Expanding and diversifying exports to the UK under the Developing Countries Trading Scheme

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UKaid from the British people

RAPID Research and Policy Integration for Development

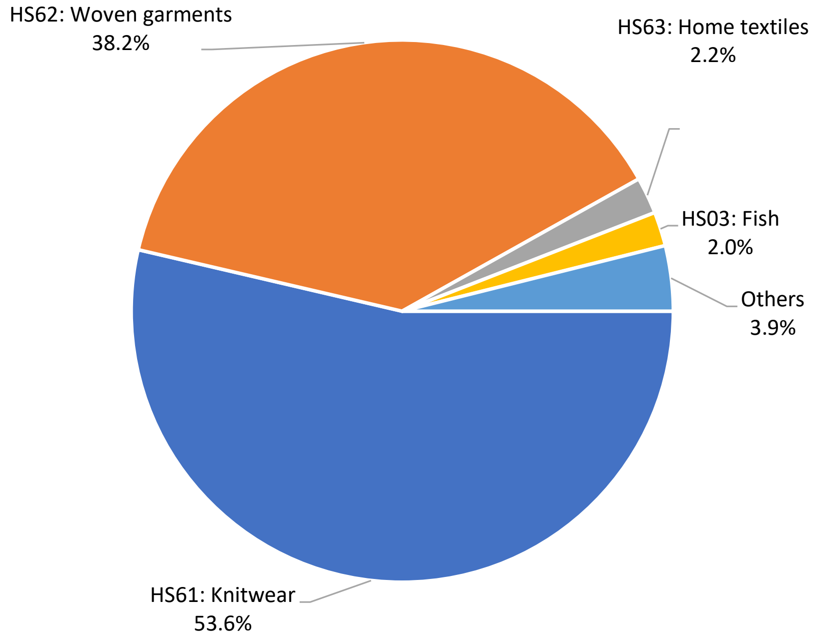
Bangladesh's export trade with the UK

$4.8 billion exports to the UK in 2021-22

UK is 3rd largest export destination of Bangladesh (9.3% of BGD exports)

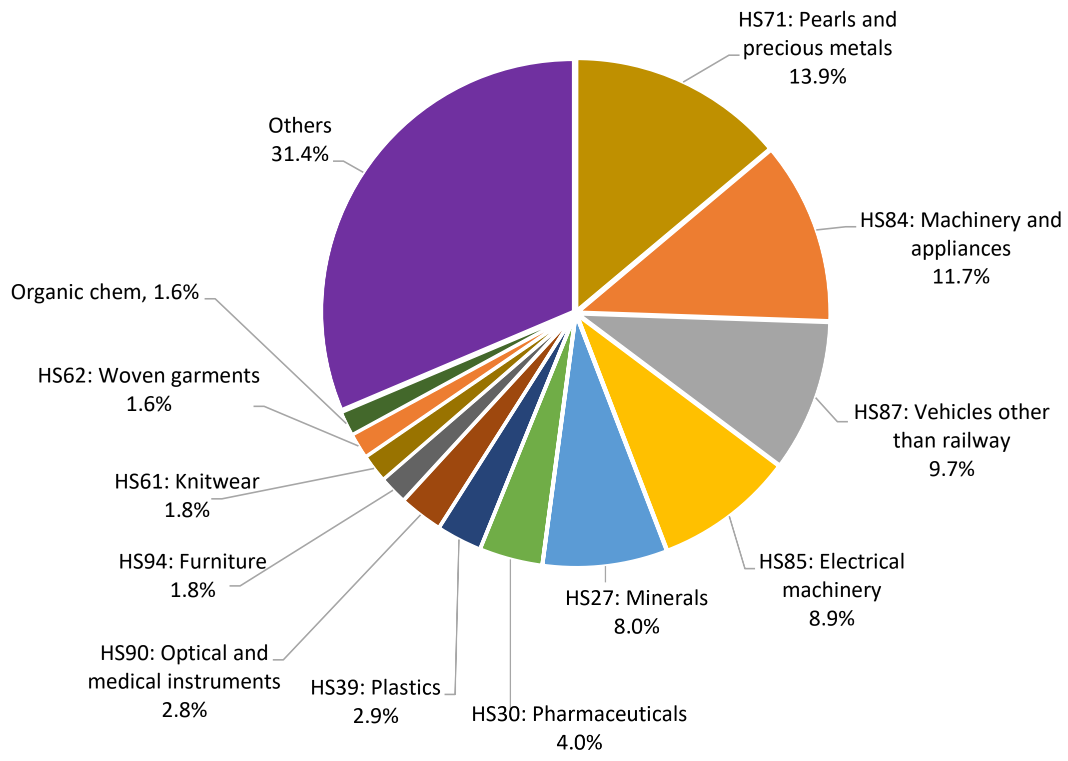
Apparel comprises more than 90% of Bangladesh's exports to the UK

Bangladesh's export composition to the UK (%)



...But UK imports are highly diversified, with the share of apparel products is just 3.4%

