultural products (28%), and cotton (20%). The top 10 items at the HS 2-digit level together comprised about three-quarters of all merchandise imports from India (Table 6.2).

Table 6.2: Top ten import items at the HS 2-digit level (million \$)

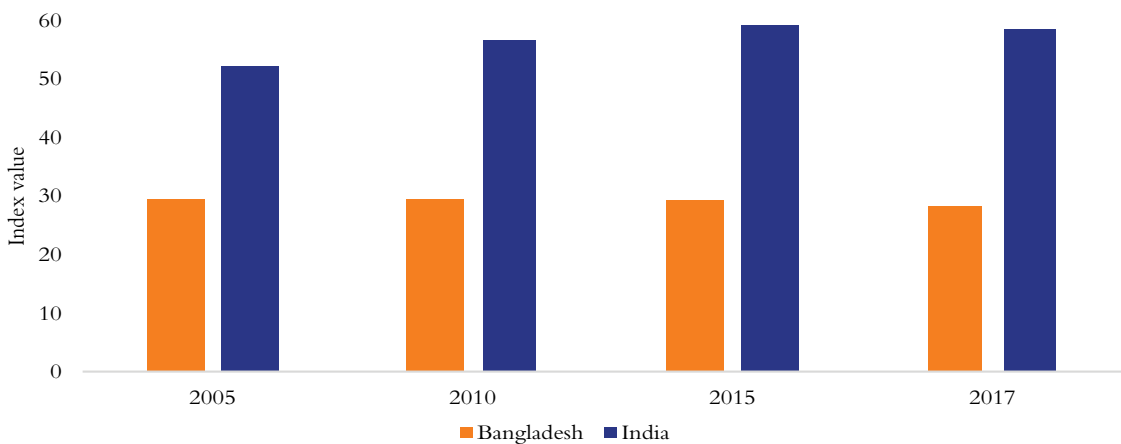
HS code	Product description	FY17	FY18
52	Cotton	1585.68	1729.89
10	Cereals	111.43	1330.1
87	Vehicles other than railway or tramway	736.49	983.82
84	Nuclear reactors, boilers, machinery	463.05	649.84
23	Residues and waste from the food industry	283.55	371.14
7	Edible vegetable and certain roots	200.90	341.89
85	Electrical machinery and equipment and parts	206.57	282.12
72	Iron and Steel	301.63	279.44
39	Plastics and articles thereof	193.93	220.97
29	Organic chemicals	204.69	213.42
	Total (top 10 products)	4459.24	6601.67
	% of total imports from India	72.55	76.57

Source: Authors' presentation using Bangladesh Bank data.

One salient feature of the trade between Bangladesh and India is that the two countries have comparative advantages in two different segments and, therefore, their respective specialisations should facilitate more bilateral trade to take place. This is evident from the analysis of the trade complementarity index (TCI). The TCI shows the correlation between a country's export to the

world and to another country's import, implying that the country can gain by exporting the product to the other in which it has a comparative advantage and the partner has a comparative disadvantage. The maximum value of the index (often set at 100) implies a perfect correlation between exporting and importing countries, and the two countries are ideal trading partners. The lowest score, (generally set at 0) suggests a perfect negative correlation between importing and exporting patterns. That is, the two countries export similar products and there is limited/no scope in expanding one's export to the other. The relatively high values of complementarity indices, in Figure 6.8, suggest that both Bangladesh and India specialise and export dissimilar products and thus the two countries should be able to expand trade between them in a complementary manner.⁷

Figure 6.8: Trade complementarity indices of Bangladesh and India



Source: Authors' estimation from the World Integrated Trade Solution (WITS) database.

Consider the case of textiles and apparel, which is now Bangladesh's dominant exports to India. These are also important items in India's exports. However, the nature of bilateral trade in textiles and clothing demonstrates that Bangladesh and India specialise in different segments of the value chain. India has a comparative advantage in the upstream textile segment, and it is an important supplier of key raw materials and intermediate inputs to Bangladesh. India's key exports include silk, yarn, cotton, cotton yarn, denim fabrics, and woven and knit fabrics (Table 6.3). Bangladesh specialises in the downstream segment, exporting mainly finished products to India. Therefore, both countries possess comparative advantages in different product lines, and it has significantly contributed to the growth of bilateral trade, fostering value chain links in the textile and clothing (T&C) sector. Bangladesh's imports of textile products have been hovering around one-third of total imports from India since 2010.

Bilateral trade in T&C products at a disaggregated level offers a reasonable understanding of existing value chains in these items between both the countries. India's top 10 exports of textile items include cotton (not carded or combed), cotton yarn, denim fabrics, woven fabrics, twill weave cotton, and textured yarn. Bangladesh's top 10 T&C exports to India include yarn of jute, men and boys' trousers, sacks and bags, jute and other textile bast-fibres, woven fabrics of jute, t-shirts and singlets, men/boys'

⁷ One important limitation of these indices is that they fail to capture prospects of intra-industry trade.

jackets, and blazers. It implies that imports of textile items and clothing inputs are being used in the apparel sector, which is now Bangladesh's most important export products in India. Thus, the existing value chain links in T&C sector could act as a catalyst to deepen trade and investment linkages between the two, fostering the growth of Bangladesh's exports to India (Kabir et al., 2019).

Table 6.3: Specialisation in different value chain segments

HS code	Product description	Bangladesh's exports to India			Bangladesh's imports from India		
		FY17 (million \$)	FY18 (million \$)	Share in total exports to India (%) (FY18)	FY (million \$)	FY18 (million \$)	Share in total imports from India (%) (FY18)
50	Silk	-	-	-	1.11	1.49	0.02
51	Wool, fine or coarse animal hair; woven	-	-	-	1.62	2.65	0.03
52	Cotton	13.57	21.38	2.45	1585.68	1729.89	20.06
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	151.93	158.10	18.10	1.71	1.70	0.02
54	Man-made filaments	0.53	0.45	0.05	99.00	101.37	1.18
55	Man-made staple fibres	0.25	0.81	0.09	105.22	89.70	1.04
56	Wadding felts and non-wovens; special yarn; twine, cordage, ropes and cables and articles thereof	19.36	9.23	1.06	1.70	2.20	0.03
57	Carpets and other textile floor covering	-	0.02	0.00	0.08	0.05	0.00
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	0.44	0.48	0.05	6.11	5.26	0.06
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	0.00	0.33	0.04	5.67	7.49	0.09
60	Knitted or crocheted fabrics	8.93	16.10	1.84	34.33	30.13	0.35
61	Articles of apparel and clothing accessories, knitted or crocheted	37.45	71.06	8.14	1.75	2.93	0.03
62	Articles of apparel and clothing accessories, not knitted or crocheted	92.36	207.62	23.78	12.32	7.72	0.09
63	Other made up textile articles; sets; worn clothing and worn textile articles	34.52	33.62	3.85	0.60	0.45	0.01
	Textile and clothing	359.32	519.19	59.45	1856.91	1983.02	23.0

Source: Authors' analysis using EPB and Bangladesh Bank data.

Market prospects in India

It is important to analyse Bangladesh's relative position in the Indian market considering all other suppliers to have an idea about export prospects. Developed by the International Trade Centre

(ITC), this analysis shows the recent growth of exports of all rival suppliers in the destination market and how the import demand in the destination countries by suppliers is changing. When applied at the disaggregated product level, it can offer important insights. Here, the analysis is done for overall exports and the readymade garment items only.

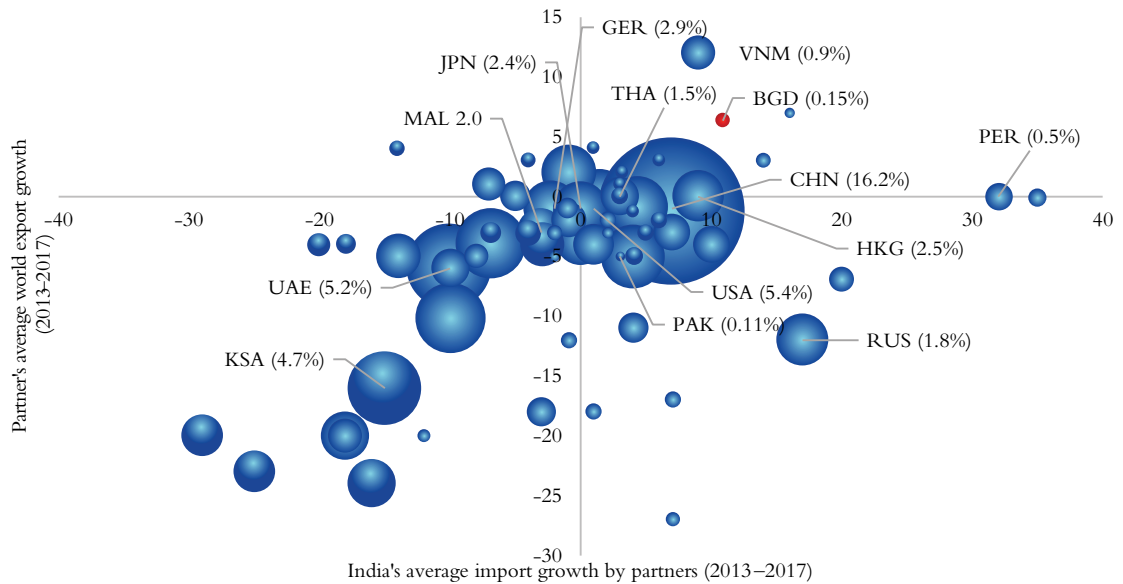
The analysis is based on four primary factors: (i) export growth rates of competing countries in the Indian market, (ii) all competing countries' export growth in the global market, and (iii) competing countries' market share in Indian markets. Figures 6.9 and 6.10 summarise the market prospect assessments.

The bubble sizes represent relative shares of various suppliers in the Indian market with China having the largest share of 16 per cent followed by the United States (5.4%), the United Arab Emirates (UAE) (5.2%), Saudi Arabia (4.7%), and Switzerland (4.6%) (Figure 6.9). From the horizontal axis, it can be inferred that over the five-year period (2013–17), China has grown its exports to the Indian market at an average annual rate of 7 per cent, and the United States at 1 per cent, while the UAE, Saudi Arabia, and Switzerland witnessed negative growth rates of 10 per cent, 15 per cent, and 7 per cent, respectively. It is worth noting that during 2015 and 2016 the world witnessed an unprecedented slowdown in global trade affecting exports and imports of almost all global economies including India (Razzaque, 2017). It is mainly because of the fact that most important suppliers are depicting low growth in the Indian market (measured on the horizontal axis) and also in the world market (measured on the vertical axis).

The information presented on the vertical axis shows that the overall export growth for most of the partners during the same period have been either negative or close to zero. It is striking to note that although Chinese exports in the world declined during the reference period of 2013–17, its export growth to India was positive and quite substantial (7%) against the overall decline in India's imports (i.e., India's imports fell by 3 per cent during the same time). Bangladesh's share in the Indian market was only 0.15 per cent, but its exports to India grew at about 11 per cent per annum during 2013–17 in comparison with its world export growth rate of 6.3 per cent. The high export growth in India seems to suggest a good prospect for Bangladesh. Vietnam, with a share of about 1 per cent, expanded its exports to India at a rate of 9 per cent per annum.

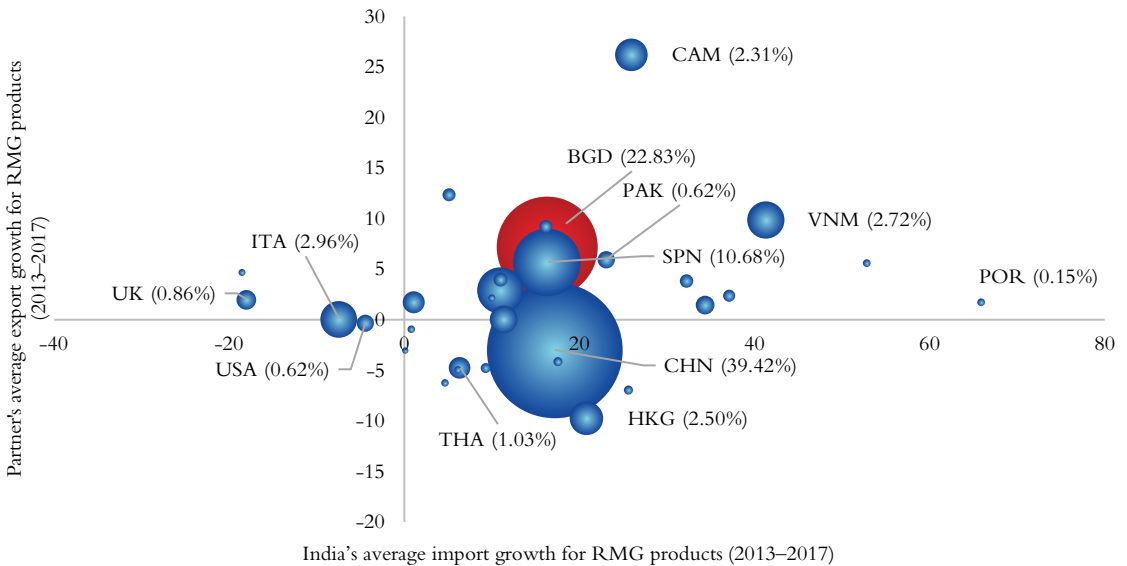
Bangladesh is the second-largest source of readymade garments import into India, capturing about 23 per cent of the market (Figure 6.10). During the past five years, Bangladesh's RMG exports to India expanded at an annual average rate of 16.4 per cent against its overall RMG export growth rate of 7.4 per cent. During the same time, India's apparel imports grew at 13.5 per cent per annum. The high expansion rate of Indian RMG market along with Bangladesh's high exports growth rate seems to suggest huge export prospects for Bangladesh. However, it must be pointed out that India's imported apparel market is small; it is still less than a billion dollar. China is also expanding its supplies fast: against its overall export decline in the world market, it expanded at 17 per cent per annum in the Indian market. Vietnam with a market share of 2.7 per cent, grew at a staggering rate of 41 per cent between 2013 and 2017. Cambodia also expanded in the Indian market at a considerably high rate.

Figure 6.9: Export market prospects for overall exports to India



Note: The bubble sizes represent shares of various suppliers in the Indian market. The numbers indicate the per cent of market share. Countries are indicated as BGD—Bangladesh, CHN—China, GER—Germany, HKG—Hong Kong, JPN—Japan, KSA—the Kingdom of Saudi Arabia, MAL—Malaysia, PAK—Pakistan, PER—Peru, RUS—the Russian Federation, THA—Thailand, UAE—United Arab Emirates, USA—the United States of America, and VNM—Vietnam. Source: Authors' analysis using International Trade Centre (ITC) data.

Figure 6.10: Export market prospects for RMG in the Indian market

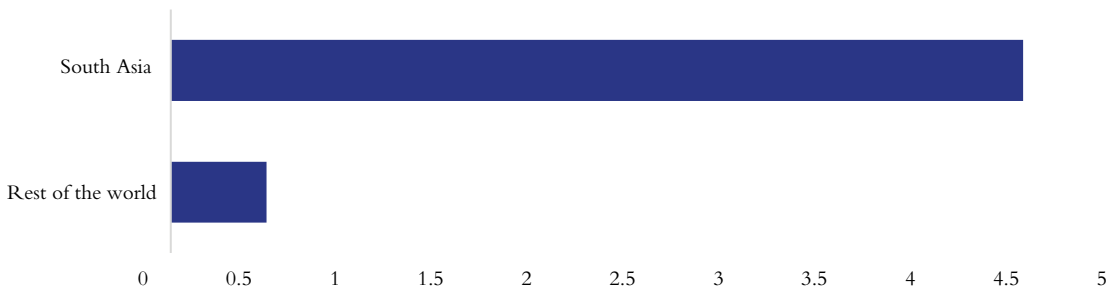


Note: The bubble sizes represent shares of various suppliers in the Indian market. The numbers indicate the per cent of market share. Countries are indicated as BGD—Bangladesh, CAM—Cambodia, CHN—China, HKG—Hong Kong, ITA—Italy, PAK—Pakistan, POR—Portugal, SPN—Spain, THA—Thailand, UK—the United Kingdom, USA—the United States of America, and VNM—Vietnam. Source: Authors' analysis using International Trade Centre (ITC) data.

6.3 Non-tariff Barriers and Measures

Trade regimes of South Asian countries have long been known as more discriminatory against countries within the region than the rest of the world. A recent report reveals that despite the South Asian Free Trade Area (SAFTA) since 2006, almost all countries in the region adopt opaque para-tariffs, i.e., taxes imposed on imports in addition to customs duties to discourage imports along with a host of non-tariff barriers (Kathuria, 2018). The application of non-tariff barriers (NTBs) and non-tariff measures (NTMs) has eroded access to each other's markets. These barriers and measures resulted in large gaps between actual and potential trade between trading pairs in the region. High and discouraging costs of trading within the region stem from, inter alia, unavailability of information on trade procedures; poor transportation, weak logistics infrastructures and inefficient trade facilitation; complicated and non-transparent NTMs; and procedural obstacles perceived by exporters in meeting NTM requirements related to Sanitary and Phyto-Sanitary (SPS) and Technical Barriers to Trade (TBT).⁸ There is evidence that in South Asia, the overall protection is greater for imports from the South Asian region compared to that from the rest of the world. Kathuria (2018) constructs a trade restrictiveness index for overall protection, which captures trade policy distortions that each country imposes on imports. It measures the uniform tariff equivalent of the country's tariff and non-tariff barriers that would generate the same level of import value for the country in a given year. The indices, constructed for different South Asian countries, are two to nine times higher for imports from the South Asia region than for imports from the rest of the world. For India, the index is nine times higher for imports from the South Asia region than for imports from the rest of the world (Figure 6.11).⁹

Figure 6.11: India's Trade Restrictiveness Index: South Asia versus rest of the world



Source: Authors' presentation from Kathuria (2018).

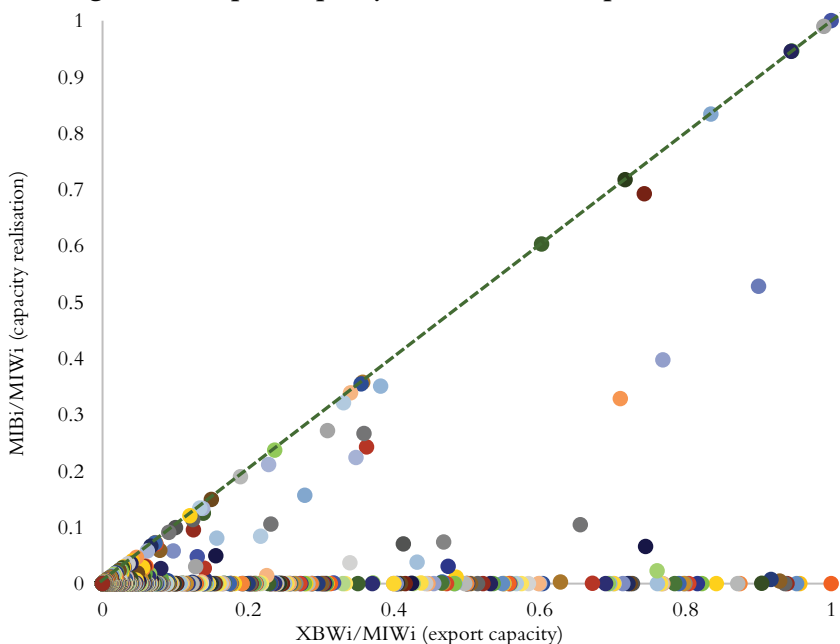
It is worth pointing out that the introduction of the goods and services tax (GST) has helped eliminate disharmony in state-level taxes in India. However, the country's trade-related national policies and regulatory regimes in many cases would discriminate imports from neighbours more. The most recent imposition of anti-dumping duties on Bangladesh's jute products is unfortunate, especially when overall exports from Bangladesh are so low.

⁸Sanjay Kathuria (ed.), *A Glass Half Full: The Promise of Regional Trade in South Asia*, Washington, DC: The World Bank, pp. 1-16. NTMs are policy measures other than tariffs that affect the free trade across borders in the region.

⁹For Pakistan, the comparable index value shows that discriminatory protection against South Asian region is 6 times higher. The index for Bangladesh is not available.

Despite India's unilateral liberalisation since the early 1990s, preferential trade liberalisation under SAFTA and duty-free market access for Bangladesh's most of the products, its trade policy regime, according to many Bangladeshi traders, is characterised by onerous administrative procedures, stringent testing requirements and standard-related regulations applied only against imports, frequent procedural changes, and arbitrary interpretations of regulatory provisions. These factors tend to discourage Bangladesh's exports to India. The existence of numerous NTBs and NTMs appears to be much more stringent than tariff barriers. While tariffs have been reduced to zero across all the major export items of Bangladesh, NTBs and NTMs tend to neutralise the benefits of exporting in a duty-free market. The nitty-gritty of standards for a range of products also limits the entry of potential products into India.

Figure 6.12: Bangladesh's export capacity versus realised exports to India



Note: (1) XBW_i and MIW_i indicate Bangladesh's exports to the world market and India's import from the world market of the product i , respectively. MIB_i and MIW_i imply India's import from Bangladesh and world of product i , respectively.

(2) If the dots remain below the 45° line (green dashed line), it indicates that the export capacity is partly realised. If the dots remain along the horizontal axis, it implies that the export capacity is not realised at all.

Source: Authors' calculations based on ITC data.

An analysis of the recent pattern of disaggregated export categories reveals that a majority of the export items has not realised the capacity to export to India despite a large common border and duty-free access to the Indian market (Figure 6.12).¹⁰ It is generally thought to be mainly due to various NTBs and NTMs. India's NTMs include mandatory licensing for import; import of some selected products through the State Trading Corporation of India; several certification and other TBT measures on importing genetically modified (GM) food, feed, GM organism, and living modified organisms (LMOs) or any products containing any of these ingredients; SPS measures;

¹⁰ In some woven garments (HS 62) and home textile products (HS 63), Bangladesh is performing well and there are opportunities for further expansion.

restricted ports of entry; packaging, labelling, certifications, and conformity assessments, or other restrictions under TBT; mandatory Indian quality standards; and safeguard measures.

The NTBs and NTMs are imposed on various products and the directions and their applications change frequently based on the pattern of adopting these measures. The most critical NTMs faced by Bangladeshi exporters are listed below:

- i. Anti-dumping duties (ADD): The Government of India has started imposing ADD on jute products from Bangladesh and Nepal. The amount of ADD on Bangladeshi jute products ranges from \$19 to \$352 per metric tonne and it is imposed on almost all jute exporting companies. Export earnings from jute have declined sharply after ADD imposition.
- ii. SPS measures: Despite having a mutual recognition agreement (MRA) on standards, SPS measures related to human, animal, and plant health as well as food safety issues are still prevalent, which are experienced by general exporters. It raises the cost of exporting to India since these products are subject to quarantine laws, certifications, and inspections. Complicated steps are also involved in performing the SPS procedure. For instance, processed food products undergo mandatory testing at the Central Food Laboratory (CFL) before entering the Indian market.
- iii. Rapidly changing standards and procedures: India's standards and procedural directions often change with short notices, making the policy regime uncertain and unpredictable. Consequently, Bangladeshi exporters find it difficult to deal with the officials in India.
- iv. TBT restrictions: Packaging, labelling, certifications, and conformity assessments are included in this NTM category. The products undergo TBT requirements are machinery and equipment, and chemicals for industrial use, processed food, and household and consumer products. An instance of such restrictions is to label with the words, 'Made in Bangladesh' in jute hessian bags usually used for transporting bulk items, such as sugar, fertilisers, grains, etc. (Raihan et al., 2014).

In a study on agricultural trade between India and Bangladesh, CUTS International (2019) has found several NTBs and NTMs. It revealed various SPS and TBT regulations that hinder the cross-border movement of bilateral agricultural products, which include excessive testing requirements of contaminants, maximum residue limits, additives, and preservatives. It also found that the delay in trade processing was occurring because of unavailability of required facilities adjacent to land ports and unavailability of Electronic Data Interchange (EDI) at designated ports. Smooth movement of cargo vehicles and products is also challenged by weak physical infrastructure (such as narrow approach roads to port, absence of testing laboratories, inadequate transshipment facilities, insufficient warehousing, and cold-storage facilities) and presence of manual loading-unloading at surveyed land ports. These increase time and costs in the clearance of agricultural products which are mostly perishable.

Kathuria and Mathur (2018) argued that the gap between potential and realised trade can be attributed to disproportionately high costs of trade that include the effects of NTBs and NTMs among others. They also argue that port restrictions constitute a genuine non-tariff barrier in South Asia, affecting natural trade flows through convenient land ports. For example, Bangladesh faces prohibition in exports of ceramics and electronic goods to India through the Dawki-Tamabil customs station. Moreover, since small and medium exporters of Bangladesh and

importers of India have limited financial capacity and influence to get certificates and code numbers from Indian authorities, they are the most adversely affected by the NTMs. It has been alleged that sometimes Indian Customs authorities would often reject the HS classification which importers declare according to nomenclature rule and letters of credit (L/C) opened in Indian banks (Siddiqui, 2018).¹¹ Also, the authorities frequently refuse to accept the invoice value of the exported items. Rather, they assess the consignments based on retail prices in India. The country of origin (CoO) certificates issued by the Export Promotion Bureau (EPB) of Bangladesh also get refused occasionally. Goods remain stuck at the port of entry for an indefinite time because of this refusal. Another problem is the arbitrary imposition and frequent change of tariff values by the customs authorities without a prior notice issued to the traders.¹² It leads to an increase in import duty and local taxes for which the Indian traders are discouraged to import from Bangladesh. The Indian traders, especially who are in the Northeast, find it difficult to obtain the Import-Export Code (IEC) from the Director General of Foreign Trade (DGFT) in Kolkata as well as health certificates from the Port Health Officer (PHO) in Kolkata. For example, an importer from Agartala has to travel 1,680 km to collect the code and health certificate from Kolkata, which impedes trade flows. Similarly, it is mandatory for Bangladesh's cement and building materials exporters to obtain certificates from the Bureau of Indian Standard (BIS) in New Delhi, which involves considerable costs along with complicated procedures.

Bangladesh exports a large number of products to other countries but not to Indian market (Table 6.5). It implies that the country has a significant export capacity of the products but because of various NTBs and NTMs, these are not being exported to India. A list of such important products is presented in Table 6.4 at the harmonised system six-digit level. The products can be broadly classified into agriculture, fish (shrimp and prawn) and fruits; chemical and pharmaceuticals; plastic products (excluding waste); different type of bags and wallets; some products under textile, apparel, and home textiles; tableware, kitchenware, other household articles and toilet articles; jewellery; optical products; and some furniture items. It indicates that the country already has the capacity to produce and export these products to the Indian market. Kathuria and Mathur (2018) also argued that 'missing market' of a large number of South Asian products in India is due to high trade costs and inability to comply with NTMs at a reasonable cost.

Table 6.4: Most common NTBs affecting India-Bangladesh agricultural trade

Regulatory/Technical	Policy-induced	Procedural	Infrastructural
<ul style="list-style-type: none"> ◆ Import/ban/quota/licences/seasonal import regime ◆ Quality conditions by importing country ◆ Unjustified SPS conditions ◆ Unjustified packaging and labelling conditions ◆ Complex regulatory structure ◆ Product classification (sensitive/negative lists) 	<ul style="list-style-type: none"> ◆ Subsidies (production/export) ◆ Government procurement ◆ Benefits to government undertakings ◆ Minimum import price ◆ Control through the foreign exchange market 	<ul style="list-style-type: none"> ◆ Lengthy customs procedure ◆ Excessive trade documents ◆ Complex/discriminatory rules of origin 	<ul style="list-style-type: none"> ◆ Inadequate infrastructure at the border ◆ Inadequate infrastructure off the border

Source: CUTS (2019).

¹¹ Siddiqui, M. S. Challenges for Bangladeshi exports to India, The Financial Express, Dhaka, 13 August 2018.

¹² Tariff value is set by the department of revenue.

Table 6.5: Top products Bangladesh exports to the world market but not to India

HS Code	Product Name
030616	Frozen cold-water shrimps and prawns “Pandalus spp., Crangon crangon”, even smoked
030617	Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns
080830	Fresh pears
090240	Black fermented tea and partly fermented tea, whether or not flavoured, in immediate packings
091030	Turmeric “curcuma”
091099	Spices (excluding pepper of the genus Piper, fruit of the genus Capsicum or of the genus Pimenta)
120740	Sesamum seeds, whether or not broken
170114	Raw cane sugar, in solid form, not containing added flavouring or colouring matter (excluding
200990	Mixtures of fruit juices, incl. grape must, and vegetable juices, unfermented
261900	Slag, dross, scalings and other waste from the manufacture of iron or steel excluding granulated
300420	Medicaments containing antibiotics, put up in measured doses incl. those in the form of transdermal
300440	Medicaments containing alkaloids or derivatives thereof, not containing hormones, steroids ...
350300	Gelatin, whether or not in square or rectangular sheets, whether or not surface-worked or coloured
391590	Waste, parings and scrap of plastics excluding that of polymers of ethylene, styrene and vinyl
410622	Hides and skins of goats or kids, in the dry state “crust”, without wool on, whether or not ...
420221	Handbags, whether or not with shoulder straps, incl. those without handles, with outer surface
420231	Wallets, purses, key-pouches, cigarette-cases, tobacco-pouches and similar articles carried
420291	Travelling-bags, insulated food or beverage bags, toilet bags, rucksacks, shopping-bags, map-cases
540233	Textured filament yarn of polyester (excluding that put up for retail sale)
550922	Multiple “folded” or cabled yarn containing $\geq 85\%$ polyester staple fibres by weight
620341	Men’s or boys’ trousers, bib and brace overalls, breeches and shorts, of wool or fine animal
621050	Women’s or girls’ garments of textile fabrics, rubberised or impregnated, coated, covered
621710	Made-up clothing accessories, of all types of textile materials, n.e.s. excluding knitted
630222	Printed bedlinen of man-made fibres (excluding knitted or crocheted)
630419	Bedspreads of all types of textile materials excluding knitted or crocheted, bedlinen, quilts
630492	Articles for interior furnishing, of cotton excluding knitted or crocheted, blankets and travelling
630532	Flexible intermediate bulk containers, for the packing of goods, of synthetic or man-made textile
640359	Footwear with outer soles and uppers of leather excluding covering the ankle, etc.
640590	Footwear with outer soles of rubber or plastics, with uppers other than rubber, plastics, leather
640610	Uppers and parts thereof (excluding stiffeners and general parts made of asbestos)
660110	Garden or similar umbrellas (excluding beach tents)
670420	Wigs, false beards, eyebrows and eyelashes, switches and the like, of human hair, and articles
681510	Articles of graphite or other carbon, incl. carbon fibres, for non-electrical purposes
691200	Tableware, kitchenware, other household articles and toilet articles, of ceramics
710812	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes
711311	Articles of jewellery and parts thereof, of silver, whether or not plated or clad with other
847690	Parts of automatic goods-vending machines, incl. money changing machines, n.e.s.
850431	Transformers having a power handling capacity ≤ 1 kVA (excluding liquid dielectric transformers)
850720	Lead acid accumulators (excluding spent and starter batteries)
851712	Telephones for cellular networks “mobile telephones” or for other wireless networks
852990	Parts suitable for use solely or principally with transmission and reception apparatus
853120	Indicator panels with liquid crystal devices “LCD” or light emitting diodes “LED”
853950	Light-emitting diode “LED” lamps
854140	Photosensitive semiconductor devices, incl. photovoltaic cells whether or not assembled
890800	Vessels and other floating structures for breaking up
900190	Lenses, prisms, mirrors and other optical elements, of any material, unmounted
900211	Objective lenses for cameras, projectors or photographic enlargers or reducers
900290	Lenses, prisms, mirrors and other optical elements, mounted, of any material, being parts of
900311	Frames and mountings for spectacles, goggles or the like, of plastics
900319	Frames and mountings for spectacles, goggles or the like (excluding of plastics)
901380	Liquid crystal devices, n.e.s. and other optical appliances and instruments n.e.s.
940161	Upholstered seats, with wooden frames (excluding convertible into beds)
940490	Articles of bedding and similar furnishing, fitted with springs or stuffed or internally filled
950300	Tricycles, scooters, pedal cars and similar wheeled toys; dolls’ carriages; dolls; other toys
950590	Festival, carnival or other entertainment articles, incl. conjuring tricks and novelty jokes
950699	Articles and equipment for sport and outdoor games n.e.s.; swimming and paddling pools

Note: Only those products are selected that had an export value of at least \$0.1 million in 2017.
Source: Authors’ analysis based on ITC data.

If Bangladesh adheres to compliance standards and technical regulations, agro and agro-processing, jute and jute goods, plastics, textiles and clothing, leather and leather goods (at the HS 6-digit level) can unlock considerable potential for export to India, which still remains an unpredictable market for an overwhelming majority of individual Bangladeshi products, even though the total value of export receipt shows an increasing trend. Because of a fast-growing middle-class and wealthy population, there are particularly good potentials of fish, food, and high-end agricultural items in India. Exporters of these products need support from the South Asian Regional Standards Organization (SARSO) to harmonise and attain the standard requirements to access the expanding Indian market. Shrimps and prawns are already being exported to the European Union (EU), North America, and other developed countries with the required product standards. Therefore, these can be exported to India after certification of SARSO since its mandate is to enhance coordination and cooperation among SAARC members to develop harmonised standards towards facilitating intra-regional trade. The other agricultural and fish products which are being exported in the world market can also be facilitated for easy access to the Indian market.

In the case of textiles and clothing products, Bangladesh can export all the items to India which it has been exporting to the world market because of the quality and standards it already maintains. But, as mentioned above, the Indian market for imported apparel is small. Furthermore, India's domestic supply-side capacity is large. Nevertheless, with the rising per capita income, consumers will increasingly prefer product variety. This is where Bangladesh will likely to see more exporting opportunities.

Bangladesh was exporting some plastic wastes to India. After China's ban on imported plastic wastes in 2017, a portion of Bangladesh's supplies of the same was shifted to India (Razzaque et al., 2019). In 2019, India imposed a similar ban, following which Bangladesh's exports of plastic wastes to India ceased to exist. In the light of these trends, Bangladesh needs to move towards high value-added plastic products where some significant supply-side capacity has been developed in recent years. Some wooden and plastic furniture are being exported to India mainly to its north-eastern part. It is important to proactively look for expanded exporting opportunities by assessing all possible NTBs and NTMs, and considering options for dealing with them. In addition, an adequate emphasis should be given on exporting tableware, kitchenware, other household articles, and toilet articles as well as different furniture goods to meet the increasing demand of Indian growing middle-class.

The Food Safety Standard Authority India (FSSAI) has authorised the Bangladesh Standards and Testing Institute (BSTI) to issue certificates for 21 food products for exporting to India.¹³ The recent export performance is contributed by these products. However, Bangladesh requested additional 27 export products that include cement, MS Rod, MS angle and plate, GI pipe and textiles to enlist under the bilateral mutual recognition agreement (MRA) on standards. Bangladesh's exports to India would increase significantly if these later six items are included in the agreement. In the gazette notification, the time for which the certificate is issued was not mentioned but the BSTI usually certifies a product for three years. This also needs to be clarified through a revised notification.

¹³ It is an outcome of the Bilateral Cooperation Agreement between the BSTI and the Bureau of Indian Standards (BIS), which was exchanged during India's Prime Minister Modi's visit to Bangladesh in June 2015.

The case of jute export

Jute and jute products together occupy a major portion in the export basket of Bangladesh in the Indian market. Export of these items in FY16 was 37.8 per cent of the total exports, which was the highest in the preceding five fiscal years (Table 6.6). However, the jute exports are on the decline since raising the anti-dumping duty (ADD) from 5 to 30 per cent over Bangladeshi jute products on 5 January 2017.¹⁴ The jute goods that are exposed to ADD include jute yarn/twine, hessian, and sacking bags. The ADD imposed by the Indian Directorate General of Anti-Dumping Duty and Allied Duties (DGAD) ranges from \$19 to \$352 per metric tonne on these products of 255 Bangladeshi jute mills and exporters. However, only two of the exporting jute mills that exported do not face any ADD from India.

Table 6.6: Export of jute and jute products (million \$)

HS Code	Product description	FY14	FY15	FY16	FY17	FY18
53031000	Jute and other textile bast fibres, raw or retted	19.65	14.04	88.34	65.18	44.93
53039000	Jute, etc. (excl. flax, true hemp and ramie), nes; tow and waste	2.82	2.34	8.34	1.26	4.51
53071000	Single yarn of jute or of other textile bast fibres of 53.03	47.23	50.96	77.87	38.63	26.46
53072000	Yarn of jute or of other textile bast fibres of heading 53.03, multiple (folded) of cabled	1.20	4.42	9.07	28.28	32.44
53101000	Unbleached woven fabrics of jute or of other textile bast fibre	9.01	17.44	19.34	18.50	49.52
53109000	Woven fabrics of jute or other textile bast fibres (excl. unbleached)	0.69	0.78			0.22
63051000	Sacks and bags, used for packing goods, of jute, etc.	26.53	32.75	57.72	18.15	8.00
	Total	107.13	122.73	260.68	170	166.08
	% of Total Exports to India	23.46	23.28	37.80	25.28	19.02

Source: Authors' presentation using EPB data.

The products that are the most adversely affected by Indian ADD are: (i) jute and other textile bast fibres, raw or retted, (ii) single yarn of jute or of other textile bast fibres, and (iii) sacks and bags, used for packing goods, of jute, etc. With a declining share of jute products in the export earnings, the growth of exports would be driven heavily by clothing products (HS codes 61 and

¹⁴ According to the WTO, if a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be “dumping” the product. GATT Article 6 allows countries to take action against dumping. The Anti-Dumping Agreement clarifies and expands Article 6, and the two operate together. They allow countries to act in a way that would normally break the GATT principles of binding a tariff and not discriminating between trading partners—typically anti-dumping action means charging extra import duty on the particular product from the particular exporting country in order to bring its price closer to the “normal value” or to remove the injury to domestic industry in the importing country. There are three methods to calculate a product’s “normal value”. The main one is based on the price in the exporter’s domestic market, which has been used by India. The two other methods are (i) the price charged by the exporter in another country, or (ii) a calculation based on the combination of the exporter’s production costs, other expenses and normal profit margins. However, calculating the extent of dumping on a product is not enough. Anti-dumping measures can only be applied if the dumping is hurting the industry in the importing country. Therefore, a detailed investigation has to be conducted according to specified rules first, which India has conducted before imposition of ADD. See <https://www.wto.org> for details.

62) as well as other made-up textile articles and worn clothing. Therefore, the issue of ADD has emerged as a major concern in growing trade relationship with India. Bangladesh has requested India to reconsider the issue. Two countries engaged in bilateral negotiation to settle the issue amicably, but the effort was futile for Bangladesh.

Indian DGAD was quite thorough before adopting ADD and conducting oral hearing from 21 October 2015 to 22 November 2018, which can be observed from various stages and final finding text of the Gazette of India-Extraordinary on the case of Janata Jute Mills of Bangladesh. However, the experience of bilateral negotiation on ADD imposed by India on Bangladeshi lead-acid battery from 2001 to 2004 was also unsuccessful. Later, the Government of Bangladesh went to the Dispute Settlement Body (DSB) of the World Trade Organisation (WTO) to resolve the matter. The matter was then resolved, with the outcome favouring Bangladesh, even before any formal DSB proceedings had taken place. Even though Bangladesh is currently enjoying a near zero-tariff market access in India, the practice of imposing ADD makes the market prospect uncertain and unpredictable.

Bangladesh raised this issue to India in April 2017 and requested to review the decision of imposing the ADD. India assured to look into the matter.¹⁵ Nevertheless, Indian DGAD continued to strictly impose the duty. There is a strong perception in Bangladesh that the decision taken by Indian authorities were not fair.¹⁶ Given the strong bilateral relationship between the two countries, this issue needs resolving amicably.

6.4 Investment

Attracting foreign direct investment (FDI) that leads to exports to India is essential for realising the export potential of Bangladesh. Both global and Indian retailers are currently showing a great interest in procuring Bangladeshi products to tap the benefits of duty-free access in India. Indian Prime Minister underscored the importance and need to increase Indian private investment in Bangladesh during his visit in June 2015 (see article 33 of the joint declaration). Indeed, Bangladesh follows a quite liberal FDI regime that allows full foreign equity with free exit policy, easy remittance of royalty, and repatriation of profits among others. There are many attractive ex-post facilities as well, such as tax holidays, tax exemptions, and duty concessions to attract FDI inflow in the country. The FDI policy and fiscal facilities provided under different instruments

¹⁵ Article 35 of the Joint Statement, 08 April 2017.

¹⁶ Experts in Bangladesh think the determination of ADD was deeply flawed. For example, Indian Jute Mills Association (IJMA) on behalf of 17 petitioner companies comprising 42 per cent of domestic market share lodged the complaint against Bangladeshi exporters. They reported that 19 Indian companies were shut down ("injured") while there was no strong evidence that those occurred only due to imports from Bangladesh. The DGAD applied 'plus' and 'minus' formula of accounting principles and constructed the financial data furnished by exporters, not based on the principles of economics. Of the 93 IJMA members, only 17 companies provided injury information. It implies that other members were perhaps not injured due to jute exports from Bangladesh. Sales of the Indian domestic industry declined in the period of investigation. Nevertheless, the domestic market share has grown by 1.44 and 0.44 per cent, in year FY12, and FY13, respectively. Overall, the profitability of the domestic industry has declined over the injury period. The complaint, investigation, hearing and decision making were done with strict confidentiality and where financial calculations of Bangladeshi and Indian companies were not shown in the gazettes. For example, please see http://www.dgtr.gov.in/sites/default/files/Jute_FF_NCV_20.10.16.pdf.

welcome India’s investment in almost all major sectors and areas of the economy that include both in joint-venture and in full Indian ownership in export-oriented industries located in export processing zones (EPZs) and other geographical locations in Bangladesh.

Bangladesh’s Foreign Private Investment (Promotion & Protection) Act 1980 ensures legal protection to foreign investors against nationalisation and expropriation. The country is a signatory to a number of international agreements related to the foreign investment that ensure investors to get necessary protection and support from international organisations. Apart from these general privileges and legal protections for foreign investors, the country has two special agreements with India, viz. Bilateral Investment Promotion and Protection Agreement (BIPPA) and Double Taxation Avoidance Agreement (DTAA) to benefit Indian investors. The BIPPA includes important provisions and benefits, such as the promotion and protection of investment, national treatment, most-favoured-nation (MFN), expropriation of investment, compensation of losses and dispute settlement between investors, etc. that facilitates Indian direct investment in Bangladesh.

The figure of net FDI inflow shows an increasing trend in recent years (Figure 6.13). Nevertheless, such investment into Bangladesh is lower than those from other Asian countries and territories, such as China, Hong Kong SAR, Singapore and South Korea. India was the 10th largest FDI investor at the end of June 2018 with the stock of investment totalling at \$539.91 million (Bangladesh Bank, 2018). In FY18, the main sectors with FDI stock were as follows: \$128.47 million in telecommunications, \$118.22 million in banking, \$74.29 million in textiles & apparel, \$41.94 million in power, and \$21.15 million in pharmaceuticals & chemicals (Figure 6.14). India’s position was eighth in term of gross FDI inflow with \$142.01 million and net inflow was \$125.28 million in FY18. Textiles & apparel is the most important sector in which FDI can promote exports to India (Figure 6.15).

Figure 6.13: FDI inflow (net) from India

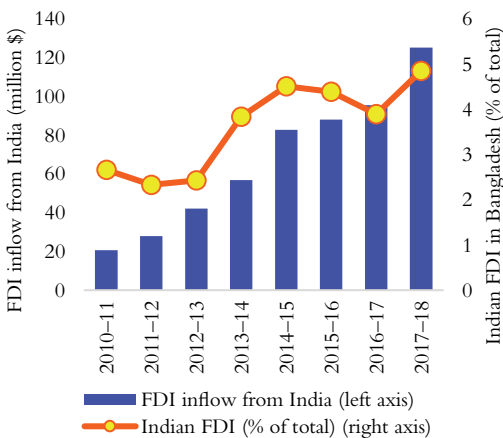
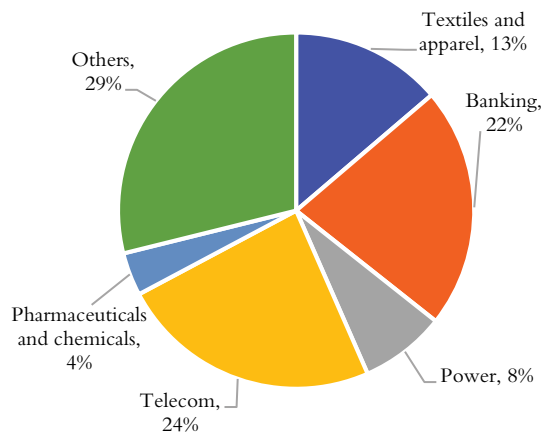
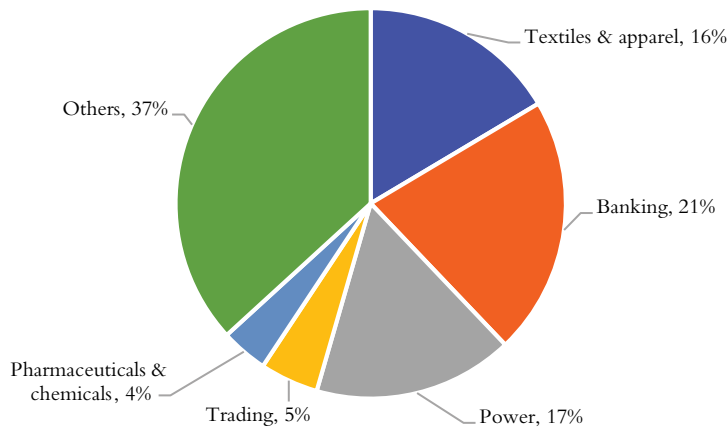


Figure 6.14: FDI stock of India by major sectors, June 2018



Note: (i) Stock of Indian FDI is \$539.91 million. (ii) India’s position is 10th in terms of stock of FDI.

Source: Authors’ presentation using Bangladesh Bank data.

Figure 6.15: Gross FDI from India to Bangladesh by major sectors in FY18

Source: Authors' presentation using Bangladesh Bank data.

The Government of Bangladesh has successfully institutionalised FDI through a two-pronged strategy: engaging BIDA in facilitating FDI in the domestic tariff area (DTA) and setting up the Bangladesh Export Processing Zones Authority (BEPZA) as the lead agency for investment in the export-processing zones. The government's one of the most important policy decisions was to establish the Bangladesh Economic Zones Authority (BEZA) in 2012 for attracting more and diversified FDIs. BEZA is setting up 100 SEZs for private and public companies. Bangladesh has offered three SEZs to India: Mongla in Bagerhat district and Bheramara in Kushtia district, and Mirsharai in Chittagong district for Indian investors. The development of physical facilities at the SEZs is currently underway where Indian firms have shown active interest to establish their manufacturing units in various sectors. Bangladesh expects a substantial investment from India in these SEZs to broaden the range of its export items and expand exports to India.

6.5 Connectivity

Transit

There are five overlapping areas of interest for Bangladesh in strengthening connectivity with India. These are: (i) sub-regional transit, viz. granting multi-modal transit facility by Bangladesh to allow transportation of goods for India (northeastern states), Nepal and Bhutan; (ii) Bangladesh, Bhutan, India and Nepal Motor Vehicles Agreement (BBIN MVA) that allows movement of motor vehicles (including water transport vehicles); (iii) physical connectivity through SAARC corridor; (iv) connectivity routes in BIMSTEC; and (v) BCIM economic corridor that is expected to connect Bangladesh with multiple states of India. All the connectivity initiatives have significant implications for Bangladesh's trade with India. However, except sub-regional transit, other initiatives have become either dormant or controversial with little possibility to move forward.

Given this backdrop, Bangladesh and India have been implementing several infrastructural projects along with the transit-transshipment routes where multi-modal transportation facilities are involved that includes road, rail, inland waterway and seaports (both Mongla and

Chattogram). In the early stage of discussion in 2010–2011, Government of Bangladesh formed a national committee (called the National Core Committee) to identify routes, fees and other charges, and necessary protocols. The committee prepared a detailed technical report that identified two phases of transit facility: (i) initial phase when the infrastructure will not be fully ready and about 10 per cent of cargo (1.8 million cargo per year) will move inside Bangladesh; and (ii) full phase when all infrastructure will be developed to carry the load of vehicles, and there will be an estimated 17.3 million cargos per year to carry goods to India, Nepal and Bhutan (Kabir & Afroze, 2013). The discussion and negotiations, however, did not progress afterwards mainly because of the unsuccessful attempt to conduct the Teesta water sharing treaty in September 2011. In addition, the debate on the amount of fee and other charges also restrained progress on the matter during the next couple of years.

The Government of Bangladesh has started the discussion again with India to implement different projects with loans from India. Albeit of a limited form, the transit between Bangladesh and India formally started in June 2016. It aims to transport Indian goods from Kolkata to Tripura via Bangladesh's Ashuganj port. The consignments would be unloaded at Ashuganj port and then loaded onto Bangladeshi trucks, which would cross the Indo-Bangla border in Akhaura. The vehicles would travel another 32 km to deliver the consignment to warehouses in India. Under the transit, goods would be carried from Kolkata to Ashuganj through a river route and then from Ashuganj to Agartala through a land route.

Bangladesh and India have signed several agreements for enhancing inland and coastal waterways connectivity for trade and cruise movements, which include using Chattogram and Mongla ports for bilateral movement of goods, i.e., Bangladesh and India's northeastern states (NES). The Government of Bangladesh has confirmed India that the existing facilities at these two seaports can handle the extra loads of transportation. India, in return, agreed to allow Bangladesh to use Kolkata and Haldia Ports for transporting goods including RMG to South Asian countries.

Both the countries have also signed an agreement to revise the existing Protocol on Inland Water Transit and Trade (PIWTT). Indian goods can be transported through four entry points, viz. Agartala-Akhaura, Tamabil-Dawki, Sheola-Sutarkandi and Srimantapur (Tripura)-Cumilla. India is, however, interested to keep the option of 'transit' open as it can be used for transporting the essentials in case of emergency.

Bangladesh has received loans from India to develop multi-modal transport infrastructure, viz. port, road and rail in Ashuganj and Akhaura to facilitate smooth movement of goods between the two countries. India is undertaking several projects to develop infrastructure at Ashuganj to facilitate transshipment of goods via Bangladesh. India has sanctioned a soft loan to Bangladesh for constructing container terminal at Ashuganj. A loan of \$338.8 million was provided to improve the road from Ashuganj to Akhaura. A river port to handle container, bulk and trade cargo and upgrading of the 51 km road into a four-lane road are two of the projects being implemented under India's second Line of Credit (LoC).

The upgrading of the Akhaura-Agartala rail link has also recently been sanctioned under the Indian prime minister's Pragati programme. These projects, apart from strengthening infrastructure in Bangladesh, also provide for transit and transshipment through the river port. It

significantly reduces the distance between the east and northeast of India, as currently goods travel through the Siliguri corridor into Assam and further into other north-eastern states.

Rates for transshipment of goods through Ashuganj to Tripura were agreed under PIWTT during Bangladesh-India shipping secretary-level talks held at New Delhi in November 2015. Bangladesh will charge Tk 192.22 per ton for transshipment. In addition, Bangladesh will impose passage permission fee, landing fee, channel charge, etc. India would also give an annual fee for using the river route, which would be spent on "ensuring navigability" of the rivers that would be used for transshipment. If the Bangladesh side provides security for consignments, it would cost the Indian side an additional Tk 50 for transport of a tonne of goods from Ashuganj to Akhaura. India would give Tk 10 for shipment of one tonne of goods via Mongla Ghosiakhali and the Gabkhan canals. Labour handling and other charges would cost the users Tk 70 a tonne at Ashuganj port. Besides, piloting charge would be Tk 2,100 and berthing charge a minimum of Tk 250 per consignment. The fees were set after analysing opinions of Bangladesh Trade and Tariff Commission and different ministries, and the high level of the government.

A consignment is supposed to take around 10 days to reach Tripura from Kolkata via Ashuganj. The goods are being carried under transshipment arrangement, which means offloading a container from one ship at a 'hub port' and loading it onto another to be carried to the final port of discharge. Although the transshipment facility has been granted to India via Ashuganj, the port there was not ready for it in 2016. A modern inland container depot has now been constructed in Ashuganj to facilitate the transit under Tk 4 billion credit from India. Bangladesh also spent around Tk 100 million on its own to facilitate the transit.

When not transported through Bangladesh, trucks from Kolkata would have to travel more than 1,500 km to reach Agartala while the route through Bangladesh would be less than 450 km. Therefore, transporting through Bangladesh would significantly reduce the duration and cost of transportation from 30 days to 10 days, and \$67 per tonne to a maximum of \$35 per tonne, respectively.

An inland container terminal has been constructed at Ashuganj to help increase transshipment. Government of Bangladesh acquired 31 acres of land and the project was implemented under the Indian Line of Credit (LoC). The road between Ashuganj and Akhaura border must be improved to ensure smooth traffic. The Road Transport and Highways Division has undertaken a project to upgrade the Ashuganj-Akhaura Highway into four lanes.

Facilities at land ports

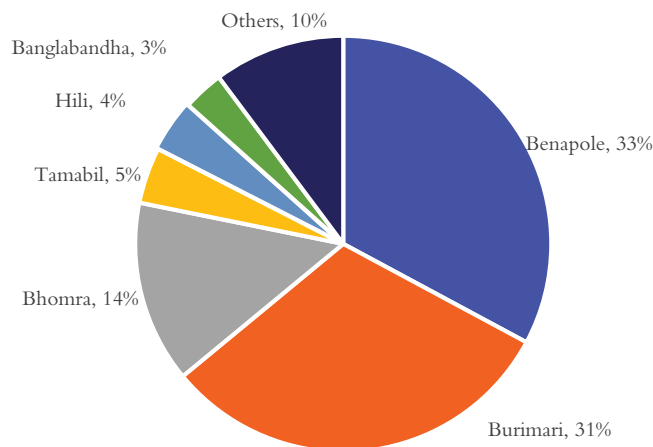
Despite having a large number of non-tariff and para-tariff barriers described above, the growth of exports to India over the last three years demonstrates a quite impressive trend. It means that Bangladesh has good potential to boost its current level of exports if various connectivity-related barriers are addressed. Currently, about half of the total trade between Bangladesh and India take place through land ports. The present government has fully activated ten land ports in several parts of Bangladesh since 2009. Undoubtedly, better land ports are the most crucial prerequisite for trading with the neighbour having land border from three sides of the country's geographical territory. These are also essential for seamless movement of goods and proper advancement of trading activities

between the two countries. In addition, there is a strong need for proper development and maintenance of the supporting infrastructure with coherence on both sides of the border.

During Indian Prime Minister's visit to Bangladesh in June 2015, both the Prime Ministers emphasised the importance of upgradation of infrastructure of the Land Customs Stations (LCSs), Land Ports, and Integrated Check Posts (ICPs) in a coordinated manner for harmonised service provision to facilitate seamless movement of goods and passenger movement through land routes (article 31 of the joint declaration of 2015). The matter was also highlighted in Bangladeshi Prime Minister's visit to India in April 2017 (article 38 of the joint statement of 2017).

Bangladesh currently has 23 land ports, of which 17 ports are operated by Bangladesh Land Port Authority (BLPA) and the rest six ports are operated under Build, Operated & Transfer (BOT) basis.¹⁷ Keeping in mind the recent dynamics of trade volume with India, BLPA must enable Bangladeshi traders to communicate better with their Indian counterparts and access the Indian market through all land ports. The processes of exports through the land ports must be further simplified and expedited through automation and faster services in all land ports of Bangladesh. Integrated Check Posts (ICPs) were established to bring different agencies and services, such as customs, immigration, border security, etc. under one integrated complex and facilitate seamless movement of goods and people. Agartala land port in Tripura is modern and well-equipped, while its counterpart, Akhaura LCS in Bangladesh, is not advanced enough to provide the same level of services. Indian traders cannot properly use Akhaura LCS for importing commodities from Bangladesh. Conversely, the Hili LCS allows very limited clearance of goods because of extremely inadequate infrastructure and support services. Benapole LCS accounted for 37 per cent of the total trade between the two countries in FY17, which indicates the importance of land ports in Bangladesh's trade with India in general and access of Bangladeshi products in the Indian market through desired trade facilitation.

Figure 6.16: Revenue generation of the land ports, FY18



Note: Total revenue = Tk 1483.3 million

Source: Authors' presentation based on National Broad of Revenue (NBR) data.

¹⁷ See <http://bsbk.portal.gov.bd>.

Recently, revenue earnings from the land ports have been maintaining an increasing trend due to the gradual development of infrastructure and services along with increased trade volumes India. However, despite being the largest and busiest land port of the country, Benapole has continued to be plagued with manual operation, digital deficiency and lack of modern surveillance systems that lead to mismanagement and rampant theft of goods.¹⁸ Trucks moving toward India experience a number of challenges during monsoon as they have to wait in knee-deep water due to poor road condition inside the port and inadequate shading. It discourages the exporters to use this port. The problems are aggravated when goods stored in shades are damaged since rainwater easily enters warehouses during the monsoon. Because of inadequate sheds, many traders compel to keep their goods under open sky even though the situation has improved recently.¹⁹ Conversely, the Government of India has set up an integrated check post on 300 acres of land at Petrapole port with a large number of modern facilities, such as CCTV surveillance, airconditioned warehouses, and modern scanning system. The existing 60,000 square feet government-owned warehouse in Benapole port is extremely inadequate to significantly increase exports to India, which largely depends on importing raw materials and intermediate good from India as well.²⁰ Due to congestion in Benapole side of the border and problems in clearance in the port, some traders need to wait for even 25 days in the port. This long waiting time leads to considerable loss of the traders including deterioration of quality and theft of goods.

Every day on average 400 trucks enter Bangladesh from India while around 1,500 trucks wait at Petrapole at the Integrated Check Post (ICP) for entering Bangladesh.²¹ The current official warehousing capacity of Benapole is around 40,000 tonnes against the requirement of at least 100,000 metric ton (MT). As a result, nearly 60,000 MT products are stored in warehouses of bystander areas. There is one gateway for both entry and exit of vehicles. In addition, the approach roads are narrow and full of common transport vehicles. Despite recent infrastructural developments in Benapole port, these lead to traffic congestions and hinder the passage of trucks with consignments.²² To address these problems in the medium term, approach road must be widened, and the number of sheds should be increased for which the government needs to acquire more lands nearby the port area. Moreover, the government also needs to facilitate establishing warehouses by private investors.

The government has launched a fresh project to develop the infrastructures of three land ports to boost trade with India through regional connectivity. The security features of Benapole land port will also be modernised under the project. Under the Bangladesh Regional Connectivity Project-I, immigration and customs facilities will be upgraded through the necessary infrastructural development to expedite trade and business with India. The Executive Committee of the National Economic Council (ECNEC) has approved the project of Tk 6.93 billion. The Bangladesh Land Port Authority is implementing the project, which is expected to finish by June 2021.

¹⁸ Benapole port is only 84 kilometres away from Kolkata city.

¹⁹ Based on qualitative interviews with port officials, employees and truckers by the field survey team in November–December 2018.

²⁰ See http://www.bangladeshmonitor.com/news_update/829/Private-warehouse-at-Benapole-port-will-boost-Indo-Bangla-trade

²¹ Ibid.

²² See <http://sanemnet.org/boosting-bangladesh-india-bilateral-trade>.

The operation of Bhomra land port started in 2013, and open yard, warehouse and other infrastructures have been constructed for it. However, the expansion of yard for non-perishable goods is essential for high pressure of cargos. Moreover, after the construction of the Padma Bridge, communication and traffic through this port will increase due to closeness with Kolkata than Benapole land port. Therefore, it would be the centre of goods transportation to and from India. Ramgarh land port located in Ramgarh upazila of Khagrachari district would be a vibrant place to expand exports to Tripura. In addition, the development of the port will pave the way for using Chattogram port.

As the Benapole port is a more important land port to Bangladesh, the government is implementing ‘SASEC Road Connectivity Project: Development of Benapole and Burimari Land Ports’. The Government of India has been upgrading seven more land customs stations (LCSs) into integrated check posts at different points on the India-Bangladesh border. Upgrading the Dawki land customs station on the Meghalaya-Bangladesh border is going on.

The Government of India has initiated the upgradation of infrastructure at land customs stations. LCSs at Petrapole and Agartala have already been converted into integrated check posts with modern infrastructure for facilitating movement of cargo and passengers. However, since both India and Bangladesh are working on the improvement of infrastructure of their land ports, there is a need to coordinate these efforts to avoid mismatch in capacity on the two sides of the border. Petrapole has improved the cargo handling capacity substantially, while capacity in Benapole side remains inadequate. This has led to congestion at the port, and increase in the cost of transporting goods. It is, therefore, important to address the deficiency of Benapole port at the earliest given its importance in bilateral trade.

Export of T&C products has been demonstrating an impressive trend in the most recent years. It implies that Bangladesh can easily expand its market in India if modern and adequate facilities are established in the land ports. For example, an office of the Bangladesh Standards and Testing Institution (BSTI) must be established at the land ports for rapidly issuance of standard certificates.

6.6 Exploring Market Opportunities in India’s Northeast

For Bangladesh, India’s northeast region has been an area of considerable business and economic interest. Besides improving infrastructure and easing movement of goods and passengers through the existing land ports, the initiative of increasing the number of ‘border haats’ is expected to be catalytic to strengthen business ties between Bangladesh and India’s northeast provinces. Despite the states like Assam, Meghalaya, and Tripura utilising the benefits of sharing a common border with Bangladesh and accessing the mainland India through the country, other states, such as Manipur, Mizoram, and Nagaland are yet to tap the benefit of accessing the rest of India via Bangladesh. Indeed, Bangladesh is potentially the most important business and economic partner for India’s northeast region given its size and location.

Three states of India’s northeast, viz. Mizoram, Manipur, and Nagaland are comparatively less connected in terms of trade and business vis-à-vis other states. It is believed from both Bangladesh side and those states that further trade and economic linkages through new

corridors would enhance the welfare of all involved parties. Mizoram shares a 318 km long boundary with Bangladesh. It is the third largest power surplus state in India and can be a source of electricity for Chittagong hill districts of Bangladesh, which are currently suffering from power shortage.²³ The Mizoram State Roads II—Regional Transport Connectivity Project (RTCP) is the World Bank's \$107 million project to improve transport connectivity for Mizoram and to help utilise the potential for regional trade among neighbouring countries, viz. Bangladesh and Myanmar. The project aimed to enhance the road links of Mizoram and other northeastern states with Bangladesh. Connectivity is essential for a distant hill state like Mizoram, which is geographically isolated from the mainland and its shared border area on Bangladesh side is also a hilly area. Difficult transport routes in its predominantly mountainous terrain have long hindered trade and business with mainland India and neighbouring Bangladesh.

Mizoram's road network is underdeveloped that leads to difficulties to connect with larger markets. The distance from its capital Aizawl to the nearest Indian port of Kolkata via 11 km wide Siliguri corridor ('Chicken's Neck') is 1,547 km. Basic food items, such as rice, sugar, tea and tomato are three times costlier in Mizoram than in Bangladesh, especially in comparison with Chittagong hill districts, which just touches its border. The World Bank project, therefore, aims to increase the connectivity within the state and improve access to transport infrastructure and services to important international trunk roads and transport corridors that connect to Bangladesh and especially Chittagong sea port.²⁴ On Mizoram side, the road that has been considered to establish a new business corridor is a 22 km section of Lunglei-Tlabung-Kawrpuchhuah road on the border with Bangladesh. On the other hand, Bangladesh and India's bilateral decision to construct a bridge over the Karnaphuli river to establish a business corridor would improve road connectivity and strengthen people-to-people contact in both sides of the border. For that to happen, the location of the bridge has been proposed to be as close as possible to the nearest land customs station in the Bangladesh side.²⁵ To Mizoram, Bangladesh will be able to export the staple food and daily necessities that have huge demand. Thus, Bangladesh's export market prospects could get significant boost from improved transport infrastructures.

Another northeastern potential business partner is Manipur, which also suffers from weak transport and communication network. However, a new rail link between Akhaura and Agartala has been initiated to help reduce time and costs of goods transportation on both sides of the border. It is likely to foster Bangladesh's exports directly to Tripura and its adjacent Manipur, Mizoram, and Nagaland. Bangladesh's agricultural products that already have a huge market in the northeastern states is expected to ease significantly through this rail connectivity.²⁶

Bangladesh's exports to Manipur is beneficial for both the parties because of the former's

²³ See [https://www.hindustantimes.com/india-news/mizoram-can-become-key-transit-for-trade-with-myanmar-bangladesh-pm-modi /story-TnnyWcjNGP6hAWud6gxEyL.html](https://www.hindustantimes.com/india-news/mizoram-can-become-key-transit-for-trade-with-myanmar-bangladesh-pm-modi/story-TnnyWcjNGP6hAWud6gxEyL.html)

²⁴ See <https://www.mmbiztoday.com/articles/wb-fund-107m-connect-mizoram-bangladesh-and-myanmar>

²⁵ See http://www.business-standard.com/article /news-ians/india-bangladesh-to-construct-bridge-along-mizoram-border-117070800220_1.html

²⁶ See <http://www.observerbd.com/details.php?id=108463>

comparative advantage in exports and the latter's cost advantage in the import of food and other necessary items. Bangladesh is interested to export other items, such as readymade garments, furniture, medicines, and food items to Manipur and Nagaland.²⁷ Considerable demand for Bangladeshi products in Manipur and higher cost and scarcity of those products in mainland India indicates mutually beneficial business between Bangladesh and Manipur.²⁸

Table 6.7: Basic socio-economic profiles of seven northeastern states of India

	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura
Area (km ²)	83,743	78,438	22,327	22,429	21,087	16,579	10,492
Population (million), 2011	1.38	39.21	2.86	3.2	1.09	1.99	3.67
GDP (billion \$), 2012–13 (constant 2004–05 prices)	0.94	13.77	1.26	1.97	0.86	1.76	2.80
Per capita GDP (\$), 2012–13	680	351	439	616	786	883	763
GDP growth (%), 2012–13	4.65	6.06	3.95	2.18	7.23	6.45	8.70
Poverty rate (%)	34.67	31.98	36.89	11.87	20.40	18.88	14.05
Literacy rate (%)	66.95	72.19		75.84	91.58	80.1	94.65
HDI Index	0.617 (medium, 2005)	0.598 (medium, 2005)	0.707 (high, 2005)	0.585 (medium, 2005)	0.651 (medium, 2011)	0.770 (high, 2005)	0.662 (medium, 2014)

Source: Based on the 15th Indian Census 2011; State of Literacy, Office of the Registrar General & Census Commissioner, India; State governments' economy reports; and Indian Planning Commission data tables, 2014.

6.7 Promotion of Bangladesh's Exports: Way Forward

India is undoubtedly a potentially very big export market for Bangladesh because of, inter alia, its strong economic performance, fast-growing middle-class consumers and trade along value chains. It provides access of a wide range of Bangladeshi products in its rapidly expanding market, which is evident from its duty-free access of almost all products, granting loans to develop trade-related infrastructure, and active engagement in Bangladesh's SEZs, which are conceived to be the country's next generation economic hubs. Bangladesh should, therefore, judiciously tap the opportunity to get a predictable market by means of understanding the pattern of demand and consumer preference, attracting investment along the bilateral value chains engagement, and addressing behind and beyond the border constraints. In doing so, the following issues must be given topmost priority.

²⁷ <http://www.daily-sun.com/post/126941/Bangladesh-eager-to-export-quality-products-to-Indias-Manipur:-Tofail>; <http://www.worldbank.org/en/news/opinion/2017/09/27/bangladesh-corridor-vital-indias-act-east-policy>.

²⁸ Mahfuz Kabir. 2018. Potential of New Business Corridors between Bangladesh and India's Northeast: Bangladesh Perspective", paper presented in International Seminar on North-East India and its International Neighbours: New Directions, organised by Department of Political Science, North-Eastern Hill University, Shillong, India; 27–28 March 2018.

Attracting Indian investment

Indian investment is likely to be one of the major drivers of Bangladesh's overall exports to India. This is because of two reasons: first, any investment will add to productive capacity in Bangladesh, and second, Indian investment could help ensure predictability and sustainability of India's trade policy regime affecting Bangladesh's export prospects. With regards to the latter, frequent changes in the policy regime is a common phenomenon in developing countries and investments from preference-granting countries can provide leverages for policy consistency.

Given the recent trends in exports, Bangladesh should try to attract Indian investment in the RMG sector on a priority basis. It is the sector where the country has proven supply-side capacity, and because of perceived policy uncertainty, many exporters are currently discouraged from pursuing the Indian market. India also has a strong textiles and apparel sector and, given the past experiences, any import surge from Bangladesh could lead to demand for protection in India. Indian-FDI led exports of RMG would help establish Bangladesh's comparative advantage and deal with any lobbying pressure for policy reversals.

Bangladesh is currently enjoying benefits under the least developed country (LDC) status in both SAFTA and Indian market. Over the next five years or so, the Indian market should expand significantly for Bangladeshi RMG products. Indian raw materials and intermediate goods are significantly used in Bangladesh's export-oriented RMG as well as domestic manufacturing of textile and apparel products. Jute was the top export item for many years. However, being its subject to anti-dumping duties vis-à-vis a strong export response from the apparel sector mean the readymade garment industry has now become the largest export sector to India. This is likely to persist in the future.

In the above context, it is important to assess whether Bangladesh can attract Indian investment in RMG. Intuitively, such investment will be mutually beneficial for both the countries because of value chain-led export. This involves the import of raw materials and intermediate inputs from India and Bangladesh's exporting finished products to India. Currently, Indian investors are planning to invest in light engineering, automobiles, electronics assembling, leather, and information technology (IT) in the SEZs in Bangladesh. While the existing investment propositions are helpful, consideration of readymade garments will advance Bangladesh's export prospects in India.

Considering a post-graduation trading arrangement with India

As indicated above, Bangladesh currently enjoys duty-free market access in the Indian market. This is due to the implementation of the SAFTA agreement in which Bangladesh is recognised as a least developed country, enjoying more concessionary treatment than other developing countries. However, as Bangladesh is set to graduate from the group of least developed countries (LDCs) in 2024, the special concessions granted would cease to exist.

After graduation, Bangladesh will be subject to SAFTA non-LDC tariff rates. Against the current duty-free access, the post-graduation average tariff will lie in the range 4–10 per cent for major exporting items (Table 6.8). Bangladesh gets a substantial preferential margin of 10 per cent in

all apparel items. Under SAFTA non-LDC preference, India allows 2.5 per cent to 5 per cent margin for selected apparel products. The average post-graduation tariff on apparel items will be 8.66 per cent. After graduation, the average duty for Bangladesh's leather and leather goods will be 4.1 per cent while leather footwear will attract an average tariff rate of 8.4. For animal or vegetable fats and oils, the current preference margin for Bangladesh is almost 22 per cent. Post-graduation average tariff on these items will be above 10 per cent. Among others, plastic products will attract an average duty rate of 5.15 per cent, whereas furniture, home textiles and pharmaceutical items will subject to 5–6 per cent tariff rates. India also maintains a large number of products in its sensitive list for SAFTA non-LDC members. That is, in as many as 614 products at the HS 6-digit level, India does not offer any trade preference to non-LDC SAFTA members in comparison with just 25 items for LDCs. The SAFTA sensitive list of India contains almost 150 clothing items. Therefore, in the absence of any alternative arrangement, LDC graduation would lead to significantly reduced market access for Bangladesh.

Table 6.8: Post-graduation tariffs for selected products in India

Products	Current LDC tariff for Bangladesh	Post-graduation tariff under SAFTA	MFN tariff rates in India
RMG	0%	8.66% (5%–10%)	10%
Jute and jute products	0%	4.7%	9.84%
Leather and leather goods	0.7%	4.1%	8.4%
Leather footwear	0%	8.39%	20%
Plastic	0%	5.15%	8.2%
Animal or vegetable fats and oils	0%	10.05%	21.9% (7.5%–80%)
Home textiles	0%	6%	9.6%
Furniture	0%	5.14%	9.93%
Pharmaceuticals	0%	5.8%	9.9%

Note: Average is calculated as the simple average.

Source: Authors' analysis using WITS data.

Given the above context, Bangladesh will have to proactively pursue the continuation of duty-free access beyond its LDC graduation. There are two issues to consider in this respect. First, considering the case of the Maldives that continued receiving LDC benefits after its graduation in 2011 under SAFTA, Bangladesh can ask for similar concessions. Article 12 of SAFTA states, "Notwithstanding the potential or actual graduation of Maldives from the status of a least developed country, it shall be accorded in this Agreement and in any subsequent contractual undertakings thereof treatment no less favourable than that provided for the least developed contracting states."²⁹ Another option is to ask for an extension of the same status for Bangladesh, Bhutan and Nepal—as all the three countries are expected to graduate within the next five years or so. One difficulty in the latter case is that India has bilateral agreements with Bhutan and Nepal under which it allows duty-free access to almost all items originating from these two countries.

²⁹ Agreement on South Asian Free Trade Area (SAFTA). Retrieved from: http://saarc-sec.org/digital_library/detail_menu/agreement-on-south-asian-free-trade-area-safta

If the extension of SAFTA Article 12 to Bangladesh is not possible, taking a bilateral route in securing the existing market access is an option. This will require striking a comprehensive bilateral trade agreement with India. Bangladesh does not have any experience of bilateral FTA with any country. Recently, Bangladesh and India agreed to undertake a feasibility study for a Comprehensive Economic Partnership Agreement (CEPA). This study is being undertaken jointly by the Bangladesh Foreign Trade Institute and the Indian Institute of Foreign Trade. However, one concern is that the CEPA benefits are reciprocal—both countries will enjoy duty-free and quota-free access to each other's market. India has a large supply-side capacity and implementing a CEPA could be subject to serious concerns raised by domestic producers as well as authorities aiming to protect government revenues. It is, however, also possible to have a bilateral trading arrangement where Bangladesh can negotiate to undertake less than full reciprocity concessions.

Since almost all goods from Bangladesh, including readymade garments, are allowed duty-free access into the Indian market, securing the existing trade regime should be a priority consideration. For Bangladesh, the best option will be to ask for SAFTA Article 12 extension. Since trade discussions and negotiations are lengthy, the work on a possible post-graduation trade strategy with India must begin now. Reaching a positive outcome within a shortest possible time—and certainly before the graduation deadline—can give the investors and exporters the much-needed policy certainty.

Diversifying the export portfolio

Diversification of export items is a must keeping in mind the need of the Indian market. Exporters can target the products that Bangladesh produces and exports to the international market, while India imports from the world but not from Bangladesh. A list of such potential products has been provided and discussed above. These products are possibly subject to various NTBs and NTMs that need bilateral negotiations at the government level for opening up the Indian market. In addition, there are many potential products that India is importing significantly from the world market while it is importing very low amount from Bangladesh. For example, significant potential is still untapped in both knitwear and woven garments (HS codes 61 and 62); tableware, kitchenware, and toilet articles made of plastic (HS code 39, 48, and 69); waste and scrap of aluminium, iron, steel, copper and zinc (HS code 72, 74, 76, and 79); and furniture of plastics (HS 94).

Addressing NTBs and NTMs

NTBs and NTMs seem to be iterative phenomena in Bangladeshi products' market access in India despite notable progress in recent years. However, standard-related requirements and technical barriers are still regarded as major factors inhibiting export success. Some stakeholders in Bangladesh are of the view that stringent and onerous requirements associated with standards and their confirmation outweigh the benefits of generous facilities provided by India and creates an adverse impact on the bilateral relationship at a broader level. This issue has generated mistrust and suspicion for a long time. The imposition of ADD on Bangladeshi jute products is a recent example of such NTMs spurring questions and controversies among many regarding India's good intents to advance its trade and business relations with Bangladesh. Although Bangladesh can

resort to the WTO to challenge this measure, a bilateral solution of this problem is imperative at the earliest too. Otherwise, it may be counterproductive to many successes that brought Bangladesh-India relations at a new height.

The problems of NTBs and NTMs are long-standing and recognised as amongst the most important problems by all stakeholders. In some cases, perceptions also matter in discouraging exports. It would be a good idea to form a high-level committee comprising senior officials from the Ministry of Commerce, Bangladesh Trade and Tariff Commission, Bangladesh Foreign Trade Institute, Ministry of Foreign Affairs, representatives from business chambers and experts among others to look into the NTM and NTB issues on a case-by-case basis and develop guidelines. In some instances, certain issues may need to be raised with authorities in India for clarification and reconsideration. It will establish an avenue for generating an information base to reassure the business community in addressing any unreasonable perception.

It is however also important to acknowledge that Bangladesh has limited technical and enforcement capacities in establishing and maintaining product quality of international standards. Any improvement in this area can not only enhance export prospects in India but also in many other countries. Therefore, technical assistance from India can be sought to improve the relevant capacity in Bangladesh. A strengthened Bilateral Cooperation Agreement between BSTI and Bureau of Indian Standards (BIS) is an important step towards harmonising standard of traded goods between the two countries. The Ministry of Commerce of Bangladesh should actively pursue enlisting the aforementioned 27 export products under the MRA that include cement, MS Rod, MS angle and plate, GI pipe, textiles at the earliest according to the demand of the business community. In addition, Bangladesh should request India to extend long-term support of BIS to enhance BSTI capacity for expanding the list of products under MRA.

Using transit infrastructure for boosting exports

Bangladesh's offer of transit to sub-regional countries is no longer a matter of criticism and controversy. Rather, it has been accepted as a viable means of improving trade-related connectivity that would be utilised for increasing Bangladesh's exports to India, Nepal and Bhutan, and investments in northeastern districts of Bangladesh which are currently lagging behind. Recently, however, the interest of the Indian business community in Ashuganj port has appeared to have slightly declined because of the improvement in rail connectivity between Guwahati and Agartala. However, when the Agartala-Akhaura rail link will be opened, the Ashuganj port should also become profitable. This is an opportunity for Bangladesh to utilise this infrastructure for exporting Bangladeshi goods to northeastern states of India.

Improving port facilities

To significantly increase the volume of exports to India in the medium term, Bangladesh must ensure that the 22 land ports and bystander areas remain fully operational irrespective of their capacity and volume of operation. The country must invest significantly for improving physical facilities at all land ports, such as approach roads, sheds, loading-unloading space and warehouse. In addition, port infrastructure in Bangladesh must be consistent with that of the other side of the border for ensuring greater harmony in customs clearances. Moreover, land ports should rapidly

terminate the manual loading-unloading as well as paperwork in customs procedures. Recently, Benapole land port has been improved significantly by widening approach road and improving some other facilities. Nevertheless, the port is still suffering from vehicle congestions.³⁰ The congestion in this port could be reduced when Bhomra land port would become fully functional as it is much closer to Kolkata than Benapole port.³¹ Infrastructure at Ashuganj port must be improved significantly. Its physical facilities should be consistent with the integrated check post of Tripura border because it would work as the hub of goods transportation with northeastern states and transit port. Moreover, infrastructure inside the premises and approach roads are poor in Chengrabandh, Dawki, Hili, and Sonamasjid ports, which need to be improved immediately.

Shifting towards coastal shipping and rail links

It needs to be recognised that coastal shipping has opened up considerable opportunity in trade between Bangladesh and the West Bengal (Bangla), especially with Kolkata, and it can significantly reduce the time of transportation as well as load on Benapole land port.³² Shifting a part of the bilateral trade to rail through container trains from the road route will help ease pressure on Benapole port. The rail link between Bangladesh and West Bengal via the Padma Bridge can be a game-changer in the near term as it will facilitate unhindered movement of goods by avoiding cumbersome and time-consuming procedural complexities and waiting time at land ports. Time taken to transport goods is an important element of trading costs that reduce competitiveness and profit margins of the traders. It also squeezes the surplus (welfare) of the traders through reducing efficiency in the production and trading process. Thus, trading through inefficient road network and land ports incurs significant opportunity costs that could be altered through utilising coastal shipping and rail network. The Coastal Shipping Agreement, signed in June 2015, was expected to increase bilateral trade through improved connectivity due to leverage with other modes of transportation. However, the shippers want amendments of the agreement to carry goods of the third country for making the business more viable, which is currently under consideration subject to stakeholder consultation in Bangladesh by the Ministry of Shipping. It is true that trucking, loading-unloading, warehousing, etc. create some employment, but to significantly increase exports to India in the near term, there is a need for developing alternative employment generation activities.

Northeast India as a potential market

Most of the northeast India is still unexplored by Bangladeshi exporters. Initiatives should be taken to promote Bangladesh's exports there. Assam and Tripura are more advanced in the region and economic relations are more developed with them, but still, there are prospects in Manipur, Mizoram and Nagaland as well. Most of the export products of Bangladesh will have competitiveness in the sub-region, in which improved transportation will play an important role in accessing these markets. The current excellent bilateral relationship with India should be utilised to unlock the trade potential. Bangladesh's processed food products, furniture and

³⁰ It is evident from field visit during the study period.

³¹ Even though trade volume between the two countries would be increased by that time, Bhomra port will help reduce enormous load on Benapole port.

³² Interview with Bipul Chatterjee, Executive Director of CUTS International, an Indian think-tank specialising in India-Bangladesh trade, investment and connectivity.

low-end apparel products are likely to perform well in the growing north-eastern market. A market prospect analysis can be undertaken by Bangladesh to identify prospective products in this region. Recently, Adani Wilmar Limited, an India-Singapore joint venture, which has been leased a 100-acre land by BEZA in the Bangabandhu Sheikh Mujib Industrial City, has proposed an investment plan of \$400 million to tap into the potential of India's northeast regions along with Bangladesh's domestic market with agro-processing items.³³ Bangladesh's own investment should also be increased to strengthen exports in these states given the momentum in socio-economic development in that region.

Cooperation in tourism

India has emerged as one of the leading countries in the world in exporting tourism services. Bangladesh can benefit from India's experience in developing this sector. Bangladesh can seek India's technical support and investment to develop its tourism sector. Various tourism parks that are being developed as part of the special economic zones can greatly benefit from Indian investments and technical assistance. Bangladesh can also be an integral part of multi-country package tours including India, Nepal and Bhutan, that can be offered to global tourists. Indian investment can greatly help increase the number of tourists from India.

Collaboration in skill development

There is a dire need for skilled human resources in Bangladesh. Almost every export and manufacturing sector is affected by a shortage of skilled labourers and managers (Razzaque, 2017). For example, according to a recent study, the readymade garment sector will require 3.67 million skilled workers in 2021 and 7.45 million in 2026.³⁴ The demand for skilled labour will increase sharply for its restructuring and transformation into a technology-intensive industry. Many manufacturing firms employ foreign nationals, especially in management which requires high-level skills, and experiences. Given the mounting shortage of skilled workers and managers in the medium term, the export industry, in particular, would be compelled to hire more foreign workers. In this backdrop, while Bangladesh needs setting up technical and vocational institutes for skill development, managing these institutes for quality results will require technical assistance. India has huge expertise in this respect and should be in a position to help Bangladesh. A possible large-scale collaboration in skill development can greatly help Bangladesh deal with its problem of shortage of skilled workers and managers.

6.8 Conclusion

India is currently the fifth-largest economy in the world. Besides geographical proximity with a vast shared border, Bangladesh's multidimensional engagement in trade and investment with India implies that the two countries will likely to trade more between them. Outcome documents of the recent official visits by the two Prime Ministers envisage Bangladesh's rising

³³ See <https://www.dhakatribune.com/business/2019/01/21/adani-wilmar-to-invest-tk3-350cr-in-bangabandhu-industrial-city>

³⁴ Rushidan Islam Rahman and Mohammad Iqbal Hossain. 2017. Labour Market and Skill Gap Analysis for Readymade Garments Sector in Bangladesh. In: Labor Market and Skills Gap in Bangladesh (Macro and Micro Level Study), Bangladesh Institute of Development Studies (BIDS), Skills for Employment Investment Program (SEIP), Dhaka: Finance Division (Ministry of Finance, Government of Bangladesh), pp. 27-48.

exports to India towards bridging the mounting bilateral trade deficit. However, despite duty-free access to most of the products, Bangladesh's exports to India remains quite small.

The chapter shows that Bangladesh's current export value to India is as much as \$6 billion smaller than the estimated potential. The top export products to India include readymade garments (RMG), jute, home textiles, agricultural and fish products, and articles of copper and plastic. However, RMG and jute products constitute half of the total exports. Over the last ten years, Bangladesh's average annual exports to India grew at 15 per cent, which is quite encouraging. But, as the export volume gets bigger, the growth rate has to be sustained to exploit the market potential. Attracting Indian investment into Bangladesh could significantly boost the export supply response. As such, the allocation of three special economic zones exclusively to Indian investors is a policy in the right direction.

To improve export market prospects, reinvigorated policy initiatives, including consultations with India, will have to be undertaken to address non-tariff barriers (NTBs) and non-tariff measures (NTMs) including the recent imposition of anti-dumping duty on Bangladesh's jute products. This paper has highlighted the general concern in Bangladesh of many NTBs and NTMs in India, discouraging exports. These include sanitary and phyto-sanitary (SPS) measures; rapidly changing standards and procedures; technical barriers to trade (TBT) restrictions like packaging, labelling, certification and conformity assessments; documentation; non-acceptance of the country of origin certificate, HS classification and invoice value by Indian customs authority; etc. In some instances, to deal with the challenges Bangladesh needs capacity-building for which India can also be a source of assistance.

This chapter emphasises that trade connectivity including port infrastructure should be significantly improved to facilitate transit and transshipment, which can be used to promote Bangladesh's exports to India. There is a need for substantial investment in developing and improving physical facilities at land ports and transit infrastructure for seamless and rapid clearance of consignments.

Amongst others, this chapter also highlights that the current duty-free market access in India could come to end with LDC graduation in 2024. The rise in average post-graduation duty would be quite substantial and the sensitive list maintained by India for non-LDC SAFTA members is quite large, including many apparel items. Therefore, in the absence of an alternative trading arrangement, market access to India will be significantly constrained. For Bangladesh, the best possible option will be to ask for including graduating LDCs in SAFTA Article 12, through which the Maldives continues to enjoy duty-free market entry into India. If that is not possible, bilateral arrangements need to be considered. As trade negotiations usually take several years, working on a post-graduation trade strategy with India must begin now.

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Bangladesh-China Trade and Economic Cooperation: Issues and Perspectives

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7.1 Introduction

Over the past couple of decades, the People's Republic of China has emerged as a global economic superpower having achieved high economic growth sustained for a very long period of time and in the process becoming the world's largest merchandise exporter. Its rapid structural transformation and development transition to an upper-middle-income country accompanied by a fast-growing and massive urban middle and affluent consumers have also turned it into a major global market, accounting for more than 10 per cent of world imports.¹ For suppliers across global economies, China presents an unprecedented opportunity for export expansion.

Along with its growing economic and political significance, China has also started proactive engagements with many countries through investment activities. In recent years, advancing connectivity to facilitate trade and promote economic cooperation arrangements has become a priority agenda for Chinese policymakers. Through the Belt and Road Initiative (BRI), China's state-owned enterprises have undertaken trade-related infrastructure development projects at continental scales. At the same time, China's private financiers are taking a hands-on investment approach in many developing countries to look for new trading opportunities created through infrastructural development and attracted by fiscal and financial incentives offered to foreign investors.

China is already the largest trading partner of Bangladesh. However, this trade has been overwhelmingly dominated by Bangladesh's imports from China. Chinese products account for more than one-fifth of Bangladesh's total imports. On the contrary, China's share in Bangladesh's exports accounts for only about 2 per cent. Therefore, exploiting the Chinese market in expanding exports constitutes one important policy consideration. Bangladesh's economy has

¹In 2018, China's imports of merchandise goods were more than \$1.8 trillion.

also expanded considerably through robust economic growth of the past decade and the medium-term growth momentum looks quite solid. Geographical proximity, competitive labour costs, a reasonably sizeable manufacturing production capacity in the country vis-a-vis rising production costs in China imply that there exists an important opportunity for attracting Chinese investors in Bangladesh and building a productive bilateral economic partnership.

As Bangladesh is firmly set to graduate out of the group of least developed countries (LDCs) by 2024, it is of utmost priority for the country to develop bilateral trading and economic cooperation arrangements with other countries to secure a smooth graduation process. From this perspective as well, developing and strengthening trade and investment ties with the second-largest economy of the world is extremely timely. There is an opportunity to capitalise on the latest wave of restructuring in China in which the country is shifting towards high value-added and technology-intensive production processes, opening up vast market segments for traditional lower value-added items often facilitated by relocation of firms to new destinations.

In the above backdrop, this chapter analyses emerging patterns and trends of Bangladesh–China trade and economic relationship and considers some options for shaping and strengthening the partnership in a way that should help Bangladesh exploit the market prospects in China and expand domestic supply-side capacity utilising Chinese investments. The chapter highlights various options for Bangladesh’s engagement with China in securing a beneficial bilateral trading arrangement in the path to LDC graduation and beyond. Having discussed various aspects of the Belt and Road Initiative, this chapter concludes that a deeper economic engagement based on judicious selection of investment projects and their effective implementation will boost productive capacities in Bangladesh.

The chapter is organised as follows: after this introduction, Section 7.2 provides the state of current trade and investment flows between the two countries. Section 7.3 reviews the existing arrangements of economic cooperation including the Asia-Pacific Trade Agreement (APTA), Bangladesh–China–India–Myanmar (BCIM) Economic Corridor, and the Belt and Road Initiative (BRI). Section 7.4 provides an assessment of Bangladesh’s overall export potential and market prospects of some selected export products in China. Section 7.5 considers several other avenues to strengthen trade and economic cooperation between the two countries. Section 7.6 concludes.

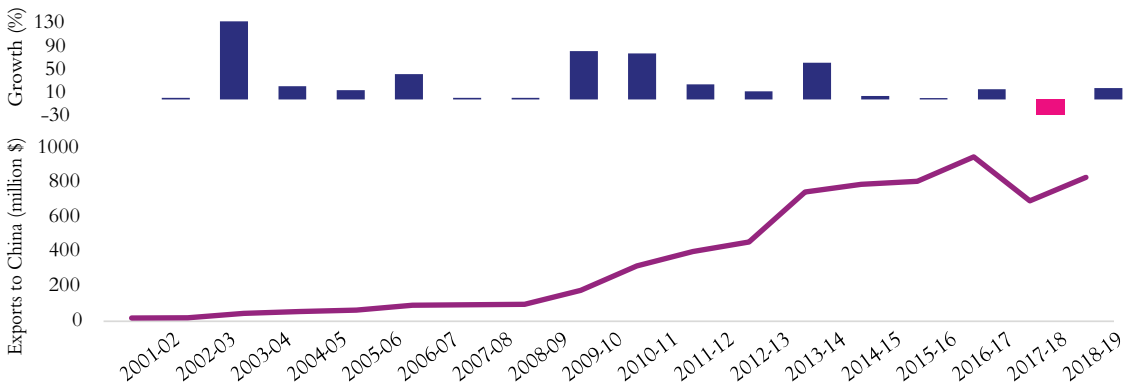
7.2 Bangladesh-China Economic Engagements

Trade in goods and services

China has long been an important trade partner for Bangladesh, but the bilateral trade flows are mainly driven by Bangladesh’s imports from it. Indeed, Bangladesh’s exports of merchandise to China remained below the \$100 million mark until FY09 (Figure 7.1). The situation started to improve since then with exports reaching a peak of about \$950 million in 2016–17. Export receipts tumbled by almost a quarter in 2017–18. Despite some recovery in the following year, exports were slightly lower than the level reached in 2017. China accounts for just 2.38 per cent of Bangladesh’s exports.

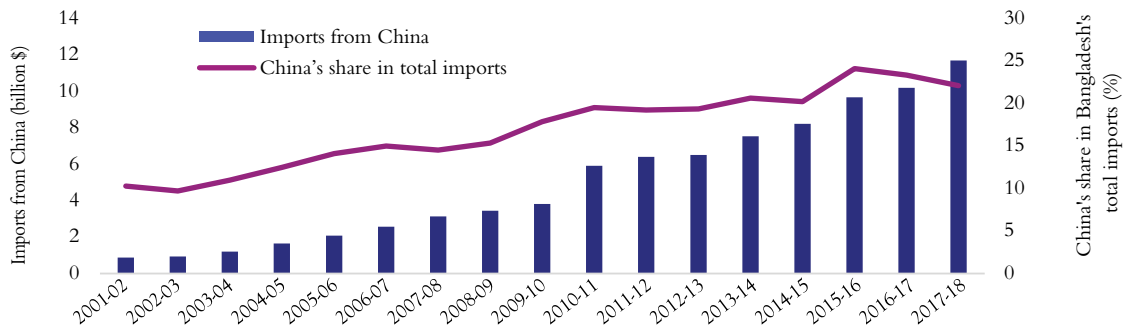
In contrast, China is the largest source of imports, accounting for more than 22 per cent of Bangladesh's total merchandise import payments. In absolute terms, Chinese imports into Bangladesh rose from less than \$4 billion in 2009–10 to almost \$12 billion in 2017–18 (Figure 7.2).² More than 30 per cent of Bangladesh's imports from China are imported through bonded warehouses which are subject to zero tariff. For each broad category of products such as consumers' items, capital and machinery, and raw materials, China has been one of the largest sources of import procurement.

Figure 7.1: Bangladesh's exports to China



Source: Authors' presentation based on EPB and Bangladesh Bank data.

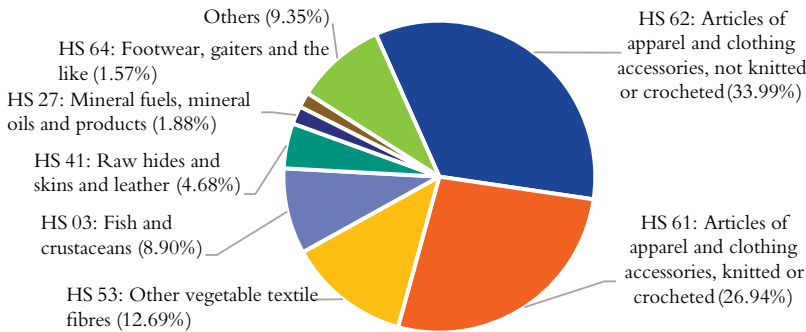
Figure 7.2: Bangladesh's imports from China



Source: Authors' presentation based on Bangladesh Bank data.

Woven and knitwear products account for more than 60 per cent of Bangladesh's exports to China (Figure 7.3). Amongst others, jute yarn and textile fibres (HS 53), fish and crustaceans (HS 03) and raw hides, skins and leather (HS 41) have an export share of about 13 per cent, 9 per cent and 5 per cent, respectively. Bangladesh's top ten exported goods are listed in Table 7.1.

² Data on Bangladesh's imports from China vary between sources. According to Bangladesh Bank sources, imports from China in 2017–18 were \$11.7 billion, while the NBR data suggest such import being \$13 billion (import for home consumption \$9 billion plus import under bonds \$4 billion). On the other hand, the ITC data show Bangladesh imported \$17.7 billion from China in 2018.

Figure 7.3: Bangladesh's major export products to China (2018–19)

Source: Authors' presentation based on EPB data.

Table 7.1: Top ten export items at the HS 2-digit level

HS code	Product description	FY12		FY16		FY19		Average growth 2011–19 (%)
		Exports (million \$)	Share (%)	Exports (million \$)	Share (%)	Exports (million \$)	Share (%)	
62	Articles of apparel and clothing accessories, not knitted or crocheted	57.8	14.4	197.8	24.5	282.6	34.0	26.9
61	Articles of apparel and clothing accessories, knitted or crocheted	46.7	11.6	143.4	17.7	224.0	26.9	28.4
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	110.2	27.4	102.2	12.6	105.5	12.7	0.6
03	Fish and crustaceans, mollusc and other aquatic invertebrates	17.7	4.4	34.7	4.3	74.0	8.9	54.2
41	Raw hides and skins (other than furskins) and leather	22.2	5.5	52.1	6.4	38.9	4.7	21.9
27	Mineral fuels, mineral oils-products of their distillation; bituminous substances; mine	0.0	0.0	0.0	0.0	15.6	1.9	..
64	Footwear, gaiters, and parts of such articles	2.9	0.7	33.5	4.1	13.1	1.6	40.6
55	Man-made staple fibres	1.4	0.3	2.0	0.3	10.0	1.2	47.4
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	21.7	5.4	20.9	2.6	9.4	1.1	-7.5
90	Optical, photographic, cinematographic, measuring, precision, medical or surgical	0.0	0.0	9.4	1.2	7.4	0.9	47.5
39	Plastics and articles thereof	41.5	10.3	21.1	2.6	7.0	0.8	-14.2
52	Cotton	6.0	1.5	1.4	0.2	5.0	0.6	37.9
	Total	401.9	100	808.1	100	831.2	100	

Source: Authors' presentation based on EPB data.

Data on bilateral services trade are weak. The balance of payments (BOP) approach to capture services trade shows that Bangladesh's exports to China in 2017–18 were more than \$400 million, of which the export of government services alone accounted for more than half.³

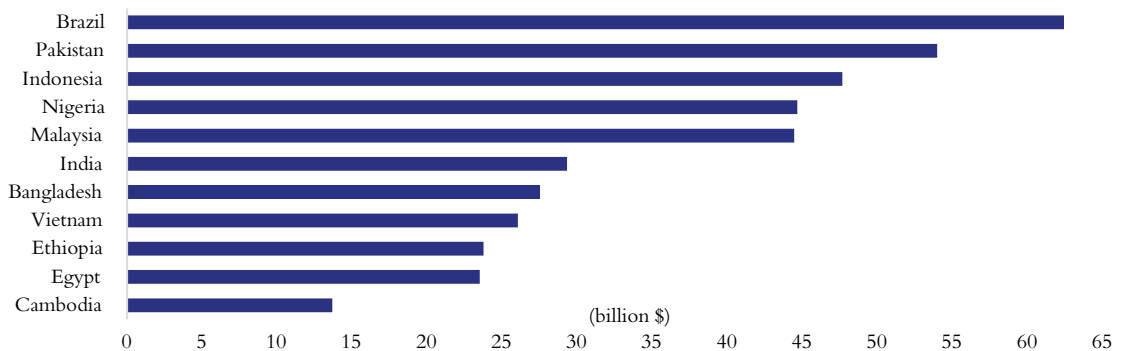
³ Government goods and services n.i.e. include: (a) goods and services supplied by and to enclaves, such as embassies and military bases; (b) goods and services acquired from the host economy by diplomats, consular staff and military personnel located abroad and their dependents; and (c) Services supplied by and to governments and not included in other categories of services.

Chinese investment in Bangladesh

Traditionally, high saving rates of China's households have allowed its economy to generate enormous investment opportunities. In the late 1990s, Beijing's 'Going Global' strategy opened the door for funds to be invested overseas.⁴ Between 2009 and 2019, the value of overseas investment and construction activities by Chinese state-owned enterprises (SOEs) and private companies grew to \$1.78 trillion (American Enterprise Institute, 2019). Most of these investments have been directed towards the developed world (OECD countries) and a large proportion of fund transfers took place in projects under SOEs. Since the inception of the Belt Road Initiative (BRI), funds started flowing to developing economies as well.

In terms of pledged investments, Bangladesh has been able to attract the attention of Chinese financiers. Cumulative Chinese investments pledged (through SOEs, foreign direct investment, and concessional loans) for Bangladesh during 2009–2019 was about \$27.5 billion (Figure 7.4). However, it is quite difficult to assess how much of this pledged amount has actually been materialised. Because investments coming from the Chinese SOEs are absorbed through the government channels and the data on concessional loans from China are not recorded in the global database of official development assistance.⁵ Infrastructure, transport, and energy have been the key investment sectors. Interestingly, considering the pledged amounts, Bangladesh has attracted more Chinese investment than Vietnam and Cambodia. But in terms of disbursements, Vietnam has received way more than Bangladesh, particularly as FDI.⁶

Figure 7.4: Pledged Chinese investments (FDI, SOEs, and concessional loans) in selected developing economies (cumulative, Jan 2009–May 2019)



Source: Authors' presentation based on the China Global Investment Tracker database, 2019.

Thus, while the pledged Chinese investments to Bangladesh look quite substantial, realised FDI inflows account for a small part of it (just around \$2 billion or 7.3% of all pledged investments over a decade). Until the 1990s, the annual average FDI inflow into Bangladesh was a paltry \$300

⁴ 'Going Global' is PRC's strategy to encourage its enterprises to invest overseas. To negate the pressure of currency appreciation from large foreign reserves and strengthen China's presence in the global sphere, Chinese policymakers in 1999 came up with the idea of employing foreign reserves for acquiring assets overseas.

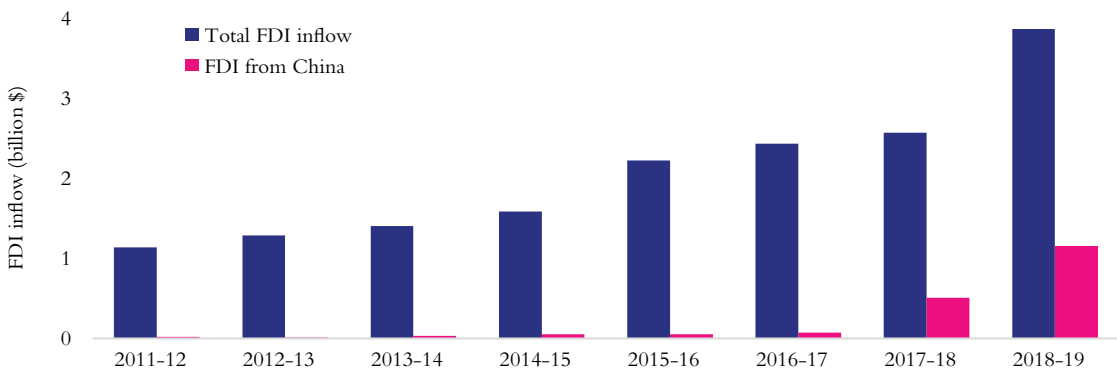
⁵ China is the fourth largest debt holder of Bangladesh. This debt stock includes accumulated concessional loans from the Chinese government or Chinese SOEs to the government of Bangladesh.

⁶ Since 2009, Vietnam has received more than \$16 billion as Chinese FDI.

million. Inadequate energy and utility supplies, lack of physical infrastructures, unstable political atmospheres, shortage of human capital, and overall high cost of doing business kept Bangladesh as an unfavorable destination for FDIs. Recently, several government measures, including attractive incentives for foreign investors such as generous tax exemptions, and improvements in infrastructural facilities, have had some positive impact. In 2010–11, annual FDI inflows reached the \$1 billion mark for the first time (Figure 7.5).

Chinese investors have been exploring different economic opportunities in Bangladesh for quite a while. Their initiatives received a strong impetus from enhanced bilateral engagements between the two countries since the visit by the Chinese President in 2016. The U.S.–China trade conflicts are also forcing Chinese manufacturers to relocate their production facilities in alternative locations. At the same time, the private sector of Bangladesh has grown capacities in many areas, including the ability to handle big joint proprietorships with their foreign counterparts.

Figure 7.5: FDI inflows into Bangladesh



Source: Based on Bangladesh Bank data.

Data from the Bangladesh Bank show that between FY11 and FY17, Chinese investments in the country were worth \$230 million. The situation changed quite remarkably in FY18 following the investment deals signed during President Xi Jinping's visit to Bangladesh. Chinese investors poured in more than \$506 million as FDI in FY18 and then \$1.16 billion in FY19, making them the largest source of net FDI inflows into Bangladesh for the very first time.

Traditionally, the U.S. investors have been the largest source of FDI for Bangladesh, followed by the EU, South Korean, Japanese and Indian businesses. Sectors that have been of interest to foreign companies include gas and petroleum, textile and apparel, banking, and telecommunications. Investments in these sectors account for almost 60 per cent of Bangladesh's \$18.9 billion FDI stock. Chinese investors are showing a deep interest in energy and power generation (\$834 million Chinese FDI inflow in FY19). At the same time, the sectors such as food and agro-processing also gained their attention along with more conventional sectors like the RMG industry. Many other non-traditional sectors are also receiving Chinese investment proposals. This reinvigorated interest in Bangladesh is perhaps also because of the ongoing implementation of the BRI. In fact, Chinese investments in power, steel, heavy machinery, and consumer products have increased in countries with BRI destinations.

Considering actual FDI disbursements and realised SOE investments, Bangladesh received \$3.66 billion Chinese investment in FY18 and was among the top 10 destinations for outward Chinese investments. Despite being traditionally the largest source of FDI, U.S. investors only provided \$166 million in FY18 and \$174 million in FY19. Bangladesh's competitors such as India, Indonesia, Malaysia, and Vietnam have been successful in attracting large foreign investments as reflected in the current stock of Chinese FDI (Figure 7.6).

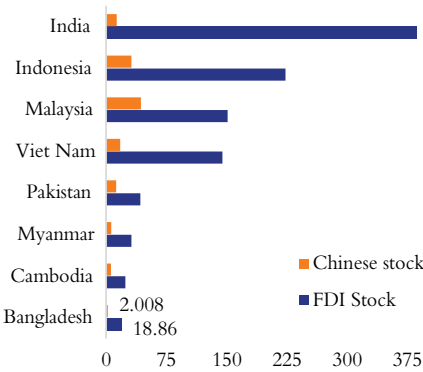
Unlike in many other countries, Bangladesh does not suffer from wide negative perceptions about Chinese investments. Bangladesh's overall FDI stock is highly concentrated in six sectors (accounting for 60% of the stock), as shown in Figure 7.7. Chinese investors have taken interests in power and other non-traditional sectors (Figure 7.8), while they are yet to focus on the export-oriented RMG sector. China's FDI stock in Bangladesh's textile and apparel sector is less than \$190 million (Figure 7.8), which is just about 5 per cent of the total RMG FDI stock (Figure 7.9).

Chinese FDI in unconventional sectors is to be interpreted as a positive sign. The vastly experienced Chinese investors in digital financial services (DFS) are set to play an important role in Bangladesh's mobile banking. The world's leading fintech company Ant Financial Services Group (an affiliate of the Alibaba Group) has already signed a strategic partnership with a local giant in mobile financial services, bKash Limited. By becoming an equity partner in a local venture, the Chinese company wants to promote financial inclusion and create a local version of Alipay in Bangladesh. Chinese investors are also introducing technological innovation to conventional banking systems. In November 2018, UnionPay International (a subsidiary of the China UnionPay), officially launched card issuance and mobile payment cooperation with the Mutual Trust Bank of Bangladesh to provide diversified payment services for consumers.

Currently, about 1,500 website-based and 10,000 Facebook-based e-commerce platforms operate in Bangladesh. Almost all of them suffer from a lack of seed money or primary funding as the concept of venture capital is quite new in the country. Some start-ups have received interests from international investors, including China-based venture capital firms. For example, the online grocery store, chaldal.com, and ridesharing start-up, Shohoz, have stake-holding investors from China. As digitalisation deepens further, there will be more investment opportunities. While Bangladesh offers many sectors to attract potential Chinese investments, there have also been issues in materialising investment inflows.⁷

⁷ There have been incidents of Chinese firms backtracking after showing interests and signing primary partnership agreements with local counterparts. For example, Bay Leather Group attracted about \$25 million worth of Chinese investment in 2018 to build a private effluent treatment plant (ETP) to maintain international standards and compliance. Unfortunately, it failed to get the clearance do so.

Figure 7.6: Stock of Chinese FDI in selected Asian countries (billion \$)



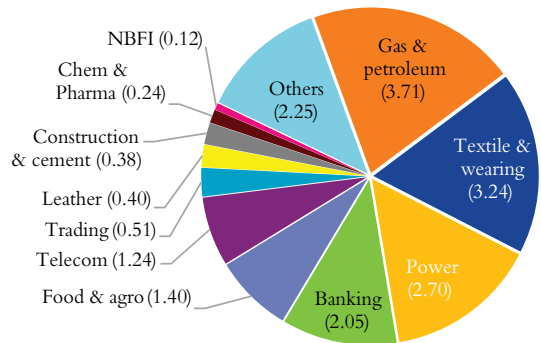
Source: Authors' analysis using UNCTAD data.

Figure 7.8: Composition of Chinese FDI stock in Bangladesh (billion \$)



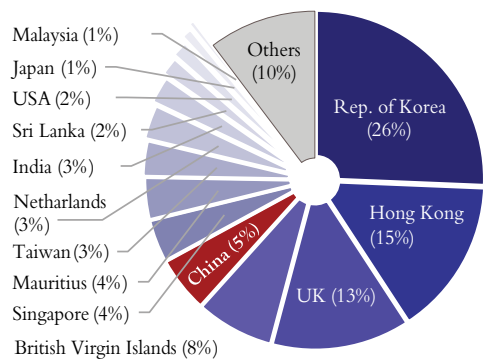
Source: Authors' analysis using Bangladesh Bank data.

