

Report On

**Identification Of Trade-Related Graduation Challenges And Trade Roadmap For
The Leather And Leather Goods Sector.**

By

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**An internship report submitted to the BRAC Business School in partial
fulfillment of the requirements for the degree of**

Master of Business Administration

BRAC Business School

BRAC University

May, 2024

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Arundhuti Modak (21364110)
MBA Intern
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.....
Saif Hossain
Assistant Professor &
Director (BBA Program)
Brac Business School
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Letter of Transmittal

Date: 18/05/2024

Saif Hossain
Brac Business School
BRAC University

Subject: Submission of internship report on “Identification of trade-related graduation challenges and trade roadmap for the leather and leather goods sector.”

Dear Sir,

I am pleased to present the internship report titled “Identification of Trade-related Graduation Challenges and Trade Roadmap for the Leather and Leather Goods Sector.” In this report, I have endeavored to concisely convey the insights and experiences gained during my internship program.

The content is grounded in my practical engagement at the Bangladesh Foreign Trade Institute, Kawran Bazar, and the Administration Affairs Department. I have dedicated my best efforts to compile this report, incorporating all the information gathered during my tenure.

I am optimistic that the report will fulfill your expectations and provide a comprehensive understanding of the topic. Should you require any clarifications, please feel free to contact me.

Yours Sincerely,

Arundhuti Modak
21364110
Department of MBA
Brac Business School
BRAC University

Non-Disclosure Agreement

This agreement is formed and entered into between Bangladesh Foreign Trade Institute and Arundhuti Modak, a current MBA student at BRAC University. This agreement was made because Arundhuti Modak has joined Bangladesh Foreign Trade Institute as an Intern in the Administration Affairs Department department. As an intern, she must preserve secrecy about specific Foreign Trade information. In this sense, sensitive information is something that the Bangladesh Foreign Trade Institute Authority is unwilling to disclose to others. For example, future Research and communication plans, information on future public relations campaigns, or any other information that the Institute is unwilling to release. Through this Non-Disclosure Agreement, it is guaranteed that the Internship report will not reveal any of the restricted details about the Institute to anybody. This contract between the two parties began on 1st July 2023. As a result, the Institute greatly appreciates that you refrain from discussing or disclosing any private information with anybody during this period.

Arundhuti Modak (21364110)
MBA Intern
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Md. Zahidul Hoque Sarder
Senior Research Fellow
Bangladesh Foreign Trade Institute

Acknowledgment

The completion of the report titled “Identification of trade-related graduation challenges and trade roadmap for the leather and leather goods sector.” is a requirement for obtaining my MBA degree. I am grateful for the invaluable guidance, supervision, and cooperation extended to me by several esteemed individuals during the preparation of this report.

Firstly, I want to express my gratitude to God for His special blessings throughout the completion of this report. Subsequently, I extend my thanks to Saif Hossain, Assistant Professor & Director (BBA Program) at BRAC Business School (BBS) and my academic supervisor for the Internship Program. I am appreciative of the opportunity he provided me to undertake this report, and I am particularly thankful for his crucial advice and guidance, which played a pivotal role in ensuring the comprehensiveness of this report. Without his assistance, this report would not have reached its current level of depth and detail.

Executive Summary

Bangladesh is on track to graduate from LDC in 2026 after meeting the requirements for all three criteria in the UN-CDP's first and second triennial reviews, which were held in 2018 and 2021, respectively. The graduation shows Bangladesh's remarkable growth trajectory over time, but it will also present many complex challenges in terms of market access, value addition requirements, additional tariffs, preferential benefits in regional and bilateral agreements, subsidies under WTO agreements, and preference erosion. Given that 71% of all exports are made under preferential agreements with developed and developing nations, exports are predicted to be the most negatively impacted. In light of the circumstances, Bangladesh must act quickly to strengthen the export-oriented companies' ability to handle the graduation issues.

The study addresses goods made of leather. The report presents sector-specific advantages, disadvantages, opportunities, risks, and countermeasures to realize export potential and maintain growth driven by exports. The report also suggested a plan for strengthening the export-oriented sectors' ability to support the main opportunities and obstacles and offer specific solutions for the latter. Bangladesh finished its Diagnostic Trade Integration Study (DTIS) in 2016 with assistance from the World Trade Organization's (WTO) Enhanced Integrated Framework (EIF). The DTIS developed a four-pillar strategy that includes the following pillars:

- 1) Entering new markets;
- 2) Entering new product categories;
- 3) Enhancing the well-being of workers and consumers; and
- 4) Establishing a conducive environment that could spur the export industry's expansion and create new avenues for competitiveness.

However, the graduation scenario was not apparent and could not be taken into account when the DTIS 2016 was being conducted. The study addresses goods made of leather. The report presents sector-specific advantages, disadvantages, opportunities, risks, and countermeasures to realize export potential and maintain growth driven by exports. The report also suggested a plan for strengthening the export-oriented sectors' ability to support the main opportunities and Obstacles and offer specific solutions for the latter.

Keywords:

BBA= Bachelor of Business Administration
BBS= BRAC Business School
BFTI = Bangladesh Foreign Trade Institute
CAGR= compound annual growth rate
CETP =Central Effluent Treatment Plant
CNN= Comprehensive National Nutrition Survey
DTIS = Diagnostic Trade Integration Study
EIF = Enhanced Integrated Framework
EU= European Union
FDI = Foreign direct investment
FY= Fiscal year
GDP= Gross Domestic Product
IMF = International Monetary Fund
LDC= Least Developed Countries
LWG = Leather Working Group
MBA= Master of Business Administration
NFIS = National Financial Inclusion Strategy of Bangladesh
ODA= Official Development Assistance
RMG= Ready Made Garment.
SME= Small and Medium-Sized Enterprises
TRSG= Trade Roadmap for Sustainable Graduation
USA = United States of America
WTO= World Trade Organization's

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Chapter 1

Introduction

Bangladesh has met all three requirements in 2018 and the second triennial assessment in 2021, putting it on track to graduate from the Least Developed Country category in 2026. By 2041, Bangladesh wants to be a developed nation. The GDP per capita increased to over US \$2462 in FY2020–21 as a result of the decade-long strong GDP growth, which averaged over 6.3%. In 2015, Bangladesh was classified by the World Bank as a lower-middle-income country. As well In addition, growth has led to improvements in other social indicators like life expectancy, universal primary education, maternal health, malaria and other diseases, gender equality women's empowerment, and infant mortality. In FY 2020–21, poverty levels fell to 20.5% of headcount poverty and 10.5% of hardcore poverty. The government believes that the private sector is essential to the future prosperity of the nation within the terms of the 8th Five-year Plan (8th FYP). Additionally, the government sees trade as a key component of Bangladesh's efforts to reduce poverty, create jobs, improve productivity, and become more competitive. The International Monetary Fund (IMF) states that Bangladesh requires extensive structural reforms to increase private investment, and potential growth over the medium term, and promote inclusive growth processes. Improving profitable investments that solve major economic barriers will be necessary to achieve this. The government has implemented the National Financial Inclusion Strategy of Bangladesh (NFIS-8) for the years 2017–2021, which would support inclusive growth. This will be followed by medium-term objectives for reaching the SDGs by 2030 and the long-term stage for being a developed nation by 2041. With the assistance of the EIF money, Bangladesh completed its Diagnostic Trade Integration Study (DTIS). A four-pillar plan that prioritizes jobs and growth, enhances worker and consumer welfare, and expands competitiveness beyond low-wage workers was highlighted by the DTIS as potentially helpful in quickening the expansion of the export industry. The four-pillar plan was recommended by the DTIS 2016 to solve Bangladesh's trade-related challenges. However, during the DTIS 2016, the graduation scenario was not apparent and could not be taken into account. After being put on the path to leave the LDC category, Bangladesh will need to maintain and accelerate its present rate of progress over the next three years to prepare for its graduation in 2026. The subsequent removal of Bangladesh from LDC status is thought to have a major impact on its commerce. It may hurt the nation's total export portfolio if it loses its preferred market access in prospective export markets. WTO-mandatory regulations will also apply to domestic industries that are

export-oriented restricting the kind of assistance that could reduce the industries' ability to compete on the global stage. As the primary driver of growth and socioeconomic development, trade requires careful consideration and a strategic focus to overcome the obstacles to graduation.