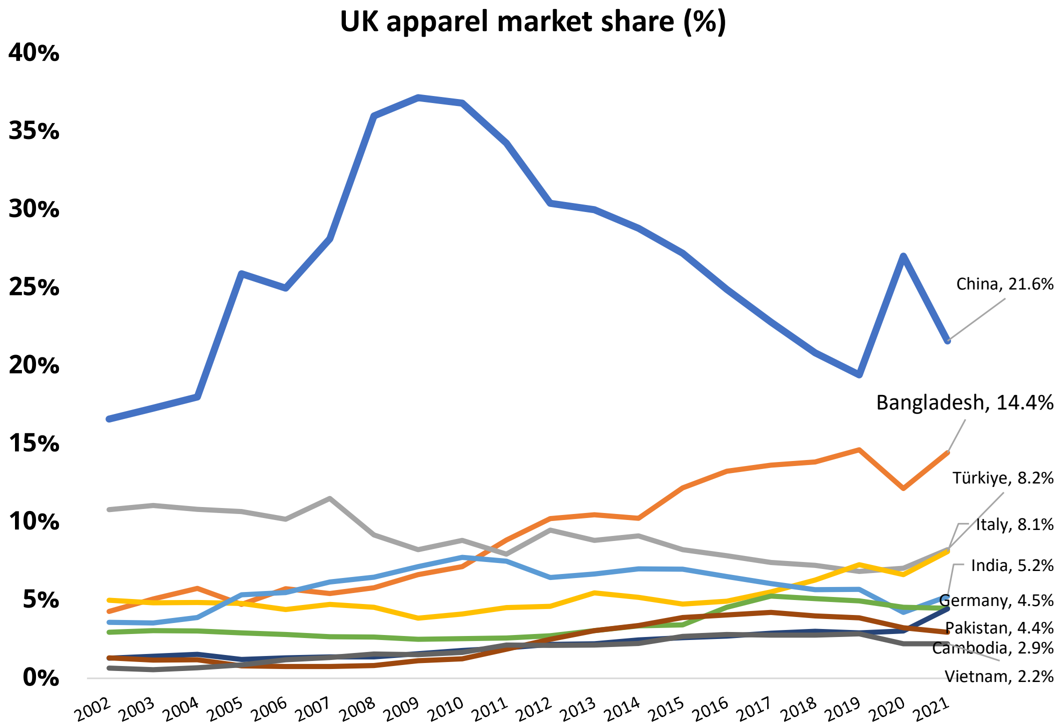
UK Import composition (%)



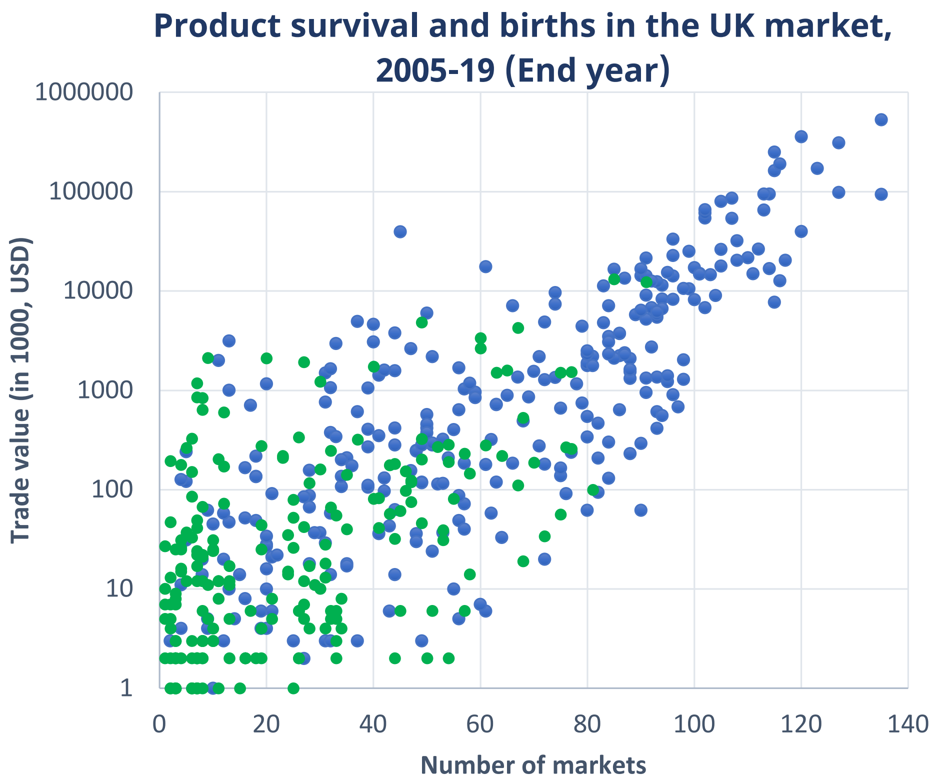
Bangladesh is the second largest apparel exporter in the UK.

China's share declined from 37% in 2010 to 21% in 2021

Bangladesh's share doubled to **14%** during the same time.

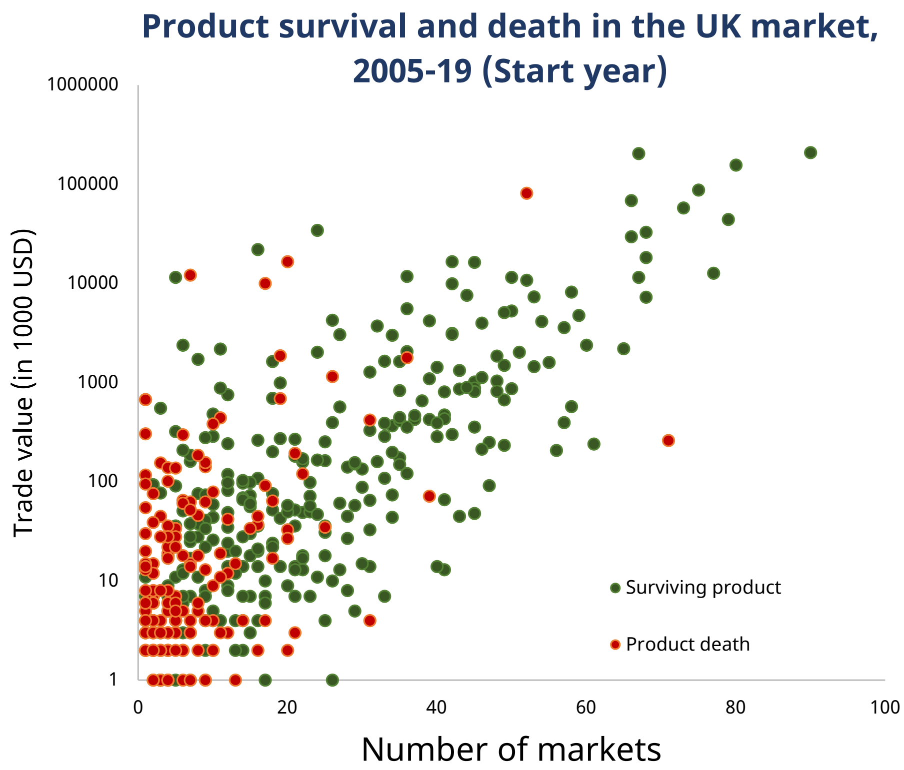


Export products: birth, survival, and death in the UK market (2005—2019)



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

● Surviving product ● New product



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

Project objective: Expanding exports in the UK market and promoting diversification by taking advantage of the UK DCTS

Research: Identify priority products with potential to increase export volumes to the UK

Product identification methods:

- Bangladesh's overall comparative advantage
- Comparative advantage in the UK market
- comparator country's export competitiveness, and
- product-space proximity to currently exported items

More than 100 non-apparel items at the HS 6-digit level have been identified with high export potential.