Figure 7.7: Breakdown of Bangladesh's FDI stock (billion \$)



Source: Authors' analysis using Bangladesh Bank data.

Figure 7.9: Share of FDI stock in Bangladesh's RMG sector



Source: Authors' analysis using Bangladesh Bank data.

7.3 Current Trade and Economic Cooperation Arrangements

Due to geographical proximity and other mutual interests, the bilateral relationship between merchants, travellers, and religious figures of the two countries dates back to the Qin dynasty (221–206 BC). Exchange of ambassadors between Chinese dynasties and Bengal Sultanates from the early 15th century suggests two regions' maintaining warm official ties. After independence, Bangladesh–China official diplomatic ties resumed in 1976. A relationship that primarily relied upon military cooperation and aid-related support measures gradually turned into broader bilateral economic engagements. In 2006, China became the largest bilateral trade partner of Bangladesh for the first time, overtaking India.

The bilateral relationship between Bangladesh and China has manifested in multilateral, and regional trading arrangements where two countries are co-signatories. These arrangements include the Asia-Pacific Trade Agreement (APTA), the Belt and Road Initiative (BRI), the Bangladesh–China–India–Myanmar (BCIM) Forum for Regional Cooperation, etc.

Asia-Pacific Trade Agreement (APTA)

Previously known as the Bangkok Agreement, the Asia-Pacific Trade Agreement (APTA) came into being in 1975. As one of the earliest regional trading arrangements, the treaty was facilitated by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). Bangladesh, India, Lao PDR, Republic of Korea, and Sri Lanka were the five founding members of APTA. China's inclusion into the group in 2001 turned it into a preferential trading arrangement of significant interest to other members. The goal of this agreement is to strengthen economic integration while focusing on provisions for trade facilitation and liberalisation of investment in goods and services.

Based on the agreement, APTA members approve common operational procedures for the certification and verification of the origin of goods. A major feature of the agreement is the differential treatment for LDCs and the vulnerable island nation of Sri Lanka. APTA is important for Bangladesh because it allows enjoying some degree of improved market access in China and the Republic of Korea.

As a regional trading agreement, APTA holds a great deal of strategic and economic importance for the member countries, involving 2.6 billion population and some fast-growing economies from East to South Asia. APTA is the only regional trading agreement that binds the two largest developing economies of India and China. Trade among APTA members accounted for more than \$473 billion in 2018 (Table 7.2) with Bangladesh trading about \$24 billion with APTA members during that time. China accounted for more than three-fifths of all trade by Bangladesh with APTA members. When it is about exporting to China, Bangladesh is far from making most out of APTA arrangements.

Tariff concessions in APTA follows a 'positive list' approach. In this process, members negotiate concessional tariffs on a slow product-by-product basis. Therefore, it never achieved a truly meaningful regional FTA. But, after the APTA ministerial declaration of 2017, members decided to provide at least 33 per cent tariff concessions measured as an average of margin of preference (MOP) for all products covered (except LDCs and Sri Lanka).⁸ The implementation of the outcomes of the extended tariff concessions began from July 2017.

Previously under APTA, China provided duty-free market access to 83 items of Bangladesh at the HS 8-digit level, while the Republic of Korea provided 100 per cent tariff concessions to 139 items at the HS 10-digit level. In 2010, China introduced its LDC duty-free and quota-free (DFQF) scheme, in which Bangladesh was included. When APTA concessions are added to LDC-specific preferences, Bangladesh's duty-free access stretches to 61 per cent of the Chinese tariff lines (UNCDP, 2019).

⁸ The Ministerial Declaration can be found here:

https://www.unescap.org/sites/default/files/APTA-MC4-Ministerial-Declaration-adopted_13-Jan-2017.pdf

Table 7.2: Trade among APTA members in 2018 (billion \$)

	Exports								
	Countries	Bangladesh	China	India	Lao PDR	Rep. of Korea	Sri Lanka	Mongolia	Total
Imports	Bangladesh	-	11.7	8.752	0.004	1.238	0.048	0.0001	22.801
	China	0.985	-	16.404	2.031	204.566	0.341	6.432	230.759
	India	0.892	73.738	-	0.017	16.364	1.319	0.001	92.331
	Lao PDR	0.0001	1.456	0.037	-	0.840	0.003	0.001	2.337
	Rep. of Korea	0.347	109.028	4.780	0.302	-	0.088	0.212	114.757
	Sri Lanka	0.031	4.267	4.661	0.011	0.282	-	0.0001	9.252
	Mongolia	0.008	1.647	0.028	0.002	0.262	0.002	-	1.949
	Total	2.263	202.095	34.662	2.367	223.552	1.801	6.646	473.386

Source: Based on data from ITC Trade Map and EPB data.

APTA concessions and China's DFQF market access for LDCs

China is the largest export destination for LDCs, capturing more than 25 per cent of the latter's exports. It has implemented DFQF offers for LDCs in three phases. As mentioned above, beginning in 2010, it first implemented duty-free access to 60 per cent of its tariff lines. It later extended the coverage to 95 per cent in 2013 and then to 97 per cent in 2015.

Unfortunately, Bangladesh is still stuck with a duty-free market access of 61 per cent tariff lines while many other comparator LDCs enjoy such preferences for at least 90 per cent of products (Table 7.3). Afghanistan and 24 African LDCs enjoy the highest possible coverage of 97 per cent as they completed signing letters of exchange before 2015, while countries such as Cambodia, Myanmar, and Nepal enjoy 95 per cent coverage as they signed a letter of exchange with China after 2015. The Government of Bangladesh has been pursuing an improved market access package covering at least 95 per cent duty-free access while giving up APTA preferences.⁹ Availing improved LDC access in the Chinese market comes with a rules of origin requirement that beneficiaries must have at least 45 per cent value-addition for their export products. Currently, Bangladesh needs to comply with a 35 per cent value-addition requirement under APTA preferences.

Table 7.3: LDC-specific DFQF in the Chinese market

Countries/Concessional trade measure	Duty-free access as % of tariff lines
Bangladesh (APTA preferences and LDC DFQF), Mauritania (2010 DFQF)	61%
Lao PDR (ASEAN)	90%
Angola, Benin, Cambodia, Comoros, Eritrea, Liberia, Myanmar, Nepal, the Niger, Rwanda, Samoa, Timor-Leste, Togo, and Zambia (LDCs)	95%
Afghanistan, Burundi, Central African Republic, Chad, DR Congo, Djibouti, Equatorial Guinea, Ethiopia, Guinea, Guinea-Bissau, Lesotho, Madagascar, Malawi, Mali, Mozambique, Senegal, Sierra Leone, Somalia, Sudan, South Sudan, Uganda, Tanzania, Vanuatu, and Yemen (LDCs)	97%

Source: Based on the information from the Ministry of Commerce (FTA wing) and UNCTAD (2017).

⁹ China insisted on not offering improved LDC market access and APTA preferences simultaneously. Bangladesh has signed a letter of exchange to avail at least 95 per cent duty-free access and now, at the time of writing this chapter (November 2019), awaits a decision from China.

Bangladesh–China–India–Myanmar (BCIM) Forum for Regional Cooperation

Previously known as the Kunming Initiative, and later considered as a part of China's Belt and Road Initiative (BRI), the Bangladesh–China–India–Myanmar Forum for Regional Cooperation (BCIM) was initially considered as an important regional connectivity agenda. The idea of a 2,800 km long BCIM economic corridor connecting four countries was originally proposed in 1999. The envisaged corridor is supposed to connect China's relatively remote and landlocked Yunnan province with West Bengal in India through Mandalay (in Myanmar) and Dhaka. With a combination of roads, rail lines, and ports, BCIM was meant to be a complete network and expressway to facilitate trade of goods and services within the sub-region of South Asia to Southeast Asia. By ensuring improved connectivity and comprehensive investment in infrastructures, the BCIM forum expected to ultimately revive the flow of goods and services that existed through the historic Southern Silk Road.

Gains from the BCIM scheme could potentially be enormous for all participating countries. At a primary stage, it facilitates trade with good infrastructure and leads to industrial transfers, boosting such activities as manufacturing, mining, agro-processing, and commercial logistics. The Yunnan province of China and India's North-Eastern provinces suffer from lack of connectivity. Difficult terrains and inadequate port facilities have hindered economic transformations in those areas. The BCIM corridor would help resolve the problems by opening the borders of four countries to access a larger Asian market. Another critical issue envisaged by the BCIM was the shifting of labour-intensive industries from China to the regions with better connectivity and infrastructure for trade.

From Bangladesh's perspective, BCIM is the gateway to other regional trading arrangements. BCIM members are also signatories to big regional arrangements such as ACFTA, APTA, ASEAN, BIMSTEC, and SAFTA. FDI inflow and infrastructure development through BCIM can be a potential game-changer for Bangladesh. According to ADB (2015), Bangladesh's real income gains will be 6.9 per cent of GDP and exports will grow by 86 per cent if connectivity between South Asia and Southeast Asia improves. However, Bangladesh needs an estimated \$14 billion investment to prepare its road, rail, ports, and energy infrastructures to contribute to the integration. According to another estimate, given the existing production capacity, Bangladesh could export additional goods worth of up to \$650 million annually to northeastern Indian provinces, Myanmar, and China if the BCIM corridor becomes fully operational (Bhattacharjee, 2016). For India, intra-regional trade costs would be reduced by 30 per cent.

Despite significant promises and 20 years since its conception, the progress on the BCIM economic corridor is far from reality. It got caught up in regional geopolitics of China and India. India is sceptical of China's ulterior motives behind elaborate investment proposals in neighbouring countries through the BRI. China considered BCIM activities as part of the BRI while India argued that the regional cooperation idea of BCIM predated the BRI. Eventually the Chinese government decided to remove BCIM activities from the BRI. As things stand, much more work will need to be undertaken before any meaningful benefits can be derived from the proposed BCIM cooperation.

The Belt and Road Initiative

The Belt and Road Initiative is regarded as one of the most ambitious transcontinental connectivity and trade infrastructure projects. Proposed by Chinese President Xi Jinping in 2013, it extends to more than 70 countries with a combined GDP of \$24 trillion and 4.6 billion people. There is no official definition of what qualifies as a BRI project. There are Chinese-funded projects in countries not participating directly in the BRI, sharing the same characteristics of the BRI projects. It is estimated that BRI-related infrastructure development will require investments worth of \$26 trillions in the Asia-Pacific region, with the Chinese government pledging \$1 trillion to date (CSIS, 2018). With a heavy focus on infrastructure and trade, the BRI includes five key objectives: (i) policy coordination; (ii) regional trade and economic integration; (iii) improved connectivity through infrastructural development; (iv) financial integration; and (v) people-to-people connections through tourism, and cultural and academic exchanges.

The BRI is unfolding at a time when China is making the transition to a more strategically active member of the international community playing a fundamental role in shaping and influencing the development agenda from East Asia to South Asia to the continent of Africa. China has now integrated itself into the global economic system. As domestic economic conditions and capacities improved substantially, China is now poised to take the position of the world's largest economy over the next decade or so, although after several decades of buoyant growth its economy is reaching maturity as reflected in its growth slowdown in recent times.¹⁰

Bangladesh and the Belt and Road Initiative

For BRI participants, it is a massive opportunity to unleash their export potentials through improved connectivity. For most developing countries in or around the proposed economic corridors, the BRI also offers an unprecedented scope to integrate into global supply chains. Sectors such as public transportation, power and energy, and trade-related mega-infrastructure have been at the centre of the BRI's core investment activities. At the same time, it also opens up the possibilities of investing into country-specific export-oriented as well as import competing industries. All these reasons are pertinent to Bangladesh in particular. For example, mega-infrastructure projects can be good for local steel manufacturers. According to industry sources, such projects currently account for 35–40 per cent of annual steel consumption in Bangladesh. In 2018, local manufacturers had an annual capacity of producing more than 8 million tonnes of steel. The excess demand has also led to FDI inflows into this sector. For instance, Chinese steel manufacturer, Kunming Iron and Steel Holding Company (KISC), decided to invest \$2.4 billion in a \$3.5 billion joint venture with several other local companies. Bangladesh's greater inclusion in the BRI and timely disbursement of pledged funds can be an important boost to the supply-side response.

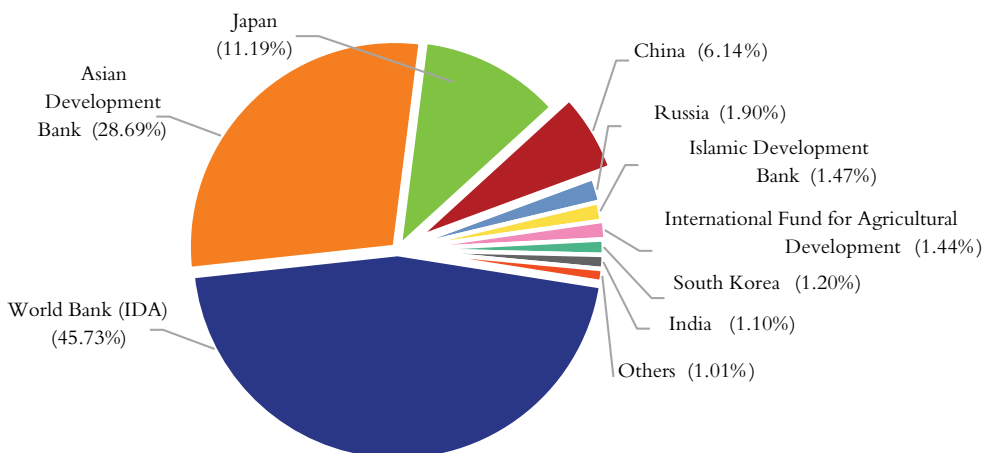
¹⁰ In the second quarter of 2019, China registered a GDP growth of 6.2 per cent—slowest over the past 27 years. It is projected that the Chinese economy will settle around a yearly growth of 6 per cent. This has been dubbed as the 'new normal' growth rate of China.

There are, however, reasons to be cautious. The BRI has already earned a great deal of criticisms across the world. Absence of well-specified activities makes it difficult to track what projects are being currently considered as part of the initiative. Issues such as lack of transparency and corruption have also adversely affected stakeholders' confidence in the corresponding projects. Another criticism is favouring Chinese state-owned enterprises (SOEs) while handing out contracts. There are concerns that large-scale public investments in BRI projects can crowd out local investment opportunities. Projects often include clauses to employ a big number of Chinese nationals, which has in many occasions given rise to tensed relationships between local and foreign workers in many countries.

It has also been pointed out by many in pursuing the BRI projects, large loans were given to otherwise economically weaker developing nations without considering their debt sustainability and fiscal situations. Several countries, including Pakistan and Sri Lanka from the South Asian region, have faced difficulties in servicing debts incurred by Chinese-funded infrastructure projects.¹¹

The cross-country experience of BRI projects should provide valuable insights. Chinese debts account for 6 per cent of Bangladesh's all outstanding external debts. The World Bank, the Asian Development Bank, and the Government of Japan have much bigger stakes in the country's debt stock (Figure 7.10). But, it is worth noting that loans offered from these sources come with much lower interest rates and softer terms and conditions compared to Chinese loans. So far, Bangladesh has never missed its repayment schedules on foreign loans, featuring its strength in servicing debts. Bangladesh's foreign debt-GDP ratio is about 33 per cent (second-lowest in South Asia after Nepal), which is lower than the average for developing countries.

Figure 7.10: Share in the external debt stock of Bangladesh



Source: Based on ERD data.

¹¹ According to various reports, Pakistan is thought to have received Chinese funding worth more than \$60 billion for the China-Pakistan Economic Corridor project. The debt has had a huge pressure on the already frail financial stability of Pakistan, compelling it to seek IMF assistance. Similarly, Sri Lanka built the port of Hambantota, which turned out to be unprofitable and later was handed over to a Chinese company under a debt-equity swap deal.

While the indicators suggest Bangladesh to have a relatively comfortable external debt situation and thus perhaps can engage more actively in the BRI, ensuring transparency of the projects, including terms and conditions and due implementation in a timely manner, should be a key priority. Instead of handing out all contracts to foreign entities, joint ventures, or consortium-based engagements to ensure enhanced participation of local investors is likely to have much greater beneficial effects. Bangladesh's geopolitical importance within the BRI process needs reviewing as China's investment in Myanmar has grown in recent years. According to the information obtained from various reports, China disbursed less than 5 per cent (\$986 million) of the pledged funds (around \$24 billion in 27 BRI projects) to Bangladesh until September 2019.¹²

7.4 Bangladesh's Export Potential and Market Prospects in China

Export Potential

The massive size of the Chinese economy, its continued strong growth—albeit at a lower rate of around 6 per cent per annum compared to double-digit rates of the previous decades—and its geographical location would tend to suggest huge export potential for Bangladesh. The gravity model of international trade is often used to ascertain the scope of increased trade with a partner country.¹³ Generally regarded as one of the most successful analytical tools in explaining trade flows between countries, the model predicts trade between any pair of countries based on cross-country experiences of such trade taking place between all bilateral trade partners while taking into consideration a large number of factors that are known to affect trade flows. Amongst others, this analytical workhorse suggests that larger and richer countries would trade more between themselves than the smaller and poorer countries, other factors remaining the same; geographical proximity promotes bilateral trade flows by reducing transport and information costs; and, factors, such as having land borders, common language, past colonial linkages, and regional trade agreements tend to augment trade flows between two countries. The predicted trade values can then be compared with actual trade. When the predicted values are larger than actual trade flows, it would imply that the country's potential is underutilised (given the average experience of global economies). On the other hand, actual trade higher than the predicted value will indicate the country's having an inherent advantage in doing more trade with the partner in question.

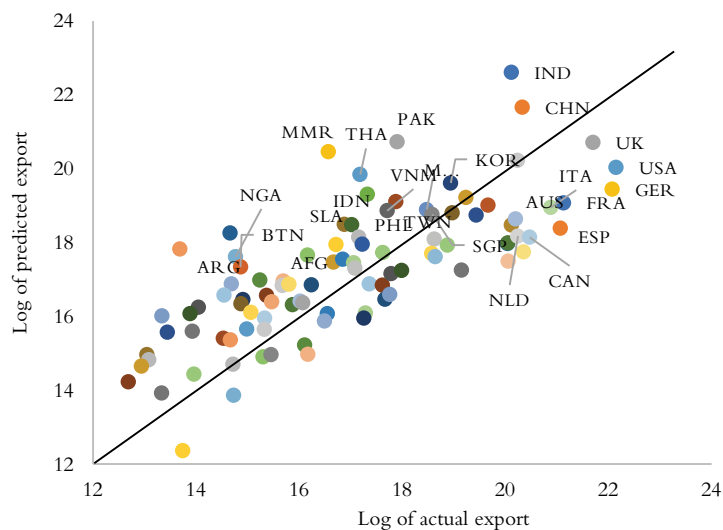
Geographical location and economic sizes of China and Bangladesh would imply the perceived trade between the two countries to be substantial. As mentioned earlier, China is already the most important import partner for Bangladesh while the latter's exports to the former is quite small. Therefore, using the gravity model, which has been estimated as part of this study here, an attempt

¹² Both countries have started a joint study group to identify the reasons behind the slow disbursement of funds. While red tapes exist on both sides, there are compatibility issues between project developing and managing teams. If teams from both countries cannot agree on certain issues, loan disbursements are delayed. At the same time, China's EXIM bank has now a limited annual disbursement capacity (of \$3 billion) to any country to avoid repayment failures. Bangladesh needs to closely assess all these underlying factors to make best use of the funds available from China.

¹³ In general terms, the gravity model depicts that bilateral trade flows between countries are directly proportional to economic sizes (measured by GDP) and are inversely proportional to trade costs (e.g., distance and many other factors that can influence transaction and/or information costs) between the trade partners.

has been made to ascertain if Bangladesh is utilising its export potential in China. Based on the relevant regression results, Bangladesh's actual versus predicted exports are summarised in Figure 7.11. The partner countries that fall below the 45-degree line (the diagonal line from the origin) are those where Bangladesh exports more than what could be predicted from the model. These are mainly developed countries including Australia, Canada, EU members, and the United States, which are Bangladesh's traditional strategic markets, accounting for more than four-fifths of the country's exports. With the exception of the United States, Bangladesh, as an LDC, receives very comprehensive and attractive duty-free market in these markets. Bangladesh will have to maintain its export performance in these markets to ensure a smooth graduation. On the other hand, partners that lie above the 45-degree line are those where current exports are less than model predictions. For example, Bangladesh should be exporting more to many Asian countries with India and China being the markets where very large export potentials remain unutilised. The gravity model results show that Bangladesh is exporting at least \$6 billion less to India (than what can be predicted). Similarly, under-exporting to China amounts to about \$2 billion.

Figure 7.11: Actual and predicted exports of Bangladesh to all partners



Note: The graph presented here is based on a global gravity model explaining bilateral trade flows for the period 1995–2015. The number of observations used in the exercise was 1,053,696. Predicted exports for Bangladesh are then calculated based on the estimated regression parameters. In the graph, actual exports are lower than the predicted exports for the countries lying above the 45-degree line. Source: Authors' estimation.

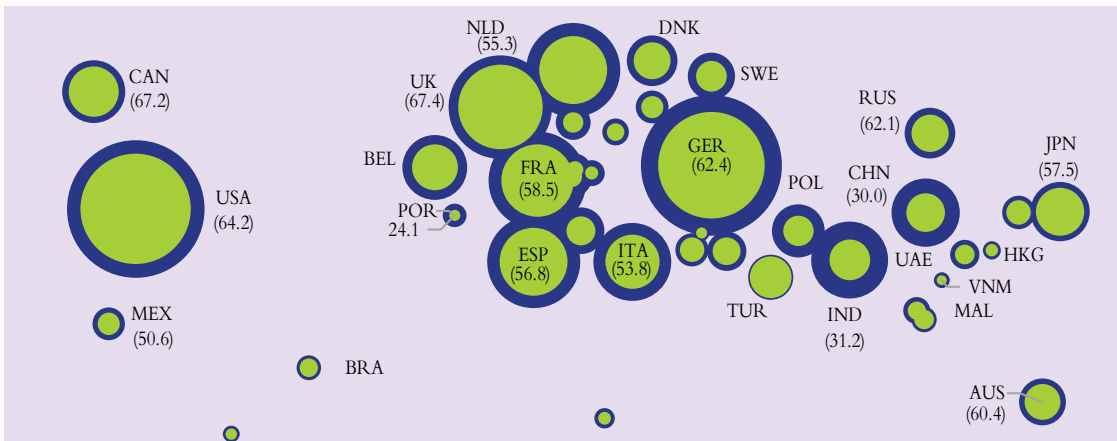
A more refined methodology—due to the International Trade Centre (ITC)—can also be used to analyse unutilised export potential in China. The ITC methodology devises an the export potential indicator (EPI) that identifies products in which an exporting country has already proven to be internationally competitive and thus are likely to have further prospects for export success in some target markets (Decreus & Spies, 2016).¹⁴ The potential export value is estimated

¹⁴ The ITC Export Potential Map uses data at the HS 6-digit level and employs several measures to enhance data quality. It focuses beyond extractive industries and environmentally damaging and hazardous products, to guide export development towards a less volatile and more environmentally conscious path.

based on exporters' supply capacity, demand condition in the destination markets and market access conditions.¹⁵ Potential export values are compared with actual export earnings to reveal untapped opportunities.

Using the product level data (at the HS 6-digit level), the results from applying the ITC methodology are summarised in Figure 7.12, which shows Bangladesh's export potential in all major export destinations. It is found that Bangladesh has been able to utilise just 30 per cent of its current export potential in China. This is comparable to Bangladesh's untapped export potential in India. Figure 7.13 shows the export potential in China by broad export categories. The products with greatest export potentials are clothing items and leather products. Bangladesh's apparel products have a potential market worth of \$1.5 billion, of which just about one-third is utilised. In leather, footwear, jute, and frozen fish items, the combined untapped market opportunities are estimated at \$220 million.

Figure 7.12: Export potential of Bangladesh in different destinations countries



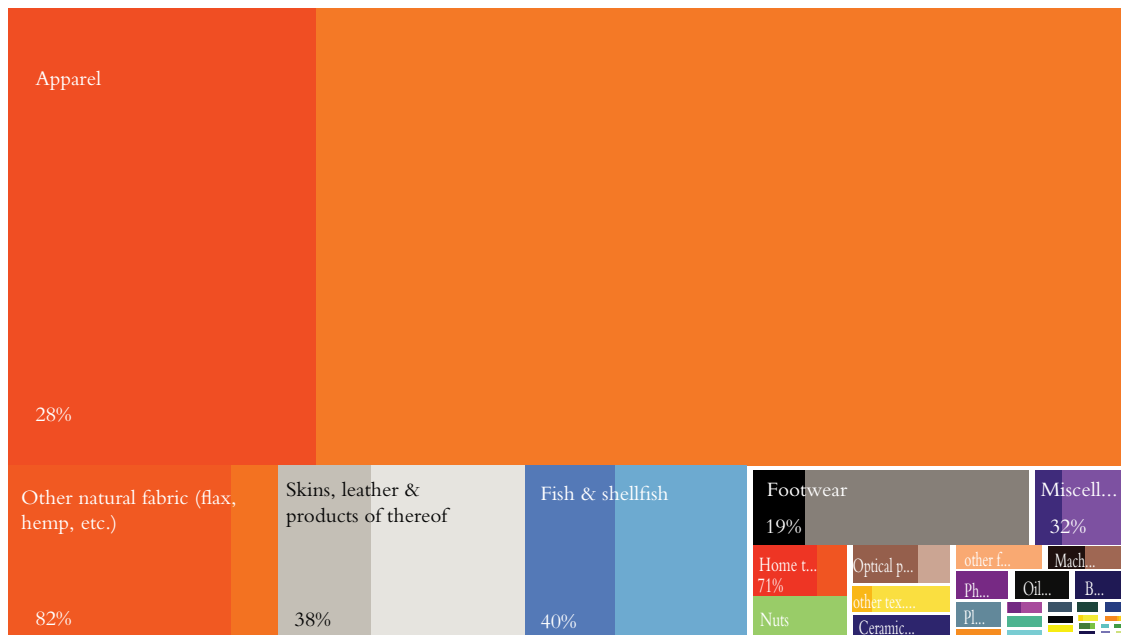
Source and note: Authors' analysis using data from the ITC Export Potential Map. The size of the blue bubbles indicates Bangladesh's total export potential to the target market, while the size of the green bubbles implies actual exports. The difference between the size of the blue and green bubbles represents the total unrealised potential. The numbers within parentheses indicate the proportion of the export potential currently utilised. Countries are indicated as AUS—Australia, BEL—Belgium, CAN—Canada, CHN—China, DEN—Denmark, ESP—Spain, FRA—France, HKG—Hong Kong, IDN—Indonesia, IND—India, IRL—Ireland, ITA—Italy, JPN—Japan, KOR—the Republic of Korea, LKA—Sri Lanka, MAL—Malaysia, MEX—Mexico, NLD—the Netherlands, NOR—Norway, NZL—New Zealand, PHL—the Philippines, POL—Poland, RUS—Russia, SA—South Africa, SWE—Sweden, SWT—Switzerland, THA—Thailand, TUR—Turkey, UK—the United Kingdom, USA—the United States of America, and VNM—Vietnam.

Although the above estimates are helpful indicators, the export potential should be much greater in reality. The presented estimates are based on Bangladesh's current supply-side capacities. With limited exports and lack of diversification as initial conditions, any estimated export potential will be small. As supply-side capacities are developed further and export diversification is achieved,

¹⁵ The supply capacity is approximated based on market shares corrected for expected GDP growth and global margin of preference. The import demand in the target market is computed taking into consideration expected GDP growth, population growth and distance between the trading economies.

market opportunities are likely to expand further. While the results based on the gravity model analysis consider export trade of all countries, Bangladesh should focus on the performance of those countries that have done well in the Chinese market such as the East Asian countries. Vietnam's exports to China in 2018 crossed above \$35 billion, and countries such as Malaysia, the Philippines, and Thailand all experienced rapid export growth in the same market as well. Along with the fast-growing Chinese domestic market, integrating into regional and global supply chains led by Chinese investors is a key determinant of improved export prospects.

Figure 7.13: Export potential for sub-sectors in the Chinese market



Note: Darker shade of colours and the percentage figures indicate the share of export potential being currently utilised by Bangladesh. Source: ITC export potential map.

Economists often use the so-called Revealed Comparative Advantage (RCA) indices in identifying products to assess export potential. This is a measure of calculating the relative advantage as well as competitiveness of a country in a certain class of goods or services as evidenced by trade flows. The bilateral RCA for one country shows goods or products that have revealed comparative advantage in the concerned partner country, compared to the rest of the world. If the normalised RCA score of an exported item is close to 1, it provides an indication of comparative market advantage in the partner country. A list of Bangladesh's products with favourable normalised RCA scores in the Chinese markets are given in Table 7. 4. As expected, Bangladesh has a strong revealed comparative advantage in jute, woven, and knitwear products. Other products with high RCA values include leather, fish rags, and carpets, footwear, etc. Table 7. 5 shows the products for China. It is quite striking that in a range of products China has very large market share (in imported items) in Bangladesh, yet the corresponding normalised RCA values are not that high. That is, in comparison with Bangladesh, China has other markets with bigger comparative advantages. It is clear from the RCA analysis that the two countries' pattern of specialisations are different and there are scopes for expanded trading activities.

Table 7.4: Bangladesh's products in China with the revealed comparative advantage

HS code	Product description	Share in China's import (%)	Normalised bilateral RCA
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	13.83	0.99
62	Articles of apparel and clothing accessories, not knitted or crocheted	8.02	0.99
61	Articles of apparel and clothing accessories, knitted or crocheted	7.04	0.99
65	Headgear and parts thereof	2.68	0.97
63	Other made -up textile articles; sets; worn clothing and worn textile articles; rags	2.47	0.96
41	Raw hides and skins (other than furskins) and leather	1.02	0.91
57	Carpets and other textile floor coverings	0.91	0.90
3	Fish and crustaceans, molluscs and other aquatic invertebrates	0.82	0.89
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	0.73	0.88
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	0.69	0.87
64	Footwear, gaiters and the like; parts of such articles	0.45	0.82
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	0.35	0.77
55	Man-made staple fibres	0.30	0.73
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	0.22	0.65
5	Products of animal origin, not elsewhere specified or included	0.13	0.49
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings, etc.	0.10	0.37
95	Toys, games and sports requisites; parts and accessories thereof	0.08	0.29
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	0.05	0.08
52	Cotton	0.05	0.06

Source: Authors' computation using ITC data.

Understanding market prospects of some selected products in the Chinese market

It is of great interest to ascertain how some selected products that Bangladesh considers its important export items are faring in the Chinese market while facing rival suppliers. One analytical framework for undertaking such a market prospect analysis is due to the International Trade Centre (ITC). The underlying tool helps portray the recent growth of exports of all rival suppliers in the destination market and how the import demand in the same market by suppliers is changing. When applied at the disaggregated product level, it offers important insights regarding the competitiveness of an exporting country in a particular market. The analysis is based on three primary factors: (i) export growth rates of competing countries in the Chinese market, (ii) all competing countries' export growth in the global market, (iii) competing countries' shares in the Chinese market. For brevity, the market prospect analyses have been carried out for Bangladesh's overall exports and a few other selected items only.

Table 7.5: Chinese products in Bangladesh with the revealed comparative advantage

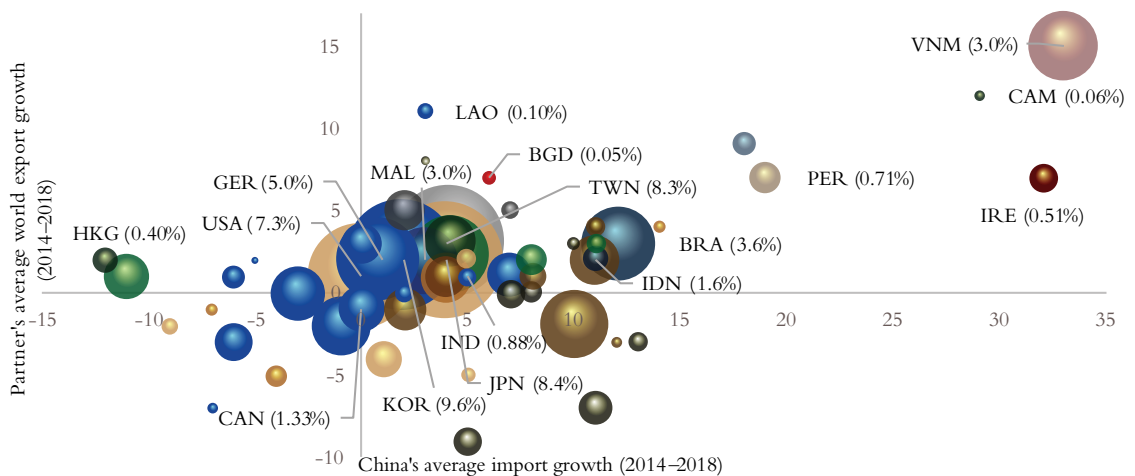
HS code	Product description	(%) Share in Bangladesh's import	Normalised bilateral RCA
66	Umbrellas, sun umbrellas, walking sticks, seatsticks, whips, riding-crops and parts thereof	99.92	0.51
50	Silk	88.88	0.47
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	88.85	0.47
95	Toys, games and sports requisites; parts and accessories thereof	88.63	0.47
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	84.16	0.45
64	Footwear, gaiters and the like; parts of such articles	82.00	0.44
69	Ceramic products	81.58	0.44
70	Glass and glassware	81.19	0.43
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	79.80	0.43
61	Articles of apparel and clothing accessories, knitted or crocheted	76.56	0.41
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings etc.	75.99	0.41
43	Furskins and artificial fur; manufactures thereof	75.99	0.41
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	75.94	0.41
13	Lac; gums, resins and other vegetable saps and extracts	72.94	0.39
60	Knitted or crocheted fabrics	72.05	0.38
55	Man-made staple fibres	70.93	0.38
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	69.75	0.37
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	68.27	0.36
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	67.73	0.36
83	Miscellaneous articles of base metal	66.55	0.35
54	Man-made filaments; strip and the like of man-made textile materials	65.10	0.34
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	63.52	0.33
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	60.50	0.31
5	Products of animal origin, not elsewhere specified or included	59.76	0.30
73	Articles of iron or steel	57.92	0.29
91	Clocks and watches and parts thereof	57.23	0.28
65	Headgear and parts thereof	55.44	0.27
92	Musical instruments; parts and accessories of such articles	54.89	0.26
62	Articles of apparel and clothing accessories, not knitted or crocheted	53.12	0.25
6	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	52.80	0.24
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	49.16	0.21
8	Edible fruit and nuts; peel of citrus fruit or melons	47.08	0.19
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television, etc.	40.54	0.12
52	Cotton	40.35	0.11
37	Photographic or cinematographic goods	39.34	0.10
35	Albuminoidal substances; modified starches; glues; enzymes	38.81	0.10
31	Fertilisers	37.72	0.08
57	Carpets and other textile floor coverings	37.59	0.08
89	Ships, boats and floating structures	36.70	0.07
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	34.99	0.04
44	Wood and articles of wood; wood charcoal	33.55	0.02
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, etc.	33.47	0.02
29	Organic chemicals	33.43	0.02

Source: Authors' computation using ITC data.

First, an overall market prospect analysis is undertaken, i.e., how Bangladesh compares with others. In Figure 7.14, bubble sizes represent shares of various suppliers in the Chinese market. The Republic of Korea accounts for the largest share of Chinese imports (9.6%), closely followed by Japan (8.6%), Taiwan (8.4%) and the United States (7.3%). Among developing countries,

Brazil (3.6%), Malaysia (3.0%), Vietnam (3.0%), and Indonesia (1.6%) are prominent exporters. It is worth pointing out that Vietnam has seen the fastest growth (more than 30% per annum) in market share over the past five years, while most other major suppliers are showing signs of maturity by having average annual growth rates of around 5 per cent during the same period. Bangladesh's current market share is tiny, 0.05 per cent, which has grown at an annual rate of just 6 per cent. Given the size of the Chinese market, even a small increase in market share would generate huge export earnings.

Figure 7.14: Export prospects for Bangladesh in the Chinese market



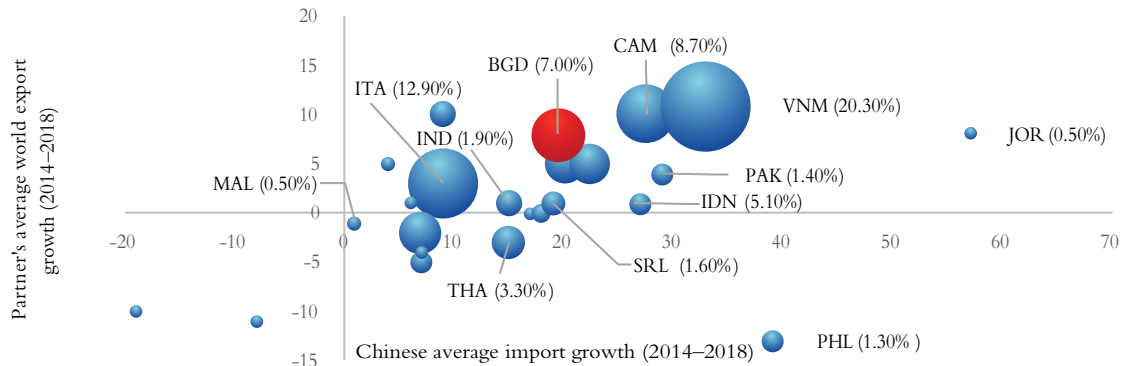
Note: The bubble sizes represent shares of various suppliers in the Chinese market, while the numbers indicate the per cent of market share. Countries are denoted as BGD—Bangladesh, BRA—Brazil, CAM—Cambodia, CAN—Canada, GER—Germany, HKG—Hong Kong, IDN—Indonesia, IND—India, IRE—Ireland, JPN—Japan, KOR—Republic of Korea, LAO—Lao PDR, MAL—Malaysia, PER—Peru, TWN—Taiwan, USA—the United States of America, VNM—Vietnam.

Source: Authors' analysis using ITC data.

The market situations for knitwear and woven apparel products are shown separately in Figures 7.15 and 7.16, respectively. The market sizes of knitwear and woven garment imports in 2018 were \$3.4 billion and \$4.2 billion, respectively. Bangladesh currently has a share of 7 per cent in knitwear and 8 per cent in woven items. In both cases, Vietnam is the most dominant supplier, capturing around a share of 20 per cent in each case. Cambodia's share in knitwear is close to 9 per cent and it is experiencing a much faster growth rate than that of Bangladesh. In the case of woven garments, its share is still small, 2.2 per cent, but its exports have grown at an average annual rate of close to 30 per cent over the past five years. Along with Cambodia, such suppliers as India, Indonesia, Myanmar, and Pakistan are prominent rivals for Bangladesh. Over the years, while the size of the Chinese market is likely to expand several times, Bangladesh's competitive pressures is likely to grow due to LDC graduation (i.e., from preference erosion, as discussed later). The Chinese apparel market is currently worth \$322 billion, which is getting bigger every year (and is expected to grow at more than 5 per cent per annum) due to the rising purchasing power of China's middle class (Statista, 2019). It will soon become the largest market for apparel items, replacing the USA (which is currently having a market size of about \$350 billion). Over the past five years, Bangladesh's RMG exports (woven and knitwear items together) to China has

expanded at an annual average rate of 15.1 per cent against its overall world export growth rate of 7.4 per cent. Nevertheless, during the same time, Cambodia, Indonesia, Myanmar, Pakistan, the Philippines and Vietnam enjoyed faster export growth in China.

Figure 7.15: Export prospects of knitwear in China

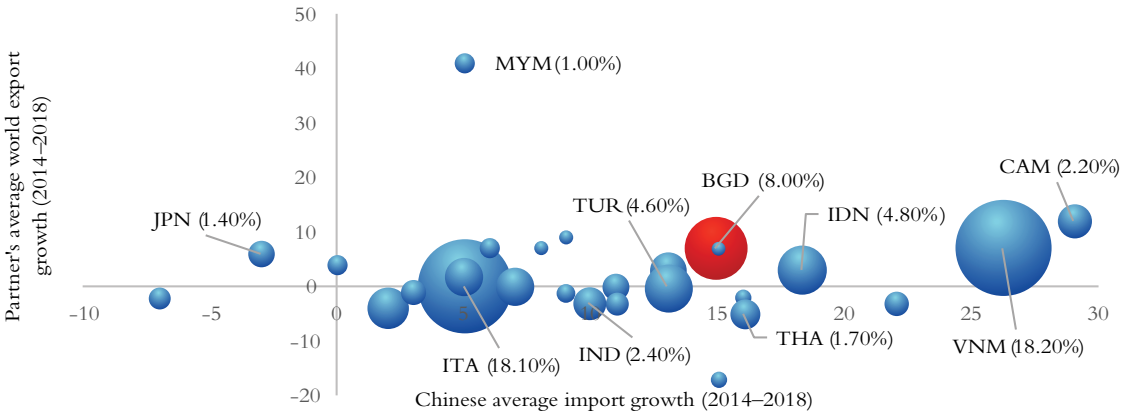


Note: The bubble sizes represent shares of various suppliers in the Chinese market, while the numbers indicate the per cent of market share. Countries are indicated as BGD—Bangladesh, CAM—Cambodia, IDN—Indonesia, IND—India, ITA—Italy, JOR—Jordan, SRL—Sri Lanka, MAL—Malaysia, PAK—Pakistan, PHL—the Philippines, THA—Thailand, and VNM—Vietnam. Source: Authors' analysis using ITC data.

In leather and leather goods, Bangladesh is a small supplier (with a market share of just 0.8%) to China (Figure 7.17). The market size of Chinese leather and leather goods imports was more than \$10 billion in 2018. The largest supplier of these items is Italy, capturing one-fifth of the market, followed by Vietnam (9.3%), USA (9.2%) and France (5.7%). Vietnam with its second position in the Chinese market is experiencing an above-20 per cent growth rate over the past-five years while Bangladesh's annual growth rate has been about 12 per cent. The Philippines, on the other hand, experienced the largest growth rate (close to 60%). Given the reasonably high growth rate of Bangladesh's exports of leather and leather goods and the size of the Chinese market, Bangladesh is expected to have significant prospects for expanding exports of these items.

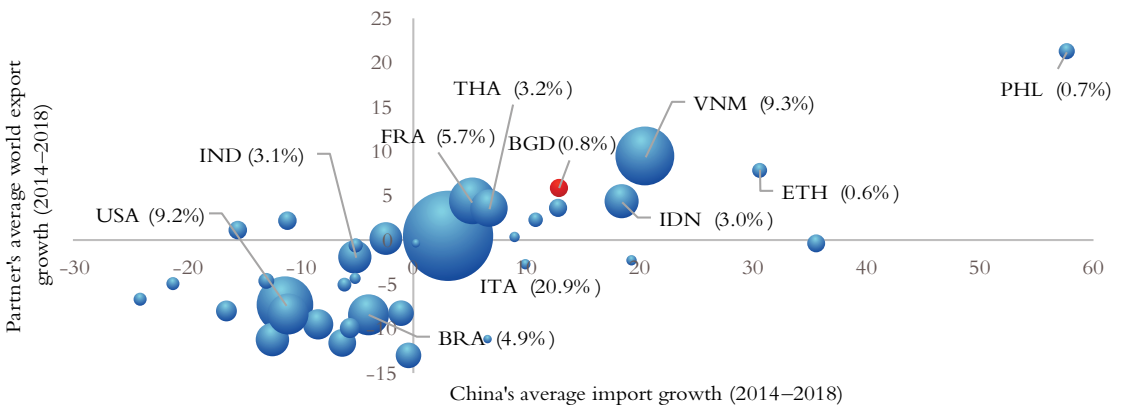
The analyses presented in this chapter thus suggest that Bangladesh on the whole, has a high untapped potential in China. Bangladesh's average yearly growth of exports in China over the past ten years has been 28.26 per cent, albeit with some large variations around this average rate. Sustaining this growth would result in Bangladesh's exports to China exceeding \$12 billion by 2030. But, a low export growth of 10 per cent per annum will yield only about \$2.5 billion over the same reference period.

Figure 7.16: Export prospects of woven garments in China



Note: The bubble sizes represent shares of various suppliers in the Chinese market, while the numbers indicate the per cent of market share. Countries are indicated as BGD—Bangladesh, CAM—Cambodia, IDN—Indonesia, IND—India, ITA—Italy, JPN—Japan, MYM—Myanmar, THA—Thailand, TUR—Turkey, and VNM—Vietnam. Source: Authors’ analysis using ITC data.

Figure 7.17: Export prospects of leather and leather goods in China



Note: The bubble sizes represent shares of various suppliers in the Chinese market, while the numbers indicate the per cent of market share. Countries are indicated as BGD—Bangladesh, BRA—Brazil, ETH—Ethiopia, FRA—France, IDN—Indonesia, IND—India, ITA—Italy, PHL—the Philippines, THA—Thailand, USA—the United States of America, and VNM—Vietnam. Source: Authors’ analysis using ITC data.

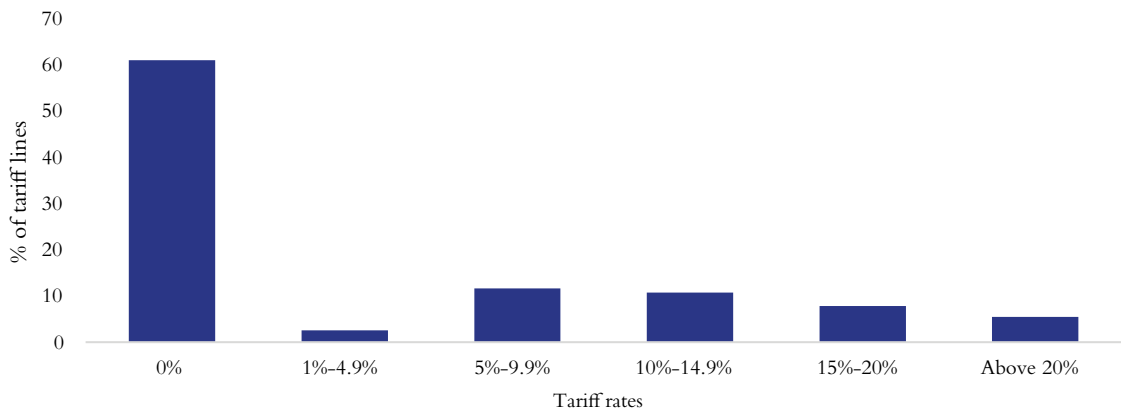
7.5 Towards a Strengthened Economic Cooperation Paradigm

Despite a less than impressive export performance, the massive opportunities that China presents for promoting Bangladesh’s trade and development objectives cannot be overstated. There exist significant scopes for expanded trade and economic cooperation between the two countries. Several possible options for enhancing Bangladesh’s exports to China are discussed below.

Securing LDC market access for all products until graduation

As mentioned earlier, Bangladesh enjoys duty-free, quota-free market access in 61 per cent of the Chinese tariff lines. However, in about 11 per cent tariff lines, Bangladesh faces import duties in the range 10–14.9 per cent. In another 14 per cent products, tariffs are higher than 15 per cent. (Figure 7.18 and Table 7.6). Bangladesh has requested China to extend the tariff preference coverage to 97 per cent as China is currently providing to many other LDCs. This is an issue that needs to be pursued further and can greatly help promote the bilateral engagement. The extension of duty-free coverage will improve export competitiveness. Currently, in almost one-third of apparel tariff lines, Bangladesh does not have duty-free market access.

Figure 7.18: China's tariff rates for Bangladesh (% of tariff lines)



Source: Authors' analysis using information from UNCTAD (2016).

A close look at Table 7.7 would reveal that in many of the items with duty-free market access, Bangladesh has done well in China. For example, in T-shirts, singlets and other vests (HS 61091000) and men's and boy's brace trousers (HS 62034200), Bangladesh has large global exports of \$6.5 billion and \$5.5 billion, respectively. Given the duty-free market access, it enjoys large shares in China's imports in these two items: 20 per cent and almost 30 per cent, respectively. However, China's imports of apparel is relatively small—only \$7 billion—and thus Bangladesh's export earnings from this market have been relatively small. According to many analysts, China's apparel imports will grow rapidly in the near future, when the duty-free access could be extremely useful. Apart from apparel items, Bangladesh is the most dominant supplier of jute yarn (HS 53071000), accounting for 87 per cent of Chinese imports. But, the overall demand for jute yarn is quite small. In many other items, Bangladesh does not have enough export supply capacities, thereby resulting in limited export earnings. It needs to be pointed out that compared to the major global markets (e.g., the EU and the U.S.), China's MFN tariffs are high. Consequently, differential tariff advantages due to market access preferences in China are much higher. Given all this, it is very important to secure a greater coverage of DFQF in China and to take concerted measure to build supply-side capacities.

Table 7.6: Items for which Chinese tariffs on Bangladesh are high

15%–20% tariff	Above 20% tariff
Meat and edible meat offal (HS 02), fish and crustaceans (HS 03), dairy produce; birds' eggs; natural honey; edible products of animal origin (HS 04), products of animal origin (HS 05), edible fruit and nuts (HS 08), coffee, tea, maté and spices (HS 09), products of the milling industry; malt; starches (HS 11), oil seeds and oleaginous fruits; miscellaneous grains (HS 12), animal or vegetable fats and oils and their cleavage products (HS15), preparations of meat, of fish or of crustaceans (HS 16), preparations of cereals, flour, starch or milk (HS 19), preparations of vegetables, fruit, nuts or other parts (HS 20), miscellaneous edible preparations (HS 21), essential oils and resinoids; perfumery, cosmetic (HS 33), photographic or cinematographic goods (HS 37), rubber and articles thereof (HS 40), articles of leather (HS 42), furskins and artificial fur; manufactures thereof (HS 43), wood and articles of wood; wood charcoal (HS 44), man-made staple fibres (HS 55), articles of apparel and clothing accessories, knitted or crocheted (HS 61), articles of apparel and clothing accessories, not knitted or crocheted (HS 62), other made-up textile articles (HS 63), footwear, gaiters and the like; parts of such articles (HS 64), articles of stone, plaster, cement, asbestos, mica or similar materials (HS 68), glass and glassware (HS 70), articles of iron or steel (HS 73), tools, implements, cutlery, spoons and forks, of base metal (HS 82), machinery, mechanical appliances, nuclear reactors, boilers; parts thereof (HS 84), electrical machinery and equipment and parts thereof (HS 85), vehicles other than railway or tramway rolling stock, and parts and accessories thereof (HS 87), optical, photographic, cinematographic (HS 90), clocks and watches and parts thereof (HS 91), musical instruments; parts and accessories of such articles (HS 92), furniture; bedding, mattresses, mattress supports (HS 94).	Edible fruit and nuts (HS 08), cereals (HS 10), products of the milling industry; malt; starches (HS 11), animal or vegetable fats and oils and their cleavage products (HS 15), sugars and sugar confectionery (HS 17), preparations of cereals, flour, starch or milk (HS 19), preparations of vegetables, fruit, nuts or other parts (hs20), beverages, spirits and vinegar (HS 22), beverages, spirits and vinegar (HS 24), photographic or cinematographic goods (HS 37), wool, fine or coarse animal hair; horsehair yarn and woven fabric (HS 51), articles of apparel and clothing accessories, knitted or crocheted (HS 61), footwear, gaiters and the like; parts of such articles (HS 64), articles of stone, plaster, cement, asbestos, mica or similar materials (HS 68), glass and glassware (HS 70), natural or cultured pearls, precious or semi-precious stones, precious metals (HS 71) articles of iron or steel (HS 73), machinery, mechanical appliances, nuclear reactors, boilers; parts thereof (HS 84), electrical machinery and equipment and parts thereof (HS 85), vehicles other than railway or tramway rolling stock, and parts and accessories thereof (HS 87), musical instruments; parts and accessories of such articles (HS 92).

Note: While the items are listed here using the HS 2-digit classifications, not all products at a highly disaggregated level (e.g., at the 8-digit level within the same HS 2-digit group) have identical tariff rates. For example, at the HS 8-digit level, for about one-third (31.1%) Chinese apparel tariff lines, Bangladesh is subject to tariff rates of 14–25 per cent. Preferential tariff rates (under LDC-specific or APTA LDC schemes) for the remaining 68.9 per cent apparel products are zero. For knitwear, 32.6 per cent of products attract 14–25 per cent tariff rates, while for woven garments the corresponding rates are in the range 14–20 per cent. Bangladesh could not do well in exporting the items for which the duty-free access is not provided.

Source: Authors' analysis using WITS data.

Pursuing an extended transition period for LDC-specific preferences

Along with securing expanded duty-free market access coverage, Bangladesh, as part of a greater economic cooperation, should pursue an extended LDC transition period from China. The impending graduation will have implications for Bangladesh's exports as the current preferential market access conditions will get eroded. As MFN duties in China, in many cases, are much higher than those in the EU and other developed country markets, LDC graduation will lead to significant tariff hikes for Bangladeshi exporters. There is no provision of generous preferential market access in China for the developing countries.

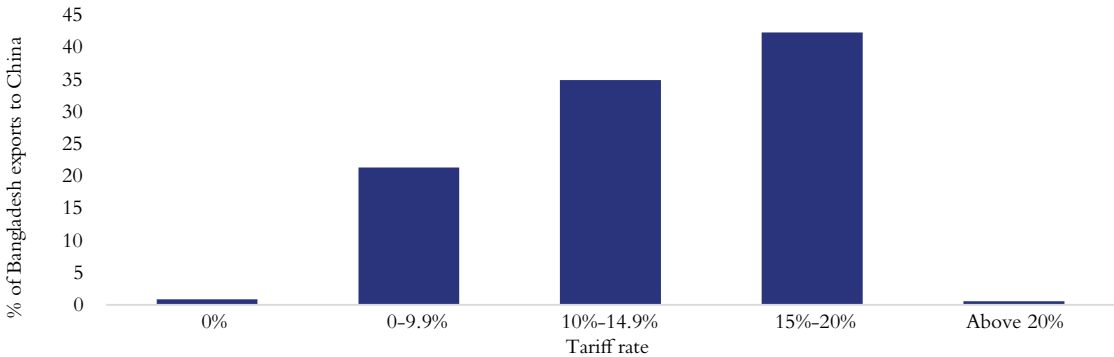
It can be worked out that, after graduation, more than 42 per cent of Bangladesh's exports to China will be subject to 15–20 per cent tariff (Figure 7.19). Another 35 per cent exports will fall under the tariff range 10–14.9 per cent. The export structure against the distribution of MFN tariff rates will change if Bangladesh gets an improved duty-free coverage like many other LDCs.

Table 7.7: Bangladesh's exports of top 20 products and Chinese tariff rates (2018–19)

HS code	Product Description	BGD's world exports (million \$)	BGD's exports to China (million \$)	CHN's total imports (million \$)	CHN's (%) share in BGD's exports	BGD's (%) share in imports of China	MFN tariff (%)	Applicable tariff on BGD (%)
61091000	T-shirts, singlets and other vests, of cotton, knitted or crocheted	6552.8	121.0	600.8	1.8	20.1	14	0
62034200	Men's or boys' bib & brace trousers, breeches, shorts, of cotton*	5555.9	114.9	385.8	2.1	29.8	16	0 and 16
62046200	Women's or girls' trousers, breeches, cotton	3062.5	44.3	254.1	1.4	17.4	16	0
61102000	Jerseys, pullovers, cardigans, waistcoats & similar art., knitted or crocheted	2209.3	33.8	457.5	1.5	7.4	14	0
62052000	Men's or boys' shirts of cotton	1954.2	32.5	217.3	1.7	15.0	16	0
61103000	Jerseys, pullovers, cardigans, waistcoat s, knitted or crocheted of man-made fibre	1384.1	10.2	300.7	0.7	3.4	16	0
61046200	Women's or girls' trousers, etc, of cotton, knitted or crocheted	933.3	11.6	81.7	1.2	14.2	16	0
62034300	Men's or boys' bib & brace trousers, breeches & shorts of synthetic fibres	815.6	3.9	145.1	0.5	2.7	14	0
61051000	Men's or boys' shirts of cotton, knitted or crocheted	805.9	5.5	125.8	0.7	4.4	16	0
61109000	Jerseys, pullovers, cardigans, waistcoats, knitted or crocheted	516.3	2.1	12.6	0.4	16.8	14	0
62121000	Brassieres	499.8	1.0	148.5	0.2	0.7	14-16	0
61099000	T-shirts, singlets, etc, of other textiles, nes, knitted or crocheted	458.4	5.4	234.1	1.2	2.3	14	0
61112000	Babies' garments, etc, of cotton, knitted or crocheted	432.3	8.1	106.1	1.9	7.7	14	0
62019300	Men's or boys' anoraks, wind jackets/cheaters, etc, of man-made fibres	404.6	12.7	320.7	3.1	4.0	17.5	0
61082100	Women's or girls' briefs and panties of cotton, knitted or crocheted	399.5	1.2	19.9	0.3	6.2	14	0
61071100	Men's or boys' underpants and briefs of cotton, knitted or crocheted	392.0	2.6	19.9	0.7	13.1	14	0
53071000	Single yarn of jute or of other textile bast fibres of 5303	383.6	69.4	79.2	18.1	87.6	6	0
3061700	Other shrimps and prawns	357.7	5.2	1360.6	1.5	0.4	5-8	0
61034200	Men's or boys' trousers, etc, of cotton, knitted or crocheted	317.5	4.0	131.3	1.3	3.1	16	0
62029300	Woman's or girls' anoraks, wind jackets/cheaters, etc, of man-made fibres	290.2	5.7	165.0	1.9	3.4	17.5	0

Note: *Under this category, two tariff lines have been defined as 62034210 (16% tariff) and 62034290 (0% tariff). Chinese imports from the world correspond to calendar years; BGD= Bangladesh, CHN= China.

Source: Authors' analysis using EPB, ITC, and WITS data.

Figure 7.19: Exports against MFN tariffs (% of total exports to China in 2018)

Source: Authors' analysis using information from UNCTAD (2016).

The impact of tariff hikes after graduation will potentially undermine Bangladesh's already weakened comparative advantage. Utilising a partial equilibrium model, as in Razzaque and Rahman (2019), the likely consequences on exports due to the erosion of LDC preferences are estimated using 669 HS 8-digit products that were exported to China in 2018. The results suggest an adverse effect on exports to the tune of 12.5 per cent (i.e., \$122.7 million) (Table 7.8).¹⁶ This considerably large impact is due to the fact that China's MFN tariffs on apparel items are high—15.5 per cent on average. Home textiles, leather and leather goods, footwear, and fish and fish products are other products that also have significant adverse implications.¹⁷

Table 7.8: Potential impact on export earnings after graduation

Products	Exports in 2018	Loss in export earnings after graduation	
		Loss (million \$)	Per cent of current exports
RMG (HS 61 and HS 62)	572.0	-88.6	-15.5
Fish (HS 03)	95.7	-12.0	-12.5
Jute and jute products (HS 53)	126.8	-7.6	-6.0
Optical, photographic, cinematographic, measuring (HS 90)	23.1	-2.7	-11.9
Leather and leather products (HS 41 and HS 42)	71.5	-5.2	-7.2
Footwear (inc. leather footwear) (HS 64)	21.1	-1.9	-9.2
Home textile (HS 63)	12.0	-1.7	-14.0
All exports	984.4	-122.7	-12.5

Source: Authors' estimation.

There is no denying that any quantitative impact assessment exercise will be associated with shortcomings in terms of particular methodologies to be utilised and various assumptions used in operationalising the underlying models. However, what is most important to acknowledge is that

¹⁶ These results are based on the standard assumption of the price elasticity of demand for Bangladesh's exports being 1. A higher elasticity value will result in larger loss estimates.

¹⁷ The estimations have certain limitations. The shortcomings are associated with underlying assumptions made in developing the models and making them operational. The models also cannot capture many real-life complexities.

from a situation of tariff-free access to being subject to tariff hikes would certainly result in weakened competitiveness. Considering the likely consequences, Bangladesh should ask China to allow for an extended transition period after graduation. It is quite commonplace to grant LDCs with such provisions to facilitate their smooth transition. The EU, for example, allows an additional three-year-period for graduating countries to continue with LDC-specific preferences. There is also a precedence of China's providing similar transitional arrangement for Samoa, which graduated in 2014.

Gradual phasing out of LDC-specific preferences

The United Nations calls for a smooth transition for graduating LDCs. This is based on the principle that LDC-specific support to be phased out in a gradual and predictable manner so that the development progress of the graduating country is not disrupted. LDC-specific trade preferences and their phasing out patterns are not universal. Some developed and developing countries, including China, have applied measures for facilitating smooth transition of past LDC graduates.

Unlike Bangladesh, there has been no other LDCs that were able to significantly benefit from duty-free market access provisions. Previously graduating LDCs used to supply only a few products in very limited quantities; consequently, the problem of post-graduation tariff hikes was not highlighted to be a major concern. For Bangladesh, however, the likely rapid escalation in tariffs is going to be a major issue. For example, many Bangladeshi exporters, of apparel items in particular, will see tariffs facing their products rising from 0 to 14–16 per cent. The abrupt tariff hikes cannot be helpful for smooth graduation. This paper therefore argues for a gradual phasing out of tariff preferences. Ideally, the phased withdrawal of tariff preferences should be preceded by an extended transition period.

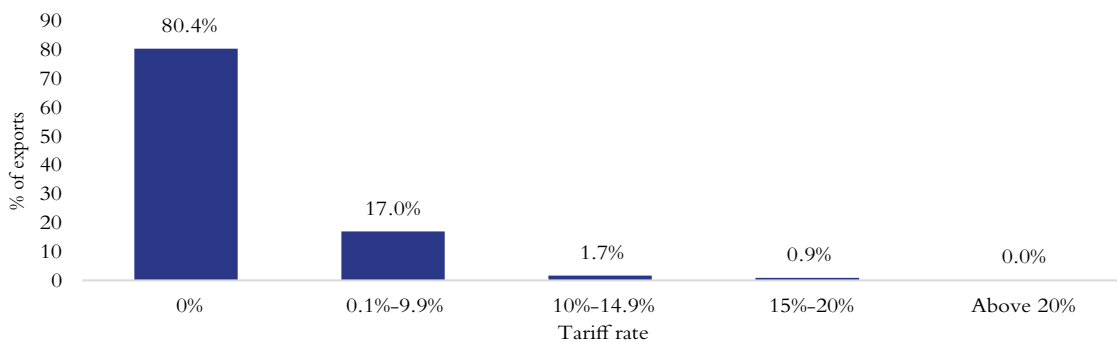
One important task for Bangladesh is thus to request China to: (1) commit to an extended transition period (of at least three years beyond the likely graduation in 2024) as soon as possible so that the exporters can have policy certainty over a longer period of time and (2) to roll out a programme of gradual withdrawal of tariff preferences. Bangladesh could propose complete phasing out of LDC benefits over a period of five years. This would imply curtailing a 20 per cent preference margin each year beginning from 2027 and ending in 2032.

A free trade agreement

Retaining the existing level of market access through an FTA is also an option but it comes with reciprocity (i.e., offering a similar preferential treatment to China). The fast-growing domestic market in Bangladesh and China's already dominant position as the most important source of import makes the latter interested in a bilateral trade deal. Indeed, in 2014, China proposed considering an FTA between the two countries. Subsequently, during Chinese President Xi Jinping's visit to Bangladesh in 2016, the two sides agreed to launch a feasibility study for a possible FTA. Both countries further expressed interest and discussed making progress on the joint feasibility study during the visit by Prime Minister Sheikh Hasina to China in July 2019. The work on the proposed study has been initiated with no significant progress yet to be reported by any of the countries.

About 80 per cent of Bangladesh's exports (in absolute value terms) to China have duty-free access, while 17 per cent are subject to MFN tariffs up to 10 per cent (Figure 7.20). If China is approving the higher LDC duty-free package (for which Bangladesh has already made a formal request), the tariff rate will fall to zero in 95 per cent of the tariff lines. From such a situation of already having duty-free access to one of an FTA will keep market access provisions largely unchanged, and as such, the benefits of an FTA are often not appreciated. However, it is the policy continuity of stable market access commitments within a trade agreement backed by an agenda of wider economic cooperation that boosts exporters' and investors' confidence in engaging trade and production activities.

Figure 7.20: Applied tariff rates on Bangladesh's exports to China



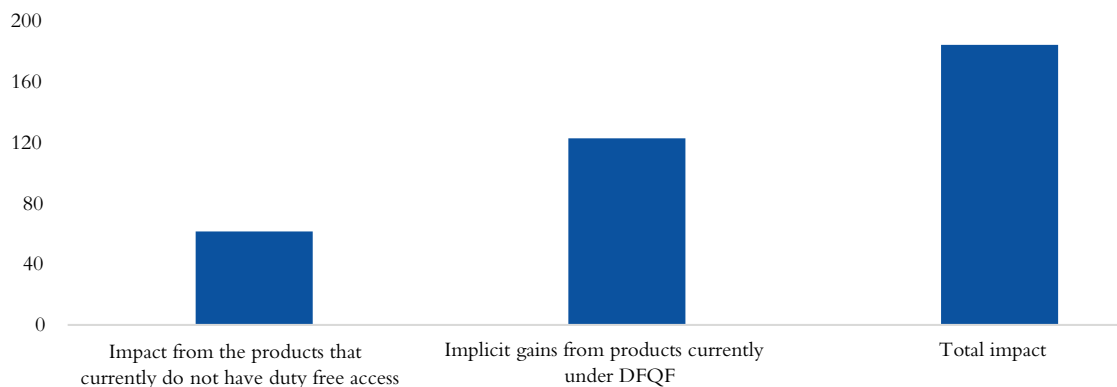
Source: Authors' estimate using WITS data.

It is important to recognise that the potential impact of an FTA on export responsiveness can be found to be small if the initial export base is small. This is an inbuilt limitation of any quantitative and/or modelling (both static and dynamic) exercise given the availability of information and perceived notion of supply-side capacities. Notwithstanding, when the popularly-used WITS-SMART partial equilibrium model, developed by the UNCTAD and the World Bank, is utilised, employing the data on trade flows and applied MFN tariff rates at the HS 6-digit level of disaggregation, it is found that a complete liberalisation of all tariffs on Bangladesh's exports would lead to an increment in export revenues by about 8 per cent (i.e. about \$80 million). The impact of trade creation dominates this change, which has favourable welfare implications. It is worth pointing out that since this simulation is undertaken considering the current situation of tariff-free access for 80 per cent exports, the resultant impact is associated with the items for which applied tariff rates in China are non-zero. If the results are considered in conjunction with possible adverse implications arising from China's applying MFN duties on all products as the base case scenario, the changes in exports would be close to \$200 million, i.e., about 22 per cent of Bangladesh's current exports to China (Figure 7.21).

It is true that an FTA will also result in a rise in Bangladesh's imports from China. Bangladesh has a highly protective domestic market in a wide range of products and Chinese exporters, under any FTA arrangements, will likely to replace some domestic production and/or imports from other preferential sources. Estimates using the same methodology, as mentioned above, show that Chinese exports could increase by \$2 billion, which is about 16 per cent of current imports from China. Given the size of Bangladesh's economy, this additional import should not cause any major disruption. Rather, it would improve consumers' welfare and help producers, particularly

those who import intermediate inputs and capital goods as part of import-substituting production. There is, however, a major concern that an FTA will trigger massive import flows from China and could lead to a substantial loss of government revenues collected from imports. However, as discussed above, around 30 per cent of Chinese imports into Bangladesh are imported as intermediate inputs through bonded warehouses for export-oriented enterprises and thus tariffs on these products are already zero. Therefore, the revenue concerns are perhaps exaggerated.

Figure 7.21: Impact of an FTA on Bangladesh's exports (million \$)



Note: Implicit gains from products currently under the DFQF market access have also been included in estimating the total impact.

Source: Authors' estimation using the WITS/SMART model.

It will be most effective to consider a comprehensive bilateral framework for cooperation in the medium to long run. Under this, Bangladesh must effectively engage with China so that the LDC-specific extended duty-free access can be secured immediately. The second element of the framework should comprise pursuing an extended transition period of LDC graduation and a gradual phasing out of tariff preferences covering a period of five years. Finally, between now and the end of the transition period, both countries should negotiate a free trade agreement.

Attracting FDI from China

Chinese investments have just started flowing into Bangladesh. This is an encouraging factor, but along with infrastructural development projects, large-scale FDIs are needed in the export-oriented sector. The booming domestic economy will certainly attract a lot of investment aiming to meet the demands of the local consumers. However, FDI in export-oriented enterprises can help foster export growth, diversify exports, break into new markets, and take advantage of unexploited trade preferences (e.g., in the EU, Canada, Japan, etc.) where Bangladesh will continue to have preferential market access for several years ahead. Bangladesh also needs investments for expanding exports to the vast market of India. Chinese FDI will be important for enhancing global value chain participation and promoting emerging sectors that are increasingly becoming an important determinant of export success.

Enhancing global value chain participation: When it comes to global value chain (GVC)-based production network, in which Bangladesh has a very limited participation, as discussed in various chapters in this volume. Only the apparel sector has successfully been integrated into the GVC process, but local suppliers overwhelmingly operate at the bottom end of the value chain, capturing the least share of retail prices. Within limited value-added margins, manufacturers must afford imported raw materials, production processes, wage payments, compliance and transportation costs, amongst others. In the value chain process, higher returns are associated with activities such as research and product development, branding, marketing, retailing, and after-sales services. Since Chinese companies have global dominance in R&D, retailing, and other points of the GVC, Bangladeshi suppliers can benefit from joint ventures. The benefits of FDI are well-established in numerous studies and analyses, and one of the most important advantages is FDI firms' rich supply chain network involving global retailers. FDI and/or joint ventures will also generate spillover effects in areas such as modern management systems, new product development, and global retailing through e-commerce.

Promoting new and emerging sectors: While investment in conventional areas such as energy, readymade garment, and construction will remain destinations for Chinese FDI, it is equally essential to focus investments in new and emerging sectors. China is a global hub for tech start-ups and e-commerce-based economy. Each year, Chinese tech giants invest or buy shares of new start-ups across the world, especially in developing countries. Bangladesh has untapped market potential with a massive customer base in e-commerce, making it an attractive destination for potential investors. Such technology-intensive industries require technical and financial support from established venture capitals or tech companies. Measures to incentivise more Chinese investments in these sectors will be helpful in the overall digital transformation of the country. Similarly, sectors such as food and agro-processing, financial services, non-bank financial institutions, chemical and pharmaceuticals, retail businesses, entertainment, hotel, and tourism sectors should also be given more priority in promoting foreign investments. Export potential for some of these sectors is huge in today's world.

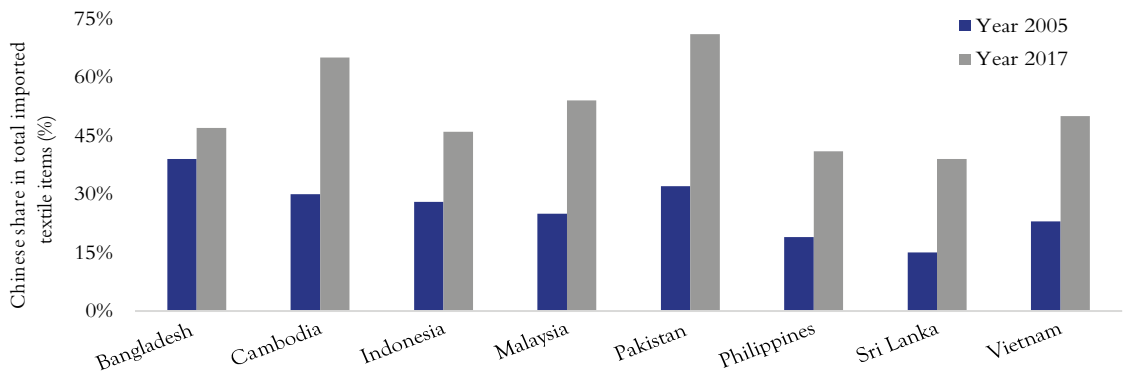
Facilitating relocation of Chinese firms in Bangladesh

China is going through a process of industrial restructuring, which is creating opportunities for other countries. The emerging trend seems to suggest that because of shifting comparative advantages, new opportunities are being created for other countries to enter into the global export market by specialising in some relatively labour-intensive and less-skilled manufacturing industries. Rising labour cost and the national focus on a strategic shift towards high value-added manufacturing are gradually changing China's composition of exports. Heightened trade protectionism since the global financial crisis of 2008 and, more recently, the U.S.-China trade war have accentuated this process. Many firms from Japan, the Republic of Korea, Singapore, and Taiwan, relying on low-cost production in mainland China, have started relocating to their preferred destinations such as Vietnam and other Southeast Asian countries.

The primary destination of the relocated firms, Vietnam, is reaching a saturation point. It has only 7 million skilled labour, which has been already absorbed, with wages rising significantly. Other countries such as Cambodia, Lao PDR, and Myanmar have also seen rising inflows of Chinese investments. But these countries lack skilled labour and their capacity of prompt supply

response at vast scales is limited. This opens a new window of opportunity for Bangladesh to attract and facilitate FDI in garment manufacturing, amongst others. Despite having no formal barriers, local exporters have never been more than lukewarm towards foreign investments, suggesting their need only in the high value-added segments and not in basic apparel items.

Figure 7.22: Textile and related raw material import of Asian economies from China (comparison between 2005 and 2017)



Source: Based on Sheg Lui (2018).

However, it is important to reconsider the position as enhancing export supply response is becoming increasingly difficult. Relocation of Chinese firms elsewhere will create pressure on Bangladesh's competitiveness and undermine the scope of future growth. Also, relocation does not mean Chinese companies are going away from the whole business. While its share in clothing exports is gradually falling, China's significance as a source of textile and textile-related intermediate inputs and capital goods have become more important than ever (Figure 7.22). China's share in Bangladesh's textile and related raw materials imports rose to 47 per cent in 2017 from 39 per cent in 2005. As Chinese manufacturers already have good backward linkage in this business, they can contribute to substantial export gains by Bangladesh. Through the relocated firms, local entrepreneurs can gain important insights into China's high value-added premium quality apparel items.

It is worth pointing out that in the immediate aftermath of the U.S.-China trade tension, Bangladesh benefited to some extent through some increased export orders that were diverted from China. However, countries like Indonesia and Vietnam have been successful in attracting the diverted FDI along with export orders. This has ensured their medium to long-term export prospects.

Making the most of BCIM and BRI initiatives

Both the BCIM and BRI initiatives, if successfully implemented, should promote infrastructural development and connectivity from which Bangladesh will benefit. The cooperation at the regional level encompasses gains that go beyond market access for export products. However, the implementation of these mega-schemes will depend on a complex interplay of extrinsic factors involving the two largest economies in the world along with their ever increasing regional and global influence. The dynamics between China and India will shape the future of both BCIM and BRI schemes. Bangladesh needs to remain open about the opportunities arising from both

of these initiatives. Several issues must be judiciously considered in moving forward with these arrangements.

Governance and transparency: Good governance and transparency in project selection, implementation conditionalities, and fund utilisation should be given serious attention. Since several large infrastructure projects are currently under implementation, lessons can be drawn in considering future projects while ensuring maximum gains. There is also a need for developing capacities in large project management and dealing with emerging bilateral donors including China and India.

Maintaining stability through prudent macroeconomic management: Large infrastructure projects can trigger some challenges in macroeconomic management. They require massive imports of capital machinery and construction materials, putting pressures on foreign exchange reserves. On the other hand, increased economic activities in an already buoyant economy is likely to induce demand-pull inflation. All this requires delicate policy choices involving fiscal and monetary instruments. Any fallout from macroeconomic instability could hurt external competitiveness and thus export performance. Therefore, a prudent macroeconomic management will be critical.

Debt financing: While Bangladesh's debt profile looks stable for now, the situation can change quickly if cautionary measures are not taken in managing loans of BRI projects. Availability of soft loans with long repayment windows is likely to become scarce as Bangladesh has already become a middle-income country. It has been pointed out by many observers that Chinese lending processes often overlook international standards in carrying out rigorous economic impact analysis and in assessing risks involved. Bangladesh must avoid any 'debt-traps' by accepting most productive loans only, securing soft terms for repayment, and ensuring effective and timely completion of projects.

Protecting the environment and local interests: As land is scarce in Bangladesh, expanded economic activities through large-scale infrastructure projects could come at a cost of protected forests, rivers, swamps, and biodiversity. Protecting environment should not lose sight while undertaking any development projects. At the same time, the concerns of displaced local and marginalised groups should be dealt with utmost sincerity. Creating jobs for local communities will also assist the distribution of welfare gains from BRI activities.

Judicious handling of geo-political tensions: Bangladesh is not insulated from the emerging global geopolitical tensions. Regional rivalry between China and India in the current global economic environment of heightened policy uncertainty can generate difficult policy situations in promoting the agenda of regional economic cooperation including Bangladesh's building strong trade relationships with both the countries. It should be borne in mind that both China and India are potentially very important export markets and are sources of investment. Therefore, Bangladesh needs to make the most of regional cooperation arrangements through judicious and productive economic engagements and maintaining strong relationships with all trade and development partners.

Seeking transfer of technology from China

China's economic expansion has seen increased investment in R&D of new products, technologies, and scientific advancements. It has now become the highest publisher of research papers in scientific and technical journals. According to the information obtained from online sources, China's private sector is rapidly catching up with technological advancement with such companies as Huawei and Alibaba investing massively in R&D, which are comparable with similar investments by global tech leaders such as Apple and Google. Although China is frequently accused of violating intellectual property rights (IPR), it is now geared up for the protection of IPR issues. It moved into the second position in 2017 as a source of international patent applications filed via the World Intellectual Property Organization (WIPO). In digital communication, electrical machinery, and computing technologies, it has emerged as one of the key driving forces of innovation.

Bangladesh can immensely benefit from an extended economic cooperation with China through technology transfer. China is already one of the most important sources of capital goods used by Bangladeshi firms. However, joint venture projects can foster the process of acquisition of appropriate technologies and their adoption. Chinese technology could be helpful in finding solutions to challenges unique to the Bangladesh context. Chinese entrepreneurs and private businesses can also contribute to the skill development of Bangladesh's labour force. This can be very timely as the shortage of skilled workers has become a major problem for business enterprises in Bangladesh.

7.6 Conclusion

The growing relative significance of China in the global economy and international trade has been a defining feature of globalisation over the past three decades. Despite concerns about the competitive pressure triggered by such a giant economy like China, its rapid growth and economic transformation has generated unprecedented opportunities for trade and investment flows. Trade with such a major economy, which continues to grow quite strongly, offers new opportunities for specialisation, efficiency gains, export market diversification, and attracting investments. China is also a prominent force in global supply chains, forming networks of cross-border suppliers. It offers favourable market access to LDCs and has now become an important source of technical and financial assistance, particularly in developing large-scale infrastructures.

Despite the geographical proximity between the two countries, and Bangladesh's duty-free access in 61 per cent of product lines, exports to China remain low—less than \$1 billion. However, in recent times, both countries have agreed to expand and deepen trade and investment linkages for enhanced mutual benefits. China acknowledged the importance of reducing the large trade imbalance between the two countries and agreed to provide support in expanding Bangladesh's exports to China.

This chapter shows that Bangladesh has an untapped export potential of about \$2 billion in the Chinese market. That is, Bangladesh exploits less than one-third of its export potential in China. It is also shown that even in readymade garments, where Bangladesh is a major global exporter,

less than 30 per cent of the export potential is utilised. The analysis of market prospects seems to suggest that Bangladesh has some considerable market shares in Chinese imports of woven and knitwear exports. However, Bangladesh's recent export expansion rate in China is significantly lower than that of many other countries including Cambodia, Myanmar, and Vietnam. The Chinese clothing market is growing fast and is set to soon become the biggest amongst the world importers. Apart from apparel items, fish and fish products, footwear, jute and jute goods, and leather and leather products should have promising export market prospects as reflected by bilateral revealed comparative advantage indicators.

In order to expand trade and economic cooperation with China, this chapter suggests several policy options. To begin with, Bangladesh must proactively pursue the case of obtaining an extended coverage of LDC-specific duty-free access from the currently around 61 per cent of product lines to at least 95 per cent that China has offered to other LDCs. Having secured this, Bangladesh should request for an extension of the LDC transition period until 2027 following the example of the EU as well as the precedence of China's granting the same to at least another graduated LDC. A gradual phase-out of the duty-free market access should be pursued after the transition period for facilitating a smooth LDC graduation. Finally, the option of exploring a bilateral free trade agreement should be considered seriously in the post LDC graduation period.

Recently, China has emerged as the largest source of foreign investments into Bangladesh with the net FDI inflows from China reaching \$1.16 billion (28.5% of the total FDI) in 2018–19. The stock of Chinese FDI, however, remains very small at around \$2 billion. Most of these investments came in such sectors as agro-processing, banking, power and energy, and textile and clothing. It is important to attract investment in export-oriented sectors. Relocation of Chinese firms, as a result of economic transformation that is taking place in China, into Bangladesh can greatly boost supply-side capacities and export response. This chapter finds that the investment pledged by China (in terms of FDI and through its state-owned-enterprises) is quite substantial—almost \$28 billion during 2009–19. It is difficult to assess materialised investments as funds coming from Chinese SOEs get absorbed through the government channels, and concessional loans from China are not recorded in the global database on official development assistance.

The Belt and Road Initiative (BRI) presents an opportunity for promoting regional connectivity, improving trade facilitation, and integrating into global value chains. Although there are concerns about BRI projects and loans, Bangladesh should aim to maximise the benefits by adopting a strategic approach. The strategy should include judicious selection of projects and their timely and effective implementation while maintaining macroeconomic soundness of the economy in the face of rising official debts.

To conclude, building an economic cooperation partnership with China is to be considered an important task for policymakers. This will certainly require proactive engagements in ensuring wider socio-economic benefits. Creating Chinese investment-backed exporting opportunities should be given an utmost priority in the overall strategy. Bangladesh will also need to manage its economic cooperation and diplomatic relations with all other countries in the process. In this respect, lessons from the countries that have been able to rapidly expand their trade with China can be helpful.

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Exports of Leather and Leather Goods: Performance, Prospects, and Policy Priorities*

Mohammad Abdur Razzaque, Abu Eusuf, Mahtab Uddin & Jillur Rahman

8.1 Introduction

Leather is one of the oldest manufacturing industries of Bangladesh. Since the inception of the tanning industry in the 1940s, the leather and leather goods (LLGs) sector continued to expand in terms of production and product variety. It registered an impressive export growth between 2010 and 2016 when exports of LLGs from Bangladesh doubled from \$0.6 billion to \$1.2 billion. The sector was widely expected to fetch \$5 billion worth of export earnings by 2021. However, exports fell for two consecutive years to reach just above \$1 billion in 2018–19.

The dismal export performance in recent years has generally been attributed to the disruption caused by the relocation of tanneries from Hazaribagh to Savar with the expectation that the new location would provide improved infrastructure and facilities, and thus help boost competitiveness. However, the infrastructural inadequacy of the Savar Tannery Estate along with the ‘partially functional’ Central Effluent Treatment Plant (CETP) has not helped in this respect. It has also undermined the primary objectives of the relocation to ensure a socially viable and environmentally sustainable production process. At the time of writing this chapter (February 2020), Bangladesh is yet to obtain international accreditation from the Leather Working Group (LWG) thereby not being recognised as a part of ‘responsible sourcing’ supply chains.¹ Non-compliance with internationally accepted labour, environmental, and product standards is considered as a major factor inhibiting improved export performance utilising the locally processed crust leather. In addition, several ‘macro-level’ issues such as infrastructural bottlenecks, high costs of doing business, the rising relative profitability of domestic sales vis-à-vis exports, overvalued exchange rates compared with those of rival suppliers in the world market, etc. are considered as factors affecting international competitiveness of leather and other exporters.

* This chapter has benefitted from various analyses and workshops undertaken by The Asia Foundation.

¹ According to its official website, the objectives of LWG are to develop and maintain protocols that assess the environmental compliance and performance capabilities of leather manufacturers, and to promote sustainable and appropriate environmental business practices within the leather industry. The LWG is made up of member brands, retailers, product manufacturers, leather manufacturers, chemical suppliers, machinery suppliers, technical experts, and other service providers that work together to maintain environmental stewardship protocols specifically for the leather manufacturing industry.

The importance of the leather sector in boosting overall export growth and achieving the national objective of export diversification cannot be overstated. An ever-increasing export concentration in readymade garments has raised concerns as the mono-product driven export increases the risks associated with the sustainability of a robust export performance. 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 special emphasis on the need for making progress on export diversification. It is in this respect that the export of LLGs draws a lot of attention. With a share of about 3 per cent of the total merchandise exports, leather and leather goods are the second-largest export sector. Strong backward linkages in terms of locally sourced raw materials along with the longstanding experience of local entrepreneurs in manufacturing and exporting activities provide the industry with inherent sources of competitiveness. The domestic value addition of leather and leather goods (as proportion to overall export earnings) is thought to be much higher than that of the apparel exports. Furthermore, LLGs offer massive opportunities for generating far more value-added items than that are currently being exported, attracting higher export prices. Being a labour-intensive manufacturing industry having a strong horizontal linkage with the RMG sector, the leather sector appears to be an ideal sector to focus on in expanding Bangladesh's exports.

Taking into consideration of the export potential of leather and leather goods, this Chapter takes a close look at the sectors' strengths and weaknesses in assessing export market prospects. The discussions are organised around several sections. Following this introduction, Section 8.2 provides a brief overview of the leather sector including some of its salient features; Section 8.3 provides an analysis of export trends and market prospects; Section 8.4 contains discussions on the constraints faced by the industry and policy recommendations for addressing them; and finally, Section 8.5 concludes the chapter.

8.2 An Overview of the Leather Sector

The tannery industry

Tanning is the process of producing leather by treating animal hides and skins. In tanneries, rawhides and skins are transformed into leather to manufacture various leather goods. The tannery industry in the part of then East-Bengal, present Bangladesh, evolved in the early 1940s. During the British colonial period, most of the rawhides 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 to crust leather production. The export of rawhides and wet blue leather from Bangladesh were banned in 1991, since then, the processing of finished leather and leather goods started to rise.

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

The Hazaribagh tannery industry faced a lot of problems since its inception. 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 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 in an area with an estimated land size of just 70 acres. According to key industry informants', more than three-quarters of Hazaribagh tanneries were export-oriented (LFMEAB, 2016a).

At Hazaribagh, the performance and expansion of the leather sector were heavily constrained by a lack of industrial planning and the 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 among the government, 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 agencies and 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, a sludge power generation system (SPGS), a common chrome recovery unit (CCRU), and a sewage treatment plant etc.

Definition of leather and leather goods

Broadly, the leather sector includes articles for producing leather (rawhides and skins), leather, articles for manufacturing leather goods, and footwear. In terms of the Harmonized System (HS) of trade classification, the leather sector comprises leather and leather goods under HS 41, 42, and 43, and leather footwear under HS 6403. HS 41 includes rawhides 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 the HS 64 category of products. However, leather footwear is mainly considered under HS 6403. Following the conventional practices, this chapter defines the leather sector comprising HS 41, 42, 43, and 6403.³

The leather industry value chain

Animal husbandry is the first stage of the leather industry value chain. Animals with proper grazing environment produce quality meat and hides. Transportation is also an important part of

³ The Export Promotion Bureau of Bangladesh (EPB) follows the same definition.

this segment as animals transported under challenging circumstances produce excessive lactic acid, reducing the quality of meat and by-products (FAO, 2017). The second stage of the leather industry value chain consists of meat production from animal husbandry. Although the international standards contain professional slaughterhouses to ensure food safety and better-quality raw materials for the leather industry, professional or semi-professional abattoirs are rarely available in Bangladesh. During Eid-ul-Adha, when most of the rawhides are collected, the slaughtering usually takes place in open places. As the peeling of rawhides is not carried out by expert butchers, it often damages hides and skins.

The collection and storage of rawhides is the third stage of the leather industry value chain. More than half of the annual rawhides supply is collected at a particular point in the year, during the Eid. Therefore, primary preservation and storing of rawhides is extremely crucial for the leather industry. Most of the tanneries store their rawhides by salting, 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 of high quality and standard.⁴ 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.

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. From the raw materials acquired at the back end, tanneries produce three types of leathers—wet blue, crust, and finished leather. The rawhides and skins are collected from leather depots. Along with locally collected rawhides, a very insignificant volume of rawhides is imported from abroad. Tanneries produce wet-blue leathers from rawhides and skins. Crust leathers are created from wet blue leathers. 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 & Faruque, 2006). In the case of leather footwear, the total value-addition is estimated to be on average more than 80 per cent.

Salient features of the leather and leather goods sector

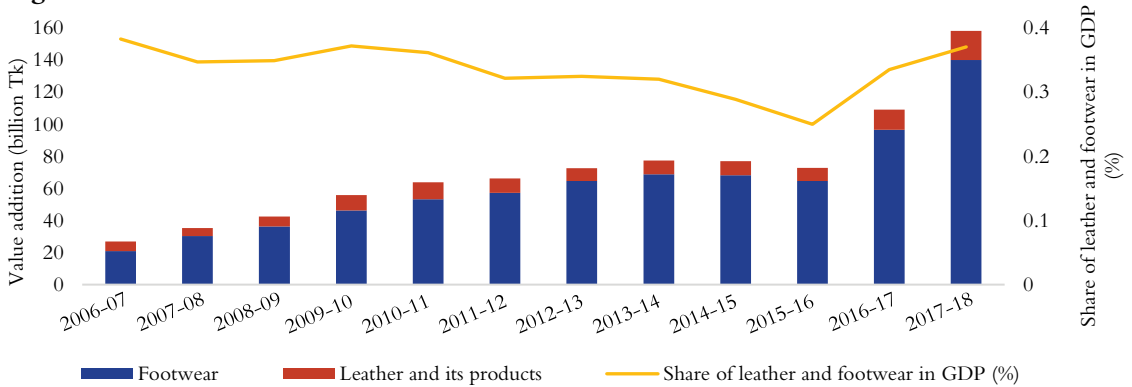
Contribution to GDP and employment

The leather and footwear sector's contribution to the gross domestic product (GDP) is estimated to be 0.37 per cent in FY18 (Figure 8.1). Until FY17, the sector's contribution to GDP saw a declining trend which 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 8.2). In comparison with other leather products, footwear continues to be the dominant item in the sectoral value-added.

⁴ International accreditations from the Leather Working Group (LWG) or Worldwide Responsible Accredited Production (WRAP) are very important in today's perspective.

In terms of employment, 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 0.23 per cent in 2016–17 (Figure 8.3). The total employment is estimated to be about 140,000 in 2018. More than 90 per cent of the jobs in the sector is regarded as low-skilled. The share of informal employment in the sector is also close to 90 per cent (ADB-ILO, 2016).

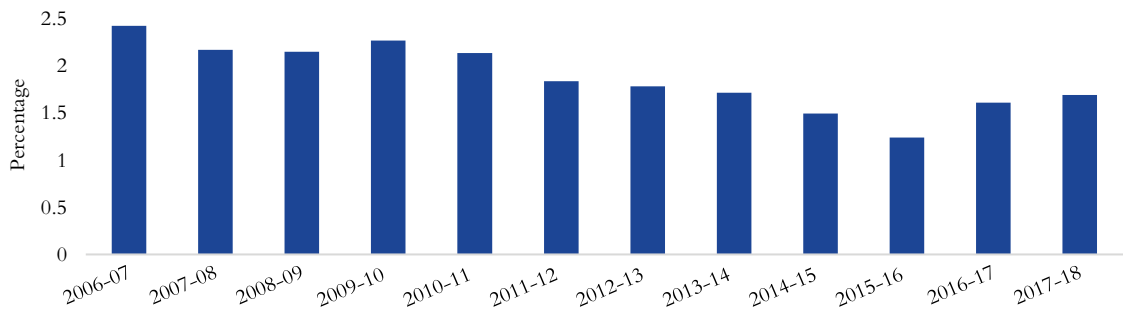
Figure 8.1: Contribution of leather and footwear in GDP



Note: Share of leather and footwear is considered in terms of constant 2005–06 prices. Footwear includes footwear including that are produced from leather. Information for 2018–19 is unavailable.

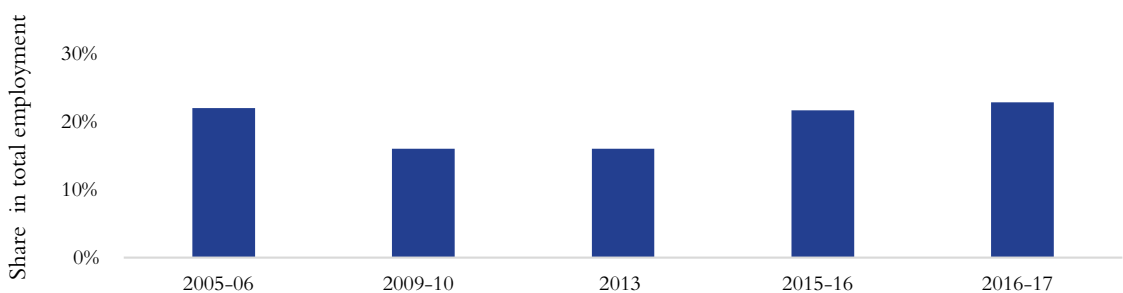
Source: Authors' presentation using BBS data.

Figure 8.2: Share of leather and footwear in manufacturing value-added (%)



Source: Authors' presentation using BBS data.

Figure 8.3: Employment in leather and leather goods (%)



Source: Authors' analysis using BBS labour force survey data.

Expanding domestic market

The local market for leather and leather goods is expanding rapidly. According to industry insiders, roughly 6 million pairs of leather footwear are sold in the domestic market each year (LFMEAB, 2016a). It is also estimated that approximately 10 per cent of Bangladesh's total population, which is around 16 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 (Debnath, 2017). There is an estimated demand for 30 million pairs of leather footwear in the domestic market each year (Paul et al., 2013). Many local tanneries have their own shoe factories where about 5,000 pairs of shoes are being produced every day for the purpose of exports (Netherlands Enterprise Agency, 2017).

Strong backward linkage

The leather sector has a strong backward linkage in Bangladesh in terms of locally sourced raw materials. This allows for the sector to have a domestic value addition as high as 80–95 per cent (Khondker & Eusuf, 2015). As imported raw materials, LLGs produced for the domestic market only use chemicals for tanning blue and wet leathers. However, exporters have to import finished leathers from abroad as the locally tanned leather is not regarded as environmentally compliant with international standards.

According to FAO (2016), Bangladesh accounts for 1.6 per cent of the world cattle stocks, and 5.5 per cent of goat stocks. The Department of Livestock Services, Government of Bangladesh, suggests that the aggregate livestock population was at about 55.5 million in FY19, growing from 49.6 million in FY09. Cattle and goats comprise nearly 90 per cent of the livestock. 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.⁵ Bangladesh produces about 220–300 million square feet of hides every year, more than 60 per cent of which comes from cowhides (Debnath, 2017). Apart from cowhides, of the collected hides 32 per cent are goatskins, 2 per cent buffalo hides, and 1 per cent sheepskins. Along with bovine and buffalo hides, and goat and sheepskins, Bangladesh also re-exports some kangaroo hides (pickled or wet-blue) after processing, which is imported from Australia (Nun, 2016). 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 of wet-blue leather, about 300 million square feet of crust leather, and 130 million square feet of finished leather every year.⁶

Underutilised capacity

At present, there are about 240 tanneries operating in Bangladesh. Of this, 50–60 are engaged in

⁵ As evident from the ITC Trade Map database.

⁶ Leather Sector Business Promotion Council (LSBPC): An Abridged Overview of Bangladesh Leather Sector. Retrieved from: https://bpc.org.bd/lsbpc_bridge_overview.php.

the production of crust and finished leathers while the others are engaged in the production of wet-blue and wet-white leathers.⁷ Among the manufacturers, 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 Dhaka.⁸ It has long been known that tannery capacities are underutilised. The Survey of Manufacturing Industries (2012) by the Bangladesh Bureau of Statistics (BBS) revealed that almost all the tanneries were operating at less than their optimal capacity. About 78 per cent of the installed capacity is being utilised while the rate of utilisation is highest among the medium-sized firms.

A globally competitive sector

Bangladesh is considered to have comparative advantages in producing leather and leather products. One specific way to assess the level of specialisation and competitiveness of a country in certain export items is through the analysis of Revealed Comparative Advantage (RCA).⁹ The results shows that at the HS 2-digit level, leather, leather goods, and footwear along with readymade garments have high RCA scores, indicating Bangladesh's competitiveness in these products.

Table 8.1: Top 15 products in terms of RCAs at the HS 2-digit product level

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

Source: Adapted from Raihan and Rahman (2016).

A high-priority export sector

In recognition of the sector's potential, the leather industry is being considered as one of the high-priority sectors. Leather was named as the 'product of the year' in 2017 to highlight its

⁷ Report on Financial Express on March 28, 2017.

⁸ LSBPC website; Bangladesh Footwear Industry Report 2016.

⁹ The 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.

importance. As a thrust sector, it enjoys policy priorities, benefits, and incentive schemes (Box 8.1). The government established the Leather Sector Business Promotion Council (LSBPC) under the Ministry of Commerce with the objective of increasing competitiveness of different leather products. The Bangladesh Bank also dubbed the leather industry as a ‘blue-chip’ for earning foreign receipts (LFMEAB, 2016a).

Box 8.1: Export incentives for the leather sector

According to the Bangladesh Export Policy 2018–2021, as the highest priority sector, the leather and leather footwear industry enjoys several incentives to promote exports which include:

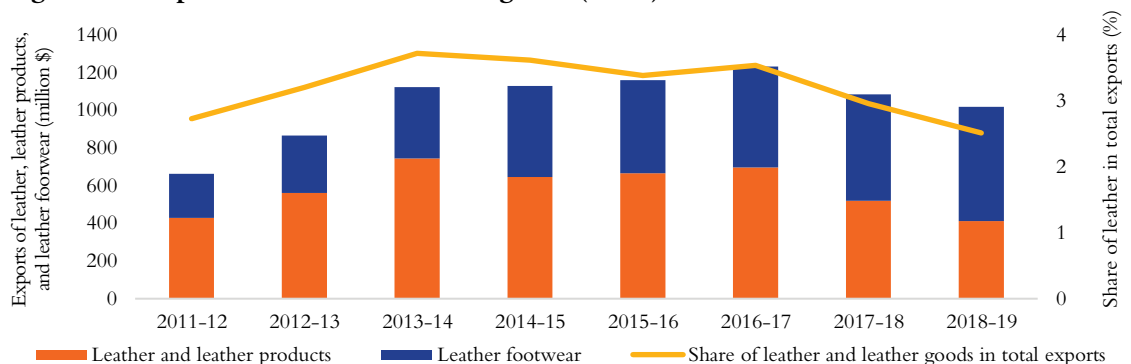
- Cash assistance
- Project loans at reduced interest rates on a priority basis
- Rebates on the income tax
- Export credit at lower interest rates and on other soft terms
- Air transportation facilities on a priority basis
- Duty drawback and bond facilities
- Duty-free import of equipment for setting up compliant industry
- Possible financial benefits or subsidies consistent with the 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 2018–2021.

Importance in the export basket

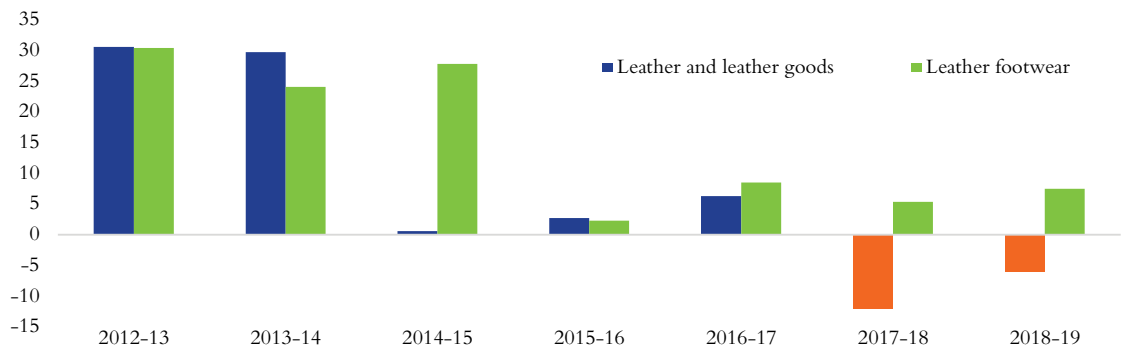
Bangladesh’s exports have become increasingly more concentrated as more than 80 per cent of exports are sourced from readymade garments. The leather sector is the second-highest export earning sector. While the footwear alone contributed to 2.1 per cent of exports in 2018, leather and leather goods together account for 3 per cent of merchandise exports.

Figure 8.4: Export of leather and leather goods (LLGs)



Source: Authors’ analysis using EPB data.

However, exports of leather and leather goods suffered serious setbacks during the two consecutive years of FY18 and FY19. Exports of LLGs in FY19 stood at \$1.01 billion—down from more than \$1.2 billion in FY17 (Figure 8.4) after a 12 per cent decline in FY18, followed by another 6.5 per cent drop in FY19 (Figure 8.5). This is largely attributed to the relocation of the tanneries from Hazaribagh to Savar. The largest fall was reported for the crust and finished leather exports. However, footwear exports maintained a stable growth rate and increased to \$608 million, growing by more than 7 per cent in FY19.

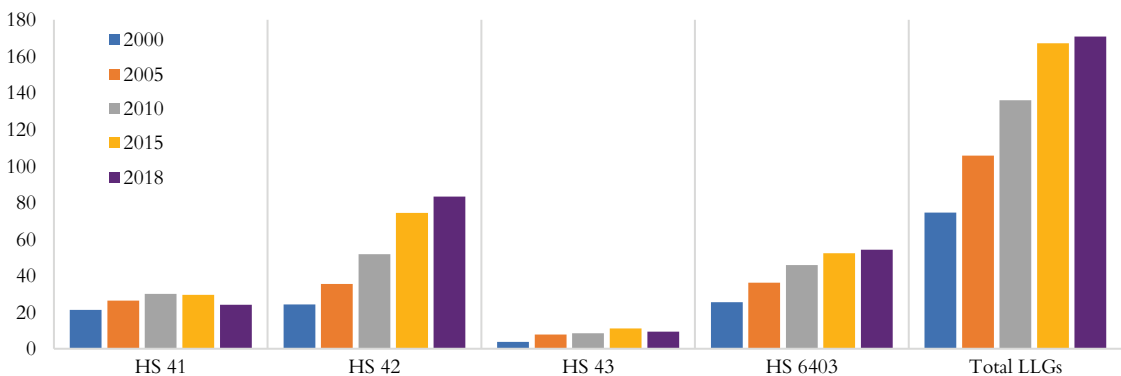
Figure 8.5: Growth in LLGs and leather footwear exports (%)

Source: Authors' analysis using EPB data.

8.3 Exports of Leather and Leather Goods from Bangladesh: Trends and Prospects

The world export market for leather and leather goods

The global leather export market has expanded significantly: from \$74.5 billion in 2000 to \$171 billion in 2018 (Figures 8.6 and 8.7).¹⁰ The major increment in the global demand for leather goods has been experienced by the products under the HS 42 category, which broadly captures articles made of leather such as bags, travel goods, handbags, etc. Between 2000 and 2018, the world market size of leather goods (HS 42) more than trebled: from \$24.2 billion to \$83 billion.¹¹ Apart from leather goods, leather footwear (HS 6403) also experienced a remarkable expansion, doubling the export volume from \$25 billion in 2000 to \$54 billion in 2018. The least growth has been attained for raw leather, which is classified under HS 41. Global exports of raw leather grew by about 22 per cent between 2000 and 2018.

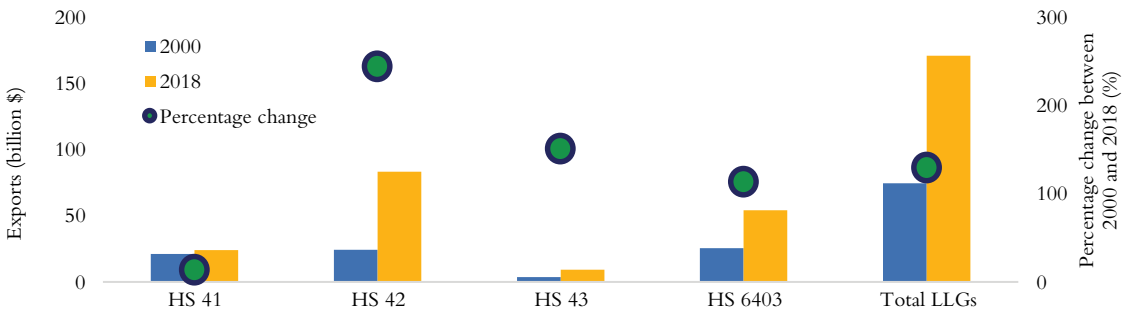
Figure 8.6: World exports of leather and leather goods (billion \$)

Source: Authors' presentation using ITC and UN Comtrade data.

¹⁰ The global exports of leather and leather goods stood at \$184 billion in 2014. It then declined in the next two consecutive years to reach at \$154 billion in 2016. The LLGs exports experienced a good recovery in 2017.

¹¹ The primary source of data was UN Comtrade 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 latter years.

Figure 8.7: Growth of world exports of leather and leather goods, 2000–18



Source: Authors’ presentation using ITC and UN Comtrade data.

The composition of world leather exports has changed over time (Figures 8.8 and 8.9). The share of crust leather in total leather exports declined from 28 per cent in 2000 to just 14 per cent in 2018. On the other hand, the share of leather goods (HS 42) increased from 34 per cent to 49 per cent. The relative significance of footwear (HS 6403) fell marginally during the same period.

Figure 8.8: World leather export composition, 2000

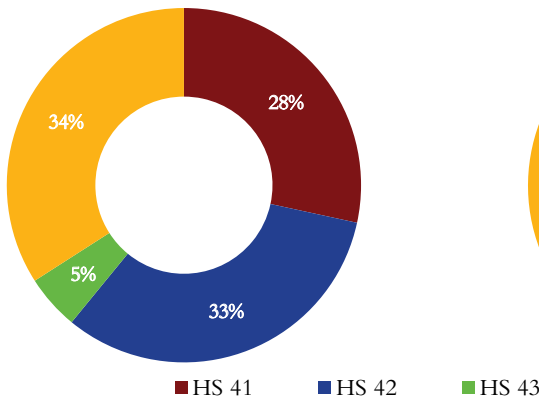
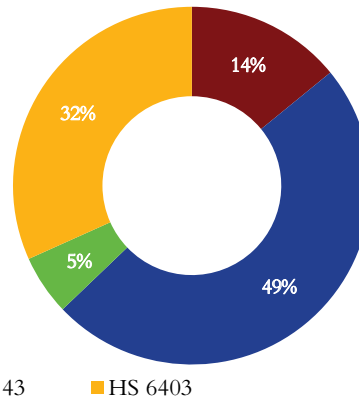


Figure 8.9: World leather export composition, 2018



Source: Authors’ presentation using ITC and UN Comtrade data.