Bangladesh may lose 14.4% of its export volume shortly after being upgraded from the LDC category, per a WTO analysis. Given that developed and developing countries account for 71% of global exports, trade may be the most impacted. Following graduation, Bangladesh will likewise be ineligible for export subsidies. Bangladeshi goods can become less competitive as a result of global markets. Initiatives must therefore be taken to increase the export industries' capabilities. To inform policymakers and other stakeholders, including the corporate sector, on the problems that face graduates after they graduate and how to overcome them, roadmaps for potential export sectors falling under the study's purview will be prepared.

Chapter 2

Background of the Organization:

Bangladesh Foreign Trade Institute (BFTI) is a nonprofit study center that looks into ways to increase international trade and educate stakeholders and is situated in Bangladesh's Dhaka. Dr. Md. Jafar Uddin, a former senior secretary, is the institute's chief executive officer.

The Ministry of Commerce founded the Bangladesh Foreign Trade Institute in 2003. The Ministry's public-private collaboration is where it all began. Under the direction of the Minister of Commerce, a board of directors oversees its operations. Members of the business community, such as the Federation of Bangladesh Chambers of Commerce and Industry, are included on the board.

CNN, acting through Spellbound Communications Limited in Bangladesh, and the Bangladesh Foreign Trade Institute inked a promotion of the "Made in Bangladesh" deal in June of 2021.

Mission:

To implement the nation's international trade management professionally by enhancing the trade and business acumen of practitioners in the public and private sectors through high-caliber research, policy recommendations, instruction, and training.

The Institute's three main goals are as follows:

1. Supplying trade bodies and associations in the public and business sectors with policy support on current and new trade-related challenges;
2. Enhancing trade-related capabilities for businesses in the public and private sectors through research and training; and

3. Establishing a policy forum to facilitate dialogue between decision-makers in government and business.

Vision:

To establish itself as a globally recognized research institute for trade policy and as a center of excellence for top-notch trade and business-related education and training.

To efficiently carry out the specified responsibilities over time, the BFTI's structure, operational procedures, and human resource capability must all be gradually developed in order to realize this objective. The primary tasks outlined in the vision are:

1. Applied study of trade policy and international economic law;
2. Policy recommendations about trade policy, trade-related regulatory frameworks, and international economic law;
3. Providing hands-on instruction and developing skills in the areas of international negotiations, trade regulation, economic policymaking, and global economic law;
4. Approved and well-known postgraduate courses in international business, trade policy, international commerce, and international economic law;
5. The laws and regulations governing commerce in Bangladesh and its key trading partners are accessible to the public through this information site.

Chapter -3

Overview of the topic

One of the industries with the greatest potential for diversification in exports is leather and leather goods. The industry began operating in the 1940s and currently accounts for roughly 2% of industrial production and 0.6% of the GDP of the country. With 2.4% of all exports of goods in FY2021–22, the sector is the nation’s second-largest export industry. The study's strengths and weaknesses assessment showed that this industry's main advantages include its ability to meet customer demands, its labor force availability, its competitive labor costs, its local raw material supply, and the resilience, agility, and attitude of its entrepreneurs. This industry's intrinsic flaws include a lack of adherence to global environmental, social, and safety regulations in factories and manufacturing facilities; reliance on raw material imports; limitations on financing availability; absence of backward linking, etc. Although the development of a cluster of tanneries at Saver Tannery Estate was an important step forward, the production of leather still faces significant obstacles in meeting international compliance standards and obtaining certification from the Leather Working Group (LWG) due to the absence of a functional central effluent treatment plant (CETP). This sector is quite promising due to opportunities such as the expanding global leather export market, the sector's designation as the highest priority in the export policy for 2021–2024, rising domestic demand, opportunities for local and foreign direct investment, government policy support, and the relocation of manufacturing from developed to developing nations. However, there are obstacles in the way of realizing the enormous potential of this sector, including tougher international standards and compliance issues, fierce rivalry from other Asian economies like Vietnam and India, preference erosion of special and differential treatment and DFQF facilities, and logistical issues. By 2030, the government hopes to double the \$1 billion in annual export earnings from leather and leather goods to \$10 billion. The leather industry, as a major industrial sector, has a lot of potential to support the expansion and diversification of exports. The study suggested a trade roadmap to improve this sector's expansion potential by avoiding the consequences of the LDC graduation difficulties to lessen the LDC graduation problems. The roadmap describes actions to boost productivity to address possible trade losses following LDC graduation. These actions include making use of current incentives, using local raw materials (rawhide), and creating backward links. Crucially, the plan also recommends raising awareness of compliances, guaranteeing ESQ and ESG compliance, and developing capacity for LWG certifications.

Objectives of the study

The specific objectives of the study are:

1. From low-cost producers and synthetic alternatives.
2. Dependence on raw material supplies and logistical challenges.
3. Tariffs, non-tariff barriers, and regulatory complexities.
4. Towards sustainability and ethical sourcing.
5. Invest in technology and sustainable practices.
6. Expand into new regions and segments.
7. Negotiate favorable trade agreements and mitigate barriers.
8. Develop skills and innovate for competitiveness.
9. Certify practices and align with consumer preferences.

Scope of the study

Bangladesh is scheduled to leave the LDC category in 2026. Consequently, this study will address identifying graduation barriers and create a road plan for resolving trade-

related issues. Potentially losing preferential access to the global market for Bangladeshi goods and services; losing preferential Rules of Origin facilities; the pharmaceutical industry's transition to TRIPS; subsidies under WTO agreements; other WTO-related Special and Differential Rights; receiving preferential treatment in the country's regional and bilateral agreements; and potential

Effects on FDI and Official Development Assistance (ODA).

The issues associated with commerce based on sectors will also be the main focus. Leather and Leather Goods are the two industries. This DTIS Update will also examine the incomplete tasks in the Action Matrix of the DTIS 2016 and its upgrades. The "Trade Roadmap for Sustainable Graduation (TRSG)" will map out the sector-specific strategies the nation will need to employ to overcome trade-related obstacles, such as resource mobilization plans, and will be included in the DTIS Update report.

Methodology:

Leather and Leather Goods

Bangladesh has a significant supply of inexpensive labor and raw materials, making leather one of the industries with the most potential for growth both domestically and internationally. The sector can join international value chains, break into untapped markets, and meet rising domestic demand. The Bangladeshi government has been placing particular attention on this sector's numerous national policies and initiatives due to its great potential for producing and exporting varied products with high added value. In 2017, the Bangladeshi government designated the leather industry as the Product of the Year. The leather products market is projected to develop at a compound annual growth rate (CAGR) of 6.6% from 2023 to 2030, according to the worldwide economic outlook for the industry. In 2022, the market was valued at USD 242.85 billion. North America has the biggest market for leather goods in the world, and then the European market. With China and India controlling the majority of the industry, the Asia Pacific area is expanding at the highest rate due to a rise in demand for upscale and luxury goods.

Nonetheless, Europe now commands a larger revenue share than Asia and is the leading region in the global market for leather goods. As the product becomes more well-known and the region's online sales increase, the market is anticipated to rise further³². The global trend of leather products imports and exports, encompassing leather footwear, is depicted in the accompanying figure 1.