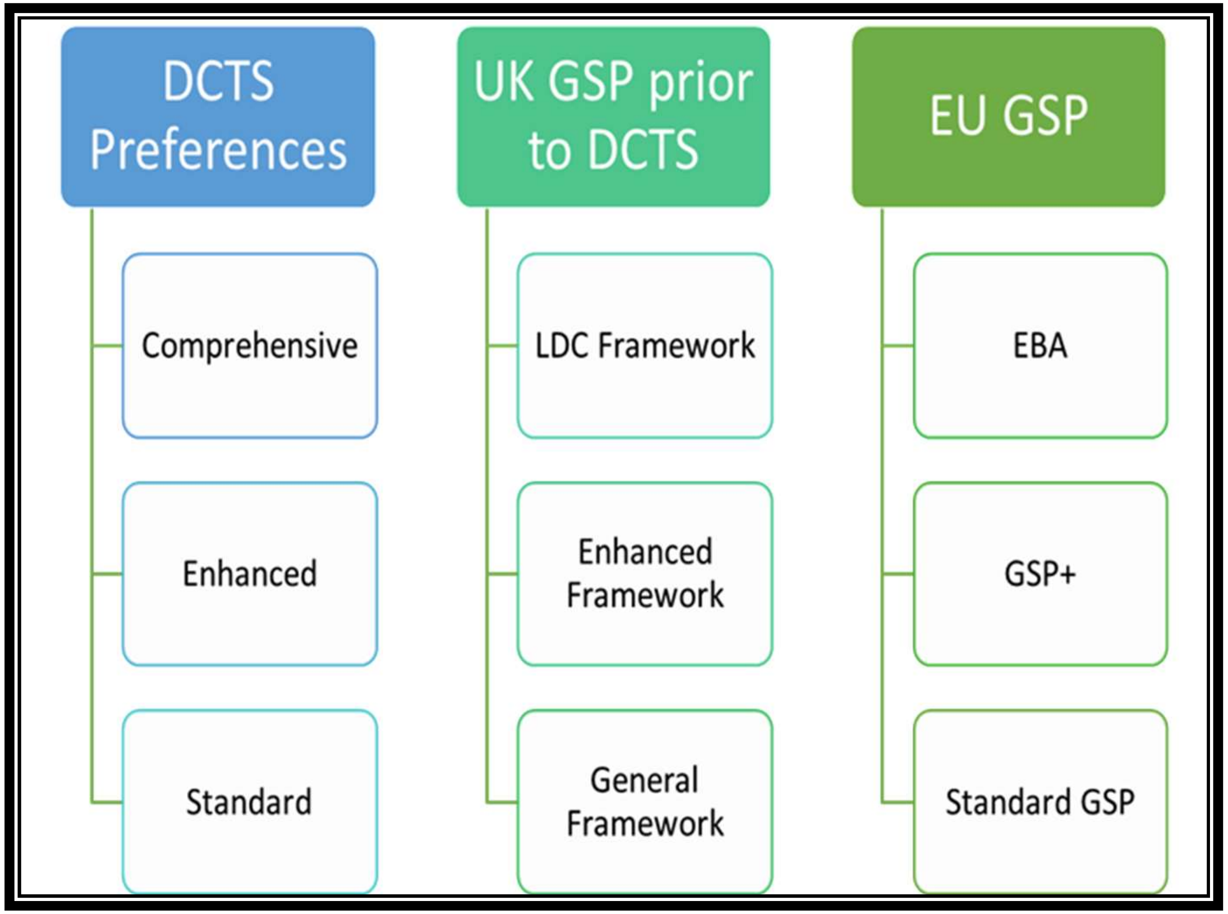
Identified non-RMG products are classified into four groups:

- Leather and footwear
- Agro-food and processing
- Fish and shrimps
- light engineering products

Stakeholder consultations: what are the constraints and how to overcome those?

The DCTS is built on the previous GSP structures but incorporates significant variations.

- **The UK has introduced its preferential trading schemes for developing countries.**
  - After Brexit, the UK adopted an interim GSP regime pending the formulation of its own trade preferential scheme
  - A three-tier system with LDCs getting the most generous preferences followed but at the same time incorporates significant variations.



Changes incorporated into the DCTS

	DCTS Comprehensive	DCTS Enhanced	DCTS Standard Preferences
Eligibility criteria	Least developed countries as classified by the UN.	~~**Sustainable development criterion**: To ratify and implement 27 int'l conventions (32 in proposed draft EU GSP)~~ **Vulnerability criteria**: ~~(i) Import share criterion - share in GSP-covered imports less than 6.5% of all GSP-covered imports; (ii)~~ Diversification criterion: at least 75% of its total GSP imports coming from the 7 largest sections of GSP-covered imports.	Low-income and lower-middle-income countries as classified by the World Bank
Tariff concession	Duty free for all products excluding arms and ammunition	0% import tariffs on two-thirds of product line *√Preferences for 156 new items* *√ 0 tariff in 85% tariff lines* ***√No product graduation*** *√Simiplification of a few seasonal tariffs*	Reduced tariffs on two-thirds of product lines *√All 33 nuisance tariffs cut to 0* *√Product graduation at 6% of UK imports (in some cases at 1%)*
Rules of origin	Single transformation for textile and clothing. items. For other products, the general RoO is the minimum local value added of ~~30%~~. 25%.	Double transformation for textile and clothing items. For all other products, the general RoO requires a minimum local value-added of 50%.	Double transformation for textile and clothing items. For all other products, the general RoO requires a minimum local value-added of 50%.

