

Concept Note
Stakeholder Consultation

**Expanding Exports to the UK Market :
Light Engineering Products**

15 February 2023



Increasing and diversifying exports to the UK under Developing Countries Trading Scheme (DCTS)

Stakeholder consultation: Light engineering industries

The light engineering (LE) sector is a major industrial branch in Bangladesh producing a wide variety of parts/components and final goods, including transport equipment, bicycle, electrical equipment, casting products, and equipment and machinery used in agriculture, construction, printing and packaging. There are about 40,000 light engineering companies employing around 600,000 workers in Bangladesh (BIDA, 2023). Bangladesh exports a handful of LE products, with bicycle being the most prominent one, accounting for more than one-fourth of total LE export earnings. Other LE products exported from Bangladesh are electrical equipment such as lead accumulators, refrigerators, transistors, diodes, etc.

- The combined export receipts from light engineering products in FY22 stood at \$0.8 billion (\$796 million), i.e., 1.5% of the total merchandise exports of Bangladesh.
- Over the past decade, Bangladesh has exported about 1104 engineering products (at the HS-6-digit level).
- However, the number of export items for engineering products has fallen to about 582 in recent years. (FY20 to FY22)

The UK is a prospective market where Bangladesh can expand its export of light engineering products.

- In 2021, Bangladesh's exports of light engineering products (HS 71 to 88) to the UK generated just \$56 million, a minuscule fraction (0.02%) of the UK's overall imports of such products, which totalled over \$327 billion in the same year (ITC, 2023).
- Among the \$56 million export earnings, \$51 million is due to bicycle goods (HS 8712), holding a 10% market share in the UK of such products. The UK's overall import of bicycle products was \$516 million in 2021.

The UK DCTS can be a game changer for Bangladesh to break into non-RMG export sectors, including various light engineering products. The United Kingdom (UK) has introduced this year its preferential trading scheme for developing countries, called the Developing Countries Trading Scheme (DCTS), marking its departure from the EU's Generalized System of Preference (GSP).

- Under the new scheme, Bangladesh as an LDC enjoys duty-free market access through the DCTS Comprehensive Preferences. After its LDC graduation in 2026, Bangladesh will continue to enjoy the same LDC benefit for another 3 years (until 23 November 2029).
- As an LDC, Bangladesh also stands to benefit from more generous UK Rules of Origin (RoO) requirements. The minimum value-added requirement for LDCs has been reduced to 25 per cent (from 30 per cent) in half of the chapter headings (48 chapters) defined at the HS 2-digit level.
- The UK DCTS offers relaxed and liberal product-specific rules, and extended cumulation facilities, allowing inputs to be imported from 95 countries and yet the LDC manufacturers of final products are eligible for duty-free exports.

After LDC graduation, Bangladesh will benefit from DCTS Enhanced Preferences with most of its exports continuing to enjoy duty-free market access in the UK.

- The DCTS removes the requirement for countries to ratify and implement certain international conventions as a precondition for trade preference.
- After LDC graduation and an additional three-year transition period, Bangladesh will get duty-free benefits in more than 85 per cent of its UK-bound product lines under DCTS Enhanced Preferences.

RAPID is undertaking research and consultation exercises to help Bangladeshi exporters take advantage of the UK DCTS Scheme.

- The Secretary of State for the Foreign, Commonwealth and Development Office of the United Kingdom has commissioned RAPID to conduct this research and consult with stakeholders to determine the best ways to boost, expand, and promote exports from Bangladesh to the UK.
- As part of the study, using a rigorous methodology and disaggregated export data, RAPID has identified several potential export sectors for the UK market. Light engineering products are among the most prominent products to unleash their export potential.

This stakeholder consultation aims to understand the barriers and constraints faced by Bangladesh's exporters of light engineering to the UK market.

- The discussion in this consultation meeting will focus on the following issues:
 1. Quality and standard requirements for exports of light engineering products in the UK and existing standards and testing facilities in the country. Legal and other trade-related regulations for exporting in the UK. Other non-tariff barriers in the UK for light engineering products.
 2. The regulatory and legal framework of operation for light engineering industries in Bangladesh. Regulations related to the export of these products. Availability and access to testing and quality control facilities in Bangladesh for these products.
 3. Reasons for low quality, low value-added, and fewer varieties of light engineering products: Issues related to procuring quality raw materials and other inputs, substandard technologies, lack of skilled labour force, uninterrupted energy supply, etc. The extent to which these factors lower the comparative advantages of light products in the UK market compared to Bangladesh's major export competitors like China, India, Indonesia, Vietnam, and Sri Lanka.
 4. Access to finance: Impact of limited access to finance and high costs of borrowing on the scope of modernisation and expansion of operations for small and medium light engineering factories.
 5. Infrastructure: Transportation and delivery of raw materials and inputs and timely delivery of the exported items, problems related to ports and shipment, and other supply-chain issues related to infrastructure.
 6. Dealing with public offices: Issues related to obtaining operating and import licenses, delays and irregularities in customs and tax offices, and dealing with various public utility providers.
 7. Environmental concerns: Pollution and other environmental damage caused by light engineering industries and its impact on exporting light engineering products in developed countries, especially in the UK.
 8. Labour issues: Maintaining labour laws and healthy working conditions in light engineering industries and their impacts on export to developed countries, including the UK.
 9. Macroeconomic issues: Impacts of exchange rate uncertainty, problems with L/C opening, political uncertainty, and public health emergencies on production and export performance.
 10. The policy support: What are the policy supports and incentives needed to make the light engineering products more competitive in the UK, including infrastructure, access to finance, market information dissemination, technology transfer, labour training, security, facilities for testing and quality control, easing regulations and legal barriers, etc.