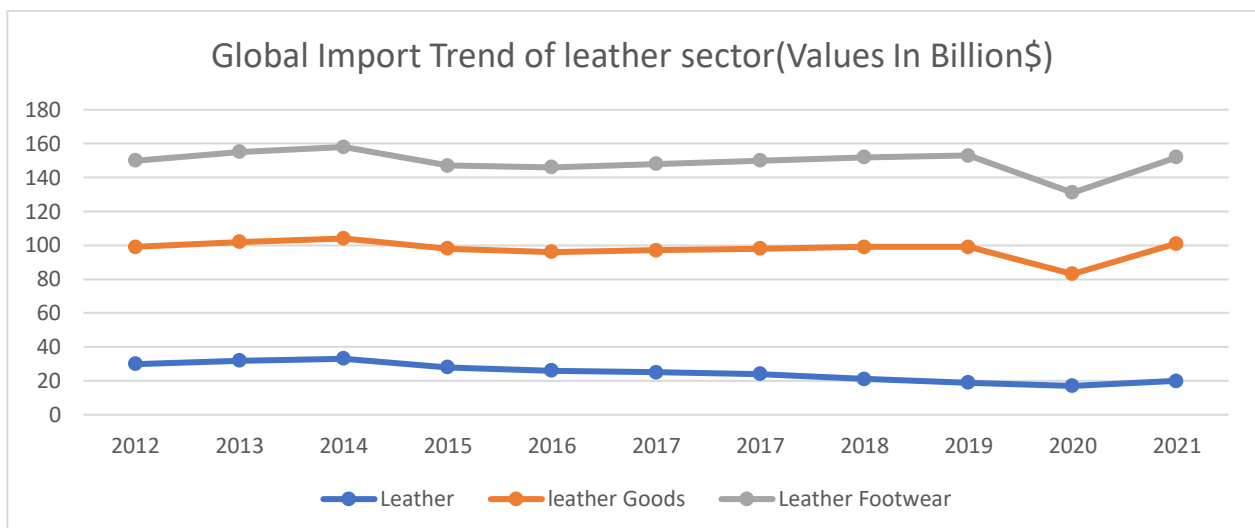


Figure 1

Despite a drop in worldwide imports during the pandemic, the leather industry has shown steady growth over the years. Global imports, however, started to increase in 2021, suggesting that there is still a market for leather goods. The leading importer of items and footwear made of leather was the USA, however, The top two countries importing leather were China and Italy. Global imports decreased throughout the pandemic years, but they started to increase in 2021, indicating a steady demand for leather goods worldwide. The pandemic years of 2019 and 2020 caused a dip in the global leather sector's exports, but the trend has positively recovered in the years since. The demand for leather products is distributed over many nations; in 2021, the United States of America was the leading importer of leather goods and footwear. The two biggest leather importers were China and Italy. Germany, France, Italy, and the Netherlands rank among the EU's top buyers of leather goods, indicating strong export potential. In recent years, there have also been significant imports of leather goods from China, South Korea, and the UK. Though it began in the 1940s, Bangladesh's leather industry did not take off until the 1970s, when it became one of the country's biggest industries. Wet blue leather was the primary product used in exports and production during the early phase. Subsequently, it was discovered that leather items might gain up to 90% more value by making finished goods. To encourage structural change and boost the manufacture of leather items with greater added value, the Bangladeshi government imposed export restrictions on rawhide and wet blue leather in 1990. The industry grew as a result of this program, which encouraged business owners to further modernize their processes and generate high-quality goods. One of the industries with the most potential for export diversification is the leather sector roughly 0.6% of the country's GDP and roughly 2% of industrial production are contributed by this industry, which is a major contributor to the economy both domestically and internationally. This industry is the 2.4% of all items exported in FY2021–22 were from the second-largest export sector. Bangladesh holds roughly 3.0% of the global market share by volume for leather and leather products, 1.8% of the global cow stock, and 3.7% of the global goat stock. Approximately 60% of the 850,000 people employed by the sector, both directly and indirectly, are women. In the sector, there are roughly 200 tanneries, 3500 SMEs, 90 major enterprises, and 15 large companies.²⁹ The leather, leather goods, and leather footwear industry brought in US\$1,245.18 million in export income in the fiscal year 2021–2022, up 32.23% from the previous year's \$941.67 million over the same time according to information from the International Trade Center. Bangladesh ranks as the world's 18th-largest exporter of leather goods. Bangladesh produces a wide range of leather goods, including split, completed, wet blue, and crust leather, in addition to finished goods such as wallets, suits, belts, gloves, shoes, and bags. Bangladesh is perfectly equipped for the manufacturing of leather as well as high-value leather items and footwear because of its abundance of labor, natural resources, and successful development experiences in the RMG industry. All of the tanneries in Bangladesh have been moved from Hazaribagh to a newly planned and managed industrial zone in Savar as part of the government's proactive efforts to boost the industry.

In addition to offering a range of incentives and support programs, the government intends to construct three additional leather industrial estates:

1. Rajshahi's Leather and Engineering Industrial Park
2. Mirsharai Multi-Sector Industrial Park in Chattogram

3. The Dhaka Leather Industrial Park

Export trend

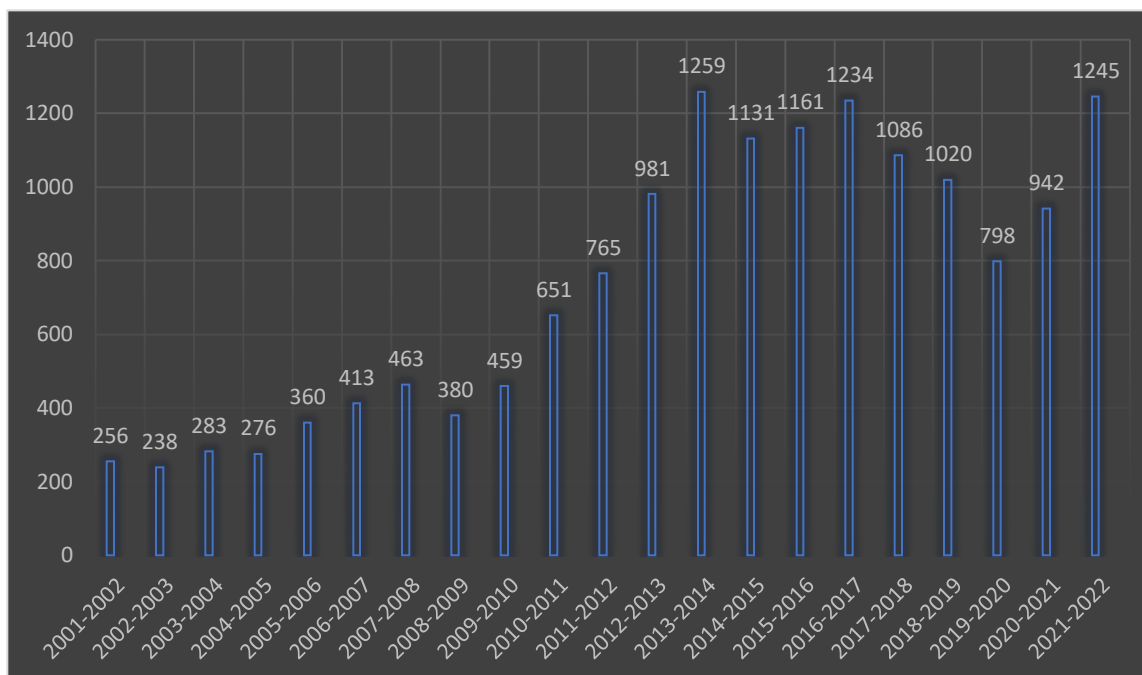
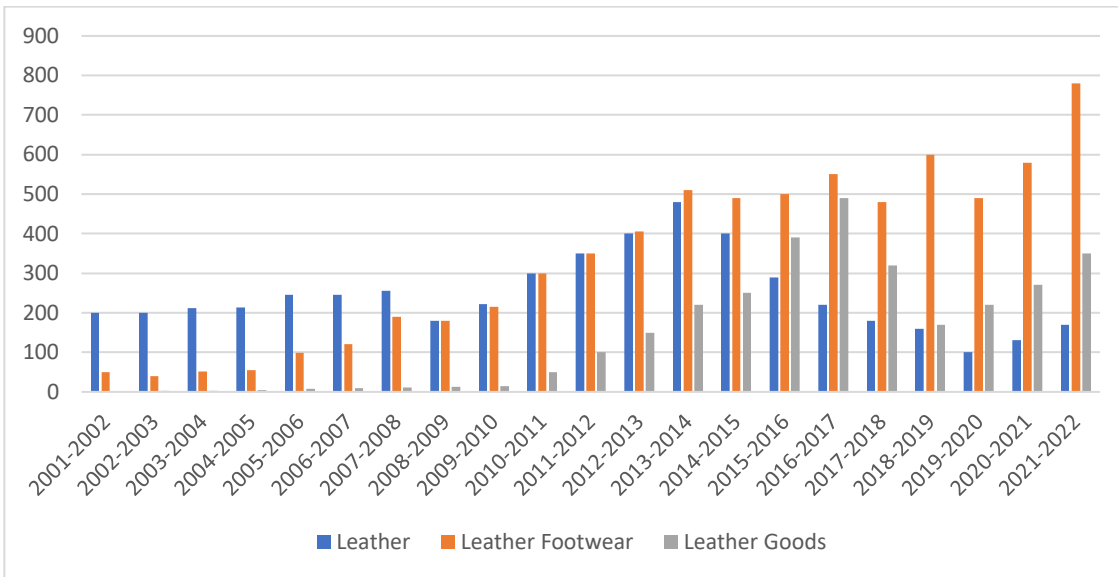