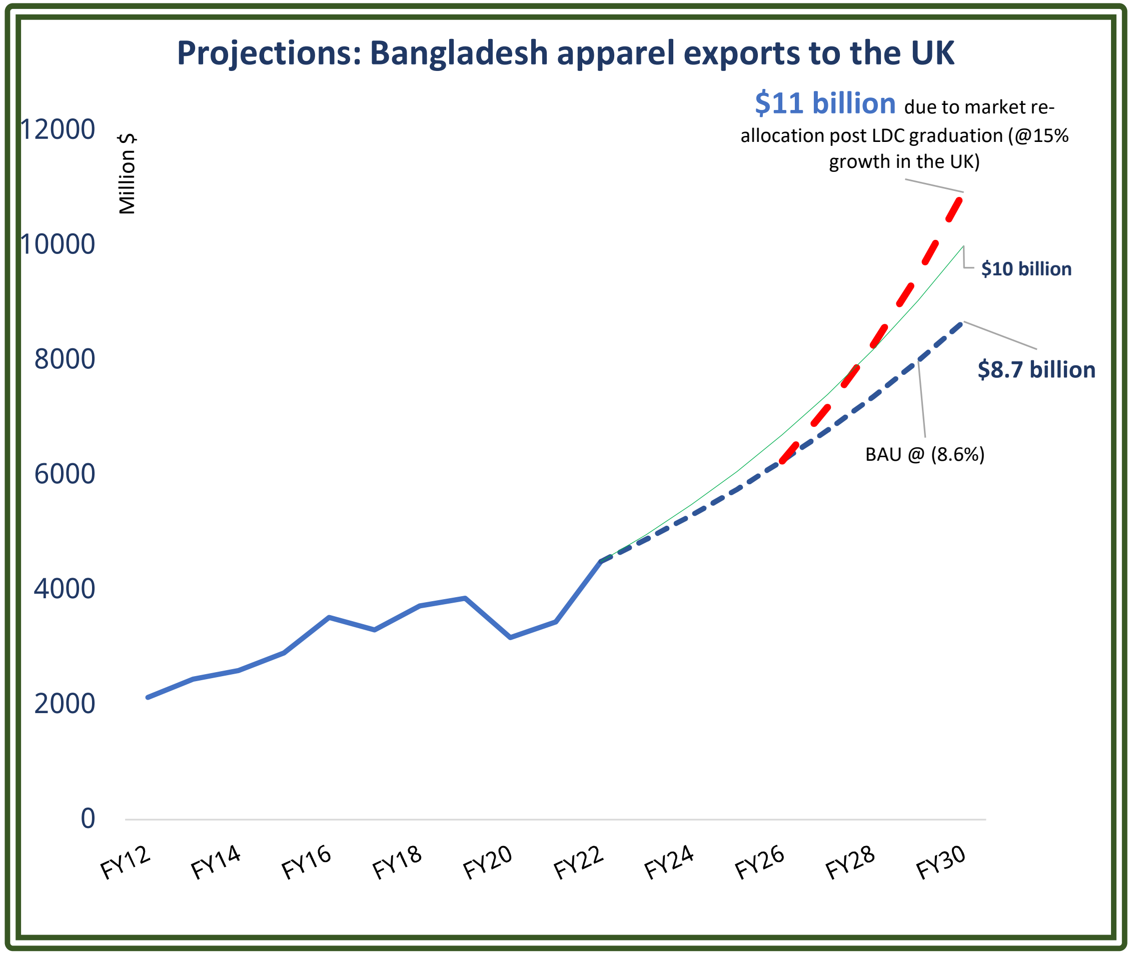
For LDCs only:
√Liberal PSRs
√Alternative PSRs
√Minimum VA of 25%
√Extended cumulation with DCTS, UK-EPAs (with 95 countries)