Bangladesh amongst major global exporters

In terms of total leather and leather goods exports, Bangladesh lags far behind the major exporting countries. In 2000, Bangladesh exported \$194 million, while China, the global leader in the export of 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 18 years, Bangladesh could manage to expand exports to slightly above \$1 billion in comparison with such expansion of \$30 billion for China, \$3.5 billion for India, and \$1.7 billion for Indonesia. The most prolific export expansion has been recorded for Vietnam: in 2018, it exported \$8.2 billion worth of LLGs. Although, Bangladesh has been exporting LLGs for decades, its share in 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 the composition of LLGs (Figures 8.10 and 8.11). In 2000, the total export volume of China was \$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 rawhides, and 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, between 2000 and 2018, 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 United States, 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 8.10: Export composition of major suppliers, 2000 (%)

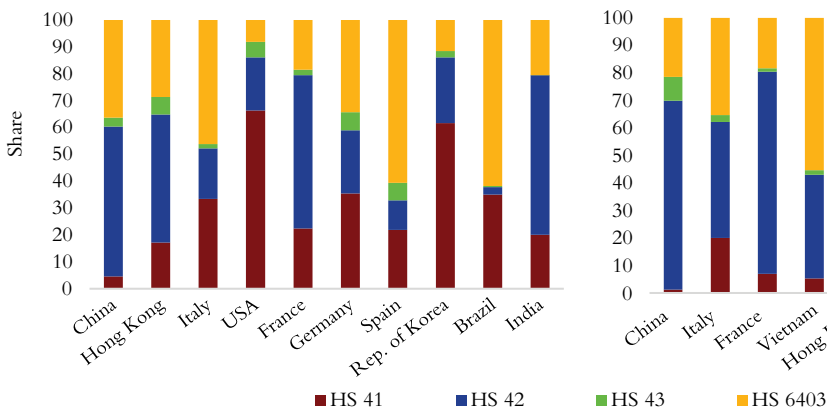
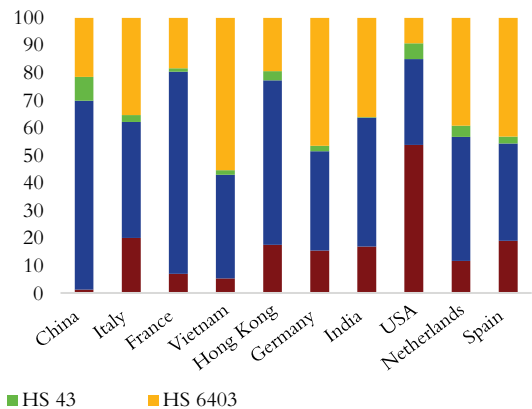


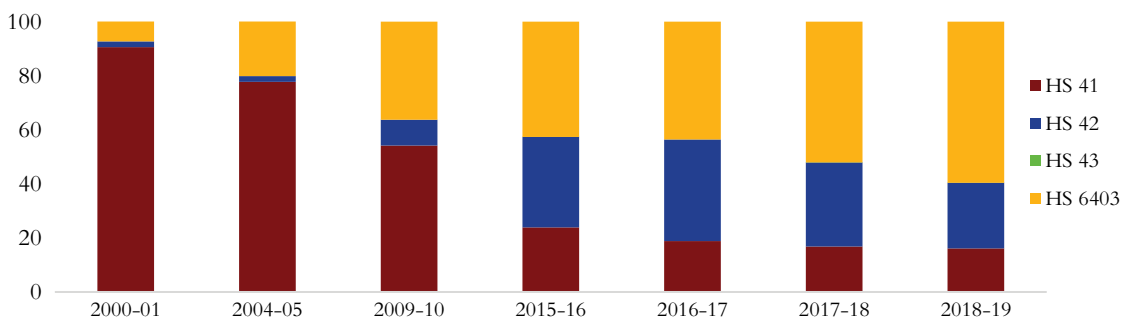
Figure 8.11: Export composition of major suppliers, 2018 (%)



Source: Authors' presentation using ITC and UN Comtrade data.

Bangladesh's LLGs export was quite concentrated in HS 41 (raw/crust leather) two decades ago (Figure 8.12). In 2000, more than 90 per cent of LLG exports were from this category alone. The composition then changed remarkably, raising the share of leather footwear and leather products. Between 2000–01 and 2018–19, the share of raw leather declined to 16 per cent whereas the same for leather products and footwear increased respectively from 2.1 per cent to 24.2 per cent and from 7.4 per cent to 59.6 per cent. The share of products categorised under HS 43 is still insignificant.

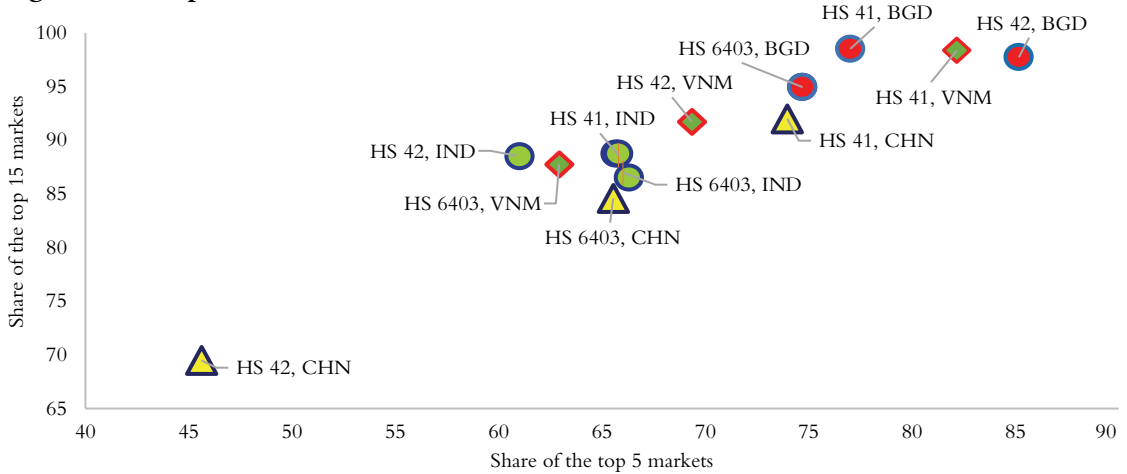
Figure 8.12: Bangladesh's leather export composition (%)



Source: Authors' analysis using EPB data.

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 8.13) amongst a set of comparators. In the case of Bangladesh’s finished leather goods, the share of top five partners is more than 85 per cent. In contrast, the share of the top five partners was 46 per cent, 61 per cent and 70 per cent for China, India, and Vietnam, respectively. In leather footwear, the top five 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.

Figure 8.13: Export market concentration



Source and note: Authors’ analysis using UN Comtrade data. Countries are indicated as BGD—Bangladesh, CHN—China, IND—India, and VNM—Vietnam.

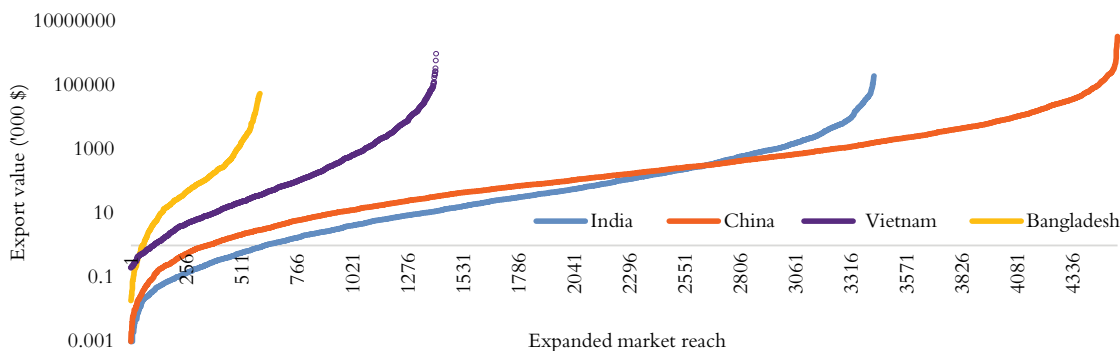
Bangladesh’s high market concentration becomes also evident in the expanded market reach analysis in Figure 8.14.¹² In 2018, Bangladesh exported 44 leather products at 84 destinations. Altogether, Bangladesh managed to reach out to 594 expanded export market destinations. Japan, being the top export destination of Bangladesh’s leather and leather goods, imported 33 leather and leather items from Bangladesh. In comparison, Vietnam exported 59 leather products to 122 destinations (with more than 1,400 expanded leather market destinations). India exported 63 items to 196 export destinations (with 3,421 expanded market destination). China, the global leader in leather exports, exported 65 leather items to 209 export destinations (with 4,542 expanded market reaches).

A product category-wise market reach analysis shows that Bangladesh exported 17 items of crust leather (HS 41) to 39 countries, amounting \$299 million in 2018 (Figure 8.15). The top export destinations for it are Hong Kong, China, and Italy, accounting for more than 60 per cent of exports in this category (Figure 8.16). Compared to Bangladesh, Vietnam exported 26 products of crust leather to 43 countries; India 27 products to 108 countries; and China 29 products to 99

¹² 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, …, 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 the 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.

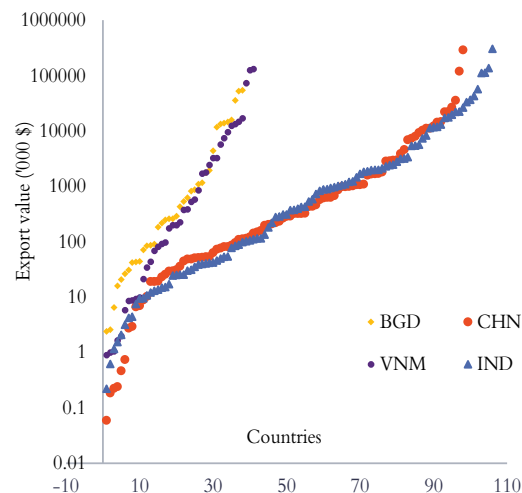
countries. Along with the fact that all the comparators export more leather items to a higher number of export destinations, their export baskets are also significantly different from Bangladesh.

Figure 8.14: Expanded export market reach analysis for leather and leather goods



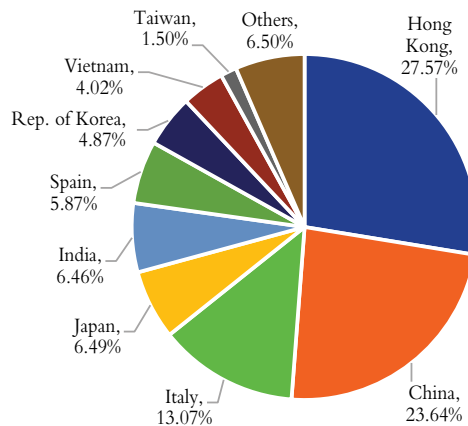
Source and note: Authors’ analysis using UN Comtrade data. The vertical axis shows the amount earned from each market.

Figure 8.15: Market concentration for raw leather (HS 41)



Source and note: Authors’ analysis using EPB and UN Comtrade data. Countries are indicated as BGD—Bangladesh, CHN—China, IND—India, and VNM—Vietnam.

Figure 8.16: Bangladesh's major export destinations of raw leather (HS 41), 2018–19



The major importers of raw leather (HS 41 items) in the global market are basically leading exporters of leather and leather goods. According to ITC Trade Map data, China, Italy, Vietnam, Hong Kong, and Mexico were the top five importers of raw leather in 2018 (Table 8.2). These countries import raw hides and skins mainly to transform them into final leather to re-export in the world market. Bangladesh’s presence has been far less than substantial among the major importers of HS 41. Although China imports almost one-fourth of the total imports of this category, Bangladesh captures only 1 per cent of the \$4.77 billion market. On the contrary,

Bangladesh’s comparator countries, particularly India and Vietnam, secure 4.8 per cent and 2.7 per cent of China’s import of raw leather, respectively.

Figure 8.17: Market concentration for leather products (HS42)

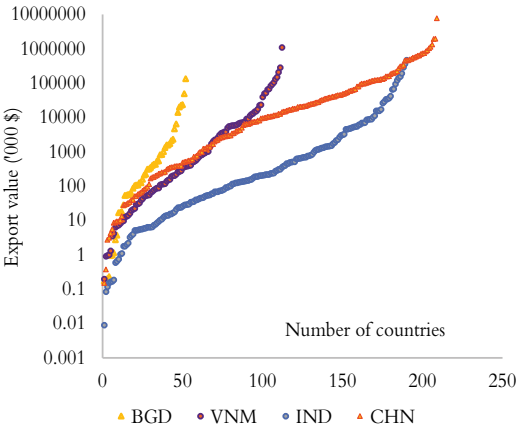
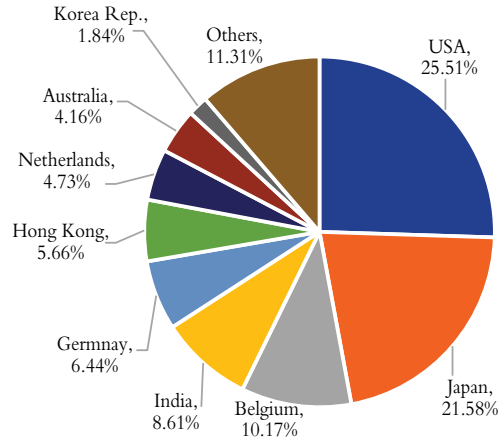


Figure 8.18: Bangladesh's major export destinations of leather products (HS 42), 2018–19 (%)



Source and note: Authors’ analysis using EPB and UN Comtrade data. Countries are indicated as BGD—Bangladesh, CHN—China, IND—India, and VNM—Vietnam.

Table 8.2: Top importers of leather (HS 41) in 2018

Country	Total import (billion \$)	Share in the global HS 41 imports (%)	Share of Bangladesh and comparators in the import market			
			Bangladesh	China	India	Vietnam
China	4.77	19.20	1.00	–	4.80	2.70
Italy	3.25	13.10	0.60	0.90	3.30	0.10
Vietnam	1.60	6.80	0.40	19.40	6.30	–
Hong Kong	1.35	5.5	3.00	16.4	10.4	3.90
Mexico	1.02	4.1	0.10	0.50	0.80	0.00

Source: Authors’ analysis based on ITC Trade Map data.

In the category of leather products (HS 42), 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 2018, China exported to 209 markets, while India and Vietnam exported to 190 and 112 export destinations, respectively (Figure 8.17). The top exported products for Bangladesh under this category include wallets, handbags, belts, and 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 8.18, for HS 42 products, the major export destinations of Bangladesh include the United States (25%), Japan (21%), and Belgium (10%).

In the case of leather footwear, Bangladesh exported 23.5 million pairs of footwear worth of \$483 million to 66 destinations (Figure 8.19). The export market of this product is highly dominated by China. In 2018, 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 the

United States (\$143 million), Germany (\$88 million), the Netherlands (\$81 million) (Figure 8.20).

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 (HS 42), the United States is the top destination for exports. In 2018, the country alone imported \$14.37 billion worth of global finished leather (Table 8.3). The 54.3 per cent of total imports is sourced from China whereas the shares of Vietnam and India in the U.S. market are about 4 per cent and 8 per cent, respectively. Bangladesh’s U.S. market share in this category is very low (only 0.40 per cent). Apart from the United States, the other major importers of finished leather goods are Japan, France, Hong Kong, and Germany. In none of these billion-dollar markets, Bangladesh’s export share exceeds more than 1 per cent. In fact, Bangladesh’s largest market share among all the markets is 0.90 per cent (in Japan).

Figure 8.19: Market concentration for leather footwear (HS6403)

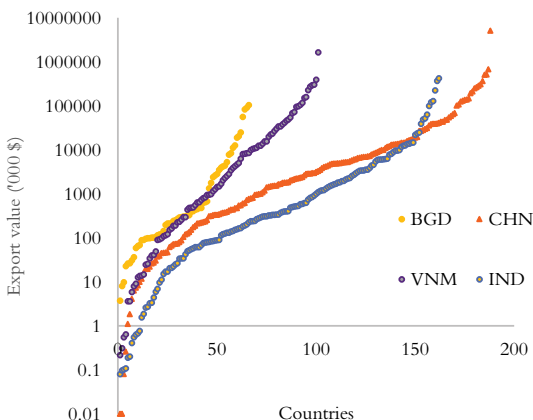
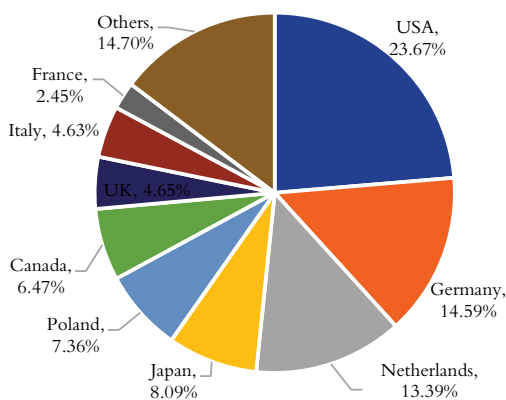


Figure 8.20: Bangladesh's major export destinations of leather footwear (HS 6403), 2018–19 (%)



Source: Authors’ analysis using EPB and UN Comtrade data.

Table 8.3: Top importers of leather products (HS 42) in 2018

Country	Total import (billion \$)	Share in the global HS 42 imports (%)	Share of Bangladesh and comparators in the import market			
			Bangladesh	China	India	Vietnam
USA	14.37	17.7	0.40	54.30	3.90	7.60
Japan	6.04	7.4	0.90	43.00	1.60	9.70
France	5.19	6.4	0.30	26.40	3.9	3.70
Hong Kong	5.17	6.4	0.10	37.10	0.40	1.10
Germany	4.60	5.7	0.50	36.90	9.10	7.00

Source: Authors’ analysis based on ITC Trade Map data.

Leather footwear has emerged as one of the major export items for Bangladesh. However, Bangladesh’s share in global leather footwear export is 1.3 per cent. The leading import markets include the United States, Germany, France, Italy, and the UK (Table 8.4). In 2018, the United States alone imported 20.1 per cent of leather footwear from the global market which was worth \$11.01 billion. In 2018, China’s share in the U.S. market was 44.6 per cent, Vietnam’s 19.6 per cent and India’s 3.5 per cent as against Bangladesh’s share of just 1.2 per cent. A closer look at the data suggests that, in 2018, Bangladesh fetched nearly \$92 million from Germany’s leather

footwear imports of \$5.33 billion. On the other hand, seizing 4.6 per cent of Japan's leather footwear imports (\$1.2 billion), Bangladesh could earn only \$57 million in 2018.

Table 8.4: Top importers of leather footwear (HS 6403) in 2018

Country	Total import (billion \$)	Share in the global HS 6403 imports (%)	Share of Bangladesh and comparators in the import market			
			Bangladesh	China	India	Vietnam
USA	11.01	20.1	1.2	44.6	3.5	19.6
Germany	5.33	9.7	1.7	11.9	6.5	10.9
France	3.85	7.0	0.7	9	6.4	8.4
Italy	3.08	5.6	0.90	7.1	4.3	4.5
United Kingdom	2.97	5.4	0.50	12.9	8.5	7.4

Source: Authors' analysis based on ITC Trade Map data.

Quality of leather and leather goods

Ensuring quality of export items is the single most important factor determining sustained export growth. In identifying a country's strength with regard to other comparators a closer inspection on its product quality is essential. Measuring product quality and comparing it across countries is, however, a difficult task given the existence of a vast array of product varieties, complexities in product compositions, and lack of comparable data. Economists often use unit value prices of disaggregated exports to infer about quality. The idea is that better quality products are most likely to attract higher prices. Although the method is subject to criticisms, it is reasonably well informative that can be extracted based on a relatively simple descriptive statistical analysis. The quality information thus obtained on the same products for different countries can be used to generate 'quality ladders', measuring the relative quality of a country's exports against all other countries that export a specific product (Reis & Farole, 2012). The extent of heterogeneity in quality across different varieties of a specific product is reflected by the quality ladder. Within a category where the global frontier of quality is high, learning and catch-up for other suppliers can be quite demanding which is captured by the constructed quality ladders. 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 upgradation for each product.

Quality of the selected leather products exported by Bangladesh at the HS 6-digit level has been analysed in Figures 8.21 (a)–(h). The relative quality of products has been defined as the unit value of the good relative to the 90th percentile of the unit value distribution across countries for that product.¹³ The 90th percentile of the unit values has been considered as the world standard. A higher value of the index corresponds to a higher quality level.

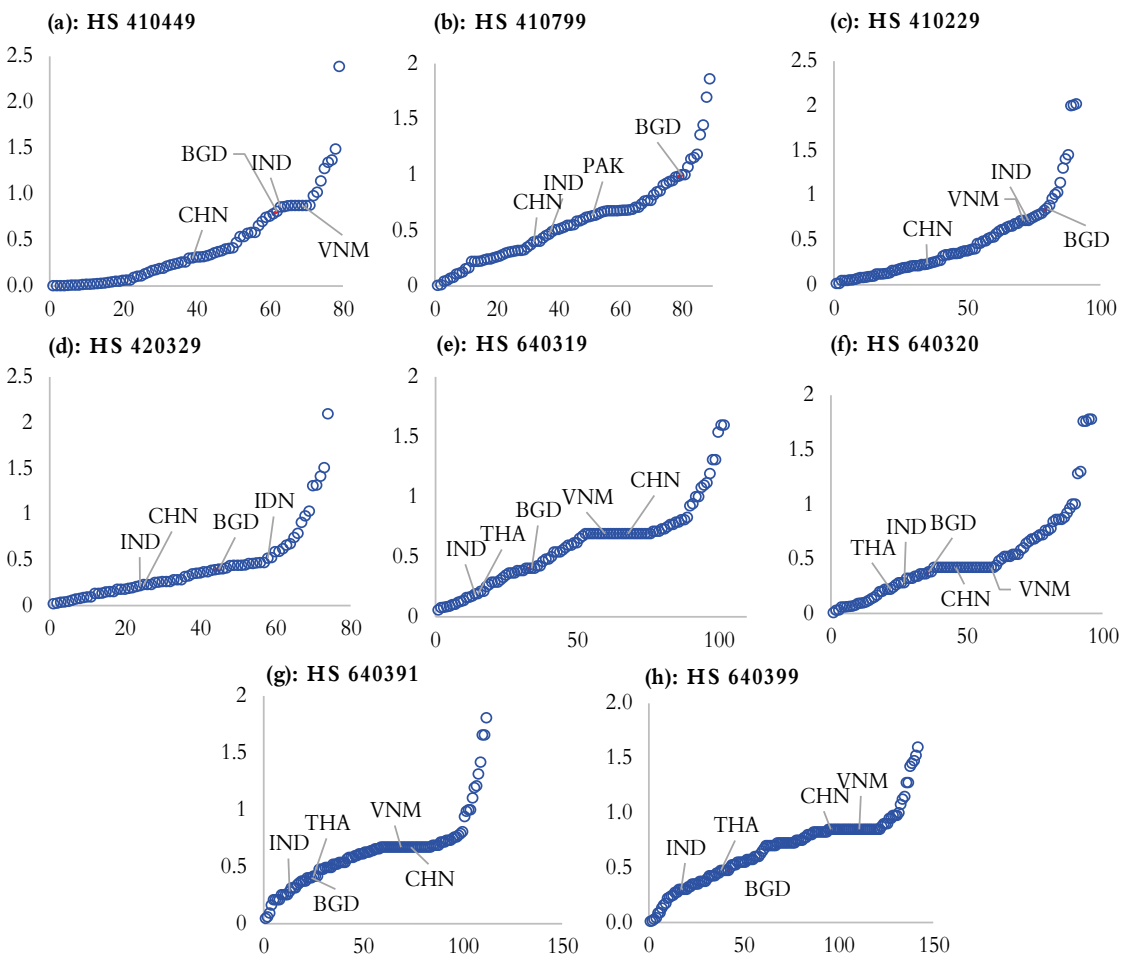
The analysis for the major exporting leather products shows that the quality of many of Bangladesh's leather products is actually good compared with its comparators. Especially in crust leather (HS 410799 and HS 410229), Bangladesh outperforms many countries. In HS 410449, Bangladesh enjoys a higher 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/crust leather in adding more value and by producing

¹³ 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.

finished products. As shown above, Bangladesh still exports a good portion of its crust leather. The high quality of HS 41 products is reassuring; this reflects that there are further prospects of moving up the value chains in leather goods. Export quality of articles of leather in HS 42 items, as shown in Figure 8.21(d), appears to be 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 (HS 64 items), Bangladesh’s situation is mixed but in all the four products for which the analysis has been undertaken, it lags behind China and Vietnam. This is not to imply that Bangladesh does not produce high-quality leather footwear. Rather, the proportion of such products in total export is still quite low. Overall, the quality of Bangladeshi leather and leather products is generally comparable with its Asian comparators. Bangladesh tends to export very high-quality crust 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 utilising the high quality crust leather in the export of finished products.

Figure 8.21: Quality ladders for leather and leather goods (LLGs)



Source and note: Authors’ analysis based on ITC Trade Map data. Vertical axis indicates the index value of quality. Countries are indicated as BGD—Bangladesh, CHN—China, IND—India, THA—Thailand, and VNM—Vietnam.

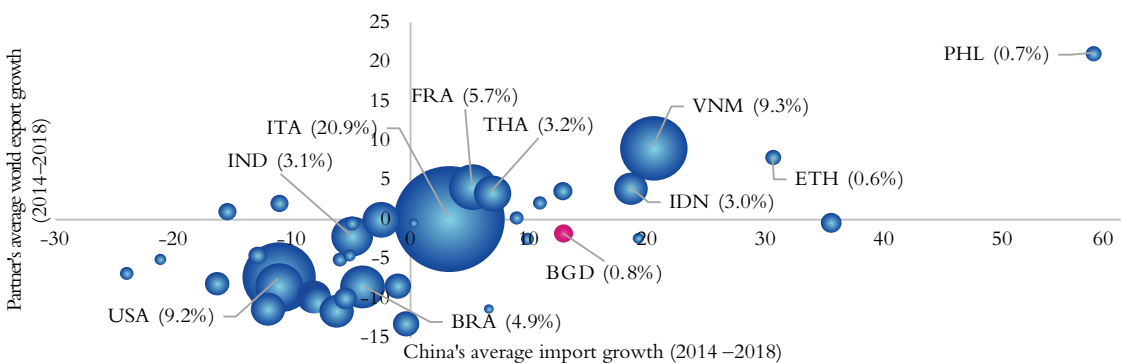
Export market prospects

For over three decades China has been a manufacturing powerhouse, supplying large shares of world's many traded items, including leather and leather goods. However, its rapid income growth momentum has caused increased upward pressure on wages in recent years along with shifts in policies encouraging a capital and technology-intensive manufacturing sector. As a result, China is moving away from labour-intensive light manufacturing industries like RMG and leather products to more sophisticated capital and technology intensive sectors. Such shifts provide scopes for countries like Bangladesh to expand exports. However, there is huge competition from other developing countries including some of the prominent Asian suppliers such as India, Indonesia, the Philippines, Thailand, and Vietnam. The context thus necessitates an analysis of Bangladesh's export market prospects for its major leather products.

Considering a particular market, how a country compares with other suppliers in terms of market share and export growth can provide useful insights in assessing competitiveness and market prospects. The International Trade Centre (ITC) has provided an insightful method for undertaking market prospect assessments for individual destination countries. In analysing the export market potentials for Bangladesh's LLG exports to major destinations, three factors have been considered, namely: i) the export growth rates (of a relevant leather product) of competing countries in the destination markets; (ii) all competing countries' export growth in the global market, (iii) competing countries' market shares in the same destination market.

Market prospects for leather in selected destination countries have been analysed in Figures 8.22–8.27. First, the export market prospects in China is analysed. As shown in Figure 8.22, with nearly a 20 per cent share, Italy is the largest supplier, while Vietnam (9.3%), U.S. (9.2%), and France (5.7%) are the other major exporters. In 2018, Bangladesh exported about \$90 million worth of leather products to the Chinese market, occupying a market share of 0.8 per cent. During 2014–18, Bangladesh's leather exports to China registered an average growth rate of about 13 per cent whereas the corresponding export growth to world actually declined. This seems to suggest that China offers promising prospects for expanding exports. However, the presence of other established suppliers in this market is likely to pose challenges for further market expansion.

Figure 8.22: Market prospect analysis for leather and leather goods in the Chinese market



Source and note: Authors' analysis using ITC data. Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, BRA—Brazil, ETH—Ethiopia, FRA—France, IDN—Indonesia, IND—India, ITA—Italy, PHL—the Philippines, THA—Thailand, USA—the United States of America, and VNM—Vietnam.

Bangladesh exported LLGs worth of \$190 million to the United States in 2018. This implies a market share of only 0.72 per cent. China alone accounts for about 49 per cent of the market (Figure 8.23). However, Bangladesh is apparently registering a very large export growth in the U.S. market, albeit from a low export base. This trend needs to be monitored closely. Expanding exports to the U.S. in a sustained manner will be a major breakthrough for Bangladesh.

In the EU, China is the most dominant supplier with a market share of more than 18 per cent. Italy (13.3%), Germany (6.8%), France (6.8%), Vietnam (5.5%), and India (5.1%) are the other key suppliers (Figure 8.24). In 2018, the EU imports of LLGs stood at \$843.8 million. Bangladesh’s exports of LLGs to the EU grew at an annual rate of 4.1 per cent during 2014–18, securing only 0.72 per cent of market share.

Figure 8.23: Market prospect analysis for leather and leather goods in the U.S. market

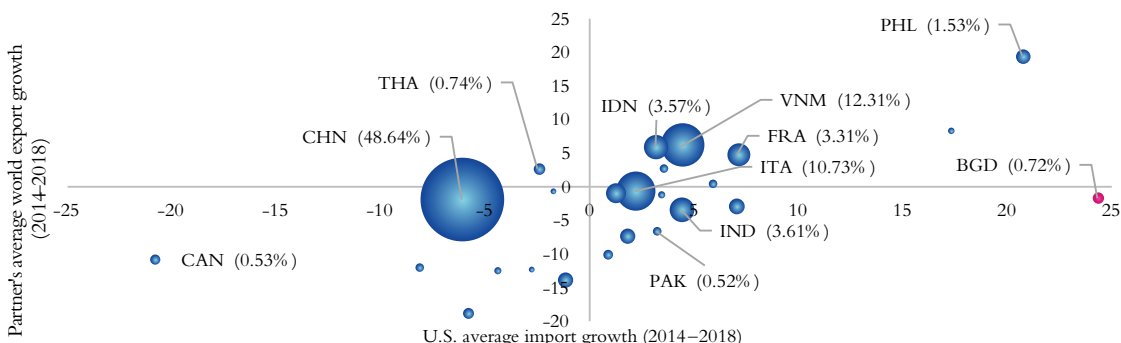
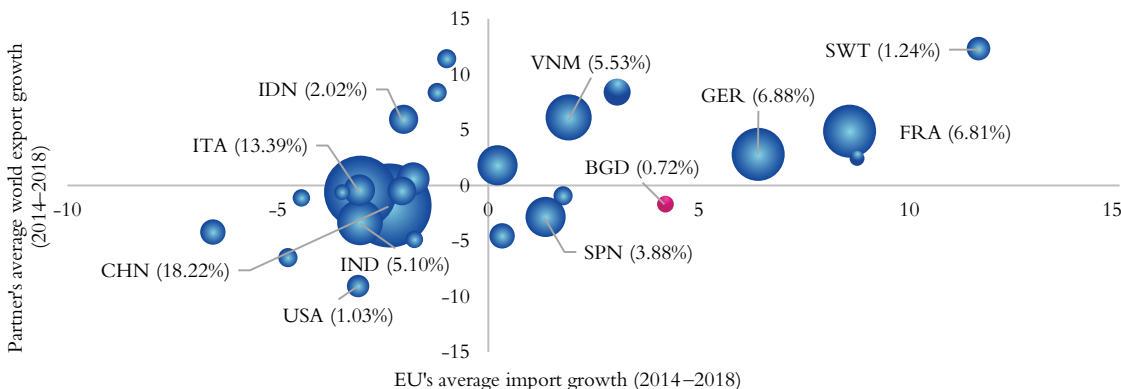


Figure 8.24: Market prospect analysis for leather and leather goods in the EU market



Source and note: Authors’ analysis using ITC data. Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, CAN—Canada, CHN—China, SPN—Spain, FRA—France, GER—Germany, IDN—Indonesia, IND—India, ITA—Italy, PAK—Pakistan, PHL—the Philippines, SWT—Switzerland, THA—Thailand, USA—the United States of America, and VNM—Vietnam.

Similar analyses of export market prospects at a further disaggregated level (HS 6403) are presented in Figures 8.25–8.27. During 2014–18, leather footwear (HS 6403) exports from Bangladesh to China registered nearly a 30 per cent growth, capturing 1 per cent of the Chinese market for the same product while Italy (29.3%), Vietnam (27.9%) and Indonesia (14.1%) are the other key suppliers. In the U.S. market, Bangladesh secured only 1.16 per

cent of the 11 billion-dollar market in 2018. The corresponding share in the EU was 1.28 per cent. Bangladesh’s export growth for this product was about 30 per cent in China, 13 per cent in the U.S. and 10 per cent in the EU, although the export base remains small in these markets.

Figure 8.25: Market prospect analysis for leather footwear (HS 6403) in China

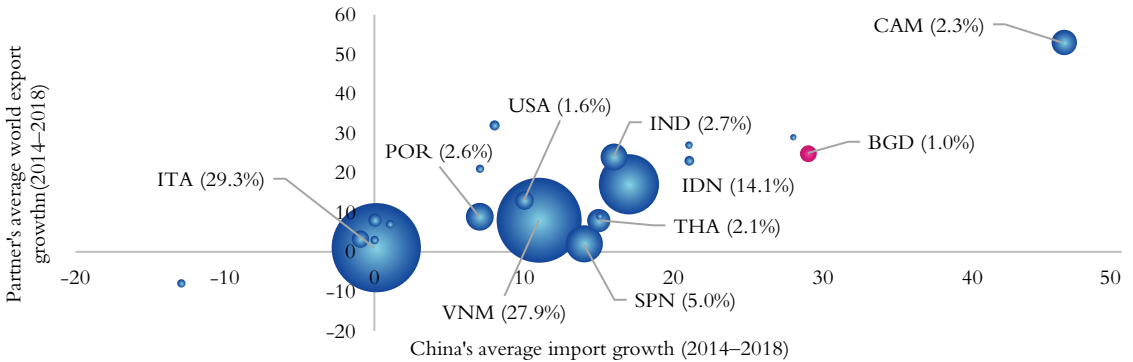


Figure 8.26: Market prospect analysis for leather footwear (HS 6403) in the U.S. market

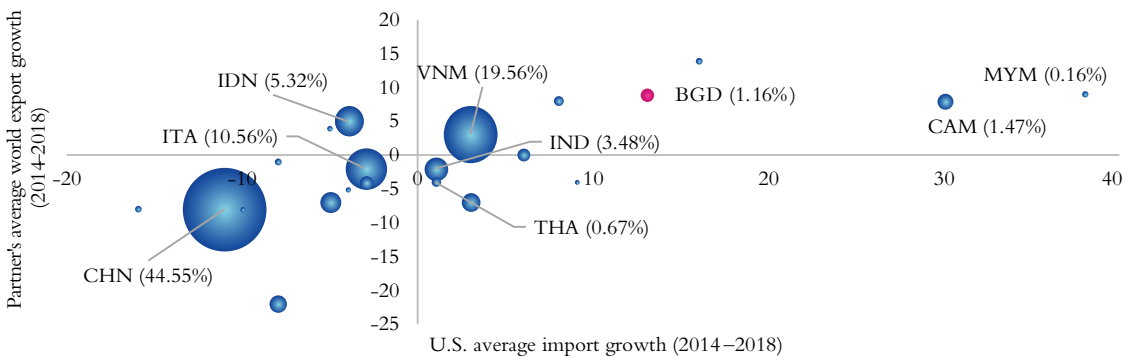
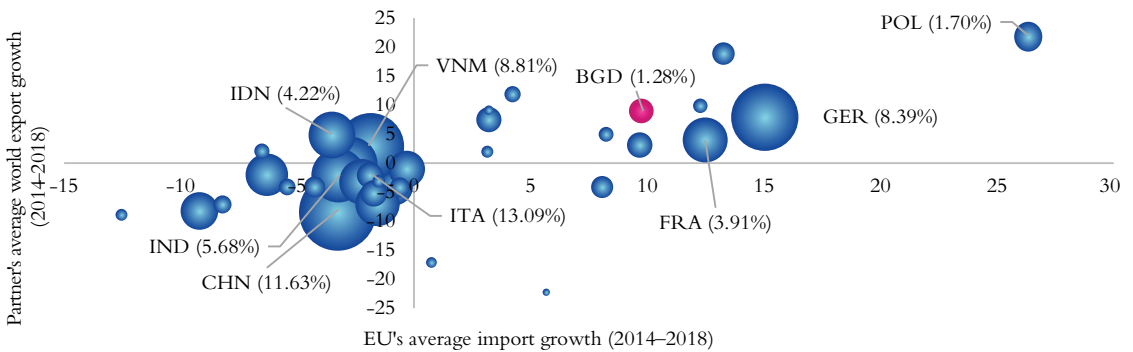


Figure 8.27: Market prospect analysis for leather footwear (HS 6403) in the EU market



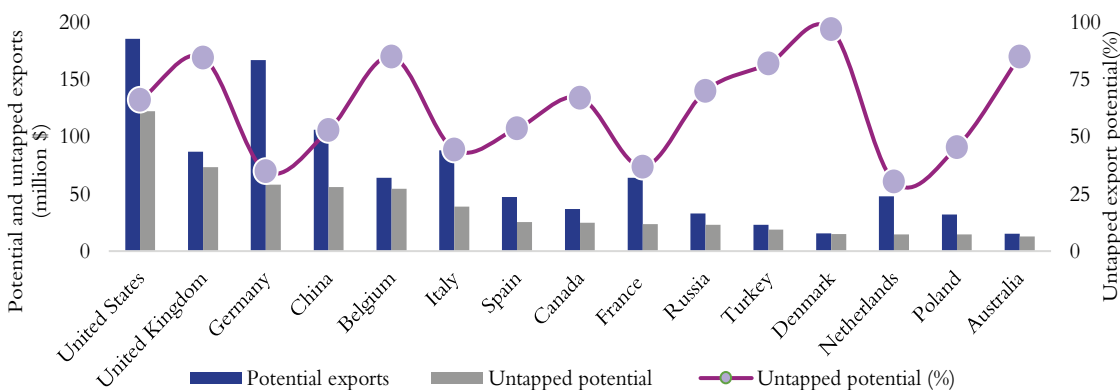
Source and note: Authors’ analysis using ITC data. Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, CAM—Cambodia, CAN—Canada, CHN—China, SPN—Spain, FRA—France, GER—Germany, IDN—Indonesia, IND—India, ITA—Italy, MYM—Myanmar, POL—Poland, POR—Portugal, PHL—the Philippines, SPN—Spain, THA—Thailand, USA—the United States of America, and VNM—Vietnam.

Export potential analysis

One approach to analyse export potential by destination markets is to make use of a methodology recently developed by the International Trade Centre (ITC). The ITC Export Potential Map identifies products, markets and suppliers with untapped potential and opportunities for export diversification.¹⁴ The analysis is based on export potential indicator (EPI) that identifies products in which an exporting country has already proven to be internationally competitive and which is likely to have a good prospect of export success in some target markets. The potential export value is estimated based on exporters’ supply capacity, demand conditions in the target market and market access conditions.¹⁵ Potential export values are compared with actual export earnings to reveal untapped opportunities.

The analysis reflects that the markets with high export potential for Bangladesh’s leather and leather products are the United States, United Kingdom, Germany, and China (Figure 8.28). The United States with the highest absolute difference between potential and actual exports leaves the room for additional export earnings of \$122 million (i.e., only 34 per cent of the potential is currently being utilised). Similarly, Bangladesh is using just 16 per cent of its export market potential in Belgium and the UK, 47 per cent in China, 46 per cent in Spain, 33 per cent in Canada, and 30 per cent in Russia (Figure 8.28). Therefore, there is a considerable scope for expanding exports of LLGs.

Figure 8.28: Potential exports and untapped export potential of leather and leather goods (million \$)



Source: Authors’ compilation using ITC Export Potential Map data.

¹⁴ The ITC Export Potential Map uses data at the HS 6-digit level and employs several measures to enhance data quality. It focuses beyond extractive industries and environmentally damaging and hazardous products, to guide export development towards a less volatile and more environmentally conscious path.

¹⁵ The supply capacity is approximated based on market shares corrected for expected GDP growth and global margin of preference. The import demand in the target market is computed taking into consideration expected GDP growth, population growth and distance between the trading economies. Detail methodology and mathematical model is explained in ITC Export Potential Map. See: http://exportpotential.intracen.org/media/1089/epa-methodology_141216.pdf

8.4 Expansion of Leather and Leather Goods Exports: Constraints and Recommendations

Leather and leather goods are one of the most widely traded items in the world with an annual estimated global export value of around \$170 billion. Available projections suggest this trade to 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 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 those. Many of these issues are generic in nature affecting other export sectors as well, while others are more sector-specific.

Effective operationalisation of the Tannery Estate Dhaka (TED)

Several problems have been identified that are hindering the effective operationalisation of the Tannery Estate Dhaka (TED) that has now housed the tanneries from Hazaribagh. The TED has only 155 tanneries although, according to the Bangladesh Tanners' Association (BTA), more than 240 tanneries were in operation at Hazaribagh. Therefore, it is not clear if all tanneries considered the relocation viable and, in the process, many ceased to exist, putting a downward pressure on the supply response. The tannery association also reported that larger tanneries were facing problems as a maximum of 10,000 square feet space was allocated to per tannery at the TED (Debnath, 2017). In addition, Hazaribagh tannery owners usually provided accommodation to their workers. The accommodation facilities are not included in the TED plan. Tannery owners claim that although the government provided most of the compensations as per its commitments to facilitating the relocation to Savar, the support proved to be less than adequate.¹⁶ Funding constraints have been reported as a major concern for most of the tannery owners. The bank loans require land registration documents as collaterals, but the factory owners did not receive the registration documents from the BSCIC (until July 2018). Many relocated units experienced delays in securing electricity and gas connections, and adequate water supplies for production units.

According to the masterplan, the TED includes a central effluent treatment plant (CETP), a central dumping yard, and a 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. However, the CETP, which is yet to be fully operational, is arguably the biggest factor behind the recent decline in export earnings experienced by the leather industry. Since the CETP is not functioning, compliance is a barrier for all leather exporters. At the same time, CETP's design has been called into question as well. According to the BSCIC, the plant has no unit to remove salt from the waste water that will be ultimately dumped into the Dhaleswari river (The Daily Star, 2017, September 1). As it stands, the capacity of the established CETP is up to 25,000–30,000 cubic metres, which, according to some leading tannery owners, is seriously inadequate compared to the

¹⁶ As of March 2019, approximately 81.5 per cent of the total compensation fund has been distributed against the committed sum of Tk 2,600 million. Data from the Ministry of Industries show that a majority (69 per cent) of the tanneries received at least 80 per cent of the compensation committed.

effluents to be produced by fully operational tanneries in the peak season. There were issues with the central dumping yard as well. Despite its existence in the masterplan, the TED did not have any central dumping yard with a waste management system. Moreover, the planned sludge power generation system (SPGS) and the common chrome recovery unit (CCRU) were not operational even after the relocation of the tanneries. A dysfunctional drainage system inside the estate coupled with roads in bad conditions also severely affected the production activities.

The move from Hazaribagh to Savar also brought some other unwarranted consequences. During the production shifts, most of the tanneries had their wet-blue leather prepared. However, the processing of turning wet-blue leather into crust and finished leather required installed machinery set-up which was not ready at the TED. The resultant problems aggravated further as the tannery industry reportedly could not process 30–50 per cent of the rawhides due to poor production capacities or other issues during the peak seasons of post-Eid-ul-Adha festivals since 2017.¹⁷ The backlash continued with financial consequences. During every Eid-ul-Adha festival, the state-owned banks offer supervisory loans to the tanneries on easy terms with a tenure of 270 days. Most of the tanneries who took the loans faced repayment difficulties due to falling revenues. In 2019, many primary rawhide collectors failed to access their credit lines as they had defaulted on the previous loans.¹⁸ In addition, some tanners could not utilise their stock of rawhide from previous seasons. As a result, prices plunged with seasonal hide-collectors losing their capital.¹⁹

The current situations thus require an immediate policy attention at three fronts: (1) The CETP, central dumping yard, solid power generation system and common chrome recovery units need to be fully operationalized at the earliest. An alternative to it could be permitting the tanneries to establish their own ETPs and dumping facilities. This should be supported by bank loans on soft terms.²⁰ The land plots should be duly handed over to the tannery owners through proper registration documents. (2) Services like uninterrupted utility support should be ensured. The infrastructures in and around the tannery estate also need serious attention. Facilitation of additional common support including cold storages and easy usage of inland container depot should be prioritised. (3) Finally, strengthened linkages, both backward and forward, would be the key growth driver for this sector and thus require in-depth and coordinated support measures. At the backward level, the quality of rawhides and wet blue leather needs to be improved following the standard certified rules and compliances. In terms of forward linkages, a proactive initiative is needed to advance the acceptability of leather items as responsible sourcing to ensure market orders. In addition, the firms that were not accommodated in the TED should be relocated to other industrial parks/locations with appropriate facilities in place.

Changing market dynamism and relative profitability of export-oriented leather manufacturing

Bangladesh's economy is going through a rapid growth and transformation process with the

¹⁷ This is based on key informant interviews with tannery owners. According to some industry leaders, more than 60 per cent of their rawhides are collected during the Eid festival and processed right away.

¹⁸ Ibid.

¹⁹ It was reported that rawhides worth of approximately Tk 1000 million were dumped as garbage before they even reached to the TED. Tannery owners were reluctant to purchase fresh rawhides at the rates fixed by government, because they had significant stocks of hide in their inventories. (The Daily Star, 15 August 2019)

²⁰ Some estimates from the tannery owners indicate that, private installation of an ETP would require approximately Tk 50 million (\$0.6 million) for each million square feet of leather production capacities.

consumers' purchasing power rising significantly over the past decades. This has also resulted in an expanded domestic consumer base for leather products. As mentioned earlier, the leather industry's contribution to GDP has risen despite the recent fall in exports. Indeed, it is the case that the domestic market itself poses a lucrative option for leather manufacturers. This implies that unless the profitability from exports relative to domestic sales is higher, firms may not find it rational to export, which is a much more demanding option. This is particularly so when the number of suppliers in the domestic market are small. In addition to this market dynamism, policy-induced factors can also work against exporters, 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. Existing import tariffs in conjunction with other trade taxes and levies (known as para-tariffs) enhance the relative profitability of the domestic market. Currently, there exists no equivalent export policy support to neutralise this policy bias. When trading costs are high, the incentives for exporting activities are even less.

In terms of tariff structures, key raw materials for the leather industry such as rawhides, and wet and crust leathers, attract a 5 per cent customs duty (CD) along with a 5 per cent advance income tax (AIT) and up to 4 per cent advance trade VAT (ATV) tax (Table 8.5). For finished leather and leather goods, the CD ranges from 10 to 25 per cent and then there are additional tariffs such as AIT, supplementary duty (SD), regulatory duty (RD), and ATV. The products that are traded most in the global market such as handbags, wallets, belts, trunks and suitcases, and leather footwear are faced with very high duties with a total tax incidence (TTI) being as high as 89–128 per cent.

Table 8.5: Rate of different tax duties for leather and leather goods (%)

HS code	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. Note: CD = customs duty, SD = supplementary duty, VAT = value added tax, AIT = advance income tax, RD = regulatory duty, ATV = advance trade VAT.

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 used to ascertain the level of protection. Among the manufactured goods, with a 273 per cent average effective rate of protection, the footwear industry is one of the most protected sectors in the country. For boosting exports and promoting export diversification, the 7th Five Year plan has emphasised on reviewing the trade policy regime. Rationalisation of high tariffs and para-tariffs is thought to be the most essential to enhance the efficiency of the producers and create a pro-export motivation among the entrepreneurs (Sattar, 2015).²¹ Despite its importance, policy reversals to accord incentives to exporters have proven to be a difficult task because of various reasons including concerns about the loss of government revenues.

²¹ Bangladesh undertook 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 other duties and trade taxes in addition to customs duties. Thus, while the average customs duty 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).

Strengthening policy support for leather exports

The target of achieving \$5 billion leather exports in the near future now appears as a daunting prospect and it is in this context that the policy support mechanisms need to be reviewed and revamped. As it follows from the above, policy-induced disincentives and other general constraints tend to discourage allocation of resources in favour of export-oriented activities. Since export production cannot be protected by tariffs, it is important that the exporters (including those in leather) are supported directly through different incentive schemes. However, there are hardly any policy schemes that can provide export incentives equivalent of tariff protection granted in the domestic market. The export subsidy (or cash assistance) for the leather sector is currently in the range of 10–15 per cent: the finished leather goods exporters 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).

The scope for deepening the policy support for LLGs 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.

Table 8.6: Cash assistance to the leather sector (% of value of export shipment)

Sector	FY10	FY15	FY17	FY18 -FY20
Articles of leather (celling applicable) *	17.5	15	15	15
Crust and finished leather (exported from firms relocated in Savar)	7.5	-	-	10

Source: Compiled from Bangladesh Bank's various official circulars for cash incentives on export. Note(*): For FY18–FY20 (or until issuance of new circular from Bangladesh Bank), the cash subsidy celling for articles of leather exports are: \$45 for bags (except purses); \$35 for vanity bags/purses; \$35 for boots and shoes; \$30 for moneybags; \$25 for belts; and \$20 for sandals.

Under the current export policy, small and medium-sized RMG firms can avail additional 4 per cent cash assistance; exporters exporting to new markets (other than Canada, the EU, and the U.S.) 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.

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. For LLGs and non-RMG items, 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 are 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 in the EPZs.²² However, the procedural delays and time to refund the

²² See <http://www.bangladeshcustoms.gov.bd>.

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 per cent export-oriented firms can enjoy the bonded warehouse facility. At present, bonded warehouse facilities are only available in 20 major districts which are mostly around Dhaka and there are less than 100 supervised bonded warehouses for footwear firms.²³ Some large export-oriented tanneries also enjoy bonded warehouse facilities for importing their chemicals and other raw materials.²⁴ However, some limitations of the bonded warehouse system have been reported, e.g., procedural delays, lack of a clear understanding of their operation and management even within the business community (Baylis, 2016).

Need for a maximum utilisation of policy assistance prior to LDC graduation

Bangladesh will soon graduate out of the LDC group. 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. Tables 8.7 and 8.8 summarise the likely changes in tariff regimes for leather and leather products (HS 41 and HS 42), and leather footwear (HS 6403) in major destinations following graduation. For leather and leather goods, the current preference margin for Bangladesh is 3.8 per cent in the EU market (Table 8.7).²⁵ The post-graduation tariff rate under Standard GSP will be quite small in this market—about 1.4 per cent, on average.²⁶ In the case of leather footwear, against the current duty-free access, Bangladesh may be required to pay a tariff rate of 4.25 per cent after graduation (the corresponding average MFN duty being 7.75 per cent). In China, as there is no preferential regime for developing countries, Bangladesh will have to pay the average MFN tariff rate of 11.1 per cent for leather and leather products against the current preferential rate of 4.4 per cent. The average tariff hike for leather footwear will be as high as 13.1 per cent to access this market. India allows tariff-free access for almost all items from Bangladesh. As such, Bangladesh enjoys a preference margin of more than 4 per cent for leather and leather products and a more than 8 per cent margin for leather footwear. For Bangladesh, post-graduation tariff rates in India will be based on the SAFTA non-LDC arrangements.

Japan's MFN tariff rates for leather products and leather footwear are 10.7 per cent and 25.25 per cent respectively. While, for leather products, it allows only 1 per cent preference margin for developing countries, there is no such margin for leather footwear. As such, against the current zero duty access, the average tariff hike for Bangladesh's leather footwear will be above 25 per cent. Export tariff in the Republic of Korea will surge from zero to 4.34 per cent for raw and finished leather products, and to 12.28 per cent for leather footwear. In Australia, the rise in tariff rates for these items will be around 3.4 per cent. The MFN tariff rates for raw hide in Canadian market is zero. However, graduating Bangladesh will have to pay average tariff rate of 4.6 per cent for leather products (HS 42) under the General Preferential Tariff (GPT) designed for

²³ Customs Bond Commissionerate (CBC) data.

²⁴ MCCI-IDE-JETRO (2014). Report on Survey Findings on Leather and Leather Goods in Bangladesh.

²⁵ The preference margin is the difference between the MFN and preferential tariff rates.

²⁶ EU GSP regime for Bangladesh after graduation has been discussed in Chapter 3 of this volume.

developing countries. As Canada does not provide any preferences for leather footwear under the GPT, Bangladesh may face a 13.4 per cent tariff, on average, against the current duty-free access.

It is evident from the above discussion that the preferences for leather and leather products are low except for India and Japan. However, the preferential margins are quite high for leather footwear. These preferences will get eroded in most cases after graduation. Also, after LDC graduation, export support measures like cash assistance schemes are most unlikely to be possible to continue with, given the rules and provisions of the WTO. Therefore, it is high time to consider reinvigorated, restructured and deepened policy support.²⁷ At the same time, Bangladesh will have to devise a WTO-compliant policy support mechanism for the post-graduation era.

Table 8.7: Market access conditions for leather and leather products (HS 41 and HS 42) after LDC graduation

Country	LDC tariff rates	Post-graduation tariff rates	MFN tariff
Australia	0%	3.38 (1% margin for only 6 items)	3.46%
Canada	0%	MFN 0% for HS41 4.6% for HS42	MFN 0% for raw hide (HS41) 7.28% for leather goods (HS42))
China	4.44% (duty free for selected items)	MFN rates applicable	11.07% (5%-14% for raw hide and 8%-20% for leather products)
EU	0%	1.35% (0% for most products)	3.8% (0% and 6.5% for most products)
India	0.7%	4.1%	8.4%
Japan	0% for raw hide 4.04% for leather products	9.64%	10.67%
Republic of Korea	0%	4.34%	4.8%

Note: Average is calculated as the simple average.
Source: Authors' analysis using WITS data.

Table 8.8: Market access conditions for leather footwear items (HS 6403) after LDC graduation

Country	LDC tariff rates	Post-graduation tariff rates	MFN tariff
Australia	0%	MFN rates applicable	3.75%
Canada	0%	MFN rates applicable	10.37%
China	0%	MFN rates applicable	13.36%
EU	0%	4.25%	7.75% (8% for most items)
India	0%	8.39%	20%
Japan	0%	MFN rates applicable	25.25%
Republic of Korea	0%	12.28%	13%

Note: Average is calculated as the simple average.
Source: Authors' analysis using WITS data.

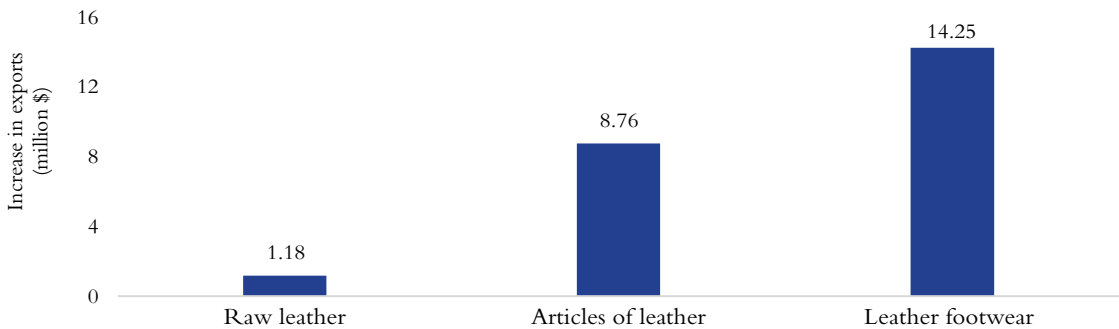
²⁷ According to estimates provided in MTMPS, Ministry of Finance, total incentives for the export sector for 2015–16 and 2016–17 were Tk 35 billion and Tk 40 billion, respectively. In proportion to total revenue, these are estimated at 2 per cent for 2015–16 and 1.8 per cent for 2016–17. As percentage of GDP, the total valuation of export incentives is just about 0.2 per cent (for both the years).

Enhancing export market penetration

Bangladesh needs to expand its exports of leather and leather goods in terms of the number of destination markets, the number of items sold, and the volume of sales to each market. Compared to China, India, and Vietnam, Bangladesh exports to less than half of the destinations. The number of products and volume of exports both is substantially low as well. Establishing new export relationships in new markets can be quite challenging. Sustaining the export flows can be even more challenging. As mentioned in Chapter 2 of this volume, the survival rates of Bangladesh's exports are lower than those of India, China, and Vietnam. Also, it has been found that Bangladesh's new export relationships emerge within a narrow band of markets. Exploring new markets is therefore likely to require far stronger policy supports.

As an LDC, Bangladesh gets preferential market access at major destination countries. However, in the USA, the largest destination of leather and leather goods, Bangladesh faces steep tariff barriers. On average, Bangladesh's exports are subject to a tariff rate of 15.6 per cent. The footwear items face U.S. tariffs averaging 12.7 per cent. Estimates show if Bangladesh had obtained duty-free market access in the U.S., exports of leather goods would have increased by \$24.2 million, an increase of 15.3 per cent of leather exports from Bangladesh to the USA (Figure 8.29). The largest export gains would occur in the footwear subsector (\$14.25 million), followed by articles of leather (\$8.76 million) and raw leather and hides (\$1.18 million).

Figure 8.29: Potential increase in leather exports in the U.S. market under a duty-free access



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

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

The presented estimates should be considered conservative. This is because in the presence of high tariffs, Bangladesh's export base in the U.S. has been low, affecting these results. Furthermore, a duty-free market access could trigger far higher export response than any models would be able to capture. As the U.S. is going to remain an important leather market, it is essential to look for improved market access. Unfortunately, the U.S. policy stance has hardened in recent years and many experts do not consider obtaining preferential market access as a realistic prospect. Nevertheless, options such as attracting U.S. FDI to expand exports in the U.S. and elsewhere, bilateral negotiations to obtain GSP facilities covering the leather sector, and a reciprocal trading arrangement (including an FTA) should not be overlooked. In addition, after LDC graduation, 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.

Quality upgradation 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 widely differ in quality. Quality upgradation, sophistication, and product differentiation are often associated with higher prices.

Analysis undertaken for this chapter shows that, Bangladesh exports relatively high-quality leather (in the HS category 41), but apart from a 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 a need for developing domestic capacities in product design, research, and brand development.

It must also be noted that product quality, in today's world, 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 and ISO 45001 for occupational health and safety standards have become an integral part of goods' quality and higher export prices. Upgradation of the country's capacity in this direction will be critically important for future export prospects.

An important element in product upgradation would be positive branding of supply sources. The Annual Report of LFMEAB 2015 notes narrow product range, limited presence in fast-fashion items, and weak trade facilitation as the key hurdles for Bangladeshi leather and leather goods exporters. The LFMEAB also recognises the 'image of the industry' as an important factor in export expansion.

Bangladesh's leather sector faced a severe backlash in 2016 when some unfavourable reports on tanneries were published in the international media. Following it, many buyers looked for alternative sourcing of their products while several international producers reportedly clarified their sourcing practices.²⁸ It has also been claimed that the price per square feet of leather has dropped sharply for Bangladeshi exporters over the years.²⁹ In 2018, the average quality finished leather was sold at a price of \$1.5 per square feet in comparison with \$2.5 per square feet in 2015. The fall in prices stemmed from the negative image of the industry, degraded leather quality (due to improper curation or flaying), as well as an increased competition from the comparators. The need for reviewing the standards related to the production process and the image of the industry thus cannot be overstated. A positive branding campaign backed by effective monitoring of various standards can help establish credibility of the country as a responsible source of supplies and attract reputed international buyers.

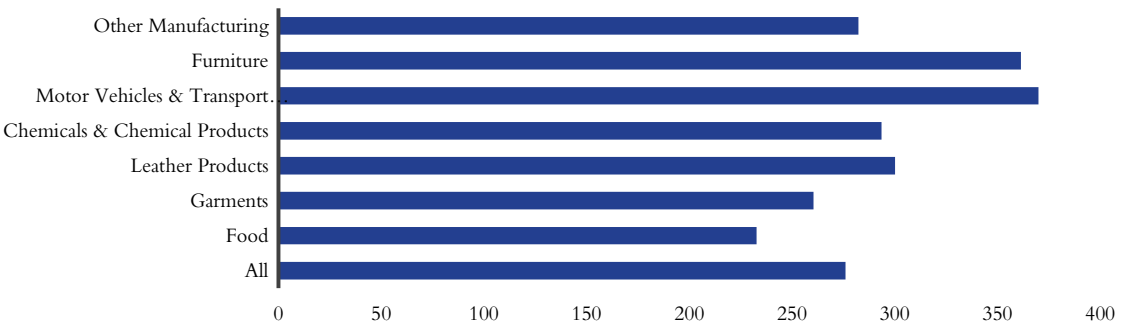
²⁸ Skin Deep: Feeding the Global Lust for Leather: <https://pulitzercenter.org/reporting/skin-deep-feeding-global-lust-leather>

²⁹ This information has been obtained from the KII with industry experts.

Alleviating financial constraints for export-oriented entrepreneurs

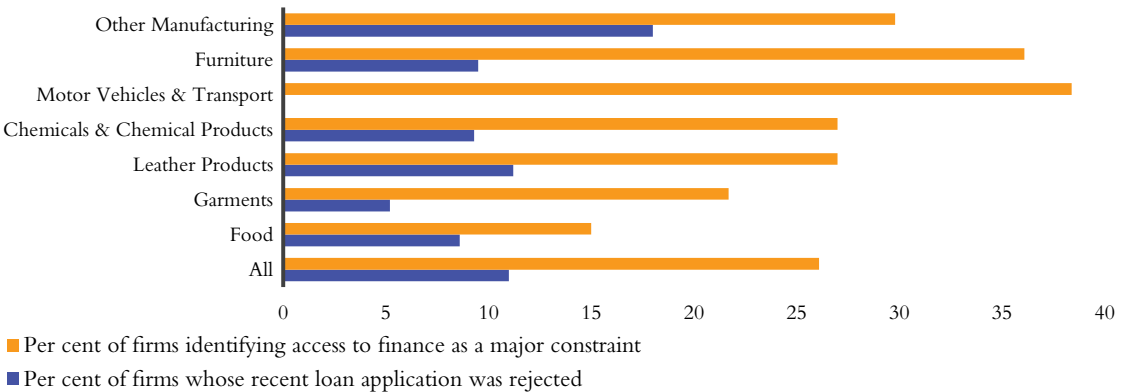
Access to finance works as a lifeline for any industry and the role of timely and adequate financial services is of critical importance for the export-oriented sectors. In the last World Bank enterprise surveys on Bangladesh, more than a quarter of the entrepreneurs in the leather industry reported access to finance as a major constraint. The value of collateral needed for a loan is estimated to be as high as 300 per cent of the loan amount—one of the highest in the world (Figure 8.30). With collaterals at such high levels, one in every 10 potential borrowers in the leather sector reported a rejection of their most recent loan applications (Figure 8.31).

Figure 8.30: Value of collateral needed for a loan (% of the loan amount)



Source: Enterprise Survey, World Bank.

Figure 8.31: Access to finance as a major constraint



Source: Enterprise Survey, World Bank.

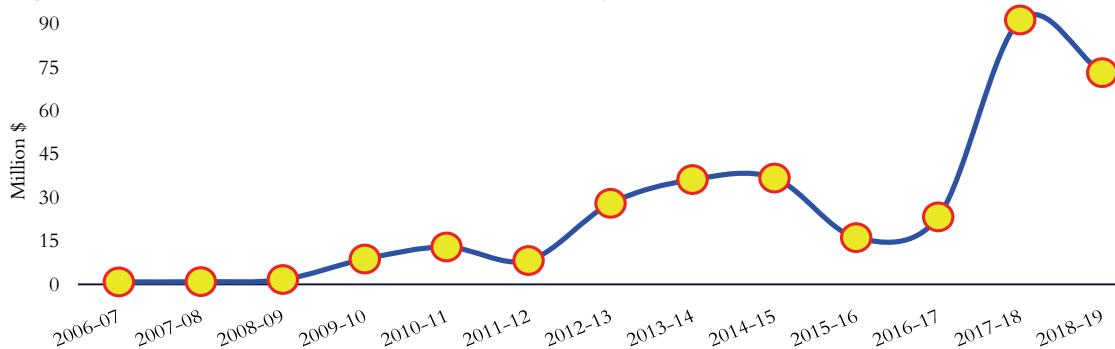
In addition, lack of access to trade finance is particularly a major problem for small and medium enterprises. Covering payment risks and mobilising working capital are the two important components of trade finance. The purchase of new capital equipment and raw materials at the time of start-up is one of the major finance-related hurdles that potential exporters would have to overcome. The most common type of trade finance mechanism available to exporters is L/Cs and it is not generally possible to acquire financing from abroad. Amongst others, India and Sri Lanka, have set some good examples of alternative financing to boost exports.

For easing the access to finance, the Bangladesh's Export Development Fund (EDF) offers trade finance while the Export Credit Guarantee Scheme (ECGS)—administered by the Sadharon Bima Corporation—provides pre-shipment and post-shipment export finances, whole turnover export finance (pre-shipment) guarantees, and export payment risk policies.^{30,31} The use of these schemes and their access by different types of export firms need to be reviewed. The option of opening up to the trade finance market can be carefully reviewed as access to global credits can expand coverage and reduce borrowing costs. 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.

Attracting FDI in the export-oriented leather sector

FDI in the leather sector can be influential in transforming the leather industry. Increased FDI flows can help embrace new technologies, move up on the quality ladder, and strengthen its position within the global leather value chains. Having a strong backward linkage to source materials along with robust horizontal linkages to RMG and textile industries, Bangladesh certainly offers attractive investment propositions in leather and leather goods. However, despite policy initiatives, the flow of FDI has so far not been encouraging. As discussed, high cost of doing business and infrastructural bottlenecks, are widely considered as major disincentives for private investment inflows.

Figure 8.32: Net FDI inflow in the leather industry



Source: Authors' analysis using Bangladesh Bank data.

Until FY07, the annual FDI inflow in the leather sector remained less than a million US dollars. The sector received more than \$10 million FDI for the first time in FY11. The relocation of tanneries to Savar led to a reinvigorated interest from foreign investors. As a result, FDI inflow reached a peak of \$91.5 million in FY18. Given the infrastructural deficit in the Savar TED, this slowed down to \$73.3 million in the following fiscal year. While the recent FDI figures for the leather sector is encouraging, these are much lower than comparable investments in many other comparator countries.³² Nevertheless, it is a sector that is potentially capable of bringing much more FDI in the future. Making the TED fully functional and compliant will be one important step in attracting FDI.

³⁰ BRPD Circular No. - 01, dated 10 January 2004, Bangladesh Bank.

³¹ See http://mail.sbc.gov.bd/ins_export_credit.php.

³² For example, in 2018, just one U.S. shoemaker, Skechers, invested more than \$700 million in Vietnam (<https://customsnews.vn/us-major-project-marks-good-start-in-2018-for-footwear-industry-6186.html>).

Securing accreditation from the Leather Working Group (LWG)

The Leather Working Group (LWG) is a multi-stakeholder group that is made up of more than 600 member brands, retailers, product manufacturers, leather manufacturers, chemical suppliers, and technical experts that have worked together to develop an environmental stewardship protocol specifically for the industry.³³ Certification from the LWG is awarded to the manufacturers of the leather products based on the points presented on factors such as solid waste management, treatment and less usage of water, chemical use, workers' welfare, etc. Out of a total of 100, 85 points in audit are required to secure gold certifications, while 75 points and 65 points are needed to achieve silver and bronze certifications, respectively. Attaining these certifications will be a big leap forward for the local tanners and open the international market for leather products made of locally processed rawhides.

As it stands, finished products made from domestically sourced raw materials are exported to some non-complaint niche markets like China. According to industry insiders, exporters receive 30–40 per cent lower prices from international buyers for these products because of the lack of certifications (The Daily Star, 2019, November 3). When it comes to exporting to developed countries, Bangladeshi manufacturers can only export finished goods made of imported leather, as industry practices do not match with the LWG standards. Therefore, one key priority should be to secure the LWG accreditation as soon as possible.

Addressing the shortage of a skilled workforce

Another important challenge faced by the sector is the severe scarcity of a skilled workforce. Although the country produces a large number of graduates each year, skill mismatch continues to widen as industry-specific needs cannot be met by a very general education system. In the World Bank World Enterprise Survey, one in every four respondents in the leather sector identified inadequately educated workforce as a major constraint. Despite such high skill deficits, only 13.7 per cent of the firms offered formal training to their workers. In 2015–16, the share of skilled labour in in the leather sector's total employment was only 9.7 per cent (BIDS, 2017). The demand for skilled labour in this sector will increase further. It has been estimated that, by 2025–26, as many as 150,000 workers in the leather sector will require formal training (BIDS, 2017). The existing capacity is inadequate to train such a large number of workers.

To address the challenges of the shortage of skilled workers, it is important to pursue a pragmatic sector-specific policy. In the short term, relaxing the hiring rule of the foreign experts could be considered as a option specifically for managerial and technical jobs. In the medium to long term, the capacity of local institutions should be enhanced to cater for industry-specific needs. At present, the Centre of Excellence for Leather Skill Bangladesh Limited (COEL) is the only training institute that provides hands-on training on the leather sector related activities. In collaboration with the industry, COEL imparts technical and soft skills training. Over the past several years, it has trained 15,000 machine operators along with 4,500 mid-level managers. Among others, the Institute of Leather Engineering and Technology at Dhaka University and the Department of Leather Technology at Khulna University produce graduates for the leather

³³ More about the LWG can be found at: <https://www.leatherworkinggroup.com/>.

sector. But these institutions are confronted with capacity constraints. There is also the need for effective collaboration between private sector enterprises and these institutes so that the academic course of the latter can be relevant to industry needs.

Strengthening backward linkages

One of the key advantages of Bangladesh's leather sector is that most of the total raw materials can be sourced from the domestic market. However, this important backward linkage needs to be strengthened further by complying with international standards that would boost export orders. Developing a modern supply chain management by using state-of-the-art technologies is one area where Bangladesh will have to invest to foster export success. This should start with cattle-production in a more commercially organised manner that will not only strengthen the supply chain of rawhides to the leather sector but will also help meet the protein demand of the mass population.

One major concern that is often discussed is the lack of skills of the butchers for flaying and curing. Improper curing methods severely damage the quality of rawhides. The leathers are usually categorised in eight classes based on the quality of the hide namely A, B, C, D, E, F, G, H, where A to D represents from excellent to good quality leathers and E to H represents low-quality leathers. According to industry insiders, the grains of the leather largely depend on proper curing or preservation of the rawhides. If the hides are not properly cured within the first few hours of flaying, the grains are usually lost affecting the quality of the finished leather. Improper flaying of animals is also a problem as the butchers often fail to flay without any knife mark on the hides. It is reported that the quality of more than 50 per cent of the rawhides collected during the Eid-ul-Adha is somewhat compromised because of such flaying faults and improper curation. To manage a good quality of leather and leather goods, modernised abattoirs should be built and it is also important to develop some training facilities for the butchers.

Various chemicals that are used in the leather industry are mostly imported. As these raw materials are also used in many other industries such as garments and textiles, pharmaceuticals, etc., developing a strong local chemical industry will help boost the country's export sector as well.

Ensuring an enabling environment for the leather industry

It is important to address both the broad constraints facing the overall export industry as well as issues pertaining to the leather sector. Just like any other industry in Bangladesh, the leather sector's prospects are being inhibited by high cost of doing business. Port management, inland transportation, access to finance, reliable utilities services, trade logistics, etc. can be improved further to promote the competitiveness of business enterprises. Excessive costs of doing business not only make a country less competitive as an exporter, but it also exert a detrimental effect on the prospect of attracting foreign investment.

8.5 Concluding Remarks

Despite its long presence, strong backward integration, and good product quality, Bangladesh has not been able to realise much of the potential of the leather sector. The decline in exports after the relocation of tanneries to Savar has become a cause for concern. This calls for revisiting the leather-sector specific policies as well as other general factors affecting overall export competitiveness.

The issue of smooth and efficient operation of the Tannery Estate Dhaka (TED) should be of utmost priority in expanding exports from this sector. The core attributes of the TED including the central effluent treatment plant, sludge power generation system, common chrome recovery unit, central dumping yard, etc. should be made fully operational within a shortest possible time. At the same time, technical and administrative capacities of the BSCIC should be strengthened for operationalising the TED and its continued efficient functioning. Efforts to attain international accreditation for locally processed leather materials should be prioritised as well. Allowing ETPs constructed and run by private sector enterprises following appropriate environmental, industrial, and regulatory standards should be given active consideration. This decision can attract major international investors into Bangladesh's leather industry. In addition, initiatives for developing SME clusters for LLGs in well-planned industrial locations could be an essential element in gearing up the prospect of this sector.

The analysis presented in this chapter has shown that although Bangladesh exports good-quality finished leather, other major suppliers, in many cases, enjoy higher unit value prices. There are thus opportunities for developing more value-added export items. Connecting to the global value chain and moving up the chain will require a reliable supply response of quality products from responsible sources, 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.

One of the key challenges faced by the industry is the severe scarcity of skilled workers and professionals. Despite the supplies of many graduates each year, the skill mismatch has widened, in which the industry's demand for specific skillsets remains unmet. The future expansion of the sector will certainly require more appropriately skilled engineers, technicians, managers, and international marketing specialists.

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. Modern commercial farming associated with animal husbandry, use of abattoirs, and development of professional services for flaying and curing of rawhides are most essential for lining up an effective backward industry to enhance the competitiveness of the sector. In accordance with the current policy, modern abattoirs should be developed in major cities.

Taking advantage of the recent improvements in the Doing Business ranking, Bangladesh must proactively look for FDI. The leather sector has been a traditional attractor of FDI. High 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 inflows, which can help the industry integrate into the global value chain, embrace new technologies, improve product quality and explore new export markets.

Apart from the sector-specific issues, overall economywide factors such as high cost of doing business and exchange rate appreciations undermine external competitiveness, contribute to a weak export response. A strong demand for leather goods emanating from a rapidly growing domestic economy coupled with high tariff protection translates into higher relative profitability from the domestic sales. Since export production cannot be protected by tariffs, exporters are supported through different export incentive schemes, which are however hardly adequate to alter the incentive structure in favour of exporting activities. The scope of deepening the cash incentives and expanding the coverage of bonded warehouse facilities should be assessed. Additional support can be provided to the leather exporters exploring new markets and expanding export in the markets with high growth potential.

Bangladesh must proactively look for new markets while aiming to increase the number of items sold in each market. 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 in the existing markets and in emerging destinations. It is extremely important to act fast in resolving various policy issues and implementing effective export assistance programmes. After graduation from the group of LDCs in 2024, some of the currently existing policy flexibilities and trade preferences will either be lost or significantly reduced. Therefore, it is high time to consider a reinvigorated and deepened policy support mechanism 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.

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Boosting Plastic Exports from Bangladesh

Mohammad Abdur Razzaque, Emran Hasan, Jillur Rahman & Ahsanuzzaman

9.1 Introduction

The plastic industry, one of the prominent manufacturing sectors in Bangladesh, has for quite some time now been identified as a sector capable of contributing to export growth acceleration and diversification. As per capita plastic consumption remains low in the country, the sector is expected to continue to expand sturdily. This should also help boost export response. Low labour cost provides a natural source of comparative advantage not only in the manufacturing process but in a whole range of activities associated with post-use recycling of plastic products, generating backward linkage support for the industry. Considering its export potential, the plastic industry has been recognised as a ‘thrust sector’ and included as one of the ‘highest-priority’ sectors in Bangladesh’s Export Policy 2018–2021.

Despite the momentum in domestic production, export earnings from the plastic sector have, however, been far from satisfactory. While indirect or deemed exports by way of packaging materials and accessories are reported to have recorded modest growth, direct exports remain relatively small (around \$100 million) and volatile. The already low export volume suffered a further setback as some of the leading importing economies including China and India imposed import bans on plastic waste. Given the concern about environmental degradation, global production and exports of plastic goods are going through important changes. Future export success will thus require adapting to new technologies in production, recycling, and waste management practices. While this may transpire as a challenge for a relatively new exporter like Bangladesh, the evolving circumstances could also present opportunities if production capacities can be developed to meet the requirements of the revamped global standards.

This chapter focuses on the plastic industry to analyse its export performance and to explore global export market prospects. It identifies several key challenges confronting the export growth potential and discusses policy options for stimulating the export supply response. The chapter is organised as follows: Section 9.2 briefly highlights some salient features of Bangladesh’s plastic industry; Section 9.3 analyses the trends and patterns of Bangladesh’s plastic exports; Section 9.4 assesses the global plastic market and prospects for Bangladesh; Section 9.5 provides discussions on the challenges faced by plastic manufacturing and export-oriented firms, and suggest measures to address those; Section 9.6 concludes.

9.2 Bangladesh's Plastic Industry

Salient features of Bangladesh's plastic industry

The plastic industry in Bangladesh is relatively new amongst the prominent non-traditional sectors. Indeed, globally the history of this industry is only about a century old. While scientists had been trying to produce impermeable and elastic organic compounds since the 19th century, first synthetic plastics were successfully invented in 1907 (Plastic Industry Association, n.d.). Production of plastics at industrial scales began with the introduction of synthetic polymers in the 1950s. Production of plastics then grew exponentially with the current annual production estimated at about 400 million tons, which is projected to rise fourfold within 2050 (Geyer et al., 2017).

According to various sources, the production of plastic products in Bangladesh was initiated in a very limited scale in the 1970s when the range of products included spare parts for jute mills, toys, bangles, photo frames, and other basic products. The industry started to take off over the next two decades or so. During the 1980s and 1990s, the industry could be described to have factories with a relatively large number of injection grade and film grade plastic set-up.¹ The trade policy reforms of the 1990s and growth of the readymade garment industry had contributed to the development of the plastics sector as a backward linkage activity. In fact, the plastic industry played an important role by supplying export-quality packaging materials and other accessories to the RMG sector.

During the past two decades, the domestic plastic industry witnessed a remarkable dynamism in terms of acquiring modern technologies by several large and medium-scale enterprises, and large-scale production largely due to rising demand in the local market. Steady economic growth and growing population led to a massive surge in domestic demand attracting investment from a diverse group of investors—both small and large entrepreneurs. Table 9.1 shows a brief history of plastic production in Bangladesh.

Table 9.1: Evolution of Bangladesh's plastic sector

Time	Production characterised by:
1960s	Small items such as toys, bangles, and photo frames using handmade moulds
1970s	Early machine-based production of household utensils such as plastic jugs and plates
1980s	Film-blowing machines to manufacture plastic bags
1990s	Plastic accessories especially hangers for exportable garments
2000s	Large scale production of moulded plastic chairs and tables; water tanks from rotational moulding machines; some capacity development in recycling plastic waste using locally made machines.
2010s	Production of more complex items; large scale production; use of imported CNC (computer numerical control) machines to manufacture moulds locally.

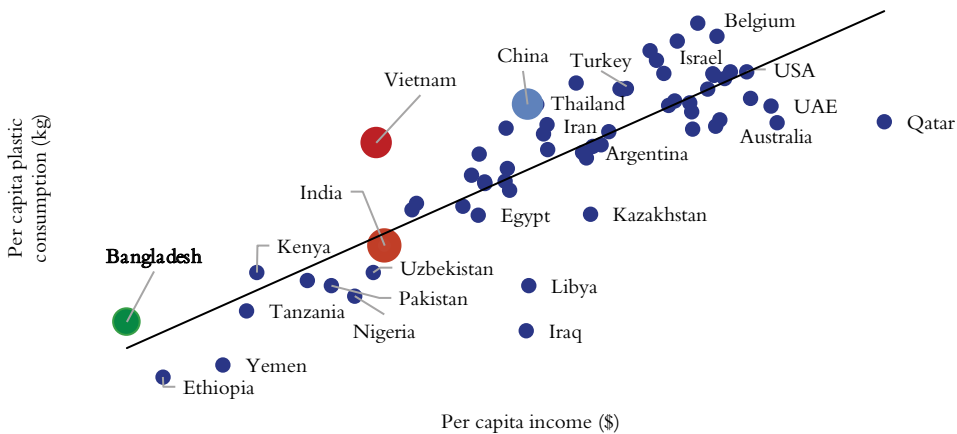
Source: Sadek (2017).

According to industry sources, currently, there is a huge demand for varying types of plastic products in the domestic market with an approximate size of \$3 billion (Tk 250 billion). This will rise further given the rising per capita income and the fact that there is a strong positive relationship between per capita income and per capita plastic consumption across global

¹ For details, see <http://bpgmea.org.bd/v2/index.php/bpgmea>.

economies (Figure 9.1). Between 1990 and 2014, the annual per capita plastic consumption in Bangladesh was estimated to have increased by 4.87 kg (from 0.13 kg to 5 kg), which is still lower than the global average. Yearly per capita consumption in Dhaka city grew at a much faster rate than the national average and reached almost 15 kg.² This reveals the potential for rapid expansion in the domestic demand in the near future.

Figure 9.1: Relationship between per capita income (\$) and per capita plastic consumption (kg)



Source: Based on EUROMAP and Bangladesh Bureau of Statistics (BBS) data.

Overall, the plastic sector is reported to have been growing at an annual average rate of 20 per cent for the past few years and its share in GDP stands at just about 1 per cent (Box 9.1). Buoyant domestic demand is met by both domestically produced as well as imported products. According to Bangladesh Bank data, the total import of plastics was \$1.7 billion in FY17. This implies that the industry has scope for expanding further to meet the domestic demand. In addition, the export share of Bangladesh is much lower compared to that of many other comparator countries with the same manufacturing capacities.

Box 9.1: Bangladesh’s plastic sector at a glance

- In recent times, the plastic sector has expanded at a fast pace.
- The value of domestic production of plastic products is estimated at Tk 250 billion.
- The contribution of the plastic sector in GDP is currently estimated at about 1 per cent.
- According to industry sources, as many as 5,000 firms are operating in this sector.
- The industry provides direct and indirect employment of about 1.2 million.
- Around 300 manufacturers are engaged in exporting plastic products. More than 98 per cent of the firms in the sector are small and medium enterprises (SMEs).
- Household items dominate the production structure in the plastic industry.
- The plastic sector has strong linkage effects through packaging as well as other accessories and spare parts for such industries as textile and clothing, healthcare, construction, electronics, and other light-engineering sectors.

Source: Bangladesh Investment Development Authority (BIDA) (2019) and BPGMEA (2018).

The key trade associations involved in the sector are Bangladesh Plastic Goods Manufacturers & Exporters Association (BPGMEA); Bangladesh Plastic Packaging, Roll Manufacturers Owners

²The information is obtained from World Development Indicators (WDI) and Plastic Europe.

Association; Bangladesh Plastic Babosayee Samity; Bangladesh PVC Compound Manufacturers Association; Bangladesh PVC Pipe Manufacturers Association; etc. Among them, BPGMEA—one of the oldest trade associations in the country—plays a key role in representing and advocating for the interest of the overall sector. The association was formed in 1987, amongst others, with the objective of building the exporting capacity of the sector. Currently, BPGMEA has 3,000 plastic manufacturers as members.³ At present, the Plastic Training Centre (PTC) and Bangladesh Plastic Institute of Engineering and Technology (BPIET) are the main institutional facilities to develop skill and expertise of workers and personnel with needful education and training related activities.

The industry is dominated by the presence of small and medium-sized firms (approximately 98 per cent) (BPGMEA, 2018).⁴ Around 5,000 plastic manufacturing firms of different sizes are currently operating in Bangladesh. It is estimated that more than 4,000 firms are producing goods, targeting the domestic market only, while around 500 factories are producing and exporting indirectly (as backward linkage contribution to readymade garments sector mostly). Around 300 firms are involved in producing plastic goods for direct exports (Table 9.2). Most of the medium to large firms operate in Chattogram, Dhaka, Gazipur, Khulna, and Narayanganj (Table 9.3).

Table 9.2: Firms by their production-orientation

Categories	No. of firms	Percentage (%)
Factories engaged in the production for the domestic market	4,150	83
Factories engaged in indirect export (customs bonded)	500	10
Direct exporter (customs bonded)	300	6
Both direct and indirect exporter	50	1
Total	5,000	100

Source: Based on BPGMEA data.

Table 9.3: Location of plastic firms

Firm size	Location
Small	Dhaka (Azimpur, Begum bazar, Hazaribagh, Islambagh, Kamrangirchar, Keraniganj, Lalbagh, Mirpur, Posta, Rahmatganj, Shohidnagar); Chattogram; Khulna; Narayanganj.
Medium	Dhaka (Azimpur, Keraniganj, Lalbagh, Mirpur, Mohammadpur, Savar, Siddique bazar, Tejgaon, Uttara); Chattogram (Bayejid Bostami, Jubilee Road, Kalurghat, Nasirabad); Gazipur (Tongi); Munshiganj; Narayanganj.
Large	Dhaka (Mirpur, Savar, Tejgaon); Chattogram; Gazipur (Tongi); Narayanganj.

Source: Based on BPGMEA data.

Characteristics of plastic manufacturing firms vary with the sizes of manufacturing units. The basic features of plastic producing units vary according to the type of ownership; control over the manufacturing process; use of machinery, moulds, and raw materials; skills of labour; export

³ See <http://bpgmea.org.bd/v2/index.php/bpgmea> for details.

⁴ Small, medium, and large firms are defined on the basis of the number of workers employed. Small firms usually have less than 10 workers; medium-sized firms employ 10 to 50 workers; and large firms have more than 50 workers.

capacity; location; distribution channel; etc. In terms of modern production processes and machinery used, small firms lag far behind their large counterparts. It is only the large firms that have the capacity to export.

In the early stage of its journey and until its relatively recent transformation, Bangladesh's plastic industry was limited to producing only a few day-to-day household items. Favourable policy initiatives and expansion of economic activities since the 1990s, such as the development of the garment industry, creating substantial linkage effects, facilitated the expansion of plastic product range. Currently, the sector boasts a wide variety of products to meet both household and industrial demands. Products to meet commercial needs include packaging materials used for sales in the domestic as well as export markets; household items (from kitchen utensils to various bathroom fixtures to many trivial items used in day-to-day activities); building materials including engineering and industrial parts; medical equipment; etc. Just to name a few, most widely used individual items with plastic content include shopping bags, garbage bags, PVC pipes and bags, polyethylene sheets, plastic hangers, toys, electric switches, food wrappers, beverage bottles, bottle caps, etc. (Table 9.4).

Table 9.4: Plastic products in Bangladesh

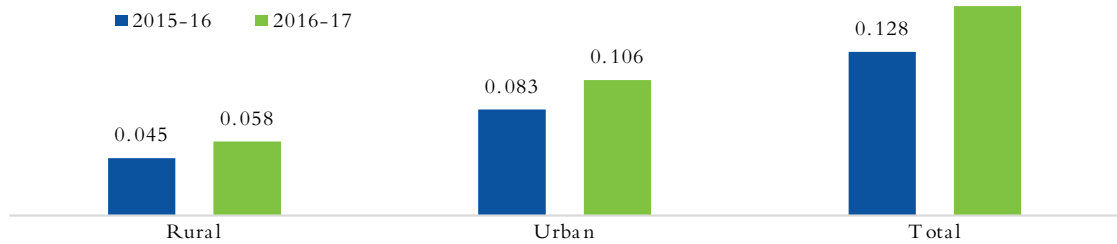
Applications	Products
Retail packaging	Plastic containers for food and non-food products, packages for retail sales, cosmetics and industrial packages, woven sacks, garbage bags, butcher bags, industrial films, polyethylene sheets, plastic hangers, gloves, ropes, freezer bags, etc.
Industrial and bulk packaging	Woven sacks for food grains, chemicals, fertilisers, cement, poultry food, rain protectors, greenhouse films, etc.
Household usage	Tableware, kitchenware, PET bottles, chairs, tables, bathtubs, jugs, mugs, buckets, containers, food boxes, flasks, plates, glasses, spoons, soap cases, toilet brushes, pans, toys, artificial flowers, clocks, etc.
Office equipment	Ball pens, markers, paperweights, rulers, desk calendars, file covers, etc.
Building materials	Doors, window frames, pipes, pipe fittings, electric cables, electric switches, water tanks, etc.
Engineering parts and industrial parts	Cones, bobbins, silver cans, screws, containers, drums, plastic spare parts for machinery, etc.
Medical instruments	Blood bags, medicine containers, injections, saline bags, medicine packages, etc.
Agricultural products	Plastic pipes, plastic films for shedding crops, etc.
Poultry and fishing	Pots, jars, fishing nets, fishing balls, egg crates, fish crates, etc.
Automobile and cycle parts	Car bumpers, handle grip covers, backlights, spoke lights, dashboards, etc.
Electronic and electrical equipment	Calculators, plugs, holders, multi-plugs, regulators, cables, switches, fridge and television parts, computer accessories, telecommunication equipment etc.
Textile and RMG accessories	Packaging materials, bags, hangers, polyester yarn, etc.
Engineering products	Accessories for electronic products
Furniture products	Chairs, tables, stools, wardrobes, racks, etc.

Source: Adapted from UNESCAP (2013).

With the expansion of the plastic industry, employment in this industry must have also increased. Data limitations, however, make it difficult to get a clear picture of the trends in employment generation. Direct employment which can be captured through formal surveys shows that employment in the plastic industry in 2016–2017 grew by 36,000 employment to reach 0.164

million (Figure 9.2). The Bangladesh Bureau of Statistics (BBS) data show that the plastic and rubber sector accounted for about 1.9 per cent of all manufacturing employment in the country.⁵ According to BPGMEA sources, however, when direct and indirect jobs are considered both in the formal and informal sectors, the total plastic sector employment would stand at more than 1.2 million.

Figure 9.2: Employment in the plastic sector (million \$)



Source: Authors' presentation using Bangladesh Bureau of Statistics (BBS) data.

The production process in the plastic industry is heavily dependent on imported raw materials. This is attributed to the lack of adequate backward activities such as a strong petrochemical production system as well as polyolefin production plants. With an operational capacity of 400 tons of polyethylene terephthalate (PET) resin per month that can supply to about 40 factories only, the Bangladesh Petrochemical Company Limited (BPCL) is the only resin producing firm in the country.⁶ As a result, both the imported volume and value of plastic raw materials are on an increasing trend due to the expansion of the plastic industry.

Bangladesh's plastic raw materials import increased from 0.66 million tonnes in 2008–2009 to 1.26 million tonnes in 2016–2017 (Figure 9.3).⁷ In value terms, it rose by Tk 4 billion during the same period (Figures 9.5). The rise in imports has been mostly dominated by increased imports under bonded warehouse schemes to facilitate exports (Figures 9.4 and 9.6). This seems to suggest exports being more critically dependent on imported raw materials than the production for domestic sales. It could also be that products for local sales and overseas markets are differentiated.

Plastic comes from petrochemicals, carbon-based petroleum, organic polymers, and different types of resins which are mixed with those substances to create final goods. Primary chemical substances used in this industry are resins of polyethene terephthalate (PET), polymer of vinyl chloride (PVC), phenolic resins, and other plastic resins. Bangladesh imports most of the resin, petrochemical, and olefin fibre from China, India, Kuwait, Malaysia, Qatar, the Republic of Korea, Saudi Arabia, Thailand, the U.A.E., and Vietnam. For machinery used in the production process, while some spare parts or low-tech machines are supplied by local manufacturers of Chawkbazar and Dholaikhal, most of the tools and modern machinery have to be imported from

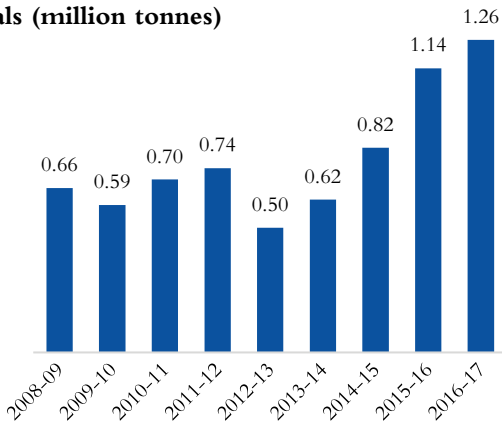
⁵ See Quarterly Labor Force Survey, Bangladesh (2016–2017) for details.

⁶ For details, see <https://futurestartup.com/2016/12/02/this-company-turns-your-discarded-plastic-bottles-into-money-and-jobs/>. Bangladesh has to import around 12,000 tons of PET resin per month just to meet the staggering domestic demand of 4 billion beverage bottles.

⁷ 1 tonne = 1000kg = 1.102 ton. Two different measurements have been used to report information from different sources.

such countries as China, Germany, India, Japan, the Republic of Korea, Thailand, and the United States.⁸

Figure 9.3: Imports of raw materials (million tonnes)



Source: Authors' presentation using NBR data.

Figure 9.4: Import of raw materials (volume) by bond and non-bond categories (%)

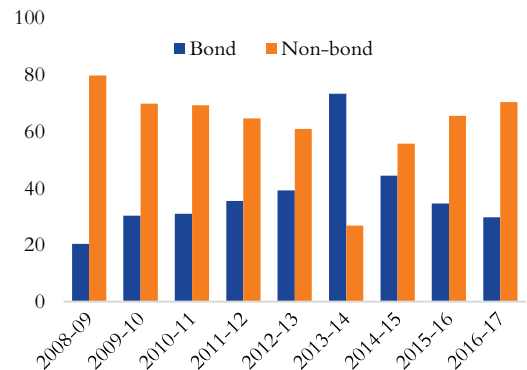
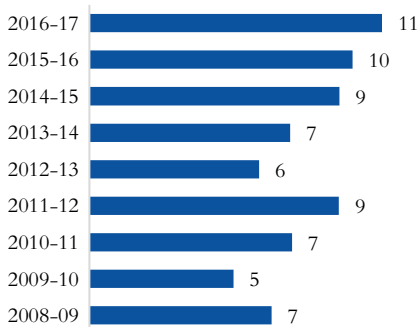
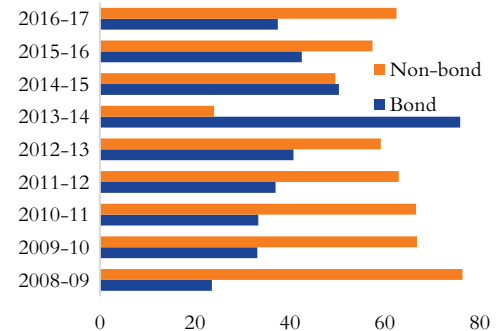


Figure 9.5: Total value of imported raw materials (billion Tk)



Source: Authors' presentation using NBR data.

Figure 9.6: Import value of raw materials: bond versus non-bond (%)



The value chain in the plastic industry

The value chain in the plastic industry starts with the supplies of raw materials for production. There are two basic varieties of raw materials used: plastic resins or granules and additives. These raw materials come in a couple of formats—(a) fresh or virgin inputs (i.e., new materials) and (b) recycled or used materials. Traders from India and the Middle-East are the main suppliers of new granules or resins. Additives are also mostly imported. However, the recycled items can be obtained from both local and international sources. Table 9.5 provides a brief overview of raw materials, chemicals, and sources of the primary ingredients of production for the main exported plastic items. Production units vary depending on the types of tools and machinery used in the production process. With some exceptions, moulds used in modern machines are mostly

⁸ Spare parts produced and supplied by local producers of Chawkbazar and Dholaikhal are mostly used in recycling plastic materials from solid waste.

imported. Contrary to standard international practices in which cutting-edge machines are mostly driven by computer and industrial robots, local producers (most small and medium-sized firms) continue to rely on primitive technologies and manual labour.

Table 9.5: Raw materials used in plastic production and their sources

HS code	Sub-items	% share in Plastic export (2017–18)	Raw materials	Chemicals
3923	Sacks and bags (incl. cones) Conveyance or packaging of plastics Boxes, cases, crates (packaging) Carboys, bottles, flasks (packaging) Stoppers, lids, caps (closures) Spools, cops, bobbins, and similar support	29.20 %	Polymers of ethylene (primary form), polymers of propylene and other olefins. Thermoplastic granules (Polypropylene, high impact Polystyrene, high-density polyethene, etc.	Plastic resins, Polyethylene terephthalate, vinyl chloride, cellulosic and its chemical derivatives, Polyacetals, epoxide resins), colour pigments.
3915	PET flakes Polymers of ethylene Polymers of vinyl chloride Polymers of styrene	20.17%	Recyclable polyethene terephthalate garbage, plastic bottles, nylon or polyester fibres, textile waste, etc.	Water, basic catalysts like acetone
3924	Household articles of plastic Kitchen and tableware of plastics	13.75 %	Polystyrene (PS), polypropylene (PP), polyvinyl chloride (PVC), Polyethylene (PE). Polyolefins (halogenated and others), polyurethane, etc.	A3 or A5 melamine resins, additives, starch, adhesive, high-density polyethene terephthalate, etc.
3926	Office or school supplies Clothing accessories furniture fittings or coachworks Statuettes and other ornamental articles	5.50 %	Polymers of polyethylene, polystyrene (PS), vinyl chloride (PVC), thermoplastic materials like high-density polyethene (HDPE), and some thermosetting plastics.	Vinyl resins, phenolic resins, polypropylene, acrylic resins, ethylene glycol, starch, adhesive, additives, catalysts, etc.

Source: Authors' analysis and compilation from various sources.

Most plastic manufacturers in Bangladesh are small and medium enterprises (SMEs). While some SMEs are contracted manufacturers producing small plastic items with low-value addition for larger firms, a large number of SMEs produce on their own, meeting domestic consumers' demand. Only a few big firms produce products with high value-added items, dominating the local market and being the most important source of export earnings from the international market.

Dhaka New Market and Mitford Market are amongst the central hub for suppliers of consumer plastic goods in Bangladesh. These markets contain wholesalers and sub-wholesalers. Retailers from all around the country buy products from these sellers. They sell the bulk of the products in urban areas, along with brand retail or dealer shops. Plastic products reach consumers in rural areas mostly through small shops in nearby marketplaces and through door-to-door vendors or hawkers. Business-to-business (B2B) sales also feature prominently in the industry. These sales

take place between producers and partners from different sectors including garments, pharmaceuticals, food processing, construction, etc.

The final stage of the value chain is recycling. It is important to note that recycling is completely different from the rest of the steps in the value chain. It helps generate value simply from trashes, wastes, and scraps of plastics. As disposal of garbage is not properly organised and managed in the country, several entities like scavengers, garbage collectors, and hawkers collect the post-use, thrown-out plastic materials. These are sold to wholesalers of plastics waste or recyclers. The collected materials are then used for producing plastic flakes, PET flakes, and resins. After recycling, the granules are sold as raw materials to the SMEs that mostly manufacture household plastic products for consumers. This kind of raw materials is vital for producing cheap plastic goods like toys, waste bags, and basic household items. Also, there is a huge potential for improvement in value addition involving the recycled plastic granules, as it is estimated that 60 per cent of the raw materials used by SMEs come from the recycled items (UNESCAP, 2013).

Plastic recycling

Most plastics are non-degradable and non-perishable unless incinerated. Even the most bio-degradable plastics end up being disintegrated into micro-plastic particles, adversely affecting the environment. Recycling of plastics can be defined as the reprocessing of used or discarded plastic products as well as materials from its original state to a new form. There are two ways to perform the recycling process—mechanical and feedstock recycling. Apart from these two, the source reduction of plastic wastes and the sustainability of plastic products are becoming more popular in reducing plastic wastes.

Of the 8.3 billion tonnes of global plastic products, only 9 per cent are recycled, another 12 per cent get incinerated, and the rest is discarded into landfills and/or end up in rivers and oceans.⁹ If the current trend continues, it is feared that oceans will contain more plastic than fishes (by weight) by 2050 (Neufeld et. al., 2016). This is why recycling of plastics has become a major issue for the plastic industry worldwide. Proper disposal and effective recycling of post-use plastic products can turn curses into blessings. Hence, developing a robust recycling industry and regulatory environment can be a core strength of the plastic industry, and is likely to provide export advantages.

Bangladesh has limited plastic recycling facilities. The recycling process starts with the collection of used plastics and plastic materials in the first stage. After collection, different types of waste materials are sorted out. Some items are then prepared for palletising. After palletising and shredding flakes of plastic, wastes are obtained. In the next stage, these flakes are sent for processing using extrusion machines that melt plastics. Molten plastics are then used in producing other plastic products. In mechanical recycling, after palletising, they are sent into the machine for producing primary resins or granule of different types of plastics which are to be used as raw materials for new items.

It is important that plastic goods are recycled for two reasons. Firstly, recycling of plastic goods helps better waste-management associated with plastics and hence it is a pro-environmental

⁹ See <https://news.nationalgeographic.com/2017/07/plastic-produced-recycling-waste-ocean-trash-debris-environment/> for details.

activity. Dumping consumed plastic materials into landfills or indiscriminately is not an environmentally sustainable practice. Secondly, recycling is economically rational as it helps reduce costs for producers as well as consumers. According to one estimate, about 60 per cent of the raw materials used by SMEs in Bangladesh come from recycled items (UNESCAP, 2013).

With an increasing trend of plastic goods production and consumption in the country, the plastic-related waste generation is also rising. While Bangladesh's per capita consumption of plastics goods is less than that of many other developing countries including India and Vietnam, Bangladesh is catching up in terms of the domestic demand, especially in the megacity of Dhaka. Plastic goods consumption increases with the population of Dhaka City Corporation (DCC) area. As of 2014, DCC generate 3,315 tons of solid wastes per day, more than 4 per cent of which are plastics. Polyethene terephthalate (PET) is the most common thermoplastic polymer resin of the polyester family. Bangladesh spent approximately \$225 million in 2015–16 to import over 140,000 tonnes of PET resins for producing goods and synthetic yarn. It is expected that imports of such inputs will continue to increase. Consequently, associated plastic wastes are also expected to rise over time.

Bangladesh has limited recycling facilities. Currently, there are 300 small units that are recycling 138 tonnes of plastic waste a day. The availability of water-bodies and low transportation costs have made plastic waste recycling economically attractive. In addition to serving as inputs in the production process, recycled plastics are also exported as PET flakes and shredded plastics to countries like India, the Republic of Korea, Thailand, and Vietnam. Until recently, China has been one of the major importers of used plastics. Bangladesh earned \$22 million in the FY16 and about 10 per cent of PET resins import costs were covered by exporting recycled plastics and related goods. Given the need for protecting the environment and growing awareness amongst global consumers, the plastic industry, irrespective of its sales orientation, will require modern recycling facilities.

9.3 Plastic Exports from Bangladesh

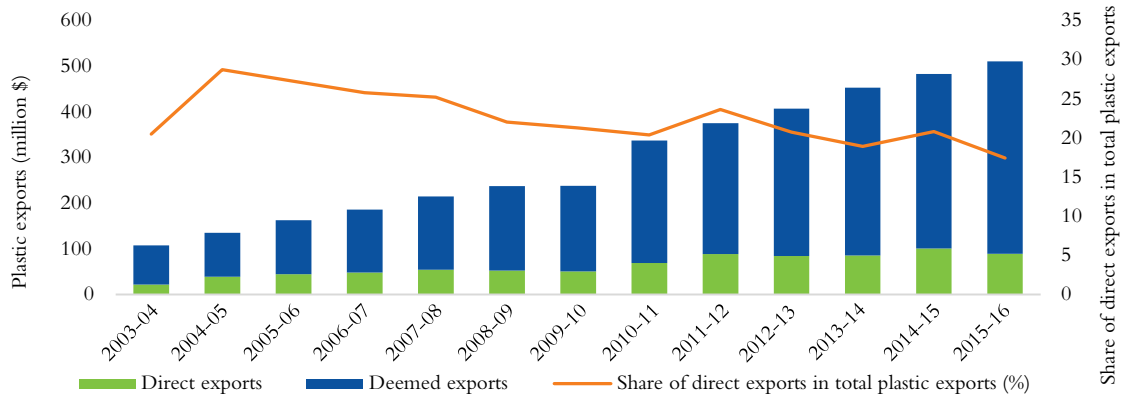
Trends in exports

Bangladesh's direct plastic exports have more than trebled between FY05 and FY19: from \$39 million to \$120 million. During the same period, deemed plastic exports increased from \$96 million to around \$500 million (Figure 9.7).¹⁰ However, the recent trends in direct plastic exports exhibit earnings instability. After a high 31 per cent growth in FY17, direct plastic exports experienced a negative growth of 16 per cent in FY18.¹¹ It then bounced back strongly with a 22 per cent growth in FY19. Since FY13, the average annual growth in plastic exports has been around 6 per cent as against more than 7 percent growth in overall exports. Consequently, its share in total exports did not manage to rise and has recently hovered around 0.3 per cent. Despite direct plastic exports depicting a fluctuating trend and registering negative growth rates in several years, deemed exports appear to have fared much better.

¹⁰ Deemed plastic export is defined as exporting of plastic embedded into other products like buttons, hangers used in readymade garments sector, packaging materials, and plastic materials used virtually in all other industries.

¹¹ As discussed in the latter part, this negative growth in direct plastic exports in the FY18 is attributed to Chinese ban on imports of waste, pairings, and scrap of plastics which came into effect at the end of 2017.

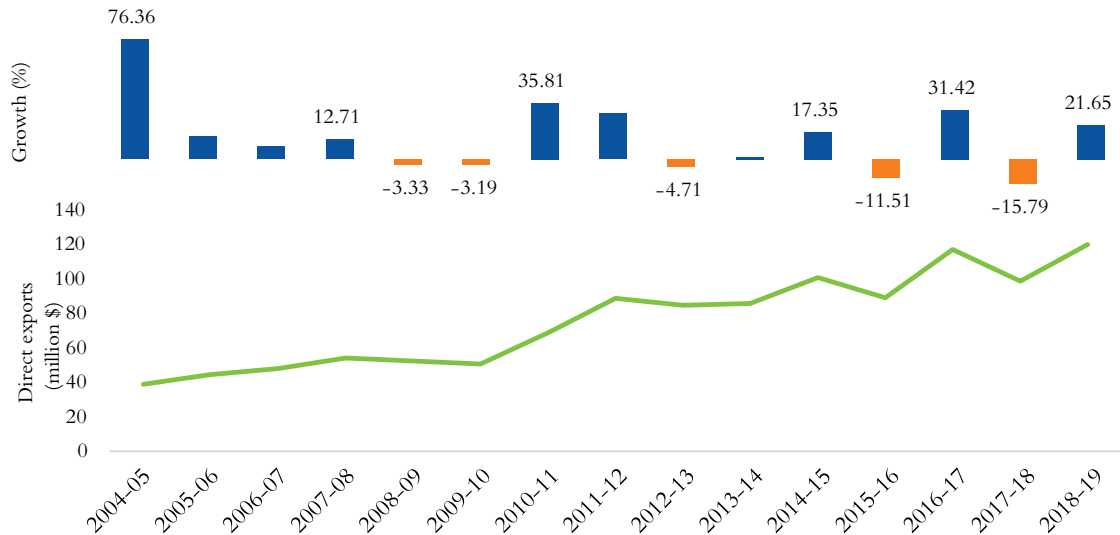
Figure 9.7: Plastic exports from Bangladesh



Source: Authors’ analysis using EPB and BPGMEA data.

Bangladesh’s plastic export basket is highly concentrated in only three broad categories of products—raw materials, household items, and plastic packaging (Figure 9.9).¹² These three items account for around 90 per cent of all direct exports. A striking change in the export composition has, however, taken place in which the share of household items first dropped from 8 per cent in FY05 to virtually nothing in FY10, before rapidly bouncing back to capture a share of 24 per cent in FY19. Since 2010, the share of plastic packaging declined from almost a half of all plastic exports to just above 25 per cent in 2018–2019.¹³ Over time, the relative share of articles of plastics fell from as high as about 20 per cent in FY05 to just about 6.7 per cent in FY19.

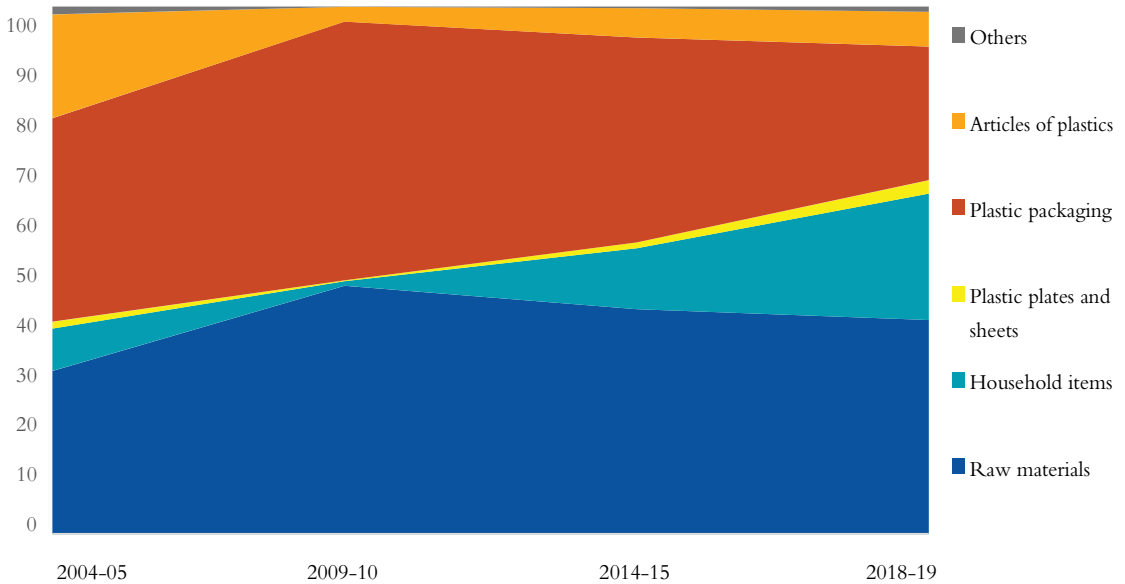
Figure 9.8: Direct plastic exports from Bangladesh



Source: Authors’ analysis using EPB data.