Figure 2

Source: EPB statistics

The sector's portion of the overall goods export, albeit coming in second, is satisfactory. This industry's growth has been significantly damaged by the recent COVID-19 pandemic, and it is still recuperating. Compared to FY 2020–21, when it grew by roughly 18%, the leather and leather goods business saw a 32% growth in FY 22. Export growth demonstrates the rising trend. Three categories are used for the export of leather goods: leather (HS code Chapter 41), leather products (42), and leather footwear (6403). The product that is exported the most from

This category is leather footwear. Figure 3 below shows a comparative image of leather and leather goods product export:



Source: EPB statistic

Figure 3

Bangladesh's main export markets for leather and leather goods are the UK and Argentina, two wealthy nations. Germany, Denmark, Italy, Netherlands, Austria, Australia, Belgium, Canada, Switzerland, and Chile. Spain, Finland, and a few Middle Eastern and Asian nations, including the United Arab Emirates, China, Japan, and South Korea. The Hong Kong Major export markets for leather items, footwear, and leather are shown in the following figure 4, figure 5, and figure 6.

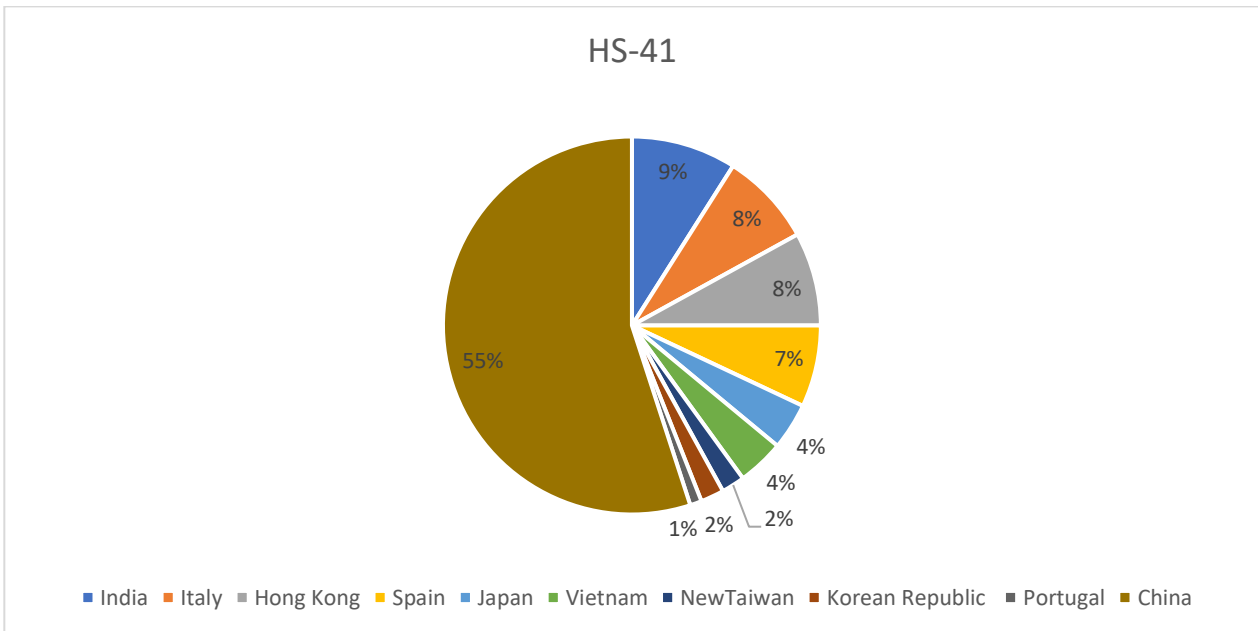


Figure 4

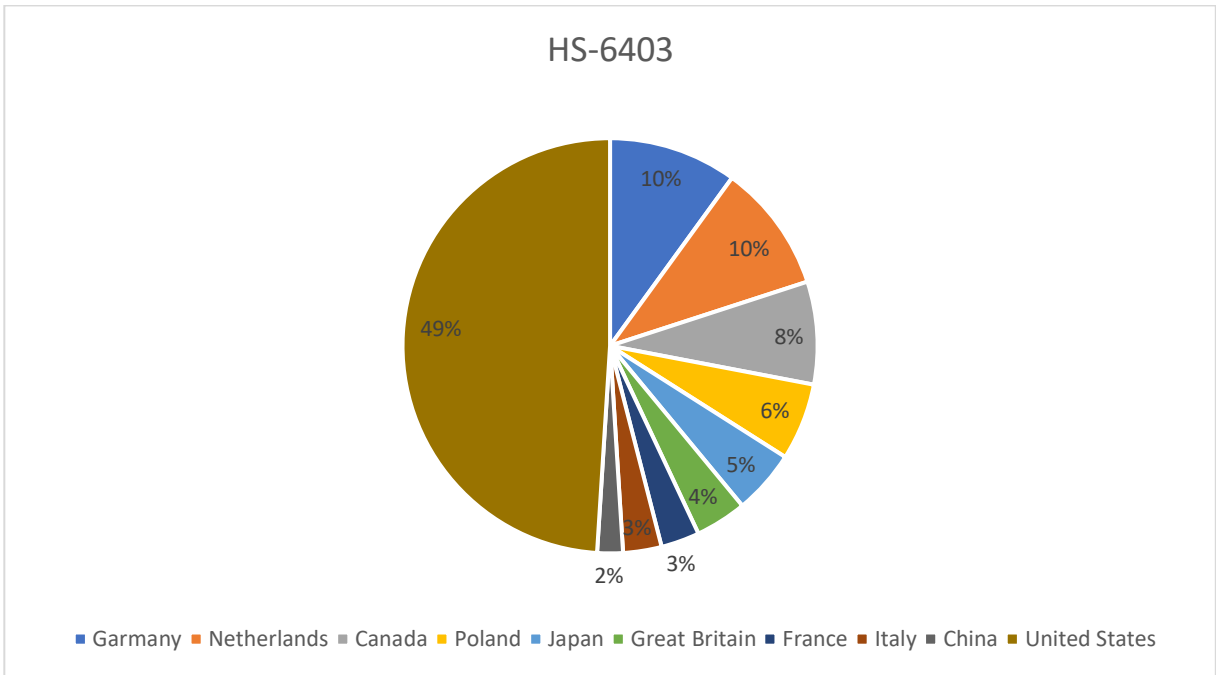


Figure 5

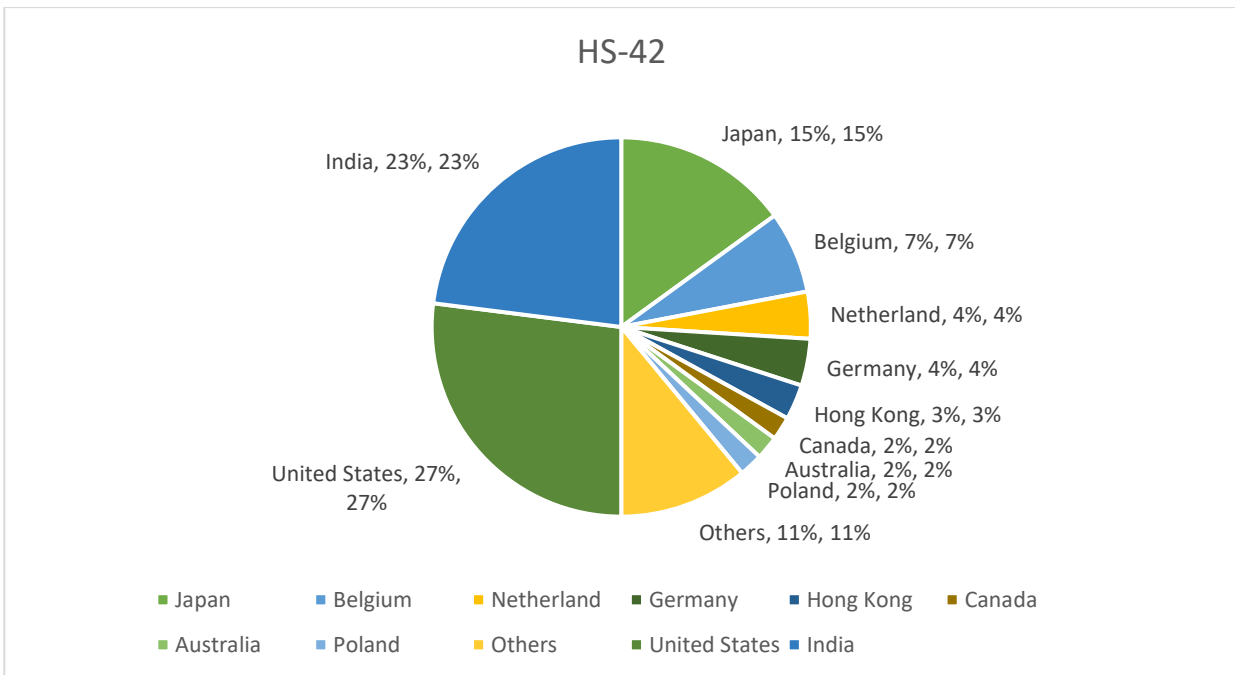


Figure 6