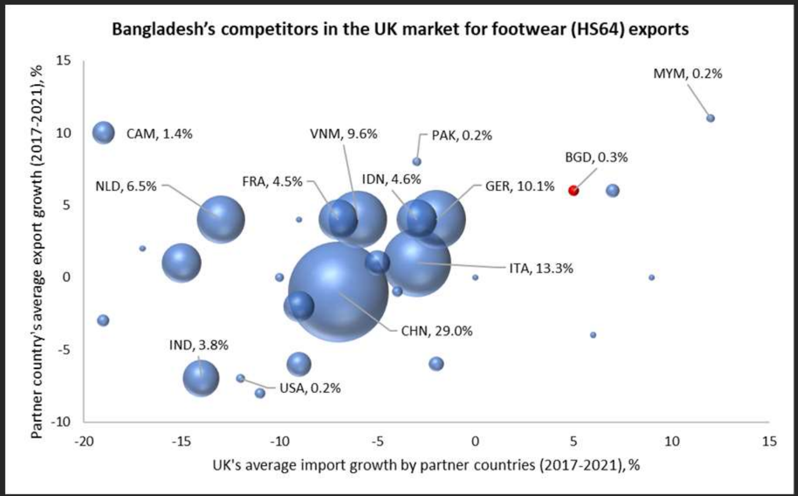
UK DCTS Tariff schedule

HS code	MFN tariff	Standard Preferences	Enhanced Preferences	Comprehensive Preferences	HS code	MFN tariff	Standard Preferences	Enhanced Preferences	Comprehensive Preferences
01	6.1	5.7	5.2	0	49	1.5	1.2	0	0
02	20.6	20.4	19.7	0	50	2.7	2.2	0	0
03	10.1	6	0.03	0	51	3.8	3	0	0
04	34.5	34.1	21	0	52	1.4	1.1	0	0
05	0	0	0	0	53	3.4	3.1	0	0
06	4.2	2	0	0	54	4.9	3.9	0	0
07	9	7.1	2.3	0	55	5.3	4.2	0	0
08	5.8	3.7	0.6	0	56	6.6	5.2	0	0
09	1.8	0.7	0	0	57	5.5	4.4	0	0
10	13.4	13.4	9.3	0	58	3.8	3.1	0	0
11	25.2	24.8	15.1	0	59	7	5.6	0	0
12	4.7	4.4	4.4	0	60	11.6	9.3	0	0
13	0	0	0	0	61	11.3	9	0	0
14	0	0	0	0	62	9.8	7.8	0	0
15	9.2	7.6	4.7	0	63	10.2	6.9	0	0
16	21.9	14.7	7.1	0	64	1.2	0	0	0
17	36.1	35.6	25.9	0	65	2.3	0	0	0
18	7.1	4.8	2	0	66	2	0	0	0
19	10.8	9.3	8	0	67	0.1	0	0	0
20	17.4	14.3	4.8	0	68	3.5	0.9	0	0
21	6.3	4	0.4	0	69	2.6	1.4	0.02	0
22	5.5	5.2	1.7	0	70	0.6	0	0	0
23	10.2	9.9	4	0	71	0	0	0	0
24	30.4	22.3	0	0	72	0.3	0	0	0
25	0	0	0	0	73	0.7	0	0	0
26	0	0	0	0	74	0.2	0	0	0
27	0.2	0	0	0	75	4.3	1.9	0.2	0
28	2.5	0.08	0.07	0	76	0	0	0	0
29	3.5	0.6	0.20	0	78	0	0	0	0
30	0	0	0	0	79	0	0	0	0
31	4.3	2.02	0	0	80	0.3	0.05	0	0
32	3.2	0.8	0	0	81	1.6	0.3	0	0
33	1.4	0	0	0	82	0.5	0	0	0
34	1.9	0	0	0	83	0.6	0	0	0
35	5	4.2	3.2	0	84	0.7	0.1	0	0
36	0.4	0	0	0	85	0	0	0	0
37	0	0	0	0	86	4.9	2.2	0	0
38	3.5	0.7	0.7	0	87	0.2	0	0	0
39	4.9	0.8	0.03	0	88	0	0	0	0
40	1.9	0.3	0	0	89	0.3	0	0	0
41	0.4	0.2	0.1	0	90	1.4	0.09	0	0
42	3.4	0.7	0	0	91	1.4	0	0	0
43	0.8	0	0	0	92	1.4	1.4	1.4	0
44	1.2	0.5	0	0	93	1.5	0	0	0
45	0	0	0	0	94	1.5	0	0	0
46	0.8	0	0	0	95	1	0	0	0
47	0	0	0	0	96	0	0	0	0

RAPID projections: Bangladesh's exports to the UK to reach $11 billion in 2030.

- It is still unsettled if Bangladesh's garment exports after LDC graduation will continue to receive duty-free market access in the EU
- **But, under the DCTS Bangladesh apparel exports will continue to get duty-free access in the UK.**
- **RAPID projections**: Apparel exports to the UK **$11 billion** by 2030 (from $4.5 billion in FY22).
- Non-RMG exports: 0.7 billion to 1.3 billion by 2030.
- But the potential for much higher non-RMG export growth in the UK.





Leather goods and footwear

- Total exports of leather goods and footwear was $1.7 billion in 2021-22
- Exports of same to the UK: **$38 million** (2.2% of total leather goods and footwear exports)
  - Leather footwear is 80% of this exports
- UK imports: **$5.3 billion** in 2021
- Bangladesh's market share: **0.7%**
- Despite the UK's overall imports of footwear declining by 7% during 2017-21, Bangladesh experienced a 5% average growth in exports to the UK

Agro-food and processed exports to the UK

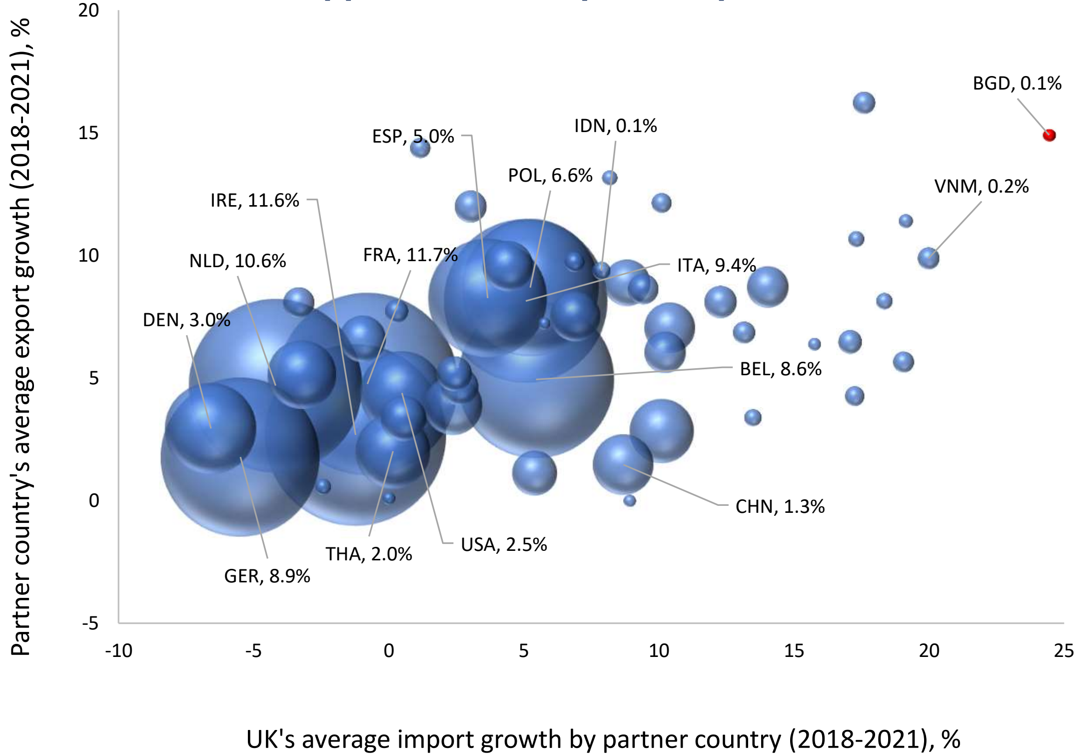
$1.2 billion: Bangladesh total exports of agro-processed food products (in FY22).