¹² Plastic raw materials are comprised of HS 3901 to HS 3915; household items include HS 3918, HS 3924, and HS 3925; and plastic plates and sheets include HS 3919 to HS 3921 while HS 3916, HS 3922, and HS 3917 are categorised under others. Plastic packaging and articles of plastics are defined under HS 3923 and HS 3926.

¹³ This can be attributed to the ban on plastic bags use, increased awareness among mass people about the environmental degradation resulting from using plastic bags, etc.

Figure 9.9: Bangladesh's plastic export composition (%)

Sources : Authors' analysis using International Trade Centre (ITC) and EPB data.

Analysis of disaggregated EPB data for 2018–2019 shows that, at the HS 6-digit level, Bangladesh's plastic exports are highly concentrated in just three items. Sacks and bags of polymers of ethylene (HS 392321) alone account for 26.61 per cent of the total exports followed by household and toilet articles of plastics (HS 392490) (24.18%), and plastic waste and scrap (HS 391590) (10.63%). Therefore, just three items at the 6-digit level together capture almost two-thirds of all plastic exports. Together these items account for more than 60 per cent of the total plastic exports of Bangladesh (Table 9.6). Other promising export items are acrylic polymers prepared in primary forms; articles of apparel and clothing accessories; other polymers of ethylene in primary forms; tableware and kitchenware of plastics; polypropylene in primary forms; and polyethylene having a specific gravity; etc. Top five plastic items at the HS 6-digit account for approximately 75 per cent of total plastic exports.

Major export destinations of Bangladesh's plastic products are Belgium, Canada, China, Germany, India, Japan, Poland, the U.K., and the U.S. (Figure 9.10). Among these, in FY19 India was the largest export market accounting for 27 per cent of Bangladesh's direct plastic exports, followed by Germany (9%), and the U.S. (8%). The top nine markets together comprised more than 61 per cent of Bangladesh's exports. Amongst others, the export success of the Rangpur Foundry Limited (RFL) Group in the Indian market, especially in its northeastern part, has flourished.

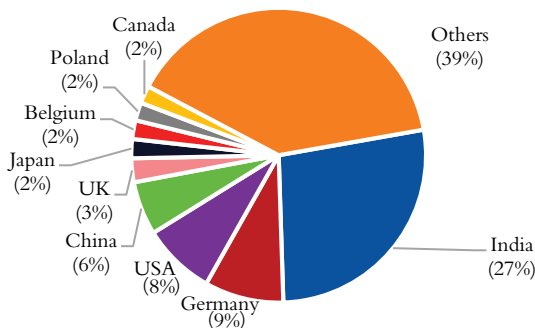
Considering one of the dominant plastic exporting items, export earnings from sacks and bags including cones of polymers and of ethylene (HS 392321) grew to \$26.33 million in 2018–19 from an insignificant amount (\$0.18 million) in 2001 (Figure 9.11). Germany is the principal buyer of Bangladesh's sacks and bags of polymers of ethylene (Figure 9.12). Other major export destinations of the same products are the U.S. (11%), Belgium (9%), Poland (9%), and the Netherlands (6%).

Table 9.6: Top plastic products exported from Bangladesh (2018–19)

HS code	Product description	Export value (million \$)	Share (%)
392321	Sacks and bags (incl. cones) of polymers of ethylene	26.33	26.61
392490	Household and toilet articles of plastics	23.92	24.18
391590	Waste, parings and scrap, of other plastics	10.51	10.63
392620	Articles of apparel and clothing accessories (including gloves, mitts) of plastics	6.93	7.00
390690	Acrylic polymers prepared, in primary forms	5.68	5.74
390190	Other polymers of ethylene, in primary forms	4.50	4.55
392410	Tableware and kitchenware of plastics	3.28	3.32
390110	Polyethylene having a specific gravity & in primary forms	2.41	2.44
392190	Other cellular plates, strips of plastics	2.17	2.20
392310	Boxes, cases, crates and similar articles of plastics	1.98	2.00
390410	Poly (vinyl chloride), not mixed with other substances, in primary forms	1.34	1.35
390890	Other polyamides, in primary forms, nes	1.31	1.32
391810	Floor coverings of polymers of vinyl chloride, in rolls or tiles	1.11	1.12
392329	Sacks and bags (incl. cones) of other plastics (excl. ethylene)	1.10	1.12
390130	Ethylene-vinyl acetate copolymers, in primary forms	0.80	0.81
Total		119.80	100

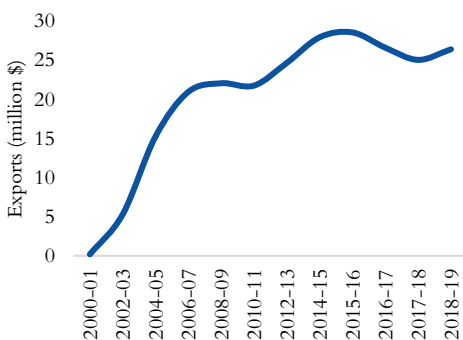
Source: Authors’ presentation using EPB data.

Figure 9.10: Bangladesh’s major plastic export destinations (% of direct plastic exports)



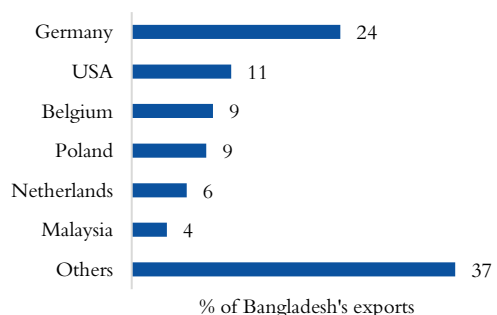
Source: Authors’ presentation using EPB data.

Figure 9.11: Export value of sacks and bags of polymers of ethylene (HS 392321)



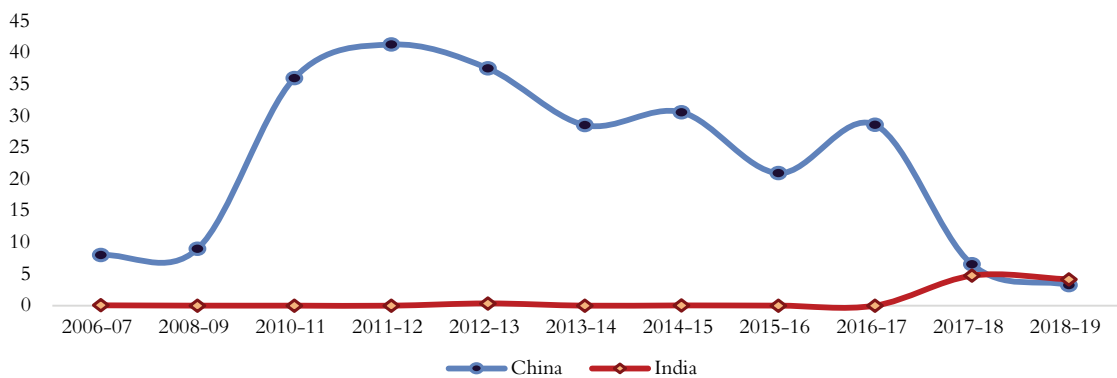
Source: Authors’ presentation using ITC and EPB data.

Figure 9.12: Major export destinations of sacks and bags of polymers of ethylene (HS 392321)



In terms of export markets, the Asian countries are considered to be important destinations and account for more than half of Bangladesh's total plastic exports. Although China is one of the world's top importer of plastic products (HS 39), Bangladesh has only a minimal share in this market. Recently, Bangladesh experienced a drastic fall in plastic exports to the Chinese market: from \$41.5 million in FY12 to \$7 million in FY19. This is largely due to a fall in the exports of HS 3915 (waste, parings, and scrap of plastics) as China, previously the largest importer of plastic wastes, has imposed restrictions on importing that item (Figure 9.13). Given the rising concern about environment and ban from China, India has also issued a ban over imports of solid plastic wastes from March 2019.

Figure 9.13: Exports of plastic wastes (HS 3915) to China and India (million \$)



Source: Authors' representation using ITC and EPB data.

In contrast to trends in the Chinese market, Bangladesh made some market gains in India. Exports to India increased to \$33 million in FY19 from \$6 million in FY11. This is partly due to the increase in the exports of scrap plastics from almost nothing in FY17 to \$4.17 million in FY19. That is, a portion of the original plastic waste bound for China found a market in India. Other major exporting items to India include polymers of ethylene in primary forms; articles of plastics; articles for the conveyance or packaging of goods; tubes, pipes, and hoses; tableware, kitchenware, other household and toilet articles. After the imposition of import ban, Bangladesh's exports of plastic wastes to India will now be discontinued.

While the U.S. is the second largest importer of plastic products, Bangladesh's market share in this market is insignificant. Plastic goods exports to the U.S. stood at \$10 million in FY19. Bangladesh's market share in Europe has been minimal over the years. Recently, Germany and Poland have been the two top plastic export destinations for Bangladesh. Analysing data from the ITC and the EPB, it was evident that, in the German market, exports expanded from \$5 million in FY11 to \$10 million in FY19. In the Polish market as well, Bangladesh's plastic exports remain stagnant, hovering around \$3 million.

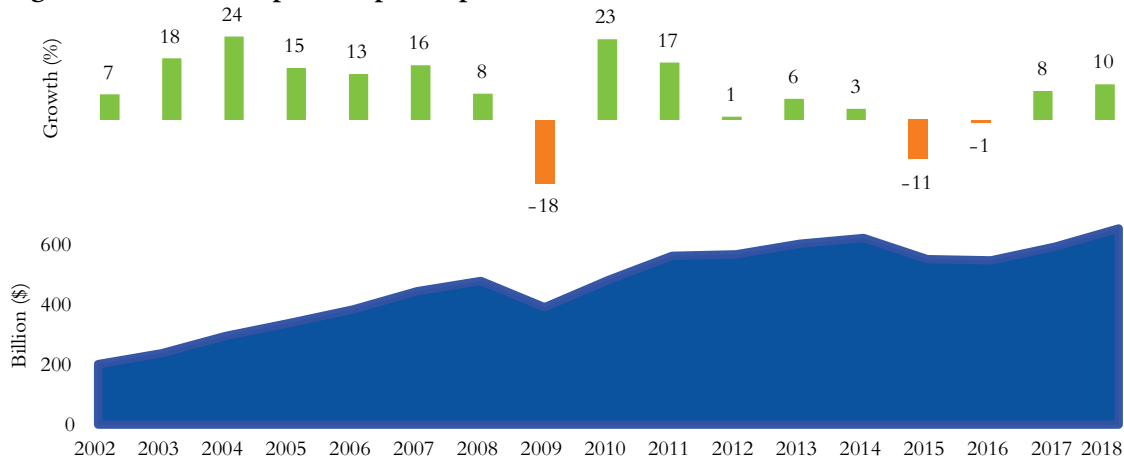
9.4 Global Export Market Prospects for Bangladesh

Global export market

The global export market for plastics grew rapidly from about \$190 billion in 2001 to about \$660

billion in 2018 (Figure 9.14). The annual average rate of market expansion during this period was about 8 per cent.¹⁴ Analysis of global plastic exports reflects that the demand for almost all types of plastic products expanded significantly during the last decade or so (Figure 9.15). Household items made of plastics and related materials experienced a remarkable rise as world exports of this category more than doubled to \$42 billion in 2018. Global plastic packaging export market is found to be bigger than that of household items.

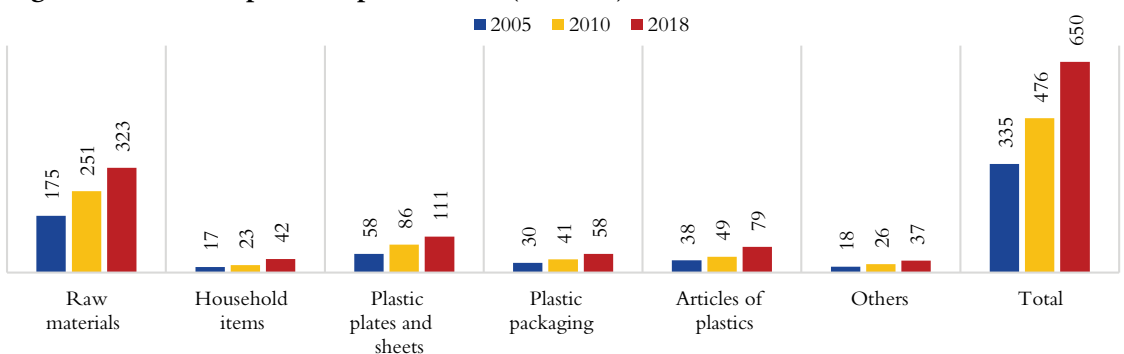
Figure 9.14: Global exports of plastic products



Source: Authors’ calculations using ITC data.

Overall, the export value of all broad product categories expanded by more than 94 per cent during 2005–18 (Figure 9.16). A much higher rate of expansion took place for household items, partly due to the initial small export base. According to the authors’ calculations based on data from the International Trade Centre (ITC), the global plastic export composition remained largely unchanged in the past decade or so (Figures 9.17 and 9.18).

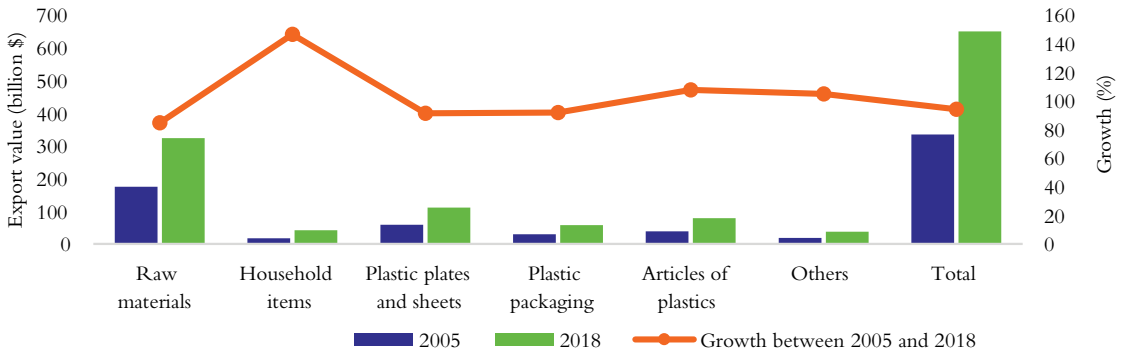
Figure 9.15: Global plastic export market (billion \$)



Source: Authors’ analysis using ITC data.

¹⁴ Global plastic exports reached \$624 billion in 2014. Because of a global trade slowdown (in which world export trade between 2014 and 2016 fell by \$3.1 trillion), plastic exports fell by 11.3 per cent in 2015 and 0.84 per cent in 2016. There was a recovery in world trade and exports of plastics in both 2017 and 2018.

Figure 9.16: Global plastic export growth (2005–2018)



Source: Authors’ analysis using ITC data.

Figure 9.17: Global plastic export composition (2005)

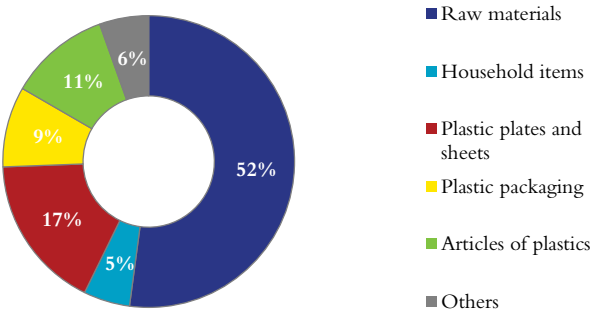
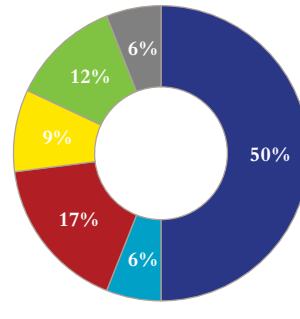


Figure 9.18: Global plastic export composition (2018)



Source: Authors’ calculations using ITC data.

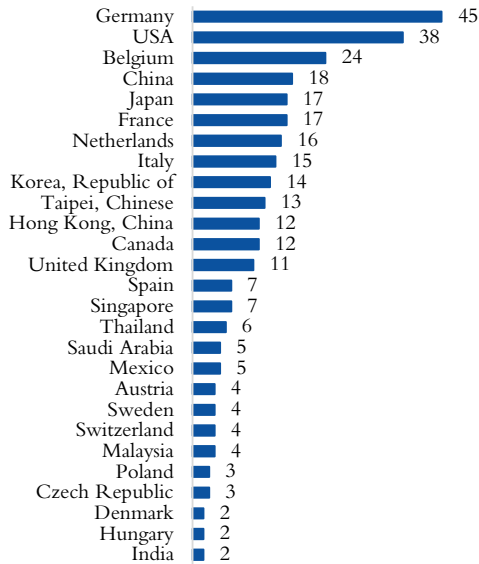
Major exporters and importers of plastic products

In the last decade, China became both the largest exporter and importer of plastics and plastic goods (Figures 9.19 and 9.20). In 2018, almost 12 per cent of global exports was due to China, which experienced more than four-fold increase in their export value during the last decade. China’s exports and imports of plastic goods were almost identical, driven by intra-industry trade and global supply chain linkages. Belgium, Germany, Japan, the Republic of Korea, and the U.S. are other major exporters. Among Bangladesh’s Asian comparators, India, Malaysia, Singapore, and Thailand have become large exporters overtime. Since 2005, exports of both Singapore and Thailand grew by \$9 billion and India’s by \$4 billion. In comparison, Bangladesh’s export growth, as mentioned above, was only marginal.

Apart from China, major plastic importing countries include Belgium, Canada, France, Germany, India, Italy, Japan, Mexico, the Netherlands, Poland, Spain, Turkey and the United Kingdom (Figures 9.21 and 9.22). During 2005–2018, two Asian developing countries, India and Vietnam, became important importing destinations. Both countries imported \$15 billion worth of plastic goods in 2018. Analysing the plastic export compositions of leading suppliers, no significant transformation is found to have taken place between 2005 and 2018 except for Italy

(Figures 9.23 and 9.24). China remains among the most diversified exporters while Belgium, the Republic of Korea, the Netherlands, and Taiwan continue to rely on raw materials (HS 3901–HS 3915) as their main sources of plastic export earnings.

Figure 9.19: Major plastic exporters, 2005 (billion \$)



Source: Authors' presentation using ITC data.

Figure 9.20: Major plastic exporters, 2018 (billion \$)

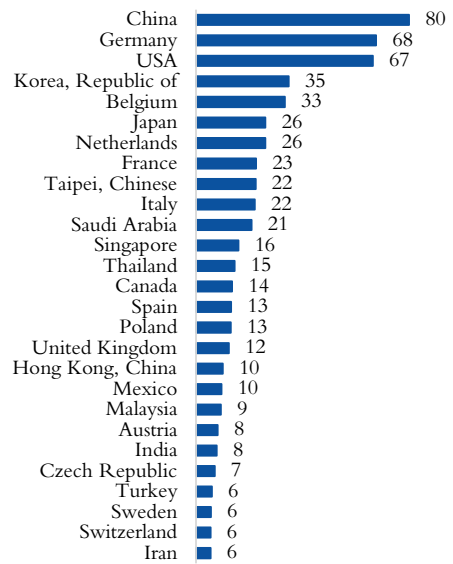
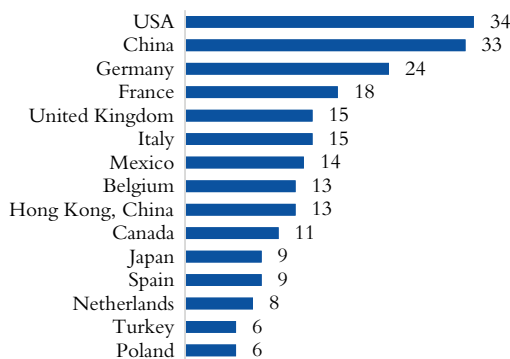
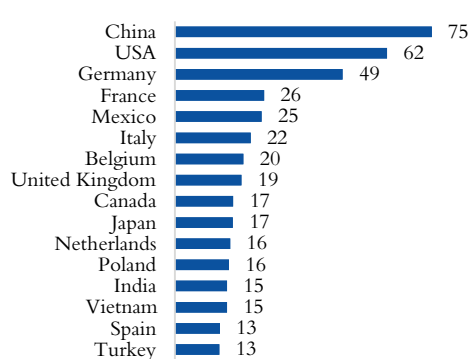


Figure 9.21: Major plastic importers, 2005 (billion \$)



Source: Authors' presentation using ITC data.

Figure 9.22: Major plastic importers, 2018 (billion \$)



Export market concentration of plastic goods

Along with small size, Bangladesh's export markets of plastic products are also highly concentrated. Figure 9.25 shows the export market concentration of major three plastic items at the HS 4-digit level, namely HS 3901, HS 3920 and HS 3926.¹⁵ In HS 3901 and HS 3920, the share of top 5 markets in Bangladesh's total plastic export is 100 per cent, i.e. all exports in these

¹⁵ These categories are selected based on their performance in world export markets.

categories are exported to just up to five countries. In contrast, the share of the same number of markets accounts for just 45 per cent and 32 per cent of China’s exports in these two categories. For India, the comparable top five market concentration ratios are 59 per cent and 29 per cent, respectively. For the remaining product—HS 3926, the share to top five markets in Bangladesh’s exports is about 90 per cent, in comparison with a less than 70 per cent mark both for China and India. It is not difficult to explain such a high level of market concentration for Bangladesh. As the export volume is so small, it is only quite natural that fewer destination markets would capture the lion’s share.

Figure 9.23: Plastic export composition of leading exporters (2005)

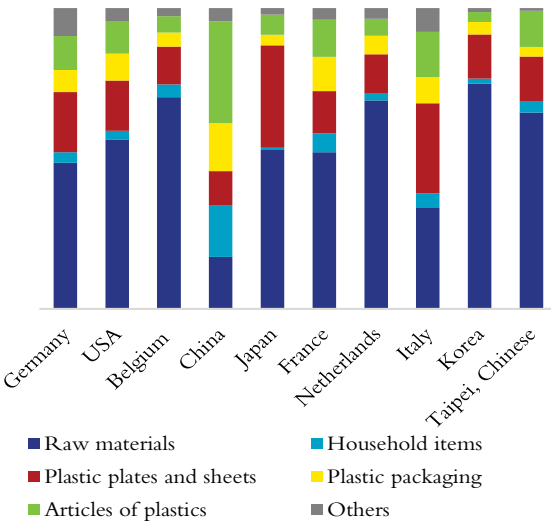
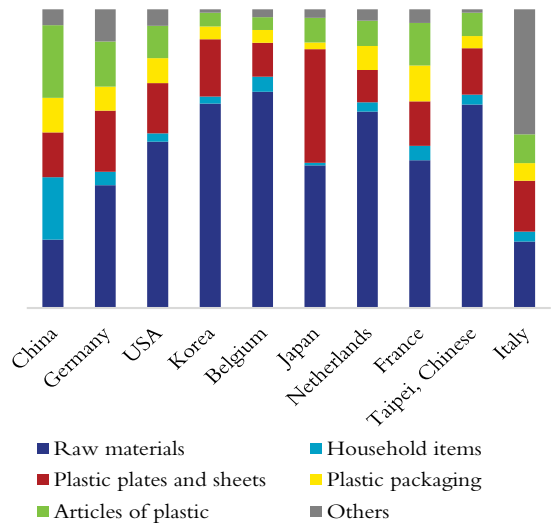
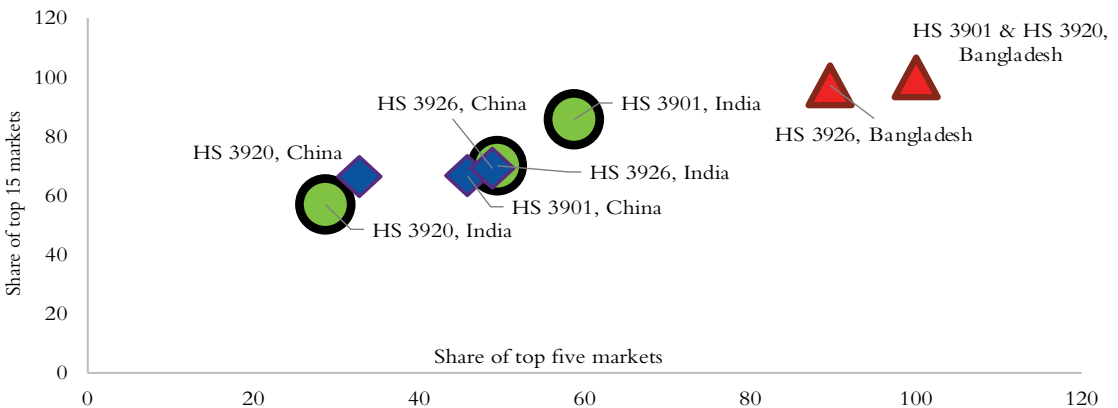


Figure 9.24: Plastic export composition of leading exporters (2018)



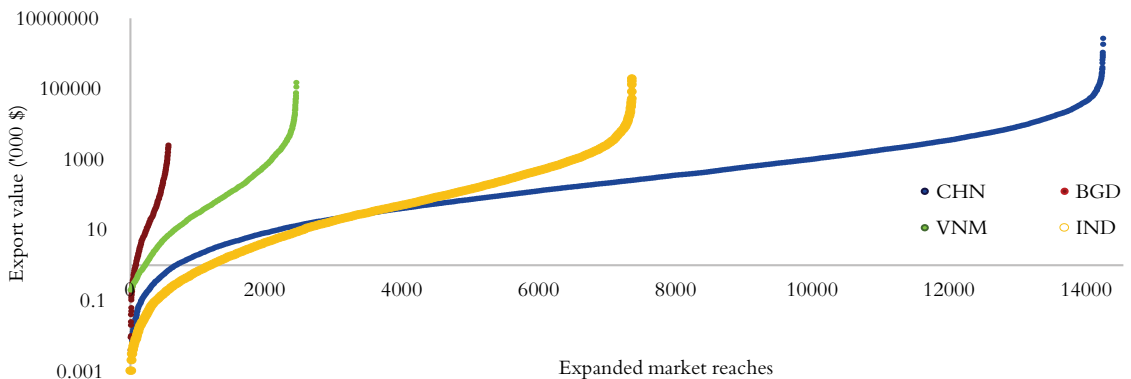
Source: Authors’ presentation using ITC data.

Figure 9.25: Plastic export market concentration



Source and note: Authors’ calculation using ITC data. BGD, CHN and IND denote Bangladesh, China and India respectively.

Figure 9.26: Expanded market reach analysis for plastic products



Source and note: Authors’ calculation using ITC data. The vertical axis shows export earnings from each market. Here BGD, CHN, IND and VNM stand for Bangladesh, China, India and Vietnam respectively.

Bangladesh’s excessive market concentration in comparison with other comparator countries is also evident from the expanded market reach analysis (Figure 9.26).¹⁶ This approach considers the total number of all possible market reaches based on the country’s individual export items with all importing countries where they could be potentially exported. As Bangladesh exported 54 plastic products in 79 destinations, the total product–market combination or market reach (expanded export market destinations) can be estimated as 554. India, on the other hand, exported 126 items to 201 export destinations (7,328 expanded market destinations), Vietnam, a comparator country, exported 116 plastic products to 137 destinations (i.e. more than 2,419 expanded plastic market destinations). China, the world’s leading plastic exporter, exported 126 plastic goods to 188 destinations and managed to reach 14,201 expanded destinations.

Market concentration analysis for plastic raw materials suggests more or less the same picture. While China, India and Vietnam exported to 177, 161, and 80 destination countries, Bangladesh exported to 22 destinations with an export value of \$34.18 million (Figures 9.27–9.28). Bangladesh’s major export destination for plastic raw materials are China (57.8%), followed by India (16.26%). In comparison with countries such as China, India and Vietnam exporting 7 plastic packaging (HS 3923) products to 204, 180, and 116 export destination countries respectively, Bangladesh exported the same products to only 32 destination countries (Figures 9.29–9.30). 53 per cent of Bangladesh’s plastic packaging products are exported to only four destinations—Germany, Poland, Belgium, and France. The export volume to each of these markets is much smaller compared to many other developing country suppliers. For example, Bangladesh’s market share in the U.S.—one of the top importers of plastic packaging—is a paltry 0.17 per cent as against of China’s 35 per cent, India’s 2.5 per cent and Vietnam’s 1.25 per cent.

¹⁶ The expanded market reach is defined by the 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 the HS 6-digit level while m is the number of countries. For example, if a country sells 23 plastic products in country 1 and 43 plastic products in country 2, then the expanded market reach/destination for plastic products would be $23 + 43 = 66$. The higher the value, the higher number of markets is being reached by an exporting country.

Bangladesh exported articles of plastics (HS 3926) worth of \$3.55 million from three products reaching out to 30 export destinations (Figure 9.31). The export market for this product is dominated by China, which exported five products to 209 export destinations. India and Vietnam both exported the same number (five) of products to 193 and 124 destinations, respectively. Bangladesh’s top export market for articles of plastics are Japan (25.4%), followed by India (12.0%), and Sri Lanka (10.8%) (Figure 9.32). Thus, with small export volumes in each broad category of plastic items, Bangladesh’s export market reach has been very limited.

Figure 9.27: Market concentration for plastic raw materials

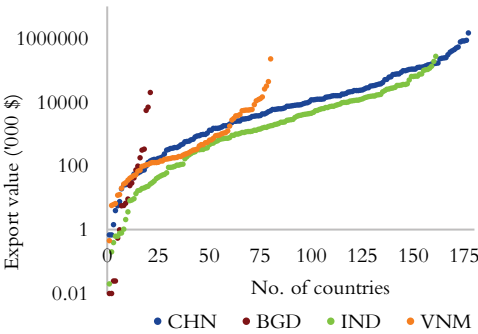


Figure 9.28: Bangladesh's major export destinations for plastic raw materials (%)

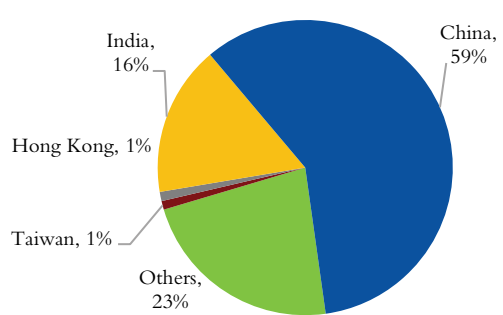


Figure 9.29: Market concentration for plastic packaging

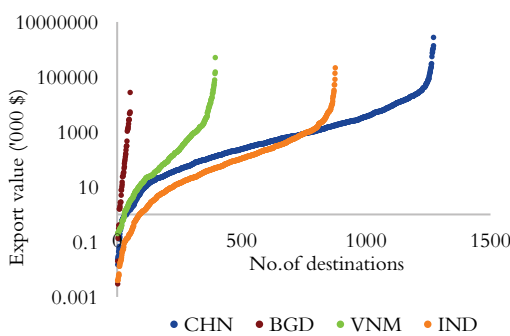


Figure 9.30: Bangladesh's major export destinations for plastic packaging (%)

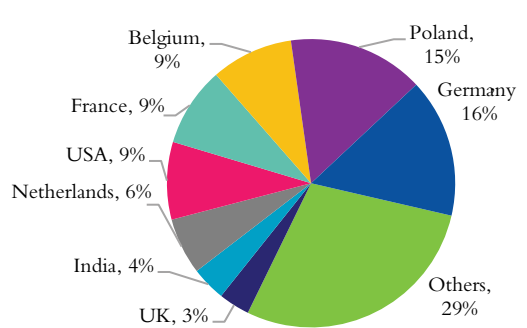


Figure 9.31: Market concentration for articles of plastics

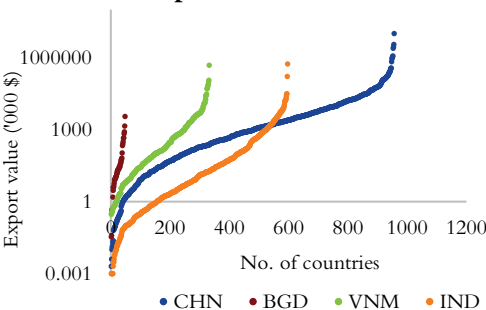
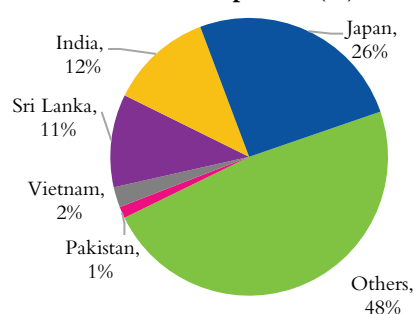


Figure 9.32: Bangladesh's major export destinations for articles of plastics (%)

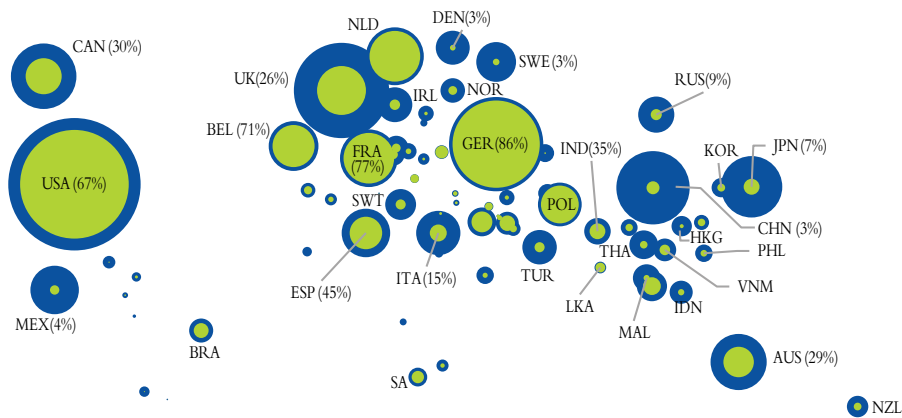


Source and note: Authors’ calculation using ITC data. BGD, CHN, IND and VNM stand for Bangladesh, China, India and Vietnam, respectively.

Export potential analysis

Since Bangladesh’s plastic export sector’s performance has been far less than the expected level, it would be of interest to know the current potential that is unutilised. A method for estimating unrealised export potential has recently been developed by the International Trade Centre (ITC). The ITC methodology allows a country to determine unutilised potential by individual markets (Decreux & Spies, 2016). The analysis is based on an Export Potential Indicator (EPI) that identifies products in which an exporting country has already proven to be internationally competitive and which is likely to have good prospects of export success. The potential export value in a target market is estimated based on an exporter’s supply capacity, demand conditions in the market of interest and market access conditions.¹⁷ Untapped export potential is determined by comparing potential export values and actual export earnings.

Figure 9.33: Export potential of Bangladesh’s plastic sector (%)



Source and note: Authors’ analysis using data from the ITC Export Potential Map. The size of the blue bubbles indicates Bangladesh’s total export potential to the target market, while the size of the green bubbles implies actual exports. The difference between the size of the blue and green bubbles represents the total unrealised potential. The numbers within parentheses indicate the proportion of the export potential currently utilised. AUS—Australia, BEL—Belgium, CAN—Canada, CHN—China, DEN—Denmark, ESP—Spain, FRA—France, HKG—Hong Kong, IDN—Indonesia, IND—India, IRL—Ireland, ITA—Italy, JPN—Japan, KOR—the Republic of Korea, LKA—Sri Lanka, MAL—Malaysia, MEX—Mexico, NLD—the Netherlands, NOR—Norway, NZL—New Zealand, PHL—the Philippines, POL—Poland, RUS—Russia, SA—South Africa, SWE—Sweden, SWT—Switzerland, THA—Thailand, TUR—Turkey, UK—the United Kingdom, USA—the United States of America, and VNM—Vietnam.

¹⁷ The EPI has three components: exporters’ supply capacity of a product, demand conditions and bilateral ‘easiness’ to trade. An exporter’s supply capacity is estimated as a dynamic version of market share where expected economic growth is considered to augment the exporter’s capacity; and product-specific trade balance measured by the export-import ratio and global margin of preference, which encompasses information on tariff preference. Demand conditions are captured through partners’ projected imports, which are determined by projected GDP and population growth; margin of preference in the target market; and distance advantage, which compares suppliers’ geographical distances with the target market. The easiness-to-trade between two countries is computed based on the actual trade relative to hypothetical trade estimated by supply and demand conditions. If easiness to trade between countries is greater than 1, countries find it easier to trade between themselves relative to world markets. The export potential is then multiplication of estimated supply capacity, demand conditions and bilateral easiness to trade. Potential exports are estimated for disaggregated products at the HS 6-digit level. The aggregate export potential of a country in a target market is the sum of product-level export potentials.

As available in the ITC export potential map, total and unrealised export potential are analysed for six plastic products which Bangladesh exports.¹⁸ The potential and actual exports of plastic products are summarised in Figure 9.33 where the numbers in the parentheses show the proportion of the actual as per cent of actual plus unexploited export opportunities in destination countries. The highest absolute difference between potential and actual exports is found for the United Kingdom where only 26 per cent of potential is currently being utilized. The second highest untapped potential prevails in the United States; Bangladesh is currently tapping about 67 per cent of potential in plastics in the country. Bangladesh's other major export markets with the highest unexploited potential are China, Japan, Canada, Mexico, Australia, Italy, Sweden etc. Belgium, Canada, France, Germany, Netherlands, Poland and Spain show sizeable unexploited market potential.¹⁹ In China and Japan, Bangladesh is exploiting 3 per cent and 7 per cent of its current export potential under these categories respectively.

Market prospects for plastic products

As mentioned earlier, China is currently the largest exporter of plastic products. Rising wages and transformation towards a more capital-intensive manufacturing industries mean China's dominance in the world plastic market could lose strength. Thus, there could be opportunities for future growth. Furthermore, the overall global export market is likely to expand further, thereby enabling supplier countries to expand their exports even if their relative significance (i.e., market shares) does not rise. While this is an optimistic proposition, potential benefits are not expected to be realised without challenges such as severe competition from the currently established and emerging suppliers, including some of the prominent Asian countries such as India, Indonesia, Malaysia, Thailand, the Philippines and Vietnam.

Considering one particular market, how a country compares with other rival suppliers in terms of market share and export growth can offer very useful insights in assessing competitiveness and market prospects. The International Trade Centre (ITC) has provided a simple yet perceptive method for undertaking market prospect assessments for individual destination countries. The analysis is based on three primary factors: (i) export growth rates of competing countries in the destination market, (ii) all competing countries' export growth in the global market, (iii) competing countries' market share in the same destination market. Based on the ITC methodology, this section provides an analysis of market prospects of some selected plastic products in major export destinations. The results are summarised in Figures 9.34 (a)–9.34 (g).²⁰

Let us first consider the export market prospect in China for the broad category of plastic products (i.e., all plastic export items are combined). The \$69 billion Chinese market (considering China's imports only) attract many suppliers. The bubble sizes in Figure 9.34 (a) represent shares of various suppliers in the Chinese market with the Republic of Korea having

¹⁸ For Bangladesh, six plastics items which are available in the ITC Export Potential Map are products HS 392321, HS 392329, HS 392390, HS 392410, HS 392490 and HS 392620. Together these products comprise almost 60 per cent of total plastics exports in Bangladesh.

¹⁹ Possible reasons for not being able to exploit plastic export potential in different destinations are underdeveloped trade infrastructure, difficulties in complying with standards, quality and preference of consumers and any other barriers in developing relationships with buyers/importers.

²⁰ Plastic items are selected based on the export performance of Bangladesh using ITC data. Selected products have the highest export values among different plastic exporting items.

the largest share of 16 per cent, followed by Japan (about 14%), the U.S. (about 10%), Germany (close to 5%), and Thailand (close to 5%). Together these five suppliers capture approximately 50 per cent of the Chinese plastic imports. The horizontal axis shows that except the United States, the remaining four countries witnessed negative growth rates in the range of 3–6 per cent on average per annum during the past five years. The information presented in the vertical axis shows that overall world export growth in plastic has been stagnant (i.e. close to zero per cent per annum).²¹ Unfortunately, Bangladesh's overall export of plastic also experienced a negative growth rate of about 2 per cent per annum. Overall, it can be concluded that Bangladesh's export base is very small and there are many other established suppliers to China. Amongst emerging suppliers, Vietnam appears to be quite resilient, while Mexico has managed to grow its exports rapidly during a period when the global export market witnessed a considerable decline.

In the EU, main suppliers are both European nations such as Belgium, Germany, France, Italy, and the Netherlands as well as non-EU exporters including China Indonesia, Mexico, the U.S. and Vietnam. Bangladesh's export to the EU is small, \$28 million in 2017, accounting for just 0.01 per cent of total EU plastic imports [Figure 9.34 (b)]. However, in the past five years, Bangladesh's plastic exports growth to this market has been very high (about 22%), which is largely attributable to a low export base. Since EU MFN tariffs on plastic items are either small or non-existent, unlike the garment exports, Bangladesh does not enjoy any tariff preferences in plastic products. This means preference-led advantage is not an option and competition can be intense for gaining expanded market share. Nevertheless, the recent export dynamism in this market should be given careful consideration.

Considering the U.S. market, Bangladesh's export base is again low: the share in total U.S. plastic imports was just 0.03 per cent in 2017 (Figure 9.34c). Although Bangladesh's average export growth in the past five years has been positive, growth rates for most prominent rival exporters have been much higher. Canada, China, Germany, Italy, India, Korea, Mexico and Thailand are amongst the major plastics suppliers to the U.S. The presence of all major suppliers indicates that the U.S. market is very competitive with product differentiation and sophistication being likely to be a critical determinant of export success. Moreover, in the United States, Bangladesh does not receive any GSP facilities while many other suppliers from developing countries benefit from tariff preferences.

In India's market, China, the United States, Singapore and Japan are the major suppliers, while Bangladesh holds only 0.06 per cent of it. Bangladesh also suffered negative growth in plastic exports to India during 2013–2017, implying that expansion in this market could be challenging for Bangladesh. However, the healthy growth of exports of waste plastics in the last fiscal year (FY18) may entail good prospects in the coming years. Also, Bangladesh needs to take advantage of duty-free market access as granted by India under its SAFTA tariff concessions for LDCs.

²¹ This is largely because of the fact that during 2014–2016, global trade was subject to an unprecedented slowdown with world exports falling by more than \$3.1 trillion.

Figure 9.34 (a): Market prospect analysis for plastic and plastic products in China

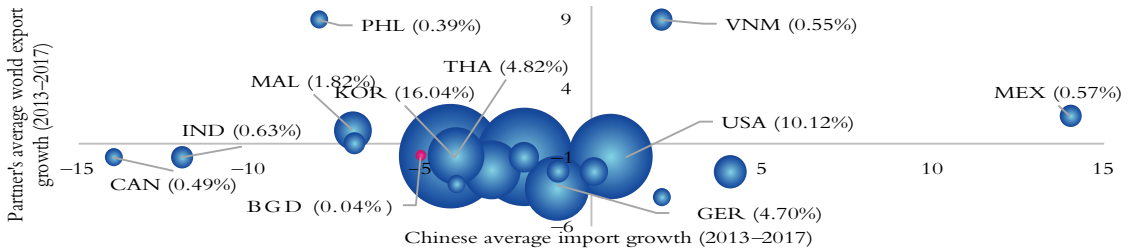


Figure 9.34 (b): Market prospect analysis for plastic and plastic products in the EU

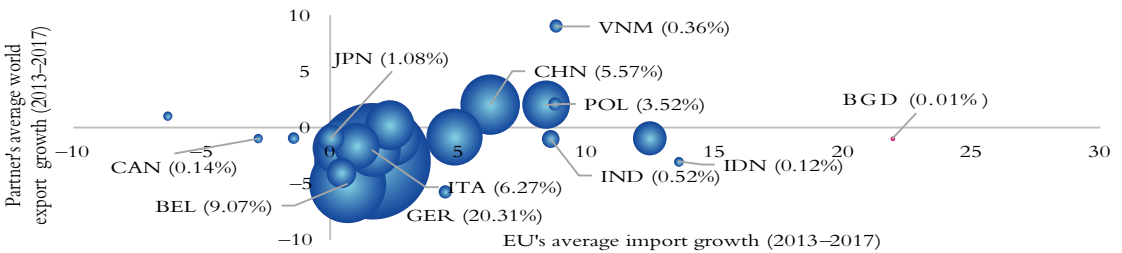
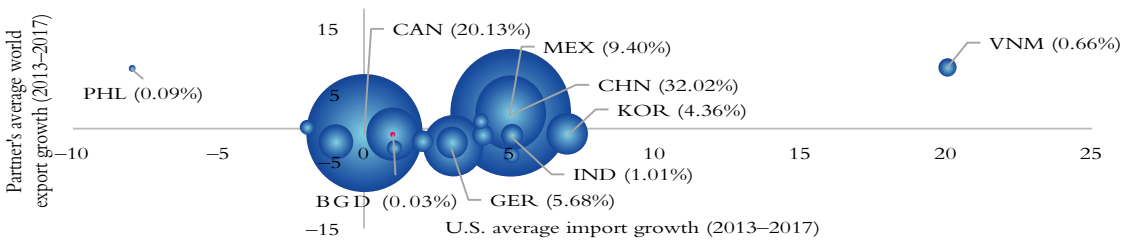


Figure 9.34 (c): Market prospect analysis for plastic and plastic products in the U.S.



Source: Authors' analysis using ITC data. Note: Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, CAN—Canada, CHN—China, ESP—Spain, FRA—France, GER—Germany, HKG—Hong Kong, IDN—Indonesia, IND—India, ITA—Italy, JPN—Japan, KOR—the Republic of Korea, MAL—Malaysia, MEX—Mexico, PHL—the Philippines, SGP—Singapore, THA—Thailand, TUR—Turkey, USA—the United States of America, and VNM—Vietnam.

At the individual level, possible market prospects have been investigated for Bangladesh's all prominent export items under HS 39 headings. Among them, six of their results have been presented graphically in Figures 9.34(d)–9.30(i). At the HS 4-digit level, for plastic packaging (HS 3923), Bangladesh's annual average export growth to the EU and China was 16 per cent and -24 per cent (negative 24%) respectively during 2013–2017 [Figures 9.31(d) and 9.31 (e)]. The promising market prospects in the EU should be exploited. On the other hand, despite the negative growth in the Chinese market, other options for enhancing competitiveness should be looked into. Currently, China imposes an MFN tariff rate of 7.5 per cent on products under this category, from which Bangladesh is exempt under China's preferences for LDCs. However, equivalent preferences also apply to many other countries. Therefore, preferences may not provide any competitive edge over some developing countries. Similar exercises for the U.S. and Indian market imply that Bangladesh suffered negative export growth for plastic packaging items in these destinations between 2013–2017.

Figure 9.34 (d): Market prospect analysis for HS 3923 in the EU market

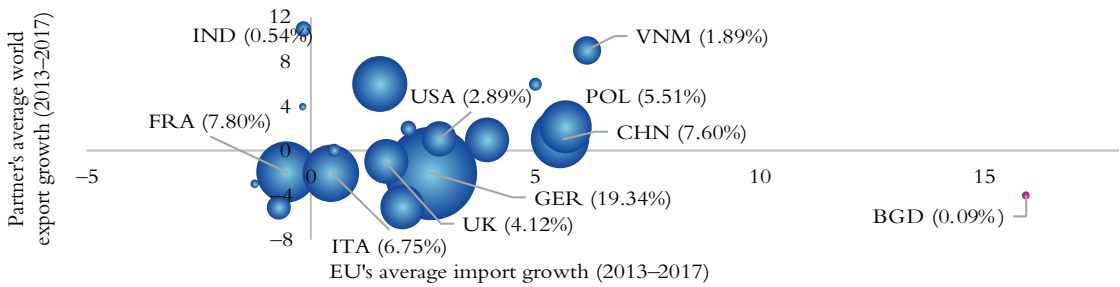
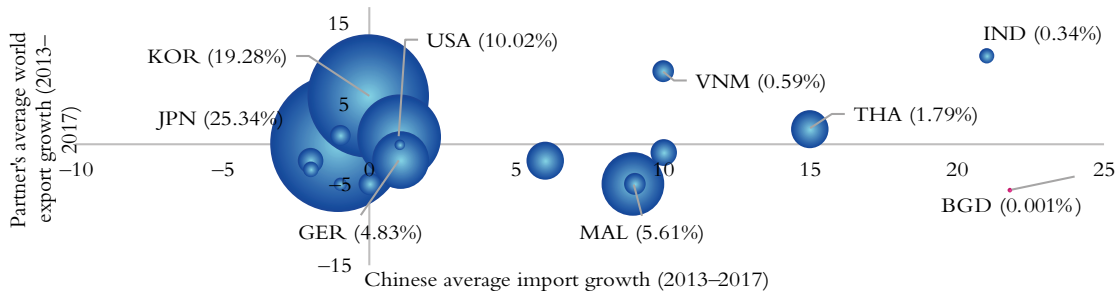


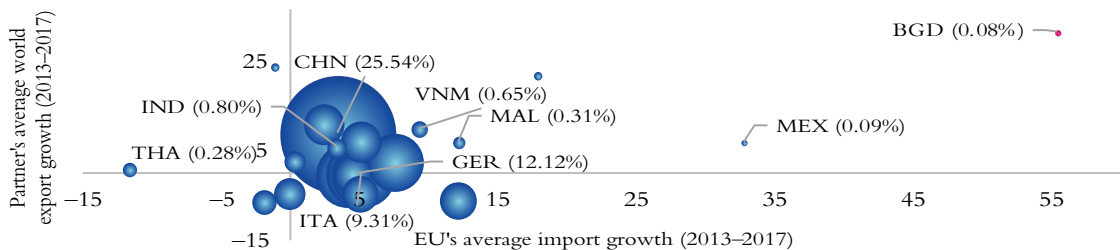
Figure 9.34 (e): Market prospect analysis for HS 3923 in the Chinese market



Source: Authors' analysis using ITC data. Note: Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, CHN—China, FRA—France, GER—Germany, IDN—Indonesia, IND—India, ITA—Italy, JPN—Japan, KOR—the Republic of Korea, MAL—Malaysia, POL—Poland, THA—Thailand, TUR—Turkey, USA—the United States of America, and VNM—Vietnam.

The market analysis of the products at further disaggregated levels shows that Bangladesh's export growth in HS 392490 to China has been good and very high in the EU over the past few years [Figure 9.34 (f)]. However, once again, the initial low export base explains this dynamism. A similar exercise for product HS 392321 shows that average annual export growth during 2013–17 was approximately 34 per cent and 13 per cent in China and the EU, respectively. But there was no growth for the same in the U.S. market.

Figure 9.34 (f): Market prospect analysis for HS 392490 in the EU market



Source: Authors' analysis using ITC data. Note: Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, CAN—Canada, CHN—China, ESP—Spain, FRA—France, GER—Germany, HKG—Hong Kong, IDN—Indonesia, IND—India, ITA—Italy, JPN—Japan, KOR—the Republic of Korea, MAL—Malaysia, MEX—Mexico, PHL—the Philippines, SGP—Singapore, THA—Thailand, TUR—Turkey, USA—the United States of America, and VNM—Vietnam.

Figure 9.34 (g): Market prospect analysis for HS 392490 in the U.S. market

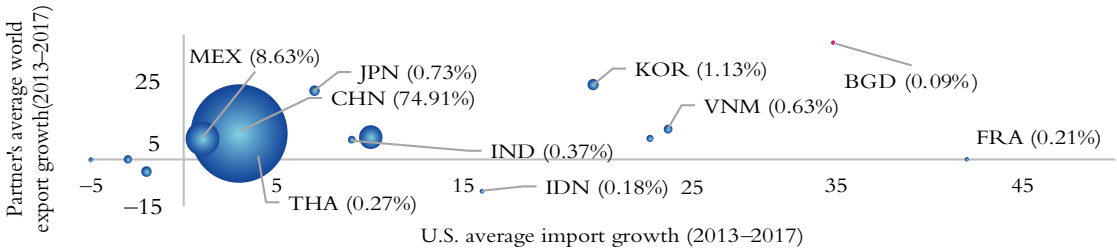


Figure 9.34 (h): Market prospect analysis for HS 392490 in the Indian market

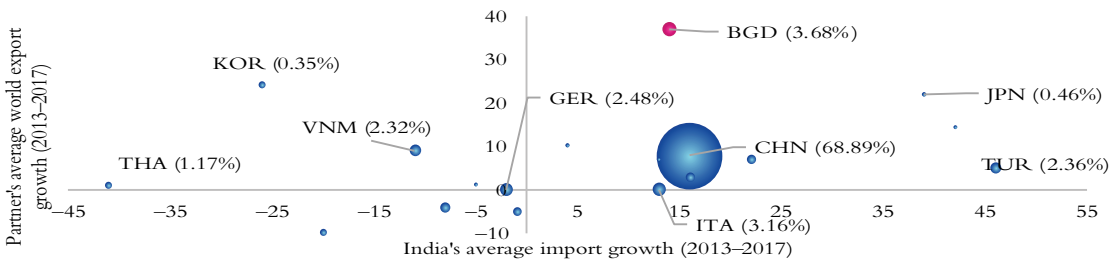
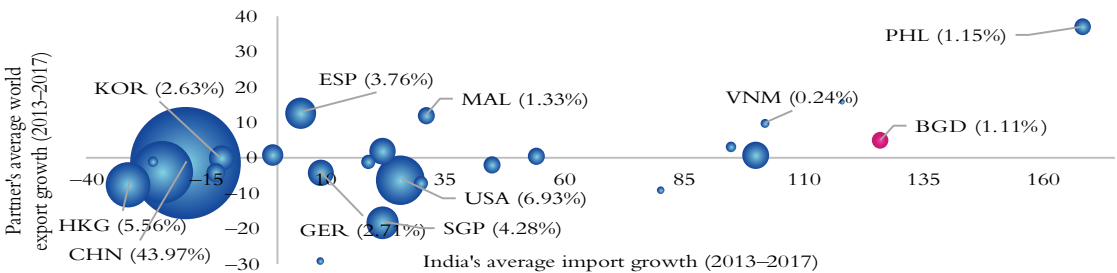


Figure 9.34 (i): Market prospect analysis for HS 392620 in the Indian market



Source: Authors' analysis using ITC data.

Note: Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, CAN—Canada, CHN—China, ESP—Spain, FRA—France, GER—Germany, HKG—Hong Kong, IDN—Indonesia, IND—India, ITA—Italy, JPN—Japan, KOR—the Republic of Korea, MAL—Malaysia, MEX—Mexico, PHL—the Philippines, SGP—Singapore, THA—Thailand, TUR—Turkey, USA—the United States of America, and VNM—Vietnam.

For HS 392620, Bangladesh's annual export growth in the EU has been very high (from a very small share of the market), while it experienced negative growth rates in Chinese and the U.S. markets. In India, the prospect of tableware, kitchenware and other household items (HS 392490) appears to be quite promising, as it is already having a sizeable market share of 3.68 per cent and significant growth [Figure 9.34 (h)]. HS 392620 is another product where Bangladesh has already captured a good share of 1.11 per cent in India [Figure 9.34 (i)].

Quality of plastic products

Enhanced export performance is critically dependent on ensuring product quality through undertaking proper and timely measures associated with various standards, use of quality raw materials, environment-friendly production and recycling practices, etc. Moreover, customisation and modernisation of products, upgradation of quality, product sophistication and differentiation as well as positive branding are important determinants of higher export demand as well as better prices both in domestic and global markets.

The relative unit value prices as proxies for the quality of some selected plastic products at the HS 4-digit and HS 6-digit levels have been analysed in Figures 9.35 (a)–9.35 (l) to explain the comparative position of Bangladesh in the global plastic market. Relative product quality is defined as the unit value of a product divided by the 90th percentile unit value of the same product across all the countries of the world. This is done to consider that the 90th percentile unit value to be a good representation of the international standard. Higher values of the index correspond to higher quality levels. The closer the country's position to the origin of the quality ladder, the lower the quality and vice-versa. The total length of the ladder represents the potential for the improvement of a particular product.

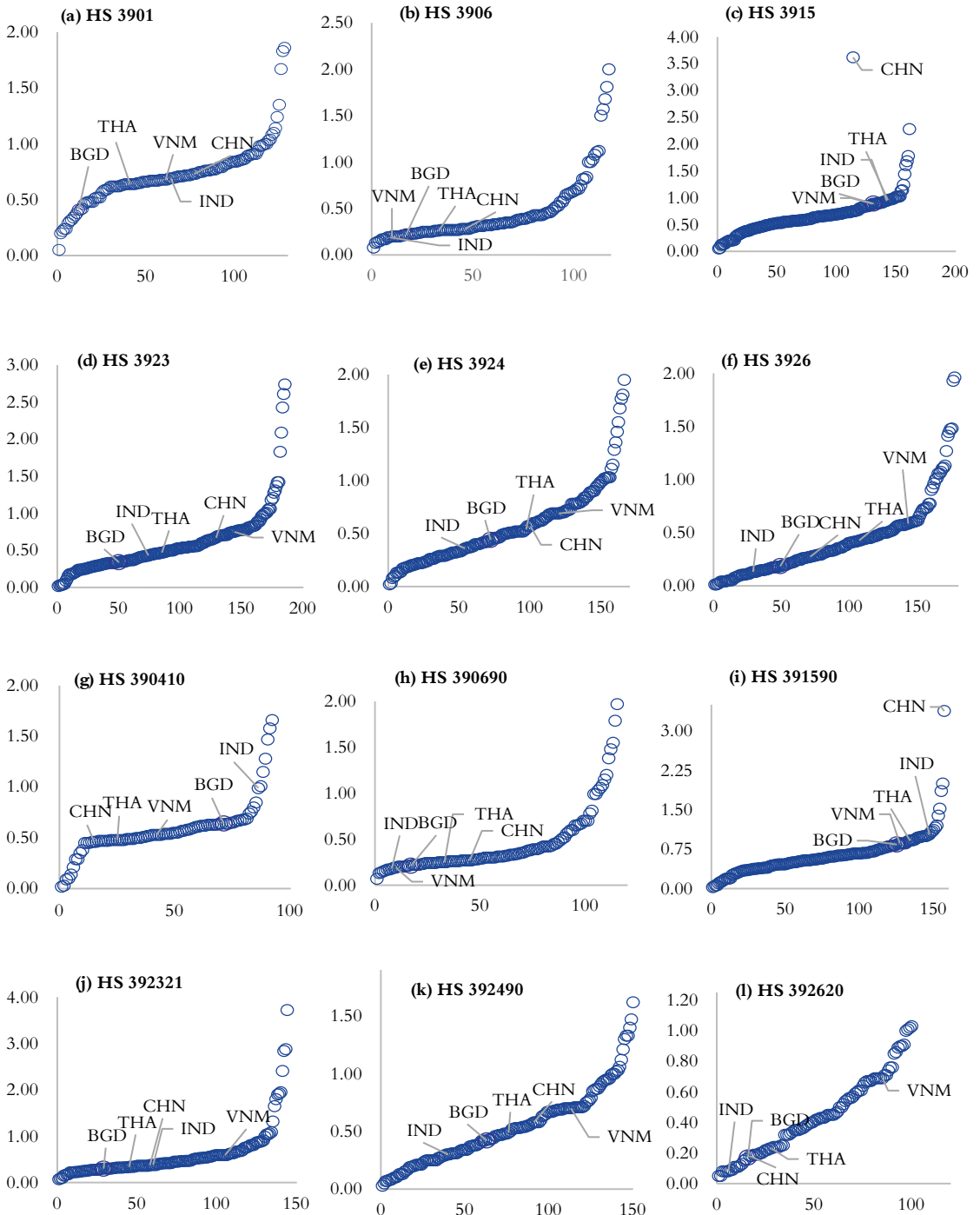
From the analysis, presented in Figures 9.35 (a)–9.35 (f), most of the plastic products exported by Bangladesh are found to have relatively lower unit value prices in comparison with its key Asian comparators. For products, polymers of ethylene (HS 3901), waste parings and scrap of plastics (HS 3915), article for the conveyance or packaging of goods of plastics, stoppers, lids, caps and other closures of plastics (HS 3923), tableware, kitchenware, other household articles and toilet articles of plastics (HS 3924) and articles of plastics and articles of other materials (HS 3926), Bangladesh lags far behind its competitors.

For acrylic polymers in primary forms (HS 3906), Bangladesh fares better than India and Vietnam but China and Thailand are much ahead. In categories HS 3924 and HS3926 (along with the above-mentioned HS3906), relative prices of Bangladesh's exported plastic products are higher than those of India. As the latter have much bigger export earnings, it can be inferred that supply-side capacity building can lead to a higher export response from Bangladesh. On the other hand, HS 3901 is the category in which Bangladesh is located towards the lower end of the quality ladder (very close to the origin). To succeed in the export market of this product, much improvement in product upgradation is perhaps most essential. The relative quality assessments for certain individual HS 6-digit level products are also provided in Figures 9.35 (g)–9.35 (l). They broadly reflect the same pattern of the corresponding HS 4-digit level goods discussed above.

It is worth pointing out that given the sheer size of Bangladesh's export volume, it is difficult to ascertain product standards and quality. Smaller export earnings are generally associated with high fluctuations in prices and quantities. Nevertheless, there is a general pattern of Bangladesh's having relatively lower unit value prices on many different types of exports including readymade garments.²²

²² This is evident from the analyses undertaken by the Bangladesh Enterprise Institute on leather and leather goods; furniture products; and readymade garments.

Figure 9.35: Quality ladders for plastic items



Source and note: Authors' calculations using International Trade Centre (ITC) data. Here BGD, CHN, IND, THA and VNM stand for Bangladesh, China, India, Thailand, and Vietnam respectively.

9.5 Policy Issues for Expanding Plastic Exports

The plastic industry has grown tremendously within the domestic economy and an analysis of export potential reveals its promising prospects. However, unlike the expansion in local sales, generating and sustaining a robust export response has not been possible. Several years back, an export target of \$4 billion for plastic products by 2020 was set for Bangladesh (UNESCAP, 2013). In comparison with this, the current exports of just about \$120 million show the magnitude of unrealised potential. In a world export market worth of \$600 billion, Bangladesh should expand its exports by many folds as some other Asian countries such as India, Malaysia, and Vietnam—let alone China—have been able to do so. A more focused approach to the sector backed by stronger and deepened policy support is needed to deal with supply-side constraints and transform it into a dynamic export industry. This section highlights some selected issues in this respect.

Addressing supply-side issues of backward linkages and technological upgradation

Production of plastic goods is critically dependent on supplies of raw materials. In many instances, production for the domestic market can be undertaken by locally sourced inputs including recycled items. However, satisfying demands in the export market based on these raw materials alone is not possible. Procuring raw materials from abroad is particularly a problem for many small and medium-scale enterprises that dominate the plastic industry. These firms are not familiar with overseas markets and do not have any link with the relevant global supply chains. At present, there is an absence of vibrant petrochemical and polyolefin manufacturing industry in the country.²³ As a result, backward linkages for the plastic sector are rather weak. As the plastic sector is to grow further given the rising domestic demand alone, development of modern petrochemical facilities can help establish a secure source of raw materials. Currently, a similar initiative is underway in Vietnam.²⁴ Bangladesh can also take a such initiative to grow domestic supply-side backward integration.

Along with the above, most SMEs are dependent on old and reconditioned machinery that results in frequent breakdowns, and excessive wear and tear expenses, leading to lower productivity (UNESCAP, 2013). Supporting industrial upgradation with a view to building supply-side capacities and promoting export competitiveness, therefore, comprises a policy priority. Evidence from comparator countries suggests elaborate measures for encouraging technological upgradation. The Indian plastic manufacturing industry, for instance, is going through a transformation from low-technology machine-based system to high-tech specialised production units with a special focus on the state-of-the-art-technology and R&D to achieve increased efficiency and productivity for competing globally (FICCI, 2017). India provides support to its plastic industry through a ‘technology upgradation fund scheme’ which provides loans at subsidised rates for procuring and replacing machinery.²⁵ Many East Asian developing countries including Malaysia and Vietnam also provide attractive fiscal and financial benefits for firms to break into technology-intensive manufacturing sectors.

²³ Petrochemical plants process natural resources namely crude oil, natural gas, ores and minerals to convert into products (i.e., ethylene and propylene etc.) used for plastic production whereas being an important part of petrochemical plant, polyolefin plants polymerise ethylene and propylene to produce plastic products.

²⁴ See <https://en.vietnamplus.vn/construction-starts-on-vietnams-first-petrochemical-complex/126918.vnp>.

²⁵ See <http://www.rediff.com/business/report/budget-2016-wishlist-plastics-sector-urgently-needs-tech-up-gradation-fund-scheme/20160226.htm>.

In one positive policy direction, Bangladesh also recognises similar policy support required for local industries. According to the latest Export Policy (2018–2021), a technology development and upgradation fund, and a green fund will be available under the supervision of the central bank. These facilities will provide loans on easy terms for modernisation and technological advancement of the firms in the export sector.²⁶ The effective implementation of this policy including attaching priority to the plastic sector can help promote the export competitiveness of this industry.

In addition, to support plastic manufacturing and exports, the Bangladesh Industrial Technical Assistance Centre (BITAC) is going to set up an institute for supplying quality moulds (BUILD, 2018). Immediate establishment of the institute and its effective operation should thus help address one specific capacity constraint. The World Bank has started implementing a \$100-million project titled ‘Export Competitiveness for Jobs (EC4J)’ under which four technology centres will be established. The objective of these centres is to help export industries with technology adoption. The technology centre, therefore, can be a critical development initiative to promote emerging export industries including those in the plastic sector.

Developing a skilled labour force for the industry

The shortage of skilled workers (particularly trained workers with machine-operating and managerial skills) has become a serious constraint facing many manufacturing units in every sector including the plastic industry. According to firm owners, a high labour market turnover is a characteristic feature of this industry. There are some evidences of about 5 per cent production being rejected on quality grounds because of the weak skill base of the workers (BUILD, 2018). In addition, lack of knowledge and expertise on polymer science and related issues are considered as major constraints for many plastic manufacturing units, particularly for small and medium-sized manufacturing enterprises in expanding supply capacities.²⁷

Training facilities, as well as skill development programmes for the industry, are very inadequate in the country. While large and some medium enterprises provide limited on-the-job-training arrangements, small enterprises either cannot afford it or are discouraged by a high labour turnover. Some large enterprises hire foreign experts (mostly from India and Sri Lanka) to develop their in-house capacities but a large-scale institutional and systematic training facility is lacking (UNESCAP, 2013). To tackle the problem of shortage of skilled workers and technicians, the Bangladesh Institute of Plastic Engineering and Technology (BIPET) was established in 2014 with the objective of releasing graduates ready for working in the plastic industry.²⁸ BIPET is a laudable initiative and it is making a good contribution in the effort to tackle skill and labour shortages. However, supplying the required number of skilled workers is not an easy task.

²⁶ See <https://www.thedailystar.net/business/export/export-policy-2018-2021-cabinet-okays-draft-1656943>.

²⁷ This fact is also evident from the World Bank Enterprise Survey (2013). This survey reported that about 17.5 per cent firms of all the manufacturing firms surveyed identified an inadequately educated workforce as a major constraint affecting production.

²⁸ This information is obtained from the Bangladesh Institute of Plastic Engineering and Technology (BIPET).

For example, the number of persons completing the training courses since 2014 is around 600, which is considerably lower than the targeted number of 1,000 trained workers per annum.²⁹ To expand its capacity, a project is under implementation to set up a permanent campus of BIPET in Keraniganj, Dhaka.³⁰ This is an extremely timely initiative and it is important that the project gets completed with a fully functional institute serving the industry within a shortest possible time.³¹ In addition, the above-mentioned World Bank project is expected to benefit four sectors: leather, footwear, plastic, and light engineering. Among others, the project should help address the shortage of skilled workers and provide support for infrastructural and technological capacity building. Upon successful completion of the project in 2023, more than 90,000 additional jobs are likely to be created.³² It is essential that the plastic industry gets involved in the effective implementation of this project in addressing some of its critical constraints.

Enhancing product standards and establishing a testing laboratory for plastic products

Enhanced export competitiveness also depends on such factors as product standardisation, sophistication, and securing required certifications that increase the likelihood of attracting potential investors and buyers. With improved quality comes higher prices, maximising export revenues.³³ The unit values of most Bangladeshi plastic products, as shown above, are lower than those of Asian comparators. Product quality is closely linked with the type of raw materials used in the production processes, product design, and labour skills. Amongst others, the facilitation of training on computer-aided design (CAD)/computer-aided manufacturing (CAM) software and modern designing tools has been emphasised to improve product design and achieve product standardisation (Moazzem & Khandker, 2018). Many other specific issues are also important in establishing product standards targeting various export destinations. For instance, the Bangladesh Standards and Testing Institution (BSTI) follows Codex standards for food-grade plastic products while the United States follows the standards set by the United States Food and Drug Administration (BUILD, 2018).³⁴ The heterogeneity of standards for the same products poses a critical problem for firms to export to different countries. There is thus a need for formulating a harmonised system of standards to provide exporters with a unified regulatory environment. While this is a global challenge faced by many low-income developing country suppliers, for Bangladesh it is important to develop standardisation capacity appropriate to different importing market contexts.

Among others, ensuring product quality requires proper laboratory facilities equipped with the state-of-the-art technologies. There is no specialised testing laboratory to test and certify plastic products in Bangladesh. Thus, setting up a modern testing laboratory is extremely important.

²⁹ BIPET offers courses on plastic extrusion and blow moulding machine operation and maintenance; plastic injection moulding machine operation and maintenance; plastic film and woven bag processing technology; export marketing; merchandising; production management; entrepreneurship development etc.

³⁰ This information has been obtained from the report on the 13th Bangladesh International Plastic, Packaging and Printing Industrial Fair, 2018.

³¹ According to the information obtained from BPGMEA (2017), the BPGMEA's financial need from the government for setting up the institute is Tk 20 crore of which Tk 10 crore so far (at the time of writing this paper) has been received.

³² For details, see <http://www.worldbank.org/en/news/press-release/2017/06/01/world-bank-helps-bangladesh-diversify-exports-and-create-90000-new-jobs>.

³³ It has been suggested that product quality encompasses eight different dimensions: performance, features, reliability, conformance, durability, serviceability, aesthetics, and perceived quality (BUILD, 2018).

³⁴ Codex international food standard is formulated by the Food and Agriculture Organization and the World Health Organization.

While the Bangladesh Standards and Testing Institution (BSTI) certifies product quality, its capacity is limited both in terms of testing services as well as trained professionals on polymer science and technology-related issues. It has been reported that Bangladesh has not developed testing facilities for certain consumer products made of plastics (UNESCAP, 2013). It is also important to review and upgrade the standards so that they will comply with the existing international and important destination country requirements. While upgrading the capacity of the BSTI is important, an enhanced role of BIPET can also help ease the pressure on BSTI. This is an important area where the above-mentioned World Bank project can play a crucial role to develop institutional capacities and enhance industry competitiveness.

Securing certifications like ISO 9001:2015 for better product and efficiency, ISO 14001:2015 for environmental sustainability, and OHSAS 18001:2007 for occupational safety can help achieve an improved image of the industry while ensuring improved product quality and production standards (BUILD, 2018). The Plastic Product Business Council—a collaboration of BPGMEA and the Ministry of Commerce—was formed in 2012 with the aim to achieve such goals as to improve and ensure product quality, acquire appropriate technologies, and fulfil compliance requirements. A proactive public-private partnership to identify the constraints and adopt measures to address them will be important for export success.

Designing a sector-specific policy regime

It is important to consider a sector-specific policy to ensure the sustainable development of the plastic industry both for the domestic economy as well as export. In general, special attention to the sector has been accorded in industrial and export policies. The Industrial Policy 2016 identified seven ‘high-priority’ and 24 ‘priority’ sectors in which the plastic industry was included among the latter group.³⁵ The plastic industry was also listed as a ‘special development sector’ in the Export Policy 2009–2012, followed by its inclusion among the ‘highest priority sectors’ in three consecutive export policies of 2012–2015, 2015–2018, and 2018–2021. Being part of policy priority, the sector was entitled to a set of fiscal and financial incentives.³⁶

Nevertheless, the industry can further benefit from a sector-specific policy focusing on such issues as developing clusters by relocating and helping set up firms in special economic zones and other designated areas, ensuring environmental sustainability and recycling post-use plastic products, improving product standards as discussed above, promoting export competitiveness, etc. Bangladesh can learn lessons from other countries in this context. For instance, India undertook a scheme for plastic export expansion in its 12th five-year plan (2012–2017) to pursue such objectives as (i) promoting high-value-added production and technological transformation; (ii) setting up common facility centres for design and prototyping of plastic items; (iii) expanding base of existing markets and exploring new markets other than the EU and the United States; (iv) increasing regular market research to develop new mechanism to gather market intelligence.³⁷

Similarly, Vietnam has adopted a sector-specific strategy for transforming its plastic industry into a modern and developed one by 2025. To do so, Vietnam aims to produce high-quality products

³⁵ It is noted that plastic sector was also included as a ‘priority sector’ in the Industrial Policy 2010.

³⁶ For details, see Export Policy 2015–2018.

³⁷ Boosting India’s Manufacturing Exports: Twelfth Five-Year Plan (2012–2017), Ministry of Commerce and Industry, Department of Commerce, Government of India.

and environment-friendly outputs, diversify product types and designs, and enhance the ability to export value-added items (Vietnam Trade Promotion Agency, 2016). For export expansion, this development plan includes a set of strategies including (i) strengthening trade promotional activities in traditional as well as potential markets, (ii) maintaining close connections with regional and other overseas plastic associations, (iii) establishing representative offices abroad to promote export sales and undertake market research, and (iv) organising investment counselling. Considering these, Bangladesh should devise a comprehensive plastic sector development policy. The Ministry of Commerce, Export Promotion Bureau (EPB), the Ministry of Industries, and other stakeholders can join hands in this venture.

Establishing plastic firm clusters

Plastic manufacturing firms, especially small and medium-sized ones are scattered over many different locations across the country and thus the production of different types of products and the associated services are highly fragmented in nature.³⁸ Most of the firms are faced with some common difficulties such as lack of adequate, effective and well-functioning infrastructure, limited access to finance, weak transportation facilities, limited services of technicians, etc. The clustering of firms can help address these issues. Developing cluster-based critical masses can be supported within the special economic zones (SEZs), which are currently being set up by the Bangladesh Economic Zones Authority (BEZA). Plans to develop such zones are underway in Sonakanda, Keraniganj and in Gazaria, Munshiganj.³⁹ SEZs should help resolve the infrastructure-related constraints, transform the production process while bolstering industry competitiveness, attracting global buyers, and enabling firms to enjoy externality benefits resulting from the concentration of similar and related economic activities. The government has also taken an initiative to construct an industrial park in Sirajdikhan, Munshiganj, encompassing an area of 50 acres under the supervision of the Bangladesh Small and Cottage Industries Corporation (BSCIC).⁴⁰ This can house small plastic manufacturing units. These welcome initiatives will be extremely helpful in developing supply-side capacities and their timely implementation should be given a policy priority.

Developing an environment-friendly recycling mechanism

Improper management of post-use plastic products leads to environmental degradation, health hazards, and aggravated waste management challenges. Plastic pollution has become a global challenge in the face of which currently around 70 countries have taken measures against plastic bags either by imposing partial or complete bans and applying various punitive measures like taxation, penalty changes, and usage fees (Break Free from Plastic Movement, 2018). In some cases, countries have also used behavioural approaches to reduce plastic bag usages by consumers in grocery stores and shopping malls. Some countries (including China, as mentioned earlier) that

³⁸ Spatial distribution of Bangladesh plastic industry reveals that most of manufacturing firms are situated in Dhaka and its peripheral areas (around 65%), Chattogram (around 20%), and Narayanganj (around 10%) (Uddin, 2018).

³⁹ Information obtained from the report of the 13th Bangladesh International Plastic, Packaging and Printing Industrial Fair, 2018. See

<https://www.thedailystar.net/business/export/export-policy-2018-2021-cabinet-okays-draft-1656943>.

⁴⁰ Information obtained from the report of 13th Bangladesh International Plastic, Packaging and Printing Industrial Fair, 2018.

used to import plastic wastes for recycling and reusing for production purposes have initiated a policy reversal, restricting these imports.

While this may have some adverse impact on export earnings of certain countries, the restrictions on plastic wastes import, particularly by China which was the largest importer, should become an opportunity for other countries, including Bangladesh, to develop their own plastic recycling capabilities (Deutschland, 2018). Stepping towards a more environment-friendly plastic economy, governments of different countries have been taking initiatives to adopt a new generation plastic circular economy to minimise environmental pollution caused by plastic products.⁴¹

If available resources such as cheap labour and abundant water bodies (to make use in initial washing of post-use plastics) are effectively utilised, Bangladesh has the potential to develop a robust plastic recycling industry. At present, plastic waste generation in the country is around 336,000 tonnes per year, of which about 17,000 tonnes are directly used for landfilling (Huq, 2015). It has been estimated that about 4 per cent of the Dhaka City Corporation's (DCC) total solid wastes comprise plastic products and this proportion is increasing rapidly. Among post-use plastic items, PET soda bottles and high-density polyethylene (HDPE) products (like milk containers) are increasing day-by-day. A significant proportion of these items are not recycled. However, with increasing plastic waste generation, cheap labour costs for plastic waste collection should make plastic recycling more attractive and profitable (Hossian, 2018). The Bangladesh Petrochemical Company Limited (BPCL) is currently producing PET resins through recycling polyethylene terephthalate (PET) bottles and thereby reducing import dependence on basic raw materials for manufacturing mineral water and beverage bottles and for producing polyester yarn.⁴² Many countries are now providing special incentives for recycling and for undertaking research to deal with plastic wastes in an environmentally sustainable manner. In this regard, the role of the Green Transformation Fund of the Bangladesh Bank can be considered as one source of supporting the scaling up of recycling technology in the plastic industry.⁴³ Finally, raising consumers' awareness about ISO 15270:2008 (plastics guidelines for the recovery and recycling of plastics waste) can also help promote plastic recycling.⁴⁴

The negative perception of plastic as a cause of pollution is a global phenomenon. Post-use plastic products, posing serious environmental threats both for natural and marine life, has caught the attention of global consumers. As such, export success in the future will depend not only on the environmental standards in importing countries but also on similar measures being undertaken in source countries. Therefore, making plastic products in a more environment-friendly manner must be a part of a branding strategy for export sales. International certifications on environmental

⁴¹ Linear conventional plastic recycling system is comprised of the steps: 'take-make-consume-throw away'.

⁴² See <http://www.today.thefinancialexpress.com.bd/trade-market/exports-of-plastic-bottle-waste-crash-land-after-china-ban-1517068986>.

⁴³ Currently, to promote exports of recycled plastic products, 5 per cent cash assistance is provided for PET bottle-flex exports, while the comparable assistance for polyester staple fibre produced from PET bottle-flex is 15 per cent. This information is sourced from FEPD Circular No. 26, dated 10 September 2018, Bangladesh Bank.

⁴⁴ In the context of developed countries, there is evidence of increased quantity and improved quality of plastic recycling as a result of growing consumer awareness. For example, see <https://www.americanchemistry.com/Media/PressReleasesTranscripts/ACC-news-releases/Connecticut-Campaign-Increases-Awareness-and-Recycling-of-Plastic-Film-Packaging.html> for details.

sustainability (ISO 14001) can help assure consumers about environmental safety consideration by the plastic industry. Reducing environmental pollution and rebuilding image (as a responsible source of production) require stronger policy support. As per the Industrial Policy (2016), manufacturing sectors (including plastics) are to establish clean development mechanisms (CDM) to control for greenhouse gases and adopt the 3R (Reduce, Reuse and Recycle) strategy for industrial operations. In addition, proper implementation of the existing laws and regulations on environment protection (e.g., the Environmental Protection Law (1995) and Bangladesh Water Act (2013)) can help reduce environmental damages associated with plastic use. According to the Environmental Conservation Act (1997), industrial products are categorised into four different groups—green, orange-A, orange-B, and red—depending on the magnitude of potential environmental risks.⁴⁵ In the same act, plastic products and polymerisation of vinyl chloride (PVC) are included in ‘orange-A’, plastic and rubber goods excluding PVC items are categorised as ‘orange-B’ and plastic raw materials (i.e. polypropylene, polyester, etc.) are included in ‘red’ category. Production of these plastic items requires an Environmental Clearance Certificate (ECC) which involves a lengthy procedure. The ECC for plastic products under these categories is valid for one year, and for green-category products, the validity is for three years. While these policy initiatives are important, they should not create unnecessary hassles for firms that want to develop modern production and recycling facilities. The policy environment should be such to facilitate the emergence and growth of economically as well as environmentally efficient firms.⁴⁶

Relocation of plastic industries to newly established plastic industrial villages/zones can be an opportunity to help tackle environmental concerns. In this regard, the dedicated zones for the plastic sector with advanced and eco-friendly waste management system backed by relevant policy support measures should be an important initiative.

Box 9.2: Bangladesh Petrochemical Company Limited—PET bottle recycling factory

The Bangladesh Petrochemical Company Limited (BPCL)—a pioneering and the only post-use PET (Polyethylene terephthalate) recycling factory in Narayanganj—was established in 2012. BPCL employs ‘recover, recycle and reuse’ business model in which post-consumer PET bottles are recycled for reuse. Its production capacity is about 10,500 metric tonnes of recycled PET resin per year. Its capacity is expected to increase to 25,000 tonnes. Bangladesh imports 142,000 metric tonnes of PET resins every year with an annual growth rate being very high (at an estimated 10–20 per cent in recent years). The recycled resin is used for both food and non-food related usage. It has been suggested that the BPCL-recycled PET resin is at least 20 per cent cheaper than its imported counterparts. Recycling of PET bottles provides an opportunity to reduce import dependence.

Since its journey, BPCL recycled thousands of tonnes of plastics. It has been estimated that it diverted several thousand tonnes of plastics from landfills and reduced 1,350 tonnes of CO₂. Its food-grade manufacturing machinery is certified by the ISO (ISO 9001:2008) and USFDA (United States Food and Drug Administration). It has its own testing laboratory to ensure and maintain product quality and provide test reports to consumers so that they can be assured of product standards. BPCL requires 75 per cent less energy in producing food-grade resin than that of producing virgin resin.

Source: BPCL and the Daily Star, 25 October 2016.

⁴⁵ Green, orange-A, orange-B, and red are associated with low to high level of potential environmental risks.

⁴⁶ There is a suggestion that potentials exist for considering plastic products under green category. For it to take place, plastic waste management survey reports as well as environmental master plans need to be formulated and implemented under green category (BUILD, 2018). These issues will need serious consideration.

Bangladesh can take lessons from other countries as well. In Thailand, for example, the government proactively supported environment-friendly manufacturing that resulted in a thriving bio-plastic sector. It has not only improved the public image of the Thai plastic industry but also ensured enhanced exporting opportunities in developed countries with increased demand for those products by consumers having greater awareness about environmental issues (Dezan Shira and Associates, 2015). Positive branding backed by effective monitoring of the standards can also establish the credibility of Bangladesh's plastic industry as a responsible source of supplies and thus attract reputed international buyers. A joint effort by the Bangladesh Plastic Goods, Manufacturers and Exporters Association (BPGMEA), Ministry of Commerce, Ministry of Industries, and other supporting departments can play an important role in this respect.

Enhanced policy incentives for making exporting attractive

A rapidly growing domestic economy has been the most important source of revenues for plastic manufacturing firms. On the other hand, supply-side capacity constraints mean firms often target only local business opportunities. This phenomenon of domestic market-orientation can get intensified by the trade policy stance of a country. In a fast-growing economy with high protection accorded to the domestic industry, exporting can be less attractive relative to domestic sales, resulting in what economists term a policy-induced anti-export bias. As mentioned earlier, Bangladesh's main plastic exporting products fall under HS 3923, HS 3924, and HS 3915. Tariffs and trade taxes imposed on imports, and thus the resultant total tax incidence of these products, as reported in Table 9.7, appear to be excessively high. The estimated total trade tax incidence (TTI) for HS 3915 is 31 per cent, ranges 26–128 per cent for HS 3923, and ranges 89–128 per cent for HS 3924 (Table 9.7). As exports cannot be supported by equivalent policy measures, the relative incentives for import-competing products turn out to be much higher than those for exporters of similar products.

Under such circumstances and especially when the supply-side capacity is limited, firms have a natural tendency of relying on local sales rather than proactively exploring overseas business opportunities. To overcome this policy-induced disincentive, the successive Sixth and Seventh Five-Year Plans of Bangladesh called for tariff rationalisation.⁴⁷ However, such an option has proven to be extremely difficult, partly because of a strong perception amongst the local producers and policymakers about the need for protecting the sectors with high growth potential.⁴⁸ An apprehension about forgone revenues from tariff liberalisation also makes the task of tariff rationalisation difficult. In this backdrop, the only viable option for supporting exporters is through fiscal and financial incentives.

⁴⁷ The Sixth Five-Year Plan was implemented during 2011–15 while the Seventh Five-Year Plan (2016–2020) is currently under implementation.

⁴⁸ Bangladesh did undertake significant trade liberalisation and rationalisation measures 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).

Table 9.7: Different rates of taxes and duties on plastic products (%)

HS code	CD	SD	VAT	AIT	RD	ATV	Total Tax Incidence (TTI) ⁴⁹
3901	5	0	15	5	0	4	31.07%
3902	5	0	15	5	0	4	31.07%
3903	5	0	15	5	0	4	31.07%
3904	5	0	15	5	0	4	31.07%
3905	5–10	0	15	5	0	4	31.07%
3906	5–10	0	15	5	0	4	31.07%
3907	5–10	0	0–15	0–5	0	4	10.3%–31.1%
3908	5	0	15	5	0	4	31.1%
3909	5–15	0	15	5	0–5	4	31.1%–49.1%
3910	5	0	15	5	0	4	31.1%
3911	5	0	15	5	0	4	31.1%
3912	5	0	15	5	0	4	31.1%
3913	5	0	15	5	0	4	31.1%
3914	5	0	15	5	0	4	15.3%
3915	5	0	15	5	0	4	31.1%
3916	5	0	0–15	5	0	4	15.3%–31.1%
3917	5–25	0–30	0–15	5	0–3	4	20.7%–104.8%
3918	25	20	15	5	3	4	89.4%
3919	25	0–10	15	5	0–3	4	55.1%–74.1
3920	10–25	0–20	15	5	0–3	4	37.1–89.4%
3921	10–25	0–30	0–15	5	0–3	4	37.1%–104.8%
3922	25	20	15	5	3	4	89.4%
3923	1–25	0–45	15	5	0–3	4	26.3%–127.8%
3924	25	20–45	15	5	3	4	89.2%–127.8%
3925	25	0–45	15	5	3	4	58.7%–127.8%
3926	0–25	0–30	15	5	0–3	4	25.1%–104.8%

Note: CD—customs duty, SD—supplementary duty, VAT—value added tax, AIT—advance income tax, RD—regulatory duty, ATV—advance trade VAT. Source: Bangladesh customs.

Various policy incentives for the export sector have been a salient feature of Bangladesh's export policy for several decades now. In the 1990s, an attractive incentive package was made available for the readymade garment sector that included, among others, bonded warehouse facilities to procure raw materials at world prices (i.e., free from tariffs and other trade taxes), duty drawback facilities (to allow exporters claim back paid duties on raw materials after shipping of export orders), and cash incentives (for firms not availing bonded warehouse and duty drawback facilities).⁵⁰ Under the cash incentive scheme, export-oriented RMG firms received payments as high as 25 per cent of free on board (FOB) value of exports when they did not make use of bonded warehouses and duty drawback facilities. As the industry matured, cash incentives were phased down to the current level of 4 per cent.⁵¹ The specified cash incentive for the plastic sector was set to 10 per cent of FOB export value in the Export Policy 2015–2018. These cash incentives can be increased to 25 per cent. Given the relatively small size of the sector's exports, the suggested deepening of cash assistance should not have any major burden for the exchequer. Furthermore, the enlarged assistance programme can be of limited duration, for instance, for a period of 5–7 years, during which time a good export base should be created.

⁴⁹ Total tax incidence (TTI) is calculated as (customs duty (CD) + regulatory duty (RD) + infrastructure development surcharge (IDSC) + supplementary duty (SD) + value added Tax (VAT) + advance income tax (AIT) + license fee (LF) + advance trade VAT (ATV)).

⁵⁰ See Razzaque (2018) for a discussion on this.

⁵¹ The phase down plan for RMG sector's cash incentive scheme was undertaken in 2001.

This enhanced incentive system can be made available to all emerging and non-traditional exports.⁵¹ Alternatively, firms may be offered a base incentive (which is the currently available cash assistance) along with an additional incentive for improved export performance.⁵³

According to industry sources, various export-oriented plastic enterprises are availing bonded warehouse facilities.⁵⁴ This is helpful not only in ensuring the use of intermediate inputs at world prices (free of import duties and other trade taxes) but also in dealing with longer lead time faced by firms when raw materials are to be procured only after receiving export orders. However, securing bonded warehouse facilities is not easy as the scheme has not been made available to all exporters and is restricted to 100 per cent export-oriented firms only. Given the booming domestic market, many plastic firms are not fully export-oriented and thus do not qualify for the scheme. In this regard, extending bond facilities to all exporters in all sectors will constitute a helpful initiative. Possible leakages to domestic market sales are sometimes cited as a reason for restricting such facilities. However, governance failures should be addressed by appropriate administrative and legal provisions rather than by imposing across-the-board restrictions that can hurt the competitiveness of dynamic firms within a broad sector. In the 1990s, the issue of leakages from bonded warehouses also featured prominently in the policy discourse. Nevertheless, the continuation of the scheme proved to be extremely successful in boosting export competitiveness of the readymade garment industry.

While in theory, the duty drawback system should be a useful means for getting reimbursed for duties paid on imported inputs, it is rather unfortunate that the procedures involved are considered as cumbersome by many exporters. Streamlining these procedures and making them transparent, user-friendly and less time-consuming can help many firms, including the smaller ones that often aim to develop export market connections through relatively small orders. In many other countries, especially in East Asia, duty drawback facilities have been used effectively.⁵⁵ Ensuring an efficient system in place can also help many Bangladeshi exporting firms.

It is important to bear in mind that bonded warehouse facilities and duty drawback schemes are actually no additional incentives for exporters. Exporting firms all over the world can procure intermediate inputs at world prices without being subject to any tariffs in their home countries. Therefore, being able to access and effectively utilise bonded imports or duty drawbacks only make Bangladeshi exporting firms at par with their rival suppliers. On the other hand, a policy of export incentives should be revitalised beyond the existing levels. For example, under a revamped export incentive scheme, exporters of emerging or non-traditional sectors should be entitled to cash assistance along with access to either bonded warehouse or duty drawback scheme(s). Given that more than fourth-fifths of the export earnings are due to readymade

⁵² The readymade garment sector is now considered as traditional exports of Bangladesh given its dominating export performance over the past four decades or so. On the other hand, sectors like leather and leather goods, although have a long history of export trade, their potential is far from being utilised. Therefore, these sectors can also be considered for enhanced export incentives.

⁵³ Under this scheme, export earnings only over and above past years' export receipts can qualify for a higher incentive. It would imply a lower burden on the public exchequer while encouraging firms to expand exports to benefit from the higher cash assistance.

⁵⁴ The information has been obtained from a discussion with a representative of BPGMEA.

⁵⁵ Amongst others, Vietnam provides a case where the anti-export bias against plastic products reached a very high, yet it managed to attain a higher export target by employing duty drawbacks and special provisions for firms in export processing zones (Martin et al., 2002).

garments, the deepening of policy incentives to some other selected sectors will not have any major adverse fiscal consequences.

In considering policy incentives, it also needs to be pointed out that Bangladesh is going to graduate out of the group of the least developed countries (LDCs) most likely by 2024, after which 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. Lack of supply response means many of the available trade preference schemes have remained underutilised. In plastic products, MFN tariff rates in the European Union—Bangladesh's biggest export market—are low: many items enter duty-free while products under HS 3915 and HS 3924 attract an MFN duty rate of 6.5 per cent.⁵⁶ Therefore, Bangladesh does enjoy some preferential tariff margins in certain categories of plastic products and thus a much bigger push is now needed to make the most out of it. In the United States, another major export destination of Bangladesh, MFN tariffs are also low: products under HS 3915 are duty-free, while items HS 3923 and HS 3924 have average MFN duties of 1.5 per cent and 3.4 per cent, respectively. However, since Bangladesh can no longer access the Generalised System of Preferences (GSP) in that market, exports are subject to MFN tariffs.

Bangladesh enjoys a substantial preferential margin of 7–10 per cent in all plastic items in India. The average MFN duty on these items is 9.15 per cent while the post-graduation average tariff will be slightly lower at 8.22 per cent under SAFTA. In China, the current preference margin for Bangladesh is 10 per cent for the products included in HS 3919–HS 3923 and 6.5 per cent for the product categories in HS 3906–HS 3911. After graduation, as there is no GSP provision for developing countries, the average MFN tariff for plastic items will be about 7.9 per cent. Among others, Bangladesh gets duty-free access in Japan and the Republic of Korea against the MFN duties of 3.54 per cent and 6.52 per cent, respectively. After graduation, the tariff rate in Japan will register a small rise, but the corresponding rise in the Republic of Korea will be 6.33 per cent considering the APTA non-LDC preferences. Against the current zero-tariff access, the post-graduation duty in Australia will be 6.5 per cent.

While preferential tariff margins are generally low, there are certain destination-market-specific categories where Bangladeshi manufacturers of plastic items can continue to enjoy some competitive advantage over the next 5–6 years. Targeted export expansion using any incentives would thus be an important policy consideration. 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 World Trade Organization (WTO), as discussed in Chapter 3 of this volume.⁵⁷ 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.⁵⁸

⁵⁶ However, along with LDCs, a host of other countries also have duty-free market access under various EU trade provisions.

⁵⁷ 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.

⁵⁸ 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 initiatives 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-see-export-subsidy-phase-out/878573/> (accessed on 2 October 2017).

Table 9.8: Post-graduation tariff implications for plastic items in selected destination countries

Country	LDC tariff for Bangladesh	Post-graduation tariff	MFN tariff
Australia	0%	No preference	4.6% (5 % for most items)
Canada	0%	3% for the items which have MFN duty.	6.5% for selected items under HS 3917, HS 3918, HS 3919, HS 3922–HS 3926; 0% for others. Average rate 1.43%
China	2.1% (duty free for selected items)	No preference	7.87% (6.5%–10%)
EU	0%	1% (0% for most products)	6.05% (6.5% for most items)
India	0%	8.22%	9.15%
Japan	0%	0.21%	3.54%
Republic of Korea	0%	6.33%	6.52%

Note: Average is calculated as the simple average.

Source: Authors' analysis using WITS data.

Reviewing legal provisions to support the plastic industry

In addition to policy measures discussed earlier that are related to export expansion, there are certain legal provisions that might need reviewing to support the plastic industry as highlighted by BPGMEA. The Plastic Packaging Act of 2002 imposed a complete ban on plastic packaging.⁵⁹ On the other hand, the Mandatory Jute Packaging Act 2010 stipulated the use of jute packaging for fertilizers, sugar, poultry and fish feed, salt, cement, chemicals, etc. Previously these products were packaged using polypropylene (PP) woven bags. Given that about 30 per cent of exports is plastic packaging, the existing acts can appear inconsistent with promoting export performance.⁶⁰

Currently, there is no complete packaging policy in the country (BPGMEA, 2017). While the need for plastic waste management is a critical issue, there is a suggestion that formulating and enforcing a new, timely and universal plastic packaging law considering product characteristics and quality, cost, presentation of products to consumers, international food safety laws and standards, etc. Packaging laws in other countries can help in this regard. Australia initiated a five-year strategic plan (2017–2022) to have all types of packaging be recyclable, compostable or reusable by 2025 as developed by the Australian Packaging Covenant Organisation Ltd. (APCO) in collaboration with government agencies and endorsed by its National Environment Protection Council.⁶¹ The German government undertook a packaging act (VerpackG) to promote eco-friendly and recyclable packaging through establishing a monitoring institution—the Central Packaging Registry.⁶² On the other hand, India passed its food safety and standards (packaging

⁵⁹ Bangladesh was the first country to impose a strict ban on the usage of plastic bags. Drainage systems blocked by plastic bags were identified as a major cause of flooding. Following the 1998 flood, it was thought that waterlogging was caused by polyethylene blocking drains. A disorderly disposal of post-use plastic bags was also recognised as a public health threat as it was thought to increase the incidence of mosquito borne diseases. The blockage of drains by plastic waste increases the amount of standing water, which acts as a breeding ground for mosquitos. More on this can be found here: <http://greenpagebd.net/bangladesh-world-leader-in-banning-the-plastic-bag/#.XGqJuuj7TIU>.

⁶⁰ It has been argued that packaging with non-polypropylene materials of food items could cause potential health hazards (BPGMEA, 2017).

⁶¹ The Australian Packaging Covenant Organisation Ltd. (APCO) is an independent and non-profit organisation to supervise the covenant on behalf of the government.

⁶² For details, see <https://www.gruener-punkt.de/en/services/packaging/german-packaging-act.html>.

and labelling) regulations in 2011 to ensure that the packages including plastic items are hygienic. Other international experiences can offer important lessons in reviewing existing provisions in Bangladesh. While formulating plastic related policies, it is also important to ensure that other packaging materials such as jute, paper, synthetic, clothing, etc. are fairly and equally treated. No ex-ante impact assessment was conducted prior to formulating the mandatory jute packaging law for different products. Similarly, ex-post impact assessments were not undertaken. In certain cases, plastic packaging can have features of compostability and organic contents and thus can be helpful to dissolve with soil (Islam & Hasan, 2018). The Bangladesh Standards and Testing Institution (BSTI) can take the necessary steps to test the quality and types of plastic packages.

Exploring new export markets for plastic products

In addition to maintaining the existing export relationships, Bangladesh also needs to explore new markets in terms of both destinations and products. A high degree of market concentration, as shown above, can act as a constraint for export expansion. In looking for new markets, priority should be given to large markets such as China, India, the EU, and the United States. As mentioned above, in some product categories, China, India, and the EU, offer preferential tariff margins-led competitive advantage for Bangladesh's suppliers. A comprehensive assessment is required to identify the causes of meagre export presence in the leading destination markets. A proactive policy initiative to promote exports should comprise policy incentives as well as support for market exploration.

Trade fairs and expos are effective means of getting into the global market. Such fairs may be open to all sectors as well as the plastic industry-specific and can take place both at home and abroad. Connections between buyers and sellers through product launching events and hosting and participating in international trade exhibitions are important for firming up the existing export relationships and developing new ones (UNESCAP, 2013). Bangladesh has been hosting plastic product fairs annually on a regular basis (Box 9.3).⁶³ It is important to assess the impact of these events in generating export success and draw lessons from other countries in making them more effective. Building relationship-based marketing, hiring skilled marketing professionals, developing personal contacts, and long-term business relationships are important for securing sustained orders and finding new markets. Financial support and specialised assistance from the Export Promotion Bureau (EPB) in organising international fairs, buyers' events, marketing workshops, etc. can also be important measures in attracting export business.

Furthermore, Bangladesh can learn from the policies adopted by comparator countries in supporting market exploration schemes. India, for example, adopted a market access initiative (MAI) scheme.⁶⁴ Under this, the government-provided support includes: (i) financial assistance for carrying out marketing projects abroad; (ii) assistance for building capacity of exporters, export promotion organisations, etc.; (iii) assistance on reimbursement basis to exporters for charges/fees paid by them for fulfilling the statutory requirements in the buyer country; (iv)

⁶³ According to BPGMEA annual report (2017), plastic fair initiated its journey in 1989 at a small scale under the association of BPGMEA and BISIC.

⁶⁴ MAI is designed with a view to expanding both product and market range with special focus on new products as well as new markets through extensive market analysis.

assistance for conducting studies that will aid market exploration; and (v) assistance in developing projects leading to substantial improvement in global market access. This kind of scheme can be implemented by a multi-organisation collaboration involving government agencies, research institutions, universities, exporting firms, etc.

Box 9.3: Bangladesh international plastics, printing, and packaging industry fairs

Since 2004, the Bangladesh International Plastics, Printing and Packaging Industry Fair has been an annual event, showcasing the industry's product range and facilitating business exchanges among the relevant stakeholders. Hundreds of exporters, importers, and investors participate in the fair. Along with the display of new, modern, and customised designs, the fair helps international buyers obtain the necessary information and establish contacts with the exporting firms. The local firms participating in the event can also gather first-hand experience about imported raw materials and machinery used in modern production processes. The major items that are usually presented in the fair include household plastic items, plastic, rubber raw materials and auxiliaries, quality detection instruments and equipment, printing and packaging accessories, etc. The 2019 fair brought together more than 460 exhibitors from 19 countries around the world, including Australia, Austria, Bangladesh, China, Egypt, Hong Kong, India, Indonesia, Italy, Japan, Pakistan, Singapore, South Korea, Taiwan, Thailand, Turkey, the United Arab Emirates, the United States, and Vietnam. Using a total of 780 booths, they showcased their top-of-the-line manufacturing products and solutions to the Bangladesh market.

Source: International Plastic Fair Bangladesh (<https://www.bangla-expo.com/ipf/>).

Box 9.4: Export potential in the northeast Indian market

India is considered an important export destination, especially for plastic products. Bangladesh exported \$23 million worth of such items to India in 2017–2018, registering a significant rise in exports over the past years. This improved performance is greatly contributed by rising exports of plastic waste, parings, and scrap of plastic—exports of these products increased from virtually nothing in previous years to \$4.75 million in 2017–2018. But India has issued a ban on import of plastic wastes in 2019. Other major exporting items in the Indian market are the polymer of ethylene; packaging materials; tubes, pipes, and fittings; household, kitchen and toilet articles; and furniture. These products are mostly exported to the North-Eastern states of India. A favourable geographical location of Bangladesh provides a natural competitive advantage in that market. Moreover, India's zero-tariff market access for LDCs is also helpful in this regard.

Despite having the stated advantages, there exist certain constraints hindering the exploitation of the full potential. Lengthy and cumbersome procedures for trade through land borders that lack adequate infrastructural facilities have a general feature of bilateral trade between Bangladesh and India. Nevertheless, the export success of the RFL Plastics Limited in the Indian market is an encouraging factor. Major RFL exporting items are plastic furniture, plastic household items, PVC pipes and fittings, PVC door and sheets, etc. Its export success is partly attributed to the quality of its products. RFL Plastics Limited has its own in-house R&D facilities along with a testing laboratory. Moreover, it has secured the BSTI certification and ISO 9001 certification to maintain the global standard.

Source: Authors' analysis and compilation from various sources.

The success of other export industries such as apparel, textile, pharmaceutical, furniture, frozen food, etc. that act as forward linkages can work as an incentive to ensure a larger volume and value of plastic products. Most plastic export is in the deemed category as part of other sectors' exports as against direct exports. As Bangladesh has been successful in exporting readymade garments for about four decades now, it is expected that the sector will grow further. Along with it, if other export industries can also flourish, exports of plastic products are likely to get further boosts. Several big industrial houses such as the PRAN Group, ACME, Square Pharmaceuticals, etc. are specialising in plastic packaging whereas the Pharmatech Polymer is planning to construct a pharmaceutical plastic packaging plant with an intensive concentration (Chakraborty, 2018).

Other factors for export promotion

Apart from the sector-specific issues, there are general factors that affect the overall export competitiveness as well as improve the overall export-oriented business environment in Bangladesh. They apply for the plastic sector as well. One such factor is FDI. Currently, there is not much information on foreign investments going directly into the plastic industry or other FDI-led activities stimulating demand for plastics. Recently, Honda—a Japanese automobile company—has established a motorcycles production plant in Abdul Monem Economic Zone (Hossian, 2018). While this contributes to growth and employment generation, the objective of increased export earnings will require export-oriented activities. A well-developed and diversified plastic sector has the potential to be an integral part of a global supply chain for which the role of FDI can be critical.

Apart from FDI, a lot of work needs to be done to address weak and inadequate infrastructure, inefficient inland transportation and trade logistics, and perceived high cost of doing business. Uninterrupted supply of electricity and receiving new electricity connection (takes 150 days on average according to the Doing Business Survey) are big challenges for the industry. According to BPGMEA, nearly 1,335 kWh electricity is needed to produce 1 tonne of plastic goods and the industry often suffers from a shortage of electricity to expand production. Moazzem and Khandker (2018) suggested increasing the supply of electricity up to 8 to 12 hours daily with an aim to reduce wastage of plastic raw materials and ensure quality products. Although Bangladesh is currently working to alleviate energy crisis, other issues as institutions, infrastructure, market size and efficiency, business sophistication and innovation, etc. still exists. Addressing these challenges will require sustained medium to longer-term interventions. Any improvements in these areas will confer competitive strength to the country's exporters.

9.6 Concluding Observations

Bangladesh's plastic industry holds great potential to flourish as a globally competitive and dynamic export sector. Currently, the production of plastic items is growing at a fast pace to cater for the growing demand within the domestic economy as the per capita consumption of plastics is rising from a low base. The industry's indirect or deemed exports—mainly as packaging materials and accessories used in the exports of readymade garments—are of a respectable size, according to available estimates of above \$500 million. However, direct exports are very small—just about \$ 100 million—accounting for a negligible share of 0.1 per cent of a global export market of around \$600 billion.

Given the features of export products of comparator countries, resource endowments required in the production process, and the sheer size of the world market demand, it is difficult to conceive such a lacklustre export performance of Bangladesh. The sector's export competitiveness and potential were recognised several years back with the expectation of export earnings reaching several billion dollars by 2020. In contrast, breaking into the global market has proven to be a much harder task. As this study has discussed, unleashing export potential from the sector will require concerted efforts in several key areas including reinvigorated policy support in boosting exporters' competitiveness.

Bangladesh's plastic sector is heavily dependent on imported raw materials as the backward linkage for the industry is weak. Currently, there is an absence of strong petrochemical and polyolefin manufacturing in the country. This makes it extremely difficult for most small and medium enterprises to acquire good quality raw materials from competitive sources. Most prominent global exporters, as well as emerging suppliers, are able to domestically source a significant proportion of their basic raw material requirements. As such, establishing polyolefin facilities can greatly improve supply-side capacities. In addition, capacity development for quality mould production should also be considered as a prerequisite for export success. Most SMEs use outdated production technologies with which enhanced export production will be difficult to achieve. Technological upgradation including support for environment-friendly production methods should thus receive due consideration.

The shortage of skilled workers and managers is a major problem facing the plastic industry. How educational institutions, particularly the technical and vocational ones, can meet the industry demand should be an important area of intervention. While the Bangladesh Institute of Plastic Engineering and Technology (BIPET) is offering various training courses targeting the need of the industry, the requirements remain much higher. Building capacity of BIPET will be helpful in addressing the problem. In this connection, establishing a permanent campus for BIPET at the earliest constitutes a major priority. This requires intensive government support and collaboration with the relevant private sector stakeholders. Additionally, large firms and capable SMEs can also play an important role by undertaking apprentice programmes and providing on-the-job training of workers and managers.

Enhanced export competitiveness critically depends on product standardisation, upgradation, and certifications that are associated with product quality. This is an area that requires careful attention for export success. Currently, there is no testing laboratory specialised in certifying plastic products. The existing capacity of the Bangladesh Standards and Testing Institution (BSTI) is not adequate to certify all plastic products due to a lack of human resources with expertise in polymer sciences and modern technologies. Establishing a testing laboratory to accredit the plastic products following international standards should be important if exports of plastic goods are expected to achieve breakthroughs in western developed countries that maintain very stringent product standards.

A \$100 million project titled 'Export Competitiveness for Jobs' is currently being implemented by the World Bank targeting four sectors including the plastic industry. The project will help address some of the aforementioned challenges including skills development as well as provide support for infrastructural and technological capacity building. It is essential that the plastic industry and other stakeholders should work collaboratively in the effective implementation of the project.

A sector-specific policy can help the plastic industry with its further growth and development within the domestic economy as well as with enhancing exports. Issues such as developing industry clusters by relocating and helping set up firms in special economic zones and other designated areas, ensuring environmental sustainability and recycling post-use plastic products, improving product standards, deepening support measures for export competitiveness, etc. should be the integral components of this policy. Lessons can be drawn from other countries that

are known to have provided elaborate support measures for their plastic and similar other export sectors. The Bangladesh Plastic Goods, Manufacturing and Exporters Association (BPGMEA), the Ministry of Industries, the Ministry of Commerce, other relevant government agencies and departments, and interested development partners should collaborate in helping develop a comprehensive sector-specific policy and its implementation.