China accounted for 55% of the exports of raw hides or leather in FY2021–2022. In terms of exports, India accounts for 9%, after China. Bangladesh sent 8% of its raw hides and leather to Italy and Hong Kong. In FY 2021–2022, the United States accounted for about 49% of Bangladesh’s exports of leather footwear. Germany, Netherlands and Canada accounted for the majority of Bangladesh's footwear exports. Japan ranked third and India ranked second in terms of significant export destinations, with 23% and 15% of all leather products sent to each of these nations, respectively.

Import trend:

A major barrier to the export of raw hides is noncompliance with compliance regulations. Only three Bangladeshi tanneries have obtained the standard accreditation from the Leather Working Group (LWG) thus far. As a result, some exporters in the leather and leather goods industry increasingly bring in raw hides from overseas.

The plentiful supply of domestic raw hides is largely exploited for regional manufacture, meaning it is not fully utilized. Additionally, leather goods and footwear are imported from several nations, including Belgium, Italy, Hong Kong, China, and India.

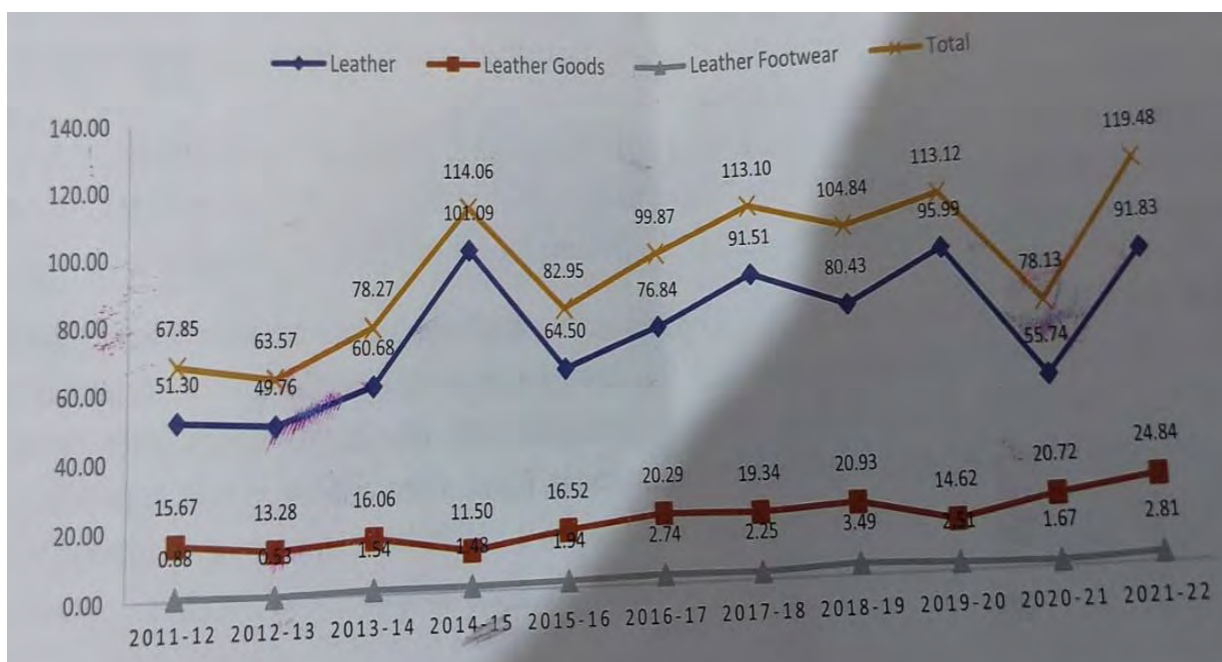


Figure 7

Compared to the previous fiscal year, the overall import of leather items, footwear, and leather grew by around 53% in FY2021–2022. Imports of leather and leather goods as a whole have been steadily rising since FY 2015–16. Rawhide and skin imports made up

77% of the total in FY2021-2022 imports of footwear, leather items, and leather. The trend of imports of raw hides, skins, and leather has been rising over time; similarly, imports of leather items and leather footwear have been growing gradually but steadily.