Exports to the UK was: **$52 million** (4.5% of all processed food exports from BGD)

$64 billion
UK market size:
0.08% is Bangladesh market share

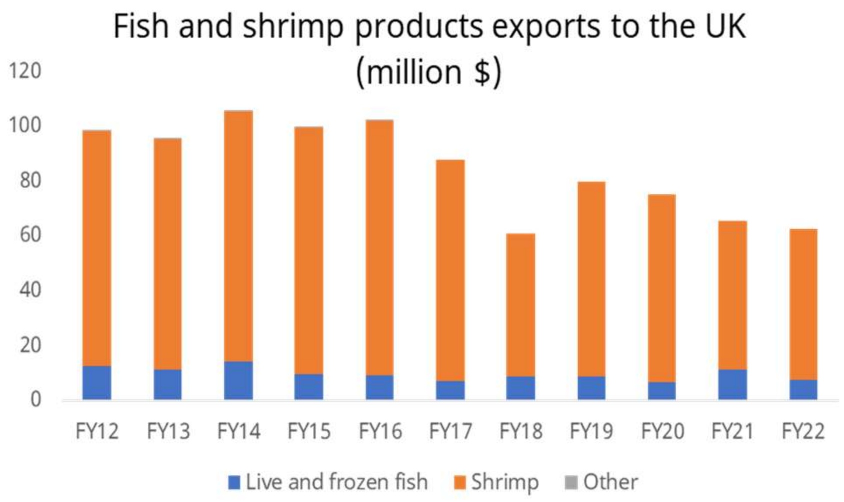
During 2017-21, UK imports of processed food increased by just 0.7% p.a., while imports from Bangladesh grew at 29%.

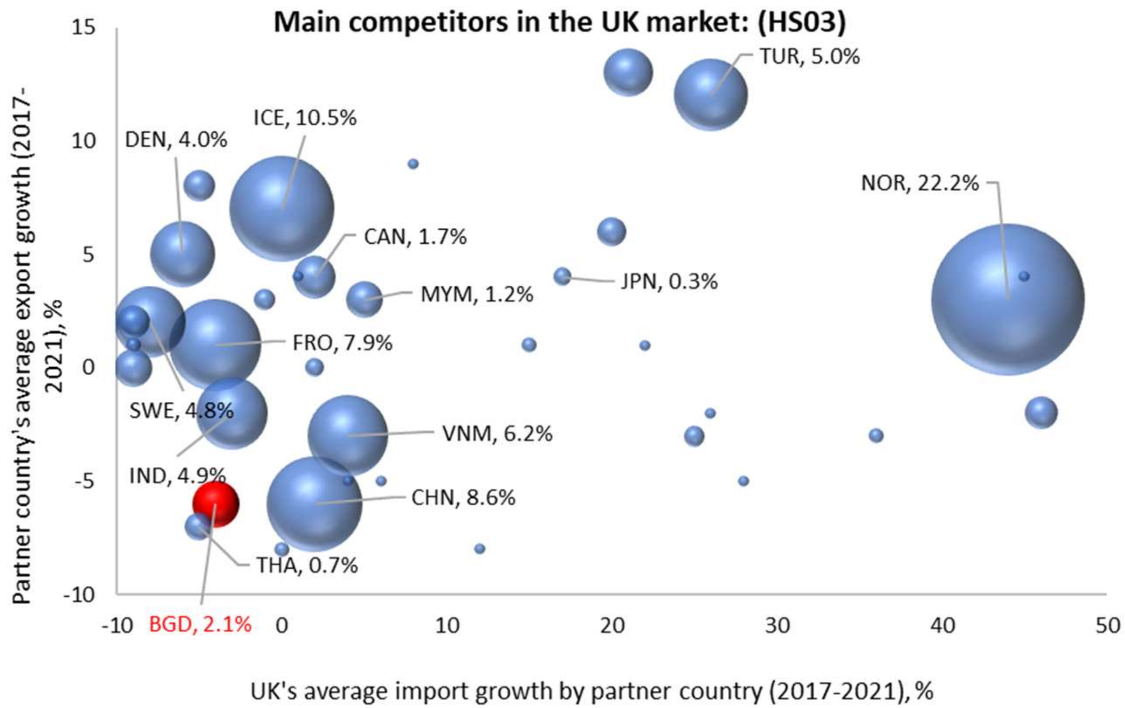
Main rival suppliers in UK imports of processed food



Fish and shrimp exports

- Bangladesh total exports: **$533 million** in FY22 (Shrimp accounts for 88% of exports)
- Exports of the same products to the UK: **$60 million** (11% of BGD exports)
- UK market: **$3 billion**
- Bangladesh's market share is 2.1%





Light-engineering products

BGD Exports of light engineering goods: $800 million (in FY22)

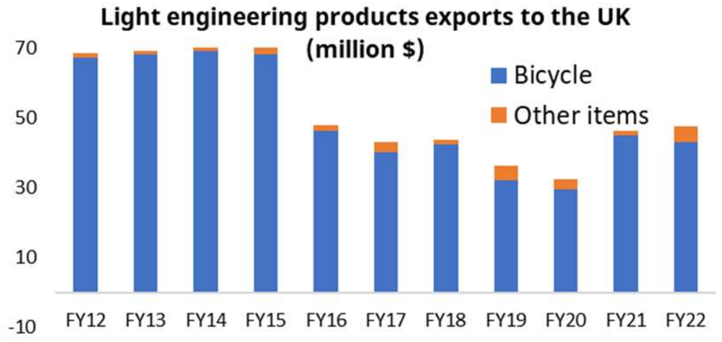
- Exports to UK: **$56 million** (7%)
- Bicycles comprise **91%** of these exports