Production units in the plastic sector are scattered over many different locations. Clustering of firms within special economic zones and other specified industrial areas should result in manufacturers' access to improved infrastructural facilities and other services. It can also facilitate knowledge-sharing, accessing finance, and attracting skilled workers and investments. Specific locations in Keraniganj and Munshiganj have been identified for establishing plastic firm clusters. Effective development of these industrial areas and timely relocation of the manufacturing units are likely to enhance supply-side capacities.

Environmental issues associated with the production and recycling of post-use plastic products must be a vital part of an export development strategy. The accumulation of plastic objects in the earth's environment contributing to health problems in humans and animals has become a global concern. Production and post-use practices in source countries could soon become a major determinant of export success. Bangladesh has introduced some initiatives encouraging the recycling of plastic items. However, the post-use recycling rate is quite low and will require serious attention as the per capita consumption of plastic items is bound to rise many folds given the rapidly growing economy. The Bangladesh Petrochemical Company Limited (BPCL) has started recycling plastic products on a small scale. Its capacity should be expanded. Enforcing strict measures and providing incentives for recycling should be core policy components in developing a new generation plastic circular flow mechanism in supporting sustainable development. In addition, support for developing and adapting biodegradable plastic products can ensure a competitive edge in the export market. In fact, making plastic products in an environment-friendly manner must be a part of a branding strategy for export sales.

Access to finance is an important precondition for, like all other industries, enhanced export supply response. The high cost of borrowing, large value of collaterals needed for bank loans, and limited access to trade finance are regarded as key hindrances to plastic goods manufacturers. Lack of proper accounting practices, especially by most SMEs, makes it difficult for them to secure finance from the formal banking sector. BPGMEA in collaboration with the Ministry of Commerce can work on identifying the barriers to loan facilities and develop an action plan to address them. Although plastic manufacturing firms have some access to the Export Development Fund (EDF), the financing from this source is not adequate. There is a need for a careful review as regards how the EDF and the Export Credit Guarantee Scheme (ECGS) can be proactively used to help expand plastic exports.

Direct policy support to export-oriented plastic manufacturing firms in the form of cash incentives can be deepened to help improve the competitiveness of the sector. Although the plastic-exporting firms are accorded with a cash assistance of 10 per cent (of FOB export value), there is an opportunity of raising this incentive further given the high cost of production, high tariffs and other taxes making domestic sales more attractive relative to exports, and mounting real exchange rate appreciations undermining exporters' competitiveness. Following the

precedence of export support for the RMG sector that was prevalent in the early 1990s, plastic sector's cash incentive can also be increased to 25 per cent. As the direct exports from the sector are very small, this policy support enhancement should not be a major fiscal concern. It is also possible to design a scheme in which only the additional exports (e.g., the incremental receipts over the last years' export earnings) will benefit from higher incentives. This will have a subdued impact on the revenue budget to support the export promotion. Along with cash incentives, bonded warehouse facilities should also be extended to all plastic exporting firms.

While assessing policy options for promoting export competitiveness, it is important to take into consideration that Bangladesh is soon going to graduate out of the group of the least developed countries (LDCs), most likely in 2024. After graduation, some of the existing policy flexibilities and trade preferences enjoyed by Bangladesh will either be lost or will be significantly reduced. LDCs enjoy certain privileges for supporting their exports that are not available to other developing countries. Targeting export expansion through direct policy incentives like cash assistance is usually not allowed under the rules of the World Trade Organisation (WTO) but LDCs generally enjoy lenient consideration by other countries by the latter's not undertaking punitive actions. When Bangladesh's status is alleviated to a developing country over the next few years, strict compliance of WTO rules and provisions will considerably reduce the existing policy space. Therefore, it is critical to proactively make use of policy options in aiming to expand the export base before graduation.

Bangladesh's plastic exports are heavily concentrated in terms of the number of products being exported and the number of destination markets. This is partly due to the small volume of current exports as most of the export items are dependent on just one or two main markets. It is thus crucial to proactively look for new market opportunities and to increase the product range in each market. Establishing new export relationships in new markets can be quite challenging. Reinvigorated export promotional support measures for regular hosting of and participation in international plastic fairs, exhibitions, expos, etc. are thus important.

Unleashing the plastic sector's export potential and integration with global value chains can greatly be facilitated by attracting foreign direct investment (FDI). FDI inflows into such an environmentally sensitive sector will bring in modern green technology and management practices from which local entrepreneurs will also be able to benefit through externality effects. Currently, Bangladesh offers a range of attractive incentives to attract FDI inflows and enhancement of cash incentives for export production should further boost the attractiveness of the investment regime.

Finally, the competitiveness of any industry including plastic industry requires overall economic development of a country. Infrastructural bottlenecks (i.e., weak and inadequate port facilities, poor inland transportation system, inefficient trade logistics, lack of human resources, etc.) tend to have a sustained impact on export performance. Bangladesh has the potential to make substantial improvements in all these areas. As a result, exploiting higher export potential requires consideration of the formulation and implementation of medium-to-long-term export development strategy.

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Furniture Exports from Bangladesh: An Analysis of Market Prospects and Policy Support

Mohammad Abdur Razzaque, Emran Hasan & Jillur Rahman

10.1 Introduction

The furniture industry is one of the most prominent non-traditional sectors with significant potential for enhanced export earnings and thereby helping diversify Bangladesh's existing export structure. The industrial production process is largely labour-intensive in nature and the skill-mix is comparable to that of the readymade garment (RMG) sector. The experience of clothing exports would suggest that being dependent on imported intermediate inputs may not be a major constraint for many furniture products to be globally competitive. Although the export response has so far been lower than expected, the industry has flourished, catering mainly to the domestic markets. As the overall economic growth outlook is expected to remain buoyant over the medium term, the domestic demand for furniture and production capacity are likely to expand significantly. An enhanced supply response often results in enlarged export opportunities. Having recognised its export prospects, the furniture industry has been declared as a 'thrust sector' and is included as one of the highest priority sectors in Bangladesh's Export Policy 2018–2021.

Despite a relatively small base until now, furniture exports have been performing well in recent years. While this is an encouraging factor, exports appear to be concentrated in a few products. That is, there is much greater scope for expanding product lines including the high value-added items. Similarly, exports are concentrated in only a few markets and thus exploring new markets is essential for future expansion of the sector. The role of policies in boosting exports needs strengthening as well. This chapter makes an assessment of the furniture sector's export potential and key challenges. It also discusses various policy options for stimulating and sustaining export response from the sector.

This chapter is organised as follows: After this introduction, Section 10.2 highlights some salient features of the furniture industry; Section 10.3 analyses the trends in furniture exports; Section 10.4 provides an assessment of global export markets and prospects for Bangladesh; Section 10.5

contains discussions on the challenges faced by the furniture industry and policy options to address them; Section 10.6 concludes.

10.2 Salient Features of Bangladesh's Furniture Industry

Growth of the sector and its contribution to the national economy

The furniture industry has a long history as well as tradition in the Indian subcontinent including today's Bangladesh. The region was known for its crafting and artistic woodwork. Over time, the sector has evolved from being predominantly home-based and small-scale carpentry activities to medium-to-large scale commercial production to meet the growing demand for all types of furniture. The traditional cottage-based manual activities have also had to come to terms with the increasing use of machinery and power tools. Modern furniture manufacturing is also different in using materials other than wood. Plastics, laminated plywood boards, and metals are frequently used, requiring specialised craftsmanship of various types. Despite the transformation process that is underway, the industry continues to portray relatively labour-intensive production processes.

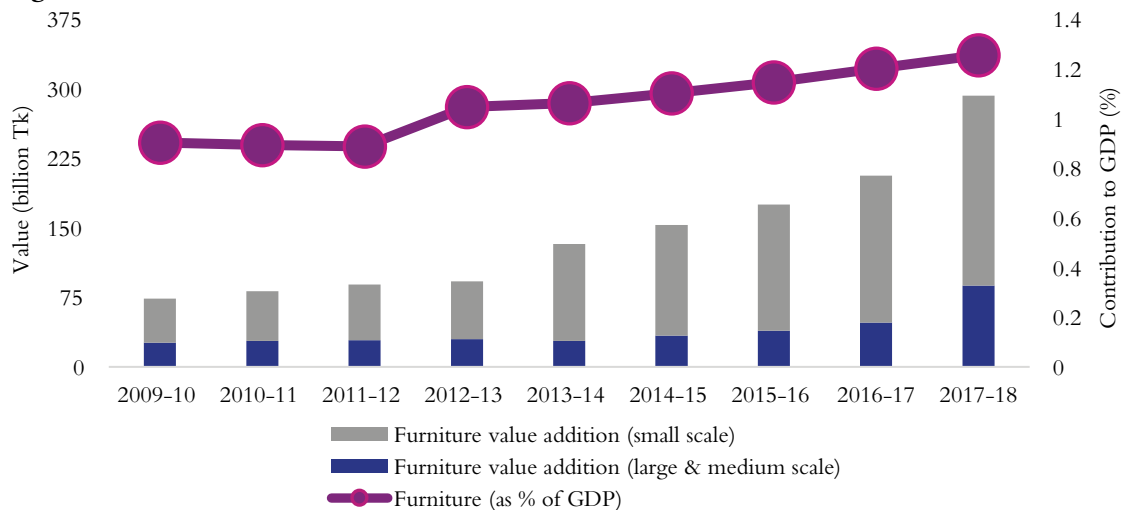
Although furniture exporting was initiated only in the mid-1990s, some of the biggest commercial firms had been in operation since the pre-independence period. These include the country's two most prominent furniture and related products exporting firms: Partex Furniture Industries Ltd. (PFIL) and HATIL. Partex started its journey with the production of particleboards in the early 1960s and its furniture manufacturing unit was set up in the 1990s. It produces both wooden items and furniture made by using particleboard, decorative plywood, etc. HATIL, previously known as H. A. Timber Industries Ltd., was established in the 1960s. It has specialised the production line with a focus on durability and aesthetic aspects. Another renowned firm, Otobi, was established in 1975 and started exporting in the mid-1990s. Akhter Furnishers Ltd. also started furniture manufacturing in the mid-1970s. It has set up a training academy for furniture education having realised the huge potential of such specialised training. Navana, another giant furniture manufacturing enterprise, came into operation in 2002 and specialises in home and office furniture. Another dominant firm in the market is the Bengal Group of Industries. Established in the 1960s, it has been a major manufacturer of plastic products and started producing plastic furniture from the early 2000s.

The above-named commercial firms have their brands established in the domestic market and are involved in mass production targeting mainly the local market. As the industry became a promising export sector, the government established a dedicated furniture exhibition zone in Purbachal, Dhaka. Two associations—the Bangladesh Furniture Exporters' Association (BFEA) and the Bangladesh Furniture Industries Owners' Association (BFIOA)—are working to promote the private sector enterprises in furniture production and export.

The domestic industry market is characterised by the predominance of micro, small, and medium enterprises scattered all over Bangladesh as against their bigger competitors that are mostly located in some major cities such as Barisal, Bogra, Chattogram, Dhaka, Manikganj, Narayanganj, and Sylhet (Jalil et al., 2017). Some prominent furniture factory clusters in Dhaka can be found in such areas as Badda, Chankharpul, Gandaria, Madanpur, Mirpur, Panthapath, Shajahanpur, Shayampur, and Sutrapur while several large firms are located in Gazipur and Savar.

There is a lack of credible information on furniture enterprises, production and employment in the country. According to one study (PKSF, 2013), there are about 71,000 micro and small enterprises in the sector, while the corresponding figure for medium-sized enterprises is just 81. IDLC (2017) reports a total number of “engaged enterprises” in the industry as 75,000, while another source suggests 42,000.¹ Most of the enterprises are perceived to be in the informal sector. This is one reason for not having reliable information on production and employment in the sector. According to the data reported by the Bangladesh Bureau of Statistics (BBS), the total value-added from all types of domestically-produced furniture items stood at almost Tk 300 billion in 2016–2017, increasing from BDT 74 billion in 2009–10. The share of the sector in the country’s gross domestic product (GDP) is thus estimated to be about 1.25 per cent (Figure 10.1). The average annual growth rate of the sector since 2009–10 was above 10 per cent, higher than the growth of GDP.²

Figure 10.1: Furniture value-added as share in GDP



Source: Authors’ estimates using Bangladesh Bureau of Statistics (BBS) data.

The domestic market for furniture in Bangladesh is expanding due to a fast-growing middle-class population leading to a thriving real estate business and rising urbanisation. According to various unofficial sources, domestic furniture sales are expanding at a rate of 15–20 per cent per annum. With the growing economy, such a buoyant trend is likely to be maintained over some years to come. The high domestic demand is met by both domestically produced as well as imported furniture. The import of furniture has almost doubled over the past decade, reaching almost \$100 million in 2018–19. Nevertheless, with the expansion in domestic production capacity and improvements in quality, the sector is now set to generate more export revenues.

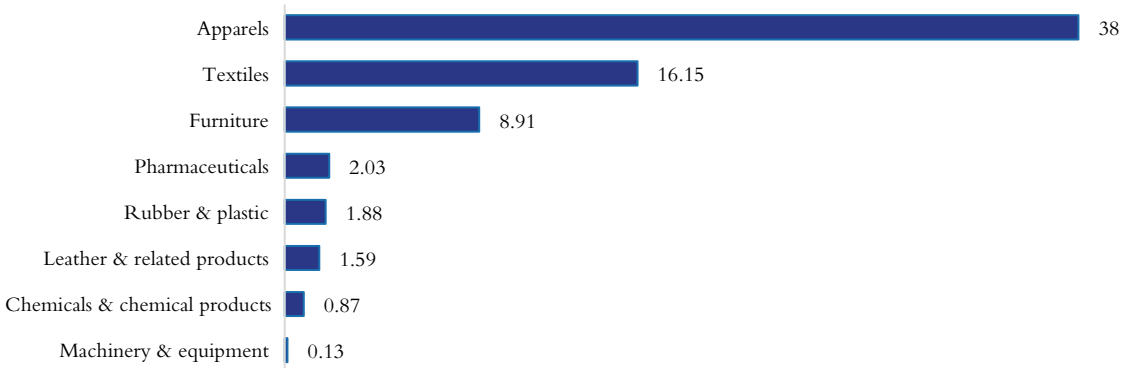
The furniture sector requires a large pool of labour with varying skills. The demand for skilled labour is particularly high for activities like designing and furnishing. Indeed, labour is a key

¹ This information is taken from <https://bdbanijjo.wordpress.com/tag/leading-furniture-industries/> accessed on 10 August 2018. This source also reports that there are about 75,000 carpentry households in addition to about 12,000 wooden and non-wooden furniture manufacturing SMEs.

² The growth rate is calculated based on constant 2005-06 prices.

success factor for the industry. According to official sources, i.e., labour force surveys carried out by the Bangladesh Bureau of Statistics, the total employment in furniture and related activities is 0.78 million. The sector contributes to about 9 per cent of all manufacturing employment in the country. While apparel and textile industries are the two largest employment providers, among the remaining sectors, furniture is way ahead of others (Figure 10.2). About 80 per cent of the jobs are related to basic production whereas the remaining 20 per cent involve more specialised skills such as designing, furnishing, assembling, and marketing.

Figure 10.2: Share in manufacturing employment (%)



Source: Authors' analysis using the Quarterly Labour force survey (2016–17) data, BBS.

Despite a relatively high share in manufacturing employment, jobs in the furniture sector in recent times have slightly declined, according to BBS labour force surveys. Between 2015–2016 and 2016–2017, furniture jobs fell by about 0.05 million: from 0.82 million to 0.77 million (Figure 10.3). Not only the furniture industry but the manufacturing sector as a whole saw reduced employment intensity. This has been a subject matter of intense policy debate (Beyer & Rama, 2018) with the reason for this being attributed to the spread of technology-intensive production processes and automation (Razzaque & Dristi, 2018). Disaggregated data for the furniture sector show that a declining trend in the rural employment while jobs in the urban sector remained largely unchanged. It could be that productivity growth with expanded supply-side capacities in urban-sector firms, including those in large and medium ones, met much of the increased demand for furniture in the country. One important limitation with the employment data, however, is that surveys fail to capture information on the informal sector. There is a general recognition that a significant proportion of production and employment in the furniture sector is informal in nature. Various sources report a much higher level of employment associated with the sector ranging from 1.5 million to 2.5 million.³

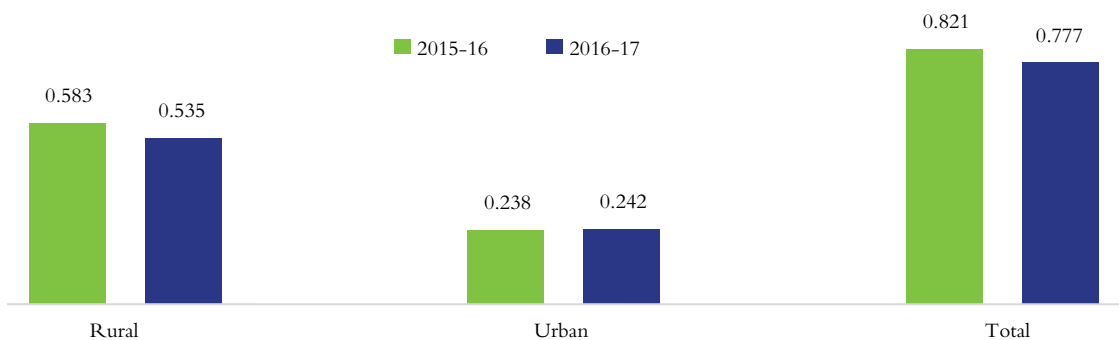
Production process

Production of wooden furniture follows an involved chain of activities from logwood collection to the making of final furniture products. After collection, log woods are sent to sawmills, where they are cut to varying sizes and thickness as per requirements. For manufacturing activities,

³ This is based on the information obtained from the Bangladesh Furniture and Interior Décor Expo (2018), and IDLC (2017).

wood of different sizes have to go through a process of seasoning to reduce the moisture in the woods. Seasoning can be done either through air drying or kiln drying. In the next phase, seasoned woods are processed to manufacture wood pieces as well as different types of boards (i.e., chipboards, medium-density fibreboard, etc.) which are the primary means of making furniture parts in the subsequent stage. Parts of furniture are then varnished/painted. Assembling of various furniture parts can take place before or after the varnishing/spraying work depending on the nature of the product and whether this is produced by small firms or large commercial firms. For medium and large firms, packaging prior to transportation and distribution are also important activities.

Figure 10.3: Employment in the furniture sector (millions)



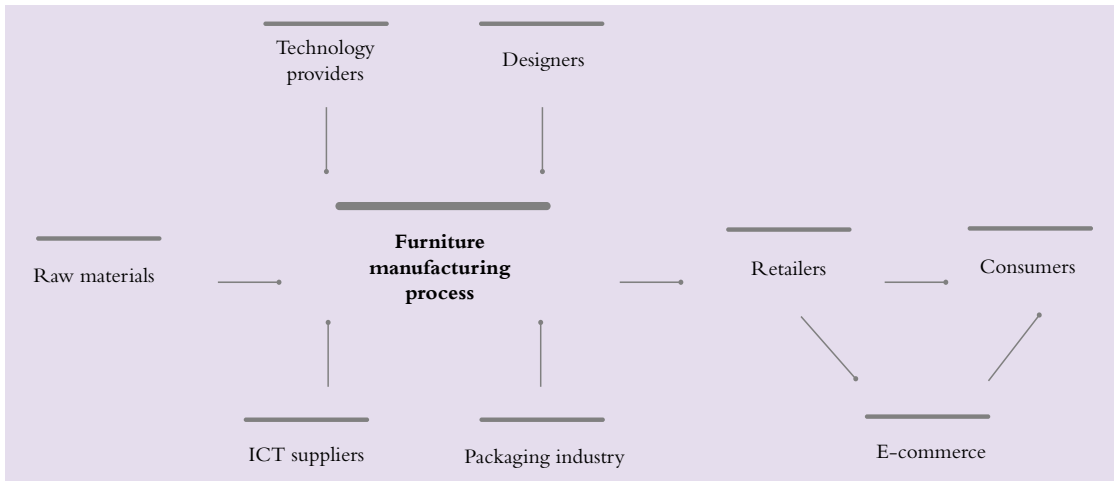
Source: Authors' analysis using data from the Quarterly Labour Force Survey (QFLS), 2015–16 and 2016–17, BBS.

For other types of furniture, e.g., metal, cane and rattan, plastic and specialised items such as medical and office furniture as well as accessories considered as furniture items (such as lamps and lights, mattresses, etc.), the supply chains require gathering different varieties of raw materials and intermediate inputs including medium-density fibreboard (MDF), particle and veneered board, plywood, plastic materials, stainless steel, fabrics, and cotton. These materials are collected from local as well as foreign sources.

Both indigenous and modern technologies are widely used in the furniture industry. Export-oriented and large firms are increasingly relying on more capital and technology-intensive production techniques for the purpose of cutting, grooving, routing, seasoning and edge-banding operations using different types of sophisticated machines and power tools. However, adopting modern technologies for small and micro-enterprises and those in the informal sector remains a major challenge. Along with machinery and tools, modern firms are using computer software in designing products and undertaking the so-called Enterprise Resource Planning (ERP) to ensure administrative and managerial efficiencies. Designing furniture for the export-oriented firms, one of the most important parts of the entire supply-chain process, follows largely the modern, customised and internationally recognised practices. This is one particular area where many firms in Bangladesh do not have adequate technical and human resource capacities. Information and communication technology (ICT) providers comprise another critical supply chain pillar with their main activities being a collection of market-related information both for domestic and global consumers and connecting individual firms with big retailers and consumers. E-commerce has now globally emerged to be an important online marketing and shopping

platforms, for taking orders and delivering furniture from retailers to consumers. This is an underdeveloped area in Bangladesh but is likely to develop in the near future. One of the final stages in the manufacturing supply chain framework is the activities related to packaging which is important for transportation. As against a modern furniture industry supply chain system (Figure 10.4), much of the domestic production in Bangladesh is still at an early stage of development.

Figure 10.4: Furniture manufacturing—a supply chain framework



Source: Authors' presentation using information from EU INSPIRED (2013).

Lack of availability of raw materials and intermediate inputs from domestic sources means the industry is excessively reliant on imports. The most needed and widely used basic raw materials such as timber, MDF, particle and laminated boards, glues, polishing, and colouring ingredients, wood coating materials, fabrics, foam, etc. as well as capital and machinery goods are not available in the country. According to one report, two of the major domestic sources of raw materials—the Sundarbans and greater Chattogram—account for just 40 per cent of the wood and timber required in the furniture industry (EU INSPIRED, 2013). China, Malaysia, Myanmar, and Thailand are amongst the important sources of raw materials for Bangladesh. According to some sources, almost all wood coatings and locks are imported. For ply boards, the import dependence is about 60 per cent, for particleboards, it is 20 per cent, and almost half of all adhesive used in the local industry is sourced from abroad.⁴ Key raw materials required for the production of furniture and their principal sources are provided in Table 10.1.

⁴Information obtained from Business Intelligence Bangladesh; 7 April 2018 and Quamruzzaman (2014).

Table 10.1: Furniture raw materials and sources

Home furniture items	Raw materials	Sources of raw materials	Chemicals used	Sources of chemicals	Machinery used	Sources of machinery
Beds and sofas	Oakwood, Segun wood, mahogany, hardwood, gamari, barmatic wood, MDF, solid wood, processed wood, cane, melamine laminated board, veneered particleboard	Both domestic and foreign sources – Canada, Ghana, India	Lacquer, glue, shellac, varnish, padding, spirit, thinner, varnish, cream, adhesive gum	Both local and foreign (shellac from Italy), Laker & glue from China and India	Locks, screws, magnets, handlebars, metal pipes, mechanical devices, adjusting devices, glass, mirrors, plastic, magnets, pipes, melamine boards, hinges, channels, stoppers	Both from local and foreign sources – mainly China and Germany
Cabinets (kitchen, dinner, storage)	MDF, processed wood, solid wood, melamine laminated board, veneered particleboard	Ivory coast, Malaysia, Myanmar US, and some other European countries				
Tables (dining, side, centre, study, dressing)	Segun wood, MDF, solid wood, processed wood, padding materials, sponge foams, upholstery fabrics, melamine laminated boards, veneered particleboard					
Chairs	Solid and processed wood, metal, stainless steel					
Office furniture items	Raw materials	Sources of raw materials	Chemicals used	Sources of chemicals	Machinery used	Sources of machinery
Tables (office, working, work stations, conference, computer)	MDF, plywood, processed wood, solid wood, melamine laminated board, veneered particleboard, light block boar	Both domestic and foreign sources-Canada, Ghana, India, Ivory Coast, Malaysia, Myanmar, the US, and some other European countries	Glue, varnish, shellac, padding, thinner, cream, apex adhesive gum	Both local and foreign (shellac from Italy), lacquer and glue from China and India	Locks, screws, magnets, handlebars, metal pipes, mechanical and adjusting devices, glass, mirrors, plastic, magnets, pipes, melamine board locks, hinges, channels, stoppers	Both from local and foreign sources – China and Germany
Cabinets (kitchen, dinner, storage)	Metal pipes, solid and processed wood, padding materials, sponge, foams, upholstery fabric					
Tables (dining, side, centre, study, dressing)	Processed wood, solid wood, melamine laminated board, veneered particleboard					
chairs	Solid wood, stainless steel					
Shelves and cabinets	Solid wood, stainless steel, upholstery fabrics, different types of boards					
Waiting, lounge sofas	Stainless steel, mild steel					
Decorative or plastic furniture items	Raw materials	Sources of raw materials	Chemicals used	Sources of chemicals	Machinery used	Sources of machinery
Decorative	Cane and rattan	Both local and foreign: Indonesia and Malaysia		Both local and foreign (shellac from Italy), liquor & glue from China and India	Locks, screws, magnets, handlebars, metal pipes, mechanical and adjusting devices, glass, mirrors, plastic, magnets, pipes, melamine board locks, hinges, channels, stoppers	Both from local and foreign sources – China and Germany
Plastic	Plastic, polymers of vinyl acetate or other vinyl esters, the polymer of ethylene, etc. steel	Australia, China, Germany, India, Japan, Korea, Kuwait, Malaysia, Singapore, Sri Lanka, Taiwan, Thailand, U.A.E.	Lacquer, glue, varnish, shellac, spirit, padding, thinner, cream, apex adhesive gum			

Source: Authors' analysis and compilation from various sources.

10.3 Furniture Exports from Bangladesh

Under the Harmonized System (HS) of traded goods classification, the product code 94 (HS 94) at the 2-digit level broadly covers furniture items. It includes different types of furniture as well as fittings made from mainly wood, plastics, rattan, cellular, sponge or expanded rubber, bamboo, and some other particles used by agro-processing industries. Under the HS classification, more specific divisions of furniture items are provided at the 4-digit levels of HS 9401, 9402, 9403, 9404, 9405 and 9406.⁵ HS 9401 contains seats whether or not convertible into beds and parts thereof. HS 9402 comprises medical, surgical, dental or veterinary furniture (for example operating tables, examination tables, hospital beds with mechanical fittings, dentists' chairs); barbers' chairs and similar chairs, with rotating as well as both reclining and elevating movements; parts of the foregoing articles. While HS 9403 includes other furniture and parts thereof (e.g., metal furniture, wooden furniture for offices, kitchen, bedroom, plastic furniture, bamboo, and rattan furniture, etc.), HS 9404 covers mattress supports; articles of bedding and similar furnishing (e.g., mattresses, quilts, eiderdowns, cushions, pouffes, and pillows) fitted with springs or stuffed/internally fitted with any material of cellular rubber or plastics. HS 9405 encompasses lamps and lighting fittings including searchlights and spotlights and parts thereof; illuminated signs, illuminated nameplates and the like, having a permanently fixed light source, and parts thereof not elsewhere specified or included. Finally, prefabricated buildings (of wood used by agro-processing, pharmaceutical, and other industries) are categorised under HS 9406. This study considers these conventional sub-divisions of furniture items.

Trends in furniture exports

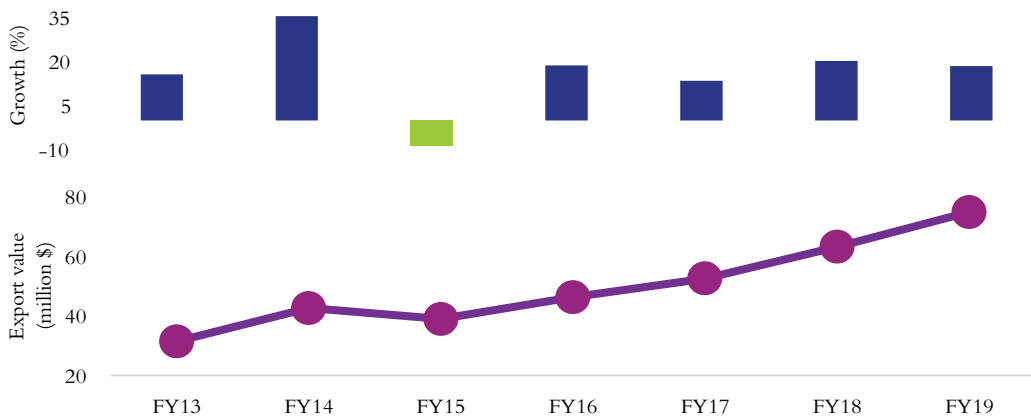
Bangladesh's furniture exports grew to \$74.9 million in FY19 from \$31.4 million in FY13 (Figure 10.5). The share of furniture in overall exports increased from 0.12 per cent to 0.18 per cent during the same reference period (Figure 10.6). During the same period, the annual average export growth rate of furniture was estimated at an impressive 16.3 per cent, albeit from a relatively small export base.⁶

The furniture export composition is highly concentrated in HS 9404 (mattresses, articles of bedding, sleeping bags, etc.) (Figure 10.7). This category alone comprises about 48 per cent of total furniture export earnings of Bangladesh. Products classified under HS 9401 (comprising seats whether or not convertible into beds and parts thereof) increased from virtually nothing in 2000 to 21.2 per cent in FY10 and further expanded to 26.8 per cent in FY19. The share of different types of wooden, metal, plastic and cane and rattan products (HS 9403) is about 18 per cent each (Figure 10.7). Products covered under HS 9406 (prefabricated buildings and parts of buildings) had a sizeable share in FY10 (8.3%), which declined to 5.9 per cent in FY19. Bangladesh's exports of products categorised under HS 9402 (medical furniture) and HS 9405 (varying types of electrical and non-electrical lamps and lighting fittings, lighting sets and illuminated signs and nameplates, etc.) are insignificant although in the global market these products are found to be growing apace.

⁵ Export Promotion Bureau (EPB) follows the same definition as defined under Harmonized System of Classification.

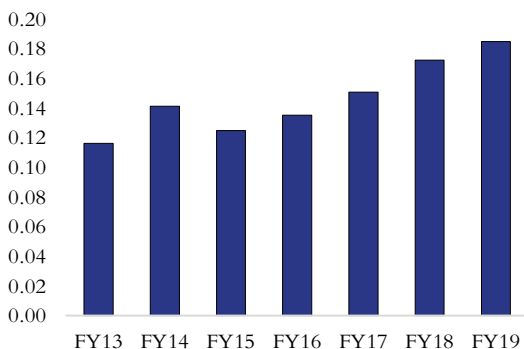
⁶ Although the export of furniture is expanding, Bangladesh experienced a negative export growth in this sector in FY15 (Figure 10.5). This could be accounted for a slowdown in global trade. Indeed, in 2015 and 2016, world exports of goods and services declined in absolute terms (Razzaque, 2017). Bangladesh's export of furniture was affected in FY15 but then it bounced back.

Figure 10.5: Furniture exports from Bangladesh



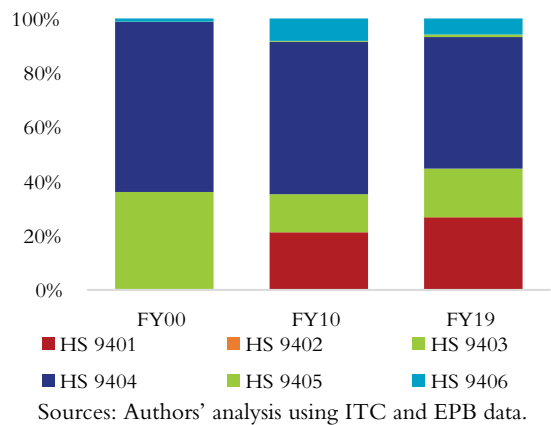
Source: Authors' analysis using EPB data.

Figure 10.6: Share of furniture in Bangladesh's total exports (%)



Source: Authors' analysis using EPB data.

Figure 10.7: Bangladesh's furniture export composition (%)



Sources: Authors' analysis using ITC and EPB data.

Trends in furniture exports at a more disaggregated level reflect that both the base and capacity of exports have expanded. The export earnings from plastic furniture and sleeping bags show an increasing trend over time whereas exports of wooden furniture had increased until 2015–2016 before depicting a declining trend until 2017–18 before bouncing back in 2018–19. Bamboo, cane, and rattan furniture, as well as metal products, have been fluctuating in nature (Table 10.2).

Disaggregated data from EPB for 2018–19 show that exports are highly concentrated in just one HS 6-digit category, sleeping bags (HS 940430), which alone accounts for almost 45 per cent of all furniture exports (Table 10.3). Other items (at the HS 6-digit level) with at least \$1 million exports include parts of seats, wooden furniture, seats with metal frames, wooden bedroom furniture, mattresses support, and plastic furniture. The top five products together account for more than 80 per cent of furniture exports from Bangladesh.

Table 10.2: Different types of furniture export from Bangladesh (million \$)

Period	Wooden furniture	Metal furniture	Plastic	Bamboo, cane and related furniture	Sleeping bags	Others	Total
2018–19	11.855	0.136	1.340	0.006	32.840	28.709	74.886
2017–18	6.912	0.175	1.046	0.035	31.583	23.464	63.180
2016–17	8.263	0.481	0.652	0.004	30.433	12.695	52.526
2015–16	15.679	0.179	0.324	0.004	25.308	4.765	46.257
2012–13	4.383	0.390	0.122	0.002	14.110	9.234	28.241
2010–11	6.276	0.620	0.051	0.092	9.570	7.215	23.761
2008–09	1.476	0.160	0.084	0.000	1.170	11.194	14.084
2006–07	0.909	0.926	0.028	0.044	--	3.302	5.209
2004–05	0.896	0.160	0.002	0.063	--	2.011	3.132

Sources: Authors' analysis using ITC and EPB data.

Table 10.3: Top furniture exporting items from Bangladesh (2018–19)

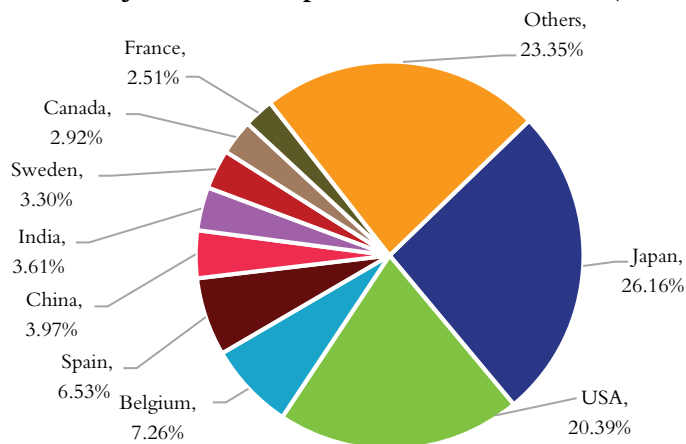
HS code	Description of the items	Export value (million \$)	Share in total furniture export (%)
94	Total furniture	74.89	100.00
940430	Sleeping bags	32.84	43.85
940190	Parts of seats	16.87	22.53
940360	Wooden furniture	8.72	11.64
940179	Seats with metal frames, not upholstered	3.16	4.22
940350	Wooden furniture of a kind used in the bedroom	2.79	3.73
940410	Mattress supports	2.75	3.67
940370	Furniture (excl. seats) of plastics	1.34	1.79
940490	Articles of bedding, stuffed, etc. (excl. mattresses and sleeping bags)	0.63	0.85
940540	Other electric lamps and lighting fittings	0.45	0.60
940330	Wooden furniture of a kind used in offices	0.30	0.40
940599	Parts (excl. of glass or plastics) of lamps and lighting fittings etc.	0.19	0.26
940390	Parts of furniture	0.10	0.14
940510	Chandeliers and other electric ceiling or wall lighting fittings	0.09	0.11
940310	Metal furniture of a kind used in offices	0.08	0.11
940320	Metal furniture, nes (excl. seats)	0.05	0.07

Source: Authors' presentation using EPB data.

The major export destinations of Bangladesh are Canada, China, Japan, Spain, Sweden, and the United States. Japan is the largest export market capturing 26.2 per cent of Bangladesh's furniture exports followed by the United States (20.4%), Belgium (7.3%) Spain (6.5%), China (4%), India (3.6%), Sweden (3.3%), and Canada (2.9%) (Figure 10.8). The top five markets together comprise about 65 per cent of total exports of furniture and the combined share of the most important 10 markets is almost 80 per cent. This reflects a remarkably high degree of market concentration.

Furniture exports to main European markets

Considering Europe as one broad destination, the continent captures almost half of Bangladesh's shipment of furniture items. Currently, Spain and Sweden are the two top furniture export destinations. In the Spanish market, the export value of furniture made in Bangladesh was only \$0.034 million in 2011. But, since then exports have expanded to \$10.05 million in 2017–18. The most common exporting items in that market are sleeping bags, wooden furniture, seats of different types, and articles of bedding.

Figure 10.8: Bangladesh's major furniture export destinations, 2018-19 (% of furniture exports)

Source: Authors' analysis using EPB data.

In 2017–18, Bangladesh's furniture exports to Sweden stood at \$3.22 million. It was lower than the peak (\$4.40 million) reached in 2013. Main exporting items to this market are sleeping bags, mattress supports, articles of bedding and similar furnishing, wooden furniture (excluding for offices, kitchens and bedrooms and seats). The analysis of Bangladesh's furniture exports to Spanish and Swedish markets reveals a very high degree of export concentration on very a limited number of products, which is largely due to the overall narrow export base of Bangladesh's furniture industry.

Furniture exports to China, Japan, and the U.S.

Despite China being the dominant global importer, Bangladesh captures a minimal portion of market share in that market. Exports from Bangladesh to China increased to \$5.93 million in 2017–18 from \$1.38 million in 2011. Major exporting items are wooden furniture, sleeping bags, parts of furniture and electric lamps and lighting fittings. Bangladesh's export is highly concentrated in wooden furniture. In Japan—the second major furniture export destination of Bangladesh—exports increased by more than \$13 million between 2010 and 2018. Again, sleeping bags and electric lamps and lighting fittings are the main export products. The export base and share of Bangladesh's furniture exports to the U.S. are very small. In 2017–18, export receipts were \$13.44 million—up from \$6.86 million in 2011. The notable export products in the U.S. are wooden furniture, sleeping bags, seats with metal frames, electric lamps and lighting fittings, articles of beddings, parts of furniture, metal furniture, and mattresses support.

Considering the single most important export item, the export of sleeping bags grew from less than \$1 million in 2007–08 to \$31.5 million in 2017–18 (Figure 10.9). The main reason behind this growth can be attributable to the fact that the basic materials used for sleeping bags come from the apparel sector, in which Bangladesh is a leading global exporter. Spain and the United States are the principal buyers of sleeping bags from Bangladesh (Figure 10.10). Other major export destinations of sleeping bags are Canada (7%), France (5%), Norway (4%) and Korea (3%).

Figure 10.9: Export value of sleeping bags (HS 940430)

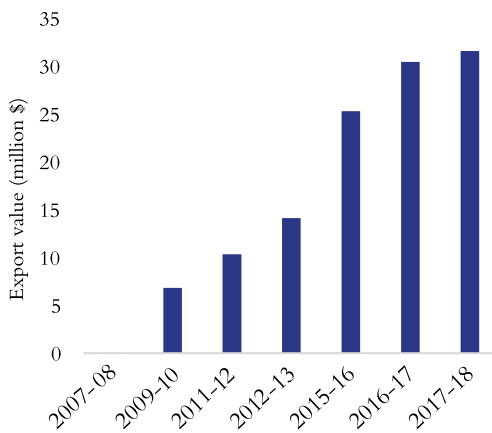
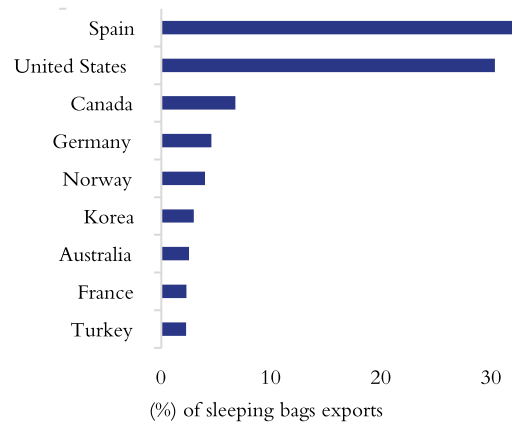


Figure 10.10: Major export destinations of sleeping bags (HS 940430)



Source: Authors' analysis using EPB data.

10.4 Global Export Market Prospects for Bangladesh

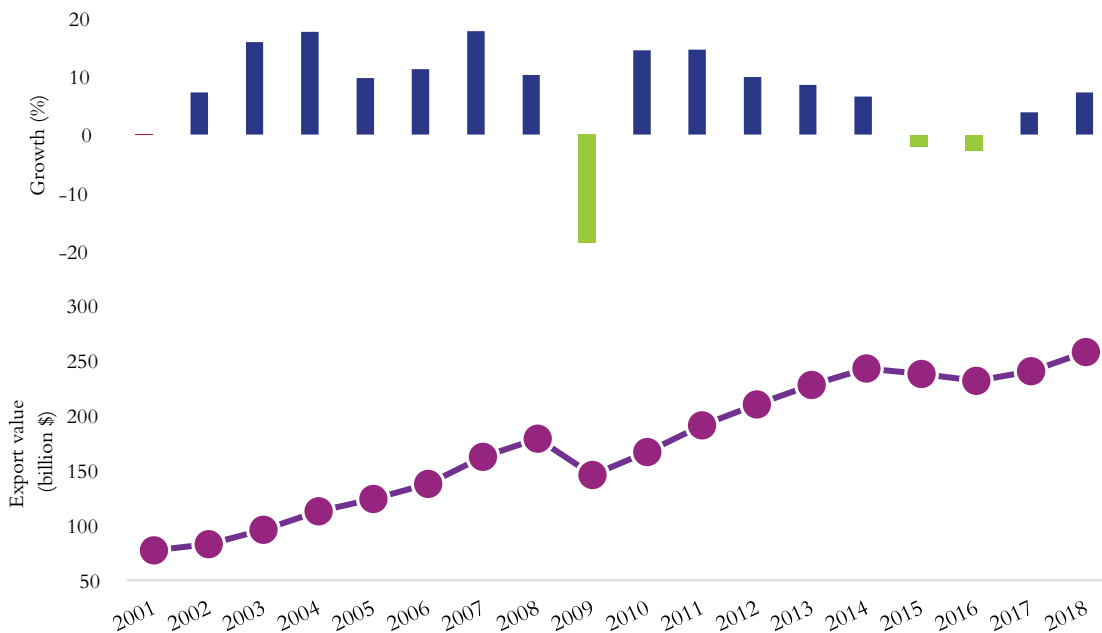
The global furniture export market

The global furniture market, as measured by exports from all countries, has witnessed a massive expansion in recent times, as its size trebled between 2001 and 2018: from \$77.2 billion to \$257.4 billion (Figure 10.11). The annual average growth rate was 7.3 per cent during this time.⁷ A comparative static analysis of global exports reveals that the demand for almost all types of furniture has risen significantly in the past decade (Figures 10.12 and 10.13). The most remarkable growth has been for the category HS 9405, which comprises different types of electrical and non-electrical lamps and lighting, parts of lamps and lights, fittings, electric lighting sets, electric tables, desks, chandeliers, and other electric ceilings, illuminated signs, nameplates, etc. Between 2005 and 2018, the world exports in this category increased from \$19 billion to \$54 billion. The market size for medical furniture (HS 9402) and different types of mattresses, sleeping bags, etc. (HS 9404) more than doubled during the same period. The growth for prefabricated building items (HS 9406) was relatively weak: just over 70 per cent between 2005 and 2018.

During the same period, furniture items classified under HS 9403, comprising various wooden, plastic, metal, cane and rattan products expanded from about \$51 billion to \$89 billion, of which the value of plastic furniture (HS 940370) was \$2.2 billion in 2018. The growth in global plastic furniture exports between 2005 and 2018 was about 110 per cent (Figure 10.13). A close look at Figure 10.7 would suggest that Bangladesh's current furniture export composition is quite different from that of the world exports in terms of the size of the market and products that are growing at faster rates.

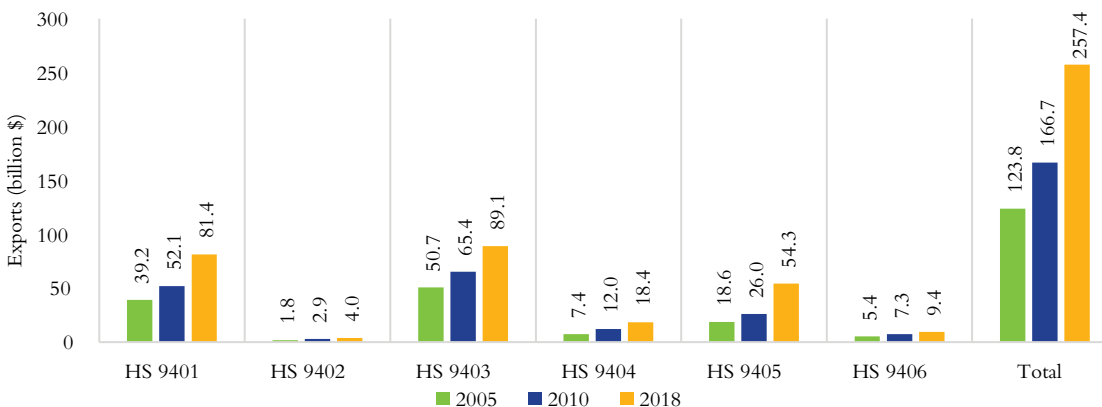
⁷ The world exports of furniture reached a peak of \$243.5 billion in 2014. The slowdown in overall global trade affected furniture exports as well. World furniture exports fell by 2 per cent in 2015 and again by 2.7 per cent in 2016. Emerging data seem to suggest a strong recovery in 2017 and 2018.

Figure 10.11: World exports of furniture



Source: Authors' presentation using ITC data.

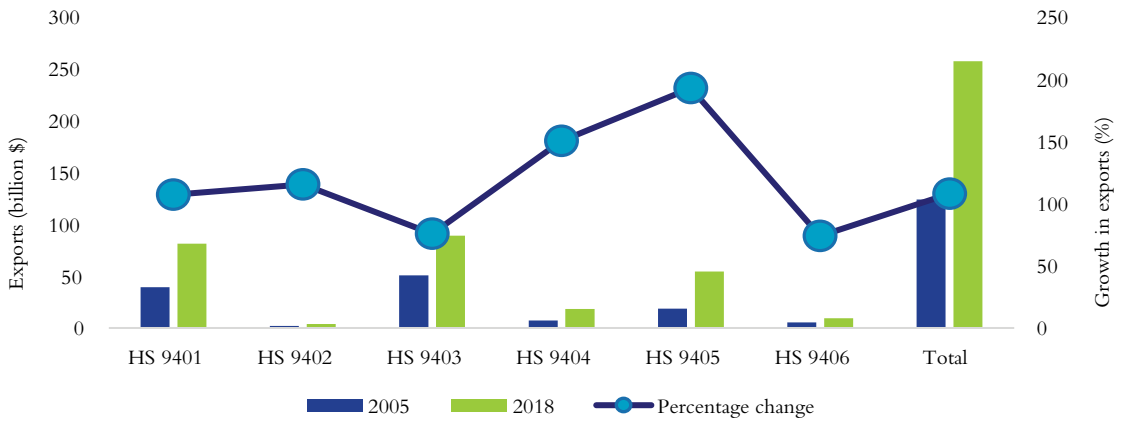
Figure 10.12: Exports of furniture in the global market (billion \$)



Source: Authors' presentation using ITC data.

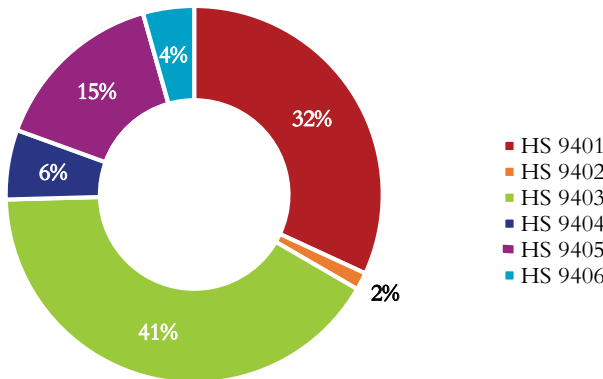
The composition of global furniture export has changed (Figures 10.14 and 10.15). The share of various metal, wooden and other furniture items (HS 9403) has declined from 41 per cent in 2005 to 35 per cent in 2018. This change is largely due to the growing share of HS 9405 (lamps and lighting fittings including searchlights and spotlights and parts thereof; illuminated signs, illuminated name-plates and the like and different types of lights from 15 per cent to 22 per cent during the same period. However, the relative significance of medical furniture (HS 9402), prefabricated buildings and parts (HS 9406), and different types of mattresses (HS 9404) remained largely unchanged.

Figure 10.13: Global furniture export growth

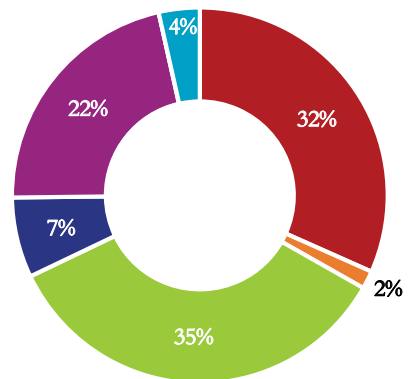


Source: Authors' presentation using ITC data.

Figure 10.14: Export composition of furniture, 2005



10.15: Export composition of furniture, 2018



Source: Authors' analysis using ITC data.

Major exporters and importers

China, the world's leading exporter, retains its dominance in world furniture exports. Between 2005 and 2018, Chinese exports registered a fourfold rise to more than \$96 billion, causing its market share to expand from 18 per cent to more than 37 per cent. The other major exporters include Germany (\$18.6 billion), Poland (\$14.8 billion), Italy (\$14.6 billion), the United States (\$10.8 billion), Mexico (\$10.6 billion), and Vietnam (\$7.4 billion). Apart from China and Vietnam, other major exporters from Asia are Malaysia (\$2.7 billion), Taipei (\$2.1 billion), Republic of Korea (\$1.8 billion), Indonesia (\$1.8 billion), and India (\$1.7 billion). Vietnam's furniture exports grew more than four times since the early 2000s, making it currently the seventh-largest exporter. From a very small base, India's exports rose rapidly to reach more than \$1.5 billion within a decade. By comparison, Bangladesh's furniture export growth has been insignificant, and the export base remains very small.

An analysis of the export composition of leading exporting countries in most cases does not show any significant change taking place between 2005 and 2018 (Figures 10.16 and 10.17). Their

export baskets are dominated by wooden, plastic, metal, and cane and rattan furniture items under HS 9403, electric and non-electric lamps and lighting fittings under HS 9405, and different types of seats including those convertibles into beds under HS 9401. The shares of medical furniture (HS 9402) and mattress supports and parts thereof (HS 9404) remained relatively low during 2005–2018.

Figure 10.16: Furniture export composition of leading suppliers, 2005 (%)

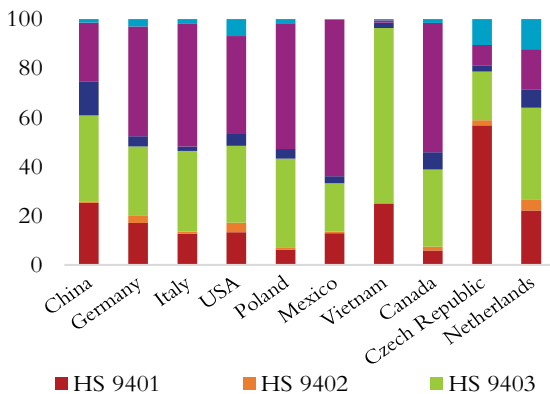
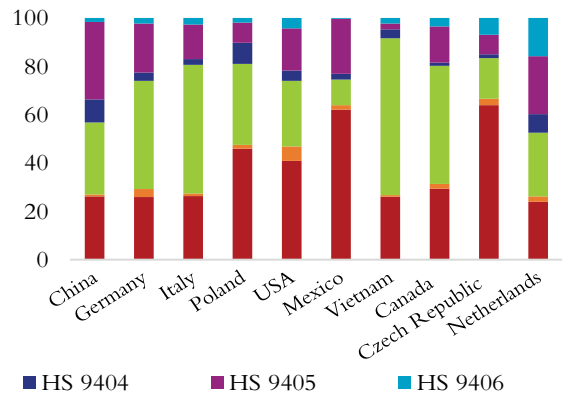


Figure 10.17: Furniture export composition of leading suppliers, 2018 (%)



Source: Authors’ analysis using ITC data.

Figure 10.18: Major furniture importers, 2005 (billion \$)

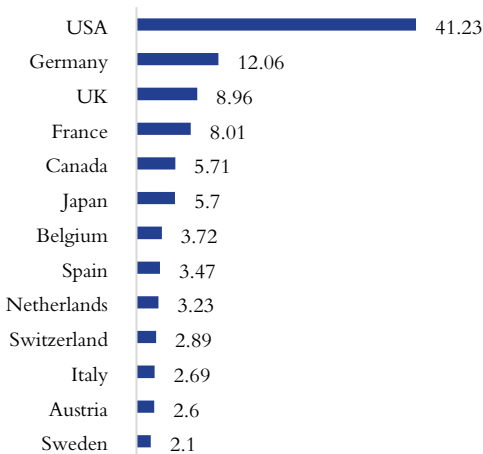
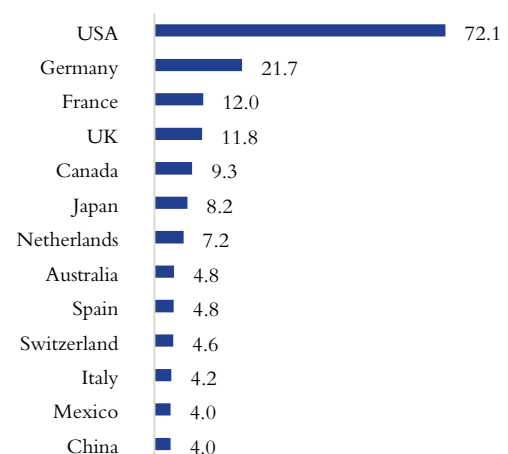


Figure 10.19: Major furniture importers, 2018 (billion \$)



Source: Authors’ analysis using ITC data.

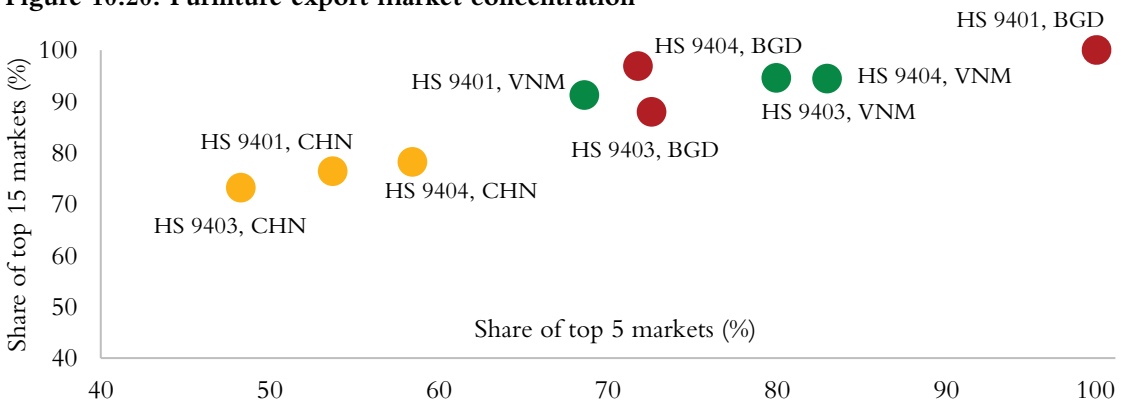
However, there are instances of countries exhibiting significant shifts in their respective export compositions. In the case of China, the relative significance of HS 9403 declined while the share of HS 9405 increased by about 8 percentage points. Vietnam’s furniture exports are highly concentrated in HS 9403, having a 65 per cent share in 2018. In recent years, rapid growth in the Vietnamese furniture industry has taken place through the production and exports of electrical and non-electrical lamps and lightings (HS 9405).

On the contrary, major furniture importing countries include the United States, Germany, France, the United Kingdom, Canada, Japan, the Netherlands, Austria, Spain, Switzerland, and Italy (Figures 10.18 and 10.19). During 2005–2018, U.S. imports increased by about 50 per cent to reach \$61 billion.

Export market concentration

As mentioned above, Bangladesh’s furniture export is concentrated in a few markets. Figure 10.20 shows the export market concentration of the three most important items at the HS 4–digit level, namely HS 9401, HS 9403, and HS 9404.⁸ In the case of HS 9401, virtually all exports of Bangladesh (more than 99 per cent) go to just five importing countries. For the same product, the corresponding share of Vietnam is less than 70 per cent and is just 54 per cent for China. For the two other products, HS 9403 and HS 9404, Vietnam has, however, higher export market concentration in the top five markets. One reason for this is Vietnam’s rapid export expansion which has been based on a few markets only. However, unlike Vietnam, Bangladesh’s high export concentration is associated with a very small export volume.

Figure 10.20: Furniture export market concentration



Source and note: Authors’ analysis using UN Comtrade data. CHN, BGD, and VNM stand for China, Bangladesh, and Vietnam respectively.

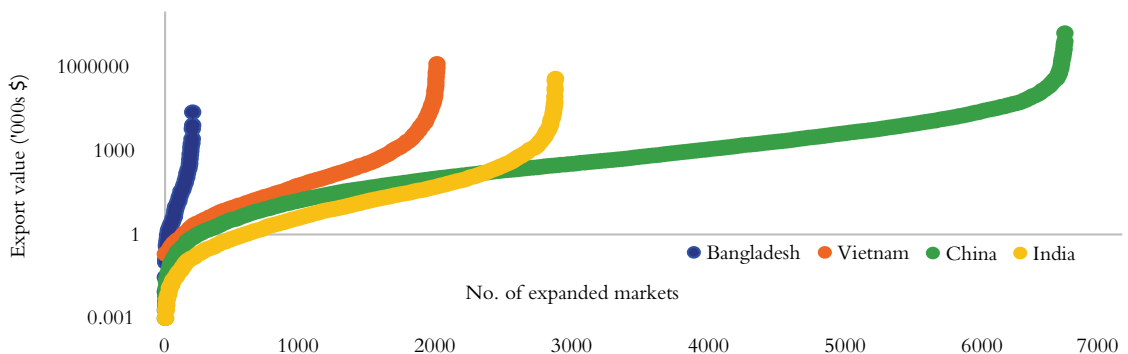
The nature of Bangladesh’s excessively high market concentration in comparison with other comparators can also be demonstrated with the help of expanded furniture market reach analysis (Figure 10.21).⁹ This approach considers the total number of all possible destination markets based on the country’s individual export items and the number of markets where those are exported. If, for instance, there are 20 furniture export items with 200 importing markets, the expanded market reach (i.e., the product and market combination) can be as high as 4,000. Bangladesh exported 25 furniture products at the HS 6–digit level in about 80 countries.

⁸ Analysis is carried out based on the mirror data on the world furniture export.

⁹ 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 furniture products in country 1 and 43 furniture products in country 2, then the expanded market reach/destination for furniture products would be $23 + 43 = 66$. The higher the value, the higher is the number of markets being reached by an exporting country.

However, Bangladesh managed to reach out to only 202 expanded export market destinations. In comparison, Vietnam exported 38 furniture products to 129 destinations with an expanded market reach of 1,988 destinations. India, having 2,854 market reaches, exported 39 products to 185 countries. China, the global furniture export leader, exported 39 products in 210 markets covering an expanded market reach of 6,580 destinations.

Figure 10.21: Expanded furniture export market reach analysis



Source and note: Authors' analysis using UN Comtrade data. The vertical axis shows the amount earned from each market.

Product category-wise market reach analysis shows that Bangladesh exported four items of mattress supports and articles of bedding (HS 9404) to 37 destinations with an export value of \$35.4 million in 2017–18 (Figure 10.22). Top export destinations for mattress supports are Canada, Spain, Sweden, and the United States; together these countries accounted for about 71 per cent of exports from this category (Figure 10.23). In comparison, to Bangladesh, India exported five products of mattress support to 149 countries while Vietnam exported five products to 76 countries, and China exported five products to 203 countries. This reveals that comparator countries' export baskets are significantly different from that of Bangladesh and they export more items to a higher number of markets.

For furniture and parts thereof (HS 9403), Bangladesh exported nine products to 64 destinations. While Bangladesh's market reach is very limited, China, India, and Vietnam have diversified their export destination markets. China exported to 207 markets while India and Vietnam exported to 172 and 119 destinations respectively (Figure 10.24). Most importantly, Bangladesh and its comparators exported the same number of products (nine products), but Bangladesh managed to reach far fewer markets. The major export destinations of Bangladesh under HS 9403 include China (44%) the U.S. (23%), and India (13%) (Figure 10.25).

In the case of seats and parts thereof (HS 9401), Bangladesh exported \$13.3 million from three products to eight destination countries (Figure 10.26).¹⁰ The export market for this category is highly dominated by China. China exported 11 products to 205 export destinations while India and Vietnam exported 11 and 10 products to 126 and 115 destinations, respectively. Bangladesh's major exports destinations of seats and parts are Mexico (33%), Republic of Korea (32%), the

¹⁰ According to ITC data, export volume of this product stood at \$14.14 million in 2017. This product is characterised by high fluctuations in export earnings.

U.S. (9.6%), and Japan (12.7%) (Figure 10.27). The analysis stated above leads to one conclusion—Bangladesh’s furniture export items are limited, and the number of export destinations is much lower compared to its competitors, exhibiting a high degree of market as well as product concentration.

Figure 10.22: Market concentration for mattress supports

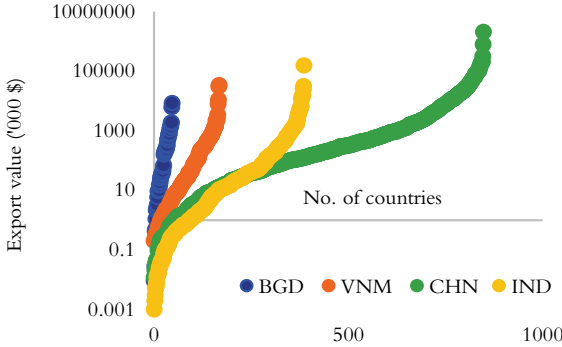


Figure 10.23: Bangladesh's major export destinations for mattress supports (%)

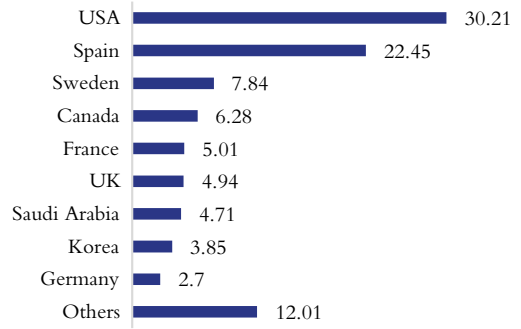


Figure 10.24: Market concentration for HS 9403

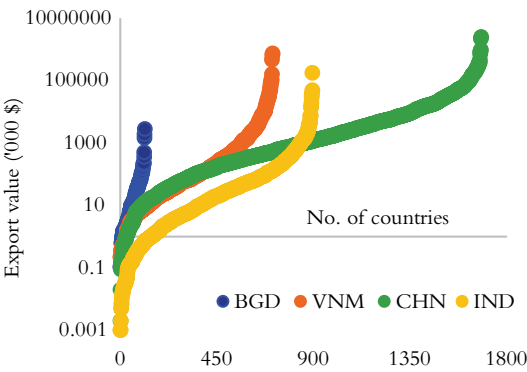


Figure 10.25: Bangladesh's major export destinations for HS 9403 (%)

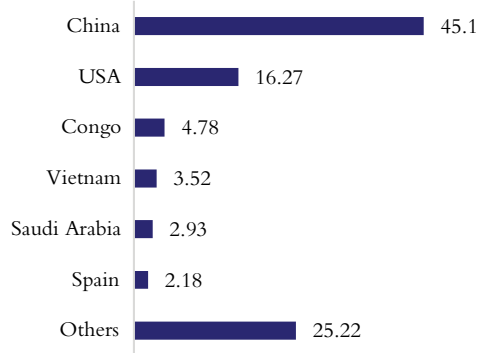


Figure 10.26: Market concentration for HS 9401

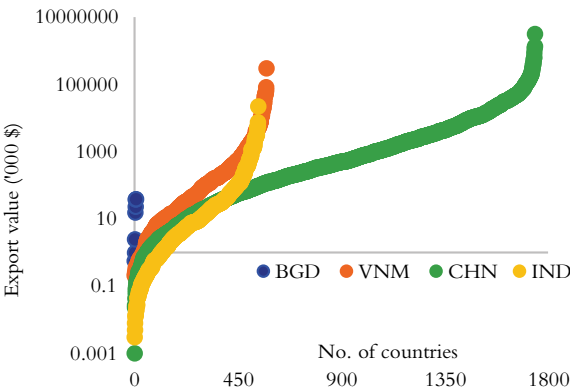
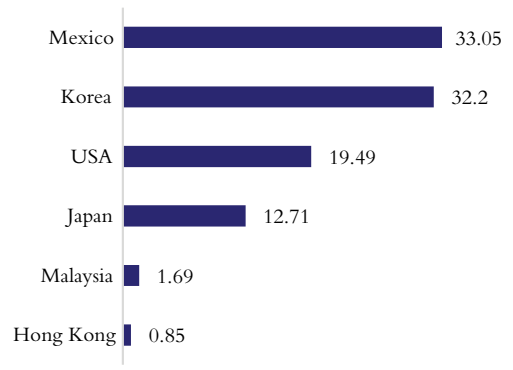


Figure 10.27: Bangladesh's major export destinations for HS 9401 (%)



Source and note: Authors’ analysis using UN Comtrade and EPB data. Here BGD, VNM, CHN, and IND stand for Bangladesh, Vietnam, China, and India respectively.

Quality of Bangladesh's furniture products

Ensuring product quality is a key determining factor of improved export performance. Customization and modernization of products, quality upgradation, product sophistication and differentiation and branding are associated with higher export demand as well as higher prices in both domestic and international markets. Utilising IMF methodology as discussed in the previous chapters, this section uses 'quality ladder' exercise to measure the relative quality of Bangladesh's furniture exports against all global competitor countries.

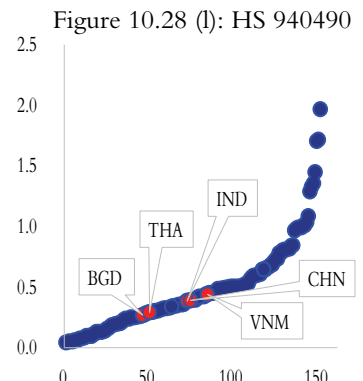
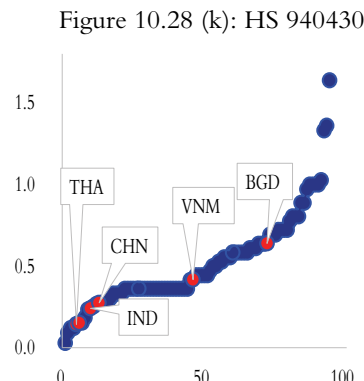
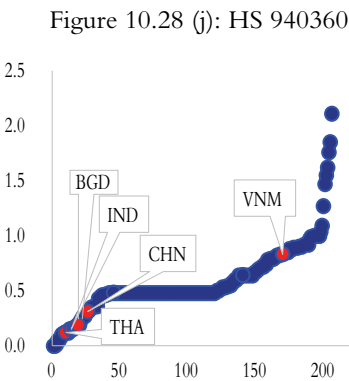
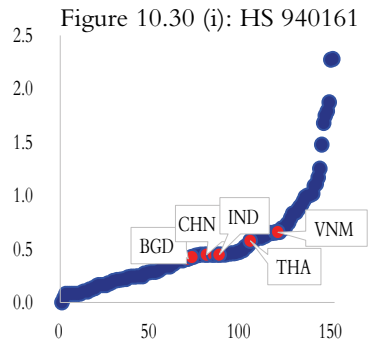
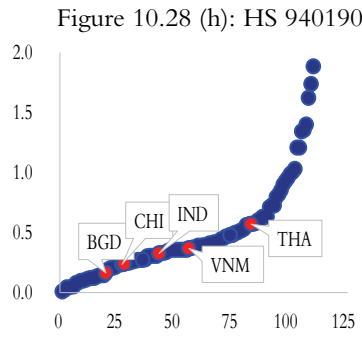
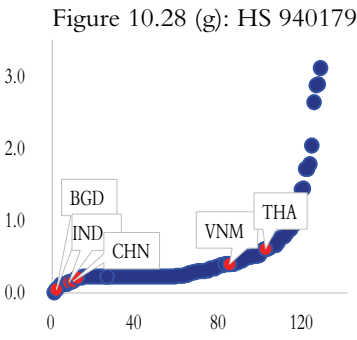
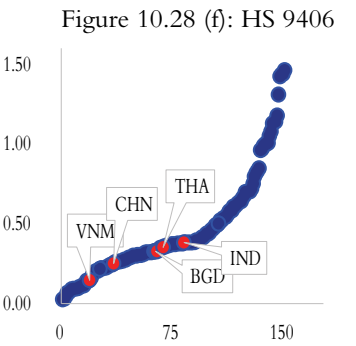
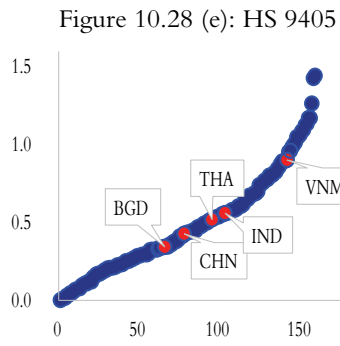
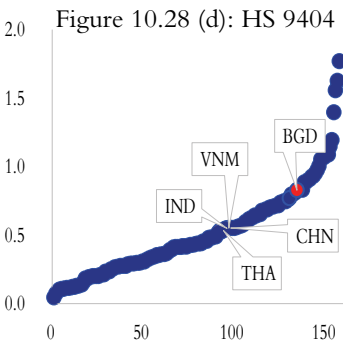
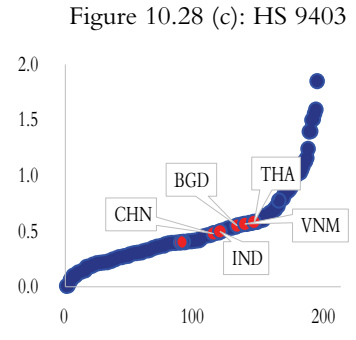
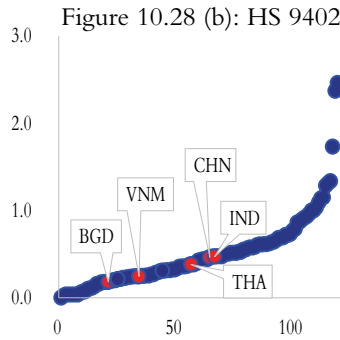
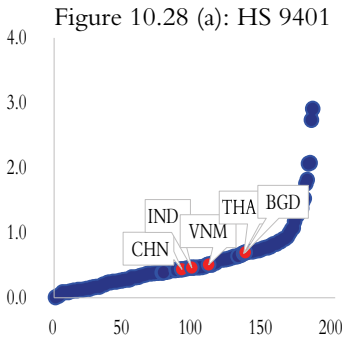
Quality of all furniture products in HS 4-digit code and some selected products with high export capacity at the HS 6-digit level have been analysed in Figures 10.28 (a)–10.28 (l). The measurement of the relative quality has been defined as the unit value of any product relative to the 90th percentile unit value of the same product across countries.¹¹ The 90th percentile of the unit values has been considered as the world standard. Higher values of the index correspond to higher quality levels. The closer is a country's position to the origin of the quality ladder, the lower is the quality and vice-versa. The total length of the quality ladder shows the potential for further quality improvement of a specific product. The analysis as presented in Figures 10.28 (a)–10.28 (l) provides mixed evidence in which some of the furniture products exported from Bangladesh are found to be of relatively high quality while others have to do considerable catching up to be at par with Asian comparators. Bangladesh appears to have very high-quality products in the category HS 9404, comprising mattress supports, articles of bedding, sleeping bags, etc.

In these items, Bangladesh is way ahead of its Asian counterparts such as China, India, Indonesia, Malaysia, Singapore, Thailand, and Vietnam, enjoying higher unit value prices. In HS 9401 and HS 9403, the relative quality is also quite impressive. For prefabricated building items (HS 9406) and lamps and lights thereof (HS 9405), Bangladesh is somewhere between its comparators. For these two categories, Bangladesh has the potential to perform better through quality upgradation and product sophistication. In HS 9402, Bangladeshi products occupy a position towards the lower end in the quality ladder, very close to the origin.

At the HS 6-digit level, in HS 940550 (non-electrical and light fittings) and HS 940430 (sleeping bags), Bangladesh are ahead of many Asian competitors. For wooden furniture excluding for homes, offices, kitchen, and seats (HS 940360), Bangladesh's relative unit values are higher than those of India and Thailand but are lower than many other suppliers. For all other products analysed such as HS 940179, HS 940190, HS 940161, HS 940490, and HS 940370, the quality of export products made in Bangladesh appears to be worse than that of most prominent comparators.

¹¹ Relative quality of a specific good of a specific country is defined as $R_{itc} = uv_{itc} / uv_{itc}^{90}$, where uv_{itc} denotes the unit value of *i*th good and *c*th country and uv_{itc}^{90} denotes the value at the 90th per centile of the unit value distribution across countries for that product.

Figure 10.28: Quality ladders of different furniture products



Source and note: Authors' analysis using ITC data. BGD, CHN, IND, THA, and VNM stand for Bangladesh, China, India, Thailand, and Vietnam respectively.

Overall, certain Bangladeshi export items, particularly mattress supports, articles of bedding and sleeping bags are of high quality and as such these products have great market prospects. In some other items (e.g., medical furniture, prefabricated building materials, and lamps and lights fittings, etc.), export unit values are low, reflecting their challenges with product quality issues. These products are relatively new export items for Bangladesh and their exports are quite small. If exporters manage to survive and stay on exporting, product quality can eventually converge to the levels of comparators. At the initial stage, new products can suffer from poor quality but overtime their unit prices improve. There can also be scope for proactive measures both at the firm-level (e.g., procuring good quality material, utilising improved technologies, and using more skilled workers) and national level (e.g., to provide support for workers' training) to help improve product quality and standards.

Assessing Bangladesh's export market prospects

China is the world's largest furniture exporter. But uncompetitive wages and shift towards more capital or technology-intensive manufacturing are likely to trigger a decline in China's dominance in the global furniture market. This may leave spaces for other countries including Bangladesh, whose share in the world furniture market is currently very small (0.03% in 2018). However, there is intense competition among emerging suppliers, including some of the prominent Asian suppliers such as India, Indonesia, the Philippines, Thailand, and Vietnam. This section includes market prospects analyses of Bangladesh's prominent furniture items in major export destinations. It uses the same methodology for market prospects as delineated in earlier chapters. The results have been summarised in Figure 10.29 (a)–10.29 (h).

First, the U.S. market is considered. It is the largest market of imported furniture (\$67.23 billion in 2017, approximately 30% of global furniture imports). The bubble sizes represent relative shares of various suppliers in the U.S. market with China having a share of more than half of the U.S. imports. From the horizontal axis, it can be inferred, China has grown its furniture exports to the U.S. at an average annual rate of 7–8 per cent, over the past five-year period (2013–2017). The information presented in the vertical axis shows that China's overall world export growth in furniture during the same period has been stagnant (i.e., close to zero per cent per annum). Vietnam, on the other hand, has a U.S. market share of close to 8 per cent with its exports in that market growing at a yearly average rate of around 15 per cent vis-à-vis its overall world export growth rate of about 11 per cent. India's share is 1.25 per cent, its exports to the U.S. has an average annual growth rate of 11 per cent as against of its world furniture export growth of just 5 per cent.

In contrast, Bangladesh's performance is rather weak in this market. With its current U.S. market share of just 0.02 per cent, Bangladesh has seen a negative export growth rate of 5 per cent. Although its overall global exports of furniture grew at an annual rate of above 10 per cent. Given that so many countries are doing well in the U.S. market (including Canada, Mexico, the Philippines), export market prospects in the United States are likely to be quite challenging. As many Asian suppliers are subject to most-favoured-nation (MFN) tariffs in the range 0–4.7 per cent, any other factors that contribute to cost disadvantages will seriously undermine competitiveness. High transportation costs and long lead time can also affect export performance. Since the U.S. is the largest importer, a more concerted effort is needed to explore export potentials further.

Figure 10.29 (a): Market prospect analysis for furniture in the U.S. market

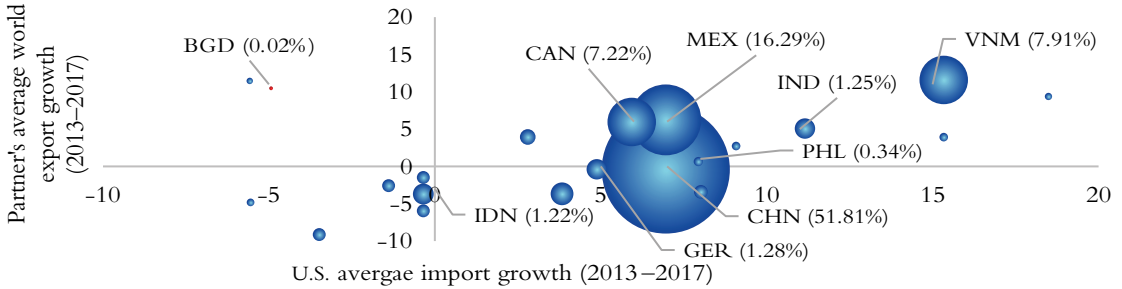


Figure 10.29 (b): Market prospect analysis for furniture in the EU market

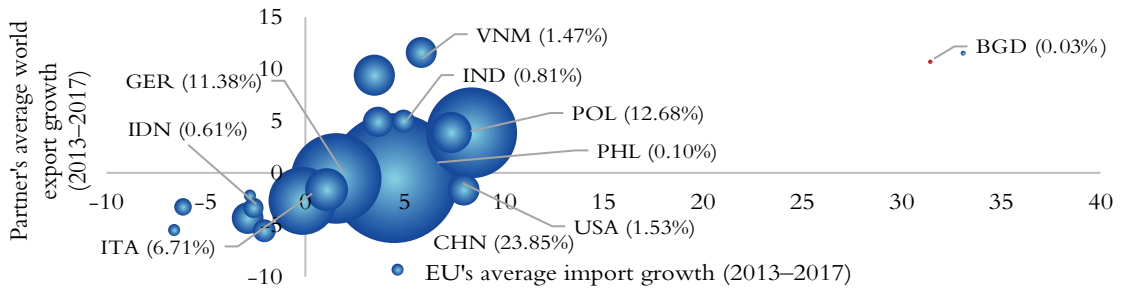
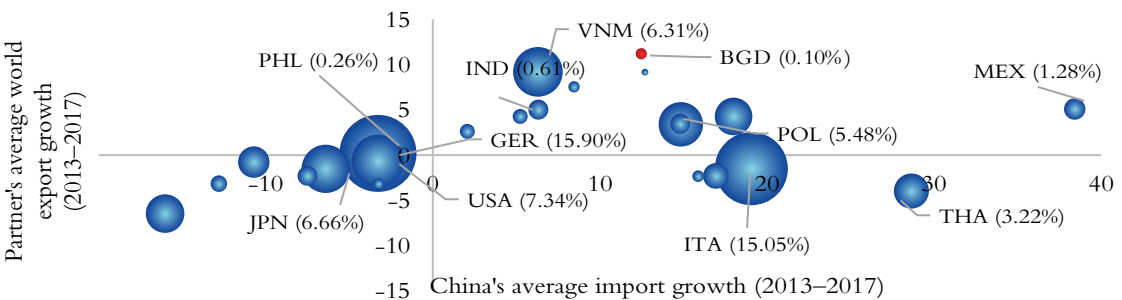


Figure 10.29 (c): Market prospect analysis for furniture in the Chinese market



Source and note: Authors' analysis using ITC data. Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, CAN—Canada, CHN—China, GER—Germany, IDN—Indonesia, IND—India, ITA—Italy, JPN—Japan, MEX—Mexico, PHL—the Philippines, POL—Poland, THA—Thailand, USA—the United States of America, and VNM—Vietnam.

In the EU market, the main suppliers are China, France, Germany, Italy, Poland, Sweden, the U.S., etc. Bangladesh's export to the EU is small, \$29.33 million in 2017, accounting for 0.03 per cent of total EU imports [Figure 10.29 (b)]. However, in the past five years, Bangladesh's furniture export growth to this market has been very high (about 31%), which is largely attributable to a low export base. Nevertheless, the growth seems to suggest a great prospect to expand furniture exports in the EU. Since EU MFN tariffs on furniture items are either small or non-existent, Bangladesh does not enjoy any tariff preferences in the sector. This means competition can be quite intense for gaining expanded market share.

China is another market where Bangladesh has seen a high average export growth over the past five years. Bangladesh's share in total Chinese furniture imports stood at just 0.10 per cent in

2017 [Figure 10.29 (c)]. Germany, Italy, Mexico, Poland, Thailand, the U.S., and Vietnam are amongst the major suppliers to China. Of these, Italy, Mexico, Poland, and Thailand have very strong growth with already sizeable market shares. On the other hand, Indonesia, Japan, the Philippines, and the U.S. experienced, on average, negative export growth in the past five years. The presence of all major suppliers indicates that the Chinese market is very competitive with product differentiation and sophistication are likely to be critical determinants of export success.

Figure 10.29(d): Market prospect analysis for seats and parts (HS 9401) in China

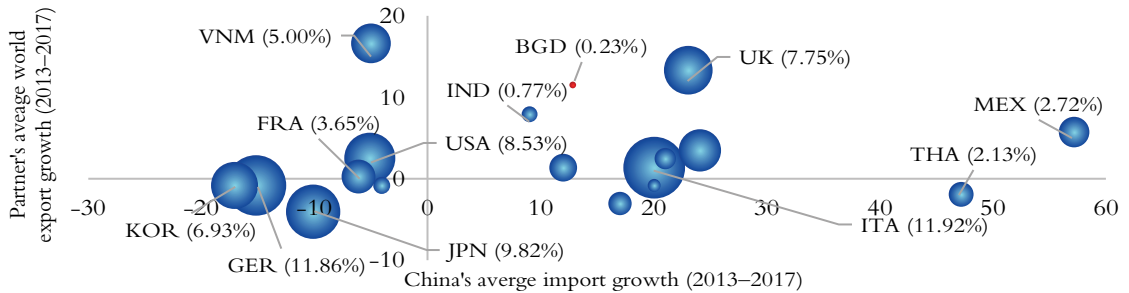


Figure 10.29 (e): Market prospect analysis for HS 9404 in the EU market

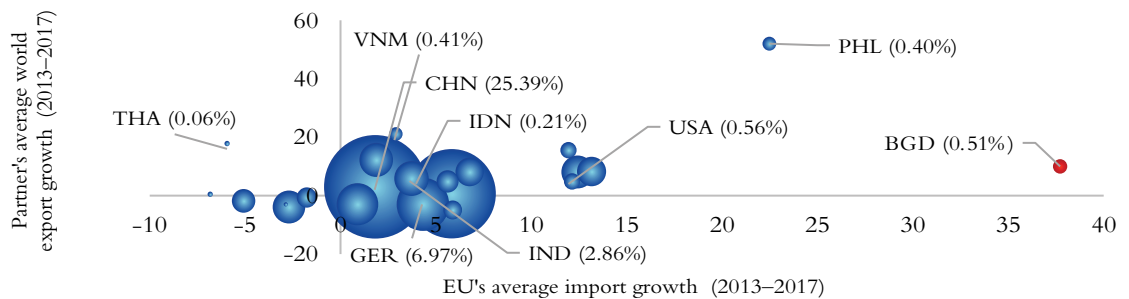
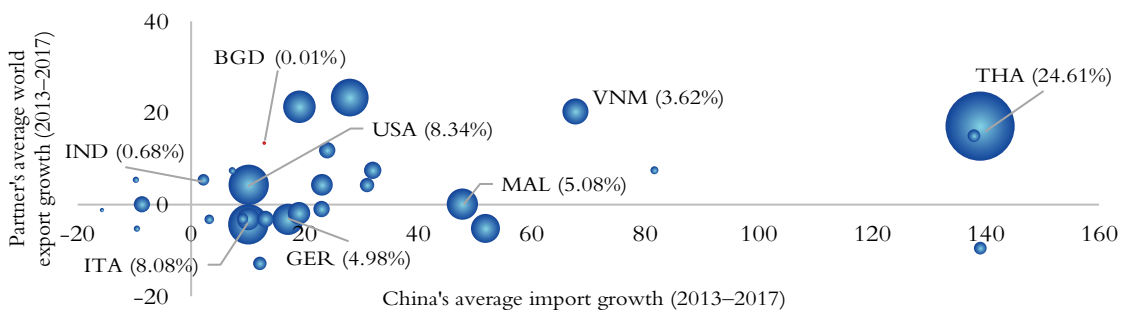


Figure 10.29 (f): Market prospect analysis for HS 9404 in the Chinese market

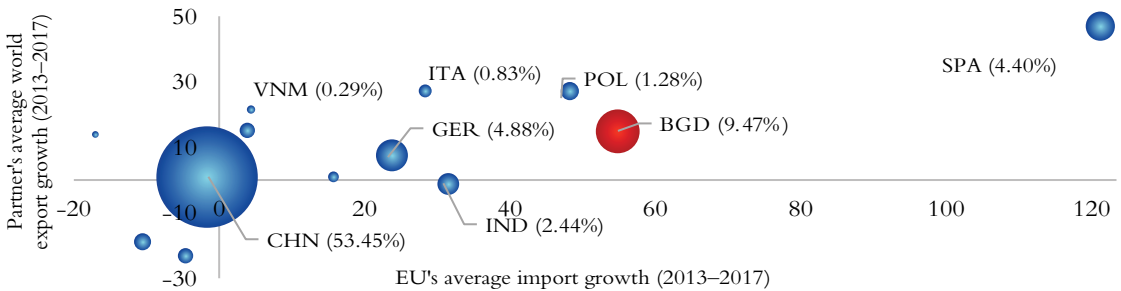


Source: Authors' analysis using ITC data. Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, CAN—Canada, CHN—China, FRA—France, GER—Germany, IDN—Indonesia, IND—India, ITA—Italy, JPN—Japan, KOR—the Republic of Korea, MEX—Mexico, PHL—the Philippines, POL—Poland, THA—Thailand, UK—the United Kingdom, USA—the United States of America, and VNM—Vietnam.

At the HS 4-digit level, for seats and parts thereof (HS 9401), during 2013–2017, Bangladesh's annual average export growth to the U.S. and China was 4 per cent and 13 per cent respectively.

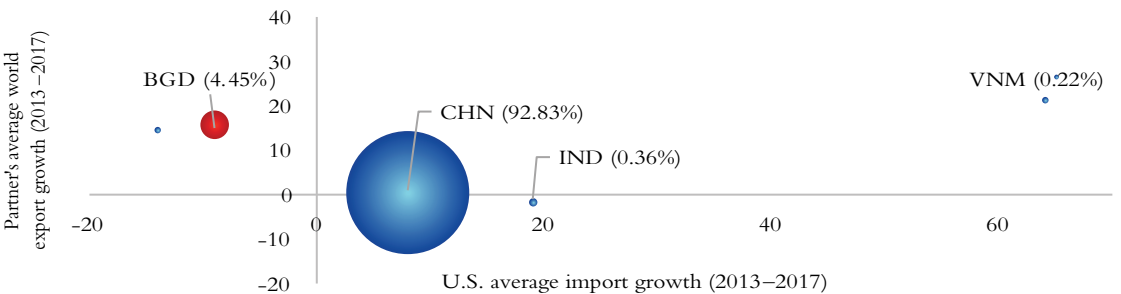
The market shares remain small, particularly in the United States. Nevertheless, both markets are very important for this item. The export growth to the EU market for this product was negative in recent times. Analyses suggest that Bangladesh has exhibited very high growth in HS 9403 category in the U.S. and the EU while market shares remained minuscule (less than 0.01%). And for HS 9404 (mattress supports and articles of bedding), Bangladesh has promising market prospects in China and the EU as the average export growth to these countries in the past five years has been very high [Figure 10.29 (e) and 10.29 (f)]. At the same time, the outlook for the U.S. market appears to be less than enthusiastic for the products under HS 9404 (negative growth). Market analysis of the products at a more disaggregated level shows that Bangladesh has a high potential for expanding exports in HS 940190 in the U.S. and Chinese markets; average export growth during 2013–2017 was about 35 per cent and 13 per cent respectively. But again, market shares have been small (0.01% and 0.40%).

Figure 10.29 (g): Market prospect analysis for sleeping bags in the EU market



Note: Bangladesh’s market share for sleeping bags (HS 940430) in the European Union was 9.47 per cent (the second-largest exporter to the EU) in 2017. Although the average export growth of sleeping bags was about 55 per cent between 2013 and 2017, it was characterised by high fluctuations. The export growth during the last five years was about 60 per cent, 105 per cent, 30 per cent, 35 per cent, and 44 per cent respectively.

Figure 10.29 (h): Market prospect analysis for sleeping bags in the U.S. market



Source and note: Authors’ analysis using ITC data. Bubble sizes represent market shares. Countries are indicated as BGD—Bangladesh, CHN—China, GER—Germany, IND—India, ITA—Italy, POL—Poland, SPA—Spain, USA—the United States of America, and VNM—Vietnam.

Finally, for sleeping bags (HS 940430) which account for more than half of all furniture exports, Bangladesh is the second-largest exporters in the EU with a market share of 9.5 per cent in 2017; the country exported \$24 million to EU countries [Figure 10.29(g)]. Bangladesh is also the second biggest seller to the U.S. market (with 4.45% market share), but it is a matter of concern that export growth in this market in recent times has been negative [Figure 10.29 (h)]. However,

in the Chinese market, Bangladesh's share remains small. Overall, sleeping bags appear to be a product where Bangladesh is likely to expand exports significantly.

Bangladesh's furniture industry: positioning on the global value chain landscape

Export market prospects these days are critically dependent on a country's positioning on the so-called global value chain (GVC) landscape in respective consumers' products. The value chain captures the entire range of activities (including manufacturing and services) that are needed to bring a product from its conception to end-use and beyond. This includes activities such as design, production, marketing, distribution and support to final consumers.¹² Fundamental changes have taken place in global trade in which the traditional concept of an entire production process being undertaken by one firm in one country has been replaced by the GVC-led trade. This process involves cross-border fragmentation of production processes, which entails specialisation in a narrower range of tasks by firms organised within global production networks (Razzaque & Keane, 2016). Given the limited production capacity of many developing countries, integrating with GVCs may provide new trade opportunities for local firms to gain access to new markets through specialising in a single task.

An example of GVC-led trade in the context of the furniture industry is that firms located in a developing country could focus only on manufacturing activities while research and design (R&D) for product development being provided by global big brands or importers in developed countries, raw materials being imported from a third country, and marketing and after-sales-services provided by others in countries where consumers are located.¹³ An analysis of furniture production processes shows that Bangladesh is mainly involved in making final furniture products using various imported materials. This stage of the global supply chain is relatively labour-intensive and, being a labour abundant country, Bangladesh should have some natural comparative advantage in this activity subject to the availability of skilled manpower needed for the industry. However, to succeed in furniture export markets, it is almost inevitable for local manufacturers to be connected with global brands and importers. Recent export success stories, e.g. Vietnam, demonstrate taking advantage of GVC-led trade by integrating local manufacturing processes with global importers. Along with domestic manufacturing capacity, the issues of product, labour, and environmental standards have become critical success factors (Kaplinsky et al., 2003). Various international certification systems are in operation and most SME furniture makers in Bangladesh have difficulties in familiarising with and making use of them.

One issue is that the manufacturing stage within the global value chain is known to be generating only a small value in proportion to final retail prices. In general, activities related to R&D, design, brand development, and marketing occupy relatively greater shares in overall industry value-added. It is, however, true that at early stages, it is very difficult to develop a specialisation in these activities. With increased integration into global value chains, the likelihood of moving up the value chain increases as exporters grow contacts, acquire relevant technologies and develop human resources to perform high-value-added services tasks such as designing, branding, and marketing.

¹² This definition of global value chain is taken from <https://globalvaluechains.org/concept-tools>.

¹³ Bangladesh's apparel exports are a prime example of GVC-led trade.

Box 10.1: IKEA—A global value chain-based furniture supplier

IKEA, established in the 1940s in Sweden, started off with the aim of providing home furnishing products at affordable prices. Overtime, it has grown rapidly with its ready-to-assemble furniture, kitchen appliances and home accessories becoming popular. Currently, the multinational operates more than 415 stores in about 50 countries with annual sales more than \$40 billion, employing around 154,000 workers. It is estimated that the company is responsible for approximately 1 per cent of world commercial consumption. The company website contains above 12,000 products, and in 2016 the website itself has been visited over 2.1 billion times.

IKEA invests significant amount of resources on R&D as well as design. A high percentage of the company's profit is spent on these activities. Designs are done by in-house employees while newer designs are often initiated by contracted designers. It releases about 2,500 new products every year under its brand name (IKEA). Most of its final furniture items are produced in developing countries to take advantage of lower labour costs. Along with them, European countries such as Italy, Lithuania, Poland, and elsewhere China, the United States, and Vietnam are the major producers and suppliers (Renda et al., 2014). All furniture items are produced in different locations with designs provided by IKEA. Other supply chain activities such as distribution, marketing and after-sales-services are entirely done by IKEA.

Source: IKEA.com

Globally acclaimed furniture brands capture a significant proportion of export market operations. Most of these brands are operating in the upper stream of the global value chain with the involvement of low cost labour-intensive developing countries at the manufacturing stage. They are exporting both to the developed as well as developing countries by setting sales stores, manufacturing facilities, subsidiary companies, etc. One way of breaking into the global export market is to be part of their supply chains. Appropriate policy support, industry capacities in delivering quality products, compliance with the required standards, and price competitiveness are likely to be important determinants of attracting the relevant FDI that can facilitate the participation of local furniture firms in the global value chains.

10.5 Realising the Potential of Furniture Exports: Options for Policy Support

Contingent upon the dynamics in the world market along with the availability of raw materials (including those imported) and relatively low wages of workers, many analysts view that the furniture sector can be transformed into a billion-dollar export industry for Bangladesh. Indeed, considering its potential, the sector was included amongst the 'high priority sectors' in the national Export Policy 2015–2018. Although the response has been somewhat encouraging, the sector has not really taken off to establish a solid base and to contribute to overall export basket diversification. With a view to strengthening the sector and realising its potential, some policy options are considered below.

Enhancing supply-side capacities

Boosting supply-side capacities should be a key consideration in expanding exports. Furniture comprises a wide variety of items and a country like Bangladesh may not have a competitive advantage in all categories. The dynamics associated with the global demand for different furniture items also vary considerably. For Bangladesh, the single most dominant furniture item is sleeping bags (with an export value of \$31.82 million in FY18 in total furniture exports of \$63.18 million). The success of this specific product is largely attributable to the competitive

advantage arising from a strong backward linkage industry, as the raw materials used come from the apparel sector. The global export market for sleeping bags is, however, small: less than \$600 million.¹⁴ On the other hand, Bangladesh does not have much presence in many dynamic items that are growing rapidly in the global market. Within a decade, the global market for lamps, lighting fixtures and parts thereof (HS 9405) experienced more than a three-fold increase. While Vietnam captured a significant portion of the global furniture market by specialising in these items, Bangladesh's export supply response has been extremely limited.

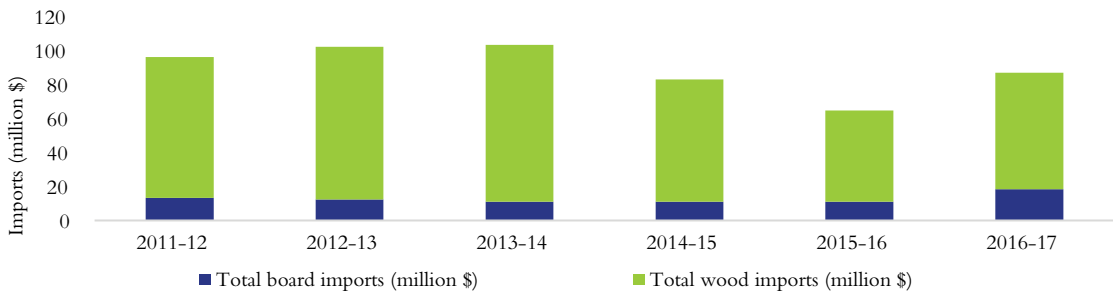
Two other furniture categories with high growth potentials are seats, beds, and parts thereof (HS 9401) and different types of furniture (e.g. wooden, steel, metal, etc.) (HS 9403). Global exports of both these categories rose significantly, but Bangladesh has not been able to register a solid market presence as reflected in its volatile export earnings from these items. This is despite the fact that production activities associated with HS 9401 and HS 9404 are labour-intensive.

Most of the furniture manufacturing firms are small and medium enterprises (SMEs) and highly dependent on imported raw materials. They are not well-connected with global markets for final goods as well as input supply sources. Many of these firms express their concerns about import duties on imported raw materials while in reality, such imports for export production should be eligible for either the duty drawback scheme, allowing exporters to claim back duties paid on intermediate inputs, or bonded warehouse facilities, letting exporters import materials duty-free through secured facilities supervised by customs authorities. Furniture firms are apparently facing difficulties in accessing these facilities and many of them are also unfamiliar with the provisions. Given the nature of the sector, uninterrupted and timely availability of raw materials is one of the most important preconditions for export success. This issue deserves special attention for expanding export supply capacity particularly in HS 9401 and HS 9403 furniture items.

Easy access to raw materials can help facilitate domestic firms' participation in GVC-led trade. Many small and medium furniture enterprises need critical support in establishing their contacts with global buyers. Their familiarisation with exporting procedures and participation in international furniture fairs can be immensely helpful in this regard. In addition, export-oriented furniture manufacturing SMEs can be supported to secure their presence through online sales platforms (such as Alibaba.com) to better appreciate the demand for topical items, price, and quality competitiveness, practices and procedures involving modern business activities.

Ensuring a large supply-side capacity in an industry like furniture is possible only by creating strong backward linkage activities and supply chains. A critical constraint is the shortage of raw materials from domestic sources and the ensuing heavy dependence on imported capital goods and raw materials. Several large and medium-sized enterprises in Bangladesh have already invested in heavy machinery and during some factory visits as part of this study, the process of utilising more technology-intensive production processes and automation was quite evident. However, most small enterprises are slow in embracing modern techniques.

¹⁴ This is according to the information obtained from the International Trade Centre (ITC) database.

Figure 10.30: Wood and different types of board imports by Bangladesh

Source: Authors' presentation using Bangladesh Bank data.

In terms of raw materials, there is a huge demand for various types of wood boards (e.g. plywood, veneered board, and MDF). Although there are some local firms that produce these products, domestic production is not able to keep pace with the growing demand. Furthermore, the production of wood is decreasing over time due to limited forest resources. Bangladesh's total imports (both wood and different types of boards) stood at \$87 million in 2016–17 (Figure 10.30).¹⁵ In 2016–2017, Cameroon (26%) was the main source of imported woods followed by Myanmar (23%). Other sources were Liberia (9%), Suriname (8%), and the U.S. (7%). On the other hand, China (35%) was the dominant supplier of different types of boards followed by Malaysia (22%) in the same year. Other major suppliers of boards are India (10%), Malaysia (9%), and Vietnam (6%). Fittings and furnishing, two vital segments in the furniture production process, also rely mostly on imported products and raw materials. Therefore, export-oriented furniture firms will require uninterrupted supplies of these items. Development of backward linkage industries as well as readily available imported materials at world prices should be important considerations in expanding overall supply capacities. Appropriate policy support can facilitate this process, and this is discussed further below in this section.

Attracting FDI in the export-oriented furniture sector

As discussed earlier, participation in global value chain-led international trade can be an important determinant of export success. Integration with GVCs most often takes place through FDI. In the value chain process, mother firms or multinational corporations focus on R&D, branding, and marketing while manufacturing takes place in developing countries through FDI-driven capital and technical know-hows. For establishing direct contacts and business relationships with global brands and retailers, the role of FDI is indispensable. Skill upgradation, improved productivity, positive spillover effects arising from knowledge and technology transfers and better management practices are some of the direct impacts of FDI participation. The spillover effects can also benefit the local firms (i.e., those without foreign investments), paving their way for integrating with GVCs.

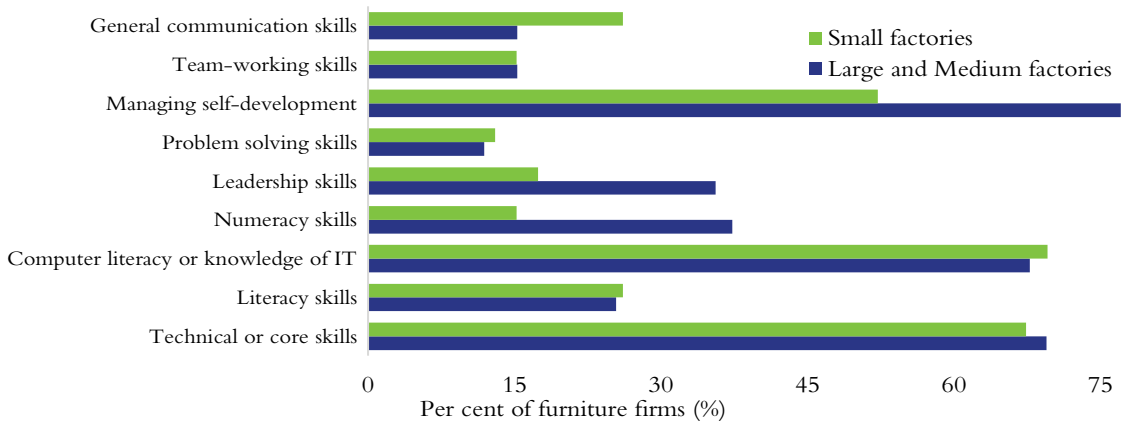
¹⁵ Wood is defined as the sum of wood in rough (HS 4403) and wood sawn/chipped lengthwise, sliced, etc. (HS 4407) whereas different types of boards include wood wool (HS 4405), sheets for veneering (HS 4408), particles and similar boards (HS 4410), fibreboard of wood (HS 4411), plywood veneered panels (HS 4412) and densified wood in blocks plates, etc. (HS 4413). Considering Figure 10.30, it is difficult to explain why imports fell in 2014–15 and 2015–16. These data are in value terms. The quantities imported cannot be inferred.

Attracting FDI, particularly in the export-oriented furniture sector can be a big boost for export growth and diversification. Availability of backward linkage activities—either through domestically sourced or imported raw materials—attractive incentives for investors and cheap labour should make furniture industry in Bangladesh an attractive sector for FDI provided that the excessive cost of doing business can be tackled. Currently, information on FDI by small sectors such as furniture is not readily available.¹⁶

Addressing the problem of shortage of skilled labour

The furniture industry, being a labour-intensive sector, faces a critical shortage of skilled workers and managers with the knowledge and exposure of production practices in modern factories. This is a major constraint for many manufacturing units in expanding their supply capacities. In the World Bank Enterprise Survey (2013), one in every four firms in the furniture sector reported inadequately educated and trained workforce as a major constraint affecting production. The same survey found that only about 20 per cent of firms offered formal training facilities to improve workers' productivity and product quality. The situation seems to have not changed much. According to a more recent survey and analysis, the most essential skills required in the manufacturing process such as general communications, team-work, self-development, problem-solving capacity, leadership, numeracy, computer literacy, and technical knowledge and experience are seriously lacking among the furniture industry workforce (CTI, 2017).

Figure 10.31: Particular skill type shortages as reported by firms



Source: Authors' presentation using CTI Furniture Sector Survey (2017) data.

The survey found that skill shortage is more acute for large and medium firms compared to small establishments (Figure 10.31). It is reported that about half of the large firms and a quarter of medium factories find it difficult to recruit skilled labour in the positions of machine operators, carpenters, designers, varnishers, and sprayers. Research undertaken as part of this study reveals that in some cases where engineering graduates and diploma engineers were available to work in the industry, their training hardly matched the skillset needed for actual factory operations. On the other hand, it is also a problem that the furniture industry could not attract the most

¹⁶ Bangladesh Bank does not maintain the overtime FDI inflow in furniture owing to its very poor amount.

competent graduates. According to the CTI Furniture Sector Survey (2017), the skill gap resulted in low productivity, high wastage, and consequently loss of competitiveness. As many as 80 per cent of the firms surveyed identified low productivity due to the shortage of skilled workers as an obstacle facing the industry. Almost two-thirds of the surveyed factories attributed wastages and increased costs to the lack of trained workers.

There exists a very limited scope for training facilities as well as skill development programmes for furniture professionals. Although large and medium enterprises have training facilities within the firms, small firms have no such facilities. About 90 per cent of large firms and one-third of medium firms reported on-the-job training and apprenticeship available with costs of these facilities being quite expensive (CTI, 2017). UCEP Bangladesh, through its technical and vocational education and training (TVET) programmes, provides some training facilities for wood machine operators, woodworking and lacquer polishing. Around 20 per cent of firms in the CTI Survey (2017) mentioned employing labourers trained from UCEP. Some private universities are also offering courses on furniture design. However, these training facilities are not adequate to provide for the required number of skilled workers in the sector. As the National Skill Development Policy (NSDP) aims at enhancing Bangladesh's competitiveness in the global market through improved skills by establishing national and vocational qualification framework (NTVQF), the need for furniture industry should be given priority within this framework. Industry stakeholders are also considering the need for setting up a training and design institute dedicated to the furniture sector.

Ensuring the relative profitability of export-oriented furniture sales

One of the issues often not appreciated well in the policy discourse is that domestic sales do compete with export supplies. As such, policy measures that help make the domestic market more profitable can discourage exporting activities. In its simplest terms, if the profitability out of local sales is higher than export orders, firms will tend to focus on home consumers. The relative attractiveness of the markets is affected by trade policy measures. Under a protective policy stance e.g. in the presence of high tariffs, local sales can be very attractive. When the supply-side capacity is small, higher profitability in the domestic market will make firms inward-looking.

Bangladesh's main furniture export products are under HS 9403 and HS 9404, as mentioned earlier. For HS 9403 (different types furniture made of wood, metal, plastic, bamboo, rattan, and cane, etc.), 5 per cent to 25 per cent customs duty (CD), up to 20 per cent supplementary duty (SD), 15 per cent value-added tax (VAT), 5 per cent advance income tax (AIT), up to 3 per cent regulatory duty (RD) along with 4 per cent advance trade VAT (ATV) are imposed. These rates are almost similar for HS 9404 (different types of mattresses used for various purposes). The estimated total tax incidence (TTI) ranges between 31 and 89 per cent for HS 9403 and between 58 and 89 per cent for HS 9404 (Table 10.4).

This implies that the domestic market for these products is highly protected. Ideally, the nominal rate of protection is determined by customs duties only, but in the context of Bangladesh, it has been shown that such taxes as SD, RD and even VAT also have some protective content in the sense that these duties are not applied equally to domestically produced goods. Consequently, prices in the domestic market can be much higher than world prices. It is not only peculiar to the

furniture industry, rather a similar situation prevails in almost all sectors. Indeed, a fairly robust output growth under a highly protective environment for domestic import-competing industries has been a salient feature of Bangladesh's economic development over the past two decades or so. It has been suggested that Bangladesh imposes the highest average rate of tariffs on imports when compared with that of other Asian developing countries, and during 2013–2017, Bangladeshi consumers paid a staggering \$71 billion over and above international prices (Sattar, 2018). That is, domestic prices of comparable products are higher than world prices that exporters can earn.