Investment:

The Leather Goods and Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB) reports that there are 200 tanneries, 3500 SMEs, 90 Large Firms, 15 Big Enterprises, and over 60% of the workers in this industry is female.

Despite having enormous potential, the sector has not been able to attract enough foreign direct investment. Despite a spike in FDI influx from 2016 to 2018, the industry has been experiencing a decline during the previous few years. The report from the Bangladesh Bank states that in 2021, US\$ 26.52 million in foreign direct investment (FDI) inflows were generated by leather and leather products. This represents just 0.9% of all FDI.

Furthermore, the combined amount of foreign direct investment (FDI) inflows into Bangladesh's leather and leather goods sector is above 85%, even though major investing nations like the United States and Singapore do not make any investments in this specific sector.

Status of diversification

The leather sector in Bangladesh has faced challenges during the pandemic years of 2019 and 2020, with a decline in global imports. However, in 2021, imports began to rise, indicating consistent demand for leather products in the global market. The USA was the top importer of leather footwear and leather goods in 2021, while China and Italy were the top importers of leather. Germany, France, Italy, and the Netherlands also show good export potential for leather goods in the EU zone.

The leather sector in Bangladesh faces challenges such as non-compliance with international standards, dependency on imports, and limited access to finance. However, there are opportunities for growth, including a large and growing global market, government policy support, and foreign direct investment. The sector also faces threats such as competition from other Asian economies, preference erosion of special treatment, and logistic problems. To realize its full potential, the industry needs to improve compliance, enhance infrastructure, and address policy issues.

In summary, the leather sector in Bangladesh has significant potential for growth, both domestically and in the global market. However, it faces challenges that need to be addressed to fully capitalize on the opportunities available.

The leather sector in Bangladesh has faced challenges during the pandemic years of 2019 and 2020, with a decline in global imports. However, in 2021, imports began to rise, indicating consistent demand for leather products in the global market. The USA was the top importer of leather footwear and leather goods in 2021, while China and Italy were the top importers of leather. Germany, France, Italy, and the Netherlands also show good export potential for leather goods in the EU zone.

The export destinations for Bangladesh's leather products include the European Union, the USA, Italy, France, Germany, Canada, Poland, the UK, Belgium, and Spain. New and emerging markets for the sector include Turkey, South Korea, Brazil, Mexico, South Africa, Australia, Russia, China, and the UAE. In FY2020-21, Bangladesh exported \$337.62 million worth of leather products, which was a 33.63% increase from the previous year. The number of export destinations has also increased over the years.

In 2021, Bangladesh's exports to China amounted to only 2% of its total imports. Only 1.31% of Hong Kong's leather imports were from Bangladesh, and the rest of the top importers had less than 1% of imports from Bangladesh. Bangladesh's exports to Japan contributed only 1.21% of its total imports. Bangladesh served only 0.59% of USA imports and 0.89% of China's import amount. However, in 2021, Bangladesh claimed 2.29% of the market share in the USA's total import of leather footwear. The country also had more than 1% of the market share in Germany, France, China, and the Netherlands. Poland imported about 4% of its total leather footwear from Bangladesh in 2021.

Gender perspective in the Leather & Leather Goods sector

Regarding the gender perspective in the leather and leather goods sector, the industry indirectly and directly employs about 0.85 million people in Bangladesh, of whom 70% are women. Women's participation is less in the tannery sector due to hazardous work conditions, but they are engaged in production and related activities. Women's participation is barely visible in owner/director/partner, administrative and managerial, clerical, and sales roles. However, there is no wage discrimination in this sector, and suitable opportunities are provided for women, similar to the RMG sector. Approximately 65% of workers in export-oriented factories are women, and women are increasingly represented in management and ownership positions in the sector, including on company boards. Women are also starting new SMEs in the sector. There is potential to further enhance women's involvement in international and regional trade in this sector.

Environmental Aspects of this Sector

In terms of environmental aspects, the tannery subsector in Bangladesh faces environmental compliance issues due to untreated effluent and chemicals. However, the leather goods and footwear sector largely follows international environmental guidelines and compliances. Bangladesh faces challenges in exporting leather and leather goods to Europe due to the absence of the Leather Working Group (LWG) certificate, which evaluates various aspects of leather manufacturing. Only four out of around 150 tanneries in Bangladesh are LWG-certified, while India, China, and Vietnam have more certified units. The industry has been relocated to a planned industrial zone to address environmental issues.

Policies Governing the Sector

The government of Bangladesh has implemented several policies to support the growth of the leather and leather goods sector. These policies include:

Export Policy 2021-24: The export policy defines the leather sector as the highest priority sector.

Import Policy Order 2021-24: The policy allows for cash LC facility and back-to-back LC facilities for the import of raw materials for 100% export-oriented industries operating under the bonded warehouse system. It also provides import duty exemption on capital machinery and limited import facilities without an import permit for exporters.

Leather and Leather Goods Development Policy 2019: This policy aims to increase total export earnings to \$5 billion and increase the sector's contribution to GDP from 0.5% to 1% by 2024. It includes the establishment of three industrial estates dedicated to leather and tannery industries in Rajshahi, Savar, and Chattogram. The policy also offers fiscal support to the leather sector, such as low-interest loans and incentives for green industries. It emphasizes the development of human capital and the introduction of a traceability system through the establishment of a laboratory.

The government has also provided various incentives and support systems to encourage investment in the sector. These include investment policies, regulations, and fiscal incentives such as reduced corporate income tax for 5 to 10 years depending on location, import duty exemption on capital machinery, and tax exemptions for income derived from exports. There are no specific restrictions on the entry of foreign investors.

Sector-specific investment incentives and restriction

Incentives	<p>General:</p> <ul style="list-style-type: none">▪ Saved CIT for five to ten years, depending on the area.▪ Import duty exemption on capital machinery.▪ Regulatory/ supplemental duty exemption for footwear producers using materials such as a tube, pipe, plastic, PVC screen, textile/ knitted fabric. <p>For exporters:</p> <ul style="list-style-type: none">▪ 50% tax exemption for income derived from export.▪ No VAT imposition on export goods.▪ Bonded warehousing facility for large import of materials.▪ 15% cash incentive on export value of leather goods/ footwear, and 5% on crust leather from Savar Estate.
Restriction	No specific restriction exists upon the entry of foreign investors.

Finding:

Porter's Five Forces Model

Porter's Five Forces is a framework used to analyze the competitive environment of an industry. Here's how it applies to the leather and leather goods sector:

1. **Threat of New Entrants:** The threat of new entrants to the leather goods industry is moderate. While barriers to entry such as brand loyalty, economies of scale, and capital requirements exist, new entrants can still enter the market, especially in emerging economies with lower labor costs.

2. **Bargaining Power of Suppliers:** The bargaining power of suppliers in the leather industry can vary. Suppliers of raw materials (hides, skins, chemicals) may have moderate power if they are few and concentrated, but this can be mitigated by sourcing from multiple suppliers or vertical integration.
3. **Bargaining Power of Buyers:** Buyers in the leather goods industry, including wholesalers, retailers, and consumers, generally have moderate to high power. This is because they have many options to choose from, and the switching costs for consumers can be relatively low.
4. **Threat of Substitute Products:** The threat of substitutes in the leather goods industry is significant. Synthetic materials, faux leather, and other alternative materials continue to improve in quality and sustainability, posing a challenge to traditional leather products.
5. **Industry Rivalry:** Rivalry among existing competitors in the leather goods sector is intense. This is due to numerous players in the market, price competition, and efforts to differentiate through branding, design, and sustainability initiatives.