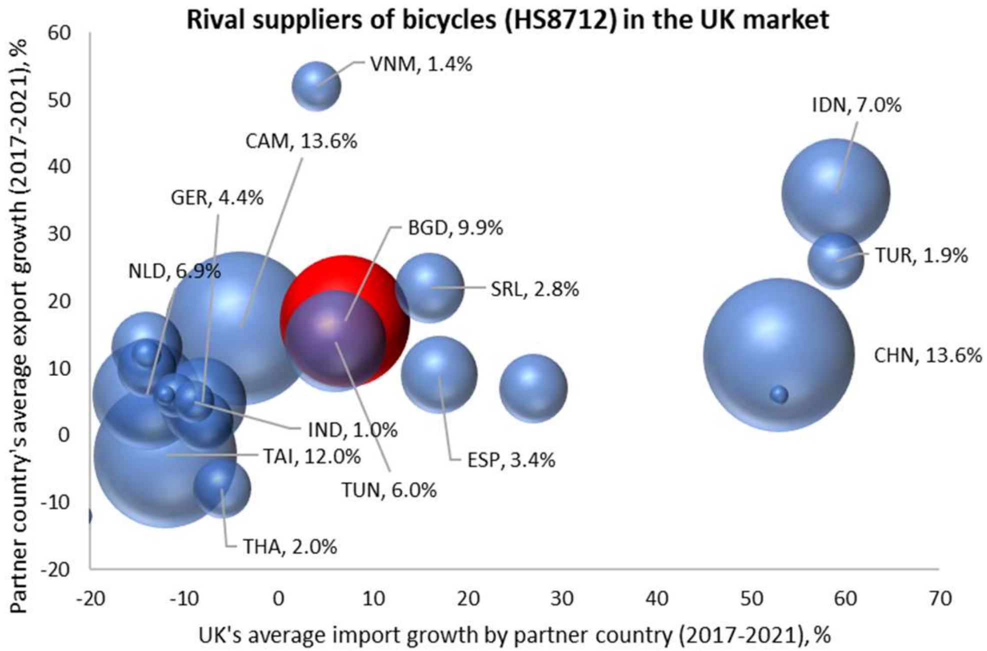
UK market size of engineered goods: **$327 billion**

- Bangladesh's market share is just 0.02%

BGD share in UK bicycle imports: **10%**

- While UK bicycle imports remained largely stagnant during 2017-21, Bangladesh recorded a growth rate of 7%.





Constraints and Challenges for Exporting to the UK

UK-market specific issues

Lack of knowledge and information about the UK market

- Market size for specific products, potential competitors, the different regulatory requirements, and duty-free preferences under DCTS
- Limited resources for conducting market research

Lack of integration with the UK's supply chain

- No established relationships with big brands and retailers (for on-apparel products)

Certification and standard requirements

- Exporters often find it difficult to meet the UK's standard and certification requirements
- More severe for small exporters

Image of Bangladesh as a producer of quality products

- Reflected in the quality ladder

Standards and testing

- For agro-processed food and fish: British Retail Consortium (BRC) certification, Hazard Analysis Critical Control Points (HACCP) certification
- Agro-food and processing sector face challenges in obtaining the salmonella test certificate. BSE test required for meat exports. No such facility in Bangladesh.
- Light engineering products require a certificate of environment and a certificate of the non-existence of harmful chemicals/materials.
- Restriction of Hazardous Substances in Electrical and Electronic Equipment (RoHS) and Registration, Evaluation, Authorization and Restrictions of Chemicals (REACH) standards for electrical equipment.
- Leather Working Group (LWG) certification for leather and footwear exports

Required Tests for Export	Product
Salmonella	Food, spices
BSE Test (Mad cow disease)	Meat
Microbiological test	Fish and Shrimp
Pesticide test	Plant-based products
Bacteria test	Fish and Shrimp
Restriction of Hazardous Substances (RoHS) Testing: Cadmium Lead, Mercury hexavalent chromium, polybrominated biphenyls polybrominated diphenyl ethers bis(2-ethylhexyl) phthalate benzyl butyl phthalate dibutyl phthalate diisobutyl phthalate	Electrical and Electronic Equipment's
Azo Dyes, Chromium VI, Dimethyl test	Leather and leather good
Electrical Safety Certification EN 60335	Electrical equipment
Azodyes PAHs	Footwear
Safety Standard EN ISO 4210-1:2014	Bicycle

Supply-side constraints

- Limited productive capacity contributes to a lack of export supply response
- Technological constraints
  - Outdated technology
  - Scope of automation
- Limited access to finance
- Lack of specialized professionals and skilled workers
- Infrastructural bottlenecks, such as inadequate transportation and logistics systems and electricity shortages
- Excessive lead time due to inefficiencies at ports and inefficient inland transportation
- Governance
  - CETP at the Tannery Estate Dhaka (TED)

Policy and political economy related challenges

Policy-induced anti-export bias – domestic market sales are more profitable than export shipments

- High nominal protection rate
- Total tariff incidence (TTI) 52%--more than 100%

Reliance on import tariffs for government revenue

- Tariff rationalization not regarded as a policy priority
- Revenue and protection arguments reinforce anti-export bias

Policy discrimination

- Not all export sectors are equal
- Bonded warehouse facilities are severely restricted for non-RMG sectors

Protection for domestic import-competing sectors is very high, making domestic sales lucrative.