Table 10.4: Taxes and duties on furniture imports to Bangladesh

HS code	CD	SD	VAT	AIT	RD	ATV	Total Tax Incidence (TTI)
9401	25	0–45	15	5	3	4	89.4%–127.8%
9402	5–10	0	0–15	5	0	4	15.3%–37.1%
9403	5–25	0–20	15	5	0–3	4	31.1%–89.4%
9404	25	0–20	15	5	3	4	58.7%–89.4%
9405	5–25	0–45	15	5	3	4	15.3%–127.8%
9406	1–25	0	15	5	0–3	4	26.3%–58.7%

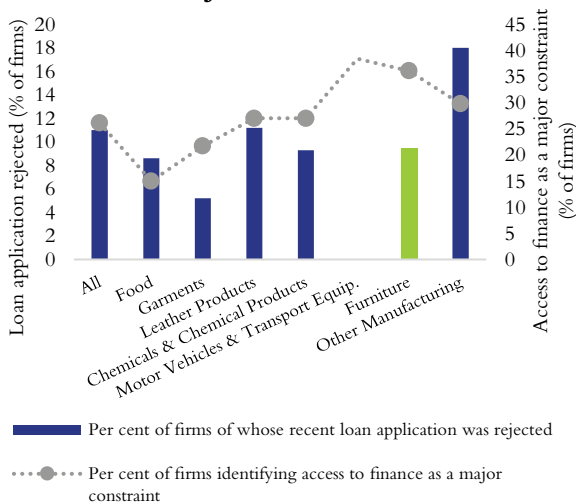
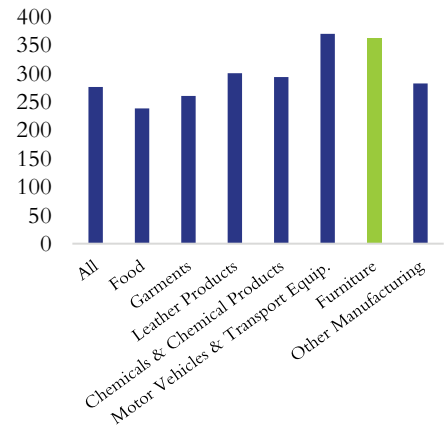
Source and note: Authors' presentation using National Board of Revenue (NBR) data. Retrieved from www.bangladeshcustoms.gov.bd. CD = customs duty, SD = supplementary duty, VAT = value added tax, AIT = advance income tax, RD = regulatory duty, ATV = advance trade VAT.

A booming domestic economy will certainly be an important source of revenue for firms. However, policy measures (such as high tariffs) can discourage exports especially when supply-side capacities are limited. This will become even more pronounced when trading costs are high. Infrastructural bottlenecks, troublesome inland road transportation, and weak trade logistics—all contribute to trade costs discouraging exports. Another policy-induced disincentive for exporters is the appreciation of the real exchange rate which undermines a country's external competitiveness. In the past five years, taka appreciated by more than 50 per cent in real terms.

The 7th Five-Year Plan of Bangladesh (FY2016–FY2020) highlights the policy-induced anti-export bias against the overall export sector and calls for rationalisation of high tariffs and para-tariffs to enhance the efficiency of the producers and create a pro-export motivation among the entrepreneurs. Nevertheless, policy reversals to accord net policy incentives to exporters have proven to be a difficult task and overtime the anti-export bias seems to have increased. Given the current tariff regime, it is almost impossible to consider an equivalent export policy support to neutralise the policy bias.

Difficulties in accessing finance

Like many other sectors, access to finance is a major constraint for furniture entrepreneurs. The time needed to get loans approved and involved procedures is another problem. In the World Bank Enterprise Survey (2013), more than 36 per cent furniture firms reported access to finance as a major constraint hampering their production and business. At the same time, the value of collaterals needed for a loan to be sanctioned for a furniture firm was on average 361 per cent of the loan amount—one of the highest among manufacturing industries (Figures 10.32 and 10.33). Furthermore, because of the informal nature of operations, most of the firms do not have access to loans sanctioned by financial institutions.

Figure 10.32: Access to finance as a major constraint**Figure 10.33: Value of collateral needed for a loan (% of loan amount)**

Source: Authors' presentation using World Bank Enterprise Survey (2013) data.

To provide improved financial access for exporters, the Export Development Fund (EDF) operated by the Bangladesh Bank offers trade finance at 7 per cent annual interest rate. 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 payment risk policies. The use of these schemes and their access by different types of export firms need to be reviewed. In these funds, how the need for the potential export sectors like furniture can be prioritised should be given due policy consideration. Furthermore, collateral requirements against loans for the export-oriented furniture firms need to be rationalised.

Quality upgradation, product sophistication, and positive branding

Improved quality, sophistication, and standards of products are important for global competitiveness. Reliable supply response of quality products attracts buyers and investors and helps to move up the global value chain. Sustained export performance greatly depends on product quality and sophistication. As discussed above, in the export category HS 9404—mainly in sleeping bags—Bangladesh seems to have products that are of outstanding quality. Bangladesh also exports some relatively high-value products under different types of seats (HS 9401).¹⁷ However, its export performance is not stable; largely because of small export volume. Here, the supply-side capacity could be a major problem. In other furniture products, e.g., prefabricated building items, lamps and lightings, and medical furniture, the unit value prices received by Bangladeshi exporters are much lower than those of many other Asian comparators, indicating product quality disadvantages. It is, however, worth pointing out that export supplies in these categories are so small that the industry has not had a chance to develop product maturity.

¹⁷ It is worth pointing out here again that in this study quality is assessed using the relative unit value prices of the same products supplied by different countries.

As improved quality is generally associated with higher prices, there is a need for providing attention to this area. Product quality is linked with design, technology adaptation, and the quality of raw materials used in production. Workmanship and workers' skills are also important, particularly for many wooden products. While a number of medium to large furniture factories have invested in modern technologies as well as improved raw materials, an overwhelming majority of factories do not have the means for undertaking the required transformations.

Building domestic capacity in product design through training of professionals and workers, spending on market and product research and development (R&D), and developing brands are also important. Currently, there is no product design institute for the furniture industry and apart from a few relatively large enterprises, the scope of on-the-job training is also limited. As a result, only few firms proactively look for furniture export opportunities.

It must also be noted that in today's world, product quality is intimately linked to various global standards and compliance issues. Big brands are increasingly moving towards developing supply chains that comply with very rigorous labour and environmental standards. International certifications such as ISO 14001 for environmental sustainability and ISO 45001 for occupational health and safety standards have become an integral part of product quality and higher export prices. Upgrading the country capacity in this direction will be critically important for future export prospects. In fact, positive branding backed by effective monitoring of the relevant standards can help establish the credibility of the country as a responsible source of supplies, attracting reputed international buyers.

Exploring new markets and supporting new and existing export relationships

Bangladesh's furniture export is highly concentrated both in terms of products and markets. As discussed above, the market reach of furniture items is very narrow compared to Asian comparators. For the topmost three items—at the HS 4-digit level namely beds and mattress supports (HS 9404), furniture and parts thereof (HS 9403) and different types of seats (HS 9401)—more than 60 per cent of each product is exported to only two markets.

The high degree of product and market concentration poses a serious constraint to export expansion. To expand exports, new market opportunities should be explored immediately. Besides, the meagre presence in traditional export destinations needs to be looked into. The market prospect analysis in the previous section shows that Bangladesh has good prospects for certain furniture items in the markets of China, the EU, and the United States. These markets should be prioritised for expanding exports. It can be quite challenging for Bangladesh to explore and establish export relationships with comparatively newer markets. A comprehensive assessment can be undertaken to explore markets with high potential for exporting and to identify the reasons for the low presence or absence of Bangladesh in these markets.

Exploring new markets requires strong policy support. There is a need for export promotional measures to shift the focus from highly competitive traditional markets and to find new export market opportunities. This will enormously benefit new and existing exporters to increase survival rates during the first few years after beginning to export. Export incentives schemes should be strengthened to make all these happen. Hosting international furniture exhibitions

both at home and abroad and at a higher frequency can play a critical role in attracting buyers/importers. Bangladeshi furniture producing firms can participate in international furniture fairs, trade fairs, and expos with a view to showcasing their furniture products. To help make all this effective, the role of policy incentives can be an important trigger. In the context of other countries, e.g. in Vietnam, furniture producing and exporting firms receive very generous assistance to participate in and establish pavilions in international fairs, in addition, to support for airfares and the cost of organising any workshops (VIETRADE/ITC, n.d.).

Box 10.2: Bangladesh Furniture & Interior Décor Expo, 2018

Since its inception in 2012, the 5th Bangladesh Furniture and Interior Décor Expo, 2018 (BFID, 2018) was held on 13–15 May 2018 in the International Convention City Bashundhara (ICCB), Dhaka. A total of 10 furniture producing and exporting firms participated in the fair showcasing their products. The primary objective of arranging this kind of fair is to exhibit the furniture items with new, modern, and customised designs. International buyers can participate in the fair and get the necessary information and thereby establishing contact with exporting firms. Facilitation of direct interactions between buyers and sellers are made possible through these fairs while the firms can also get export orders during the fair.

With a view to analysing the global cost competitiveness of Bangladeshi furniture exporting firms, data on per unit prices for a number of selected furniture items were collected from the BFID (2018). To make comparisons with other exporting comparators of Bangladesh, Alibaba.com was used for extracting information on those selected furniture items produced in different countries. The assessment seems to suggest that the product variety of Bangladeshi items is rather limited. Notwithstanding, Bangladeshi furniture exporters have the capacity to export most furniture types with specific designs. Moreover, in certain cases Bangladesh appears to have some cost competitiveness compared to its comparators' supplies. However, supplies from Alibaba.com offer shipment of products to the customers. This is an area where Bangladesh has disadvantages due to difficulties associated with inland transportation and inefficient port infrastructure and handling. The information provided in such online platform as Alibaba.com should be given careful consideration in understanding the competitiveness of the local industry as well as various types of support measures needed to boost Bangladesh's competitiveness further.

Source: Authors' analysis.

Strengthening clusters for furniture sector-related activities

Although furniture firms in various locations exist in clusters, most of these establishments lack adequate, effective and well-functioning infrastructure. This is particularly true for small firms. The clustering of firms with the objective of export expansion requires facilities that will help attract foreign buyers by providing them with a positive impression about the depth of industry, complementarities that firms can enjoy from being located nearby (agglomeration economies), reliable quality of products and timely delivery of orders. Currently, most localization of firms is centred around selling for the domestic market with the main emphasis being given on showcasing available products (e.g. in the form of showrooms only). The business of exports will, however, need to build buyers'/importers' confidence in the whole production chain.

The clustering of firms can be supported within the special economic zones (SEZs), which are currently being set up by the Bangladesh Economic Zone Authority (BEZA). This can help resolve the infrastructure-related problems of many small and medium-sized firms. One advantage of Bangladesh's SEZ development strategy is that it accommodates both exporting as

well as domestic market-oriented firms. This is particularly helpful for an industry like furniture that is experiencing rapid growth in the domestic market while at the same time having promising export potential. Among others, the benefits of clustering are knowledge-sharing, positive spillover effects on procuring, using and mastering state-of-the-art technologies, possible improved access to finance (as the financial institutions will also be encouraged by the depth of the overall industry and the position of the concerned firm in it); increased likelihood of sub-contracting—particularly in connection to export orders; greater attractiveness for skilled labour; etc. SEZs are supposed to be served by better connectivity with ports and inland transportation systems. Therefore, the time and cost of international trade can be lowered adding to promote industrial competitiveness.

Complying with environmental standards for export success

Environmental standards are becoming an important determinant of export success. Growing awareness and demand for protecting the environment by using environment-friendly, renewable and recyclable products have important implications for the furniture industry. Various international market surveys seem to suggest that consumers in Europe and North America are willing to pay higher than the usual prices for furniture products satisfying sustainability and environmental standards. That is, production with low CO₂ emissions, environmentally responsible manufacturing activities, use of recycled and recyclable products as well as materials, and sustainably managed forest resources as sources of woods are now essential ingredients of marketing success in many developed countries. Leading world brands are increasingly becoming more demanding about being compliant with environmental standards. Therefore, to succeed in the global export markets, more attention should be given to meeting relevant standards such as the use of recycled and recyclable raw materials, the use of woods certified by Forest Stewardship Council (FSC),¹⁸ environment-friendly waste management process, use of eco-friendly varnishes and glues, etc.

It has been argued that while tariff reductions in importing countries led to a decline in entry barriers for exporting firms from developing countries, but the growth of various forms of certification brought in new ones (Kaplinsky et al., 2003). These predominantly relate to processing characteristics (rather than products) and include quality standards (ISO 9000), labour standards (SA 8000), and environmental standards. According to Kaplinsky et al. (2003), in the case of furniture industry, there is an additional requirement of ISO 14000, which is a wood-sector specific standard (Forestry Sustainability Council, FSC) that relates to environmental practices throughout the chain, whereas ISO 14000 only certifies processes within particular links in the chain. As these standards are becoming increasingly important for global retailers, capacity building in these areas is required for future export success. Many relatively new exporting firms, particularly those from Vietnam, have been successful by adopting and implementing these policies and global standards on environmental issues. This has largely been facilitated by foreign direct investments that are well-linked with the global markets and are well-versed in all aspects of trade compliance.

¹⁸ Established in 1993, Forest Stewardship Council (FSC), an independent, non-profit and non-government organisation, is continuously taking proper initiatives to promote environment-friendly, socially beneficial, and economically efficient management of global forests. Currently, Forest Stewardship Council (FSC) is operating in more than 80 countries. For more details, see <https://ic.fsc.org/en/what-is-fsc>.

Generating adequate information

It is difficult to obtain detailed information on the furniture industry. The existence of a significant proportion of production and employment being in the informal sector is one reason for this. Even within the national income accounting exercise, not much information on the sector is available. Mainstreaming the sector by generating credible information can help better understand the role of policy options and possible implications. This process can be initiated with the categorisation of the furniture producing firms by their sizes, (e.g., micro, small, medium and large firms; gathering data on the location of the firms; usage of raw materials for different types of furniture items; sources of raw materials, production capacity; size of workforce and various skill types of employed workers; sales in domestic and foreign markets; different activities within the firms; export capacities, etc.). Identification of the problems faced by the firms and the support needed to address them need to be reviewed regularly. The World Bank Enterprise Survey undertaken in 2013 provided some information on the sector but since then similar information has not been available.

Conducting a specialised survey of the furniture sector by the Bangladesh Bureau of Statistics (BBS) would generate useful information. This survey can be undertaken as part of the Survey of Manufacturing Industries (SMI) although one problem is that SMIs have become quite irregular. Another option could be to build the capacity of Bangladesh Furniture Exporters Association (BFEA) and Bangladesh Furniture Industries Owners Association (BFIOA) so that they can generate useful information on a regular basis.

Deepening policy support including export incentives for the furniture sector

For any relatively new sector with a small base (i.e., export value), two fundamental factors that define export success are external competitiveness and domestic supply-side capacities. They are also interlinked in the sense that competitiveness can trigger supply-side capacities and the latter can also indicate the nature of productivity in the industry. In Bangladesh, like in many other developing countries, various national policy support measures are provided to help the exporting firms to become competitive and in dealing with the supply-side bottlenecks.

As discussed above, the furniture sector is critically dependent on imported raw materials and thus export success will rely on their uninterrupted supplies. Lead time is also now an important determinant of export success. Most of Bangladesh's Asian competitors including India, China, and Vietnam are generally regarded to have a much lower lead time. When intermediate inputs will have to be procured from abroad prior to manufacturing the received export orders, lead time can be excessively high for Bangladesh because of several reasons including a two-way shipping of goods, i.e., first to import raw materials and then to export final products, weak and inadequate port infrastructures, inefficient inland transportation, etc. One important way of dealing with this problem is through the bonded warehouse facilities that will enable firms to import duty-free raw materials in advance of getting export orders. The duty drawback scheme could be a potential option for accessing duty-free inputs. However, the difficulties associated with it makes it far less attractive and almost ineffective.

Given the booming domestic market, it may not be plausible to consider that there can be many 100 per cent export-oriented firms. One reason for restricting the bonded warehouse facilities is the firms' sales both in the domestic and foreign markets. For the readymade garment industry, it has been relatively easy for firms to focus on foreign markets alone. The nature of the clothing items exported by Bangladesh, in most instances, is quite different from the ones for which the domestic market would be competing directly. For furniture (and many other sectors as well), the demand patterns may not be so obviously differentiated. As such, the policy that bonded warehouse facilities to be used by 100 per cent export-oriented firms only will be somewhat devoid of reality. Expecting that firms that wish to make use of bonds will have separate plants for local and export sales is onerous and may not help them achieve economies of scale. Considering the above, it is imperative that bonded warehouses should be made available to all furniture exporters who want to make use of them. Import duties to be collected from the firms can be determined based on their actual export sales.

It should be pointed out that bonded warehouse facilities and duty drawback schemes are no additional incentives for exporters. Exporting firms in all comparator countries are able to procure intermediate inputs at world prices without being subject to any tariffs in their home countries. A policy of export incentives should actually provide benefits in addition to the duty-free import of raw materials. As such, exporters of emerging or non-traditional sectors should be entitled to cash assistance along with accessing either the bonded warehouse or duty drawback schemes.

In offering policy support, the issue of profitability of domestic sales vis-à-vis export receipts must be taken into consideration. Industrial protection by imposing high tariffs and other protective instruments (such as supplementary duties) creates an environment in which producing for the domestic market (rather than exporting) becomes rational. It is sometimes not realised that high protection actually undermines policies to support export competitiveness, especially when there is a growing domestic market for the same product. Addressing this problem is not an easy task as tariff rationalisation has proven to be a difficult task.

In addition, exports are likely to adversely affected by LDC graduation. As it stands, Bangladesh, as an LDC, enjoys duty-free market access for furniture items, among others, in major export destinations except for the United States. It is worth noting that after graduation in 2024, most of these preferences will either be discontinued or a less favourable scheme will be applicable, depending on individual importing countries' GSP provisions. Table 10.5 summarises the likely changes in tariffs for furniture products. Generally, furniture products attract low MFN duty rates in major countries and thus the magnitudes of preference erosion are small. After graduation, Bangladesh will be subject to MFN duty rates of 4.22 per cent and 6.8 per cent in Australia and China, respectively. Bangladesh will continue to have duty-free access in the EU even under its Standard GSP scheme while the average MFN tariff is low (just 2.4%). Against the current zero-tariff access, Bangladesh will be subject to a tariff of 3.2 per cent in Canada, and 5.1 per cent in India under SAFTA, and 3.6 per cent in the Republic of Korea.

Providing deepened cash incentives can be one way of helping exporters in partially mitigating the above problems. As the volume of furniture export is quite small, enhanced policy support should not cause any major financial burden. Analysis undertaken as part of this study suggests

that Bangladesh's furniture exports are sensitive to price incentives.¹⁹ The estimated relationship between the relative unit prices (i.e., Bangladesh's export prices relative to those of other suppliers) and furniture exports implies that there is scope for Bangladesh to be price competitive and more successful. This essentially implies that the rise in export incentives, as well as downward adjustments in the exchange rate, could lead to increased exports.

Table 10.5: Market access conditions for furniture products (HS 94) after LDC graduation

Country	LDC tariff rates	Post-graduation tariff rates	Average MFN tariff
Australia	0%	MFN rates applicable	4.22%
Canada	0%	3.18%	4.94%
China	0% (except few items)	MFN rates applicable	6.8%
EU	0%	0% (except few items)	2.38%
India	0%	5.14%	9.93%
Japan	0%	0.16%	0.73%
Republic of Korea	0%	3.65%	3.78%

Note: Average is calculated as the simple average.

Source: Authors' analysis using WITS data.

After Bangladesh's LDC graduation with the next few years, export support measures like cash assistance schemes are most unlikely to be possible to continue given the rules and provisions of the WTO.²⁰ 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.²¹ Enhanced policy support is not only about providing cash assistance. Rather, it should include provisions for duty-free imports of raw materials, helping firms deal with certain factors that contribute to excessive cost of trading, easy access to finance, enhanced support for exploring foreign markets, assistance for product development, etc.

10.6 Concluding remarks

Bangladesh's furniture industry has shown strong export dynamism in recent years. Export earnings from this sector reached almost \$75 million in 2018–19, registering a growth of more than 16 per cent over the previous year. However, having more than 20 years' export experience, the sector has so far been able to achieve much less than its export potential. Given

¹⁹ These results are derived from estimating an export demand function for Bangladesh's furniture exports. The specified model relates to Bangladesh's exports export volume to global income and relative unit prices with respect to competing countries. Given the availability of data, only the EU market is considered. Data are gathered from EU Comext database at Combined Nomenclature (CN) 8-digit level for the period 2000–2016. A panel fixed effect model is estimated. The estimated relative price elasticity coefficient is obtained as 0.84, which is statistically significant at the one-per cent level. The income elasticity coefficient fails to register statistical significance.

²⁰ Under the WTO Agreement on 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.

²¹ 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-see-export-subsidy-phase-out/878573/> (accessed on 2 October 2017).

the recent encouraging trends, it is high time to revamp the relevant policy support and consider other practical options to boost export supply response.

Despite low labour cost, the furniture sector's export potential is hindered by weak supply-side capacities arising from interactions of many different factors including weak backward linkages, high procurement costs of raw materials, lack of skilled labour, excessive cost of doing business, lack of trade promotional activities, etc. Recognising high export potential, the furniture industry has been included amongst the priority sectors in the successive export policies of Bangladesh since 2009. However, the policy support should be deepened and consolidated further to address gaps in certain areas as well as to help exporters overcome adverse consequences arising from the generally high cost of doing business in Bangladesh.

Strengthening supply capacities will be a key factor in promoting exports of furniture. Currently, the industry is critically dependent on imported raw materials. Allowing bonded warehouse facilities for exporters can greatly reduce the cost of production—given that, import duties and taxes on imported inputs are quite high—and the time needed between export orders received and goods shipped to destination countries. At present, most exporters are also not using the duty drawback scheme, which is known to be a cumbersome and lengthy process. When raw materials procured at world prices (i.e. without paying the domestic duties and taxes) cannot be used in production, it is extremely difficult to compete in the global market. It cannot be overemphasised that uninterrupted and instant supplies of intermediate inputs at the most competitive global prices are a key determinant of Bangladesh's export success. Any policy barrier in this respect will undermine exporters' competitiveness. Bonded warehouse facilities played a critical role in boosting the supply response in the garment sector. The same policy stance should be replicated for the furniture as well as other sectors.

There also exists the scope for deepening direct policy support in the form of cash assistance. The furniture sector is accorded with cash assistance of 15 per cent (of f.o.b export value). This is helpful. However, given that the exporters are paying import duties on raw materials for export production, the provided support is just too small to help overcome policy-induced anti-export bias, particularly when the attractiveness of domestic market vis-à-vis export sales are boosted by high tariffs and other taxes. This is further accentuated by the sustained real exchange rate appreciation. While cash assistance alone cannot be enough, raising the level can add to improved competitiveness. In the 1990s, the readymade garment sector enjoyed cash assistance of 25 per cent that helped many firms that did not access either the bonded warehouse or duty drawback facilities. Similarly, the cash incentive for the furniture sector can be increased to 25 per cent to boost the export supply response. This policy incentive can be provided in addition to bonded warehouse and duty drawback facilities.

It is a standard global practice to allow export-oriented firms using imported inputs without being subject to any import duties. Therefore, bonded warehouse or duty drawback schemes, in a real sense, do not constitute an additional incentive for exporters. As part of a deepened policy support, exporters of non-traditional or emerging sectors like furniture should be accorded cash assistance in addition to their securing duty-free import of raw materials.

Attracting foreign direct investment (FDI) in the furniture sector can be an important way of

unleashing export potential. FDI inflows help promote skill upgradation, productivity improvement, and transfer of technology. FDI firms are generally well-linked to global value chains that connect the entire range of activities including design, production/manufacturing, marketing, distribution and support to the final consumer. Being part of this integrated supply chain process ensures the sustainability of export orders and growth. Bangladesh currently offers a range of attractive incentives for FDI. Bonded warehouse facilities and higher direct incentives can encourage more FDI inflows including joint ventures involving local firms.

Improved access to finance is to be considered as a precondition for expanding export supply capacities. Most furniture manufacturing firms are restrained by financial constraints such as high cost of borrowing, a large value of collaterals needed for bank loans and limited access to trade finance. Whether the Export Development Fund (EDF) and the Export Credit Guarantee Scheme (ECGS) can be proactively used to help expand furniture exports need to be carefully reviewed. Many potential export firms are not aware of the facilities like EDF and ECGS and as such awareness-building for available export support measures will be a useful initiative.

The shortage of skilled workforce is a major constraint inhibiting the furniture industry. Vocational training facilities for workers are limited and currently, there is no national training and design institute catering to specific needs of the industry. Comprehensive support for the sector should include attention to this area. The private sector firms should also play an important role here by undertaking apprenticeship programmes and providing on-the-job training as part of a national furniture sector development strategy. Capacity development in product design and the use of advanced technologies are important for export success. While large establishments appear to have made huge investments in modern technologies, small and medium enterprises lag behind in this respect.

Complying with product, labour, and environmental standards has become a characteristic feature of the export business. The future of the furniture export success, amongst others, will certainly be dependent upon the compliance of environmental standards. The use of environment-friendly, renewable and recyclable products, as well as raw materials, is most essential as leading world furniture brands are increasingly adopting more challenging standards. Capacity building in these areas will be critical. The involvement of FDI firms can not only help with improved export performance but will also diffuse the knowledge of modern practices to adapt to new standards.

Bangladesh's furniture export is highly concentrated both in terms of products and destination markets. Of course, the small volume of current export is a reason for this. However, in line with successful furniture exporting countries, Bangladesh must now proactively seek new markets and aim to increase the number of items sold in each market simultaneously. Establishing export relationships in new markets can be quite challenging along with sustaining existing export relationships. Therefore, export support measures for regular hosting of and participation in international furniture fairs and expos will be important. The possibilities of Bangladeshi firms' participation in various online sales portals need to be investigated and support can be provided in this respect particularly to small and medium firms.

Finally, it is worth pointing out that the competitiveness of the furniture industry or any other

export sector for that matter is also affected by overall economic and business conditions in the country. Infrastructural bottlenecks including weak and inadequate port facilities, poor inland transportation system, inefficient trade logistics, lack of human resources, etc.—all tend to impact on sustained export performance. In each of these areas, Bangladesh can make substantial improvements. Therefore, a medium- to long-term export development strategy for any particular sector should also consider these issues in materialising export potential.

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Bangladesh's Pharmaceutical Exports: Trends, Market Prospects, and Policies

Mohammad Abdur Razzaque, Rabiul Islam Rabi & Hamim Akib

11.1 Introduction

Over the past decades, Bangladesh has seen marked advancements in pharmaceutical production capacities that have contributed to achieving many public health goals through ensuring access to affordable drugs by the mass population. The proliferation in domestic production has generated an enhanced export supply response in recent times. This improved export performance started taking place even without any direct export support (e.g. cash assistance), which was accorded to the sector only very recently. The export dynamism, therefore, shows the sector's genuine export competitiveness. Bangladesh's Export Policy (2018–2021) has recognised the pharmaceutical industry as one of the highest priority sectors given the wide recognition of the industry's huge untapped export potentials. Sustained growth of pharmaceutical exports will be important in attaining the objective of export diversification.

Policy attention to various factors can greatly boost the pharmaceutical industry in expanding further both in domestic as well as international markets. One emerging issue to consider is Bangladesh's upcoming graduation from the group of least developed countries (LDCs) and its likely implications for the relevant policy regime in the country. The least developed countries are granted a transition period until 1 January 2033 to comply with provisions of the World Trade Organization's Agreement on Trade-Related Intellectual Property Rights (TRIPS) concerning pharmaceutical products. However, as Bangladesh's graduation is expected to take place in 2024, the transition period would come to an end almost a decade earlier. Along with addressing any existing supply-side capacity-related issues, establishing a TRIPS-compliant policy regime will also be a task at hand.

This chapter provides an analysis of pharmaceutical exports from Bangladesh. It highlights several major challenges confronting the export growth potential and discusses policy priorities for stimulating the export supply response. The analyses and recommendations provided here can be utilised as inputs for informed policymaking for export promotion and diversification. The rest of the chapter is organised as follows: Section 11.2 provides a brief overview of the industry; Section 11.3 analyses the trends and patterns of pharmaceutical exports along with global market

prospects; Section 11.4 discusses the issues arising from LDC graduation; Section 11.5 provides some policy recommendations to promote the sector's exports and finally, Section 11.6 concludes.

11.2 An Overview of Bangladesh's Pharmaceutical Sector

Evolution of the sector

Confronted with severe development challenges, access to affordable medicines was a prime concern in the post-independent Bangladesh with an average per capita income just above \$100 (Reich, 1994). The country's pharmaceutical industry until the early 1980s was largely dominated by multinational corporations (MNCs). This dominance was characterised by heavy imports of medicines and raw materials for drugs. Eight MNCs manufactured almost 75 per cent of all drugs (in value terms), while close to 160 small and medium-sized firms accounted for the rest of the drug production (Reich 1994).

In 1982, Bangladesh adopted its first-ever policy regime on drugs, triggering a massive overhaul of the pharmaceutical industry. The National Drugs Policy (NDP) aimed at disciplining the pharmaceutical industry by initiating drug price controls, reducing market dominance of the MNCs, and prohibiting pharmaceutical patents with the objective of achieving various public health goals. To materialise the NDP objectives, the government also legislated the Drugs (Control) Ordinance (DCO) 1982, regulating various components of the underlying supply chains including production, distribution, importation, and sales. Over time, Bangladesh also adopted two more drug policy regimes: one in 2005 and then more recently in 2016. A summary of the prominent features of the three regimes along with the DCO 1982 is presented in Table 11.1. There is a general recognition that the adoption of the 1982 NDP helped the country's pharmaceutical sector to grow (South Centre, 2019). Besides, the sector also benefitted from the waiver of patent enforcement on pharmaceutical products due to Bangladesh's least developed country (LDC) status (Azam, 2016).

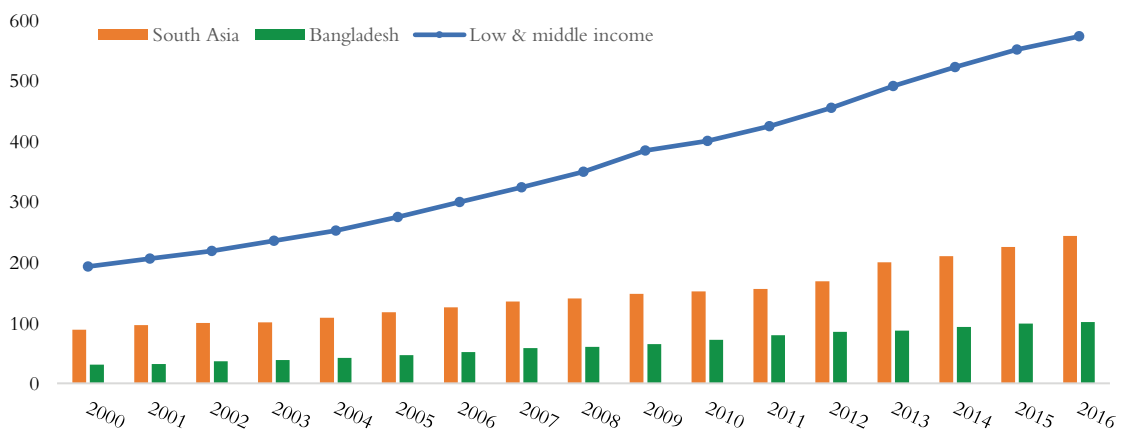
According to industry sources, Bangladesh's robust economic activities, steady population growth with a large consumer base, rising life expectancy, and increased risks of chronic non-communicable diseases have been major growth drivers of the pharmaceutical industry along with the regulatory support measures provided. With the rising income, people tend to spend more on healthcare needs, which, in turn, ensures increased demand for drugs. The health expenditure per capita (in purchasing power parity terms) has increased gradually from less than \$30 in 2000 to about \$100. Nevertheless, it remains much lower than average corresponding expenditures for South Asian and low- and middle-income country groups (Figure 11.1). This seems to suggest that the demand for pharmaceutical products in Bangladesh is likely to expand at a faster pace in the future. Bangladesh also has one of the lowest public health expenditures (as a proportion of GDP) amongst the global economies (Figure 11.2).¹

¹ According to some local industry representatives, Bangladesh is perhaps the most competitive producer of generic drugs and this could have contributed to low health expenditures.

Table 11.1: Summary of prominent features of national drug policies

NDP 1982	<ul style="list-style-type: none"> • Identification of a list of 150 essential drugs and 100 specialised drugs • Promotion of generic drugs by authorising the production and sale of 45 most essential drugs among the list of 150 drugs • Introduction of the National Formulary with formulations of all the listed essential and specialised drugs • Prohibition of pharmaceutical product patents
DCO 1982	<ul style="list-style-type: none"> • Regulated drug manufacturing companies to employ qualified pharmacists and enforce adequate quality control practices. • Mandated the establishment of an appropriately staffed and equipped national drug control laboratory. • Authorised the government to regulate the price of finished drugs, raw materials, packaging materials, and intermediates. • Restricted the production of vitamins, enzymes, and cough syrups to local drug manufacturers only • Prohibited import of any pharmaceutical products which are locally manufactured by at least three companies or has three close substitutes
NDP 2005	<ul style="list-style-type: none"> • Lifted the ban on manufacturing under contract or license by Bangladeshi manufacturers • Recommended the idea of setting up a specialised park for Active Pharmaceutical Ingredients (API) production to reduce drug production cost. • Underscored the importance of achieving self-sufficiency, enhancing export competitiveness, and adhering to good manufacturing practices (GMP)
NDP 2016	<ul style="list-style-type: none"> • Emphasised the preparedness towards TRIPS compliance. • Recommended the establishment of an effective surveillance system for medicines • Proposed regular updating of the Bangladesh National Formulary.² • Recommended to update and publish the prices of essential drugs online • Underscored the continuation of current GMP (cGMP) in drug production

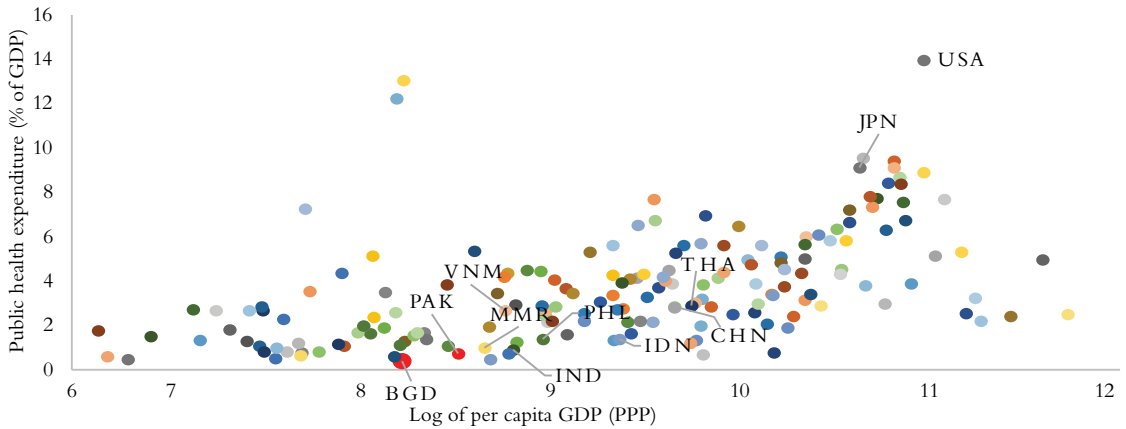
Source: Authors' compilation from various government documents: national drug policies of 1982, 2005, and 2016, and the Drugs (Control) Ordinance 1982.

Figure 11.1: Comparison of current health expenditure per capita, PPP (current international \$) (2000–2016)

Source: Authors' presentation using World Development Indicators (WDI) data.

² The Bangladesh National Formulary (BDNF) is a comprehensive list of all the drugs available in the market. The list, prepared by the Directorate General of Drug Administration (DGDA), helps doctors to know the efficacy, price, risks, and other information about a drug before prescribing it. The last update of BDNF came in 2015.

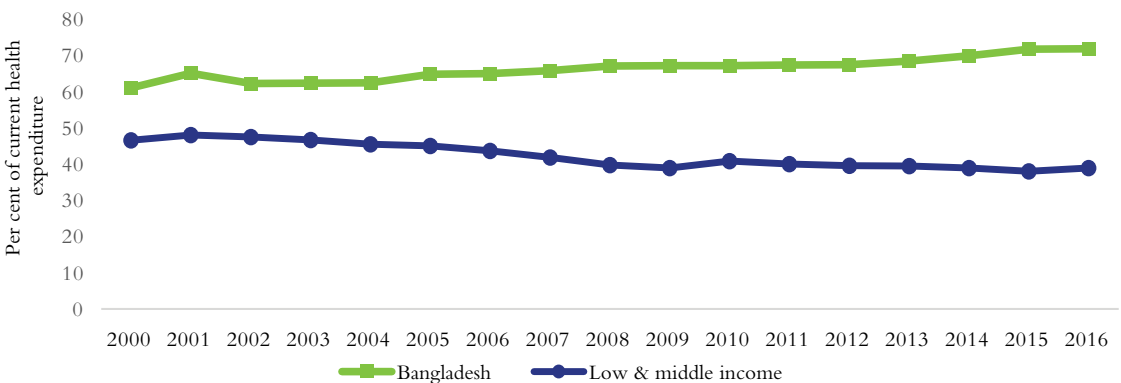
Figure 11.2: Global public health expenditure (% of GDP)



Source and note: Authors’ analysis based on WDI data. Countries are indicated as BGD—Bangladesh, CHN—China, IDN—Indonesia, IND—India, JPN—Japan, MMR—Myanmar, PAK—Pakistan, PHL—the Philippines, THA—Thailand, USA—the United States of America, and VNM—Vietnam.

Again, as the country’s population increased from 130 million in 2001 to about 164 million in 2018 (Ministry of Finance, 2019b), the consumer base expanded quite significantly. Bangladesh is also characterised by a health financing system in which the out-of-pocket payments (OOPs) are very high (Mollah & Chi, 2017).³ Almost 65 per cent of OOPs are due to expenditures on various medicines. In Bangladesh, OOPs comprise 93 per cent of private health expenses—much higher than that of low and middle-income country average.⁴ Interestingly, with respect to OOPs, Bangladesh is moving in the opposite direction as these expenses are declining in many developing economies (Figure 11.3) due to the emergence of health insurances which are yet to develop at meaningful scales in Bangladesh.

Figure 11.3: Comparison of out of pocket expenditure (as % of current health expenditure)



Source: Authors’ presentation from the World Health Organization Global Health Expenditure database.

³ World Health Organization (WHO) defines out-of-pocket payments (OOPs) as the direct payments made by an individual to the healthcare provider to avail a service.

⁴ To reduce high out of pocket expenses to 32 per cent from 65 per cent of total health expenditure and increase health budget as percentage of national budget from 5 per cent to 15 per cent, the Government of Bangladesh has adopted Health Care Financing Strategy (2012–2032) (Ahmed, et al., 2015).

Bangladesh has made impressive progress in health outcomes. The improved life expectancy and reduced infant and maternal mortality rates can partly be attributed to better access to healthcare services and increased awareness regarding health issues. But, the progress in health outcomes is also partially contributed by the growth of the domestic pharmaceutical sector, which provided drugs at affordable prices.

Table 11.2: Comparison of selected indicators in Bangladesh

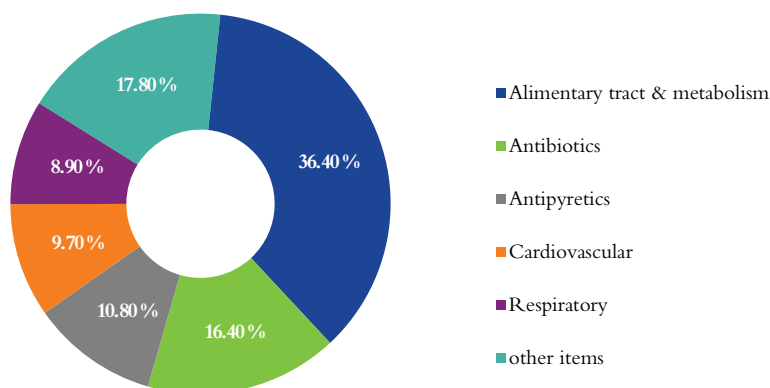
Indicators	2006	2018
Life expectancy at birth	66.5 years	72.3 years
Infant mortality rate	3.37 per thousand live births	1.69 per thousand live births
Maternal mortality rate	48 per thousand live births	22 per thousand live births

Source: Ministry of Finance (2019b).

Notwithstanding the above improvements, Bangladesh has been experiencing a change in disease profile triggered by various factors such as changes in lifestyle, demographic transitions, and widespread urbanization (EBLSL, 2019). Prevalence of non-communicable chronic illness (e.g., diabetes, cancer, asthma, cardiovascular diseases, etc.) is increasing faster than acute infectious diseases. This is reflected in the composition of drugs sold (Figure 11.4).

Over 70 per cent of the sold drugs are mainly related to chronic diseases. In addition, increased life expectancy is associated with a growing proportion of the elderly population being more vulnerable to non-communicable diseases. It has been estimated that about a quarter of Bangladesh's population will be aged 50 or above by 2050 (EBLSL, 2019). Consequently, the demand for medicines is likely to be increased given these recent trends in demographics and disease profiles. The underlying demand for medicines is mostly met by drugs supplied by the country's pharmaceutical sector. In fact, at present, more than 97 per cent of the domestic demand for drugs is sourced from local firms.

Figure 11.4: Composition of medicines sold in Bangladesh

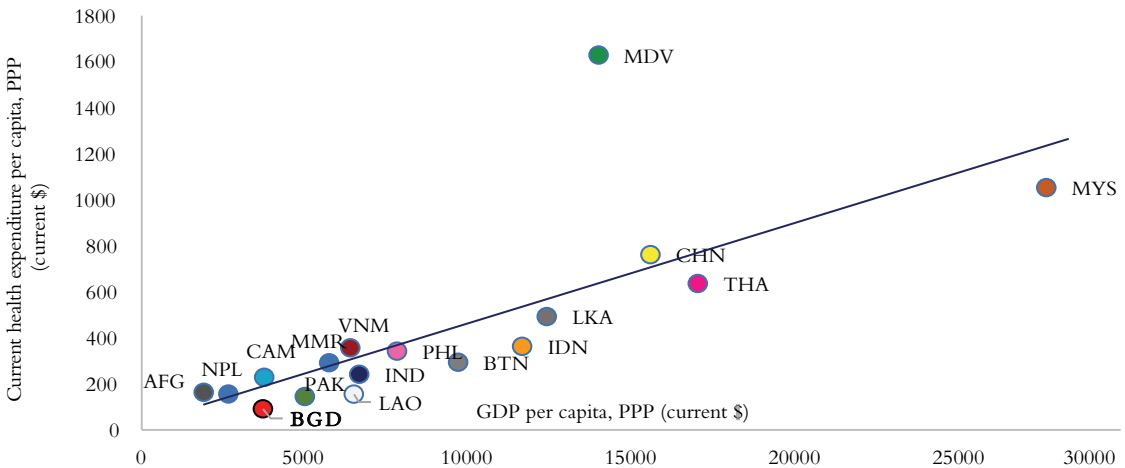


Source: Directorate General of Drug Administration (DGDA) (2018).

Rising per capita income should also boost per capita health expenditure. A cross-country analysis of Asian economies shows that there exists a positive relationship between GDP per capita and per capita health expenditure (Figure 11.5). Given its current GDP per capita, Bangladesh's per capita

health expenditure is somewhat lower than that of the Asian countries' average, as reflected in Bangladesh's location below the regression line in Figure 11.5. With the exception of the Maldives, the relationship between income and health expenditure fits quite closely. Since the rise in per capita income is associated with higher health expenditure, Bangladesh's health expenditure could result in a four-fold rise by 2030. If Bangladesh can close the gap with the Asian countries' average per capita health expenditure, the domestic pharmaceutical market size—even by conservative estimates—would expand to \$6.5–\$7.5 billion by 2025 (Table 11.3).⁵ Under the same assumptions, the corresponding market could be valued at \$12–\$13 billion by 2030.

Figure 11.5: GDP per capita versus current health expenditure per capita in selected Asian economies



Source and note: Authors' analysis based on WDI data. Countries are indicated as AFG—Afghanistan, BGD—Bangladesh, BTN—Bhutan, CAM—Cambodia, CHN—China, IDN—Indonesia, IND—India, LAO—Lao PDR, MDV—Maldives, MMR—Myanmar, MYS—Malaysia, NPL—Nepal, PAK—Pakistan, PHL—the Philippines, SRL—Sri Lanka, THA—Thailand, and VNM—Vietnam.

Table 11.3: Bangladesh's pharmaceutical market size projections

Year	GDP per capita (current \$), PPP	Health expenditure per capita (current \$), PPP	Pharmaceutical market size
2017	\$3,696	\$90.6	\$2.5–3.0 billion
2025	\$6,300	\$215	\$6.5–7.5 billion
2030	\$8,550	\$375	\$12–13 billion

Source: Authors' estimation based on WDI data.

The present state of the pharmaceutical sector

Contribution to the economy

The pharmaceutical sector is one of the fastest-growing manufacturing activities in the economy.

⁵ By 2030, Bangladesh's GDP per capita (PPP) may reach a level comparable to the current GDP per capita (in PPP dollars) of the Philippines. Domestic market size estimates are based on a conservative assumption of pharmaceutical expenditure being just one-sixth of the total health expenditure. This is much lower compared to the reported proportions of health expenditure spent on pharmaceuticals by the WHO and a study by Mollah and Chi (2017).

The Quantum Index of medium and large-scale manufacturing industries prepared by the Bangladesh Bureau of Statistics (BBS) shows that during 2014–2018, the sector registered an average growth of about 8.3 per cent, which was greater than the country's overall GDP growth rate.⁶ However, there seems to be a lack of reliable and consistent information on domestic pharmaceutical production and the sector's share in the GDP. According to BBS provisional Industrial Production Statistics (IPS), the total pharmaceutical production in 2017 was nearly \$1.47 billion.⁷ However, another study (Rahman & Farin, 2018) mentions the industry size to be at \$2.44 billion in 2018, contributing to about 1 per cent of GDP. The information presented in the Bangladesh Economic Review mentions that the allopathic medicine production is worth about \$2.6 billion (Ministry of Finance, 2019a).

According to various print media reports, the sector is expected to grow at an annual rate of around 15 per cent over the medium term with domestic sales to grow over \$5 billion by 2023. The sector is thought to be the largest provider of white-collar jobs in the country and second-largest contributor to the national exchequer (ACME, 2017). According to the latest BBS Labour Force Survey (2016–17), close to 180,000 individuals were employed in the manufacturing of pharmaceutical and medicinal products. Considering both direct and indirect involvement, the overall employment in the sector is thought to be in the range of 0.5–0.6 million.

Drug manufacturing capacity

Bangladeshi pharmaceutical firms are now manufacturing more than 450 generic drugs covering different therapeutic classes such as oral anti-diabetics, anti-ulcerates, anti-rheumatic antihistamines, non-steroid, nonnarcotic analgesics, and fluoroquinolones.⁸ The country imports nearly 3 per cent of drugs to cater to domestic demand. These imports relate to technologically intensive products including biologic drugs (South Centre, 2019).⁹ A handful of large companies have recently started producing premium medicines like antiretrovirals (HIV/AIDS), anti-cancer, and epidemic vaccines.

Bangladesh's domestic consumer base has a big demand for branded generics.¹⁰ Of all drugs produced domestically, generic drugs dominate with the share of patented drugs, according to industry insiders, accounting for 10–20 per cent. Few examples of patented products manufactured are Empagliflozin, Linagliptin, Sitagliptin, Sofosbuvir, Rivaroxaban, and Vildagliptin.

Pharmaceutical production can be divided into two technologically distinct parts: (i) manufacturing of active pharmaceutical ingredient (API) and (ii) formulation manufacturing, i.e.,

⁶ The Quantum Index of production of medium and large-scale manufacturing industries prepared by major industry groups prepared by the Bangladesh Bureau of Statistics (BBS)

⁷ The provisional estimate of pharmaceutical production was Tk 15.39 billion.

⁸ Generic drugs are pharmaceutical drugs having the same chemical composition of an original drug which is patent-protected. Third parties can manufacture and sell generic drugs in markets where there is no patent on the original drug, or where the patent has expired.

⁹ Biologic drugs are manufactured from living organisms or are those that contain components of living organisms in contrast to pharmaceutical drugs which are produced from chemical synthesis.

¹⁰ Branded generic is regarded as a generic drug which undergoes abbreviated new drug application (ANDA) process and has a different name from the original chemical substance. A branded generic drug must be bioequivalent to the original brand drug.

processing of active pharmaceutical ingredients into final dosage forms. APIs constitute the raw materials of pharmaceutical production. While Bangladesh has built significant production capacities in formulation manufacturing, API production has been quite limited. At present, eight companies in the country produce more than 40 API molecules.¹¹ Although few local firms are involved in manufacturing APIs, the pharmaceutical industry heavily relies on imported APIs from various foreign suppliers like China and India. According to the Export Promotion Bureau (EPB) of Bangladesh, approximately 90 per cent of the raw materials required for pharmaceutical production are imported. That is, the domestic pharmaceutical production is still substantially dependent on imported raw materials.

Key suppliers and market shares

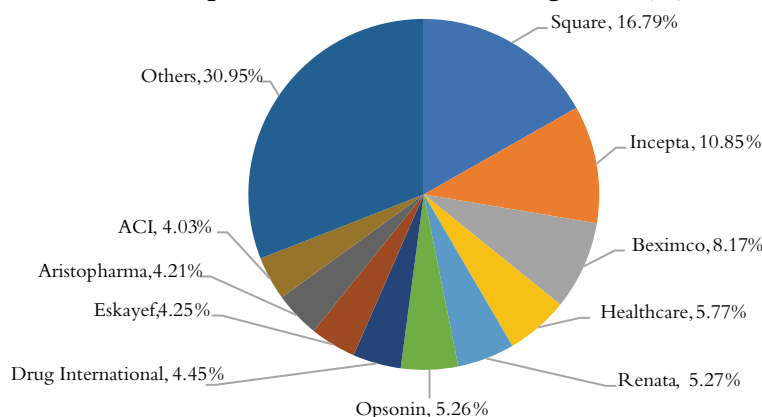
According to the DGDA database, there are 272 allopathic manufacturers and 29,684 registered allopathic drugs (Table 11.4). However, the actual number of firms in active production is around 150 (DATABD.CO, 2019). Strict regulations on imported drugs substantially contributed to the growth of local manufacturing capacity. According to IQVIA data, the top 10 pharmaceutical companies now capture nearly 69 per cent of the domestic market with the top three (Square, Incepta, and Beximco) accounting for almost 36 per cent.¹²

Table 11.4: Registered drug manufacturers, drugs, and retail pharmacies in Bangladesh

Type of medicine	No. of manufacturers	No. of registered drugs	No. of retail pharmacies
Allopathic	272	29,684	116,911
Unani	277	6,573	684
Ayurvedic	202	4,088	407
Homoeopathic	42	2,417	2,406
Herbal	35	549	11

Source: DGDA database (as of October 2019).

Figure 11.6: Market share of pharmaceutical firms in Bangladesh (%)



Source: Based on IQVIA data (2019, Q2).

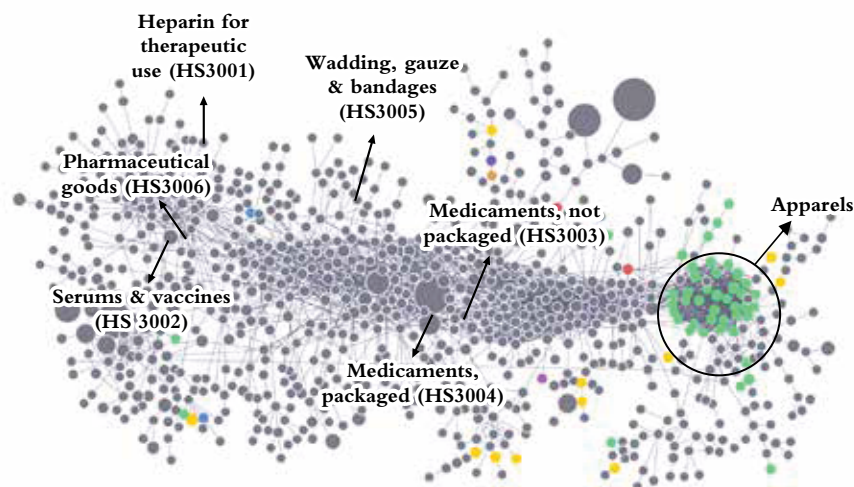
¹¹ This information is sourced from a report published in the Daily Bonik Barta dated 2 November 2019. According to that report, there are eight domestic API makers and only one manufacturer sells API locally and exports to such countries as Egypt, Nepal, Pakistan, and Vietnam.

¹² IQVIA, an American company, provides various services to the healthcare industry.

Prospect for export diversification

Pharmaceutical products hold a great promise for contributing to export diversification as reflected in the location of the sector in the product space. The product space analysis assesses the prospects for export expansion and diversification. In simple terms, the product space depicts a map of all export items (also known as the economic complexity atlas) to indicate how individual products are linked to one another. Towards the centre of the space, product linkages are dense. This implies that if a country's products lie at or close to the centre, it is easier to expand exports through related products. When products are at peripheries of product space, such as many agricultural exports and mining activities, countries exporting these items find it very difficult to move into other sectors. Therefore, the location of a country's products can determine the nature of its diversification prospects.¹³ Bangladesh's product space analysis (Figure 11.7) reflects significant exporting activities in the apparels cluster that provides linkages amongst many potential export items. Pharmaceuticals items—more specifically medicaments, either packaged or not packaged (HS 3003 and HS 3004)—are located at the very core of the economic complexity atlas, indicating that these items have strong linkages with other sectors. This implies that the development of productive capacity in the pharmaceutical sector can lead to the export development of other sectors, contributing to overall export diversification in the long run.

Figure 11.7: Product space analysis for Bangladesh's pharmaceutical items



Source: The Atlas of Economic Complexity (<http://atlas.cid.harvard.edu/>).

¹³ The product space analysis assesses the prospects for export expansion and diversification. In simple terms, the product space depicts a map of all export items (also known as the economic complexity atlas) to indicate how individual products are linked to one another. Towards the centre of the space, product linkages are dense. This implies that if a country's products lie at or close to the centre, it is easier to expand exports through the related products. When products are at peripheries of product space, countries exporting these items find it very difficult to move into other sectors. Many agricultural exports and mining activities are located in the periphery. Therefore, location of a country's products can depict the nature of its diversification prospects.

Key organisations

There are mainly two regulatory organisations for drugs and pharmacies in Bangladesh. Under the Ministry of Health and Family Welfare, the Directorate General of Drug Administration (DGDA) is the national drug regulatory authority. It regulates all activities associated with import and export of raw materials, production, pricing, sale, packaging materials, licensing, and registration of all kinds of medication including those of Unani, Ayurvedic, Herbal, and Homeopathic systems.

The Pharmacy Council of Bangladesh (PCB) controls pharmacy practices in Bangladesh. It was established under the Pharmacy Ordinance Act in 1976. On the other hand, the Bangladesh Association of Pharmaceutical Industries (BAPI) is working as the apex body representing the pharmaceutical companies of Bangladesh since 1972.

Recent policy initiatives for the pharmaceutical sector

In recent years, the Government of Bangladesh has taken several initiatives to support the pharmaceutical sector. In Export Policy 2018–2021, the pharmaceutical, and API and laboratory reagents sectors have been considered as the two highest priority sectors for export diversification. In 2018, the government declared pharmaceuticals as the ‘Product of the Year’ to recognise the significance of this emerging export sector. At present, the sector is receiving 10 per cent cash incentive for exports of generic drugs while a much higher 20 per cent cash incentive is provided to API exports. In 2018, the ‘National API, Laboratory Reagents Production and Export Policy’ was announced. The major incentives that would be provided for the production of APIs and laboratory reagents (henceforth referred to as APIs) are as follows:

- Producers will enjoy 100 per cent tax holiday for the first five years from 2016–17 to 2021–22. After the first five years, the same level of tax holiday will be continued until 2032 for those who manufacture at least two molecules every year.
- VAT exemption has been granted to the imports of raw materials of API and reagents for a period until December 2025.¹³
- Producers are exempted from advance income taxes and tax deductions at source until 2032.
- Producers will be provided 20 per cent tax incentives for export of APIs.
- Producers can access various other facilities such as financial facilities including loans from offshore funds; longer tenures of up to 12 years instead of six years for term loans for factories and equipment; back-to-back letter of credit facilities; etc.
- Producers will get priority in getting land in industrial parks and economic zones.

Policy attention is also accorded to infrastructural development to support the industry. Currently, Bangladesh’s first API Industrial Park is being developed in Gazaria, Munshiganj, on around 200 acres of land. The park is expected to have 42 plots for manufacturing plants. According to industry sources, Bangladesh can save up to 70 per cent import costs of raw materials from the effective operation of the plants. This should also boost API export supply response in the long run.

¹⁴ The National Board of Revenue attached few conditions with the incentive scheme. API producers will have to manufacture at least two molecules every year, undergo quality audit, and follow good manufacturing practices. Also, API producers should spend at least one per cent of their annual turnover on research and development to avail this benefit and maintain a minimum 20 per cent domestic value addition.

In 2011, the Pharmaceutical Sciences Research Division was approved under the Bangladesh Council of Scientific and Industrial Research (BCSIR) to undertake extensive research on pharmaceutical sciences. In 2017, a project to establish an institute for bioequivalence studies and pharmaceutical sciences was approved and its implementation is currently underway.¹⁵ The five proposed divisions under this institute would be: 1) APIs and Pharmaceutical Excipients Research Division, 2) Quality Assurance Research Division, 3) Drug Discovery and Bioassay Research Division, 4) Dosage form Design Research Division, and 5) Biopharmaceutics Research Division. Successful implementation of this project is expected to expedite pharmaceutical research which includes conducting bioavailability and bioequivalence studies, which will be essential to export to regulated market by local pharmaceutical companies at low cost. Furthermore, this institute is also expected to facilitate clinical research to develop export-quality generic drugs and the development of improved synthetic and semi-synthetic routes of APIs and pharmaceutical excipients.¹⁶

While these encouraging steps are geared towards the right direction, it is important to fully utilise the currently available advantages due to the absence of patent protection in pharmaceuticals. In this context, Bangladesh can draw lessons from India. Just like in Bangladesh today, Indian firms were not able to manufacture API in large volumes. The Indian government established a large public sector manufacturing facility under the Indian Drugs and Pharmaceuticals Ltd (IDPL) and Hindustan Antibiotics Ltd. Under the Council of Scientific and Industrial Research (CSIR), several government-owned R&D laboratories were also setup. Later, the city of Hyderabad, the headquarters of IDPL, was transformed into a major API manufacturing hub. Founders of many API manufacturing firms once worked for the government owned IDPL or research laboratories. Almost every top pharmaceutical company benefitted from the services of these publicly owned laboratories. In the long run, this resulted in India's advancement in technological capacity to manufacture generic formulations and APIs (South Centre, 2019). Government support in developing start-up infrastructures, investing in R&D, and devising policy initiatives also played a vital role in developing pharmaceutical production capacities and export competitiveness of Chinese firms. China now produces 20 per cent of the global API output (in volume terms) including more than 2,000 API molecules. The Chinese government is reported to have invested \$1.6 billion for the development of new drugs. Policy support along with improved infrastructures and low logistics costs helped China's exporters gain significant external competitiveness.¹⁷

The value chain in the pharmaceutical industry

The global value chains (GVC) in the pharmaceutical industry comprise various core components: R&D, product development, manufacturing, exporting, marketing, and retailing. The manufacturing of pharmaceutical items has two separate stages. The first stage is related to API production followed by the making of the medicines. For producers of patented drugs, most costs are incurred in the R&D phase. Generic manufacturers face relatively lower costs and their main means of promotion is through trade incentives or offering larger discounts to secure

¹⁵ This information has been obtained from the BCSIR website.


























¹⁶ See <https://dhakalab.bcsir.gov.bd/hidden-menu/9-our-services/76-pharmaceutical-research.html>.

¹⁷ More discussion on this can be found in IPA (2019).

volume sales. Apart from the transformation of API-raw materials and new medicines, value addition by manufacturers often comes as scientific development or insights about disease control, as well as marketing or promotion of new drugs (Aitken, 2016). In many parts of the world, their profit margins are often limited by regulations.

Distribution is the process that connects manufacturers with retailers. In Bangladesh, most of the distribution is carried out by manufacturers themselves. In a global setting, distribution to retail points is carried out by wholesalers or drug importers. This is also the case for most of the medicines exported from Bangladesh. Local manufacturers export their items to specific importers or distributors. Since there are strict restrictions from the Bangladesh Bank on outward capital flows, Bangladeshi exporters face challenges to undertake marketing or supply operations in export destinations. Therefore, they rely upon the distributors or importers to carry out these key activities. Distributors’ costs depend on factors such as logistics and transportation. Although their profit margins are supposed to be thin, when manufacturers are barred from owning their own distribution network due to restrictions, it can be quite significant. As a result, local manufacturers are often forced to share a big portion of their profits generated from the exports, particularly in the developed destinations.

Figure 11.8: Costs incurred and value-added in components of the pharmaceutical value chain

	Cost-incurred		Value-added	
Drug Manufacturing	 Research & Development  Manufacturing Costs	 Tax & Import Duties  Education & Promotion	 Innovation  Regulatory Documentation	 Quality Assurance  Education & Knowledge
Distribution	 Medicine Acquisition  Handling & Delivery  Capital Costs	 Obsolescence Costs  Education & Promotion	 Adequate Supply of Medicine  Waste Management	 Order Processing  Education
Dispensing	 Medicine Acquisition  Labour, Equipment & Facilities	 Medical Waste Management  Capital Costs	 Availability of Medicine  Pharmacist Advice	 Convenience of Patients  Additional Health Services

Source: Based on Aitken (2016).

Although seemingly straightforward, retailing or final dispersion of drugs to end-users through pharmacies is a critical point of the value chain. This involves a wide range of activities: from understanding prescriptions to labelling to accurate delivery of medicines and to consumers’ awareness building on correct drug usage. Owing to a shortage of medical professionals in rural and remote areas, retailers often act as a source of knowledge about medicines and even act as a prescriber of simple drugs in Bangladesh.

Due to the existing legal framework and TRIPS waiver, Bangladesh’s pharmaceutical value chain is relatively insulated from global consolidation. To expand the current base of exports, local manufacturers will eventually require shifting towards the upper stages of the GVCs. This will entail a gradual shift towards producing patented drugs with or without contract manufacturing, exploring opportunities for marketing, and building capacities for sales and distribution of bioequivalent and generic drugs.

11.3 Pharmaceutical Exports from Bangladesh: Trends and Prospects

Trends in exports

Top exported products: Under the Harmonised System (HS) of traded goods classification, the product code 30 (HS 30) at the 2-digit level covers pharmaceutical products. More specific divisions of pharmaceutical items are provided at the HS 6-digit level. Table 11.5 lists the top five exported products according to their share in total pharmaceutical exports in 2018. Clearly, pharmaceutical exports are highly concentrated in HS 300490 as it alone comprises 57.2 per cent of the total pharmaceutical exports. In contrast, products under HS 300320 and HS 300420 account for respectively 11.7 per cent and 10.7 per cent of the total pharmaceutical exports.

Table 11.5: Top pharmaceutical products exported from Bangladesh (2018)

HS Code	Product label	Value (million \$)	Share in total pharmaceutical exports (%)
300490	Other medicaments of mixed or unmixed products, for retail sale	74.4	57.2
300320	Medicaments of other antibiotics, not for retail sale	15.2	11.7
300420	Medicaments of other antibiotics, for retail sale	13.8	10.7
300410	Medicaments of penicillins or streptomycins, for retail sale	13.8	8.2
300439	Medicaments of other hormones, for retail sale	0.159	4.5

Source: Authors' presentation using EPB data.

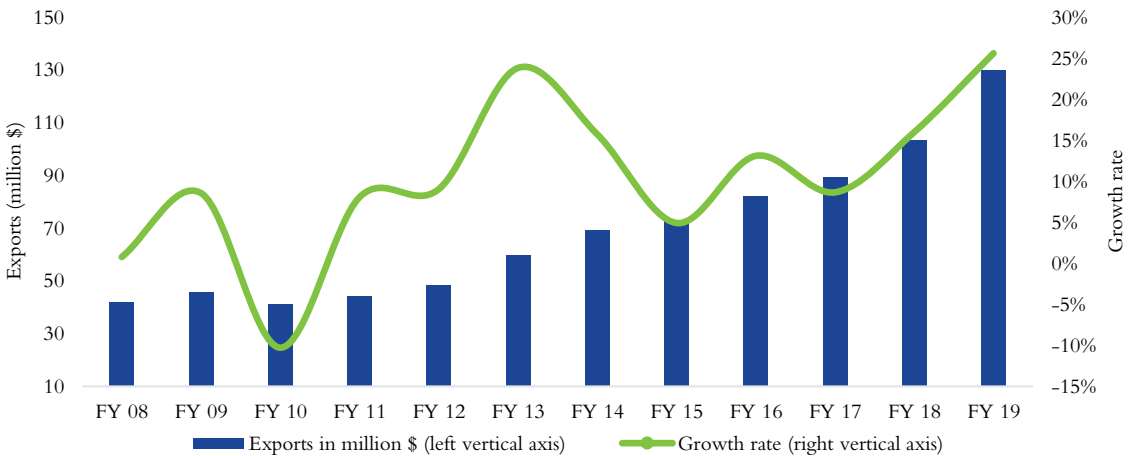
At present, being a least developed country, Bangladesh avails certain privileges that can facilitate its export of pharmaceutical products. It can export patented bioequivalent drug to LDCs or non-WTO members if the destination country has not implemented patent-protection for the products. In addition, Bangladesh can also export to any country where the patent owner has not filed any patent application. However, the sector is yet to fully utilise these flexibilities. According to some industry sources, the relative profitability of the domestic market is higher than that of the export markets. This is accentuated by stringent regulations and costs associated with pharmaceutical exports in foreign countries. In contrast, drug production, marketing, and distribution in the domestic market are much easier and cost-effective.

Export growth

Pharmaceutical exports from Bangladesh registered a steep increase since 2010 (Figure 11.9). It enjoyed an average growth of 12.4 per cent in exports between 2011 to 2018 and reached the record growth rate of 25.6 per cent in 2019. In 2018, Bangladesh's exports of pharmaceutical products crossed the \$100 million mark and reached \$130 million in 2019. The share of pharmaceutical items in the total export receipts was still quite small: 0.32 per cent. Some leading manufacturers acquired the USFDA (United States Food and Drug Administration), UK-MHRA (United Kingdom Medicines and Healthcare Products Regulatory Agency), and Therapeutic Goods Administration (TGA) certifications enabling them to export to these highly regulated markets. According to industry experts, drug export to the United States has elevated the local industry to a new height.

The high growth of exports has been largely attributed to a cost-effective production line, availability of relatively inexpensive skilled labour, and proliferation in the number of available generics (Gay, 2017). It needs to be pointed out that, pharmaceutical exports were not incentivised until 2018, although the sector benefitted from domestic regulation regarding drug manufacturing and flexibilities accorded as an LDC under WTO's TRIPS agreement.

Figure 11.9: Pharmaceutical exports from Bangladesh and its growth (million \$)



Source: Authors' analysis based on EPB data.

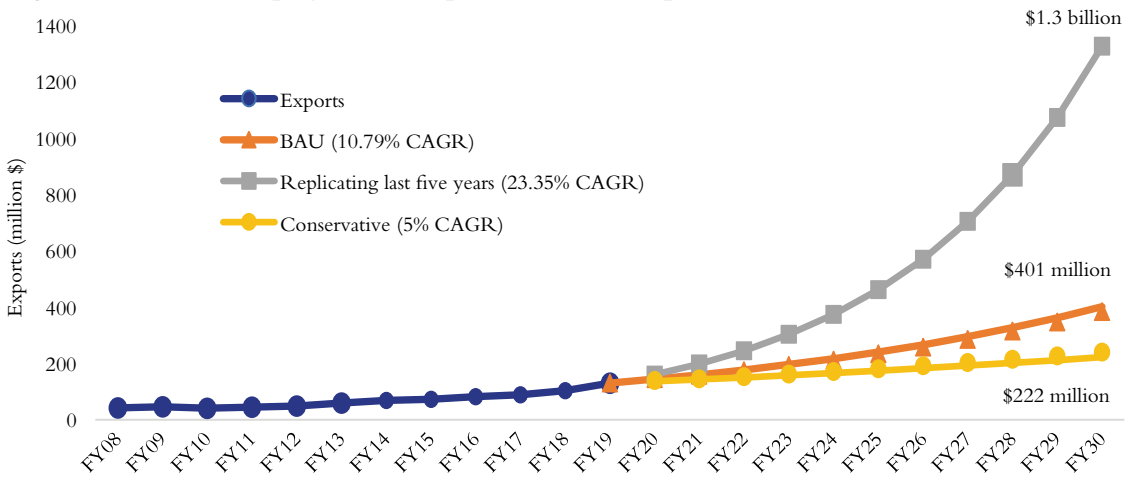
Export growth projections

Over the next few years (by 2024) patented drugs valued about \$251 billion is expected to go off-patent (IPA, 2019). As the largest global generic hubs like China and India are losing cost advantage, local firms, particularly the big ones, may enjoy bigger contract manufacturing opportunities.¹⁸ As a result, local exporters are likely to experience growth in export volume similar to the current rate of industry expansion per annum (about 15–16 per cent). Local exporters are upbeat about achieving \$1 billion export mark within the next few years. However, the analysis undertaken in this paper reveals that, if Bangladesh manages to continue with yearly growth rate equivalent of the immediate past five years' average export growth rate (of 23.35%), pharmaceutical export receipts will reach \$1 billion in 2029 (and \$1.3 billion by 2030).¹⁹ Maintaining a slightly lower growth rate of just above 10 per cent (which is the average growth achieved over the past ten years) would result in exports to reach just above \$400 million by 2030 (Figure 11.10). A very conservative rate of 5 per cent per annum will take the export receipts to \$222 million by 2030.

¹⁸ India and China are thought to be losing cost advantage mostly due to higher labour and research costs (Rahman & Farin, 2018). Contract manufacturing is outsourcing of pharmaceutical production to the developing world with cost advantage. It involves production of goods by local manufacturing firm, under the label or brand of the original firm. By 2021, this feature of pharmaceutical industry is projected to generate contracts worth over \$205 billion (Pharma iQ, 2018).

¹⁹ If the industry wants to achieve \$1 billion mark by 2025, growth rate will have to be 41 per cent for the next six years.

Figure 11.10: Growth projections of pharmaceutical exports

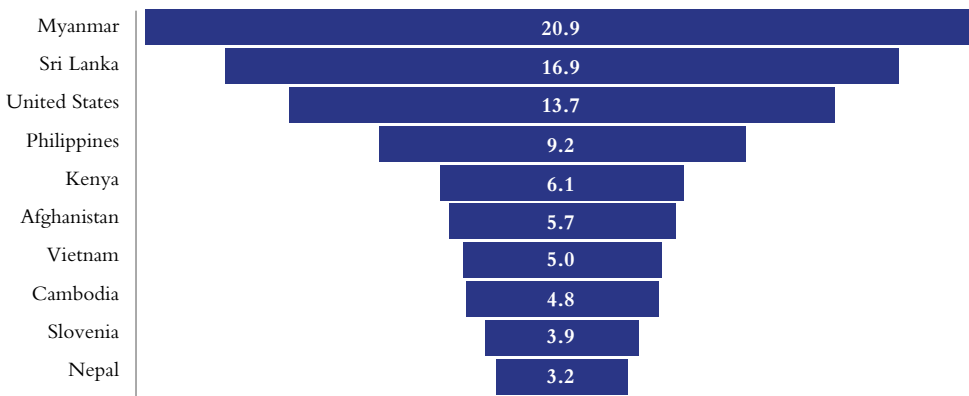


Note: BAU means business as usual situations; CAGR stands for the compound annual growth rate.
 Source: Authors' estimation.

Export destinations and market reach

According to Export Promotion Bureau data, Bangladesh is exporting pharmaceutical products to more than 120 countries across the world, which includes 31 LDCs and, as mentioned above, the heavily regulated markets like the United States and the United Kingdom. The top export destinations in FY19 were Myanmar, Sri Lanka, the United States, the Philippines, and Kenya (amongst 120 export markets). These five destinations together capture 51 per cent of the total pharmaceutical exports. Amongst these, Myanmar was the largest market accounting for \$20.8 million export earnings, followed by Sri Lanka (\$16.9 million), and the United States (\$13.6 million). The top 10 export destinations together comprise 68 per cent of the total pharmaceutical exports.

Figure 11.11: Top ten pharmaceutical export destinations of Bangladesh (million \$)



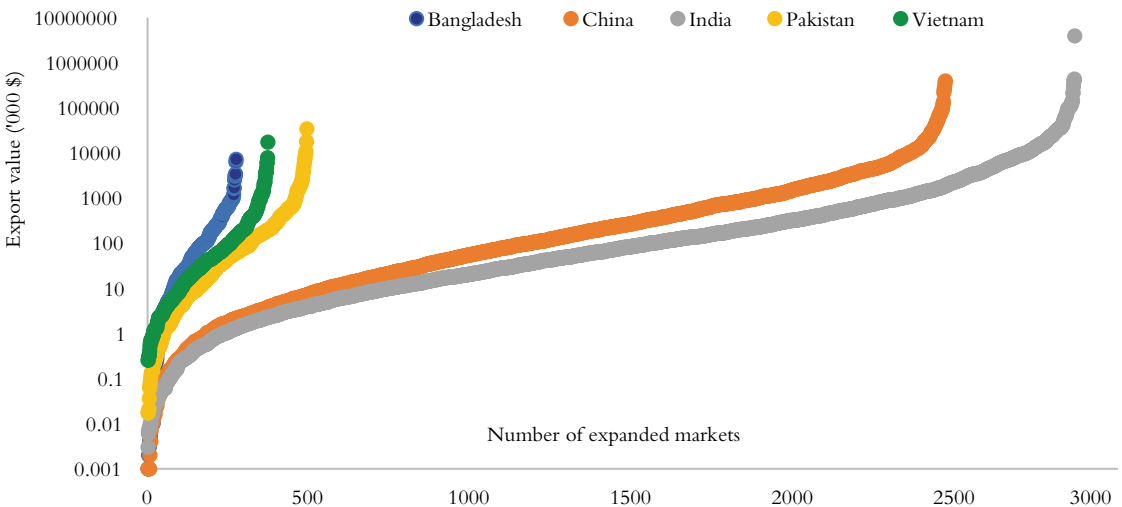
Source: Authors' presentation using EPB data.

Using the expanded market reach analysis for pharmaceutical products, the nature of

Bangladesh’s market concentration can be compared with other countries.²⁰ As part of the analysis, four countries (China, India, Pakistan, and Vietnam) have been chosen as comparator economies. Using the latest available data, this analysis considers the number of all possible export markets based on a country’s individual export products and the number of export destinations.

It is found that Bangladesh’s pharmaceutical exports are concentrated in fewer markets in contrast with other comparators (Figure 11.12). Considering all individual products and market combinations, Bangladesh managed to reach out to only 274 expanded export market destinations. In comparison, India had 2,866 expanded destinations; China reached out to 2,465 destinations. Vietnam and Pakistan had respectively, 492 and 372 market reaches. Therefore, Bangladesh needs to expand its product base and the market reaches as well.

Figure 11.12: Expanded market reach analysis for pharmaceuticals (HS 30)



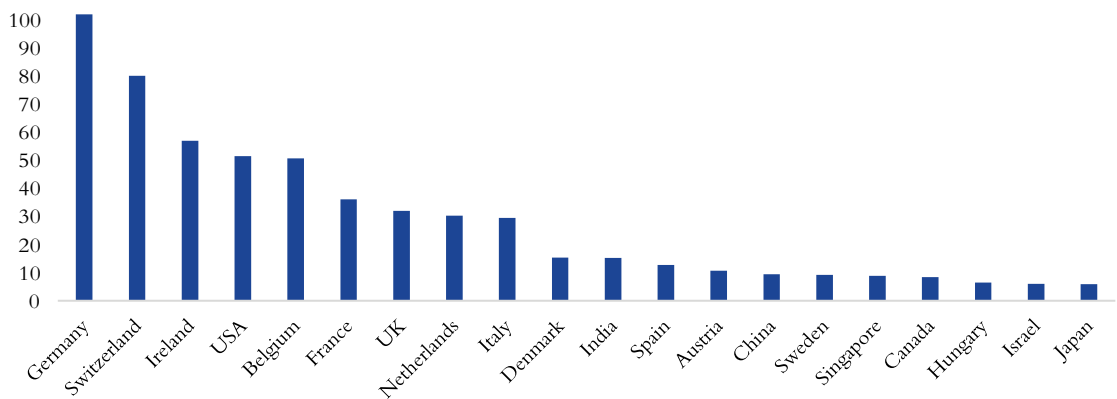
Source: Authors’ analysis using UN Comtrade data.

Export market prospects

Export potential

There is a substantial opportunity to enhance export response as the global market for generic drugs is valued at \$340 billion and projected to reach \$475 billion by 2024 (IMARC, 2019). Developed countries like Germany, Switzerland, Ireland, the United States and Belgium were among the top exporters of pharmaceutical products (HS 30) in 2018 (Figure 11.13).

²⁰ Expanded market reach is defined as the total number of export relationships. Suppose, if a country sells N number of products in country i, where i= 1, 2, …, m, then the total or expanded export market reach would be $\sum_{i=1}^m N_i$. The higher is the value of this expression, the more diversified the economy is. Here, N has been considered at the HS 6-digit level while m is the number of countries. For example, if a country sells 12 pharmaceutical products in country 1 and 42 pharmaceutical products in country 2, then the expanded market reach/destination for pharmaceutical products would be $12 + 42 = 54$. The higher the value, the higher is the number of markets being reached by an exporting country.

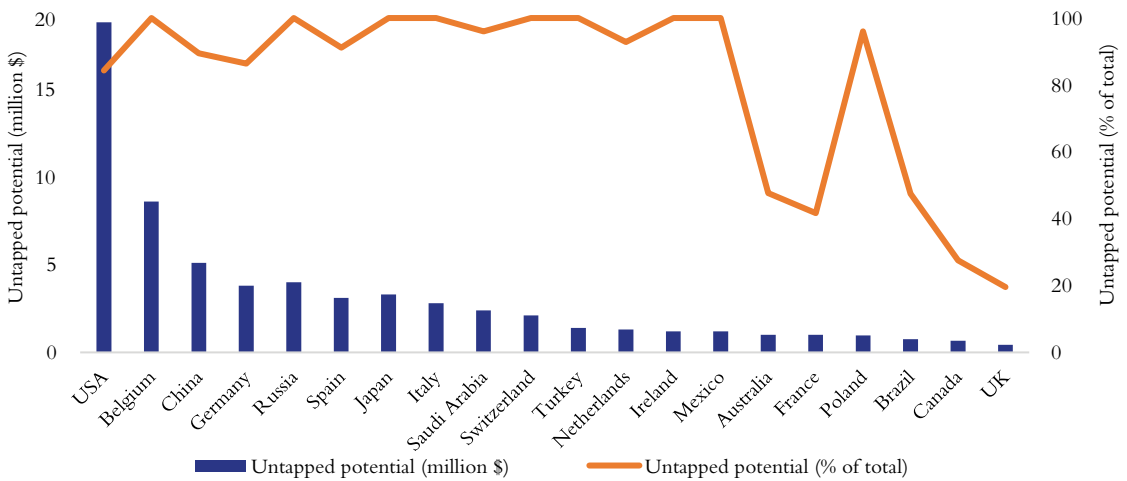
Figure 11.13: Major exporters of pharmaceutical products (HS 30) in 2018 (billion \$)

Source: Authors' presentation using ITC data.

Notes: For India, the ITC used India's data until January 2017 (\$14.27 billion). This is close to India's Department of Commerce data for HS 30 in 2018–19 (\$14.75 billion). The Pharmaceuticals Export Promotion Council of India reports that India's export of drugs, pharmaceuticals & fine chemicals was \$19.13 billion in FY19.

The local industry informants are of the view that given the domestic capacity and recent dynamism, Bangladesh can be a major supplier of low-cost generic drugs and vaccines. Therefore, it would be of interest to ascertain any existing unutilised potential of this sector. The International Trade Centre (ITC) has developed a method for estimating the unrealised export potential. It is based on an 'Export Potential Indicator' (EPI) which identifies products in which an exporting country has already proven to be internationally competitive and which is likely to have promising prospects of export success. The EPI comprises three components: exporters' supply capacity of a product, demand conditions, and bilateral easiness-to-trade. An exporter's supply capacity is estimated as a dynamic version of market share where expected economic growth is considered to augment the exporter's capacity; and product-specific trade balance measured by the export-import ratio and global margin of preference, which encompasses information on tariff preference. Demand conditions are captured through partners' projected imports, which are determined by projected GDP and population growth; margin of preference in the target market; and distance advantage, which compares suppliers' geographical distances with the target market. The easiness-to-trade between any two countries is computed based on the actual trade relative to the hypothetical trade estimated by supply and demand conditions. If easiness to trade between countries is greater than 1, countries find it easier to trade between themselves relative to world markets. The ITC export potential is then calculated based on the estimated supply capacity, demand conditions and bilateral easiness-to-trade. A comparison of potential and actual export earnings provides the estimation of untapped export potential.

According to the Export Potential Map of International Trade Centre (ITC), as of January 2020, the markets with greatest potentials for Bangladesh's exports of pharmaceutical components are the United States, Belgium, and China (Figure 11.14). The Export Potential Map suggests that there exists an opportunity to realise additional exports worth \$78.2 million, which is about 60 per cent of Bangladesh's total pharmaceutical exports in FY19. This estimated potential is based on a static analysis considering the current situation. The estimated export potential is small when the export base of a country is also small.

Figure 11.14: Export potential of pharmaceutical components

Source: Authors' presentation from ITC Export Potential Map.

Analysis of individual market prospects

Considering one particular market, how a country compares with other rival suppliers in terms of market share and export growth can offer very useful insights in assessing competitiveness and market prospects. The International Trade Centre (ITC) has provided a simple yet perceptive method for undertaking market prospect assessments for individual destination countries. The analysis is based on three primary factors: (i) export growth rates of competing countries in the destination market, (ii) all competing countries' export growth in the global market, and (iii) competing countries' market share in the same destination market. Utilising this methodology, Bangladesh's market prospects are analysed in the current top four export destinations: Myanmar, Sri Lanka, the United States, and the Philippines. A brief assessment of the overall African market is also presented.

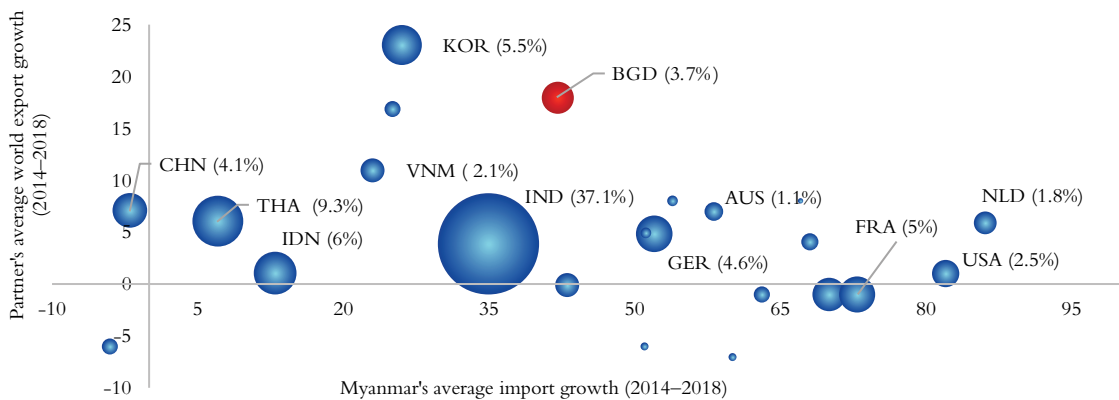
Myanmar

As mentioned earlier, Myanmar is the most important pharmaceutical export market for Bangladesh. In 2018, Myanmar imported \$0.54 billion worth of pharmaceutical products. Therefore, the overall market size is not very big. Figure 11.15 summarises the export market prospects in Myanmar, where the horizontal axis indicates Myanmar's average import growth from all partner countries during 2014–2018 while the vertical axis shows the average world export growth of partner countries for the same product during the same period (i.e. 2014–2018). The size of the bubbles represents relative shares of various suppliers in Myanmar's import of pharmaceutical items. As evident, India is the largest supplier in Myanmar, accounting for more than one-third of total imports (37.1%). Among other exporters, Thailand (9.3%), Indonesia (6%), France (5%), Germany (4.6%), and China (4.1%) hold sizeable market shares. Bangladesh's share is 3.7 per cent.

From the position on the horizontal axis, it is observed that during 2014–2018, Bangladesh's pharmaceutical exports to Myanmar grew at an average annual rate of 42 per cent, higher than

most generic medicine exporters such as India (35.4%), Vietnam (23%), and Thailand (7%). But, a closer look at the data seems to suggest that patented drug exporters like the United States (82%), France (73%), Germany (52%) have experienced stronger growth, albeit due to their initial small export base. Overall, Myanmar has seen a very strong import growth of 21 per cent during the reference period.

Figure 11.15: Market prospect analysis for pharmaceutical products in Myanmar

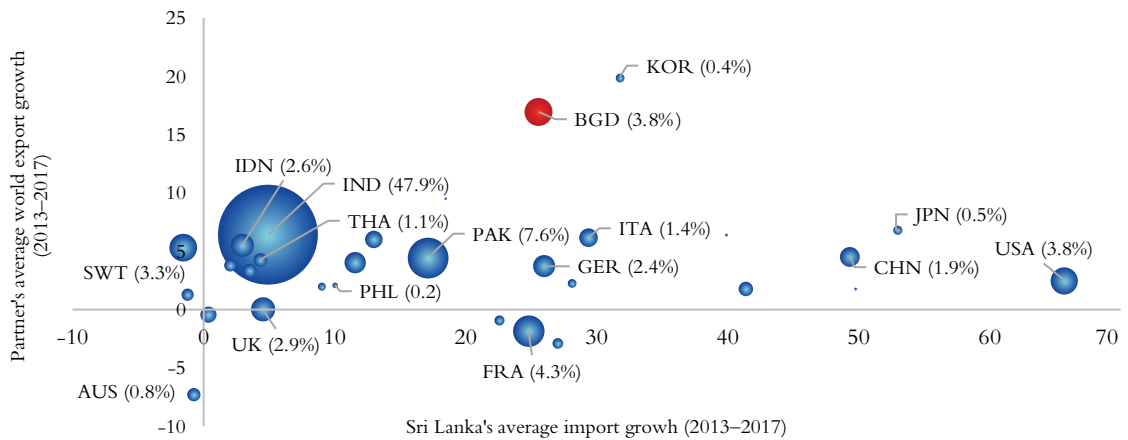


Source and note: Authors' analysis using ITC data. The bubble sizes represent shares of various suppliers in Myanmar's pharmaceutical imports (the numbers within the parentheses indicate the percentage of market share). Countries are indicated as AUS—Australia, BGD—Bangladesh, CHN—China, FRA—France, GER—Germany, IDN—Indonesia, IND—India, KOR—the Republic of Korea, NLD—the Netherlands, THA—Thailand, USA—the United States of America, and VNM—Vietnam.

With a population of nearly 54 million and \$1,326 GDP per capita, Myanmar's pharmaceutical market size is expected to grow to \$1 billion by 2023 (Invest Myanmar, 2018). Therefore, there will be opportunities for expanded export earnings although Bangladesh's market prospects can be quite challenging given the presence and growth of global suppliers. Bangladesh can consider Myanmar as a niche market, building on the current presence and taking advantage of geographical position as a neighbouring country. However, given the overall small size of the market, it will be difficult to grow exports significantly.

Sri Lanka

Bangladesh accounts for 3.8 per cent market share in Sri Lanka, where India is the largest supplier, occupying nearly half of the market (Figure 11.16). Other major exporters, Pakistan (7.6%), France (4.3%), USA (3.8%), Switzerland (3.3%), and Indonesia (2.8%) hold substantial shares of this market. Reading from the horizontal axis, it can be inferred that over the five years of 2013–2017, Bangladesh's pharmaceutical exports to Sri Lanka annually grew at an average rate of 25 per cent, higher than other exporters such as India, Pakistan, UK, and Switzerland. Indeed, Bangladesh managed to achieve export growth almost four times Sri Lanka's average import growth (6.5%). This is partly because of the fact that Bangladesh had started off with a small export base. With 22 million population and a small market volume, continued export expansion at a brisk pace in this market can be challenging. Similar to Myanmar, however, this market can be considered as a niche market for the future.

Figure 11.16: Market prospect analysis for pharmaceutical products in Sri Lanka

Source and note: Authors' analysis using ITC data. The bubble sizes represent shares of various suppliers in Sri Lanka's pharmaceutical imports, while numbers indicate the percentage of market share. Countries are indicated as AUS—Australia, BGD—Bangladesh, CHN—China, FRA—France, GER—Germany, IND—Indonesia, IND—India, ITA—Italy, JPN—Japan, KOR—the Republic of Korea, PHL—the Philippines, SWT—Switzerland, THA—Thailand, UK—the United Kingdom, and USA—the United States of America.

The United States

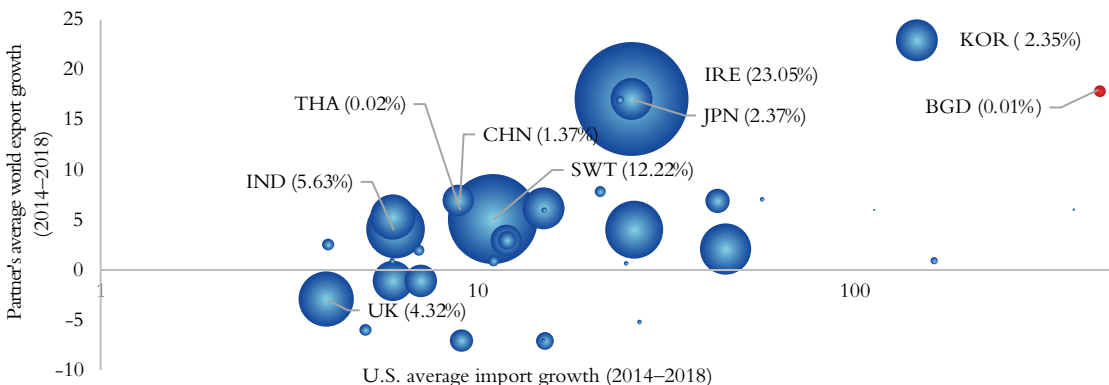
Currently, the United States is the third largest export destination of Bangladesh's pharmaceutical products. Due to high expenditures associated with healthcare, the United States accounts for 45 per cent of the import value for the global pharmaceutical market, making it the biggest import destination in the world. The market is highly regulated by intellectual property rights laws and enforces a very high standard of quality control requirements.

Figure 11.17 portrays market prospects in the United States. Producers of patented drugs (such as Japan, Ireland, Switzerland, the United Kingdom, and the Republic of Korea) hold major shares in the U.S. market. Capturing about a quarter of the market (\$115.6 billion in value terms), Ireland is the largest exporter. Among large generic exporters, India has a market share of 5.63 per cent while China has a smaller share of about 1.4 per cent. Bangladesh holds only a meagre 0.01 per cent share in this market.

The U.S. market is witnessing a strong growth as its import of pharmaceutical products grew at 12 per cent per annum. From virtually nothing, Bangladesh's pharmaceutical export to the U.S. has grown rapidly. This market holds an enormous prospect for further export expansion. Currently, two leading pharmaceutical companies (Beximco Pharmaceuticals Ltd. and Square Pharmaceuticals Ltd.) have the approval to export to the United States. In July 2019, Beximco launched its sixth product in this market. According to industry experts, even after obtaining USFDA (United States Food and Drug Administration) approval, it takes time to go through the regulatory requirements imposed by the market. As a result, exports are yet to take off.

Future export growth in this market will require the suppliers' adhering to stringent USFDA regulations and GMP standards along with other factors. According to industry sources, high cost in drug registration and bioequivalence tests are often barriers for the exporters. Nonetheless, securing only a small share in this market can result in huge export earnings.

Figure 11.17: Market prospect analysis for pharmaceutical products in the U.S.

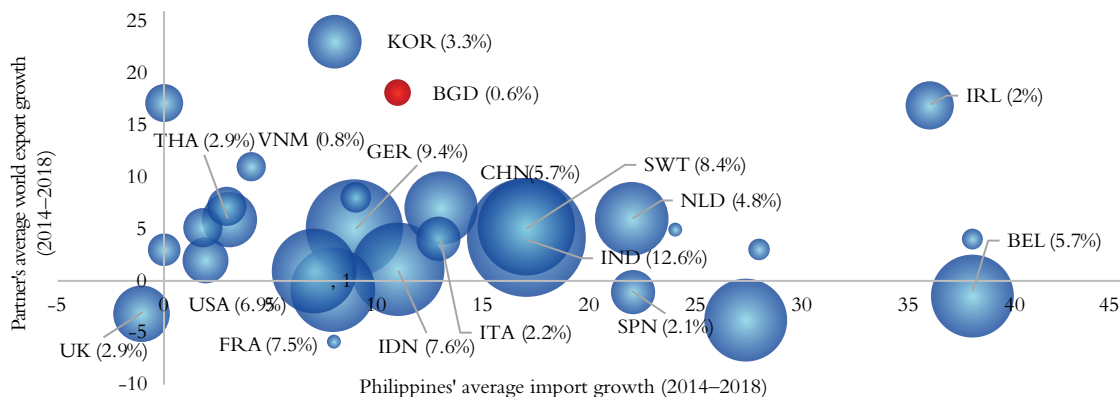


Source and note: Authors' analysis using ITC data. The bubble sizes represent shares of various suppliers in the United States' pharmaceutical imports, while numbers indicate the percentage of market share. Countries are indicated as BGD—Bangladesh, CHN—China, IND—India, IRE—Ireland, JPN—Japan, KOR—the Republic of Korea, SWT—Switzerland, THA—Thailand, and UK—the United Kingdom.

The Philippines

In the Philippines, Bangladesh holds around 0.6 per cent of the import share of pharmaceutical items (Figure 11.18). India is the largest exporter with a market share of 12.6 per cent, followed by Germany (9.4%), Switzerland (8.4%), the United States (6.9%), China (5.7%), and Belgium (5.7%). The Philippines' market grew at a rate of 11 per cent per annum during the period 2014–18. Bangladesh export expansion in this destination matched the exact same rate. In terms of sources of supplies, the market is well-diversified as most established suppliers such as Belgium, France, Germany, the Netherlands, the Republic of Korea, Spain, and Switzerland enjoy comparable market shares. As a result, competition in this market is already quite intense. To capture a sizeable share of this \$1.6 billion market, Bangladesh needs to remain competitive in the long run.

Figure 11.18: Market prospect analysis for pharmaceutical products in the Philippines



Source: Authors' analysis using ITC data. Note: The bubble sizes represent shares of various suppliers in the Philippines pharmaceutical imports, while numbers indicate the percentage of market share. Countries are indicated as AUS—Australia, BGD—Bangladesh, BEL—Belgium, CHN—China, FRA—France, GER—Germany, IDN—Indonesia, IND—India, ITA—Italy, IRL—Ireland, JPN—Japan, KOR—the Republic of Korea, NLD—the Netherlands, PHL—the Philippines, SPN—Spain, SWT—Switzerland, THA—Thailand, UK—the United Kingdom, USA—the United States of America, and VNM- Vietnam.

The African market

Another export destination which may hold significant potential in the future is the continental African market. In 2018, the value of imported pharmaceutical items by African countries stood at \$15.43 billion. Bangladesh currently occupies only 0.08 per cent of this market. India (18.87%), France (16.93%), Germany (7.46%), Belgium (5.19%), China (4.58%) are the major suppliers. The import growth of pharmaceutical products in Africa (2.2% per annum during 2014–18) appears to be quite slow but is expected to expand fast given the rising per capita income. There is an estimate to suggest that the value of imported drugs by African countries is likely to double (up to \$30 billion) by 2030 (Holt, et al., 2016). Although Bangladesh's export base is currently small, proactive initiatives to enhanced market share should be a priority consideration. However, according to some key informants, market prospects are becoming increasingly daunting due to stringent regulations imposed by importers. Nevertheless, several firms are planning to expand their business by setting up plants in African countries. At present, one of the leading pharmaceutical manufacturers is already building its plant in Kenya which is expected to resume operation in 2021 (Box 11.1). More of such initiatives would partly help the export supply, as suppliers can better understand the market demands of the importing countries.

Box 11.1: Square pharmaceuticals: leveraging the Kenyan opportunity

Square Pharmaceuticals Ltd (SPL), one of the pharmaceutical giants in Bangladesh, has been operating since 1958 and is currently exporting to 42 countries across the world. In 2005, SPL started exporting to Kenya. With 117 products registered with Kenya's drug regulatory agency (the Pharmacy and Poison Board), Kenya has been one of the lucrative export destinations for SPL. As Kenyan pharmaceutical firms can supply only 30 per cent of the country's demand, the market remains largely reliant on imports.

In January 2018, SPL launched its subsidiary in Kenya as Square Pharmaceuticals Kenya EPZ Ltd. SPL became the first pharmaceutical firm in Bangladesh to extend its operation abroad. With commercial production expected to commence from the first quarter of 2021, the plant is projected to manufacture two billion tablets and capsules, and sixty million bottles of liquid formulations. Products will undergo pre-qualification from the World Health Organization (WHO) before being released in the market and are expected to be supplied throughout Africa in the future. Equipped with the state-of-the-art manufacturing technology and quality control, Square Pharmaceuticals Kenya EPZ aims to satisfy the unmet demands of various African consumers in Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda.

Source: 'Square Pharmaceuticals begins constructing Kenya plant', The Daily Star (10 January 2018).

11.4 LDC Graduation and Pharmaceutical Exports

International trade regime for the pharmaceutical industry

The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) provides a minimum global standard regime for the protection of intellectual property rights (IPRs). The TRIPS Agreement, which came into force on 1 January 1995, obligates WTO members to align their national IPR regimes in line with the standards set forth by this agreement. Non-compliance of TRIPS standards can be reported to the WTO's Dispute Settlement Body to ensure enforcement of obligations. TRIPS compliance is particularly important for the pharmaceutical sector as new drugs are usually protected by intellectual property rights.

To comply with the TRIPS Agreement, LDCs were initially given a general transition period. After two successive extensions granted by the TRIPS Council, LDCs now enjoy the extended general transition till 2021. In addition, pursuant to the 2001 Doha Ministerial Declaration on the TRIPS Agreement and Public Health, LDCs members of the WTO were exempted from implementing patent protection for pharmaceutical products. The TRIPS council has also extended this waiver for the LDCs till 2033. However, LDC graduation will terminate this extended transition period for graduating countries. Besides these transition periods, the TRIPS provides various flexibilities (broadly referred to as the TRIPS waiver) for the LDCs to develop their IPRs regimes. At present, Bangladesh benefits from these two transition periods and TRIPS waiver as an LDC member of WTO.

In the pre-TRIPS era, Bangladesh's domestic policies focused on the development of national drug production capacity and restricted the market power of multinational corporations (MNCs). These policies, as mentioned earlier, benefitted Bangladesh's local manufacturers to meet the domestic demand for drugs and keep the prices of the medicines affordable for mass population (Reich, 1994). After the adoption of the TRIPS Agreement, Bangladesh continued to boost its drug production capacity under the shield of the TRIPS waiver which grants the right to produce any drug regardless of its patent protection. In fact, nearly one-fifth of the manufactured drugs in Bangladesh are patent protected (Rahman & Farin, 2018). Some of these drugs are priced at a fraction of their internationally patented counterparts, thereby serving the local population with an accessible source of medicine.

Local firms can also export generic versions of patented drugs to any country where those drugs are not covered by patents or where compulsory licenses are issued to treat diseases like cancer or HIV/AIDS. Several pharmaceutical companies like Beacon, Beximco, and Square have already taken advantage of this via collaboration with patenting firms or international financial institutions.

Again, the TRIPS waiver allows local manufacturers to enjoy preferential facilities over multinational corporations operating in Bangladesh and have a regulatory framework in action which is largely otherwise inconsistent with WTO regulations. Another TRIPS flexibility is the issuance of compulsory licensing. By using this instrument, a government allows an external entity to produce a patented product or process without the consent of the rights holder to use the patent-protected invention itself. Article 31(f) of the TRIPS Agreement states that products made under compulsory licensing must be "predominantly for the supply of the domestic market" and included the term "national emergency or extreme urgency" as possible contexts for issuing such compulsory licensing. This led to a sense of ambiguity that countries can only perform it under special conditions, or for the purpose of serving domestic demands.

However, the Doha Declaration, and later the amended TRIPS Agreement which came into force from January 23, 2017, provided further clarifications. Paragraph 5(b) of Doha Declaration of TRIPS on public health acknowledged, "the existence of flexibilities in the TRIPS Agreement with respect to the right to grant compulsory licenses and that each WTO Members has the freedom to determine the grounds on which such licenses are granted.", while paragraph 6 went on to recognise that "members with inadequate pharmaceutical manufacturing capacities could face difficulties in making effective use of compulsory licensing under the TRIPS

Agreement.” The Doha Declaration and the WTO’s General Council decision (dated August 2003) made it clear that compulsory licensing can be used to supply in the domestic market as well as for imports and exports. While LDCs can use compulsory licensing to import patented bioequivalent from cheaper sources without notification, non-LDC members must notify the WTO if they wish to use it. Developed countries have already declared that they will not utilise this measure. Although some LDCs have used compulsory licensing to import drugs (Bangladesh never did), no LDCs, have been able to utilise this opportunity to export in other destinations. It has been reported that most LDCs find the legal provisions of the WTO to be too difficult or suffer from capacity-constraints to utilise it (UNCDP, 2016).

There exists further opportunity to benefit from the flexibilities embedded in TRIPS article 31bis paragraph 3.²¹ According to Article 31bis (paragraph 3), when a developing country (whether or not an LDC) belongs to a regional trade agreement (RTA) where at least half of the membership is made up of LDCs, the limitations on only domestic production under compulsory licensing does not apply and provides an opportunity to export in a RTA-covered area.²² While Square Pharmaceuticals’ recent operations (Box 11.1) in Kenya are expected to make entry into the Common Market for Eastern and Southern Africa (COMESA), other Bangladeshi firms are yet to capitalise on such opportunities (Business Daily, 2018). A wide range of factors including political pressure from some developed countries to comply with the TRIPS-plus agenda, complicated legal frameworks of LDCs, and supply-side constraints can explain such failure to utilise TRIPS benefits (Matthews, 2005).

Graduation implications for the policy regime

LDC graduation would imply termination of the extended transition period to comply with the TRIPS Agreement eight years earlier. The end of TRIPs pharmaceutical waiver is likely to shrink the policy space for Bangladesh.

Updating the Patent Law and IPR Policy

One pressing issue will be updating Bangladesh’s existing IPR related legal framework and bringing changes to regulatory bodies to make them WTO-complaint. A broad range of laws and administrative mechanisms will have to be evaluated and updated to ensure conformity with TRIPS regulations. The primary IPR protection law in Bangladesh is governed by the National Patents and Designs Act (NPDA) of 1911, and Patents and Designs Rules 1933. As per the existing provision, patent protection is granted for 16 years, instead of the TRIPS requirement of a minimum of 20 years.

With the assistance of the World Intellectual Property Organization (WIPO), the Department of Patent, Designs, and Trademarks (DPDT) of Bangladesh has already prepared a draft for the new patent act, providing special opportunities for the pharmaceutical sector such as the so-called

²¹ The full text can be viewed from WTO analytical index of TRIPS Agreement – Article 31bis. https://www.wto.org/english/res_e/publications_e/ai17_e/trips_art31_bis_oth.pdf.

²² The text says: “to the extent necessary to enable a pharmaceutical product produced or imported under a compulsory license in that Member to be exported to the markets of those other developing or least developed country parties to the regional trade agreement that share the health problem in question.”

'Bolar provision' and 'Parallel importation' (World Bank, 2008).²³ Incorporation of the 'Bolar Provision' would be helpful as the current business model of top local pharmaceuticals includes extensive use of it which enables them to develop 'bioequivalence' by reverse-engineering of patented drugs that are supposed to go off-patent in near future (Rahman & Farin, 2018).

Although the draft law recognises patent protection for 20 years, it excludes pharmaceutical products from patent protection available under TRIPS waiver (South Centre, 2019). This draft was supposed to come into effect in 2015, but yet to be enacted. Furthermore, it has been argued that, the draft law requires full utilisation of TRIPS flexibilities and adequate focus on public health (Chowdhury, 2018).

In 2018, Bangladesh adopted a new National Innovation and Intellectual Property Rights Policy. It has been suggested that the new IPR policy needs to make proper use of TRIPS waiver to promote the country's public health objectives and support the local generic molecule manufacturers (South Centre, 2019).

Reviewing the 1940 Drugs Act and the National Drugs (Control) Ordinance of 1982

Currently, the 1940 Drugs Act allows regulatory bodies to control how imported drugs are labelled, requiring complete formulaic information to be printed.²⁴ Under the same act, foreign firms have to provide test data (information on biological subjects during trial periods) to regulatory authorities. However, according to Article 29.1 of the TRIPS, non-LDC members cannot force foreign parties to reveal complete formulaic information (Gay, 2017).

Several provisions of the National Drugs (Control) Ordinance of 1982 will need amending to ensure compliance with the WTO regime. Under this ordinance, multinational corporations (MNC) are prohibited from manufacturing drugs in Bangladesh without the joint collaboration with local manufacturers. In addition, MNCs are barred from importing a drug if the same (or its close substitutes) is manufactured by three local firms. Furthermore, MNCs are restricted from any marketing approval if the product is not locally manufactured. The 1982 ordinance also states that, if a foreign-registered patented drug has not been produced in Bangladesh for four years, the patent can be cancelled in the local market. A TRIPS-consistent regime will not allow for such infringement (Chowdhury, 2014). In the post-LDC period, patented drugs that are exported to other countries will be subject to this infringement. Article 44 of the TRIPS Agreement requires that countries have mechanisms for a party to file for an injunction in the event of an infringement of a patent and that authorities would be able to seize imported goods in such case (Fekuda-Parr & Treanor, 2018).

²³ The 'Bolar provision' (also known as the Roche-Bolar provision) permits non-patent holders to conduct studies, research and test for drug regulatory approvals and other related acts such as drug manufacturing (but not for sale). Under this provision, generic producers can prepare for manufacturing a drug well before the patent expiration so they can start selling it immediately when the drug comes off-patent. 'Parallel importation' involves the import of a medicine in one country and then distribution of that drug from original importing country to other countries.

²⁴ The 1940 Drugs Act first prohibited the import of a drug unless its complete formula is displayed on the packaging (The Drugs Act of 1940, Act no. XXIII of 1940).

While the product patent of foreign medicines was disallowed by the National Drug Policy 1982, in 2002 process patents were also prohibited (Azam, 2016). The ordinance of 1982 allowed the Directorate General of Drug Administration (DGDA) to effectively regulate prices in the local market and gave authorities to assign compulsory licensing to ensure affordable sources of medication. These regulations rendered substantial advantage to the local pharmaceutical industry. Indeed, within a decade of their implementation, the share of imported drugs was reduced to 20 per cent from as high as about 70 per cent (Reich, 1994).

While the existing law includes the option to activate ‘compulsory licensing’, Bangladesh never used it (Chowdhury, 2014). The process of compulsory licensing is more stringent for non-LDCs. However, according to the TRIPS agreement, LDCs are not required to enforce these until 2033 or LDC graduation, whichever comes first.

Pricing, competition, and technology transfer

Although an overwhelming majority of the drugs produced in Bangladesh are off-patent, the demand for patented drugs is expected to increase due to changes in the disease profile. After LDC graduation, patented drug production is likely to experience higher cost as it will require acquiring permission from and paying royalty fees to the patent owners. Consequently, the consumers and the public health system in Bangladesh and other LDCs could be affected. According to industry experts, patent protection would adversely affect the country’s current effort to reduce import dependency. API manufacturing can also be affected following the enforcement of patents. Also, drug registration procedures might become stringent after LDC graduation. There is a general apprehension that if pharmaceutical firms are required to conduct bioequivalence tests for drug registration, it may increase overall drug prices as well.