Trade Roadmap for the Leather and Leather Goods Sector

A trade roadmap for the leather and leather goods sector would outline strategic steps to address these challenges and leverage opportunities. Key components could include:

- **Enhancing Technological Capabilities:** Investing in technology to improve production efficiency, reduce costs, and meet sustainability standards.
- **Quality and Compliance:** Setting industry-wide standards for quality and sustainability to meet international market requirements.
- **Market Diversification:** Exploring new markets and reducing dependence on traditional markets to mitigate geopolitical risks and fluctuating demand.

- **Skills Development:** Investing in workforce skills to adapt to technological advancements and meet higher quality standards.
- **Collaboration and Advocacy:** Working with industry associations and governments to address regulatory challenges and promote the sector's interests.

Impact of COVID-19 on the leather sector

The footwear, clothing, and accessory categories in the leather industry were adversely affected by the COVID-19 pandemic. Sales of footwear declined by close to 32% in the U.S.

The export trend of the leather and leather goods sector in Bangladesh experienced a significant drop in FY 2019-20, which was the year impacted by the COVID-19 pandemic. The pandemic caused a massive 40% decrease in work orders for finished and processed leather from major exporting countries, leading to a 28% decrease in overall revenue for the industry. Specifically, leather, leather footwear, and leather goods suffered losses of almost 67%, 27%, and 12% respectively. However, there has been a recovery in the export trend in FY 2021-22, indicating a rebound from the pandemic impacts.

Challenges & Opportunities of the Leather & Leather goods sectors:

In terms of the challenges and opportunities for the leather and leather goods sector, a SWOT analysis identified several factors that could impact its growth.

Strengths

1. An affordable labor cost
 2. The labor force's availability
 3. Local Resources for Raw Materials
 4. Excellent leather quality
 5. The ability to bounce back from setbacks and adjust one's attitude to success
 6. Able to fulfill design quality requirements
 7. Capability for branding and marketing
 8. Export-oriented culture
 9. The ability to satisfy customer demands.
 10. Major companies presently provide products to well-known international brands.
- The industry has a large number of SMEs.

Weaknesses

1. International standards regarding environmental, social, and safety issues,
2. Dependency on imports of molds, accessories, and components resulting in higher costs and longer lead times,
3. Limited availability of R&D and technology for product design,
4. Lack of training facilities and institutional education,
5. Limited access to finance for technology upgradation and expansion (particularly for SMEs),
6. Insufficient accredited laboratory facilities at international standards,
7. Absence of standard operating procedures for the tannery sector,
8. Import tax on raw materials, absence of proper solid and liquid waste management causing environmental pollution, and
9. Meager traceability in locally produced leather.

Opportunities:

1. Large and growing domestic and global leather export market.
2. Government policy support as the highest priority sector in Export Policy 2021-2024.
3. Local and foreign direct investment opportunities.
4. Global branding of the industry.
5. Relocation of manufacturing from developing and developed countries.
6. Geographic advantages.
7. Demographic dividend
8. Diversification of leather and leather goods.
9. Piggyback opportunity.
10. Establishment of technology and design center.

Threats:

1. Stiff competition from other Asian economies like Vietnam, India, etc.
2. Preference erosion of special and differential treatment and DFQF facilities.
3. Trade logistic constraints.

4. Anti-export biases.
5. Potential non-mobility of workers.
6. Lack of policy for ensuring ease of doing business.
7. Rising vegan culture.
8. Consumer preference towards non-leather items.

Inclusive Response:

1. The leather industry in Bangladesh has the opportunity to tap into a large and growing domestic and global leather export market. This presents a significant potential for growth and expansion.
2. The government has prioritized the leather sector in the Export Policy 2021-2024, providing policy support to promote its development. This policy support creates a favorable environment for the industry.
3. There are opportunities for both local and foreign direct investment in the leather sector. This investment can contribute to the industry's growth and modernization.
4. Global branding of the industry can enhance its reputation and competitiveness in the international market. This can lead to increased demand for Bangladeshi leather products.
5. The industry faces threats from stiff competition from other Asian economies like Vietnam and India. This competition highlights the need for continuous improvement and innovation to stay competitive.
6. Preference erosion of special and differential treatment and DFQF facilities poses a threat to the industry. This could affect the industry's export competitiveness and market access.
7. Trade logistic constraints can hinder the industry's growth and export capabilities. Addressing these constraints is crucial for the industry to fully realize its potential.
8. Anti-export bias and rising vegan culture present challenges for the leather industry. These factors may impact consumer preferences and demand for leather products.
9. The potential non-mobility of workers and lack of policies for ensuring ease of doing business are additional threats to the industry. These issues need to be addressed to attract and retain skilled workers and create a favorable business environment.
10. Despite these challenges, the industry can benefit from the relocation of manufacturing from developing and developed countries. This presents an opportunity for Bangladesh to attract investment and expand its manufacturing capabilities.
11. The geographic advantages of Bangladesh, such as its proximity to major markets, can contribute to the industry's growth. This can lead to cost savings and improved supply chain efficiency.

12. The demographic dividend, with a large and young workforce, provides an advantage for the industry. This can support the industry's labor-intensive production processes.
13. Diversification of leather and leather goods can help the industry capture new market segments and expand its product offerings.
14. The industry can leverage piggyback opportunities by collaborating with other sectors or industries to enhance its competitiveness.
15. The establishment of a technology and design center can drive innovation and product development in the industry.

Overall, while the leather industry in Bangladesh has opportunities for growth and development, it also faces various challenges and threats. Addressing these challenges and leveraging the opportunities will be crucial for the industry to realize its full potential.

Key strengths

- Competitive labor cost:

Bangladesh has a comparative advantage in terms of labor cost, with the minimum wage currently standing at \$77.153 per month, which is lower than other major competitors like Vietnam, Pakistan, and China. This advantage provides a strong competitive edge for Bangladesh's export-oriented industries, including the leather industry. As China shifts towards high-tech, capital-intensive manufacturing, its market share for leather goods is expected to decrease, which may lead to the relocation of these industries to regions with lower labor costs, further benefiting Bangladesh.

- Availability of labor force:

The labor force participation rate total (% of total population ages 15+) (modeled ILO estimate) in Bangladesh was reported at 56.97% in 2021, according to the World Bank collection of development indicators, compiled from officially recognized sources. Bangladesh's labor force participation rate for 2021 was 39.38%. With the sufficient availability of workforce in the country, the leather sector faces no problems in finding workers.

- Local Source of Raw Materials:

Among the country's major export sectors, the entire supply of raw materials for only leather and jute products comes from local sources. Bangladesh has the world's 12th largest cattle stock and a local supply base of raw leather products (hides and skins). Almost 50% of hides and skins are sourced during the Islamic religious festival, necessitating material collection and processing, as well as financing in a very short period. As a result, a large number (85%) of animals are slaughtered by unskilled seasonally involved people affecting the quality and traceability of hides/skins and generating

significant waste. This also inhibits local leather from being priced more favorably for export. Despite these facts, the abundant availability of animal skins provides an indigenous strong source of easy raw materials for the leather sector.

- Entrepreneurs' resilience, agility, and mindset to adapt to changes:

Entrepreneurial mindset and enthusiasm for global practice adaptation of leather sector businesses and SMEs also serve as a strength. Key insights revealed leather sector businesses are keen to follow all global standards but current compliance issues hinder their ability. Moreover, entrepreneurs are already trying their best to replicate the best manufacturing practices in the leather sector.

- Capacity to meet demand and design quality:

Bangladesh has a competitive advantage in terms of labor cost, with a minimum wage lower than major competitors like Vietnam, Pakistan, and China. This provides a strong edge for Bangladesh's export-oriented industries, including the leather sector. As China shifts towards high-tech manufacturing, its market share for leather goods is expected to decrease, potentially leading to the relocation of these industries to regions with lower labor costs, benefiting Bangladesh. The labor force participation rate in Bangladesh was 39.38% in 2021, indicating a sufficient availability of workforce for the leather sector.