HS 02	CD	SD	VAT	AIT	RD	ATV	Average TTI
			Fish and shrimp				
03	0-25	0-20	0-15	0-5	0-3	0-5	5-89.32
0302	25	20	0-15	5	3	0-5	58.6-89.32
0303	25	20	0-15	5	3	0-5	58.6-89.32
0306	0-25	0-20	0-15	0-5	0-3	5	5-89.32
			Agro-food and processed-food products				
02	25	0-20	0-15	0-5	0-3	0-5	5-89.32
04	10-25	0-20	0-15	5	0-3	0-5	33-89.32
07	25	0	0-15	5	3	0-5	33-58.6
08	25	0	15	5	20	5	79
11	5-25	0	15	5	0-3	5	31-58.6
12	10	0	0-15	5	0	0-5	15-37
15	10	0	15	5	0	5	37-58.6
16	25	0	15	5	3	5	58.6
17	10-6000	0-45	15	0-5	0-30	5	37-127.72
18	25	0-45	15	5	3	5	58.6-127.72
19	10-25	0-45	15	5	0-3	5	37-127.72
20	25	0-45	15	5	3	5	58.6-127.72
21	5-25	0-350	15	5	0-3	5	31.596.2
22	25	0-350	15	5-20	3	5	58.6-611.2
24	25	150-350	15	5	3	5	289-596.2
			Leather and leather goods				
41	5	0	0-15	2-5	0	0-5	7-31
42	1-25	0-20	15	5	0-3	5	26.2-89.32
			Footwear				
6403	25	45	15	5	3	5	127.72
64	25	0-45	15	5	3	5	58.6-127.72
			Light engineering products				
71	5-2000	0-60	0-15	0-5	0-3	0-5	31-150.76
72	0-1500	0-45	0-15	0-500	0-20	0-5	10-2080
74	1-25	0-20	15	5	0-10	5	26.2-89.32
75	1-15	0	15	5	0	5	26.2-43
76	1-25	0-20	15	5	0-20	5	26.2-89.32
78	1-25	0	15	5	0-3	5	26.2-58.6
79	1-10	0	15	5	0	0-5	26.2-37
80	1-10	0	15	5	0	5	26.2-37
81	5-10	0	15	5	0	5	31-37
82	1-25	0-20	15	5	0-3	5	26.2-89.32
84	0-25	0-100	0-15	0-5	0-3	0-5	5-212.2
85	0-25	0-100	0-15	0-5	0-5	0-5	1-212.2
86	5-10	0	15	5	0	5	31-37
87	0-25	0-500	0-15	0-5	0-35	0-5	0-1021
8712	25	20	15	5	3	5	89.32
88	0-25	0	0-15	0-5	0-3	5	5-58.6

Political economy and policy-related challenges (Cont.)

Along with high protection (profitability) for local sales,

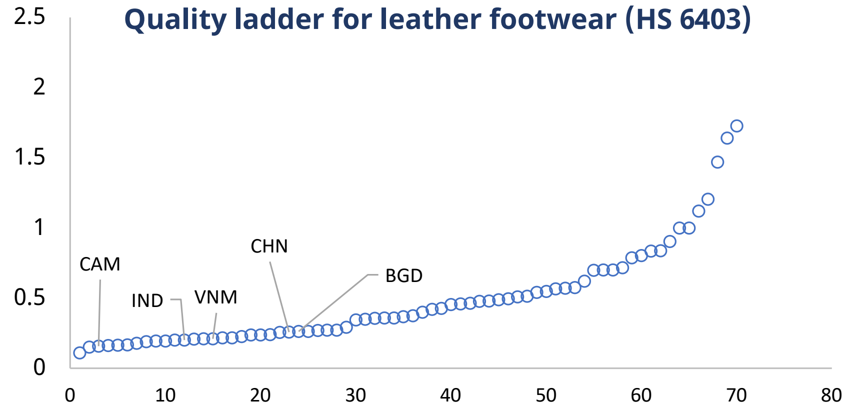
- domestic standards are much weaker than export standards

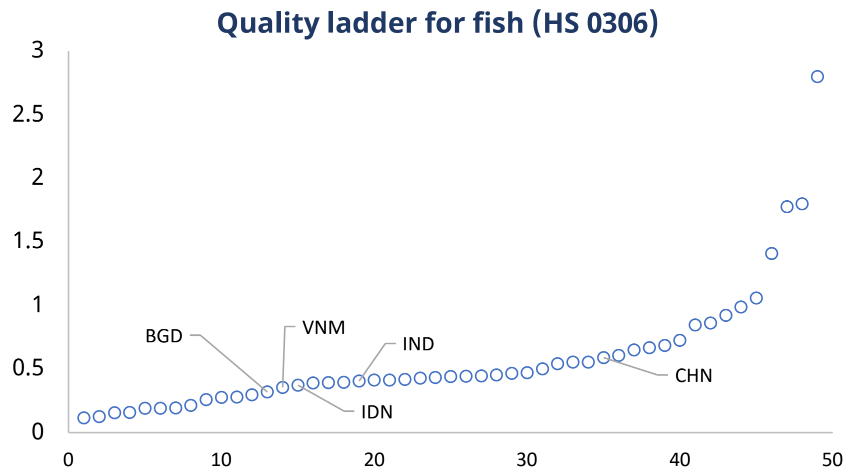
Low quality and lack of standards for the domestic market

- Product safety, environmental protection, and other ESG factors not complied with for the domestic market

Lowly placed on the export quality ladder

- Export prices are usually low








Way forward

- Dissemination of market-specific information (tariff-free access, standards, certification requirements, etc.)
- Integration into UK supply chains and establishing business relationships with brands and retailers.
- Promotional measures in the UK, showcasing high-quality non-RMG products (UK exhibitions and events).
- Ensuring compliance with required standards and product quality
- Attracting UK investment and FDI in export sectors
- Making firms export-ready (automation, management, due diligence, etc)
- High relative profitability in favour of domestic production means: (1) no incentive for export-oriented investment, and (2) firms have no urge to be export-ready.

Way forward

- Removing anti-export bias and rationalization of tariffs
- Deepening incentives for the identified export sectors
- Tackling infrastructural bottlenecks and improving port efficiency
- Ensuring access to low-cost finances for the export sectors
- Globally recognized certifications and necessary testing facilities
- Improving productive capacity for non-RMG sectors
- Seek additional and make use of UK technical and financial assistance

Thank you!