Withdrawing import restrictions could result in an intense market competition from major manufacturers like China and India. The local manufacturers could face multifarious effects of stronger patent protection and increased participation of multinationals, which may result in industry consolidation.

Given the country’s scant capacity in R&D, the sector’s reliance on reverse engineering to imitate drug production could be limited after LDC graduation due to stronger IPR protection. This can impede the sector from the benefits of technology transfer to spur future growth. Article 66.2 of the TRIPS Agreement underscore the necessity for the transfer of technology to LDCs. Although WTO members undertook initiatives in paying attention to capacity building, the focus of donors has been on providing support which favours the right holders through improved IPR enforcement standards (Matthews, 2005; Chowdhury, 2014). According to industry sources, the support received in technology transfer has largely been non-existent.

Although it is quite difficult to ascertain exact implications for the pharmaceutical industry after LDC graduation, drawing from various studies, Box 11.2 outlines major potential implications for the pharmaceutical industry after LDC graduation.

Box 11.2: Potential implications for the pharmaceutical industry after LDC graduation

- Stronger IPR protection
- Higher cost of patented drugs
- Limits on reverse engineering ability
- Increased market competition due to withdrawal of import restrictions
- Stringent drug registration procedure

Source: Based on various sources (South Centre, 2019; Gay, 2017; Azam, 2016).

Export Performance

Bangladesh currently benefits from LDC-specific flexibilities to export drugs. Ideally, the provisions would allow exporting of patented medicines to those markets where the drugs are not patent-protected or in the markets where compulsory licenses are in use to treat diseases like AIDS, cancer etc. As the current level of pharmaceutical exports, and especially those of patented medicines, has remained rather modest, Bangladesh's exports may not get significantly affected due to cessation of TRIPS pharmaceutical waiver. Table 11.6 provides an overview of the changes in market access conditions for pharmaceutical products in selected countries. Although tariffs can rise in the post-graduation period, it may not be a major concern for the sector. After LDC graduation, the current policy of export subsidy and other support measures to incentivise export performance could be considered non-compliant with the Agreement on Subsidies and Countervailing Measures (WTO, 1994).²⁵ Again, this should also not be a major cause of concern as the industry has started receiving the cash assistance support only recently. Nevertheless, it shows how the policy space to support the export sector could shrink after graduation.

Table 11.6: Market access conditions for pharmaceutical products after LDC graduation

Country	LDC tariff	Post-graduation tariff	MFN tariff
Australia	0%	No preference.	5% for selected items under HS 3002, 3005 and 3006. 0% for others.
Canada	0%	0% (except HS 30067090)	0% (except HS 30067090)
China	0% except HS 3001 and HS 30049090	No preference	4.74%
EU	0%	0%	0%
India	0%	5.8%	9.9%
Japan	1.78%	4.96%	5.06%
Republic of Korea	0%	4.04% (under APTA)	4.44%

Source: Authors' analysis using WITS data. Note: APTA = Asia-Pacific Trade Agreement.

²⁵ The agreement defines subsidies as "any financial transfer, tax credits, government purchases of goods, or any income or price support."

11.5 Policy Recommendations

Bangladesh's pharmaceutical export has huge potential given the soaring global demand for generic drugs along with a substantial rise in the number of drugs coming off-patent. However, for such a highly sophisticated sector with extremely challenging global standards and expanding export opportunities, breaking into major import destinations will require addressing various capacity constraints on a priority basis. Bangladesh's impending LDC graduation is also likely to bring in a challenging environment for which appropriate preparedness must be given serious consideration. A positive development is that the industry has already received close policy attention, and it is now important to ensure effective implementation of various support measures to boost the supply response on the back of its recent export dynamism. In this respect, some industry-specific policy recommendations are discussed below.

Enhancing supply-side capacities

Implementation and operation of the API park: Strengthening the backward linkage through domestic production of API is already a policy priority that has been reflected in various supportive measures directed to the industry. As discussed earlier, the API policy does provide incentives for API production and export. However, business enterprises can only reap benefits when they are able to produce and export APIs. The government initiative to establish an API industrial park is, therefore, an apt policy measure. The Bangladesh Small and Cottage Industries Corporation (BSCIC) has been developing the API Park in Munshiganj district and the work is expected to be completed by June 2020. However, after several revisions of the initial project proposal approved in 2008, the project implementation progress was at 63 per cent in August 2019.²⁶ According to the BSCIC, the API park will comprise 42 plots which will enable pharmaceutical companies to set up their plants and is likely to create 25,000 new jobs. Some industry insiders suggest that, even after setting up the plants, it may take a further five to six years for the API production to take place. This is due to the inherent characteristics of API manufacturing that follows complex chemical preparations and syntheses. Therefore, timely implementation and effective operation of the API park constitutes a policy priority.

Proper implementation and operation of the API park will not only help reduce import dependency but also enable firms to expand their exports. It will support Bangladesh's establishing a footprint in the global API market, which is projected to reach \$245 billion by 2024 (Research and Markets, 2019). China is a noteworthy example of specific government interventions developing a thriving API industry. Policies adopted in China and India suggest that achieving API production capacity at a large-scale will require a focused approach in building competency and inducing substantial investment.

Other supporting factors in API manufacturing: API manufacturing is regarded as a high-volume, low-margin business, which is extensively dependent on economies of scale and dedicated manufacturing lines in production. During the consultation with industry professionals, the absence of a vibrant petrochemical industry in Bangladesh came up as a major factor constraining the pharmaceutical supply response. To achieve cost-leadership in API manufacturing, it is

²⁶ Information obtained from project progress report of BSCIC.

essential to have a strong petrochemical industry, which can help strengthen the backward linkage of the pharmaceutical sector. It is also important to ensure that API manufacturing facilities have adequate infrastructure to achieve economies of scale. Some industry experts are of the view that the size of the plots being allotted to firms in the API park are inadequate to build full-fledged manufacturing units. Uninterrupted utility supplies and availability of central effluent treatment plants (CETP), amongst others, will have to be ensured to enable firms in minimising production costs and maintaining global standards. For future API production, opportunities in various industrial parks and special economic zones (SEZs) should be explored.

Strengthening synthetic chemistry skills: Industry representatives have also pointed out that for export success in regulated markets, the use of drug master file (DMF) grade API in medicines is a prerequisite.²⁷ India, the major generic drug supplier, has more than 4000 DMF approvals for API whereas Bangladesh has none.²⁸ Besides, there is a need to develop domestic capabilities to produce high-value patented API molecules which will help reduce dependency on external markets. To achieve these, the government and BAPI can collaborate in developing institutional capabilities to strengthen synthetic chemistry skills. Improved capacities will enable the country to manufacture the API of newly patented drugs and thus enhance the generic drug exports as soon as the API comes off-patent.

A special economic zone (SEZ) for the pharmaceutical industry: Developing a dedicated special economic zone (SEZ) for the pharmaceutical industry can help improve supply-side capacities for export success. Infrastructure and business environment within such a SEZ should be of global standard. It is also important to ensure that the SEZs offer faster permitting, reduced taxes or duties and relaxed control over movement of capital and goods. Experiences of China and India suggest that numerous SEZs boosted pharmaceutical exports.

Infrastructure for exporting high-end pharmaceutical products: Pharmaceutical products are extremely sensitive to storage and handling conditions. For enhanced export of high-end products, creating a dedicated cargo storage and handling zone exclusively for sensitive pharmaceutical products (such as biologics, insulins, vaccines etc.) which require cold chain system thus constitutes an important consideration. Bangladesh can learn relevant lessons from India which has 'Pharma Zone' for such products. In addition, Bangladesh can seek assistance from the World Health Organization (WHO) to make such facilities compliant with international standards.

Reducing the cost burden of bioequivalence testing

Reducing the cost burden on test fees: Bioequivalence (BE) testing is essential to examine whether the generic version of a drug is identical to the originator brand or not. This test is mandatory for product registration in any moderately and well-regulated foreign market. The test requirements vary across countries and involve clinical trials of the drug on human volunteers

²⁷ A drug master file (DMF) is a document containing complete information on an active pharmaceutical ingredient or finished drug dosage form. The document is prepared by a pharmaceutical manufacturer and submitted to an appropriate regulatory authority in the intended drug market. The document provides factual and detailed information regarding facilities, processes, or articles used in the manufacturing, processing, packaging, and storing of human drug products.

²⁸ This information has been obtained from the industry professionals.

to ascertain the effectiveness of the medicines set for export. At present, Bangladeshi pharmaceutical companies resort to foreign countries to carry out bioequivalence testing, which is expensive (in the range \$50,000–\$200,000 per product) (Rizwan & Kathuria, 2016; KIIs). According to pharmaceutical manufacturers, the test fees are sent as outward remittances and are subject to a 20 per cent tax and another 15 per cent value added tax (VAT). Such taxes exacerbate the cost burden. There exists a scope to alleviate the additional cost burden on exporters by relaxing the currently imposed taxes. It needs to be pointed out that BE tests are often undertaken without any guarantee of future sales. Removal/reduction of these taxes can encourage domestic manufacturers to look for external markets by making their products export-ready.

Fast-tracking the implementation of fully functional bioequivalence testing facilities: At present, Bangladeshi manufacturers are largely dependent on bioequivalence testing facilities of India, Malaysia, and several other countries. India boasts having a number of privately-owned laboratories. Such availability of homegrown facilities has helped India keep their export costs low.

In one positive policy direction, the Government of Bangladesh has already undertaken a project to establish an institute so that the tests can be undertaken in the country. The Institute of Bioequivalence Studies and Pharmaceutical Sciences (IBSPS) under the Bangladesh Council of Scientific and Industrial Research (BCSIR) was expected to be completed by June 2020. However, the progress made on the project is reported to have been quite sluggish. At present, only 2 per cent of the project work has been completed.²⁹ Therefore, fast-tracking the implementation of this project should be given utmost priority. It is also important to make it fully functional in compliance with global standards so the test results are globally acceptable. India's experience shows that its pharmaceutical companies often face difficulties in performing clinical trials in such government facilities (IPA, 2019). The relevant lessons should be learnt in better developing testing facilities here in Bangladesh.

Attracting FDI through joint ventures in contract research organisations (CROs)

Full-fledged BE tests are undertaken by internationally accredited contract research organisations (CROs). Such organisations are absent in Bangladesh. Industry experts are of the view that Bangladesh can become an emerging hub of BE testing facilities because of the existing manufacturing capacities in the country and due to its large population as these tests require human volunteers. Along with establishing the IBSPS, it is also a good idea to attract globally accredited contract research organisations (CROs) through joint ventures in Bangladesh. This is an area which can attract substantial FDI. This can also help develop technical know-how and earn foreign exchanges. In this regard, the Ministry of Commerce, Bangladesh Bank, DGDA and BAPI can collaborate to explore the possible options including the scope of any policy support.

Incentivising R&D expenditure

Revamping R&D activities of research institutions: R&D activities are a critical precondition for pharmaceutical manufacturers to innovate new products. Bangladesh largely relies on reverse engineering to manufacture drugs. New drug development is extremely research-intensive and

²⁹ See Annual Report 2018–19, BCSIR (page 25–26).

takes time. Investment in capacity development can help firms introduce product differentiation in export markets as well as manufacture new drugs. To do so, government support can boost R&D spending across the sector. In this context, India provides an example of its entrepreneurs benefiting from the publicly owned manufacturing facilities and research laboratories. For Bangladesh, while setting up large-scale public research facilities might not be a pragmatic option but providing incentives to private-sector research projects could comprise an important initiative. There are public sector entities such as the National Institute of Cancer Research and Hospital, Bangladesh Medical Research Council, Bangladesh National Research Council that are not involved in drug manufacturing but revamped activities of these institutes can help expand R&D activities, benefiting the pharmaceutical industry. (South Centre, 2019) Since providing export subsidy may not be possible after LDC graduation, the scope for supporting R&D activities should be proactively explored.

Developing biosimilar capabilities: Valued at more than \$250 billion, the biologic drugs market is a major component of the global pharmaceutical market (GlobeNewsWire, 2019). Biosimilar or generic versions of these biologic drugs are increasingly becoming a key focus for pharmaceutical companies across the globe. As the number of drugs coming off-patent in this category is rising, this offers a huge opportunity for generic manufacturers (GlobeNewsWire, 2019). Enhancing the industry's biosimilar capabilities should thus receive due attention. This will not only result in improved access to biosimilar drugs in Bangladesh but also help achieve diversified exports of pharmaceutical products. In this context, the DGDA, Ministry of Finance, and BAPI can work together to encourage and incentivise the development of biosimilar capacities.

Setting up an R&D fund for the sector: Given the high cost of drug registration and approval procedures, the sector requires special attention to alleviate its financial constraints. A possible option to encourage R&D can be the creation of a special fund, especially for high-end generic drugs targeting the most lucrative but highly regulated markets. A portion of the R&D support could be made available for exporters to undertake bioequivalence tests. Such fund can be also used to incentivise companies focusing on research in the areas of biosimilar drugs, early-stage drug development, novel drug delivery system (NDDS), etc.³⁰ This support measure would promote entrepreneurship in the sector and support the development of a self-sustaining environment for R&D in the country.

Forging public-private partnerships and industry-academia ties to develop skilled human capital

A shortage of skilled professionals is also a major constraint facing the pharmaceutical sector. According to industry insiders, although Bangladesh enjoys the benefit of low-cost white-collar workers, pharmaceutical companies require foreign professionals for management and export market-related activities.³¹ Every year nearly 2,500 pharmacy students graduate from more than 40 public and private universities.³² However, their academic knowledge and training in many

³⁰ According to Jamshaid (2015), "Novel Drug delivery System (NDDS) refers to the approaches, formulations, technologies, and systems for transporting a pharmaceutical compound in the body as needed to safely achieve its desired therapeutic effects."

³¹ See "Lack of skilled professionals challenge for pharma export", <http://www.newagebd.net/print/article/9462>.

³² Data obtained from the Bangladesh Pharmacy Council.

cases do not match with the industry needs. Pharmaceutical firms also require graduates from various disciplines such as business, engineering, microbiology, biochemistry, chemistry, and law. Equipping these graduates with the necessary skillsets should be given due policy consideration and engagements between the industry and academia should be facilitated. There is also a critical need to update the university curriculum to meet the new requirements in pharmaceutical industry. In addition, degrees such as Bachelor of Technology (B. Tech.) and Master of Technology (M. Tech.) should be introduced to help strengthen API and drug manufacturing skills. Bangladesh can draw lessons from the experiences of India and China (Box 11.3). Through public-private partnerships, training institutes can be set up to assist graduates with job-oriented training. In addition, following China's examples, non-resident Bangladeshi skilled and specialised professionals can be attracted to the local industry. Also, regular training and exchange programmes with global regulatory bodies should be arranged to equip the industry professionals with the skills and knowledge required to manage export markets. These initiatives are likely to address the current shortage of skilled professionals, which is a major capacity constraint.

Box 11.3: Developing and retaining skilled human resources: lessons from India and China

India offers various examples of developing skilled human resources for the pharmaceutical sector through public-private partnerships. For instance, in a joint venture with Cipla Limited, an Indian multinational pharmaceutical and biotechnology company, the provincial government of Goa established the Cipla Technical Academy. The academy imparts an initial six-month training followed by an onsite in-depth training for students with the relevant background (undergraduates or graduates holding B.Sc., M.Sc., and B. Pharm degrees or diplomas). After completion of the training, Cipla assesses the candidates' acquired knowledge and abilities to absorb the trainees into their workforce. Otherwise, the Labor and Employment Department assists the trainees to obtain suitable appointments in other organisations.

India also established the National Institute of Pharmaceutical Education and Research (NIPER) which was the first national-level institute in pharmaceutical science with the objective of becoming a 'centre of excellence' for advanced studies and research in pharmaceuticals sciences. Besides, there are 2,000 PhD students enrolled in Pharmacy education in India, according to All India Survey on Higher Education 2018.

China adopted 'Thousand Talents Plan' to attract China-born scientists. Through substantial funding support (up to \$75,000/year), the plan attracted nearly 50,000 PhDs. The returning talents' work ranges from forging partnerships between transnational biotechnology firms and Chinese universities, to developing cancer research partnerships and to negotiating and facilitating company-to-company deals.

Source: Authors' compilation from IPA (2019).

Exploring markets to maximise export earnings

Given the existing capacity constraints and the industry's overwhelming specialisation in generic drugs and dependence on some small markets (such as Myanmar and Sri Lanka), opportunities for expanded exports are limited. Industry sources are of the view that exporters aim for less regulated countries to minimise costs. However, even many of these countries (e.g., Ethiopia, Uganda) are increasingly adopting more demanding regulations to ensure quality medications. This emphasises the need for strengthening the supply-side capacity of compliance-certified domestic production. Nonetheless, Bangladesh can certainly explore several large untapped markets. For example, the United States imports pharmaceutical products worth close to \$120 billion. As discussed above, Bangladesh's share in this market is quite small. Capturing just a 0.1 per cent share in the United States will generate \$100 million exports from Bangladesh. The

analysis undertaken as part of this chapter suggests that to fetch \$1 billion from the export of pharmaceuticals, aiming for such a large market should be an important strategic consideration. Bangladesh can also consider exploring markets in such countries Brazil, Saudi Arabia, South Africa, Kenya, and Nigeria that are becoming major consumers of generic drugs. According to ITC data, pharmaceutical imports of these countries in 2018 were Brazil (\$7.2 billion), Saudi Arabia (\$5.5 billion), South Africa (\$2.5 billion), Kenya (\$0.55 billion), and Nigeria (\$0.51 billion). At present, China and India are two of the largest exporters in these markets. Breaking into these markets would be a significant boost to the export sector. At the same time, to reap the maximum benefit, it is important to move up the global value chains by exploring options for expanded activities in such areas as marketing, logistics, consultation, and distribution. In addition, positive branding of products along with compliance with required standards can help establish the country as a responsible source of supplies, attracting reputed importers.³³

Moving towards full-fledged contract manufacturing

Having considerable cost advantages in manufacturing, Bangladesh is well-positioned to offer contract manufacturing services to global clients as the country has a sound track record of partnerships with a number of major multinational companies. But, the industry's involvement in contract manufacturing has been so far limited to the final stage formulation of drugs that requires minimal technological expertise. To take full advantage of contract manufacturing opportunities, the industry must go beyond the current focus on final stage formulation to establish collaboration in each stage of drug formulation, R&D, clinical trial, and API synthesis. Collaborating with MNCs for full-fledged contract manufacturing will help develop the country's capacity in research, clinical trial, and custom synthesis. The domestic industry will also benefit from technology transfer and capacity building. A proactive initiative in this regard may encourage MNCs operating in Bangladesh as well as in other countries (preferably in LDCs) to source their supply of low-priced generics from Bangladesh, eventually resulting in enhanced export supply through contract manufacturing.

Policy flexibilities for further export drives

Flexible foreign exchange regulations: As mentioned above, countries are increasingly updating and adopting more demanding regulations to address their public health needs. At the same time, in many LDCs and developing countries, there are strong regulatory obstacles and technical restrictions against imported drugs. Although Bangladeshi producers have established their presence in many of these markets, increased export earnings will require expanding the product range in existing markets and exporting to newer destinations. Each country's own industry protection mechanism, product registration requirements, language requirements, cultural preferences, and national packaging requirements make the export of pharmaceuticals a challenging task (Figure 11.19). Registering drugs, receiving certifications from regulatory bodies of target destinations, and ensuring best manufacturing practices are major areas in which exporting firms incur huge costs. Given the capital intensive and technologically demanding

³³ It was revealed during the key informant interviews of this study that, Bangladesh's medicine has started to gain popularity in the export destinations. However, with respect to major generic suppliers like China and India, Bangladesh's medicine requires further promotion from the branding perspective.

nature of the industry, exporting firms face difficulties in accommodating further costs in the export destinations.

Current regulations in Bangladesh allow exporting companies to remit money on a case-by-case basis to manage their operation costs abroad. The central bank authorises to remit a maximum of \$30,000 in a year to maintain overseas office expenses for commercial purposes (Bangladesh Bank, 2018). Payments for the company and product registrations; product dossier (ANDA) purchase; consultant fees; office establishment, staff and maintenance costs; marketing and promotional activities; and miscellaneous export-related expenses are usually much higher than the current limit. To help export expansion further, this ceiling can be increased for the pharmaceutical sector to ease business operations required for export activities. To encourage overseas expansion, measures to relax regulations could be undertaken on a case-by-case basis for the pharmaceutical firms with proven supply-side capacities. Although there is a general apprehension about capital flight in allowing such overseas transactions, policy enforcement could be relatively easier for pharmaceutical enterprises due to their significant domestic presence.

Figure 11.19: Major challenges of pharmaceutical exports in target destinations



Source: Authors' presentation based on Rizwan and Kathuria (2016).

Policy flexibilities for outward FDI flow: As mentioned earlier, one major Bangladeshi firm's future operation in Africa by setting up its own plants would likely to help understand the market

needs of Africa. Such subsidiary or transnational venture can help diversify the export markets particularly in countries which can be used to utilise regional exceptions of TRIPS 31bis waiver for bundled demand to LDCs and developing countries in a regional trade agreement' (e.g. Southern African Development Community, Economic Community of West African States, Common Market for Eastern and Southern Africa, etc.). In fact, Indian companies like Ranbaxy, Cipla, Dr Reddy's and Lupin have already set up production units in Southern and Eastern African markets. Multinational companies like Novartis and Pfizer have production units across Africa. In this context, export expansion in these markets will require large investments. In addition, acquiring certifications and registering drugs in regulated or semi-regulated markets take time. Existing regulations allow domestic companies to invest overseas through individual applications that are evaluated on a case-by-case basis only. This is reportedly an involved and lengthy process.

According to industry experts, some pharmaceutical firms in developed countries are willing to sell their product licenses due to lack of their own adequate manufacturing units and cost disadvantages. In contrast, many Bangladeshi firms have manufacturing facilities for commercial production and supply at very competitive prices. There exist opportunities to acquire such product licences and increase exports further. This requires outward fund transferring akin to outward FDI flow. Again, while capital flight could be considered a challenge facing many developing countries like Bangladesh, business practices in today's world need policy flexibilities for firms' export drives. Consideration of approvals for purchasing such licences/companies on a case-by-case basis can be a way forward.

Streamlining the import approval of sensitive chemicals: According to industry representatives, getting approvals for imports of sensitive compounds (like acid, ethanol, etc.) from multiple government bodies can be quite challenging. As different ministries and departments deal with the approval of various chemical compounds, it is often a cumbersome process. The problem gets worse given the occasional rise of untoward incidents with the use of these chemical substances. While the significance of regulations in addressing public health and safety concerns is clear, there is also a need to streamline the approval process so that it does not unnecessarily affect the pharmaceutical manufacturing and the industry competitiveness.

Deepening policy support prior to LDC graduation

As mentioned earlier, the Export Policy (2018–2021) puts both pharmaceuticals and API under the category of highest priority sectors. Currently, pharmaceutical items are eligible for a 10 per cent export subsidy (cash assistance), while APIs are eligible for a 20 per cent cash incentive on exports. The incentives are available upon fulfilling the requirements of ensuring a minimum of 30 per cent value addition for pharmaceutical products and at least 20 per cent value addition in the cases of API.

While the incentives are a helpful policy instrument for stimulating export response, such support measures after LDC graduation are unlikely to be compatible with the WTO Agreement on Subsidies and Countervailing Measures (SCM). Article 3 of the SCM Agreement prohibits any subsidy based on export performance or the use of local content.³⁴ Article 6 defines the usage of

³⁴ See the WTO Agreement on Subsidies and Countervailing Measures, https://www.wto.org/english/tratop_e/scm_e/subs_e.htm.

industry, region, enterprise-specific subsidies that will be subject to countervailing measures or other retaliatory actions from other countries. Therefore, it is unlikely that in the post-LDC graduation period, it would be possible to continue with export subsidies. It is high time to adopt well-planned strategies to embrace future changes in the policy regime. There exists the scope for re-evaluating and expanding direct policy support now. While VAT on API imports have been waived until 2025, pharmaceutical manufacturers are incurring various additional costs including duties on machinery imports, and charges for bio-equivalence tests and foreign approvals from regulatory authorities like USFDA and UKMHRA. Despite these challenges, pharmaceutical exports have shown dynamism. Raising the level of assistance can encourage further export expansion until Bangladesh's LDC graduation when such policy support will have to be discontinued. One option could be to keep the existing level of cash assistance while increasing the rate to a higher level for any yearly incremental exports. This will help keep the pressure on the exchequer in check and at the same time encourage additional exports. This enhanced incentive scheme can be put in place for a limited duration (for example, 5 years or until LDC graduation) with the objective of expanding the export base. Support measures for exporting to highly regulated markets such as the EU, UK, and U.S. should also be given careful consideration since export success in these markets will result in huge gains. In short, Bangladesh should try to make the most of the policy space that is currently available.

Providing assistance for services-related activities associated with the pharmaceutical industry can be yet another option to strengthen policy support. There are arguments that regulations about providing subsidies on services are not well defined in the WTO's General Agreement on Trade in Services (GATS).³⁴ Many analysts suggest that services used in the manufacturing supply chains can be subsidised (Mukherjee et al., 2018). For the pharmaceutical sector, subsidies can be provided to export-oriented units in areas such as human resource development, utility services, training and skill enhancement, technology accumulation, product promotion, marketing, etc. Administering such incentives can be difficult and thus should be carefully designed to make the policy support effective. The private sector can also undertake research to design and demand WTO-consistent incentives to improve exporters' competitiveness.

Proactively engaging in WTO processes to withhold the early termination of the TRIPS-pharmaceutical waiver

As an LDC, Bangladesh is exempted from implementing the provisions of the TRIPS agreement related to pharmaceutical products until 1 January 2033 or the graduation from the LDC status, whichever comes first. Bangladesh's imminent LDC graduation and the subsequent loss of LDC-specific TRIPS-pharmaceutical waiver could put the local drug manufacturers under pressure. Although it is difficult to provide a precise and quantitative assessment of any adverse consequences, it is generally recognised that a much earlier termination of the waiver (in 2024 rather than in 2033) would constitute a drastic change for local exporters in an unprecedented manner as no other previously graduated country had a pharmaceutical production base like Bangladesh. It is in this context that there may be options for Bangladesh to proactively engage in WTO processes to request for an extension of the transition period.

³⁵ Article XV of GATS only says, "Members shall enter into negotiations with a view to developing the necessary multilateral disciplines to avoid such trade-distortive effects." But WTO is yet to prepare a discipline about subsidy in services.

According to Article 66.1 of the TRIPS Agreement, any graduating LDC may submit a 'duly motivated' request to the TRIPS council with respect to pharmaceutical products, to implement or apply Sections 5 and 7 of Part II of the TRIPS Agreement or to enforce special rights provided for under those sections until 1 January 2033 (South Centre, 2019). Bangladesh can submit such an application before graduating out. In doing so, Bangladesh can seek support from other LDC members and other sympathetic developing and developed country partners to strengthen the case for an extension.

As per the provisions of the TRIPS agreement, the TRIPS council can consider a 'duly motivated' request from an LDC member to allow extension of its transition period. It has been suggested that there are no specific definition or guidelines on what can be considered as a 'duly motivated' proposal (South Centre, 2019). The Doha Declaration's paragraph 7 only instructs the TRIPS council to provide an extension for the waiver to address public health concerns in LDCs and developing countries. To make a persuasive case for such a duly motivated request, it needs emphasising that there is precedence that the TRIPS council granted Maldives an extension of the general TRIPS transition period in 2005. The Maldives submitted a request for an extension well before the due date of its LDC graduation.

Apart from citing public health concerns, Bangladesh can also include the pitfalls of abrupt policy discontinuity resulting from LDC graduation. The early termination of the waiver will disrupt the policy continuity that was envisaged by the industry to plan ahead taking advantage of the transition period. At the same time, Bangladesh can argue about not being benefitted from technology transfer as committed in Article 66.2 of the TRIPS agreement as insignificant API production, absence of bio-equivalence testing facilities and inadequate R&D continue to constrain the supply-side capacity for a sector that is so inextricably linked to public health issues.

Devising strategies for the pharmaceutical industry

Preparing an action plan to ensure a smooth LDC graduation for the industry: LDC graduation may require Bangladesh to make some policy adjustments towards its pharmaceutical sector. Having a strong drug manufacturing base, preparing for such adjustments needs to be well planned with a focused approach to promoting competitiveness of the industry while ensuring access to affordable medicines. As discussed above, some currently available LDC-related privileges will cease to exist as a result of LDC graduation. Amongst others, the major areas of concern for the sector include, among others, (i) likely changes in the intellectual property regime and legal frameworks; (ii) regulations regarding patented drug production and registration after LDC graduation; (iii) pricing of patented and generic drugs; (iv) operation of foreign companies in the post LDC graduation period; and (v) distribution and sales of imported drugs.

While preparing for any impending changes in the trade and intellectual property regime, it is of utmost importance to develop an action plan backed by a comprehensive study on the sector. The DGDA can undertake such an in-depth analysis in assessing the areas of necessary reforms to make the existing regime compatible with the WTO system and in considering any potential implications. It should also include the option of becoming a member of the Patent Cooperation Treaty (PCT) and carrying out the necessary consultations with the industry to better appreciate any consequences.

The study can be conducted in collaboration with the Department of Patents, Designs & Trademarks (DPDT) and the Export Promotion Bureau of Bangladesh (EPB), and the Ministry of Commerce. Consultations with all relevant stakeholders should be carried out to gather the necessary inputs, helping develop practical recommendations that can be implemented as part of the action plan to support a smooth LDC graduation process for the sector. The DGDA should also engage with the global community and regulatory bodies to learn any lesson and ask for technical assistance. The action plan should comprise forward-looking objective of addressing industry-specific needs to enhance supply-side capacities in relation to growing international compliance requirements related to pharmaceutical exports. The action plan should be made available to the industry well before the country's LDC graduation to avoid any abrupt policy reversal.

Updating the list of essential drugs: There is also a need for updating the country's list of essential drugs, which was published in 2016. An updated drugs list can help address the emerging health challenges, improve access to medicines and prioritise most effective therapeutics for better treatment outcomes. Furthermore, change in disease profiles requires that the essential drug list is being regularly updated. Therefore, the DGDA should work to update the essential drug list at regular intervals.

Revamping the existing export expansion roadmap of the sector: As mentioned earlier, globally about \$251 billion drug sales are expected to go off-patent by 2024. In addition, the world is also experiencing a shortage in medicine supply which appears to be a widespread and persistent problem (WHO, 2016). Bangladesh can take advantage of the worldwide rising demand for drugs. However, under the existing supply-side constraints, expressed policy support to propel the industry with a timebound plan cannot be overestimated. In this context, the existing roadmap for the sector should be revamped with concretely defined output and outcome indicators to assess the implementation and effectiveness of any intended support measures. The roadmap should articulate implementation strategies to gather information on a regular basis to monitor any progress made. Implications for LDC graduation, possible adaptation strategies, specific industry support measures for the development of the skilled workforce, promotion of R&D activities, exploring export market opportunities, etc. should be an integral part of this roadmap. While some of these issues are mentioned in the current plan, the implementation and evaluation frameworks of the roadmap need strengthening.

The Ministry of Commerce and EPB, in association with BAPI, can work to make improvements and track the progress of a revamped roadmap. Within government processes, the General Economic Division of the Ministry of Planning has developed expertise in formulating and undertaking independent evaluations of the implementation status of various economywide programmes. It can assist with updating the pharmaceutical sector roadmap and monitoring the implementation progress. Such an initiative is very much needed in transforming this sector into a billion-dollar export-earning industry and help Bangladesh's pursuit of export diversification.

Capacity building of the regulatory bodies

Capacity building in intellectual property-related regulatory and legal affairs: As mentioned earlier, the country's existing IPRs related legal framework will require updating to make them

WTO-compliant. There is a critical need to enhance the domestic capacities to deal with intellectual property related regulatory and legal affairs. To keep pace with the evolving landscape of international trade and IRPs regime, the key regulatory body for patents and trademarks—the Department of Patents, Designs, and Trademarks (DPDT)—needs to be strengthened. In this context, increasing the number of patent examiners and IPRs professionals with appropriate training should be given serious consideration.

Furthermore, to operate in regulated markets (like Australia, the European Union, the United Kingdom, the United States), it is essential that a generic drug company has sufficient knowledge and expertise to deal with important regulatory and legal issues including patent litigations. In this area, Bangladesh's pharmaceutical industry is still at a nascent stage. Addressing this capacity constraint should also be regarded as a priority. Among others, creating research facilities on intellectual property-related issues and arranging regular training and exchange programmes with global regulatory bodies can help develop domestic capacities in this aspect.

Capacity building of the DGDA: Capacity building of the DGDA is important for improving and harmonising quality standards. In this context, becoming a member of the Pharmaceutical Inspection Co-operation Scheme (PIC/S) can provide the DGDA with a significant boost in its regulatory function.³⁶ Membership in PIC/S will facilitate improved quality standards as preparing for accession to the scheme compels the interested regulatory authorities to improve good manufacturing practice (GMP) inspection systems and procedures. Besides improved quality standards, reduced duplication of inspections, cost-savings, export facilitation and enhanced market access in all the member countries are major benefits of PIC/S membership.

The accession process to PIC/S is preceded by a 'pre-accession' phase when a gap analysis is undertaken to identify the differences between PIC/S membership requirements and the system used by the interested regulatory body. In April 2019, the DGDA submitted the pre-accession application to the PIC/S. It is important to note that during the pre-accession procedure, PIC/S do not follow up on the corrective actions to overcome the identified gaps. In addition, the procedure is a time-consuming exercise. Therefore, it is imperative to ensure a regular follow up of the pre-accession procedure and implement corrective actions promptly.

Standardising the drug testing laboratories: To ensure quality standards for the export market, serious attention should be given to transform the DGDA drug testing laboratories into internationally accredited ones. With the help of the World Bank and WHO, the sole laboratory in Dhaka was modernised. However, Bangladesh is yet to have an internationally accredited drug testing and quality control laboratory. Making the drug testing laboratories compliant with the recommended standards under the WHO Prequalification Programme can provide a significant impetus to improve the quality control procedures of the existing laboratories.³⁷ According to

³⁶ To become a member of PIC/S, a regulatory authority has to undergo a comprehensive assessment of its good manufacturing practices (GMP) inspection system, licensing system (or equivalent), legislative requirements, inspector training and so forth. The applicant authority may need to undergo various improvements as recommended by the PIC/S committee.

³⁷ Under the prequalification programme, the WHO lists the quality control laboratories that express their interest in participating in prequalification procedures and comply with the standards recommended by the WHO. To list a lab as prequalified, the WHO ensures compliance with the Good Practices for National Pharmaceutical Control Laboratories (GPCL) and relevant parts of WHO good manufacturing practices.

official sources, efforts are underway to enlist the drug testing laboratories of the DGDA as the WHO's prequalified quality control laboratories (QCL). These initiatives should be meticulously pursued to raise the standards of local laboratories.

11.6 Conclusion

The growth of a sophisticated industry like pharmaceutical, catering for almost the entire demand of the local market, has been an impressive success story of Bangladesh's industrial development. It is also a case of using policy instruments to develop the sector with the public health objective of ensuring medicines at affordable prices for the mass population. Bangladesh's pharmaceutical sector is gradually establishing its footprint in the global generic medicine market by delivering quality drugs at competitive prices. Despite the recent dynamism in pharmaceutical exports, the sector is far from realising its export potential. The industry can grow further by capitalising the tremendous untapped opportunities in various export markets. Bangladesh has just started exploring the high-value and highly regulated markets. Even a very small increase in the share of these markets could generate large export earnings. The global generic drugs market is going to expand fast as patent protection of hundreds of billions of dollars' worth of medicines will expire over the next few years.

Concerted efforts from all stakeholders (including Government regulatory bodies, pharmaceutical companies and their association) are needed to achieve the aspiration of transforming the industry into a billion-dollar export sector. In this respect, strengthening the supply-side capacity is an utmost priority for the sector. Developing the country's API manufacturing capacity will lead to reduced dependence on the import of basic ingredients used in manufacturing. It should also help firms access raw materials at a lower cost, thereby improving their export competitiveness. Therefore, the initiative of setting up an API park and its effective implementation within a shortest possible time is an important issue. Furthermore, streamlining the import approval processes of sensitive chemicals can help with disruption-free pharmaceutical production and promote industry competitiveness.

Establishing bioequivalence testing facilities that comply with international standards will be another important boost for expanded export supplies. Before that to happen, reducing the cost burden by removing/reducing taxes and VAT on the charges for bioequivalence testing in foreign laboratories will constitute an important policy support measure. Flexible foreign exchange regulations should be given due consideration so that the firms can manage their export market operations. Attracting FDI to setup contract research organisations (CROs) through joint ventures should be proactively explored. How to incentivise research and development, which is inextricably linked to the pharmaceutical sector, is another serious matter for policy attention. A shortage of skilled human resources is a constraint that can be addressed effectively through a collaboration between the private sector and academia with the support from the government. Bangladesh needs to proactively aim for highly regulated markets to increase export earnings. It is in this context that trade policy options and supportive measures should be recalibrated to support the exporters.

There is a need for a renewed policy attention for helping the pharmaceutical sector adjust with any abrupt policy changes arising from the imminent LDC graduation. This will involve

exploring negotiation options for obtaining any favourable terms including the possibility of any extension of the transition period to comply with the TRIPS regime; making the most of any policy space available prior to graduation; devising and executing support measures complying with the WTO regime, and securing an enabling domestic environment for the sector to sustain its growth performance. The list of essential drugs needs to be updated on a regular interval to address the evolving health challenges, provide better access to medicines, and prioritise most useful therapeutics to ensure better treatment of the mass population. The DGDA's pre-accession procedure for PIC/S membership should not lose the sight of priority. Current efforts to achieve international accreditation of DGDA testing laboratories should be strengthened to improve quality standards for export markets. Revamping the existing pharmaceutical sector road map to make it outcome-oriented should also help realise the promising export prospects.

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Reviving Exports of Jute Products from Bangladesh

Mohammad Abdur Razzaque, Mahfuz Kabir & Rabiul Islam Rabi

12.1 Introduction

Jute is the second most commonly used vegetable fibre (after cotton) in the world. It is fully biodegradable and compostable, and thus jute products are regarded as a potential solution to environmental and ecological damages caused by polythene bags and other synthetic products. Jute is cultivated mainly in the Bengal Delta, most of which is occupied by Bangladesh. Jute fibres are extracted from jute plants through retting, stripping, washing, and drying. For further manufacturing purposes, jute fibres can be bleached or dyed. Till the mid-1980s, jute and jute goods were the main sources of export earnings for Bangladesh (Figure 12.1). Because of high quality of the fibre produced in the country, Bangladesh's jute still dominates the international export market.¹ However, the overall global demand for jute goods has declined drastically over the past several decades in the face of widespread use of polypropylene products, and other artificial and synthetic fibres.

Globally, India, Bangladesh and China are the top three producers of jute. Bangladesh is the second-largest producer of jute fibre in the world after India. However, Bangladesh is the biggest global exporter of jute products (fibres and manufactured items) with a 63 per cent global market share in 2018. Despite being the largest jute producer, India's share in the global jute market was about 20 per cent in 2018.² Along with a persistent weakness in international demand of jute, slow adaptation to technologies and innovations also constrained the country's capacity to realise the full export potential.

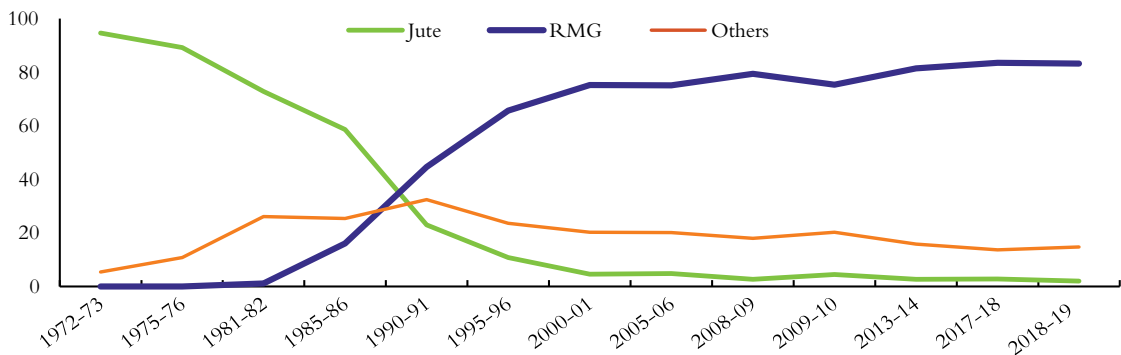
Jute presents a unique case in which Bangladesh's being the top supplier in the international

¹ The so-called 'jat area', comprising the inner north-eastern part of Bangladesh, is the source of highest quality of jute fibre. The geographical area includes part of the districts of Cumilla, Dhaka, Mymensingh, and Tangail that receive fresh deposit of silts every year.

² Amongst other jute exporters, while Nepal had a 4.2 per cent share in the global market in 2018, the comparable share of China was less than 1 per cent. India is the world's largest consumer of jute products. India's national law to use jute for packaging is considered to be as one of the major driving factors behind its extensive use of jute products.

market is not translated into enough foreign exchange earnings to drive the overall export growth and contribute meaningfully to export diversification. It could not do well despite being recognised as a strong alternative to artificial and synthetic fibres amid the growing concern of massive environmental pollution and global climate change. A stagnant and low-lying export performance of jute products continued despite the recent developments in innovations, such as discovering the genome sequence of jute, fine fabrics, cotton fibre for medical care, tea made from jute leaves, and biodegradable polythene from jute. Most of these innovations are yet to become commercially viable to open up new export avenues in the global market.

Figure 12.1: Share of jute and other products in the export basket of Bangladesh (%)



Source: Based on data from the Export Promotion Bureau (EPB) of Bangladesh.

Against the above backdrop, this chapter provides an analysis of export trends of jute products from Bangladesh and assesses various options for promoting exports of diversified jute goods. It also analyses export destinations by product types and gives a special emphasis on the prospects for diversification of jute goods. This chapter is organised as follows. After this brief introduction, Section 12.2 analyses the recent trends in jute exports by products and destination markets; Section 12.3 discusses the dynamics of these exports and prospects for market diversification; Section 12.4 highlights some of the new products that have considerable export potential; Section 12.5 presents some possible ways of revitalising jute exports, while Section 12.6 concludes.

12.2. Exports of Jute from Bangladesh by Products and Destinations

Trends in exports

Bangladesh's export earnings from jute products are volatile in nature. Its share in total exports has declined continuously (Figure 12.1) and was just 2.1 per cent in FY19 (Table 12.1). In absolute value terms, exports of jute and jute goods have hovered around \$1 billion over the past decade. According to the International Trade Centre's Trade Map database, the global exports of jute products have witnessed a fluctuating trend during the recent past.³ In 2015, such exports were \$1.18 billion, which registered a positive growth of 12.3 per cent in 2016, and such a positive trend continued up to 2017. In 2018, with a large decline of 23 per cent (from 2017), the total jute export came down to just about \$1.17 billion, which was even lower than that of 2015. This sharp decline

³ <https://www.trademap.org>

is partly attributed to the imposition of anti-dumping duties by India on Bangladesh's jute products that led to a significant reduction of the latter's all jute product exports to the Indian market.

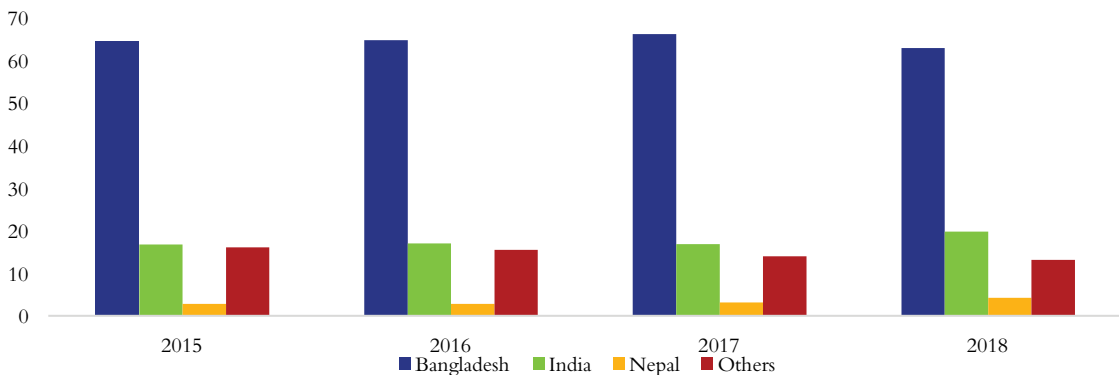
Table 12.1: Bangladesh's exports of jute and jute goods (million \$)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Jute	1,071.28	950.43	1,020.36	798.96	865.57	913.78	961.62	1,023.07	816.27
Total (Goods)	22,928.2	24,302.0	27,027.4	30,186.6	31,208.9	34,257.2	34,655.9	36,668.2	40,535.0
Jute (% of total)	4.67	3.91	3.78	2.65	2.77	2.67	2.77	2.79	2.01

Source: Authors' presentation based on Bangladesh Bank and EPB data.

In terms of the Harmonised System (HS) of classification, the global exports of jute is heavily concentrated in a narrow range of products under four broad categories viz. jute and other textile bast fibres, raw or processed, but not spun; tow and waste of such fibres (HS 5303); yarn of jute or of other textile bast fibres of heading 5303 (HS 5307); woven fabrics of jute or of other textile bast fibres of the heading 5303 (HS 5310); and sacks and bags, for the packing of goods, of jute or other textile bast fibres of heading 5303 (HS 630510). Overall, Bangladesh has maintained an export share of more than 60 per cent in the global jute market (Figure 12.2). Although India is the largest producer of jute in the world, it has just about one-fifth of the world exports of jute products. Of the seven most important product categories at the HS 6-digit level, Bangladesh is the largest exporter in five, and second-largest in the remaining two (Table 12.2).

Figure 12.2: Global jute market shares of top exporters (%)



Source: Authors' presentation based on ITC data.

Figure 12.3 summarises trends of Bangladesh's export earnings for various jute products at the HS 8-digit level. The largest export receipts come from single yarn of jute or of other textile bast fibres of 5303 (HS 53071000). The export receipts in FY19 stood at \$383 million—down from \$466 million of the previous year. This category alone accounts for close to half of all jute exports (Figure 12.4). However, its export earnings show a generally stable but slightly declining trend over time. The second largest export receipt of jute products come from cabled yarn of jute (HS 53072000). In FY18, its export value was \$182 million, and it showed a steadily increasing trend—from merely 0.3 per cent in FY11 to 17.8 per cent share of the total jute exports in FY18. The third largest product is jute and other textile bast fibres, raw or retted (HS 53031000) but it

has been showing a declining trend. In FY19 the export earnings from this product was \$141 million. During FY12 to FY19, the share of these products in the total jute exports declined to 12.2 per cent from 25 per cent.

Table 12.2: Export of jute products from Bangladesh (at the HS 6-digit level) in 2018

HS code	Total exported value in 2018 (thousand \$)	Bangladesh's share in world exports in the corresponding product (%)	Other countries' share in Bangladesh's exports (%) *	Ranking in world exports
530310	117,638	80.5%	Pakistan (41.1%) India (27.9%) China (13%)	1
530390	13,046	37.5%	India (34.7%) China (21%) South Korea (18.6%)	1
530710	335,166	97.4%	Turkey (41.5%) China (23.5%) Iran (7.3%)	1
530720	172,107	84.9%	Turkey (25.1%) China (14.2%) Indonesia (12.1%)	1
531010	76,907	40.2%	India (45.4%) USA (9.4%) Iran (7.2%)	2
531090	3,625	27%	South Korea (31.5%) USA (26%) Netherlands (13.5%)	1
630510	52,176	19.2%	Netherlands (20.1%) India (15.5%) Indonesia (8.6%)	2

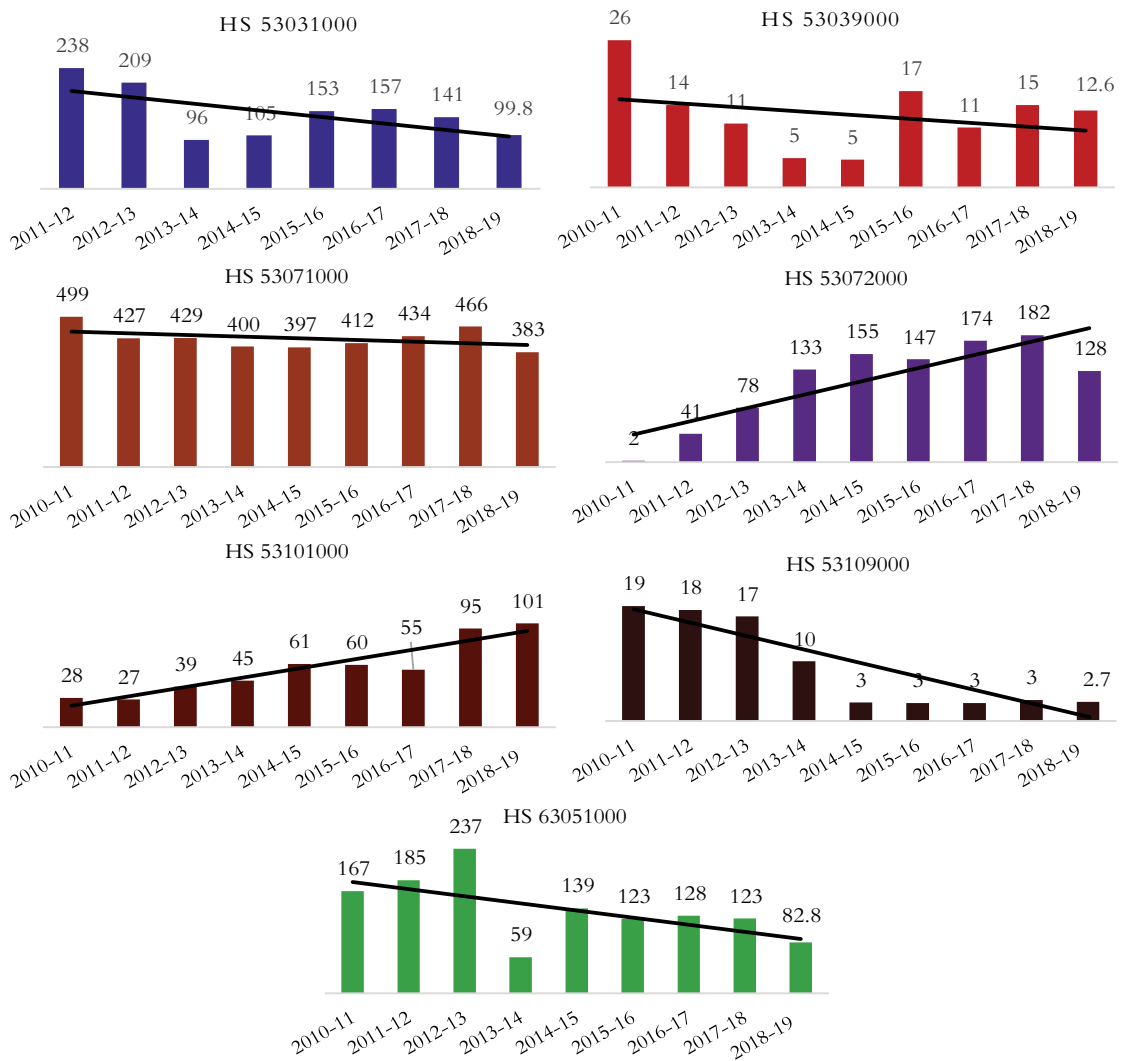
Source: Authors' presentation based on ITC Trade Map Database.

* Top three export destinations have been considered.

Among other jute products, the fourth largest export earning product is sacks and bags, used for packing goods, of jute, etc. (HS 63051000) from which the earning was \$82.8 million in FY19. It also continued to decline in the share of jute exports from 22.6 per cent in FY11 to 10.14 per cent in FY19. In contrast, unbleached woven fabrics of jute or of other textile bast fibre (HS 53101000) has been performing well with an increasing trend from 3.8 per cent in FY11 to 12.37 per cent in FY19. The other two products (HS 53039000 and HS 53109000) have been earning meagre amounts from exports.

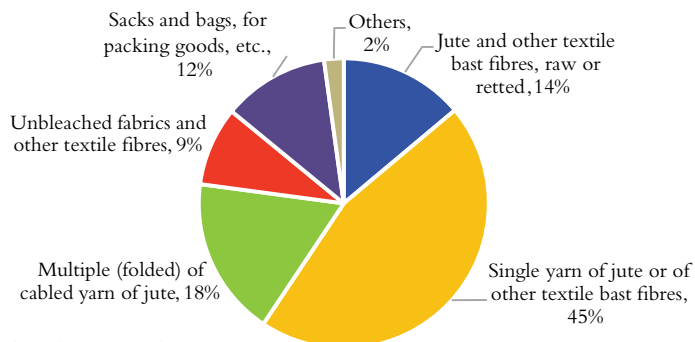
Table 12.3 shows the share of above-mentioned major items in Bangladesh's total jute exports. It is quite striking that the relative significance of jute single yarn and bast fibre (HS 53071000) has declined significantly from about 67 per cent in FY11 to 46 per cent in FY19. During the same period, sacks and bags (HS 63051000) also lost prominence with the relevant share falling from more than 22 per cent to less than 11 per cent. On the other hand, cabled yarn (HS 53072000) has seen its share rising remarkably. However, since jute exports remain largely stagnant, those changes are unlikely to signify any dynamism for Bangladesh's overall export diversification.

Figure 12.3: Trend of export earnings by jute products (million \$)



Source: Authors' calculation based on EPB data.

Figure 12.4: Composition of jute exports, 2017-18



Source: Authors' presentation based on EPB data.

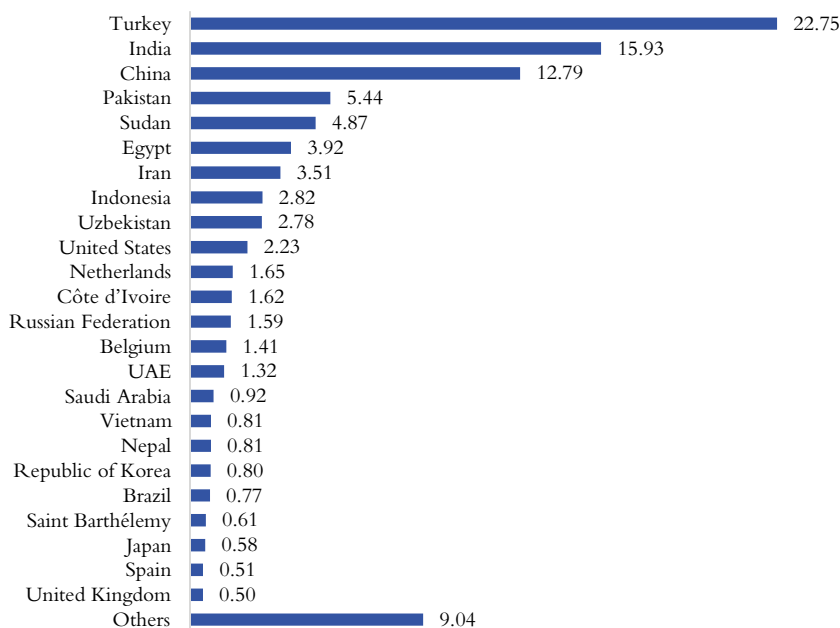
Table 12.3: Share of individual items (at the HS 8-digit level) in Bangladesh's total jute exports (%)

HS Code	Product Name	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
53031000	Jute and other textile bast fibres, raw or retted	18.2	25.03	20.51	12.89	12.13	16.72	16.36	13.90	12.22
53039000	Jute and other textile bast fibres, processed but not spun	3.50	1.52	1.10	0.69	0.57	1.85	1.10	1.62	1.54
53071000	Single yarn of jute or of other textile bast fibres	67.32	44.98	42.01	53.48	45.91	45.04	45.14	45.47	46.92
53072000	Multiple (folded) of cabled yarn of jute	0.26	4.28	7.65	17.75	17.90	16.11	18.07	17.76	15.68
53101000	Unbleached woven fabrics of jute or of other textile bast fibre	3.79	2.81	3.80	5.99	7.03	6.56	5.74	8.82	12.37
53109000	Woven fabrics of jute or other textile bast fibres (excl. unbleached)	2.52	1.89	1.66	1.30	0.35	0.32	0.30	0.44	0.33
63051000	Sacks and bags, used for packing goods, of jute, etc.	22.61	19.49	23.27	7.90	16.11	13.41	13.26	11.87	10.14

Source: Authors' calculation based on EPB data.

Geographical coverage and composition of jute exports by destination markets

Bangladesh's jute is exported to 136 countries and territories of the world. At the aggregate level, Turkey is the largest export destination capturing 22.75 per cent of Bangladesh's jute exports (Figure 12.5). It is followed by India (15.93%), China (12.79%), Pakistan (5.44%), and Sudan (4.87%). About 62 per cent of the export earnings from jute come from the top five countries.

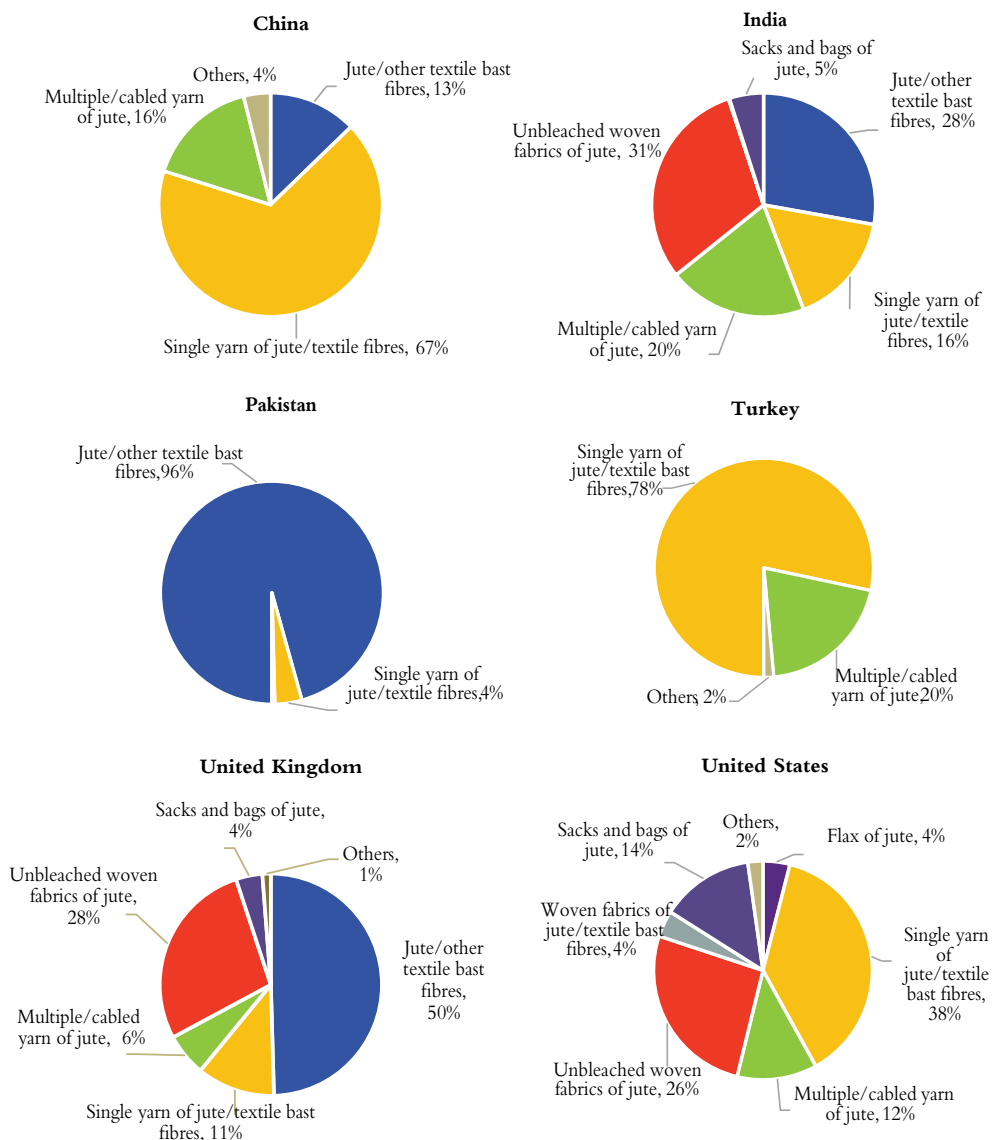
Figure 12.5: Bangladesh's jute export destinations, 2017–18 (% of total jute exports)

Note: Others include 112 countries and territories.

Source: Calculated from EPB data.

Among the major destinations, Turkey mainly imports single yarn of jute or of other textile bast fibres (HS53071000), followed by multiple (folded) of cabled yarn of jute (HS53072000) from Bangladesh (Figure 12.6). These two products constitute 63 per cent of all jute export earnings from all destinations. Bangladesh exports diversified jute products to India, comprising sacks and bags, single yarn of jute, cabled yarn of jute, unbleached woven fabrics of jute, etc. The Chinese market is dominated by single yarn of jute, followed by multiple (folded) of cabled yarn of jute and raw jute fibres exports from Bangladesh. The USA is the only developed country among the top ten destinations. Although Bangladesh exports all types of jute products to the U.S. (Figure 12.6), the country has only managed to send 2.23 per cent of its jute exports to the U.S. (Figure 12.5).

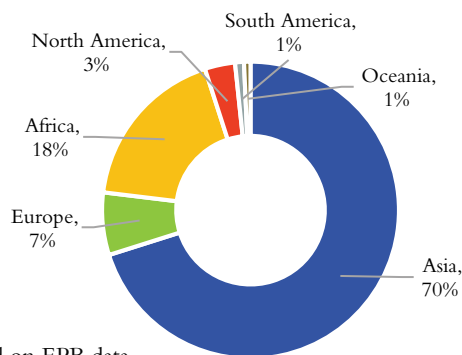
Figure 12.6: Composition of products in selected destinations, 2017–18 (%)



Source: Authors' calculations based on EPB data.

From Bangladesh, 70 per cent of the jute products are exported to various Asian countries (Figure 12.7). As shown in Figure 12.5, Turkey, India, China, Pakistan, Iran, and Indonesia are major Asian destinations. The second-largest region of Bangladesh's jute products is Africa where 18 per cent of these products were exported in 2017–18. The most important export destinations in this region was Sudan (4.87% of total jute exports), followed by Egypt (3.92%), Côte d'Ivoire (1.62%), and Tunisia (0.46%). The third largest destination was Europe with a 7 per cent share in the total jute exports. The notable countries in this region were the Netherlands (1.65%), Belgium (1.41%), Spain (0.51%), and the United Kingdom (0.5%). The share of the country's exports of jute to North America was only 3 per cent (2.23% in the United States) while it was 1 per cent each in South America (0.77% in Brazil) and Oceania (0.4% in Australia and 0.14% in New Zealand).

Figure 12.7: Share of jute exports by region, 2017–18 (%)



Source: Authors' calculations based on EPB data.

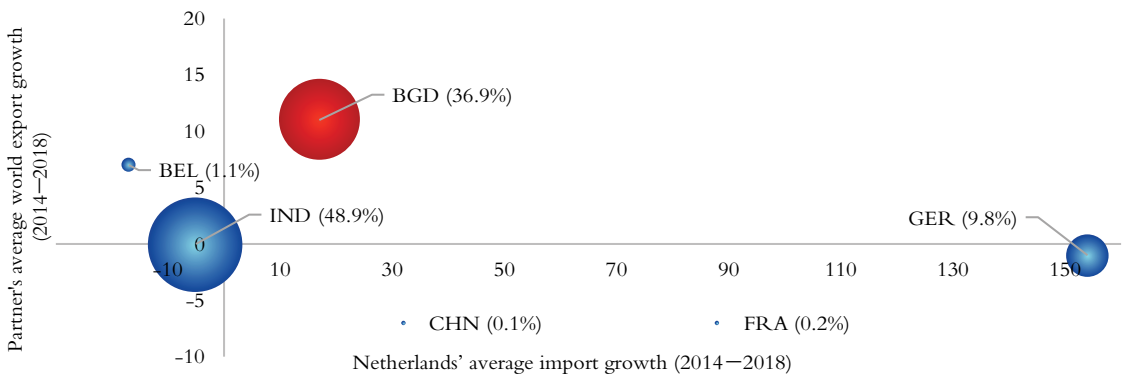
12.3 Export Market Prospects of Jute Products

As discussed earlier, Bangladesh is already the most dominant exporter of jute products. In some of the major items its share in global market is very high—in the range 80–97 per cent as shown in Table 12.2 above. For these product categories, it is quite straightforward to infer that it is the lack of global demand that limits export earnings. Therefore, it is of interest to assess market prospects for other items. This involves comparing Bangladesh with other rival suppliers in terms of market share and export growth in destination markets of interest. Following a method suggested by the International Trade Centre (ITC), the analysis of market prospects can be undertaken with the help of three primary factors: (i) export growth rates of competing countries in the destination market, (ii) all competing countries' export growth in the global market, and (iii) competing countries' market shares in the same destination market. Using these indicators, market prospects of some selected jute products are assessed. The results are summarised in Figures 12.8–12.12.

The analysis is undertaken for HS 531010, HS 531090, and HS 630510, as these are the products where there might be scope of market expansion given that the current shares are much lower than those of the products mentioned above. For HS 531010, Bangladesh holds a market share of about 37 per cent in the Netherlands, 25 per cent in the U.S., and 7 per cent in Germany. India is the dominant supplier in these three markets, capturing a share of 49 per cent, 85 per cent and 63 per cent, respectively (Figure 12.8–12.10). Bangladesh can take advantage of the existing tariff-free access to the Netherlands (due to Everything But Arms preferences for

LDCs), as the supplies from India are subject to an average 4 per cent MFN tariff. In addition, India’s negative export growth to the Netherlands during 2014–2018, and the presence of few suppliers’ offer an opportunity of expanded market share. For the same product, Bangladesh’s export growth to Germany was negative in recent times. Despite having a negative growth in the German market during 2014–2018, options for enhancing competitiveness should be looked into as India’s export growth also stagnated in this market. Furthermore, Bangladesh also enjoys a 4-percentage points tariff advantage over India in the EU market.

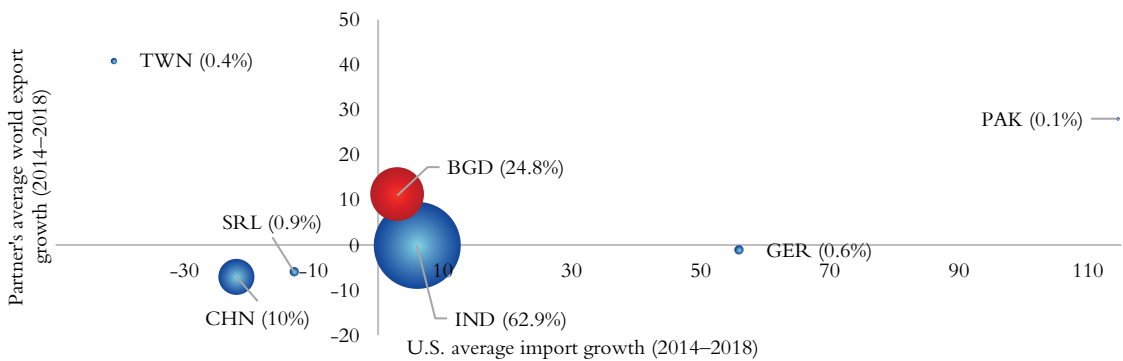
Figure 12.8: Market prospect analysis for HS 531010 in the Netherlands



Source and note: Authors’ analysis based on ITC data. The bubble size represents partner’s export market share of the product in the importing country. The horizontal axis represents the average import growth of the product of the importing country in 2014–2018. The vertical axis represents partner’s average export growth of the product to the world in 2014–2018. Countries are indicated as BGD—Bangladesh, BEL—Belgium, CHN—China, FRA—France, GER—Germany, IND—India.

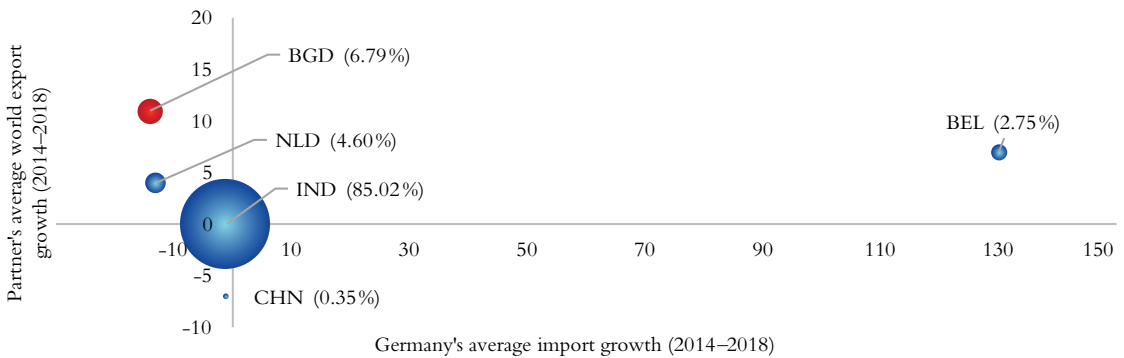
In the U.S. market, Bangladesh’s export of HS 531010 products has been growing at about 3 per cent vis-à-vis its overall world export growth at about 11 per cent over the past five years (2014–2018). In contrast, India’s growth in this market was 6 per cent during the same period, while India’s export to world remained stagnant (Figure 12.9). All the current suppliers face MFN zero tariff to access the U.S. market in this product category.

Figure 12.9: Market prospect analysis for HS 531010 in the U.S.



Source and note: Authors’ analysis based on ITC data. The bubble size represents partner’s export market share of the product in the importing country. The horizontal axis represents the average import growth of the product of the importing country in 2014–2018. The vertical axis represents partner’s average export growth of the product to the world in 2014–2018. Countries are indicated as BGD—Bangladesh, CHN—China, GER—Germany, IND—India, PAK—Pakistan, SRL—Sri Lanka, TWN—Taiwan.

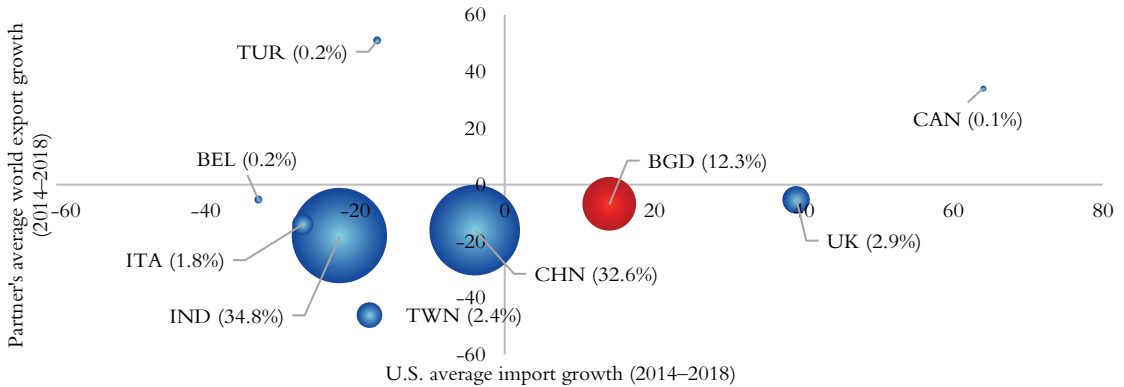
Figure 12.10: Market prospect analysis for HS 531010 in Germany



Source and note: Authors’ analysis based on ITC data. The bubble size represents partner’s export market share of the product in the importing country. The horizontal axis represents the average import growth of the product of the importing country in 2014–2018. The vertical axis represents partner’s average export growth of the product to the world in 2014–2018. Countries are indicated as BGD—Bangladesh, BEL—Belgium, CHN—China, IND—India, NLD—the Netherlands.

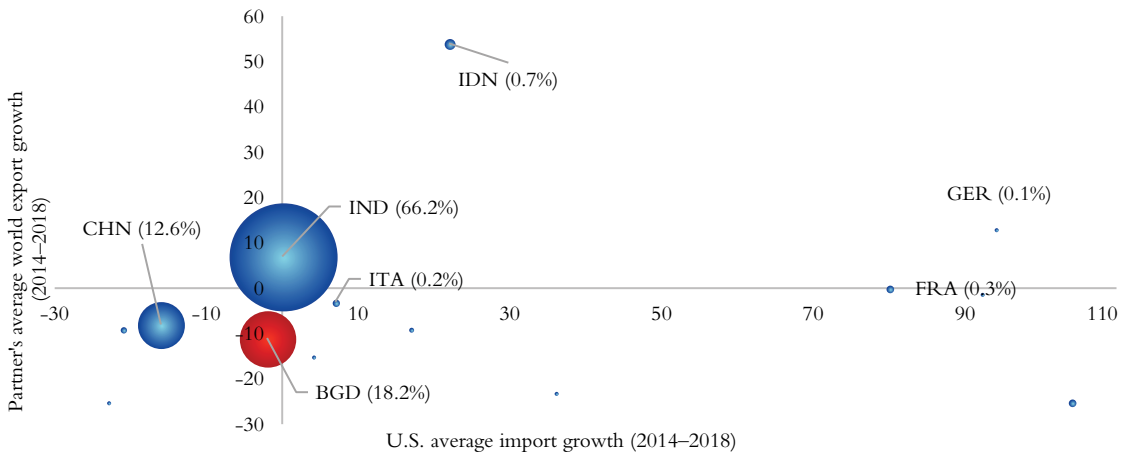
In HS 531090, Bangladesh captures 12.3 per cent of the U.S. market (Figure 12.11). The U.S. is the top importing country for this category. Although India and China remain the major suppliers securing 34.8 per cent and 32.6 per cent of the imports in this market, the average export growth rate of both these countries has been negative during 2014–2018. However, total import volume by the U.S. is quite low (\$7.6 million).

Figure 12.11 : Market prospect analysis for HS 531090 in the U.S.



Source and note: Authors’ analysis based on ITC data. The bubble size represents partner’s export market share of the product in the importing country. The horizontal axis represents the average import growth of the product of the importing country in 2014–2018. The vertical axis represents partner’s average export growth of the product to the world in 2014–2018. Countries are indicated as BEL— Belgium, BGD—Bangladesh, CAN—Canada, CHN—China, IND—India, ITA—Italy, TUR—Turkey, TWN—Taiwan, UK—The United Kingdom.

In the case of HS630510, U.S imports in 2018 stood at \$10.8 million, representing 4.2 per cent of world imports. Bangladesh is the second largest supplier with a share of 18.2 per cent. India is the dominant supplier capturing 66.2 per cent of this market (Figure 12.12). Exports of Bangladesh to this market registered a negative growth (-7%) over the past five years (2014–18).

Figure 12.12: Market prospect analysis for HS 630510 in the U.S.

Source and note: Authors' analysis based on ITC data. The bubble size represents partner's export market share of the product in the importing country. The horizontal axis represents the average import growth of the product of the importing country in 2014–2018. The vertical axis represents partner's average export growth of the product to the world in 2014–2018. Countries are indicated as BGD—Bangladesh, CHN—China, FRA—France, GER—Germany, IND—India, IDN—Indonesia, ITA—Italy.

Overall, the analysis seems to suggest that, for product category HS 531010, Bangladesh can consider further market expansion building on the current presence. For products HS 531090 and HS 630510, export prospects seem less encouraging. For each product, the import market size is quite small. Thus, enhancing market share will not mean any large increase in export earnings

12.4 Potential of New Products in Jute Exports

The above discussions show that raw fibre, jute sacks, jute hessian cloths, jute twine or jute yarn, jute shopping bags, rope, and some handicrafts are the traditional jute products that are being exported for years. In other words, traditional jute products are overwhelmingly dominating the export basket. However, increasing exports with such traditional and low-end products in the international market could be challenging due to the changing nature of consumer preferences. Therefore, Bangladesh needs to expand its range of products and introduce new items in the export basket. There are several options in this respect that need to be explored further.

Diversifying jute fabrics through blending with textiles

Jute products of Bangladesh are conventionally used in packaging of food-grade materials, industrial packaging, and also used as various types of shopping bags, promotional bags and geo-textiles. Since the demand for natural fibre blends has increased in recent years, the demand for jute and other natural fibres that can be blended with cotton has also increased. However, there is a need to move jute's profile to blend it with the textile and clothing (T&C) industry (Bangladesh Apparel News, 2018). In recent times, T&C industry is using jute in many higher-end textiles for furnishings as well as in composites, especially as a wood fibre. The major blended jute manufactured products would be yarn and twine, jute sacking, hessian, carpet backing cloth and other T&C products. Nevertheless, this kind of blending of jute and textiles has opened up a new horizon for the future of jute, even though at present such diversified jute products explains a small proportion of total consumption. According to industry sources, if denim fabrics is produced with

half jute and half cotton, then a jeans pant would cost only one-third of the cost of full cotton denim fabrics. In order to realise the enormous potential of such benefits, there is a need for investment and incentive for developing expertise, innovation, designing, branding and marketing.

Currently, Bangladesh's jute products are prompted by gradually increasing global interest for diversified and lifestyle jute products, such as jute gunny bag or sack bags, jute yarn and twine, handicrafts, shopping bags, beach bags, sports and travel bags, wine bags and other jute textiles. Bangladesh has a significant potential in the European markets as the demand for natural fibre is increasing in this part of the world. Nonetheless, in order to trail the ever-changing interest of the consumers of the developing and emerging economies, Bangladeshi jute manufacturers and exporters need to develop value-added jute products.

Using jute-sticks for charcoal and carbon powder

Jute-sticks, one of the by-products of jute, hold significant export market opportunities. Traditionally, these are dried at villages for using as firewood for earthen stoves, walls of huts as well as boundary walls around rural houses, and making fences. Although jute-sticks do not produce considerable fuel, it turns into ashes which are used to wash utensils. But there is a significant demand for jute-stick ash and carbon powder in the global market and it can generate substantial export earnings. It is a key raw material in many industries, such as charcoal and cosmetics. The ash is widely used in water filters, in gas masks and to remove odours. High-quality jute-stick ash can be also used in the production of tooth-cleaning products, anti-toxin drugs, carbon paper, face wash, dry-cell batteries, dried ink of photocopier machines, and other chemicals.

The production of jute-stick charcoal dusting powder began in Bangladesh around 2012, with an intent to capture the market demand in China. Later, many factories were set up in Faridpur, Jamalpur, Khulna, Narayanganj, Pabna, Rajbari, and Rajshahi districts to produce jute charcoal. Currently, around three million tonnes of jute-sticks are produced in Bangladesh per annum (The Financial Express, 2018). According to industry sources, if half of the jute-sticks can be utilised, then 250,000 tonnes of charcoal could be manufactured, which is valued at about \$200 million in the global market. Industry experts are of the view that activated charcoal—which is a high-end product of jute ash—can help triple the foreign currency earnings from this item. Overall, if half of the produced ash from jute-sticks can be used to develop high-quality materials, \$3–3.5 billion could be exported to international market.

Particularly, there is a good prospect for exporting jute-stick ashes to China as it has enormous demand for high-quality ashes for industries and charcoal as fuel.⁴ Since Bangladesh gets duty-free market access of jute-stick carbon to China, the quantity of charcoal export to China can be increased significantly before the LDC graduation. Apart from China, Bangladesh is also exporting charcoal to Saudi Arabia, Taiwan, and the U.K. In addition, there is a considerable demand for jute-stick charcoal and dust powder in Australia, Brazil, Canada, Germany, Hong Kong, Japan, the Republic of Korea, Malaysia, Mexico, Turkey, the U.A.E, and the United States. In the future, Bangladesh's ability to realise the potential of this product will critically depend on maintaining environmental and international standards. However, instead of low-end regular charcoal, local manufacturers should concentrate on producing and exporting high-end products with greater value-addition.

⁴ According to EPB data, in FY18, Bangladesh earned over \$3 million by exporting jute charcoal to China.

Interior supplies for the global automobile industry

Recently global car giants, such as Audi, BMW, Daimler Chrysler, Ford, Mercedes-Benz, Mitsubishi, Renault, Toyota, and Volvo have started using natural fibre for furnishing car interior. Such usage has opened up a promising avenue for jute to be integrated with the global value chain of the automobile sector. It is an important reason for the recent growth of jute exports. Previously, the car industry used glass fibre to manufacture the interiors. Since glass fibre is neither recyclable nor biodegradable, automobile manufacturers started to look for a green alternative in 1994, when jute emerged as the most favourite natural input. The global car industry annually requires nearly 100,000 tonnes of jute, but Bangladesh exports only 12,000 tonnes for them (BluKonsult Global, 2019). Given the rising global market for green and climate-sensitive interiors of the car users, the country has the potential to export jute and jute goods worth \$5 to \$7 billion per annum if it can successfully capture the global market in the near future (LightCastle Partners, 2019).

Potential of Sonali bags

The demand for jute bags has grown significantly over the past few years, particularly in the European market because of increasing environmental concern in the region. The demand for jute bags in non-producing countries has also spurred due to (i) ban on plastic packaging materials and bags; and (ii) biodegradability, durability, low cost, high strength, etc. of jute bags. The global market of jute bags is projected to reach a value of \$2.6 billion over the next few years (Business Wire, 2017). Currently, India is the largest producer and exporter of jute bags in the world market followed by Bangladesh and China.⁵

Bangladeshi scientist Mubarak Ahmad Khan invented a jute polybag which is biodegradable, environment and human-health friendly product since it is produced by jute cellulose and food-grade colour. It is recyclable, reusable and a bioplastic alternative to plastic bags. Also, the bag has reselling value. It will be degraded within eight hours after getting in touch with water and will get decomposed in soil within 4–6 months. This jute polybag has been named as ‘Sonali bag’ by Bangladesh. It has the potential to overtake India’s position in exports of jute bags because it would replace harmful polythene bags and it looks like traditional polythene. Therefore, this product can potentially replace polythene bags without creating any psychological impact on the consumers.

The government has approved about \$1.2 million from Bangladesh Climate Change Trust Fund (BCCTF) to implement a project for manufacturing Sonali bags and conducting advanced research on inventing environment-friendly bags. Under the project, a laboratory with modern equipment will be set up and necessary chemicals will be procured to conduct advance research on substitutes for plastic bags. The Bangladesh Jute Mills Corporation (BJMC) has started manufacturing of Sonali bags (Bangladesh Jute Mills Corporation, 2019). It earlier implemented a pilot project for this at Latif Bawany Jute Mills at Demra in Dhaka and later set up a factory at Kayetpara in Demra to produce 100,000 pieces of bags per day. Bangladesh can earn huge foreign currency by exporting Sonali bags after meeting the local demand.

⁵ For details, see <https://www.businesswire.com/news/home/20171102006042/en/2.6-Billion-Jute-Bag-Market-Global-Industry>

The government will also encourage private entrepreneurs to produce jute bags targeting both domestic and international markets. However, widespread availability and marketing of Sonali Bag will help reduce the use of polythene bags, promote environment-friendly packaging, earn significant amount of foreign currency, and help achieve import substitution of biodegradable and polythene bags in the country.

The global bioplastics market is estimated to reach \$66 billion in 2022 while Europe and North America are expected to dominate the overall market of biodegradable packaging (Business Wire, 2017). It is mainly due to a strict resolution passed by the European Union to reduce overall consumption of thin plastic bags in the region by nearly 80 per cent (Bangladesh Jute Mills Corporation, 2019). Bangladesh can also obtain a good share of the market, which will critically depend on its strategic marketing and advertisement of Sonali bag as well as introducing variations in design and size of the products.

Jute-tin

An important addition in the diversified jute products would be environment-friendly 'Jute-tin', which would serve both domestic and international markets. Instead of using lead and zinc, the core raw material to produce corrugated iron sheet (tin), this long-lasting jute-made tin is a recent invention of a Bangladeshi scientist Mubarak Ahmad Khan (inventor of jute polybag). Jute-tin is made from jute hessian, resin, coupling agent, and some hardener (Textile Today, 2019).

Jute-tin can be a cost-effective option for tin production. Metallic tin becomes oxidised in a few years, while jute-tin is more durable and stronger than that of metallic tin and does not face problem of oxidation. Its production takes only 20 minutes and it requires relatively less energy, such as electricity or gas. It can withstand rust for 100 years and it is a saline-resistant product which would be useful for coastal areas across the world.

It has been reported that jute-tin can save nearly all import cost of raw materials for producing metal sheets. It is a biodegradable product that can be used to make furniture, fashionable home interior and exterior as well as sheds. It can also be used as alternatives to plastic, wood, and cement. Therefore, it has a considerable potential as a new export product.

Jute leaf tea

Bangladeshi scientists have recently claimed to have discovered a long-lost recipe of herbal drink made from jute leaves, which they hope would gain popularity across the globe. The organic drink touted as "jute green tea" has 30 per cent more calories than spinach, and it contains iron, vitamins, calcium, carotene, fibre, carbohydrates, protein and antioxidants. They are expecting that the drink would be in high demand due to its organic qualities and easy to prepare since one needs to put the powdered ingredients in a glass of water, stir it until it turns green, and then add sugar to taste.

The Bangladesh Jute Research Institute (BJRI) shared the recreated recipe of the drink with the Jute Diversification Promotion Centre (JDPC). Intertrop, a Germany-based jute product manufacturing company, has initiated to manufacture jute tea (Jute Tee in German), and launch

it in the European market in collaboration with the Government of Bangladesh. The company started a pilot project in Lemubari, Manikganj through a farmers' cooperative called Lemubari Organic Farmer Cooperative. Currently, more than 40 farmers are working in this project to produce jute in an organic way which would be certified as per European regulations (The Daily Prothom Alo, 2019). About 2.5 metric tons of jute tea has been exported to Germany in 2018–19.⁶ This product has a considerable prospect in the global market as a high-end product.

Jute viscose and cellulose

Regenerated cellulose fibre (viscose) is a popular man-made fibre, which is made from the chemical-induced transformation of natural polymers and used as a basic input of fabrics. Every year Bangladesh spends a considerable amount of money to import viscose fibres for the textiles industry. Usually, viscose is derived from the 'cellulose' from wood pulp. But it is also possible to make viscose from 'jute cellulose' which is of better quality and can be produced at a more reasonable price.

Recently China has offered technical and financial assistance to Bangladesh for constructing a plant to produce viscose fibre from jute (Textile Today, 2018). BJMC has opined that the proposed plant will need a minimum investment of nearly \$120 million, while Bangladesh annually imports viscose fibre worth about \$87–97 million (Textile Today, 2017). According to the Bangladesh Textile Mills Association (BTMA), 50–60 spinning mills use viscose with cotton to manufacture yarn. If viscose can be produced locally, then mill-owners will benefit. It would also serve as an important import-substitution product and bring a major breakthrough for the textile sector. By 2021, Bangladesh is expected to export jute and jute goods worth \$5–\$7 billion, and jute viscose will contribute notably to increase jute exports.

BJMC and BJRI are working with researchers from Scandinavia on a new feasibility study to produce viscose from raw jute. Laboratory tests have confirmed that pulp can be produced from jute. Now Bangladesh needs to conduct a feasibility study to determine its commercial viability. BJMC is eager to strengthen cooperation between Norway's forest research sector and BJRI.

The jute viscose project will enable Bangladesh to produce nearly 40,000 tons of viscose every year. This is expected to reduce cotton import to less than 200,000 bales each year. According to one estimate, England can collect 30 per cent cellulose from wood whereas Bangladesh can collect 65 to 70 per cent cellulose from 3 to 4 months old jute plant. From jute cellulose, Bangladesh can make viscose, jute polybag, frame for eyeglasses, and many other products. Powder can be made from jute cellulose, which would cost around \$25 to \$27 for producing per kg of powder from jute, while the cost will be \$1,800 from wood (Textile Today, 2018). Therefore, jute cellulose is much cheaper than that of wood. Medicine peel can also be made from jute cellulose.⁷ Thus, both jute viscose and other products from jute cellulose can be important export products to earn foreign currency in the near future.

⁶ For details, see <https://www.daily-sun.com/post/422234/Bangladesh-to-export-5-metric-tons-tea-produced-from-jute-leaves-this-year>.

⁷ A medical peel is regarded as skin-resurfacing treatment to cleanse dead skin cells which uncovers a 'new' layer of skin with enhanced smoothness and brightness.

Jute geotextile

Jute geotextiles (JGTs) can be an important product sub-category in jute exports because of their extensive use in civil and geotechnical engineering. JGTs have emerged as a commercially and ecologically viable alternatives to synthetic geotextiles which are harmful for the environment. JGTs are designed as biodegradable and photodegradable products. They do not increase soil temperature, blends well with the soil and act as a fertiliser after a certain period. However, their life can be extended even up to 20 years through different treatments, depending on their use in civil engineering (such as soil protection at riverbanks and coastal areas, agro-mulching, construction of road pavement, etc). JGTs are also being used in road construction, landslide control, shallow land recovery, and protection of railway slope. Jute geotextiles are regarded as cost-effective ground modification materials, which would save costs by 35–50 per cent compared to applications of their alternatives.⁸

Some of the jute mills are currently exporting JGTs, but in a scanty amount.⁹ However, Bangladesh has a great potential to earn significantly higher amount of foreign currency by exporting JGTs produced with the same amount of jute fibre. The global technical textile market was valued at \$235 billion in 2017, and is projected to reach \$335 billion by 2025, growing at a CAGR of 4.5 per cent from 2018 to 2025 (Allied Market Research, n.d.). To secure an expanded share of this billion-dollar market, standardisation and substantial improvement of quality of jute geotextiles will be critical.

12.5 Policy Recommendations

Reviving BJMC

BJMC, the public corporation established to cater for the needs in the jute market of the early-1970s, is still the largest state-owned manufacturing and exporting entity in the global jute industry (BJMC, 2019). However, it is overburdened with administrative inefficiency, age-old machines, very low productivity, financial troubles, and continuous losses. The recurrent bail-out packages could hardly revive it from malfunctioning. Currently, BJMC's employees are paid as per the previous national pay scale. If BJMC administers the pay scale of 2015, then its annual loss is estimated to be more than double. The corporation, comprised of 22 jute mills and nine non-jute mills, is far away from financially self-reliant. It is difficult to see its bright future given its current state. On the other hand, it produces traditional jute items that are experiencing declining demand in the international market.

A major reason for its continued loss is to purchase raw jute at a price much higher than the wholesale price. It is because of the presence of vested interest group in between farmers and BJMC that takes the benefit of the government's sanction of money for buying jute long after the harvesting period. The middlemen mainly pay the farmers and derive abnormal profit

⁸ Khan, A.J. (n.d.). "Technical Assessment of Jute Geotextiles for Civil Engineering Applications", available at <https://www.technicaltextile.net/articles/technical-assessment-of-jute-geotextiles-for-civil-engineering-applications-3344>, accessed on 16 July 2019.

⁹ Currently, Latif Bawany Jute Mills, under state-owned BJMC, is exporting 5,000 metric tons and Janata Jute Mills Ltd., the only JGTs exporting private jute mill, is exporting 2,000–2,500 metric tons jute geo-textile every year.

because of delayed disbursement of money. In addition, the quality of jute purchased is also a pressing concern. BJMC procures nearly 30 per cent of jute tosa C-grade (relatively better quality), 41 per cent cross-bottom (medium quality) grade and 15 per cent low-grade jute. The remaining 14 per cent is comprised of other types of jute. With such a composition of jute where the best quality of jute is mostly left out, BJMC's jute items fail to attract consumers in the international market. Therefore, in order to remain globally competitive even with traditional products, BJMC can consider directly purchasing quality jutes from the farmers during the harvesting period. To make this happen, it is essential that BJMC and relevant government agencies ensure timely disbursement of funds.

Currently, out of 10,835 looms, 4,452 looms are operational under the BJMC mills. However, it has been reported that these looms, mostly bought before 1971, are outdated. Lack of modernisation and technological upgradation have been causing substantial decline in productivity at the mills of BJMC. Therefore, technological upgradation can help address this capacity constraint, reduce production costs significantly, and improve productivity in the traditional items in which Bangladesh have developed specialisation. Higher capital intensity with technological upgradation may, however, bring some structural shift in workforce but help BJMC sustain in the competitive world market.

Furthermore, the current administrative apparatus, must be transformed into a system that will have a close resemblance to a modern corporate environment in this organisation. For that to happen, jute specialists, executives from export-oriented sectors, and managers from private industries should be hired for overhauling the BJMC. This can help it to become the leader among the jute exporters in the world. An endowment fund should be allocated to provide benefits subject to bringing excellence in jute exports and overcoming loss. Finally, a comprehensive strategy must be formulated to revive the organisation with a concrete work-plan and timeline, keeping in mind the above recommendations.

Introducing new products in the export basket

In addition to the traditional items, a range of new products should be incorporated into the export basket of jute. While the conventional raw jute and jute products do not have much prospect in expanding export revenues, jute diversified products (JDPs) hold great promise. JDPs include high-end jewellery box; particle board for the furniture industry; handmade and machine-made floor coverings; toilet and sanitary products for home, office, and hotels; a range of interior fabrics for home, office, business centre, and social places; wall coverings, aesthetic handicrafts, and curtains; bed accessories, seats and blankets; and decorative gift items. Table 12.4 provides a list and description of some of the products.

Building on the current presence, Bangladesh should proactively explore the opportunities for introducing these products in the markets where it is already one of the leading exporters. Introduction of new products recommended in such markets needs to be analysed extensively to bring any modification to the products for consumers' satisfaction. JDPC and BJRI can join hands to undertake such market research to understand future needs and market dynamics of potential jute products.

Table 12.4: New products for the export basket

Category	Products
Bags, jewellery/jewellery box	<ul style="list-style-type: none"> ■ Handbags and shopping bags made of jute and jute blended fabric with or without lamination ■ Jewellery box with outer surface of jute material/fabric or with inner surface of jute material ■ Imitation jewellery made of jute or jute blended fibre used for ornamental purposes
Particle board	<ul style="list-style-type: none"> ■ Jute particle board made of fragments of jute sticks or other agglomerated jute materials
Floor covering	<ul style="list-style-type: none"> ■ Mats, matting of jute – floor covering, fabrics, woven with plain, stripe, dobby or jacquard designs. Jute mats can also be manufactured by braiding ■ Carpets of jute – made of jute yarns or fibres on surface which are projected from a substrate. It is formed by super imposing, one on the other, a number of layers of jute fibres. It would include bonded pile carpets nonwoven carpets, carpets made by flocking, and knitted carpets ■ Carpets made of jute blended with other fibres where jute is more prominent ■ Other floor coverings fabric of jute woven with plain, striped, dobby or jacquard designs
Toilet wear, sanitary products	<ul style="list-style-type: none"> ■ Sanitary towels and tampons, napkins and napkin liners for babies and similar sanitary articles, of wadding of jute/jute blended materials. It would also include sanitary articles of wadding made from bleached/softened jute fibre mixed with cotton ■ Wadding, other articles of wadding of jute/jute blended materials ■ Terry towel and similar woven terry fabrics of jute or jute blended with other fibres where jute is prominent ingredient ■ Tissue papers
Fabrics	<ul style="list-style-type: none"> ■ Fabric made by interlacing fibres or yarn (single or twisted) ■ Polyethylene laminated jute fabrics – jute fabric laminated with polyethylene for any particular end uses ■ Jute fabric laminated with polypropylene for any particular end uses ■ Woven fabrics of jute ■ Jute fabric impregnated or coated with plastics used for packing industrial raw materials, hygroscopic fertilisers, etc. ■ Jute fabrics and articles used in machinery or plant ■ Fabrics and articles fully made of jute, coated, covered or laminated with rubber, leather ■ Fashion garments of jute (jute blended or union of jute where jute is the predominant fibre) ■ Floor coverings with jute base – linoleum, PVC or other man-made floor coverings with jute fabric as backing material ■ Tapestries – a closely woven fabric in which the pattern is developed by coloured yarn as warp or as weft or both where jute is predominant ■ Light weight to fairly heavy jute/blended fabrics whether or not coated, covered or laminated used for shelter
Wall covering and curtain	<ul style="list-style-type: none"> ■ Jute wall covering – jute fabric bleached/dyed/coloured to cover wall for decoration purposes ■ Jute fabric (union/blended where jute is the predominant fibre), bleached/dyed and/or printed used as curtain
Bed accessories, seats, blanket, covering	<ul style="list-style-type: none"> ■ Jute blankets including blankets of blended jute – blanket made by woolenised jute or jute ■ Mattress of any kind having support base made from jute fabric, felt or laminates or coated ■ Sofa cover made of jute fabric (union/blended where jute is the predominant fibre), bleached/dyed and/or printed used as sofa cover ■ Various types of seats made of jute fabric (including union or blended), jute felt, jute composite/laminates/particle board or coated jute material, etc.
Others	<ul style="list-style-type: none"> ■ Tea bags ■ Footwear with upper of jute materials and outer soles of jute yarn or jute blended yarn for footwear ■ Decorative fabrics of jute – non-conventional, value added jute fabrics made from jute/blended yarns used for decoration purpose. ■ Jute articles having aesthetic value used for other than industrial and general textiles use ■ Artificial plant made of jute fibre/yarn/fabric or blended for decorative purposes. ■ Rubber and articles – reinforced with jute ■ Jute webbing – heavy jute tape, woven in a narrow tape loom ■ Jute spinach – the leaves of the jute plant used as vegetable in fresh or dry form, used mainly as food or fertiliser

Source: Authors' presentation based on International Jute Study Group, Harmonised System (HS) codes for jute and jute products, project report.

Innovations and market linkages

Even though jute is one of the largest industrial sectors in Bangladesh, the narrow range of products, such as raw jute and traditional jute goods (e.g., hessian, sacks and bags, yarn, floor covering, and home decors) is failing to tap the emerging export potentials even in the backdrop of a growing concern about environment and climate change around the world. It is mainly because of deficiency in the diversification of jute products as per the consumer needs, especially in the markets of developed and emerging economies.

The international market of jute is no longer perceived as a 'captive market' for Bangladesh even though it is the largest exporter in this sector. To significantly increase the export earnings from jute, investment in innovations and establishing better market linkages should be encouraged. The Government of Bangladesh has already taken an active interest in scientific invention and innovating new products such as genome sequence of jute, jute viscose, jute tea, and jute-tin.

To promote the product diversification through public investment, the BJMC, BJRI, private sector and other research institutes (such as Atomic Energy Commission), universities (agricultural universities, universities of science and technology, and other relevant departments of top local universities) and around 200 jute mills in private sector should be actively involved to foster innovation. Enhanced policy support can include financial incentive and an endowment fund to foster innovation and engage skilled human capital from both public and private sectors.

JDPC has been promoting diversified jute products since 2002 that helped to produce more than 200 products targeting the international market. The products include bags, shoes, gardening products, household, and everyday items (e.g., cushion and pillow, basket, floor cover, table stationeries, ornaments, showpieces), shari (a traditional woman attire), dresses for women and men, and table mat. It also organises skill development training for entrepreneurs, designers, artisans and workers, and training for new entrepreneurs. To further promote these diversification efforts and strengthen JDPC's capacity, the authorities can consider allocating more resources. Budgetary allocations can be directed in the projects on public-private partnership to promote research and development. However, timely implementation of such projects should be emphasised to increase export earnings from jute products.

Commercial viability of new products

Over the recent years, some new jute products have been invented. These innovations show promising potential to emerge as important export items of Bangladesh. However, these products are still under rounds of piloting to assess their commercial viability. For example, Sonali Bag and jute viscose are widely perceived to have enormous potential in both domestic and international markets, even though their unit prices at pilot stages are significantly higher than those of their nearest substitutes. In order to make them commercially viable, attracting both domestic and foreign investment can be considered as a policy option. For attracting domestic investment, the option of introducing special schemes with soft term loans could be considered by the Bangladesh Bank. The BJMC could benefit from modernised production units in its own land. To attract foreign investments, opportunities in special economic zones (SEZs) could be explored for establishing factories. These support measures are likely to reduce the initial cost of production significantly and help market new commercially viable jute products.

Production and marketing of geotextiles

As it stands, most of the jute geotextile products in Bangladesh are elementary in nature which are not specially treated or mixed with other processed eco-friendly raw materials for hybrid and high-end JGTs. Currently, more than 10 types of JGTs are globally marketed through Alibaba—China's largest online commerce company. However, these are basic JGT products and unlikely to break into the viable markets in the developed countries. Without exporting superior jute geotextile products, Bangladesh can hardly move forward to earn substantial amount of foreign currency and secure its position in the expanding global market of geotextiles and technical textiles. To overcome this constraint, Bangladesh needs to produce high-end jute geotextile products by improved chemical treatment and standardisation according to the purpose of use or the diversified needs of the global market.¹⁰

Bangladesh signed a memorandum of understanding (MoU) with India for standardisation of locally produced JGTs.¹¹ However, India is Bangladesh's main competitor of jute products in the world market and the likely outcome of standardisation through such a MoU remains uncertain. Therefore, Bangladesh should proactively look for investment and support in standardisation and marketing from other interested countries, such as China. Future growth in superior jute geotextile production and marketing is likely to require more of such cooperation.

Market access conditions and the policy space for supporting jute after LDC graduation

Two factors that need to be taken into consideration in promoting both traditional and diversified jute goods are the market access conditions and scope of policy support in the future. As Bangladesh graduates from the group of LDCs, tariff rates applicable to its products are likely to change in many importing countries where currently trade preferences, mostly in the form of duty-free market access, are granted. Table 12.5 summarises the likely changes in the tariff regime following graduation. In Turkey, which is one of the most important markets of Bangladesh's jute and jute products, LDC graduation could result in the rise of import duty from the existing level of zero per cent (i.e., duty-free access) to 2.9 per cent. As Turkey's tariff regime is aligned to EU trade policy, the eventual outcome will depend on the type of EU GSP schemes that Bangladesh will qualify for after graduation, as discussed in Chapter 3 of this volume. In India, the duty-free market access status will be replaced by SAFTA tariffs for non-LDC members, resulting in a tariff hike of 4.7 per cent. Exports to the Republic of Korea will be subject to a tariff rate rise from zero per cent to 3.34 per cent. In another major importing country, China, tariffs would rise in the range 3–12 per cent with the average MFN rate being 7.3 per cent. Many other preference-granting countries such as Australia, Canada, and Japan are not major importers of jute and jute products.

Although tariff rises can affect competitiveness, it should not be a major cause for concern for jute and jute goods. Being the biggest supplier with very large market shares, Bangladesh does not have many competitors. However, imposition of tariffs could encourage substitution of jute for

¹⁰ According to key informant interview (KII) with the Director General, Bangladesh Jute Research Institute.

¹¹ For details, see <https://www.textiletoday.com.bd/jute-geo-textile-its-prospect-in-bangladesh/>.

alternative goods, accentuating the problem of limited markets. Therefore, one important policy imperative will be to focus on diversification of jute goods emphasised earlier.

Table 12.5: Market access conditions for jute and jute products after LDC graduation

Country	LDC tariff rates	Post-graduation tariff rates	MFN tariff
Australia	0%	MFN rates applicable	0.65%
Canada	MFN 0%	MFN 0%	MFN 0%
China	0% except HS 53110015	MFN rates applicable	7.3% (3%–12%)
EU	0%	2.9%	3.65%
India	0%	4.7%	9.84%
Japan	0%	1.43%	3.44%
Republic of Korea	0%	3.34%	4.79%
Turkey	0%	2.9%	3.65%

Source: Authors' compilation from various sources.

Providing such direct policy support as export subsidy or cash assistance may not be possible to continue with after LDC graduation, as discussed in Chapter 3 of this volume. Given the structural problems (e.g., small market size, competition with synthetic fibre, etc) associated with the international market for jute and jute goods, a policy of export subsidy is not very effective either. Bangladesh currently provides cash assistance on exports of diversified jute products, selected jute goods (such as hessian and sacks), and jute yarn twine. LDC graduation means even promoting diversified jute goods with cash assistance would be problematic given the rules and regulations of the World Trade Organization (WTO). Therefore, it is important to consider a WTO-compatible medium to long-term policy support regime. It could be possible to provide support for R&D, services-related activities, and market promotional measures. One priority for Bangladesh will be to learn from other country cases where R&D is publicly supported for the benefit of the export industry. In the immediate term, prior to LDC graduation, there is, however, an opportunity to improve the focus of export incentives so that the support for the most promising diversified jute goods can be deepened to help unleash the potential of these products.

Investment and financing

As discussed earlier, the country needs to transform its age-old and low-end products, such as jute fibre and sacks which have scanty prospects in earning foreign currency and capturing developed country markets. Rather, it is imperative to foster investment in high-end diversified products listed in Table 12.4.

Attracting foreign direct investment (FDI) could be a viable means of quality improvement, new technology adoption, standardisation, advertisement and promotion, research & development (R&D), and greater market access of jute products in the global market. Bangladesh can actively explore the option to attract FDI to foster the production of new and high-end products (such as jute viscose), which are yet subject to the assessment of commercial viability. Developing high-end products for global markets can serve the international demand of such products in various sectors including construction, disaster management, and general consumers. FDI's could also be useful in enhancing technology diffusion, improving skills of workforce employed in the

jute sector, and positive spillover through competition with local jute firms. This can help rejuvenate the jute sector to realise its export potential further.

Another financing option to promote new and promising products for local firms for the international market could be the creation of a special fund with provisions for low interest and soft term loans. In this context, Bangladesh Bank is already offering support which can be further strengthened. For instance, in June 2019, the size of the existing refinancing scheme was increased by one billion Bangladeshi Taka (BDT) from two billion BDT.¹² The scheme now allows businesses to borrow money at 8 per cent interest rate which is only 1 per cent lower than the previous rate. While this is a welcome move for diversification of jute products aimed at entering market of developed and emerging countries, this measure could be further strengthened by making room for credit with softer terms.

12.6 Conclusion

Bangladesh remains the most dominant international exporter of jute and jute products. Currently, it holds a share of about two-thirds of the global jute market. However, jute and jute products comprise just 2 per cent of the country's total exports of goods. Despite numerous measures for export promotion and diversification of jute products, the traditional products, such as raw jute fibre, jute sacks and bags, cabled yarn, and woven fabrics, continue to be the most prominent jute export items with limited prospect in the global market.

In order to revive jute as an important product in the export basket, Bangladesh needs to actively promote the development of diversified and high value-added goods, rather than traditional items. The new product range should include biodegradable Sonali polybag, jute-tin, jute viscose, treated and value-added geotextiles, particle boards, fashionable wall and floor coverings, toilet and sanitary products, fashion fabrics, curtains, bed accessories, seats and blanket covers, fabrics blended with textiles, charcoal and carbon powder from jute stick, interior supplies for global automobile industry, and tea of jute leaves. These products along with any other inventions should be considered for fast-track investment and large-scale production aiming at the global market.

Jute products are one of the 'highest-priority' sectors in the Export Policy 2018–2021. Also, there is a keen policy attention in promoting scientific inventions and innovating new products for reviving the jute sector. Despite these efforts, publicly owned BJMC, the key institution for the domestic supply and exports of jute goods, remained far less than efficient to tap into the promising potential of jute exports. BJMC can be reformed through revamping its management and installing modern machinery. Innovations and market linkages are must to add high-end items in the export basket, which requires funding in R&D and attracting FDI in the jute sector. In addition, private investments in this sector could be promoted through various policy support measures. It is imperative to undertake comprehensive market research along with reinvigorated policy support to meet the globally emerging demand for specific jute products and boost jute exports thereby.

¹² Bangladesh Bank extended the tenure of the fund till June 2024.

Bangladesh's impending LDC graduation would imply changes in market access conditions in some major importing destinations and reduced policy space for providing direct export support. These factors need to be taken into consideration in formulating a medium to longer-term policy for promoting diversified jute goods.

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Tapping into Services Exports: Issues and Policy Options

Mohammad Abdur Razzaque, Nafiz Ifteakhar & Jillur Rahman

13.1 Introduction

The services sector plays an increasingly important role as a country develops and expands its export base. Indeed, the sector provides for the single largest broad economic activity—measured by its share in the gross domestic product (GDP). In Bangladesh, it has been growing on average at 6 per cent per annum, currently comprising more than 51 per cent of GDP. In FY19, services exports from Bangladesh stood at \$6.2 billion in comparison with merchandise exports of \$41 billion.