Bangladesh has a local source of raw materials for the leather sector, with the entire supply of raw materials for leather products coming from local sources. The country has a large cattle stock and a local supply base of hides and skins. However, during the Islamic religious festival, a significant number of animals are slaughtered by unskilled individuals, affecting the quality and traceability of hides/skins and generating waste. Despite these challenges, the abundant availability of animal skins provides an indigenous source of raw materials for the leather sector.

Entrepreneurs in the leather sector demonstrate resilience, agility, and a mindset to adapt to changes. They are keen to follow global standards, but compliance issues hinder their ability. Nevertheless, entrepreneurs are striving to replicate best manufacturing practices in the leather sector.

Key weaknesses

The key weaknesses identified in the leather sector in Bangladesh are:

- Lack of compliance with international environmental, social, and safety standards in the factories and manufacturing premises:

Lack of compliance with international environmental, social, and safety standards in factories and manufacturing premises. This hinders the growth of the sector as European and American buyers only

purchase goods from certified factories, while non-compliant factories sell tanned leather to Chinese companies at lower rates.

- Dependency on imports of raw materials and lack of backward linkage:

Bangladesh produces sufficient raw materials or skins, but hides are not usable for global export due to environmental compliance demands. The country heavily relies on imports for accessories, machinery, molds, and chemicals needed for leather processing, resulting in increased costs.

- Limited access to finance for technology upgrading and expansion of units, especially for small and medium-sized tanneries:

The lack of capital and funding is a significant challenge faced by the industry, making it difficult for tanners to obtain financing. The industry has received significant investment, but the majority of it is still in default due to falling exports and rising processing costs.

- Limited availability of necessary technology and software for product design:

Local manufacturers lack the capacity for original design manufacturing (ODM) due to the absence of necessary technology and software for product design. Only a small number of leather goods and footwear manufacturing firms have the capacity for ODM with their own design labs.

- Lack of environmental safety and infrastructure development for Effluent Treatment Plants (ETP):

The Central Effluent Treatment Plant (CETP) at Savar is not fully functioning, which hampers production and puts a financial burden on tanners. The tannery estate project has also not provided proper support to linked sectors and has not developed proper solid waste management.

In terms of opportunities, the document does not provide specific opportunities related to the capacity of meeting demand and design quality. However, it does mention that local suppliers are capable of meeting design quality and volume prescribed by foreign buyers. The document also suggests that if design quality orders are well met, there can be substantial opportunities for joint designing of products.

Key opportunities

- Large and growing global leather export market:

The global leather export market is large and growing, with a value of USD 242.85 billion in 2022. It is expected to expand at a compound annual growth rate (CAGR) of 6.6% from 2023 to 2030. The increasing disposable income, changing fashion trends, improving living conditions, and rising domestic and international tourism are driving the demand for leather goods. This presents the leather sector in Bangladesh with immense export opportunities.

- Designated as a priority sector in Export Policy 2021-2024:

The leather sector in Bangladesh has been designated as a priority sector in the Export Policy 2021-2024. This policy grants the leather sector a 50% tax exemption for income earned from exports and an import duty exemption for capital machinery. Additionally, leather sector exporters receive financial assistance from the export-readiness fund. These supportive policies offer ample export opportunities for the leather sector.

- Rising demand in the domestic market:

In addition to exports, the leather industry in Bangladesh has the opportunity to expand its domestic market. The domestic footwear market in Bangladesh has been steadily rising, with an estimated consumption of over 30 million pairs in 2018. The market is expected to shift to modern retail channels and outlets with urbanization and a rise in the working population. This presents further growth opportunities for the leather sector.

- Local and foreign direct investment opportunities:

The leather sector in Bangladesh is also attracting local and foreign direct investment. The country's low manufacturing costs, availability of low-cost raw materials, and trade advantages for exporting make it an attractive investment destination. New investors from Japan, Taiwan, and Vietnam are highly interested in investing in this sector. The export incentives and the large domestic market of leather are driving factors behind attracting foreign direct investment.

- Relocation of manufacturing in developing from developed countries:

Furthermore, the relocation of manufacturing from developed countries to developing countries like Bangladesh is creating opportunities for the leather sector. Tanning industries in developed countries have been shrinking due to pollution problems and high labor costs. China, the market leader in the global leather industry, is also losing market share due to rising costs and increasing demand for non-leather products. This provides opportunities for Bangladesh to become a hub for the global leather industry, including the relocation of factories from China.

Key threats:

The leather sector in Bangladesh also faces threats. One key threat is the need to comply with stricter international standards. Non-compliant factories hinder the growth of the industry and make it difficult to guarantee fair prices for their goods on the global market. Improving compliance standards is crucial to avoid export restrictions and maintain competitiveness.

- Stricter international standards and compliance issues:

The leather industry in Bangladesh is facing several threats to its potential for growth and development. One of the main threats is the stricter international standards and compliance issues that the industry is facing following its graduation from least-developed country (LDC) status. This could hinder the

industry's growth as non-compliant factories make it difficult to guarantee a fair price for their goods on the global market.

- Stiff competition from other Asian economies like Vietnam, India, etc:

Another significant threat is the stiff competition from other Asian economies, particularly Vietnam and India. Vietnam, in particular, has become a formidable competitor in the global leather market due to its compliance and infrastructure strengths. Vietnamese leather and footwear exports have been increasing, highlighting the country's competitive power and growth potential compared to Bangladesh.

- Preference erosion of special treatment and DFQF facilities:

The preference erosion of special treatment and duty-free/quota-free (DFQF) facilities is a concern for the leather industry in Bangladesh. Currently, Bangladesh enjoys preferential market access to many developed countries as an LDC under the Generalized System of Preferences (GSP). However, as Bangladesh is set to graduate from LDC status, it will lose these advantages, making its leather products face heavy competition from other countries.

- Logistic problems:

Logistic problems pose a challenge for the leather industry in Bangladesh. The country's logistics performance index (LPI) is low compared to regional competitors, and rising logistics and shipping costs add to the difficulties. Inadequate communication infrastructure, complex tax and customs procedures, and other logistical issues make it challenging for the industry to handle a large number of export orders.

- Lack of policy for ensuring ease of doing business:

The lack of a policy for ensuring ease of doing business is a threat to the leather sector's growth. Despite progress in the policy environment for the private sector, the overall investment climate in Bangladesh remains weaker compared to competing countries. This can hinder the generation of more entrepreneurs in the leather sector and impede its further growth and development.

The leather industry in Bangladesh faces threats such as stricter international standards, competition from other Asian economies, preference erosion of special treatment, logistic problems, and a lack of policies for ease of doing business. These challenges need to be addressed to realize the industry's full potential for growth and development.

Conclusion

To grow and become competitive in international trade, the leather and leather goods industry must overcome severe obstacles. Among these difficulties include fierce rivalry between low-cost and synthetic producers, strict legal obligations for environmental compliance, weak points in the supply chain, trade restrictions, and changing consumer tastes toward sustainability.

To surmount these obstacles, a strong trade roadmap is essential. This roadmap should prioritize improving operational efficiency through sustainable practices and technological advancements, diversifying the market to lessen reliance on particular areas, negotiating advantageous trade agreements to lower barriers, investing in innovation and skill development to boost competitiveness, and promoting sustainable practices to satisfy changing consumer demands.

The leather and leather goods industry may successfully handle trade-related graduation issues by assiduously putting these methods into practice, assuring resilience and sustainable expansion in the global marketplace.

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