The trade in services has been identified as the most dynamic component of international trade.¹ Since 2005, world trade in services has expanded faster than trade in goods, and services value-added is estimated to be close to half of the value of international goods and services (WTO, 2019).² According to projections by the World Trade Organisation, the share in global trade of the services sector could increase by 50 per cent by 2040. Developed countries have a much higher dependence on the services sector: 76 per cent of the total value-added in the economy in comparison with 62 per cent for the developing economies.³ When trade flows are measured in value-added terms, the contribution of services becomes much more prominent

¹ According to the WTO, trade in services is defined as the supply of a service: (a) from the territory of one member into the territory of any other member (e.g., tele-medical advice); (b) in the territory of one member to the service consumer of any other member (e.g., higher studies abroad); (c) by a service supplier of one member, through commercial presence in the territory of any other member (e.g., service provided by locally established but foreign owned bank); and (d) by a service supplier of one member, through presence of natural persons of a member in the territory of any other member (e.g., consultation provided by moving into another country). Commercial presence is the dominant mode of supply for trading services globally, accounting for almost 60 per cent of trade in services (WTO, 2019).

² The relevant discussions on the significance of the trade in services can be found in, amongst others, Li, Greenaway, & Hine, 2003; Gabrielle, 2006; Mishra, Lundstrom, & Anand, 2011; Noland, Park, & Estrada, 2012; Alege & Ogundipe, 2015.

³ UNCTAD Trade in Services Annual Bulletin 2018.

than it is generally envisaged.⁴ Due to such enormous significance and growing recognition of the role of services in the world economy, trade in services is becoming more important in international trade negotiations.

Historically, economic development has generally implied progressing from primary and traditional activities to more productive manufacturing and modern services sectors. However, the rise of the so-called ‘servicification of manufacturing’ phenomenon shows that the industrial and exporting performance to a large extent can be determined by the competitiveness of the services sector. Of the value embodied in goods’ exports, as much as 40–60 per cent is attributed to services (Lanz & Maurer, 2015). Several sub-sectors of services work as important backward and forward linkages of primary and secondary sectors across the economy of a country. For example, the growth of manufacturing and agricultural sectors could be linked to well-functioning transport and communication systems, which are sub-sectors under services. Again, improved transportation can reduce regional disparities by connecting disadvantaged and remote areas with other developed parts of the country. The development of services improves the overall efficiency of a country by reducing transaction costs. It is estimated that the manufacturing sector domestically uses 26 per cent of Bangladesh’s total supply of services. It uses 72 per cent of the country’s land transport services, 69 and 66 per cent, of the wholesale and retail trade services respectively, 59 per cent of rail transport, 27 per cent of professional services, and 20 per cent of communication services (UNCTAD, 2016).

Services can also be an important source of export earnings. Bangladesh is already a major labour services (manpower) exporting country, but there is further potential for increasing exports from this sector along with expanded exports of other services. The 2016 Services Policy Review, conducted by UNCTAD, identified the information and communication technology (ICT) sector as one of the most important growth sectors followed by the tourism sector. Recent data from the Export Promotion Bureau (EPB) show dynamism in Bangladesh’s services exports.

In the above backdrop, it is of great interest to analyse Bangladesh’s current services export composition and identify opportunities as well as policy options to enhance the sector’s competitiveness. Increased services exports can also help with export diversification. The objective of this chapter is to provide a snapshot of the current state of the services sector and assess its potential for export expansion. It highlights various policy and practical support measures necessary for driving services exports while drawing lessons from cross-country experiences.

This chapter is organised as follows: after this introduction, Section 13.2 provides an overview of Bangladesh’s services sector; Section 13.3 presents an analysis of three sub-sectors (i.e., ICT, travel and tourism, and manpower) that can generate substantial export revenues; Section 13.4 provides a set of recommendations for realising services export potential; and, finally, Section 13.5 concludes.

⁴ Trade flows, exports and imports, are usually measured in gross terms including the value of imported raw materials. That is, traditional trade statistics record gross flows of goods and services each time they cross a border, creating a double counting or multiple counting problem. The trade in value added approach (TiVA) addresses this problem by accounting for the net trade flow between countries. When foreign value-added is excluded from a country’s total exports, the contribution of services in a country’s net value-added exports becomes much more prominent.

13.2 The Services Sector of Bangladesh: A Brief Overview

The services sector at a glance

Although being largely informal in nature and characterised by low productivity, the services sector has, over the past decade or so, continued to grow at a brisk pace of around 6 per cent per annum—albeit lower than the comparable GDP growth of 6.7 per cent. The services economy is estimated at \$160 billion in 2018–19. The sector's contribution to GDP increased significantly and reached a peak of 55.6 per cent in 2005–06 and then it somewhat declined to 51.3 per cent in 2018–19 (Figure 13.2).

Figure 13.1: Growth of services sector vis-a-vis GDP growth (%)

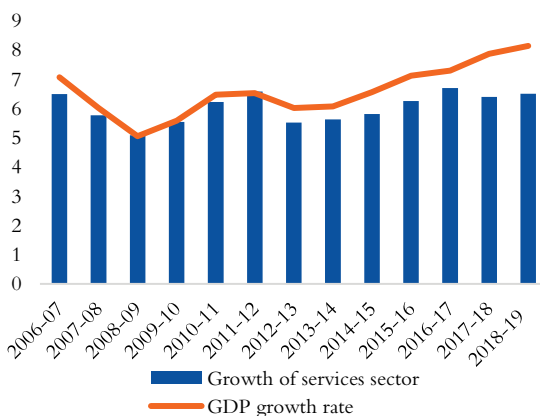
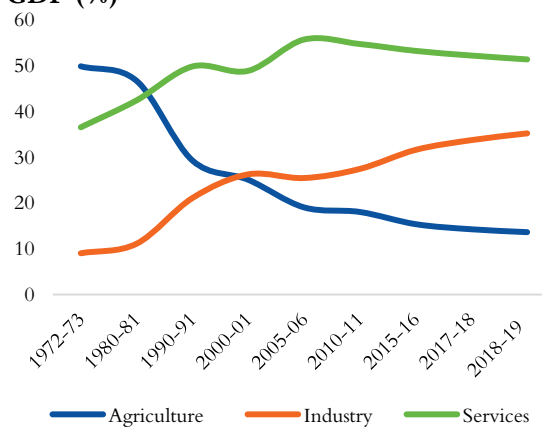


Figure 13.2: Sectoral share in Bangladesh's GDP (%)



Source: Authors' presentation using Bangladesh Bureau of Statistics (BBS) data.

Among the services subsectors, wholesale and retail trade boasts the highest share accounting for almost 14 per cent of GDP, posting a robust 7.7 per cent growth rate in 2018–19 (Table 13.1). The second-largest subsector of transport, storage and communication, has a share of 11 per cent of GDP. Among all the sub-sectors, the highest growth rate of 9.4 per cent (for FY19) was observed for monetary intermediation services (which has a share of 1.31% in GDP) followed by health and social work, (with a share of 2.35% in GDP).

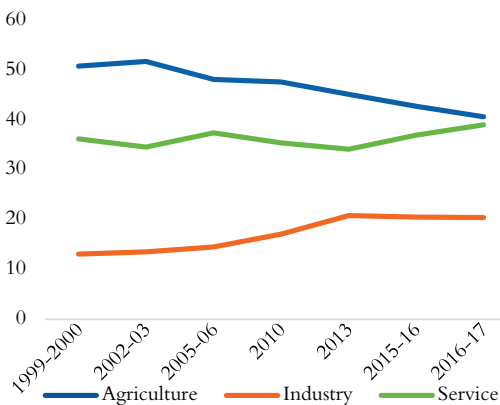
According to the latest Labour Force Survey (LFS), the services sector employs 23.7 million people. Between 1999–2000 and 2016–17, its share in total employment rose from 36 per cent to 39 per cent (Figure 13.3). The official data show that just about 30 per cent of services sector jobs are formal in nature, in comparison with 4.6 per cent in agriculture and 10.1 per cent in industry. The services sector's contribution to female employment is low: of the 39 per cent employment share of this sector, only 7.2 per cent are women (Figure 13.4).⁵ Among the sub-sectors of services, wholesale and retail trade contributes the highest in total employment: 14.2 per cent, followed by transportation and storage (8.6%). During 2010–17, the highest growth in services employment was due to jobs opening in transportation and storage, and education subsectors.

⁵ Of the 30.7 per cent of female in total employment, 18.3 per cent are employed in agriculture, 7.2 per cent in services, and the remaining 5.2 per cent are in industry.

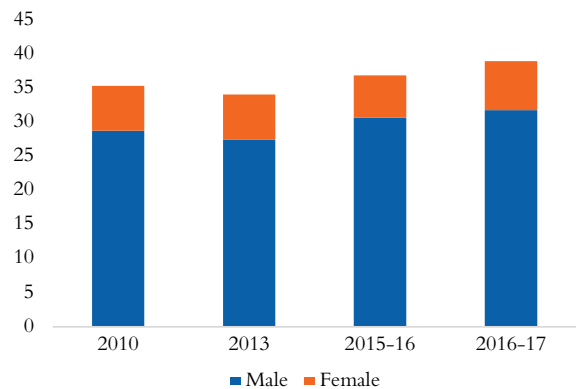
Table 13.1: Contribution of services to GDP

Subsectors	1989–90		2009–10		2018–19	
	Share (%)	Growth (%)	Share (%)	Growth (%)	Share (%)	Growth (%)
1. Wholesale and retail trade	12.17	3.54	14.02	5.85	13.88	7.70
2. Hotel and restaurants	0.59	4.79	0.75	6.01	0.74	7.43
3. Transport, storage & communication	9.32	4.77	11.05	7.55	10.98	6.88
a) Land transport	6.41	5.33	7.28	7.31	7.00	6.93
b) Water transport	2.08	0.07	0.92	3.19	0.68	3.72
c) Air transport	0.18	25.53	0.13	18.19	0.10	6.04
d) Support transport services, storage	0.28	-1.37	0.60	10.33	0.63	7.20
e) Post and telecommunications	0.36	22.02	2.12	9.02	2.56	7.56
4. Financial intermediations	1.56	1.95	2.88	6.25	3.45	8.32
a) Monetary intermediation (banks)	1.31	0.06	2.24	3.15	3.00	9.42
b) Insurance	0.22	13.13	0.43	19.08	0.27	-2.51
c) Other financial auxiliaries	0.02	15.98	0.21	17.71	0.18	8.29
5. Real estate, renting, and business activities	9.94	3.18	7.61	3.85	6.13	5.15
6. Public administration and defence	2.10	1.68	3.26	8.23	3.65	6.45
7. Education	1.93	0.42	2.23	5.18	2.42	6.50
8. Health and social works	2.35	4.03	1.96	6.83	1.85	9.15
9. Community, social and personal services	9.75	2.53	11.08	3.21	8.16	3.69
Overall services sector	49.70		54.83		51.26	6.50

Source: Authors' presentation using BBS data.

Figure 13.3: Sectoral contribution to employment (%)

Source: Authors' presentation using EPB data.

Figure 13.4: Services sector's contribution to employment (%)

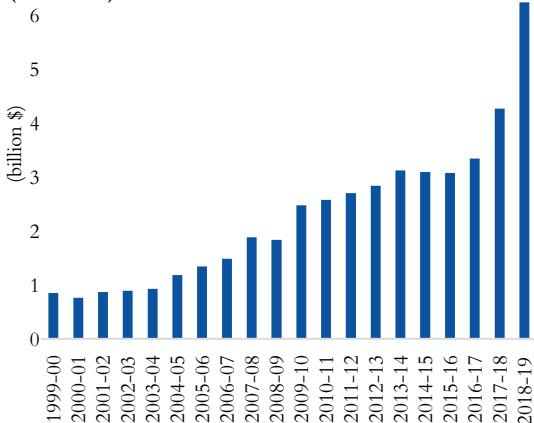
Services exports and imports

Bangladesh's services exports increased significantly during the past two decades to reach more than \$6 billion in 2018–19 from \$0.8 billion in 1999–2000 (Figure 13.5). Services export growth in FY19 was a staggering 46 per cent. One obvious reason behind this high growth is attributable to a low base of services exports. Over the past two decades since 1999, the average services export growth has been above 12 per cent as against 11 per cent for goods exports (Figure 13.6).⁶

⁶Merchandise exports during the same time increased to \$40.5 billion from \$5.7 billion.

Bangladesh’s share in world services exports is just 0.09 per cent in comparison with the combined LDC share of 0.78 per cent. In terms of the growth of share in world services exports, Bangladesh has generally lagged behind LDCs, although the country achieved a much stronger growth rate in 2018–19 (Figure 13.7).

Figure 13.5: Services exports from Bangladesh (billion \$)



Source: Authors’ presentation using EPB data.

Figure 13.6: Growth rates of exports—goods versus services

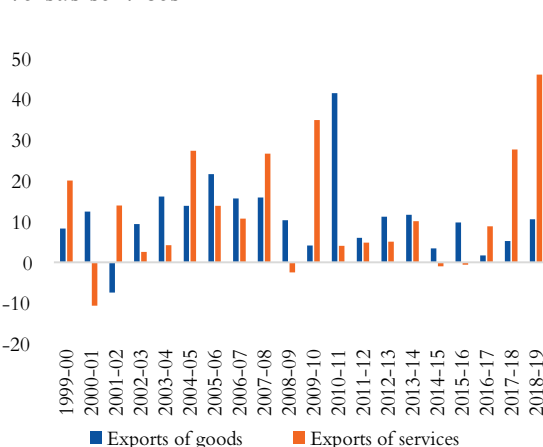
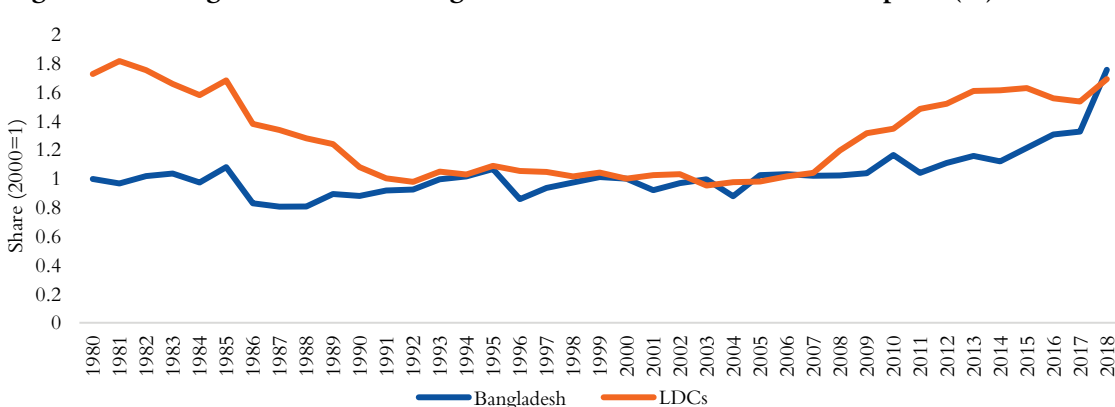


Figure 13.7: Bangladesh and LDCs—growth of share in world services exports (%)



Source: Authors’ presentation using UNCTAD data.

Bangladesh has traditionally been a labour-exporting country. Over the past two decades, the inflow of remittances has grown from less than \$2 billion in 1999–2000 to \$16.4 billion in 2018–19. Remittances have contributed significantly to reducing poverty incidence and enhancing the welfare of recipient households. At the same time, it has helped finance the import bills. It is worth pointing out that, the way services trade is captured using the balance of payments data, exports of labour services are not included.⁷ Notwithstanding, this is an area where Bangladesh has further potential for increased earnings as discussed later.

⁷ This is not unique to Bangladesh. For all global economies as well, workers’ remittances are not included within the services trade.

Table 13.2: Services exports from Bangladesh (million \$)

Description	FY17		FY18		FY19	
	Exports (million \$)	Share (%)	Exports (million \$)	Share (%)	Exports (million \$)	Share (%)
1. Government goods and services ⁸	1304.21	39.08	1683.78	39.52	2883.76	46.35
2. Maintenance and repair services ⁹	4.31	0.13	5.79	0.14	4.49	0.07
3. Transportation	436.23	13.07	589.2	13.83	662.76	10.65
3.1 Sea transport	208.44	6.25	283.74	6.66	305.77	4.91
3.2 Air transport	221.94	6.65	302.38	7.01	354.24	5.69
3.3 Rail transport	0	0.00	0	0	0.28	0.005
3.4 Road transport	1.37	0.04	1.72	0.04	0.68	0.01
3.5 Others	4.48	0.13	1.36	0.03	1.39	0.02
4. Travel	281.07	8.42	344.81	8.09	367.86	5.91
4.1 Business	0.9	0.03	1.3	0.03	1.43	0.02
4.2 Personal	280.17	8.40	343.51	8.06	366.43	5.89
5. Construction services ¹⁰	139.56	4.18	146.28	3.43	434.93	6.99
6. Insurance services ¹¹	1.24	0.04	4.11	0.1	0.61	0.01
7. Financial services (other than insurance) ¹²	88.59	2.65	147.9	3.47	130.46	2.1
8. Charges for the use of intellectual property ¹³	0.1	0.003	0.34	0.01	0.77	0.01
9. Telecommunication and information services	568.94	17.05	538.23	12.63	549.05	8.82
9.1 Telecommunications services ¹⁴	373.67	11.20	349.77	8.21	316.84	5.09
9.2. Computer services ¹⁵	193.93	5.81	182.01	4.27	225.02	3.62
9.3 Information services ¹⁶	1.35	0.04	6.46	0.15	7.19	0.12
10. Other business services ¹⁷	502.79	15.07	681.25	15.99	980.02	15.75
11. Personal, cultural and recreational services	8.95	0.27	15.31	0.36	14.99	0.24
12. Manufacturing services on physical inputs owned by others ¹⁸	1.26	0.04	103.11	2.42	1.43	0.02
Total	3337.25	100	4260.11	100	6221.9	100

Source: Authors' presentation using EPB data.

⁸ Government goods and services n.i.e. include: (a) goods and services supplied by and to enclaves, such as embassies and military bases; (b) goods and services acquired from the host economy by diplomats, consular staff and military personnel located abroad and their dependants; and (c) Services supplied by and to Governments and not included in other categories of services.

⁹ Maintenance and repair services n.i.e. include maintenance and repair work by residents on goods that are owned by non-residents (and vice versa). The repairs may be performed at the site of the repairer or elsewhere.

¹⁰ Construction covers the creation, management, renovation, repair or extension of fixed assets in the form of buildings, land improvements of an engineering nature and other constructions (i.e., roads, bridges and dams). It is disaggregated into construction abroad and construction in the compiling economy. Construction abroad comprises construction work for non-residents by enterprises resident in the compiling economy. Construction in the reporting economy incorporates the goods and services acquired in the compiling economy from resident entities by those non-resident enterprises.

¹¹ Insurance and pension services cover the provision to non-residents of various types of insurance by resident insurance enterprises.

¹² Financial services cover financial intermediation and auxiliary services. These include services provided in connection with transactions in financial instruments, as well as other services related to financial activity, encompassing, inter alia, deposits taking and lending, letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting and clearing of payments, financial advisory services, custody of financial assets or bullion, financial asset management, monitoring services, convenience services, liquidity provision services, risk assumption services other than insurance, merger and acquisition services, credit rating services, stock exchange services and trust services.

¹³ Charges for the use of intellectual property n.i.e. include: (a) charges for the use of proprietary rights, such as patents, trademarks, copyrights, industrial processes and designs, trade secrets, and franchises, where rights arise from research and development, as well as from marketing; and (b) charges for licences to reproduce and/or distribute intellectual property embodied in produced originals or prototypes, such as copyrights on books and manuscripts, computer software, cinematographic works and sound recordings, and related rights, such as for the recording of live performances and for television, cable or satellite broadcast.

¹⁴ Telecommunications services include the broadcast or transmission of sound, images, data, or other information by telephone, telex, telegram, radio and television cable transmission, radio and television satellite, electronic mail, facsimile, etc., and includes business network services, teleconferencing and support services, mobile telecommunications services, internet backbone services and online access services.

¹⁵ Computer services cover of hardware- and software-related services and data processing services.

¹⁶ Information services comprise news agency services (the provision of news, photographs and feature articles to the media) and other information service (i.e., database services, both online and through magnetic, optical or printed media and web search portals; direct non-bulk subscriptions to newspapers and periodicals, whether by mail, electronic transmission or other means; other online content provision services; and library and archive services).

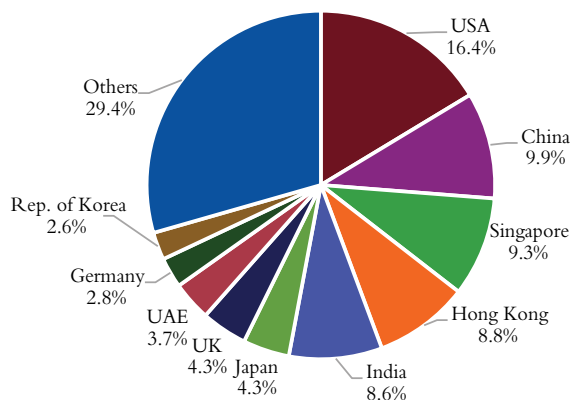
¹⁷ Other business services include research and development services, professional and management services (legal, accounting, management consult and public relations); advertising, market research and public opinion polling; waste treatment, depollution, agricultural and mining services), technical and trade-related services (architectural, engineering and other technical services; other trade-related services; operational leasing services; agency commission).

¹⁸ Fees received by companies for manufacturing activities undertaken on goods owned by other companies. Manufacturing services on physical inputs owned by others includes activities such as processing, assembly, labelling and packing that are undertaken by enterprises that do not own the goods.

Having a share of 46 per cent in total services exports in 2018–19, government goods and services is the largest source of services exports. This category of services incorporates earnings from diplomatic missions, office maintenance services, etc. (Table 13.2). It is followed by other business services and transportation with shares of 15.8 per cent and 10.7 per cent, respectively. Telecommunication and information services accounted for a share of about 9 per cent in Bangladesh's total services exports in FY19.

The United States is the largest destination of Bangladesh's services exports, accounting for about 16 per cent of export earnings (Figure 13.8), followed by China (9.9%), Singapore (9.3%), Hong Kong (8.8%), India (8.6%), and Japan (4.3%).

Figure 13.8: Major destinations of Bangladesh's services exports

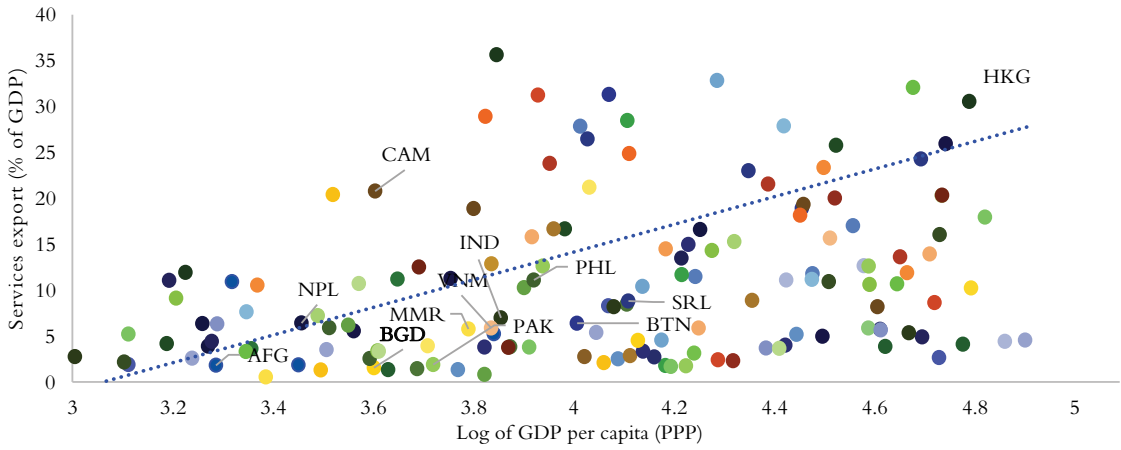


Source: Authors' compilation and presentation using Bangladesh Bank data.

The share of services trade in GDP remains low in Bangladesh: 5.2 per cent. Indeed, given the per capita income, measured in purchasing power parity terms, Bangladesh has one of the lowest services-trade (i.e., services exports plus imports) to GDP ratios. The situation is even worse when only the services export is considered. For Bangladesh, the services exports-GDP ratio is just 1.5 per cent. In line with the international experience, Bangladesh's services export-GDP ratio should have been at least three times higher. While for such comparator countries as India, the Philippines and Sri Lanka, services exports are around 40 per cent of their respective total exports, the corresponding figure for Bangladesh is less than 10 per cent (Figure 13.9). Over time, the relative significance of services exports has declined from 13 per cent in 2005 to 9.8 per cent in 2017 (Figure 13.10). China and Vietnam have comparable services shares in exports. However, these two countries are amongst the most successful merchandise goods exporting countries in the world.

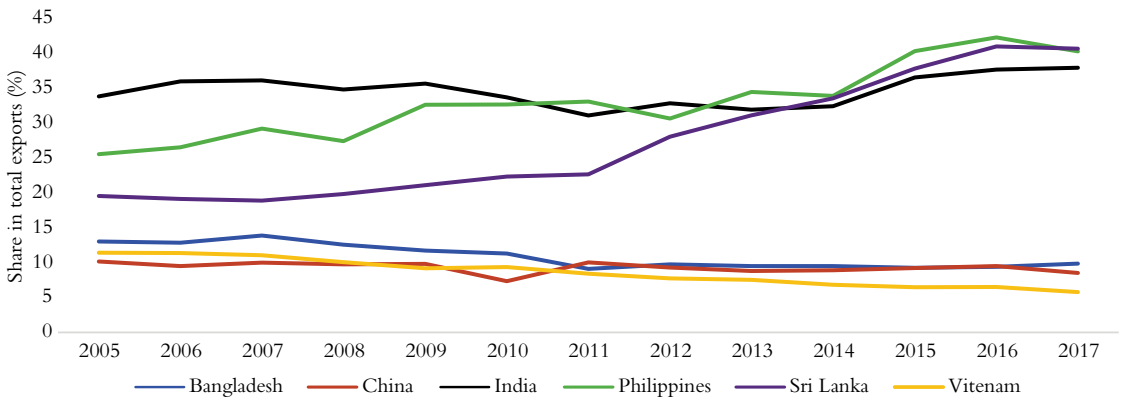
Imports of services have expanded faster than exports, increasing the overall deficit in Bangladesh's services trade in absolute terms. Between 1999–2000 and 2017–18, such deficits ballooned from \$650 million to \$4.8 billion. Services imports stood at \$9.1 billion in 2017–18 (Figure 13.11). Bangladesh spends most in transportation services; in 2017–18, almost 60 per cent of total import payments in services was spent in this category alone. The high dependency on transport services reflects the heavy reliance on foreign transport carriers and local capacity shortage in transport and logistics (Chanda & Raihan, 2016). Travel services constituted 7.8 per cent of services imports and posted an annual growth of 38 per cent in 2017–18 (Table 13.3).

Figure 13.9: Services export share in GDP and per capita GDP



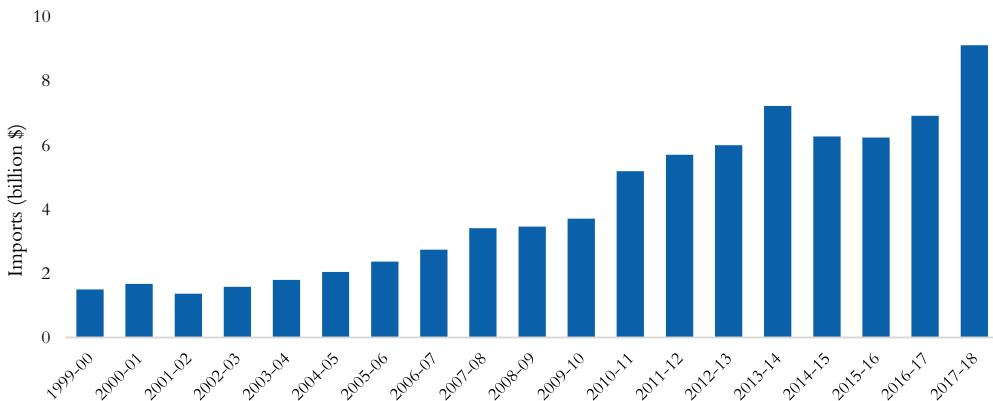
Source: Authors' presentation using World Development Indicator (WDI) data.

Figure 13.10: Services exports' share in total exports in selected developing countries (%)



Source: Authors' presentation using WDI Data.

Figure 13.11: Services imports in Bangladesh (billion \$)



Source: Authors' presentation using Bangladesh Bank data.

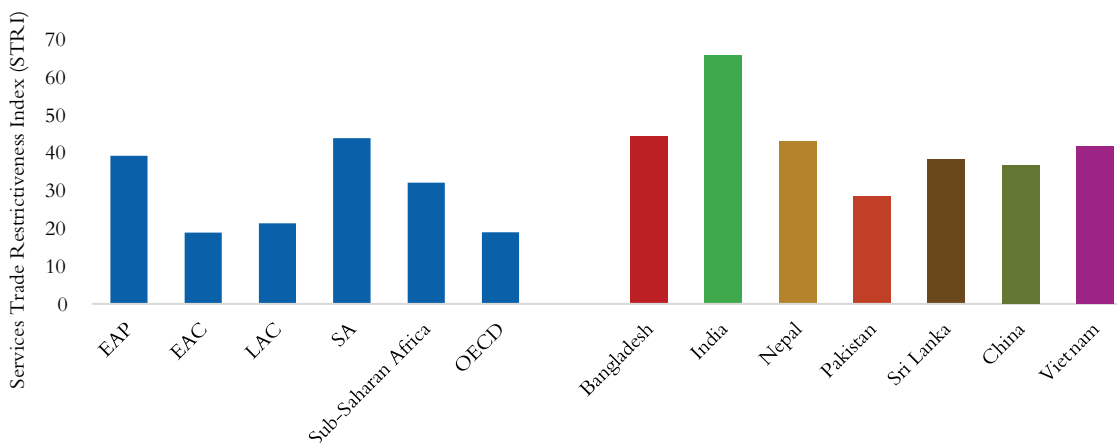
Table 13.3: Imports of services by category

Services sub-sectors	FY17		FY18	
	Imports (million \$)	Share (%)	Imports (million \$)	Share (%)
Transportation	4505.5	65.21	5450.1	59.81
Travel	513.2	7.43	708.8	7.78
Telecommunications, computer, and information services	108	1.56	73.3	0.8
Other business services	466.1	6.75	640.6	7.03
Government services	236.1	3.42	317.7	3.49
Others	1080	15.63	1922.1	21.09

Source: Authors' presentation using Bangladesh Bank data.

Services trade regime

While it is generally perceived that services trade is subject to a wide variety of restrictions, it is not easy to summarise the relevant trade policy stance with the help of an aggregate measure. The World Bank provides such a measure known as the services trade restrictiveness index (STRI). The STRI exercise scores the restrictions in services trade within a range of zero to 100, where the former implies a completely open sector while the latter (a score of 100) implies a completely closed sector. The overall index value for Bangladesh turns out to be 44.2, which is higher than the world average but comparable with many other Asian countries (Figure 13.12). According to this index, the services trade policy regime in Bangladesh appears to be more restrictive in telecommunications and transport services (with STRI scores of 62.5 and 62.9, respectively, as shown in Table 13.4).

Figure 13.12: The services trade restrictiveness index (STRI) for selected countries and regions

Note: EAP—East Asia and the Pacific; ECA—Europe and Central Asia; LAC—Latin America and the Caribbean; OECD—Organisation for Economic Co-operation and Development; and SA—South Asia.

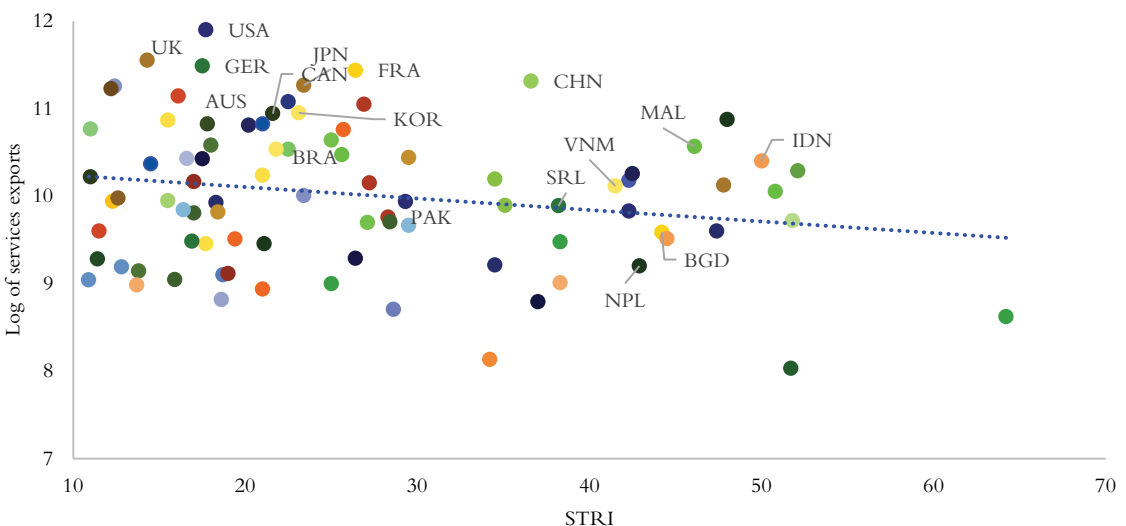
Source: Authors' presentation using the World Bank Services Trade Restrictions Database.

Table 13.4: STRI by services subsectors

BPM Code	Sectors	Overall STRI (index value)
	Overall	44.2
1	1) Financial	46.3
1.1	a. Banking	48.1
1.2	b. Insurance	43.3
2	2) Telecommunications	62.5
2.1	a. Fixedline-telecommunications	100
2.2	b. Mobile telecommunications	25
3	3) Retail	25
4	4) Transportation	62.9
4.2	a. Air passenger international	60
4.6	b. Maritime shipping international	42.5
4.7	c. Maritime auxiliary services	100
4.8	d. Road freight domestic	25
4.9	e. Rail freight domestic	100
5	5) Professional	35
5.1	a. Accounting and auditing	35
5.2	b. Legal	35

Source: World Bank Services Trade Restrictions Database.

However, the cross-country relationship between services exports and STRI is not very strong. Although an overall negative relationship is discernible, there is a wide variation in experiences of different countries. For example, Pakistan appears to have a much lower STRI score than those of Indonesia, Malaysia, Vietnam, yet Pakistan's services exports are lower than these countries (Figure 13.13). This implies that it is perhaps possible to increase exports without undertaking further liberalisation in services. That is, there are other factors that affecting exports. Generally, when promoting competitiveness is an important factor to stimulate the export supply response, liberalisation can be helpful. Particularly, it can indirectly help increase productivity of the manufacturing sector.

Figure 13.13: Relationship between the STRI and services exports

Source: Authors' presentation using the World Bank's Services Trade Restrictions Database and WDI data.

13.3 Sectoral Analysis

ICT sector

The information and communication technology (ICT) sector is recognised as a sector that has huge export potential while at the same time it can also help promote competitiveness of the overall Bangladesh economy. The sector has already started to export to various international markets as Bangladesh is placed at 21st position in global outsourcing destination ranking (Kearney, 2017).

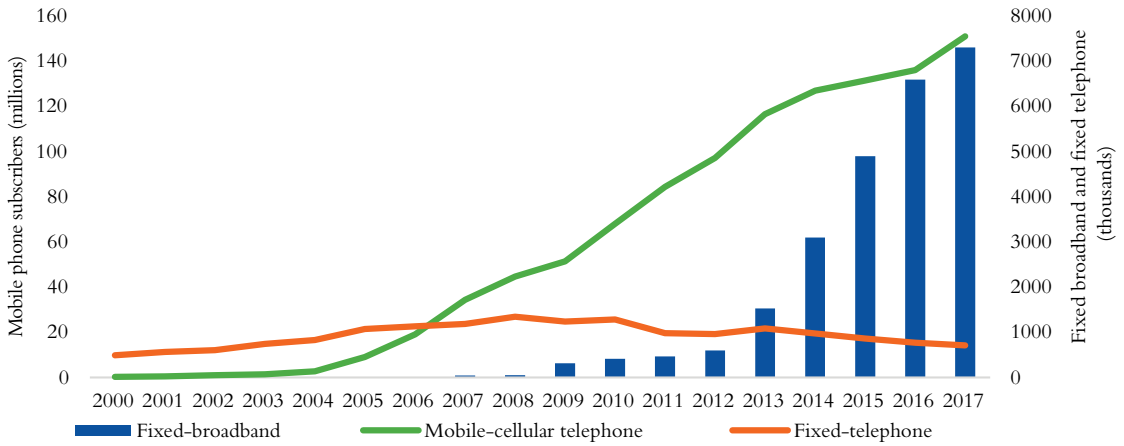
The definition of the ICT sector has evolved to include new varieties of services. According to the Organisation for Economic Co-operation and Development (OECD), ICT services must primarily be intended to fulfil or enable the function of information processing and communication via electronic means including transmission and display. According to OECD classification, the ICT services sector includes software publishing (ISIC 5820); telecommunication (ISIC 61); computer programming, consultancy and related services (ISIC 62); data processing, hosting and related activities (ISIC 6311); web portal (ISIC 6310); and repair of computer and communication equipment (ISIC 951). Under the national classification, it also includes printing and publication. Among the several ICT sub-sectors, software publishing, telecommunications, computer programming, data processing, and hosting and related services are considered to be the areas where Bangladesh is expected to do much better. Other than these, ICT-enabled services (ITES), e.g., offshoring, freelancing, call centre services, etc. also hold promises for enhanced export earnings.

Telecommunications

In Bangladesh, the telecommunications sector, especially the mobile cellular phone, has grown rapidly. Since 2004, the number of subscriptions of mobile phones has grown at an annual average rate of 45 per cent (Figure 13.14). In contrast, the users of fixed telephone lines have remained stagnant. A sharp decline in mobile phone prices and difficulties in obtaining fixed telephone connections have triggered the strong preference for mobile phones. The subscription of fixed broadband services remained stagnant until 2013, but since then an upward trend is noticed (Figure 13.15). In-terms of the penetration rate, out of every 100 inhabitants, more than 91 have now access to a cellular phone—a dramatic rise from just two in 2004. The spread of broadband internet has exhibited some dynamism in years—thanks mainly to the policy of promoting access by lowering charges and undertaking the required infrastructural development.

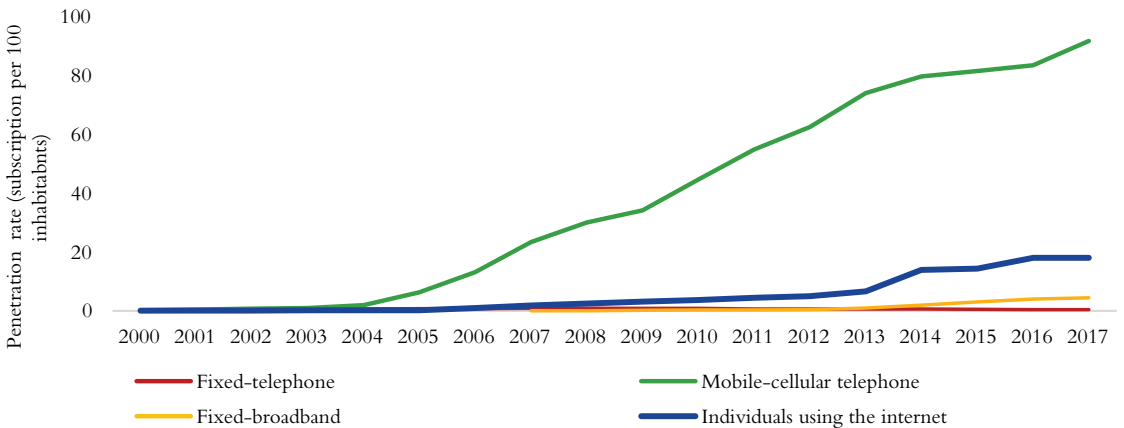
Singapore is the largest market of Bangladesh's telecommunications services, followed by the United Arab Emirates (UAE), Malaysia, Hong Kong, India, the UK, and the USA (Figure 13.16). This export is mainly due to non-resident Bangladeshis' and their families/relatives' use of the services to make international phone calls. Figure 13.17 depicts the trends of telecommunications services exports from Bangladesh and some other comparators. In 2017, the value of Bangladesh's telecommunications services export was about \$360 million as against of a much smaller \$24 million in 2005. Bangladesh has higher export revenues from this category than Cambodia, Sri Lanka, and Vietnam.

Figure 13.14: Users of telecommunication services



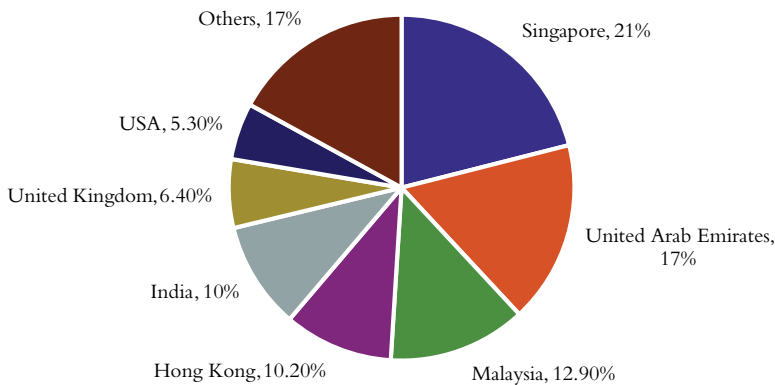
Source: Authors' presentation using International Telecommunication Union (ITU) data.

Figure 13.15: Penetration of telecommunication services



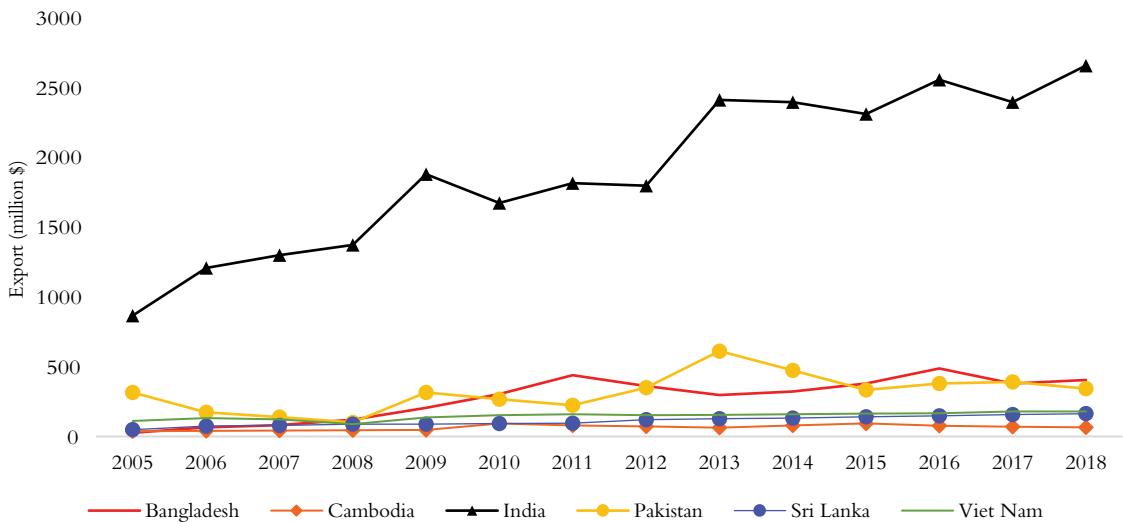
Source: Authors' presentation using ITU data.

Figure 13.16: Export market destinations of Bangladesh's telecommunication services



Source: Authors' presentation using Bangladesh Bank data.

Figure 13.17: Trends of telecommunication services export from Bangladesh and major competitors



Source: Authors’ presentation using ITC Trade Map data.

Software, information and other computer-related services

The other important sub-sector of ICT is software, information, and computer-related services—together known as the information technology (IT) sector. The size of this sector is estimated to be \$120 million including exports (Bangladesh Investment Development Authority, (2018). Currently, more than 300,000 professionals are working in 4,500 registered IT companies (BASIS, 2017). It has been reported that software development occupies almost half of the total IT sector. IT-enabled services accounted for another 11 per cent of the sectoral activities. The remaining sub-sectors are e-commerce, business process outsourcing (BPO) and other multifunctional activities, constituting 3 per cent, 5 per cent, and 34 per cent of the total IT sector, respectively.

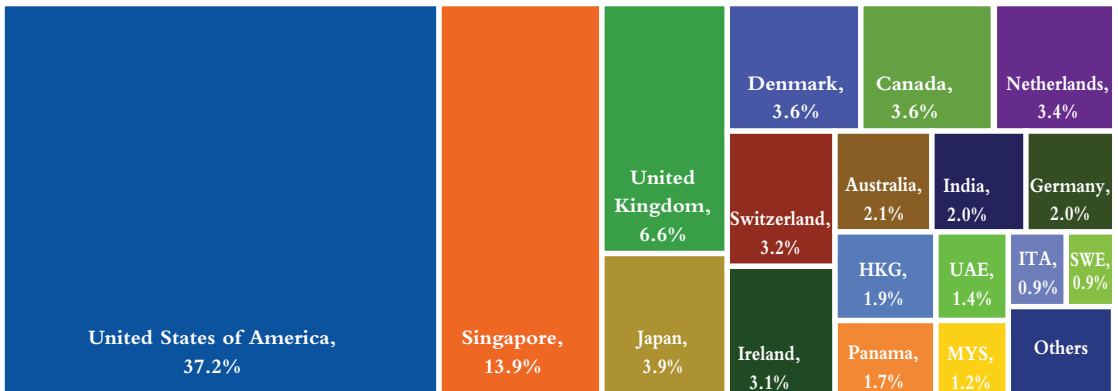
Figure 13.18: Export market destinations of Bangladesh’s software services



Source: Authors’ presentation using Bangladesh Bank data.

Figure 13.18 depicts the export market destinations of Bangladesh’s software export. The United States is the largest market followed by the Republic of Korea, Norway, Switzerland, and Japan. Among European countries, the United Kingdom, Denmark, and Germany are the main destinations while India, Malaysia, and the UAE are the major Asian destinations of Bangladeshi software.

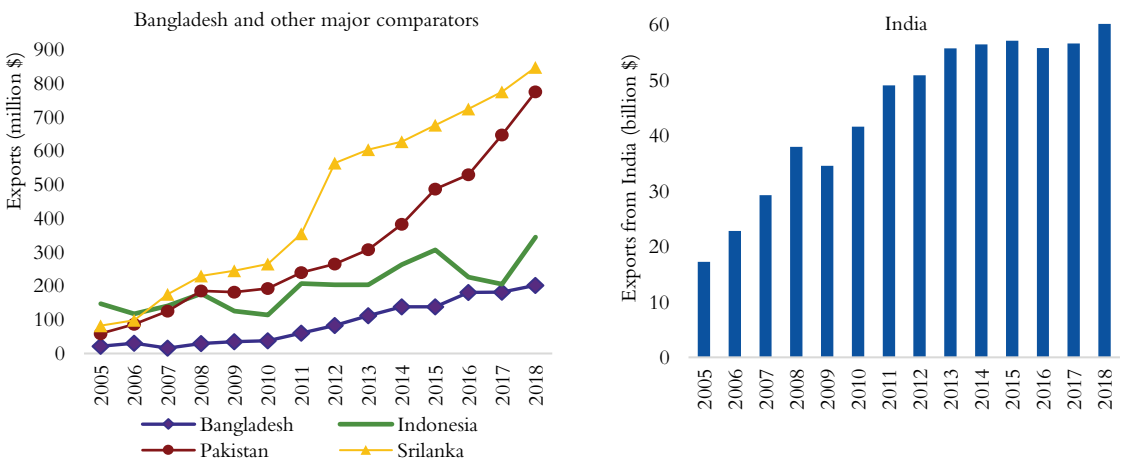
Figure 13.19: Export market destinations of Bangladesh’s ITES services



Source: Authors’ presentation using Bangladesh Bank data.

Figure 13.19 represents Bangladesh’s export market destinations of ITES services.¹⁹ The United States is the largest export destination followed by Singapore and the UK. Among the other European countries, Switzerland, the Netherlands, Norway, and Sweden are the main export markets. Japan, India, and the UAE are the major Asian countries where Bangladesh’s ITES services are exported.

Figure 13.20: Trends of computer-related services export from Bangladesh and its major competitors



Source: Authors’ presentation using ITC data.

¹⁹ ITES includes services related to call centres, medical transcriptions, medical billing and coding, back office operations, revenue claims processing, legal databases, content development, payrolls, logistics management, web services etc.

Figure 13.20 provides the trends of computer-related services exports from Bangladesh and major comparators. It is found that the export of computer-related services picked up since 2011, and the export of such services in 2018 was more than \$200 million. When compared with others, the scope for further export development becomes clear. For example, Sri Lanka and Pakistan exported more than \$840 million and \$775 million, respectively. Exports of such services from India were more than \$55 billion in 2018. Similarly, in information services, Bangladesh's export performance has been less than impressive although in recent times some dynamism is observed as exports grew to almost \$2 million. Bangladesh has to make further progress in realising its export potential from the ICT sector.

Current policy regime for ICT services exports

Telecommunications sector

To develop the telecommunications services industry and expand its exports, the Government of Bangladesh has devised several policies and made significant progress in developing the required infrastructure. For example, being connected with the submarine cable boosted the internet speed, which was very helpful for the development of the telecommunications and ICT sector as a whole. In 2008, the Bangladesh Telecommunication Regulatory Commission (BTRC) lowered internet charges by 20–40 per cent, helping stimulate ICT activities. The Commission also took measures to lower the subscription fees of mobile call services. This helped expand mobile phone subscriptions. Since 2007, issuing licenses for call centres and cyber cafes prompted the increased access of internet connection. Recently, Bangladesh has launched its own satellite, ushering a new era in the development of communication services in the country.

IT (software, IT-enabled services, and BPO) sector

For the development of the IT services sector and its export promotion, the government has implemented several policies. The required infrastructural development is also in progress. For example, the Bangladesh Hi-Tech Park Authority (BHPTA) was founded in 2010 to establish, manage and operate technology business parks throughout the country. The BHPTA has initiated projects under which six IT parks including Sheikh Hasina Software Technology Park (Jashore), Janata Tower Software Technology Park (Karwan Bazar), Bangabandhu Hi-tech City (Kaliakoir), Bangabandhu Sheikh Mujib Hi-tech Park (Rajshahi) and Bangabandhu Sheikh Mujib Hi-tech park (Sylhet) have already been established. Twelve more parks are currently under construction. Furthermore, several hundred BPO (Business Process Outsourcing) centres have been established (Bangladesh ICT EXPO, 2016).

Recently the Government of Bangladesh has taken initiatives to build IT training and incubation centres at seven different places under which IT-related training will be provided. To create new entrepreneurs and skilled labour force, IT business and incubation centres have been opened at the universities of engineering and technology in Chittagong and Khulna. Specialised IT centres have also been established in several public and private universities. For further human resource development, the Bangladesh Hi-Tech Park Authority has imparted several training programmes e.g., IT training of 30,000 individuals at the twelve districts where the parks are being developed. In addition, numerous initiatives have been undertaken to train 1.25 million youths by 2021 under the Skills for Employment Investment Programme (SEIP).

The government has taken multiple initiatives to enable various IT firms to participate in international software exhibitions. Under these initiatives, Bangladeshi IT firms have regularly been participating in several international IT fairs such as the CeBIT Conference in Germany, Japan's IT week, NASSCOM Leadership Forum in India, etc. (BASIS, 2017).

For new ICT firms, a tax waiver scheme of up to seven years and provisions of tax rebates on IT-sector investments have been introduced. These measures have incentivised the IT sector and its exporting activities. Furthermore, a 10 per cent cash incentive scheme for ICT exports is boosting the supply-side response.

Other developing countries have also taken elaborate measures in promoting their IT services. India is a leading example of it. Its IT sector has achieved a commendable development and has become one of the top exporters in the world. Although it may be very difficult to match their performance, yet India's experience can offer important insights. Its success is due to longstanding policy support and interventions that were initiated decades earlier. For instance, India adopted its first 'Computer Policy' in the early 1980s. It strengthened the IT activities by establishing a separate overseeing authority for software development and promotion under the Department of Electronics (DoE). It also promoted investment in ICT training and reduced import duties on IT-related products. In the late 1980s, the National Taskforce on Information Technology and Software Development (NTITSD) was established. It provided various recommendations that were then adopted by the government. According to the recommendations of that task force, investment was made to create a solid IT labour force base. The engineering education was expanded through setting up new institutions and expanding the existing ones for a continued supply of IT workforce. Diploma and other training programmes were also arranged via both public and private institutions. In addition, a strong monitoring mechanism was developed to maintain the quality of those training programmes by establishing an independent authority, the All India Council for Technical Education (AICTE). Both the ministry and AICTE jointly evaluated and accredited those IT related training programmes. In addition, India produces a large number of IT graduates who are proficient in communicating in English. Proficiency in communication coupled with in-demand skill sets, attracted outsourcing work opportunities eventually boosting India's ICT exports.

India also gave focused attention on IT-related infrastructure development. India's first software-technology park was established in Bangalore in the early 1990s. Later on, several IT parks and a number of big IT firms were established in different parts of the country. Currently, there are eight major IT hubs. In IT parks of India, modern computers, hi-speed internet networks and other ICT related facilities are made available at reasonable costs.

India also took the initiative to reform the telecommunications sector as it is well connected to the development of the IT sector. It took several policy reforms for creating a competitive environment. These led to lower prices for services with better quality and improved access to people. For example, opening up the telecommunications sector to competition in basic and value-added services attracted investments and enabled the sector to flourish.

China is another country with success in world IT services exports. China's industrial strategies and catching up model can be a good lesson for other developing countries. It took a series of

policy reforms marked by controlled liberalisation and selective state interventions (Ning, 2009). It especially focused on building a skilled labour force. Another important factor is that China was able to attract large foreign direct investments in the ICT sector. At the same time, multiple initiatives were undertaken to enable the Chinese IT firms to integrate with global networks.

Problems and issues of the ICT sector

Even with strong drives from law enforcing agencies, the illegal VOIP (Voice Over Internet Protocol) services continue to exist resulting in the loss of foreign exchange earnings for Bangladesh. One might think that the use of VOIP is coming to an end due to the expansion of online-based communication tools such as Viber, WhatsApp, Facebook messenger, Skype, IMO along with other internet-based voice-transferring apps. However, in many rural and semi-urban areas, due to lack of high speed and uninterrupted internet connections, people are still using VOIP. This could be a reason for such a modest amount of telecommunications services being exported to Saudi Arabia as against the fact that more than 30 per cent of migrant workforce are employed in that country.

Like India, Bangladesh's telecommunications sector also underwent reforms as described earlier. Although the prices of telecommunications services have declined significantly, the quality of services is still an issue in many instances. Further development of the required infrastructures should therefore remain a priority. For example, the capacities of mobile towers are currently in comparison with the number of users. Most users perceive mobile broadband services need to be improved substantially. Despite having the 4G network technology, connecting to the network using mobile broadband is often difficult. The situation is worse in rural areas.

The main enabling factor for Bangladesh to increase the IT sectors' exports is the availability of a labour force with relatively low cost. However, the skill required to work in the IT sector is considered not satisfactory by the standard of comparator countries. Several public and private universities are producing a good number of IT graduates every year. However, there is a mismatch between the skills acquired by these graduates from their academic training and the types of skill sets required by the industry. This implies that the curriculum of the IT degree programmes needs significant upgrading to match with the market needs. In addition, to develop a skilled IT workforce, there are various diploma programmes and other specialised training programmes. Yet, in comparison with the industry demand, the number of graduates from these programmes remains low. There is no denying that there is a strong policy commitment to develop a globally competitive ICT sector, however, the quality of the available training programmes remains an issue that needs serious attention.

The English language skill of the workforce, especially listening and speaking, is another major impediment for expanding exports. For this language deficiency, in many cases, Bangladeshi IT firms and workers are not being able to take direct contracts from international clients. Many Bangladeshi suppliers are dependent on subcontracts from other firms that communicate in Bengla. According to industry insiders, a large proportion of subcontracting jobs are sourced from Kolkata, India. These subcontracting arrangements result in lower profitability and reduced earnings.

Currently, most of the IT firms in Bangladesh work on outsourcing and re-contracting basis. The export of new IT products remains small. From discussions with several local software firms, it is learnt that there are several new IT products developed by the Bangladeshi firms that have significant export potentials. However, due to the lack of effective marketing, these firms cannot materialise export success.

For the production and export of IT products, quality internet connection is an important requirement. Recently, internet connections have improved, especially the broadband internet. However, many firms do think that the prices of fixed broadband with high quality and reliable connections are excessively high. The internet connectivity outside main cities remains unsatisfactory. The broadband internet in these areas is at a nascent stage. According to many IT firms, the prices of mobile internet or data packages in Bangladesh are much higher than those in India.

Bangladesh is one of the fastest-growing countries in IT freelance outsourcing. There is, however, a lot of room for improvement. Generally, freelancers work using online platforms (i.e., ODesk, Fiverr, etc.) which are virtual meeting places where qualified and skilled freelancers from anywhere in the world can bid for work. In some cases, one may need to pay some fees as a part of the bidding process. This kind of payment is usually settled via credit cards. Due to a lack of credit security, commercial banks find it risky to issue credit cards to an individual working as a freelancer.

For freelancers, receiving payments in exchange for their services can also be troublesome. According to many informed observers, most local freelancers currently get paid predominantly through the illegal channels or hundi. Therefore, a big portion of these payments does not add to official foreign exchange earnings. There are some alternative online transaction mechanisms, including Screen and Payoneer. However, these do not have a strong userbase as they lack some vital transaction features. The user fees of these platforms can also be very high—at times more than 3 to 5 per cent of the total transaction value. In addition, the exchange rates offered are often significantly lower than those of market rates. Hence, IT freelancers and firms often prefer the hundi system where the cost is much lower.

In 2017, PayPal started limited operations in Bangladesh, through its branded facility, called Xoom. This was a positive development as the offered services were carried out through a legal channel to bring home export earnings. However, having a full-fledged payment gateway system continued to be demanded by freelancers. A fully operational PayPal system will allow them conducting all necessary transactions, including making bids or depositing security money for online work orders. PayPal is globally reputed for its protection provided to the clients. Apart from reducing risks, having a PayPal account is important as many international clients only recognise it as an acceptable medium for transactions. In fact, it is quintessential for freelancers looking to work directly in the marketplace. Without making PayPal fully functional or creating an equivalent payment gateway system, Bangladesh's IT freelancers will face challenges to unleash their true potential.

There are six Hi-tech parks currently in operation in different regions of the country. One of the main objectives of these parks is to attract investments—both from national and international

sources. However, the occupancy rate of these parks is still very low. One reason for this is the lack of locally available human resources, especially IT workers. For example, in the Kaliakoir Hi-tech Park, IT firms are reportedly not being able to operate because of the unavailability of professionals from nearby places. Recruiting workers from Dhaka is costly as firms need to pay additional transport and housing allowances. The problem of uninterrupted internet connectivity is also a reason for the underutilisation of the capacity, according to some industry stakeholders.

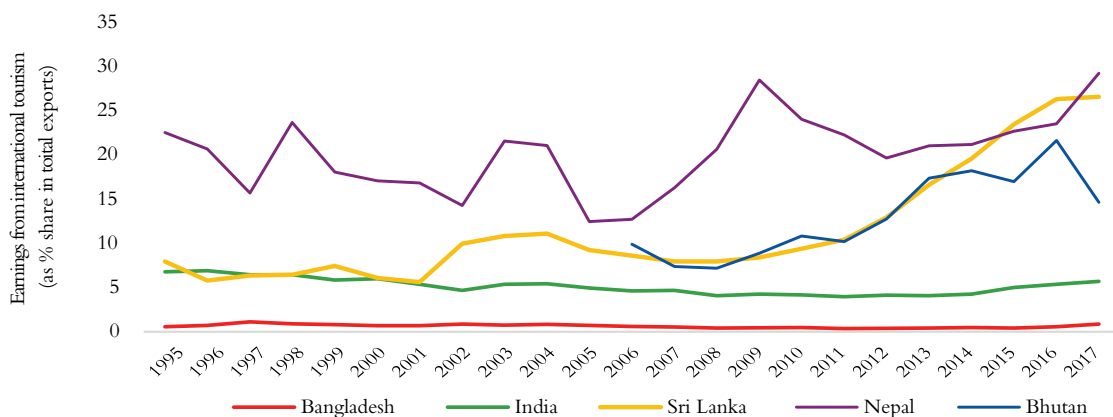
Travel and tourism sector

Tourism generally means travelling to different places for recreation purposes. However, the World Tourism Organization uses a much broader definition in which tourism is considered as people's going outside their usual environment of residence and staying there for not more than one consecutive year or not less than twenty-four hours due to any purposes such as recreation, business, religious, medical, etc. Tourism falls under the service industry that comprises several backward and forward linkage activities like transportation, hotel accommodation, sightseeing activities and food industries. As a result, the tourism sector can have a large impact on a country's GDP and employment creation. Tourism can be both domestic and international. International tourism, in which foreigners visit another country for business, medical, and recreational purposes can be an important source of foreign exchange earnings.

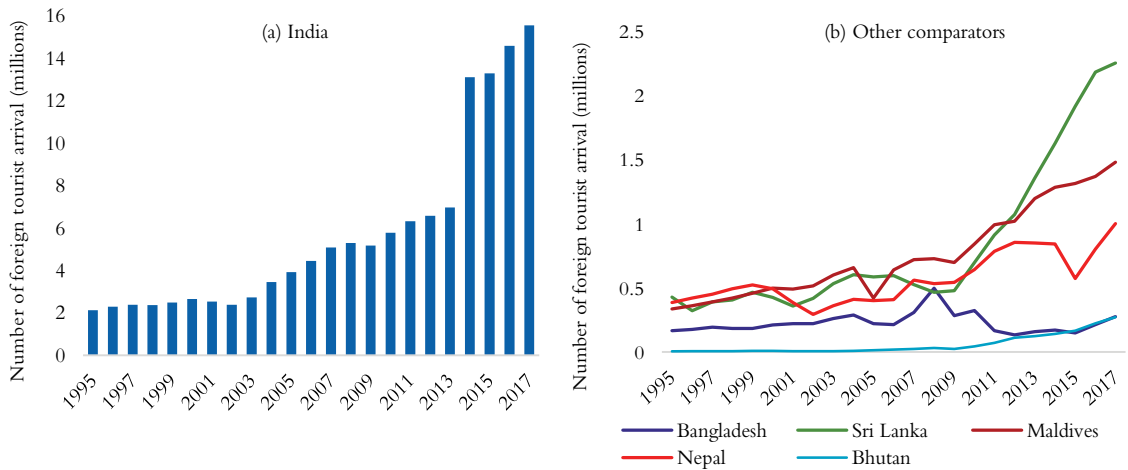
In Bangladesh, the contribution of travel and tourism to GDP is estimated to be at around 4.4 per cent (World Travel and Tourism Council, 2019). Almost 4 per cent of total employment is due to this sector alone. Available data seem to suggest that recreational tourism constitutes an overwhelming majority of 78 per cent of all travel and tourism activities. Approximately 12 per cent of all international tourism is education-related.

The share of tourism in total exports has hovered around 1 per cent while the corresponding figures for some Asian countries are much higher (Figure 13.21). The number of foreign tourist arrivals in Bangladesh over the past two decades or so has largely been stagnant at a low level, however, showing an increasing trend since 2016 (Figure 13.22).

Figure 13.21: Earnings from international tourism (as % share in total exports)



Source: Authors' presentation using World Bank data.

Figure 13.22: Number of foreign tourist arrivals

Source: Authors' presentation using World Bank data.

The current policy regime to expand travel and tourism exports

During the early 1970s, Bangladesh had taken its first tourism policy initiative by establishing the Bangladesh Parjatan Corporation, an autonomous body that works to promote the sector. Amongst others, the Parjatan Corporation offers short courses and two-year diploma programme in hotel and tourism management via its allied institution, the National Hotel and Tourism Management Institute. Later, under the auspices of the National Tourism Act 2010, another institutional body, the Bangladesh Tourism Board, was established to further strengthen the tourism sector development programmes affiliated with the United Nations Tourism Development Programme (Government of Bangladesh, 2019). The National Tourism Policy 2010 had several innovative features. For instance, declaring tourism as a priority sector, collaborating with relevant ministries and other government and non-government organisation to come up with combined development policies, encouraging foreign direct investments (FDI) and public-private partnerships (PPP) to help flourish the tourism sector, searching for new tourism sites, preserving existing sites, undertaking relevant infrastructural development activities, effective international marketing of tourism spots, etc. The policy also facilitated the expansion of eco-tourism for environment-sensitive tourism spots like the Sundarbans and Saint-Martin's island. Moreover, the policy incorporated local communities and local government institutions for the development of community tourism. Last but not the least, it also emphasised on enhanced relationship and cooperation with different regional (SAARC and BIMSTEC) and international organisations (UNWTO) for undertaking collaborative initiatives (Ministry of Civil Aviation and Tourism, 2010).

As part of infrastructure development, Hazrat Shahjalal International Airport in Dhaka has been upgraded. In addition, the construction of a third airport terminal is expected to be completed by 2023. Upgradation of Cox's Bazar airport to an international airport is also underway. In two other prominent domestic airports, Chattogram and Sylhet, additional terminals are also being built. The security systems of Hazrat Shahjalal International Airport and other airports have also been strengthened.

The Bangladesh Parjatan Corporation has constructed numerous accommodation facilities to promote tourism in several popular locations including Kuakata sea beach in Patuakhali, Choto Shona Mosque area of Chapai Nawabganj, the ancestral home of Satyajit Roy in Kishoreganj, Kantajeu Temple area of Dinajpur district, Patenga sea beach area of Chattogram district, Hatia and Nijhum islands of Noakhali district, etc. Among others, Parjatan motels have been built in Rangamati and Jaflong. In addition, renovation and upgradation of many other existing Parjatan motels have taken place.

As part of marketing initiatives, the Bangladesh Parjatan Board (BPB) initiated 'Visit Bangladesh' campaign in 2015. To promote river tourism, a campaign titled 'Beautiful Bangladesh - Land of Rivers' was introduced. On previous occasions, the BPB organised SAARC Trade and Tourism Mart and Folk Festivals. Bangladesh has also had the opportunity of holding positions of several world tourist forums such as UNWTO Commission for South Asia, OIC Tourism Ministry, Pacific Asia Travel Association, etc. (Government of Bangladesh, 2019).

Looking at other successful tourist-attracting countries can also help obtain important insights about promoting the tourism sector. India and Sri Lanka are two examples in this respect. The tourism industry in India is currently experiencing huge growth with the yearly number of foreign tourist arrivals reaching more than 10 million. The sector has become the most dominant sub-sector of the services industry, contributing more than 8 per cent of the total employment. Apart from geographical advantages, the government's initiatives and policies are widely considered to have played a major role in boosting the sector. India increased the budgetary allocation for developing the tourism sector under its scheme of 'Swades Darshan'. It has also been able to attract large foreign investment in the tourism and hospitality industry (India Brand Equity Foundation, 2019). The Government of India allows 100 per cent FDI ownership in the sector and provides five years' tax holiday for investing in 2, 3, or 4-star hotels that are built near tourists' spots declared as world heritage sites by the UNESCO.

The government of India launched an e-VISA system for medical tourism and is expanding such systems for other tourism purposes as well. Branding initiatives such as 'Incredible India' and 'Atithi Dev Vaba' are also thought to have been effective in promotional measures. Another important driver is the country's well-functioning IT system, which has provided tremendous support greatly facilitating planning and booking experiences of tourists. According to a survey, 60 per cent tourists book their trip online and as high as 50 per cent of them record their trip experiences via online portals (Consultancy.in, 2019). The government of India has launched 'Incredible India Mobile App' for providing the trip-related necessary information to the tourists and sharing the experiences of the trips undertaken by them (India Brand Equity Foundation, 2019). Overall, the presence of a clear road map and concerted actions have greatly benefited India's tourism sector. The National Tourism Policy of India specified the level of envisaged progress within a prespecified time period and all strategies were designed accordingly to attain the targets.

Sri Lanka's tourism sector is another success story. The main source of the island state's foreign exchange earnings has traditionally been agricultural activities. In the 1960s, Sri Lanka focused on the tourism sector and the Ceylon Tourist Board was established in 1966. Due to diversified natural spots, Sri Lanka had experienced buoyant tourism sector activities with the rising number

of foreign tourist arrivals. In the 1980s, the breakout of the civil war dealt a severe blow to the sector causing the number of foreign visitors to plummet. To revive the sector after the end of the war, the Sri Lankan Government has taken several steps. For planning, development, and regulation tasks, the Sri Lanka Tourism Development Authority was established in 2007. To ensure the supply of professional workforce to the industry, several short and diploma courses are now offered by the Sri Lankan Institute of Tourism and Hotel Management, which is an affiliated institution under the Ministry of Tourism Development.

Sri Lanka ran several international campaign programmes to rebuild its image. These were conducted under several themes such as natural beauty, wildlife, beaches, hills, local cultural activities, etc., appealing to the people of diverse interests. At the same time, Sri Lanka invested in new tourism sites and hotels. The government also made strenuous efforts to attract private investment. It was successful as a substantial amount of investment poured into various tourism-related activities and particularly in hotels and holiday accommodations.

Sri Lanka also set up a tourism promotion board as a separate entity for, among others, promoting tourism resources in the country to international visitors, particularly those from such Asian economic powerhouses and wealthy nations as China, the Republic of Korea, and Middle Eastern countries. The government also increased the budgetary allocation for the tourism sector (Sri Lankan Tourism Promotion Bureau, 2019).

The experiences of India and Sri Lanka seem to suggest that international campaigns are useful, but both the countries also employed wide-ranging complementary support measures. Policy commitments and effective implementation of strategies made the countries successful in making their tourism products and services attractive. In both country cases, several organisations have been involved in the development of the tourism sector and coordination among those organisations is likely to have contributed to achieving results. The support from the government in undertaking large investments has been paid off by the response from the private sector. One thing that both Sri Lanka and India have been able to achieve is providing tourist facilities as per international standards.

A well-functioning IT infrastructure and system has featured prominently in India and Sri Lanka's tourism development. Tourists obtain all the necessary information to plan their trips; book hotels and transportations online; share their experiences and viewpoints through various online platforms. Both the countries have simplified their visa application and granting procedures, establishing strengthened e-visa and visa-upon-arrival systems in tourist-friendly manners.

Problems and issues of the travel and tourism sector

As highlighted above, Bangladesh has already taken various initiatives to expand tourism exports. However, analyses of various policy documents and other country experiences suggest certain constraining factors that need to be addressed to promote the tourism sector.

For Bangladesh, offering quality services and sustaining them is a key challenge. Many experts and stakeholders involved in the tourism sector tend to agree that general hotels and other

accommodation facilities must be substantially improved to achieve the standards of our neighbours.

The online information system related to the tourism industry is still at a nascent stage. It is very difficult for tourists to find trip-related complete information using the internet. The websites of most hotels are not in working conditions and it is not possible to book rooms and settle payments online, which is now a standard practice in the tourism industry elsewhere. In many instances, travel agents book hotel rooms and plan the trip on behalf of the tourists. As such, visitors often cannot explore various other activities that may be traditional in nature but are able to draw attention of global audiences. Tourism sites in Bangladesh do not have many reviews in such popular online forums as TripAdvisor and Airbnb. There has been a recent shift towards a form of hospitality in which people seem to prefer a service unlike a traditional hotel varying from just a night to months. This enables visitors to stay with locals at their homes to get a better understanding of the country and culture. Developing such facilities under a proper enabling regulatory framework to protect the tourists and local citizens can be an important avenue to promote tourism.

The private sector participation in the tourism sector is still not at the expected level. Analysis of other country experiences suggests that the private sector could play a pivotal role in developing tourist spots, accommodation facilities and amenities with the level of standards that are internationally competitive. Bangladesh lags its comparators in this respect.

Initiatives have been undertaken to develop and upgrade the international and domestic airports in the country. Currently, the airports are confronted with inadequate infrastructure and inefficient operation of the existing facilities. Along with it, inland transportation through rail and bus services are plagued with weak traffic management, lack of good public transportation systems, and poor quality of road maintenance work. These conditions discourage even native citizens' demand for tourism services, let alone international tourists. The government has prioritised the development of several tourism parks with the objective of tackling the above challenges and offering tourists with improved facilities. Successful implementation of these projects can make a sea change in Bangladesh's developing a modern tourism sector.

Exports of labour services

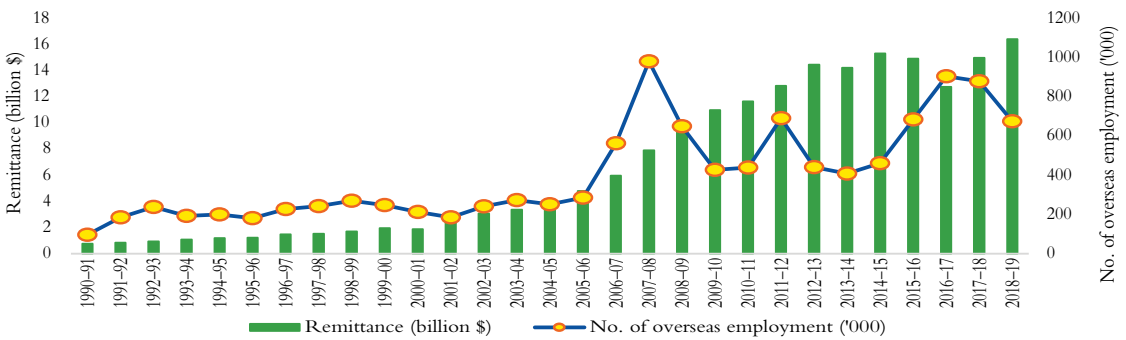
Like many other developing countries, Bangladesh continues to export migrant workers' services to various destinations. Figure 13.23 illustrates the trends in overseas employment along with remittance inflows into the country during 1990–2018. According to one estimate, since the late 1970s, more than 12 million Bangladeshi workers migrated worldwide with an average annual outmigration being about 500,000 over the past two decades (Razzaque et al., 2018).²⁰ In 2018–19, remittances sent by migrant workers stood at \$16.4 billion. Since 2000, remittance inflows increased by eight folds with an average annual growth rate of 12 per cent.

Saudi Arabia is the most important destination of labour export from Bangladesh (Figure 13.24).

²⁰ It is important to note that there is no information on migrants' stock at any specific point in time. The migration related data come from the Bureau of Manpower Employment and Training (BMET). BMET data provide the number of people leaving the country but do not capture those who return permanently.

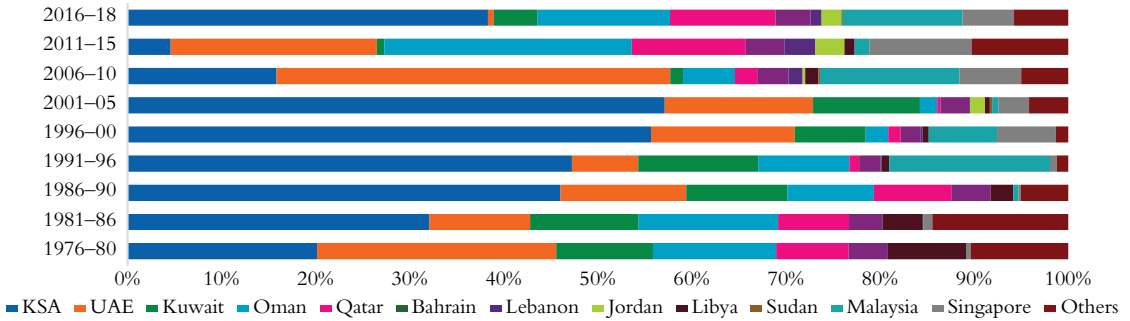
Other Middle Eastern countries such as the United Arab Emirates, Kuwait, Oman, and Qatar also host large numbers of Bangladeshi workers. Over time, Malaysia and Singapore have also become key destination countries. Since the beginning of the official record, almost 78 per cent of all Bangladeshi migrant workers have been employed by Middle Eastern countries. The corresponding shares for Malaysia and Singapore are 7.5 and 6.2 per cent, respectively. In recent years, Italy, Republic of Korea, and East European countries have also become important destinations for Bangladeshi workers.

Figure 13.23: Overseas employment and remittances received (1990–2018)



Source: Authors’ presentation using Bangladesh Bank and BMET data.

Figure 13.24: Major destinations of Bangladeshi migrant workers



Source: Authors’ presentation using BMET data.

Migrant workers are classified into four categories: namely professionals, skilled, semi-skilled, and less-skilled.²¹ According to the available data, Bangladeshi migrant workers fall mainly under the categories of semi-skilled and less skilled, constituting more than 50 per cent of the migrant labour force over the period 1976–2018 (Figure 13.25). The share of skilled workers varied between 6 and 18 per cent during the same period. In 2018, the share of professional workers was less than 1 per cent (BMET, 2019). It is widely recognised that Bangladesh can expand its export earnings substantially by changing the skill composition of the migrant labour force.

²¹ Professional workers include doctors, engineers, teachers, nurses, programmers; and skilled workers include garment workers, technicians, drivers, electricians and people from similar other professions. Semi-skilled workers include tailors, gardeners, farmers and different types of helpers in various trades. And, finally, less-skilled workers are mostly porters, hotel assistants, cleaners, cart loaders, carton pickers and others.

Figure 13.25: Bangladesh migrant workers by skill types

Source: Authors' presentation using BMET data.

Current policy regime and critical factors to consider in expanding exports of labour services

The labour migration activities are regulated under the Overseas Employment and Migrants Act 2013, many provisions of which are to protect the migrant workers from exploitation and to promote their welfare. In addition, the Emigration Rules 2002 and Wage Earners Welfare Fund Rules 2002 aim to safeguard the rights of migrant workers. The government adopted the Overseas Employment Policy in 2006, which was further revised in 2016. Its objectives are to facilitate regular migration of workers; monitor the recruitment processes and make the concerned agencies accountable; make arrangements so that remittances can be sent through the official channel at a lower cost; help protect workers' rights; to strengthen institutional arrangement; and make resources available to ensure better implementation of labour migration policy (Bureau of Manpower, Employment and Training, 2017a).

In addition, a computer-based migration management system has been installed. This keeps the record of every migrant worker, and the relevant information can be accessed with the help of an electronic card—called as the 'smart card'.²² It is supposed to help tackle fraudulent and illegal practices affecting prospective jobseekers. The process of migration involves a variety of activities that fall under the jurisdiction of several departments and ministries (e.g., the Ministry of Expatriates' Welfare and Overseas Employment, Ministry of Home Affairs, Ministry of Foreign Affairs, Ministry of Civil Aviation and Tourism and Bureau of Manpower Employment and Training). Consequently, aspirant migrant workers who were looking for the required documents, used to visit several offices and ministries, making it difficult for them to manage the process. The recruiting agencies/agents used to take advantage of this situation by demanding exorbitant service charges. To tackle this problem and reduce the costs involved, the government introduced a one-stop service centre. In additions, the monitoring of activities of recruiting agencies has been intensified.

For promoting migration of skilled and semi-skilled workers, as many as 70 technical training centres (TTCs) and six marine technology institutes are currently in operation under the BMET.

²² This is also known as emigration clearance card which contains the information of the jobseeker. A particular jobseeker's information can be verified online from the website of BMET by using the card details.

In addition, 35 training institutes are under construction (Bureau of Manpower, Employment and Training, 2017b). The institute and training centres currently functioning offer, amongst others, various two-year regular vocational engineering courses (e.g., automotive, electrical, building construction, computer, architecture, etc.) and four-year diploma programmes on marine engineering and shipbuilding engineering. The government also encourages public-private-partnership (PPP) ventures to run skill development programmes. Besides, there are several other technical and vocational education and training (TVET) programmes being operated by public and private institutes, and NGOs. Currently, the BMET can train 50,000 workers every year. TVET programmes also enrol a similar number of trainees. While the supplies of skilled people are inadequate in comparison with their overseas and domestic demand (Bureau of Manpower Employment and Training, 2017b), the issue of the quality of these training programmes remains a fundamental one. In most surveys and interviews, domestic entrepreneurs do highlight the lack of skilled workers and managers as one of the major constraints faced by them. The trend in overseas employment also remains unchanged with Bangladeshi migrant workers mainly engaging in lowly paid less-skilled segments of the labour markets in different countries.

Experiences of countries that are performing better in terms of labour migration such as India, Sri-Lanka, and the Philippines could provide important lessons for Bangladesh. First, India undertook several measures in reforming and modernising legislations and institutions to protect and promote the welfare of migrant workers. Amongst others, to address the problem of prospective migrant workers' being exploited by middlemen, the Government of India introduced measures to recruit via the registered agencies only under pre-specified procedures. India has taken several initiatives to strengthen the relationship with Gulf countries and other partners in expanding the exports of migrant workers' services as well as protecting their rights and welfare.

With soaring demand for skilled workers—both at home and abroad—India emphasises on the need for well-planned and well-implemented strategies to develop a skilled workforce through vocational and technical training. India is also strategic about increasing the competitiveness of skilled and professional workers for promoting its own economic growth and taking advantage of the shortage of high-skilled professionals in the global market. This is reflected in its national policy on skill development. The policy focuses on reducing the skill mismatch. Thus, a demand-driven mechanism has been developed to closely monitor the types of skill demanded by the employers and then to design skill development programmes accordingly. India had also modernised its national vocational qualifications framework. The framework ensures the certification of skills and offers provisions for quality control of all national and sub-national skill development programmes to deliver the level of skill that matches the nationally and internationally recognised standards. To achieve this, initiatives were undertaken to upgrade the training institutes. The policy also gave importance to increase the access to training for women, disabled persons and disadvantaged groups.

Under the 12th Five-Year Plan of India (2012–17), skill development was a priority agenda. It set up Sector Skill Councils (SSCs) as a means for bridging the gap between what the industry demands and what the skilling requirements ought to be. SSCs are in effect national partnership organisations that bring together all the stakeholders—industry, labour and academia to make the

existing vocational education system effective. India has also invested in awareness-raising about the importance of skill development. It runs advertising campaigns to make skills training popular and attract the youth population to vocational training.

The Philippines is another interesting example as it has been a hugely successful country in exporting services of skilled and professional workers. Faced with challenges of job creation within the domestic economy, it initially took advantage of the growing demand for labour in Gulf countries that initiated large-scale infrastructure development projects. Then it foresaw the opportunity to export skilled workers and developed a national plan and established the Overseas Employment Development Board (OEDB) to formulate policies for prospective migrant workers' training, employment, and welfare. Reforms were undertaken later when the Philippine Overseas Employment Administration (POEA) was established to consolidate the activities of various other agencies dealing with migrant workers. There are several other entities to ensure the welfare of the migrant workers namely the Overseas Workers Welfare Administration (OWWA) and the Commission on Filipinos Overseas (CFO).

The Technical Education and Skill Development Authority (TESDA) in the Philippines is responsible primarily for formulating and implementing fully integrated technical education and skills development policies, plans and programmes. It develops competency standards and qualifications, training standards and assessment instruments for registration, accreditation, and delivery of various programmes and supports TVET institutions (TVIs) through trainers' development, curricula and materials development, career guidance and placement, and scholarship programmes. It has two specialised training centres, namely—the TESDA Women's Center (TWC) and the Language Skills Institute (LSI).²³ The POEA, on the other hand, offers various public education and information campaigns, conducts pre-employment orientation and anti-illegal recruitment seminars, provides legal assistance to victims of illegal recruitment practices, implements gender-sensitive programmes, provides repatriation assistance, and arranges other similar programmes for overseas workers.

The effective training programmes for the workers have helped the Philippines to establish itself as a leading exporting nation of skilled and professional workers, particularly in such areas as marine jobs, nursing, luxurious hotels and the overall entertainment industry. To put things into perspective, just 2.5 million overseas Filipino workers sent home more than \$34 billion in remittances. For Bangladesh, the comparable number of migrant workers could be at least as much as four times higher with remittances being just about a half. The Philippines government has been successful in reducing labour migration cost, which was also helpful for increasing overseas employment (Bakunda & Mpanga, 2011).

Amongst others, Sri Lanka has also emerged as a country of skilled and professional workforce. For a very long time, it has been known for its policy initiatives targeting improvements in such social sectors as health and education. It recognised and put a lot of emphasis on going beyond the basic primary education level for its mass population. In adopting a modernised public

²³ TWC aims to advance the economic status of women through training, entrepreneurial development, developing gender-sensitive policies, conducting programmes and development projects on women empowerment, and through research and advocacy. On the other hand, LSI provides training on workplace communications for jobs within the country as well as overseas.

education system, it considered a curriculum that made the first 13 years of education mandatory with students needing to learn a variety of subjects. In addition, it introduced a minimum of two years' training for the students who intend to enter the job market after completing their secondary schooling. This training programme would offer job-market-oriented practical courses related to hotel management, construction, and readymade garment manufacturing. There are also options for students to enrol in vocational and technical training and not to pursue university education. To reduce the skill mismatch between demand and supply sides, industry collaboration was initiated to develop the curriculum of technical and vocational training.

To incentivise skill training, those who enrol in vocational courses have been given a chance to get advanced training, which is equivalent to an undergraduate-level degree. A provision for post-graduation degree has also been kept. The government took measures to enhance the quality of the teachers and trainers. In this respect, the monitoring and supervision programmes have been strengthened to ensure quality education. To address the information gap, awareness-raising programmes are arranged by the schools so that the students get information about the changing trends of the labour market (ADB and ILO, 2017).

13.4 Policy Recommendations

Although recently Bangladesh has shown dynamism in its services exports, the underlying export base remains small and there is thus huge potential for making further gains from this sector. Along with promoting such sectors as ICT, the pressure of creating employment opportunities means exporting labour services needs to be given serious consideration. From the discussions of trends in services exports and policies undertaken in other countries, several recommendations are provided here.

Mainstreaming the services sector in the policy discourse

Given the rising importance of the services sector in world trade and the sector's profound impact on the competitiveness of various other activities, particularly manufacturing, it is extremely important to mainstream services sector issues in the policy discourse. Developing services sectors can be quite demanding as it is generally recognised that the role of institutions becomes so vital in doing so. Most developing countries, including Bangladesh, are confronted with a difficult task of institutional development. Mainstreaming services and policies in national development strategies can help tackle this challenge.

Bangladesh has maintained a medium-term export policy—implemented for every three years—with the latest one is for 2018–21. However, the services sector under the same policy framework is covered in a limited manner. Policy innovations to promote the export of services of freelancers, consulting firms of all different types aiming to break into international markets (through cross-border supply of services) and deemed exporters who would train professionals for export markets or export-oriented firms are extremely important.

The development of the services sector must also be recognised as a means for advancing export competitiveness. While the 7th Five-Year plan highlighted export diversification and promotion of exports of goods and ICT-related services exports (GED, 2015), it is important to go further

in articulating an overall services sector development strategy, which will either directly or indirectly promote exports and export-competitiveness. Given the challenging task of generating two million jobs every year, exports of labour services should be brought under the core policy attention to facilitate exports of diverse services rather than of only less-skilled workers. An effective services sector policy is becoming an increasingly important determinant of the development process, through its impact on economy-wide productivity, digital connectivity, competitiveness and investment mobilisation both from domestic as well as external sources.

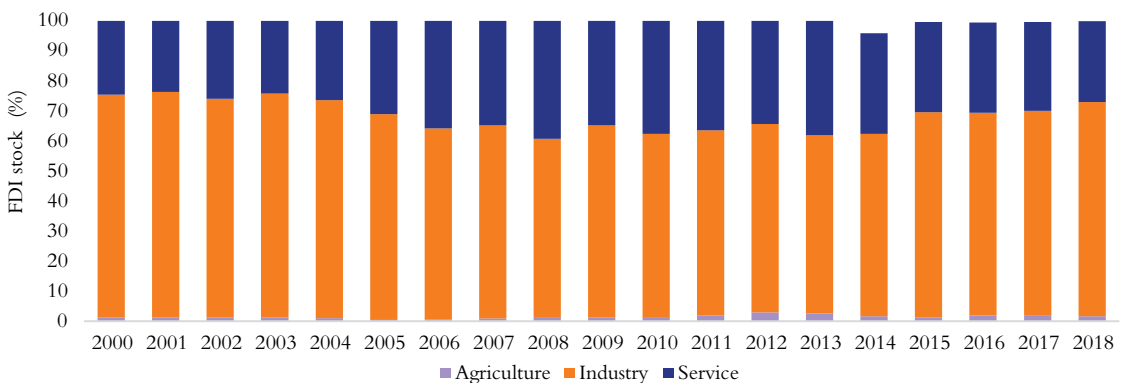
Along with the above, the current limited scope of stimulating services exports should be reviewed and expanded accordingly. Amongst others, following the example of India, which has its Services Export Promotion Council to support services exporters and contribute to formulate policies, Bangladesh should consider developing a comprehensive sectoral policy regime to support various services sectors.

Attracting FDI in the services sector

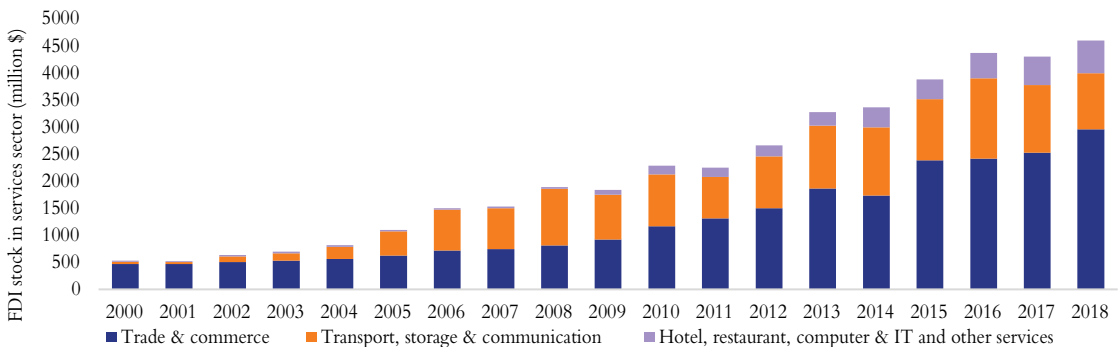
Attracting FDI can help expand exports and contribute to diversification. The spillover effects arising from knowledge and technology transfers and better management practices are also likely to have positive impact on services exports. Foreign investments in training of professionals and other skilled workers need to be strongly sought for given the current state of skill shortage in the country.

Historically, Bangladesh has not been known as a popular destination of FDI, although recent policy initiatives appear to be encouraging. The relative significance of the FDI stock in services has remained more or less unchanged over the past two decades or so (Figure 13.26). However, the value of the stock increased from about \$500 million in 2000 to \$4.5 billion in 2018 (Figure 13.7). Among various subsectors, the largest stock is due to banking services (\$2.1 billion), followed by telecommunications (\$1 billion), and trading (\$0.4 billion) (Table 13.5). An improved dynamism in FDI activities can greatly enhance the performance of services exports. Bangladesh's hi-tech parks, and special economic zones (SEZs) along with services sectors, such as the hotel and tourism industry, offer huge prospects for attracting foreign investments. So, the current proactive efforts in this respect should continue.

Figure 13.26: FDI stock by broad economic sector (%)



Source: Authors' presentation using Bangladesh Bank data.

Figure 13.27: FDI stocks in services sectors (million \$)

Source: Authors' presentation using Bangladesh Bank data.

Table 13.5: FDI inflow in services subsectors (million \$)

Services Subsectors	2000	2005	2010	2015	2018
Trade & Commerce	469.48	624.44	1166.34	2386.2	2958.27
Trading	4.5	2.44	49.83	232.96	412.59
Banking	387.19	549.25	1023.69	2002.87	2128.7
Insurance	8.25	8.43	31.97	60.76	191.57
NBFI (Including Financial Intermediaries)	69.55	64.32	60.85	89.61	225.41
Transport, Storage & Communication	38.75	445.29	958.2	1125.75	1035.6
Telecommunication	37.76	441.54	955.76	1117.56	1019.27
Others	0.98	3.75	2.44	8.19	16.33
Hotel, restaurant, computer & IT and other services	23.1	29.71	161.32	363.14	602.16
Hotel & Restaurant	0.81	1.47	2.91	7.56	7.16
Clinical	0.5	0.65	4.33	40.62	47.45
Computer Software & IT	2.09	0.49	34.42	108.54	42.72
Other Services	19.7	27.1	119.66	206.42	504.83
Total service sector	531.33	1099.44	2285.86	3875.09	4596.03
Total	2161.71	3537.15	6072.07	12912.14	17061.63

Source: Authors' presentation using Bangladesh Bank data.

Assessing the gains from services trade liberalisation

As discussed above, Bangladesh's services trade is considered to be highly restrictive as per the Services Trade Restrictive Index prepared by the World Bank. There is some broad evidence that countries with lower trade restrictiveness are significantly more likely to attract foreign investment than countries that are more trade restrictive (Rouzet et al., 2017). It is also suggested that within a highly restrictive services regime, regulatory restrictions discourage not only foreign investors but also domestic firms from investing. The high level of services trade restrictiveness in logistics, maritime and road transport is shown to have been correlated with greater delays in the domestic legs of transport (Nordas & Rouzet, 2016), which, in turn, affect overall export performance. There is further evidence that openness in services trade is associated with the productivity of manufacturing industries that use services as inputs in production (Arnold et al., 2015; Beverelli et al., 2017; Duggan et al., 2013). However, this is also true that various other factors also influence export performance, and there is a lot of variation between trade restrictiveness and services exports within the group of developing countries. This perhaps suggests that across-the-board liberalisation or opening up of all sectors might actually not be needed. Bangladesh should make a careful assessment of the areas where more liberal policies can be helpful. While banking and

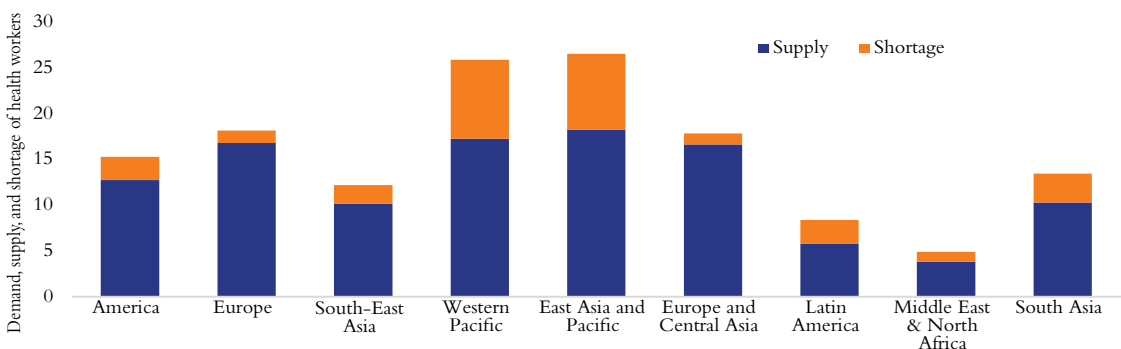
finance, hotel and tourism, and telecommunications have been traditional areas in which countries tend to take liberal policies, the importance of trade costs in determining export competitiveness means the scope of liberalisation in the transport and logistics sector may need to be pursued.

Skill development for promoting services exports

The shortage of skilled labour is a major challenge in Bangladesh including in the export-oriented services sector. An employment projection exercise (BIDS, 2017) shows that there is a shortage of 2.2 million workers in the hospitality and tourism sector. The corresponding figures are 1.78 million in the health care sector and about 0.9 million in the ICT sector.²⁴ The estimated skill-gap in IT and ITES sectors is a staggering 40 per cent of the estimated need. According to the same study, more than 5.6 million workers need to be trained by 2025 to meet the demand of various sectors. For the ICT sector alone, more than 1 million workers are needed to be trained. Skill shortages also pose a major challenge for exports of labour services. There have been numerical studies, analyses, and anecdotal evidence to suggest that Bangladeshi workers in different destination countries earn on average much less than their counterparts from India, Nepal, Sri Lanka and the Philippines. One likely reason for this is a weak skill base of the Bangladeshi workforce.

Training of migrant workers can help them look for job opportunities with higher earning prospects, which can also increase remittance inflows into Bangladesh. Sector-specific skill development as well as training in foreign languages can help diversify overseas labour markets. It can also help migrant workers to look for employment opportunities in the sectors where labour shortages are more acute and thus attractive salaries and benefits are being offered. For instance, large-scale employment opportunities are likely to emerge in health-related services due to the rising ageing population worldwide. It is estimated that the world's demand for health workers by 2030 will be above 80 million as against the supply of about 65 million, leading to a shortage of 15 million (Figure 13.28). Even the developing regions will experience supply–demand mismatches. For example, a shortage of more than 8 million is projected for East Asian countries. There is an opportunity for Bangladesh to utilise this market opening in the future. However, the challenge is the lack of trained and skilled health-care professionals and service providers that needs addressing.

Figure 13.28: Demand, supply, and shortage of health workers by regions by 2030 (millions)



Note: The height of the bars (supply + shortage) represents the demand for health workers.

Source: Razzaque et al. (2018) based on the information provided in Liu et al. (2017).

²⁴ BIDS Study Report: Labor Market and Skill Gap in Bangladesh (Macro and Micro Level Study), Ministry of Finance, Government of People's Republic of Bangladesh, Dhaka, Bangladesh.

Fostering exports of telecommunication services

The export of telecommunications services is linked to activities associated with international trade—involving both goods and services. Rising international migration can also raise telecommunication exports, because of, amongst others, an increase in immigrants' and migrant workers' demand for such services to keep in touch with their families and relatives in their countries of origins. Other business communications are also important in this context. It is found that the major market destinations of Bangladesh's telecommunication exports are the UAE and Malaysia, which are mainly due to the migrant workers' demand for such services. Countries such as the USA, the EU, Hong Kong, and Singapore are also important export destinations both due to personal and business telecommunications demands. Hence, increasing international trade, labour migration and other business activities could result in increased telecommunication service export.²⁵ Furthermore, illegal VOIP services continue to be an important means of communication. Curbing such unlawful practices can help increase foreign exchange earnings.

Supporting exports of IT (BPO, software and IT-enabled) services

Reducing the skill miss-match in the IT sector can help enterprises obtain workers and professionals with appropriate academic preparations, improving the industry's export competitiveness. To tackle this problem, there is perhaps a need for regularly updated curricula for engineering and vocational training Institutes, and IT training centres, considering the types of skills that the industry requires. Involving employers in the private sectors to develop the relevant curricula and training courses will be helpful in this respect.

According to many industry experts and entrepreneurs, enhancing the quality of IT training programmes can help the industry. While various training programmes are currently available both from public and private sector institutions, their effectiveness should be assessed with the objective of revamping their quality. Like India, a national-level monitoring cell can be established to oversee the quality of these training programmes. Active and open consultations with industry leaders should be an integral part of monitoring activities. The IT industry is evolving fast and there is going to be an increased demand for a skilled workforce in gaming and 3D animation-related activities. The training facilities should therefore be continuously upgraded to meet the unfolding industry needs.

Overcoming language deficiencies can be one significant step in raising the external competitiveness of the sector. Because of lack of language skills (particularly in English), many enterprises concentrate on obtaining orders through sub-contracts. This not only results in reduced export earnings but also prevents local firms from exploring markets independently despite having the technical capacities in performing actual tasks.

Proactive marketing initiatives are needed to explore export markets and secure orders. Many local IT firms and freelancers are capable of supplying world-class IT products. However, they

²⁵ Along with migration, increased tourism activities (including demand for health and education services abroad) can also increase the export of demand for telecommunications services.

require exposures to international marketing environments to establish their presence and grow business. More participation in international software and IT fairs can be a useful way in this respect. Public support and government-level initiatives should be scaled up to help local enterprises exploit their full potential by taking advantage of the demand for their skills in international markets.

Increasing cash incentives to IT services exporters can be one way of supporting them in the short to medium term. The sector has massive export potential and as such it deserves enhanced policy support. After LDC graduation, it may not be possible for Bangladesh to continue with direct export support, targeting any particular sector. There is thus a window of opportunity for the next few years to deepen the cash assistance support by increasing the rate from the current level of 10 per cent of export receipts to 20 per cent, which is the current maximum rate of such support that the Government of Bangladesh offers to any industry.

Improving internet services is critical for the growth of IT exports. Bangladesh has made impressive progress in ICT-related infrastructures and services, but internet services must be improved further to advance exporters' competitiveness. According to some industry insiders, prices of internet services are unusually high given the nature of reliability and quality of connections provided. There is a need for improving the monitoring and supervision activities associated with the relevant service delivery.

Helping IT professionals settle financial transactions online can encourage cross-border exports of professional services. It is important to settle transactions via a globally recognised gateway such as PayPal. This facility is currently unavailable due to fear of money laundering. The alternative usage of credit cards is also restricted. The experience of India seems to suggest that an effective online payment gateway eases financial transaction and boosts competitiveness. It might be possible to develop a local payment gateway for transferring funds that, if needed, can be monitored thereby keeping a check on possible misuses. This is one of the issues that needs urgent attention.

Developing locally available IT workforce is now important to make the hi-tech parks a success. For the full functioning of these parks, proactive engagements with the relevant educational institutes is needed to equip the IT workers with appropriate training. In this regard, the government initiative to build IT training centres at the district level is a timely one. This needs to be implemented properly by ensuring that the quality of training provided.

Focusing on developing new entrepreneurs rather than only IT workers is a precondition for sustaining dynamism and export success in an industry that is evolving so rapidly. In fact, to make the most out of the IT sector, scopes of enhanced policy support need to be explored and exploited to develop local entrepreneurs and enterprises. Certain policies are already in place e.g., tax holidays and cash incentives on exports. However, the sector will also benefit from other interventions mentioned above and from addressing any implementation gaps regarding other export promotion measures.

Boosting exports from the travel and tourism sector

Developing modern tourist facilities including accommodation and other services should be regarded as a precondition for expanded tourism exports. Investments from the private sector should be attracted to facilitate this. Attracting FDI in the eco-tourism parks and related tourist facilities should be considered a priority in this respect.

Availability of fully functioning online portals/websites with information on and booking facilities for hotels and other services (e.g., car rental, guided tours, etc) is extremely important for attracting international tourists. In this respect, Bangladesh can learn from the practices in India, Sri Lanka and other popular tourist destinations.

Bangladesh's tourism sites and products currently do not have many reviews in popular online forums to enable visitors making choices based on the information and feedback provided by others. To address this issue, it might be a good idea to encourage local tourists to share their experiences and any insights in online forums. This can overtime raise awareness about tourism sites and products that the country offers. In recent times, international tourists are increasingly preferring accommodation-sharing arrangements that enable visitors to stay with the locals at reasonable costs and to better appreciate the local culture. Developing such safe and secured arrangements under a proper enabling framework will be an important means for promoting tourism exports.

There is ample room for undertaking more effective tourism promotional activities. Hosting carefully designed websites containing all the necessary information on tourist spots, uploading short yet attractive video documentaries on them and making the web links available through popular online platforms such as Facebook and YouTube are some simple steps that can be undertaken. While many promotional documentaries are already available, it can be helpful to make them more appealing by sharing experiences of recent visitors. It is important to ensure that the websites are updated regularly. Apps based on mobile devices on tourist spots, accommodation and other information including booking facilities is critical for promoting tourism these days.

Timely completion of large infrastructure projects will be helpful in promoting tourism activities. In terms of geographical area, Bangladesh is a small country and as such infrastructural development (including roads and highways) can greatly expand the choices of tourists for travelling from one place to another without embarking on a long travel plan. Improved connectivity and transportation network can help Bangladesh tap into other South Asian tourism chain market, comprising India, Nepal and Sri Lanka, as tourists targeting to visit these countries may endeavour to add one more destination in the same region just by extending their itinerary by a short period.

Promoting exports of labour services

Developing a proper roadmap in promoting export of migrant workers' services in the backdrop of a rising pressure on job creation should be a priority. This roadmap should include strategies for diversification away from the labour markets currently characterised by less-skill intensive and

lowly paid jobs to one with more skill-intensive and more remunerative employment. While the demand for skilled and health professionals are already high, the shortage of such service providers will rise many times in the future. This is an area where Bangladesh should be investing in developing skilled manpower for the country's own needs in the domestic economy as well as for exporting migrant workers' services. In the short run, however, expanding job opportunities in traditional markets, such as Malaysia, Saudi Arabia, and the UAE should continue.

Bangladesh must consider appropriate interventions to prepare its labour force according to the new trends and industry demands in international markets to be able to compete with other countries. Due to changing economic activities in many countries, the demand for some specific occupations is increasing, while automation, industrial upgradation, and slowing down of construction activities are having subdued impacts on the demand for less skilled workers. To take advantage of changing circumstances, the capacity constraints to develop skilled workers must be addressed effectively. Country experiences drawn in this chapter seem to suggest that despite having similar institutions and training facilities as in other countries at comparable levels of development (e.g., India, Sri Lanka and the Philippines), the supplies of skilled labour force in Bangladesh have been much less than expected. One issue is, therefore, to carefully assess the quality of the existing training programmes and consider specific and outcome-oriented measures to make improvements in this area. There is also a need for investing more in vocational and technical training programmes.

Securing international accreditation of Bangladeshi degrees could help professionals seek employment opportunities abroad. This might not be an easy task, but a medium to long-term planning is needed for, amongst others, establishing collaboration with recognised foreign institutions and improving the quality of education in local universities and colleges.

13.5 Conclusion

The importance of the services sector is being increasingly recognised in global economies as the efficiency of various services has direct implications for competitiveness. Services are embodied in manufacturing activities and thus the traditional comparative advantage in goods' export is also being analysed through the prism of the services sector. In recent times, trade in services has shown great dynamism with analysts predicting such trade to grow significantly in the future.

The services sector provides for largest economic activities in Bangladesh. Despite being dominated by informal activities, the sector has been growing at a brisk pace. The services exports have also witnessed an encouraging growth trend over the past few years. Although relatively low, compared with many other comparator countries, the current level of Bangladesh's services exports—just above \$6 billion—nevertheless provides a solid base for expansion. As Bangladesh strives for diversifying its export structure, tapping into services exports should constitute an important policy option.

Development of a skilled workforce is a critical issue facing Bangladesh in promoting its services sector. Given the nature of the sector, any measures that tend to improve export prospects should also help other sectors of the economy. It is in this backdrop that a national strategy of skill development and job creation should be integrated with the focus on services export expansion.

For Bangladesh, ICT, tourism and migrant workers' services are the main sub-sectors that have huge export potentials. At present, government policies are in place to support these sectors. Nonetheless, the analysis presented in this chapter has identified various areas where further improvements—both in terms of policy articulation and practical measures—can be made. Like other successful services-exporting developing countries, Bangladesh has also adopted a similar policy environment and institutional mechanisms to boost exports. However, the export response has been comparatively low. This suggests that implementation of policy mechanisms could be a challenge that needs addressing.

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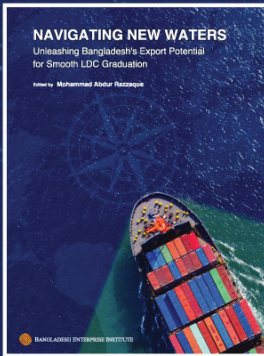
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Bangladesh has made tremendous progress in its economic development and its impending graduation from the group of least developed countries, set to take place in 2024, represents a major development transition. Along with its various achievements in terms of rising per capita income, declining poverty incidence, women's improved economic empowerment, etc., Bangladesh – among LDCs – also stands out as an impressive success story of an export-led growth and development process.

The LDC graduation, however, requires preparing for the resultant discontinuation of international support measures, particularly those related to trade preferences that have profoundly benefited Bangladesh. Sustaining the apparel export performance and unleashing the export potential of many other sectors will be two critical factors in ensuring a smooth transition process.

This volume, comprising 13 chapters, contributes to the policy discourse on LDC graduation by providing objective assessments of some of the major issues that now require urgent policy attention.

Part I of this volume highlights the longstanding challenges facing the export sector and the likely implications of graduation from the perspective of the private sector.

In Part II, Bangladesh's trade relationships with four key trading partners viz. the European Union, the United States, India, and China are discussed. The chapters identify areas of greater engagement with these partners in the light of LDC graduation realities.

Finally, Part III ascertains the export potential of six selected sectors (leather, plastic, furniture, pharmaceutical, jute, and services) and offers policy recommendations essential for enhanced export receipts.

Overall, the analyses presented in this volume include, among others, the factors affecting export competitiveness, major changes in market access provisions after LDC graduation, ways forward for securing most favourable trading arrangements with important trading partners, and support measures needed to boost and diversify exports.

